



Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

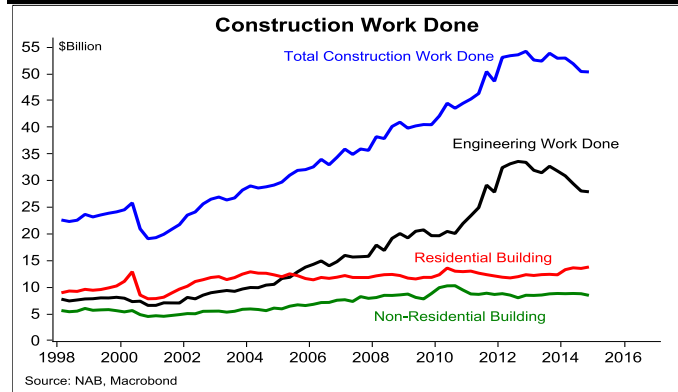
National
Australia
Bank

25 May 2015

Tracking the Capex transition

The local data flow starts up in earnest again this week, with the release of two important quarterly investment partials ahead of March quarter GDP due next Wednesday, 3 June. These are Construction Work Done due Wednesday and New Private Capital Expenditure (Capex), released on Thursday. These partials and those due early the week after will help form the RBA's view of Australia's economic growth in the March quarter as well as reassess the outlook for business investment and growth as it prepares its brief for the June RBA Board meeting.

Construction resource headwind vs residential tailwind



Our starting point for the partials is NAB's model-based estimate for March GDP that is 0.6% q/q, 2.0% y/y. That forecast embodies forecast growth in private residential construction of 2.6% and underlying business investment declining by 2.2%. Those GDP line items provide the starting point to estimate this week's upcoming quarterly partials.

Construction Work Done peaked in 2012 when resource expansion spending was at its zenith, engineering construction activity has since been in decline. Further declines are in store as the current suite of new LNG projects is completed.

Against that headwind, residential construction activity over the past year or so has been on the rise, reducing but not offsetting the effect of the fall in engineering. Further growth in the pipeline of residential building activity – principally apartments, in Melbourne and Sydney – is set to support further growth in residential activity in coming quarters.

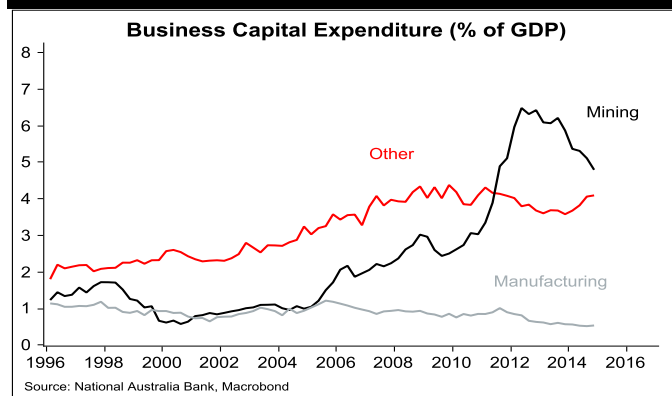
Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7810	-2.3	RBA cash	2.00	0
AUD/CNY	4.84	-2.5	3y sw ap	2.29	0
AUD/JPY	95.1	-0.8	ASX 200	5,706	0.8
AUD/EUR	0.711	1.5	Iron ore	60.0	-2.2
AUD/NZD	1.070	-0.8	WTI oil	59.8	-0.8

Source: Bloomberg

While residential approvals to build have been soaring through April, non-residential building activity has been flat-to-declining, suggesting a flatter outlook for new commercial property development this year. We look for those trends to be reflected in Wednesday's Construction report, NAB expecting a net forecast decline of 1.0% for the March quarter.

