

# AUSTRALIAN MARKETS WEEKLY

## Economy with momentum into Q3



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- The NAB Business Survey continues to reflect positive momentum in the Australian economy. Business conditions continue to run at well above average levels, levels which in the past that have been consistent with strong growth in domestic demand.
- Importantly, capacity utilization trends seem to be solidifying to the upside – cap use has historically been a useful indicator of interest rate trends in Australia, but has not been as helpful recently in the recent period when underemployment has been prevalent.
- The Survey reports that businesses are spending more on labour inputs. Together with other indicators of labour demand, the NAB Employment index continues to suggest that employment should continue to grow at around 20k per month in trend terms, sufficient to put some downward pressure on the unemployment rate.
- It's early days yet, but the NAB Labour costs index rose by 1.2% (at a quarterly rate) in June, producing the strongest annual growth rate (4.3%) since September 2012 when the economy was at the peak of the resources expansion. It's a hint – and yet to be confirmed - businesses may not just be increasing headcount but be increasing unit wage costs. The last time that annual growth was at this level, the Wage Price Index was growing by 3.7% y/y. (It was just 1.9% in Q1.) Offshore, the USD lost traction at the end of last week on the back of another low reading on US inflation and somewhat softer US Retail Sales in June.
- NAB expects that this Thursday's Labour Force report should see employment rise 15K with a steady unemployment rate. Offshore, after today's stronger Chinese Q2 GDP, the US Q2 earnings season gets underway in earnest. The ECB and the BoJ meet, the ECB is expected to remove its expressed willingness to extend the size and/or duration of its current €60bn per month bond buying. NZ also releases its Q2 CPI, often providing clues on aspects of Australia's CPI due on Wednesday week.
- RBA Deputy Governor Guy Debelle speaks on Friday on Global Influences on Domestic Monetary Policy, a highly topical speech, with the AUD starting this week comfortably above 0.78 on the back of a softer USD.

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### Growth somewhat higher overall in Q2

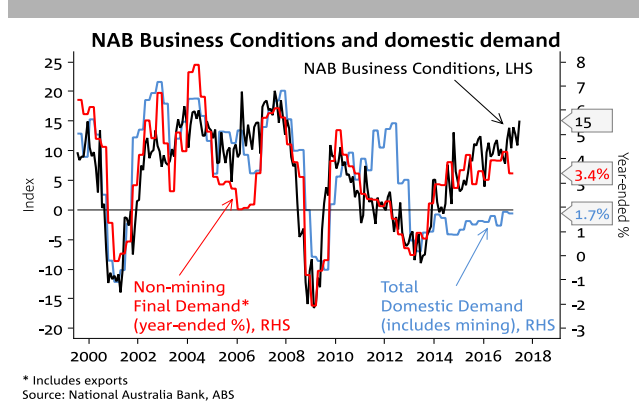
The Australian economy picked up further momentum at the end of the June quarter, a positive sign that the economy is increasingly likely to notch up a much better second half than in the first half when activity was disrupted by the effects of Cyclone Debbie and other wet weather. NAB forecasts for the economy this year have been nudged higher on the back of recovering coal exports in May.

### Key markets over the past week

|         | Last   | % chg week |          | Last  | bp / % chg week |
|---------|--------|------------|----------|-------|-----------------|
| AUD     | 0.7828 | 2.8        | RBA cash | 1.50  | 0               |
| AUD/CNY | 5.28   | 2.3        | 3y swap  | 2.09  | -1              |
| AUD/JPY | 88.1   | 1.5        | ASX 200  | 5,761 | 0.6             |
| AUD/EUR | 0.683  | 2.3        | Iron ore | 65.7  | 4.7             |
| AUD/NZD | 1.066  | 2.1        | WTI oil  | 46.7  | 5.1             |

