

# AUSTRALIAN MARKETS WEEKLY

## Peak unit construction: are we there yet?



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- One of the key debates about the Australian GDP outlook at the present time concerns the shape/outlook for the residential construction cycle: (i) how long will activity hold up broadly at current levels; and (ii) how sharp will the ultimate downturn in construction be?
- According to the Statistician, the peak of the apartment construction boom looks very near, with the ABS reporting that apartment construction declined in the September quarter and overall residential activity declined 1.4% q/q. In accompanying commentary, however, the ABS acknowledged that Australia's 2<sup>nd</sup> wettest winter on record affected activity levels in Q3.
- An alternative measure of activity, which should be less weather affected, is the RLB Crane Index, which reports on the number of cranes on residential building sites. This index showed a fall in crane numbers in the half year to September 2016 in Melbourne (-12%) and Brisbane (-4%), following the completion of a number of residential towers. In contrast, crane numbers in Sydney increased (+8%), while nationwide, the number of cranes on residential projects across Australia rose from 528 to 539 between March and September last year. RLB also noted that crane numbers may bounce back in Melbourne next quarter.
- That suggests that while crane numbers declined in some cities, the overall decline in dwelling construction reported by the ABS is unlikely to be unfolding quite yet, with Sydney in particular quite strong. The pipeline of work already underway should support activity levels in 2017, with the pipeline currently equivalent to 4.7 quarters of work. Nevertheless, with apartment approvals slowing, NAB expects construction activity to slow in 2018.

Apartment construction which has risen strongly over the past few years was reported by the Statistician to have declined in the September quarter. The ABS reports the current price level of activity for 'other-residential' (which we think of as mostly apartments) fell 1.3% in the September quarter, while the chain volume measure of real activity is down an implausible 23% since the March quarter.

### How do cranes line up with ABS data?

How likely is the Statistician to be right on these numbers? We can look at a number of alternative indicators of construction activity to give us a guide. One such indicator is the Rider Levett Bucknall Crane Index. This index is comprised bi-annually and counts the number of cranes in Australia's major cities. While the headline number of cranes gets the most media attention, the index also includes sub-totals for cranes on residential sites only.

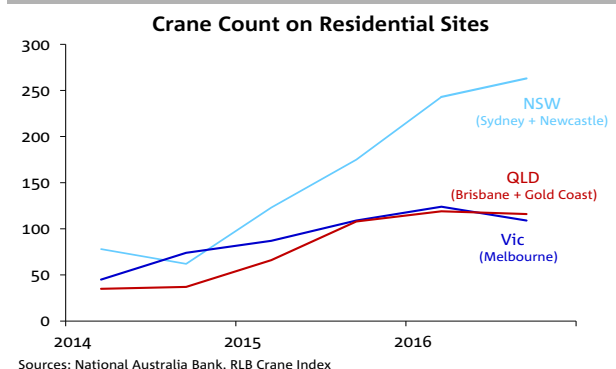
We asked Rider Levett Bucknall for the back history of the publication and we have plotted the number of residential cranes in NSW, Qld and Vic. The data reveal the surge

### Key markets over the past week

	Last	% chg week	Last	bp / % chg week
AUD	0.7575	1.3	RBA cash	1.50 0
AUD/CNY	5.18	0.5	3y swap	2.16 5
AUD/JPY	86.0	0.7	ASX 200	5,626 -2.1
AUD/EUR	0.705	0.0	Iron ore	80.4 -0.2
AUD/NZD	1.051	-0.1	WTI oil	53.3 0.2

Source: Bloomberg

### Chart 1: Apartment peak? Mixed evidence, likely near

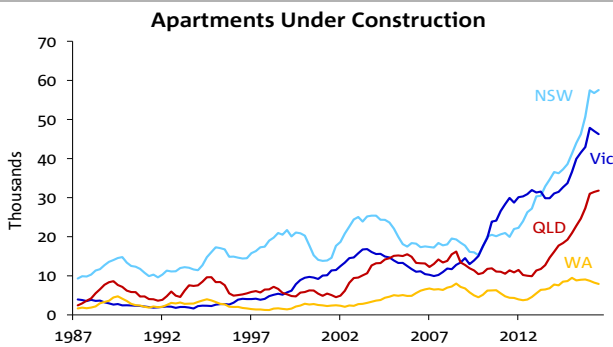


in crane numbers in Vic, Qld and NSW as building boomed, but importantly is now showing a moderation in the crane count in QLD and possibly in Victoria in the half year to September 2016. The crane count in NSW continued to build over the period, albeit at a softer pace, suggestive of continued increases in apartment construction in this state.

