# PREFACE

## *Initial thoughts on the potential implications of the US Presidential election*

These forecasts contained within this document were finalised prior to the US election, and do not incorporate the impact on financial markets, the global economy or Australian economy from the result. The impact of the win in the U.S. Presidential election by Mr Trump is at this stage highly uncertain. What Mr Trump's priorities are how he will interact with the Congress , and other nations is all up in the air. Some key issues that we will be monitoring are:

- The degree of volatility in markets. Financial markets experienced large moves as it became more apparent that Mr Trump would win but then reversed course. Persistent bouts of volatility would have implications for Federal Reserve monetary policy as they typically push back any planned rate hikes in that environment. Uncertainty can also affect business investment decisions and consumer confidence. At this stage we are leaving our call for a Fed rate hike in December unchanged.
- The likelihood of greater fiscal stimulus (and public debt) as Mr Trump's plans included significant tax cuts and public spending proposals, with limited budgetary savings. How the Republican congress – which has in the past tried to curb the budget deficit – will react is unclear, although the proposed tax cuts would have strong appeal.
- What measures are implemented to curb what the President-elect sees as "unfair" trade, particularly in relation to China and NAFTA. These could include declaring China to be a "currency manipulator" "on day one" and a 45% tariff on US imports of Chinese goods. The risk is that this could trigger a trade war.
- How aggressive are the steps taken to reduce 'illegal' immigration (building a wall on the border with Mexico), and to deport existing unauthorised immigrants residing in the US. This has the potential to lower US growth potential and be inflationary if it were to lead to wage pressures.
- Fiscal stimulus in an economy close to full employment is likely to be inflationary and suggests a risk that the US Federal Reserve may eventually have to increase rates more aggressively. This, coupled with higher public debt, could see long-term bond yields move higher.

For **Australia** specifically, perhaps the biggest threat to the Australian economy in the wake of the election is the implication for trade policy. In particular, Mr Trump's criticisms of China and his warning that a 45% tariff could be imposed on imports of Chinese goods raises the risk of a US-China trade war if the latter retaliated. China is easily Australia's biggest export market but the US is the biggest foreign investor here and the third biggest export market. Australia would face an unenviable position if trade tensions arose between such important economic partners as China and the US. Additionally, the future of broader trade pacts, including the TPP, are now under threat.

Sources: ABS, NAB

# THE FORWARD VIEW - AUSTRALIA

## NOVEMBER 2016

National Australia Bank

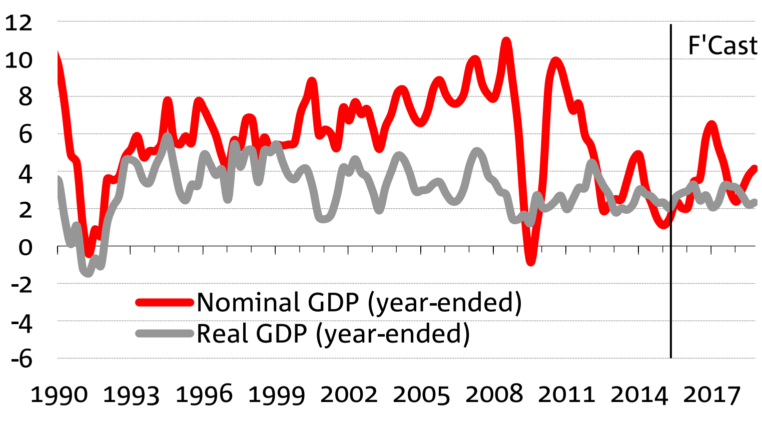
## On alert

- Our real GDP forecasts have been revised slightly, mainly due to lower starting point for Q3 2016 with partial data suggesting a large subtraction from net exports. We now expect real GDP growth of 2.8% in 2016, 2.7% in 2017 and 2.6% in 2018. The unemployment rate is expected to hover between 5.5% and 5¾% through the forecast horizon. These forecasts are somewhat more cautious than the RBA, especially in 2018.
- We are monitoring the loss of momentum in some key high frequency indicators, including the pullback in business conditions, capacity utilisation and employment growth. In particular we note the softening of these in NSW and services, areas which hitherto have been key sources of strength. At this stage, the deterioration is not yet enough to warrant a significant change in the outlook, but a continuation of these downward trends could signal an earlier turn in the non-mining economy than expected.
- Recent exponential growth in coking coal prices has raised our 2016-17 forecasts for the terms of trade and nominal income in recent months. While this may lure back some idle mine capacity in Queensland, it is unlikely to stimulate additional investment amidst low exploration rates and our expectation that such high prices are unsustainable.
- These forecasts were finalised prior to the US election, and do not incorporate the impact on financial markets, the global economy or Australian economy from the result.
- Our *Spotlight* article this month explores the surge in LNG exports underway, and our expectation for prices.

## KEY FORECASTS

| | Calendar Year | | | |
|---|---|---|---|---|
| | 2015-F | 2016-F | 2017-F | 2018-F |
| Domestic Demand (a) | 1.1 | 1.7 | 1.6 | 2.2 |
| **Real GDP (a)** | **2.4** | **2.8** | **2.7** | **2.6** |
| Terms of Trade (a) | -11.5 | -1.6 | 3.0 | -5.5 |
| Employment (a) | 2.0 | 1.6 | 1.5 | 1.4 |
| Unemployment Rate (b) | 5.9 | 5.6 | 5.6 | 5.6 |
| Headline CPI (b) | 1.7 | 1.6 | 2.4 | 2.4 |
| Core CPI (b) | 2.1 | 1.5 | 1.9 | 2.0 |
| RBA Cash Rate (b) | 2.00 | 1.50 | 1.00 | 1.00 |
| $A/US cents (b) | 0.73 | 0.75 | 0.70 | 0.69 |

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

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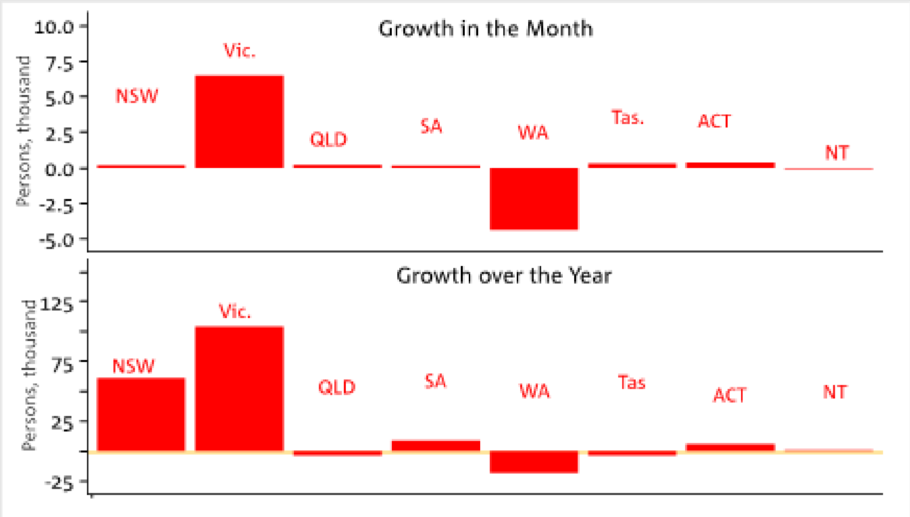
# CHARTS OF THE MONTH

## *Watching the slowdown in some indicators, especially in NSW and in services*

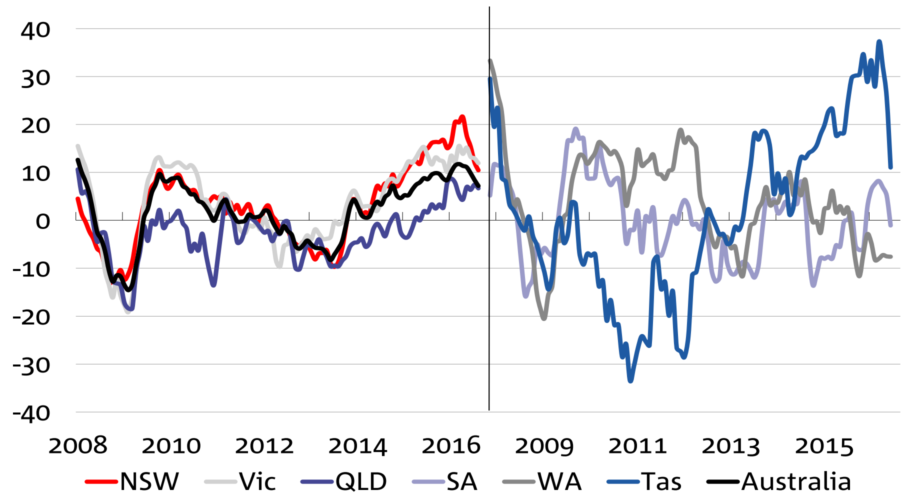
### EMPLOYMENT GROWTH STALLED IN ALL STATES EXCEPT VIC

