

Australian Markets Weekly

SA economy making progress; NAB survey, Employment and BoE this week

- South Australia's economy seems to have been improving a little in recent months – even before the Federal government's recent significant defence spending announcements. This is helpful for the national economy too as SA has been underperforming for some time. [NAB released an update of last week's SA budget last week (email Alex.Stanley@nab.com.au for a copy), while NAB Group Economics will release its latest review of Australian states next week.]
- We also draw clients' attention to very significant sample rotation impacts that may significantly impact on Australian employment and unemployment data over coming months beginning with the June data to be released on Thursday. NAB is looking for a considerably weaker than market outcome for employment (-17K v market +10K) as the very strong October 2015 cohort rotates out of the survey (the unemployment rate may tick 0.1 percentage points higher). A similar effect is likely in July as the strong November cohort drops out, while the effect does not reverse until the September data is published in October.
- The main other Australia event is tomorrow's June NAB Business Survey, though Cleveland Fed President Loretta Mester is speaking twice in Sydney this week: at a banking conference tomorrow and at an economists' lunch event on Wednesday. Offshore, the focus will be on whether the Bank of England cuts rates this week and then on a raft of Chinese indicators to be released on Friday including Q2 GDP data. There are 12 Fed speakers scheduled for this week.

Recent developments

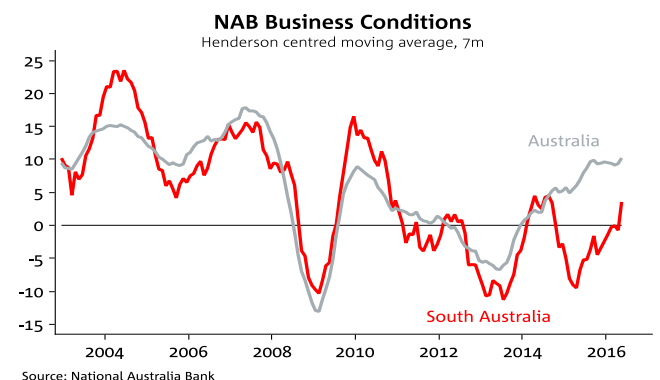
A somewhat surprising week with yields remaining on a downward trend globally in spite of Friday night's much stronger than expected non-farm payrolls number for June (+287,000). The \$A ended the week stronger against the US\$, RMB, EUR and GBP, but lost ground against the JPY and NZ\$. EUR and GBP were weaker on continuing fallout from the Brexit vote, with JPY strengthening from the same source. Australian yields fell further notwithstanding a not unexpected negative outlook on Australia's credit rating from S&P, which also produced negative outlooks for the states of NSW, Victoria, the ACT and the four major Australian banks.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7565	0.4	RBA cash	1.75	0
AUD/CNY	5.06	0.9	3y swap	1.76	-6
AUD/JPY	76.1	-1.4	ASX 200	5,231	-0.3
AUD/EUR	0.685	1.2	Iron ore	55.2	1.6
AUD/NZD	1.036	-1.0	WTI oil	45.2	-7.7

Source: Bloomberg

Chart 1: Improving conditions in South Australia



Authors:

Ivan Colhoun, Chief Economist, Markets

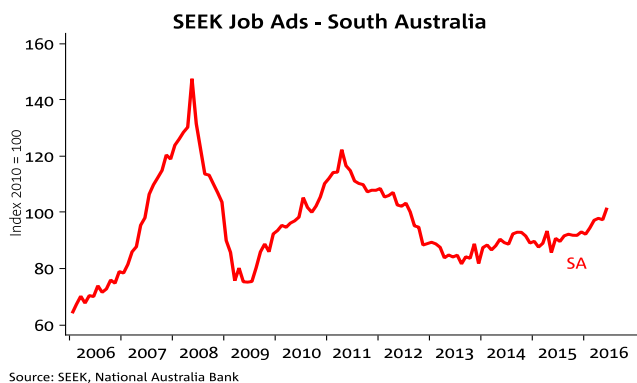
David De Garis, Senior Economist

South Australia making some progress

This week we focus on recent economic indicators from South Australia. After a long period of weak economic performance, recent indicators for South Australia suggest the economy is improving a little, even before the activity that will flow through over coming years from the recent announcements regarding substantial defence spending. That spending is seen to be necessary given the forthcoming end of car manufacturing in South Australia (and Victoria) in 2017-18.

