National Australia Bank

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Global & Australian Forecasts November 2013

Global upturn continues and forecasts little changed. Advanced economies seeing faster recovery after their prolonged weakness post 2008/09 recession. Mixed trends across emerging markets with solid Chinese growth but disappointing outcomes in India. Australian business confidence falls back as conditions undershoot again. Outlook little changed with below-trend GDP growth still expected in 2014, but unemployment expected to take longer to rise. RBA expected to watch data before cutting again in May (was Feb). Unemployment the key as inflation risks off the menu.

- Although the hard data on world trade and industrial output show activity growing by a sub-trend 2% yoy, overall economic activity is expanding more quickly on the back of improved service industry performance. Global growth rose from 2.4% to 2.8% between March and June quarters and we are expecting 2.9% for 2013 overall, increasing to 3.5% next year. The national accounts and business surveys show a quickening pace of growth in the big advanced economies with the UK and Japan the standout performers. The US's moderate recovery continues and Euro-zone output has started to slowly recover after a long period of weakness. The emerging economies present a mixed picture with solid outcomes in China, a disappointing record and outlook for activity in India and only moderate growth across Latin America and the export-oriented economies of East Asia.
- NAB business survey showed a sharp fall in business confidence in October after rising to a 3½ year high in September, with business conditions still poor. The level of confidence remains relatively elevated, possibly supported by low interest rates and improving asset market trends. Forward indicators generally deteriorated, paring back earlier gains and implying a continuing soft outlook for domestic demand.
- GDP forecasts are broadly unchanged this month: GDP growth to soften to 2.3% in 2013 before gradually rising to 2.4% in 2014 and 2.9% in 2015. Unemployment to nudge 6% by end 2013, a touch above 6½% by end 2014, before easing to 6.3% by late 2015. Given the soft outlook, core CPI is expected to edge down to 2.3% by end 2013 and 2.4% by end 2014. Rising asset price trends and higher confidence is likely to see RBA wait to see how labour market trends play out before cutting cash rate again. We expect next rate cut in May (was February), by which time labour market conditions likely to have deteriorated sufficiently to prompt further policy easing. Unemployment the key to timing and extent of further cut(s).

Key global GDP forecasts (calendar years)

Country/region	*IMF weight*	2011	2012	2013	2014	2015
				% change		
United States	*19*	1.8	2.8	**1.7**	**2.6**	**2.9**
Euro-zone	*14*	1.6	-0.6	**-0.3**	**1.1**	**1.4**
Japan	*6*	-0.6	2.0	**1.9**	**2.1**	**1.5**
China	*15*	9.3	7.8	**7.5**	**7.2**	**7.0**
Emerging Asia	*8*	4.2	3.8	**3.5**	**3.8**	**4.2**
Global total	*100*	4.1	3.2	**2.9**	**3.5**	**3.6**
Australia	*2*	2.4	3.7	**2.3**	**2.4**	**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	**2.4**	**2.7**	Core CPI	2.4	**2.6**	**2.0**
Domestic demand	2.4	**0.6**	**1.0**			*% end of year*	
GDP	2.9	**2.2**	**2.8**	Unemploy. rate	5.7	**6.3**	**6.6**

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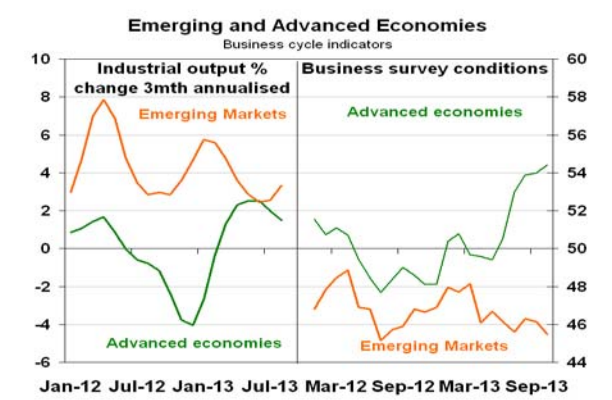
Global outlook

Key Points

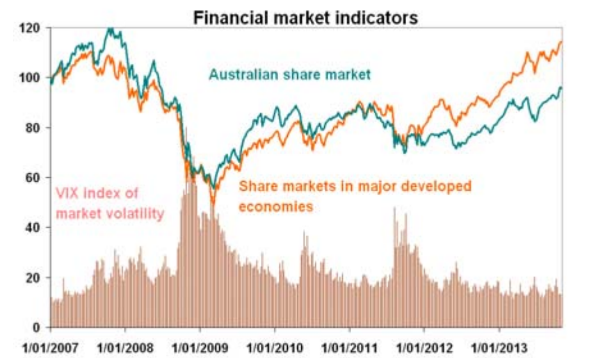
- Global growth continues at a moderate sub-trend pace and it is expected to pick up to slightly below trend in 2014.
- Business surveys in the advanced economies began signalling an industrial upturn in early 2013 and, after a disappointing slowing around mid-year, hard data on industrial output has picked up in several big advanced economies through August and September. Service industry surveys also show strengthening conditions.
- Trends remain mixed across the emerging market economies with the Chinese industrial sector performing quite strongly, industrial growth accelerating modestly across the rest of Emerging East Asia and growth remaining weak in India. Weak Indian business sentiment is holding down emerging economy measures of business conditions.
- Behind the volatility of monthly data, the big picture remains the same and we have barely changed our global growth forecasts. A moderately paced global upturn is under way with growth expected to pick-up from around 3% in 2013 to 3½% next year and a larger proportion of that growth is expected to come from the advanced economies.

