

AUSTRALIAN MARKETS WEEKLY

Judging the Budget



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- We suggest a number of yardsticks by which to judge the Government on tomorrow night's budget, namely:
 - (i) the credibility of the short-term macro and budget forecasts;
 - (ii) the appropriateness of the medium-term fiscal settings;
 - (iii) the policy measures in the budget; and
 - (iv) the fairness of the budget.
[Politicians would add the politics of the budget!].
- Importantly, we suspect the Government will continue to forecast a return to balance/small surplus by 2020-21 on an underlying cash balance basis and likely a year earlier on the new favoured Net Operating Balance (NOB) of the budget. This should be sufficient to maintain Australia's AAA rating, albeit with a continued negative outlook from S&P. The increased focus on the NOB is hoped to broadly restrain growth in recurrent spending across time.
- There will also be separation of government debt into "good" and "bad" debt – the former effectively funds an excess of recurrent spending over recurrent revenues; the latter funds infrastructure and other capital investment that can boost the economy's productivity or provide a financial return to the country across time.
- In terms of policy, we know there will be significant new infrastructure spending on Sydney's second airport and the inland rail line between Melbourne and Brisbane. And Housing Affordability will also be a centrepiece of the Budget, with the government to continue its push to increase supply, via land release, infrastructure investment and possibly some measures to encourage downsizing by retirees and penalise vacant supply held by foreigners. There is rumoured to be some assistance for First Home Buyers saving for a deposit and a new public fund to borrow for low-cost social housing.
- Locally this week, tomorrow's ABS Retail Trade report for March will, with the monthly reading on March, also provide quarterly volumes as an important element of Q1 household consumption and GDP. Then the market will be focused on whether there are any material surprises in tomorrow night's Budget.
- Offshore, the RBNZ and BoE meet as are G7 Finance Ministers. The RBNZ meeting could be market moving, our BNZ colleagues sending out a report this morning, noting emerging inflation and rising inflation expectations, but that the RBNZ is only likely to shift to a modest tightening bias. US CPI and Retail Sales reports released later in the week will be important watch points, as will the no less than eight Fed speeches this week and commodity prices after last week's sharp falls in iron ore and oil prices. The falls in commodity prices, continuing tightening in the US labour market lie behind the fall in the \$A, which NAB continues to expect to end the year close to US\$0.70.

To contact NAB's market experts, please click on one of the following links:

[Ask the Economists](#)

[Ask the FX Strategists](#)

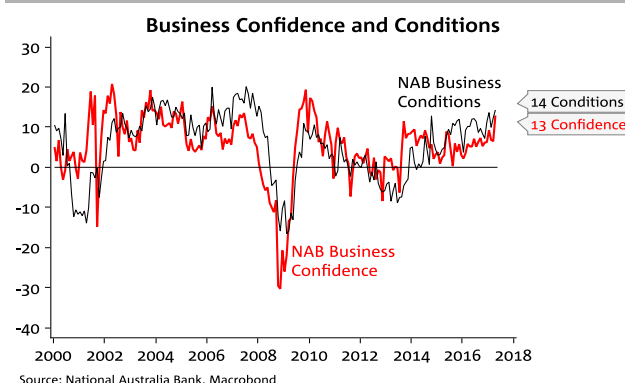
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7398	-1.7	RBA cash	1.50	0
AUD/CNY	5.11	-1.4	3y swap	2.04	4
AUD/JPY	83.4	-0.6	ASX 200	5,865	-1.5
AUD/EUR	0.674	-2.2	Iron ore	61.7	-10.3
AUD/NZD	1.069	-2.1	WTI oil	46.9	-4.1

Source: Bloomberg

Chart of the week: Confidence and conditions both up



Any budget has inherent conflicts and trade-offs in it, for example, between the short-term macro needs of the economy and the desired medium-term fiscal policy settings; and between the myriad of policy, social, intergenerational and political aspects of any policy changes. It must therefore be a carefully-considered document, with fiscal policy generally reset only once per annum, while the benefits and costs of decisions are generally very long lasting.

