



Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

16 November 2015

A cyclical turn in unemployment?

A quieter week for Australia, with just the quarterly Wage Price Index and a number of RBA speeches and the release of the Minutes to the November RBA Board Meeting in store. Our special focus for the week, in the wake of last week's stunning labour market data, is on a number of important age cohorts for which the unemployment rate appears to have turned lower (youth unemployment ie 15-24YO and the next youngest, but marginally largest, 25-34 YO age group). Historically neither of these age cohorts has experienced a cyclical turn in unemployment that has not been mirrored by the broader unemployment rate, raising the prospect that the national unemployment rate likely has peaked – and may already be beyond its peak.

This Week

As noted, a quieter week in prospect. The Wage Price Index should record a 0.6% q/q increase, broadly in line with recent quarterly readings. The RBA will read such an outcome as remaining consistent with low inflation and thus leaves open the possibility of further monetary easing should that be required to support to the economy. However as the November Board Statement and Statement of Monetary Policy made clear, the RBA currently thinks there are prospects for a strengthening in growth and so interest rates are likely to remain on hold for some time. The Minutes (Tuesday) and a speech by Chris Kent, Assistant Governor (Economic) will be closely scrutinised to further test this hypothesis. Speeches by Guy Debelle (Wednesday) and Alex Heath (Friday) will also be monitored, with Heath's speech part of a resources conference in Canberra and therefore possibly will focus on how far through the mining downturn the economy currently is.

Market Developments and Key Views

Looking back at the past week, there were three main developments affecting Australian markets. First, was the much stronger-than-expected Australian October labour market data, which we cover in more detail in our Special Focus section below. This saw the \$A broadly stronger compared to a week ago, but still at relatively low levels that will continue to provide support to the economy.

Bond yields have continued to rise, assisted by continued firming in market pricing of the Federal Reserve raising

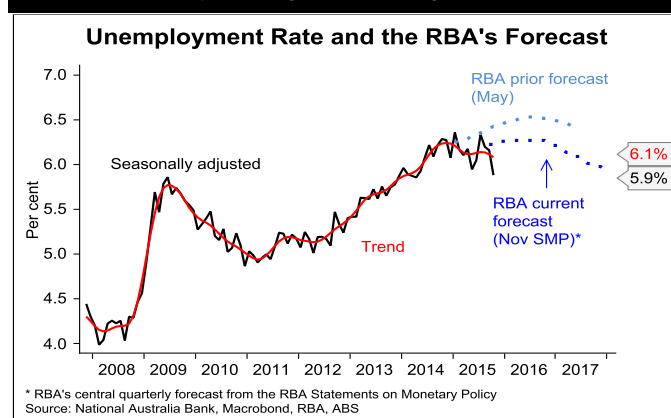
US interest rates by 25bps in mid-December and Australian interest rate markets reducing the extent of further RBA easing priced into the curve. A few weeks ago, the market had priced nearly two more RBA rate cuts. This is now back to only an 80% chance of one further interest rate cut by around October next year. Swap rates are relatively unchanged in spite of these negative bond yield developments owing to a relatively sharp narrowing in swap spreads due to rising bond yields.

Oil prices have remained under significant downward pressure as inventory levels remain high in the US. Low oil prices will likely continue to keep headline inflation rates low, but will continue to provide support to consumer spending. Iron ore prices also remain under downward pressure and fell over the week.

Special focus: Unemployment rate appears to be turning lower

The most important event of last week from an Australian perspective was the much better than expected October labour force figures. While we would downplay the size of each move (ie the nearly 60,000 m/m gain in employment and the 0.3 percentage point fall in the unemployment rate to 5.9%), we would not downplay the trend signals being sent, namely: (i) that the unemployment rate is beginning to trend lower; and (ii) employment growth is currently strengthening a little – and to a rate that is sufficient to lower the unemployment rate further. The current 19,000 per month trend for employment compares to the 14-15,000 jobs per month required to keep the unemployment rate stable. As a consequence, the unemployment trend series (in red) is already lower than the forecasts embodied in the RBA's November SoMP.

