



Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

18 May 2015

Sharp lift in non-mining job advertising in April

This week we look at:

- The 4.9% rise in SEEK new job advertisements recorded in April – with the big and predominantly non-mining states very strong; and
- Two important aspects of the Australian Budget – the likely impact on confidence; and the continued reliance of the Budget forecasts on a recovery in revenues.

The week ahead

It looks likely to be a relatively quiet week for Australian data and events. That of course is not to predict that markets won't be moving around a lot as they have done in recent weeks from offshore influences, primarily from the rise in bund yields and oil prices and constantly fluctuating views on the timing of Fed lift-off.

The main data of note in Australia are the weekly ANZ and the monthly Westpac consumer confidence releases. Both will be closely scrutinised for evidence of a positive impact from last week's budget on consumer confidence. As a weekly series. The ANZ measure will provide the best discrete measure of this impact. NAB's social media tracking suggests a relatively positive reaction, which suggests each index should record a rise, given the general absence of bad news and the presence of some positive measures for small businesses in particular. The extent to which these rises are sustained in coming weeks and months will be important.

Otherwise, the only other events are the RBA Minutes (Tuesday) and a speech by RBA Deputy Governor Phil Lowe, which was released today at 9.30am. The speech highlighted the two transitions that were happening in the economy. The first is the familiar story of the economy rebalancing towards non-mining growth. The second was the less familiar story of lower global interest rates for an extended period of time. In terms of policy implications the speech noted the RBA's recent interest rate decisions as seeking to "strike a prudent balance – to help encourage consumption growth and thus business investment, but avoid the type of imbalances that could cause problems later on. We will continue to assess that balance carefully". We interpret this as the RBA being on hold for some time to assess how recent easing is impacting on the economy.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.8011	1.5	RBA cash	2.00	0
AUD/CNY	4.97	1.4	3y sw ap	2.29	-12
AUD/JPY	95.9	1.2	ASX 200	5,705	1.4
AUD/EUR	0.701	-0.9	WTI oil	59.8	0.8
AUD/NZD	1.078	0.2	Gold	1,221.8	3.3

Source: Bloomberg

There will no doubt be ongoing discussion about whether the RBA still has an easing bias – given the Bank has just eased twice and downgraded its economic forecasts twice, it definitely will be inclined in that direction. There was some chatter after the RBA cut in early May that because the statement didn't have an explicit easing bias that the RBA had gone "neutral". The Deputy Governor cleared this misunderstanding up in Q&A this morning. He said "If you look back through the interest-rate decisions of recent years, on the months where we've changed the cash rate we haven't provided any guidance about what's likely to happen in the future and I think that's appropriate. The focus on that month is really on the decision rather than what comes in the future. He went further and added "So we still have scope to lower interest rates if we need to. That doesn't mean we're going to, but we have scope to do that if we need to and nothing has changed in that dimension."

We continue to view the RBA as being on hold for some time to assess how recent easing is impacting on the economy.

SEEK new job ads surge in April

SEEK released its new job advertisements for April last week. The results were a very strong rise (+4.9% m/m in April) taking the level of advertising to 12.1% higher than a year ago (see chart 1). The two largest (and predominantly non-mining) states (NSW and Victoria) led the gains with increases of 5.8% m/m and 5.7% m/m respectively, continuing their relatively strong trends of late (see chart 2). Encouragingly, there was also a relatively strong 4.4% rise recorded in Queensland, which had seen weak advertising trends in February and March, after the change of government. This provides tentative evidence that the change of government may not have had a lasting impact on hiring intentions, or the beginnings of a moderate improvement in the Queensland labour market.

