

AUSTRALIAN MARKETS WEEKLY

Headline CPI picking up in 2017



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- We get the Q1 inflation reading this Wednesday. NAB looks for a Headline CPI outcome of +0.7% q/q and 2.4% y/y, slightly higher than the market consensus of 0.6% q/q and 2.2% y/y. If this eventuates it would be the first time since September 2014 that headline inflation has been within the RBA's target band.
- Core inflation is expected to be 0.5% q/q (market consensus also 0.5% q/q) which annualises to 1.8-1.9% y/y. The RBA is expecting a 0.4% outcome, so our forecast has inflation tracking marginally above the Bank's forecast (Chart 2).
- Inflation is likely to continue to track higher in 2017 on the back of higher electricity and gas prices, while vegetable prices are likely to spike in Q2 on the back of crop damage from Cyclone Debbie. Higher headline inflation should also translate into higher core measures. Our models suggest every 1% point y/y increase in headline inflation leads to a 0.2% point y/y increase in core inflation with a two quarter lag.
- For the RBA, a tick-up in the pace of inflation will for once be encouraging as it should increase confidence inflation will return to target. However, the RBA has also been concerned with the lack of improvement in the labour market with stronger wages growth likely important to sustain a return to the inflation target. March's bumper jobs figures should help alleviate concerns over the labour market in the short term, but this will be an important area to monitor over coming months. NAB sees the RBA on hold in 2017 and 2018 with the RBA having little appetite to ease policy further given house prices and risks in household balance sheets.
- Market focus has been centered on the French presidential elections. Centrist Macron and Eurosceptic Le Pen were the top vote getters in the first round on the weekend and Macron is expected to emerge the victor in the second round on May 7. Markets have interpreted the news positively with the Euro gaining the best part of 2% against the US dollar in early trade. President Trump is expected to announce some tax package details mid-week, which should also contribute to a risk positive tone.

To contact NAB's market experts, please click on one of the following links:

- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

Table 1: Consumer Price Index, Component Forecasts

		Mar-16	Jun-16	Sep-16	Dec-16	Expectations NAB Mar-17
Headline CPI						
CPI - NSA	Index	108.2	108.6	109.4	110.0	110.8
	%q/q	-0.2	0.4	0.7	0.5	0.7
	%y/y	1.3	1.0	1.3	1.5	2.4
Core Measures						
Trimmed Mean		110	110	111	111	111.7
	%q/q	0.3	0.5	0.4	0.4	0.5
	%y/y	1.7	1.7	1.7	1.6	1.9
Weighted median		110	110	111	111	111.7
	%q/q	0.1	0.5	0.4	0.4	0.5
	%y/y	1.4	1.5	1.3	1.5	1.8

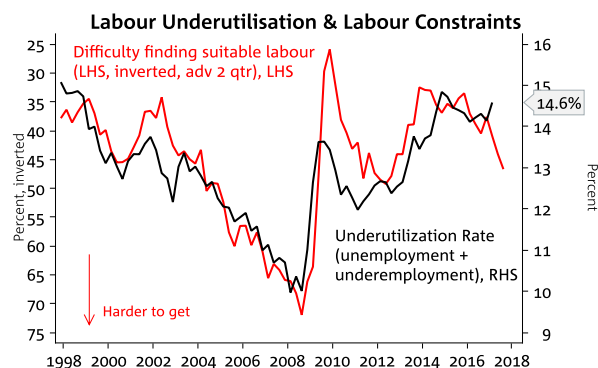
Source: National Australia Bank, ABS

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7561	-0.4	RBA cash	1.50	0
AUD/CNY	5.18	-0.7	3y swap	2.00	3
AUD/JPY	83.2	0.7	ASX 200	5,871	-0.1
AUD/EUR	0.697	-2.3	Iron ore	68.2	-0.7
AUD/NZD	1.074	-0.8	WTI oil	49.9	-6.1

Source: Bloomberg

Chart of the week: more difficult finding suitable labour



Source: National Australia Bank, ABS

CPI Preview

The market consensus for CPI looks for a Headline print of 0.6% q/q which gives an annual rate of 2.2% y/y. If this eventuates, it would be the first time since September 2014 that inflation will be back within the RBA's 2-3% target band. NAB sees Headline inflation slightly higher at 0.7% q/q and 2.4% y/y with possible upside risk coming from fruit and utilities – especially given the recent surge in gas prices along Australia's eastern seaboard, though more of this effect is expected in later quarters.

The core measures, which attempt to capture the underlying inflationary pressures in the economy, are also expected to edge higher. Both underlying measures are forecast at 0.5% q/q, giving an annual rate of 1.8-1.9% depending on the core measure used. The RBA's February Statement on Monetary Policy implicitly expected a print of 0.4% q/q so such an outcome would be marginally above the Bank's expectation (Chart 2).