Non-resource capex showing signs of growth



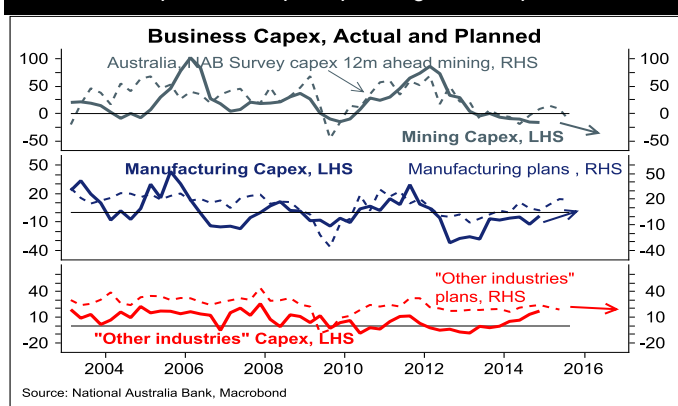
While the non-residential building activity components within the Construction report presents one important element of the business fixed investment story, a more complete picture is presented in Thursday's New Private Capital Expenditure (Capex) report. That report contains its estimate for the March quarter and thus another important feed into the Q1 GDP story. And the market will also be playing close attention to the expectations for capital expenditure with the second estimate for the coming 2015-16 financial year.

The transition of the economy from reliance on resources to domestically-oriented growth can also be tracked in this report. While resource spending is heavily in retreat, "other industry" (mainly domestically-oriented) Capex has been rising in recent quarters. The outlook for 2015-16 remains somewhat clouded, given the first estimate for the year ahead suggested a decline.

For the March quarter estimate of spending, we'd be surprised if the resources down trend has not continued to dominate, even though the nature of such spending is "lumpy". For example "Mining" Capex could yet be held up from the continued spending on LNG plants that are nearing completion and further development of the Roy Hill iron ore project. For the March quarter, NAB forecasts that Capex in total will decline by 2.5%, with weakness tilted to the pull-back in Mining Capex that declined by 5.7% in Q4 and with further declines to come as existing projects are commissioned into production.

But whether the resources sector spending holds up better than expected, there will be particular focus on the growth progress of the non-mining sector. The NAB Survey has been reporting a less downbeat view of "other industries" Capex and an indication that manufacturing industry Capex is set to rise.

Non-resource planned Capex spending more hopeful



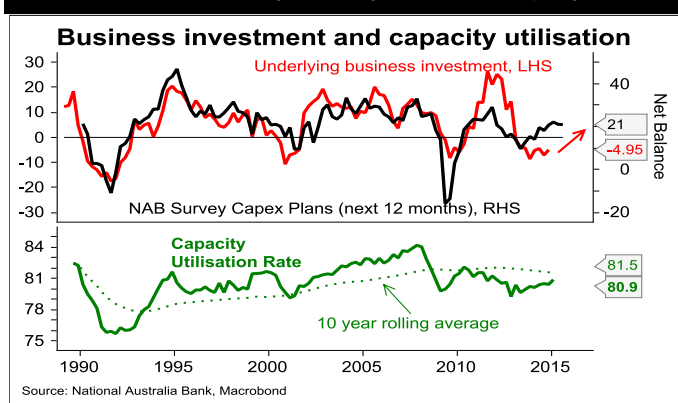
The NAB Survey is more weighted to non-mining/domestic industries and is suggestive that the hoped-for transition will continue to gain some further traction, traction that is already evident in higher frequency reports such as the monthly NAB Business Conditions readings.

Companies firming up 2015-16 plans

For 2015-16 expectations, we look for a second estimate of \$114bn, up only marginally from the \$109bn estimate surveyed a quarter ago, thanks to our expectation of domestically-driven growth, countering resource sector contraction.

Mining/resource company news has pointed to some further paring back in spending, some cuts also likely to be reflected in lower Mining Capex spending, down to a second estimate of \$58bn, from a first estimate of \$60bn. This remains the constraint on overall Capex, declines in bulk commodity prices leading companies to further pare costs and Capex.