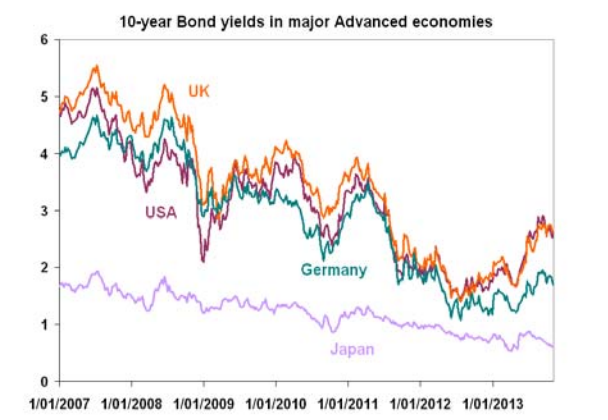


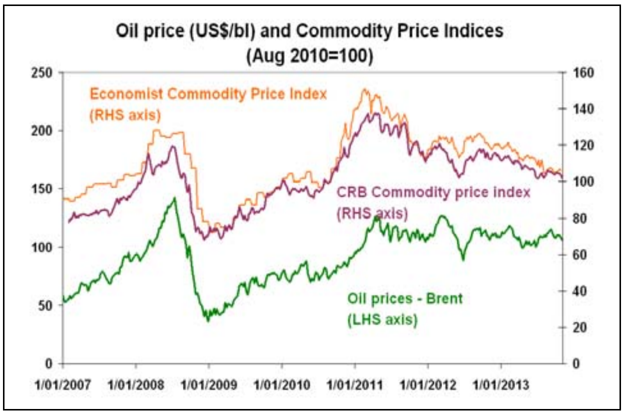
Financial & commodity markets

The markets are still watching the Fed to assess when it is likely to start winding back its asset purchases. The outlook for these asset purchases depends on the labour market improving and inflation moving back towards its 2% goal (it is currently 1¼% yoy). Our assessment is that this process of tapering back purchases will start next March and finish in the second half of next year. The Fed has also said that a Fed funds of zero to ¼% is "appropriate" while the jobless rate is above 6½%, inflation is below 2½% and inflation expectations remain under control. We think the Fed will start lifting its target funds rate in September quarter 2015. However the risk could well be that a jobless rate threshold could be lowered to 5½% – especially if tapering begins earlier in 2014.

Other central banks are also signalling that their policy rates will stay low for quite some time. The European Central Bank has just cut its policy rate to 25 bps and said it is likely to keep its rates at current or even lower levels for "an extended period of time". The Bank of Japan intends to keep its rates near zero and to continue buying large amounts of assets until inflation gets to its 2% target, which they forecast to occur in fiscal year 2015. The planned GST hike will distort inflation but the BoJ will discount that tax-induced spike in prices and keep rates low.



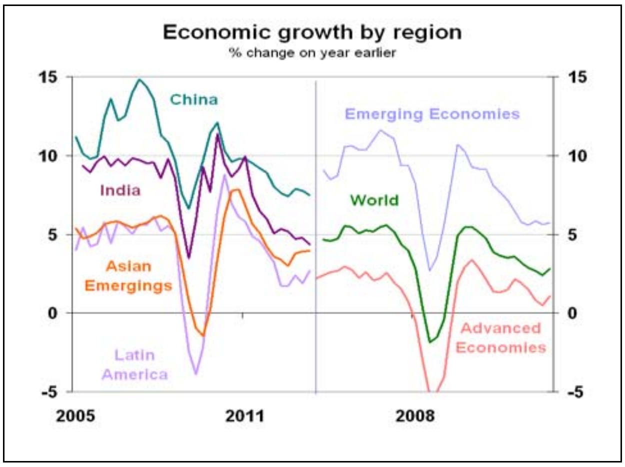




Global trends

The pace of growth in important measures of global economic activity remains quite modest with world industrial production expanding by 2.2% yoy in August and world trade rising by only 1.8% yoy. The growth rates are below their long run trend, particularly for world trade. Most global economic activity (GDP) occurs, however, in the service sector and it is not included in the timely measures of monthly trade and industrial output which focus on the goods sector. Growth in global services output has outstripped that in goods but the 2.8% yoy growth seen in global GDP in the June quarter is still a sub-trend outcome, especially given the incomplete recovery from the 2008/09 recession in the level of output across key advanced economies.

Economic growth is still spread very unevenly across the globe with big disparities in performance remaining between key advanced and emerging economies. Industrial growth in the advanced economies was only 0.2% yoy in August whereas it was around 4% yoy in the emerging market economies. The first half of 2013 saw a narrowing in the growth gap between emerging and advanced economy growth with the former slowing and the latter picking up. However, advanced economy industrial output hit a soft patch around mid-year from which it might now be emerging.



Advanced economies

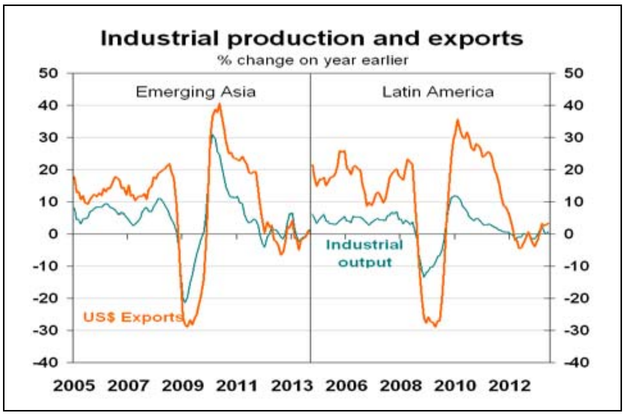
The business surveys show that the broad-based upturn in activity that was seen in the first half of the year continued into recent months. After being flat in the closing months of 2012, GDP in the 7 biggest advanced economies grew by 0.3% in the March quarter and 0.6% in the June quarter. Limited data for the third quarter show a mixed picture with US and UK growth picking up steadily through the first three quarters of 2013 but third quarter Japanese growth could well prove slower after a very strong first half.