Chart 1: Headline likely back to target – first since Sep14

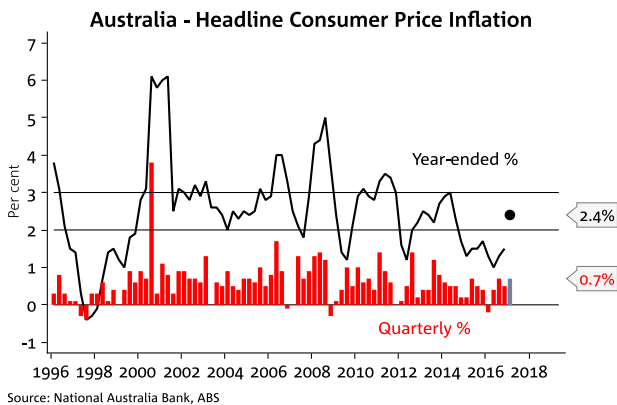
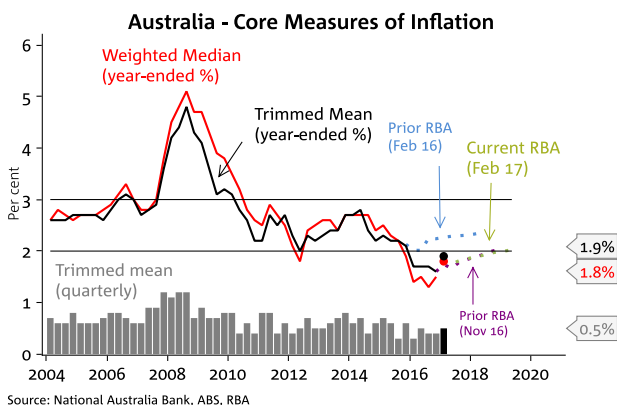


Chart 2: Core likely slightly higher than RBA forecasts



Headline contributors to CPI

According to NAB's bottom-up model, the main contributors to headline inflation this quarter are fuel prices (+6.6% q/q), vegetable prices (+5.0% q/q), pharmaceutical products (+4.8% q/q) and education costs (+3.7% q/q).

Table 2: Consumer Price Index - Component Expectations

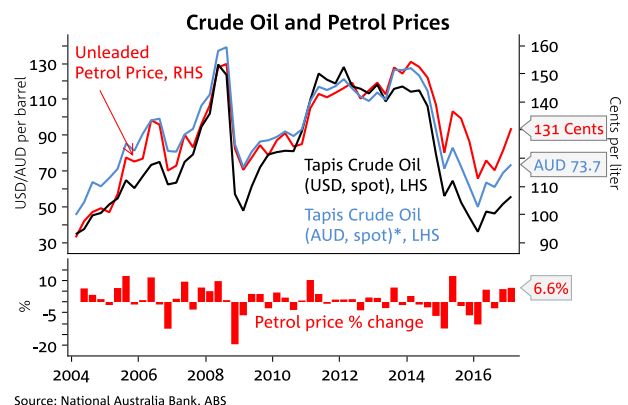
	Actual		Expectations		Weight in CPI
	Mar-16	Dec-16	NAB Mar-17	NAB Qtr contrib	
Food and non-alcoholic beverages	-0.2	0.6	0.3	0.1	16.8
Fruit	-11.1	-0.2	-5.3	-0.1	1.6
Vegetable	1.5	2.5	5.0	0.1	1.3
Alcohol and tobacco	0.9	2.8	0.8	0.1	7.1
Clothing and footwear	-2.6	-0.5	-2.0	-0.1	4.0
Housing	0.3	0.3	0.5	0.1	22.3
Rents	0.1	0.1	0.2	0.0	6.7
New dwellings	0.2	0.5	0.5	0.0	8.7
Water and sewerage	0.0	0.0	-0.1	0.0	0.9
Electricity	-0.2	0.0	0.9	0.0	2.0
Furnishings, household equipment and services	-0.4	-0.8	-0.6	-0.1	9.1
Health	1.9	-0.6	2.1	0.1	5.3
Transport	-2.5	1.7	2.3	0.3	11.6
Automotive fuel	-10.0	6.7	6.6	0.2	3.6
Communication	-1.5	-0.8	-1.5	0.0	3.1
Recreation and culture	-1.0	0.6	0.2	0.0	12.6
Audio, visual and computing equipment	-4.5	-2.9	-3.5	-0.1	1.6
Domestic holiday travel and accommodation	-1.9	5.5	0.4	0.0	2.5
International holiday travel and accommodation	-2.0	-2.6	0.7	0.0	2.3
Education	3.1	0.0	3.7	0.1	3.2
Insurance and financial services	0.6	0.6	0.5	0.0	5.1
Headline CPI	-0.2	0.5	0.7	0.7	-
Trimmed Mean	0.3	0.4	0.5	-	70
Weighted Median	0.3	0.4	0.5	-	-

It is also worth noting that last year's March quarter CPI contained price falls in a number of categories that we do not expect to be repeated in Wednesday's numbers. Chief among those were falls in recreation and culture – particularly domestic and international travel.

