22 February 2016

Australian Markets Weekly

RBA holding faith in the labour market; SEEK job ads suggest still solid labour demand

- **Volatility in global markets continue with markets gyrating on expectations of further Fed rate increases - now largely discounted by the market, the outlook for the oil price and prospects for any cut back in supply – also doubted, and the extent of slowing in the global economy given soft trade data in a number of Asian countries.**
- **Our feature article this week is on SEEK job ads that continues to suggest solid labour demand. The number of applications per advertised job also suggests the trend improvement in the labour market continued in January despite the tick-up in the official unemployment rate.**
- **The domestic data flow picks up ahead of December quarter GDP on 2 March. Key partials this week include Wednesday's Construction Work Done and Thursday's Capex.**

Volatile markets continue

Another volatile week in markets with equity markets up and the bond market also rallying on expectations of the US Fed delaying further rate hikes. Speeches by the Fed's Rosengren and Bullard highlighted risks of inflation expectations drifting lower, with the formerly-hawkish Bullard stating "I regard it as unwise to continue a normalisation strategy in an environment of declining market-based inflation expectations". The Fed minutes released last week also highlighted that the recent tightening in global financial conditions, if sustained, could amply downside risks.

Those sentiments were somewhat tempered on Friday with a stronger than expected US CPI report; core inflation up 0.3% m/m against expectations of +0.2%. Our strategists suggest volatility is likely to continue with bonds vulnerable to stronger data prints, given the US market is now only pricing around a 45% chance of the Fed raising rates this year.

Australian data

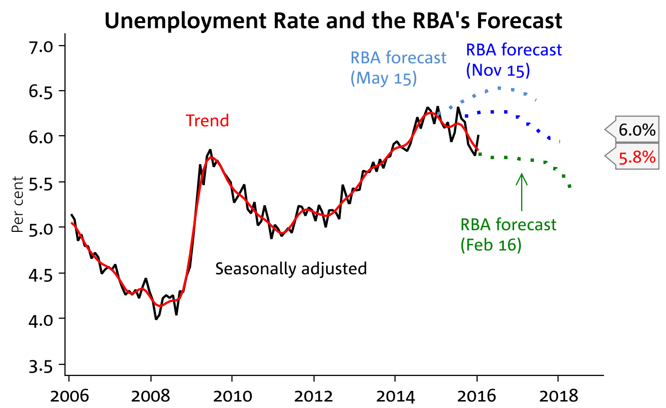
The January labour force report was a weak read but the trend remains positive for employment. On Friday, RBA Board Member John Edwards engaged in some mild jawboning of the currency stating "I still think it is a bit too high…if it was driven entirely by commodity prices, it certainly should be lower" and nominated $US0.65

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7164	0.4	RBA cash	2.00	0
AUD/CNY	4.67	0.7	3y swap	2.04	-7
AUD/JPY	80.9	-1.1	ASX 200	4,989	3.0
AUD/EUR	0.645	0.8	Iron ore	48.5	11.2
AUD/NZD	1.077	0.3	WTI oil	30.0	1.9

Source: Bloomberg

Chart 1: Offical unemployment rose, but trend still better



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as an appropriate level (contrast that to $US0.71 currently). Edwards also highlighted the currency was at risk of rising with the US Fed likely postponing further interest rate increases and the ECB likely preparing to announce further easing in March.

However, we assess Edward's comments more of a slight jawbone given that he said he would be more concerned about the currency "if it was not that our export performance on the whole has been pretty good". This reinforces our notion of the RBA being reactive rather than proactive on any prospective international developments impacting on Australia. The RBA Board Minutes also supports this view with the RBA remaining relatively optimistic on the current performance of the Australian economy given domestic data to date has continued to surprise the RBA (Chart 1).

The softer than expected employment figures, which also saw the unemployment rate rise to 6.0% from 5.8% in January did lead to increased pricing toward RBA cutting rates. However, by the end of the week expectations of further easing were broadly unchanged at around 30-35 basis points over the next 12 months.