In their commentary for the September half, Rider Levett Bucknall noted the decline in residential cranes in Melbourne was due to the completion of a number of residential towers in the CBD, Docklands, Southbank and South Yarra, with a similar story in Brisbane. That said, RLB also noted in Melbourne that “a number of new sites with hoardings erected and excavation occurring signals that the next RLB Crane Index may see an increase in work”.

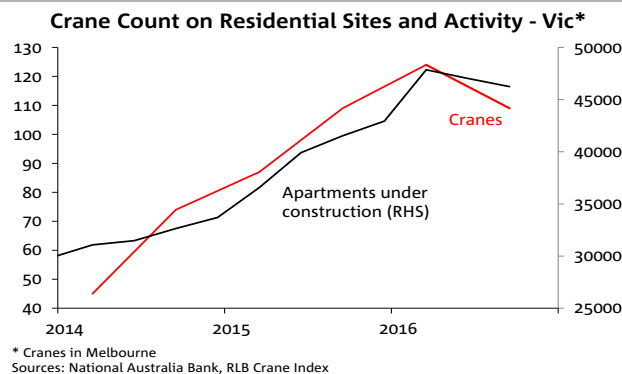
With crane numbers increasing in NSW but declining in QLD and Vic, that suggests the evidence is mixed about whether we are quite at the peak of apartment construction, but we are likely very near and this is likely at some time in 2017. The official data suggest there are a large number of apartments under construction, but interestingly the number of apartments under construction fell in Victoria (reflecting completions) and increased only very moderately in NSW and Qld.

**Chart 2: High number of apartments under construction**

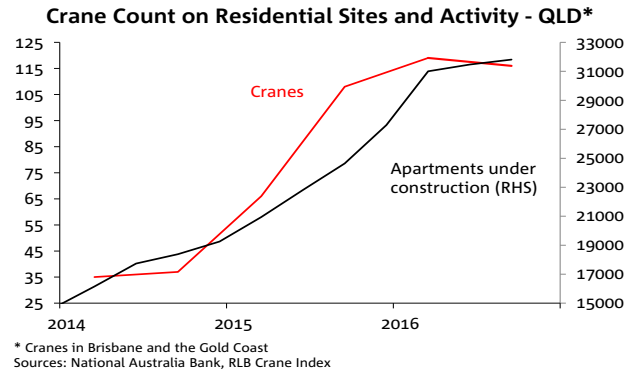


The crane numbers supplied by Rider Levett Bucknall show a similar picture with crane numbers declining in Victoria alongside a decline in apartments under construction. In contrast crane numbers fell in Qld, but apartments under construction rose slightly, while in NSW the crane count lines up with an increase in apartments under construction.

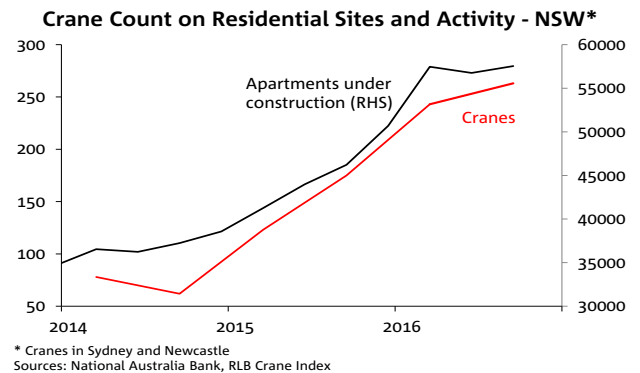
**Chart 3: Crane numbers down 12% in Vic.**



