

# THE FORWARD VIEW - AUSTRALIA

DECEMBER 2016

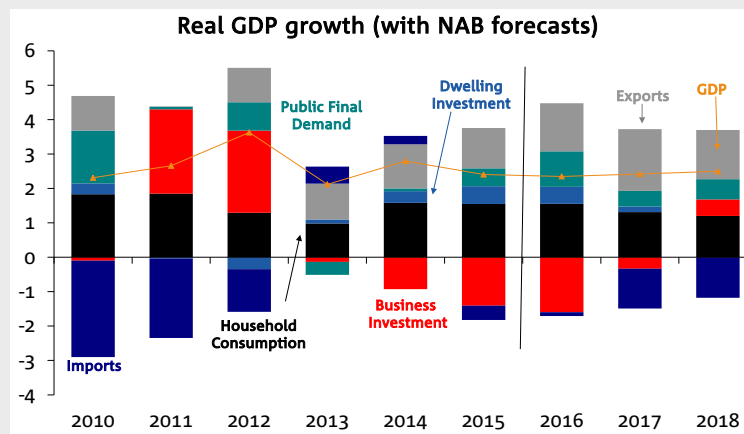


*There is no place for the "R" word, but recent softening bears close watching*

- There will be no repeat of Q3's negative GDP print, with a confluence of one-off factors exaggerating the degree of weakness in Q3, particularly weather events impacting on construction and exports. Our early GDP forecast for Q3 suggests a rebound in Q4, although the lower base has led to a downgrade to our 2016 and 2017 growth forecasts, which now stand at 2.3% and 2.4% in annual average terms respectively.
- The risks near-term are tilted to the downside however with a significant slowdown in indicators such as business conditions, employment and household spending, as well as in the largest non-mining states of Victoria and NSW (see *Spotlight* article on NSW on page 5). For now, we are treating this as a "mid-cycle" loss of momentum in non-mining, with domestic demand to grow at a moderate (albeit below-average) pace in late 2016 and early 2017.
- Further out, our forecasts continue to include a notable slowdown in year-ended growth rates in 2018, which risks a rise in the unemployment rate should further cash rate cuts not be delivered as we expect in mid-2017. At this stage, our unemployment rate forecasts have been revised marginally higher to around 5¾% through to 2018. Some near-term rise in unemployment is also possible should we see a bounce in the participation rate in coming months.
- The election of Trump as US President elect has led to an upward revision to our US\$ forecasts and reinforced our conviction that the A\$/US\$ will depreciate to 0.70 by end-2017. Our expectation for bulk commodity prices and the terms of trade to retreat through 2017 (despite some modest upgrades), is also consistent with this view.
- These forecast adjustments, in conjunction with weak wages growth, more than offset the impact of (temporarily) higher commodity prices on the federal Budget and hence add to the difficulty of achieving a surplus by 2020 – 21. A downgrade to Australia's AAA credit rating is possible although the economic implications beyond confidence effects will be minimal.

	Calendar Year			
	2015-F	2016-F	2017-F	2018-F
Domestic Demand (a)	1.3	1.5	1.7	2.2
<b>Real GDP (a)</b>	<b>2.4</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>
Terms of Trade (a)	-11.6	-0.9	9.7	-9.5
Employment (a)	2.1	1.5	1.2	1.4
Unemployment Rate (b)	5.9	5.7	5.7	5.8
Headline CPI (b)	1.7	1.7	2.4	2.3
Core CPI (b)	2.0	1.5	1.9	2.0
RBA Cash Rate (b)	2.00	1.50	1.00	1.00
\$A/US cents (b)	0.73	0.75	0.70	0.69

(a) annual average growth, (b) end-period, (c) through the year inflation



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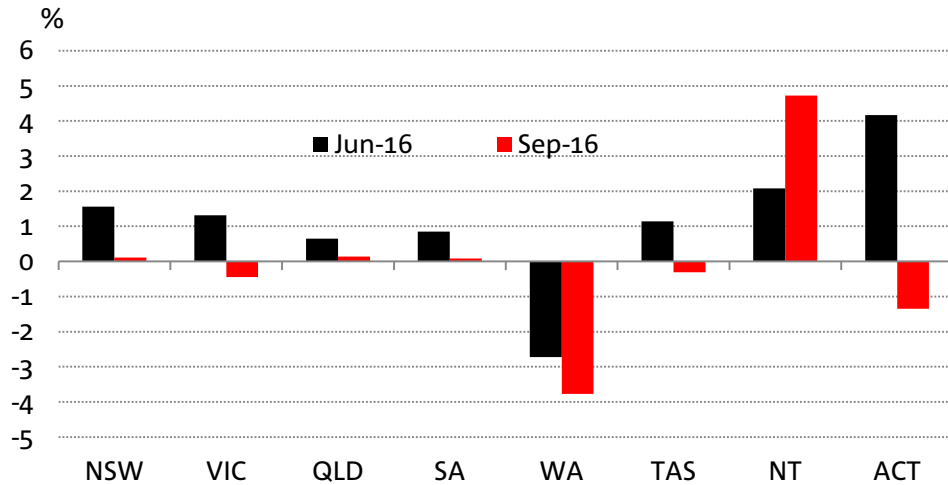
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# CHARTS OF THE MONTH

*Repeat of negative GDP unlikely, but key indicators making us nervous*

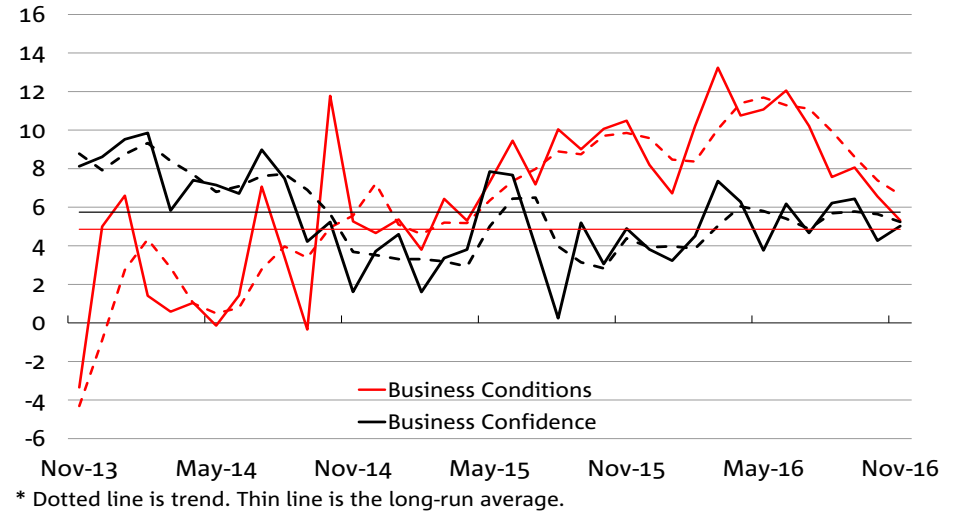
## TRUUBLING SLOWDOWN IN KEY NON-MINING STATES