We suggest the RBA is likely to interpret the employment data through the lens of several months and match this up against other labour market data (including job ads – of which our special focus is on this week). Taking this together, it is clear the labour market has improved in trend terms, and it would likely take a succession of weak reads (including weakness in another indicator such as business conditions) for the RBA to accumulate enough evidence to alter their outlook on the economy. NAB continues to see the RBA on hold in 2016.

The week ahead

Domestically the data flow starts to ramp up ahead of the release of December quarter GDP figures on 2 March. This week we get the two key investment partials that feed into GDP. Outside of these, the ABS also releases its measure of wages, with another subdued outcome likely.

Construction figures are released Wednesday, which are likely to show further declines in the big ticket engineering construction projects as the mining investment unwind continues. On this, we note the RBA recently stated its expectation that the peak decline from mining investment on GDP is expected to occur this financial year. The market is looking for a 2% decline, with some offset from the residential construction boom and NAB's expectation is similar at -1.4%.

On Thursday we get the quarterly Capital expenditure survey (Capex) which also contains the first estimate on firm's budgeted 2016/17 spend. The market is looking is looking for a 3% decline in capital expenditure for the quarter, mostly driven by mining. For the 2016/17 spend figure the market is looking for $92.8bn. The expectations figures have been normally closely watched by the RBA. However, we suggest that Capex is not as strong as an indicator for the RBA given recent commentary has played down the prospects for a lift in non-mining business investment.

On the international front, the more important data releases to watch will be the International Energy Agency's Five-year Oil Outlook Monday, and then Friday is the mega day with the US PCE deflator and the first revision of US GDP. Finally, the week is capped off with the G20 Finance Ministers and Central Bank Governor's meeting in China

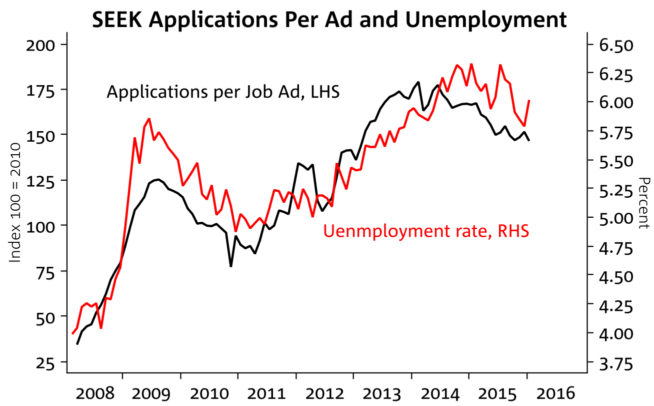
SEEK job ads indicate solid labour demand

Amid last week's Labour market data, SEEK released their SEEK Employment Marketplace Report (see media release). With the official employment figures being increasingly volatile, SEEK job ads provide an alternative read on the labour market. The RBA Governor noted in his Parliamentary Testimony that the RBA had been using job vacancies to help confirm the recent strength in the labour market.

SEEK's Employment Markplace report indicated that labour demand remained solid in January, with new job advertisements on SEEK.com.au effectively unchanged, falling 0.1% m/m in January to be 6.1% higher y/y. The ratio of applicants to advertisements also signalled the balance between labour demand and supply remains on a trend tightening despite the apparent tick-up in the official unemployment rate (Chart 2).

Overall the SEEK data suggest the trend improvement in the labour market is continuing, though there are some potential headwinds from a renewed weakening in WA (see below).

Chart 2: Labour market's trend improvement continuing



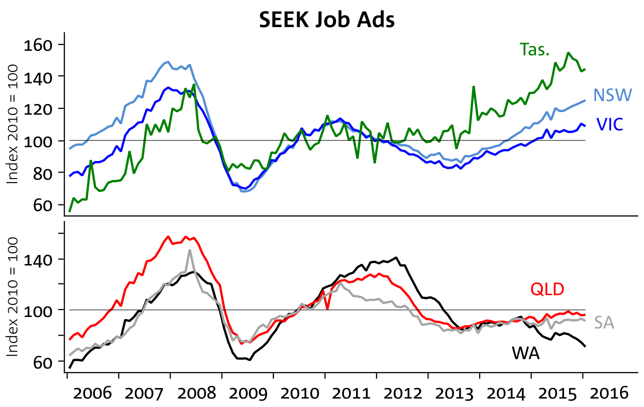
Source: SEEK, National Australia Bank

Eastern states continue to drive labour demand while WA appears to be weakening further

Looking at the data closely, what is most noticeable is the diverging trends between the Eastern states and the more mining related states/territories (Chart 3). The standout job advertising markets have been NSW and Tasmania, with Victoria also strong.