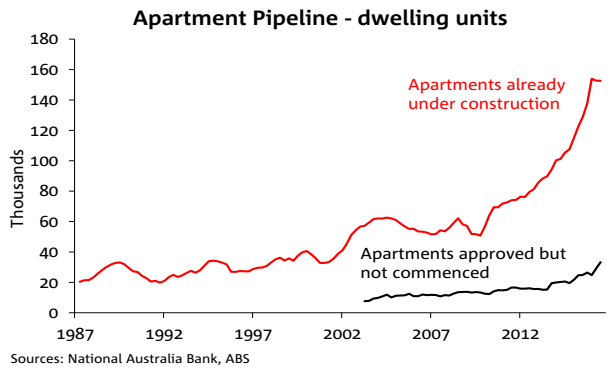
**Chart 4: Crane numbers down 2.5% in Qld**



**Chart 5: Crane numbers up 8% in NSW**



**Chart 6: Record apartments under construction**



**Chart 7: Pipeline is equivalent to 4.7 quarters of work**

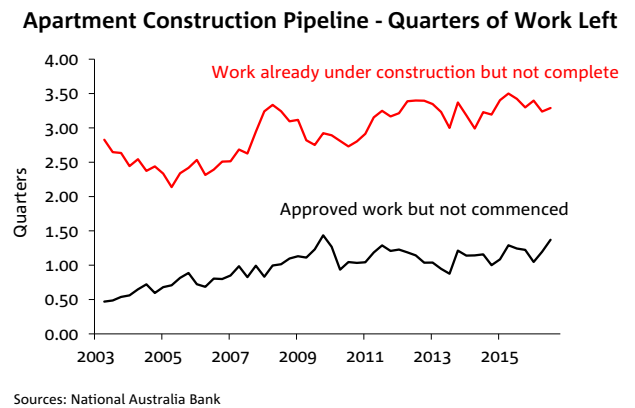


Chart 8: Approvals well down on peaks in Vic and QLD



**Apartment pipeline remains strong**

There are currently 152.6k apartments under construction across Australia, with a further 33.3k dwellings having been approved but not commenced. At current build rates this equates to around 4.7 quarters of work which should sustain building activity through much of 2017. However with approvals for apartments in clear trend decline in Victoria and Queensland, this should see apartment construction slow into 2018.

**The past week**

The past week in markets has been focused on what a Trump administration means for growth and inflation, and hence interest rates in the US. We got some indication of that on the weekend in President Trump’s inauguration speech which featured heavily on protectionist trade policies. “Protection will lead to great prosperity and strength”. Administration officials indicated that the US will formally pull out of the Trans-Pacific Partnership and on Monday it will notify Canada and Mexico that it plans to renegotiate NAFTA. To your scribe it seems protectionist trade policies will come before any mooted infrastructure spending.

Key to markets will be what the implications are for growth and inflation given the US economy is already at or near full employment. Fed Chair Yellen gave some indication of that last week. While Yellen didn’t think the Fed was behind the curve, she did imply being in the three rate hike camp for 2017 stating that she expects to increase rates “a few times a year until, by the end of 2019, it is close to...its long-run neutral rate of 3%”.

**This week**

Domestically, the main Australian focus for markets will be on Wednesday’s Q4 CPI. The market consensus is looking for a (headline) CPI print of 0.7% q/q and 1.6% y/y. The underlying or core inflation measures (the trends for which are more important for the RBA’s monetary policy deliberations) are both expected to be +0.5% q/q. NAB’s forecasts are similar, but we expect a slightly stronger headline outcome on the back of higher vegetable prices given Australia’s 2<sup>nd</sup> wettest winter on record (other large contributions are expected from petrol, tobacco and airfares). NAB’s forecast calls for a 0.9% q/q headline outcome, with risks around the core measures seen as balanced at +0.5% q/q.

