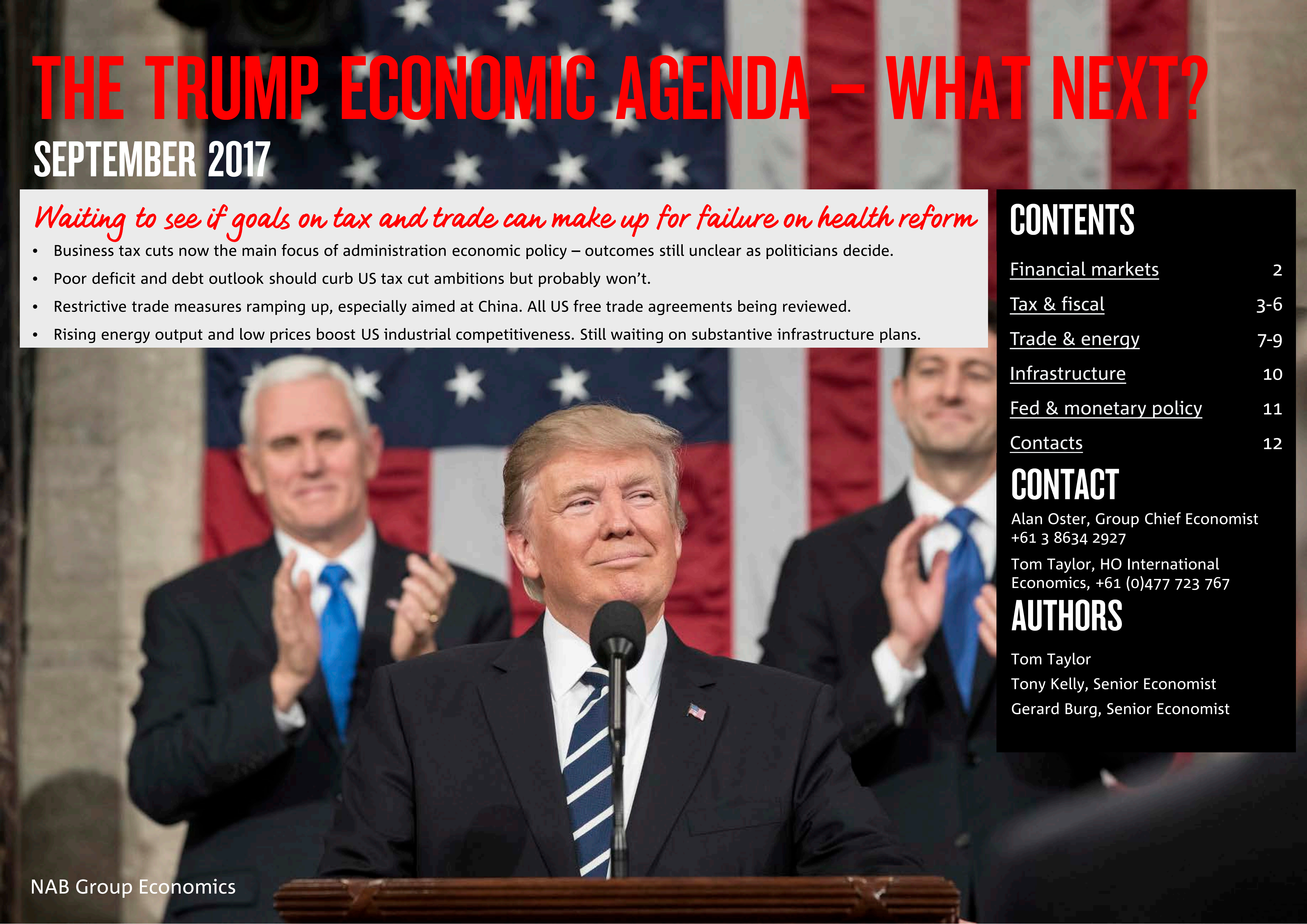


THE TRUMP ECONOMIC AGENDA – WHAT NEXT?

SEPTEMBER 2017

Waiting to see if goals on tax and trade can make up for failure on health reform

- Business tax cuts now the main focus of administration economic policy – outcomes still unclear as politicians decide.
- Poor deficit and debt outlook should curb US tax cut ambitions but probably won't.
- Restrictive trade measures ramping up, especially aimed at China. All US free trade agreements being reviewed.
- Rising energy output and low prices boost US industrial competitiveness. Still waiting on substantive infrastructure plans.

CONTENTS

CONTACT

Alan Oster, Group Chief Economist
+61 3 8634 2927

Tom Taylor, HO International Economics, +61 (0)477 723 767

AUTHORS

Tom Taylor

Tony Kelly, Senior Economist

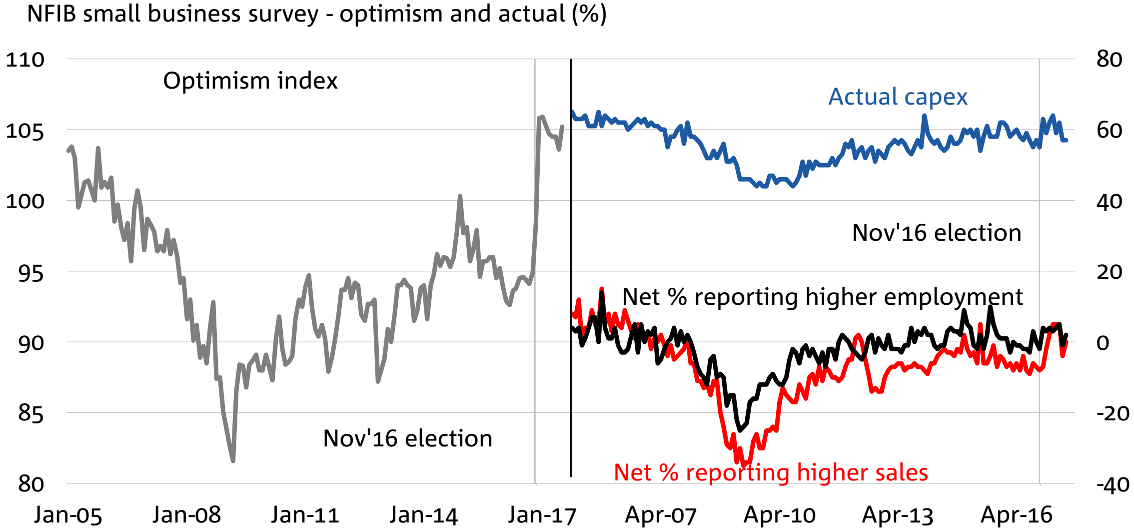
Gerard Burg, Senior Economist

NAB Group Economics

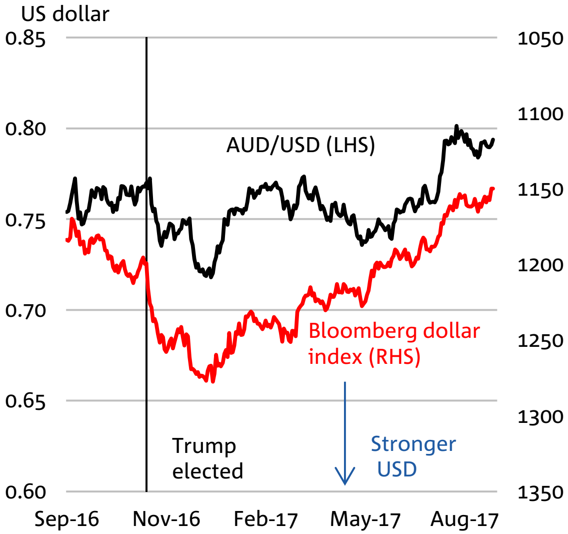
FINANCIAL MARKETS GO FROM 'TRUMP TRADE' TO 'TRUMP DISCOUNT'

