

# Australian Markets Weekly

## Victoria's population surging - Australia to return to recent highs

- This week we focus on the latest demographic trends for Australia (full chart pack attached). Population growth remains elevated by historical and international standards, growing at 1.4% y/y (or 338,000 people) in the four quarters to June 2016. This provides a strong underpinning for GDP growth. Population growth is set to return to a 1.6% y/y pace according to the latest forecasts from the Department of Immigration and Border Protection, which would be equivalent to Australia's population growing by 400,000 people a year by 2020.
- Population growth is strongest in the non-mining states of Victoria (running at 2.1% a year or 123k new Victorians) and NSW (1.4% y/y or 105k New South Welshmen). Strong net overseas migration continues to underpin population growth in these states, while the number of births has also started to recover from post GFC lows. The other trend worth noting is a strengthening in net interstate migration to Victoria and Queensland. More people are leaving WA (following the mining boom bust), while the traditional flow of population from NSW to Queensland is beginning to pick up again possibly reflecting house price differentials.
- On population ageing, ageing seems to be progressing largely as forecast by the ABS and the Treasury's Intergenerational Reports. Stronger immigration and a pick-up in births is acting as some offset, but with ageing starting to accelerate, the dependency ratio is set to increase further.
- In markets, attention today is tuned to the Mid-Year Economic and Fiscal Outlook (MYEFO) that was just released and any news on Australia's sovereign credit rating that may follow MYEFO. Moody's and Fitch reaffirmed Australia's AAA rating and as we go to print S&P also said MYEFO had no immediate ratings impact.
- The past week has been dominated by reaction to the US Fed, where the FOMC raised rates at its December meeting, and members indicated three further rate hikes for 2017 was the base case, where previously only two increases were expected. Global bond yields and the US dollar rose in response, while the Australian dollar fell 2.8% to around US\$0.7288 – ending the year around where it started.

*Note: This is the final Australian Markets Weekly for 2016. Season's greetings and a Happy New Year to our readers. As always, questions, feedback and comments are gratefully received. We will resume publication on Monday 16 January.*

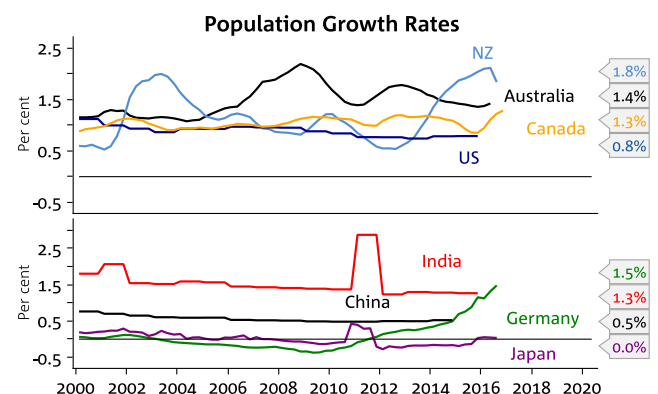
*Regards the Australian Market Economics Team  
Ivan, David and Tapas.*

Table 1: Market Moves

|         | Last   | % chg week |          | Last    | bp / % chg week |
|---------|--------|------------|----------|---------|-----------------|
| AUD     | 0.7288 | -2.8       | RBA cash | 1.50    | 0               |
| AUD/CNY | 5.08   | -1.4       | 3y sw ap | 2.17    | 14              |
| AUD/JPY | 86.0   | -0.3       | ASX 200  | 5,580   | -0.5            |
| AUD/EUR | 0.698  | -0.9       | WTI oil  | 51.9    | 0.8             |
| AUD/NZD | 1.046  | 0.4        | Gold     | 1,135.3 | -2.1            |

Source: Bloomberg

Chart 1: Australia's population growth remains strong



### Author:

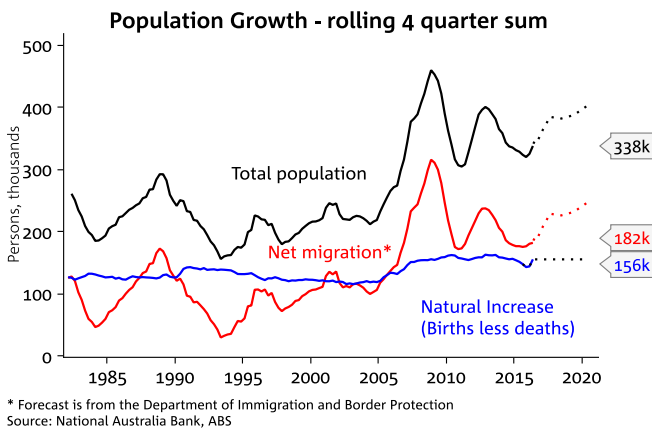
Tapas Strickland, Economist, Markets

## Australia's population trends

Attached to this week's publication is our detailed slide pack covering the latest trends in Australia's population. Here are some of the major points of note:

