

AUSTRALIAN MARKETS WEEKLY



What does the Bank of Canada mean for the RBA?

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- In light of the Bank of Canada’s move to further raise interest rates last week, this week we contrast the performance of various economic indicators in Canada and Australia, to see if the Bank of Canada’s move has any implications for the RBA.
- We find that economic performance in Canada has been considerably stronger than in Australia over the past 9-12 months, with strength in Canadian GDP, retail sales and consumer confidence. This has seen the Canadian unemployment rate drop nearly one percentage point since October to near pre-GFC lows.
- That said, the Bank of Canada’s move was also driven in part by the desire to remove some of the stimulatory policy setting currently in place in Canada. Such a stimulatory setting is also in place in Australia and in the broadest sense, the global monetary policy cycle is turning, with the Fed and BoC raising rates, and ECB beginning to talk about tapering its QE program.
- It is our expectation that the RBA would also begin to remove accommodation before Australian inflation is back at the midpoint of the inflation target and before all the spare capacity in the labour market has been reduced.
- Last week’s Australian GDP data showed a welcome rebound in Q2, although concerns remained about government spending supporting growth and the weakness in average compensation per employee (COE) – a wages measure. As our chart of the week shows (as did our consumer confidence analysis last week), many Australian indicators have been restrained by weakness in mining related areas. CoE similarly has been restrained by the mining regions of QLD, WA and SA. Monitoring for a rebound in these regions and for a decline in unemployment and underemployment more broadly, will be important for timing when the RBA will begin to reduce accommodation in Australia.
- Employment for August is the main data for Australian markets this week. NAB (and the consensus) looks for another solid report with a steady unemployment rate of 5.6% and around 20,000 new jobs created. This month’s release also includes the latest quarterly reading on underemployment. Tuesday’s NAB Business Survey for August will also be under focus as will Wednesday’s Consumer Confidence given the recent unusual divergence in the two measures. Deputy Governor Guy Debelle also speaks Thursday at a legal workshop, the market interested in whether he comments on the economy, monetary policy, or the \$A.
- Offshore, US inflation will be in focus with Thursday’s August CPI providing another plot revealing whether low US inflation has continued. China releases August industrial production and retail sales on Thursday.

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

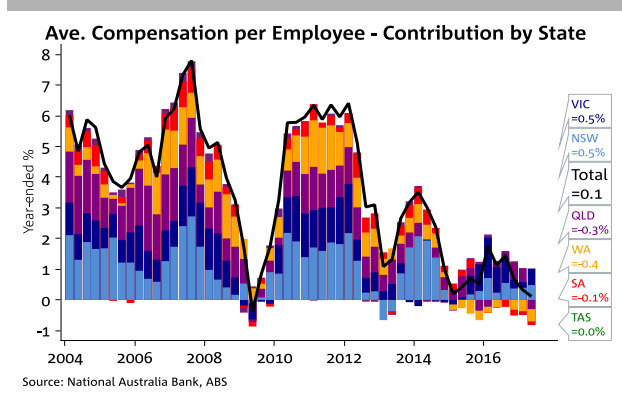
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.8048	1.2	RBA cash	1.50	0
AUD/CNY	5.24	0.1	3y swap	2.10	2
AUD/JPY	87.2	-0.1	ASX 200	5,702	0.0
AUD/EUR	0.670	0.3	Iron ore	74.4	-5.8
AUD/NZD	1.113	0.4	WTI oil	47.8	1.0

Source: Bloomberg

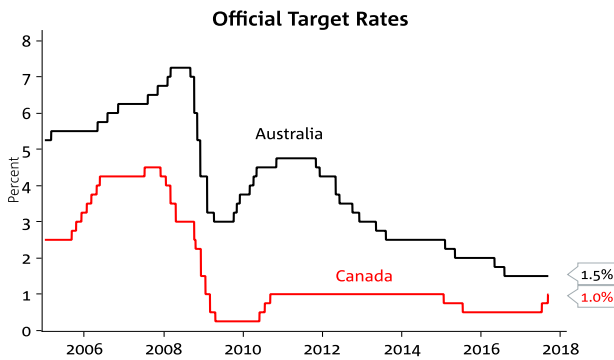
Chart of the week: WA, QLD, SA dragging on wages



The Bank of Canada raised interest rates last week – the second such increase in three months. With markets not fully pricing the first interest rate increase in Australia until October 2018, we decided to compare economic and financial developments in Canada and Australia, to see if there were any potential lessons for the RBA in the Bank of Canada’s move.