The business surveys show a ramping up in activity and confidence across all of the big advanced economies since early 2013. Industrial activity is now growing in all regions with a particularly solid upturn in Japan and the UK. Business activity trends in the service sector show a more mixed picture. Here, again, the UK is the stand-out performer as it bounces back from a long period of weak activity. Activity is also now increasing in the Euro-zone and Japan (where we use the Shoko Chukin bank index) while US service sector activity survey readings, while clearly expansionary, show a volatile pattern, possibly reflecting political difficulties.

Emerging economies

The big emerging market economies continue to present a very mixed picture with the Chinese economy faring better than expected, India lagging and Brazil, which had reported solid growth in the June quarter, likely to slip back a little in the third quarter judging by its partial economic data.

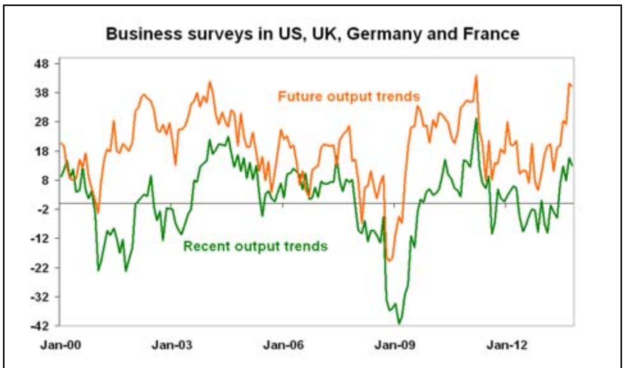
Growth in both exports and industrial output looks to have picked up slightly across Latin America and the East Asian emerging market economies. The latter tend to be highly export-dependent and modest growth in industrial output resumed through August and September at the same time as $US export earnings – which had previously been weakening – stabilised. Latin America shows a similar pattern for exports and industrial output – recent data is certainly not showing strong growth but it is better than it was.

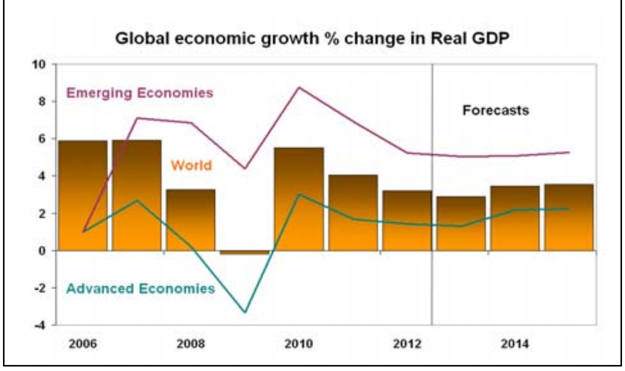


Forecasts

In aggregate, business surveys across the main advanced economies show positive net balances of firms expecting growth to continue through the next year, although the ramping up in sentiment on both current and future conditions ran out of steam in October with slightly less optimism but still positive sentiment in Germany's IFO survey. Sentiment is not very positive in the big emerging economies with especially weak numbers in the Indian business surveys that do not seem to foreshadow a return to the rapid pre-2012 growth rates seen in the third largest global economy.

While the emerging economies should continue to account for the bulk of growth in global output, their rate of growth should remain at around 5% through the next couple of years while growth in the advanced economies rises from 2013's 1¼% to 2014's 2¼% and stays there in the following year as the effects of Japan's stimulus wear off. Global growth should rise from 3% to around 3½%, taking it back to just slightly below trend.





Australian outlook

Key Points

- Both business and consumer confidence edged down in October but remained elevated by recent standards. There are also more positive signs in the housing markets of Sydney and Melbourne, although other capitals remain weak.
- However, NAB business conditions were still weak and forward indicators deteriorated slightly. There are still no signs of a recovery in non-mining investment with trade-exposed industries still struggling with the continuing strength of the AUD.
- While the unemployment rate stabilised in October, labour demand remains weak. Demand for heads remains insufficient to prevent the unemployment rate continuing to rise; demand for hours is still languishing.
- The survey implies annual demand growth may improve to around 2¾-3% in Q3 2013, but this is still below trend, while GDP growth may soften to around 2½%. Underlying inflation remained moderate in Q3 and we expect it to lift only modestly to 2.4% through 2014, well inside the RBA target band. Rising unemployment and soft wage growth should keep the brakes on inflation in 2015.
- The RBA kept the cash rate unchanged in early November but we still see another cut as likely, probably in May (previously February) depending on data flows. With unemployment the key.
- After peaking above 6½% our forecasts see unemployment falling to around 6.3% by late 2015. At present that is achieved via falling participation rates. That in reality highlights a tension in the forecasts and reflects the reality that either the Government (via more activist fiscal expansion) or the RBA (via more rate cuts) will respond in the face of unchanged high unemployment.

National trends

Business and consumer confidence both weakened in October but remain elevated by the standards of the past two years or longer. The sharp improvement in sentiment in September now looks like something of an over-reaction to the change of federal government and perhaps to better news from China. Nevertheless, business confidence is still in positive territory for all industries except wholesale.

While broadly better than the run of data through the middle of 2013, the NAB business conditions index remains weak and is unchanged from September. Forward indicators weakened in October: stocks, orders, capacity utilisation and capital expenditure all declined. Conditions remain particularly weak for manufacturing, construction, mining and retail.

The decline and rise of the AUD over the past few months is having perverse effects on different businesses. Previous depreciations appear to have applied a cost squeeze to wholesalers and retailers who lack domestic market power to pass on higher import prices. While the subsequent rise in the AUD may start of alleviate this pressure, it means a return to pressure on revenue for manufacturers and agricultural producers.