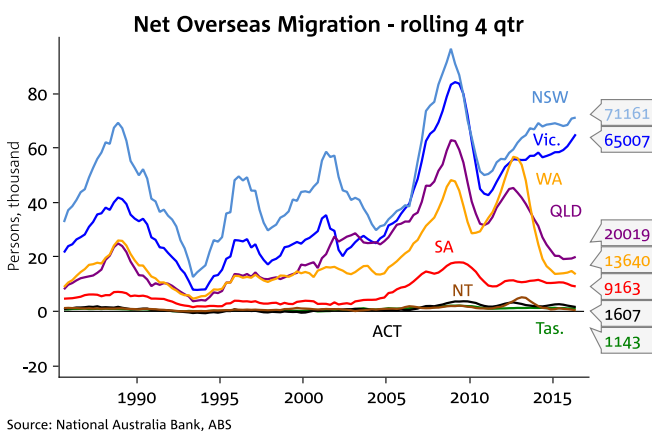
Australia's population growth remains strong by historical and international standards at around 1.4% y/y. That is 338,000 persons in the past year – nearly equivalent to the population of Canberra being added to Australia each year. That overall provides sound support for Australia's GDP growth, but also equates to a continuing large infrastructure need in Australia's capital cities, where population growth is the strongest.

Chart 2: Population growth strong – set to return to highs?



Net overseas migration remains strong (182,000) persons, albeit having slowed from the mining boom peaks. The latest forecasts from the Department of Immigration and Border Projection see this as the low point and forecast net migration to pick-up which would see total population growth approach recent highs around 400,000 persons per annum (Chart 2). The recent recovery in net overseas migration is concentrated in NSW and Vic, while the slowdown in overseas migration seems to have abated in the more mining oriented states of WA and QLD (Chart 3).

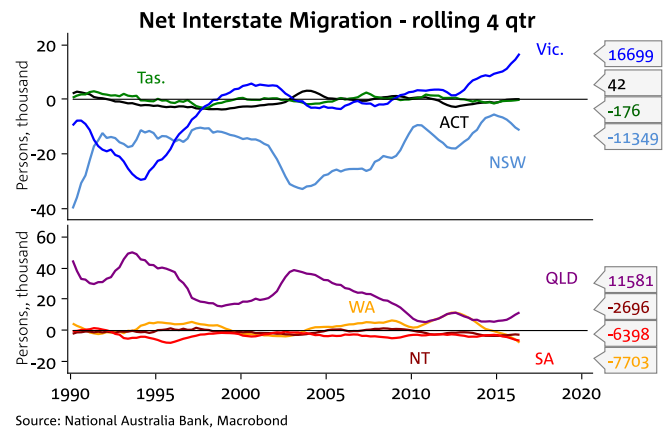
Chart 3: Overseas migration into NSW and Vic picking up



Victoria's population is surging, boosted by both strong overseas migration and an increase in net interstate migration – seemingly from WA (which saw 7,703 more persons leave WA than arrived). One part of stronger NSW population growth in recent years has been reduced net

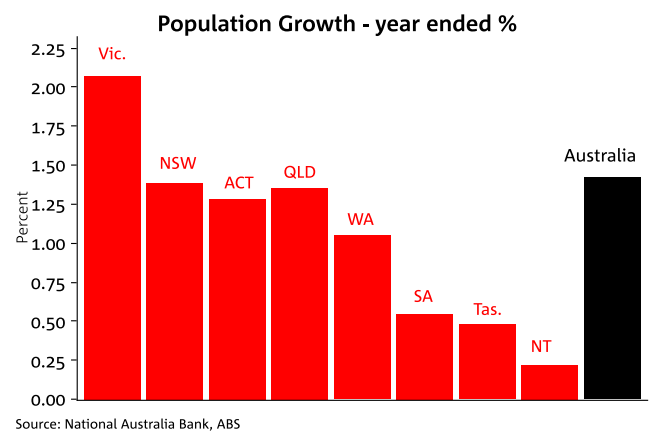
interstate migration outflows. These outflows picked up again, with QLD net interstate migration also strengthening a little in recent quarters – house price differentials historically were assumed to be a significant part of this story.

Chart 4: People moving to Victoria – highest on record!



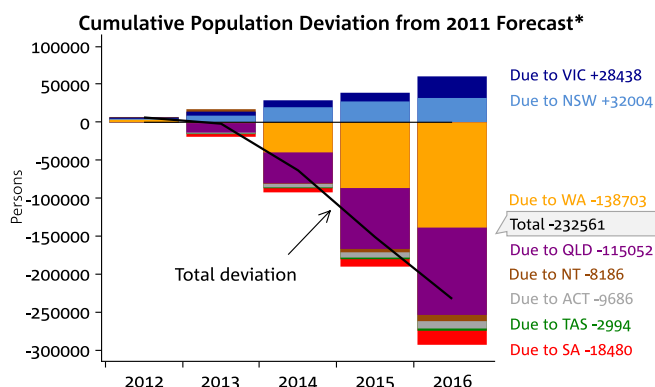
It is no surprise that Victoria leads Australia's population growth trends given strong migration, population growth was 2.1% y/y or 123,000 new Victorians over the past four quarters. NSW is next at 1.4% or 105k new residents. QLD's population growth appears to have stabilised in recent quarters, with a slight pick-up in net overseas and interstate migration. SA's population growth rate is slowing due to a pick-up in net interstate migration out of the state. Population growth rates remain slow in the NT and Tasmania, though in the NT growth seems to have stabilised in recent quarters and Tasmanian interstate migration outflows have reduced allowing overall growth to strengthen.

