National Australia Bank

Embargoed until:
11:30am Tuesday 10 September 2013

Global & Australian Forecasts

September 2013

Recent data show a promising lift in business sentiment in big advanced economies but financial volatility hitting emerging market growth prospects (India, ASEAN, and Brazil). Little change in headline global growth forecast with advanced economy upturn set to drive faster world economy next year. Forecast 2014 upturn in key Australian export markets barely half that predicted for the world. Australian economy still growing below trend in Q2. Political factors boost business confidence but activity still poor. Outlook broadly unchanged with unemployment to exceed 6¾% in late 2014. Inflation outlook favourable allowing one more rate cut before year-end.

- Recent business surveys show a solid and synchronised lift in business confidence across the advanced economies whose annualised 3mma industrial growth now exceeds that of the emerging economies. This shift in the composition of global economic expansion back to the advanced economies has long been forecast and reflects the impact of their stimulative economic policy and the passing of recession in Western Europe. Big emerging market economies have been hit by financial market volatility as money moves back to the US in anticipation of better returns with impending Fed policy changes. Growth expectations revised down for India, emerging Asia and Brazil as their monetary policy will have to be tighter than would have been the case if there had been a more gradual market adjustment to the Fed's planned moves.
- Q2 national accounts confirm that the Australian economy grew below trend in H1. Latest NAB survey provides further evidence that conditions remained poor in August, although confidence lifted sharply. The sentiment outcome is likely to reflect political factors, including an expectation of political change and more certainty about the future policy framework (survey conducted prior to election). Labour market forward indicators, including NAB employment conditions, deteriorated further suggesting more weakness in domestic demand to follow.
- GDP forecasts broadly unchanged this month: GDP growth to soften to 2.3% in 2013 before gradually rising to 2.5% in 2014 and 2.9% in 2015. Unemployment to exceed 6% by end 2013 and reach 6¾% by end 2014. Consistent with the soft activity outlook, core CPI expected to edge down to 2.3% by end 2013, lifting modestly to 2.6% by end 2014; rising unemployment expected to keep the brakes on inflation in 2015. We think there is a need for another 25 bp rate cut (probably Nov) to help industries squeezed by the mining investment slowdown.

Key global GDP forecasts (calendar years)

Country/region	*IMF weight*	2011	2012	2013	2014	2015
				% change		
United States	*19*	1.8	2.8	**1.6**	**2.7**	**2.9**
Euro-zone	*14*	1.6	-0.6	**-0.3**	**1.3**	**1.6**
Japan	*6*	-0.6	1.9	**1.9**	**2.3**	**1.7**
China	*15*	9.3	7.8	**7.5**	**7.2**	**7.0**
Emerging Asia	*8*	4.2	3.8	**3.5**	**3.7**	**4.2**
Global total	*100*	4.1	3.2	**2.9**	**3.5**	**3.6**
Australia	*2*	2.4	3.7	**2.3**	**2.5**	**2.9**

Key Australian forecasts (fiscal years)

GDP components	12/13	13/14	14/15	Other indicators	12/13	13/14	14/15
		% annual average				*% through-year*	
Private consumption	**2.4**	**2.1**	**2.6**	Core CPI	2.4	**2.7**	**2.2**
Domestic demand	**2.4**	**0.5**	**1.0**			*% end of year*	
GDP	**2.9**	**2.2**	**2.8**	Unemploy. rate	5.7	**6.6**	**6.8**

For more information contact:
Alan Oster, Chief Economist
(03) 8634 2927 0414 444 652

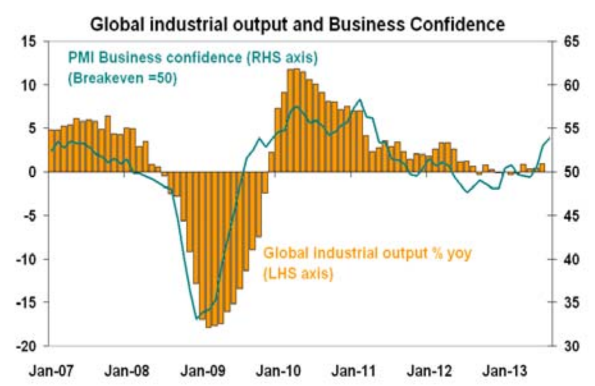
Rob Brooker, Head of Australian Economics & Commodities
(03) 8634 1663 0457 509 164

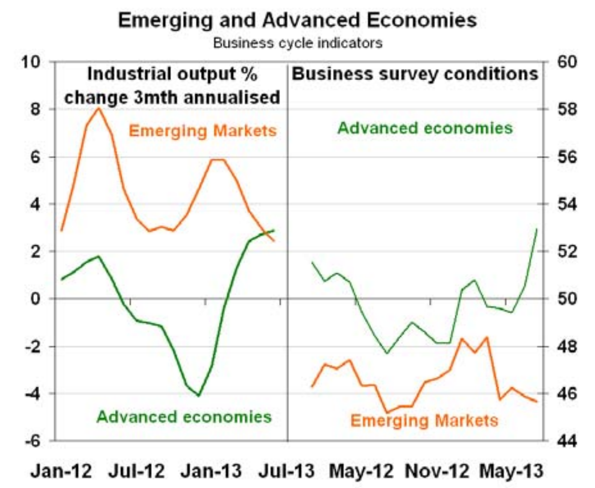
Tom Taylor, Head of International Economics
(03) 8634 1883

Global outlook

Key Points

- Recent business surveys and output data point to a continuing shift in the profile of global growth toward the advanced economies, long the laggards in the world economy. This reflects the effects of stimulative economic policy in the US and Japan and the ending of recessions in Western Europe, where activity remains well below its early 2008 level.
- The emerging market economies have been the main drivers of growth through the last few years and trends are mixed here. The Indian economy continues to slow and the export-oriented economies of East Asia remain weak but Brazil has started to grow faster and the Chinese economy has stabilised in the last few months.
- Global growth should pick up next year but only to around trend, so there is no catch-up from the under-performance of recent years. Abenomics will probably not give much lasting lift in Japanese growth, the Euro-area still faces profound problems and China's trend growth is slowing, limiting the upturn in growth to just over 3½% in 2014 and 2015.