The charts highlight the strength in hiring emerging in the non-mining economies and sectors and the continuing (but not-unexpected) weakness in mining, reflected especially in the weakness in WA and NT new job advertisements, these states having the largest exposure to mining. Importantly, the

Chart 1: Strength in non-mining and weakness in mining states

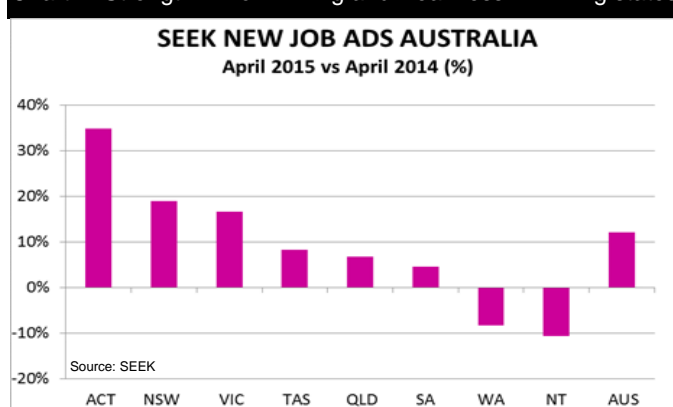


Chart 2: Strength in non-mining states

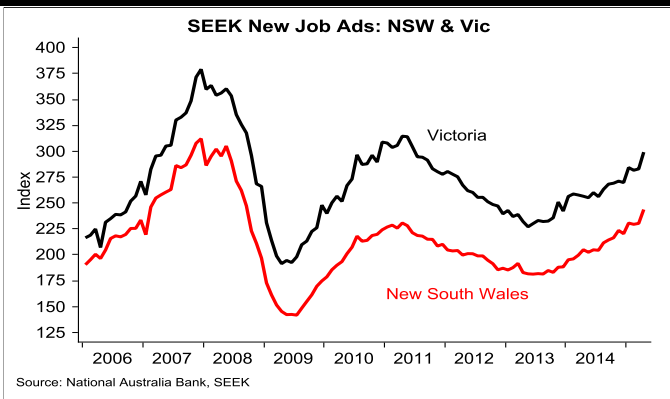
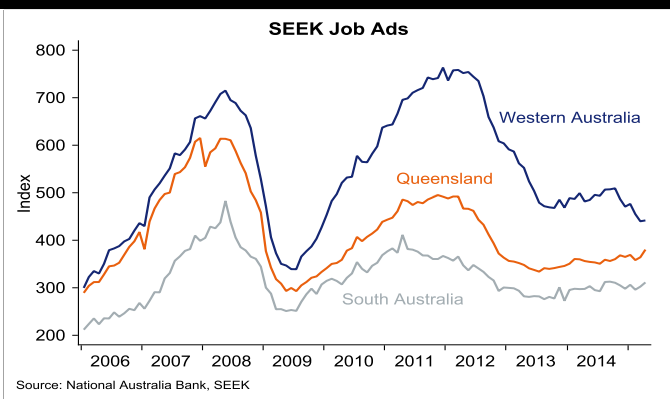


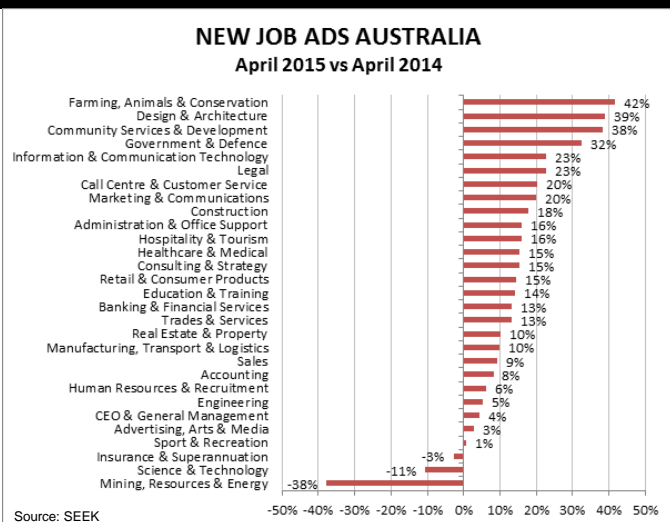
Chart 3: Weakness/restrain in mining exposed states



emerging strength in non-mining advertising is currently sufficient to outweigh the weakness in mining advertising, even in Queensland, though the restraining influence in this state is clearly evident.

