Global & Australian Forecasts

by NAB Group Economics

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National Australia Bank

Key Points:

- Global growth remains around 3% and, although the business surveys show a lift in sentiment in key advanced economies, there is still no clear evidence that the expected upturn in global growth to 3½% by the end of the year has commenced. Weaker prices for oil and other commodities will benefit spending power in most big advanced economies as well as in China, but that same weakness is weighing on demand across a range of primary exporting nations. World trade remains sluggish, holding down growth in export-oriented areas like East Asia but the lower Euro should help towards its predicted recovery in growth.
- We have not changed our near term forecasts – 2014/15 at 2.3% – and have marginally lowered 2015/16 forecasts to 3% (was 3.2%). That largely reflects weaker business investment and a touch higher unemployment rate (6.7%) at end 2015 and hence a touch weaker consumption. On going weak global trade has lowered our expectations of much better non commodity exports. The domestic economy, in early 2015, has not gained momentum and indeed business confidence is lower. Inflation will continue to slow. We still see another rate cut in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% but the chances of that happening are rising (35-40% chance). We see rate rises starting again by H2 2016.

Key global and Australian forecasts (% change)

Country/region	IMF weight	2013	2014	2015	2016
United States	16	2.2	2.4	3.1	2.7
Euro-zone	12	-0.4	0.8	1.3	1.7
Japan	5	1.5	0.2	0.8	1.2
China	16	7.7	7.4	7.1	6.9
Emerging East Asia	8	4.3	4.0	4.4	4.6
New Zealand	0.2	2.2	3.2	2.9	1.8
Global total	100	3.3	3.2	3.5	3.6
Australia	2	2.1	2.7	2.5	3.2
Australia (*fiscal years*)		13/14	14/15	15/16	16/17
Private consumption		2.2	2.7	2.9	2.6
Domestic demand		1.0	0.9	1.3	1.0
GDP		2.5	2.3	3.0	3.0
Core CPI (*% through-year*)		2.8	1.9	2.7	2.4
Unemployment rate (*% end of year*)		6.0	6.5	6.4	6.1

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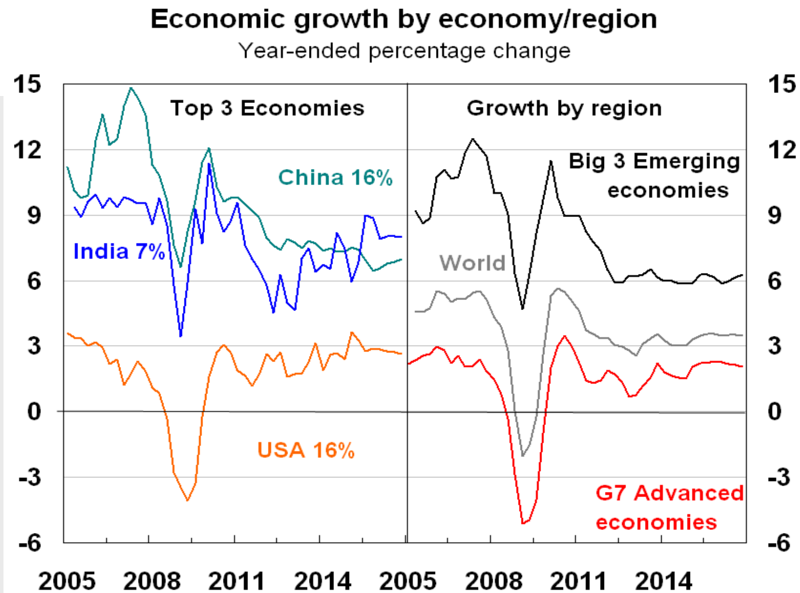
Global and Australian overview

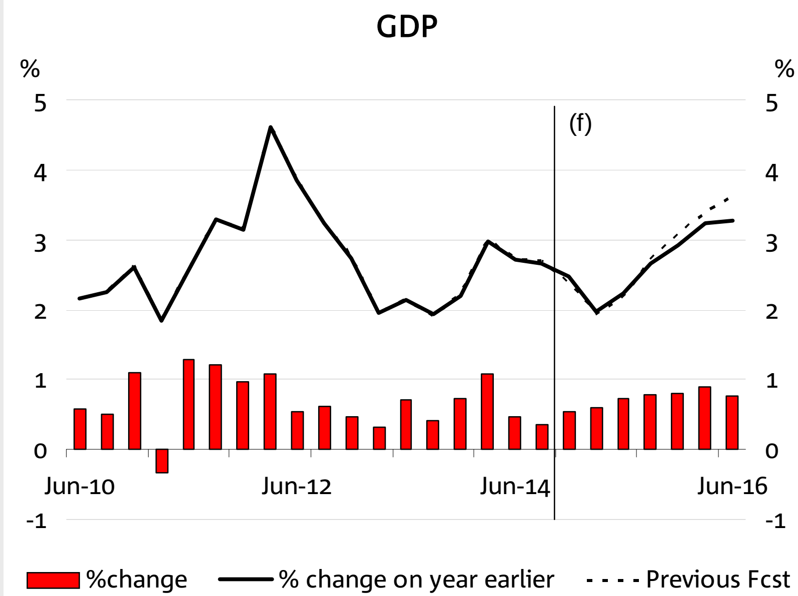
Global overview

- Global growth remained around 3% in late 2014, slightly below trend, and there are still only a few straws in the wind to suggest that the expected acceleration to 3½% by the end of 2015 has started. Some of the latest business surveys point to a modest lift in confidence and conditions across big advanced economies, but the direction of risk is clearly tilted toward growth continuing to disappoint and the predicted slowdown in Chinese growth presents a headwind to any pick-up in the global average.
- Lower oil prices generally provide a net boost to global activity and the appreciation of the $US should also help by shifting global demand toward areas where there are ample idle resources (eg the Euro-zone). Activity in net oil exporters will, however, suffer and the broader downturn in global commodity markets is eroding national income across a wide range of primary producing countries – including Australia.

Australian overview

- We have not changed our near term GDP forecasts – growth of 2.3% in 2014/15. The Q4 national accounts continue to show an economy struggling to offset the impact of falling mining investment. While investment in dwellings is improving and likely to remain strong, falling iron ore and non-rural commodity prices are significantly reducing income flows within the economy. Business confidence continues to erode and consumers remain cautious – with the strength in Q4 consumption unlikely to be repeated in early 2015.
- We have slightly softened the expected kick in 2015/16 from lower oil prices and rate cuts – and now expect GDP growth of 3.0% (previously 3.2%). That reflects the weaker expectations for non mining investment, the potential of a sharper fall in mining investment, and renewed consumer caution as unemployment continues to rise (now expected to reach 6.7% by end 2015). In 2017 GDP could be around 3% and unemployment 6% by the end of the period
- Inflation will slow significantly as domestic demand remains sluggish with flat real wages growth. Headline inflation is likely to be relatively flat by mid 2015 with core inflation falling below the RBA's target range. Core inflation is expected to remain in the bottom half of the target range till late 2016.
- We still see another rate cut in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% in 2015 but the chances of that happening are rising (35-40% chance). We see rate rises starting again in H2 2016.