CPI Automotive Fuel

Fuel prices are normally a large swing variable and this quarter is no exception. Unleaded petrol prices rose 6.6% on average which should add 0.2% points to quarterly headline inflation.

Chart 3: Petrol prices again adding to CPI

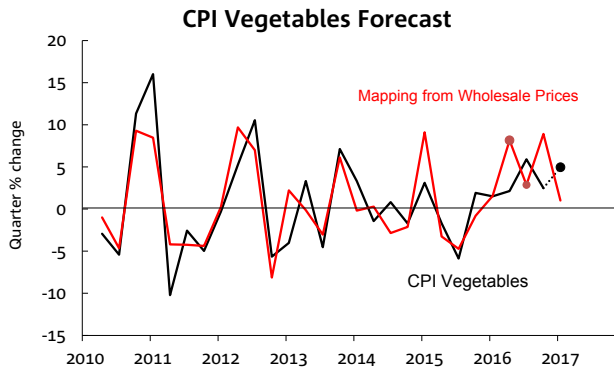


CPI Fruit and Vegetables

Vegetable prices are estimated to have risen 5.0% in the March quarter and are expected to add 0.1% points to quarterly headline inflation. Part of the rise is likely due to delayed pass through from wholesale price increases which occurred in December – wholesale prices rose 8.9% in December but retail prices rose by a smaller 2.5%.

In contrast, fruit prices are estimated to have fallen 5% in the March quarter. At the wholesale level there were price decreases for Mangoes (-14.8%) and Strawberries (-11.1%), while price increases were registered for Apples (+13.5%), Bananas (+11.4%) and Oranges (+9.4%).

Chart 4: Vegetable prices likely higher



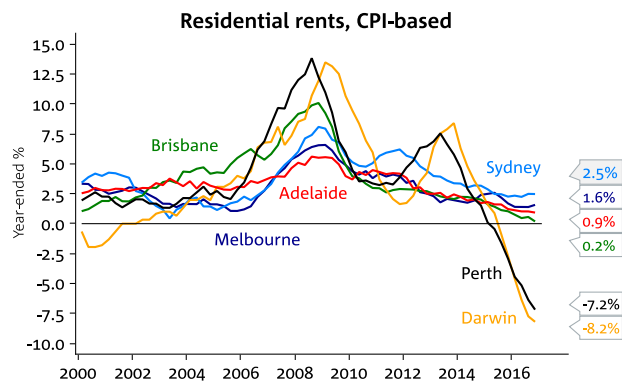
Source: ABS, NAB calculations

CPI Rents

Rental growth is again expected to be barely positive, up just 0.2% in the quarter. Rental growth has slowed dramatically over the past couple of years in line with increased dwelling supply and a very weak housing market in mining-dominated WA and the NT. With dwelling supply ramping up, particularly in Brisbane, it's likely that rental growth could remain at low levels over coming quarters.

The trend for rents is extremely important as this component explained around one quarter of the moderation in core inflation in recent years. It was also interesting to note that rents surprised on the upside in NZ along with population growth in recent times. Strong population growth in Australia of late could start to reverse subdued rental reads, but there is no indication of this to date.

Chart 5: Rents still expected to be low; watch Brisbane



Source: National Australia Bank, ABS

CPI New Dwelling Costs

New dwelling prices (dwelling construction costs) are expected to have risen 0.5% in the quarter. There is greater uncertainty over this component this quarter with the ABS introducing price changes for attached dwellings (e.g. apartments and townhouses) for the first time. Typically prices of attached dwellings have been lower than detached houses with the ABS noting greater economies of scale, productivity and greater imported components as reasons.

CPI new dwellings also have a large weight in the CPI at 8.7% and continued subdued reads on this component

(likely given upcoming dwelling supply) should also restrain core inflation.