Business capital spending showing some recovery signs

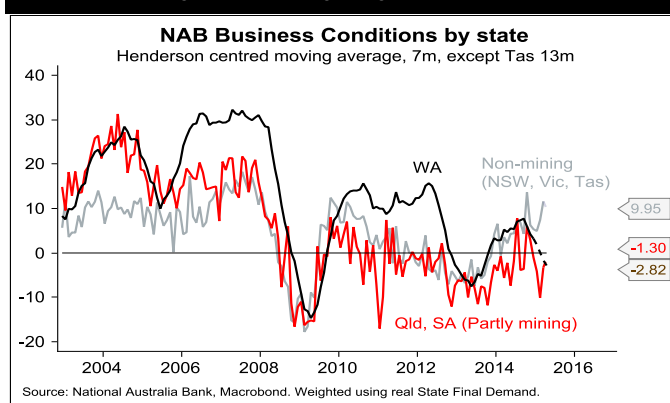


Bear in mind also that the first estimate usually suffers from some early conservative bias six months out from the start of the financial year and is usually revised up in this survey. Such a second estimate for mining Capex would be consistent with a large prospective decline in resource spending, a decline heralded for some time.

While resource spending is undeniably weak, we look for a 15% net upgrade for "other industries" Capex from the first estimate of \$43.6bn to be revised up to a second estimate of \$50bn. Some of this reflects the usual firming up of plans a quarter out from the start of the financial year but some we expect will have come from the net improvement in eastern state-centric business growth.

The second estimate of Manufacturing Capex is expected to be flat at \$6bn, and we will be interested to see whether this is too conservative.

Eastern States' growth making progress



Note that this survey was conducted in April-May, so before the Federal Budget but in the pre-Budget environment that heralded a Budget that was being touted politically as conducive to growth and confidence. Some survey returns would have been submitted after the May RBA rate cut, though we doubt that would have heralded any noticeable uplift, as yet, in investment decisions, business borrowing rates remaining at low rates.

The week ahead

In addition to this week's investment partials, the other main releases for the week ahead are HIA New Home Sales and RBA credit, both due Thursday. We do not have a forecast for HIA home sales but this is one of the few measures of new dwelling demand, including for apartments. HIA members have been reporting a sharp increase in sales in recent months a stark contrast to flat detached home sales.

The pace of RBA credit growth is expected to tick up a little higher to 0.6%/6.4%, a point higher than the 0.5% consensus pick that would be the same as in March. We look for a return to somewhat stronger business credit growth this month after 0.2% growth in March that was the slowest rate of growth since November last year.

The market will also be paying close attention to the pace of housing credit growth, especially investor housing that stepped up to a 0.9%/10.4% pace, up from 0.7%/10.1% to March, growth that is testing the upper 10% limit signalled by the monetary authorities to financial institutions last December. We note in this context that dwelling re-sale prices continued rising in April at a fast clip (+0.8% for the eight capital cities), underpinning continued credit growth. That said, APRA is taking steps to slow growth in investor loans to less than 10%.

There is also a speech from RBA Deputy Governor Phil Lowe at a Regulatory Summit in Sydney, on Wednesday morning. (No speech title was available at the time of writing.) With the impending RBA June Board meeting and the Summit's focus, he'll likely steer clear of any market sensitive commentary on the economy and monetary policy.