The first point worth making – something the RBA has been stressing recently – is that Canada (and other central banks) took interest rates even lower than the RBA did, both in the wake of the GFC and again in 2015, after oil prices collapsed (Chart 1). Because Australian interest rates did not get as low as rates in other jurisdictions, the RBA has argued that this does not mean Australia must automatically raise interest rates when other countries increase their rates. That said, the cut by the BoC in January 2015 saw markets (correctly) price in a further cut in interest rates by the RBA (delivered in February 2015), and the short end of the Australian rate curve has again been impacted since the BoC commenced raising interest rates in recent months.

Chart 1: Canadian rates on the rise

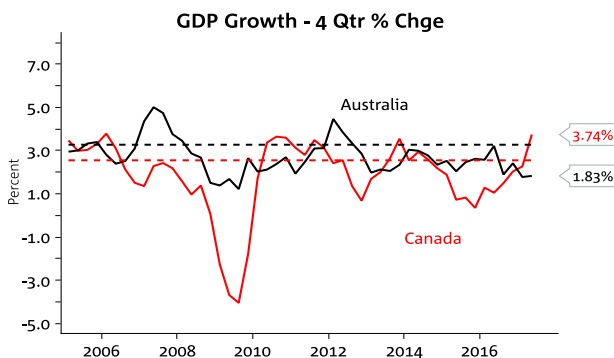


Source: National Australia Bank, RBA, BoC

Both economies of course have an important commodity dimension to them, though of course US economic conditions more directly impact the Canadian economy, whereas Australia these days is more directly impacted by the Chinese economy.

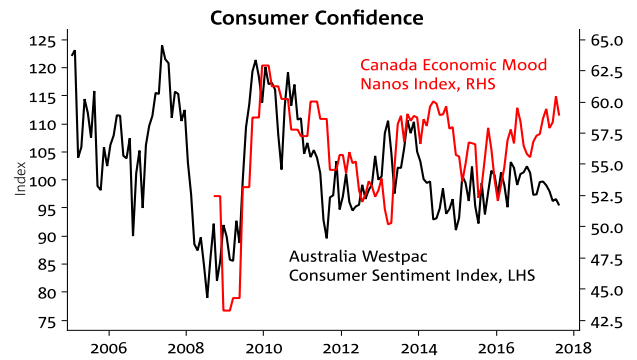
Charts 2 to 6 contrast developments in a number of economic indicators between the two countries. As can be seen, economic growth, consumer confidence and retail sales have all been considerably stronger in Canada than in Australia in the past 6-9 months, with consumer

Chart 2: Canadian GDP growth accelerates



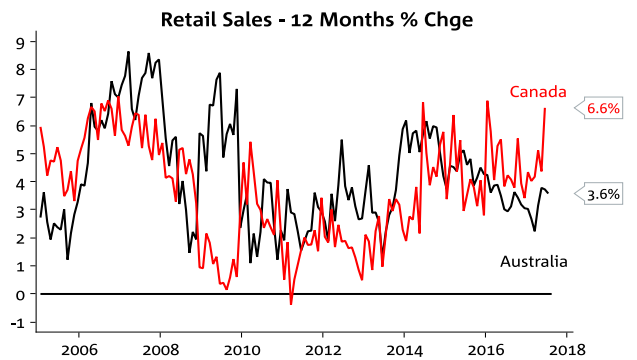
Source: National Australia Bank, ABS, Statistics Canada

Chart 3: Canadian consumer confidence much stronger



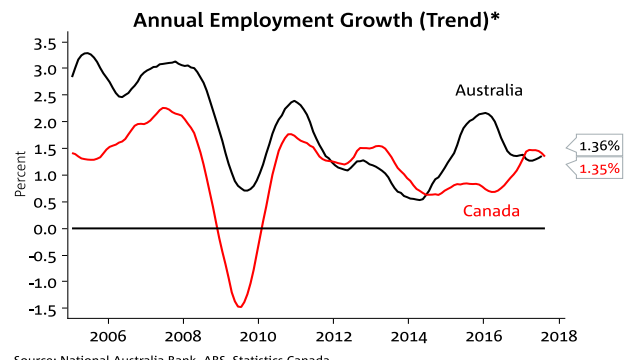
Source: National Australia Bank, Westpac & Melbourne Institute, Nanos Research