These trends are the latest incarnation of Australia's two-speed economy. However, at face value they also provide support for the argument that monetary policy is not well equipped to deal with the current dichotomy of the economy: those sectors that react most to monetary policy easing, interest sensitive sectors such as housing are reacting with some vigour, while mining

Chart 4: Two-speed economy Mark III

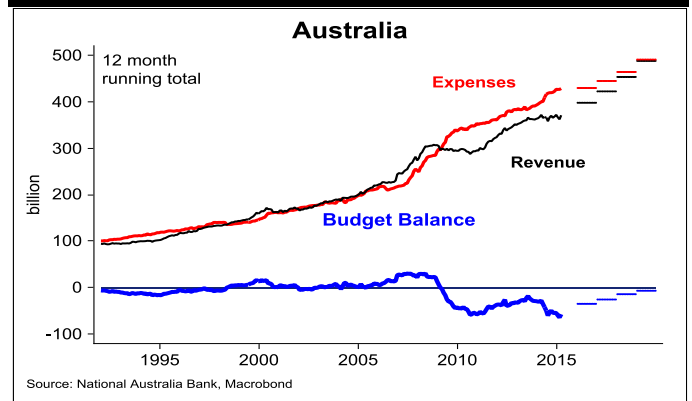


and related sectors currently dragging on the economy, will largely be unaffected by monetary easing, being mainly impacted by commodity prices and to a lesser extent the \$A.

The past few months continues to reveal the \$A's fortunes being more in the hands of US\$ and Federal Reserve interest rate trends, with the \$A now higher than before the first of the RBA's interest rate reductions in February. That said, NAB continues to expect the Fed to begin to raise US interest rates in September, which is anticipated to produce a restrengthening in the US\$. This leaves our end-2015 \$A forecast at US\$0.74.

Budget forecasts still very reliant on revenue recovery

Chart 5: Budget still reliant on revenue recovery



While the most important aspect of the Budget for markets in the near term will be whether it produces a lasting positive impact on confidence, the chart above highlights that the forecasts of a return toward balance continue to rely heavily on the return to a more normal revenue environment. Both sides of politics have continued to budget expenditures on the basis of this assumption in recent years. However, as lower commodity prices produced lower nominal growth and contributed to slower wages growth, revenues have disappointed and deficit forecasts have been revised higher.

This dynamic (and vulnerability) in Australia's budget remains in force this year, though the economic forecasts underpinning the budget appear credible. One cannot criticise the Government for not seeking to recoup weaker than expected taxation revenues at a time of relatively moderate economic growth. One could suggest that perhaps more constrained expenditure could have more of a role to play, as it must as the economy strengthens, given the Government has more control over its expenditures than revenues. Most of all, the current budget forecasts again highlight just how poorly Australia managed the terms of trade boom by failing to run much tighter fiscal policy in the boom years. The cost of this is a very slow return to a stronger fiscal position and increased vulnerability to any renewed global downturn, given our substantially depleted fiscal reserves.

