EMBARGOED UNTIL: 11.30AM WEDNESDAY 15 MARCH 2017

THE FORWARD VIEW - AUSTRALIA

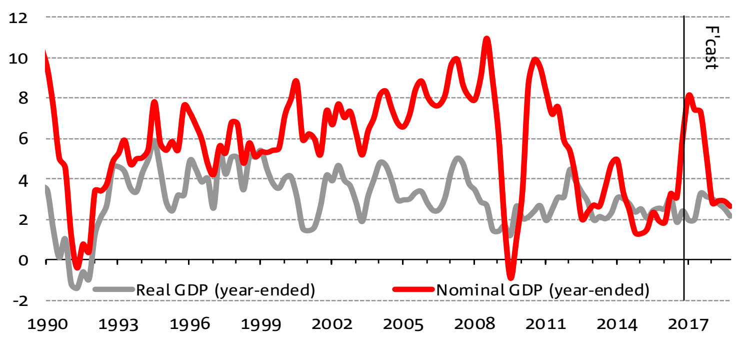
MARCH 2017

Financial stability considerations to keep RBA at bay

- **A strong bounce-back in real GDP was confirmation that the contraction in Q3 was a temporary blip and did not indicate a more fundamental deterioration.** Growth in Q4 was broad-based across expenditure categories and states, and occurred in conjunction with a strong bounce in the terms of trade and profitability owing to sharply higher coal and iron ore prices in the quarter, although labour income was weak yet again.
- **Real GDP growth is likely to be strong through most of 2017,** with our forecasts showing a gradual improvement in domestic demand as the drag from mining investment diminishes and government infrastructure spending remains solid, while net exports (especially LNG) add significantly to growth. In addition, the NAB business survey is suggesting higher business conditions in recent months than for much of the second half of 2016, despite some pullback in February, and is also pointing to a near-term strengthening in employment. **We are not as relaxed about the growth outlook in 2018 however,** and continue to forecast a pullback as the contributions from LNG exports, temporarily higher commodity prices and residential construction fade, while household consumption remains constrained by weak labour income growth. **Our year-ended growth forecasts pick up to 3¼% by Q3 2017, but then eases to 2¼% by end-2018.**
- **The RBA is becoming increasingly focused on financial stability considerations,** particularly household balance sheets in the context of a re-acceleration in house price growth in Sydney and Melbourne amidst elevated levels of household debt. **Recent comments from RBA officials raise the possibility that macro-prudential measures may be stepped up and we now consider a further rate cut as unlikely in this environment. We have removed our expectation of a 25bp rate cut in late 2017, although continue to flag the risk of further monetary policy easing at some point given our concerns about economic growth and the labour market in 2018.**
- **As a result of our RBA view change, we are revising up our 2018 AUD/USD forecast slightly while maintaining our 0.70 end-2017 projection**. A weaker AUD is still likely on a combination of further US interest rate-driven US dollar strength, lower commodity prices and potentially some deterioration in risk sentiment from current elevated levels.

	2015	2016-F	2017-F	2018-F
Domestic Demand (a)	1.3	1.6	2.2	2.2
Real GDP (a)	**2.4**	**2.5**	**2.6**	**2.6**
Terms of Trade (a)	-11.6	-0.4	16.1	-6.9
Employment (a)	2.0	1.5	1.3	1.5
(b)	6.0	5.7	5.7	5.8
Headline CPI (b)	1.7	1.5	2.2	2.1
Core CPI (b)	2.0	1.6	1.7	1.8
RBA Cash Rate (b)	2.00	1.50	1.50	1.50
$A/US cents (b)	0.73	0.72	0.70	0.70