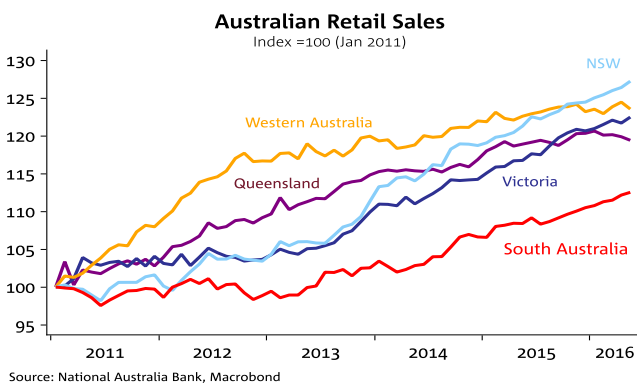
In recent months, the NAB survey has revealed a trend improvement in business conditions being reported by South Australian businesses (see Chart 1), even though the level of conditions remains lower than other non-mining states. Supporting this conclusion, SEEK reports that job advertising in South Australia has risen in each of the past five months (Chart 2), though again, other non-mining states have now exceeded 2011 levels of advertising. A further update on each of these indicators is published this week.

Chart 2: SA job advertising improving



This tentative improvement has also been in evidence in recent trends for South Australian retail sales, which are now matching trend rates of growth for NSW and Victoria, two states performing relatively well, while retail sales in both WA and Queensland have underperformed of late. The period of improving SA retail sales growth follows a number of years of quite weak sales growth (Chart 3).

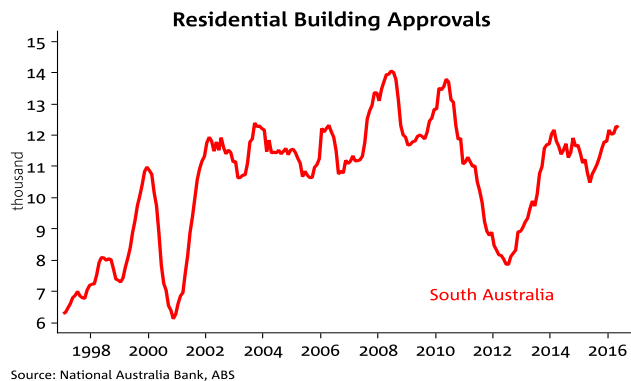
Chart 3: SA retail sales now matching it with NSW & Vic.



Residential building approvals trends also foreshadow the beginnings of a strengthening in house building in the

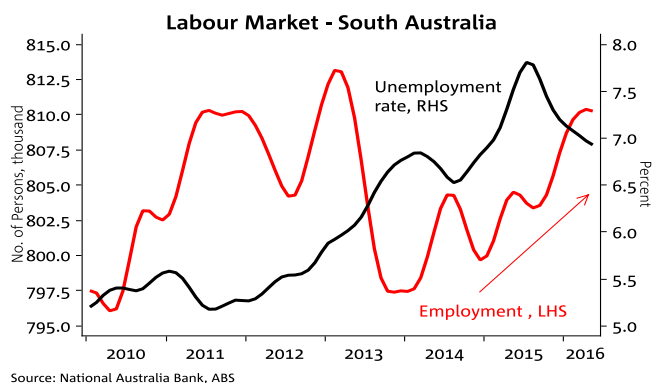
months ahead, a trend that may also be supported by the South Australian government's recent decision not to levy additional stamp duties on foreign investment in housing. Again, the extent of house and apartment building is low relative to the apartment booms that have occurred along the eastern seaboard of Australia, but the development is one of slight improvement.