Chart 5: Victoria's population growth at 2.1% y/y



Australia's overall population growth has underperformed official forecasts since 2011, all of which reflected slower than expected growth in the more mining oriented states of WA and QLD following the mining bust (the population projections assumed the continuation of break neck growth rates) (Chart 6). What's impressive is that population growth has exceeded official forecasts in Vic and NSW. This is important as population growth forecasts are used by governments to plan infrastructure requirements and by developers in estimating the underlying demand for dwellings.

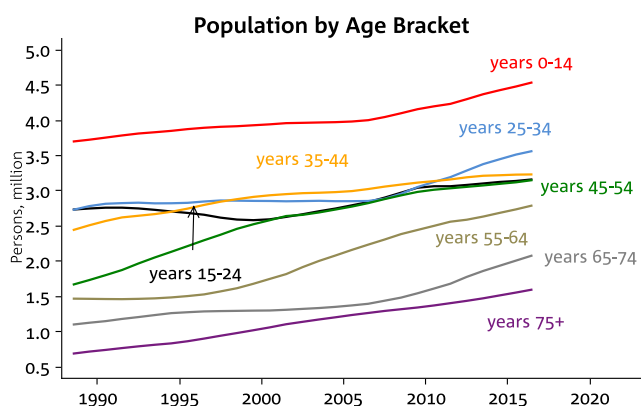
Chart 6: Vic and NSW population surprising to the upside



\* To the ABS Series B forecast  
Source: National Australia Bank, ABS

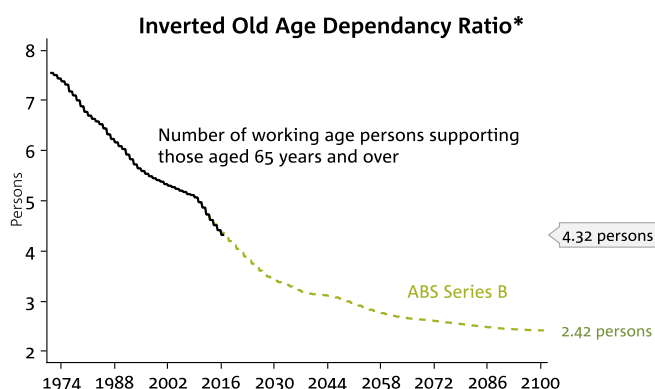
Finally, population ageing seems to be progressing largely as forecast by the ABS and the Treasury's Intergenerational Reports. While stronger immigration and a pick-up in births is acting as some offset to ageing trends (note the strong growth in the 0-14 and the 25-34 year age brackets), ageing is starting to accelerate, with the age dependency ratio set to increase further. Currently there are 4.3 working age Australian's for every person aged 65 years and over. According to official projections this is expected to deteriorate to just 2.4 persons by 2100 without policy changes.

Chart 7: Strong growth in younger cohorts, but old growing



Source: National Australia Bank, ABS

Chart 8: The inverted age dependency ratio is set to decline



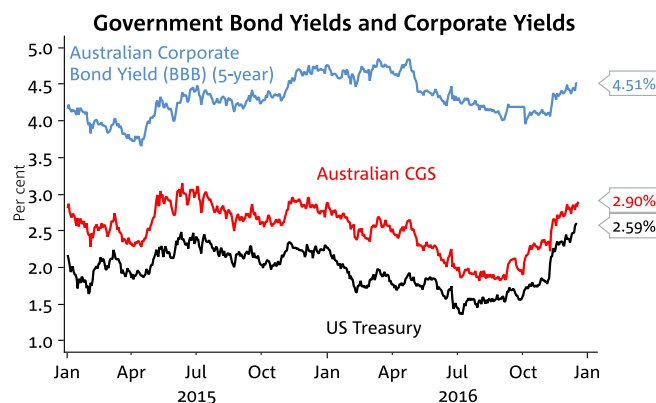
\* Those aged 15-64 over those aged 65 years plus. It is the inverse of the old-age dependency ratio  
Source: National Australia Bank, ABS

## Recent developments

The past week has been dominated by reaction to the US Fed. The Fed raised rates at its December meeting last week and FOMC members indicated that three rate hikes for 2017 was now the base case, where previously only two increases were expected. In response, the US dollar strengthened and bond yields rose. For Australian markets, there are two points worth emphasising here.

Firstly, the Fed's forecast track for rates points to three rate hikes in 2017 where previously it was only two. And second, only 'some' members had incorporated a change in US fiscal policy settings to their projections. That means the Fed has not really incorporated much of the anticipated Trump Administration's infrastructure and tax policies in its forecasts – this is important as these policies are seen as inflationary given the US is already close to full employment. That means rates in the US could go even higher if President-elect Trump were to be able to fully implement his policy agenda. Of course Trump has to negotiate his policy agenda through congress and markets will start to pay attention to this in the New Year. One key indicator will be negotiations and appetite around the US Debt Ceiling which will need to be suspended or raised by March 2017.