Chart 1: Unemployment again surprising RBA forecasts



As we noted in our write-up of the result, NSW continues to drive employment gains across the nation, but Queensland has been the notable change and is now recording strengthening employment. Victorian data had been strangely weak, relative to both the NAB business survey employment component and SEEK job ads trends, but bounced back strongly in October.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7124	1.1	RBA cash	2.00	0
AUD/CNY	4.54	1.3	3y sw ap	2.18	0
AUD/JPY	87.2	0.5	ASX 200	5,051	-3.1
AUD/EUR	0.664	1.2	Iron ore	48.1	-0.2
AUD/NZD	1.089	0.9	WTI oil	40.7	-8.0

Source: Bloomberg

These trends are important for national employment and unemployment trends given we are talking about the three largest states in Australia, together accounting for over three quarters of total employment. In contrast, WA is just over 11% of total employment.

The trend for the unemployment rate in a number of important age cohorts has also been signalling a possible turn in the national unemployment rate. As charts 2, 3 and 4 below report:

- The unemployment rate for the largest (admittedly only just the largest) 25-34YO age cohort has now been improving for some time (the trend for this cohort has been signalled by the slow improving trend for SEEK job advertisements). Importantly, we note, the trend for this cohort (which accounts for 23% of total employment), broadly maps the overall trend for the overall unemployment rate across time; and
- The unemployment rate for youths (the 15-24 YO age cohort) has also turned relatively sharply in recent months. Unfortunately it is a fact of life that youth unemployment tends to show greatest weakness in periods of weak economic growth or recession. The corollary of this statement however is that an improvement in youth unemployment is good news as it suggests better trends for the national economy. Like the 25-34YO age cohort, turning points in the youth unemployment rate have also mirrored turning points for the national unemployment rate historically.

Our conclusion therefore is that the trend for the unemployment rate is currently very encouraging, even if the latest figures likely overstate the pace and degree of current improvement. The trends support NAB's contention that the non-mining economy is doing better than perceived and more than outweighing the drag from weaker mining investment. NAB retains its forecast that Australian cash rates are likely to remain unchanged at 2% for an extended period, before beginning to rise.

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Chart 2: Unemployment in largest age cohort improving...