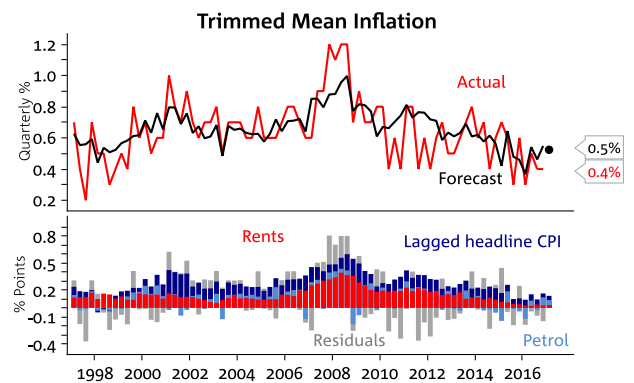
Outlook for inflation

Headline inflation is likely to continue to track higher in 2017 on the back of higher electricity and gas prices, while vegetable and some fruit prices are likely to spike in Q2 on the back of crop damage from Cyclone Debbie.

Higher electricity and gas prices will not only hit households directly through power bills (usually prices change in the September quarter), but will also feed through to higher prices for a range of products. Woolworths CEO Brad Banducci recently stated on higher electricity and gas prices: "we will have to in some way, very cautiously and carefully, pass those through to our customers unfortunately – electricity is Woolworth's third largest cost behind labour and rent". The exact magnitude of these price increases is not yet known.

Outside of these two factors, the underlying inflationary pulse is expected to remain relatively subdued, especially due to the influence of rents. Nevertheless, our models suggest every 1% increase in y/y headline inflation leads to a 0.2% increase in y/y core inflation with a two quarter lag. Headline inflation is likely to have picked up by 1-1.5% point over the past year, which should help boost core inflation by 0.2-0.3% points in coming quarters.

Chart 6: Higher headline CPI will boost core measures



Source: National Australia Bank, ABS

Labour market is also important for the inflation outlook

The RBA February Statement on Monetary Policy noted "uncertainty around the timing and extent of the forecast pick-up in inflation over the next couple of years" with much of that uncertainty focused on weak labour cost growth outcomes.

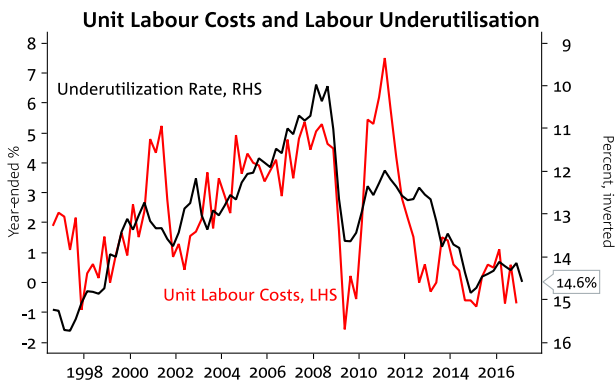
Over time there is a very close relationship between unit labour costs and the more broadly-defined labour force underutilisation rate (the unemployment rate plus underemployment rate (Chart 7)). That is likely because as the labour market tightens, wage rises pick-up ahead of or more than productivity growth.

Subdued unit labour costs have been the major drag on core inflation since 2014 according to a New Keynesian Phillips Curve model that the RBA uses (amongst other models). This suggests we will need to see the labour

market tighten before it is confident that inflation is likely to increase in a durable way.

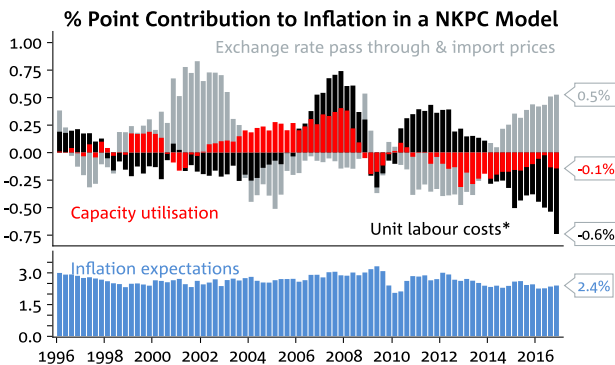
Last week's Quarterly NAB Business Survey showed some tentative signs that the labour market will improve over the next two quarters (Chart 9). The number of firms reporting increased difficulty in finding suitable labour is now at the most difficult since the March quarter of 2012. While not at the heady pre-GFC crises levels, the series does suggest labour underutilisation (unemployment and underemployment) will improve in coming quarters. Continued improvement in this should see wages begin to pick up (Chart 7) which should feed into a more durable recovery in core inflation.