Chart 9: Rising US interest rates lead to higher Aussie rates



Source: National Australia Bank, Bloomberg

## The week ahead

The major events domestically are today's Mid-year Economic and Fiscal Outlook (MYEFO) and Tuesday's RBA Board Minutes. There is also the possibility of an end of year interview with the RBA Governor in the AFR if he seeks to follow in his predecessor's footsteps, while WA has its mid-year budget update on Thursday.

On MYEFO which was released as this goes to print, markets are on alert to any news on Australia's sovereign credit rating that may follow. Moody's and Fitch reaffirmed Australia's AAA rating, and as we go to print S&P also said MYEFO had no immediate ratings impact.

Offshore, there are four major events in the lead up to Christmas. US Fed Chair Janet Yellen speaks Monday on the labour market; the Bank of Japan Meets Tuesday, and the New Zealand releases its Q3 GDP figures on Thursday with our BNZ colleagues looking for a +0.9% q/q and 3.7% y/y outcome with upside risk. Finally the US has a suite of data, including the US Fed's preferred measure of inflation – the

PCE deflators Thursdays (see our What to Watch publication for further details of each week's events). Finally, this publication will return on January 16<sup>th</sup>. Over the holiday period, we will continue to publish our summary of major economic and policy issues in the Australian press. Please email Tapas Strickland if you would like to be added to the distribution list.

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# Calendar of Economic Releases