In contrast, WA and SA have been weak. The rate of decline in WA advertising appears to be re-accelerating with WA job ads down falling 4.7% in January, the fifth consecutive monthly fall and in fact, the twelfth fall in the past fifteen months. Job advertising in WA is 18.8% lower than in January 2015.

Chart 3: Eastern states driving labour demand; WA weak

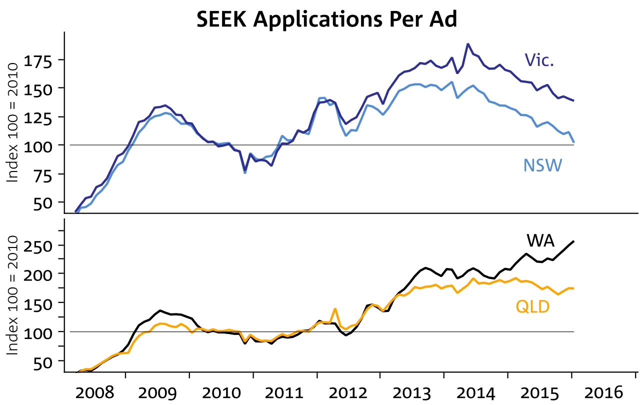


Source: SEEK, National Australia Bank

Monthly declines of 4-5% in WA are coincidentally, almost exactly the same size as a 1% rise in job advertising in NSW. Job ads in NSW rose 1.1% in January, the fifth successive month of a near 1% m/m rise, with overall NSW job advertising 13.1% higher than a year earlier. As the chart of job advertising by industry show (Chart 5), the declines in job advertising in WA are very widespread, the exact opposite of increases in advertising in NSW.

There are hints that the potential headwinds are growing from the likes of resource-centric sectors and regions. One trend that bears watching closely is the a tentative renewed decline in QLD job advertising – this is very mild, but had previously been an important offset to the weakness in WA, allowing the strength of the larger NSW and Victorian labour markets to drive an overall improvement in job advertising.

Chart 4: Labour markets tightening; WA weakening



Source: SEEK, National Australia Bank

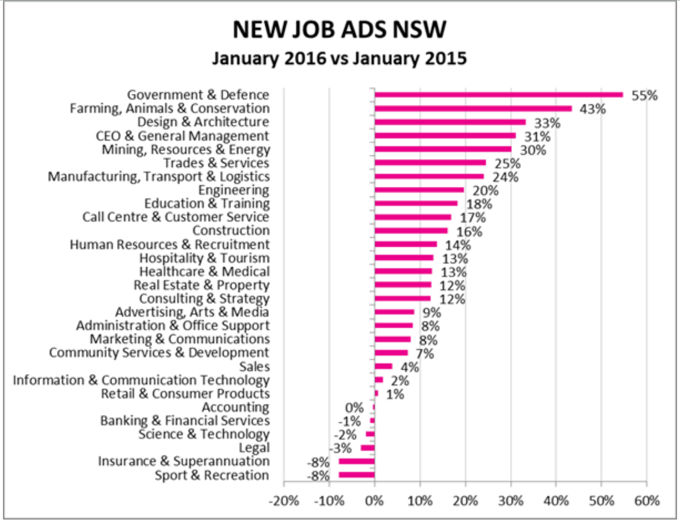
Job ads support the hypothesis of a pick-up in labour demand from the labour intensive sectors