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



CONTENTS

CONTACT

Alan Oster, Group Chief Economist +61 (0)414 444 652

Riki Polygenis, Head of Australian Economics, +61 (0)475 986 285

AUTHORS

Riki Polygenis

James Glenn, Senior Economist

Amy Li, Economist

Phin Ziebell, Agri Economist

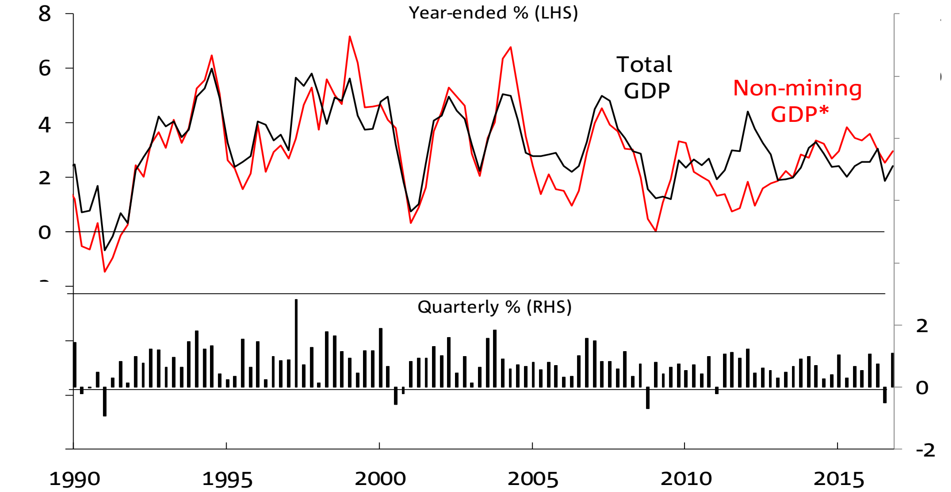
National Australia Bank

CHARTS OF THE MONTH

Economic momentum stronger, housing prices reaccelerating

REAL GDP BOUNCES BACK IN Q4 2016

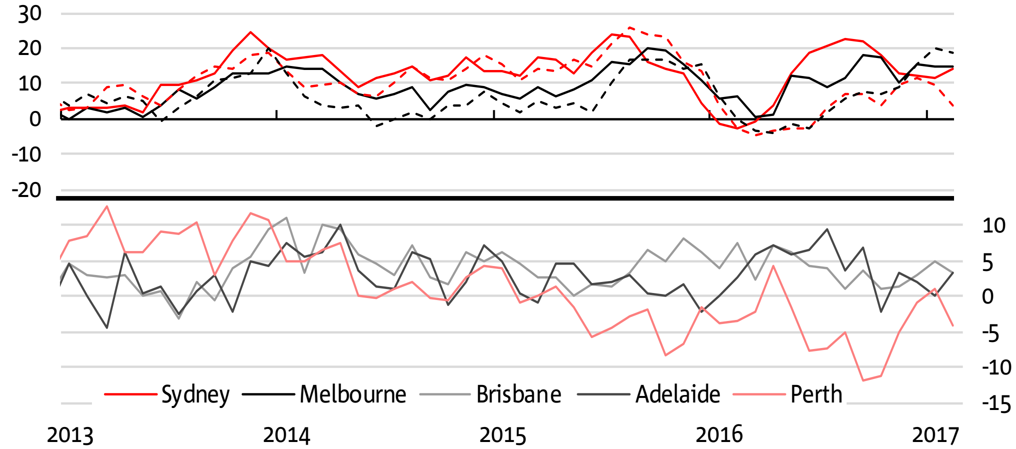
Year-ended and quarterly % change



* NAB Estimate

HOUSE PRICES RE-ACCELERATE

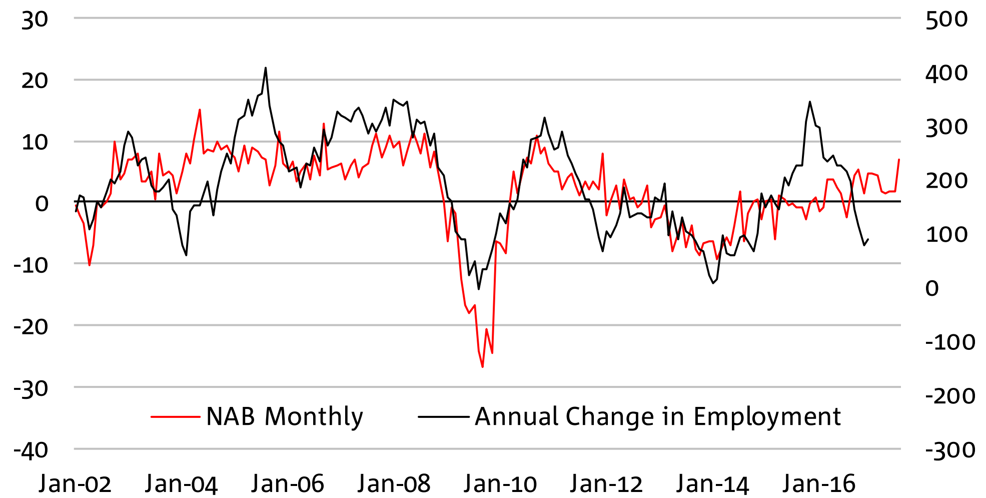
6-month annualised*



* Solid lines are hedonic prices. Dotted lines represent simple median prices.

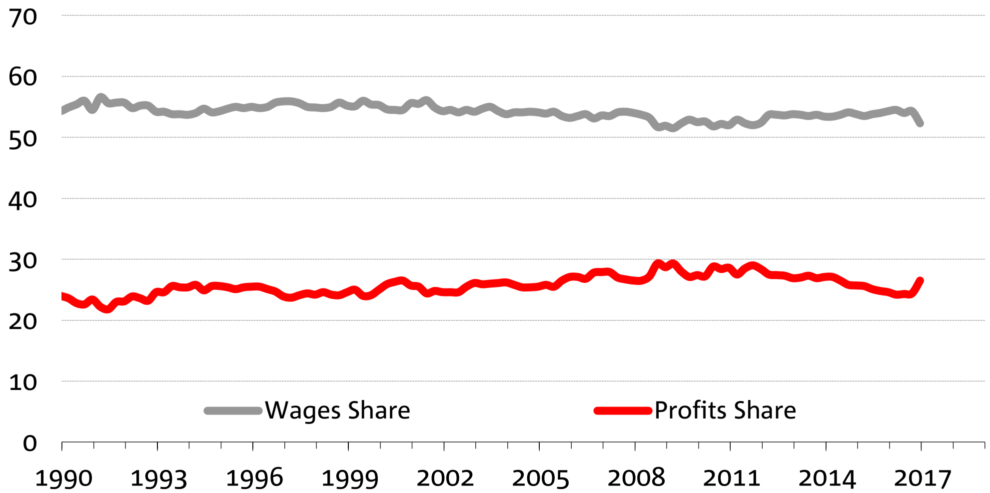
EMPLOYMENT TO STRENGTHEN IN THE NEAR TERM?

Annual employment change vs NAB employment (adv 6 months)