Hopes for major changes by the new administration have faded

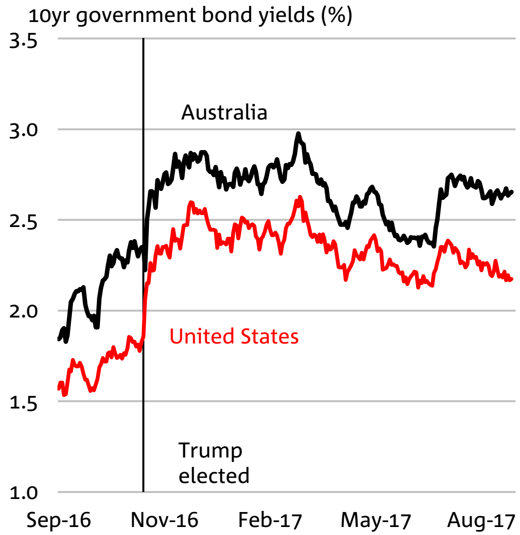
ELECTION BOOSTED BUS. OPTIMISM BUT ACTUAL CHANGES SMALLER



US DOLLAR HAS GIVEN UP GAINS



RATES STILL HIGHER



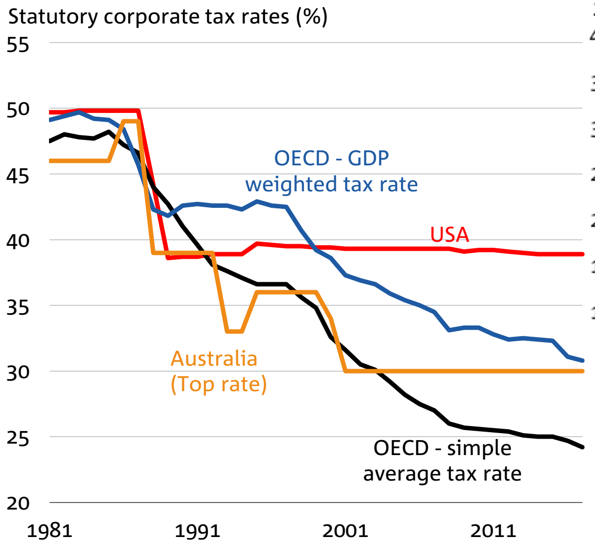
- The election of President Trump led to a spike in business optimism. Similarly, with hopes high for large tax cuts and a boost to infrastructure investment, the stock market rose, as did the US dollar and longer-term interest rates. This was known as the 'Trump Trade'.
- This immediately had repercussions for Australia, given the importance of the US in setting global financial conditions and the role of the $US in our trade. The $A depreciated against the US dollar, while longer-term interest rates in Australia also rose, in parallel to the US move.
- Despite the boost to US business optimism, actual conditions on the ground have not changed substantially. The NFIB small business survey optimism index – largely based around hopes and expectations for the future – has held onto its gains. Small business also reported a pick up in sales, although this has been partially unwound. However, there appears to have been no flow through into hiring or investment, which remain around their pre-election level.
- More broadly, while the US economy remains solid, growth remains at around the average rate achieved post the GFC.
- Expectations about the changes that the Trump administration will make to taxes and infrastructure spending have been wound back. The failure of the Republican controlled Congress to agree on repeal or major changes to 'Obamacare' – a *cause célèbre* for Republican politicians – highlights the difficulties in getting major changes in the current US political environment. The proposed health care reforms were also intended to improve the budget bottom line, and so their absence also complicated the tax outlook. Tax policy is now the main focus with the markets waiting to see if that reform fares better than healthcare did.
- Against this backdrop, the US dollar – as measured by a trade-weighted index - has been depreciating over the course of 2017, and is now below its pre-election level. This has also been reflected in the AUD/USD bilateral exchange rate.
- In contrast stock prices continue to trend up, and while longer-term interest rates have also given up some their gains, they remain above their pre-election level. Of course the US President and Congress are only one factor affecting markets; the solid performance of the US economy underpins equities while the Fed has hiked interest rates three times since last year's election. Moreover, the improvement in global economic conditions – particularly the on-going recovery in the Euro-zone and perceived lower European political risk – have boosted other currencies, weakening the USD by comparison.

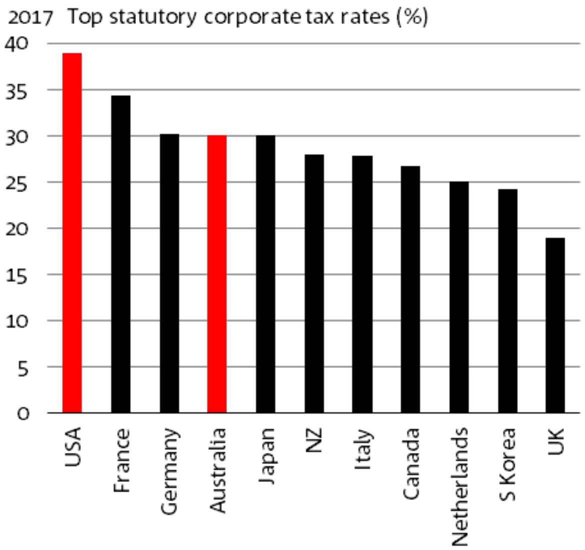
 Sources: Bloomberg, NAB Economics

PLANS FOR DEEP CUT IN US CORPORATE TAX RATE

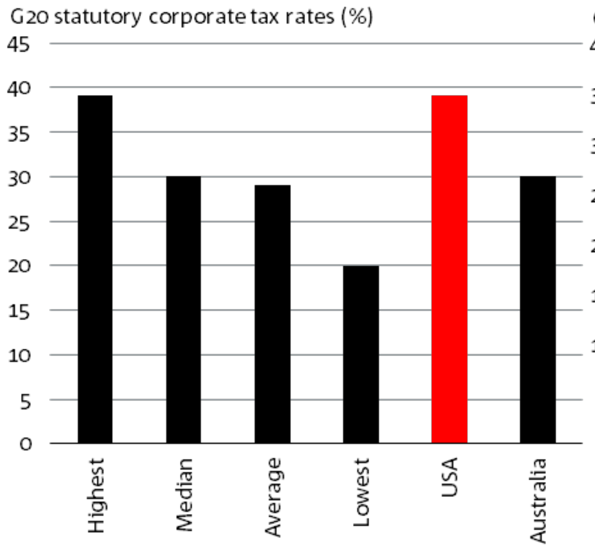
Should spark more global tax competition but how much is politically feasible?

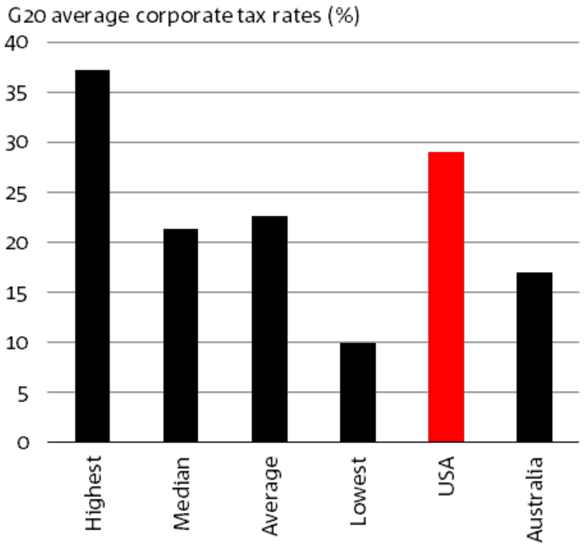
US STATUTORY CORPORATE TAX RATES VERY HIGH





