

Australian Markets Weekly

NAB survey and employment data suggest little pressure for near-term RBA rate cut

- The latest NAB business survey and labour market data accord well with the RBA's policy stance – low inflation provides ample scope to ease monetary policy further should that be necessary to support the economy, though activity and labour market data do not suggest that such a move is necessary.
- Capacity utilization leads both interest rates and unemployment by around six months and suggests the unemployment rate should continue to fall.
- A quiet week on the Australian events front, with the RBA Minutes (Tues 11.30am) and a speech by the RBA Governor on Tuesday night in NY (11.30pm Australian time) the key events. NAB also releases its latest Residential Property Survey and Quarterly Business Survey – the latter provides more information on capital expenditure plans.

Recent developments

Important data releases over the past week provide little near-term reason why the RBA should consider altering the stance of monetary policy. The NAB business survey showed the most upbeat business conditions since before the Global Financial Crisis, while the March labour force release revealed the unemployment rate at a new cycle low of 5.7% and the creation of 26,000 new jobs, in spite of a negative sample rotation, a very strong result. Together the data should at the very least soothe the RBA's concerns that the economy and labour market have not lost any considerable amount of the momentum evident in the second half of last year, in spite of the significant financial market volatility evident at the turn of the year.

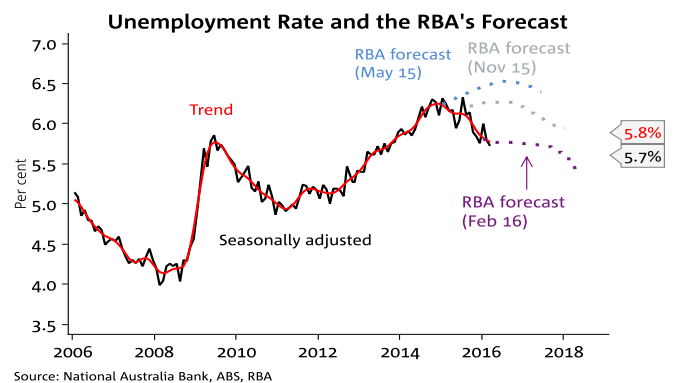
On that front, markets have again generally been more settled in the past week, with commodity prices (especially iron ore) on a firmer footing and equity markets strengthening, which has put moderate upward pressure on both yields and the US\$. The \$A has been relatively strong against the US\$, but also on the cross rates given the recent slight recovery in the US\$, though the failure of oil producers to reach agreement on a production freeze saw oil futures sharply lower and the \$A lose over half a cent in early trading on Monday.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7636	0.5	RBA cash	2.00	0
AUD/CNY	4.99	1.9	3y swap	2.14	7
AUD/JPY	82.5	0.6	ASX 200	5,144	4.3
AUD/EUR	0.676	1.5	Iron ore	58.3	7.9
AUD/NZD	1.109	0.1	WTI oil	38.1	-5.6

Source: Bloomberg

Chart 1: Unemployment continuing to decline



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The week ahead is relatively quiet from an Australian perspective, with just the RBA Minutes (Tues) and a speech in NY by the RBA Governor (11.30pm Australian time Tues). The NAB Q1 Business Survey (Thursday), which provides some greater detail on the Capital Spending Outlook and NAB's latest quarterly residential property survey (Wednesday) are also published. The former may provide greater clarity over the Bank's recent messaging, while the Governor could of course react to the positive news of the NAB Survey and the latest Labour Market data in his speech, which also provides the opportunity to jawbone the \$A, should he so desire.

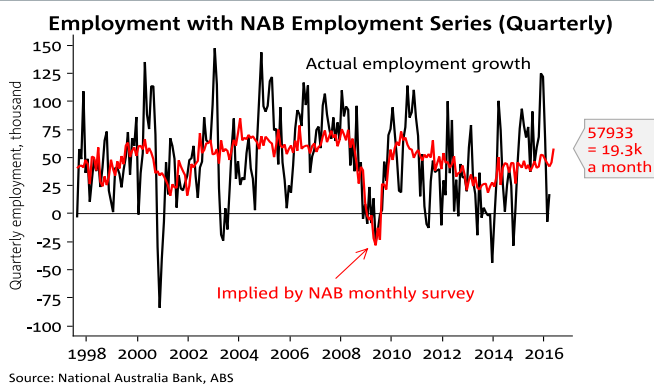
Offshore, while there are numerous Fed speakers scheduled, the NZ Q1 CPI (which can sometimes give some guide to the Australian CPI – due 27 April) and the ECB (though with previous policy moves still to be fully implemented, little further new developments are expected) are likely to be the main focuses in a quiet week.