Chart 7: Unit labour costs low on labour spare capacity



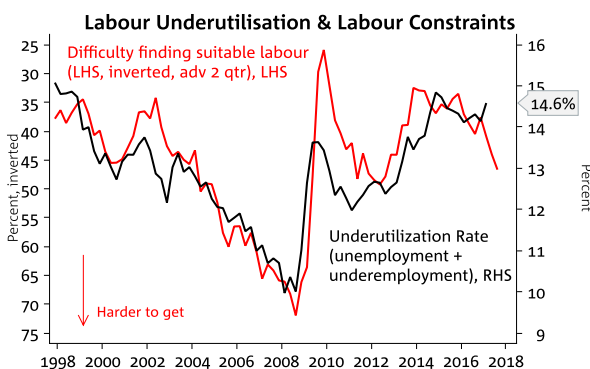
Source: National Australia Bank, ABS

Chart 8: Labour costs have dragged on inflation



Unit labour costs presented as deviations from trend
Source: National Australia Bank, ABS, MI

Chart 9: NAB survey hints labour market could tighten



Source: National Australia Bank, ABS

The past week

This week is starting out quite differently, reversing many of the trends evident in recent weeks. Equities are stronger and interest rates and bond yields higher as the market reverses the risk-off tone that was evident last week in the lead up to the weekend's French Presidential election, following Macron's strong showing. The EUR has jumped, while the \$A has also benefited. The JPY meanwhile is weaker, both reflecting the better risk environment and higher US Treasury yields. The announcement that President Trump will reveal some details of his tax cuts on Wednesday this week likely also supported equities and raised bond yields. Commodities on the whole were weaker again over the week, especially oil prices, though iron one prices bounced back from six-month lows around \$63 a tonne to end the week at \$68 a tonne.

Of particular interest from an Australian labour market and wages/inflation perspective, was the finding in the latest NAB quarterly business survey that businesses report that it is becoming more difficult to find suitable labour – the most difficult since the March quarter of 2012. While that's not quite back to the heady pre-GFC days, the trend is encouraging and suggests (along with the NAB survey employment question trend and SEEK job ads) that the official ABS stats showing a slightly rising trend for unemployment are unlikely to be correct (see Chart of the Week on the front page).

This week

Australia (and NZ) markets are closed tomorrow for a public holiday. Wednesday has the Q1 CPI, previewed in detail in this AMW. The only other Australian event of possible market interest, is RBA Governor Philip Lowe's dinner speech on Thursday. However, as the speech is at the Renminbi Global Cities Dialogue Dinner, it's more likely to focus on topics less directly relevant for markets. If there is a Q&A session, any questions on the inflation outlook post the Q1 CPI result could be important.

Offshore, the early part of the week is likely to continue to be risk-positive given the French election result and the anticipation of the US tax cut announcement mid week. The end of the week sees the publication of US Q1 GDP, which the Atlanta Fed Nowcast currently tracks at a low 0.5% (saar). Officials will likely look through this result given generally more positive indications from the US labour market and from global economic data, which saw IMF Managing Director Christine Lagarde declare at the weekend that spring had sprung in the global economy!

For full details please see our *What to Watch* publication (please email Tapas.Strickland@nab.com.au if you would like to subscribe to this publication).

