EMBARGOED UNTIL: 11.30AM THURSDAY 15 SEPTEMBER 2016

THE FORWARD VIEW - AUSTRALIA

SEPTEMBER 2016

National Australia Bank

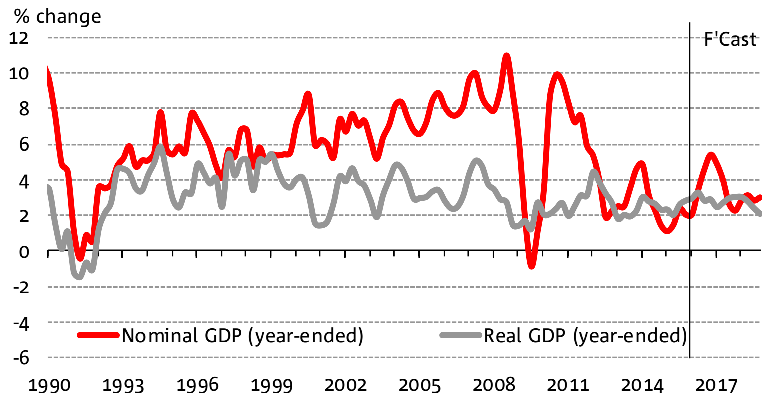
Loss of momentum in 2018

- How one assesses Australia's economic performance at present depends in large part on which industry / geography one looks at and whether the benchmark is in real or nominal terms.
- The Australian economy grew at a year-ended rate of 3.3% in Q2, the fastest pace since mid-2012, thanks to a surge in government spending. Going forward, real GDP growth is expected to ease, most clearly in 2018 after the dwelling cycle has turned and resource exports no longer contribute to growth. Our forecasts are for real GDP growth of 3.0% on average in 2016, followed by 2.8% in 2017 and 2.6% in 2018.
- Measures of nominal income recovered a little in Q2. However growth in these measures will not revert to historical averages in the medium term amidst subdued wages growth and another expected leg down in the terms of trade, as the recent rally in commodity prices such as iron ore unwinds in 2017.
- The unemployment rate is expected to hold steady through the forecast horizon at around 5.6-5.7%, a rate which indicates ongoing spare capacity in the labour market.
- There is some downside risk to our near-term forecasts given the recent loss of momentum in indicators of household spending in particular, but also business conditions. These bear close watching.
- The RBA will hold steady in the near-term, but two cuts are likely to follow in mid-2017 as low inflation persists.
- Our *Spotlight* article this month explores the drivers and outlook for the dwelling construction cycle.

KEY FORECASTS

	Calendar Year			
	2015-F	2016-F	2017-F	2018-F
Domestic Demand (a)	1.1	1.6	1.5	2.0
GDP (a)	**2.4**	**3.0**	**2.8**	**2.6**
Terms of Trade(a)	-11.5	-2.4	-5.9	-7.4
Employment (a)	2.0	1.8	1.8	1.3
Unemployment Rate (b)	5.9	5.6	5.7	5.6
Total CPI (b)	1.7	1.5	2.2	2.3
Core CPI (b)	2.0	1.6	1.8	2.0
RBA Cash Rate (b)	2.00	1.50	1.00	1.00
AUD/USD (b)	0.73	0.75	0.70	0.69

(a) annual average growth, (b) end-period (c) through the year inflation



Source: NAB, ABS

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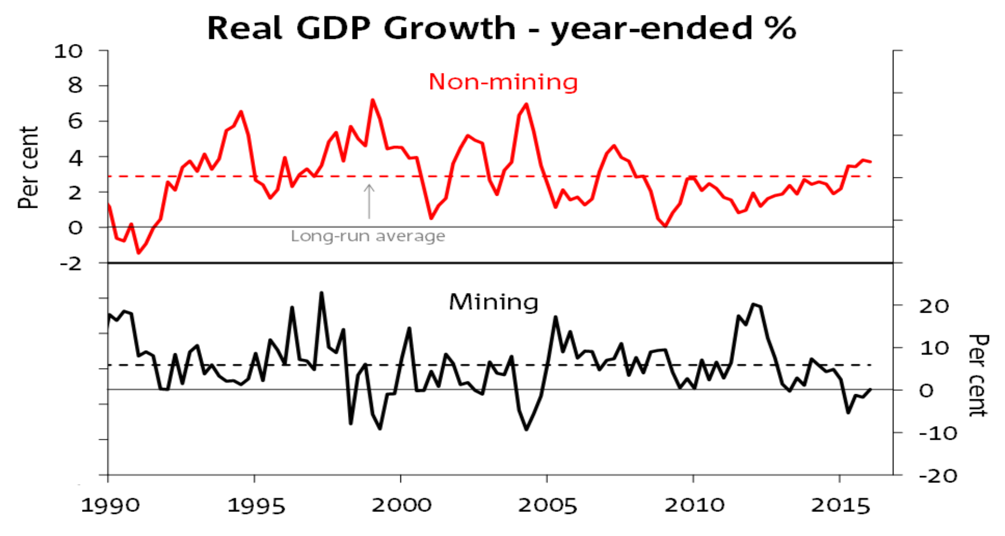
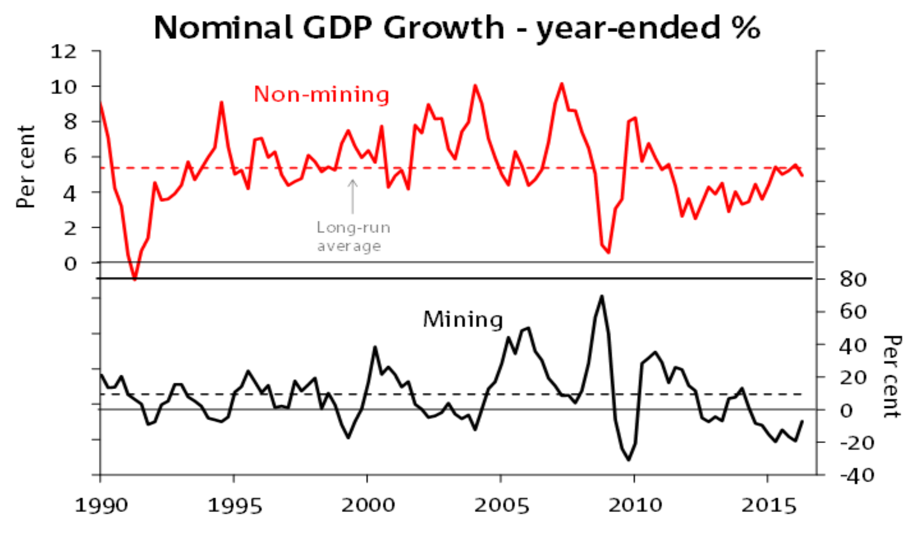
CHARTS OF THE MONTH

Diverging performance by industry. The low wage/inflation nexus.