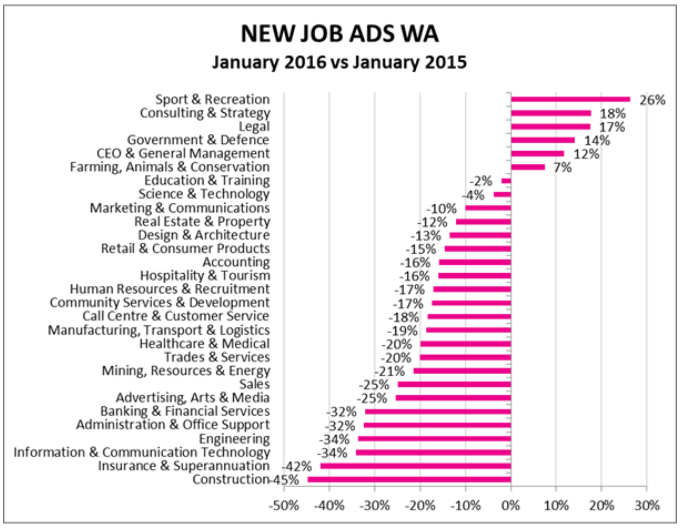
One aspect that has been puzzling the RBA is how employment growth has been growing at an above-average rate, while on the other hand GDP growth has been below average. The RBA has posited that "labour-intensive change may help reconcile a rise in employment growth to an above-average rate".

SEEK data reveals that job demand has been growing fastest in the non-mining sectors of the economy, which are also mostly less capital intensive than the mining sector (Chart 5).

It also suggests that the weakness in WA mining has bled into the mining-related services sectors with a broad based decline in job advertising amongst most industries in the West.