AND ALL MEASURES SHOW HIGH TAX BURDEN ON US CORPORATES





Sources: OECD, Datastream, NAB Economics

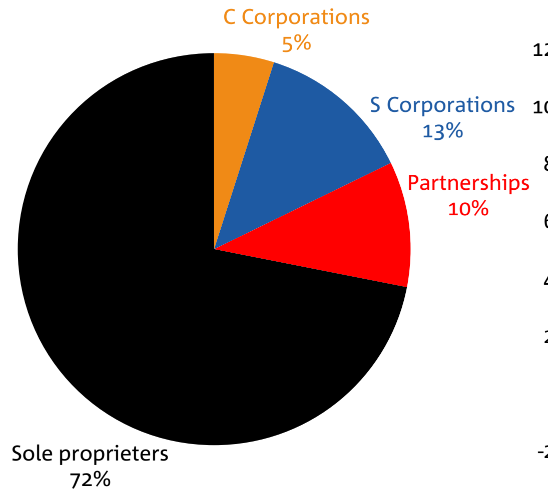
- The US administration's outline of proposed tax reforms released earlier this year repeated President Trump's campaign promise to cut business taxes to 15% – well below the current 35% Federal statutory tax rate paid by US corporations (which rises to around 39% when State and local taxes are added in). Recently the President has reaffirmed that "ideally" he would like to see the rate of US business taxation cut to 15%.
- US corporate tax rates are high by international standards – the simple average of OECD corporate tax rates is 24%, Australia's top rate is 30% with a small business rate of 27.5%. Tax competition around the world is driving corporate tax rates down – for instance the UK corporate tax rate was 28% in 2010, is now 19% and should be only 17% by 2020. Against this background, the high US rate is portrayed as the country shooting its businesses in the foot.
- While a 15% tax rate is popular with business, it is not that simple to implement. Big tax cuts involve big revenue losses (the Tax Policy Center calculates these at $US2.2 trillion over 2018 to 2027) unless optimistic assumptions are made about how tax cuts grow the economy and generate revenue. The US Treasury, already facing a poor deficit and debt outlook, probably prefers a more self-funded package of measures. This would combine lowering the headline statutory tax rate with broadening the tax base by cutting back on business tax allowances.
- US Treasury has said that 28% looks "close to the rate that seems plausible in a revenue neutral, base broadening, rate reducing business income tax reform plan" and that was also the rate in Obama's 2012 tax plan. However 28% looks high by the standards of the President's 15% and the 20% outlined in last year's Republican Party proposal and recent media speculation refers to a "low 20s" rate being discussed.
- Cuts to corporate statutory tax rates grab headlines, but what really matters is the impact of the full package of measures the US adopts. US depreciation allowances and the ability to deduct interest paid are worth a lot to US corporations and the pressure is to make the former more generous rather than less. Taking allowances into account pulls the average rate of tax paid by US corporations down into the 20s. For instance, 258 corporations actually paid a rate of 21.2% between 2008 and 2015 and the CBO estimates a 29% average US rate, well below the 35% statutory rate but also well above many comparable OECD countries.
- We think the US will propose big tax cuts (below Australia's rate) not fully offset by base broadening, widening the deficit and worrying fiscal hawks. Rates around 23% look more likely than 15% with fiscal hawks trying to water down the President's plan.

TRUMP TAX PLAN'S AIM IS TO HELP ALL TYPES OF US BUSINESS

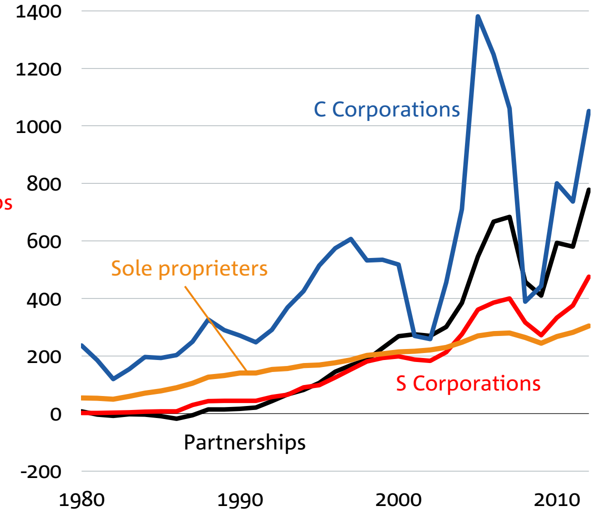
Breath of planned tax cuts will increase global tax competition

US BUSINESS MIX SHIFTS TO "PASS-THROUGH" TAX STRUCTURES

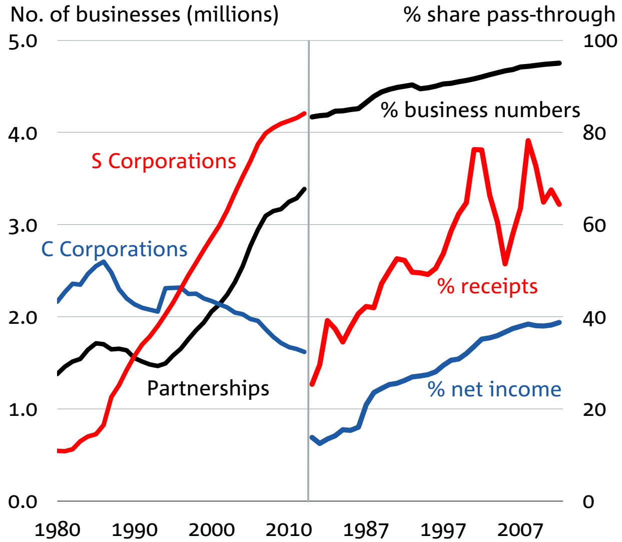
US business tax structures 2012 share (%)

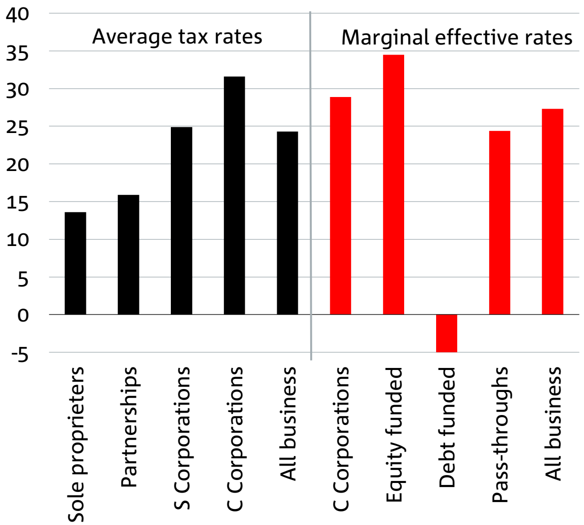


US annual business profits ($ billion)



PASS-THROUGH BUSINESS TAX RATE WELL BELOW C CORPORATION RATE





- President Trump's tax cutting plan is particularly ambitious because it covers all US business, not just corporations and the plan's breadth could step up global tax competition. Only 5% of US businesses pay tax under the 35% statutory corporate tax system, the other 95% are taxed at their individual marginal rates – like sole proprietors and partnerships here.
- There are also firms whose profits are not taxed at corporate level but whose owners are taxed at their individual level – the "S Corporations".
- Taken together, S Corporations, partnerships and sole proprietors form the "pass-through" sector. Over the years, US business structures have gradually shifted away from the classic "C Corporation", taxed at corporate level on its earnings, to pass-through operations. The share of pass-through operations in business income has risen from around 20% in 1980 to over half today and there are far more S than C corporations.
- Tax is a big part of the reason why this change in the operating structure of US business has occurred. The US Office of Tax Analysis estimates that sole proprietors paid an average 13.6% tax rate, partnerships paid 15.9% and S Corporations paid 25% – well below the C Corporation average tax rate of 31.6%, the proposed 35% top personal income tax and existing statutory C Corporation rate. US Treasury estimates also show effective marginal tax rates of 24.4% on pass-through businesses, well below the 29% effective rate levied on C Corporations.
- As President Trump wants to cut US **business** taxes to 15%, not just the statutory corporate rate, a way has to be found to deliver tax cuts to 31 million pass-through businesses, paying their marginal personal rates, not just the 1.6 million C Corporates, a big, complex and costly ask! Managing the big gap between President Trump's proposed top 35% marginal individual tax rate and the 15% business tax rate should pose lots of headaches to a US Treasury trying to limit potential lost revenue.
- If done, the Trump plan could really ramp up global tax competition – many countries have cut corporate tax rates but putting such big reductions through an entire business tax structure is a much bigger deal.
- For instance, Australia has introduced lower taxes for unincorporated business with a phased lift in the discount off tax bills reaching 16% by 2026/27 but there is a $1000 annual cap in the tax saving per individual. The US plan looks more generous than ours with no caps or phasing for these tax cuts mentioned to date.