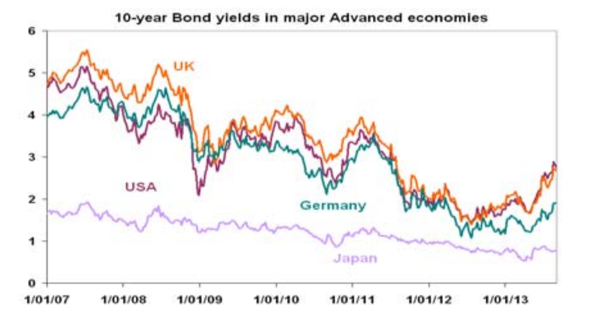


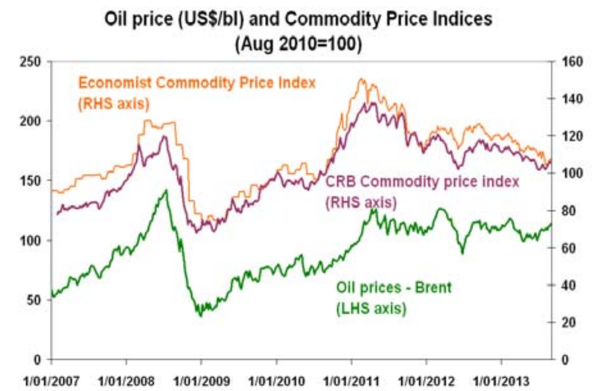


Financial & commodity markets

Global financial markets remain focussed on the likely policy actions of the big central banks. We expect the US Federal Reserve to soon start cutting back on its asset purchases and end them in the middle of next year before beginning to lift interest rates in the second half of 2015. Financial markets are pricing in a higher Fed funds rate from early 2015 but it is still only expected to be around 1½% in early 2016 while bond yields have already moved higher in several markets.

Other central banks in the UK, Euro-zone and Japan have signalled that they are likely to keep their policy running along its current lines for quite some time yet, so the Fed is leading the way in cutting back on the stimulus it is giving its economy. The biggest market consequence of the Fed's expected policy changes have been felt in the emerging market where share markets and currencies have come under pressure in India, SE Asia and Latin America as money moves back to the US.



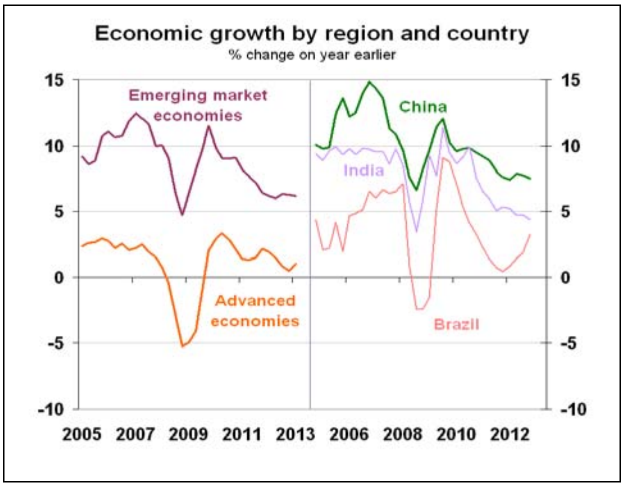


Global trends

Although year on year data still show the pace of growth in GDP and industrial output in the emerging market economies clearly exceeding that in the big advanced economies, the latest industrial data suggest that the long forecast switch in the composition of global growth toward advanced economies is under way. The 3 month annualised data for industrial output gives the most up to date measure of the pulse of growth and it shows expansion in the advanced economies outpacing that of emerging markets.

Several factors are driving this rotation of growth contributions from emerging to advanced economies – ongoing advanced economy policy stimulus measures like *Abenomics* in Japan or incentives supporting the UK housing market, the ending of recessions in Western Europe, the impact of previous interest rate increases in emerging markets and recent financial market instability in big emerging economies like India and Indonesia.

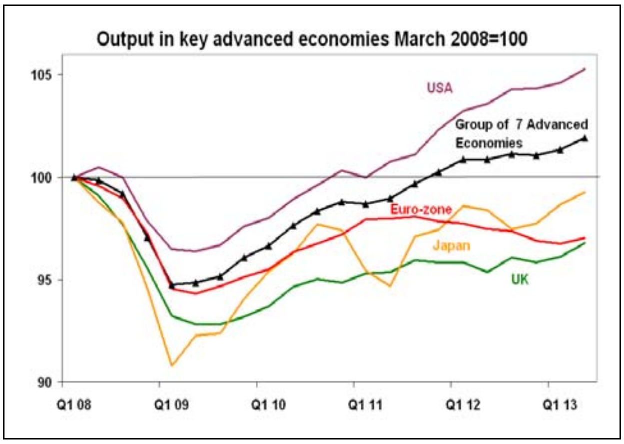
Global growth remains sub-trend with the big advanced economies, despite their recently much brighter business surveys, still only growing modestly. This helps explain why global measures of trade and industrial output show growth running under 2% yoy in mid-2013.