Monthly employment change, trend, 000s



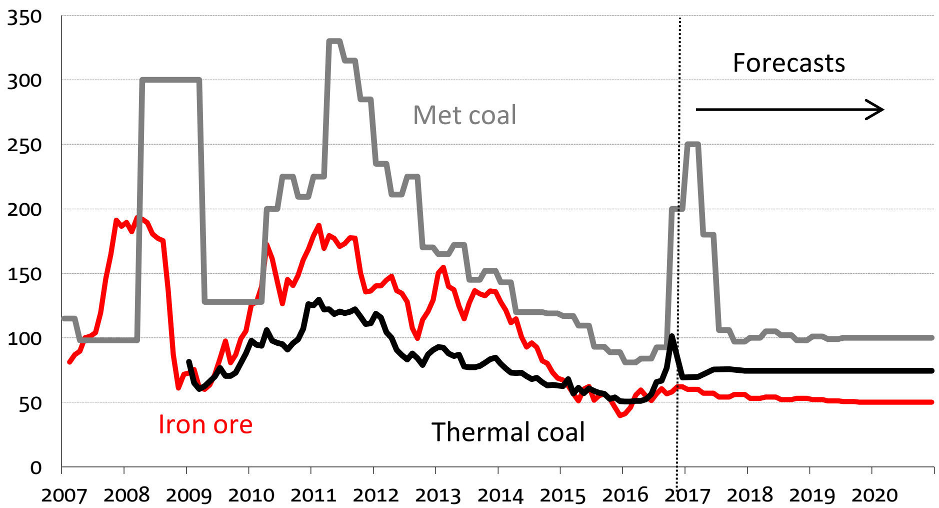

### SLOWDOWN IN CONDITIONS NOTABLE IN NSW AND TAS

Business conditions by state, Net balance, 3mma



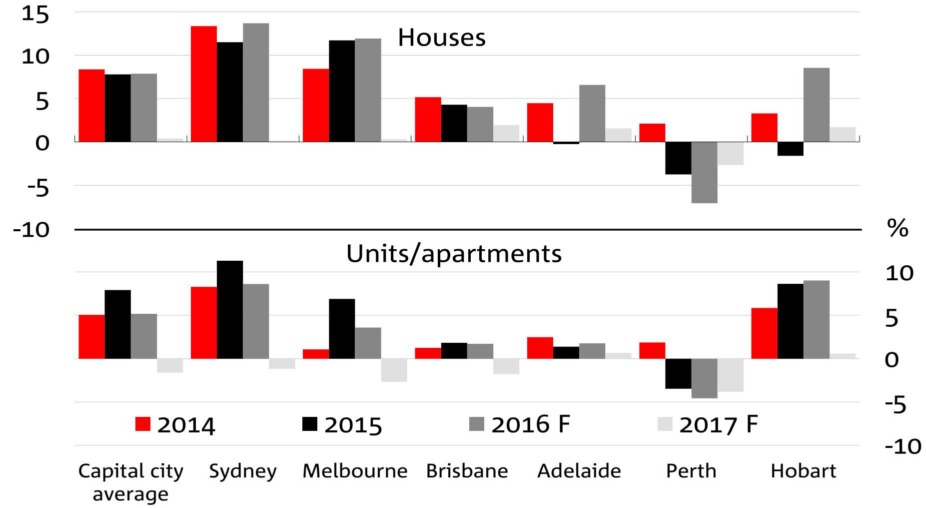

### RECENT SURGE IN COAL PRICES UNLIKELY TO BE SUSTAINED

US$/tonne




### 2016 DWELLING PRICE FORECASTS REVISED UP

Annual growth, %




Sources: NAB, ABS, Core Logic RP Data, Bloomberg



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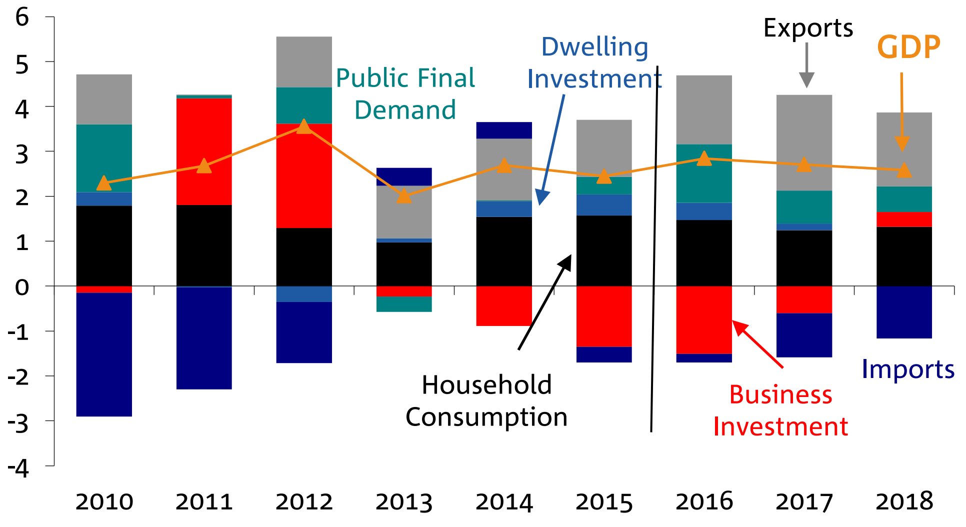
# OVERVIEW - AUSTRALIAN ECONOMIC OUTLOOK