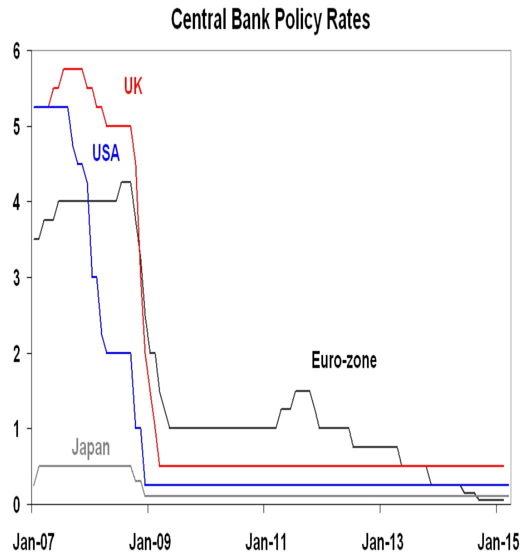


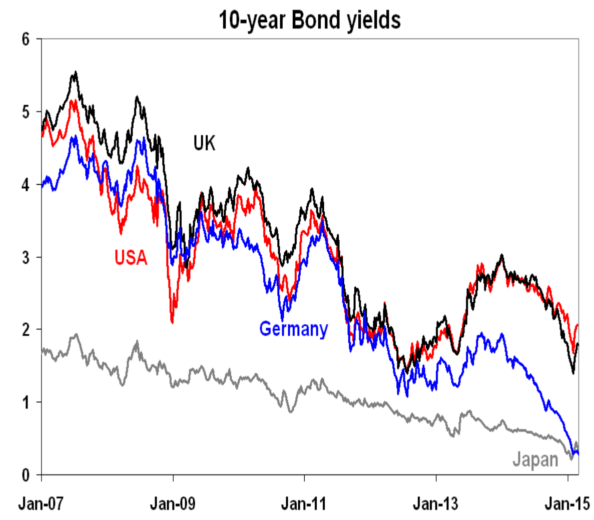


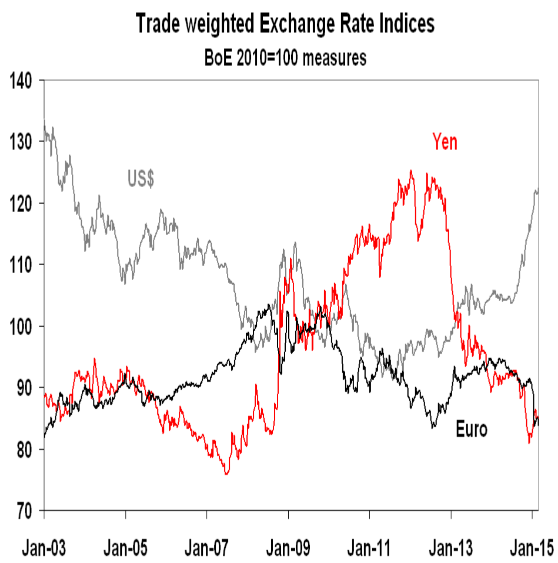
Sources: ABS, NAB estimates

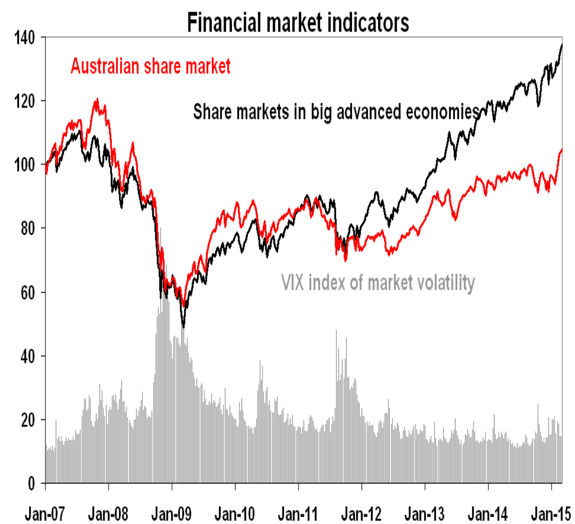
Financial markets

- Divergence in economic conditions between the big advanced economies has been highlighted in recent central bank decisions on monetary policy. With growth looking solid, the Fed is still preparing the ground for a gradual rise in US policy interest rates. That said, very low inflation means that tightening could start later than the mid-2015 we have long expected. The Fed is still saying that it could well keep its target rate below its long-run average even if inflation and employment are where it wants them to be.
- The Bank of Japan's policy remains focussed on promoting inflation and a recovery in output by keeping zero interest rates through boosting the money supply by buying assets (especially government bonds). The central bank remains convinced that trend output is recovering from last year's recession and says that it will keep zero rates and large asset purchases until it is confident inflation has settled at its target 2%.
- With Euro-zone CPI inflation turning negative in late 2014, little growth in output and double-digit unemployment, the ECB has stepped up its asset buying policy with the decision to purchase government bonds. Policy interest rates are already near zero but the big depreciation in the Euro against the $US, lower bond yields, easier access to finance by business and rising loan demand should combine with the announced lift in asset buying to boost activity.
- Divergent underlying conditions between the big advanced economies are reflected in the fall in the Yen and Euro as well as the appreciation of the $US, which should rebalance growth toward the weaker economies. Bond yields have also been falling sharply across key advanced economies,