Some key charts from the latest NAB business survey

This week we look in more detail at a number of our favourite charts from the NAB Business Survey, updated for the March data. In general they foreshadow a continuation of nearly 20,000 per month employment growth, no significant activity-related downward pressure on cash rates but continued low inflation pressures, and the continuation of divergent economic performance between the non-mining and mining sectors and between Western Australia and the Eastern Seaboard.

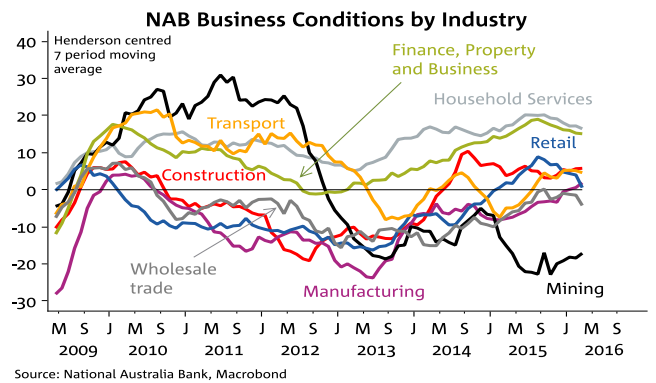
First, and arguably most importantly given the focus the RBA has placed on indicators of the labour market for judging whether the economy retains the momentum of last year, the rise in the employment index to around 5, is consistent with employment growth of around 19,000 per month on average in coming months. This is more than sufficient to make moderate further inroads across time into the unemployment rate.

Chart 2: NAB Survey suggests 19,000 jobs growth per month



The NAB Survey continues to clearly reflect the diverse economic conditions being experienced across Australia at the present time. The survey reveals business conditions remain strongest in the services sectors, but improved considerably in manufacturing, transport and construction this month. Conditions remain very weak (unsurprisingly) in mining, while we are monitoring the recent deterioration in

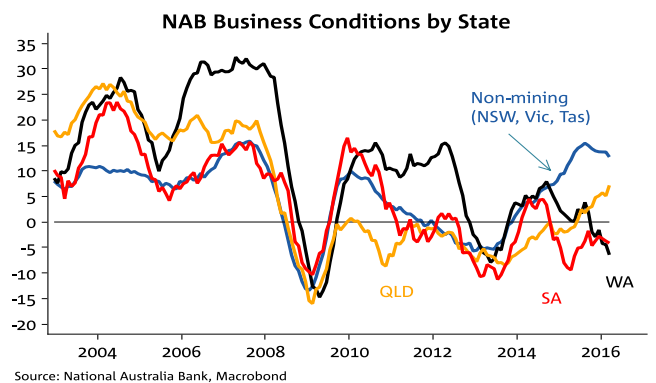
Chart 3: Non-mining sectors improve; mining weak



retail conditions closely, given the importance of stronger consumption assumptions in generating this year's circa 3% GDP growth forecast.

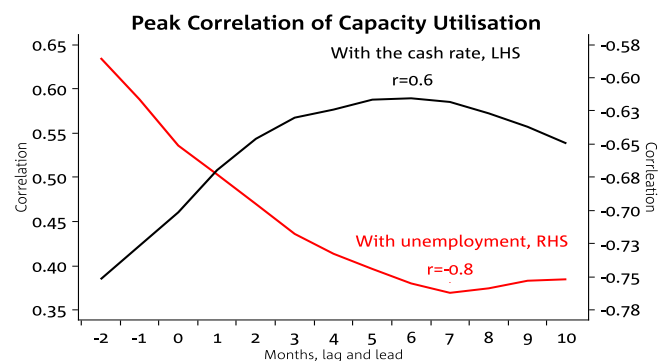
Geographically, the eastern seaboard, especially NSW and Tasmania are recording very strong business conditions while Victoria bounced back strongly this month. WA's resource-heavy economy continues to record weak business conditions. Queensland is interesting – and likely indicative of the broader trends for the Australian economy. Even despite 10% of Queensland GDP being derived from mining, improvement in the non-mining economy has more than outweighed weakness in mining contributing to an overall steady improvement in Queensland business conditions (Queensland's economy is bigger than WA's while Queensland's labour market is 75% larger than that of WA).