Advanced economies

Mid-2013 finally saw a synchronised upturn across almost all of the big advanced economies. Output expanded in the US, Euro-zone, UK, Japan and Canada and the main areas of weakness remained in the peripheral Euro-zone nations (Italy, Spain). The pace of G7 growth also gained some momentum with June quarter annualised growth reaching over 2%, well above its 1% year on year growth figure that had been hit by earlier weakness in Western Europe.

While advanced economy growth is now quite broadly based, the last 5 years have been a lost period for economic growth in many key economies. The level of output is still below its early 2008 level across the UK, Japan and the Euro-zone. By contrast GDP in the US and Canada is around 6% above its pre-GFC level, but even that implies a very modest average rate of economic growth through the last 5 years.



This protracted period of sub-par economic performance means that there should be plenty of idle resources around the advanced economies that can be pulled back into production (8½% jobless rate, 20% unused industrial capacity). Recent business surveys in the key advanced economies show quite solid growth, suggesting that demand is finally lifting.

Emerging economies

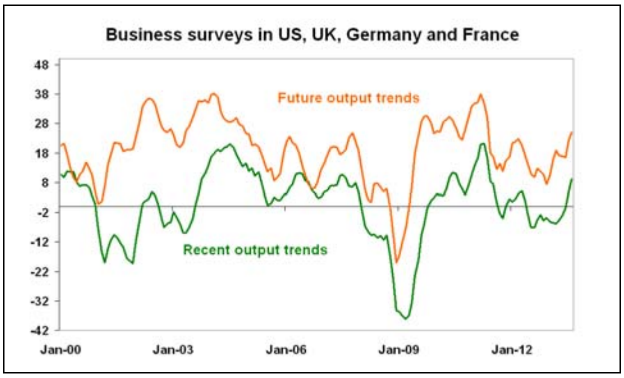
Several of the key emerging market economies have been experiencing difficulties in recent months. Financial market pressure and political difficulties have either seen policy tightened or likely interest rate cuts postponed in India (3rd biggest global economy), Brazil (7th biggest) and Indonesia (15th biggest). Recent GDP numbers for India and a range of East Asian emerging markets have been disappointing with Indian growth falling below 5% and downward revisions to growth prospects across ASEAN.

Fortunately, Chinese growth has held up and its economy is 1½ times the size of India, Brazil and Indonesia combined. The trend in Chinese growth is generally expected to decline through the next few years but the June quarter accounts showed growth staying at 7½% yoy. The latest crop of monthly data show domestic demand and industrial growth stabilising, exports remaining the area of weakness but credit growth slowing.

Any acceleration in emerging market growth should show up first in the monthly trade and industrial data but there is little clear evidence yet of this happening across the bellwether East Asian and Latin American economies. Exports and industrial output remain weak in emerging Asia.

Forecasts

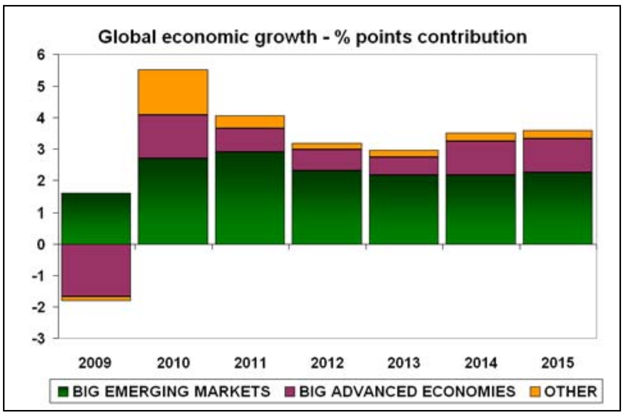
Business surveys in the big advanced economies suggest that firms are expecting the upturn to continue. Results from the US, Germany, Japan and the UK are consistent with ongoing growth while the French results point to a slower rate of decline in activity. We are expecting growth in the big advanced economies to rise from 1¼% to 2¼% next year and this upturn should be broad-based with all regions seeing faster growth. As long-run average annual growth in the OECD has been around 2¾%, past upturns have seen annual GDP rises averaging over 3½% and output is still only 2 or 3% above its level of five years ago, the forecast upturn is only moderate.



Nevertheless, it is this acceleration in advanced economy growth that underpins the pick-up in global economic expansion anticipated next year. The world economy should expand by just under 3% this year before rising to 3½% next year – just slightly below its long-term trend.

Growth in the emerging market economies is expected to remain around 5% in both 2013 and 2014 with a moderate slowdown offset by a modest upturn across Latin America and emerging Asia on the back of higher exports to the faster growing advanced economies. Given Australia's trade dependence on the emerging markets, the growth upturn in our major trading partners forecast for 2014 is only ¼ ppt, under half the rate expected for the world as a whole.

For more detail, see our [International Economic Reports].



Australian outlook

Key Points

- National accounts for Q2 showed no sign of GDP growth picking up from sub-trend rates. Domestic demand continues to struggle, with retail trade remaining weak into July, although sentiment in the housing market has improved. Underlying business investment declined with Q2 capex giving no hint of a pick-up outside the mining sector. Business conditions remained weak into August, especially employment, with soft orders and low capacity utilisation. However, confidence recovered strongly, especially in mining, construction and finance.
- The labour market remains soft, with employment lower than three months ago and a weakening participation rate pointing to discouraged job seekers.
- GDP in Q2 was only a touch better than we expected and our GDP growth path remains broadly unchanged from last month. We see growth softening to 2.3% in 2013, before rising to a still below-trend rate of 2.5% in 2014. Consistent with this, the unemployment rate is expected to exceed 6% before the end of this year, before rising to 6¾% by late 2014.
- We see core inflation remaining well-within the RBA's target over the forecast horizon, edging down to 2.3% by late 2013, before lifting modestly to 2.6% by late 2014. Rising unemployment and soft wage growth should keep the brakes on inflation in 2015.
- We still expect the RBA to cut again before years end – probably in November on the back of continuing low core inflation and a weaker labour market. Clearly the risks are rising that the RBA may need to do more in 2014 – but that is not yet in our forecasts.