Chart 4: Canadian retail sales much stronger



Source: National Australia Bank, ABS, Statistics Canada

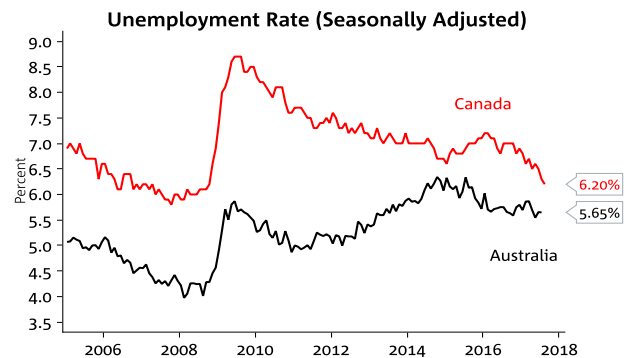
Chart 5: Employment strengthening in each country



Source: National Australia Bank, ABS, Statistics Canada

*Smoothed by NAB

Chart 6: Canadian unemployment dropping sharply



Source: National Australia Bank, ABS, Statistics Canada

confidence actually trending lower in Australia so far in 2017. There has been a marked strengthening in Canadian employment growth, which has seen the Canadian unemployment rate fall nearly 1 percentage point over the past 10 months to near pre-GFC lows. These are obviously quite different fundamental developments to those currently occurring in Australia.

The BoC Statement noted that “recent economic data have been stronger than expected, supporting the Bank’s view that growth in Canada is becoming more broadly-based and self-sustaining”. The collection of indicators considered above suggests that Canada is currently exhibiting significantly stronger economic performance than Australia, thereby suggesting that from an economic conditions perspective, there is little in Canadian real economy developments that suggests the RBA should follow the Bank of Canada’s lead on interest rates particularly soon.

What about wages and inflation developments? Charts 7 and 8 show that wages and inflation, perhaps a little surprisingly, remain lower in Canada than in Australia. The text of the Bank of Canada’s statement highlighted that the Bank expects the drop in Canadian inflation to be temporary, similar to the expectation of Fed Governors in the US. That said, the Bank of Canada notes that “wage and price pressures are still more subdued than historical relationships would suggest, as observed in some other advanced economies”. This is an issue that continues to occupy central banks’ thinking and which suggests cautious tightening moves in countries where interest normalisation is under way.

So why did the Bank of Canada raise rates? The key was stronger-than-expected economic performance in conjunction with the highly accommodative policy stance in place. The BoC’s Governing Council concluded that “removal of some of the considerable monetary policy stimulus in place is warranted”, even though inflation and wages growth remained relatively low.

Are there any parallels with Australia? The degree of monetary accommodation currently in place in Australia, is arguably currently the greatest similarity. The RBA has estimated a neutral nominal interest rate of 3.5% currently, compared to the current official cash rate of 1.5%, implying Australia also has a considerable degree of monetary accommodation. At some stage, the RBA is also likely to seek to wind back some of this accommodation, likely well before the inflation rate is back at the centre of the 2-3% target band and before all the slack in the labour market is used up.

Like Canada, this is likely to require broader strength in the Australian economy, together with a clearer decline in the unemployment and underemployment rates and confidence that the inflation rate back will return to target. In recent months, the NAB Business Survey has suggested that the improvement in business conditions has broadened to include QLD and SA, while conditions in WA have stabilised. Job advertising has picked up in all states, including in WA, QLD and SA. These trends hold out hope of a similar broadening in economic growth in Australia, but for now, the states most exposed to mining continue to exhibit a drag on the Australian economic outlook, suggesting a near-term move by the RBA remains most unlikely.

Clients should continue to monitor indicators that suggest the drag from WA and QLD may be lessening along with unemployment and underemployment trends, as these will likely be important for timing when the RBA will begin to normalise interest rates.

The current differential in Canadian and Australian economic performance suggests to our FX strategists that the Canadian dollar can continue to outperform the Australian dollar.

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Week Ahead

Tuesday, Wednesday, and Thursday see three key reports on the Australian economy. Tomorrow sees the release of the NAB Business Survey for August. That’s followed on Wednesday by the Westpac-Melbourne Institute monthly Consumer Sentiment survey, and then on Thursday, it’s the ABS Labour Force release for August.

Markets will be interested in the extent to which Business Conditions and Employment Intentions have sustained their recent improvements – and whether Consumer Confidence and Business Conditions continue to diverge. And most importantly, whether Australia continues to print reasonable employment growth (above the 15,000 per month needed to reduce unemployment in time and so tighten the labour market).