Chart 4: Housing construction likely on the increase



These slightly more encouraging trends appear to be partially reflected in the labour market with moderate employment growth in the past twelve months. The drop in the unemployment rate however, more reflects a drop in SA's labour force. The government's budget decision to provide grants of up to \$10,000 over the next two years for each new worker hired in small and medium-sized businesses could be expected to support employment growth over the next year or so.

Chart 5: Labour market showing slow improvement



Population growth has remained one of South Australia's Achilles heels. As our final charts show, population growth currently remains elevated compared to history, but like Tasmania, substantially lags the growth rates of NSW and Victoria and still lags population growth in WA and Queensland, even though those states have seen sharply reduced growth rates in the wake of the mining slowdown. One persistent challenge for SA (and Tasmania) has been the net leakage of citizens to other states through interstate migration (Chart 7), which in large part has driven the relatively older populations in each of these states, but which may now be resulting in part of the fall in the participation rate.

Chart 6: Population growth while elevated, relatively slow

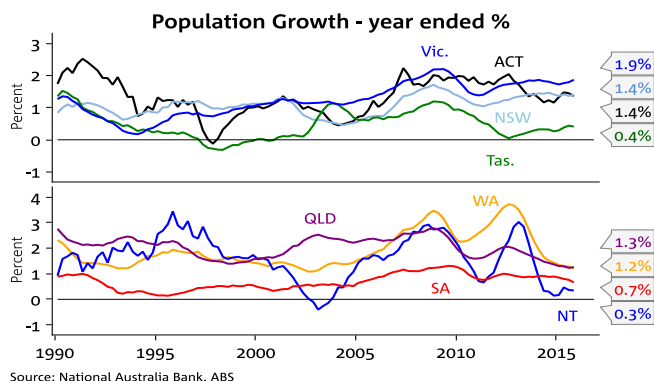
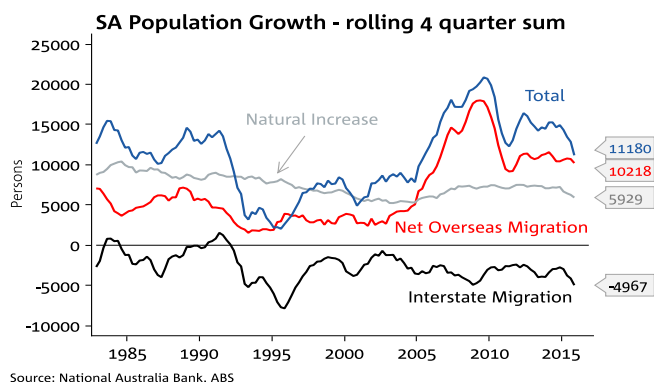


Chart 7: Net interstate migration remains a drag



It's encouraging, not only for South Australia but also for overall Australian growth, that the SA economy appears to be strengthening a little. That improvement is likely to reflect a combination of factors including:

- Benefits from the lower \$A for South Australia's manufacturing industry and importantly its wine exporters;
- Likely some boost to consumer and business confidence from the work of the Weatherill government, which has made good progress in returning the state's finances to the black – as evidenced in last week's budget announcement of a forecast surplus of \$254m for 2016-17; along with
- Ongoing support for business and consumers from low interest rates and low oil prices.

It's also worth pointing out that SA, after a long dry spell, like much of the rest of the south of Australia, has received very good winter rainfalls, which should be beneficial for winter crop plantings and yields. That said, less favourable population demographics and the end of motor manufacturing still suggest relatively slower rates of economic growth in SA are set to continue, even with the most recent more positive indications.

This week: NAB Survey, Employment locally and the BoE

The main data events this week are Thursday's Employment report and the June NAB Business Survey which is due out tomorrow. On Wednesday, Westpac's monthly Consumer Sentiment survey is also published.