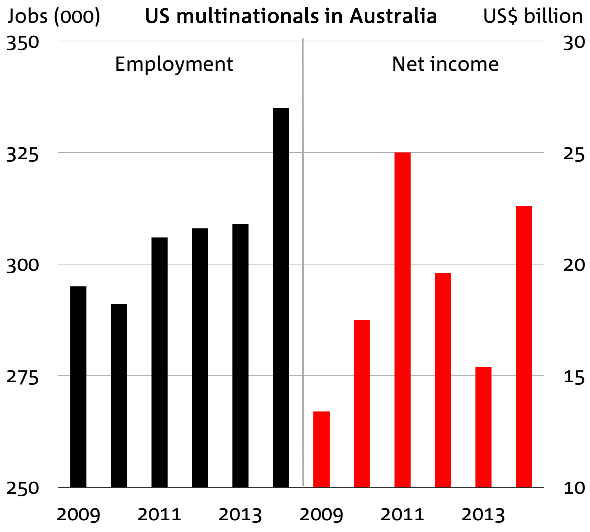
Sources: IRS, Office of Tax Analysis, US Treasury, NAB Economics

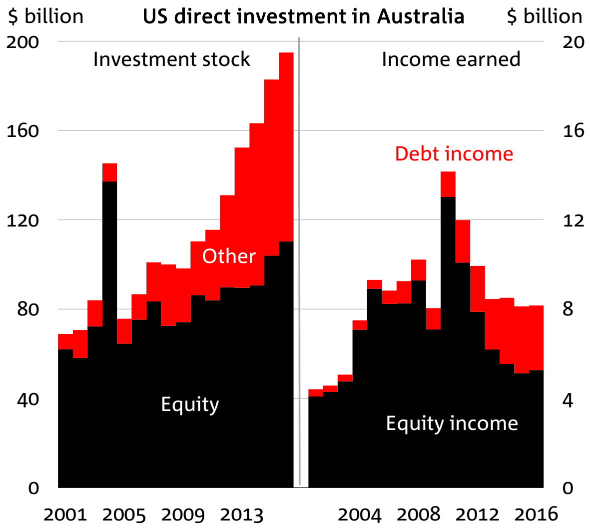
National Australia Bank

PLANS TO CHANGE TAXATION OF US BUSINESS'S INTERNATIONAL OPERATIONS

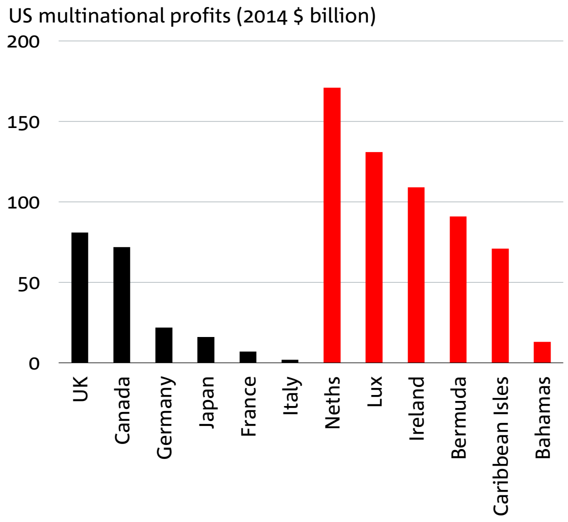
Big changes proposed to cut US tax burden on foreign-earned profits

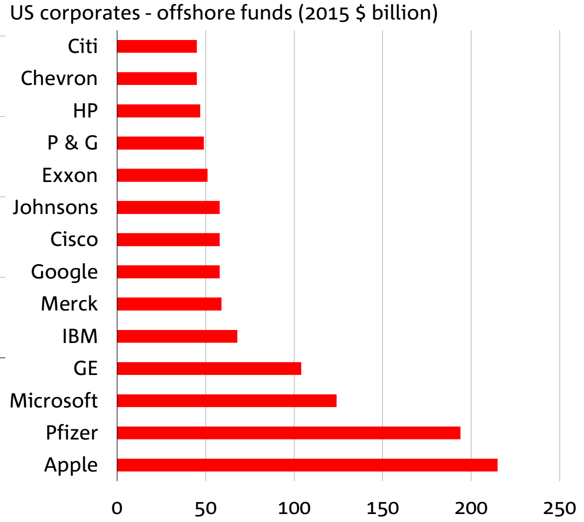
US MULTINATIONALS BIG INVESTORS AND EMPLOYERS IN AUSTRALIA





US BUSINESS HAS HUGE PROFITS AND CASH HOLDINGS ABROAD





- The way the US system taxes the foreign earnings of American business has been a sore point for many years. US business is taxed on its worldwide earnings at the high US corporate tax rate with an allowance for taxes paid overseas. However, US tax is only paid when the profits are brought back into the country so firms that fail to repatriate the money are able to defer paying. With US majority-owned corporations employing over 325000 people in Australia and US direct investment here totalling $A195 billion, far more than any other country, anything that impacts their global operations has to be watched closely.
- The 2016 "Offshore Shell Games" report estimates that Fortune 500 companies hold nearly $US2½ trillion in accumulated profits offshore for tax purposes. The US Treasury has an even bigger number of around $2.8 trillion. Some big multinationals stand out for the scale of their reported offshore profits – Apple has $US215 billion, Pfizer has $US194 billion, Microsoft has $US124 billion , GE $US104 billion and the top 30 in aggregate have $US 1.6 trillion.
- Much of this money is held in a small number of locations, often places not immediately associated with big offshore-controlled manufacturing operations but which are often seen as low tax jurisdictions. Bermuda, the Caymans, the British Virgin Islands, the Bahamas and Luxembourg feature prominently among US multinationals offshore profit centres. By contrast, the profits earned in big advanced economies with a large presence of US multinationals can come in lower than in well known centres noted for their low corporate tax rates. US multinational net income in Bermuda, for instance, was twice that in Japan, Germany, France and Italy combined.
- The debate in the US has long been between those who want tougher up-front taxation of foreign profits and those who think a more concessional treatment of foreign income is needed to encourage US multi-nationals to bring back this income that is "locked out" of the US for tax reasons. Two suggestions are:

1. Another "one-off" offer to US corporates to bring money into the US at a concessional rate. While on the campaign trail, President Trump proposed a 10% tax rate followed by ending the tax deferral allowed on corporate income earned abroad. The administrations April tax plan repeated the idea of a one-time tax break on profits held abroad. This step was tried 2004 with disappointing real economic results.
2. Shifting to a "territorial" system like ours where foreign earned income would not be taxed in the US – another administration proposal in April. Business likes this idea but the Treasury are less keen as "income stripping" could see big revenue losses.

Sources: BEA, ABS, ITEP, NAB Economics

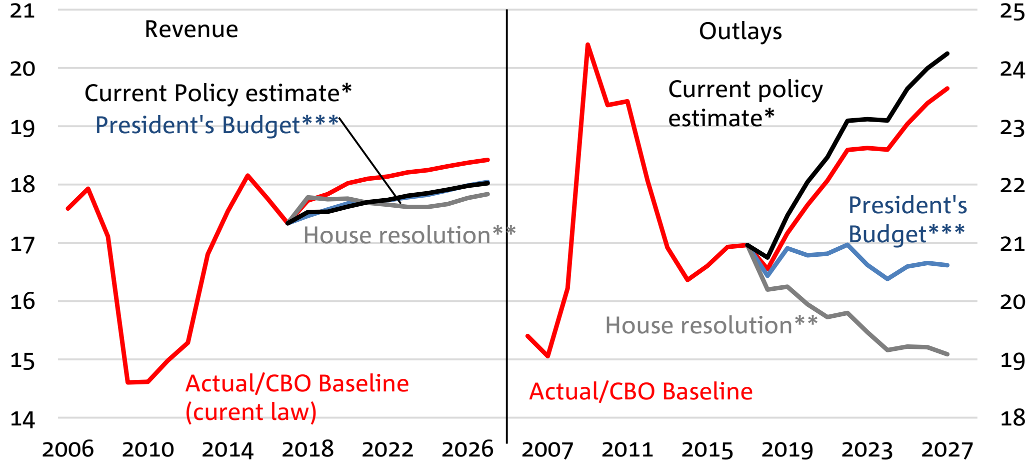
National Australia Bank

POOR FISCAL OUTLOOK A CONSTRAINT

Poor fiscal outlook presents a difficult back drop to tax package negotiations

REVENUE NEUTRAL TAX CUTS & SPENDING CUTS ANYONE?