State final demand, quarterly % change



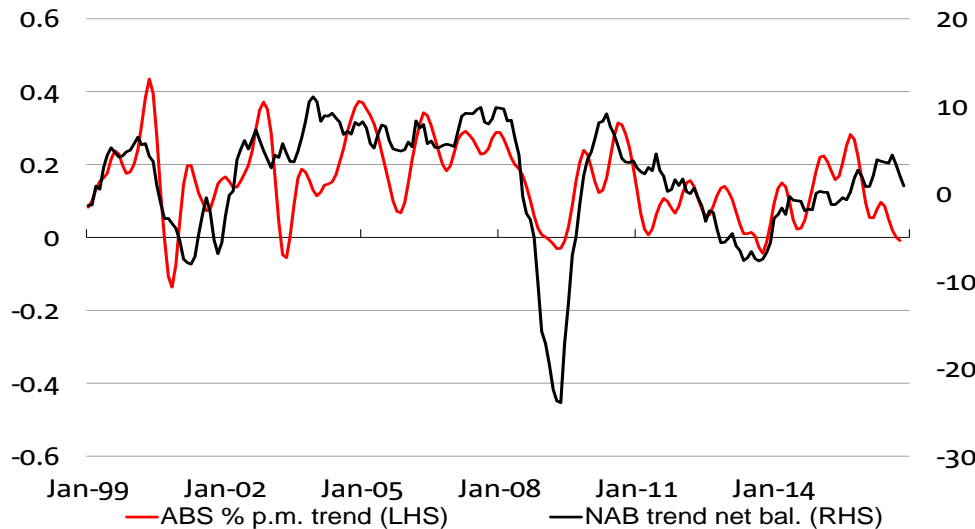
## BUSINESS CONDITIONS HAVE EASED RAPIDLY, CONFIDENCE STEADY

Net balance



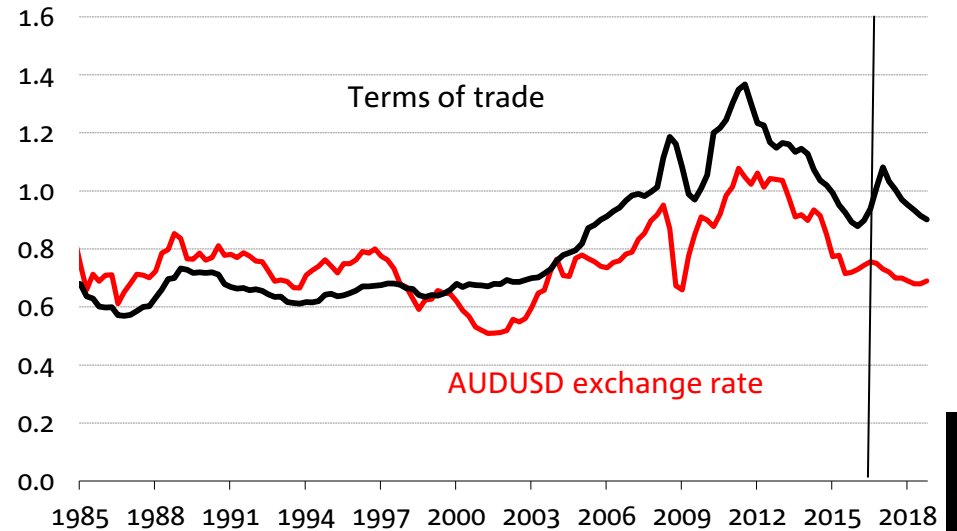
## EMPLOYMENT SLOWING, ALTHOUGH MAGNITUDE MAY BE OVERSTATED

Official employment growth vs NAB employment index



## TEMPORARY TERMS OF TRADE BOOST WON'T SUPPORT REAL ECONOMY

Terms of trade vs A\$/US\$

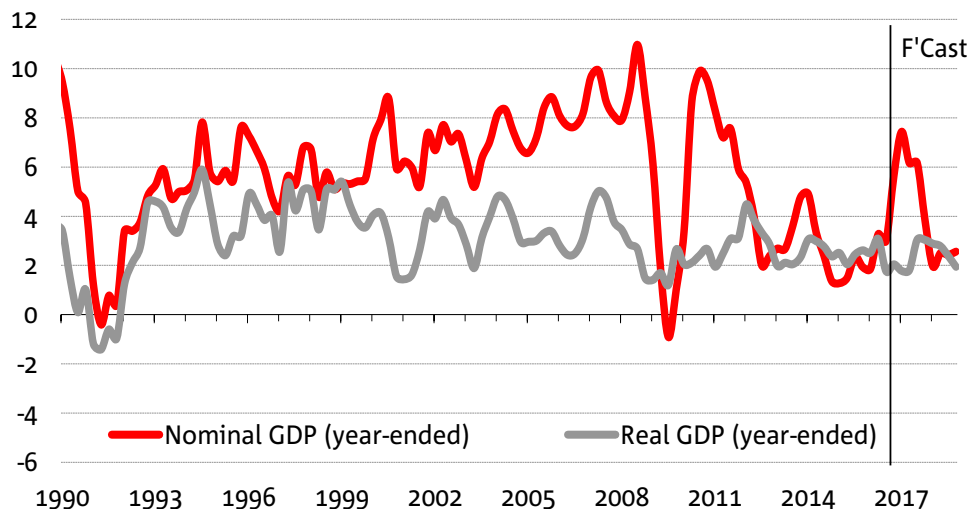


# OVERVIEW - AUSTRALIAN ECONOMIC OUTLOOK

*No technical recession, but outlook for domestic demand uninspiring*

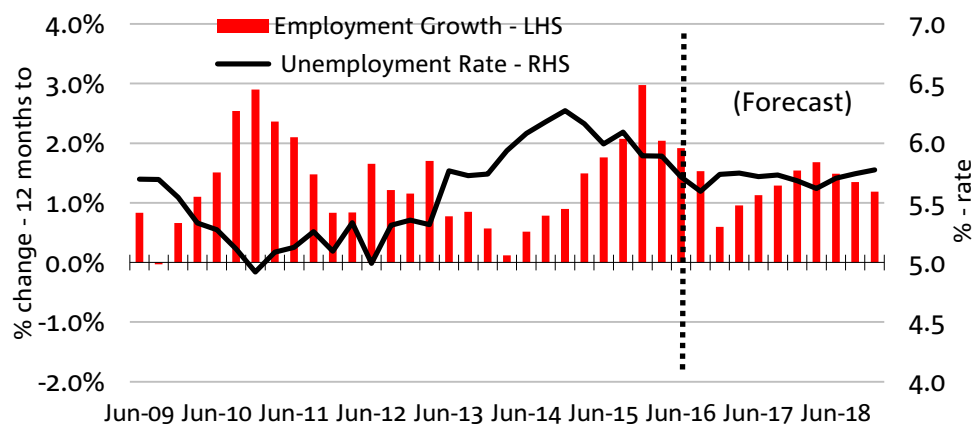
## REAL AND NOMINAL GDP OUTLOOK

NAB Real GDP Forecasts



## UNEMPLOYMENT TO TRACK SIDWAYS

Employment growth and unemployment rate



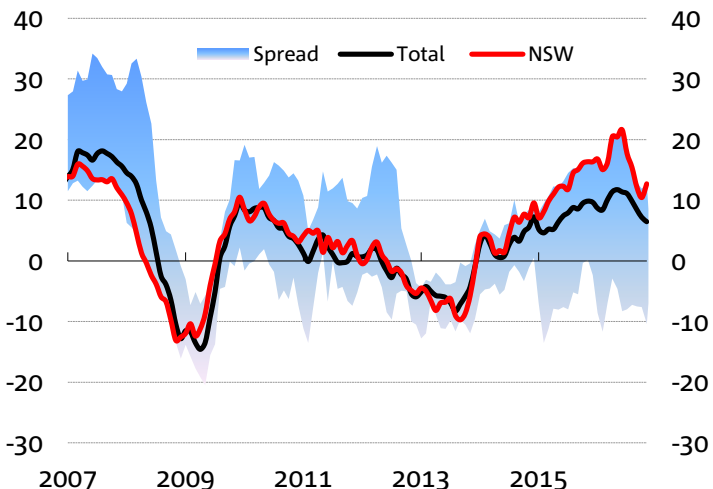
- Real GDP declined by 0.5% in Q3, with the year-ended growth rate dropping to just 1.8%. While this can be partly attributable to one-offs, there are some aspects of the GDP report which are troubling, including the slowdown in household consumption and in state final demand in NSW and VIC. This implies downside risk to our near-term forecasts.
- The softening has been signalled by business conditions, which have fallen steadily to its long-run average of +5 index points in November from a peak of +12 in June. Employment has also weakened this year, although the NAB employment index suggests the weakness may be overstated at present. That aside, unemployment would have increased through 2016 absent the sharp drop in participation. The unemployment rate is forecast to hold steady at around 5¾% in coming years, although there is some chance of a kick-up near-term should the participation rate bounce.
- We don't expect another negative GDP print in Q4 - our initial forecast is 0.9% q/q - but annual average growth has been revised to 2.3% in 2016 and 2.4% in 2017 due to the lower base. The year-ended growth rate does jump back to above 3% in late 2017 as the contraction in Q3 2016 washes out. Looking through these oscillations, domestic demand will grow at a well-below average rate in 2017 (despite mining investment dragging less), with net exports (as LNG ramps up) the key driver of growth. Nominal GDP and national income also receive a strong boost from the recent rally in coal and iron ore prices in coming quarters, but the flow through to the real economy will be muted (page 10) and the rally is unlikely to be sustained. While positive for government revenue, weak wages growth, and a lower base for the real economy however, suggest little improvement to government forecasts for the budget balance when updated on Monday.
- By 2018, the support from LNG fades and dwelling construction will have peaked, while household consumption and non-mining investment don't pick up enough to fill the void. Amidst weak inflation, this is likely to prompt further monetary policy easing in mid-2017 to prevent a rise in unemployment.
- The AUD/USD is projected to ease to 0.70 by end-17, consistent with a stronger USD and our forecast for bulk commodity prices and the terms of trade to unwind (despite some revisions which soften the speed of the slowdown). Our latest commodity price forecasts are on page 11 and a more detailed discussion of our latest coal and iron ore forecasts will be available tomorrow. The biggest threat to the Australian economy in the wake of the election of Trump relates to trade policy, although this will take some time to play out. A slowdown in China remains a larger downside risk to the Australian outlook.