*Forecasts largely unchanged, but alert to risks*

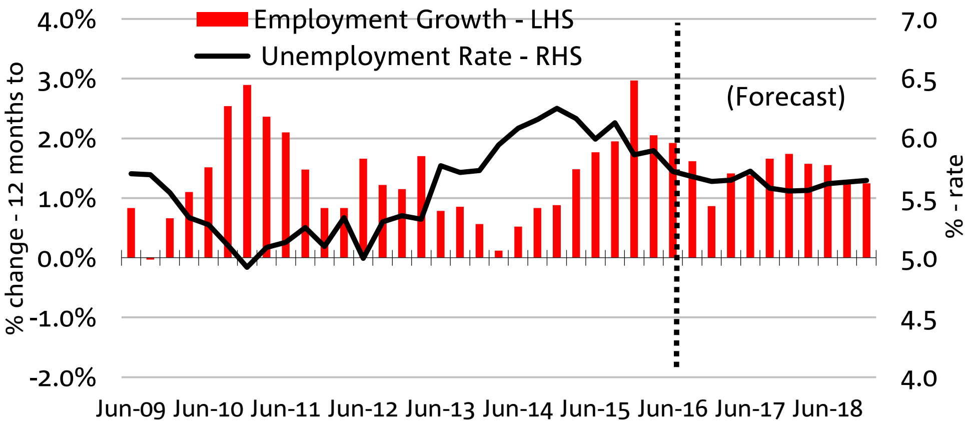
## REAL GDP GROWTH GRADUALLY EASING

NAB Real GDP Forecasts




## SPARE CAPACITY IN THE LABOUR MARKET WILL REMAIN

Employment growth and unemployment rate



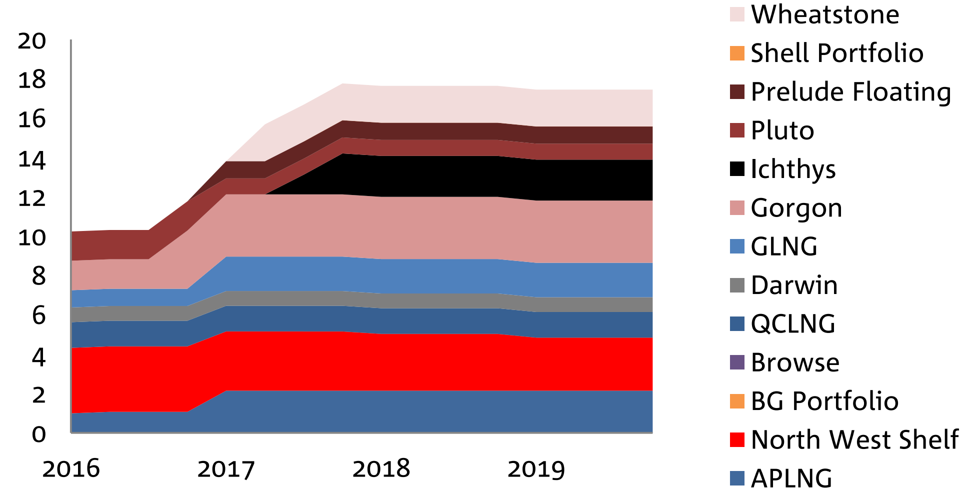

Sources: ABS, NAB

- The key trends and themes underpinning our Australian economic forecasts are unchanged. These were finalised prior to the US election, and hence do not incorporate the impact on financial markets, the global and Australian economies from the result. For some colour, see our recent note outlining the possible effects on trade, taxation, monetary policy and financial markets.
- Our real GDP forecasts are slightly lower in 2016 and 2017 due to a lower starting point for Q3 2016, with partial data indicating a subtraction from net exports of 0.3 ppts. We expect real GDP growth to slow from 2.8% in 2016 to 2.7% in 2017 and 2.6% in 2018. The key tenets of our forecasts include:
  - a modest outlook for household consumption growth, owing to only a very subdued pick up in wages and household income growth;
  - the drag from mining investment reducing from here, with the adjustment approximately 70% of the way through;
  - moderate growth forecast for non-mining business investment;
  - dwelling construction adding to growth through 2017 but marginally detracting from growth in 2018 as the construction cycle turns;
  - net exports adding significantly to growth through the forecast horizon, largely due to surging LNG exports (see p4) and strong net services trade;
  - moderate employment growth sufficient to keep the unemployment rate stable in a range between 5½ and 5¾%
  - there will be a temporary boost to the terms of trade, export earnings, profits and nominal GDP, before coking coal prices reverse
- We are monitoring the recent slowdown in employment, business conditions and capacity utilisation closely, in particular the easing evident in NSW and services sectors. For now, we see this as a temporary loss of momentum, but there are clearly downside risks if the downward trend is sustained.
- Our forecasts are more cautious than the RBA who assume a stronger recovery through the non-mining economy, especially in 2018, with the central bank's forecasts for household consumption in particular more optimistic. The RBA's terms of trade forecasts are also higher, especially for coking coal.
- Our current forecasts are predicated on the expectation that global growth will pick up very gradually from 2.9% in 2016 to 3.2% in 2017 and 2018. They also assume the AUD will remain high through the remainder of 2016 before easing through 2017 as the US resumes its rate hike path. These are expectations which will be revisited as we digest the result of the US election.

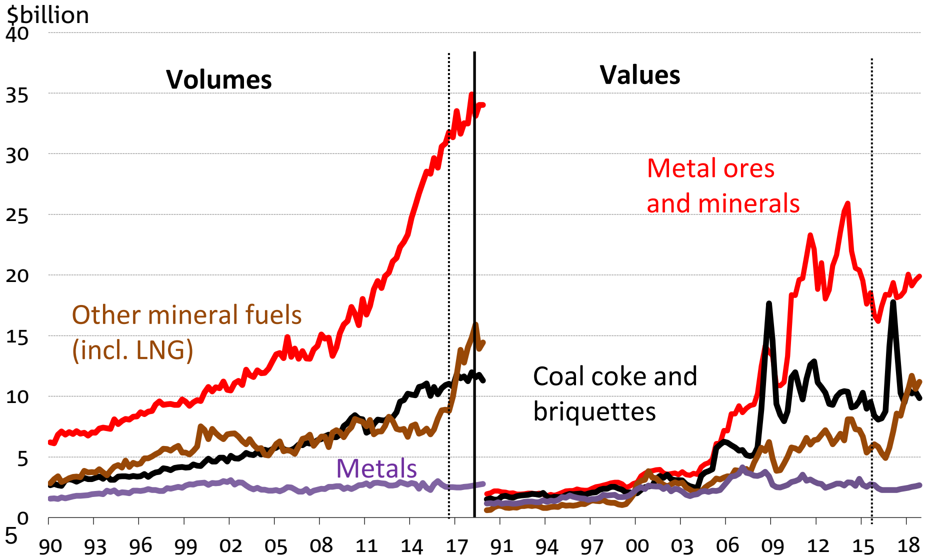
# AUSTRALIAN LNG EXPORT FORECASTS

## *Australia on track to become the world's biggest exporter*

### FORECAST OUTPUT PER LNG TERMINAL (MILLION TONNES PER QUARTER)




### AUSTRALIAN RESOURCES EXPORTS, VOLUMES & VALUES




- Australia is significantly ramping up LNG production capacity, with new terminals in Western Australia, Queensland and the Northern territory having opened or under the advanced stages of construction. This will give Australia the world's largest LNG production capacity – around 85 million tonnes per annum, over 20% of global capacity. However, the ramp-up in production is progressing slower than expected, and some terminals are running well below capacity amid an oversupplied global market.
- Our forecasts for LNG export volumes consider both the nameplate capacity of Australian LNG terminals, contracted sales volumes and the prospect that some customers may take less than contracted volumes suggest.
- Western Australia is Australia's biggest gas producer, with most of the state's production (which is isolated from the east) destined for LNG export. Queensland production has increased rapidly with the development coal seam gas (CSG) projects to feed three LNG terminals on Curtis Island.
- The balance of Australia's gas is produced from mature fields off the coast of Victoria, onshore at Moomba, South Australia, as well as offshore from the Northern Territory and some limited production in New South Wales.
- Australia exported 27.6 million tonnes of LNG in 2015. We forecast that exports will total 40.8 million tonnes in 2016, 64.0 million tonnes in 2017 and 70.6 million tonnes in 2018.
- LNG exports were weaker than expected during Q3 due to project delays. The anticipated ramp-up at the Queensland APLNG and GLNG projects has been pushed back to the March quarter next year, while Gorgon, Prelude and Wheatstone will also approach construction completion, with significant export capacity to be added next year.
- The value of Australia's LNG exports are forecast to exceed that of coal by late 2017, making it the second largest export item after iron ore. In volumes terms, LNG exports will overtake coal by June 2017 as exports ramp up.
- LNG exports will contribute significantly to real GDP growth going forward, alone contributing 0.6, 1.0 and 0.3 ppts to annual GDP growth in 2016, 2017 and 2018 respectively, before flattening off at a high level.



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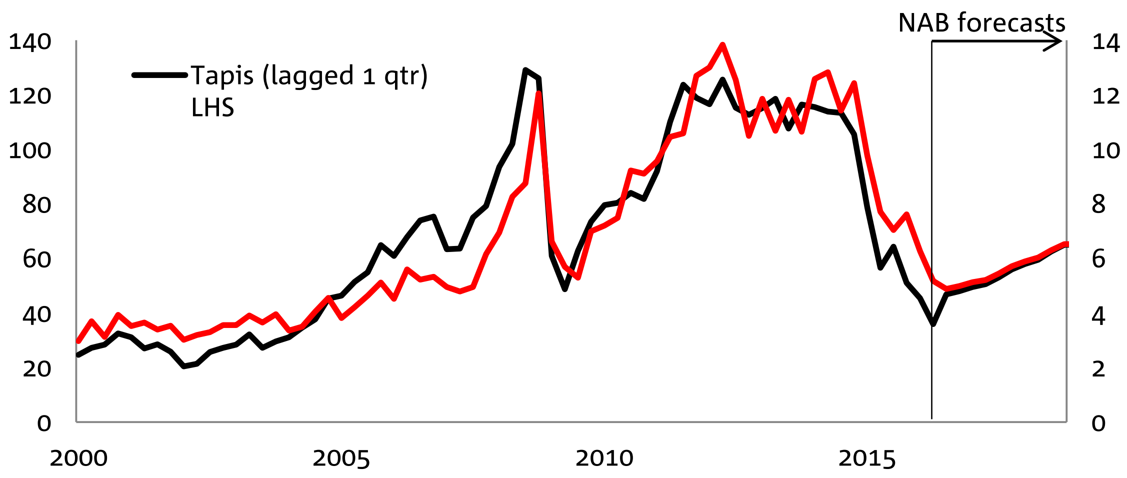
# LNG PRICE FORECASTS