National trends

The Australian economy grew by 0.6% in Q2 or by 2.6% compared with a year earlier. Quarterly GDP growth has been range bound between 0.5% and 0.8% for the past five quarters and has barely kept pace with population (GDP per capita grew by just 0.9% last year).

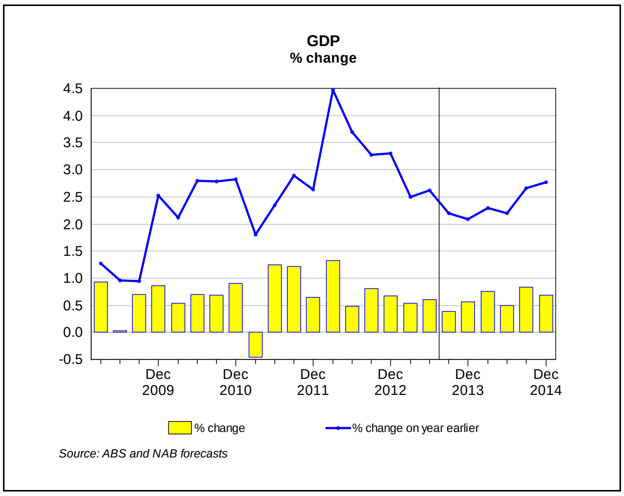
Household consumer spending growth remained tepid, at just 0.4%, in line with the weakness in the retail sector, which seems to be persisting into Q3. New private business investment declined by 1.2%. The latest capex survey expectations, recent engineering construction commencements and our latest survey all imply a substantial decline in mining investment in 2013-14. At the same time, there is little evidence that investment outside the mining sector is strengthening.

The accounts also highlighted the continued cautiousness of consumers, with the household savings rate remaining elevated at around 11% of household disposable income. This is consistent with the weakness in retail trade data this year, with no growth recorded in volumes in Q2. Consumer caution appears to have persisted into Q3, with retail values hardly rising in July. While lower interest rates may be expected to support consumer sentiment over coming quarters, much of this is likely to be offset by concerns about job security.

The softness in overall business conditions continued unabated into August. Confidence has bounced, and while that may have been helped by rate cuts and a lower AUD, the result appears to largely reflect expectations of political change. Trading conditions remained weak and, in a bad sign for the labour market, the employment index declined to again equal its lowest level in 4 years.

The Reserve Bank left the cash rate on hold at its September meeting, and its view on the outlook for the global and Australian economies was unchanged from a month ago. As the mining transition from the labour-intensive investment phase to the capital intensive exports phase takes hold, we see significant deterioration in labour market conditions ahead. Weakness will be especially pronounced in the second half of this year and into 2014, which when combined with continuing low inflation, leads us to expect the RBA to cut again before the end of this year.

While a lower AUD and accommodative monetary policy settings should provide some relief for trade-exposed sectors and assist a rebalancing of growth towards greater sustainability over time, there will be a need for substantial recapitalisation of those industries that have endured a protracted squeeze from mining investment (manufacturing, inbound tourism, non-mining construction and transport).



Our GDP growth forecasts are broadly unchanged compared to last month. We expect quarterly growth to soften to 0.4% in the September quarter, before strengthening to 0.6% in Q4, yielding 2.3% in 2013 (was 2.2%). Growth of that magnitude will not be sufficient to prevent the unemployment rate rising to above 6% by the end of this year.

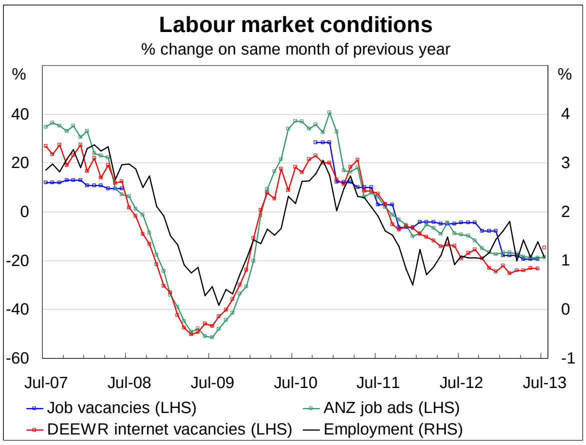
In 2014, export volumes should help drive growth as major minerals and energy projects begin the transition from construction to production and export. GDP growth is expected to improve a little in 2014 to 2.5% (was 2.6%), though this still represents below-trend growth. The lower labour-intensity of mining exports relative to mining investment will have implications for labour market adjustment in 2014 and beyond.