| Country  | Economic Indicator                                   | Period | Forecast | Consensus      | Actual | Previous       | GMT   | AEDT  |
|--|--|--------|----------|----------------|--------|----------------|-------|-------|
| <b>Monday, 19 December 2016</b>                          |  |        |          |                |        |                |       |       |
| NZ   | Westpac Consumer Confidence                          | 4Q     |          |                |        | 108.0          | 22.00 | 8.00  |
| NZ   | Performance Services Index                           | Nov    |          |                |        | 56.3           | 22.30 | 8.30  |
| NZ   | Building Permits MoM                                 | Oct    |          |                |        | 0.2            | 22.45 | 8.45  |
| AU   | Budget MYEFO, Underlying cash balance, \$Abn         |        | -37.1    | -37.0          |        | -37.1          | 2.00  | 12.00 |
| JN   | Trade Balance Adjusted                               | Nov    |          | 590.5          |        | 474.3          | 0.50  | 10.50 |
| JN   | Exports/Imports YoY                                  | Nov    |          | -2.3/-12.1     |        | -10.3/-16.5    | 0.50  | 10.50 |
| NZ   | ANZ Activity Outlook/Business Confidence             | Dec    |          | /              |        | 37.6/20.5      | 1.00  | 11.00 |
| UK   | Rightmove House Prices MoM/YoY                       | Jan    |          | /              |        | -2.1/3.4       | 1.10  | 11.10 |
| CH   | Property Prices                                      | Nov    |          |                |        |                |       |       |
| GE   | Ifo Business Climate                                 | Dec    |          | 110.6          |        | 110.4          | 10.00 | 20.00 |
| GE   | Ifo Current Assessment/Expectations                  | Dec    |          | 115.9/105.6    |        | 115.6/105.5    | 10.00 | 20.00 |
| EC   | Construction Output MoM/YoY                          | Oct    |          | /              |        | -0.9/1.8       | 11.00 | 21.00 |
| US   | Markit US Services PMI                               | Dec P  |          | 55.2           |        | 54.6           | 15.45 | 1.45  |
| CA   | Bloomberg Nanos Confidence                           | Dec 16 |          |                |        | 56.2           | 16.00 | 2.00  |
| US   | Fed's Yellen speaking on the labour market           |        |          |                |        |                | 19.30 | 5.30  |
| <b>Tuesday, 20 December 2016</b>                         |  |        |          |                |        |                |       |       |
| NZ   | Food Prices MoM                                      | Nov    |          |                |        | -0.8           | 22.45 | 8.45  |
| AU   | RBA Dec. Meeting Minutes                             |        |          |                |        |                | 1.30  | 11.30 |
| EC   | ECB Current Account SA                               | Oct    |          |                |        | 25.3           | 10.00 | 20.00 |
| UK   | CBI Retailing Reported Sales                         | Dec    |          | 20             |        | 26.0           | 12.00 | 22.00 |
| JN   | BOJ Policy Rate (and Monetary Policy Statement)      |        |          | -0.1           |        | -0.1           | 3.30  | 13.30 |
| CA   | Wholesale Trade Sales MoM                            | Oct    |          | 0.6            |        | -1.2           | 14.30 | 0.30  |
| <b>Wednesday, 21 December 2016</b>                       |  |        |          |                |        |                |       |       |
| CH   | Conference Board Leading Economic Index              | Nov    |          |                |        |                |       |       |
| NZ   | Net Migration SA                                     | Nov    |          |                |        | 6240.0         | 22.45 | 8.45  |
| NZ   | Trade Balance NZD                                    | Nov    |          | -500           |        | -846.0         | 22.45 | 8.45  |
| AU   | Westpac Leading Index MoM                            | Nov    |          |                |        | 0.1            | 0.30  | 10.30 |
| AU   | Skilled Vacancies MoM                                | Nov    |          |                |        | -0.4           | 1.00  | 11.00 |
| NZ   | Credit Card Spending MoM/YoY                         | Nov    |          | /              |        | 2.8/10.2       | 3.00  | 13.00 |
| JN   | All Industry Activity Index MoM                      | Oct    |          | 0.1            |        | 0.2            | 5.30  | 15.30 |
| UK   | Public Sector Net Borrowing/PSNB ex Banking Groups   | Nov    |          | 11.6/12.15     |        | 4.3/4.8        | 10.30 | 20.30 |
| EC   | Consumer Confidence                                  | Dec A  |          | -6             |        | -6.1           | 16.00 | 2.00  |