PROFITS/LABOUR SHARE

% of total factor income



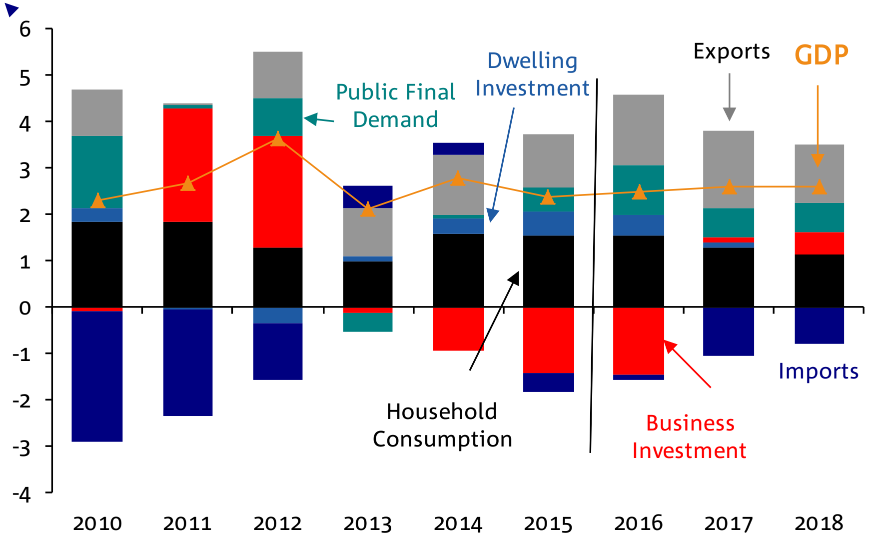
Sources: ABS, NAB

OVERVIEW - AUSTRALIAN ECONOMIC OUTLOOK

2017 looking solid, but softening in 2018 may require a further cash rate cut

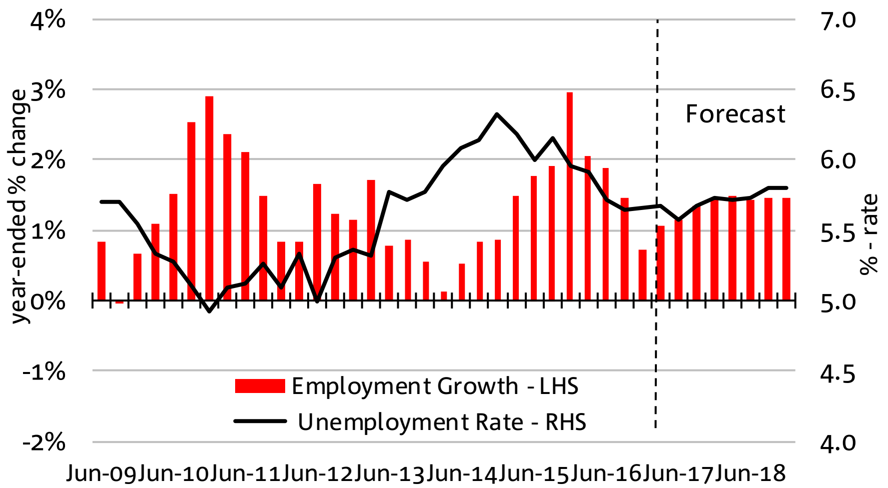
REAL GDP OUTLOOK

Annual average % change



UNEMPLOYMENT RATE FORECASTS REMAIN ELEVATED

Employment growth and unemployment rate



Sources: ABS, NAB

- Real GDP rebounded by 1.1% q/q in the December quarter 2016, following the contraction of 0.5% q/q in Q3 which was in large part driven by temporary factors. This was arguably not a full rebound however, with GDP increasing an average of just 0.3% per quarter in the second half of 2016. The year- ended pace of growth has been volatile, but picked up to 2.4% y/y in Q4 from 1.9% in Q3 and 3.1% in Q2.
- The bounce back in Q4 was relatively broad-based across expenditure components, with household consumption strong (+0.9% q/q) despite weak household income growth (+0.2% q/q), business investment positive (+1.9% q/q), government investment particularly robust (+7.7% q/q) and net exports adding 0.2ppt to GDP growth with LNG exports the main contributor. The rebound in dwelling investment however (+1.2% q/q) was a little underwhelming, only just reversing the weather-related decline of Q3, despite the large number of approvals in the pipeline. In addition, state final demand rebounded strongly across most states and territories (see our state and territory forecasts on page 4), and our estimates of non-mining GDP (including non-mining investment) were solid at 1.3% q/q and 3.0% y/y. Corporate profits benefited from a surge in the terms of trade, while labour income was particularly weak (chart page 2).
- **GDP growth is expected to pick up quickly in year-ended terms to 3¼% by Q3 2017, easing slightly to just over 3% by Q4 2017.** LNG exports will ramp up through the year (page 9), while domestic demand looks a little healthier as the drag from mining investment reduces (page 7) and government investment has been revised upwards given infrastructure and defence spending plans at the state and federal level. The outlook envisages modest household consumption growth amidst subdued household income growth, while non-mining business investment gradually strengthens through 2017 and 2018 (a more modest upswing than in historical investment cycles). **Our forecasts do continue to envisage a slowdown in 2018, as dwelling construction begins to subtract from growth, while LNG exports flatten off and are no longer adding to growth. See page 4 for our individual state and territory forecasts.**
- **The unemployment rate is forecast to remain elevated through the forecast horizon,** hovering around the current 5.7% level through 2017 and then ticking up in 2018, with the risk of a larger increase in unemployment depending on the path of the participation rate. With spare labour market capacity remaining, we expect wages growth to remain weak, despite some very modest uptick in the broader measures of the wage bill in 2018 (see page 8). This, together with AUD depreciation, does see core inflation pick up mildly, but not to the bottom of the 2-3% target band.
- We no longer envisage a further rate cut from the RBA given heightened emphasis on household balance sheets (see page 10). While we continue to forecast the currency down to AUD/USD 0.70 in line with further anticipated USD strength and key commodity prices retracing, no further depreciation is forecast for 2018.

National Australia Bank

SPOTLIGHT: OUTLOOK FOR THE STATES AND TERRITORIES

Leaders solid and laggards stabilising

NAB last week released its State Economic Handbooks, which includes detailed analysis and forecasts of the individual state and territory economies. Links to the individual handbooks are below, and the Overview is available at the following link.

- The New South Wales economy will remain neck and neck with Victoria as one of the country's leading economies in terms of state final demand. While growth is expected to moderate and the latest partial data is indicating a mixed picture, we expect strong population growth, infrastructure spending and a further recovery in non-mining business investment to support growth. The anticipated peak in the housing construction boom will pose a challenge to growth going forward.
- Victoria will also remain a standout across the states despite some moderation expected, with growth neck and neck with NSW. Employment and population growth (particularly from overseas and interstate migration) is expected to continue, while infrastructure spending, services activity and exports and a gradual recovery in non-mining investment will be key pillars of growth. Residential building approvals have peaked, and dwelling construction is not expected to add as significantly to growth going forward.
- South Australia will experience moderate growth, with infrastructure spending and shipbuilding providing some offset to the impact of auto manufacturing closures this year. While employment and consumer spending are holding up for now, long-term challenges such as the narrow industrial base, ageing population and negative interstate migration will weigh.
- The Australian Capital Territory economy has strengthened, with greater stability in public sector employment supporting population growth and housing demand and construction. We expect moderate growth going forward and low unemployment.
- Queensland will experience the strongest rate of economic growth in 2016-17 owing to a surge in LNG exports and strength in tourism and education exports. Business and labour market conditions however will remain mixed, with south-eastern Queensland outperforming regional areas, and falling mining investment will drag on state final demand. High coal prices are boosting nominal income growth and state government revenues, although the flow on effects to investment and employment will be limited given the temporary nature of the commodity price surge.
- The mining cycle continues to dominate economic trends in Western Australia, although the unexpected partial rebound in commodity prices since last year adds to the uncertainty around the outlook. Overall, we expect very weak real GSP growth in 2016-17 and a moderate rebound in 2017-18 as LNG exports add to growth. The current surge in iron ore prices is unlikely to spur additional investment or employment, but is having a positive impact on government finances.
- The Tasmanian economy has slowed into 2016-17 despite strength in tourism, agricultural and fisheries industries, although should improve moderately into 2017-18. An ageing population, low levels of educational attainment and a concentrated industry structure remain headwinds.
- In the Northern Territory, employment, wages, household consumption and dwelling prices are starting to struggle as the Icthys LNG project approaches completion. With NT's growth base narrow, these challenges will intensify although export volumes will boost GSP growth in 2017-18.

NAB growth and unemployment rate forecasts for the states

	Gross State Product YoY				Unemployment Rate			
	14-15	15-16	16-17f	17-18f	14-15	15-16	16-17f	17-18f
NSW	2.6	3.5	2.7	2.9	5.9	5.4	5.1	5.3
VIC	2.6	3.3	2.7	2.9	6.4	5.9	5.7	5.7
QLD	1.2	2.0	3.5	3.5	6.5	6.2	6.2	5.8
SA	2.0	1.9	0.8	2.0	6.9	7.3	7.0	7.0
WA	3.6	1.9	0.5	2.8	5.4	6.0	6.5	6.3
TAS	1.3	1.3	1.0	2.0	6.9	6.5	6.5	6.5
NT	2.0	2.7	1.5	5.0	4.2	4.2	4.0	4.8
ACT	1.3	3.4	2.3	2.5	4.5	4.5	4.3	4.3
Australia	**2.4**	**2.7**	**2.1**	**3.0**	**6.2**	**5.9**	**5.7**	**5.7**