*Low oil prices mean prices are to remain subdued for some time*

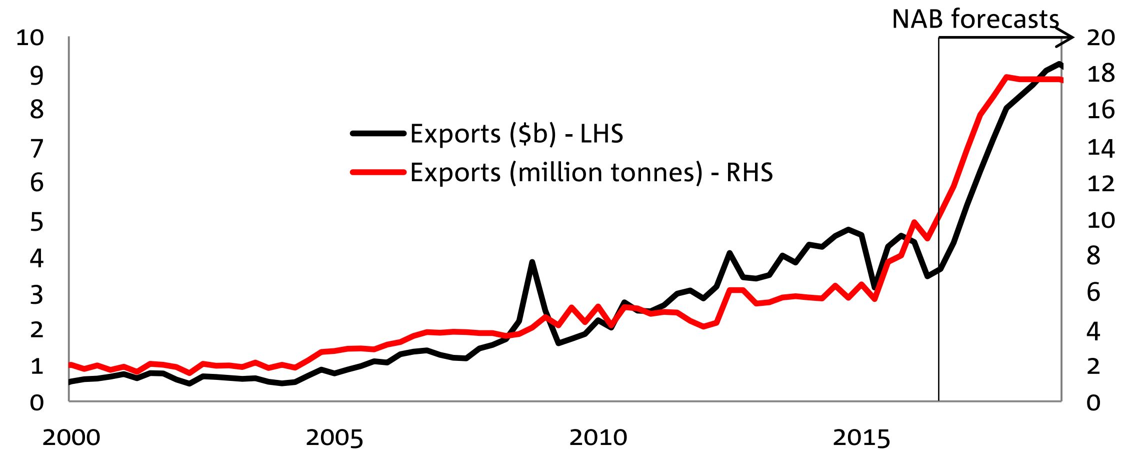
## NAB LNG EXPORT PRICE INDICATOR AND LAGGED OIL PRICES

USD/bbl (LHS), USD/GJ (RHS)




## VALUE AND VOLUME OF AUSTRALIAN LNG EXPORTS

AUD billion per quarter (LHS), million tonnes per quarter (RHS)




- East Asian LNG prices have fallen significantly since mid-2014 on the back of lower oil prices, to which many LNG contracts are tied. For example, most Japanese LNG contracts are based on the Japan Crude Cocktail (JCC) – the import price of crude oil into Japan.
- We expect crude oil prices to remain low in USD terms for at least the next two years. A subdued AUD will provide some limited support to local prices. We forecast the AUD will reach 0.70 USD by the end of 2017.
- We expect the NAB LNG export price indicator recover gradually, in line with our forecasts for a slow recovery in oil prices. We place the Australian LNG export prices at AUD6.65/GJ (USD4.88/GJ) by the end of 2016, recovering to AUD8.16/GJ by the end of 2018. In export value terms, the price collapse will offset of the increased supply. We see the value of Australian LNG exports at just over AUD15.7 billion in 2016, a slight decrease on 2015. However, the value of exports should climb steadily in 2017.
- Although residential gas prices have increased across Australia over the past 15 years following a period of relative stability in the 1990s, they remained underpinned by low wholesale prices struck through stable long term contracts. These contacts are confidential and public price data is not available, however it is generally considered in the industry that eastern Australian wholesale gas was contracted at around AUD2-4/GJ.
- Although LNG export prices are hovering in the AUD6-8/GJ range at present (including the costs of liquefaction etc.), reports suggest that gas suppliers are offering long term wholesale contracts at up to AUD10/GJ on the  expectation of a recovery in LNG export prices in the coming years. Spot prices on AEMO's Short Term Trading Market have also reached and even exceeded export prices this year, although higher than expected gas demand from a cold winter and elevated demand for gas fired generation in South Australia (reflecting a number of factors).
- Should spot and contract prices move consistently into the AUD 8-10/GJ range in the coming years, there will be significant consequences for households, businesses and electricity generators.

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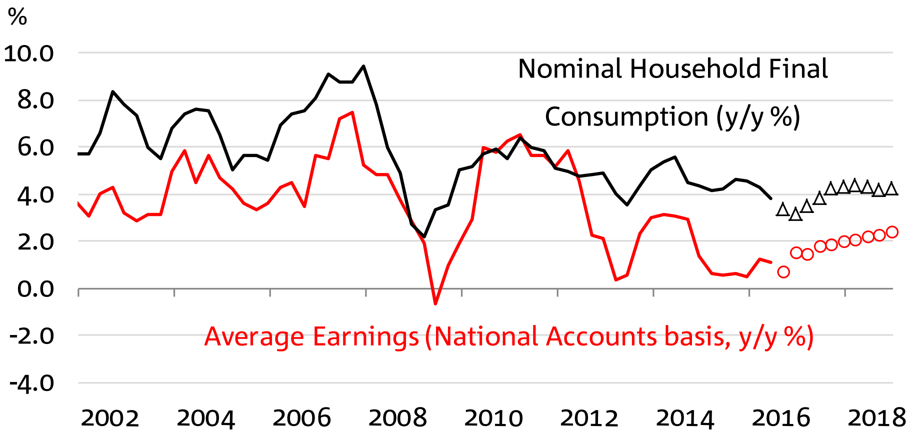
# CONSUMER DEMAND AND INFLATION

## *Household consumption growth expected to moderate in 2017*

### HOUSEHOLD SPENDING EXPECTED TO EASE

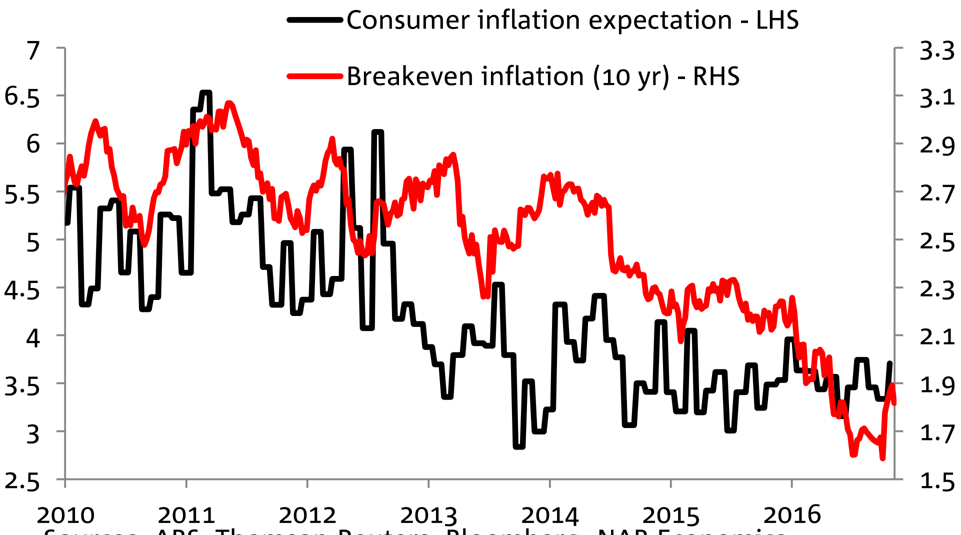
Nominal HFCE growth and average earnings growth (y/y%)




Source: ABS, NAB Group Economics

### INFLATION EXPECTATIONS REMAIN SUBDUED

Inflation expectations




Sources: ABS; Thomson Reuters; Bloomberg; NAB Economics

- Looking through some short-term volatility, recent partial indicators of consumer spending continue to paint a picture of lacklustre consumer spending activity, partly reflecting the ongoing slowing in employment growth and persistently soft wages growth. The latest ABS retail trade data showed that retail volume for the September quarter has contracted by 0.1% relative to the June quarter, but better-than-expected monthly growth for nominal retail turnover in September hints at a possible growth pick-up for Q4. NAB's monthly Online Retail Sales Index for September suggests that trend growth for online spending has eased further, although online spending in seasonally adjusted terms accelerated in the month. The latter was largely driven by a strong pick-up in growth of takeaway food, which in turn reflects the burgeoning uptake of mobile food ordering applications. In trend terms, retail conditions according to the NAB business survey eased to -3 index points in September, the lowest level since late 2014.
- That said, overall consumption growth in coming quarters is expected to be partly supported by a sustained low interest environment and positive wealth impetus from higher dwelling house prices in major capital cities. We are currently forecasting real household consumption to rise by 2.6% in 2016, before moderating to 2.2% in 2017 and 2.4% in 2018.
- Underlying inflation in the September quarter was a lower than average 1.5% y/y, and has been for the past three quarters. Subdued wages growth and low rent inflation have contributed to non-tradables inflation remaining low at 1.7% y/y. A protracted period of low rent inflation is expected given the current high levels of dwelling construction. Inflation in new dwelling construction has been weak too but could pick up given the elevated activity in the dwelling construction industry. Spare capacity in the labour market will continue to restrain wages growth. Tradables inflation was 0.7% y/y in the September quarter but excluding volatile items and tobacco was zero. Heightened retail competition is keeping exchange rate pass through limited. The October NAB Business Survey showed a significant improvement in retail business conditions which is encouraging. Overall, we forecast inflation to remain depressed at below or just on 2% in 2017 and 2018, with headline inflation being a little higher due to tobacco excise increases and higher fuel prices.