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Calendar of Economic Releases

Country	Economic Indicator	Time Period	NAB		Consensus	Actual	Previous	GMT	AEST
			Forecast						
Monday, 25 May 2015									
JN	Trade Balance (Seasonally Adjusted)	Apr			¥-391B		¥3.3B	23.50	9.50
US	Fed Vice Chair Fischer speaks on economy in Israel							15.00	1.00
US	Fed's Mester Speaks to Academic Conference in Reyjavik (Alt)							16.00	2.00
US, UK	US Memorial Day, UK Spring Bank holidays								
Tuesday, 26 May 2015									
NZ	Fonterra forecast for 2015/16 Milk Price (due this week; perhaps Wed/Thurs?)								
NZ	Trade Balance	Apr	66M		100M		631M	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-24						23.30	9.30
JN	PPI Services YoY	Apr			0.60%		3.20%	23.50	9.50
NZ	LVR ratio	Apr					5.80%	3.00	13.00
JN	Small Business Confidence	May			48.0		47.4	5.00	15.00
JN	Cabinet Office Monthly Economic Report	May							
UK	CBI Reported Sales	May					12.00%	10.00	20.00
US	Durable Goods Orders	Apr			-0.50%		4.0%	12.30	22.30
US	FHFA House Price Index MoM	Mar			0.70%		0.7%	13.00	23.00
US	House Price Purchase Index QoQ	1Q					1.4%	13.00	23.00
US	S&P/CS 20 City MoM/YoY	Mar			0.9%/4.6%		0.93%/5.03%	13.00	23.00
US	Markit Services/Composite PMI	May P			57.0/..		57.4/57.0	13.45	23.45
US	New Home Sales	Apr			500K/4.0%		481K/-11.4%	14.00	0.00
US	Consumer Confidence Index	May			95.2		95.2	14.00	0.00
US	Richmond Fed Manufact. Index	May			0		-3	14.00	0.00
US	Dallas Fed Manf. Activity	May			-12.5		-16	14.30	0.30
US	Fed Vice Chair Fischer speaks on global economy in Israel							16.30	2.30
Wednesday, 27 May 2015									
JN	Bank of Japan April 30 meeting minutes							23.50	9.50
US	Fed's Lacker (v) speaks on Financial Stability							0.10	10.10
AU	Westpac Leading Index MoM	Apr					-0.3%	0.30	10.30
AU	RBA's Lowe speaks at Regulatory Summit							0.45	10.45
AU	Construction Work Done	1Q	-1.0%	-1.2%			-0.2%	1.30	11.30
CH	Industrial Profits YoY	Apr					-0.4%	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	May					111.1	1.45	11.45
GE	GfK Consumer Confidence	Jun			10		10.1	6.00	16.00
US	MBA Mortgage Applications	May-22						11.00	21.00
US	Markit US Services PMI	May P						13.45	23.45
GE	Retail Sales MoM	Apr						14.00	0.00
CA	Bank of Canada Rate Decision	May-27			0.75%		0.75%	14.00	0.00
Thursday, 28 May 2015									
JN	Retail Sales MoM	Apr			1%/5.5%		-1.9%/9.7%	23.50	9.50
JN	Large Retailers' Sales	Apr						23.50	9.50
AU	Private Capital Expenditure	1Q	-2.50%	-2.40%			-2.2%	1.30	11.30
AU	Capex, 2nd estimate 2015/16	1Q	\$114B	\$115B (R: 100-120)			\$109B	1.30	11.30
US	Fed's Williams (v) speaks on Banking Supervision in Singapore							6.20	16.20
UK	BBA Loans for House Purchase	Apr					38751	8.30	18.30
EC	Business Climate Indicator	May						9.00	19.00
EC	Industrial/Services/Consumer Confidence	May//F						9.00	19.00
CA	Current Account Balance	1Q					-\$13.9B	12.30	22.30
US	Initial Jobless Claims	May-23					274K	12.30	22.30
AU	CBA/HIA House Affordability	1Q					96.2	14.00	0.00
US	Pending Home Sales MoM	Apr			0.70%		1.10%	14.00	0.00
US	Fed's Kocherlakota speaks on Monetary Policy							18.45	4.45
Friday, 29 May 2015									
NZ	Building Permits MoM	Apr					11.00%	22.45	8.45
UK	GfK Consumer Confidence	May			4		4	23.05	9.05
JN	Jobless Rate	Apr			3.40%		3.40%	23.30	9.30
JN	Overall Household Spending YoY	Apr			3.00%		-10.60%	23.30	9.30
JN	Natl CPI YoY	Apr			0.60%		2.30%	23.30	9.30
JN	Tokyo CPI YoY	May			0.50%		0.70%	23.30	9.30
JN	Industrial Production MoM	Apr P			0.8%/-0.1%		-0.8%/-1.7%	23.50	9.50
AU	HIA New Home Sales MoM	Apr					4.40%	1.00	11.00
NZ	ANZ Business Survey, Net Confidence	May					30.2	1.00	11.00
AU	Private Sector Credit MoM/YoY	Apr	0.6%/6.4%	0.5%/6.3%			0.5%/6.2%	1.30	11.30
NZ	Credit Aggregates, Household YoY	Apr					5.00%	3.00	13.00
EC	M3 YoY	Apr			4.90%		4.60%	8.00	18.00
UK	GDP QoQ/YoY	1Q P			0.4%/2.5%		0.3%/2.4%	8.30	18.30
UK	Index of Services	Mar					0.30%	8.30	18.30
CA	Quarterly GDP Annualized	1Q					2.4%	12.30	22.30
CA	GDP MoM/YoY	Mar						12.30	22.30
US	GDP Annualized QoQ, revision	1Q S			-0.90%		0.20%	12.30	22.30
US	Chicago Purchasing Manager	May			53.0		52.3	13.45	23.45
US	U. of Mich. Sentiment	May F			90.0		88.6	14.00	0.00
Upcoming Central Bank Interest Rate Announcements									
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%		
Japan, BoJ		19-Jun	0.0%-0.1%	0.0%-0.1%			0.0%-0.1%		