ivan.colhoun@nab.com.au

Calendar of Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 18 May 2015								
NZ	Fonterra forecast for 2015/16 Milk Price (pending)							
NZ	BNZ-BusinessNZ Performance Services Index	Apr				57.6	22.30	8.30
UK	Rightmove House Prices MoM/YoY	May				1.6%/4.7%	23.01	9.01
AU	RBA's Lowe Gives Speech in Sydney						23.30	9.30
JN	Machine Orders MoM/YoY	Mar		1.5%/-6.0%		-0.4%/5.9%	23.50	9.50
CH	China April Property Prices						1.30	11.30
AU	New Motor Vehicle Sales MoM	Apr				0.5%	1.30	11.30
JN	Industrial Production MoM	Mar F				-0.3%	4.30	14.30
US	Fed's Evans Speaks on Economy and Monetary Policy in Stockholm						6.00	16.00
US	NAHB Housing Market Index	May		57		56	14.00	0.00
Tuesday, 19 May 2015								
NZ	PPI Input/Output QoQ	1Q		-1.5%		-0.4%/-0.1%	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-17					23.30	9.30
UK	ONS House Price YoY	Mar				7.2%	23.30	9.30
AU	RBA May Meeting Minutes						1.30	11.30
NZ	RBNZ Survey of Expectations (2yr-ahead annual CPI inflation)	May				1.8%	3.00	13.00
UK	CPI MoM/YoY	Apr		0.4%/0.0%		0.2%/0.0%	8.30	18.30
UK	PPI Output NSA MoM/YoY	Apr				0.2%/-1.7%		
EC	Trade Balance SA	Mar				22.0B	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	May		68/49		70.2/53.3	9.00	19.00
EC	ZEW Survey Expectations	May				64.8	9.00	19.00
EC	CPI MoM/YoY	Apr/F		0.2%/0.0%		1.1%/0.0%	9.00	19.00
EC	CPI Core YoY	Apr F				0.6%	9.00	19.00
US	Housing Starts / MoM	Apr		1018K/9.9%		926K/2.0%	12.30	22.30
US	Building Permits / MoM	Apr		1065K/2.2%		1039K/-5.7%	12.30	22.30
CA	BoC's Poloz speaks in Charlottetown						15.30	1.30
Wednesday, 20 May 2015								
NZ	Dairy Auction					-3.5%		early AM
AU	RBA's Lowe is a moderator at The Future of International Gov and G20						23.15	9.15
JN	GDP SA QoQ	1Q P		0.4%		0.4%	23.50	9.50
AU	Westpac Consumer Conf SA MoM	May				-3.2%	0.30	10.30
AU	Skilled Vacancies MoM	Apr				0.4%	1.00	11.00
US	Fed's Evans Speaks on Economy and Monetary Policy in Munich						7.00	17.00
UK	Bank of England Minutes						8.30	18.30
US	U.S. Fed Releases Minutes from April 28-29 FOMC Meeting						18.00	4.00
Thursday, 21 May 2015								
NZ	ANZ Job Advertisements MoM	Apr				-0.8%	22.00	8.00
NZ	Net Migration SA	Apr				4990	22.45	8.45
AU	RBA's Edey speaks at Annual Cards and Payments Conference						22.50	8.50
AU	Consumer Inflation Expectation	May				3.4%	1.00	11.00
AU	RBA FX Transactions Market	Apr				1355M	1.30	11.30
JN	Markit/JMMA Japan Manufacturing PMI	May P					1.35	11.35
CH	HSBC China Manufacturing PMI	May P					1.45	11.45
CH	MNI May Business Indicator						1.45	11.45
NZ	Government Budget					+0.6b	2.00	12.00
NZ	Credit Card Spending YoY	Apr				0.60%	3.00	13.00
GE	Markit/BME Germany Manufacturing PMI	May P		52.0		52.1	7.30	17.30
EC	Markit Eurozone Manufacturing PMI	May P		51.8		52	8.00	18.00
EC	ECB Current Account SA	Mar				26.4B	8.00	18.00
EC	Current Account NSA	Mar				13.8B	8.00	18.00
UK	Retail Sales Incl. Auto MoM/YoY	Apr		0.4%/3.7%		-0.5%/4.2%	8.30	18.30
EC	ECB minutes						11.30	21.30
US	Initial Jobless Claims	May-16		270K		264K	12.30	22.30
US	Markit US Manufacturing PMI	May P		54.5		54.1	13.45	23.45
US	Philadelphia Fed Business Outlook	May		8.0		7.5	14.00	0.00
EC	Consumer Confidence	May A		-4.8		-4.6	14.00	0.00
US	Existing Home Sales / MoM	Apr		5.24M/1.0%		5.19M/6.1%	14.00	0.00
US	Fed's Vice Chair Fischer Speaks at ECB Conference in Portugal						17.30	3.30
US	Fed's Williams Speaks on Central Bank Governance in Stanford						23.00	9.00
Friday, 22 May 2015								
AU	RBA Payment System Board Meeting							
NZ	ANZ Consumer Confidence MoM	May				3.4%	1.00	11.00
JN	Bank of Japan Policy Statement/Kuroda Press Conference						3.00	13.00
GE	GDP SA QoQ / NSA YoY	1Q F		0.3%/1.1%		0.3%/1.1%	6.00	16.00
GE	IFO Business Climate	May		108.3		108.6	8.00	18.00
GE	IFO Current Assessment	May		113.5		113.9	8.00	18.00
GE	IFO Expectations	May		103		103.5	8.00	18.00
US	CPI MoM/YoY	Apr		0.1%/-0.2%		0.2%/-0.1%	12.30	22.30
CA	CPI NSA MoM / CPI YoY	Apr		0.1%/1.0%		0.7%/1.2%	12.30	22.30
CA	Retail Sales	Mar		0.3%		1.7%	12.30	22.30
US	CPI YoY	Apr		-0.2%		-0.1%	12.30	22.30
US	Markit US Manufacturing PMI	May P		54.5		54.1	13.45	23.45
US	Fed's Yellen Speaks in Providence						17.00	3.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		22-May	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Canada, BoC		27-May				0.75%		
Australia, RBA		2-Jun	2.00%	2.00%		2.00%		
Europe ECB		3-Jun	0.05%	0.05%		0.05%		
UK BOE		4-Jun	0.50%	0.50%		0.50%		
New Zealand, RBNZ		11-Jun	3.50%	3.50%		3.50%		
US Federal Reserve		18-Jun				0%-0.25%		