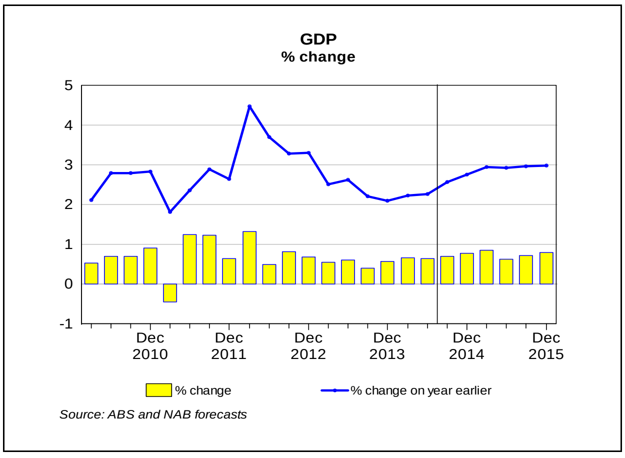
Low interest rates continue to work slowly through the economy. Asset prices lifted again in October, although house price growth has been largely confined to the (admittedly large) markets of Sydney and Melbourne. Retail trade appears to be improving modestly, although the official data may be overstating the extent of recovery.

Housing commencements do not point to a significant lift in dwelling investment in the near term and a recent surge in building approvals largely reflects the volatile apartments sector.

The direction of fiscal policy appears broadly unchanged under the new Commonwealth government, which is establishing a Commission of Audit to search for efficiencies.

The labour market remains weak. Total hours demand is broadly stable at a low level and heads employment is failing to keep pace with growth in the working-age population. The unemployment rate remained at 5.7% in October but there has been a clear upward trend in unemployment and underemployment rates in recent quarters.

The prospective transition of many major mining projects from construction to export delivery is expected to place considerable downward pressure on mining sector employment. This is likely to be only partly offset by increased employment in mining operations.



Based on forward orders, the NAB business survey implies 6-monthly annualised demand growth of around 2¾ in Q3 2013. That is, better than growth in Q2 but still below trend. Based on Q3 business conditions, the survey implies GDP growth of around 2½% in Q3. If October trend conditions extend through the remainder of Q4, GDP growth would lift to around 2¾-3%.

We have left our GDP growth forecasts broadly intact. We still expect quarterly growth to soften to 0.4% in Q3, before strengthening to 0.6% in Q4, yielding 2.3% in 2013. Given the October reading for the unemployment rate, we now expect the unemployment rate to rise to just below 6% before the end of this year, before peaking at a touch above 6½% in mid-2014. Our forecasts see unemployment falling to around 6.3% by late 2015 – albeit largely driven by falling participation rates.

Export volumes should help drive growth in 2014 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 2.4% (was 2.5%), still below trend. But it is likely to be a relatively jobless expansion because of the lower labour-intensity of mining exports relative to mining investment.

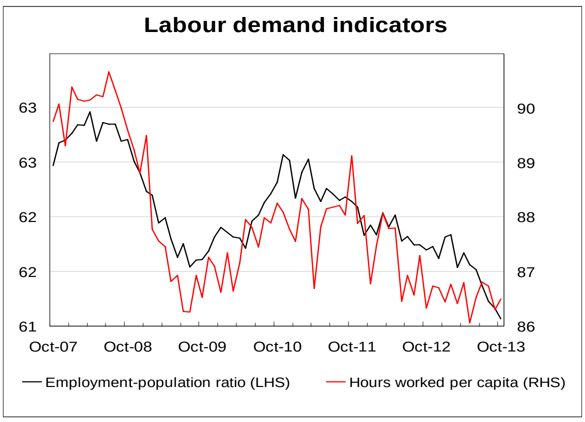
We expect the AUD to drift down to $US0.95 by the end of 2013 and $US0.86 by the end of 2014.

The RBA decided for a third consecutive month to leave the cash rate on hold at 2.50% in October. There was a sense that the RBA has become less dovish and is now comfortably on hold. We have postponed our prediction for the next rate cut from February to May, but our call is still highly data-dependent. After May 2014, we expect the RBA to remain on hold, keeping monetary policy settings very loose.

In financial year terms, GDP growth forecasts are unchanged at:

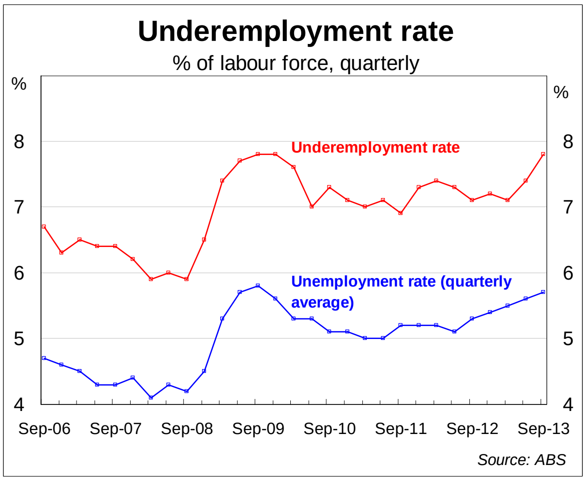
- 2.2% in 2013/14, and
- 2.8% in 2014/15

Labour market

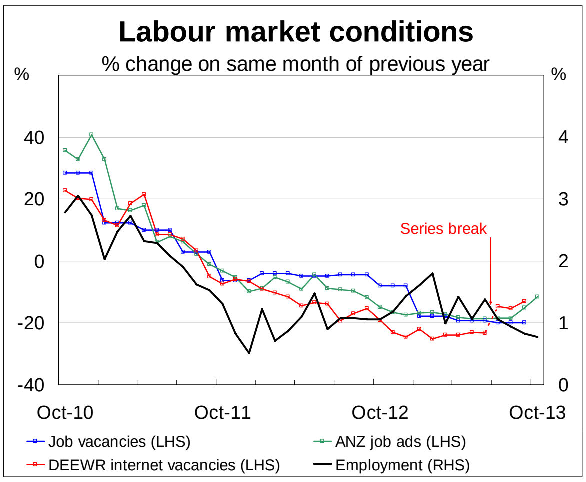


The unemployment rate remained at 5.7% in October after employment rose marginally (up 1,100 persons) and the participation rate was unchanged. Measures of labour demand remain weak. The employment to (adult) population ratio drifted down again and, at 61.1%, is at its lowest level since early 2006. Partly this reflects a move towards part-time work. Hours worked per capita rose slightly but have remained broadly flat since the middle of last year.