No comment on the June NAB business survey, other than a reminder that the May survey remained consistent with the narrative of ongoing recovery in the non-mining sector. Business conditions in May remained elevated at +10, close to post-GFC highs.

For Thursday's employment report, the trick will be discerning the true trend in employment and unemployment given sample rotation effects are likely to (possibly significantly bias) bias downward employment and impart some upward bias to the unemployment rate. NAB's forecast is for employment in June to have fallen 17K (the market consensus is +10K) with an unemployment rate of 5.8% up from 5.7%. NAB analysis suggests that while labour demand moderated between October and April, a reported decline in employment of this magnitude likely overstates the extent of the weakness, with more recent indications suggesting this period of softness may have passed.

Second-tier data worth watching include Housing Finance Approvals on Monday and Inflation Expectations on Thursday. The RBA's Head of Financial Stability, Luci Ellis is speaking at a Banking and Financial Stability Conference on Tuesday, along with Cleveland Fed President Loretta Mester, who is visiting Sydney this week to also speak at the Australian Business Economists' Lunch on Wednesday.

Offshore, there will be focus on the Bank England meeting, a meeting very much "live" following Governor Carney's comments in the aftermath of the Brexit referendum that "in my view ... the economic outlook has deteriorated and some monetary policy easing will likely be required over the summer".

China's big data releases don't come until the end of the week with the release of June quarter GDP and June Industrial Production, Retail Sales and Fixed assets investment on Friday. Also out on Friday are key US reports, including Retail Sales, CPI, and Consumer sentiment. There are no less than 12 Fed speakers this week, though Fed Chair Yellen is not amongst the line-up.