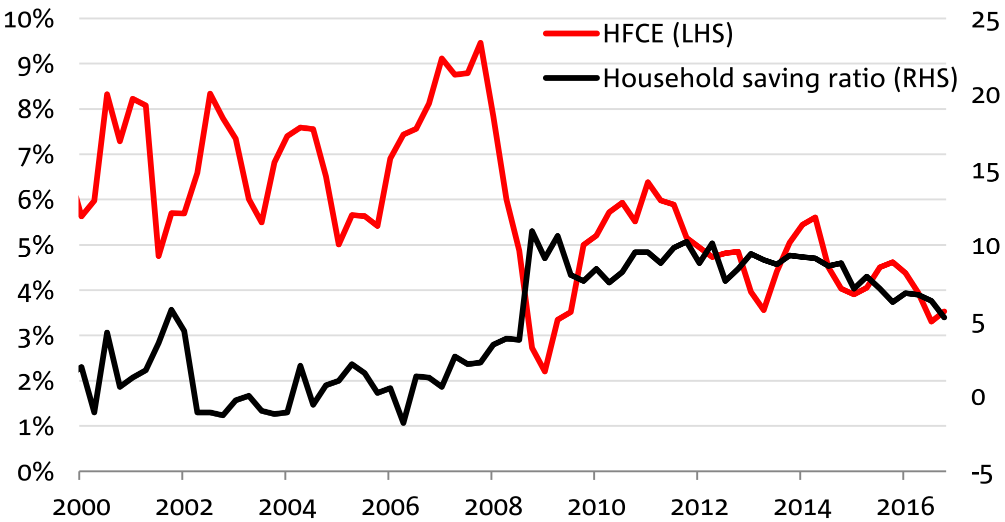
National Australia Bank

CONSUMER DEMAND AND INFLATION

National accounts show an improvement in consumption, but may be short lived

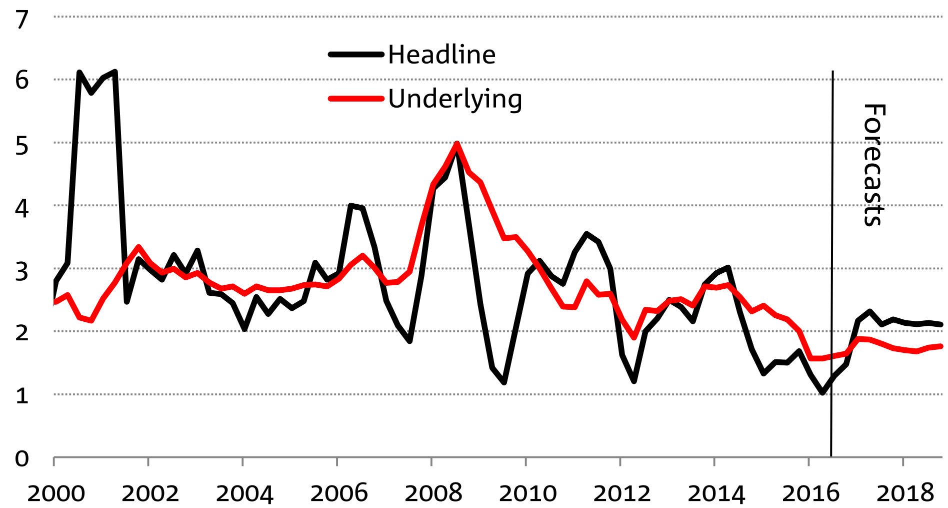
HOUSEHOLD SPENDING GROWTH PICKS UP MILDLY IN Q4

HFCE year-ended growth (LHS), household saving ratio (RHS)



NAB'S INFLATION FORECASTS

Year-ended growth, %



Sources: ABS; NAB Economics

- Latest national accounts data showed household consumption growth improving in Q4 2016 (up 0.9% q/q) following middling growth in Q3. The increase came largely from a notable drop in the household savings rate to 5.2% (from 6.3%), with record low wage growth reflected in a drop in the average compensation of employees.
- Meanwhile, seasonally adjusted retail turnover grew 0.4% in January 2017 after dropping 0.1% in December 2016. NAB's Online Retail Sales Index contracted -0.5% (m/m) in January, much slower than the revised previous month (0.5% m/m). Year on year growth accelerated from 11.1% in December to 11.7% in January. The NAB Monthly Business Survey shows the retail sector continuing to struggle – zero in February, and negative in trend terms while most of the other industries are now enjoying positive business conditions.
- The outlook for household consumption is muted, as subdued wages growth (see page 8), slower wealth accumulation (via property) and elevated levels of household debt are likely to weigh on consumption growth. Indeed, while higher property prices have enabled existing owners to access additional equity, it is more difficult for first homebuyers to spend on non-essentials. There may be some more offset from a further decline in household saving ratio – although that has its limits and is not our (or the RBA's) central case assumption.
- The inflation outlook remains subdued. Spare capacity in the labour market will keep wages growth contained. The surge in commodity prices have translated to higher company profits however unit labour cost growth remains weak (see page 8). Increases in the dwelling stock will also supress rent inflation. For tradables inflation, strong competitive pressures and the recent strength in the AUD on the back of higher commodity prices will help keep imported cost pressures low, although we do expect some modest reversal into 2018 following expected depreciation in 2017. The NAB Business Survey continues to show encouraging signs of a pick-up in labour costs and retail prices, however the ongoing weakness in retail business conditions remains worrying. Overall, our inflation outlook remains subdued, at below 2% in 2017 and 2018, with headline inflation a little higher due to fuel price and tobacco excise increases.

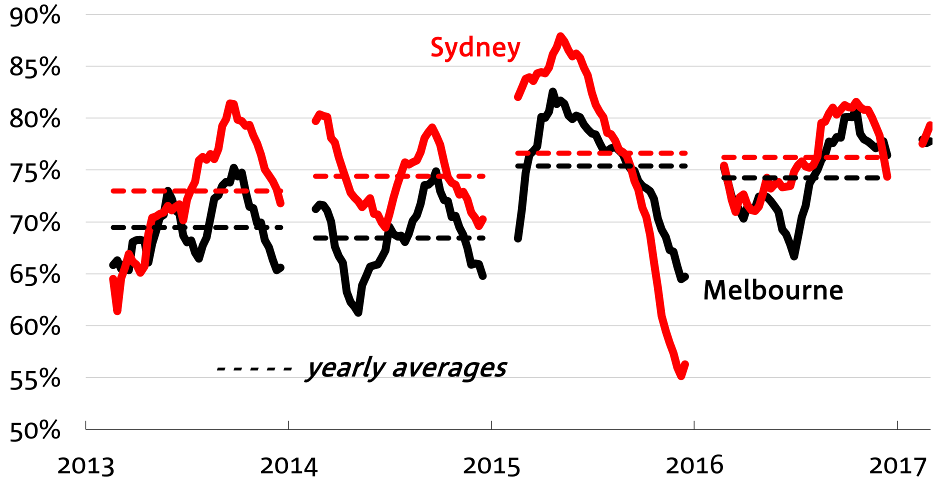
National Australia Bank

THE HOUSING MARKET

Sydney and Melbourne prices power ahead. Construction cycle running out of steam

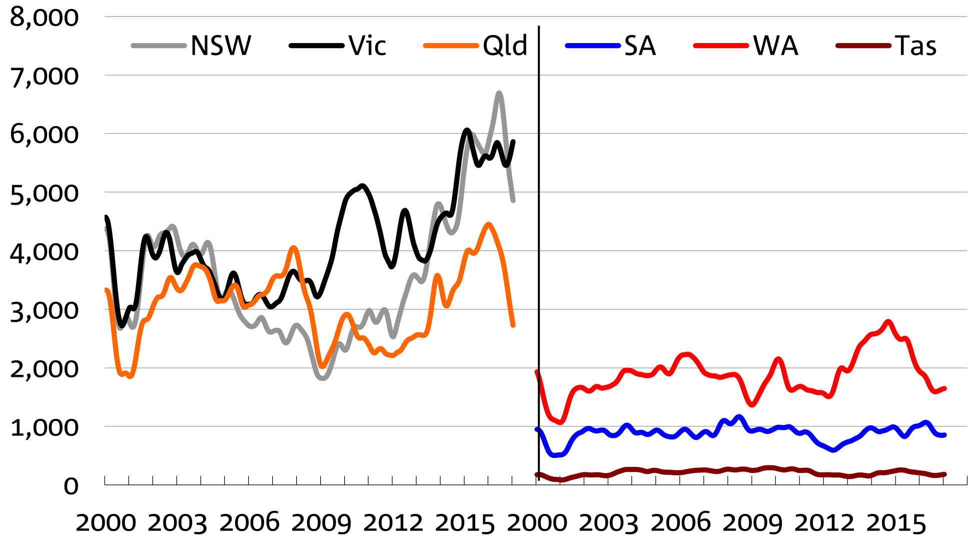
AUCTION CLEARANCE RATES

Per cent of auctions (4-week moving average)