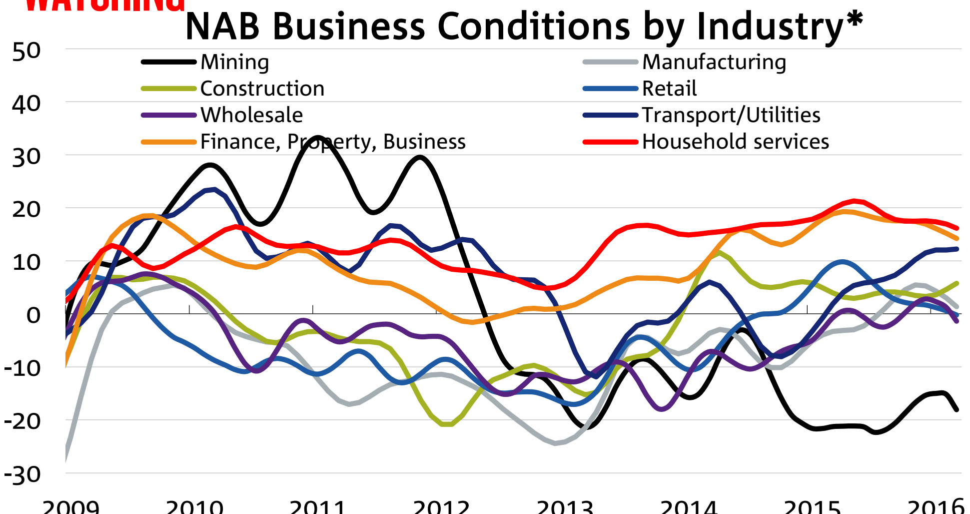
NON-MINING ECONOMY GROWING AT NEARLY 4% IN REAL TERMS, WHILE MINING ECONOMY IN THE DOLDRUMS…



…THE DIVERGENCE IS EVEN MORE PRONOUNCED IN NOMINAL TERMS

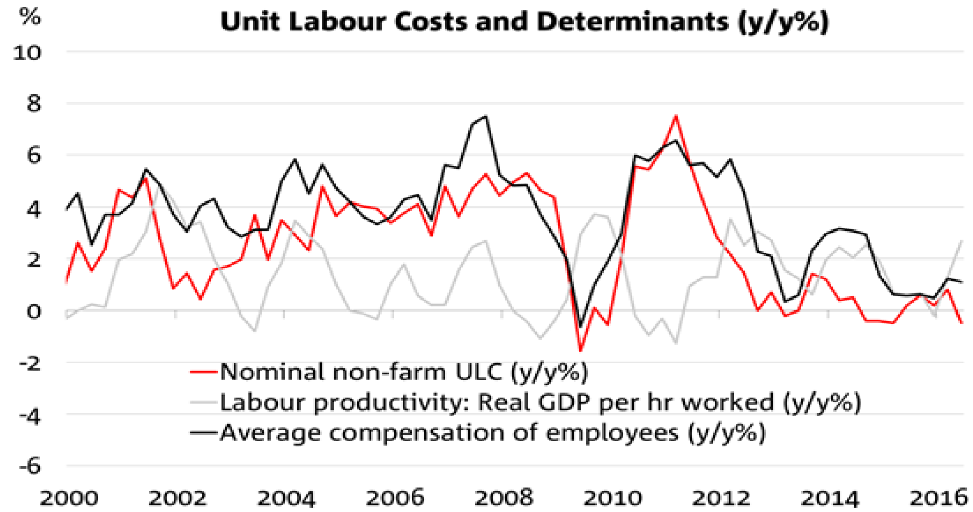


LOSS OF MOMENTUM IN RETAIL INDICATORS BEARS CLOSE WATCHING



* 13 period Henderson trend

WEAK UNIT LABOUR COST GROWTH WILL CONTINUE TO SUPPRESS INFLATION



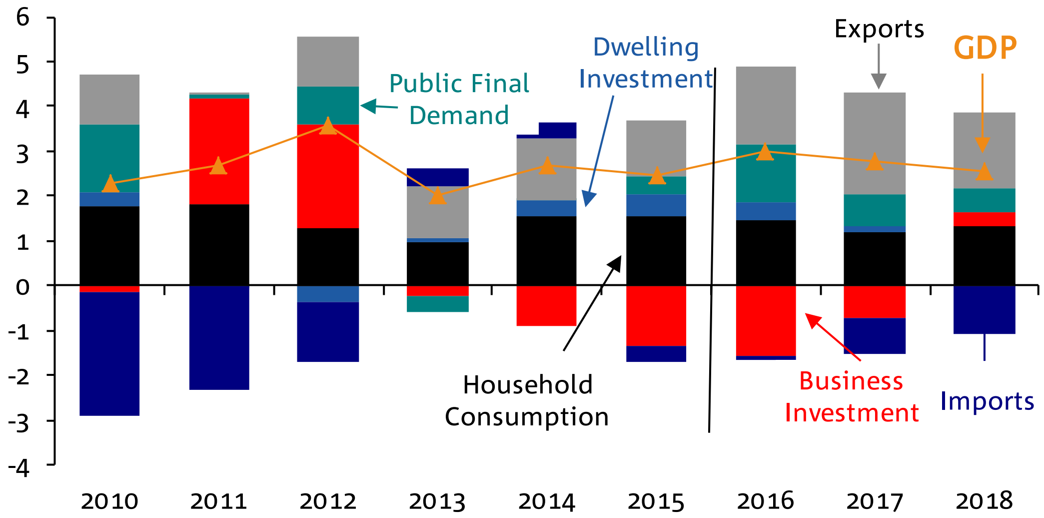
Source: ABS, NAB Group Economics

OVERVIEW - AUSTRALIAN ECONOMIC OUTLOOK

Loss of momentum in 2018

REAL GDP GROWTH SLOWS INTO 2018

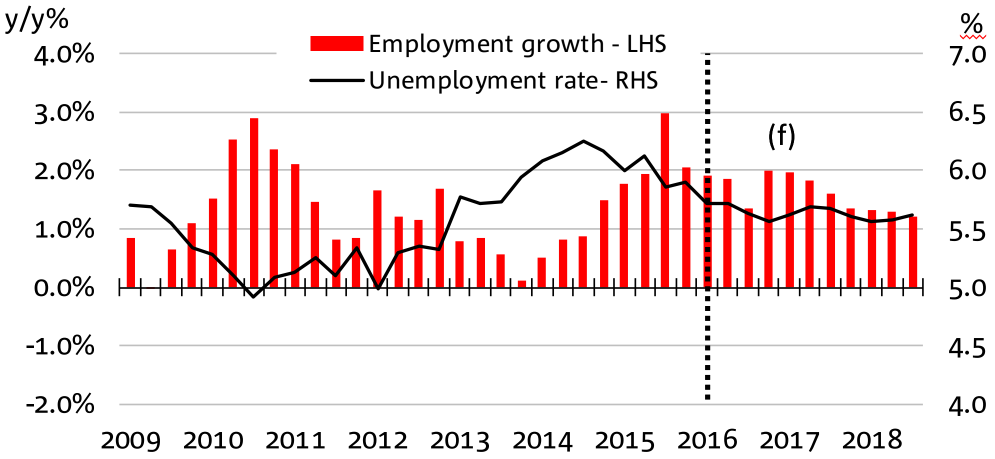
NAB Real GDP Forecasts



Source: NAB, ABS

UNEMPLOYMENT RATE EXPECTED TO BE RELATIVELY STEADY IN THE NEXT FEW YEARS

Employment growth and unemployment rate



Source: ABS, NAB Group Economics

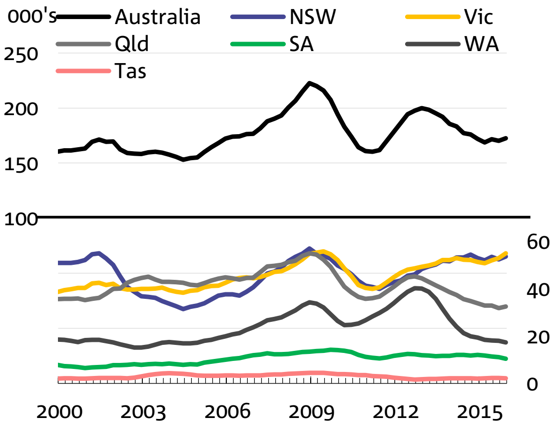
- Real GDP growth was moderate in Q2 at 0.5%, although the year-ended rate ticked up to 3.3%, the fastest pace since mid-2012. Activity remains variable by industry and state, with activity in non-mining sectors (especially services) robust, but mining and related industries struggling as investment unwinds and commodity prices remain low despite the recent bounce.
- Real GDP growth is forecast to be solid at 3.0% in 2016 and 2.8% in 2017. Support will remain from LNG exports and strong growth in net services exports (including tourism and education exports). Domestic demand growth will remain weak at around 1½% despite strong dwelling construction as mining investment contracts further, although there are upside risks if the recent strength in government spending (particularly government investment at the state level) continues in coming quarters. Farm GDP may provide some additional upside risk as well given the improving outlook for production. The outlook for non-mining business investment remains a key area of weakness in the forecasts however. Household consumption growth is expected to remain at around 2 to 2¾% p.a, somewhat below its historical average. Employment growth will slow modestly but be sufficient to maintain the unemployment rate at around 5 ¾%, a rate which indicates ongoing spare capacity in the labour market.
- In 2018, our forecasts for real GDP slow to 2.6%, as LNG exports flatten off, the dwelling construction cycle turns down and the lagged benefit from the sharp currency depreciation since 2013 fades further. That said, some further currency depreciation and even lower interest rates should support domestic demand growth. Beyond that, recent productivity and population growth suggests the Australian economy's growth potential out to 2020 is probably below 2.5%. This will continue to place emphasis on microeconomic reform, taxation reform, infrastructure and innovation policy. To keep unemployment from rising, a combination of reform and further policy stimulus will likely be required. Amidst a weak outlook for inflation, we expect two further rate cuts from the RBA in mid-2017. Any further deterioration in the outlook after that could prompt consideration of non-conventional monetary policy tools such as asset purchases.
- Meanwhile, nominal GDP growth is forecast to remain well below its historical average (see forecasts on page 12) due to another leg down in key commodity prices such as iron ore and the terms of trade, and weak wages growth. This will continue to challenge corporate profits, government revenue, and Australia's AAA rating.