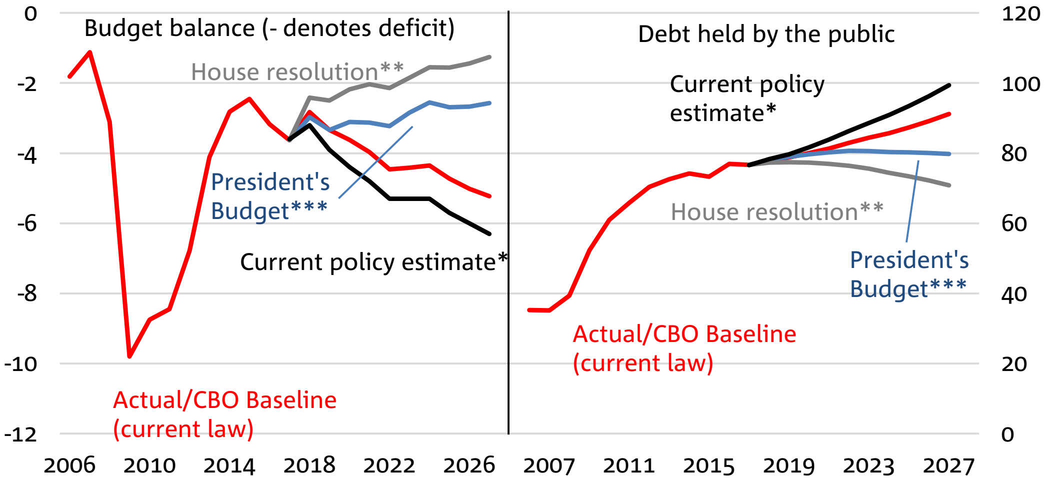
Federal revenue and outlay estimates (% GDP)



* Tax Policy Center. **Without macroeconomic impact. ***CBO estimate of budget

WITHOUT ACTION BUDGET DEFICITS – AND DEBT – SET TO RISE

Federal budget deficit and debt outstanding (% GDP)



* Tax Policy Center/NAB. **Without macroeconomic impact. ***CBO estimate of budget

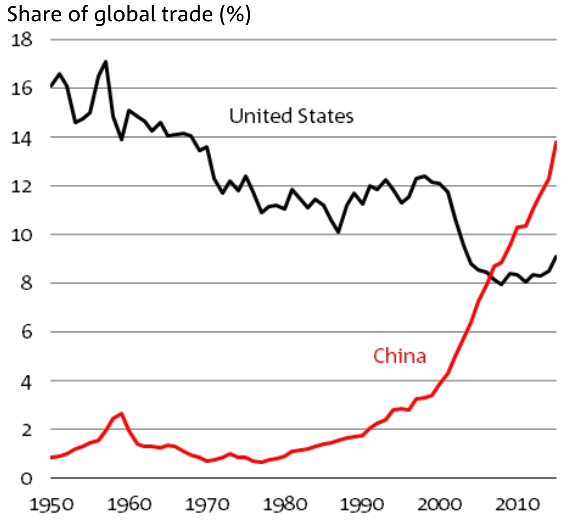
Sources: CBO; Tax Policy Center; US House of Representatives, Committee on the Budget; NAB Economics

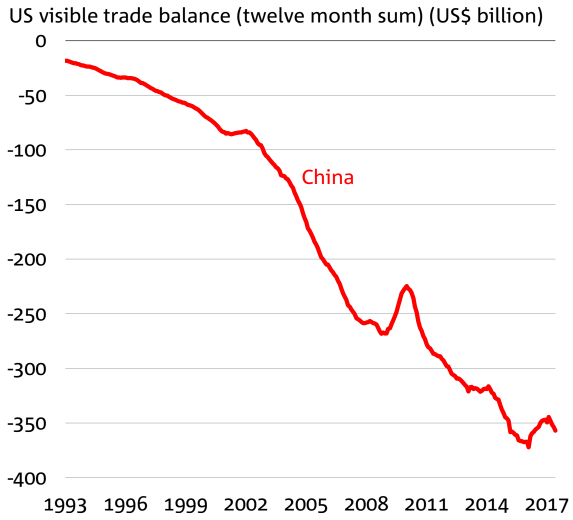
- The US faces a difficult fiscal outlook. Despite reductions in recent years, deficits, and debt (already high by historical experience) are projected to start rising soon. Based on current law, the Congressional Budget Office (CBO) estimates that the Federal deficit will start rising from FY 2019, climbing to over 5% by 2027. The Tax Policy Center estimates that, on current policies, the deficit will reach 6% of GDP.
- In May 2017, the President released his proposed Budget while, in July 2017, the House Budget committee released a resolution on the budget. Both proposals looked to bring the deficit under control by winding back the projected expansion in Federal spending, while not projecting a significant change in revenue (as a % of GDP). This is despite the President's Budget, and the House Budget committee resolution, calling for substantial tax cuts. While it is unclear how this would be achieved, it is consistent with the stated desire for any changes to be revenue or deficit neutral.
- This appears contrary to the post-election speculation that a fiscal stimulus was on the way (i.e. an increase in the deficit). This view always rested on the political evaluation that it would be extremely difficult to get agreement on budget savings to fully offset large tax cuts. Failure to pass changes to 'Obamacare' highlights this difficulty. While the politics remain uncertain, there appears to be a greater chance that the Republicans will be able to agree on a tax package than health care changes. However, as within the party there are 'deficit hawks' (who want the deficit to come down) and 'moderates' (who might baulk at severe spending cuts) the end outcome remains uncertain. The in-between path is a temporary rise in the deficit, but with only temporary tax cuts or with spending cuts pushed out in time, so that ultimately it looks like there is no increase in the deficit.
- Before any tax package can be passed, the Federal government debt limit will need to be raised and funding for government operations will end – both by around the end of September, although if extra funds for Hurricane Harvey relief are passed by Congress this could bring the debt limit deadline forward. Given the major consequences of not raising the debt limit it is likely to occur in time. The greater risk is that Congress fails to reach a deal on funding the government leading to a partial government shutdown.
- To buy time, the most likely form of funding the government appears to be a short-term fix to extend funding based on the previous year's level. Ultimately, however, a budget resolution will be needed to enable a 'budget reconciliation' process to take place; this would allow passage of any tax package by a simple majority in the Senate. However, getting agreement on continuing and budget resolutions (given Senate filibusters or Presidential veto power) will not be easy with the risk that demands for or against a particular spending allocation (e.g. for the wall with Mexico) will cause a stalemate, leading to a shutdown until one party cracks.