ivan.colhoun@nab.com.au
david.deqaris@nab.com.au

Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT
Monday, 11 July 2016							
NZ	REINZ Housing report, pending	Jun					
NZ	Card Spending Retail MoM/YoY	Jun	0.4	0.5		-0.3/-0.6	22.45
JN	Machine Orders MoM	May		3.2		-11.0/-8.2	23.50
AU	Home Loans # MoM/Investment Lending \$ MoM	May	-1.5	-2		1.7/-5.0	1.30
JN	Machine Tool Orders YoY	Jun P				-24.7	6.00
CA	Housing Starts	Jun		189		188.6	12.15
EC	EU Finance Ministers two day meeting in Brussels						13.00
US	Labor Market Conditions Index Change	Jun		0		-4.8	14.00
US	Fed's George speaks						14.00
Tuesday, 12 July 2016							
UK	BRC Sales Like-For-Like YoY	Jun				0.5	23.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 10				115.8	23.30
AU	NAB Business Conditions/Confidence	Jun				10/3	1.30
AU/US	Fed's Mester Speaks at Sydney Banking and Financial Stability						1.30
AU	RBA's Ellis (Head of Financial Stability) speaks at Banking and Financial Stability Conference						3.30
JN	Tertiary Industry Index MoM	May		-0.7		1.4	4.30
GE	CPI EU Harmonized MoM/YoY	Jun F		0.1		0.1/0.2	6.00
EC	EU Finance Ministers two day meeting in Brussels						7.00
UK	BoE Governor Carney speaks on Financial Stability in Parliament						9.00
US	NFIB Small Business Optimism	Jun		94		93.8	10.00
US	Fed's Tarullo speaks in Washington						13.15
US	Fed's Bullard speaks in St. Louis						13.35
US	Wholesale Inventories/Sales MoM	May		0.2/0.5		0.6/1.0	14.00
US	JOLTS Job Openings	May				5788.0	14.00
Wednesday, 13 July 2016							
US	Fed's Kashkari Holds Town Hall Meeting in Marquette, MI						21.30
NZ	Food Prices MoM	Jun	1.1			-0.5	22.45
AU	Westpac Consumer Conf Index/MoM	Jul				102.2/-1.0	0.30
AU/US	Fed's Mester Speaks at Australian Business Economists' Luncheon						2.30
CH	Trade Balance	Jun		46		50.0	3.00
CH	Exports/Imports YoY	Jun		-5/-6.2		-4.1/-0.4	3.00
NZ	RBNZ Assistant Governor John McDermott speaks on Forecasting/OCR process						4.30
JN	Industrial Production MoM/YoY	May F		/		-2.3/-0.1	4.30
UK	Bank of England Credit Conditions & Bank Liabilities Surveys						8.30
EC	Industrial Production SA MoM/YoY	May		-0.8/1.3		1.1/2.0	9.00
US	Import Price Index MoM	Jun		0.6		1.4	12.30
CA	Teranet/National Bank HPI MoM/YoY	Jun				1.8/9.0	12.30
US	Fed's Kaplan speaks in Houston						13.00
CA	BoC Rate Decision and Monetary Policy Report	Jul 13		0.5		0.5	14.00
US	Monthly Budget Statement	Jun		24		-52.5	18.00
US	U.S. Federal Reserve Releases Beige Book						18.00
Thursday, 14 July 2016							
US	Fed's Harker Speaks in Philadelphia						22.00
NZ	ANZ Job Advertisements MoM	Jun				0.2	22.00
NZ	BusinessNZ Manufacturing PMI	Jun				57.1	22.30
UK	RICS House Price Balance	Jun		10		19.0	23.10
AU	Consumer Inflation Expectation	Jul				3.5	1.00
NZ	ANZ Consumer Confidence Index/MoM	Jul				118.9/2.3	1.00
AU	Employment Change/Unemployment rate	Jun	-17/5.8	10/5.8		17.9/5.7	1.30
AU	Participation Rate	Jun	64.8	64.8		64.8	1.30
AU	New Motor Vehicle Sales MoM/YoY	Jun				-1.1/1.7	1.30
AU	RBA's Ellis in Panel Participation in Sydney						6.15
UK	Bank of England Bank Rate	Jul 14		0.25		0.5	11.00
US	Initial Jobless Claims	Jul 9		265		254.0	12.30
CA	New Housing Price Index MoM/YoY	May		0.2		0.3/2.1	12.30
US	PPI Final Demand MoM/YoY	Jun		0.3/-0.1		0.4/-0.1	12.30
US	Fed's Lockhart Speaks on Economy in Idaho						15.15
US	Fed's George Speaks on U.S. Economy in Oklahoma City						17.15
US	Fed's Kaplan speaks in St. Louis						23.00
Friday, 15 July 2016							
CH	GDP SA QoQ/YoY	2Q		1.5/6.6		1.1/6.7	2.00
CH	Industrial Production YoY/YTD YoY	Jun		5.9/5.9		6.0/5.9	2.00
CH	Retail Sales YoY/YTD YoY	Jun		9.9/10.2		10.0/10.2	2.00
CH	Fixed Assets Ex Rural YTD YoY	Jun		9.4		9.6	2.00
UK	Construction Output SA MoM/YoY	May		-1.3		2.5/-3.7	8.30
EC	Trade Balance SA	May		25		28.0	9.00
EC	CPI MoM/YoY	Jun		0.2/0.1		0.4/-0.1	9.00
UK	Mark Carney speaks on climate change in Toronto						12.00
CA	Manufacturing Sales MoM	May		-0.9		1.0	12.30
US	Retail Sales Advance/Ex autos and gas MoM	Jun		0.1/0.3		0.5/0.3	12.30
US	CPI MoM/YoY	Jun		0.3/1.1		0.2/1.0	12.30
US	Empire Manufacturing	Jul		5		6.0	12.30
CA	Existing Home Sales MoM	Jun				-2.8	13.00
US	Industrial/Manufacturing Production MoM	Jun		0.2/0.3		-0.4/-0.4	13.15
US	Business Inventories	May		0.1		0.1	14.00
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Jul P		93		93.5/2.6	14.00
US	Fed's Kashkari and Bullard Speak at OMFIF Meeting in St. Louis						17.15
Upcoming Central Bank Interest Rate Announcements							
UK BOE		14-Jul		0.25		0.50%	
Canada, BoC		14-Jul				0.50%	
Europe ECB		21-Jul				0.00%	
US Federal Reserve		27-Jul				0.25-0.50%	
Japan, BoJ		29-Jul				-0.1% to +0.1%	
Australia, RBA		2-Aug	1.75%	1.50%		1.75%	
New Zealand, RBNZ		11-Aug	2.00%	2.00%		2.25%	