SPOTLIGHT: THE AUSTRALIAN HOUSING CONSTRUCTION CYCLE

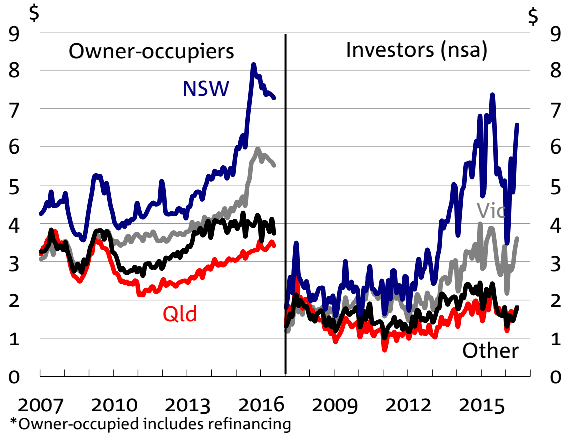
Residential construction is responding to pent-up demand and higher prices

DEMAND FOR AUSTRALIAN HOUSING HAS BEEN STRONG IN RECENT YEARS

Underlying demand for dwellings



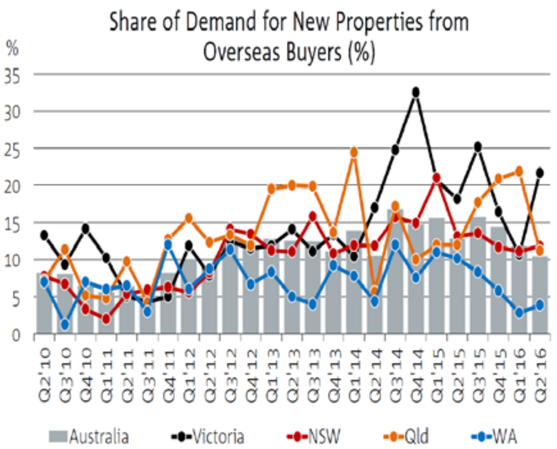
Housing loan approvals by state



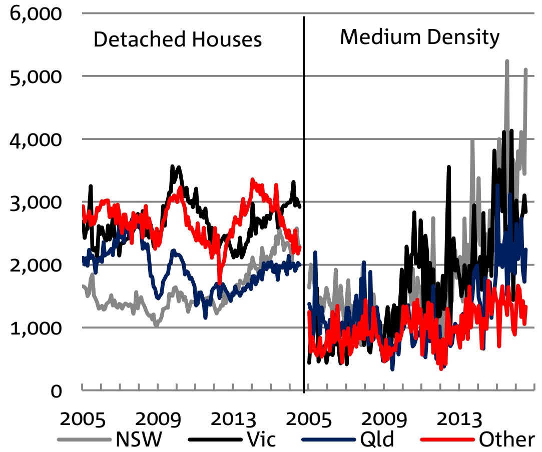
*Owner-occupied includes refinancing

SUPPLY RESPONDING TO HIGHER DEMAND AND PRICES

Foreign demand for new dwellings



House building approvals



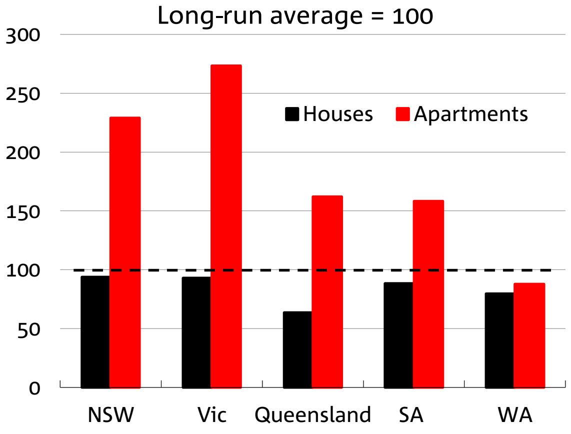
- The housing construction cycle plays an important role in the slowdown in economic growth over coming years. This section explores why dwelling investment is expected to slow, along with the likely timing of the peak and pace of decline.
- Underlying demand for dwellings has remained strong in Australia, despite slowing more recently, as high levels of immigration drive population growth. Australia's mining boom and comparatively good economic performance post-GFC has attracted large numbers of foreign workers, but with commodity prices and (labour intensive) mining investment now off their peaks, population growth has slowed – although not by as much as previously anticipated (and appears to have stabilised). Investor demand for housing has also been incredibly strong, with buyers attracted to the prospect of solid capital gains – especially in the current low yield environment – as well as the preferential tax treatment of residential property. The steady track of capital gains in Australian property has helped to attract demand from foreign investors in recent years as well, particularly in the best performing markets of Sydney, Melbourne and Brisbane.
- Available timely information of foreign investors in Australia is relatively limited, however, the NAB Residential Property Survey indicates that the demand for new dwellings has increased noticeably since 2010. More recently, demand seems to have been volatile, but the Survey still suggests that more than 1 in 5 new Melbourne properties is sold to a foreign buyer – around 1 in 9 for Sydney and Brisbane.
- The supply of housing in Australia has for the most part been slow to respond to rising demand. However, record prices and pent up demand in some markets has seen residential construction accelerate dramatically. New dwelling investment increased more than 10% over the past year and the pipeline of dwellings under construction has hit a record high 216k dwellings. Interestingly, however, the bulk of the new construction is in medium-density dwellings, despite traditionally being the less common type of housing.
- Given the historical relationship between building approvals and population, the increase in medium-density approvals have been significantly larger than population growth would normally suggest – especially in NSW and Victoria where

SPOTLIGHT: THE AUSTRALIAN HOUSING CONSTRUCTION CYCLE

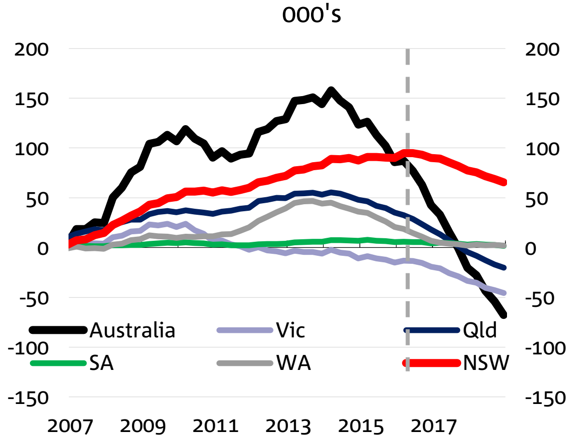
*Construction to peak around late 2017, **national** market becomes oversupplied*