Chart 4: WA weak due mining; non-mining outperforming



Capacity utilisation and pricing trends provide somewhat conflicting "advice" for monetary policy. The trend for

Chart 5: Cap use gives 6-7mth ahead read on UR and Rates



capacity utilisation – which hit the highest level since October 2009 in March, historically would be consistent with upward pressure on Australian cash rates and perhaps more importantly suggests the recent downward trend in the unemployment rate will continue.

Chart 6: Cap use suggests upward bias to rates

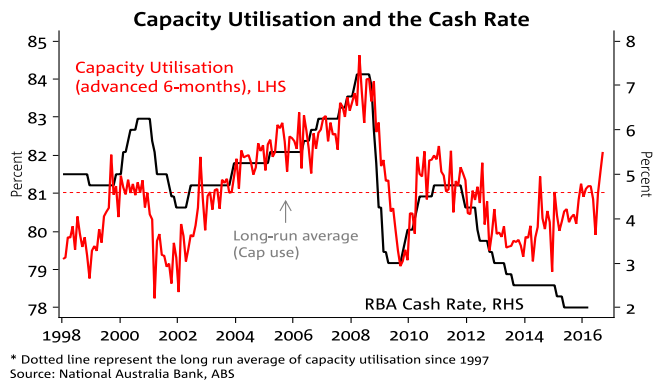
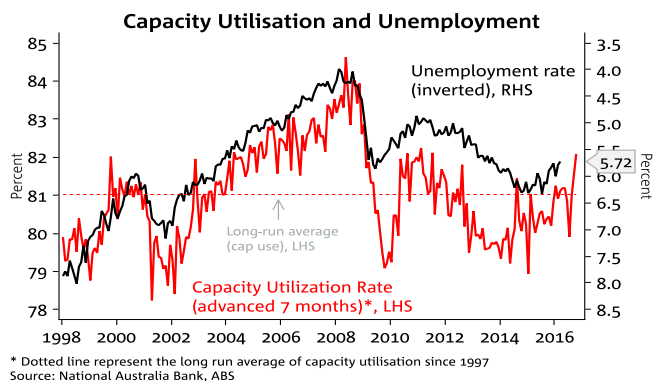
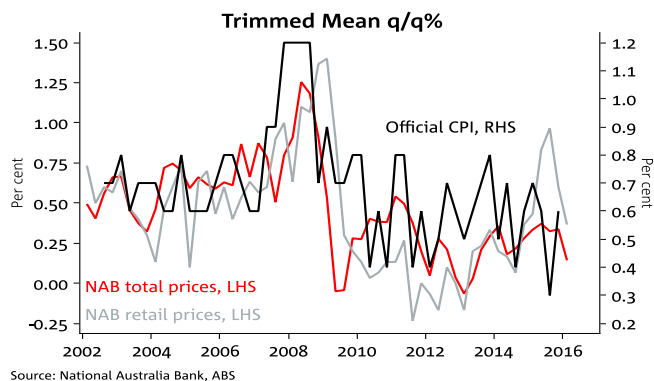


Chart 7: Cap use suggests falling unemployment



On the other hand, the very low rate of price increase revealed in the final product price series (0.1-0.2% at a quarterly rate in each of the three months of the March quarter) remains consistent with very low inflation outcomes (and possibly suggests downside risk to the Q1 CPI core inflation read). In fact the two series neatly capture the RBA’s current policy “status” – low inflation provides scope to ease should that be necessary to support demand, though activity and employment indicators do not suggest that such easing is required.