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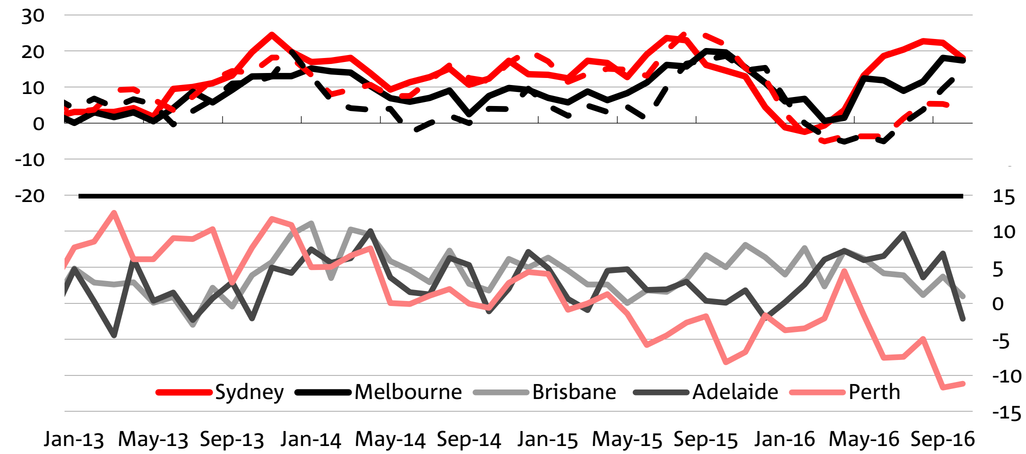
# THE HOUSING MARKET

*Sydney and Melbourne still seeing solid price gains. Building approvals peaking?*

## MORE DIVERGENCE IN PROPERTY PRICES

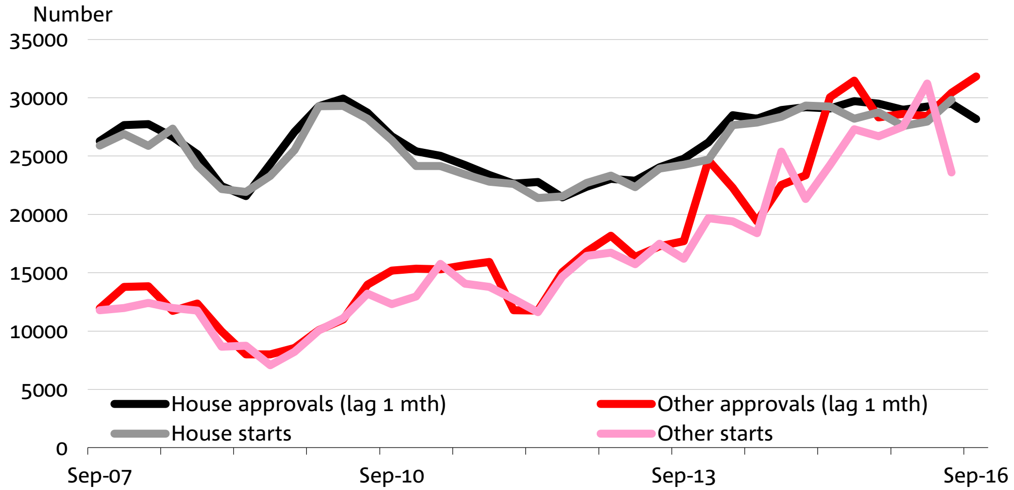
Dwelling price growth (hedonic)*, 6-month annualised




* Dotted lines represent growth in simple median prices.

## SOME HIGH DENSITY PROJECTS APPEAR SLOW TO START

Private dwelling units approved & starts




Sources: Corelogic; ABS; NAB Economics

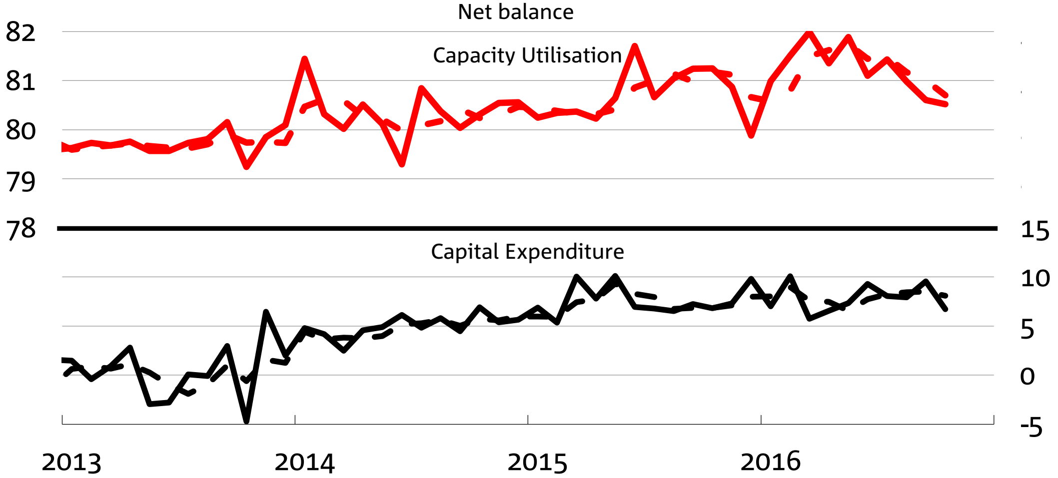
- Headline prices suggest that the east coast housing market remains heated, although conditions vary across regions. Solid price gains since the RBA interest rate cut back in August has been largely confined to the Sydney and Melbourne markets, while Brisbane and Adelaide have been showing signs of slowing. The 6-month annualised growth rate in dwelling prices remained close to 20% in both Sydney and Melbourne in October, while Adelaide shifted into negative territory and Brisbane was relatively flat.
- Demand appears to be solid, with investor finance showing signs of trending up again, although approvals for owner-occupiers have eased in recent months (albeit still at high levels) and foreign demand may have dropped back. The NAB Residential Property Survey, suggested an upbeat market in Q3 2016, particularly in NSW and Victoria where sentiment jumped sharply in the quarter – coinciding with upward revisions to price expectations within the Survey. However, it also indicated that foreign buyers played a lesser role in the local market. Relatively tight supply conditions are contributing to the market trends in Sydney and Melbourne. Transaction volumes remain well down on the levels of a year ago, auction clearance rates are still elevated, and vacancy rates tend to suggest an adequate-to-under supplied market.
- Better than expected growth in property prices suggests a degree of upside risk to our forecasts. Our national price growth forecasts for 2016 are 8% for houses and 5% for units. We still forecast growth to moderate to 0.4% for houses and -1.6% for units in 2017 as large supply additions and stretched household balance sheets weigh on the market. However, with two more 25bps cuts expected from the RBA next year, potentially adding almost $50k to the average households purchasing power, there is a risk of stronger growth.
- Building approvals slowed sharply in September, but remain quite elevated – holding up especially well in NSW. While the trend suggest a possible peak in the cycle, the still elevated level of approvals and projects in the pipeline suggests ongoing support for dwelling investment – expected to rise 7.4% in 2016 and 2.3% in 2017, before become a (small) drag on economic activity further out. However, it is not clear if the recent divergence between approvals and building starts (mainly for medium-density projects) indicates inherent issues (demand, financing, or otherwise) getting these projects off the ground. If so, it could suggest both a smaller than expected peak in the construction cycle, but also a smaller than anticipated contraction further out.