PENT-UP DEMAND IS PROVIDING A 'CUSHION' IN SOME MARKETS

Building approvals to population

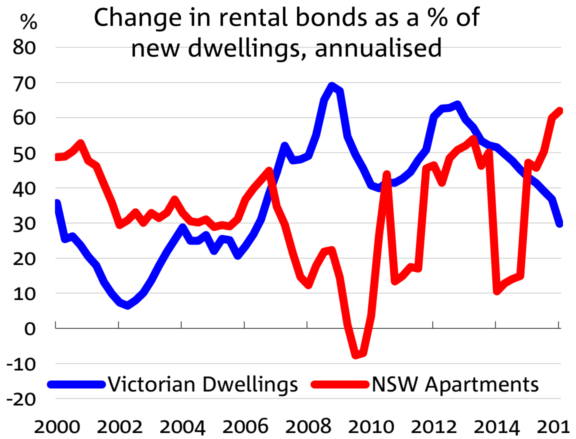


Pent-up demand by state

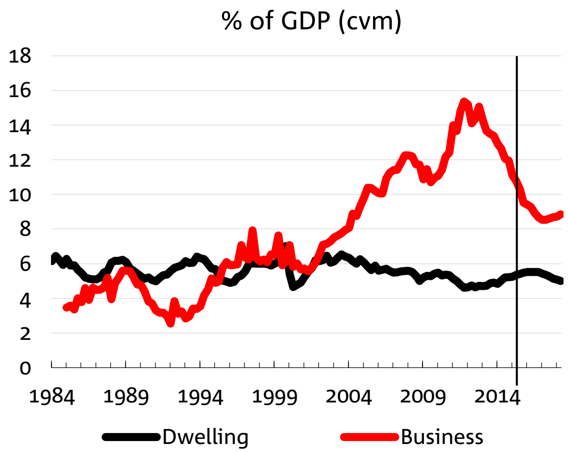


NAB EXPECTS RESIDENTIAL CONSTRUCTION ACTIVITY TO PEAK IN H2 2017

Implied tenancy rate of new dwellings



Investment outlook



apartment approvals are increasing 2-3 times the normal rate needed to meet demand. Growth in detached dwelling approvals have been much more consistent with historical experience.

- Does this mean that Australia is being oversupplied with apartments? While the risks have certainly increased, the significance of the situation is far from clear cut. Firstly, it is possible that growing congestion and affordability issues are changing buyer preferences towards medium-density housing – indicating a structural shift that renders historical comparison less meaningful. Secondly, a simple comparison of approvals and population fails to account for any previous under (or oversupply) of housing.
- Estimating the amount of pent-up demand is a difficult task, but NAB calculations suggest that at present there is pent up demand for around 90k dwellings in Australia. Pent-up demand is particularly large in NSW, followed by Qld then WA. However, given our expectation for construction going forward, with steady population growth, the national market is expected to shift into 'oversupplied' by end 2017. While it is expected to take a long time to run down pent-up demand in NSW, Victoria is already estimated to be in oversupply, following solid construction rates post-GFC – although Victoria is also expected to have the fastest population growth long-term. Current construction activity then suggests that the Melbourne apartment markets may be most at risk of a market correction. That said, vacancy rates in Melbourne do not suggest significant oversupply at present, although rental bond data suggest that this might be understated, as the rate of new tenancy bonds have not kept pace with dwelling completions (chart) – possibly due to foreign buyers deliberately keeping properties vacant. Rents in Sydney and Melbourne have also continued to rise (albeit at a slower pace).
- With fundamentals set to deteriorate – including an expected decline in apartment prices in 2017 (see slide 7), new building approvals are expected to slow materially in coming months. Dwelling investment is then expected to peak around mid 2017 (slide 7). While this is a reasonably large construction cycle, it is still largely overshadowed by trends in business investment (given big declines in mining investment.

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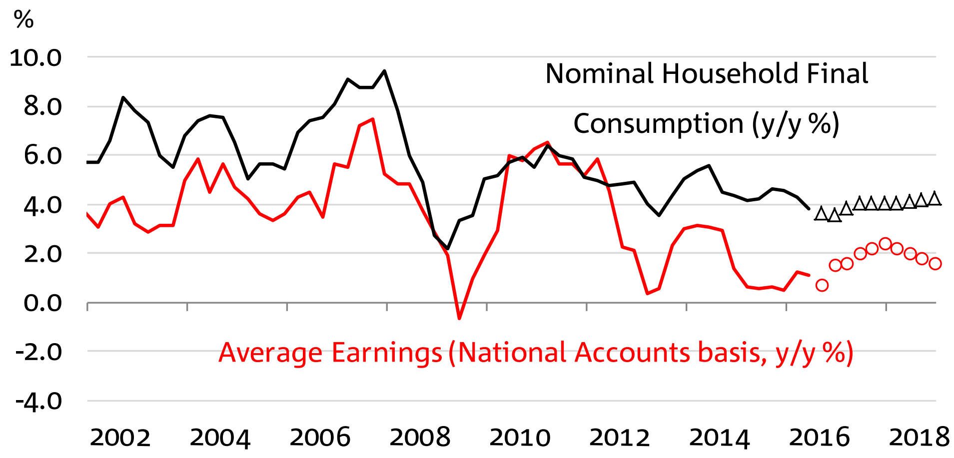
CONSUMER DEMAND AND INFLATION

Easing consumer spending growth points to subdued inflation outlook

HOUSEHOLD CONSUMPTION EASED IN Q2

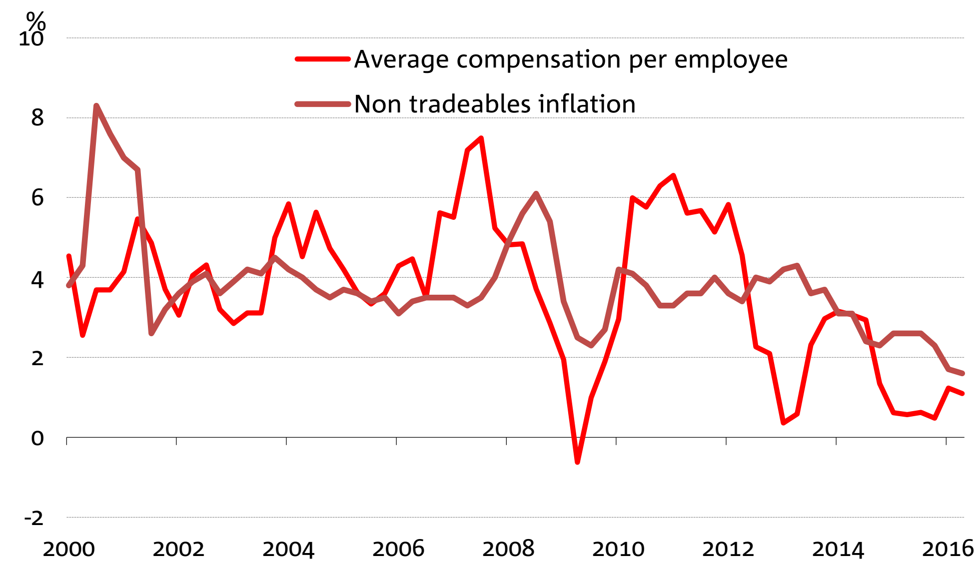
Nominal HFCE growth and average earnings growth (y/y%)