RBA Deputy Governor Guy Debelle speaks on Thursday morning at a Workshop at King and Mallesons, a legal firm. There’s no speech title available but with the RBA

Chart 7: Wages growth lower in Canada

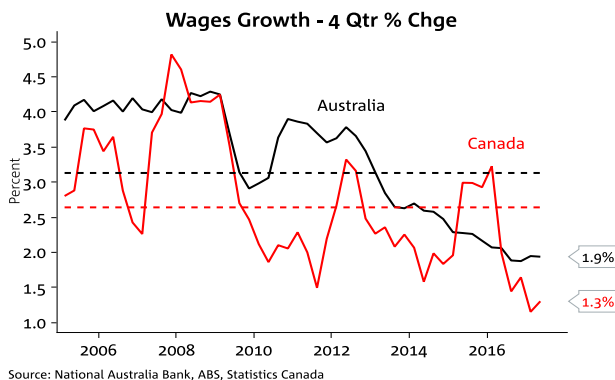
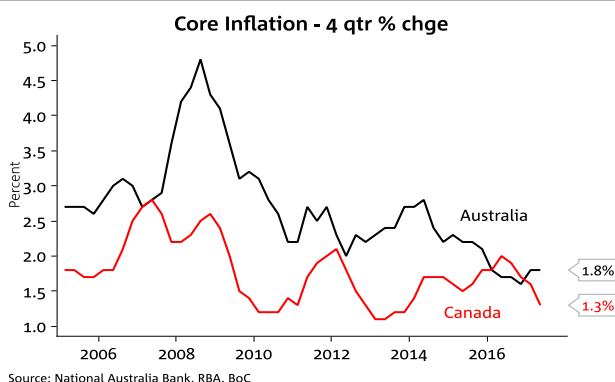


Chart 8: Core CPI lower in Canada (temporary factors)



Board meeting now out of the way and Debelle having restricted his recent public remarks to less market sensitive matters, this event gives him free rein to offer any views on the economy, monetary policy, the financial markets, or even on the AUD, should he wish to do so.

Offshore, in addition to the impact of Hurricane Irma in the US, the August CPI is due out on Thursday and there is Retail Sales on Friday. The CPI has printed considerably lower than expected in recent months, which has seen a number of Fed Governors back off on the need for further near-term interest rate increases given inflation is not currently tracking consistently with a return to the Fed's 2% mandate, though of course at the same time the unemployment rate is trading further below the full-employment level. China also publishes its key monthly growth reports with Industrial Production, Retail Sales, and Fixed Assets Investment, all for August, out on Thursday.

The Bank of England meets this week and is expected to leave rates on hold amid the uncertain outlook for the economy in the lead up to Brexit in 2019. Flagship UK Brexit legislation is planned to be presented to the UK Commons for its first vote tonight.