Other domestic data points include the usual Weekly Consumer Sentiment figures on Tuesday, NAB’s latest Residential Property Survey – also Tuesday – and Trade Prices on Friday, which are likely to confirm a hefty rise in Australia’s terms of trade, given recent sharp rises in coal and iron ore prices. Thursday is the Australia Day public holiday (all markets closed) and Friday in Australia should be quiet with many electing to take a long weekend.

Internationally, the main focus will be on President Trump and what he plans to do in his first 100 days post inauguration. In terms of data, the meatier reports are European PMIs Tuesday, NZ’s CPI Thursday, UK Q4 GDP Thursday and US Q4 GDP Friday. For full details please see our *What to Watch* publication (please email [Tapas.Strickland@nab.com.au](mailto:Tapas.Strickland@nab.com.au) if you would like to subscribe to this publication).

# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 23 January 2017</b>								
NZ	<i>Partial holiday - Wellington Anniversary</i>							
EC	ECB's Draghi Speaks in Torino, Italy						12.30	22.30
JN	Cabinet Office Monthly Economic Report for January						4.00	14.00
JN	All Industry Activity Index MoM	Nov		0.4		0.2	5.30	15.30
JN	Leading Index CI	Nov F				102.7	6.00	16.00
CA	Wholesale Trade Sales MoM	Nov		0.5		1.1	14.30	0.30
CH	Conference Board Leading Economic Index	Dec					15.00	1.00
EC	Consumer Confidence	Jan		-4.8		-5.1	16.00	2.00
CA	Bloomberg Nanos Confidence	Jan 20				56.2	16.00	2.00
<b>Tuesday, 24 January 2017</b>								
NZ	Performance Services Index	Dec				57.9	22.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 22				119.3	23.30	9.30
AU	NAB Residential Property Survey	Q4					1.30	11.30
JN	Nikkei Japan PMI Mfg	Jan P				52.4	1.30	11.30
GE	Markit/BME Germany Manufacturing PMI	Jan P		55.4		55.6	9.30	19.30
GE	Markit Services/Composite PMI	Jan P		54.5/55.3		54.3/55.2	9.30	19.30
EC	Markit Manufacturing PMI	Jan P		54.8		54.9	10.00	20.00
EC	Markit Services/Composite PMI	Jan P		53.8/54.5		53.7/54.4	10.00	20.00
UK	Public Finances (PSNCR)/Public Sector Net Borrowing	Dec		/6.8		13.5/12.2	10.30	20.30
US	Markit US Manufacturing PMI	Jan P		54.5		54.3	15.45	1.45
US	Existing Home Sales #/MoM	Dec		5.5/-1.96		5.6/0.7	16.00	2.00
US	Richmond Fed Manufact. Index	Jan		6		8.0	16.00	2.00
EC	ECB's Praet Speaks at Panel in Rome						17.00	3.00
<b>Wednesday, 25 January 2017</b>								
AU	Westpac Leading Index MoM	Dec				0.0	0.30	10.30
JN	Trade Balance Adjusted	Dec		209.9		536.1	0.50	10.50
JN	Exports/Imports YoY	Dec		1.1/-0.8		-0.4/-8.8	0.50	10.50
AU	Skilled Vacancies MoM	Dec				0.0	1.00	11.00
AU	CPI QoQ/YoY	4Q	0.9/1.8	0.7/1.6		0.7/1.3	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	4Q	0.5/1.7	0.5/1.6		0.4/1.7	1.30	11.30