Chart 7: NAB prices component suggests low inflation



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Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 18 April 2016								
NZ	CPI QoQ/YoY	1Q	0.1/0.3	0.1/0.4	0.2/0.4	-0.5/0.1	22.45	8.45
UK	Rightmove House Prices MoM/YoY	Apr				1.3/7.6	23.10	9.10
AU	New Motor Vehicle Sales MoM/YoY	Mar				-0.1/2.3	1.30	11.30
CH	Property Prices	Mar					1.30	11.30
CA	Int'l Securities Transactions	Feb				13.5	12.30	22.30
US	Fed's Dudley Gives Opening Remarks at Economics Conference						12.30	22.30
CA	Bloomberg Nanos Confidence	Apr 15				55.0	14.00	0.00
US	NAHB Housing Market Index	Apr		59		58.0	14.00	0.00
US	Fed's Kashkari Speaks in Minneapolis						16.30	2.30
Tuesday, 19 April 2016								
NZ	Performance Services Index	Mar				56.9	22.30	8.30
US	Fed's Rosengren to Speak at Central Conn State University						23.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 17				112.0	23.30	9.30
AU	RBA April Meeting Minutes						1.30	11.30
EC	ECB Current Account SA	Feb				25.4	8.00	18.00
EC	ECB Bank Lending Survey						8.00	18.00
EC	Construction Output MoM/YoY	Feb				3.6/6.0	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Apr		50.8/8		50.7/4.3	9.00	19.00
EC	ZEW Survey Expectations	Apr				10.6	9.00	19.00
US	Housing Starts/MoM	Mar		1170/-0.7		1178.0/5.2	12.30	22.30
US	Building Permits/MoM	Mar		1200/2		1167.0/-3.1	12.30	22.30
AU	RBA Governor Stevens Speech in New York						13.30	23.30
UK	UK's Chancellor Osborne Discusses Brexit to Treasury Committee						Anytime Tuesday	
UK	BoE's Carney speaks in Parliament to Lord's Economic Affairs						14.35	0.35
CA	BoC's Poloz testify's at House Committee on Finance							
NZ	Dairy Auction, GDT price index (early AM, NZ time)					2.1		
Wednesday, 20 April 2016								
JN	Trade Balance/Adjusted	Mar		834.55/450		242.8/166.1	23.50	9.50
AU	Westpac Leading Index MoM	Mar				-0.2	0.30	10.30
AU	Skilled Vacancies MoM	Mar				-0.9	1.00	11.00
JN	Machine Tool Orders YoY	Mar F				-21.2	6.00	16.00
UK	Jobless Claims Change	Mar		-10		-18.0	8.30	18.30
UK	Average Weekly Earnings 3M/YoY	Feb		2.3		2.1	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Feb		5.1		5.1	8.30	18.30
UK	BoE's Hauser speaks at a Business Forum in London						8.30	18.30
US	MBA Mortgage Applications	Apr 15				10.0	11.00	21.00
CA	Wholesale Trade Sales MoM	Feb		-0.4		0.0	12.30	22.30
CH	Conference Board Leading Economic Index	Mar					13.00	23.00
UK	BoE's McCafferty speaks at the Bank of England						13.00	23.00
US	Existing Home Sales/MoM	Mar		5.26/3.54		5.1/-7.1	14.00	0.00
Thursday, 21 April 2016								
NZ	ANZ Job Advertisements MoM	Mar				0.9	22.00	8.00
NZ	Net Migration SA	Mar				6070.0	22.45	8.45
NZ	ANZ Consumer Confidence Index/MoM	Apr				118.0/-1.4	1.00	11.00
AU	NAB Business Confidence	1Q				4.4	1.30	11.30
AU	RBA FX Transactions Market	Mar				476.0	1.30	11.30
NZ	Credit Card Spending MoM/YoY	Mar				-0.4/7.3	3.00	13.00
JN	Supermarket Sales YoY	Mar				3.4	5.00	15.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Mar		-0.3/3.8		-0.2/4.1	8.30	18.30
UK	Public Finances (PSNCR)	Mar				0.1	8.30	18.30
EC	Govt Debt/GDP Ratio	2015					9.00	19.00
EC	ECB Main Refinancing Rate	Apr 21		0		0.0	11.45	21.45
EC	ECB Deposit Facility Rate	Apr 21		-0.4		-0.4	11.45	21.45
EC	ECB Marginal Lending Facility	Apr 21		0.25		0.3	11.45	21.45
US	Chicago Fed Nat Activity Index	Mar		-0.125		-0.3	12.30	22.30
US	Initial Jobless Claims	Apr 16		265		253.0	12.30	22.30
US	Philadelphia Fed Business Outlook	Apr		8		12.4	12.30	22.30
US	FHFA House Price Index MoM	Feb		0.4		0.5	13.00	23.00
EC	Consumer Confidence	Apr A		-9.3		-9.7	14.00	0.00
US	Leading Index	Mar		0.4		0.1	14.00	0.00
Friday, 22 April 2016								
CH	MNI Business Indicator	Apr				49.9	1.45	11.45
JN	Nikkei Japan PMI Mfg	Apr P		49.5		49.1	2.00	12.00
JN	Tertiary Industry Index MoM	Feb		-0.5		1.5	4.30	14.30
GE	Markit/BME Germany Manufacturing/Services PMI	Apr P		51/55.1		50.7/55.1	7.30	17.30
EC	ECB Survey of Professional Forecasters						8.00	18.00
EC	Markit Eurozone Manufacturing/Services PMI	Apr P		51.9/53.3		51.6/53.1	8.00	18.00
EC	Euro Area Fourth Quarter Government Deficit/Debt	Q4					9.00	19.00
CA	Retail Sales/ex autos MoM	Feb		-0.8/-0.8		2.1/1.2	12.30	22.30
CA	CPI NSA MoM/YoY	Mar		0.5/1.2		0.2/1.4	12.30	22.30
CA	CPI Core MoM/YoY	Mar		0.4/1.7		0.5/1.9	12.30	22.30
US	Markit US Manufacturing PMI	Apr P		52		51.5	13.45	23.45
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		21-Apr				0.00%		
New Zealand, RBNZ		28-Apr	2.00%	2.25%		2.25%		
Japan, BoJ		28-Apr				-0.1% to +0.1%		
US Federal Reserve		28-Apr				0.25-0.50%		
Australia, RBA		3-May	2.00%	2.00%		2.00%		
UK BOE		12-May				0.50%		
Canada, BoC		26-May				0.50%		