We suggest the budget may usefully be assessed using the following four criteria:

1. Short-term forecasts: are the fiscal and economic assumptions credible and appropriate to the economy in the short to medium term?
2. Long-term fiscal sustainability: does the budget address long-term budget pressures? Is the level of expenditure correct? Are the various agents paying appropriate tax and known tax concerns being addressed?
3. Economics and policy: does the budget support productivity growth, business and jobs? Are the economy's and government's resources being used appropriately? Are key economic issues addressed – infrastructure, housing affordability, energy, education?
4. Fairness: does the budget support Australians sense of a fair go – rewarding initiative but also providing an appropriate social safety net?

Of course, politicians would add a fifth category – Politics: does the budget increase the chances of re-election?

Following the practice of previous years, the Government has given us some strong hints on a number of each of the measures to be implemented under each of these criteria. Here's our pre-budget guess at what may transpire, though of course we'll provide our final assessment later on Tuesday night.

Short-term forecasts

It seems likely that the Budget economic forecasts – like the forecasts revealed by the RBA in its May Statement on Monetary Policy on Friday – will assume a moderate strengthening in economic growth, with GDP growth of around 3-3.25% in both 2017-18 and 2018-19, albeit with around half a percent of growth coming from LNG exports and hence not producing much employment growth. Underlying inflation is likely to be forecast to increase to around 2-2.25% per annum, a mild assistance to nominal GDP growth which is important for revenue growth forecasts, while all the indications are that the Government will maintain its conservative forecasts for major export commodities, ensuring that any surprises are to the upside rather than downside. Most debate/uncertainty amongst economists will be about the extent of recovery in income growth (particularly wages) and consumption that will be forecast as this will be important for PAYG revenues. This was a key uncertainty signalled by the RBA in its economic outlook and highlights the importance of trends in the unemployment rate and underemployment in coming months.

The Budget is likely to continue to forecast a return to balance/small surplus in 2020-21, though this will likely require the forecast strengthening in the economy

and wages growth to be realised. Indeed, the switch to a focus on the Net Operating Balance (a measure of recurrent expenditure less recurrent outlays on an accrual accounting basis) may mean that the Government can forecast a return to balance/small surplus a year earlier, in 2019-20 – we'd emphasise we see the switch to the accrual based NOB, as opposed to the cash balance, as an overdue change to Government fiscal emphasis (and one already used by Australia's State Governments) and not a cynical exercise to record a surplus a year earlier.

The return to surplus has required some expenditure restraint – the Government has noted how it has pushed through a cumulative \$26bn of savings over the next four years in the period since the election and in dumping the so-called zombie measures worth \$13bn over coming years at this budget, it's likely that some further expenditure or revenue measures will be enacted in this budget.

On balance, with the previously-mentioned caveat/uncertainty over the forecast strengthening in wages growth and consumption, the short-term economic and budget forecasts seem appropriate and defensible. It is also important to not tighten policy too aggressively before Australia's economic recovery is on sounder footing. That said, when that is the case, it will also be important to let any potential upside growth and revenue surprises flow through to the budget bottom line.

Importantly for Australian markets, continuing to forecast a return to surplus is expected to see the ratings agencies maintain Australia's AAA rating (likely still with a negative outlook) for the foreseeable future.

Long-term fiscal sustainability

Less has been leaked or said about the medium to long-term settings of fiscal policy. These are of course the most important settings and must: (i) accumulate sufficient policy flexibility to allow fiscal policy to be used in a counter-cyclical way in the inevitable next economic downturn; and (ii) deliver expenditure and revenue settings appropriate to the long-term pressures on the budget due to the ageing of Australia's population. Expenditure and tax policies are also an important consideration in the long-term fiscal sustainability question.

It is harder to assess this item ahead of the budget, though the government has already put in place a number of reforms to superannuation that save money in the medium term (though to an unknown extent this might boost future pension expenses) and is rumoured to be bringing in some additional measures to reduce the cost of pharmaceuticals and increase self-funding of universities (though part of each of these initiatives seems likely to fund other policy decisions on education and medical spending). Indeed, if there is likely to be criticism of the Government's budget, the medium-term fiscal settings – and especially the apparent failure to at least examine a number of areas where tax settings may no longer be appropriate (e.g. whether GST should be increased and income tax rates reduced; whether the size of the capital gains tax discount remains appropriate? – seems likely to attract most focus). That said, the Treasurer has recently directed that the Productivity Commission should examine the formula

for distribution of GST to the states while the company tax rate cut for small- to medium-sized businesses has passed the Senate and company tax cuts for large businesses remains part of the government's agenda that is assumed to be funded by resultant improved growth.