Chart 5: Jobs ads increasing in non-mining sectors





Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 22 February 2016								
AU	RBA's Debelle Speech at Kanga News DCM Summit						22.10	9.10
CH	MNI Business Indicator	Feb					1.45	12.45
NZ	Credit Card Spending MoM/YoY	Jan				-0.8/7.4	2.00	13.00
JN	Nikkei Japan PMI Mfg	Feb P		52		52.3	2.00	13.00
GE	Markit/BME Germany Manufacturing/Services PMI	Feb P		51.9/54.7		52.3/55	8.30	19.30
EC	Markit Eurozone Manufacturing/Services PMI	Feb P		52/53.4		52.3/53.6	9.00	20.00
UK	CBI Trends Total Orders	Feb		-12		-15	11.00	22.00
US	IEA Five Year Oil Outlook launch at Houston Conference							
US	Chicago Fed Nat Activity Index	Jan		-0.1		-0.22	13.30	0.30
US	Markit US Manufacturing PMI	Feb P		52.5		52.4	14.45	1.45
US	NY Fed's Potter speaks						18.00	5.00
EC	ECB's Lautenschlager speaks in Stuttgart						18.00	5.00
Tuesday, 23 February 2016								
AU	RBA Tony Richards, Head of Payment Policy Department, at the Payments Innovation 2016 Conference, Sydney						22.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 21				113.6	22.30	9.30
GE	GDP SA QoQ	4Q F		0.3/1.3		0.3/1.3	7.00	18.00
GE	IFO Business Climate/Current Assessment	Feb		106.8/112		107.3/112.5	9.00	20.00
US	Fed's Fischer (v) speaks in NY						13.30	0.30
EC	ECB's Nouy speaks in London						13.30	0.30
US	S&P/CS 20 City MoM/YoY SA	Dec		0.9/5.8		0.94/5.83	14.00	1.00
US	Consumer Confidence Index	Feb		97.3		98.1	15.00	2.00
US	Richmond Fed Manufact. Index	Feb		2		2	15.00	2.00
US	Existing Home Sales/MoM	Jan		5.34/-2.2		5.46/14.7	15.00	2.00
Wednesday, 24 February 2016								
US	Total Net TIC Flows	Jan				-114	20.00	7.00
JN	PPI Services YoY	Jan		0.3		0.4	23.50	10.50
AU	Skilled Vacancies MoM	Jan				0.4	0.00	11.00
AU	Wage Price Index QoQYoY	4Q	0.6/2.3	0.6/2.3		0.6/2.3	0.30	11.30
AU	Construction Work Done	4Q	-1.4	-2		-3.6	0.30	11.30
CH	Westpac-MNI Consumer Sentiment	Feb				114.9	1.45	12.45
JN	Small Business Confidence	Feb		47.1		47.2	5.00	16.00
JN	Leading Index CI	Dec F				102	5.00	16.00
UK	BBA Loans for House Purchase	Jan		44800		43975	9.30	20.30
UK	CBI Reported Sales	Feb		12		16	11.00	22.00
US	Markit US Services/Composite PMI	Feb P		53.5		53.2/53.2	14.45	1.45
US	New Home Sales/MoM	Jan		520/-4.4		544/10.8	15.00	2.00
CA	BoC's Schembri speaks in Ontario						17.35	4.35
US	Fed's Kaplan (nv) speaks in Dallas						18.15	5.15
US	Fed's Bullard Speaks in New York						0.00	11.00
Thursday, 25 February 2016								
NZ	Net Migration SA	Jan				5510	21.45	8.45
NZ	Finance Minister English Speaks						23.45	10.45
AU	Private Capital Expenditure	4Q	-4	-3		-9.2	0.30	11.30
AU	Private Capital Expenditure, First estimate 2016/17, $Abn		86.0	92.8			0.30	11.30
JN	BoJ's Kiuchi speaks in Kagoshima						1.30	12.30
NZ	New Residential Lending YoY	Jan				8.5	2.00	13.00
GE	CPI EU Harmonized MoM/YoY	Feb P		0.6/0		-0.9/0.4	13.00	0.00
GE	GfK Consumer Confidence	Mar		9.3		9.4	7.00	18.00
JN	Cabinet Office Monthly Economic Report						8.30	19.30
UK	GDP QoQ/YoY	4Q P		0.5/1.9		0.5/1.9	9.30	20.30
EC	CPI MoM/YoY	Jan		-1.4/0.4		0/0.2	10.00	21.00
EC	CPI Core YoY	Jan F		1		1	10.00	21.00
US	Fed's Lockhart to Give Opening Remarks at Banking Conference						13.15	0.15
US	Initial Jobless Claims	Feb 20		270		262	13.30	0.30
US	Durable Goods Orders/Core orders	Jan P		2.5/1		-5/-4.3	13.30	0.30
US	House Price Purchase Index QoQ	4Q				1.27	14.00	1.00
US	FHFA House Price Index MoM	Dec		0.5		0.5	14.00	1.00
US	Kansas City Fed Manf. Activity	Feb		-6		-9	16.00	3.00
US	Fed's Williams Speaks in New York						17.00	4.00
Friday, 26 February 2016								
CH	G20 Finance Ministers and Central bank Governors' meeting, Shanghai (26-27 Feb)							
NZ	Trade Balance	Jan	-1	-250		-53	21.45	8.45
JN	Natl CPI YoY	Jan		0		0.2	23.30	10.30
UK	GfK Consumer Confidence	Feb		3		4	0.05	11.05
CH	Property Prices	Jan					1.30	12.30
JN	Natl CPI Ex Fresh Food, Energy YoY	Jan		1.2		1.3	5.00	16.00
EC	Business Climate Indicator	Feb		0.27		0.29	10.00	21.00
GE	CPI MoM/YoY	Feb P		0.5/0.1		-0.8/0.5	13.00	0.00
US	Advance Goods Trade Balance	Jan		-61.3		-61.513	13.30	0.30
US	GDP Annualized QoQ	4Q S		0.4		0.7	13.30	0.30
US	Personal Income/Spending	Jan		0.4/0.3		0.3/0	15.00	2.00
US	PCE Deflator MoM/YoY	Jan		0/1		-0.1/0.6	15.00	2.00
US	PCE Core MoM/YoY	Jan		0.1/1.5		0/1.4	15.00	2.00
US	U. of Mich. Sentiment/5-10 yr inflation expectations	Feb F		91/		90.7/2.4	15.00	2.00
US	Fed's Powell discussed Fed Communication at NY						15.15	2.15
US	Fed's Brainard speaks on International Policy Synchronisation						18.30	5.30
EC	ECB's Praet speaks on panel in NY						18.30	5.30