# SPOTLIGHT: IS THE NSW ECONOMY SLOWING AGAIN?

*Australia largest state economy is showing some weakness in the partials*

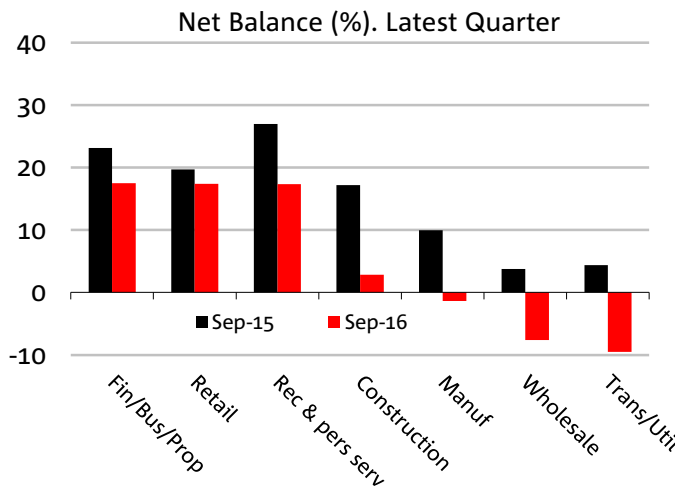
## NAB BUSINESS SURVEY

Business conditions



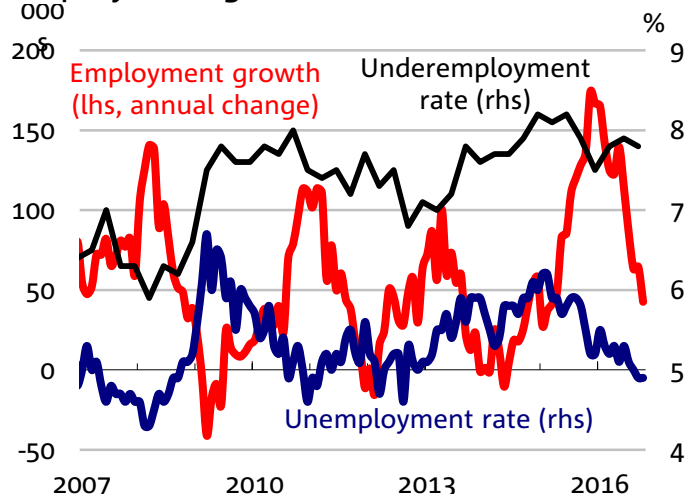
## NSW BUSINESS CONDITIONS

By industry



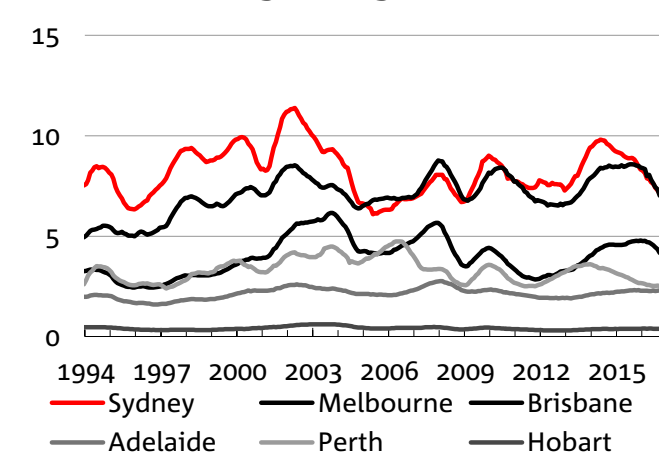
## NSW LABOUR MARKET

Employment growth has slowed



## REAL ESTATE SALES VOLUMES

12-month rolling average (000s)



- The NSW economy (along with Victoria) has been a major driving force behind the improvement in the non-mining economy in recent times. Previous AUD depreciation had been supportive of export industries, particularly in the services sector, while a booming housing market – encouraged by record low interest rates and years of undersupply – has had a noticeably positive impact on the economy.
- However, a number of timely partial indicators are now suggesting that the recovery of Australia's largest state economy may be wavering. This has been quite apparent in the NAB Monthly Business Survey, where business conditions have steadily eased in trend terms from their recent peak. While business conditions are still holding up at above average levels, the pace of the moderation in the index is a concerning trend that warrants close monitoring over coming months. Additionally, the quarterly version of the NAB Survey suggests that the moderation in business conditions has been relatively broad based across industries – suggesting it is not just bespoke industry specific factors at play.
- Another area that has exhibited weakness has been in the state's labour market. According to the ABS labour force survey, annualised employment growth has slowed considerably, following a period of extraordinary growth over 2015 and early 2016. However, there is some conjecture that official statistics may have overstated the previous strength in the labour market, which could mean the pace of the slowdown has also been exaggerated. Indeed, the unemployment rate has steadily fallen over this period, while NSW employment conditions in the NAB Survey also held up. That said, labour underemployment has stayed elevated.

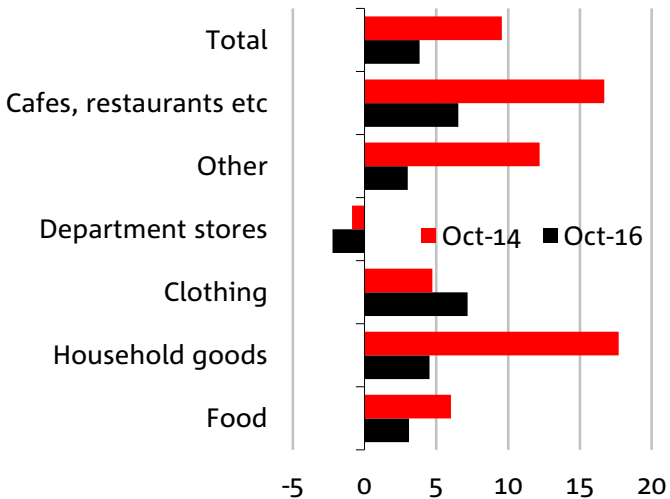


# SPOTLIGHT: IS THE NSW ECONOMY SLOWING AGAIN? CONT.

## Housing market & AUD impacts expected to peak soon

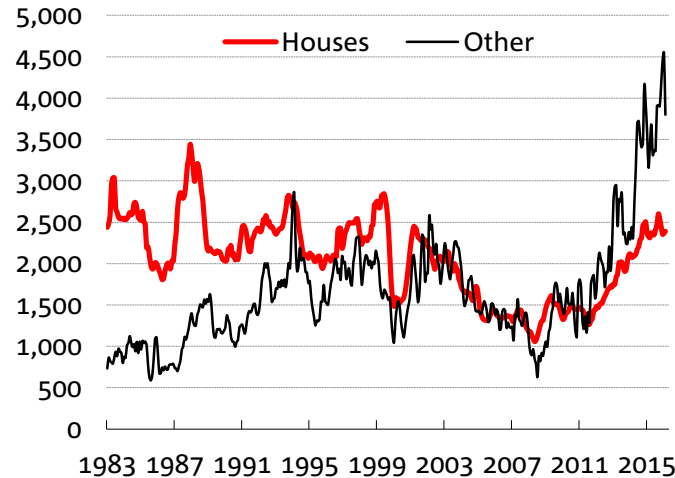
### NSW RETAIL SALES GROWTH

Year-ended growth, smoothed



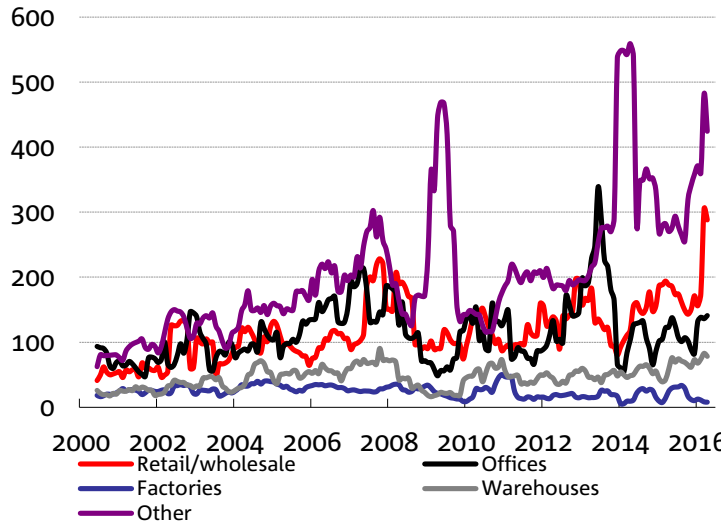
### NSW RESIDENTIAL APPROVALS

Number (3mma)