Economics and policy

Policy decisions in the budget of course are also important. This budget is rumoured to contain significant infrastructure spending (including on Sydney's second airport and an inland rail line between Melbourne and Brisbane along with a host of other federally-funded state infrastructure projects). Debate on infrastructure spending is over whether the infrastructure has a positive business case. A Housing Affordability package will also be a centrepiece of the budget, which various media outlets suggest will include a new public authority to provide funding for social housing (along the lines of the UK bond aggregator model), extra land release, and possibly even some form of taxation on foreign investors (perhaps a vacant housing tax). There are also rumoured to be some incentives for older Australians to downsize and some measures to assist First Home Buyers to save for a mortgage. Government policy is focused on increasing the supply of housing and associated infrastructure, as the long-term solution to high house prices. Independently, regulatory policy has been revealed as buying some time to get demand and supply back into better balance. It's also worth noting that it remains the policy of the Opposition to make changes to negative gearing (only thereafter available for newly-constructed housing though prior housing investments are to be grandfathered) and reducing the capital gains tax discount from 50% to 25% if it were to be elected at the next election.

Energy policy has been another area that has been attracting a great deal of attention in recent months, following significant increases in energy and gas prices, in turn, partly related to the commencement of major LNG export platforms. Again, if there is criticism of government, both housing affordability and energy policy have been areas of discussion/concern in the business and broader community for a number of years now and have only recently become a focus of government. Encouragingly, something is now being done.

Fairness

The first budget of the Abbott Government failed largely on the grounds of fairness. Much of the pain was seen as inflicted on the poorer members of society. It's unlikely that this budget will make the same mistake and indeed there is rumoured to be extra money for pensioners to compensate for higher electricity and gas prices.

Broader fairness considerations in this budget are likely to focus on aspects of the Housing Affordability Package along with the intergenerational aspects of running successive large budget deficits and accumulating significant government debt. In this regard, it is hoped the focus by the Government on the Net Operating Balance and the distinction between good debt and bad debt (the former being debt run up to fund an excess of recurrent spending over recurrent revenues, the latter being debt incurred to finance infrastructure and other capital spending which produce longer-term societal and

economic benefits), should help over time to produce further focus on reducing recurrent expenditure and eliminating borrowing for recurrent spending.

Politics

This is quite an interesting budget politically. It could turn out to be the mid-term budget, with a half-Senate election due by 18 May 2019 (the earliest possible date the election may be held is 4 August 2018, if a combined half-Senate and House of Representatives election is to be held, as is usual). The presence of state elections in Australia's three largest states: Victoria (24/11/18), NSW (23/3/19) and QLD (by 5/5/18) slightly complicates and narrows the timing of the Federal poll.

The budget seems likely to contain a number of measures designed to negate popular policies of the Opposition, with the Government already announcing a major education funding programme (dubbed Gonski 2.0) to fund around half of the previous Labor Party Government's education policy.

This still leaves the states needing to fund a significant portion of the \$70bn of education cuts made over the ten years from 2017-18 or reduce the extent of the prior education policy.

In addition, extra funding for health (in particular the unfreezing of General Practitioner fees) is designed to negate the Opposition's successful "Mediscare" campaign of the past election.

The proof of the politics of the budget will of course be reflected in the polls in the next few months – and ultimately at the next Federal election. At the present time, the Government is trailing the Opposition 52-48 on a two-party preferred basis.

NAB will provide detailed coverage of Australia's 2017-18 Budget, to be handed down on Tuesday 9 May at 7.30pm AEST, including assessing implications for the credit rating.

The past week

Friday night's US jobs report and yesterday's French Presidential election have set the tone for this week, the jobs report revealing a solid 211K payrolls gain, but also coming with softer-than-expected annual growth in average hourly earnings at 2.5%, thanks to downward revisions.

Arguably, the larger influence turned out to be commodity prices, where another fall for iron ore on Friday means it is down 10% on the week. Oil's minor bounce Friday still leaves crude 5-6% lower and gold is off over \$40 or 3.3% on a week ago. This proved much more negative for AUD than other commodity currencies, though AUD/USD did manage to pull back up through 0.74 on Friday to close the week -0.9% at 0.7424, well up on its 0.7368 intra-day low. This was aided by a small bounce back in oil, and the Dalian iron ore futures price jumping by about 3% in the Friday night session. Against that, Dalian iron ore futures have re-opened this week a little softer, the AUD also held back by a weaker-than-expected Building Approvals report for March and despite a solid NAB Business Survey for April. The AUD has been trading close to 0.74.