AU	CPI Weighted Median QoQ/YoY	4Q	0.5/1.4	0.5/1.4		0.3/1.3	1.30	11.30
NZ	Credit Card Spending MoM/YoY	Dec		/		-4.2/4.1	3.00	13.00
GE	IFO Business Climate	Jan		111.3		111.0	10.00	20.00
GE	IFO Current Assessment/Expectations	Jan		117/105.8		116.6/105.6	10.00	20.00
UK	CBI Trends Total Orders/Selling Prices	Jan		2/30		0.0/26.0	12.00	22.00
UK	CBI Business Optimism	Jan		-8		-8.0	12.00	22.00
US	MBA Mortgage Applications	Jan 20				0.8	13.00	23.00
US	FHFA House Price Index MoM	Nov		0.4		0.4	15.00	1.00
UK	BoE's Carney speaks in Wiesbaden, Germany						17.00	3.00
<b>Thursday, 26 January 2017</b>								
AU	<i>Australia Day public holiday</i>							
NZ	CPI QoQ/YoY	4Q	0.4/1.3	0.3/1.2		0.2/0.2	22.45	8.45
NZ	RBNZ Governor Wheeler Speaks in Christchurch (Not public)						0.00	10.00
JN	PPI Services YoY	Dec		0.3		0.3	0.50	10.50
CH	Industrial Profits YoY	Dec				14.5	2.30	12.30
GE	GfK Consumer Confidence	Feb		10		9.9	8.00	18.00
UK	BBA Loans for House Purchase	Dec		41000		40659.0	10.30	20.30
UK	GDP QoQ/YoY	4Q A		0.5/2.1		0.6/2.2	10.30	20.30
UK	Index of Services MoM/YoY	Nov		0.2/0.9		0.3/1.0	10.30	20.30
UK	CBI Total Dist./Retail Reported Sales	Jan		36.5/27		42.0/35.0	12.00	22.00
US	Advance Goods Trade Balance	Dec		-64.7		-66.6	14.30	0.30
US	Wholesale/Retail Inventories MoM	Dec P		0.3		1.0/1.0	14.30	0.30
US	Chicago Fed Nat Activity Index	Dec				-0.3	14.30	0.30
US	Initial Jobless Claims	Jan 21		247		234.0	14.30	0.30
US	Markit US Services/Composite PMI	Jan P		54.6		53.9/54.1	15.45	1.45
US	Bloomberg Consumer Comfort	Jan 22				45.2	15.45	1.45
US	New Home Sales #/MoM	Dec		586/-1		592.0/5.2	16.00	2.00
US	Leading Index	Dec		0.5		0.0	16.00	2.00
US	Kansas City Fed Manf. Activity	Jan		7.5		11.0	17.00	3.00
<b>Friday, 27 January 2017</b>								
JN	Natl CPI/Ex Food & Energy YoY	Dec		0.2/-0.1		0.5/0.1	0.30	10.30
AU	PPI QoQ/YoY	4Q				0.3	1.30	11.30
AU	Export/Import Price Index QoQ	4Q	10.7/-0.3	11.5/0.4		3.5/-1.0	1.30	11.30
EC	ECB's Governing Council Klaas Knot on Dutch TV						12.10	22.10
CA	CFIB Business Barometer	Jan				60.7	12.45	22.45
US	GDP Annualized QoQ	4Q A		2.2		3.5	14.30	0.30
US	Durable Goods Orders/Core Orders	Dec P		2.7/0.3		-4.5/0.9	14.30	0.30
US	U. of Mich. Sentiment/5-10 Yr Inflation	Jan F		98.1		98.1	16.00	2.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Japan, BoJ		31-Jan	-0.1%	-0.1%		-0.1%		
US Federal Reserve		2-Feb	0.5-0.75%	0.5-0.75%		0.5-0.75%		
UK BOE		2-Feb	0.25%	0.25%		0.25%		
Australia, RBA		7-Feb	1.50%	1.50%		1.50%		
New Zealand, RBNZ		9-Feb	1.75%	1.75%		1.75%		
Canada, BoC		2-Mar	0.5%	0.5%		0.5%		
Europe ECB		9-Mar	-0.4%	-0.4%		-0.4%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