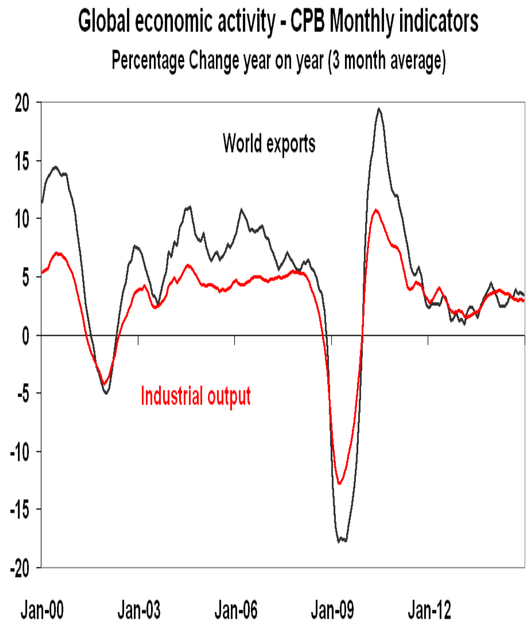


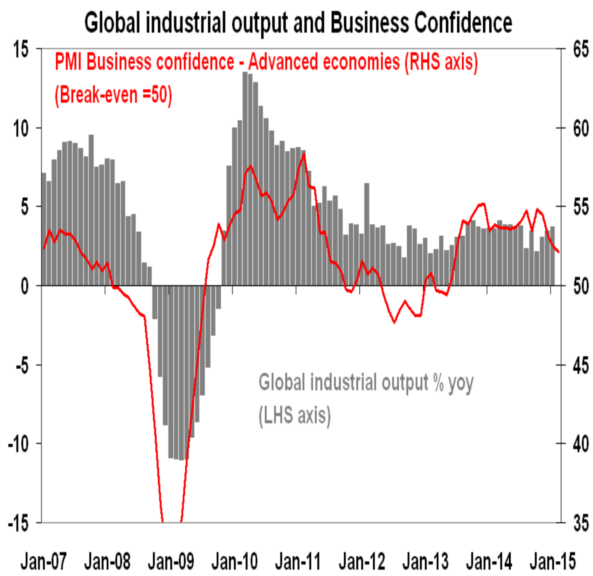


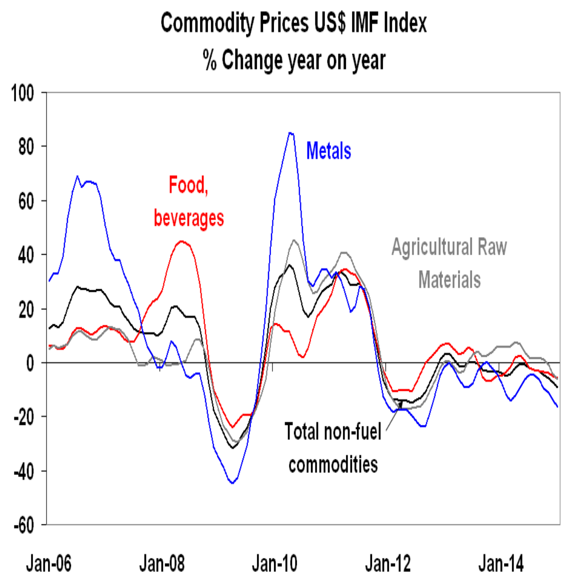


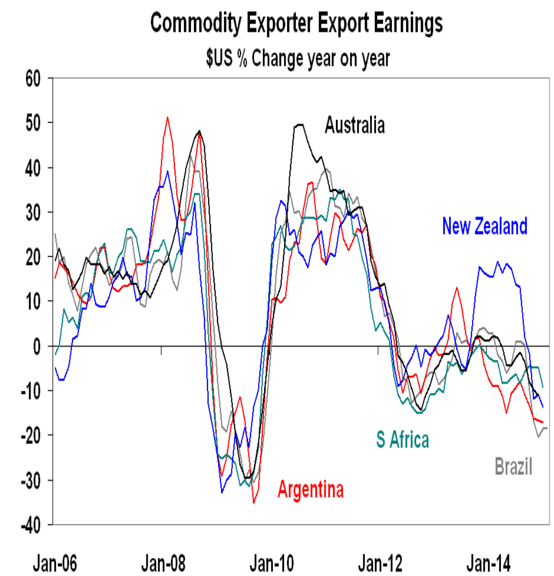
Global Economic Trends

- Global economic growth appears to be continuing at a sub-trend pace with industrial output and world trade expanding by around 3% yoy and business survey readings consistent with moderate growth. Business surveys and limited data on output and trade show these trends continuing into the early months of 2015 with a hint of some pick-up in the pace of growth.
- February global readings from the purchasing manager surveys show service sector activity reaching a 5 month high while manufacturing got to a 6 month high. Lower US manufacturing confidence weighed on advanced economy results for February but Euro-zone output is finally growing.
- January industrial output in the US and Japan were quite positive and consumer confidence has lifted across most of the big advanced economies. Some of this brighter tone probably reflects the impact of lower oil prices, a net benefit to incomes and household spending in most of the advanced economies.
- The decline in oil prices is part of a much broader drift down across a wide range of commodity markets which is already having an impact on export revenues in key primary producers like Brazil, Argentina, S. Africa, Australia and NZ (where the previous surge reflected dairy).
- Income losses of the type seen in these commodity exporters will be replicated on an even bigger scale across net oil exporting countries, dragging on global growth and forming the counterpart to the income gains seen in big energy/commodity importers like Japan, China India and the Euro-zone. The net effect of lower oil prices on the global economy is positive but results for other commodities are less clear-cut.