# BUSINESS ACTIVITY, INVESTMENT AND CONSTRUCTION

## *Business conditions sliding, but investment indicators are fairly mixed*

### NAB SURVEY INDICATORS OF INVESTMENT MIXED

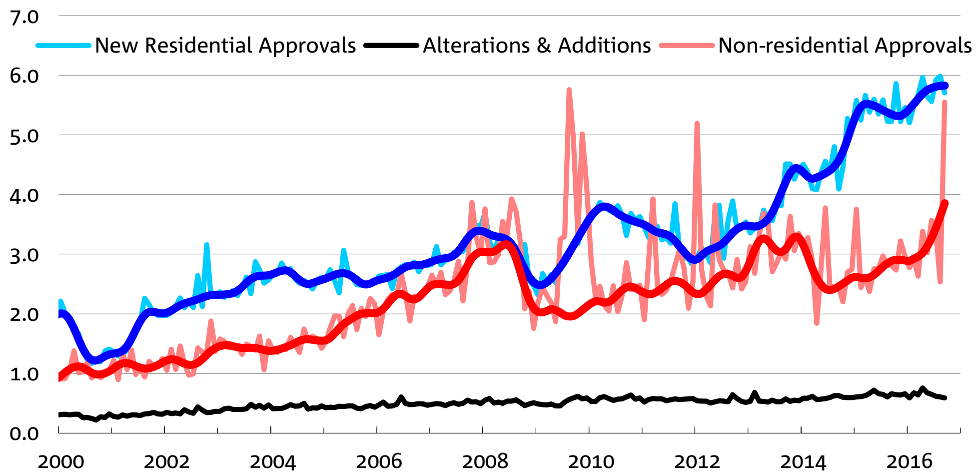
NAB Monthly Business Survey – investment indicators




* Dotted lines represent the 3mma

### COMMERCIAL CONSTRUCTION CYCLE STILL MUTED

$ billions




- The **NAB Monthly Business Survey** was a little less encouraging in October. Business conditions remain at above-average levels, but have steadily eased from their recent peak. At the same time, despite showing relatively good resilience to external shocks, business confidence has fallen to below long-run average levels. The moderation in Survey indicators is a concerning trend that warrants monitoring, but our assessment is that the deterioration to date is not (yet) enough to warrant a significant change in the outlook. However, if these trends were to continue, it would be unsettling and imply that the non-mining recovery has started to run out of steam earlier than expected.
- Indicators from the Survey that relate to the business investment outlook were somewhat mixed in October. NAB's measure of capacity utilisation eased a little further this month, continuing its recent downward trend. Utilisation rates fell to 80.5% (from 80.6%), which is below the long-run average of 81%. The fall is consistent with softer trading conditions, and can help to explain the partial pull-back in the Survey's capex measure (suggesting additions to capacity are less necessary). Despite some signs of deterioration in the Survey, firms suggested that their demand for credit had increased compared to three months prior, while they also indicated some improvement in the availability of credit. Meanwhile, data from the RBA suggests business credit continued to grow, albeit at fairly subdued levels.
- Non-residential building approvals continue to be volatile, more than doubling in September, driven by a spike in tourism-related approvals (mainly in NSW and Victoria), although approvals for other personal services also increased. Commercial office approvals also increased sharply, consistent with falling vacancy rates and improving growth in office capital values in Sydney and Melbourne. It is not yet clear whether the spike merely reflects ongoing volatility, or a more sustained lift in non-residential construction. Indeed, NAB's Commercial Property Survey showed an improvement in commercial property market sentiment in Q3, although the development intentions of respondents was fairly mixed, with most of the positive outcomes seemingly restricted to the residential segments.
- 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 9.0% in 2016 and 4.6% 2017. In 2018, business investment will increase moderately (+3.4%).



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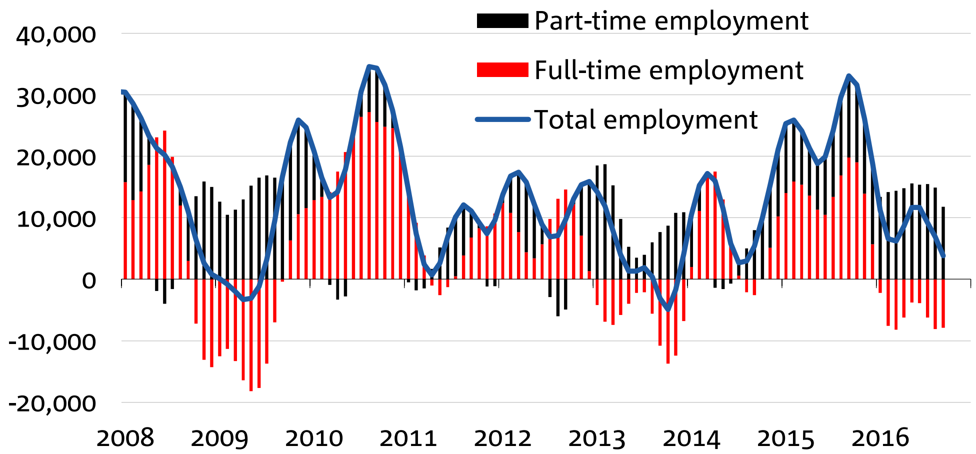
# LABOUR MARKET AND WAGES

## *Dominance of part-time jobs likely reflects weak labour market demand*

### RECENT EMPLOYMENT GAINS CONTINUE TO BE DOMINATED BY PART-TIME JOBS GROWTH

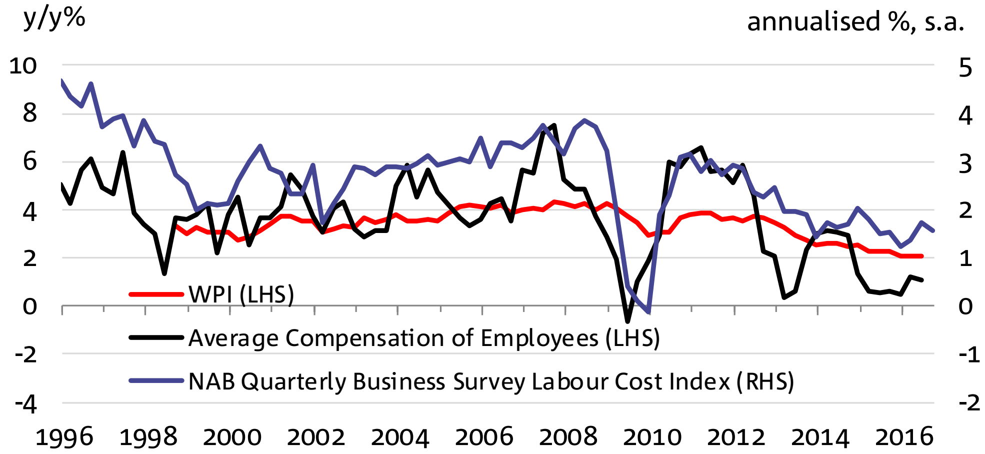
Part-time, full-time and total employment




Source: ABS, NAB Group Economics

### WAGE MEASURES GENERALLY REMAIN SOFT

NAB Quarterly Business Survey labour cost index, age price index and average compensation of employees