This week

Along with tomorrow night's Budget, some key data is on this week's schedule, the NAB Business Survey and Building Approvals having already been released today. The other key data this week is the ABS Retail trade for March out tomorrow, a modest rebound expected after February's decline. Other data includes the weekly ANZ-Roy Morgan Consumer Sentiment report out tomorrow.

Offshore, the RBNZ and BoE meet and are expected to keep rates steady, while G7 FinMins are meeting from Thursday. The RBNZ meeting could be market moving, our BNZ colleagues sending out a report this morning, noting that inflation and inflation expectations are on the rise, though emphasising that RBNZ is likely to shift to only a modest tightening bias. In addition, there are no less than eight more Fed speakers due, though it's doubtful these will alter market expectations too much. More likely, it'll be the US CPI and Retail Sales reports released later in the week that will be potentially more telling. ECB President Draghi is speaking to the Dutch Parliament on Wednesday, the market sensitive to any hints of less worry now with the French Presidential Election out of the way.

For full details please see our *What to Watch* publication (please email 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	AEST
Monday, 8 May 2017								
AU	Building Approvals MoM/YoY	Mar	-2	-4/-10		8.3/-4.9	2.30	11.30
AU	ANZ Job Advertisements MoM	Apr				0.3	2.30	11.30
AU	NAB Business Conditions/Confidence	Apr		/		14.0/6.0	2.30	11.30
CH	Trade Balance CNY	Apr		197.2		164.3	4.00	13.00
CH	Exports/Imports YoY CNY	Apr		16.8/29.3		22.3/26.3	4.00	13.00
CH	Trade Balance	Apr		35.2		23.9	4.00	13.00
CH	Exports/Imports YoY	Apr		11.3/18		16.4/20.3	4.00	13.00
CH	Foreign Direct Investment YoY CNY	Apr				6.7	4.00	13.00
JN	Consumer Confidence Index	Apr		43.5		43.9	6.00	15.00
GE	Factory Orders MoM/YoY	Mar		0.7/2.1		3.4/4.6	7.00	16.00
EC	Bank of Portugal Governor Speaks at Conference in Lisbon						9.30	18.30
CH	BoP Current Account Balance	1Q P				11.8	9.00	18.00
EC	Sentix Investor Confidence	May		25.2		23.9	9.30	18.30
CA	Housing Starts	Apr		215		253.7	13.15	22.15
US	Fed's Bullard Speaks on Panel on Interest Rate Policy						13.35	22.35
US	Fed's Mester Speaks at Chicago Council on Global Affairs						13.45	22.45
CA	Bloomberg Nanos Confidence	May 5				59.4	15.00	0.00
US	Labor Market Conditions Index Change	Apr				0.4	15.00	0.00
Tuesday, 9 May 2017								
UK	BRC Sales Like-For-Like YoY	Apr		0.5		-1.0	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 7				111.3	0.30	9.30
JN	Labor Cash/Real Cash Earnings YoY	Mar		0.5/		0.4/0.0	1.00	10.00
AU	Retail Sales MoM/Ex Inflation QoQ	Mar	0.3/0.4	0.3/0.5		-0.1/0.9	2.30	11.30
NZ	Credit Aggregates (new format)	Mar					4.00	13.00
GE	Industrial Production SA MoM/YoY	Mar		-0.7/2.6		2.2/2.5	7.00	16.00
GE	Current Account Balance	Mar		26.5		20.4	7.00	16.00
AU	Federal Budget, UCB 17-18 \$Abn		-23	-28		-28.7 (MYEFO)	10.30	19.30
US	NFIB Small Business Optimism	Apr		104		104.7	11.00	20.00
CA	Building Permits MoM	Mar		2.8		-2.5	13.30	22.30
US	Fed's Kashkari to speak to Minnesota High Tech Conference						14.00	23.00
US	JOLTS Job Openings	Mar				5743.0	15.00	0.00
US	Wholesale Trade Sales/Inventories MoM	Mar				0.6/-0.1	15.00	0.00
US	Fed's Rosengren Speaks at NYU Conference on Risk Management						18.00	3.00