Source: ABS, NAB Group Economics

LOW WAGES GROWTH KEEPS NON TRADEABLE INFLATION CONTAINED

YoY growth



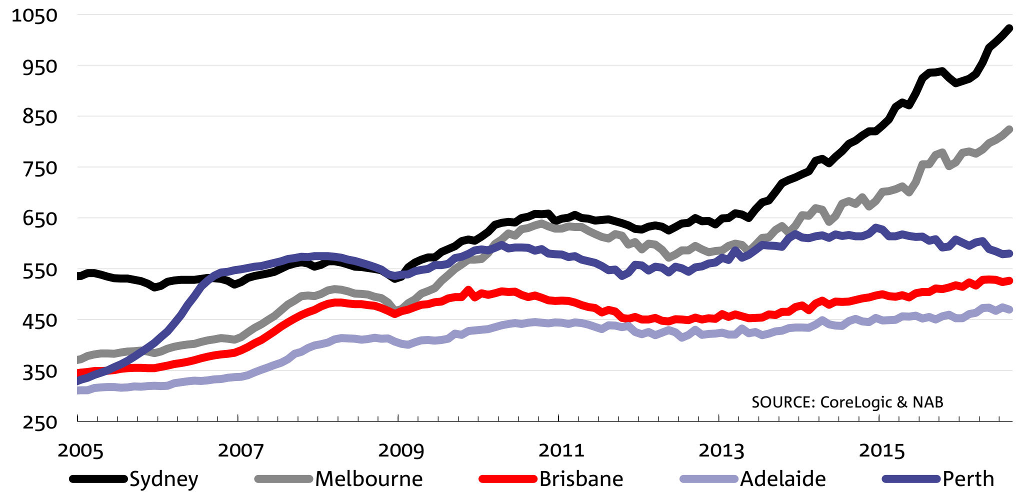
- The Q2 National Accounts revealed subdued growth in **household consumption expenditure** of 0.4% q/q (2.9% y/y), with slowing retail spending a drag. That said, services spending continued to outpace goods spending, with health, hospitality and financial services making the largest positive contributions to growth in Q2. Meanwhile, higher frequency data such as retail sales, our own NAB Online Retail Index and NAB Business Survey continued to soften in the latest month. Retail sales growth in July was flat, while NAB's monthly Online Retail Sales Index for July recorded a 0.4% m/m fall (to be 11.8% higher y/y) in online spending. In trend terms, retail conditions according to the NAB business survey eased to -1 index point in August. Meanwhile, the NAB Consumer Behaviour Survey for Q3 shows that consumer spending patterns remain conservative despite falling levels of anxiety.
- While soft wages growth and more gradual employment growth going forward could act as constraints, we expect moderate (albeit easing) household consumption growth in coming quarters. Low interest rates and renewed strength in house price growth, especially in Sydney and Melbourne, should provide some positive impetus to consumption. We currently expect real household consumption growth of 2.7% in 2016, before moderating to 2.1% in 2017 and 2.3% in 2018. That said, recent stabilisation in the household saving ratio at an elevated level of 8% suggests a return of consumer caution, and if sustained, could constitute downside risk to our consumption forecasts.
- Subdued consumer demand is also weighing on **inflation**. Overall, the inflation outlook remains weak. Spare capacity in the labour market and soft wages growth will continue to put downward pressure on non-tradeables inflation. Significant new dwelling supply will also suppress growth in rents. Although the lower exchange rate has been putting upward pressure on import prices, retailers have been unable to pass on the higher costs to consumers due to strong competition and subdued consumer demand, hence keeping tradeables inflation contained. Overall, we forecast underlying inflation to remain depressed at below or just on 2% in 2017 and 2018, while headline inflation is a little higher due to fuel price increases in AUD terms and tobacco excise increases. With underlying inflation running the risk of "undershooting" the RBA's target for an extended period, this is likely to prompt further easing from the RBA in 2017 (page 11).

THE HOUSING MARKET

Recent cash rate cut risks fuelling overheated market

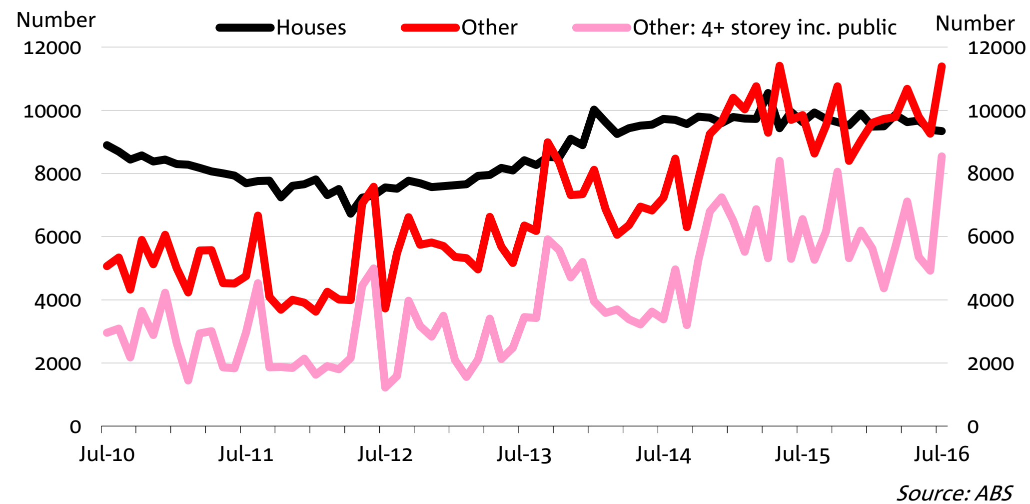
SYDNEY & MELBOURNE PRICES CONTINUE TO RISE

Dwelling price index



RESIDENTIAL CONSTRUCTION PIPELINE BUILDING FURTHER

Private dwelling units approved



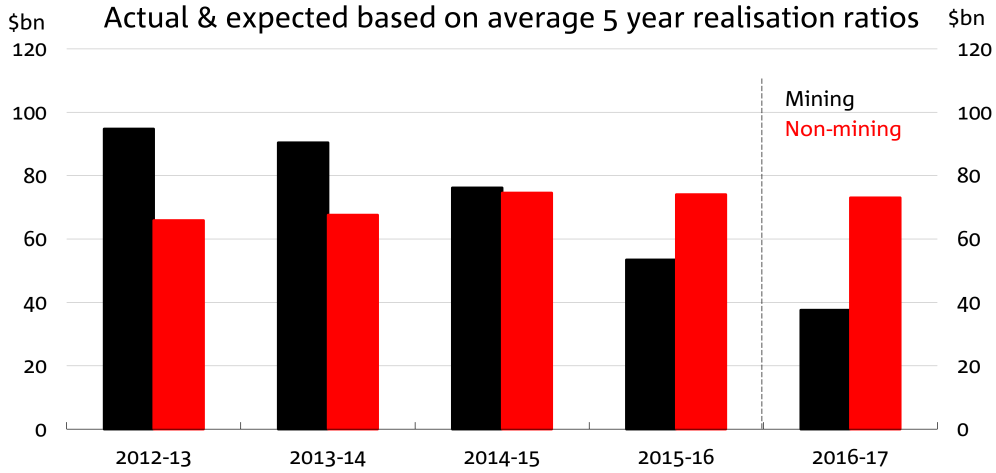
- Indicators of momentum in the **housing market** have been mixed of late, but despite this, (hedonic) prices in Sydney and Melbourne appear to be taking off again, and are at risk of being further spurred on by the RBA's August rate cut. While there are questions over the reliability of quality adjusted (hedonic) price measures, median dwelling prices were also higher in August, particularly in Melbourne. Outside of these cities, (hedonic) prices rose in both Brisbane and Perth in August, but eased in Adelaide and Hobart. Other timely indicators of housing market suggest the interest rate cut is having an impact. In particular, auction clearance rates in Sydney and Melbourne have picked up, and the national clearance rate hit a new high for 2016 in the first weekend of Spring (although transaction volumes have remained low).
- These trends remain a surprise in the context of growing concerns over new housing supply, uncertain foreign (and domestic) investor demand and stretched household balance sheets. Consequently, we see substantial upside risk to our 2016 and 2017 price forecasts – although outcomes vary by city, with mining related regions weak. Despite this, we still expect the above headwinds to bite over the coming months and years. Our **national price growth** forecasts for 2016 are 5% for houses and 3½% for units. While quality adjustments will continue to prop up these prices, we still forecast growth to moderate to 0.5% for houses and -2% for units in 2017.
- **Dwelling investment** rose by a smaller than expected 1.6% in the June quarter, and was primarily driven by renovation activity – new construction was broadly flat. However, the pipeline of approved residential construction projects remains large, with the flat outcome more a reflection of the lumpy nature of medium density projects (which dominate the pipeline). Indeed, the pipeline appears to be building further, with new approvals spiking in the month, driven again by more medium density projects. With much of the construction set to take place in Sydney and Melbourne, vacancy rates need to be monitored closely – but are not currently suggesting a significant supply overhang (although Melbourne appears to be on the cusp) – as well as other timely indicators such as rents, which have slowed considerably in these cities (but are still growing). Supply overhang is expected to become more of a concern over the next 12-18 months. Dwelling investment is expected to rise 7.4% in 2016 and 2.3% in 2017, before become a (smal[illegible] on economic activity.