Source: Bloomberg

### Chart of the week: Business Conditions lift further



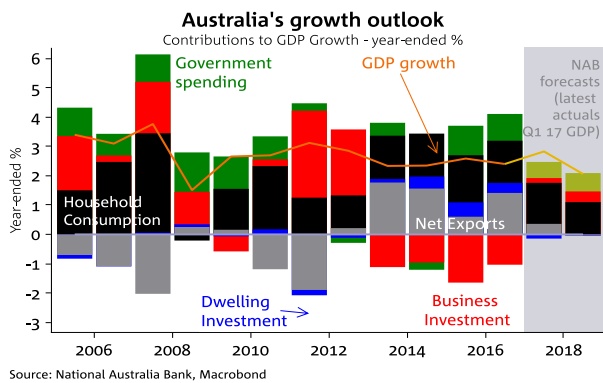
NAB's forecasts now see net exports contributing a net 0.3 percentage points to growth in Q2 GDP (previously a 0.4ppt subtraction was forecast), pushing quarterly GDP growth up to 0.5%/1.5% y/y from a previous forecast of 0.2%/1.2% y/y and up from 0.3%/1.7% y/y in Q1. The forecast for year-average growth is little changed, now at 2.3% (up from 2.2%), with growth expected to strengthen to 2.7% and 2.6% respectively for the next two financial years.

A feature to watch in the months ahead will be not only what the survey says on the broader economy but also about whether it says about the degree of spare capacity, capital expenditure and inflation.

The NAB's measure of Capacity Utilisation was a little lower in June than in May (81.5% after 82.5%), completing a half year average of 81.7%, the highest such six monthly average since October 2010. And that came even with the dramatic fall in Mining CapU in recent years. Typically cap use has been a useful lead indicator of Australian interest rate trends and a more solid lift is now occurring.

Mining Capacity Utilisation in June was running six percentage points below its long term average in this past half year but most other sectors were showing signs of beginning to if not already stretching capacity, a trend that would continue if activity levels continue at a brisk pace in the next half year. Wholesale and Transport industries are running below long term average levels, Manufacturing, & Finance, Property, and Business Services are close to average, while Construction & Recreation and Personal Services are being stretched.

Chart 1: More growth rotation in prospect

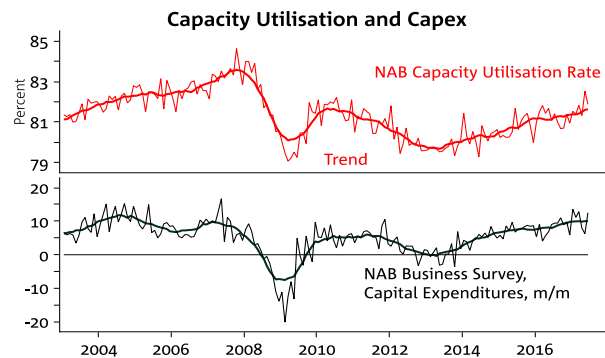


While capacity utilisation has been rising, the Survey is also reporting levels of Profitability well above average levels. NAB Business Survey Profitability for the past half year has been the strongest since February 2008. Rising capacity utilisation and emerging levels of stronger profitability – together with signs that Business Confidence is rising and now above average – is sowing the seeds of rising business spending in its various forms, whether to sustain current operations or expand, whether to hire more employees, additional capital spending or invest in technology.

There are already signs that business is recruiting additional employees at a level that is beginning again to eat into labour slack (also evident by tracking the unemployment and under-utilisation rate). The NAB Survey is also reporting that capital expenditure in the past half year was the strongest since May 2007.

Thursday's quarterly NAB Business Survey (for the June quarter) will reveal the outlook for Capital Expenditure for the year ahead, an outlook that in recent surveys has been more upbeat than reported in the Statistician's New Private Capital Expenditure Survey. NAB's forecasts embody an average year pick-up in Business Investment of 3.4% for 2018, with levels of investment forecast to rise from the current half year.

Chart 2: Signs of increased CapU and spending



Source: NAB Business Survey, Macrobond.

**Week ahead: RBA focus, new NAB Cashless Retail Sales Index and NAB quarterly Survey**

After today's stronger than expected Chinese economic growth data (revealing continued solid and stronger-than-expected growth at 6.9% in Q2), the US data set is relatively light this week, suggesting local influences could well have a larger influence on local markets.

On the local data front, Thursday's Labour Force will hold centre stage and though leading indicators point to solid trend growth in employment in the months ahead, survey variability remains a wild card, especially after two stronger monthly readings.

Also, NAB is releasing tomorrow a new NAB Cashless Retail Sales index, providing a timely data set on a major part of retail spending. This release is for June and measures cashless retail spending by consumers using debit and credit cards, in person and online. And keep an eye out for the June quarter NAB Business Survey for what it says about Business Confidence and Conditions from a larger sample and on expected capital expenditure and constraints on expansion, such as the availability of labour.