US TRADE TENSIONS WITH CHINA RISING

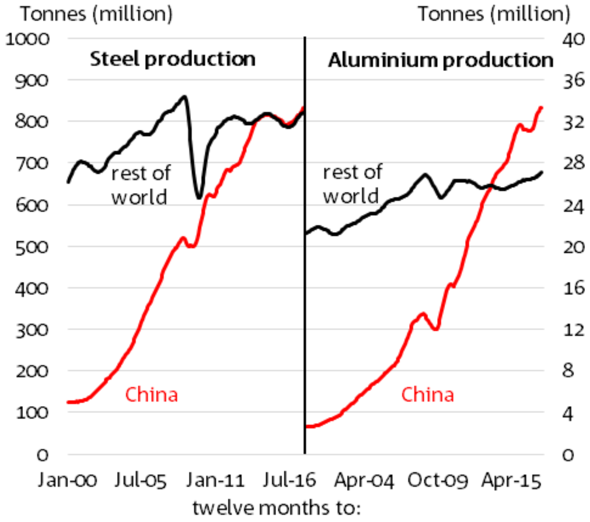
Australia in the middle as trade frictions grow between its two main economic partners

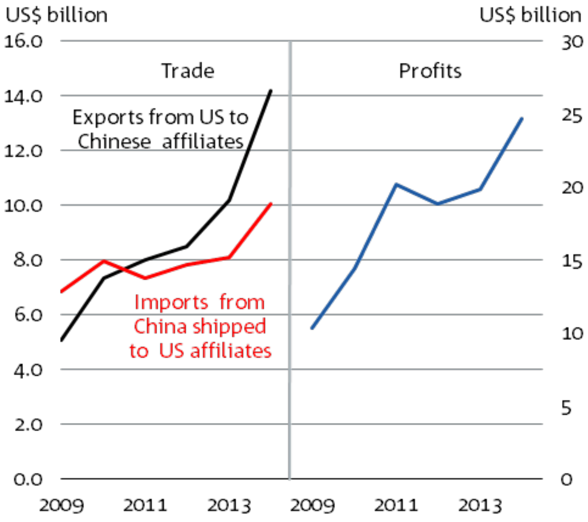
CHINA PASSES US IN WORLD TRADE; HUGE US TRADE DEFICIT STABILISES





CHINA DOMINATES GLOBAL METALS; US CORPORATES INTEREST IN CHINA





- Economic relations with China, the world's biggest economy and trader, were a central issue in President Trump's election campaign. President Trump expressed his concern over the fairness of Chinese competition in global markets throughout last year – focussing on the US trade deficit, alleged Chinese "currency manipulation", unfair trade, subsidised output, breaches of US intellectual property etc.
- During the campaign various measures were outlined for Chinese trade – declaring the country to be a "currency manipulator", imposing 45% tariffs on goods imported from China and using a battery of existing US trade laws to prevent trade that was unfair or damaged US security and economic interests.
- In the event, the US Treasury failed to label China as a "currency manipulator" in April. China was, however, listed as one of 6 countries whose trade policies warranted close watching and there will be another report this October assessing Chinese currency policy. US corporates have huge interests in China and many will be concerned by overly-restrictive economic measures.
- After an initially quiet start, the number of potential trade actions against China has started to ramp up in the last few months:

1. The President has ordered investigations into whether imports of steel and aluminium damage US national security. China is not the only country targeted but it dominates world production of both and sectors like shipbuilding, aircraft, vehicles and electronics could be added to the list of sectors under review. This could all end up with US tariffs on these industries to preserve its industrial capacity.
2. The US has launched a 301 case against alleged Chinese violations of US intellectual property that have harmed US commerce after the latest US review of IP protection and enforcement around the world singled out China as needing attention. Again, this could end up with new tariffs.
3. The President has ordered an investigation into "significant trade deficits", looking at whether unfair trade is involved and what can be done to remedy the situation.
4. The US trade agency's "primary objective" is now to combat unfair trade from China using anti-dumping and countervailing (anti-subsidy) measures and we can probably expect to see more cases.
5. The US has launched cases in the World Trade Organisation aimed at China's system of farm support where subsidies and tariff quotas are allegedly breaking the rules on agricultural support measures.

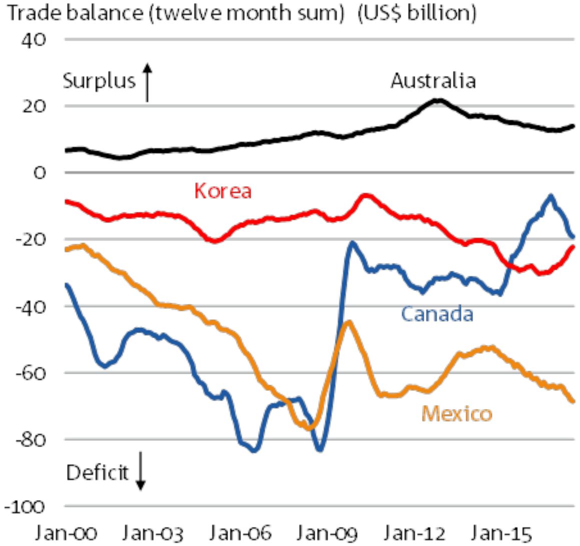
Sources: WTO, Datastream, BEA, NAB Economics

ALL US TRADE AGREEMENTS UNDER REVIEW

China outstrips US as world's biggest economy – focuses globalisation concerns

US ECONOMIC PARTNERS FACING FREE TRADE AGREEMENT REVIEWS

AUS DEAL SHOULD LOOK GOOD TO TRUMP AND US FIRMS, CONTRAST ROK



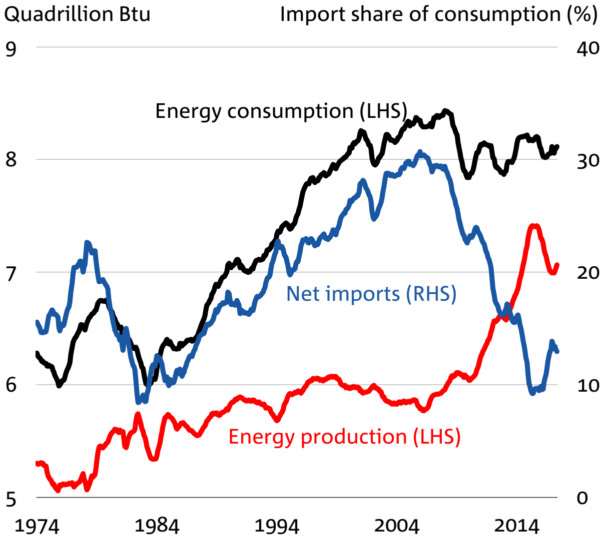
Sources: Datastream, USTR, BEA, NAB Economics

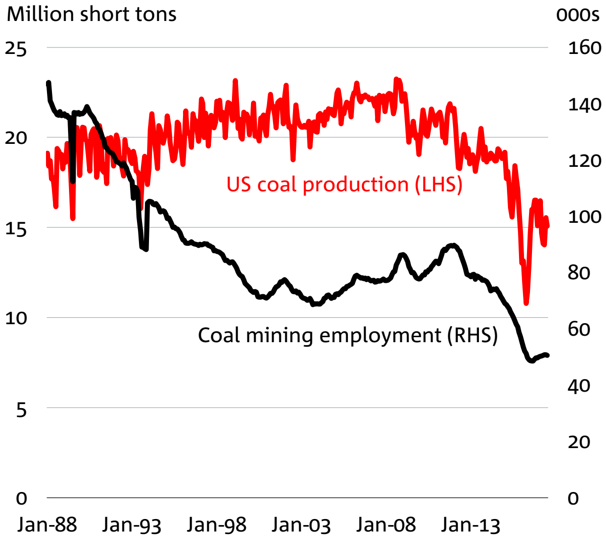
- President Trump made his dissatisfaction with some of the most important US trade agreements perfectly clear during his campaign. He called the North-American Free Trade Agreement (NAFTA), involving the US, Canada and Mexico, "the worst trade deal maybe ever signed anywhere", the Korean-US free trade deal is "a job killer" and a "horrible deal" and one of his first big steps as President was to pull the US out of the still not finalised "Trans-Pacific Partnership" multi-country plan.
- The US has already started re-negotiating NAFTA with Mexican and Canadian officials who media reports suggest want a quick outcome. The US has set out what it wants from a revised NAFTA, highlighting its wish to lower the US trade deficit, get more benefit for US firms from rule changes, improve access to partner markets and forbid currency manipulation. However, the President has dampened spirits and worried US business by saying that he is far from convinced that a good enough deal can be struck to save the trade agreement.
- NAFTA is not the only US trade deal facing pressure. The President has ordered a review of all US trade agreements to assess the extent to which they benefit the US, whether other countries are violating their terms and to see what measures the US can take against such breaches. Under the terms of these agreements, the US can pull out after a period of notice. We can only assume that US officials are running the ruler over the Australian-USA free trade agreement to see how it measures up to their expectations and criteria.
- One deal that is already under pressure is the Korea-US free trade agreement that took effect in 2012. The US Trade Representative has already informed the South Korean government that he wants changes to their trade agreement considered. The focus is squarely on cutting the US trade deficit with Korea which, the US says, has doubled since the agreement was signed.
- Judging by the trade balance, the Australia –US trade deal should cause fewer problems to the US administration. The US runs a big trade surplus with Australia and the array of US corporates present here seem unlikely to gain much from a large-scale renegotiation of the free trade deal. US direct investment at end 2016 totalled almost $200 billion and it was generating profits of over $8 billion. The $US9.3 billion flow of exports from their home country to Australian affiliates by US multi-nationals easily exceeded the $US2.5 billion flow coming the other way from their Australian operations to the US parent. Hence, judging by the US's own criteria, our free trade deal with the US should be safe.