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Sunday 23 April 2017								
FR	French Presidential Election - first round							
Monday, 24 April 2017								
UK	CBI Trends Total Orders	Apr		6		8.0	11.00	20.00
UK	CBI Trends Selling Prices	Apr		26.5		29.0	11.00	20.00
UK	CBI Business Optimism	Apr		12		15.0	11.00	20.00
JN	Supermarket Sales YoY	Mar				-3.3	6.00	15.00
JN	Leading Index CI	Feb F				104.4	6.00	15.00
JN	Coincident Index	Feb F				115.5	6.00	15.00
GE	IFO Business Climate	Apr		112.4		112.3	9.00	18.00
GE	IFO Expectations	Apr		105.9		105.7	9.00	18.00
GE	IFO Current Assessment	Apr		119.2		119.3	9.00	18.00
EC	Govt Debt/GDP Ratio	2016					10.00	19.00
CA	Wholesale Trade Sales MoM	Feb		-1		3.3	13:30	22:30
US	Chicago Fed Nat Activity Index	Mar		0.5		0.3	13:30	22:30
UK	CBI Retailing Reported Sales	Apr		6		9.0	11.00	20.00
JN	Small Business Confidence	Apr		49.4		50.5	6.00	15.00
US	Dallas Fed Manf. Activity	Apr		17		16.9	15:30	0.30
Tuesday, 25 April 2017								
AU	Australia and NZ Public Holiday - ANZAC Day							
JN	PPI Services YoY	Mar		0.7		0.8	0.50	9.50
UK	Public Finances (PSNCR)	Mar				12.9	9.30	18:30
US	S&P CoreLogic CS 20-City MoM SA	Feb		0.65		0.9	14.00	23.00
US	S&P CoreLogic CS 20-City YoY NSA	Feb		5.73		5.7	14.00	23.00
US	New Home Sales	Mar		584		592.0	15.00	0.00
US	New Home Sales MoM	Mar		-1.4		6.1	15.00	0.00
US	Conf. Board Consumer Confidence	Apr		123		125.6	15.00	0.00
US	Richmond Fed Manufact. Index	Apr		16		22.0	15.00	0.00
Wednesday, 26 April 2017								
NZ	Net Migration SA	Mar				6000.0	23:45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 23				112.6	0.30	9.30
AU	Skilled Vacancies MoM	Mar				0.1	2.00	11.00
AU	CPI QoQ	1Q	0.7%	0.6		0.5	2.30	11.30
AU	CPI Trimmed Mean QoQ	1Q	0.5%	0.5		0.4	2.30	11.30
AU	CPI Weighted Median QoQ	1Q	0.5%	0.5		0.4	2.30	11.30
NZ	Credit Card Spending MoM	Mar				-1.4	4.00	13.00
JN	All Industry Activity Index MoM	Feb		0.6		0.1	5:30	14:30
JN	Machine Tool Orders YoY	Mar F				22.6	7:00	16.00
US	MBA Mortgage Applications	Apr 21				-1.8	12:00	21.00
CA	Retail Sales MoM	Feb		0		2.2	13:30	22:30
CA	Retail Sales Ex Auto MoM	Feb		-0.3		1.7	13:30	22:30
Thursday, 27 April 2017								
AU	Import Price Index QoQ	1Q		-0.5		0.2	2:30	11:30
AU	Export Price Index QoQ	1Q		8		12.4	2:30	11:30
CH	Industrial Profits YoY	Mar				2.3	2:30	11:30
JN	Bank of Japan Meeting						afternoon sometime	
GE	GfK Consumer Confidence	May		9.9		9.8	7:00	16.00
EC	Economic Confidence	Apr		108.1		107.9	10:00	19.00
EC	Business Climate Indicator	Apr		0.82		0.8	10:00	19.00
EC	Consumer Confidence	Apr F		-3.6		-3.6	10:00	19.00
EC	ECB Main Refinancing Rate	Apr 27		0		0.0	12:45	21.45
GE	CPI MoM	Apr P		-0.1		0.2	13:00	22.00
GE	CPI YoY	Apr P		1.9		1.6	13:00	22.00
US	Advance Goods Trade Balance	Mar		-65.4			13:30	22:30
US	Wholesale Inventories MoM	Mar P		0.3		0.4	13:30	22:30
US	Durable Goods Orders	Mar P		1.3		1.8	13:30	22:30
US	Durables Ex Transportation	Mar P		0.4		0.5	13:30	22:30
US	Cap Goods Orders Nondef Ex Air	Mar P		0.5		-0.1	13:30	22:30
US	Cap Goods Ship Nondef Ex Air	Mar P				1.0	13:30	22:30
US	Initial Jobless Claims	Apr 22		243		244.0	13:30	22:30
AU	RBA Governor Lowe Gives Speech						Not available yet	
JN	BOJ Policy Balance Rate	Apr 27		-0.1		-0.1		
JN	BOJ 10-Yr Yield Target	Apr 27		0		0.0		
GE	Retail Sales MoM	Mar		0		1.8		
GE	Retail Sales YoY	Mar		2.2		-2.1		
US	Pending Home Sales MoM	Mar		-1		5.5	15:00	0.00
US	Pending Home Sales NSA YoY	Mar				-2.4	15:00	0.00
US	Kansas City Fed Manf. Activity	Apr		16		20.0	16:00	1.00
Friday, 28 April 2017								
NZ	Building Permits MoM	Mar				14.0	23:45	8.45
NZ	Trade Balance NZD	Mar		370		-18.0	23:45	8.45
NZ	Exports NZD	Mar		4.66		4.0	23:45	8.45
NZ	Imports NZD	Mar		4.3		4.0	23:45	8.45
NZ	Trade Balance 12 Mth YTD NZD	Mar		-3606.5		-3794.0	23:45	8.45
UK	GfK Consumer Confidence	Apr		-7		-6.0	0.10	9.10
UK	Lloyds Business Barometer	Mar				35.0	0.10	9.10
JN	Jobless Rate	Mar		2.9		2.8	0.30	9.30
JN	Natl CPI YoY	Mar		0.3		0.3	0.30	9.30
JN	Natl CPI Ex Fresh Food YoY	Mar		0.2		0.2	0.30	9.30
JN	Tokyo CPI YoY	Apr		-0.2		-0.4	0.30	9.30
JN	Tokyo CPI Ex-Fresh Food YoY	Apr		-0.2		-0.4	0.30	9.30
JN	Industrial Production YoY	Mar P		3.9		4.7	0.50	9.50
JN	Retail Sales MoM	Mar		-0.3		0.2	0.50	9.50
JN	Dept. Store, Supermarket Sales	Mar		-1		-2.7	0.50	9.50
NZ	ANZ Activity Outlook	Apr				38.8	2.00	11.00
NZ	ANZ Business Confidence	Apr				11.3	2.00	11.00
AU	Private Sector Credit MoM	Mar		0.5		0.3	2:30	11:30
UK	BBA Loans for House Purchase	Mar		42000		42613.0	9:30	18:30
UK	GDP QoQ	1Q A		0.4		0.7	9:30	18:30
UK	GDP YoY	1Q A		2.3		1.9	9:30	18:30
UK	Index of Services MoM	Feb		0.3		-0.1	9:30	18:30
EC	CPI Estimate YoY	Apr		1.8		1.5	10:00	19.00
EC	CPI Core YoY	Apr A		1		0.7	10:00	19.00
US	Employment Cost Index	1Q		0.6		0.5	13:30	22:30
CA	GDP YoY	Feb		2.6		2.3	13:30	22:30
CA	GDP MoM	Feb		0.1		0.6	13:30	22:30
US	GDP Annualized QoQ	1Q A		1.1		2.1	13:30	22:30
US	Personal Consumption	1Q A		0.9		3.5	13:30	22:30
US	GDP Price Index	1Q A		2		2.1	13:30	22:30
US	Core PCE QoQ	1Q A				2	13:30	22:30
US	Chicago Purchasing Manager	Apr		56.5		57.7	14:45	23:45
US	U. of Mich. Sentiment	Apr F		98		98.0	15:00	0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		2-May	1.50%	1.50%		1.50%		
Canada, BoC		25-May	0.5%	0.5%		0.5%		
Europe ECB		27-Apr	-0.4%	-0.4%		-0.4%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
US Federal Reserve		4-May	0.75-1.00%	0.75-1.00%		0.75-1.00%		
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		