In financial year terms, GDP is expected to be:

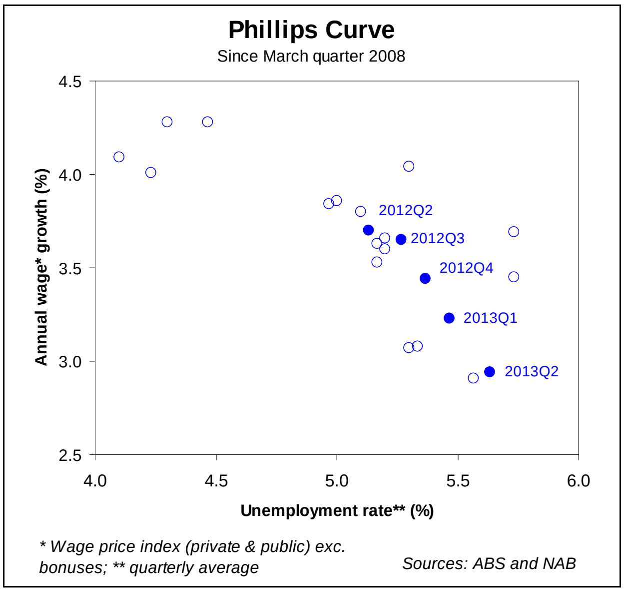
- 2.2% in 2013/14, and
- 2.8% in 2014/15 (was 2.7%)

Labour market

Partial indicators continue to point to a soft labour market outlook. The NAB employment index from the business survey trended down in August and ANZ job ads also fell, for a sixth consecutive month. DEEWR internet vacancies increased by 5.4% in July, but the series has been affected by the move to free advertising by MyCareer.



Wage growth has eased considerably in recent quarters as the labour market has weakened. Annual wage price index growth has declined from 3.7% in June quarter last year to 2.9% in June quarter this year at the same time as the unemployment rate has risen from 5.1% to 5.6% (quarterly averages). This represents a movement along the short-term Phillips Curve that is broadly consistent with the unemployment-wage inflation relationship in the post-GFC period (see chart). Further reductions in wage inflation as the unemployment rate continues to drift upward may encounter resistance from consumer inflation expectations. We expect annual wage growth to remain moderate at around 3% over the forecast horizon.



Consumer demand & housing market

The June quarter national accounts revealed that consumers remained cautious, with the household saving ratio edging up to 10.7%. The moderation has continued into Q3: retail turnover grew by only 0.1% in July to be little changed since March and was affected by a hefty 8% decline in department store trade. The Westpac-Melbourne Institute measure of consumer confidence increased in August to reach its highest level for 2½ years, but personal credit was flat in July. According to the NAB business survey, conditions in retailing deteriorated in August: the trend net balance measure at a dismal -17 is at its lowest level since the GFC. Retail margins remained under severe pressure.

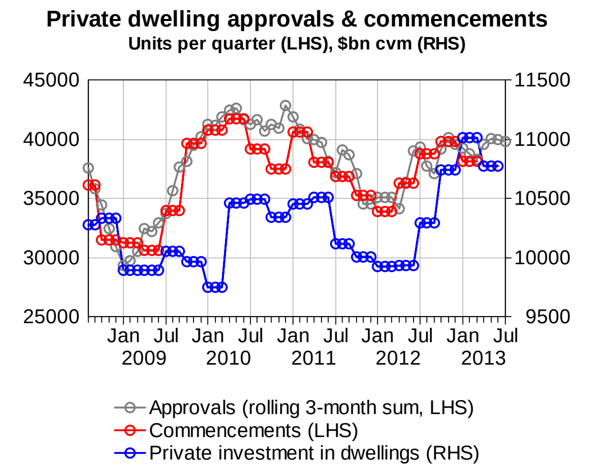
Online retail sales grew by 2.6% in July to be 14.2% higher than a year earlier. Growth in recent months has picked up following a soft patch between January and April – for more detail, see NAB online retail sales.

Asset price growth has slowed recently. The rise in house prices seemed to moderate in August, up 0.5% to be 5.3% higher than a year earlier, according to RP Data-Rismark. Softer price gains were recorded in August in the larger markets of Sydney (+0.6%) and Melbourne (+0.2%). According to the HIA, new home sales declined by 4.7% in July. Housing credit growth in July remained at 0.4% and was stronger for investors than owner-occupiers. While the standard variable mortgage rate has declined by 50 basis points in the past four months, rising unemployment may be acting as a brake on demand. Further rises in house prices are also likely to be tempered by job security concerns.

Following a strong rebound in July, the ASX200 share price index rose by 1.6% in August to be a little above its most recent peak in April. Share prices are still 24% below their pre-GFC peak but 54% above their GFC trough.

We expect real private consumer spending growth (national accounts basis) to ease from 2.4% in 2012/13 to 2.1% in 2013/14 before recovering modestly to 2.4% in 2014/15. Although a further cash rate cut is in prospect, rising unemployment and shaky job security are expected to restrain consumer spending over the forecast period.