On the RBA front, tomorrow's July Board Minutes will be scanned for further nuances on the economy. There was no hint of sensitivity to the currency in the July Media Release, when the AUD/USD was 0.76. RBA Deputy Governor DeBelle's speech on Friday may prove to be more illuminating and instructive as far as current RBA thinking is concerned given his penchant for frank remarks. He is speaking on "Global Influences on Domestic Monetary Policy".

Also this week, RBA's Head of Economic Analysis Alex Heath is speaking at the Conference of Economists on Wednesday, though there is as yet no title for her address. RBA Assistant Governor (Financial Markets) Michelle Bullock is also speaking, on Friday, though again there is as yet no title available.

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# CALENDAR OF ECONOMIC RELEASES

| Country  | Economic Indicator  | Period | Forecast        | Consensus  | Actual | Previous   | GMT              | AEST  |
|--|---|--------|-----------------|------------|--------|------------|------------------|-------|
| <b>Monday, 17 July 2017</b>                              |   |        |                 |            |        |            |                  |       |
| CH   | Foreign Direct Investment YoY CNY   | Jul    |                 |            |        | 2          | Jun 8-18 release |       |
| NZ   | Performance Services Index  | Jun    |                 |            |        | 59         |                  | 8.30  |
| UK   | Rightmove House Prices MoM/YoY  | Jul    |                 | /          |        | 0/2        | 0.10             | 9.10  |
| NZ   | RBNZ Deputy Governor Bascand Speaks on International Investment Position  |        |                 |            |        |            | 2.30             | 11.30 |
| CH   | Retail Sales YoY/YTD YoY  | Jun    |                 | 10.6/10.3  |        | 11/10      | 3.00             | 12.00 |
| CH   | Industrial Production YoY/YTD YoY   | Jun    |                 | 6.5/6.7    |        | 7/7        | 3.00             | 12.00 |
| CH   | Fixed Assets Ex Rural YTD YoY   | Jun    |                 | 8.5        |        | 9          | 3.00             | 12.00 |
| CH   | GDP SA QoQ/YoY  | 2Q     |                 | 1.7/6.8    |        | 1/7        | 3.00             | 12.00 |
| CH   | GDP YTD YoY   | 2Q     |                 | 6.8        |        | 7          | 3.00             | 12.00 |
| IMF  | IMF releases World Economic Outlook forecasts for IMF Spring meetings held in Kuala Lumpur, Malaysia  |        |                 |            |        |            | 4.00             | 13.00 |
| CA   | Int'l Securities Transactions   | May    |                 |            |        | 11         | 13.30            | 22.30 |
| US   | Empire Manufacturing  | Jul    |                 | 15         |        | 20         | 13.30            | 22.30 |
| CA   | Existing Home Sales MoM   | Jun    |                 |            |        | -6         | 14.00            | 23.00 |
| CA   | Bloomberg Nanos Confidence  | Jul 14 |                 |            |        | 58         | 15.00            | 0.00  |
| <b>Tuesday, 18 July 2017</b>                             |   |        |                 |            |        |            |                  |       |
| NZ   | CPI QoQ/YoY   | 2Q     | 0.1/1.8         | 0.2/1.9    |        | 1.0/2.2    | 23.45            | 8.45  |
| AU   | ANZ Roy Morgan Weekly Consumer Confidence Index   | Jul 16 |                 |            |        | 113        | 0.30             | 9.30  |
| AU   | New Motor Vehicle Sales MoM/YoY   | Jun    |                 | /          |        | 3/5        | 2.30             | 11.30 |
| CH   | Property Prices   | Jun    |                 |            |        |            | 2.30             | 11.30 |
| AU   | RBA Board Minutes   |        |                 |            |        |            | 2.30             | 11.30 |
| AU   | NAB Cashless Retail Sales Index (new)   | Jun    |                 |            |        |            | 2.30             | 11.30 |
| NZ   | Non Resident Bond Holdings  | Jun    |                 |            |        | 61         | 4.00             | 13.00 |
| EC   | ECB Bank Lending Survey   |        |                 |            |        |            | 9.00             | 18.00 |
| EC   | ECB Survey of Professional Forecasters  |        |                 |            |        |            | 9.00             | 18.00 |