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

Forecasts

Economic Forecasts

	Annual % change		Quarterly % change															
	2015	2016	2014				2015				2016							
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Australia Forecasts																		
Household Consumption	2.8	2.7	0.6	0.7	0.7	0.7	0.7	0.5	0.9	0.8	0.7	0.6	0.5	0.5				
Underlying Business Investment	-10.1	-9.5	-1.9	-2.5	-0.6	-0.9	-4.3	-1.4	-5.5	-3.2	-2.1	-0.2	-3.2	-2.1				
Residential Construction	9.5	5.4	4.3	1.5	-0.9	3.5	4.8	0.6	1.9	2.2	1.8	0.6	0.7	-0.4				
Underlying Public Spending	1.9	2.0	0.1	-1.4	-0.9	0.3	1.0	2.0	-0.7	1.3	0.0	0.6	0.6	0.6				
Exports	6.1	7.5	3.2	-0.4	2.5	1.7	3.7	-3.9	5.4	0.6	1.6	2.2	2.7	2.5				
Imports	1.0	0.0	-2.8	3.2	-1.2	-1.4	2.6	0.3	-2.3	0.6	-0.1	0.9	0.1	0.2				
Net Exports (a)	1.1	1.6	1.3	-0.7	0.8	0.7	0.3	-0.9	1.6	0.0	0.4	0.3	0.6	0.5				
Inventories (a)	0.0	-0.1	-0.2	0.8	0.2	-0.9	0.4	0.1	-0.1	-0.2	0.1	0.0	0.1	-0.1				
Domestic Demand - qtr%			0.3	-0.1	-0.1	0.5	0.3	0.6	-0.3	0.4	0.3	0.5	0.1	0.2				
Dom Demand - ann %	1.0	1.1	1.8	1.4	0.5	0.6	0.6	1.3	1.2	1.1	1.0	0.9	1.3	1.1				
Real GDP - qtr %			0.9	0.5	0.4	0.4	0.9	0.3	1.1	0.6	0.6	0.6	0.8	0.6				
Real GDP - ann %	2.5	2.7	3.0	2.7	2.6	2.2	2.2	2.0	2.7	3.0	2.6	3.0	2.7	2.7				
CPI headline - qtr %			0.6	0.5	0.5	0.2	0.2	0.7	0.5	0.4	0.2	0.6	0.8	0.9				
CPI headline - ann %	1.5	2.1	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.7	1.7	2.1	2.7				
CPI underlying - qtr %			0.6	0.6	0.4	0.6	0.6	0.5	0.3	0.5	0.5	0.6	0.6	0.6				
CPI underlying - ann %	2.2	2.2	2.7	2.7	2.5	2.2	2.3	2.2	2.1	2.0	1.9	2.0	2.3	2.5				
Wages (Pvte WPI -ann %)	2.1	2.4	2.5	2.4	2.4	2.5	2.3	2.2	2.1	2.0	2.1	2.3	2.5	2.7				
Unemployment Rate (%)	6.0	5.7	5.8	6.0	6.2	6.2	6.2	5.9	6.2	5.9	5.9	5.8	5.6	5.6				
Terms of trade	-11.4	-6.8	-1.7	-4.5	-3.3	-1.5	-3.2	-3.9	-2.4	-3.2	-4.3	4.4	-2.1	-0.9				
G&S trade balance, \$Abn	-33.2	-33.6	2.2	-4.5	-4.1	-2.9	-4.7	-11.3	-7.3	-9.9	-11.9	-7.7	-7.5	-6.5				
% of GDP	-2.0	-2.0	0.6	-1.1	-1.0	-0.7	-1.2	-2.8	-1.8	-2.4	-2.9	-1.8	-1.8	-1.5				
Current Account (% GDP)	-4.6	-4.7	-2.4	-3.5	-3.3	-2.9	-3.4	-5.2	-4.6	-5.1	-5.6	-4.5	-4.4	-4.2				