RESIDENTIAL BUILDING APPROVALS BY STATE (TREND)

Private dwelling units approved



Sources: ABS; CoreLogic

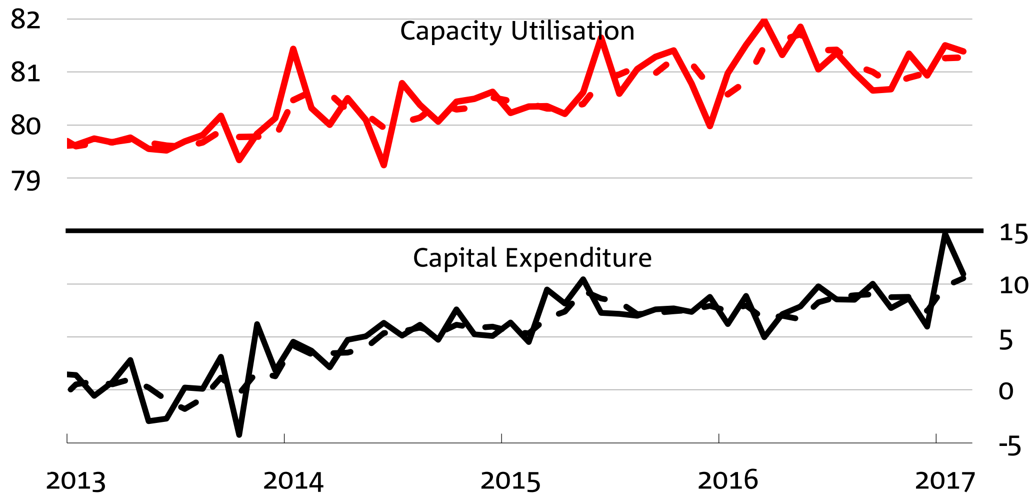
- The housing markets in Sydney and Melbourne continue to defy belief in 2017, with **property prices** showing no real signs of slowing despite tightening credit conditions and concerns about affordability (see chart on page 2). Indeed, housing finance has remained strong, especially for investors. Auction volumes are also solid, and auction clearance rates are up from the levels seen at the same time last year – suggesting the markets remain tight. Elsewhere, price movements were relatively mixed in February, but the trends have generally been fairly positive in most markets. Even Perth prices have been showing signs of stabilisation.
- In response to concerns about affordability, especially for first home buyers (FHB's), some governments have started introducing measures to address the issue. While it is too soon to determine the effectiveness of these policies, there is a real risk that some measures could have the unintended consequence of pushing prices higher. This, along with the surprising momentum could suggest some further upside risk to our price forecasts, however, that is largely offset by our revised expectation for the RBA's cash rate (no more cuts). Consequently, we have left our property price forecasts <u>unchanged</u>. Our national forecasts for 2017 are 3.4% for houses and 0.8% for units.
- **Dwelling investment** increased 1.2% in Q4, although that only partly unwound the Q3 decline – a subdued result given the anticipated rebound from temporary weather-related disruptions and the record level of construction projects in the pipeline. This might partially reflect the calendar around Christmas this year or some voluntary slowing of projects given a slight rise in settlement delays. Increases were seen across both new & used dwellings (up 0.7%) and alterations & additions (renovations, up 2.2%). Growth in dwelling investment over the year was reasonably solid at 5.6% y/y.
- Despite the record pipeline of residential construction projects, there are signs that the contribution of dwelling investment to economic growth may soon peak. New medium-density approvals have come off sharply from their highs, although they are still at elevated levels (especially in Victoria). Nonetheless, reports of settlement issues with off the plan apartment projects in some parts of Melbourne and Brisbane could see the industry attempt to 'self regulate' supply – which could help to explain softer than expected dwelling investment of late. Capacity constraints may be a further limiting factor for the construction industry as a whole, with capacity utilisation rates for residential construction rising considerably since 2012, according to the NAB Quarterly Business Survey. **Overall, dwelling investment is expected to rise 2.1% in 2017, before turning modestly negative (-0.9%) in 2018.**

BUSINESS ACTIVITY, INVESTMENT AND CONSTRUCTION

Non-mining business investment solid. NAB Business Survey encouraging

NAB MONTHLY SURVEY INVESTMENT INDICATORS*

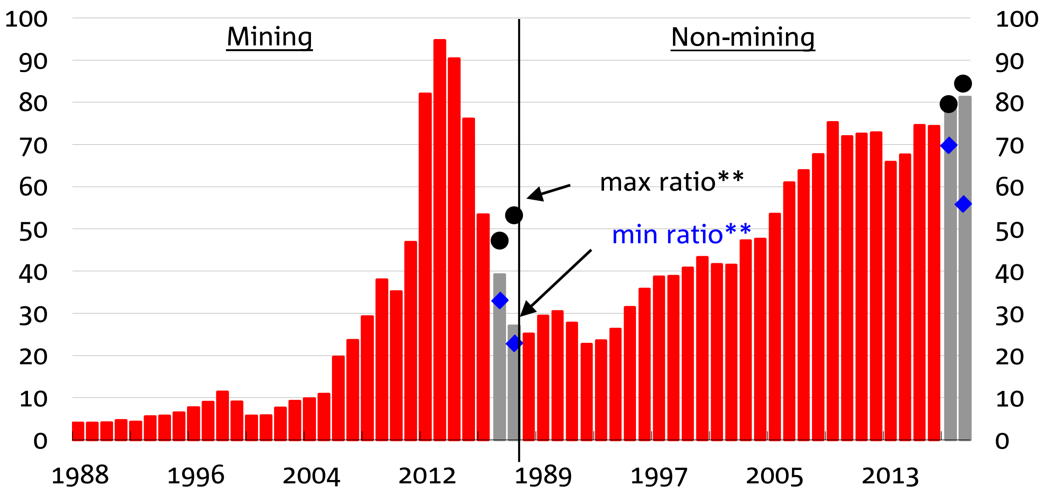
Net balance



* Dotted lines represent the 3mma

ABS CAPITAL EXPENDITURE SURVEY*

$ billions



* Grey bars are the latest expectations adjusted by the previous year's realisation ratio measure
** The max and min estimates based on historical max-min realisation ratios
Source: NAB, ABS