| US   | Existing Home Sales/MoM                              | Nov    |          | 5.5/-1.79      |        | 5.6/2.0        | 16.00 | 2.00  |
| <b>Thursday, 22 December 2016</b>                        |  |        |          |                |        |                |       |       |
| NZ   | GDP SA QoQ/YoY                                       | 3Q     | 0.9/3.7  | 0.8/3.6        |        | 0.9/3.6        | 22.45 | 8.45  |
| NZ   | BoP Current Account Balance, NZD/% of GDP            | 3Q     |          | -4.894/-3      |        | -0.9/-2.9      | 22.45 | 8.45  |
| UK   | GfK Consumer Confidence                              | Dec    |          | -8             |        | -8.0           | 1.10  | 11.10 |
| NZ   | Money Supply M3 YoY                                  | Nov    |          |                |        | 7.1            | 3.00  | 13.00 |
| EC   | ECB Publishes Economic Bulletin                      |        |          |                |        |                |       |       |
| US   | Chicago Fed Nat Activity Index                       | Nov    |          | -0.15          |        | -0.1           | 14.30 | 0.30  |
| US   | GDP Annualized QoQ                                   | 3Q T   |          | 3.3            |        | 3.2            | 14.30 | 0.30  |
| US   | Durable Goods Orders/Core orders                     | Nov P  |          | -4.5/0.5       |        | 4.6/0.2        | 14.30 | 0.30  |
| US   | Initial Jobless Claims                               | Dec 17 |          | 258.5          |        | 254.0          | 14.30 | 0.30  |
| CA   | Statistics Canada to Report New Measure of Core CPI  |        |          |                |        |                | 14.30 | 0.30  |
| CA   | Retail Sales/Ex autos MoM                            | Oct    |          | 0.3/0.7        |        | 0.6/0.0        | 14.30 | 0.30  |
| CA   | CPI NSA MoM/YoY                                      | Nov    |          | -0.2/1.4       |        | 0.2/1.5        | 14.30 | 0.30  |
| US   | FHFA House Price Index MoM                           | Oct    |          | 0.4            |        | 0.6            | 15.00 | 1.00  |
| US   | Personal Income/Spending                             | Nov    |          | 0.3/0.3        |        | 0.6/0.3        | 16.00 | 2.00  |
| US   | PCE Core MoM/YoY                                     | Nov    |          | 0.1/1.7        |        | 0.1/1.7        | 16.00 | 2.00  |
| US   | Leading Index  | Nov    |          | 0.2            |        | 0.1            | 16.00 | 2.00  |
| US   | Kansas City Fed Manf. Activity                       | Dec    |          | 1              |        | 1.0            | 17.00 | 3.00  |
| <b>Friday, 23 December 2016</b>                          |  |        |          |                |        |                |       |       |
| CH   | MNI December Business Indicator                      |        |          |                |        |                |       |       |
| GE   | GfK Consumer Confidence                              | Jan    |          | 9.9            |        | 9.8            | 8.00  | 18.00 |
| UK   | GDP QoQ/YoY  | 3Q F   |          | 0.5/2.3        |        | 0.5/2.3        | 10.30 | 20.30 |
| UK   | Current Account Balance                              | 3Q     |          | -28.2          |        | -28.7          | 10.30 | 20.30 |
| UK   | Index of Services MoM/3M/3M                          | Oct    |          | 0.2/0.8        |        | 0.2/0.8        | 10.30 | 20.30 |
| UK   | Total Business Investment QoQ/YoY                    | 3Q F   |          | 0.9/-1.6       |        | 0.9/-1.6       | 10.30 | 20.30 |
| CA   | GDP MoM/YoY  | Oct    |          | 0/1.8          |        | 0.3/1.9        | 14.30 | 0.30  |
| US   | New Home Sales/MoM                                   | Nov    |          | 575/2.1        |        | 563.0/-1.9     | 16.00 | 2.00  |
| US   | U. of Mich. Sentiment/5-10 Yr Inflation expectations | Dec F  |          | 98/            |        | 98.0/2.5       | 16.00 | 2.00  |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |  |        |          |                |        |                |       |       |
| Japan, BoJ   |  | 20-Dec |          | -0.1% to +0.1% |        | -0.1% to +0.1% |       |       |
| Europe ECB   |  | 19-Jan |          | 0.00%          |        | 0.00%          |       |       |
| Canada, BoC  |  | 19-Jan |          |                |        | 0.50%          |       |       |
| US Federal Reserve                                       |  | 28-Jan |          |                |        | 0.5-0.75%      |       |       |
| UK BOE   |  | 2-Feb  |          |                |        | 0.25%          |       |       |
| Australia, RBA   |  | 7-Feb  | 1.50%    | 1.50%          |        | 1.50%          |       |       |
| New Zealand, RBNZ  |  | 9-Feb  | 1.75%    | 1.75%          |        | 1.75%          |       |       |