BUSINESS ACTIVITY, INVESTMENT AND CONSTRUCTION

Tentative signs of life ahead for non-mining investment

NON-MINING CAPEX EXPECTATIONS IMPROVED, BUT NOT ENOUGH

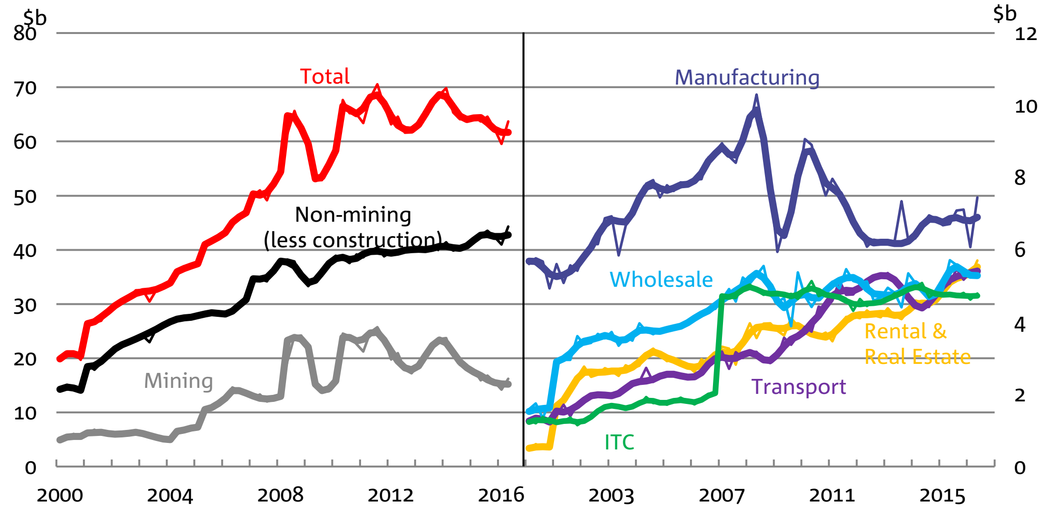
Capital expenditure



Source: ABS & NAB calculations

PROFIT GROWTH REMAINS ELUSIVE FOR MANY INDUSTRIES

Corporate profits ($ billions)



- Results from the NAB Monthly Business Survey remain relatively upbeat, although business conditions appear to have lost momentum and industries such as retail have been somewhat disappointing of late. Nevertheless, business sentiment has proven to be extremely resilient to negative influences over recent months, which has flowed through to more stable (and above average) levels of labour demand. Capacity utilisation rates are currently around average levels, suggesting excess capacity is not a material constraint on investment, while the recent interest rate cut by the RBA may encourage additional spending by firms. Indeed, the NAB Survey's capital expenditure index has remained solid, looking more upbeat than other capex indicators.
- Business investment fell 5.7% in the Q2 National Accounts, with the decline primarily driven by a 12.4% drop in non-dwelling construction – the mining sector being the main driver. Consistent with this, a more timely read from the value of non-residential building approvals suggests a relatively slow response in construction spending to the lower interest rate environment, however, there has still been a marked move higher. Mining sector headwinds are expected to remain significant over coming quarters, but with idle capacity in other sectors returning to more normal levels, prospects for additional spending has improved – other indicators, such as low office vacancy rates in Sydney and Melbourne, tend to support this.
- Profitability will also factor into firms spending decisions. The NAB Survey has shown firms to have relatively good profitability over the past year, but data on corporate profits suggest a degree of disparity across industries. Non-mining corporate profits rose in Q2 2016, but have been trending only modestly higher, and unable to offset declines in mining and construction profits. Nevertheless, recent improvements in profits for industries such as manufacturing, and service sectors like rental & real estate services are encouraging.
- In terms of the longer term outlook, weakness was still very apparent in the ABS's Q2 Private New Capital Expenditure (Capex) Survey, but the expectation for spending in 2016-17 did improve from previous estimates – even with further large declines expected in mining.
- Business investment (around 12% of GDP) is forecast to decline by around 9.4% in 2016 and 5.5% 2017. In 2018, business investment will increase modestly (+3.2%).

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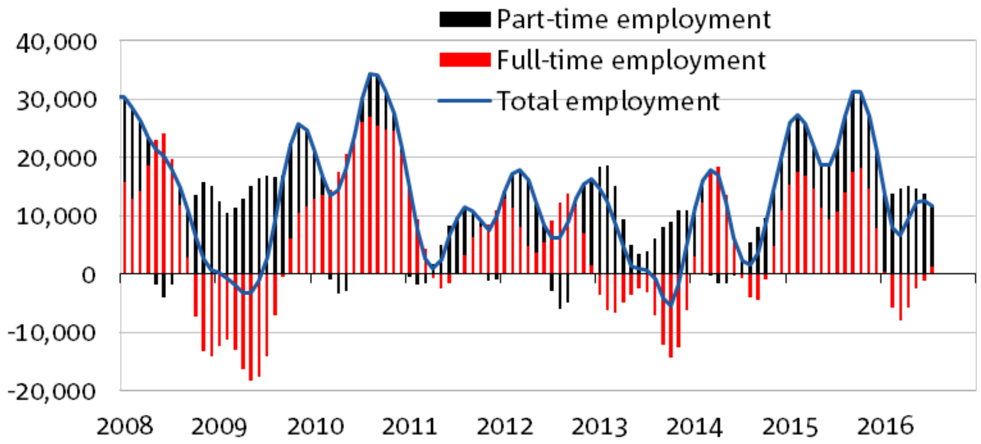
LABOUR MARKET AND WAGES