Source: ABS, NAB Group Economics

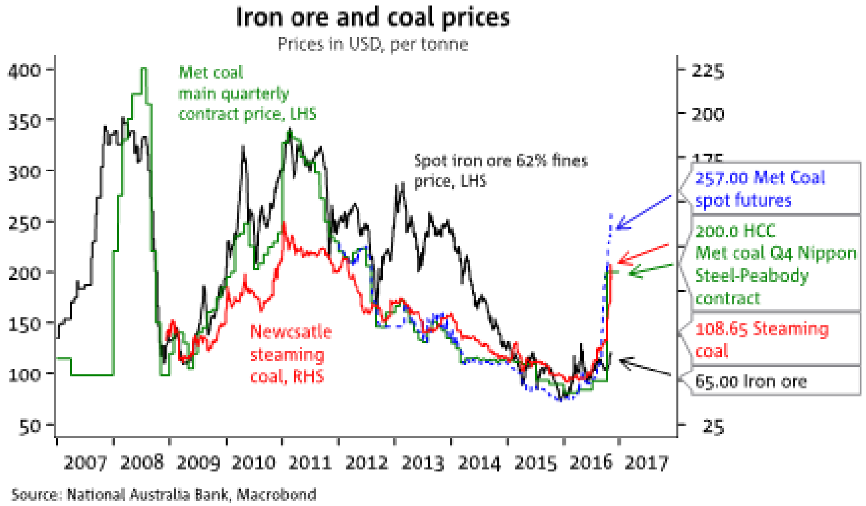
- In September, employment in seasonally adjusted terms fell further by 9.8k, but another notable fall of 0.2ppt in the participation rate to 64.5% saw the official unemployment rate ease by 0.1% to 5.6%. While the veracity of the ABS data for the month has been called into question due to some unusual movements stemming from Queensland, the overall easing pace in trend employment growth, characterised by consecutive falls in full-time jobs, appears nevertheless symptomatic of some re-weakening of the labour market.
- Employment growth in most states and territories continue to trend downwards, with the easing in NSW particularly notable. Victoria was an exception, having recovered slightly in recent months, while the ACT continues to show a distinct rising trajectory. SA also appears to be showing some tentative recovery more recently. Meanwhile, employment growth in Tasmania and Western Australia remains negative, while NT is close to neutral. Despite a relatively low headline unemployment rate, the underemployment and underutilisation rates remain elevated, with the recent strength in part-time employment more likely to reflect the weakness in labour demand instead of a sudden change in workers' preferences.
- The employment index from the NAB monthly business survey eased in October to the neutral mark (from +1 in the previous month), to be below the long-term average of +1. This outcome hints at an annual job creation rate of around 181k (around 15k per month) in coming months, which is barely sufficient to steady the unemployment rate. As such, we expect the unemployment rate to remain relatively steady in coming quarters, to be at 5.6% by end-16 and stabilising at around that level afterwards.
- The dominance by part-time jobs in recent employment gains and a high degree of spare capacity in the labour market is expected to continue to weigh on wages growth. We expect wages growth to remain subdued through the forecast horizon, which will in turn contain inflationary pressures. That said, the continuous broadening of the non-mining recovery should see wages growth based on the measure of average earnings in the national accounts (which takes into account compositional changes in the labour market) close the gap with that indicated by the wage price index by end-2018.

# NET EXPORTS, COMMODITIES AND THE TERMS OF TRADE

*Net exports detracted from growth in Q3 despite higher commodity prices*

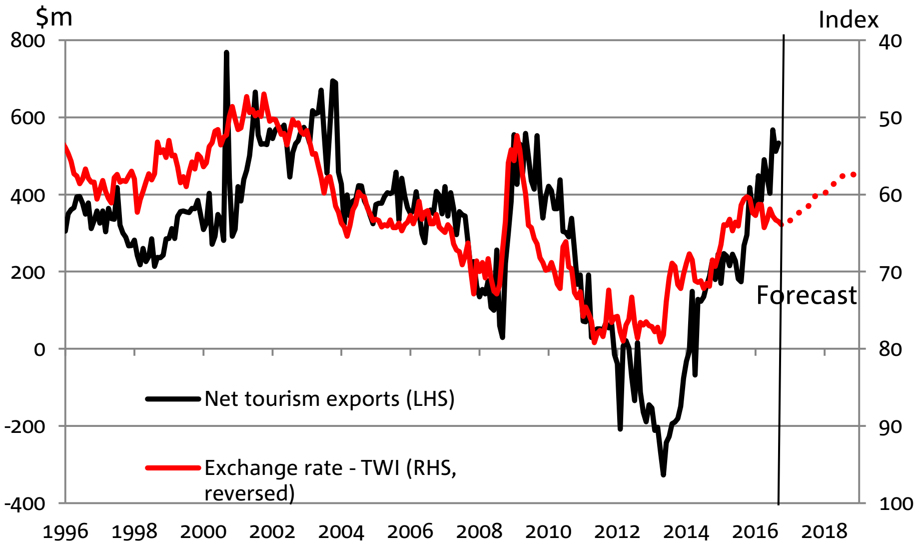
## SURGING COMMODITY PRICES

Iron ore and coal prices higher




## STRONG NET TOURISM EXPORTS DESPITE HIGHER CURRENCY

Net tourism exports (nominal) and exchange rate




- Despite sharply higher commodity prices, export volumes were steady in Q3 and were offset by higher growth in imports, which will likely result in net exports detracting an estimated 0.3 ppts from GDP growth in Q3. Higher commodity prices did see the terms of trade rise by around 4.3% over the quarter, which helped narrow the trade deficit.
- The step up in the hard coking coal contract price for Q4 from $US92.5 to $US200/t and a further 30% uplift in spot prices to over $300/t could see export receipts even further. There has also been a rise in thermal coal prices. As a result of the high prices, some idle production capacity could be lured back into seaborne coal markets. This includes some mines in Queensland that were closed due to low prices. These prices are unsustainable in our view, however the timing and the rate of the eventual decline is uncertain. Chinese authorities introduced coal production restrictions to attempt to boost profitability for domestic producers, however there have been subsequent comments expressing concerns about the flow on impacts to steel mills and electricity generators. The National Development and Reform Commission has proposed relaxation of the conditions to boost supply. On the demand side, slowing residential construction in China is set to impact steel demand, impacting the demand for metallurgical coal. Combined, these factors should bring the market back towards balance, and bring prices back towards 'normal' levels. The potential for a rapid supply response – particularly domestic production in China – drives the quick fall in our price profile.
- Iron ore export volumes rose by a smaller 2% during Q3, after a strong rise in the June quarter. Exports are expected to continue to expand, with the Roy Hill mines slowly ramping up capacity, but at a slower pace.
- The agricultural production outlook is reliant on the climate outlook. Spring rainfall has been above average across eastern Australia and more rain could hamper crop yield and quality, although conditions have been drier very recently. Agricultural prices are mixed, with dairy prices continuing to rebound and wheat gaining slowly, although cattle prices have fallen.
- Import volumes expanded an estimated 2% in Q3. Moderate growth in consumption and non-mining investment, and the re-appreciation of the AUD will likely see imports grow, despite the drag on capital goods imports from unwinding mining investment. Net tourism and education exports are also expected to rise despite the higher AUD.