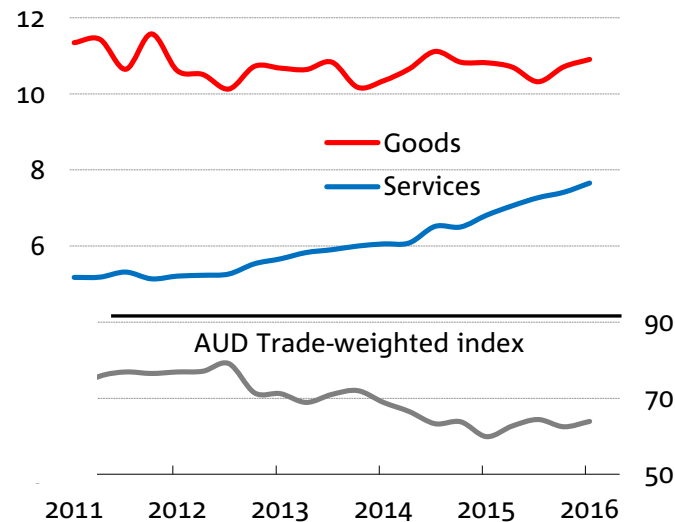
### NON-RESIDENTIAL APPROVALS

\$ millions



### NSW EXPORTS OF GOODS & SERVICES

\$ billions; TWI index



- But while the true state of the NSW labour market is a little up in the air, more subdued conditions are consistent with the slowdown in retail spending growth. Over the past two years, year-ended growth in retail sales has more than halved. Slower growth in discretionary spending has been a major driver of the slowdown, with sales of household goods making the biggest contribution.
- Slower growth in household goods coincides with shifting conditions in the housing market. House price growth has generally slowed from the cycle peaks – although there has been some resurgence following the RBA rate cuts – while sales activity has slowed considerably (an indication of market fatigue). Additionally, households have become more indebted in the aftermath of the property boom, which in conjunction with other uncertainties, is keeping consumers conservative with their spending behaviours (see Q3 NAB Consumer Behaviour Survey).
- Residential construction activity is also expected to slow in NSW in the medium-term. Construction activity is already high and the pipeline of projects remain large, which will sustain activity in the quarters to come. However, concerns about shifting market fundamentals and tightening credit conditions will gradually weigh on construction. Residential building approvals have already started to level out, and are expected to fall from here.
- There are some other encouraging signs however. Non-residential building approvals spiked in recent months (especially in wholesale/retail and tourism), while available data also shows services exports continuing to increase steadily. However, with the AUD TWI holding fairly steady for more than a year, the flow-through effect to export demand might soon fade.

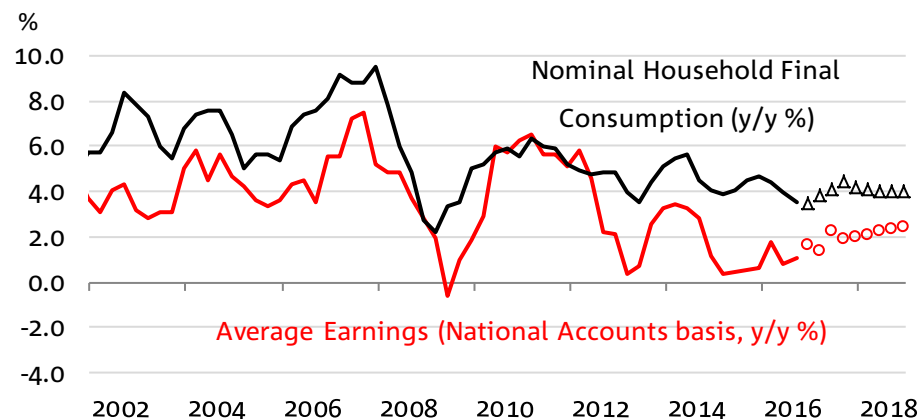


# CONSUMER DEMAND AND INFLATION

## Household consumption losing momentum

### HOUSEHOLD SPENDING EXPECTED TO EASE

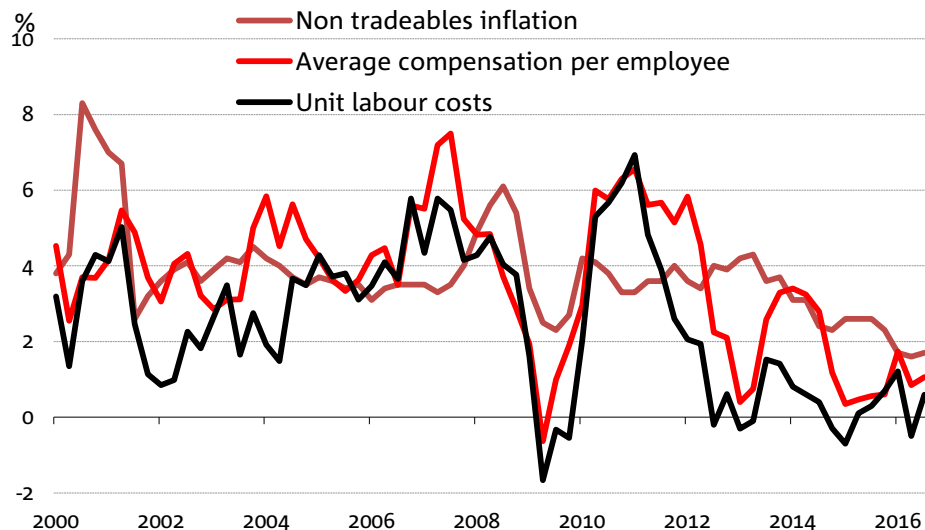
Nominal HFCE growth and average earnings growth (y/y%)