Headline employment growth robust on part-time jobs growth

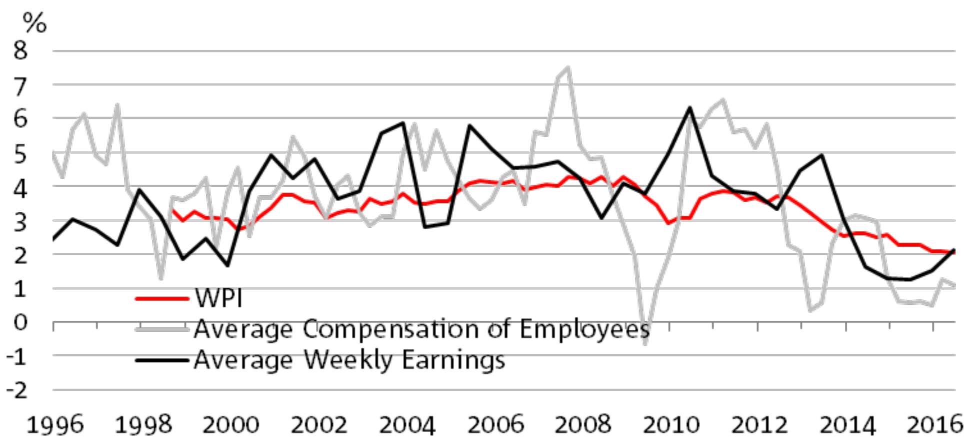
RECENT EMPLOYMENT GROWTH DOMINATED BY PART-TIME JOBS

Number of part-time, full-time and total employment



WAGE MEASURES GENERALLY REMAIN SOFT

Wage price index, average weekly earnings and average compensation of employees



Source: ABS, NAB Group Economics

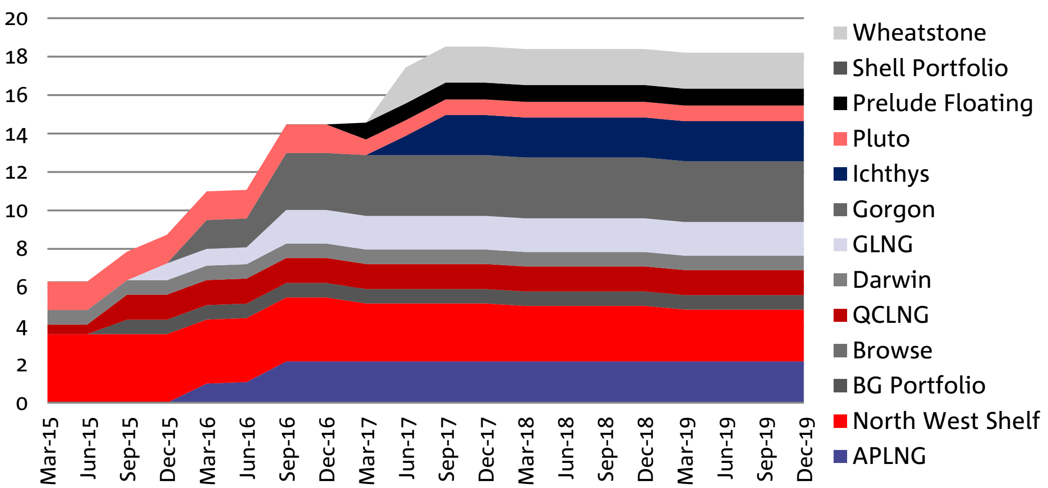
- In July, employment in seasonally adjusted terms rose by more than market expectations (+26k against market consensus of +10k), which saw the official unemployment rate ease by 0.1% to 5.7%. Meanwhile, the participation rate was unchanged at 64.9%.
- The strong headline employment growth figure masked some of the weakness in the underlying components, characterised by the widening divergence between trend growth in full-time jobs (0.6% y/y) relative to part-time jobs (4.4% y/y). The underemployment rate, which captures those who are employed but wanting and available to work more hours, continues to track at an elevated level of 8.4%. By state, employment growth continues to be mainly driven by strength in NSW and Victoria, while job losses in Queensland persist.
- The employment index from the NAB monthly business survey has been relatively resilient at +4 for the third consecutive month in August, the highest level since mid-2011. This implies employment gains of 18k per month in the next six months, slightly above the 15k per month required to keep the unemployment rate unchanged. As such, we expect the unemployment rate to remain relatively steady in the coming quarters, easing slightly to 5.6% by end-16, and averaging at that level for 2017 and 2018.
- Recent data on wages has also been soft, with growth in the wage price index steadying at 2.1% y/y in Q2 and the National Accounts measure of average compensation of employees more modest at 0.2%q/q (1.1%y/y). Most industries have displayed steady to declining trends in their WPIs, with the wholesale sector being the standout, recording a 0.3ppt increase in Q2 to 2.1% y/y.
- The recent data are consistent with our forecasts for wages growth to remain subdued through the forecast horizon. Together with modest expected improvement in measured labour productivity growth, low wage growth is translating into very low growth in unit labour costs (see page 2), a key input into consumer prices, which in turn is consistent with our subdued outlook for inflation (on page 6).

NET EXPORTS, COMMODITIES AND THE TERMS OF TRADE

Net exports weak in Q2 but expected to pick up in Q3

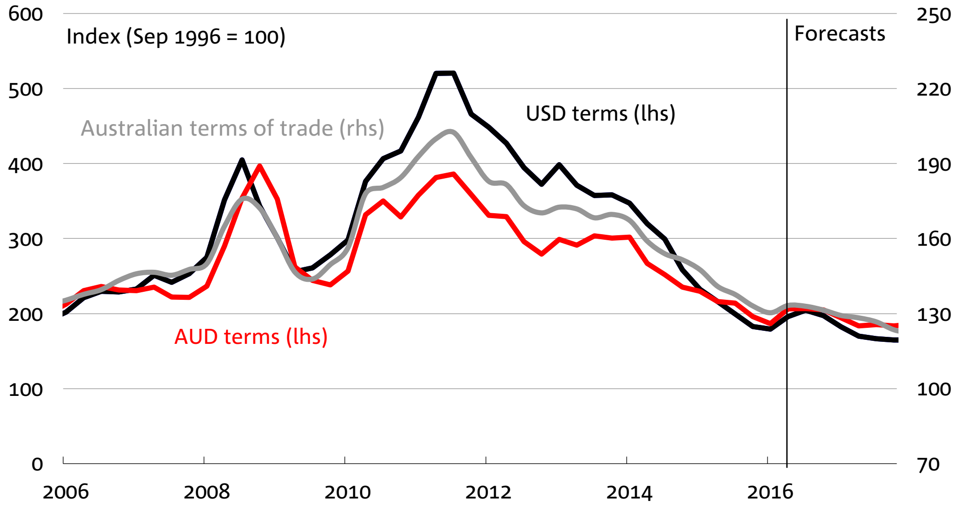
LNG EXPORTS EXPECTED TO RAMP UP IN Q3

Forecast LNG exports



NON-RURAL COMMODITIES INDEX HIGHER ON IRON ORE PRICE SPIKE

NAB Non-Rural Commodities Price Index



Source: ABARES, ABS, Bloomberg, Thomson Datastream, NAB

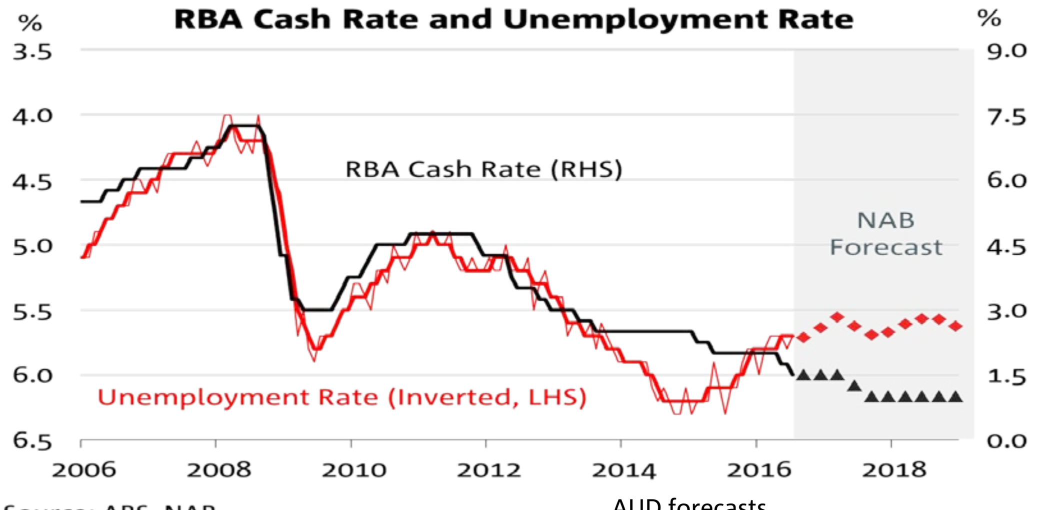
- Net exports subtracted 0.2 ppts from GDP growth in Q2, although this follows a very strong contribution of 1.1 ppts in Q1. Exports of our key commodities remained steady while imports expanded by a 2.7% over the quarter. Net exports are expected to add to GDP growth again in Q3, as resource exports ramp up, driven largely by new LNG exports. Note that the bulky nature of LNG projects and their uncertain timing may cause fluctuations in quarterly exports growth. For now, we are expecting new exports from the APLNG, GLNG and Gorgon projects over Q3, which should raise LNG exports by another 20%. However, downside risks remain as producers may cut production or experience delays as prices remain depressed.
- The recent G20 meetings brought to attention the global steel glut and saw world leaders pledge to work together to address overcapacity. This could pose a downside risk to Australia's iron ore exports in the longer run should China cut production in a meaningful manner. However any such cuts are likely to be gradual as China takes domestic interests into consideration.
- Imports are expected to continue to grow, as the higher AUD in the near term and gradually recovering domestic demand provide support for consumption and intermediate imports, offsetting the fall in capital goods imports as business investment falls.
- Higher iron ore prices have prompted us to revise up the spot price forecasts for the near term (to US$ 59/tonne from $44 for Q3, $50 from $41 for Q4 2016 and $45 from 40 for Q1 2017). The increases are expected to be temporary, with declines towards $40 expected in 2017. Coking coal price forecasts have also been revised higher for Q4 2016. By year end, NAB's non-rural commodity price index in USD terms is forecast to be 8.1% higher than a year earlier, having peaked in Q3. This will boost Australia's terms of trade and income growth. In 2017, the index is expected to retreat further to be 16.4% lower than a year earlier. The anticipated depreciation of the AUD will cushion some of the fall, with the AUD index 10.5% lower.
- Wheat production is looking strong, particularly in Western Australia however the global supply glut is depressing prices. The Eastern Cattle Young Indicator reached a new high in August and has retreated somewhat. Dairy prices were also up.