- In February, the NAB Monthly Business Survey showed some moderation from the surprising strength seen in January, but remained consistent with a relatively robust view of business activity and investment behaviour in the near-term. **Business conditions** dropped back below December levels, but is still well above its historical average. **Business confidence** also gave back some ground, but is still above both December and historical average levels. Of relevance to business investment more specifically, **capacity utilisation** rates stayed at solid levels, while the Survey's indicator of **capital expenditure** remained strong despite easing in the month.
- In terms of some of the other timely indicators, the value of **non-residential building approvals** has not been especially encouraging, exhibiting a downward trend following a spike around mid-2016 and falling around 14% in January (trend down nearly 7%). In contrast, the volume of capital goods imports increased solidly in Q4, while values were up 13.6% y/y in January.
- Underlying private business investment rose by a better than expected 1.9% q/q - this is the first quarter of positive growth since 2013. Engineering construction posted a surprising increase in the quarter, up 1.3%. Nonetheless, NAB estimates suggest that overall mining investment may have still fallen in the quarter and that the mining investment 'cliff' still has a little further to go – supported by ABS capex expectations data for 2017-18. That said, there are tentative signs that higher commodity prices are helping to introduce some stability. Non-residential building constructed rebounded from the temporary disruptions seen in Q3, albeit not fully unwinding the previous quarter's decline, rising 5% q/q. Machinery and equipment investment rose by 1%.
- Indications on non-mining investment have generally been encouraging, with NAB estimates pointing to a strong acceleration in growth for the quarter. However, leads on the outlook are mixed. Expectations from the **NAB Quarterly Business Survey** for **capital expenditure in the next 12-months** has held up, but the ABS Private Capital Expenditure Survey tends to suggest that the non-mining investment recovery could lose some momentum in 2017-18 (depending on how the expectations data are adjusted for realisation ratios – see chart).
- **Underlying business investment (around 12% of GDP) is forecast to rise just 0.2% 2017. In 2018, business investment growth is forecast to improve to 4.7%.**

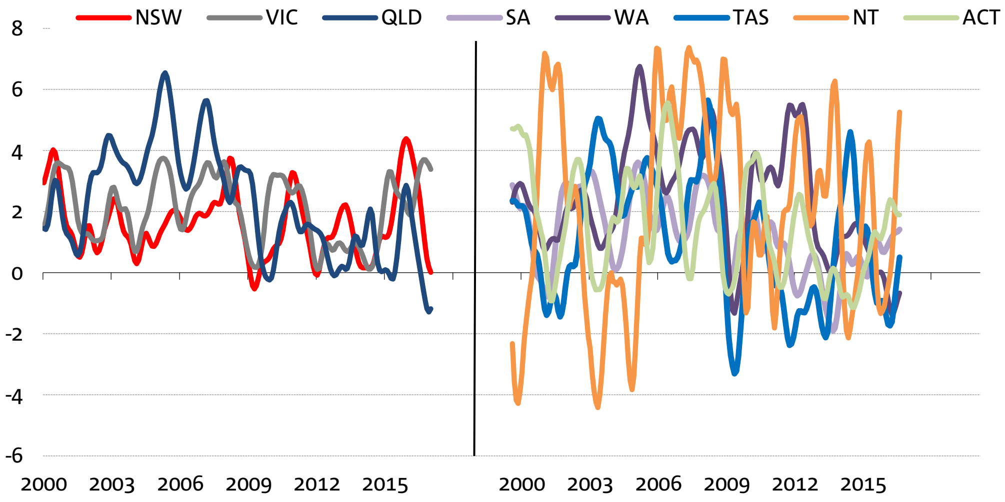
National Australia Bank

LABOUR MARKET AND WAGES

The worst of mining job losses might be behind us, but wages remain weak

VIC LEADS EMPLOYMENT GROWTH WHILE NSW SLOWS

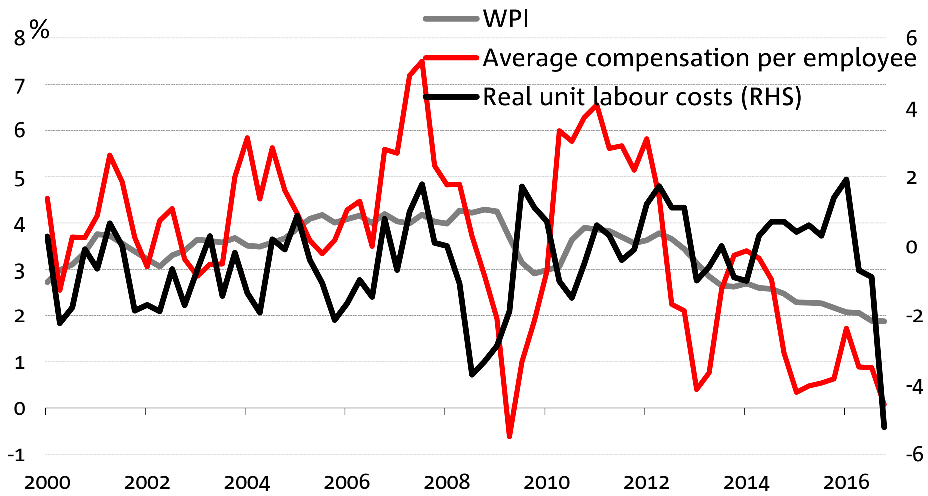
Employed persons (YoY growth %, trend)



Source: ABS, NAB Group Economics

WAGE MEASURES REMAIN SOFT

Year-ended growth, %



Source: ABS, NAB Group Economics

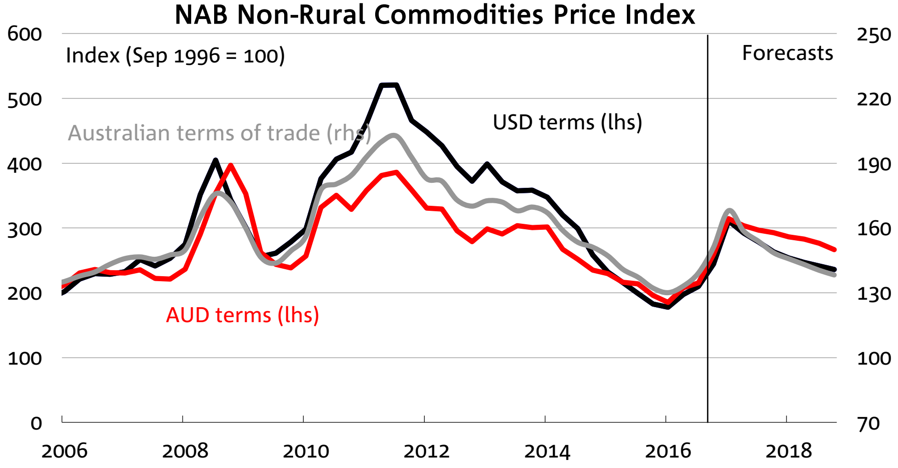
- Employment growth has continued to improve, rising 13.5k in January, to be 0.9% higher than a year ago, but still well below long term trend rates. A fall in the participation rate (to 64.6% from 64.7%) helped the unemployment rate fall to 5.7% from 5.8% in December. **NAB forecasts the unemployment rate will remain at around 5¾% in 2017 and 2018**, with monthly employment gains at around 14.5k, the breakeven level to stop unemployment from rising.
- While Victoria continues to show strong employment gains, the slow-down in New South Wales employment growth calls for closer monitoring. However as business conditions in NSW remain strong, employment growth could pick up again. The states more affected by mining job cuts (WA, NT and QLD) have shown signs of improvement in the last 3-4 months.
- Signals from leading indicators are more promising. The employment index in the NAB monthly business survey has been more encouraging than ABS labour force statistics. Having pulled back a little from the January high, the index remains above long-run average and is suggestive of annual job creation of 215k. Job ads data by SEEK is also pointing to improved hiring conditions, especially in WA and Queensland (although some further retrenchments are to come in these states as LNG projects approach completion) and out-performing Victoria, but growth has slowed down in NSW. The NAB survey employment index also points to improved conditions in WA and QLD.
- Part-time employment has continued to rise, while full-time employment fell. This is consistent with the labour market transition away from full-time mining and manufacturing employment towards services sector jobs. While this trend has been a global phenomenon and is likely to continue, it is having a negative impact on employment earnings. As part-time service jobs tend to be lower paid, labour income growth has been subdued and is likely to remain so. While growth in wage price index was positive (less affected by changes in labour market composition), growth in average employee earning and unit labour costs fell below zero in the December quarter reflecting increased productivity and reduced earnings (see Chart). Ongoing spare capacity in the labour market, together with the transition toward lower paid and part-time employment, will likely keep wages growth low for a while yet. We do expect some mild uptick in the broader measures of the wage bill in 2018, as retrenchments in highly paid full-time mining jobs no longer weigh on the aggregate figures as heavily.