Source: ABS, NAB Group Economics

### NON TRADEABLES INFLATION SUBDUED

y/y % growth



Sources: ABS; NAB Economics

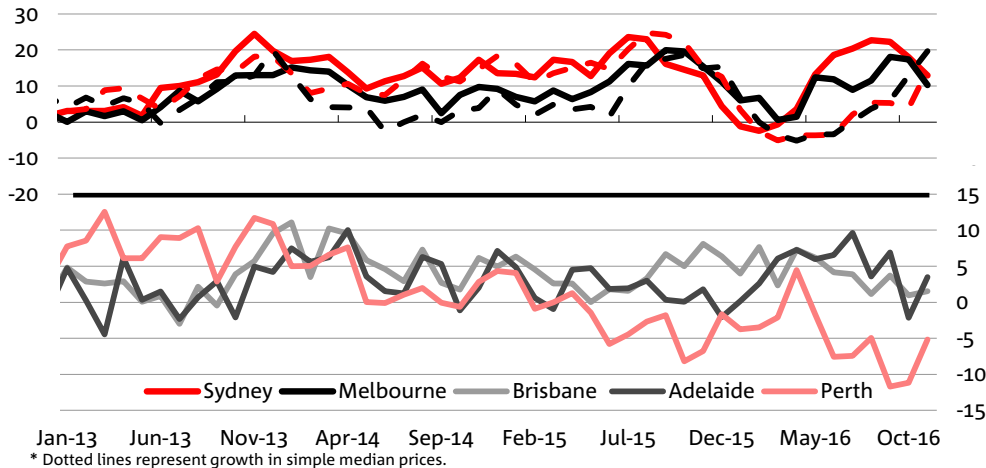
- According to the Q3 National Accounts, **household consumption** growth was lacklustre to be at 0.4% q/q (2.5% y/y), largely reflecting the weakness in real retail activity (which fell by 0.1% in the quarter). The subdued household consumption reading was despite a lower household saving ratio (at 6.3%) and notable pick-up in household income growth in the quarter, the latter reflecting more hours worked at the aggregate level. Services consumption continued to dominate goods consumption in the quarter, with hotels, cafes and restaurants; insurance and other financial services; as well as rent and other dwelling services being the largest positive contributors to overall consumption growth, while food and purchase of vehicles were the biggest detractors.
- In more recent months, the partial indicators were mixed. The latest ABS retail trade data shows that retail turnover trend growth maintained its momentum in October at 0.4% (similar to September), which signals stronger growth overall for Q4. Meanwhile NAB's monthly Online Retail Sales Index for October suggests that trend growth for online spending has eased further to 0.5% m/m, down from 0.7% last month. In trend terms, retail conditions according to the NAB business survey eased to -5 index points in November, the lowest level since late 2014.
- Going forward, household consumption is expected to grow moderately on the back of a declining saving ratio and a low interest rate environment. We are forecasting real household consumption to grow by 2.7% in 2016, before moderating to 2.3% in 2017 and 2.1% in 2018.
- While some measures of labour income showed signs of pick-up in the September quarter, softness remains in the labour market and the resultant subdued growth in labour costs will keep non-tradeables **inflation** low for some time. High levels of dwelling construction will likely keep rent inflation contained as well. For tradeables inflation, there is some preliminary signs of exchange rate passthrough, however the recent appreciation of the AUD will delay that process, especially amidst fierce retail competition. The November NAB Business Survey showed inflation measures remained subdued, with retail price growth flat, despite a notable increase in upstream retail costs. What is perhaps concerning is the pronounced deterioration in retail business conditions in the month. Overall, we forecast inflation to remain depressed at below or just on 2% in 2017 and 2018, with headline inflation a little higher due to tobacco excise increases and higher fuel prices.

# THE HOUSING MARKET

*Property prices mixed in November. Signs emerge of a looming peak in construction*

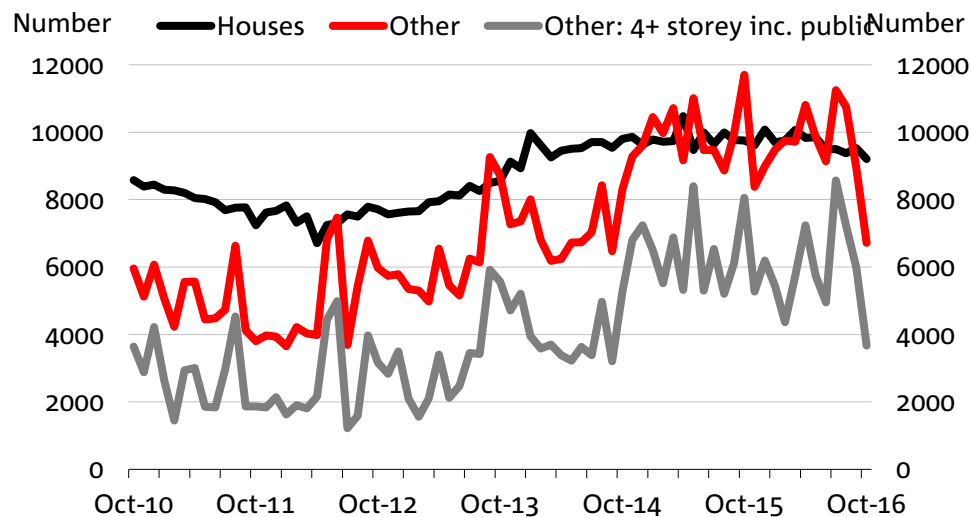
## MORE DIVERGENCE IN PROPERTY PRICES

Dwelling price growth (hedonic)\*, 6-month annualised



## HIGH DENSITY APPROVALS NOW IN DECLINE

Private dwelling units approved



Source: ABS

Sources: Corelogic; ABS; NAB Economics

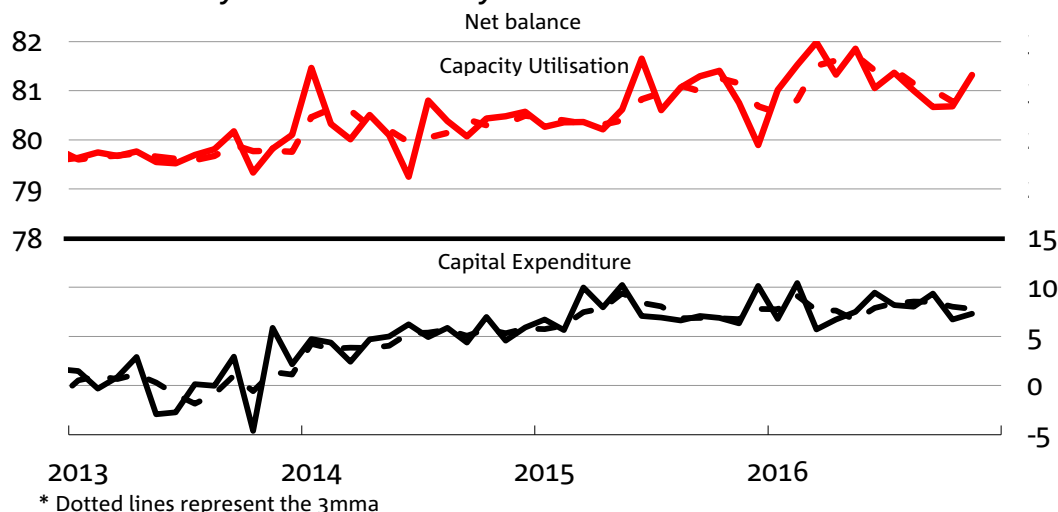
- Conditions in the major eastern housing markets were more mixed in November, suggesting that supply concerns might be starting to manifest in some segments. Hedonic **property prices** in Sydney showed yet another month of solid growth, continuing the post-RBA rate cut rally, but prices in Melbourne declined – led by a notable decline in apartment prices. Nonetheless, 6-month annualised growth in both cities remains in double digits, while auction clearance rates are still fairly elevated – although large falls in transaction volumes suggests that market fatigue may be working in favour of sellers (see chart on page 5). Brisbane prices saw modest growth in the month, while Adelaide prices bounced back to a new high, following a drop in October.
- Despite the mixed signal on market trends, we have maintained our previous view of the outlook, albeit with a degree of upside risk to the forecast. Our national price growth forecasts for 2016 are 8% for houses and 5% for units. We still forecast growth to moderate to 0.4% for houses and -1.6% for units in 2017 as large supply additions and stretched household balance sheets weigh on the market. The recent slowdown in household credit might also weigh a little more on the market in the near term, but with two more 25bps cuts expected from the RBA next year, potentially adding almost \$50k to the average households purchasing power, the impact may be more than offset in time.
- **Dwelling investment** in Q3 2016 was much weaker than expected, falling 1.4% in the quarter – although new dwelling construction is still up 10.5% over the year. That was an especially weak outcome in the context of the Australian housing construction cycle, although according to the ABS, weather-related events amidst above-average rainfall weighed noticeably on the outcome. Declines were seen across both new & used dwellings (down 1.6%) and alterations & additions (renovations, down 1%). The lumpy nature of medium density projects (which dominate the construction pipeline) may also help to explain the contraction in Q3.
- Despite a soft Q3, the elevated pipeline of approved projects is expected to sustain construction activity. However, building approvals slowed notably in September (down 12.6%), driven by a sharp pull-back in the volatile medium-density approvals – now at their lowest level since 2014. These outcomes suggest a risk that the housing construction cycle could peak at a lower level than expected. That said, recent housing finance data shows that investor finance is making a comeback (from its policy induced slowdown) while owner-occupied finance dropped back. For now, dwelling investment is expected to rise 9.0% in 2016 and 2.8% in 2017, before turning modestly negative (-1.3%) in 2018.