Investment

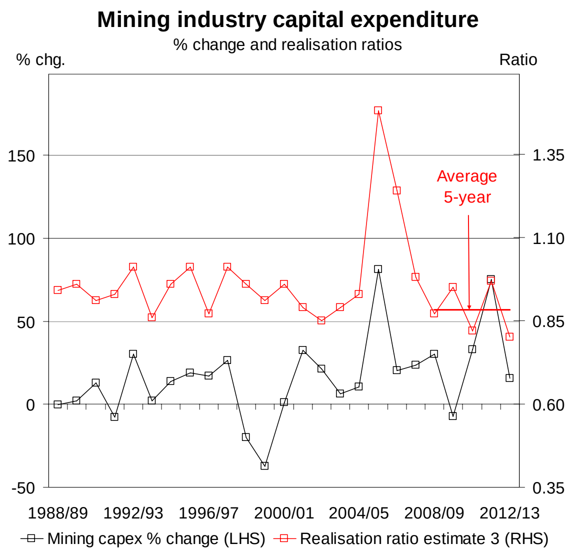


Source: ABS

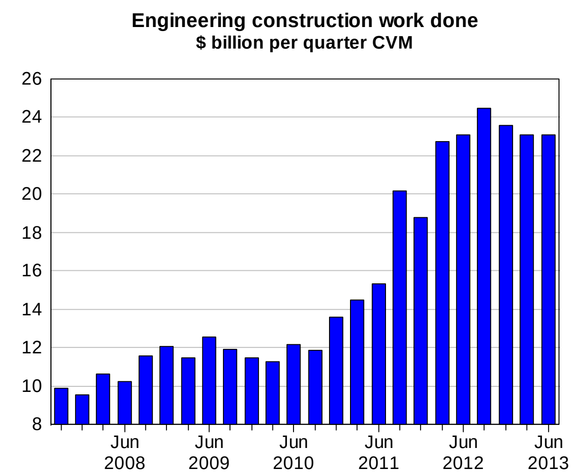
The easing in private dwelling investment in Q2, especially for new dwellings, is consistent with forward indicators. The rolling 3-month sum of private dwelling approvals has drifted down since its peak in May, implying that commencements for Q2 were unlikely to have risen sharply.

There has often been a strong positive correlation between the ABS capex realisation ratio (actual capex divided by expectation) and the state of the capex cycle. While the relationship seems to have undergone a structural break since the GFC (see chart), it is nevertheless likely that the realisation ratio will decline from current levels as mining capex weakens. In other words, capex expectations often prove too ambitious when investment is weakening. Using the most recent realisation ratio (based on ABS estimate 3) for mining for 2012/13 rather than the conventional 5-year average implies a decline in mining capex of 13% in 2013/14 and, given the risk that the realisation ratio may be even lower, this may be a conservative estimate of the extent of the decline. The RBA has noted that realisation ratios tend to vary with business conditions more strongly at longer horizons (such as the full-year horizon in the latest survey) because of the greater uncertainty about conditions further out.[1]

Based on engineering construction commencements in the mining sector up to Q1, which suggest a sharp pull back in mining commencements earlier this year, we anticipate that underlying business investment will be around 9% lower over 2013, before declining by a further 7½% over 2014.



There is little evidence that business investment outside the mining sector is about to rebound. The NAB business survey implies higher levels of capex in the services sectors in August, but continuing weakness in manufacturing, construction and wholesale.



Source: ABS

[1] See Cassidy, Doherty and Gill, 'Forecasting business investment using the capital expenditure survey,' RBA Bulletin Sep quarter 2012.

Commodity prices and net exports

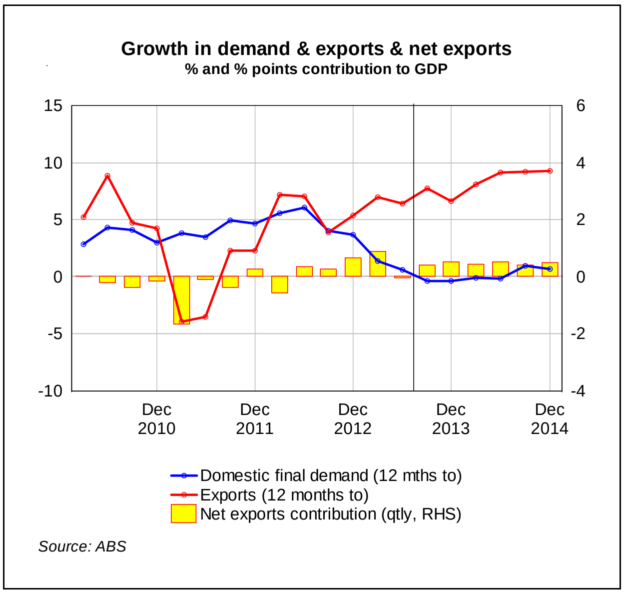
More positive news on the major economies provided a slight boost to most minerals and energy commodity prices in August. Some commodity prices have risen on the back of the most recent outburst of conflict in Syria, especially oil and safe-haven assets such as gold. Speculation about US involvement will add to volatility in the commodities complex in coming weeks. The most severe supply disruptions since early 2000, mainly due to escalated tensions in the Middle East, contributed to oil market volatility in July and August and also kept oil prices buoyant. Steel input markets were more robust in recent weeks than expected and iron ore prices have remained elevated, while coking coal prices have started to rise. Thermal coal prices still face headwinds. Base metals prices gained in August, largely reflecting better data out of China.

We have raised our near-term non-rural commodity price forecasts reflecting recent unexpected improvements in hard commodity prices. We still expect only a modest recovery in demand over the forecast horizon, but this should help stabilise prices. The recovery is expected to be bumpy and conditions in many emerging markets present ongoing risks.

In US dollar terms, the NAB non-rural commodity price index fell by around 20% over 2012 and we expect declines of around 4% in 2013 and 7% over 2014. Given our forecast for the AUD/USD to depreciate further, AUD prices are expected to rise by 15½% through the year to December 2013, before remaining broadly flat over 2014.

Global grain markets lifted slightly in August, reflecting concerns about potential crop damage in the US following dry and hot conditions. However, overall sentiment is still bearish on signs of a bumper crop as major cropping regions recover from drought conditions. Beef prices fell marginally in the month, with a high slaughter rate keeping export volumes robust. Global dairy prices fell slightly but remained elevated due to a reduction in trading volumes by New Zealand at global dairy auctions. Sugar prices as a result of large purchases by the US Department of Agriculture with the aim to boost prices and stave off defaults of Federal loans by sugar processors. Cotton prices rose as global harvest prospects deteriorated due to unfavourable weather conditions.

For more detail, see our [Minerals & Energy Commodities Research] and [Rural Commodities Wrap].