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

FORECASTS

	Annual % change				Quarterly % change															
	2015	2016	2017	2018	2015				2016				2017				2018			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																				
Household Consumption	2.7	2.7	2.2	2.0	0.7	0.6	1.0	0.6	0.9	0.5	0.4	0.9	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Underlying Business Investment	-10.1	-11.2	0.4	4.7	-3.2	-1.9	-5.5	-2.4	-3.4	-2.3	-5.3	2.1	0.4	1.1	1.2	1.1	0.9	1.4	1.2	1.4
Residential Construction	10.0	7.9	2.1	-0.9	4.8	-1.2	4.3	1.5	3.7	1.9	-1.3	1.2	0.6	0.6	0.4	0.0	-0.2	-0.9	-0.5	-0.3
Underlying Public Spending	2.4	4.6	3.2	2.8	1.2	1.8	-1.0	2.1	0.5	2.7	0.2	1.3	0.3	0.9	0.5	0.8	0.7	0.7	0.7	0.7
Exports	6.0	7.6	7.9	5.5	3.7	-2.9	4.6	-0.1	3.3	2.2	1.0	2.2	2.3	1.3	2.3	2.4	0.9	0.9	0.8	0.9
Imports	2.0	0.4	5.1	3.7	2.7	0.9	-1.3	0.0	-0.8	2.9	1.2	1.4	0.8	1.5	0.9	1.0	0.8	0.8	0.9	0.9
Net Exports (a)	0.7	1.4	0.6	0.4	0.2	-0.8	1.2	0.0	1.1	-0.1	0.0	0.2	0.3	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Inventories (a)	0.1	0.1	-0.2	0.0	0.7	-0.3	-0.1	0.0	0.0	0.3	0.1	-0.2	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.5	-0.2	0.5	0.1	0.7	-0.4	1.2	0.4	0.7	0.6	0.6	0.5	0.5	0.5	0.6
Dom Demand - ann %	1.3	1.6	2.2	2.3	1.1	1.4	1.2	1.3	1.4	1.6	1.4	2.1	1.9	1.9	2.9	2.3	2.4	2.2	2.2	2.2
Real GDP - qtr %					1.1	0.2	0.7	0.5	1.1	0.8	-0.5	1.1	0.6	0.8	0.7	0.9	0.5	0.6	0.5	0.6
Real GDP - ann %	2.4	2.5	2.6	2.6	2.5	2.0	2.4	2.5	2.5	3.1	1.9	2.4	2.0	2.0	3.3	3.1	3.0	2.8	2.5	2.2
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.7	0.5	0.5	0.6	0.4	0.5	0.6	0.6
CPI headline - ann %	1.5	1.3	2.3	2.1	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.4	2.3	2.1	2.2	2.1	2.1	2.1	2.1
CPI underlying - qtr %					0.6	0.5	0.4	0.4	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.4
CPI underlying - ann %	2.2	1.6	1.8	1.7	2.4	2.3	2.2	2.0	1.6	1.6	1.6	1.6	1.9	1.9	1.8	1.7	1.7	1.7	1.7	1.8
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	1.6	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8	1.7	1.6	1.6	1.6
Unemployment Rate (%)	6.1	5.7	5.7	5.8	6.2	6.0	6.2	6.0	5.9	5.7	5.6	5.7	5.7	5.6	5.7	5.7	5.7	5.7	5.8	5.8
Terms of trade	-11.6	0.0	16.6	-1.6	-2.5	-4.5	-2.1	-4.2	-1.9	2.1	5.2	9.0	9.4	-2.7	-2.2	-1.6	-1.6	-1.5	-1.6	-1.8
G&S trade balance, \$Abn	-36.8	-14.6	50.1	31.2	-4.7	-11.4	-8.6	-12.0	-8.4	-7.4	-3.5	4.7	14.8	12.1	11.6	11.6	10.2	8.8	7.1	5.3
% of GDP	-2.3	-0.9	2.8	1.7	-1.2	-2.8	-2.1	-2.9	-2.0	-1.8	-0.8	1.1	3.3	2.7	2.6	2.5	2.2	1.9	1.5	1.1
Current Account (% GDP)	-4.7	-2.6	0.2	-0.9	-3.3	-5.2	-4.8	-5.6	-3.6	-3.7	-2.4	-0.9	0.7	0.1	0.0	0.0	-0.4	-0.7	-1.0	-1.4