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

# Forecasts

## Economic Forecasts

|                                | Annual % change |            |            |            | Quarterly % change |            |            |            |            |            |             |            |            |            |            |            |            |            |            |            |
|--------------------------------|-----------------|------------|------------|------------|--------------------|------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                | 2015            | 2016       | 2017       | 2018       | 2015               |            |            |            | 2016       |            |             |            | 2017       |            |            |            | 2018       |            |            |            |
|                                | 2015            | 2016       | 2017       | 2018       | Q1                 | Q2         | Q3         | Q4         | Q1         | Q2         | Q3          | Q4         | Q1         | Q2         | Q3         | Q4         | Q1         | Q2         | Q3         | Q4         |
| <b>Australia Forecasts</b>     |                 |            |            |            |                    |            |            |            |            |            |             |            |            |            |            |            |            |            |            |            |
| Household Consumption          | 2.7             | 2.7        | 2.3        | 2.1        | 0.6                | 0.6        | 0.9        | 0.8        | 0.8        | 0.5        | 0.4         | 0.7        | 0.6        | 0.6        | 0.5        | 0.5        | 0.5        | 0.6        | 0.5        | 0.4        |
| Underlying Business Investment | -10.1           | -11.7      | -3.9       | 4.8        | -3.3               | -2.0       | -5.6       | -2.1       | -3.4       | -2.1       | -4.5        | -1.1       | -0.7       | -0.6       | 0.7        | 1.3        | 1.5        | 1.6        | 0.9        | 1.7        |
| Residential Construction       | 10.0            | 9.0        | 2.8        | -1.3       | 5.1                | -1.2       | 3.6        | 1.8        | 4.1        | 2.6        | -1.4        | 2.3        | 0.2        | 0.5        | 0.9        | 0.5        | -0.8       | -1.1       | -1.0       | -0.8       |
| Underlying Public Spending     | 2.4             | 4.0        | 2.5        | 2.6        | 1.3                | 1.9        | -0.9       | 1.8        | 0.7        | 2.8        | -0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.7        | 0.7        | 0.7        |
| Exports                        | 6.1             | 7.0        | 8.6        | 6.5        | 3.4                | -2.8       | 4.2        | 0.8        | 2.6        | 2.1        | 0.3         | 2.0        | 2.8        | 2.2        | 2.3        | 2.1        | 1.5        | 1.2        | 0.8        | 0.9        |
| Imports                        | 2.0             | 0.5        | 5.6        | 5.5        | 2.5                | 0.8        | -1.6       | 0.5        | -0.8       | 2.9        | 1.3         | 1.4        | 1.1        | 1.1        | 1.5        | 1.5        | 1.3        | 1.4        | 1.1        | 1.3        |
| Net Exports (a)                | 0.8             | 1.3        | 0.6        | 0.3        | 0.1                | -0.7       | 1.2        | 0.1        | 1.0        | -0.1       | -0.2        | 0.1        | 0.4        | 0.2        | 0.2        | 0.1        | 0.1        | 0.0        | -0.1       | -0.1       |
| Inventories (a)                | 0.1             | 0.1        | 0.0        | -0.1       | 0.6                | -0.4       | 0.1        | 0.0        | -0.1       | 0.2        | 0.2         | -0.1       | -0.1       | 0.0        | -0.1       | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| Domestic Demand - qtr%         |                 |            |            |            | 0.5                | 0.5        | -0.3       | 0.6        | 0.1        | 0.8        | -0.5        | 0.6        | 0.4        | 0.5        | 0.6        | 0.6        | 0.5        | 0.6        | 0.4        | 0.5        |
| Dom Demand - ann %             | 1.3             | 1.5        | 1.7        | 2.2        | 1.1                | 1.4        | 1.2        | 1.3        | 1.3        | 1.6        | 1.5         | 1.5        | 1.4        | 1.0        | 2.1        | 2.1        | 2.3        | 2.4        | 2.2        | 2.1        |
| <b>Real GDP - qtr %</b>        |                 |            |            |            | <b>1.1</b>         | <b>0.1</b> | <b>0.8</b> | <b>0.6</b> | <b>1.0</b> | <b>0.6</b> | <b>-0.5</b> | <b>0.9</b> | <b>0.7</b> | <b>0.7</b> | <b>0.9</b> | <b>0.6</b> | <b>0.6</b> | <b>0.6</b> | <b>0.3</b> | <b>0.4</b> |
| <b>Real GDP - ann %</b>        | <b>2.4</b>      | <b>2.4</b> | <b>2.4</b> | <b>2.5</b> | <b>2.5</b>         | <b>2.0</b> | <b>2.4</b> | <b>2.6</b> | <b>2.5</b> | <b>3.1</b> | <b>1.8</b>  | <b>2.0</b> | <b>1.8</b> | <b>1.8</b> | <b>3.0</b> | <b>3.0</b> | <b>2.9</b> | <b>2.8</b> | <b>2.4</b> | <b>1.9</b> |
| CPI headline - qtr %           |                 |            |            |            | 0.2                | 0.7        | 0.5        | 0.4        | -0.2       | 0.4        | 0.7         | 0.7        | 0.5        | 0.6        | 0.7        | 0.6        | 0.4        | 0.6        | 0.6        | 0.7        |
| CPI headline - ann %           | 1.5             | 1.3        | 2.4        | 2.3        | 1.3                | 1.5        | 1.5        | 1.7        | 1.3        | 1.0        | 1.3         | 1.6        | 2.3        | 2.5        | 2.4        | 2.4        | 2.3        | 2.3        | 2.3        | 2.4        |
| CPI underlying - qtr %         |                 |            |            |            | 0.7                | 0.5        | 0.3        | 0.5        | 0.2        | 0.5        | 0.4         | 0.5        | 0.5        | 0.5        | 0.5        | 0.4        | 0.4        | 0.5        | 0.5        | 0.6        |
| CPI underlying - ann %         | 2.2             | 1.5        | 1.8        | 1.9        | 2.4                | 2.2        | 2.1        | 2.0        | 1.5        | 1.5        | 1.5         | 1.5        | 1.8        | 1.8        | 1.9        | 1.9        | 1.8        | 1.8        | 1.8        | 2.0        |
| Wages (Pvte WPI - ann %)       | 2.1             | 1.9        | 1.9        | 2.2        | 2.2                | 2.2        | 2.1        | 2.0        | 2.0        | 2.0        | 1.9         | 1.9        | 2.0        | 2.0        | 1.9        | 1.9        | 2.0        | 2.1        | 2.3        | 2.4        |
| Unemployment Rate (%)          | 6.0             | 5.7        | 5.7        | 5.7        | 6.2                | 6.0        | 6.1        | 5.9        | 5.9        | 5.7        | 5.6         | 5.7        | 5.7        | 5.7        | 5.7        | 5.7        | 5.6        | 5.7        | 5.7        | 5.8        |
| Terms of trade                 | -11.6           | -0.6       | 10.2       | -1.8       | -2.6               | -4.3       | -2.6       | -3.7       | -1.9       | 2.3        | 4.5         | 7.7        | 6.9        | -4.4       | -2.8       | -3.5       | -1.9       | -1.8       | -2.0       | -1.4       |
| G&S trade balance, \$Abn       | -36.7           | -18.5      | 23.0       | -10.7      | -4.8               | -11.3      | -9.0       | -11.7      | -8.4       | -7.4       | -4.7        | 1.9        | 9.6        | 6.5        | 4.8        | 2.1        | 0.4        | -1.6       | -3.9       | -5.7       |
| % of GDP                       | -2.2            | -1.1       | 1.3        | -0.6       | -1.2               | -2.8       | -2.2       | -2.8       | -2.0       | -1.8       | -1.1        | 0.4        | 2.2        | 1.5        | 1.1        | 0.5        | 0.1        | -0.3       | -0.8       | -1.2       |
| Current Account (% GDP)        | -4.8            | -2.8       | -0.3       | -2.2       | -3.3               | -5.1       | -5.0       | -5.6       | -3.6       | -3.8       | -2.7        | -1.1       | 0.6        | -0.1       | -0.5       | -1.1       | -1.5       | -1.9       | -2.4       | -2.8       |