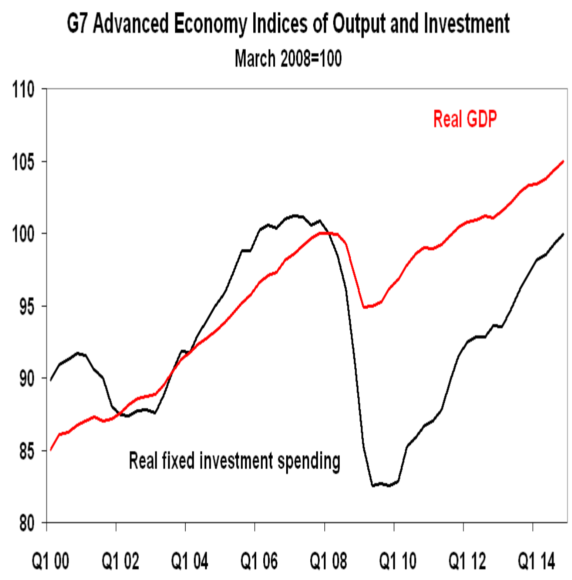


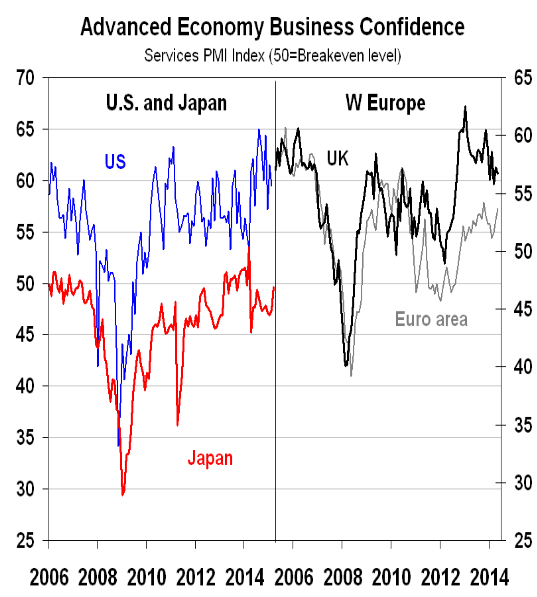




Advanced Economies

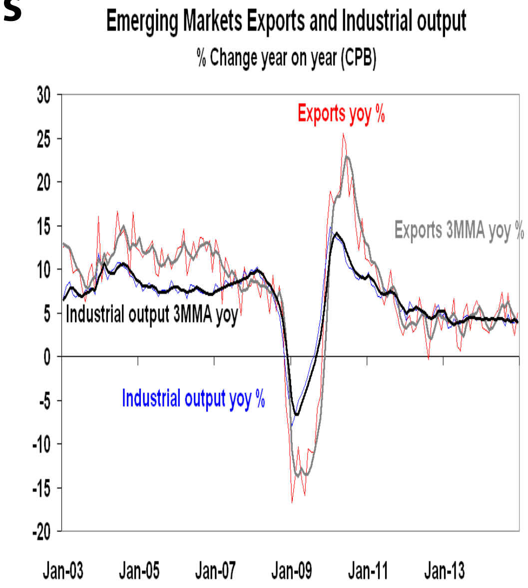
- After picking up through the first three quarters of 2014, the pace of growth in the big 7 advanced economies fell slightly in the final quarter to an annualised pace of around 2% from the 2½% that had been achieved in September quarter.
- The business surveys and partial indicators of activity portray a mixed picture since the end of last year. Business surveys available to March month suggest that conditions are finally recovering in Japan, following a post-tax rise downturn that started last April and proved much deeper and longer than expected. The Bank of Japan has continually stressed its belief that the economy would get back to its previous trend of modest growth and it looks as if that might finally be happening.
- After a few very strong quarters of growth in mid-2014, US growth slowed in the final quarter of last year and recent partial economic data (retail trade, construction, business investment) have been on the weak side. The purchasing manager surveys are also off last year's peaks but both they and the job market point to ongoing growth at an above-trend pace. We have slightly lowered our US growth forecast to reflect the softer nature of recent data.
- Recent surveys and partial data point to a pick-up in Euro-zone activity, building on the 0.3% growth seen in the final quarter of last year. February's business survey readings were the highest since last July, Euro-zone retail trade started growing quite strongly in late 2014 and this has carried over into January 2015, industrial production has at least stabilised and the lower Euro exchange rate should help the currency union's output recover further.

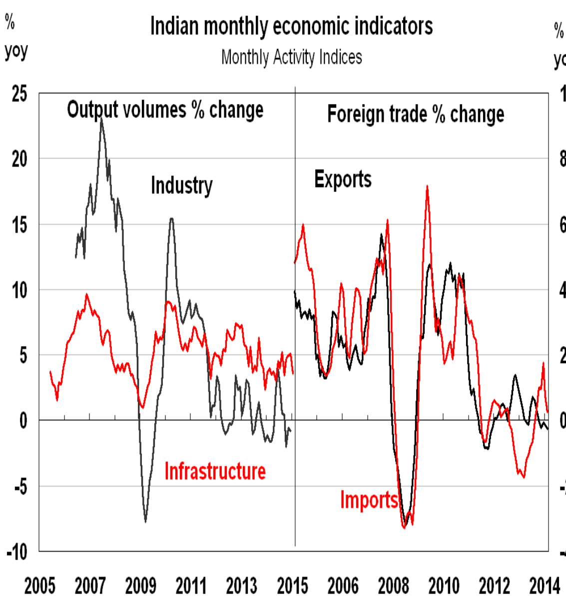




Emerging Market Economies

- The trade and industrial output data shows growth stabilising at a moderate pace through the latter half of last year. Industrial output was growing at an annualised rate of around 4% at the end of 2014 and the fragmentary data available for early 2015 does not point to any upturn. The trade situation is no better with a marked downturn in exports from Asia dragging emerging economy annualised growth down to under 1% in the final quarter of 2014.
- The softness in industry and trade is evident across large parts of the emerging market block of economies, with the welcome exceptions of China and India (which are probably now the first and third ranked global economies in terms of size, it being likely that Chinese GDP has outstripped that of the US). Latin America has been particularly weak with a notable downturn in both US$ exports and industrial output volumes, reflecting the combined impact of falling exporter incomes and weak domestic demand. East Asia, outside Japan and China, has also turned in a disappointing performance with year on year growth in output volumes virtually stalling in late 2014 and US$ export growth turning negative around the turn of the year.
- Although the revised Indian national accounts turned in a surprisingly buoyant reading for end 2014 GDP – the broadest measure of economic activity – the data for trade and output present a very mixed and generally weaker picture. Indian GDP grew by 7½% yoy in December, down from September's 8¼% yoy – giving faster growth than China. It is, however, hard to reconcile this buoyancy with the weakness in exports and industrial output.



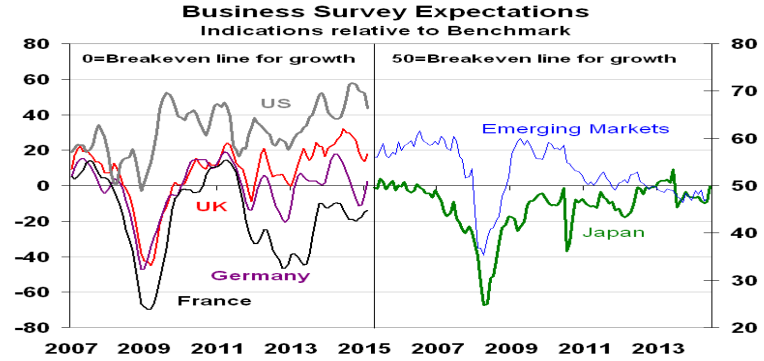


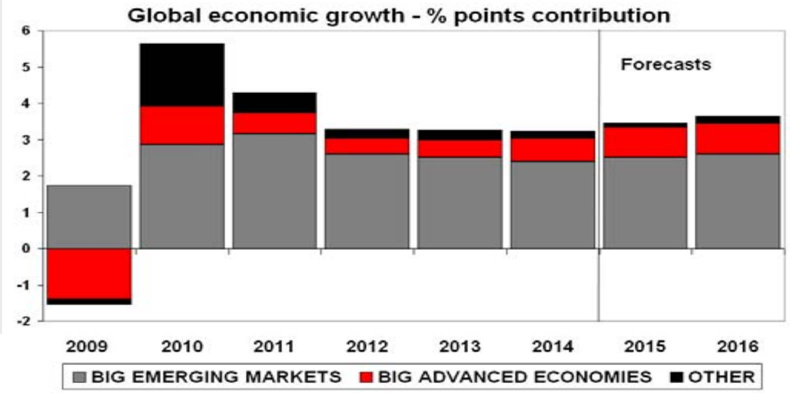
Global forecasts

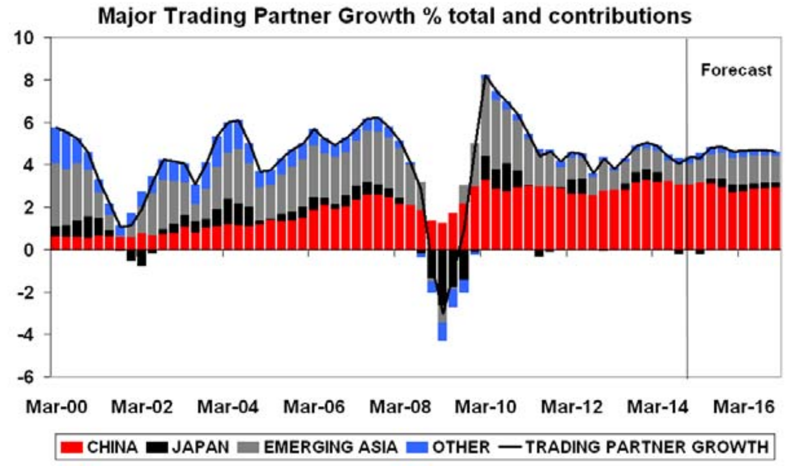
- We have made a few modest changes to our forecasts, the biggest reflecting the major change in India's growth accounting system that has added 1½ ppts to its recent growth rate. Apart from that, we have modestly revised US and Emerging Asian growth down to take account of softer than expected recent data and revised Euro-zone growth up to reflect the trade benefits of the weaker Euro.
- Our forecasts imply a gradual acceleration in the pace of global growth from the 3% yoy recorded in late 2014 to around 3½% yoy by the latter half of the year, mainly reflecting a pick-up in the big advanced economies (US, Japan and Euro-zone) and India. Currency changes shifting global demand toward the Euro-zone and the benefits of lower oil prices to national income in general and households in particular will help lift advanced economy activity.
- The latest business surveys do point to a modest pick-up in business expectations of activity across Western Europe and in recent conditions in Japan but the Indian surveys do not show any increase in optimism in the local business sector. The risk is that the expected uplift in growth comes later than expected.