# FORECASTS

Economic Forecasts					Annual % change															
Australia Forecasts	2015	2016	2017	2018	Quarterly % change															
					2015				2016				2017				2018			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.7	2.7	2.3	2.1	0.6	0.6	0.9	0.8	0.8	0.5	0.4	0.7	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.4
Underlying Business Investment	-10.1	-11.7	-3.9	4.8	-3.3	-2.0	-5.6	-2.1	-3.4	-2.1	-4.5	-1.1	-0.7	-0.6	0.7	1.3	1.5	1.6	0.9	1.7
Residential Construction	10.0	9.0	2.8	-1.3	5.1	-1.2	3.6	1.8	4.1	2.6	-1.4	2.3	0.2	0.5	0.9	0.5	-0.8	-1.1	-1.0	-0.8
Underlying Public Spending	2.4	4.0	2.5	2.6	1.3	1.9	-0.9	1.8	0.7	2.8	-0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Exports	6.1	7.0	8.6	6.5	3.4	-2.8	4.2	0.8	2.6	2.1	0.3	2.0	2.8	2.2	2.3	2.1	1.5	1.2	0.8	0.9
Imports	2.0	0.5	5.6	5.5	2.5	0.8	-1.6	0.5	-0.8	2.9	1.3	1.4	1.1	1.1	1.5	1.5	1.3	1.4	1.1	1.3
Net Exports (a)	0.8	1.3	0.6	0.3	0.1	-0.7	1.2	0.1	1.0	-0.1	-0.2	0.1	0.4	0.2	0.2	0.1	0.1	0.0	-0.1	-0.1
Inventories (a)	0.1	0.1	0.0	-0.1	0.6	-0.4	0.1	0.0	-0.1	0.2	0.2	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.5	-0.3	0.6	0.1	0.8	-0.5	0.6	0.4	0.5	0.6	0.6	0.5	0.6	0.4	0.5
Dom Demand - ann %	1.3	1.5	1.7	2.2	1.1	1.4	1.2	1.3	1.3	1.6	1.5	1.5	1.4	1.0	2.1	2.1	2.3	2.4	2.2	2.1
<b>Real GDP - qtr %</b>					<b>1.1</b>	<b>0.1</b>	<b>0.8</b>	<b>0.6</b>	<b>1.0</b>	<b>0.6</b>	<b>-0.5</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>	<b>0.3</b>	<b>0.4</b>
<b>Real GDP - ann %</b>	2.4	2.4	2.4	2.5	<b>2.1</b>	<b>2.0</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>3.1</b>	<b>1.8</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>2.4</b>	<b>1.9</b>
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.7	0.5	0.6	0.7	0.6	0.4	0.6	0.6	0.7
CPI headline - ann %	1.5	1.3	2.4	2.3	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.6	2.3	2.5	2.4	2.4	2.3	2.3	2.3	2.4
CPI underlying - qtr %					0.7	0.5	0.3	0.5	0.2	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.6
CPI underlying - ann %	2.2	1.5	1.8	1.9	2.4	2.2	2.1	2.0	1.5	1.5	1.5	1.5	1.8	1.8	1.9	1.9	1.8	1.8	1.8	2.0
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.9	2.0	2.0	1.9	1.9	2.0	2.1	2.3	2.4
Unemployment Rate (%)	6.0	5.7	5.7	5.7	6.2	6.0	6.1	5.9	5.9	5.7	5.6	5.7	5.7	5.7	5.7	5.7	5.6	5.7	5.7	5.8
Terms of trade	-11.6	-0.6	10.2	-1.8	-2.6	-4.3	-2.6	-3.7	-1.9	2.3	4.5	7.7	6.9	-4.4	-2.8	-3.5	-1.9	-1.8	-2.0	-1.4
G&S trade balance, \$Abn	-36.7	-18.5	23.0	-10.7	-4.8	-11.3	-9.0	-11.7	-8.4	-7.4	-4.7	1.9	9.6	6.5	4.8	2.1	0.4	-1.6	-3.9	-5.7
% of GDP	-2.2	-1.1	1.3	-0.6	-1.2	-2.8	-2.2	-2.8	-2.0	-1.8	-1.1	0.4	2.2	1.5	1.1	0.5	0.1	-0.3	-0.8	-1.2
Current Account (% GDP)	-4.8	-2.8	-0.3	-2.2	-3.3	-5.1	-5.0	-5.6	-3.6	-3.8	-2.7	-1.1	0.6	-0.1	-0.5	-1.1	-1.5	-1.9	-2.4	-2.8