Upcoming Central Bank Interest Rate Announcements				
Australia, RBA	1-Mar	2.00%	2.00%	2.00%
New Zealand, RBNZ	10-Mar	2.50%	2.50%	2.50%
Europe ECB	10-Mar			0.05%
Canada, BoC	10-Mar			0.50%
Japan, BoJ	15-Mar	-0.1% to +0.1%	-0.1% to +0.1%	-0.1% to +0.1%
UK BOE	17-Mar			0.50%
US Federal Reserve	17-Mar			0.25-0.50%

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

Forecasts

Economic Forecasts

	Annual % change			Quarterly % change											
				2014				2015				2016			
Australia Forecasts	**2014**	**2015**	**2016**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Household Consumption	2.7	2.6	3.0	0.5	0.7	0.6	0.8	0.5	0.6	0.7	0.8	0.9	0.7	0.6	0.5
Underlying Business Investment	-5.0	-10.8	-10.3	-1.8	-2.7	0.1	-1.5	-4.3	-2.0	-5.5	-3.5	-2.8	-0.9	-2.3	-1.1
Residential Construction	7.4	9.1	5.6	4.1	1.8	-1.5	4.0	4.6	0.4	0.9	3.3	1.5	0.8	0.9	-0.4
Underlying Public Spending	-0.7	2.1	2.0	0.2	-1.3	-1.1	0.2	1.1	2.2	-0.9	1.8	-0.4	0.6	0.6	0.6
Exports	6.7	6.4	9.0	3.3	-0.4	2.6	1.5	3.7	-3.3	4.6	1.9	2.5	2.1	2.3	2.4
Imports	-1.6	0.9	0.8	-2.5	3.1	-1.0	-1.7	3.0	0.1	-2.4	0.5	0.4	1.0	0.6	0.6
Net Exports (a)	1.7	1.2	1.8	1.2	-0.7	0.8	0.7	0.2	-0.8	1.5	0.3	0.5	0.3	0.4	0.5
Inventories (a)	0.1	0.1	-0.1	-0.1	0.7	0.3	-0.9	0.5	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Domestic Demand - qtr%				0.3	0.0	-0.2	0.5	0.2	0.6	-0.5	0.7	0.2	0.5	0.3	0.3
Dom Demand - ann %	1.1	0.9	1.3	1.8	1.4	0.5	0.6	0.5	1.1	0.8	1.0	1.0	0.9	1.7	1.4
Real GDP - qtr %				**0.9**	**0.5**	**0.4**	**0.4**	**0.9**	**0.3**	**0.9**	**0.6**	**0.7**	**0.8**	**0.6**	**0.7**
Real GDP - ann %	2.6	2.3	2.7	**3.0**	**2.7**	**2.5**	**2.2**	**2.1**	**1.9**	**2.5**	**2.7**	**2.5**	**3.0**	**2.7**	**2.8**
CPI headline - qtr %				0.6	0.5	0.5	0.2	0.2	0.7	0.5	0.4	0.3	0.7	0.8	0.9
CPI headline - ann %	2.5	1.5	1.9	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.5	1.6	1.9	2.8
CPI underlying - qtr %				0.6	0.6	0.4	0.6	0.7	0.5	0.3	0.5	0.6	0.7	0.7	0.7
CPI underlying - ann %	2.5	2.2	2.2	2.7	2.7	2.5	2.3	2.4	2.3	2.2	2.0	1.9	2.0	2.4	2.6
Wages (Pvte WPI -ann %)	2.5	2.2	2.5	2.5	2.4	2.5	2.5	2.3	2.2	2.1	2.1	2.2	2.4	2.6	2.7
Unemployment Rate (%)	6.0	6.0	5.7	5.8	6.0	6.2	6.2	6.2	5.9	6.2	5.8	5.8	5.8	5.7	5.6
Terms of trade	-7.4	-12.2	-10.2	-1.7	-4.5	-3.3	-1.5	-2.8	-4.3	-2.3	-7.2	-3.5	0.7	0.3	-0.8
G&S trade balance, $Abn	-9.4	-35.6	-46.9	2.2	-4.5	-4.3	-2.8	-4.7	-10.9	-7.4	-12.5	-13.7	-12.5	-10.8	-10.0
% of GDP	-0.6	-2.2	-2.8	0.5	-1.1	-1.1	-0.7	-1.2	-2.7	-1.8	-3.1	-3.4	-3.0	-2.6	-2.3
Current Account (% GDP)	-3.0	-4.6	-5.5	-2.4	-3.5	-3.3	-2.9	-3.3	-5.1	-4.4	-5.7	-6.0	-5.6	-5.2	-5.0