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

## Exchange Rate Forecasts

|               | 19-Dec        | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------------|---------------|--------|--------|--------|--------|--------|
| <b>Majors</b> |               |        |        |        |        |        |
| AUD/USD       | <b>0.7358</b> | 0.75   | 0.73   | 0.72   | 0.70   | 0.70   |
| NZD/USD       | <b>0.7040</b> | 0.72   | 0.70   | 0.68   | 0.67   | 0.67   |
| USD/JPY       | <b>118.19</b> | 110    | 112    | 114    | 113    | 112    |
| EUR/USD       | <b>1.0413</b> | 1.02   | 0.98   | 1.00   | 1.02   | 1.04   |
| GBP/USD       | <b>1.2422</b> | 1.23   | 1.21   | 1.20   | 1.19   | 1.20   |
| USD/CNY       | <b>6.9339</b> | 6.95   | 7.20   | 7.24   | 7.18   | 7.17   |
| USD/CAD       | <b>1.3334</b> | 1.35   | 1.37   | 1.38   | 1.42   | 1.43   |

### Australian Cross Rates

|         | 19-Dec        | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------|---------------|--------|--------|--------|--------|--------|
| AUD/JPY | <b>87.0</b>   | 83     | 82     | 82     | 79     | 78     |
| AUD/EUR | <b>0.7066</b> | 0.74   | 0.74   | 0.72   | 0.69   | 0.67   |
| AUD/GBP | <b>0.5923</b> | 0.61   | 0.60   | 0.60   | 0.59   | 0.58   |
| AUD/NZD | <b>1.0452</b> | 1.04   | 1.04   | 1.06   | 1.04   | 1.04   |
| AUD/CNY | <b>5.1020</b> | 5.21   | 5.26   | 5.21   | 5.03   | 5.02   |
| AUD/CAD | <b>0.9811</b> | 1.01   | 1.00   | 0.99   | 0.99   | 1.00   |
| AUD/CHF | <b>0.7579</b> | 0.73   | 0.70   | 0.76   | 0.74   | 0.74   |

## Interest Rate Forecasts

|                                      | 19-Dec       | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|--------------------------------------|--------------|--------|--------|--------|--------|--------|
| <b>Aust rates</b>                    |              |        |        |        |        |        |
| RBA Cash rate                        | <b>1.50</b>  | 1.50   | 1.50   | 1.25   | 1.00   | 1.00   |
| 3 month bill rate                    | <b>1.79</b>  | 1.75   | 1.75   | 1.50   | 1.25   | 1.25   |
| 3 Year Swap Rate                     | <b>2.16</b>  | 2.1    | 2.1    | 2.0    | 2.0    | 2.1    |
| 10 Year Swap Rate                    | <b>3.08</b>  | 2.9    | 3.0    | 3.0    | 3.0    | 3.0    |
| <b>Offshore Policy Rates</b>         |              |        |        |        |        |        |
| US Fed funds                         | <b>0.75</b>  | 0.75   | 0.75   | 1.00   | 1.00   | 1.25   |
| ECB deposit rate                     | <b>-0.40</b> | -0.40  | -0.40  | -0.40  | -0.40  | -0.40  |
| BoE repo rate                        | <b>0.25</b>  | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   |
| BoJ excess reserves rate             | <b>-0.10</b> | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  |
| RBNZ OCR                             | <b>1.75</b>  | 1.75   | 1.75   | 1.75   | 1.75   | 1.75   |
| China 1yr lending rate               | <b>4.35</b>  | 4.35   | 4.10   | 4.10   | 4.10   | 4.10   |
| China Reserve Ratio                  | <b>17.0</b>  | 15.0   | 15.0   | 15.0   | 15.0   | 15.0   |
| <b>10 Year Benchmark Bond Yields</b> |              |        |        |        |        |        |
| Australia                            | <b>2.86</b>  | 2.70   | 2.75   | 2.80   | 2.75   | 2.70   |
| United States                        | <b>2.58</b>  | 2.30   | 2.40   | 2.50   | 2.50   | 2.50   |
| New Zealand                          | <b>3.43</b>  | 3.10   | 3.25   | 3.30   | 3.35   | 3.30   |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

| Dec year    | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 20 Yr Avge |
|-------------|------|------|------|------|------|------|------------|
| Australia   | 2.0  | 2.7  | 2.4  | 2.4  | 2.4  | 2.5  | 3.4        |
| US          | 1.7  | 2.4  | 2.6  | 1.5  | 2.1  | 2.4  | 2.6        |
| Eurozone    | -0.3 | 1.1  | 1.9  | 1.6  | 1.5  | 1.6  | 1.5        |
| UK          | 1.9  | 3.1  | 2.2  | 1.8  | 0.8  | 1.6  | 2.4        |
| Japan       | 1.3  | -0.1 | 0.6  | 0.5  | 0.8  | 0.6  | 0.8        |
| China       | 7.7  | 7.3  | 6.9  | 6.6  | 6.5  | 6.3  | 9.2        |
| India       | 6.3  | 7.0  | 7.2  | 7.4  | 7.5  | 7.5  | 6.6        |
| New Zealand | 2.4  | 3.8  | 2.5  | 3.4  | 3.2  | 2.4  | 3.0        |
| World       | 3.3  | 3.3  | 3.0  | 2.9  | 3.2  | 3.3  | 3.5        |
| MTP Top 5   | 3.9  | 3.9  | 3.9  | 3.6  | 3.7  | 3.6  | 5.0        |

## Commodity prices (\$US)

|                | 19-Dec | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|----------------|--------|--------|--------|--------|--------|--------|
| WTI oil        | 52.35  | 49     | 51     | 52     | 53     | 55     |
| Gold           | 1135   | 1290   | 1260   | 1240   | 1210   | 1180   |
| Iron ore       | 81.5   | 68     | 69     | 65     | 63     | 60     |
| Hard cok. coal | 270    | 200    | 285    | 215    | 180    | 150    |
| Thermal coal   | 87     | 62     | 62     | 65     | 65     | 65     |
| Copper         | 5630   | 4830   | 4830   | 4800   | 4800   | 4800   |
| Japan LNG      | 6.6    | 6.7    | 7.0    | 7.2    | 7.8    | 8.2    |

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