# BUSINESS ACTIVITY, INVESTMENT AND CONSTRUCTION

*Business conditions sliding, but investment indicators are fairly mixed*

## NAB SURVEY INDICATORS OF INVESTMENT MIXED

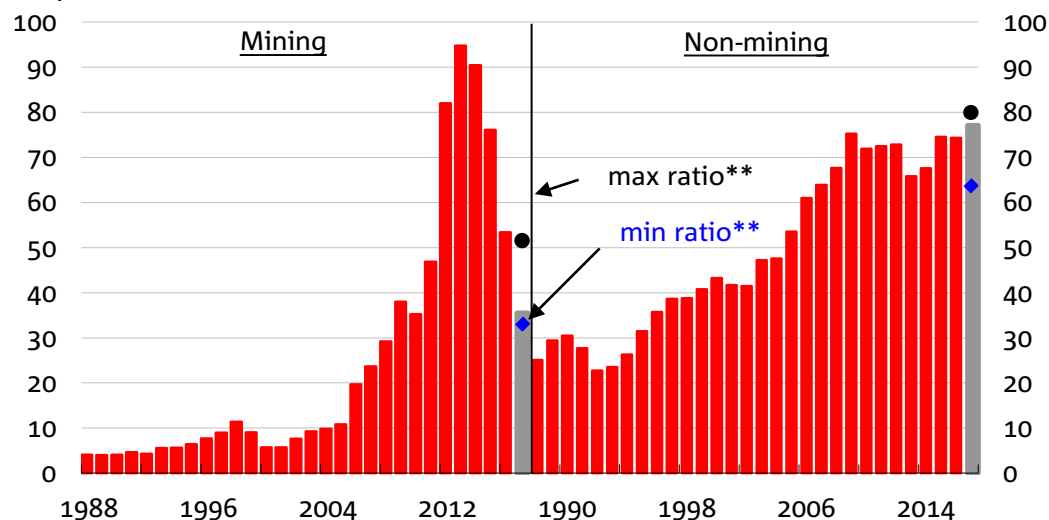
NAB Monthly Business Survey – investment indicators



- The November *NAB Monthly Business Survey* gave more hints of a moderation in the non-mining economic recovery. **Business conditions** slid further in the month, dropping back to long-run average levels for the first time since April 2015. However, in spite of the declining trend in business conditions, business confidence has remained relatively resilient, tracking broadly sideways in recent times and showing a modest improvement in November – although it remains at levels that are not conducive of higher levels of investment activity. Nonetheless, the capex measure from the Survey remained positive this month, consistent with an increase in capacity utilisation rates, although forward orders stayed soft.
- Underlying private **business investment** fell by a further 3.2% in Q3, with engineering construction again being a major driver (down 5.6%). However, weakness was relatively broad-based, with non-residential building construction falling 11.5% (affected by weather-related disruptions, as well as some large projects being completed), while equipment investment rose by a relatively modest 0.6%. Our estimates suggested that the mining investment ‘cliff’ is potentially around three-quarters complete, but further significant declines can still be expected in coming quarters .
- A more timely read from the value of non-residential building approvals suggests a lift in the project pipeline – primarily in retail/wholesale, tourism and offices – although the spike in approvals was quickly unwound in October. Very subdued business conditions in retail suggest an unfavourable environment for additional investment, but fairly low vacancy rates and solid rental growth in some office markets (namely Sydney and Melbourne) may continue to support investment in that space.
- Other indications of future business investment are not very encouraging. The ABS Private Capital Expenditure Survey shows that the anticipated recovery in non-mining investment remains elusive, with firms expectations remaining flat at best. Additionally, as indicated above, mining firms expect to see more big declines in 2016-17.
- Business investment (around 12% of GDP) is forecast to decline by 11.7% in 2016 and 4.1% 2017. In 2018, business investment is forecast to increase by 4.8%.

## PRIVATE CAPITAL EXPENDITURE & EXPECTATIONS

\$ billions



\* Grey bars are the latest expectations adjusted by the previous year's realisation ratio

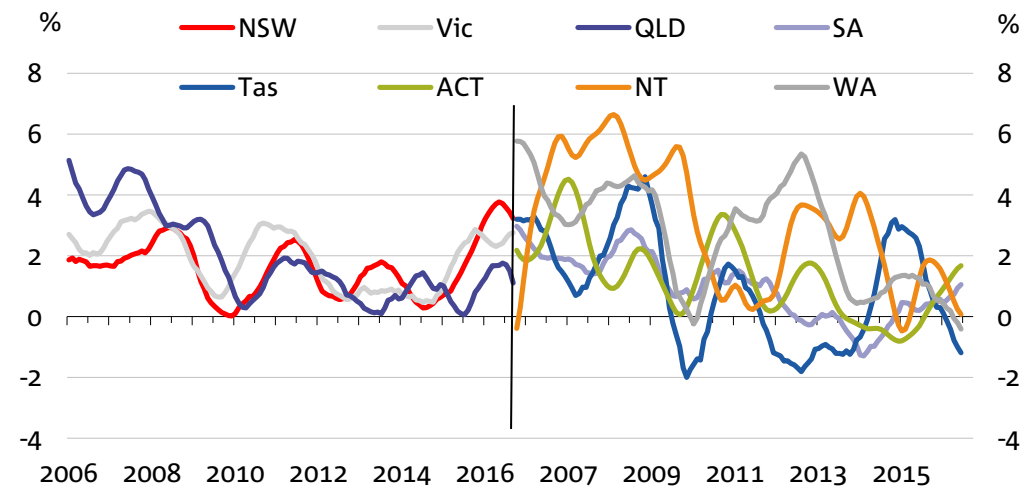


# LABOUR MARKET AND WAGES

## Employment slowdown in NSW reflects easing non-mining recovery

### EMPLOYMENT GROWTH IN MOST STATES CONTINUE TO TREND DOWNWARDS

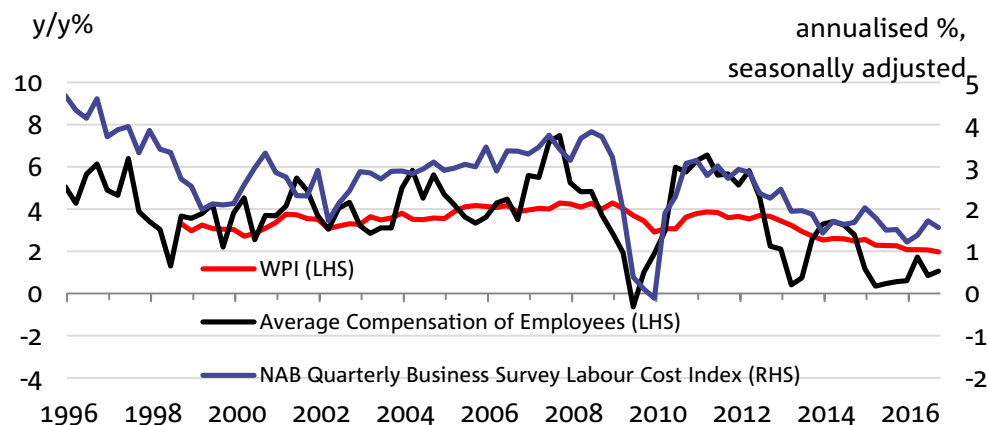
Part-time, full-time and total employment



Source: ABS, NAB Group Economics

### WAGE MEASURES GENERALLY REMAIN SOFT

NAB Quarterly Business Survey labour cost index, age price index and average compensation of employees