The unemployment rate has been trending up throughout the past year and is approaching the peak recorded during the GFC. In a further sign of weakness, the underemployment rate (the percentage of the labour force who would like to work more hours) has also risen to around GFC levels.

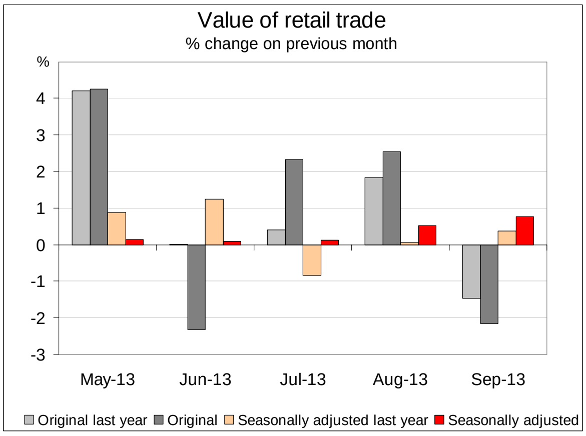


The labour market outlook has improved a little. ANZ job ads have begun to lift and DEEWR internet vacancies are also moving up, even after allowing for the recent break in the series. The NAB employment index from the business survey improved again in October to -3 points, and while it is now clearly above the levels recorded through most of 2013 (-5 to -9 points), it is still in negative territory.



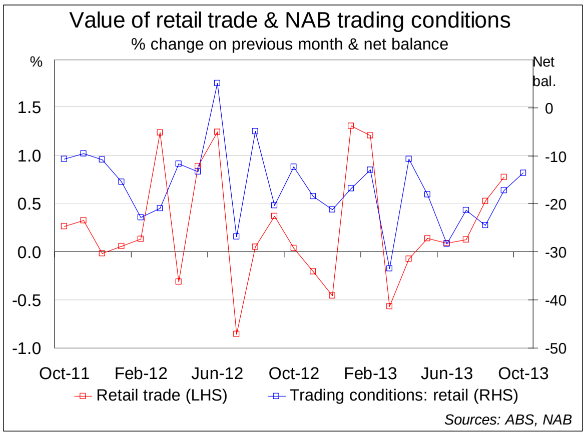
Consumer demand & housing market

The latest retail trade data for Q3 indicated that retail volumes rose a respectable 0.7% in the quarter, following a fall of 0.1% in Q2. Moreover, the value of retail trade appeared to be gathering momentum through the course of the quarter, with monthly growth rising from 0.1% in July to 0.8% in September. Clothing, footwear & personal accessories and ‘other’ retailing seemed to be driving this pick-up; department store turnover was broadly stronger as well, although highly volatile.

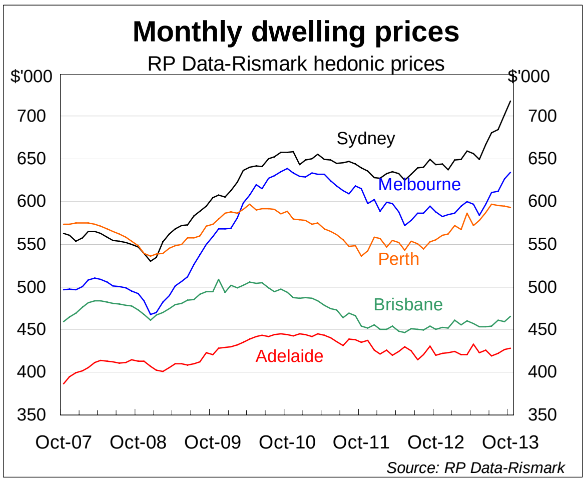


However, this apparent improvement should be treated with caution. The September seasonally adjusted result may have been affected by the occurrence of Fathers’ Day on Sunday 1 September (a day earlier than last year). The ABS seasonal adjustment process presumes that, on these occasions, most Fathers’ Day shopping occurs in late August, resulting in an increase in the September seasonally adjusted estimate. The chart shows that, in original terms, retail trade growth was stronger in August and weaker in September this year than last year but that the seasonally adjusted growth is stronger in both months this year.

There is evidence from the NAB survey that retail trading conditions are improving, although the net balance is still deep in negative territory and retail capacity utilisation is relatively low.



Online retail sales have weakened recently, with growth of just 0.3% in September following a decline of 0.1% in August (for more detail, see NAB online retail sales).



There is increasing evidence that lower interest rates are helping to support asset prices. According to RP Data-Rismark, median house prices have risen sharply in Sydney and Melbourne during the past year (11.6% and 7.8% respectively): but while this has been associated with record prices in Sydney, Melbourne prices have not yet recovered to their highs of late 2010. Moreover, dwelling price rises appear to have stalled in Perth following a rapid run up earlier in the year and prices have shown little life in Brisbane and Adelaide.