The terms of trade has fallen by 4.8% over the year to June quarter 2013. Based on our outlook for commodity prices, we see the terms of trade rising by 2.4% through 2013 (reflecting the increases in the first half of 2013), followed by a decline of 4.6% through 2014.

We expect the AUD to continue to adjust to the lower terms of trade, with the AUD to fall to $US0.86 by the end of this year and to $US0.80 by end 2014.

The lower track for the terms of trade and the AUD have implications for the contribution of net exports to GDP. While volumes of exports can be expected to gain momentum as major minerals projects are commissioned, the lower exchange rate can be expected to weaken growth in import volumes. As discussed in the *Global Outlook* above, although world growth is expected to strengthen significantly in 2014, the improvement for Australia's trading partners will be more muted. Overall, the expected contribution to GDP growth from net export volumes is expected to rise to 0.4 ppts in the September quarter.

Interest rates

The RBA left the cash rate on hold at 2.50% at its September meeting, with its accompanying statement suggesting little, if any, change in view since its previous meeting.

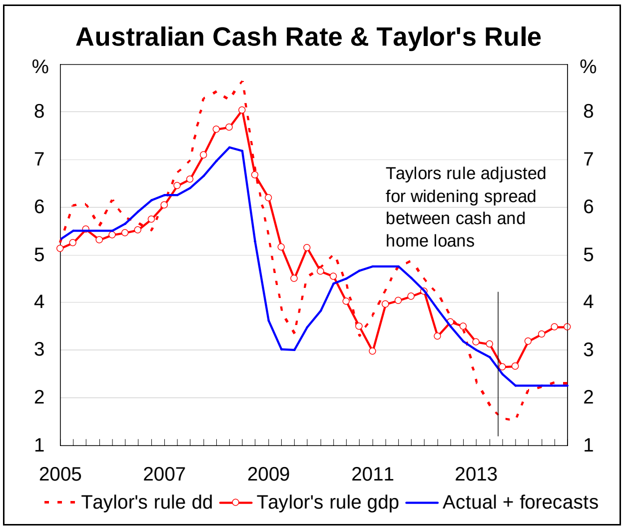
The RBA's world view remains for global growth to pick-up next year, assisted by very accommodative monetary policy settings which should help to facilitate the 'great rotation' towards growth led by the advanced economies. The Board reiterated that "volatility in financial markets (had) increased and (had) affected a number of emerging market economies in particular", though it added that "Australian institutions have ample access to funding markets" despite the recent bout of volatility.

There was seemingly no change of view on the Australian economy in September. The RBA appears comfortable with the medium-term inflation outlook and expects interest-sensitive spending and asset values to continue to be supported by previous policy easings. Similarly, it sees the potential for further depreciation of the Australian dollar, which "would help to foster a rebalancing of growth in the economy". In its concluding statement, the RBA said it will "continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the target".

Inflation is unlikely to be a barrier to further policy easing, with the outlook consistent with the RBA's 2-3% target. We expect core inflation to edge down to around 2.3% by late 2013, before lifting modestly to 2.6% by late 2014. With the unemployment rate expected to rise over 2014 and 2015, wage inflation is likely to remain soft, which should keep the brakes on inflation; we see core inflation softening to 2.2% in early 2015, and remaining around this pace for the remainder of the year. This also includes the impact of low carbon prices (or the removal of the tax).

The RBA has not ruled out the possibility of further policy easing, and it is clear that it sees weakness in the domestic demand outlook continuing in coming quarters. A modest inflation read in October is expected to pave the way for another 25 bp cut in November, taking the cash rate to 2.25%.

It appears that we are close to seeing the end of the RBA's easing cycle. Throughout 2014, we expect the RBA to remain on hold, keeping monetary policy settings very loose. However, the risk for further rate cuts remains as long as the currency remains relatively elevated and assuming the economy responds slowly to the RBA's stimulus. Consequently, 2014 will be a drawn out year for the economy and a cash rate even lower than our current projection of 2.25% remains a possibility.



Key global GDP forecasts (calendar years)

Country/region	*IMF weight*	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
					% change						
United States	*19*	2.7	1.8	-0.3	-2.8	2.5	1.8	2.8	1.6	2.7	2.9
Japan	*6*	1.7	2.2	-1.1	-5.5	4.7	-0.6	1.9	1.9	2.3	1.7
Euro-zone	*14*	3.3	2.9	0.2	-4.3	1.9	1.6	-0.6	-0.3	1.3	1.6
United Kingdom	*3*	2.8	3.4	-0.8	-5.2	1.7	1.1	0.2	1.5	2.4	2.2
Emerging Asia	*8*	5.6	6.0	3.2	0.2	7.8	4.2	3.8	3.5	3.7	4.2
Latin America	*9*	5.4	5.6	4.2	-1.5	7.1	4.8	2.3	2.4	2.6	3.2
China	*15*	12.7	14.2	9.6	9.2	10.4	9.3	7.8	7.5	7.2	7.0
Canada	*2*	2.6	2.0	1.2	-2.7	3.4	2.5	1.7	1.7	2.3	2.0
India	*6*	9.6	9.7	8.1	6.5	9.7	7.5	5.1	4.4	4.6	4.9
Africa	*3*	6.4	7.0	5.6	2.7	5.4	5.4	4.9	5.3	5.0	5.2
CIS	*4*	8.8	8.9	5.3	-6.4	4.9	4.8	3.4	3.0	3.6	3.3
Eastern Europe	*3*	6.4	5.4	3.1	-3.6	4.6	5.4	1.4	2.2	2.8	2.8
Middle East	*6*	6.7	6.3	5.0	2.9	5.3	3.9	4.4	3.6	3.7	3.5
Other advanced	*5*	4.5	4.7	1.7	-1.1	5.8	3.3	1.8	2.6	3.0	2.7
New Zealand	*0*	2.9	3.5	-0.8	-1.5	1.9	1.4	2.7	2.6	3.1	2.2
Global total	*100*	5.9	5.9	3.2	-0.2	5.5	4.1	3.2	2.9	3.5	3.6
Trading partners		6.7	7.3	4.0	1.5	7.0	4.5	4.2	4.0	4.2	4.2