NET EXPORTS, COMMODITIES AND THE TERMS OF TRADE

Net exports to contribute significantly to GDP growth in 2017

SURGING COMMODITY PRICES

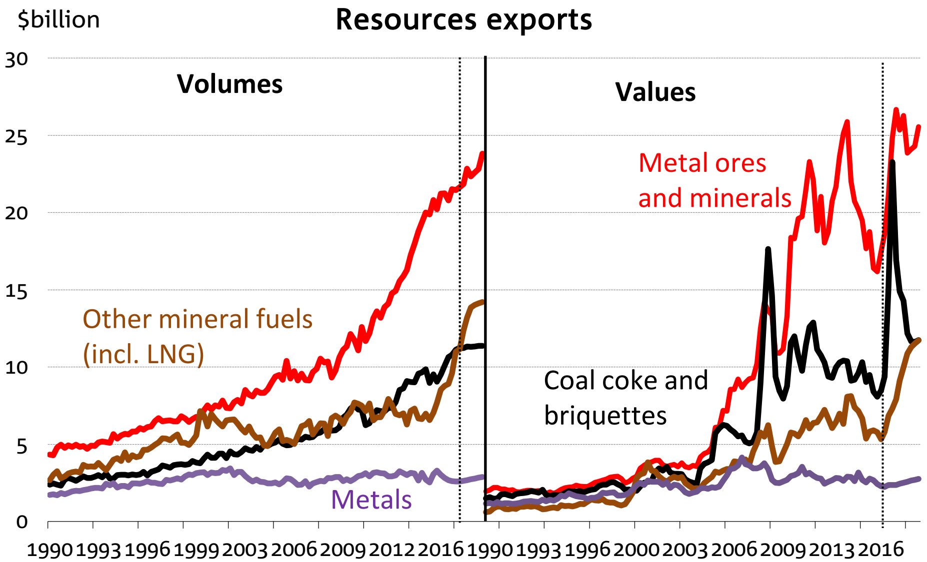
Bulk commodity prices and forecasts



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

RESOURCES EXPORTS VOLUMES RISING STEADILY

Resources exports, volumes and values forecasts



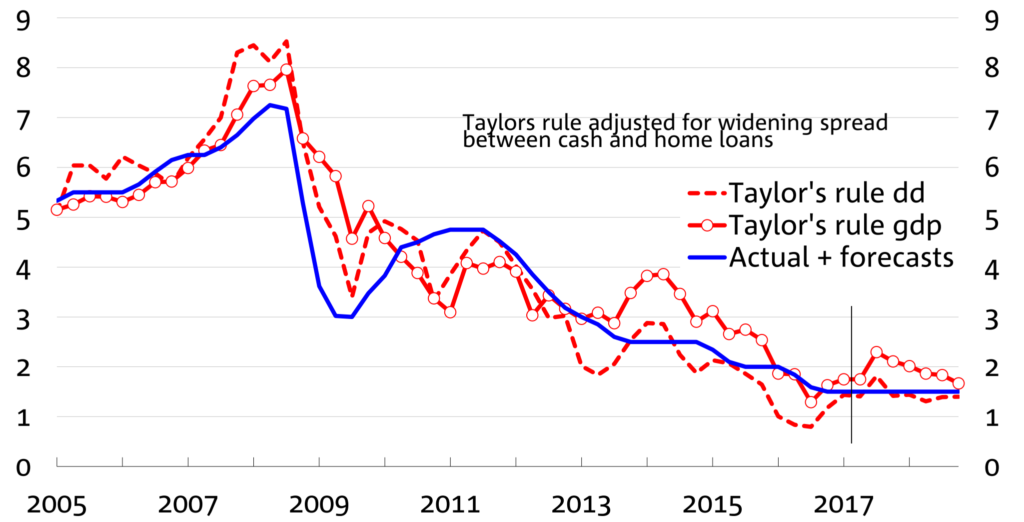
- Net exports added 0.2 ppts to GDP growth in Q4 2016. Strong imports growth was more than offset by even stronger exports on the back of rising resources exports and record rural exports. Services imports outgrew services exports, detracting 0.1 ppt from GDP growth in net terms. Going forward, net exports are expected to contribute significantly to overall economic growth on the back of higher LNG exports, before flattening off in 2018.
- The surge in commodity prices will help widen the trade surplus and likely deliver a current account surplus in Q1, and maybe even Q2 depending on the price trajectories and how much is offset through a higher net income deficit (largely dividends and interest payments made on net foreign liabilities). High commodity prices have also boosted Australia's terms of trade, up 14% in Q4 2016 from a year ago and expected to peak in Q1 2017. Government revenue receipts are also higher as a result of the higher prices.
- All three Queensland LNG projects are now running much closer to capacity, with significant implications for domestic gas markets. We also expect higher volumes from Gorgon after outages and reduced production last year. Wheatstone, also in WA, and Ichthys in the NT, are estimated to ramp up exports in the second half of 2017 and into 2018. Woodside has also raised the prospect of an expansion to Pluto. These significant increases in exports will likely see Australia overtake Qatar as the world's biggest LNG exporter, and underline strong growth in net exports, contributing further to overall GDP growth.
- Winter crops have just come off a sensational season, with a record 35+ million tonnes of wheat harvested. However, the outlook for the coming year is much drier, with the outlook for autumn dry and BoM models pointing to El Nino occurring by winter.
- Imports have recorded solid growth in the past three quarters. However, forecast weakness in the AUD and subdued household consumption growth will limit further imports strength, while the drag from falling business investment will dissipate after late 2017. Services exports, especially education and tourism will continue to grow amidst income levels in Asia. This will see net services exports add positively to GDP growth, although the pace of growth will be dependant on the path of the AUD.