Some of the recent increase in interest in the Australian housing market has been attributed to self-managed superannuation funds (SMSFs) and foreign buyers. According to the most recent RBA Financial Stability Review, SMSFs have increased their ownership of property in recent years but their direct holdings of residential property are still a relatively small 3.5% of their assets. The NAB residential property survey indicated that there has been increasing overseas buyer interest in the newly constructed Australian housing market, with their participation at around 12.5% (higher in Queensland and NSW). While not a large segment it would still contribute, at the margin, to support the market. That said the survey reinforces the view that the housing market continues to be dominated by resident owner-occupiers (up-graders).

According to the HIA, seasonally adjusted new detached house sales increased by 3.7% in Q3 but unit/apartment sales fell by 5.7%.

In October, the ASX200 share price index rose by a solid 4.0%, representing the fourth consecutive monthly rise. The increase was broadly based across the banks, industrials and resources indices.

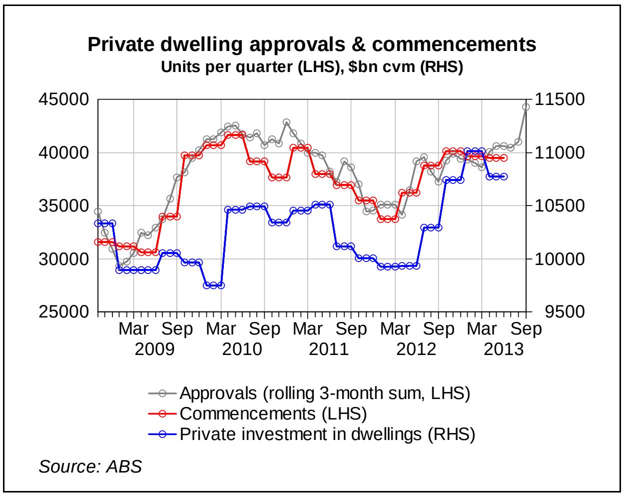
The improvement in household wealth implied by higher asset prices should contribute to stronger consumer demand, and we have therefore revised up our private consumption growth forecast for Q3 to 0.7% (from 0.3%). Nevertheless, some restraint is likely from the subdued state of the labour market. For Q4 and beyond quarterly consumption growth is expected to remain around 0.6%, yielding 2.1% in 2013/14 and 2.7% in 2014/15.

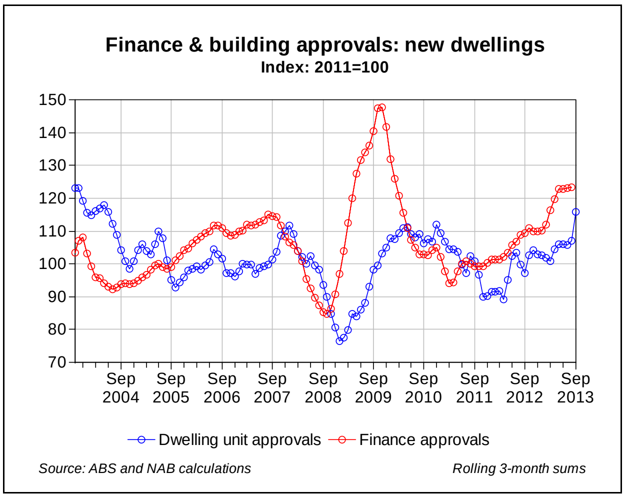
Investment

Residential building approval numbers rose sharply in September, mainly because of a big increase in flats/apartments approvals (up 32% or almost 1900 units). This reflects coinciding surges in private apartment approval numbers in NSW (up over 900 units), Victoria (up over 600 units) and WA (up 270 units). These increases are likely to be unwound in October, although there was also a large rise in NSW apartment numbers in September.

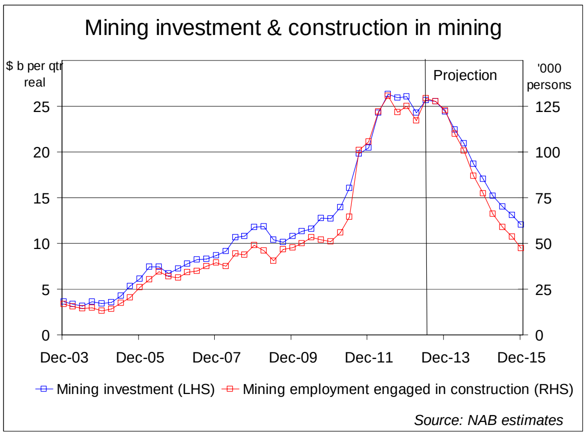
Although there has been a substantial increase in numbers of finance approvals for the construction and purchase of new dwellings in recent months, the relationship between finance and building approvals is not particularly tight.

Private dwelling commencements in Q2 remained broadly unchanged, suggesting there is little immediate prospect of a strong recovery in dwelling investment.



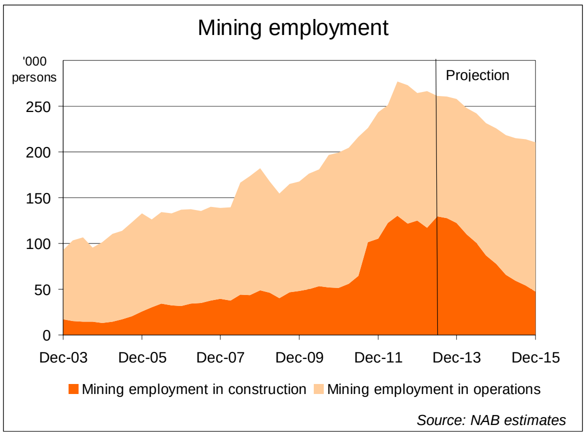


The NAB business survey for Q3 indicated little change in capital expenditure expectations for the next twelve months. Broadly, there is still little evidence that business investment outside the mining sector is likely to pick up strongly any time soon.