Australian Economic and Financial Forecasts (a)

	Fiscal Year			**Calendar Year**		
	2012-13 F	**2013-14 F**	**2014-15 F**	**2013-F**	**2014-F**	**2015-F**
Private Consumption	2.4	2.1	2.6	2.0	2.3	2.7
Dwelling Investment	1.1	0.2	3.3	2.0	1.1	4.8
Underlying Business Fixed Investment	7.0	-7.2	-7.8	-4.3	-6.6	-9.3
Underlying Public Final Demand	-0.9	1.8	2.1	0.1	1.6	2.4
Domestic Demand	**2.4**	**0.5**	**1.0**	**0.7**	**0.8**	**1.1**
Stocks (b)	-0.2	-0.2	0.0	-0.4	0.0	0.0
GNE	**2.2**	**0.3**	**1.0**	**0.3**	**0.8**	**1.2**
Exports	5.6	7.9	9.2	6.9	8.9	9.1
Imports	-0.1	0.2	1.7	-1.8	1.6	1.9
GDP	**2.9**	**2.2**	**2.8**	**2.3**	**2.5**	**2.9**
– Non-Farm GDP	3.1	2.1	2.8	2.3	2.5	2.9
– Farm GDP	-5.7	5.0	2.0	3.2	2.3	2.0
Nominal GDP	2.5	4.2	3.8	3.7	3.9	4.1
Federal Budget Deficit: ($b)	20	35	NA	NA	NA	NA
Current Account Deficit ($b)	40	48	48	33	55	31
(-%) of GDP	2.7	3.2	3.2	2.3	3.7	2.0
Employment	1.3	0.8	0.7	1.3	0.4	0.9
Terms of Trade	-9.7	0.4	-5.2	-1.4	-3.7	-4.2
Average Earnings (Nat. Accts. basis)	1.7	2.5	3.0	1.4	3.0	3.0
End of Period						
Total CPI	2.4	3.0	2.2	2.2	2.8	2.6
Core CPI	2.4	2.7	2.2	2.3	2.6	2.2
Unemployment Rate	5.7	6.6	6.8	6.1	6.8	6.8
RBA Cash Rate	2.75	2.25	2.50	2.25	2.25	3.00
10 Year Govt. Bonds	3.76	3.70	4.80	4.00	4.00	5.30
$A/US cents :	0.93	0.83	NA	0.86	0.80	NA
$A - Trade Weighted Index	71.4	66.3	NA	67.4	64.4	NA

(a) Percentage changes represent average annual grow th, except for cash and unemployment rates. The latter are end June. Percentage changes for CPI represent through the year inflation.

(b) Contribution to GDP grow th

Macroeconomic, Industry & Markets Research

Australia

Alan Oster	Group Chief Economist	+(61 3) 8634 2927
Jacqui Brand	Personal Assistant	+(61 3) 8634 2181
Rob Brooker	Head of Australian Economics & Commodities	+(61 3) 8634 1663
Alexandra Knight	Economist – Australia	+(61 3) 9208 8035
Vyanne Lai	Economist – Agribusiness	+(61 3) 8634 0198
Dean Pearson	Head of Industry Analysis	+(61 3) 8634 2331
Gerard Burg	Economist – Industry Analysis	+(61 3) 8634 2788
Robert De Iure	Economist – Property	+(61 3) 8634 4611
Brien McDonald	Economist – Industry Analysis & Risk Metrics	+(61 3) 8634 3837
Tom Taylor	Head of International Economics	+(61 3) 8634 1883
John Sharma	Economist – Sovereign Risk	+(61 3) 8634 4514
Tony Kelly	Economist – International	+(61 3) 9208 5049
James Glenn	Economist – Asia	+(61 3) 9208 8129

Global Markets Research - Wholesale Banking

Peter Jolly	Global Head of Research	+(61 2) 9237 1406
Robert Henderson	Chief Economist Markets - Australia	+(61 2) 9237 1836
Spiros Papadopoulos	Senior Economist – Markets	+(61 3) 8641 0978
David de Garis	Senior Economist – Markets	+(61 3) 8641 3045

New Zealand

Tony Alexander	Chief Economist – BNZ	+(64 4)474 6744
Stephen Toplis	Head of Research, NZ	+(64 4) 474 6905
Craig Ebert	Senior Economist, NZ	+(64 4) 474 6799
Doug Steel	Markets Economist, NZ	+(64 4) 474 6923

London

Nick Parsons	Head of Research, UK/Europe & Global Head of FX Strategy	+(44 20) 7710 2993
Tom Vosa	Head of Market Economics – UK/Europe	+(44 20) 7710 1573
Gavin Friend	Markets Strategist – UK/Europe	+(44 20) 7710 2155

Fixed Interest/Derivatives	**Foreign Exchange**	
Sydney	+800 9295 1100	+(61 2) 9295 1166
Melbourne	+800 842 3301	+(61 3) 9277 3321
Wellington	+800 64 642 222	+800 64 644 464
London	+800 747 4615	+(44 20) 7796 4761
New York	+1 800 125 602	+1877 377 5480
Singapore	+(65) 338 0019	+(65) 338 1789