MONETARY POLICY AND THE EXCHANGE RATE

RBA's hand will likely be forced again in 2017, weighing on the AUD

RBA ADDRESSING INFLATION RATHER THAN ACTIVITY CONCERNS

RBA Cash Rate and Unemployment rate

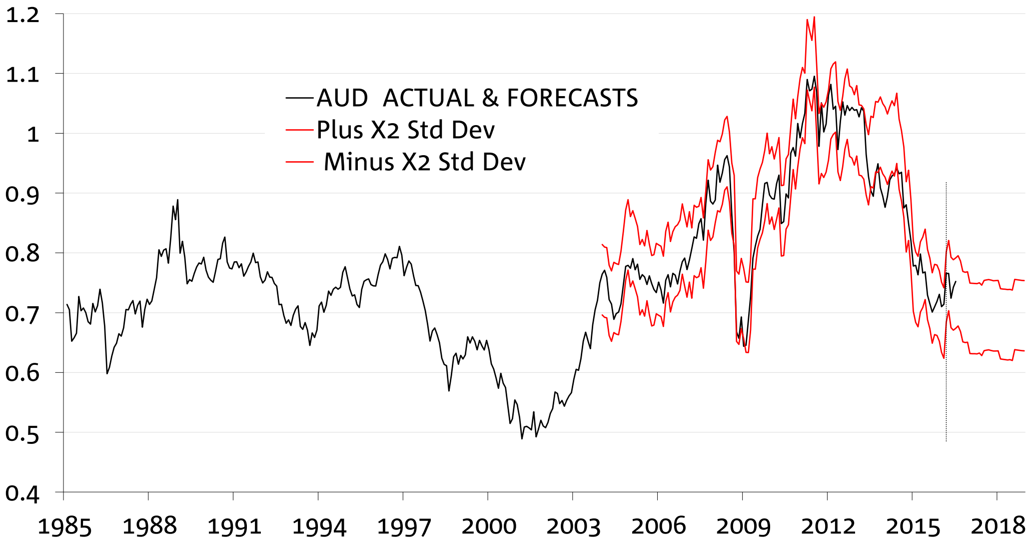


Source: ABS, NAB

AUD forecasts

AUD TO DRIFT LOWER IN 2017 AND 2018

NAB's AUD/USD forecasts



- As per last month, we now expect that the RBA will be forced to ease **monetary policy** again through 2017. This will mostly be in response to the expectation that underlying inflation will run below target for more than two years, but also the need to prevent a rise in unemployment as the economy loses some momentum in 2018. This is particularly the case after recent rate cuts in which the RBA has clearly demonstrated its commitment to its inflation target (of 2-3% over the course of the cycle) .
- Deputy Governor Phil Lowe will have taken over from Glenn Stevens as the new Governor of the RBA by the time of the next meeting. No significant change in the RBA's mandate or position of the economy is expected, although there is some possibility of changes, particularly in the RBA's communication style or in the detail of the forecasts.
- NAB has revised its **exchange rate** forecasts over the past month, and now expects the AUD to hold up through the remainder of 2016, before easing to USD70c by end-2017 in response to a higher USD following an expected Fed rate hike in December, rate cuts from the RBA in the middle of 2017 and another leg down in key commodity prices such as iron ore through 2017. The currency is then expected to broadly stabilise through 2018, with our new forecast at USD69c by end-2018. Volatility over the past week however does suggest some modest downside risk to our latest target for AUD/USD of 75c by the end of this year.
- We also note that a recent speech from the RBA's Chris Kent emphasised that the trade weighted index (TWI) may have appreciated a little further than fundamentals such as commodity prices and interest rate differentials have suggested in recent months. Our models however suggest very little "overvaluation" at present, with estimated fair value currently sitting at approximately AUD/USD74c. In any case, periods in which the RBA has highlighted overvaluation have often been followed by jawboning of the currency, which markets should be alert to, and the currency is also a key influence on RBA decision-making at present given the desire not to impede the recovery underway through the non-mining economy.

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DETAILED FORECASTS

Australian economic and financial forecasts (a)

	Fiscal Year			Calendar Year			
	2015-16 F	2016-17 F	2017-18 F	2015	2016-F	2017-F	2018-F
Private Consumption	3.0	2.2	2.3	2.8	2.7	2.1	2.3
Dwelling Investment	9.1	5.5	-1.3	9.7	7.4	2.3	-3.8
Underlying Business Investment	-12.7	-6.1	-1.8	-10.4	-9.4	-5.5	3.2
Underlying Public Final Demand	3.5	3.8	2.6	2.1	4.1	2.9	2.6
Domestic Demand	**1.2**	**1.8**	**1.6**	**1.1**	**1.6**	**1.5**	**2.0**
Stocks (b)	-0.1	0.0	0.1	0.0	0.0	0.0	0.1
GNE	**1.1**	**1.8**	**1.7**	**1.1**	**1.6**	**1.5**	**2.1**
Exports	6.6	8.9	9.1	6.0	7.8	9.7	6.7
Imports	-0.2	3.5	4.2	1.7	0.4	3.9	5.2
GDP	**2.9**	**2.7**	**2.9**	**2.4**	**3.0**	**2.8**	**2.6**
Nominal GDP	2.5	4.8	2.7	1.7	3.9	3.4	2.9
Federal Budget Deficit: ($b)	-37	-34	-23	NA	NA	NA	NA
Current Account Deficit ($b)	73	43	66	77	49	55	79
(-%) of GDP	4.4	2.5	3.7	4.7	2.9	3.1	4.4
Employment	2.2	1.8	1.5	2.0	1.8	1.8	1.3
Terms of Trade	-10.0	2.2	-10.1	-11.5	-2.4	-5.9	-7.4
Average Earnings (Nat. Accts. Basis)	0.9	1.5	2.2	0.6	1.1	2.1	1.9
End of Period							
Total CPI	1.0	2.3	2.2	1.7	1.5	2.2	2.3
Core CPI	1.5	1.9	1.8	2.0	1.6	1.8	2.0
Unemployment Rate	5.7	5.6	5.6	5.9	5.6	5.7	5.6
RBA Cash Rate	1.75	1.25	1.00	2.00	1.50	1.00	1.00
10 Year Govt. Bonds	1.98	2.00	2.05	2.88	2.05	2.15	2.05
$A/US cents :	0.74	0.72	0.68	0.73	0.75	0.70	0.69
$A - Trade Weighted Index	62.5	62.5	58.2	62.7	65.0	60.5	58.2

(a) Percentage changes represent average annual growth, except for cash and unemployment rates. The latter are end June. Percentage changes for CPI represent through the year inflation.

(b) Contribution to GDP growth

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