Our own projections of the likely course of mining investment, in the absence of any more mega LNG projects starting up, point to a substantial decline over the course of the next few years. Associated with this will be a fall in construction employment within the mining industry: under ANZSIC rules, construction on own account is classified to the final user industry, in this case mining. We estimate that there is a potential loss of 75,000 construction jobs in the mining sector over the next two or three years. Some of these will be visitors on 457 visas, although in September 2013 the number of such visa holders sponsored by the mining industry was only around 7500 (about 13,500 were sponsored by the construction industry).

Some of these losses are likely to be offset by an expansion in mining employment associated with export operations as major projects are commissioned. However, our estimates suggest that the mining sector will be hard pressed to avoid an overall decline in employment, even with a substantial increase in the volume of export operations over the next few years.



Commodity prices and net exports

Volatility has remained a feature of financial and commodity markets given political uncertainties and hesitation over the timing of US Fed tapering.

Oil prices were lower on balance in the month from the dissipation of geopolitical risks in the Middle East and data on rapid crude stocks accumulation in the US. However, WTI was disproportionately weighed down by the political uncertainty in the US while Brent was supported somewhat by renewed unrest in Libya. As such, the differential between Brent and TWI is wider than at anytime since March this year.

Steel input markets have been held up by improved activity in China, but we are entering a seasonally soft period for construction which should keep prices relatively range bound for the rest of the year. Thermal coal prices have now lifted slightly from their recent floors.

Base metals prices rose modestly in October, helped by stronger than expected growth in China in Q3 as well as reduced fears of a potential US economic meltdown.

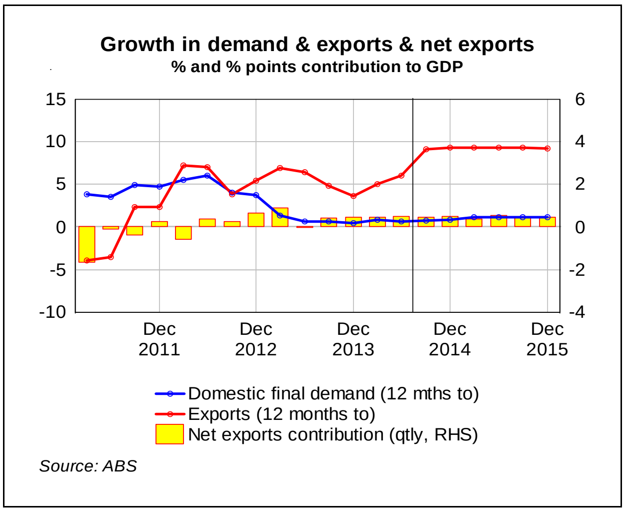
With the market currently anticipating no change to the Fed's asset buying program until early 2014, investors seem reasonably comfortable holding gold in their investment portfolios, providing some support to prices in the second half of October. Nonetheless, the average price was around 2½% lower in October.

Overall, our forecasts for commodity prices have been left largely unchanged. Our near-term forecasts for some metals were raised slightly, while we have also widened our forecast for the WTI-Brent spread. We continue to expect only a modest recovery in demand over the forecast horizon but the recovery is likely to be bumpy, ensuring ongoing volatility in commodity markets.

In US dollar terms, the NAB non-rural commodity price index fell by around 20% over 2012. We are expecting another decline of around 1¾% in 2013, before easing by a further 8½% over 2014. Given our forecast for the AUD/USD to depreciate further over the remainder of the forecast horizon, AUD prices are expected to rise by 7½% over the year to December 2013, before a modest increase of 1% over 2014.

In October, domestic livestock prices continued their downward trends from a seasonally high turnoff and worsening drought conditions in western and northern NSW, driving both beef and lamb exports for the month to near record highs. Meanwhile wool prices have lifted on the back of renewed buying interest from China, India and Europe, but the strength of the AUD in the month has dampened upward price potential somewhat. For globally traded commodities, grain markets lifted significantly in the month due to deteriorating production prospects in Argentina and China because of unfavourable weather conditions, which diverted South American and Chinese import demand to US production instead. Nonetheless, prices remained bearish overall on signs of a bumper crop as major cropping countries recovered from drought conditions last year. Global dairy prices fell for the second consecutive month on the seasonal up tick in Oceanian supply but were still perched at historically elevated levels. Meanwhile, sugar prices have been jolted upwards in a rare sign of revival by the news of a major fire destroying one of the world's largest sugar export terminals in Brazil. Cotton prices, on the other hand, have been weighed down by weak Chinese demand.

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 continuing to edge down, losing 5% through the course of 2014.

While volumes of exports can be expected to gain momentum as major minerals projects are commissioned, a falling AUD will likely weaken growth in import volumes. 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

ABS CPI data for the September quarter 2013 remained well within the RBA's 2-3% target band keeping the door wide open for further monetary policy easing. While headline CPI inflation was more robust at 1.2% in the September quarter, it followed a series of soft outcomes in the previous three quarters meaning annual inflation eased to a modest 2.2%. The pick up in the quarterly inflation rate largely reflected higher fuel prices as a result of AUD depreciations and higher oil prices. The average of RBA preferred 'core' inflation measures (trimmed mean and weighted median) was broadly unchanged at 0.6% in the quarter, or 2.3% in through the year terms. With wage pressures anticipated to remain soft in the weak labour market environment and the new government expected to scrap the carbon tax in the new financial year, inflationary pressures are expected to remain well within the RBA's target band over the forecast horizon.

The RBA decided for a third consecutive month to leave the cash rate on hold at 2.50% in November – the first Melbourne Cup day in eight years that the RBA maintained the cash rate at the existing level. The decision to remain on hold was widely anticipated by markets.