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

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change											
					2015				2016				2017			
	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																
Household Consumption	2.8	2.6	2.4	2.2	0.7	0.5	0.9	0.8	0.7	0.4	0.5	0.6	0.6	0.7	0.7	0.6
Underlying Business Investment	-10.1	-13.9	-8.0	0.7	-4.3	-1.4	-5.5	-3.2	-3.4	-3.1	-3.2	-2.5	-2.4	-1.2	-0.8	-1.2
Residential Construction	9.5	5.2	0.9	-3.3	4.8	0.6	1.9	2.2	1.4	0.8	0.7	0.3	0.3	0.4	-0.6	-0.6
Underlying Public Spending	1.9	3.0	2.6	2.5	1.0	2.0	-0.7	1.3	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Exports	6.1	9.7	9.5	5.9	3.7	-3.9	5.4	0.6	4.4	1.2	2.7	2.5	2.4	2.3	2.2	1.5
Imports	1.0	-0.9	2.0	3.6	2.6	0.3	-2.3	0.6	-0.8	-0.1	0.3	0.3	0.4	0.8	0.9	0.8
Net Exports (a)	1.1	2.3	1.8	0.8	0.3	-0.9	1.6	0.0	1.1	0.3	0.6	0.5	0.5	0.4	0.4	0.2
Inventories (a)	0.0	0.0	0.0	0.0	0.4	0.1	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.3	0.6	-0.3	0.4	0.1	0.1	0.1	0.2	0.3	0.5	0.4	0.4
Dom Demand - ann %	1.0	0.7	1.2	1.7	0.6	1.3	1.2	1.1	0.9	0.4	0.8	0.6	0.8	1.1	1.4	1.5
Real GDP - qtr %	0.9	0.3	1.1	0.6	1.1	0.5	0.6	0.8	0.8	0.8	0.9	0.8	0.9	0.8	0.8	0.6
Real GDP - ann %	2.5	3.1	3.0	2.4	2.2	2.0	2.7	3.0	3.1	3.3	2.8	3.0	2.7	3.2	3.3	3.0
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.7	0.9	0.6	0.8	0.5	0.9	0.4
CPI headline - ann %	1.5	1.6	2.8	2.8	1.3	1.5	1.5	1.7	1.3	1.3	1.8	1.9	3.0	2.8	2.8	2.7
CPI underlying - qtr %					0.6	0.5	0.3	0.5	0.2	0.6	0.5	0.5	0.5	0.5	0.5	0.5
CPI underlying - ann %	2.2	1.7	2.0	2.0	2.3	2.2	2.1	2.0	1.5	1.6	1.8	1.8	2.1	2.0	1.9	1.9
Wages (Pvte WPI - ann %)	2.1	2.0	2.0	2.5	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment Rate (%)	6.0	5.6	5.5	5.6	6.2	5.9	6.2	5.9	5.8	5.6	5.6	5.5	5.5	5.5	5.5	5.5
Terms of trade	-11.4	-3.8	-3.0	-0.2	-3.2	-3.9	-2.4	-3.2	-1.9	4.4	-2.1	-0.9	-1.5	-0.2	-0.8	-1.4
G&S trade balance, \$Abn	-33.2	-11.7	1.6	2.7	-4.7	-11.3	-7.3	-9.9	-6.6	-2.1	-2.0	-1.0	-0.6	0.6	1.1	0.5
% of GDP	-2.0	-0.7	0.1	0.1	-1.2	-2.8	-1.8	-2.4	-1.6	-0.5	-0.5	-0.2	-0.1	0.1	0.2	0.1
Current Account (% GDP)	-4.6	-3.4	-2.5	-2.4	-3.4	-5.2	-4.6	-5.1	-4.3	-3.2	-3.1	-2.9	-2.8	-2.5	-2.4	-2.5