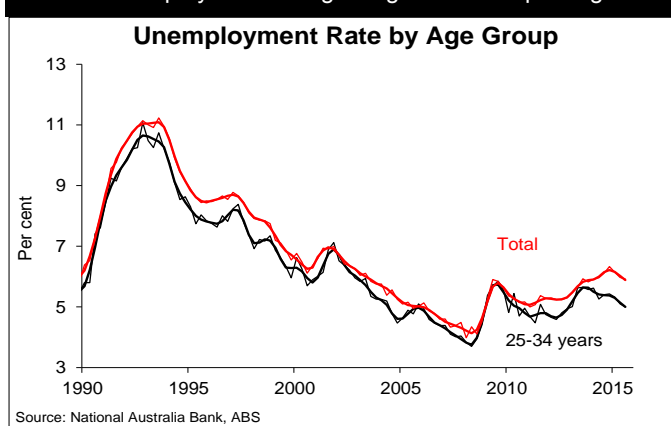


Chart 3: ...for some time as suggested by SEEK job ads

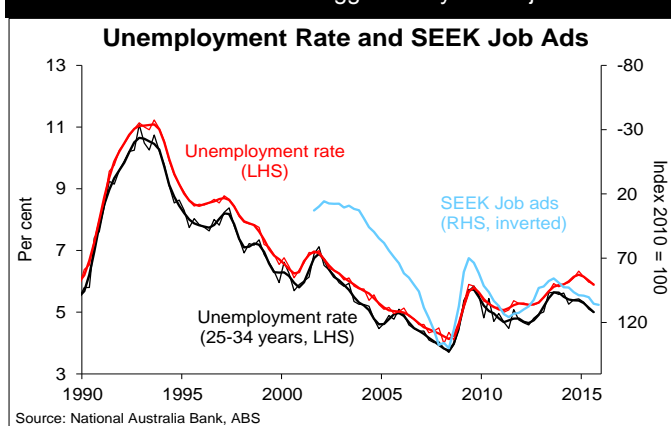
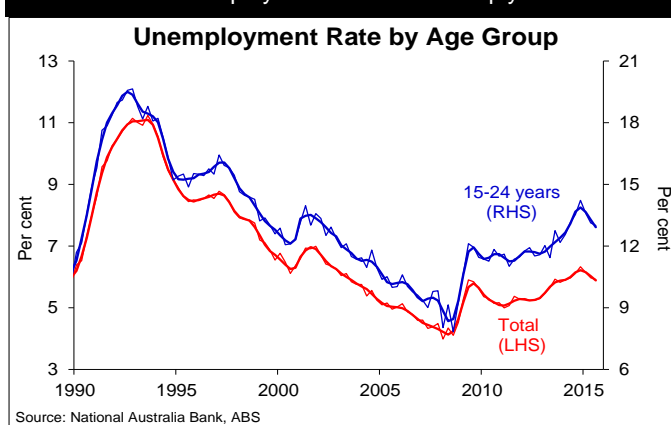