US	Fed's Kaplan speaks to Dallas Regional Chamber						21.15	6.15
Wednesday, 10 May 2017								
NZ	ANZ Truckometer Heavy MoM	Apr				1.7	23.00	8.00
NZ	Crown Financial Accounts	Mar					23.00	8.00
NZ	Card Spending Retail MoM/YoY	Apr		0.6		-0.3	23.45	8.45
JN	BOJ Summary of Opinions at April 26-27 Meeting						0.50	9.50
AU	Westpac Consumer Conf Index/MoM%	May				99.0/-0.7	1.30	10.30
CH	CPI/PPI YoY	Apr		1.1/6.7		0.9/7.6	2.30	11.30
JN	Leading/Coincident Index CI	Mar P		105.5/114.7		104.8/115.3	6.00	15.00
EC	ECB's Draghi Speaks in Dutch Parliament						12.00	21.00
US	Import Price Index MoM/YoY	Apr		0.2/3.6		-0.2/4.2	13.30	22.30
US	Export Price Index MoM/YoY	Apr		0.2/		0.2/3.6	13.30	22.30
CH	New Yuan Loans/Aggregate Financing CNY	Apr		815/1150		1020/2120	10-15 May release	
US	Fed's Rosengren to Speak on Economy at Vermont Business Group						17.00	2.00
US	Monthly Budget Statement	Apr		177		-176.2	19.00	4.00
Thursday, 11 May 2017								
NZ	RBNZ Official Cash Rate	May 11	1.75	1.75		1.75	22.00	7.00
NZ	Food Prices MoM	Apr				-0.3	23.45	8.45
UK	RICS House Price Balance	Apr		20		22.0	0.10	9.10
JN	BoP Current Account Adjusted	Mar		1735		2210.9	0.50	9.50
AU	Consumer Inflation Expectation	May				4.1	2.00	11.00
JN	Bankruptcies YoY	Apr				5.4	5.30	14.30
EC	ECB Publishes Economic Bulletin						9.00	18.00
UK	Industrial Production MoM/YoY	Mar		-0.4/1.9		-0.7/2.8	9.30	18.30
UK	Construction Output SA MoM/YoY	Mar		0.3		-1.7	9.30	18.30
UK	Trade Balance	Mar		-3000		-3663.0	9.30	18.30
EC	European Commission Economic Forecasts						10.00	19.00
US/IN	Fed's Dudley speaks on Globalisation in Mumbai						11.25	20.25
UK	Bank of England Bank Rate	May 11		0.25		0.3	12.00	21.00
UK	BOE Asset Purchase Target/Corporate Bond Target	May		435/10		435.0/10.0	12.00	21.00
UK	Bank of England Inflation Report						12.00	21.00
UK	NIESR GDP Estimate	Apr		0.4		0.5	13.00	22.00
CA	New Housing Price Index MoM/YoY	Mar		0.2/		0.4/3.3	13.30	22.30
US	PPI Final Demand/Ex Food & Energy MoM	Apr		0.2/0.2		-0.1/0.0	13.30	22.30
US	Initial Jobless Claims	May 6		245		238.0	13.30	22.30
US	Bloomberg Consumer Comfort	May 7				50.9	14.45	23.45
Friday, 12 May 2017								
NZ	BusinessNZ Manufacturing PMI	Apr				57.8	23.30	8.30
NZ	Non Resident Bond Holdings	Apr				61.5	4.00	13.00
NZ	2Yr Inflation Expectation	3Q				2.2	4.00	13.00
JN	BOJ Harada speaks as panelist in Tokyo						5.15	14.15
GE	GDP SA QoQ/YoY	1Q P		0.6/1.7		0.4/1.7	7.00	16.00
GE	CPI MoM/YoY	Apr F		0/2		0.0/2.0	7.00	16.00
GE	CPI EU Harmonized MoM/YoY	Apr F		0/2		0.0/2.0	7.00	16.00
EC	Industrial Production SA MoM/YoY	Mar		0.3/2.3		-0.3/1.2	10.00	19.00
US	CPI MoM/YoY	Apr		0.2/2.3		-0.3/2.4	13.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Apr		0.2/2		-0.1/2.0	13.30	22.30
US	Retail Sales Advance/Ex Autos and Gas MoM	Apr		0.6/0.4		-0.2/0.1	13.30	22.30
US	Retail Sales Control Group	Apr		0.4		0.5	13.30	22.30
CA	Teranet/National Bank HPI MoM/YoY	Apr		/		0.9/13.5	13.30	22.30
US/EC	Fed's Evans Speaks in Dublin						14.00	23.00
US	U. of Mich. Sentiment	May P		97/		97.0/2.4	15.00	0.00
US	Business Inventories	Mar		0.1		0.3	15.00	0.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		
Canada, BoC		25-May	0.5%	0.5%		0.5%		
Australia, RBA		6-Jun	1.50%	1.50%		1.50%		
Europe ECB		8-Jun	-0.4%	-0.4%		-0.4%		
US Federal Reserve		15-Jun	0.75-1.00%	0.75-1.00%		0.75-1.00%		
Japan, BoJ		16-Jun	-0.1%	-0.1%		-0.1%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