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

Exchange Rate Forecasts

	11-Jul	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Majors						
AUD/USD	0.7560	0.72	0.70	0.69	0.69	0.69
NZD/USD	0.7299	0.68	0.66	0.66	0.65	0.66
USD/JPY	100.75	105	105	103	103	102
EUR/USD	1.1048	1.08	1.06	1.05	1.05	1.06
GBP/USD	1.2950	1.28	1.25	1.22	1.20	1.22
USD/CNY	6.6909	6.73	6.80	6.78	6.76	6.74
USD/CAD	1.3045	1.33	1.40	1.40	1.42	1.42

Australian Cross Rates

	11-Jul	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
AUD/JPY	76.2	76	74	71	71	70
AUD/EUR	0.6843	0.67	0.66	0.66	0.66	0.65
AUD/GBP	0.5838	0.56	0.56	0.57	0.58	0.57
AUD/NZD	1.0358	1.06	1.06	1.05	1.06	1.05
AUD/CNY	5.0583	4.85	4.76	4.68	4.66	4.65
AUD/CAD	0.9862	0.96	0.98	0.97	0.98	0.98
AUD/CHF	0.7432	0.72	0.68	0.68	0.70	0.72

Interest Rate Forecasts

	11-Jul	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Aust rates						
RBA Cash rate	1.75	1.75	1.75	1.75	1.75	1.75
3 month bill rate	1.97	1.95	1.95	1.95	1.95	1.95
3 Year Swap Rate	1.76	1.7	1.8	1.8	1.8	1.8
10 Year Swap Rate	2.07	2.1	2.3	2.3	2.4	2.4
Offshore Policy Rates						
US Fed funds	0.50	0.50	0.75	0.75	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	-0.10
RBNZ OCR	2.25	2.00	1.75	1.75	1.75	1.75
China 1yr lending rate	4.35	3.85	3.85	3.60	3.60	3.60
China Reserve Ratio	17.0	16.0	16.0	16.0	16.0	16.0
10 Year Benchmark Bond Yields						
Australia	1.89	1.95	2.10	2.10	2.25	2.25
United States	1.36	1.50	1.75	1.75	2.00	2.00
New Zealand	2.25	2.25	2.35	2.55	2.65	2.75

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avg
Australia	2.0	2.7	2.5	3.1	3.0	2.4	3.4
US	1.5	2.4	2.4	1.8	2.1	1.9	2.6
Eurozone	-0.3	0.9	1.5	1.5	1.5	1.6	1.5
UK	2.2	2.9	2.3	1.8	2.0	2.0	2.4
Japan	1.4	-0.1	0.6	0.5	0.7	0.5	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.3	7.0	7.2	7.7	7.7	7.5	6.6
New Zealand	2.4	3.7	2.5	2.3	2.5	2.4	3.0
World	3.3	3.4	3.0	2.9	3.2	3.1	3.5
MTP Top 5	3.9	3.8	3.8	3.6	3.6	3.4	5.0

Commodity prices (\$US)

	11-Jul	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
WTI oil	45.20	45	52	54	56	58	60
Gold	1373	1320	1300	1250	1210	1170	1120
Iron ore	55	44	41	40	41	41	40
Hard cok. coal	89	93	85	83	84	85	85
Thermal coal	60	62	62	62	58	58	58
Copper	4698	4650	4750	4790	4840	4890	4940
Japan LNG	6.6	6.8	7.1	8.0	8.3	8.5	8.6

Contact Details

Market Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836
ivan.colhoun@nab.com.au

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Riki Polygenis
Head of Australian Economics
+61 3 8697 9534
riki.polygenis@nab.com.au

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