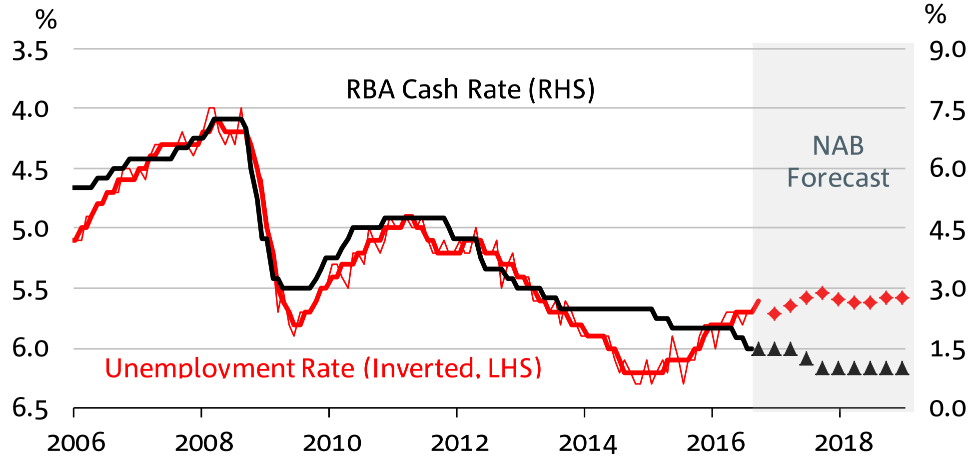
National Australia Bank

# MONETARY POLICY AND THE EXCHANGE RATE

*All bets are off*

## FURTHER EASING LIKELY TO PREVENT RISING UNEMPLOYMENT

RBA Cash Rate and Unemployment rate

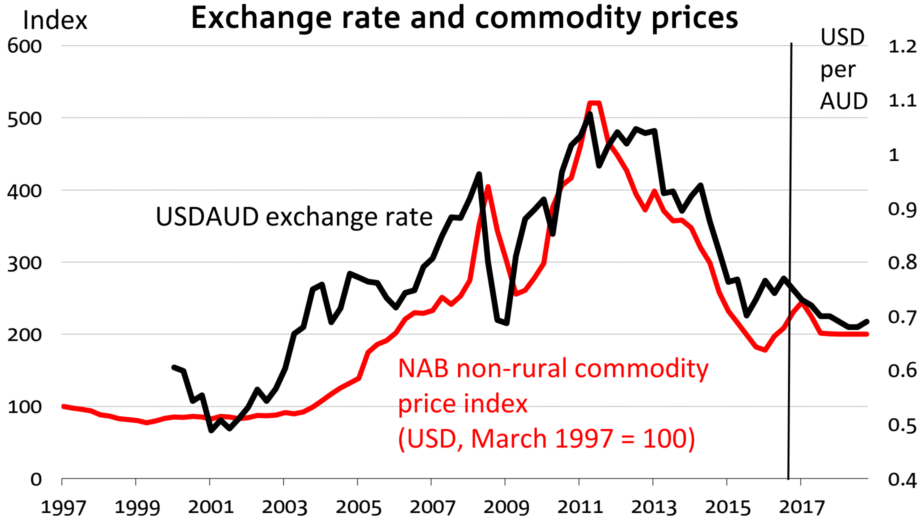



Source: ABS, NAB

AUD forecasts

## AUD TO DRIFT LOWER IN 2017 AND 2018, BUT UPSIDE RISKS

NAB's AUD/USD forecasts




Sources: Datastream, NAB

- Prior to the US election result, the **RBA** appeared relatively relaxed, presenting an upbeat set of economic forecasts in the November Statement of Monetary Policy. These forecasts include growth of approximately 2 ¾% in 2017 (around where the RBA sees potential growth, in contrast with our potential growth estimate of approximately 2½%) before a pick up to over 3% in 2018. Implicit in these forecasts is a more pronounced pick up in household consumption, non-mining investment and a reduced drag from the mining investment. The unemployment rate eases very gradually but a degree of spare capacity remains in the labour market. Despite this, the RBA expects some increase in wage growth which should allow underlying inflation to gradually return to the bottom of the 2-3% target band by the end of 2018.
- This is a set of forecasts which suggests little change to RBA policy settings. However our view remains that the RBA will be disappointed with the growth outlook as 2018 approaches, risking a lower inflation trajectory, which force the RBA's hand in mid-2017. The possibility that the AUD will remain higher for longer given yesterday's US election result also leans towards rate cuts, and we will be pondering our forecasts over coming days.
- The **Aussie dollar** has been trading between USD0.75 and USD0.78 over the past month. Currency movement following the US election have been volatile, but the AUD has quickly settled back into the previous trading band as risk sentiment smartly recovered. While there are now significant uncertainties about the future path of the AUD/USD, the existence of numerous offsetting crosswinds suggests there is no compelling reason to alter our previous AUD forecast at this stage; the AUD depreciating to USD0.70 cents by the end of 2017. With that said, the potential for a much looser fiscal/tighter Fed policy mix later in 2017 has implications for the degree to which the USD might strengthen next year and therefore the AUD.

# 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 | 2.1 | 2.4 | 2.8 | 2.6 | 2.2 | 2.4 |
| Dwelling Investment | 9.1 | 5.5 | 0.2 | 9.7 | 7.4 | 2.7 | -2.4 |
| Underlying Business Investment | -12.7 | -5.3 | -0.9 | -10.4 | -9.0 | -4.6 | 3.4 |
| Underlying Public Final Demand | 3.5 | 3.8 | 2.6 | 2.1 | 4.1 | 2.9 | 2.6 |
| **Domestic Demand** | **1.2** | **1.8** | **1.9** | **1.1** | **1.7** | **1.6** | **2.2** |
| Stocks (b) | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **GNE** | **1.1** | **1.8** | **1.9** | **1.1** | **1.7** | **1.6** | **2.2** |
| Exports | 6.6 | 7.4 | 9.3 | 6.0 | 6.9 | 9.3 | 6.7 |
| Imports | -0.2 | 4.4 | 4.9 | 1.7 | 0.9 | 4.8 | 5.6 |
| **GDP** | **2.9** | **2.4** | **3.1** | **2.4** | **2.8** | **2.7** | **2.6** |
| Nominal GDP | 2.5 | 5.3 | 3.2 | 1.7 | 3.7 | 4.8 | 3.3 |
| Federal Budget Deficit: ($b) | -37 | -34 | -23 | NA | NA | NA | NA |
| Current Account Deficit ($b) | 73 | 36 | 51 | 77 | 52 | 42 | 51 |
| ( -%) of GDP | 4.4 | 2.0 | 2.8 | 4.7 | 3.1 | 2.4 | 2.8 |
| Employment | 2.2 | 1.3 | 1.6 | 2.0 | 1.6 | 1.5 | 1.4 |
| Terms of Trade | -10.0 | 8.9 | -7.4 | -11.5 | -1.6 | 3.0 | -5.5 |
| Average Earnings (Nat. Accts. Basis) | 0.9 | 1.4 | 2.1 | 0.6 | 1.1 | 1.8 | 2.3 |
| **End of Period** | | | | | | | |
| Total CPI | 1.0 | 2.5 | 2.3 | 1.7 | 1.6 | 2.4 | 2.4 |
| Core CPI | 1.6 | 1.7 | 1.8 | 2.1 | 1.5 | 1.9 | 2.0 |
| Unemployment Rate | 5.7 | 5.7 | 5.6 | 5.9 | 5.6 | 5.6 | 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 | 2.10 | 2.05 | 2.88 | 2.10 | 2.05 | 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 | 61.7 | 57.7 | 62.7 | 63.4 | 59.9 | 57.8 |

(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

# COMMODITY PRICE FORECASTS

| | | Spot | Actual | Forecasts | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unit | 14/10/2016 | Sep-16 | *Dec-16* | *Mar-17* | *Jun-17* | *Sep-17* | *Dec-17* | *Mar-18* | *Jun-18* | *Sep-18* |
| WTI oil | US$/bbl | 45 | 45 | 49 | 51 | 52 | 53 | 55 | 56 | 57 | 58 |
| Brent oil | US$/bbl | 46 | 47 | 50 | 52 | 53 | 54 | 56 | 57 | 58 | 59 |
| Tapis oil | US$/bbl | 46 | 48 | 51 | 53 | 54 | 55 | 57 | 58 | 59 | 60 |
| Gold | US$/ounce | 1281 | 1340 | 1260 | 1250 | 1240 | 1220 | 1190 | 1160 | 1140 | 1120 |
| Iron ore (spot) | US$/tonne | 68 | 58 | 61 | 60 | 57 | 54 | 56 | 53 | 54 | 52 |
| Hard coking coal* | US$/tonne | n.a. | 93 | 200 | 250 | 180 | 106 | 97 | 100 | 105 | 102 |
| Semi-soft coal* | US$/tonne | n.a. | 72 | 156 | 195 | 140 | 83 | 76 | 78 | 82 | 79 |
| Thermal coal* | US$/tonne | 71 | 62 | 62 | 62 | 65 | 65 | 65 | 65 | 60 | 60 |
| Aluminium | US$/tonne | 1726 | 1620 | 1680 | 1670 | 1670 | 1680 | 1680 | 1700 | 1720 | 1750 |
| Copper | US$/tonne | 5219 | 4777 | 4830 | 4830 | 4800 | 4800 | 4800 | 4830 | 4840 | 4840 |
| Lead | US$/tonne | 2110 | 1873 | 1880 | 1890 | 1900 | 1910 | 1920 | 1920 | 1920 | 1920 |
| Nickel | US$/tonne | 11218 | 10255 | 10260 | 10150 | 10050 | 10050 | 10050 | 10050 | 10050 | 10050 |
| Zinc | US$/tonne | 2464 | 2252 | 2300 | 2320 | 2340 | 2360 | 2370 | 2380 | 2390 | 2400 |
| Aus LNG** | AU$/GJ | n.a. | 8.23 | 5.33 | 6.75 | 7.06 | 8.01 | 8.27 | 8.54 | 8.61 | 8.87 |

* Data reflect NAB estimates of US$/ tonne FOB quarterly contract prices (thermal coal is JFY contract). Actual data represent most recent final quarterly contract price. ** Implied Australian LNG export prices



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