FORECASTS

Economic Forecasts

Annual % change				Quarterly % change																
	2015	2016	2017	2018	2015				2016				2017				2018			
Australia Forecasts	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	2.2	2.1	0.7	0.6	1.0	0.6	0.9	0.5	0.4	0.9	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.6
Underlying Business Investment	-10.1	-11.2	1.4	5.5	-3.2	-1.9	-5.5	-2.4	-3.4	-2.3	-5.3	2.1	1.0	1.2	1.8	1.0	1.4	1.3	1.4	1.4
Residential Construction	10.0	7.9	2.1	-1.0	4.8	-1.2	4.3	1.5	3.7	1.9	-1.3	1.2	0.6	0.6	0.4	0.0	-0.2	-0.9	-0.5	-0.8
Underlying Public Spending	2.4	4.6	3.2	2.8	1.2	1.8	-1.0	2.1	0.5	2.7	0.2	1.3	0.3	0.9	0.5	0.8	0.7	0.7	0.7	0.7
Exports	6.0	7.6	6.1	6.1	3.7	-2.9	4.6	-0.1	3.3	2.2	1.0	2.2	0.5	-0.1	4.6	2.4	0.8	0.8	0.7	1.0
Imports	2.0	0.4	5.8	3.9	2.7	0.9	-1.3	0.0	-0.8	2.9	1.2	1.4	1.4	1.4	1.2	0.9	0.9	0.8	0.9	0.9
Net Exports (a)	0.7	1.4	0.1	0.5	0.2	-0.8	1.2	0.0	1.1	-0.1	0.0	0.2	-0.2	-0.3	0.7	0.3	0.0	0.0	0.0	0.0
Inventories (a)	0.1	0.1	0.0	0.0	0.7	-0.3	-0.1	0.0	0.0	0.3	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.5	-0.2	0.5	0.1	0.7	-0.4	1.2	0.5	0.7	0.6	0.6	0.6	0.5	0.6	0.6
Dom Demand - ann %	1.3	1.6	2.3	2.4	1.1	1.4	1.2	1.3	1.4	1.6	1.4	2.1	2.0	1.9	3.0	2.4	2.5	2.3	2.3	2.3
Real GDP - qtr %					1.1	0.2	0.7	0.5	1.1	0.8	-0.5	1.1	0.4	0.4	1.3	0.9	0.6	0.5	0.6	0.6
Real GDP - ann %	2.4	2.5	2.3	2.8	2.5	2.0	2.4	2.5	2.5	3.1	1.9	2.4	1.7	1.3	3.2	3.0	3.2	3.3	2.5	2.3
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.8	0.4	0.6	0.6	0.4	0.4	0.6	0.7
CPI headline - ann %	1.5	1.3	2.4	2.1	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.5	2.5	2.3	2.4	2.0	2.1	2.1	2.1
CPI underlying - qtr %					0.6	0.5	0.4	0.4	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5
CPI underlying - ann %	2.2	1.6	1.9	1.8	2.4	2.3	2.2	2.0	1.6	1.6	1.6	1.6	1.9	1.9	1.9	1.8	1.7	1.7	1.8	1.8
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	1.6	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8	1.7	1.6	1.6	1.6
Unemployment Rate (%)	6.1	5.7	5.7	5.7	6.2	6.0	6.2	6.0	5.9	5.7	5.6	5.7	5.7	5.8	5.8	5.7	5.7	5.7	5.7	5.7
Terms of trade	-11.6	0.0	18.9	-1.6	-2.5	-4.5	-2.1	-4.2	-1.9	2.1	5.2	9.0	10.2	-0.4	-3.0	-2.1	-2.2	-1.3	-1.3	-1.5
G&S trade balance, \$Abn	-36.8	-14.6	47.4	29.1	-4.7	-11.4	-8.6	-12.0	-8.4	-7.4	-3.5	4.7	13.0	11.2	11.8	11.4	9.3	8.0	6.6	5.2
% of GDP	-2.3	-0.9	2.6	1.6	-1.2	-2.8	-2.1	-2.9	-2.0	-1.8	-0.8	1.1	2.9	2.5	2.6	2.5	2.0	1.7	1.4	1.1
Current Account (% GDP)	-4.7	-2.6	0.0	-1.0	-3.3	-5.2	-4.8	-5.6	-3.6	-3.7	-2.4	-0.9	0.3	-0.1	0.0	-0.1	-0.6	-0.9	-1.2	-1.4