Chart 4: Youth unemployment rate turns sharply lower



Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 16 November 2015								
NZ	Performance Services Index	Oct				59.3	21.30	8.30
NZ	Retail Sales Ex Inflation QoQ	3Q	1.4	1.4		0.1	21.45	8.45
JN	GDP SA QoQ	3Q P		-0.1		-0.3	23.50	10.50
AU	New Motor Vehicle Sales MoM/YoY	Oct		/		5.5/7.7	0.30	11.30
EC	ECB's Vitor Constancio Speaks at Euro Finance Week						8.30	19.30
EC	CPI MoM/YoY	Oct		0.1/0		0.2/-0.1	10.00	21.00
EC	ECB President Draghi Speaks in Madrid						10.15	21.15
CA	Manufacturing Sales MoM	Sep		0.2		-0.2	13.30	0.30
US	Empire Manufacturing	Nov		-6.35		-11.36	13.30	0.30
CA	Int'l Securities Transactions	Sep				3.11	13.30	0.30
CA	Existing Home Sales MoM	Oct				-2.1	14.00	1.00
EC	ECB Executive Board Member Coeure Speaks in Paris						16.00	3.00
EC	ECB's Nowotny in panel on Greece						17.15	4.15
Tuesday, 17 November 2015								
AU	RBA's Christopher Kent speaking						21.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov-15				116.6	22.30	9.30
AU	RBA Nov. Meeting Minutes						0.30	11.30
NZ	2Yr Inflation Expectation	4Q				1.94	2.00	13.00
EC	ECB's Sabine Lautenschlaeger Speaks at Euro Finance						8.30	19.30
UK	CPI MoM/YoY	Oct		0.1/-0.1		-0.1/-0.1	9.30	20.30
UK	PPI Output Core NSA MoM/YoY	Oct		0/0.4		0.1/0.2	9.30	20.30
UK	ONS House Price YoY	Sep		5.4		5.2	9.30	20.30
GE	ZEW Survey Current Situation	Nov		55.2		55.2	10.00	21.00
US	CPI MoM/YoY	Oct		0.2/0.1		-0.2/0	13.30	0.30
EC	Bundesbank's Andreas Dombret Speaks at Euro Finance						14.15	1.15
US	Industrial Production MoM	Oct		0.1		-0.2	14.15	1.15
US	NAHB Housing Market Index	Nov		64		64	15.00	2.00
NZ	Dairy auction, early AM NZT			-10/-15		-7.4		
US	Fed's Powell speaks on central clearing						20.15	7.15
US	Fed's Tarullo speaks on shadow banking						20.30	7.30
Wednesday, 18 November 2015								
US	Net Long-term TIC Flows	Sep				20.4	21.00	8.00
AU	RBA's Debelle Speaks at Bloomberg Summit in Sydney						22.10	9.10
AU	Conf. Board Leading Index MoM	Sep					23.00	10.00
AU	Westpac Leading Index MoM	Oct				0.1	23.30	10.30
AU	Wage Price Index QoQ/YoY	3Q	0.6/2.3	0.6/2.3		0.6/2.3	0.30	11.30
AU	NAB Commercial Property Survey	3Q					0.30	11.30
AU	NAB Online Retail sales (supplementary detail)	Sep					0.30	11.30
CH	Property Prices	Oct					1.30	12.30
EC	ECB's Yves Mersch Speaks at Euro Finance Week						8.00	19.00
UK	BoE's Broadbent speaks on outlook for Britian's recovery						9.00	20.00
US	Fed's Lockhart speaks in New York						13.00	0.00
US	Feds Dudley, Mester and Lockhart on payments system						13.00	0.00
US	Housing Starts, #/MoM	Oct		1160/-3.8		1206/6.5	13.30	0.30
US	Fed's Kaplan discusses economic conditions and policy in Houston						17.00	4.00
EC	ECB Executive Board Member Lautenschlaeger Speaks in Frankfurt						18.30	5.30
US	U.S. Fed Releases Minutes from Oct. 27-28 FOMC Meeting						19.00	6.00
Thursday, 19 November 2015								
NZ	ANZ Job Advertisements MoM	Oct				2.1	21.00	8.00
NZ	PPI Input QoQ	3Q				-0.3	21.45	8.45
JN	Trade Balance Adjusted	Oct		-377.4		-355.662	23.50	10.50
AU	RBA FX Transactions Market	Oct				712	0.30	11.30
CH	MNI Business Indicator	Nov					1.30	12.30
JN	BOJ Annual Rise in Monetary Base/Policy statement	Nov-19				80	3.00	14.00
JN	All Industry Activity Index MoM	Sep		0.2		-0.2	4.30	15.30
EC	ECB's Coeure Speaks in Frankfurt						8.00	19.00
EC	ECB's Peter Praet Speaks at Europe Finance Week						8.30	19.30
EC	ECB account of the monetary policy meeting						12.30	23.30
EC	ECB Current Account SA	Sep				17.7	9.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Oct		-0.6/3.9		1.7/5.9	9.30	20.30
UK	CBI Trends Total Orders	Nov		-10		-18	11.00	22.00
EC	ECB account of the monetary policy meeting						12.30	23.30
CA	Wholesale Trade Sales MoM	Sep		0.2		-0.1	13.30	0.30
US	Initial Jobless Claims	Nov-14		270		276	13.30	0.30
US	Philadelphia Fed Business Outlook	Nov		-0.75		-4.5	13.30	0.30
US	Leading Index	Oct		0.5		-0.2	15.00	2.00
US	Fed's Lockhart Speaks on U.S. Economy in Atlanta						17.30	4.30
US	Fed's Fischer remarks on Emerging Asia						21.45	8.45
Friday, 20 November 2015								
AU	RBA's Heath speaks at Resource and Energy Workshop in Canberra						22.40	9.40
NZ	Credit Card Spending MoM/YoY	Oct				-1.9/7.3	2.00	13.00
JN	BoJ Governor Kuroda speaks in Tokyo						7.00	18.00
EC	ECB's Mario Draghi Speaks at Euro Finance Week						8.00	19.00
EC	ECB's Coeure Speaks in Frankfurt						8.15	19.15
UK	PSNB ex Banking Groups	Oct		6		9.4	9.30	20.30
EC	ECB's Praet Speaks in Frankfurt						10.00	21.00
GE	Bundesbank's Jens Weidmann Speaks at Euro Finance Week						10.15	21.15
EC	ECB's Constancio Speaks in Frankfurt						13.00	0.00
CA	Retail Sales MoM	Sep		0.1		0.5	13.30	0.30
CA	CPI NSA MoM/YoY	Oct		0.1/1		-0.2/1	13.30	0.30
US	Fe'ds Bullard speaks on Economy in Arkansas						14.00	1.00
US	Kansas City Fed Manf. Activity	Nov		0		-1	16.00	3.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		19-Nov	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia, RBA		1-Dec	2.00%	2.00%		2.00%		
Europe ECB		3-Dec				0.05%		
Canada, BoC		3-Dec				0.50%		
New Zealand, RBNZ		10-Dec	2.50%	2.50%		2.75%		
UK BOE		10-Dec				0.50%		
US Federal Reserve		17-Dec				0-0.25%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