MONETARY POLICY AND THE EXCHANGE RATE

RBA on hold and AUD on a downward trajectory through 2017

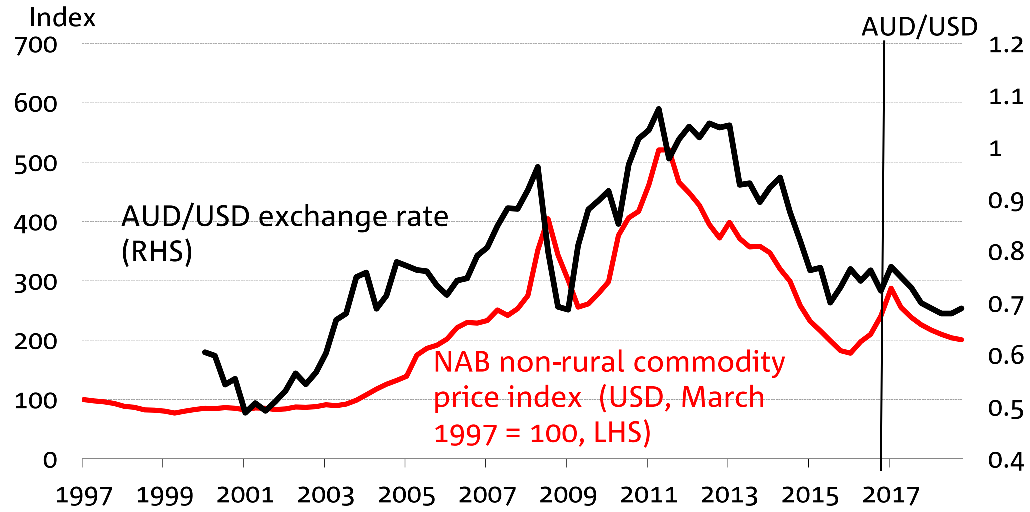
AUSTRALIAN CASH RATE AND TAYLOR RULE

% p.a.



AUD TO HEAD BACK DOWN

NAB's AUD/USD and commodity price forecasts



Sources: ABS, NAB, Datastream

- The RBA's emphasis has shifted even more clearly to financial stability considerations in the past month, with particular emphasis on household balance sheets in the context of further acceleration in house prices in Sydney and Melbourne amidst already high levels of household debt and weak household income growth. This includes RBA Assistant Governor (Financial System) Bullock highlighting the possibility of a further step up in macro-prudential measures.
- Despite our ongoing concerns about economic growth and the labour market in 2018 (see page 3), an interest rate cut in 2017 would be contrary to the RBA's desire to slow household debt accumulation. As such, we have removed our forecast interest rate cut in late 2017.
- We do continue to highlight the risk of further monetary policy easing at some point however, and certainly believe that talk of rate hikes is premature. This is particularly the case given that the unemployment rate is forecast (by the RBA and NAB) to remain near the current elevated 5¾% level through the entire forecast period. In addition, underlying inflation only returns to the bottom of the 2-3% target band in late-2017/early-2018 according to the RBA's forecasts (and our forecasts are even lower).
- As a result of our RBA view change, we are revising up our 2018 AUD/USD forecast slightly while maintaining our 0.70 end-2017 projection. A 70 cent AUD/USD still looks readily achievable on some combination of further US interest rate-driven US dollar strength, lower commodity prices and potentially some deterioration in risk sentiment from current elevated levels. We now forecast AUD meandering around the 0.70 level in 2018, up from 0.68-0.69 previously, before commencing a modest appreciation path in 2019.
- Were commodity prices in particular to show an even deeper correction than we already anticipate, a sub-70 cent AUD/USD rate is quite plausible even with an ongoing steady-as-she goes RBA policy track. But on our current commodity price forecasts, a sustained break below this level is likely to require assistance from a widening in interest rate differentials beyond our latest forecasts (either because the Fed ends up raising rates significantly faster than currently expected, or economic circumstances dictate renewed RBA easing).

DETAILED ECONOMIC 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	2.9	2.4	2.1	2.7	2.7	2.2	2.0
Dwelling Investment	10.6	3.7	1.1	10.0	7.9	2.1	-0.9
Underlying Business Investment	-12.2	-7.0	4.4	-10.1	-11.2	0.3	4.7
Underlying Public Final Demand	3.6	4.4	2.7	2.4	4.6	3.2	2.8
Domestic Demand	**1.4**	**1.8**	**2.4**	**1.3**	**1.6**	**2.2**	**2.2**
Stocks (b)	-0.1	0.1	-0.2	0.0	0.1	-0.1	0.0
GNE	**1.3**	**1.9**	**2.3**	**1.3**	**1.7**	**2.1**	**2.2**
Exports	6.7	7.5	7.7	6.0	7.6	7.9	5.6
Imports	-0.3	4.1	4.2	2.0	0.4	5.1	3.7
GDP	**2.7**	**2.1**	**3.0**	**2.4**	**2.5**	**2.6**	**2.6**
Nominal GDP	2.3	6.2	4.5	1.8	3.6	7.0	2.8
Federal Budget Deficit: ($b)	-37	-34	-23	NA	NA	NA	NA
Current Account Deficit ($b)	73	10	5	77	45	-4	16
(-%) of GDP	4.4	0.6	0.3	4.7	2.6	-0.2	0.9
Employment	2.2	1.1	1.4	2.0	1.5	1.3	1.5
Terms of Trade	-10.1	16.7	-0.2	-11.6	-0.4	16.1	-6.9
Average Earnings (Nat. Accts. Basis)	0.9	0.2	1.0	0.5	0.9	0.3	1.5
End of Period							
Total CPI	1.0	2.3	2.1	1.7	1.5	2.2	2.1
Core CPI	1.6	1.9	1.7	2.0	1.6	1.7	1.8
Unemployment Rate	5.7	5.6	5.7	6.0	5.7	5.7	5.8
RBA Cash Rate	1.75	1.50	1.50	2.00	1.50	1.50	1.50
10 Year Govt. Bonds	1.98	2.80	3.20	2.88	2.77	3.00	3.20
$A/US cents :	0.74	0.75	0.70	0.73	0.72	0.70	0.70
$A - Trade Weighted Index	62.5	65.9	62.5	62.7	63.9	62.9	61.9

(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

National Australia Bank

COMMODITY PRICE FORECASTS

	Unit	Spot 13/02/2017	Actual Dec-16	*Forecasts* *Mar-17*	*Jun-17*	*Sep-17*	*Dec-17*	*Mar-18*	*Jun-18*	*Sep-18*	*Dec-18*
WTI oil	US$/bbl	49	49	53	54	56	58	59	60	62	62
Brent oil	US$/bbl	55	51	55	56	58	60	61	62	64	64
Tapis oil	US$/bbl	55	52	56	57	59	61	62	63	65	65
Gold	US$/ounce	1203	1220	1210	1210	1220	1230	1240	1260	1270	1270
Iron ore (spot)	US$/tonne	n.a.	70	87	85	80	75	73	70	68	65
Hard coking coal*	US$/tonne	n.a.	200	285	180	160	140	120	110	105	100
Semi-soft coal*	US$/tonne	n.a.	130	210	131	114	101	87	79	76	72
Thermal coal*	US$/tonne	81	62	62	65	65	65	65	60	60	60
Aluminium	US$/tonne	1868	1710	1850	1840	1830	1830	1820	1800	1800	1800
Copper	US$/tonne	5747	5270	5840	5610	5550	5550	5550	5550	5550	5550
Lead	US$/tonne	2252	2130	2260	2150	2150	2150	2150	2150	2150	2150
Nickel	US$/tonne	10142	10770	10580	10630	10680	10680	10680	10680	10680	10680
Zinc	US$/tonne	2700	2510	2760	2770	2790	2800	2820	2830	2840	2860
Aus LNG**	AU$/GJ	n.a.	6.86	7.28	7.93	8.28	8.54	8.93	9.19	9.32	9.45

* 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

Group Economics
Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities
Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 4)55 052 519

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Behavioural & Industry Economics
Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics
Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research
Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia
Economics
Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy
Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research
Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution
Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand
Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia
Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

UK/Europe
Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532