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	22-Feb	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Majors						
AUD/USD	**0.7164**	0.67	0.66	0.68	0.69	0.69
NZD/USD	**0.6653**	0.62	0.60	0.61	0.61	0.61
USD/JPY	**112.94**	120	120	121	121	123
EUR/USD	**1.1112**	1.09	1.07	1.06	1.07	1.07
GBP/USD	**1.4281**	1.42	1.39	1.36	1.39	1.39
USD/CNY	**6.5194**	6.60	6.70	6.75	6.80	6.80
USD/CAD	**1.3760**	1.47	1.47	1.46	1.46	1.44
Australian Cross Rates						
AUD/JPY	**80.9**	80	79	82	83	85
AUD/EUR	**0.6447**	0.61	0.62	0.64	0.64	0.64
AUD/GBP	**0.5016**	0.47	0.47	0.50	0.50	0.50
AUD/NZD	**1.0768**	1.08	1.10	1.11	1.13	1.13
AUD/CNY	**4.6705**	4.42	4.42	4.59	4.69	4.69
AUD/CAD	**0.9858**	0.98	0.97	0.99	1.01	0.99
AUD/CHF	**0.7103**	0.65	0.66	0.69	0.72	0.74

Interest Rate Forecasts

	22-Feb	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Aust rates						
RBA Cash rate	**2.00**	2.00	2.00	2.00	2.00	2.00
3 month bill rate	**2.28**	2.25	2.25	2.25	2.25	2.50
3 Year Swap Rate	**2.04**	2.2	2.4	2.4	2.6	2.9
10 Year Swap Rate	**2.60**	2.9	3.2	3.4	3.4	3.6
Offshore Policy Rates						
US Fed funds	**0.50**	0.50	0.75	1.00	1.25	1.50
ECB deposit rate	**-0.30**	-0.30	-0.30	-0.30	-0.30	-0.30
BoE repo rate	**0.50**	0.50	0.50	0.75	0.75	1.00
BoJ excess reserves rate	**-0.10**	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	**2.50**	2.50	2.50	2.50	2.50	2.50
China 1yr lending rate	**4.35**	4.10	3.85	3.85	3.85	0.00
China Reserve Ratio	**17.5**	17.0	16.5	16.0	16.0	--
10 Year Benchmark Bond Yields						
Australia	**2.46**	2.8	3.1	3.3	3.3	3.5
United States	**1.76**	2.0	2.3	2.5	2.5	2.8
Europe/Germany	**0.20**	0.9	1.0	1.2	1.2	0.0
UK	**1.41**	2.2	2.3	2.4	2.4	2.8
New Zealand	**3.07**	3.1	3.3	3.5	3.5	3.7

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	20 Yr Avge
Australia	2.0	2.6	2.3	2.7	3.0	3.4
US	1.5	2.4	2.4	2.2	2.3	2.6
Eurozone	-0.2	0.9	1.4	1.7	1.9	1.5
UK	2.2	2.9	2.2	2.2	2.2	2.4
Japan	1.6	-0.1	0.6	1.1	0.9	0.8
China	7.7	7.3	6.9	6.7	6.5	9.2
India	6.4	7.1	7.5	7.6	7.4	6.6
New Zealand	2.3	3.3	2.2	1.8	2.0	3.0
World	3.3	3.3	2.9	3.0	3.3	3.5

Commodity prices ($US)

	22-Feb	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
WTI oil	29.99	32	34	36	39	40
Gold	1222	1050	1030	1010	990	980
Iron ore	49	42	44	42	41	40
Hard cok. coal	89	82	84	85	83	85
Thermal coal	51	68	62	62	62	62
Copper	4628	4500	4510	4520	4540	4590
Japan LNG	9.4	5.5	5.8	6.2	6.8	6.7

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