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

Exchange Rate Forecasts

	8-May	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Majors						
AUD/USD	0.7399	0.75	0.73	0.70	0.70	0.70
NZD/USD	0.6920	0.71	0.70	0.67	0.68	0.68
USD/JPY	112.73	114	116	118	120	120
EUR/USD	1.0971	1.05	1.04	1.04	1.05	1.06
GBP/USD	1.2956	1.25	1.24	1.22	1.20	1.21
USD/CNY	6.9038	6.92	7.05	7.04	7.03	7.01
USD/CAD	1.3652	1.33	1.35	1.37	1.37	1.38

Australian Cross Rates

AUD/JPY	83.4	86	85	83	84	84
AUD/EUR	0.6744	0.71	0.70	0.67	0.67	0.66
AUD/GBP	0.5711	0.60	0.59	0.57	0.58	0.58
AUD/NZD	1.0692	1.06	1.04	1.04	1.03	1.03
AUD/CNY	5.1081	5.19	5.15	4.93	4.92	4.91
AUD/CAD	1.0101	1.00	0.99	0.96	0.96	0.97
AUD/CHF	0.7321	0.73	0.70	0.74	0.71	0.68

Interest Rate Forecasts

	8-May	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Aust rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	1.74	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	2.04	2.1	2.3	2.3	2.6	2.6
10 Year Swap Rate	2.93	3.0	3.2	3.2	3.4	3.4

Offshore Policy Rates

US Fed funds	1.00	1.25	1.50	1.50	1.75	2.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20
BoE repo rate	0.25	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.00
RBNZ OCR	1.75	1.75	1.75	1.75	1.75	2.00
China 1yr lending rate	4.35	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	17.0	16.5	16.5	16.5	16.5	16.5

10 Year Benchmark Bond Yields

Australia	2.68	2.75	2.90	2.90	3.10	3.05
United States	2.36	2.50	2.75	2.75	3.00	3.00
New Zealand	3.05	3.30	3.35	3.30	3.30	3.60

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Ave
Australia	2.1	2.8	2.4	2.5	2.3	2.8	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.3	1.1	1.9	1.7	1.9	1.8	1.5
UK	1.9	3.1	2.2	1.8	1.8	1.7	2.4
Japan	2.0	0.2	1.2	1.0	1.1	0.8	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.2	6.9	7.5	7.5	7.4	7.2	6.6
New Zealand	2.2	3.4	2.5	3.1	2.7	2.5	3.0
World	3.4	3.4	3.1	3.0	3.3	3.5	3.5
<i>MTP Top 5</i>	4.1	3.9	4.0	3.8	3.8	3.7	5.0

Commodity prices (\$US)

	8-May	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
WTI oil	46.86	54	56	58	59	60
Gold	1231	1210	1220	1230	1240	1260
Iron ore	61.7	65	61	60	58	60
Hard cok. coal	175	210	160	140	120	110
Thermal coal	78	81	81	81	81	65
Copper	5566	5610	5550	5550	5550	5550
Aust LNG (*)	5.85	7.9	8.3	8.5	8.9	9.2

(*) Implied Australian LNG export prices.

CONTACT DETAILS

Market Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836
ivan.colhoun@nab.com.au

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Riki Polygenis
Head of Australian Economics
+61 3 8697 9534
riki.polygenis@nab.com.au

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