Global growth forecasts % change year on year

				NAB Forecasts		
	2011	2012	2013	2014	2015	2016
US	1.6	2.3	2.2	2.4	3.1	2.7
Euro-zone	1.6	-0.6	-0.4	0.8	1.3	1.7
Japan	-0.4	1.5	1.5	0.2	0.8	1.2
UK	1.6	0.7	1.7	2.6	2.4	2.3
Canada	2.5	1.7	2.0	2.4	2.3	2.1
China	9.3	7.8	7.7	7.4	7.1	6.9
India	7.7	4.8	6.3	7.2	7.7	8.0
Latin America	4.3	2.1	2.3	0.7	1.3	2.3
Emerging East Asia	4.4	4.5	4.3	4.0	4.4	4.6
New Zealand	1.8	2.4	2.2	3.2	2.9	1.8
World	*4.3*	*3.3*	*3.3*	*3.2*	*3.5*	*3.6*
memo						
Advanced Economies	1.6	1.2	1.4	1.8	2.3	2.3
Emerging Economies	6.8	5.2	5.5	5.0	5.2	5.5
Major trading partners	4.6	4.2	4.5	4.4	4.7	4.7







Australian outlook

- We have not changed our near term GDP forecasts (2.3% in 2014/15). The Q4 national accounts continue to show a domestic economy struggling to offset the impact of falling mining investment. While investment in dwellings is improving the boost to consumption is likely to fade (recent soft retail sales) with on going caution in consumer attitudes. At the same time falling iron ore and non rural commodity prices have significantly reduced income flows.

- As reflected in the February Nab survey there are no signs of renewed momentum in early 2015 and business confidence continues to deteriorate. Of more concern, non mining investment in the out years appears to have weakened .

- We have slightly softened the expected kick in 2015/16 from lower oil prices and rate cuts – and now expect GDP growth of 3.0% (was 3.2%). That reflects weaker expectations for non mining investment, the potential of a sharper fall in mining investment, and renewed consumer caution as unemployment continues to rise (now expected to reach 6.7% by end 2015). An early view of 2017 sees GDP growth of around 3% and unemployment falling back to 6% by end 2017.

- Inflation continues to slow significantly as demand remain low, with wages growth flat in real term. Core inflation falls below the bottom of the RBA's target range by mid 2015 and remains in the bottom half of the target range till mid 2016.

- We still see another rate cut in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% in 2015 but the chances of that are rising (35-40% chance) as the unemployment rises. Rate rises are expected to begin by H2 2016 with the cash rate reaching 3% by late 2017.

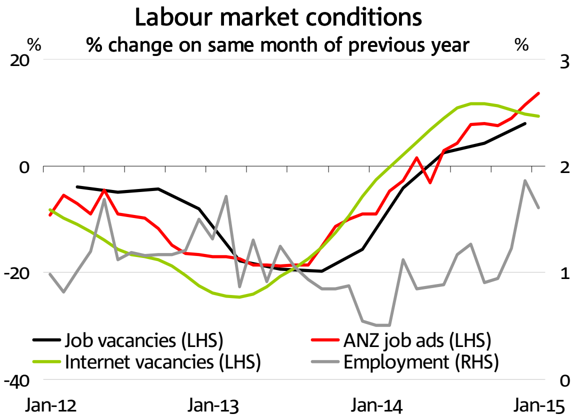
Australian economic and financial forecasts (a)

	Fiscal Year			Calendar Year		
	2014-15 F	2015-16 F	2016-17 F	2015-F	2016-F	2017-F
Private Consumption	2.7	2.9	2.6	2.8	2.9	2.4
Dwelling Investment	6.5	10.7	6.2	8.4	9.2	3.5
Underlying Business Fixed Investment	-6.7	-9.8	-10.9	-8.2	-9.9	-12.2
Underlying Public Final Demand	-0.1	0.9	1.4	0.2	1.1	1.6
Domestic Demand	**0.9**	**1.3**	**1.0**	**1.0**	**1.3**	**0.6**
Stocks (b)	0.1	0.0	-0.1	-0.1	0.0	0.0
GNE	**1.0**	**1.2**	**0.9**	**0.9**	**1.3**	**0.6**
Exports	7.0	6.9	8.2	6.5	7.8	8.4
Imports	-2.4	-1.8	-1.8	-2.9	-1.0	-2.7
GDP	**2.3**	**3.0**	**3.0**	**2.5**	**3.2**	**3.0**
– Non-Farm GDP	2.5	3.1	3.1	2.5	3.2	3.0
– Farm GDP	-3.4	1.6	2.0	-0.9	2.0	2.0
Nominal GDP	1.8	4.1	5.1	2.4	5.2	4.9
Federal Budget Deficit: ($b)	40	30	30	NA	NA	NA
Current Account Deficit ($b)	46	37	3	46	20	-15
(-%) of GDP	2.9	2.2	0.2	2.8	1.2	-0.8
Employment	1.3	1.5	2.3	1.4	1.9	2.3
Terms of Trade	-9.9	-3.9	-0.7	-7.9	-1.1	-1.4
Average Earnings (Nat. Accts. Basis)	1.7	2.2	2.8	1.7	2.6	2.8
End of Period						
Total CPI	0.1	3.4	2.7	1.2	3.3	2.3
Core CPI	1.9	2.7	2.4	2.1	2.6	2.6
Unemployment Rate	6.5	6.4	6.1	6.7	6.2	6.1
RBA Cash Rate	2.00	2.00	3.00	2.00	2.75	3.50
10 Year Govt. Bonds	2.75	3.25	3.60	2.90	3.60	3.40
$A/US cents :	0.75	0.73	0.77	0.74	0.75	0.79
$A - Trade Weighted Index	66.0	63.7	63.5	65.2	62.8	64.4