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

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change											
	2013	2014	2015	2016	2013				2014				2015			
Australia Forecasts	2013	2014	2015	2016	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	1.7	2.5	2.7	2.9	0.3	0.3	0.8	0.5	0.6	0.6	0.6	0.9	0.5	0.6	0.7	0.7
Underlying Business Inves	-4.5	-6.1	-8.5	-9.9	-5.7	-1.2	1.2	-3.1	-2.5	-1.1	-1.2	-1.2	-2.2	-3.6	-2.9	-2.5
Residential Construction	0.3	7.9	8.4	9.2	-2.0	2.7	-0.2	0.9	5.7	1.1	-1.2	2.5	2.6	2.6	2.6	3.0
Underlying Public Spendin	0.3	0.8	0.2	1.1	2.8	-0.1	-0.6	1.3	0.3	0.6	-1.4	0.4	0.2	0.2	0.2	0.2
Exports	6.2	6.8	6.5	7.7	0.9	3.7	-0.4	1.4	4.1	-1.6	3.6	1.0	1.9	1.4	1.6	1.8
Imports	-1.8	-1.7	-3.1	-1.1	-2.5	2.1	-1.3	-1.0	-1.3	2.0	-0.7	-2.5	-0.5	-0.7	-0.4	-0.1
Net Exports (a)	1.6	1.7	2.0	1.9	0.7	0.3	0.2	0.5	1.1	-0.7	0.9	0.7	0.5	0.4	0.4	0.4
Inventories (a)	-0.3	0.0	-0.1	0.1	-0.2	0.4	-0.3	-0.2	-0.4	0.9	0.1	-0.8	0.1	0.1	0.1	0.0
Domestic Demand - qtr%					-0.2	0.2	0.5	0.2	0.4	0.5	-0.4	0.6	0.2	0.1	0.2	0.4
Dom Demand - ann %	0.4	1.2	0.9	1.2	0.5	0.0	0.6	0.7	1.3	1.5	0.7	1.2	1.0	0.6	1.2	0.9
Real GDP - qtr %					0.3	0.7	0.4	0.7	1.1	0.5	0.4	0.5	0.6	0.7	0.7	0.8
Real GDP - ann %	2.1	2.7	2.4	3.2	2.0	2.1	1.9	2.2	3.0	2.7	2.7	2.5	2.0	2.2	2.6	2.8
CPI headline - qtr %					0.4	0.4	1.2	0.8	0.6	0.5	0.5	0.2	0.2	0.5	0.8	0.9
CPI headline - ann %	2.4	2.5	1.8	3.1	2.5	2.4	2.2	2.7	2.9	3.0	2.3	1.7	1.3	1.4	1.8	2.5
CPI underlying - qtr %					0.5	0.6	0.6	0.9	0.6	0.7	0.4	0.6	0.6	0.5	0.6	0.7
CPI underlying - ann %	2.4	2.6	2.4	2.7	2.3	2.4	2.3	2.6	2.7	2.8	2.5	2.3	2.4	2.2	2.4	2.5
Wages (Pvt WPI -ann %)	2.9	2.5	2.4	2.4	3.1	3.0	2.7	2.5	2.6	2.4	2.5	2.5	2.4	2.4	2.4	2.4
Unemployment Rate (%)	5.7	6.0	6.3	6.3	5.6	5.7	5.7	5.9	5.8	5.9	6.1	6.2	6.2	6.2	6.4	6.4
Terms of trade	-3.9	-7.5	-8.4	-1.2	0.7	0.4	-1.9	0.4	-2.1	-3.9	-3.5	-1.8	-3.2	-0.8	-1.0	-1.1
G&S trade balance, \$Abn	-10.2	-9.1	-7.8	19.1	-3.7	-2.3	-3.3	-0.9	1.7	-4.5	-3.9	-2.4	-3.3	-2.2	-1.5	-0.8
% of GDP	-0.7	-0.6	-0.5	1.1	-1.0	-0.6	-0.8	-0.2	0.4	-1.1	-1.0	-0.6	-0.8	-0.5	-0.4	-0.2
Current Account (% GDP)	-3.3	-2.8	-2.9	-1.3	-3.5	-3.3	-3.5	-3.0	-2.2	-3.4	-3.0	-2.4	-3.3	-3.0	-2.8	-2.6