ENERGY PRICES A KEY US COMPETITIVE ADVANTAGE AND AUSTRALIAN PROBLEM

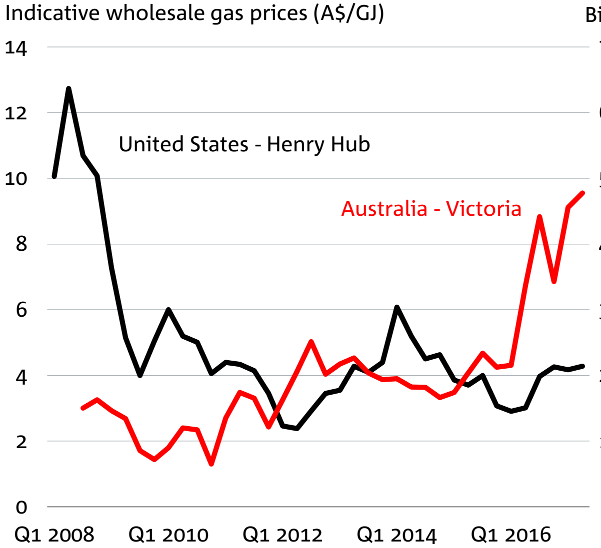
US gas growth lowers prices while high prices hit Australian industry

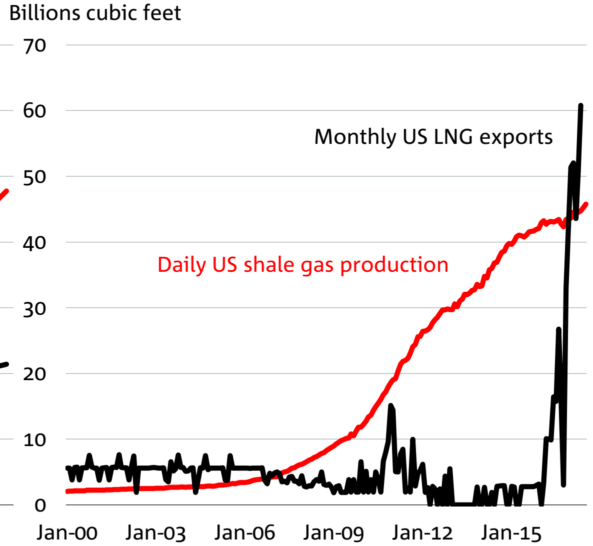
US LESS RELIANT ON ENERGY IMPORTS; COAL OUTPUT AND JOBS LOWER





GROWTH IN US SHALE GAS HAS GIVEN US CONSUMERS ADVANTAGE





Sources: Datastream, AEMO, EIA, NAB Economics

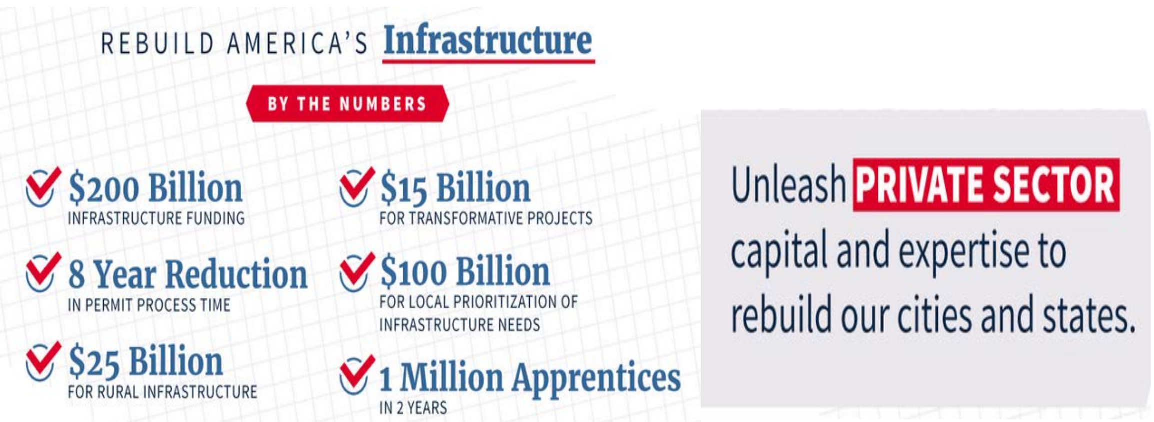
- US energy policy has changed over the past decade, as the growth in the unconventional oil sector has led to a boom in domestic energy production. The share of imports in US energy consumption fell from around 30% in late 2005 to 10% in early 2016 (before rising modestly).
- In June, Energy Secretary Rick Perry proposed a policy of 'energy dominance' – where US production would not merely ensure domestic energy security but also expand political influence overseas. This has included a shipment of Liquefied Natural Gas (LNG) to Lithuania – a market that has traditionally relied on Russian gas imports.
- LNG exports have rapidly increased since the start of 2016 – increasing by 675% yoy in the first five months of this year. The Trump Administration is seeking to expand LNG exports further – with expectations that the US could be the world's third largest exporter by 2020 (behind Australia and Qatar).
- Much was made during the campaign about rejuvenating US coal production – given that many coal mining regions sit in key swing states. While US coal production has increased around 6% year-on-year, output remains well below the typical levels of the previous decade. Similarly, coal mining employment has edged higher since the Presidential election – up around 1000 jobs – but remains historically low. Even if coal mining output increases, gains in employment are likely to be limited due to automation and machinery.
- From a policy perspective, there has been considerable activity – with President Trump signing a number of executive orders that overturned Obama era environmental regulations that either restrict or increase the cost of energy projects. In addition, the controversial Dakota Access and Keystone XL pipelines have both been approved. These policies are likely to support further growth in domestic energy production – albeit they face legal challenges from environmental groups.
- The increase in US domestic gas production has put downward pressure on prices – at the same time that increasing LNG production on Australia's east coast has increased indicative wholesale gas prices. For gas intensive manufacturing – such as fertilisers and other petrochemicals – this provides significant advantages for US based producers over locations in Australia. Incitec Pivot warned it could close its Gibson Island fertiliser plant in 2019 if it is unsuccessful in tendering for Queensland coal seam gas licences. The company's profits have been boosted by an ammonia plant based in Louisiana to take advantage of low energy prices.