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

## Exchange Rate Forecasts

	23-Jan	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
<b>Majors</b>						
AUD/USD	<b>0.7575</b>	0.73	0.72	0.70	0.70	0.69
NZD/USD	<b>0.7205</b>	0.70	0.68	0.67	0.67	0.68
USD/JPY	<b>113.51</b>	115	115	118	118	120
EUR/USD	<b>1.0744</b>	0.98	1.00	1.02	1.04	1.05
GBP/USD	<b>1.2426</b>	1.18	1.16	1.18	1.20	1.20
USD/CNY	<b>6.8362</b>	7.20	7.24	7.18	7.17	7.18
USD/CAD	<b>1.3285</b>	1.33	1.35	1.37	1.37	1.37

Australian Cross Rates						
	23-Jan	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
AUD/JPY	<b>86.0</b>	84	83	83	83	83
AUD/EUR	<b>0.7050</b>	0.74	0.72	0.69	0.67	0.66
AUD/GBP	<b>0.6096</b>	0.62	0.62	0.59	0.58	0.58
AUD/NZD	<b>1.0514</b>	1.04	1.06	1.04	1.04	1.01
AUD/CNY	<b>5.1784</b>	5.26	5.21	5.03	5.02	4.95
AUD/CAD	<b>1.0063</b>	0.97	0.97	0.96	0.96	0.95
AUD/CHF	<b>0.7565</b>	0.71	0.69	0.74	0.74	0.73

## Interest Rate Forecasts

	23-Jan	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
<b>Aust rates</b>						
RBA Cash rate	<b>1.50</b>	1.50	1.25	1.00	1.00	1.00
3 month bill rate	<b>1.78</b>	1.75	1.50	1.25	1.25	1.25
3 Year Swap Rate	<b>2.16</b>	2.1	2.0	2.0	2.1	2.2
10 Year Swap Rate	<b>2.98</b>	3.0	3.0	3.0	3.0	3.0
<b>Offshore Policy Rates</b>						
US Fed funds	<b>0.75</b>	0.75	1.00	1.00	1.25	1.25
ECB deposit rate	<b>-0.40</b>	-0.40	-0.40	-0.40	-0.40	-0.40
BoE repo rate	<b>0.25</b>	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	<b>-0.10</b>	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	<b>1.75</b>	1.75	1.75	1.75	1.75	1.75
China 1yr lending rate	<b>4.35</b>	4.35	4.10	4.10	4.10	4.10
China Reserve Ratio	<b>17.0</b>	17.0	16.5	16.5	16.5	16.5
<b>10 Year Benchmark Bond Yields</b>						
Australia	<b>2.75</b>	2.75	2.80	2.75	2.70	2.70
United States	<b>2.43</b>	2.40	2.50	2.50	2.50	2.50
New Zealand	<b>3.25</b>	3.25	3.30	3.35	3.30	3.30

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avg
Australia	2.1	2.8	2.4	2.4	2.4	2.5	3.4
US	1.7	2.4	2.6	1.6	2.1	2.4	2.6
Eurozone	-0.3	1.1	1.9	1.6	1.5	1.6	1.5
UK	1.9	3.1	2.2	2.0	1.3	1.6	2.4
Japan	2.0	0.3	1.2	1.0	0.8	0.6	0.8
China	7.7	7.3	6.9	6.6	6.5	6.3	9.2
India	6.3	7.0	7.2	7.4	7.5	7.5	6.6
New Zealand	2.4	3.8	2.5	3.4	3.2	2.4	3.0
World	3.4	3.4	3.1	2.9	3.2	3.3	3.5
MTP Top 5	4.1	3.9	4.0	3.7	3.7	3.6	5.0

## Commodity prices (\$US)

	23-Jan	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
WTI oil	53.28	51	52	53	55	56
Gold	1218	1150	1130	1100	1060	1030
Iron ore	80.4	69	65	63	60	58
Hard cok. coal	190	285	215	180	150	125
Thermal coal	84	62	65	65	65	65
Copper	5737	5200	5180	5180	5180	5200
Aust LNG (#N/A Invalid Security)		7.2	7.6	7.9	8.0	8.4

(\* ) Implied Australian LNG export prices.

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