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	18-May	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Majors						
AUD/USD	0.8011	0.76	0.78	0.76	0.74	0.73
NZD/USD	0.7428	0.73	0.74	0.72	0.70	0.69
USD/JPY	119.72	119	123	124	125	126
EUR/USD	1.1427	1.13	1.08	1.05	1.03	1.02
GBP/USD	1.5715	1.50	1.50	1.46	1.45	1.44
USD/CNY	6.2040	6.30	6.20	6.25	6.20	6.20
USD/CAD	1.2043	1.26	1.25	1.24	1.22	1.21

Australian Cross Rates

AUD/JPY	95.9	90	96	94	93	92
AUD/EUR	0.7011	0.67	0.72	0.72	0.72	0.72
AUD/GBP	0.5098	0.51	0.52	0.52	0.51	0.51
AUD/NZD	1.0785	1.04	1.05	1.06	1.06	1.06
AUD/CNY	4.9700	4.79	4.84	4.75	4.59	4.53
AUD/CAD	0.9648	0.96	0.98	0.94	0.90	0.88
AUD/CHF	0.7358	0.73	0.77	0.78	0.77	0.75

Interest Rate Forecasts

	18-May	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.00
3 month bill rate	2.14	2.15	2.15	2.15	2.15	2.20
3 Year Swap Rate	2.30	2.3	2.4	2.3	2.7	2.8
10 Year Swap Rate	3.19	3.1	3.2	3.2	3.5	3.5
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.50	0.75	0.75	1.25
ECB refi rate	0.05	0.05	0.05	0.05	0.05	0.05
BoE repo rate	0.50	0.50	0.50	0.50	0.75	1.00
BoJ overnight call rate	0.09	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	3.50	3.50	3.50	3.50	3.50	3.75
China 1yr lending rate	5.10	5.20	5.20	5.20	5.20	5.20
China Reserve Ratio	18.5	19.5	19.5	19.5	19.5	19.5
10 Year Benchmark Bond Yields						
Australia	2.87	2.8	2.9	2.8	3.1	3.1
United States	2.16	2.25	2.50	2.50	2.8	2.8
Europe/Germany	0.62	0.3	0.4	0.6	0.7	0.8
UK	1.88	1.8	2.0	2.1	2.2	2.4
New Zealand	3.65	3.5	3.8	3.8	4.0	4.0

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	20 Yr Avge
Australia	2.1	2.7	2.4	3.2	3.4
US	2.2	2.4	2.5	2.7	2.6
Eurozone	-0.4	0.9	1.4	1.8	1.5
UK	1.7	2.8	2.2	2.4	2.4
Japan	1.6	-0.1	0.8	1.3	0.8
China	7.7	7.4	7.1	6.9	9.2
India	6.3	7.2	7.7	7.9	6.6
New Zealand	2.2	3.3	2.8	2.0	3.0
World	3.3	3.3	3.2	3.4	3.5

Commodity prices (\$US)

	18-May	Jun-15	Dec-15	Jun-16	Dec-16
WTI oil	59.84	52	60	65	70
Gold	1222	1180	1070	1060	1060
Iron ore	61	58	61	58	54
Hard cok. coal	112	110	95	93	97
Thermal coal	62	68	68	62	62
Copper	6415	5900	6260	6200	6170
Japan LNG	11.9	12.0	11.0	11.0	11.0

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

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

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.