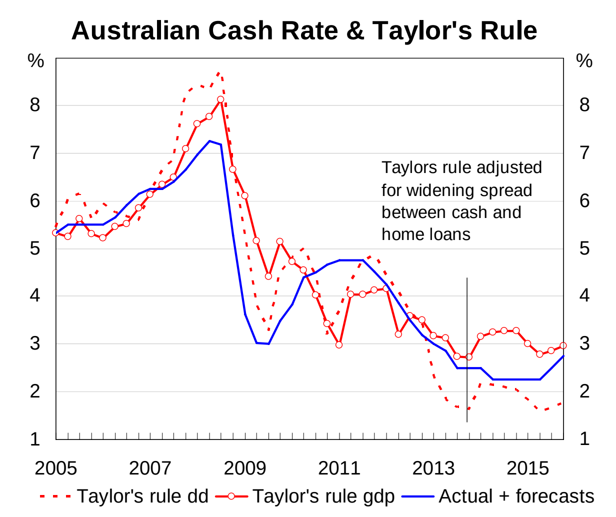
In its accompanying statement, the RBA appeared to have maintained its easing bias but there is a suggestion that that Board is awaiting more evidence of slowing activity before deciding to cut again. One area of significant concern for the RBA is the still elevated level of the exchange rate, which it characterised as "uncomfortably high", with the Board stating that "a lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy". It also noted that "public spending is forecast to be quite weak", adding further weight on activity ahead. However, it indicated that the outlook for private demand has strengthened supported by lower interest rates, the slightly lower level of currency and the rise in confidence. Furthermore, the RBA seems unperturbed about reports of a housing bubble.

Given the recent improvement in business and consumer sentiment and rising housing and equity prices, it is likely that the RBA wants to wait and see how labour market trends play out before lowering the cash rate again (inflation is off the menu for the time being). It is our view that economic activity will remain soft over coming quarters and current economic optimism will fade, prompting the RBA to lower the cash rate again next year.

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 be around 2.3% by late 2013, before lifting modestly to 2.4% 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 2.0% in mid 2015, and remaining around this pace for the remainder of the year. This also includes the impact of the removal of the carbon tax.

While we were previously anticipating the RBA to cut in February, we have pushed out the timing of our next anticipated rate cut to May 2014, by which time we think labour market conditions will have deteriorated sufficiently to prompt further policy easing to try to stem the rise in unemployment. This will take the cash rate to 2.25%.

Looking ahead, the labour market data, our own NAB survey and asset price movements will be important indicators for the outlook for monetary policy, but at this stage it appears that we are close to seeing the end of the RBA's easing cycle. After May 2014, we expect the RBA to remain on hold, keeping monetary policy settings very loose. In essence monetary policy is likely to be driven by domestic demand and hence unemployment trends.



Global growth forecasts % change year on year

	2011	2012	2013	2014	2015
US	1.8	2.8	1.7	2.6	2.9
Euro-zone	1.6	-0.6	-0.3	1.1	1.4
Japan	-0.6	2.0	1.9	2.1	1.5
UK	1.1	0.1	1.5	2.4	2.2
Canada	2.5	1.7	1.7	2.3	2.4
China	9.3	7.8	7.5	7.2	7.0
India	7.5	5.1	4.4	4.9	5.3
Latin America	4.8	2.3	2.4	2.6	3.2
Emerging Asia	4.2	3.8	3.5	3.8	4.2
New Zealand	1.4	2.7	2.8	3.2	2.2
World	*4.1*	*3.2*	*2.9*	*3.5*	*3.6*
memo					
Advanced Economies	1.7	1.4	1.3	2.2	2.2
Emerging Economies	6.9	5.2	5.0	5.1	5.3
Major trading partners	4.5	4.2	4.0	4.2	4.1

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	2.4	2.7	2.2	2.5	2.9
Dwelling Investment	1.1	0.3	3.3	2.1	1.1	4.7
Underlying Business Fixed Investment	7.0	-8.0	-8.8	-4.6	-7.8	-10.2
Underlying Public Final Demand	-0.9	1.8	2.1	0.1	1.6	2.4
Domestic Demand	**2.4**	**0.6**	**1.0**	**0.7**	**0.7**	**1.1**
Stocks (b)	-0.2	-0.2	0.0	-0.5	0.0	0.1
GNE	**2.2**	**0.4**	**1.0**	**0.3**	**0.8**	**1.2**
Exports	5.6	4.9	9.2	5.4	7.4	9.2
Imports	-0.1	-2.8	1.4	-3.3	-0.2	1.8
GDP	**2.9**	**2.2**	**2.8**	**2.3**	**2.4**	**2.9**
– Non-Farm GDP	3.1	2.1	2.8	2.3	2.4	3.0
– Farm GDP	-5.7	5.0	2.0	3.2	2.3	2.0
Nominal GDP	2.5	3.5	3.7	3.3	3.6	3.7
Federal Budget Deficit: ($b)	19	35	NA	NA	NA	NA
Current Account Deficit ($b)	40	48	48	33	55	36
(-%) of GDP	2.7	3.2	3.2	2.3	3.7	2.4
Employment	1.3	0.4	0.7	1.1	0.3	0.9
Terms of Trade	-9.7	-2.5	-5.5	-3.1	-4.7	-5.6
Average Earnings (Nat. Accts. basis)	1.7	2.5	3.0	1.4	3.0	3.0
End of Period						
Total CPI	2.4	3.2	2.1	2.4	2.7	2.5
Core CPI	2.4	2.6	2.0	2.3	2.4	2.1
Unemployment Rate	5.7	6.3	6.6	5.9	6.6	6.3
RBA Cash Rate	2.75	2.25	2.50	2.50	2.25	3.00
10 Year Govt. Bonds	3.76	4.05	5.10	4.00	4.50	5.45
$A/US cents :	0.93	0.90	NA	0.95	0.86	NA
$A - Trade Weighted Index	71.4	71.4	NA	73.2	69.8	NA

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

(b) Contribution to GDP growth

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