Forecasts

Economic Forecasts

	Annual % change						Quarterly % change								
	2014	2015	2016	2014	2015		2016								
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts															
Household Consumption	2.4	2.5	2.4	0.5	0.6	0.5	0.8	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.7
Underlying Business Investment	-6.1	-8.1	-6.6	-1.9	-0.8	-1.4	-1.9	-3.8	-0.3	-2.3	-3.1	-1.1	-1.3	-1.4	-1.5
Residential Construction	8.0	10.9	7.1	4.3	1.7	-1.1	4.0	5.6	-1.1	4.5	2.6	2.0	1.2	0.5	-0.5
Underlying Public Spending	0.7	1.9	1.9	0.5	-0.2	-1.4	0.8	0.3	2.7	-0.7	0.4	0.4	0.6	0.6	0.6
Exports	6.7	6.5	8.7	3.3	-0.6	2.9	1.3	3.7	-3.3	5.0	2.1	2.0	2.0	2.1	2.3
Imports	-1.7	1.7	2.5	-2.3	2.9	-1.3	-1.8	3.2	-0.7	0.5	0.5	0.9	0.9	0.7	0.6
Net Exports (a)	1.7	1.0	1.4	1.2	-0.7	0.9	0.6	0.2	-0.6	1.0	0.4	0.3	0.3	0.3	0.4
Inventories (a)	0.0	0.0	0.0	-0.3	0.7	0.2	-0.7	0.5	-0.2	-0.2	0.0	0.2	0.0	0.0	0.0
Domestic Demand - qtr%				0.4	0.4	-0.5	0.6	0.3	0.8	0.3	0.2	0.5	0.4	0.3	0.3
Dom Demand - ann %	1.1	1.4	1.5	1.3	1.5	0.6	1.0	0.9	1.2	1.9	1.5	1.7	1.4	1.4	1.5
Real GDP - qtr %				0.9	0.6	0.4	0.5	0.9	0.2	0.8	0.6	0.9	0.7	0.6	0.8
Real GDP - ann %	2.7	2.3	2.9	2.9	2.8	2.8	2.5	2.5	2.0	2.4	2.5	2.5	3.0	2.9	3.0
CPI headline - qtr %				0.6	0.5	0.5	0.2	0.2	0.7	0.5	0.9	0.7	0.6	0.7	0.8
CPI headline - ann %	2.5	1.6	2.9	2.9	3.0	2.3	1.7	1.3	1.5	1.5	2.2	2.8	2.8	3.0	3.0
CPI underlying - qtr %				0.6	0.6	0.4	0.6	0.7	0.5	0.3	0.7	0.7	0.6	0.7	0.6
CPI underlying - ann %	2.5	2.3	2.5	2.7	2.7	2.5	2.2	2.4	2.3	2.2	2.3	2.2	2.4	2.7	2.6
Wages (Pvte WPI -ann %)	2.5	2.2	2.2	2.6	2.4	2.4	2.5	2.3	2.2	2.2	2.2	2.3	2.2	2.2	2.2
Unemployment Rate (%)	6.0	6.1	6.1	5.8	6.0	6.2	6.1	6.2	5.9	6.2	6.0	6.2	5.9	6.2	6.0
Terms of trade	-7.5	-9.8	-3.2	-1.5	-4.6	-3.2	-1.8	-2.6	-3.5	-1.4	-0.6	0.3	-1.2	-0.8	-0.9
G&S trade balance, \$Abn	-9.4	-28.7	-22.1	2.1	-4.7	-3.9	-2.9	-4.8	-9.6	-7.4	-6.9	-5.9	-6.0	-5.4	-4.7
% of GDP	-0.6	-1.8	-1.3	0.5	-1.2	-1.0	-0.7	-1.2	-2.4	-1.8	-1.7	-1.4	-1.4	-1.3	-1.1
Current Account (% GDP)	-3.0	-4.0	-3.6	-2.4	-3.6	-3.3	-2.9	-3.3	-4.7	-4.1	-3.9	-3.7	-3.7	-3.5	-3.4