The Fed meets next week. Markets expect rates to be left on hold in September, but that the formal start of reversing QE, ie reducing or "normalising" the size of the Fed balance sheet, will commence.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 11 September 2017								
NZ	REINZ House Sales YoY	Aug				-24.5		
NZ	Card Spending Retail MoM/YoY	Aug	0.8	0.5/		-0.5/-0.7	23:45	8:45
JN	Machine Orders MoM/YoY	Jul		4.1		-1.9	0:50	9:50
JN	Tertiary Industry Index MoM	Jul		0.1		0.0	5:30	14:30
JN	Machine Tool Orders YoY	Aug P				28.0	7:00	16:00
CA	Housing Starts	Aug		216		222.3	13:15	22:15
CA	Bloomberg Nanos Confidence	Sep 8				58.9	15:00	0:00
Tuesday, 12 September 2017								
NZ	ANZ Truckometer Heavy MoM	Aug				-5.5	23:00	8:00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 10				114.1	0:30	9:30
JN	PPI MoM	Aug		0.1		0.3	0:50	9:50
AU	NAB Business Conditions/Confidence	Aug		/		15/12	2:30	11:30
UK	CPI MoM/YoY	Aug		0.5/2.8		-0.1/2.6	9:30	18:30
UK	CPI Core YoY	Aug		2.5		2.4	9:30	18:30
UK	PPI Input NSA MoM/YoY	Aug		1.3/7.3		0.0/6.5	9:30	18:30
UK	PPI Output Core NSA MoM/YoY	Aug		0.1/2.3		0.1/2.4	9:30	18:30
UK	House Price Index YoY	Jul		4.8		4.9	9:30	18:30
US	NFIB Small Business Optimism	Aug		104.9		105.2	11:00	20:00
US	JOLTS Job Openings	Jul		5975		6163.0	15:00	0:00
Wednesday, 13 September 2017								
NZ	Food Prices MoM	Aug	-0.1			-0.2	23:45	8:45
JN	PPI YoY	Aug		3		2.6	0:50	9:50
AU	Westpac Consumer Conf Index/MoM	Sep		/		95.5/-1.2	1:30	10:30
GE	CPI EU Harmonized MoM/YoY	Aug F		0.2		0.2	7:00	16:00
UK	Claimant Count Rate/Jobless claims change	Aug		/		2.3/-4.2	9:30	18:30
UK	Jobless Claims Change	Aug				-4.2	9:30	18:30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Jul		2.3/2.2		2.1/2.1	9:30	18:30
UK	ILO Unemployment Rate/Employment change 3Mths	Jul		4.4/154		4.4/125.0	9:30	18:30
EC	Industrial Production SA MoM/YoY	Jul		0.1		-0.6	10:00	19:00
EC	Employment QoQ/YoY	2Q		/		0.4/1.5	8:00	17:00
CA	Teranet/National Bank HPI MoM/YoY	Aug		/		2.0/14.2	13:30	22:30
US	PPI Final Demand MoM/YoY	Aug		0.3/2.5		-0.1/1.9	13:30	22:30
US	Monthly Budget Statement	Aug		-130		-42.9	19:00	4:00
Thursday, 14 September 2017								
UK	RICS House Price Balance	Aug		0		1.0	0:10	9:10
NZ	ANZ Consumer Confidence Index/MoM	Sep				126.2	2:00	11:00
AU	Consumer Inflation Expectation	Sep				4.2	2:00	11:00
AU	Employment Change/Unemployment rate	Aug	21/5.6	20/5.6		27.9/5.6	2:30	11:30
AU	Participation Rate	Aug	65.1	65.1		65.1	2:30	11:30
CH	Industrial Production YoY/YTD YoY	Aug		6.6/6.8		6.4/6.8	3:00	12:00
CH	Retail Sales YoY/YTD YoY	Aug		10.5/10.4		10.4/10.4	3:00	12:00
CH	Fixed Assets Ex Rural YTD YoY	Aug		8.2/		8.3/3.3	3:00	12:00
JN	Industrial Production MoM/YoY	Jul F				-0.8	5:30	14:30
UK	Retail Sales Ex Auto Fuel MoM/YoY	Aug		0.1/1.4		0.5/1.5	9:30	18:30
UK	Bank of England Bank Rate	Sep 14		0.25		0.25	12:00	21:00
UK	BOE Asset Purchase/Corporate Bond Target	Sep		435/10		435.0/10.0	12:00	21:00
CA	New Housing Price Index MoM/YoY	Jul		0.3		0.2	13:30	22:30
US	Initial Jobless Claims	Sep 9		300		298.0	13:30	22:30
US	CPI MoM/YoY	Aug		0.3/1.8		0.1/1.7	13:30	22:30
US	CPI Ex Food and Energy MoM/YoY	Aug		0.2/1.6		0.1/1.7	13:30	22:30
US	Real Avg Weekly/Hourly Earnings YoY	Aug				1.1	13:30	22:30
US	Bloomberg Consumer Comfort	Sep 10				52.6	14:45	23:45
EC	Bundesbank's Weidmann speaks in Frankfurt						16:30	1:30
Friday, 15 September 2017								
NZ	BusinessNZ Manufacturing PMI	Aug				55.4	23:30	8:30
NZ	Non Resident Bond Holdings	Aug				61.7	4:00	13:00
EC	ECB's Nouy Speech in Finland						7:00	16:00
EC	Trade Balance SA	Jul		20.3		22.3	10:00	19:00
EC	Labour Costs YoY	2Q				1.5	10:00	19:00
US	Empire Manufacturing	Sep		18		25.2	13:30	22:30
US	Retail Sales Advance/Ex Autos MoM	Aug		0.1/0.5		0.6/0.5	13:30	22:30
CA	Existing Home Sales MoM	Aug				-2.1	14:00	23:00
US	Industrial/Manufacturing Production MoM	Aug		0.1/0.4		0.2/-0.1	14:15	23:15
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Sep P		95/		96.8/2.5	15:00	0:00
US	Business Inventories	Jul		0.2		0.5	15:00	0:00
US	Baker Hughes U.S. Rig Count/Oil Rig Count	Sep 15		/		944/756	18:00	3:00
Upcoming Central Bank Interest Rate Announcements								
UK BOE		14-Sep				0.25%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		28-Sep	1.75%	1.75%		1.75%		
Australia, RBA		3-Oct	1.50%	1.50%		1.50%		
Europe ECB		26-Oct	-0.4%	-0.4%		-0.4%		
Canada, BoC		26-Oct				1.00%		

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

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