Source: ABS, NAB Group Economics

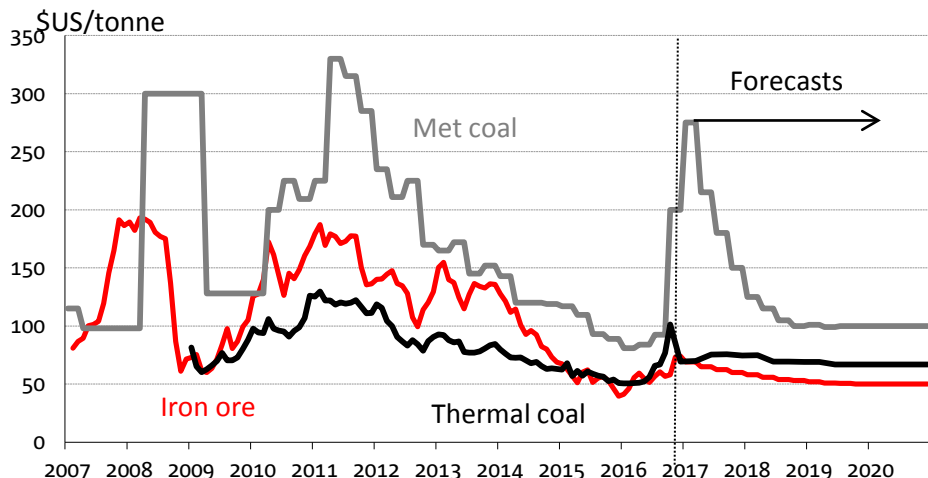
- In October, employment in seasonally adjusted terms rose by 9.8k, but a sharp revision to the September figures resulted in the year-on-year growth to fall to a modest 0.9%, the lowest in close to two years. The slowing in employment growth was also captured by the trend measure, which has turned negative (at -1k) for the first time in just under three years. Meanwhile a stable participation rate of 64.4% saw the official unemployment rate unchanged at 5.6%.
- Employment growth in most states and territories continue to trend downwards, with the easing in NSW persisting. Victoria appears to be holding up the best of all the large states, while SA employment growth has gained more momentum of late, and ACT's rising trajectory remains intact. Meanwhile, employment growth in Tasmania and Western Australia remains entrenched in negative territory, while NT is close to neutral.
- Signals from leading indicators also suggest that the labour market is slowing. The employment index from the NAB monthly business survey was largely stable at +1, which is around the long-term average level. This outcome hints at an annual job creation rate of around 182k (around 15k per month) in the next six months, which is barely sufficient to steady the unemployment rate, and risks a rise in the unemployment rate should the participation rate bounce. Meanwhile, SEEK data suggest that the pace of job ads growth has slowed in NSW in recent months, stabilising in WA at low levels and more positive in Queensland and Victoria.
- Against the backdrop of slowing employment growth and subdued indicators, we expect the unemployment rate to tick up slightly in coming quarters, to be at 5.7% by end-16 and stabilising at around that level in 2017, before rising to 5.8% by end-18.
- The continued dominance by part-time jobs in recent employment gains and a high degree of spare capacity in the labour market is expected to continue to weigh on wages growth. The recent uptick in commodity prices and hence Australia's terms of trade is likely to lead to only limited pass-through to wages growth, given that resource companies have reduced their headcounts significantly since the peak of the mining boom and are unlikely to advance much more business investment.
- As such, we expect wages growth to remain subdued through the forecast horizon, which will in turn contain inflationary pressures.

# NET EXPORTS, COMMODITIES AND THE TERMS OF TRADE

*Net exports to add positively to GDP growth*

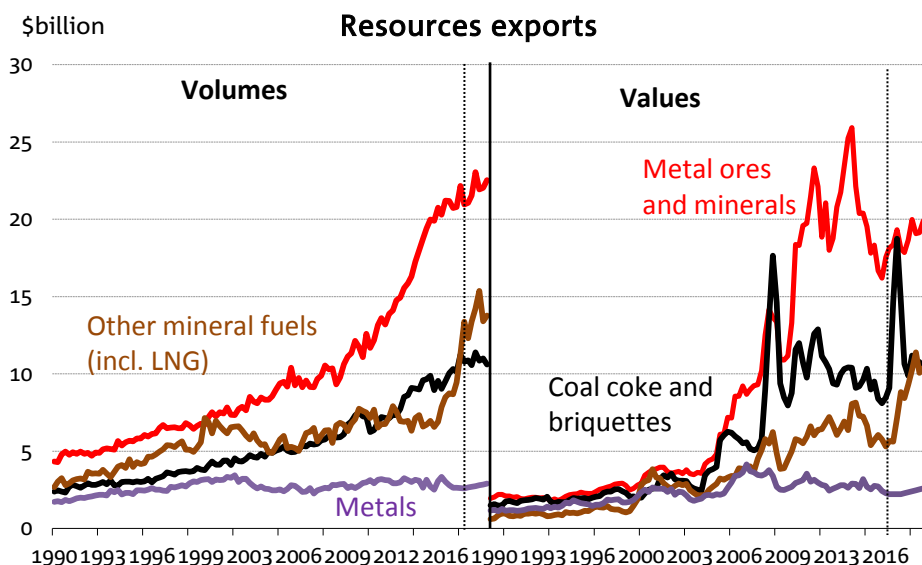
## SURGING COMMODITY PRICES

Bulk commodity prices and forecasts



## RESOURCES EXPORTS VOLUMES RISING STEADILY

Resources exports, volumes and values forecasts



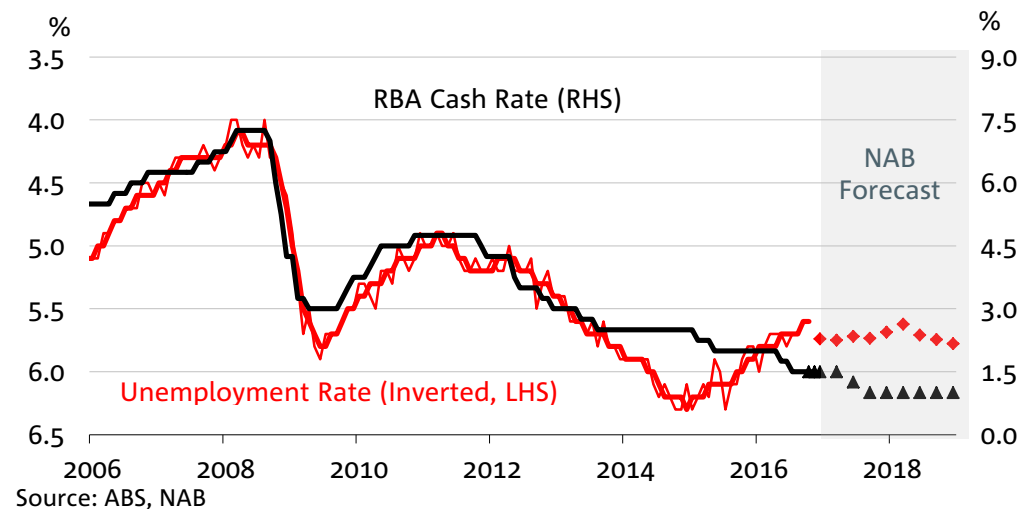
- Net exports are expected to recover and contribute positively to GDP growth in the near term. Exports are expected to bounce back in Q4, offsetting growth in imports, to add a net 0.3 pts to GDP growth. This follows a weak Q3 exports result due to weather and transport disruptions. The terms of trade and nominal GDP have also received a welcoming boost from higher commodity prices. The terms of trade are forecast to rise by another 5.8% in Q4, after two quarters of increases, to be 11.4% higher than a year ago, before retreating again in 2017 (see chart on page 3). Resources exports alone are expected to contribute nearly half of nominal GDP growth in Q4.
- Resources export volumes are expected to grow strongly on the back of the ramp-up in LNG exports. The completion of LNG projects will add significantly to total exports in Q4 2016 and the first half of 2017, after which LNG export volumes will grow more moderately before flattening off in 2018. As a result, net exports are expected to make flat or slightly negative contributions to GDP growth in 2018. Sharply higher coal prices will see some production and exports restart in the near term, especially in Queensland where several mines were closed due to low prices. We have revised up our bulk commodity price forecasts since last month. However, as we do not expect a significant improvement in fundamental demand, the higher prices are unlikely to sustain or spur further investment, therefore limiting the growth in export volumes in the long term. Iron ore exports are also expected to continue to expand, but at a slower pace, with the Roy Hill mines slowly ramping up capacity.
- Import volumes in the very near term will likely be supported by the higher AUD and slowly improving consumption levels, offsetting that somewhat is the dampening effect from subdued investment on goods imports (particularly capital goods imports). The drag from falling investment will dissipate from the second half of 2017, and could see import growth pick up again, especially as household consumption also improves further.
- After rising for much of the year, the NAB Rural Commodities Index looks to have peaked in September. Our wheat production forecast has increased to 29.4 million tonnes for the 2016-17 season, just shy of the 2011-12 record and 21.7% higher than last season. With the weather drying out, we continue to highlight risks to cattle prices. High prices this year have been driven by domestic re-stocker interest rather than global fundamentals and slaughter volumes are well down.