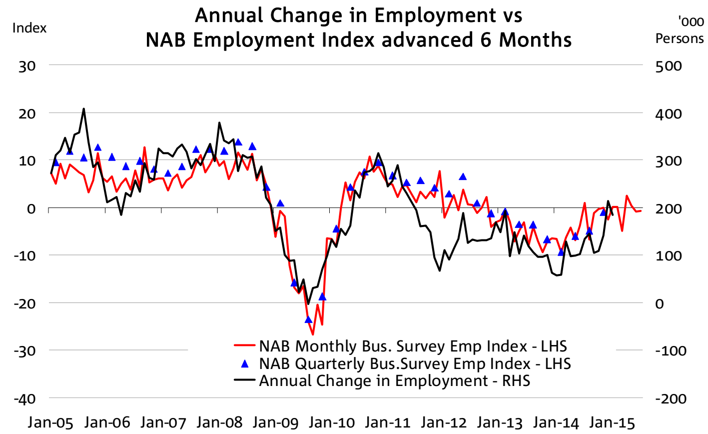
(a) Percentage changes represent average annual growth, except for cash and unemployment rates. The latter are end June. Percentage changes for CPI represent through
(b) Contribution to GDP growth

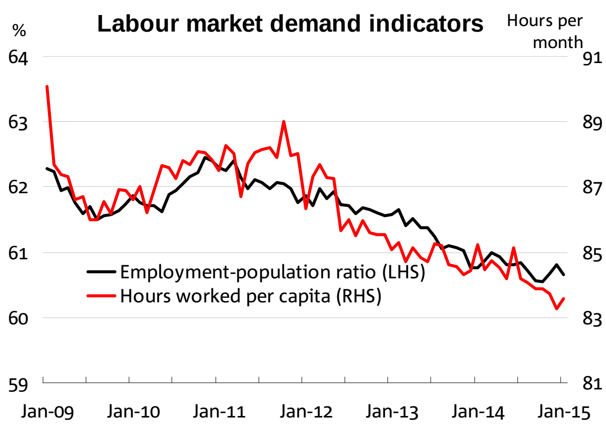
Australian labour market

- There is considerable noise in the employment data and comparisons with other partial labour market indicators. As noted previously the partials suggested that the official employment series were under estimating employment growth in mid to late 2014 – which then saw a catch up in the final months of 2014. That gap has re-opened up a touch recently – albeit internet jobs have flattened out recently (see chart below – left hand panel)
- Another perspective can be seen from a comparison between the NAB employment series (from the Survey) and the annual growth in employment. This comparison has two main advantages: a strong statistical relationship going back to the late 1980s; and the fact that the NAB series leads annual employment growth by around 6 months (see chart below – middle panel). The key messages from that comparison are:
  - the series also suggests some statistical noise around end 2014 where employment growth appears too strong; and
  - the comparison suggests that for the next 6 months employment growth should be around 170k jobs per annum or around 15k per month – a rate of employment growth insufficient to stabilise the unemployment rate
- Looking at other data in the labour force statistics also suggests a soft labour market. Thus the trend in the employment to population ratio continues to track down, while the hours worked per population ratio has fallen to very weak levels – see chart below right hand panel.
- Going forward what really matters for employment is the activity outlook. Here, the February Business survey shows trading (especially) profits and employment all tracking well below long run average levels. Low confidence levels are clearly also not helping. If we allow some correction in the February employment estimates (say an unemployment rate of 6.3%) then our forecasts for activity imply growth in employment of around 15-20k per month which sees the unemployment rate rising progressively to peak at 6.7% by late 2015. Our forecasts then imply moderately faster employment growth and unemployment falling moderately to around 6% by mid to late 2017.



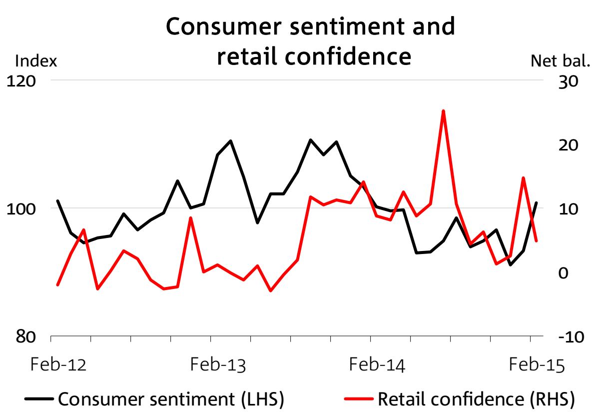
Sources: ABS, Datastream, Department of Employment



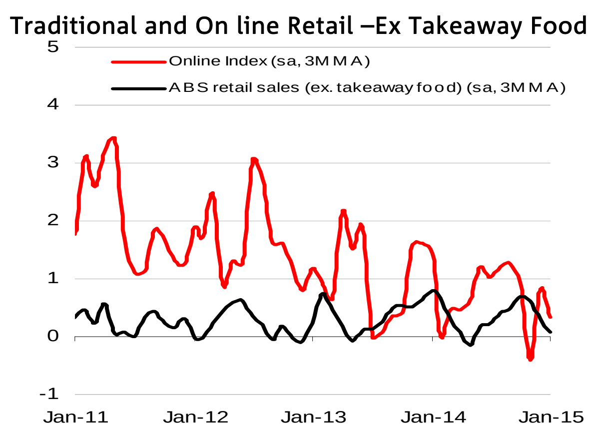


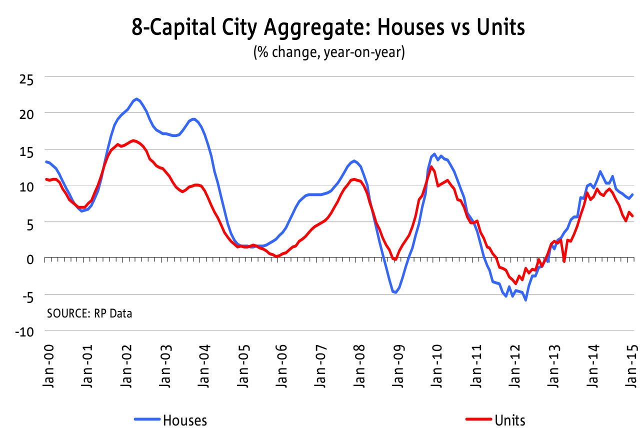
Australian consumer demand and housing market

- While consumption was relatively strong in Q4 2015 (up 0.9% in real terms) that appears to have been heavily influence by the very strong retail sales readings in September and October (up 1.7% in the two months). Subsequently retail sales have struggled – up 0.6% in the three months to January. Similarly retail business conditions in February disappointed (an index reading of -4) causing retail business confidence to fall significantly (down 10 points) – see chart below left hand panel.
- While online retail has recovered somewhat from a very poor November reading, the reality is that online trading remains very subdued – increasing at a 3 monthly rate of only 0.3% in the three months to January. Indeed domestic on line was even softer at 0.2%on the same basis. The chart below shows recent trends in both on line and traditional sales – excluding takeaway food. For more details see NAB Online Retail Sales Index – January 2015. Generally consumer sentiment has improved recently but still at best remains around long run average levels. Further, consumers are still very much focussed on what might be called non discretionary purchases (such as utility costs, transport, medical expenses and paying off debt) – see NAB Quarterly Australian Consumer Anxiety Index – Q4 2014.
- According to RP Data-Rismark dwelling prices in Australia have risen 8.3% in the year to January – with the strongest markets very much Sydney (up 13.7%) and to a lesser extent Melbourne (up 7.4%). That said, the year on year growth rates have slowed – especially in the unit market – see chart below right hand panel. Further evidence of heat coming out of the housing market can be seen in the NAB Quarterly Australian Residential Property Survey – Q4 2014 – where expectations for house prices increases over the next 12 months eased back considerably with fears of falls in Perth. Our forecasts for national house price growth are for increases of 4.7% in 2015 and 3% in 2016.
- On credit, housing credit growth has moved up a touch with owner occupied around 0.6% (y/y 5.9%) in January and investor a strong 0.8% (10.4% y/y). The latter is running a touch higher than APRA's maximum growth rate. Business credit has continued to strengthen increasing by 0.8% in January and 5.5% over the year. Personal credit on the other hand remained flat for annual growth of 1%.
- Australian equity markets (ASX 200) increased strongly in February to be up 6.1% - banks (up 6.2%) and resources (up 10.6%). While rate cuts and expectations of more to come have been important in driving the market up, the resources sector is still 14% below its peak in mid 2014.