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

Exchange Rate Forecasts

	24-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Majors						
AUD/USD	0.7552	0.75	0.73	0.70	0.70	0.70
NZD/USD	0.7027	0.71	0.70	0.67	0.68	0.68
USD/JPY	110.05	114	116	118	120	120
EUR/USD	1.0825	1.05	1.04	1.04	1.05	1.06
GBP/USD	1.2784	1.25	1.24	1.22	1.20	1.21
USD/CNY	6.8845	6.92	7.05	7.04	7.03	7.01
USD/CAD	1.3495	1.33	1.35	1.37	1.37	1.38

Australian Cross Rates

	83.1	86	85	83	84	84
AUD/JPY	83.1	86	85	83	84	84
AUD/EUR	0.6976	0.71	0.70	0.67	0.67	0.66
AUD/GBP	0.5907	0.60	0.59	0.57	0.58	0.58
AUD/NZD	1.0747	1.06	1.04	1.04	1.03	1.03
AUD/CNY	5.1992	5.19	5.15	4.93	4.92	4.91
AUD/CAD	1.0191	1.00	0.99	0.96	0.96	0.97
AUD/CHF	0.7535	0.73	0.70	0.74	0.71	0.68

Interest Rate Forecasts

	24-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Aust rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	1.75	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	2.00	2.1	2.3	2.3	2.6	2.6
10 Year Swap Rate	2.87	3.0	3.2	3.2	3.4	3.4

Offshore Policy Rates

US Fed funds	1.00	1.25	1.50	1.50	1.75	2.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20
BoE repo rate	0.25	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.00
RBNZ OCR	1.75	1.75	1.75	1.75	1.75	2.00
China 1yr lending rate	4.35	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	17.0	16.5	16.5	16.5	16.5	16.5

10 Year Benchmark Bond Yields

Australia	2.60	2.80	3.00	3.00	3.20	3.20
United States	2.31	2.50	2.75	2.75	3.00	3.00
New Zealand	3.02	3.30	3.35	3.30	3.30	3.60

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avge
Australia	2.1	2.8	2.4	2.5	2.6	2.6	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.3	1.1	1.9	1.7	1.9	1.8	1.5
UK	1.9	3.1	2.2	1.8	1.8	1.7	2.4
Japan	2.0	0.2	1.2	1.0	1.1	0.8	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.2	6.9	7.5	7.5	7.4	7.2	6.6
New Zealand	2.2	3.4	2.5	3.1	2.7	2.5	3.0
World	3.4	3.4	3.1	3.0	3.3	3.5	3.5
MTP Top 5	4.1	3.9	4.0	3.8	3.8	3.7	5.0

Commodity prices (\$US)

	24-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
WTI oil	49.86	54	56	58	59	60
Gold	1276	1210	1220	1230	1240	1260
Iron ore	68.2	85	80	75	73	70
Hard cok. coal	270	180	160	140	120	110
Thermal coal	84	65	65	65	65	60
Copper	5605	5610	5550	5550	5550	5550
Aust LNG (*)	5.97	7.9	8.3	8.5	8.9	9.2

(*) Implied Australian LNG export prices.

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