# MONETARY POLICY AND THE EXCHANGE RATE

*Tighter monetary policy unlikely, cuts still on the cards despite AUD easing*

## FURTHER EASING LIKELY TO PREVENT RISING UNEMPLOYMENT

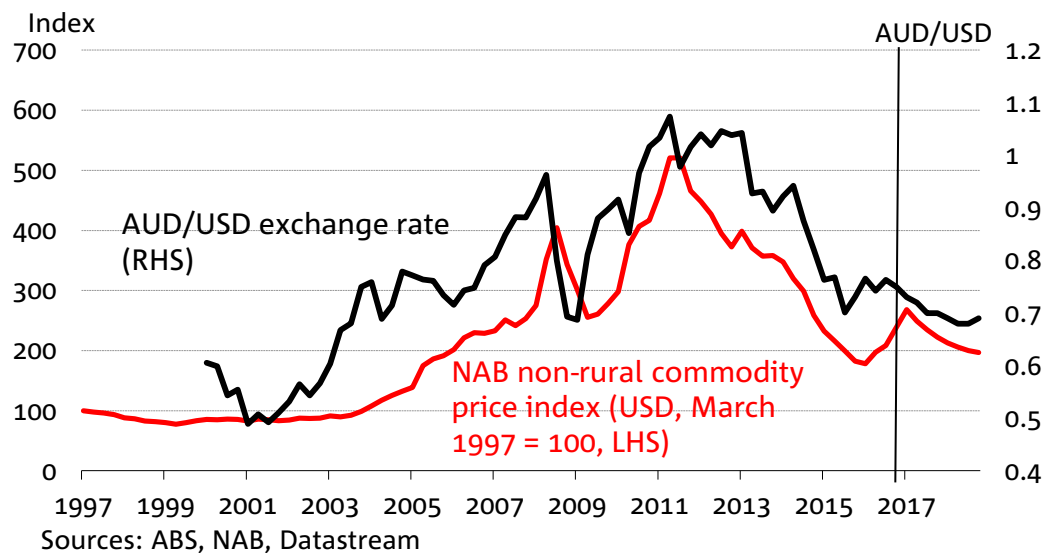
RBA Cash Rate and Unemployment rate



- While the RBA remains somewhat concerned about the strength of house prices, the recent softening in household credit will be some source of comfort. The RBA is more likely to be focused on the recent slowing in non-mining economic momentum, and like us, trying to ascertain whether it will continue. At the very least, the RBA will need to revise down its growth forecasts for the lower base in Q3 2016 (the RBA's November forecasts had annual average growth at 2½-3½% for 2016 and 2017 compared with our revised forecasts of 2.3% and 2.4%). It is also possible that the RBA's overly optimistic forecasts for household consumption and non-mining business investment through 2017 and 2018 are again revised down.
- We retain our view that the RBA will be forced to cut rates by 25bps in each of May and August 2017, confronted with a weak growth outlook for 2018, a possible rise in unemployment and ongoing low inflation. At the very least, rate hikes in 2018, as some in the market are predicting, appear extremely unlikely. The risks appear more tilted towards an earlier cut in our view should the recent slowdown in domestic activity indicators continue.
- In currency markets, USD gains in 2017 are likely to be front-loaded as Trump's economic plans are fleshed and the probability of enactment factored in. But the USD cycle is already quite mature and we expect only single-digit percentage gains for the USD.
- The Trump impact on AUD/USD has been muffled by the sharp rise in coal and iron prices since September and which has supported the AUD in TWI terms. This rally will unwind through 2017, although at a more gradual pace following recent revisions (see chart on page 10 and terms of trade chart on page 2). A detailed update on our bulk commodity price forecasts will be available tomorrow.
- We currently anticipate the A\$/US\$ to end 2016 near current levels at 0.75. before easing to 0.70 by end-2017 and to 0.69 by end-18. The decline in TWI terms will be less pronounced. This depreciation through 2017 is not dependent on RBA cuts but if these eventuate they would make a sub-0.70 Aussie more likely.

## AUD TO HEAD BACK DOWN BELOW

NAB's AUD/USD forecasts



# DETAILED ECONOMIC FORECASTS

## Australian economic and financial forecasts (a)

	Fiscal Year			Calendar Year			
	2015-16 F	2016-17 F	2017-18 F	2015	2016-F	2017-F	2018-F
Private Consumption	2.9	2.4	2.3	2.7	2.7	2.3	2.1
Dwelling Investment	10.8	4.9	1.7	10.0	9.0	2.8	-1.3
Underlying Business Investment	-12.3	-9.2	1.7	-10.1	-11.7	-4.1	4.8
Underlying Public Final Demand	3.5	3.2	2.6	2.4	4.0	2.5	2.6
<b>Domestic Demand</b>	<b>1.4</b>	<b>1.3</b>	<b>2.2</b>	<b>1.3</b>	<b>1.5</b>	<b>1.7</b>	<b>2.2</b>
Stocks (b)	-0.1	0.1	-0.2	0.0	0.1	-0.1	-0.1
<b>GNE</b>	<b>1.3</b>	<b>1.5</b>	<b>2.1</b>	<b>1.3</b>	<b>1.6</b>	<b>1.6</b>	<b>2.2</b>
Exports	6.7	7.0	8.8	6.1	7.0	8.6	6.4
Imports	-0.3	4.3	5.5	2.0	0.5	5.6	5.5
<b>GDP</b>	<b>2.7</b>	<b>1.8</b>	<b>2.9</b>	<b>2.4</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>
Nominal GDP	2.4	5.6	3.6	1.8	3.4	5.9	2.4
Federal Budget Deficit: (\$b)	-37	-34	-23	NA	NA	NA	NA
Current Account Deficit (\$b)	74	14	23	78	47	5	40
(-%) of GDP	4.5	0.8	1.3	4.8	2.8	0.3	2.2
Employment	2.3	1.1	1.5	2.1	1.5	1.2	1.4
Terms of Trade	-10.1	13.1	-5.1	-11.6	-0.9	9.7	-9.5
Average Earnings (Nat. Accts. Basis)	0.9	1.6	2.1	0.5	1.3	1.9	2.3
<b>End of Period</b>							
Total CPI	1.0	2.6	2.2	1.7	1.7	2.4	2.3
Core CPI	1.5	1.9	1.8	2.0	1.5	1.9	2.0
Unemployment Rate	5.7	5.7	5.7	5.9	5.7	5.7	5.8
RBA Cash Rate	1.75	1.25	1.00	2.00	1.50	1.00	1.00
10 Year Govt. Bonds	1.98	2.80	2.95	2.88	2.70	2.70	2.95
\$A/US cents :	0.74	0.72	0.68	0.73	0.75	0.70	0.69
\$A - Trade Weighted Index	62.5	66.3	61.5	62.7	66.5	63.9	61.3

(a) Percentage changes represent average annual growth, except for cash and unemployment rates. The latter are end June. Percentage changes for CPI represent through the year inflation.

(b) Contribution to GDP growth

# COMMODITY PRICE FORECASTS

	Unit	Spot	Actual	Forecasts							
		13/12/2016	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
WTI oil	US\$/bbl	53	45	49	51	52	53	55	56	57	58
Brent oil	US\$/bbl	56	47	50	52	53	54	56	57	58	59
Tapis oil	US\$/bbl	57	48	51	53	54	55	57	58	59	60
Gold	US\$/ounce	1160	1340	1220	1150	1130	1100	1060	1030	1010	990
Iron ore (spot)	US\$/tonne	NA	58	68	69	65	63	60	58	56	54
Hard coking coal*	US\$/tonne	n.a.	93	200	275	215	180	150	125	115	105
Semi-soft coal*	US\$/tonne	n.a.	74	130	203	157	129	108	91	83	76
Thermal coal*	US\$/tonne	105	62	62	62	65	65	65	65	60	60
Aluminium	US\$/tonne	1748	1620	1700	1690	1680	1680	1680	1690	1700	1740
Copper	US\$/tonne	5678	4777	5260	5200	5180	5180	5180	5200	5210	5210
Lead	US\$/tonne	2310	1873	2140	2140	2150	2160	2170	2170	2170	2170
Nickel	US\$/tonne	11337	10255	10890	10780	10670	10670	10670	10670	10670	10670
Zinc	US\$/tonne	2687	2252	2520	2550	2570	2600	2610	2620	2640	2650
Aus LNG**	AU\$/GJ	n.a.	7.53	6.62	7.20	7.55	7.90	8.03	8.40	8.66	8.79

\* Data reflect NAB estimates of US\$/ tonne FOB quarterly contract prices (thermal coal is JFY contract). Actual data represent most recent final quarterly contract price. \*\* Implied Australian LNG export prices

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