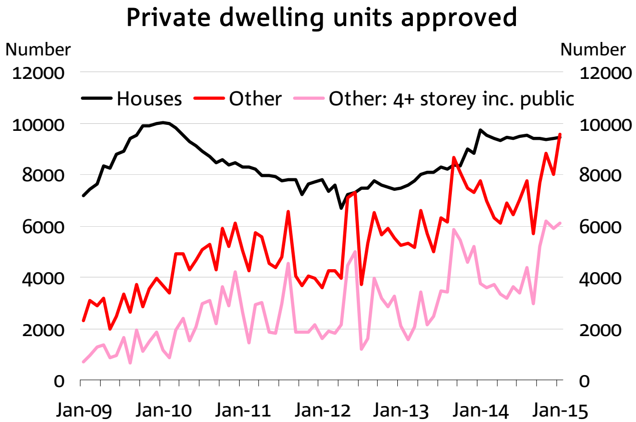
Sources: Datastream and NAB business survey



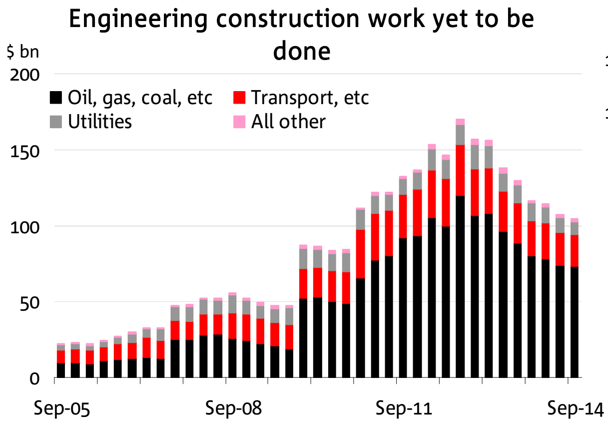


Australian investment

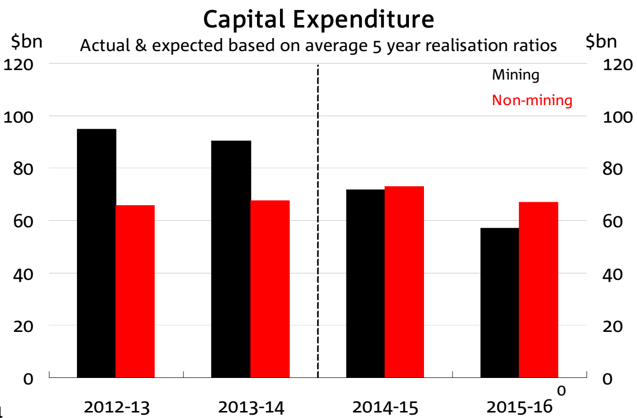
- As expected dwelling investment increased by 2.6% in Q4 2016. With very high approvals in the dwellings – especially apartments – we expect to see similar or stronger growth in dwelling investment over the next year – we are forecasting much stronger growth of around 12% and 7% growth over 2015 and 2016 respectively.
- As can be seen from the chart below – left hand panel – most of the growth in approvals are in the other (apartment) sector and very heavily concentrated in the more than 4 story category. A significant driver of that demand has come from foreign investors. Indeed property developers estimate around 16% of new sales are to foreigners with much higher concentrations in Melbourne (around 30%). See NAB Quarterly Australian Residential Property Survey – Q4 2014. While recent attempts to tighten foreign investment rules may slow demand eventually, the reality is that the existing approvals will be built – and contribute to the reallocation of resources from mining to the non mining sector
- With mining work yet to be done falling, the expected declines in mining investment are well underway – as reflected in the mining expectations data – see charts below
- On going falls in resource prices (iron ore, oil and by association gas prices in LNG contracts) and very weak confidence levels are likely to further dampen prospects for new mining exploration and investment activity and may well see projects delayed or cancelled. Indeed the reading for mining confidence are now eye wateringly bad – the reading of -44 points in February is around the bottom of mining confidence readings during the GFC.
- Perhaps the most concerning recent data read on the overall investment outlook was not so much the expected falls in mining investment (albeit they were worse than expected) but rather the surprise weakening in non mining expectations for 2015/16 (see chart below – right hand panel). As a result we are now forecasting falls of around 10%in underlying business investment during both 2015 and 2016 with even larger falls in 2017.