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

Exchange Rate Forecasts

	18-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Majors						
AUD/USD	0.7658	0.74	0.71	0.69	0.69	0.70
NZD/USD	0.6894	0.65	0.63	0.61	0.61	0.62
USD/JPY	108.08	115	115	117	118	120
EUR/USD	1.1297	1.12	1.11	1.09	1.09	1.09
GBP/USD	1.4181	1.43	1.44	1.43	1.43	1.44
USD/CNY	6.4755	6.55	6.60	6.65	6.60	6.55
USD/CAD	1.2967	1.34	1.39	1.45	1.44	1.43

Australian Cross Rates

	18-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
AUD/JPY	82.8	85	82	81	81	84
AUD/EUR	0.6779	0.66	0.64	0.63	0.63	0.64
AUD/GBP	0.5400	0.52	0.49	0.48	0.48	0.49
AUD/NZD	1.1108	1.14	1.13	1.13	1.13	1.13
AUD/CNY	4.9589	4.85	4.69	4.59	4.55	4.59
AUD/CAD	0.9930	0.99	0.99	1.00	0.99	1.00
AUD/CHF	0.7402	0.74	0.70	0.69	0.72	0.74

Interest Rate Forecasts

	18-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.50
3 month bill rate	2.29	2.25	2.25	2.25	2.50	2.85
3 Year Swap Rate	2.14	2.2	2.3	2.6	2.9	3.1
10 Year Swap Rate	2.61	2.9	3.1	3.4	3.6	3.7
Offshore Policy Rates						
US Fed funds	0.50	0.50	0.75	1.00	1.00	1.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	0.60
BoE repo rate	0.50	0.50	0.50	0.50	0.50	0.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.90
RBNZ OCR	2.25	1.75	1.75	1.75	1.75	2.00
China 1yr lending rate	4.35	3.85	3.85	3.85	0.00	0.00
China Reserve Ratio	17.0	16.5	16.0	16.0	--	--
10 Year Benchmark Bond Yields						
Australia	2.49	2.8	3.0	3.25	3.5	3.5
United States	1.72	2.0	2.3	2.50	2.8	2.8
Europe/Germany	0.13	0.0	0.0	0.0	0.0	0.0
UK	1.41	0.0	0.0	0.0	0.0	0.0
New Zealand	2.82	3.1	3.3	3.3	3.5	3.6

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	20 Yr Ave
Australia	2.0	2.6	2.5	2.7	3.0	3.4
US	1.5	2.4	2.4	2.2	2.3	2.6
Eurozone	-0.3	0.9	1.5	1.6	1.7	1.5
UK	2.2	2.9	2.3	2.2	2.2	2.4
Japan	1.4	-0.1	0.5	0.5	0.8	0.8
China	7.7	7.3	6.9	6.7	6.5	9.2
India	6.4	7.1	7.5	7.6	7.4	6.6
New Zealand	2.4	3.7	2.5	2.4	2.5	3.0
World	3.3	3.3	2.9	2.9	3.2	3.5
MTP Top 5	3.9	3.8	3.8	3.7	3.7	5.0

Commodity prices (\$US)

	18-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
WTI oil	38.10	34	36	39	40	43
Gold	1236	1150	1100	1060	1040	1020
Iron ore	58	44	42	41	40	41
Hard cok. coal	89	79	81	82	83	84
Thermal coal	51	58	58	58	58	60
Copper	4829	4730	4870	5020	5070	5120
Japan LNG	8.1	5.2	5.8	6.2	6.4	6.6

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