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

Exchange Rate Forecasts

	16-Nov	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Majors						
AUD/USD	0.7103	0.70	0.68	0.69	0.70	0.70
NZD/USD	0.6527	0.62	0.60	0.60	0.61	0.62
USD/JPY	122.38	121	122	123	124	125
EUR/USD	1.0704	1.10	1.10	1.10	1.08	1.07
GBP/USD	1.5213	1.52	1.51	1.48	1.45	1.44
USD/CNY	6.3737	6.40	6.50	6.60	6.65	6.70
USD/CAD	1.3324	1.34	1.38	1.37	1.36	1.37

Australian Cross Rates

	16-Nov	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
AUD/JPY	86.9	85	83	85	87	88
AUD/EUR	0.6636	0.64	0.62	0.63	0.65	0.65
AUD/GBP	0.4669	0.46	0.45	0.47	0.48	0.49
AUD/NZD	1.0882	1.13	1.13	1.15	1.15	1.13
AUD/CNY	4.5272	4.48	4.42	4.55	4.66	4.69
AUD/CAD	0.9464	0.94	0.94	0.95	0.95	0.96
AUD/CHF	0.7158	0.69	0.66	0.69	0.71	0.00

Interest Rate Forecasts

	16-Nov	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.00
3 month bill rate	2.22	2.25	2.25	2.25	2.25	2.25
3 Year Swap Rate	2.18	2.1	2.3	2.2	2.3	2.4
10 Year Swap Rate	3.02	3.1	3.2	3.2	3.4	3.4
Offshore Policy Rates						
US Fed funds	0.25	0.50	0.50	0.75	1.00	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	0.75
BoJ overnight call rate	0.10	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	2.75	2.50	2.50	2.50	2.50	2.50
China 1yr lending rate	4.35	4.35	4.10	3.85	3.85	3.85
China Reserve Ratio	17.5	17.5	17.0	16.5	16.0	16.0
10 Year Benchmark Bond Yields						
Australia	2.88	3.1	3.1	3.3	3.3	3.4
United States	2.27	2.5	2.5	2.8	2.8	2.8
Europe/Germany	0.56	0.8	0.9	1.0	1.2	1.2
UK	1.98	2.1	2.2	2.3	2.4	2.4
New Zealand	3.53	3.4	3.5	3.6	3.7	3.7

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	20 Yr Avge
Australia	0.0	2.7	2.3	2.9	3.4
US	2.2	2.4	2.4	2.5	2.6
Eurozone	-0.3	0.9	1.3	1.7	1.5
UK	2.2	2.9	2.4	2.3	2.4
Japan	1.6	-0.1	0.7	1.2	0.8
China	7.7	7.3	6.9	6.7	9.2
India	6.4	7.1	7.4	7.5	6.6
New Zealand	2.3	3.3	2.2	1.8	3.0
World	3.4	3.3	3.0	3.2	3.5

Commodity prices (\$US)

	16-Nov	Sep-15	Dec-15	Jun-16	Dec-16
WTI oil	40.89	46	49	54	58
Gold	1087	1090	1050	990	970
Iron ore	48	55	54	53	50
Hard cok. coal	112	88	90	94	99
Thermal coal	62	68	68	62	62
Copper	4829	5360	5330	5280	5330
Japan LNG	8.9	10.1	10.2	11.1	11.3

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