National Australia Bank

INFRASTRUCTURE – STILL WAITING FOR THE SPENDING

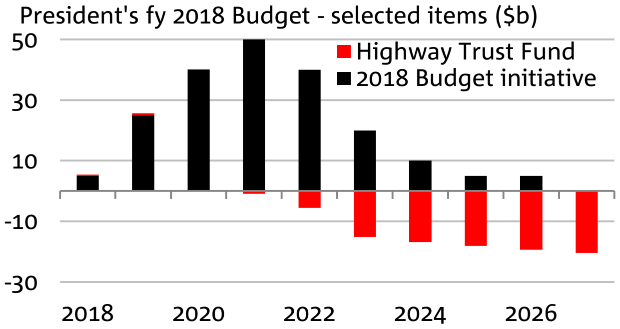
Little likelihood of a major boost to near term Federal infrastructure spending

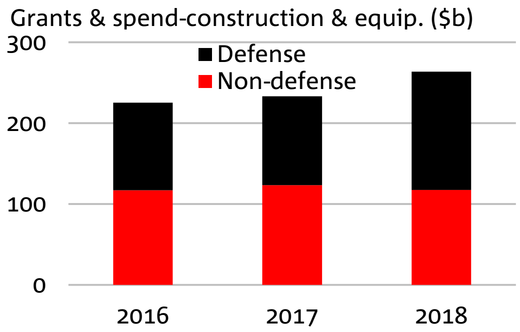
PLAN – SOME SPENDING, REGULATORY RELIEF & PRIVATE SECTOR



https://www.whitehouse.gov/blog/2017/06/08/president-trumps-plan-rebuild-americas-infrastructure

WHAT THE PRESIDENT GIVES, THE PRESIDENT [CAN] TAKE AWAY





- The benchmark for the President's infrastructure plans has long been $1 trillion. While some parts of the President's platform – particularly on trade – are a potential negative for growth, infrastructure investment offered hope of improving future prospects. For Australia, given our status as a major commodity exporter and with infrastructure investment typically resource intensive, the infrastructure plan also seemed like a positive.
- However, the $1 trillion was an amount to be spread over 10 years and it was always clear that it did not represent a promise for the Federal government to spend this amount. Further details of the administration's thinking on infrastructure were provided in May. While committing to some Federal funding, the plan is to encourage, and provide incentives to, the private sector (including through public-private partnerships), as well as state and local governments, to undertake infrastructure investment. Regulatory relief continues to remain a focus, with a recent proposal to reduce regulatory approval time lines.
- Other measures to encourage the private sector to invest more in infrastructure are still being considered. Proposals being looked at include loans and other credit assistance, expanded use of tax-exempt bonds, and liberalising tolling policy.
- The President's FY 2018 Budget specified $200 billion over the period 2018 to 2027 for its infrastructure initiative, with spending really kicking in FY 2019. Looking at the proposed budget in its totality, only defence related investment was projected to rise in FY 2018. Moreover, the budget also cut back – down the track – on other infrastructure related programs (such as spending under the Highway Trust Fund). The CBO's view is that over a 10 year window Federal infrastructure spending wouldn't increase much.
- In the US, the President's Budget is just part of the process – Congressional members often seem to make a point of announcing it dead on arrival. So as the budget process begins, more details may yet emerge on what the Federal government will actually do, but at this stage Congressional Republicans focus appears to be more focussed on tax than infrastructure.

"The President's target of $1 trillion will be met with a combination of new Federal funding, incentivized non-Federal funding, and expedited projects that would not have happened but for the Administration's involvement (for example, the Keystone XL Pipeline)." President's FY 2018 Budget

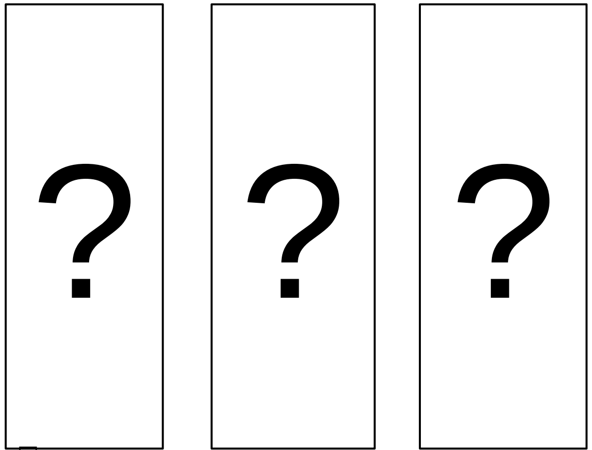
"When considering the entire set of proposals in the budget, though, overall spending on infrastructure would not increase by $200 billion. The President's proposals for discretionary spending would reduce appropriations for other accounts that provide funding for infrastructure ...[that]...would largely offset the proposed increase in mandatory spending on infrastructure over the 2018–2027 period." CBO assessment of the President's Budget

 Sources: White House (Office of Management and Budget), Congressional Budget Office, NAB Economics

ONE TO WATCH – APPOINTMENTS TO THE FED AND RATE POLICY

The President may make a large number of Fed appointments over the next year

THREE VACANCIES AND POSSIBLY TWO MORE NEXT YEAR



Chair Yellen and Vice Chair Fischer

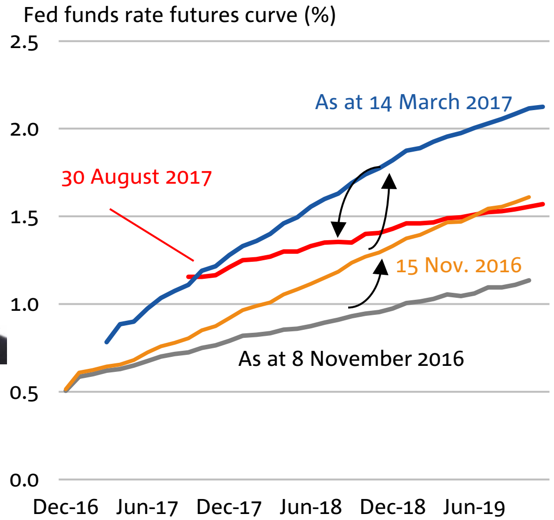
MEANWHILE... RATE EXPECTATIONS FALLING

SPECULATION

Gary Cohn, Director of the National Economic Council

NOMINATED

Randal Quarles, nominated for Vice-Chair, Supervision



- An issue to watch is the make-up of the Federal Reserve (Fed). The Fed is responsible for monetary policy which itself has a strong influence on global financial conditions and interest rates
- The Fed is run by the Federal Reserve Board made up of seven Governors appointed by the President, but subject to confirmation by the Senate. The seven Governors are voting members of the FOMC – which sets monetary policy – as is the head of the New York Federal Reserve and four other positions rotated around the other regional Fed presidents.
- There are currently three vacancies on the Board. This could swell to five if Janet Yellen and Stanley Fischer are not reappointed as Fed Chair and Vice-Chair respectively; their terms in these positions will expire in early February and June 2018 respectively. If not re-appointed as Chair/Vice Chair they could opt to serve out their terms as Governors (Yellen to 2024, Fischer to 2020) but would probably resign.
- This means up to five of the 12 voting members of the FOMC, and the roles of Chair/Vice Chair could be nominated by the President over the next year.
- While making some critical comments of the Fed and its Chair in the election campaign, the President's recent comments have been more supportive of Ms Yellen, indicating that she is in the running for re-appointment as Chair. However, he has also indicated that Gary Cohn, Director of the National Economic Council is also being considered as are other candidates. Mr Cohn has a business rather than academic background (he would be the first Chair without a Ph.D. since Volcker in the 1980s) but is no stranger to the financial system given his former position at Goldman Sachs.
- The President has nominated Randal Quarles to fill one of the existing Governor vacancies, specifically for the role as Vice Chairman for Supervision. This role has a prudential/supervisory focus consistent with his background, so he may not be a key factor in monetary policy debates. There was also speculation that the President would nominate Marvin Goodfriend, a monetary economist, but no announcement has been made.
- Meanwhile expectations of further increases in the Fed funds rate have been falling, even as the Fed has been lifting rates. Expectations of rate hikes started rising after the election and peaked around mid-March but have since declined. Part of this relates to the unwinding of the Trump trade as market expectations of a major fiscal stimulus have unwound. Its not all Trump related, since mid April inflation indicators have softened noticeably. If a stimulatory tax package is implemented some upwards shift in rate expectations seems likely, but inflation would also have to pick up to fully reverse the decline.

 Sources: U.S. Treasury, Bloomberg, NAB Economics

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
Director, Economics
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
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

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

Jason Wong
Currency Strategist
+64 4 924 7652

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

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

UK/Europe
Gavin Friend
Senior Markets Strategist
+44 207 710 2155