Source: ABS



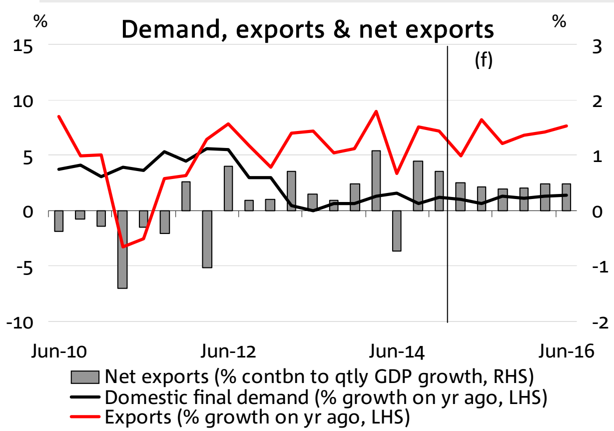
Source: ABS



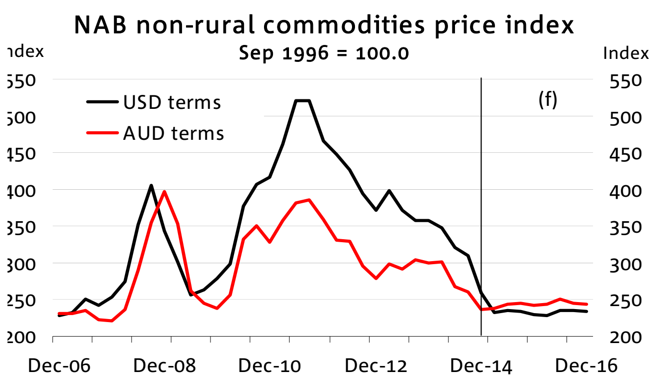
Source: ABS & NAB calculations

Australian commodities, net exports and terms of trade

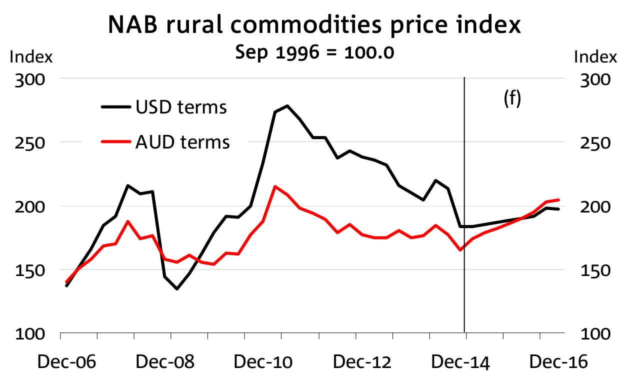
- With a contribution of +0.7 percentage points, net exports were the main driver of real GDP growth in Q4 2014, adding to the evidence that the transition of Australian economy away from the mining investment boom to a commodity export emphasis is well underway. This was partly assisted by a falling terms-of-trade which retreated by a further 1.7% in the quarter to be 10.8% lower in year-ended terms, which in turn captured the effects of a depreciated AUD that lifted import prices relatively more than the export price.
- We continue to expect the external sector to perform the bulk of the heavy-lifting in Australia's activity this year and next, with net exports forecast to contribute 1.9 percentage points to GDP growth in both 2015 and 2016. Meanwhile domestic demand is only expected to grow at a modest rate of 1.1% in 2015 and 2016, which is below population growth, and contribute 1.0 and 1.2 percentage points to GDP over the two years respectively.
- Reflecting our expectations of a weaker exchange rate against the backdrop of falling global commodity prices, the non-rural commodity index denominated in USD is expected to fall by around 20% during 2015. The AUD is now expected to soften to around $US74c by the end of 2015, thereby constraining the fall of the index in AUD terms to a relatively more modest 9%. Implicit in these forecasts are iron ore prices remaining around current levels till H2 2015, while there could be some upside risks from oil prices given their recent rallies.
- The NAB Rural Commodities Index (in USD terms) is expected to fall by 9.4% 2015 reflecting an appreciation of the USD and downward trends in global grains and dairy prices, before recovering partially in 2016 (+4.4%). In AUD terms, the weaker currency could see rural prices up around 2.6% during 2015, but expected to pick up pace next year (+9.8%) on the back of further expected depreciation of the exchange rate and a partial recovery in grains and dairy prices.
- As noted above, net exports contributed strongly to real GDP growth in Q4 2014, with the actual current account deficit realising at a better-than-expected $9.6bn, narrowing substantially from $12.1bn in Q3 2014. Furthermore, mining investments have been more resilient than anticipated in recent quarters as mining projects ran down the construction work pipeline at a rapid rate. As the pipeline of work reduces, mining-related imports are expected to wind down more quickly in the coming quarters, weighing on overall imports growth. Hence, we expect the current account deficit for 2014/15 to be 2.9% of GDP (or around $46bn), slightly lower than the 3.0% for 2013-14, before easing notably during 2015/16 to around 2.2% of GDP (or around $37bn) on further mining-related imports weakness.



Sources: ABS, NAB forecasts



Source: ABS; ABARES; Bloomberg; NAB; Thomson Datastream



Sources: ABS; ABARES; Bloomberg; NAB; Thomson Datastream

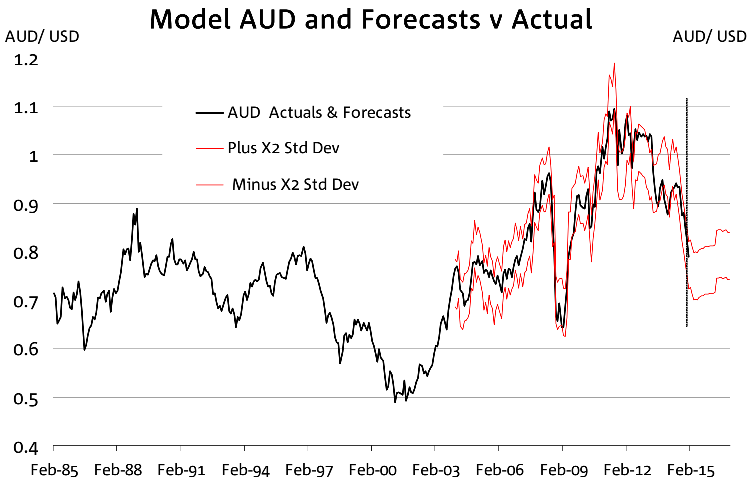
Australian financial markets

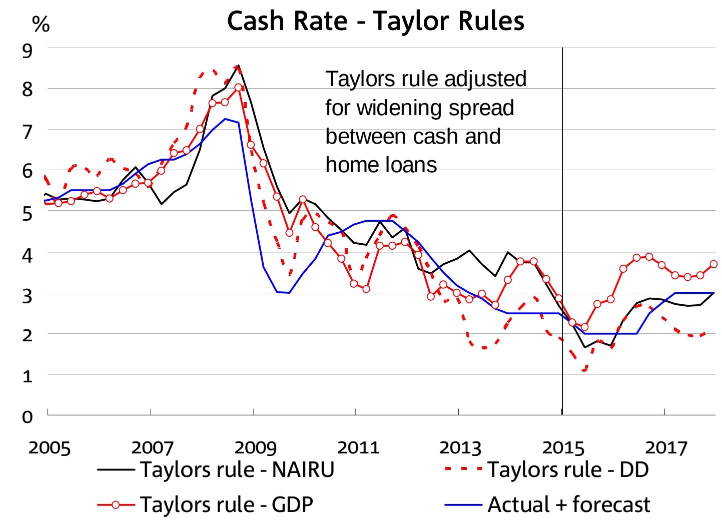
Exchange rate

- At this stage we have kept our currency forecasts unchanged at around $USD 74c by late 2015 and moving a touch lower during 2016 before ending a touch higher (78c) end 2016. As can be seen from the chart (below left) these forecasts are broadly consistent with our fundamental model – albeit the forecasts imply ongoing USD strength.

Interest rates

- We have not changed our interest rate forecasts
- We still see the need for another rate cut in coming months – most likely May but the April meeting is live and data dependent.
- Having cut rates in January the RBA is clearly looking to see the impact of that move. To date confidence has not behaved as the RBA had hoped. The RBA will be very sensitive to any further weakness in the labour market – rising unemployment. Equally it would not like to see accelerating house prices.
- We are not forecasting a second cut to below 2% in 2015 but the chances of that are rising (35-40% chance in our view) as unemployment rises.
- Rate rises are expected to begin by H2 2016 with the cash rate increasing reality moderately and to lower rates than previously expected . Our forecasts are for the cash rate to reach 3% by late 2017
- Interestingly the Taylors rule analysis (in the chart below right) suggest the possibility of a sub 2% cash rate – following the domestic demand and NAIRU rules. Those rules also see rates rising from mid 2016 and peaking at around the 3% mark (as per our forecasts).





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