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

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change											
	2013	2014	2015	2016	2013			2014				2015				
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																
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 Spending	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

	25-May	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Majors						
AUD/USD	0.7823	0.78	0.76	0.74	0.73	0.73
NZD/USD	0.7305	0.74	0.72	0.70	0.69	0.68
USD/JPY	121.55	123	124	125	126	126
EUR/USD	1.0995	1.08	1.05	1.03	1.02	1.03
GBP/USD	1.5477	1.50	1.46	1.45	1.44	1.43
USD/CNY	6.2106	6.20	6.25	6.20	6.20	6.18
USD/CAD	1.2291	1.25	1.24	1.22	1.21	1.20

Australian Cross Rates

	25-May	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
AUD/JPY	95.1	96	94	93	92	92
AUD/EUR	0.7115	0.72	0.72	0.72	0.72	0.71
AUD/GBP	0.5055	0.52	0.52	0.51	0.51	0.51
AUD/NZD	1.0709	1.05	1.06	1.06	1.06	1.07
AUD/CNY	4.8586	4.84	4.75	4.59	4.53	4.51
AUD/CAD	0.9615	0.98	0.94	0.90	0.88	0.88
AUD/CHF	0.7385	0.77	0.78	0.77	0.75	0.00

Interest Rate Forecasts

	25-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	2.13	2.15	2.15	2.15	2.15	2.20
3 Year Swap Rate	2.28	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	0.07	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	3.50	3.50	3.50	3.50	3.50	3.50
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	2.92	2.8	2.9	2.8	3.1	3.1
United States	2.21	2.25	2.50	2.50	2.8	2.8
Europe/Germany	0.60	0.3	0.4	0.6	0.7	0.8
UK	1.93	1.8	2.0	2.1	2.2	2.4
New Zealand	3.76	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 Ave
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)

	25-May	Jun-15	Dec-15	Jun-16	Dec-16
WTI oil	59.91	52	55	60	63
Gold	1205	1180	1150	1070	1060
Iron ore	60	58	60	61	60
Hard cok. coal	112	110	98	95	94
Thermal coal	62	68	68	68	68
Copper	6162	5900	6080	6260	6230
Japan LNG	11.9	12.0	11.0	11.0	11.0

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