| UK   | CPI MoM/YoY   | Jun    |                 | 0.2/2.9    |        | 0/3        | 9.30             | 18.30 |
| UK   | CPIH YoY/Core YoY   | Jun    |                 | 2.7/2.6    |        | 3/3        | 9.30             | 18.30 |
| UK   | PPI Input NSA MoM/YoY   | Jun    |                 | -0.9/9.3   |        | -1/12      | 9.30             | 18.30 |
| UK   | PPI Output NSA MoM/YoY  | Jun    |                 | 0.1/3.4    |        | 0/4        | 9.30             | 18.30 |
| UK   | PPI Output Core NSA MoM/YoY   | Jun    |                 | 0.1/2.8    |        | 0/3        | 9.30             | 18.30 |
| UK   | House Price Index YoY   | May    |                 | 3          |        | 6          | 9.30             | 18.30 |
| EC   | CPI MoM/YoY   | Jun    |                 | 0/1.3      |        | 0/1        | 10.00            | 19.00 |
| EC   | CPI Core YoY  | Jun F  |                 | 1.1        |        | 1          | 10.00            | 19.00 |
| GE   | ZEW Survey Current Situation/Expectations   | Jul    |                 | 88/18      |        | 88/19      | 10.00            | 19.00 |
| EC   | ZEW Survey Expectations   | Jul    |                 |            |        | 38         | 10.00            | 19.00 |
| US   | Import Price Index MoM/YoY  | Jun    |                 | -0.2/1.3   |        | 0/2        | 13.30            | 22.30 |
| US   | Import Price Index ex Petroleum MoM   | Jun    |                 | 0.2        |        | 0          | 13.30            | 22.30 |
| US   | Export Price Index MoM/YoY  | Jun    |                 | 0.1/       |        | -1/1       | 13.30            | 22.30 |
| US   | NAHB Housing Market Index   | Jul    |                 | 67         |        | 67         | 15.00            | 0.00  |
| US   | Net Long-term/Total TIC Flows   | May    |                 | /          |        | 2/66       | 21.00            | 6.00  |
| NZ   | Global Dairy Auction, early AM NZT  |        | broadly neutral |            |        | -0.4       |                  |       |
| <b>Wednesday, 19 July 2017</b>                           |   |        |                 |            |        |            |                  |       |
| AU   | Westpac Leading Index MoM   | Jun    |                 |            |        | 0          | 1.30             | 10.30 |
| AU   | RBA's Heath Speech at the Women in Economics panel at the Australian Conference of Economists   |        |                 |            |        |            | 6.30             | 15.30 |
| JN   | Machine Tool Orders YoY   | Jun F  |                 |            |        | 31         | 7.00             | 16.00 |
| EC   | Construction Output MoM/YoY   | May    |                 | /          |        | 0/3        | 10.00            | 19.00 |
| US   | Housing Starts/MoM  | Jun    |                 | 1160/6.2   |        | 1092/-6    | 13.30            | 22.30 |
| US   | Building Permits/MoM  | Jun    |                 | 1201/2.8   |        | 1168/-5    | 13.30            | 22.30 |
| CA   | Manufacturing Sales MoM   | May    |                 | 0.8        |        | 1          | 13.30            | 22.30 |
| <b>Thursday, 20 July 2017</b>                            |   |        |                 |            |        |            |                  |       |
| AU   | HIA House Affordability Index   | 2Q     |                 |            |        | 81         | 15.00            |       |
| JN   | Trade Balance Adjusted  | Jun    |                 | 127.5      |        | 134        | 0.50             | 9.50  |
| JN   | Exports/Imports YoY   | Jun    |                 | 9.5/14.5   |        | 15/18      | 0.50             | 9.50  |
| AU   | NAB Business Confidence (quarterly NAB Business Survey)   | 2Q     |                 |            |        | 6          | 2.30             | 11.30 |
| AU   | Employment Change/Unemployment rate   | Jun    | 15/5.5          | 15/5.6     |        | 42/5.5     | 2.30             | 11.30 |
| AU   | Participation Rate  | Jun    | 64.9            | 64.9       |        | 65         | 2.30             | 11.30 |
| AU   | RBA FX Transactions Market  | Jun    |                 |            |        | 735        | 2.30             | 11.30 |
| JN   | All Industry Activity Index MoM   | May    |                 | -0.8       |        | 2          | 5.30             | 14.30 |
| JN   | BOJ Policy Balance Rate/10-year Yield target  | Jul 20 |                 | -0.1/0     |        | 0/0        | 3.45             | 12.45 |
| JN   | BOJ Outlook Report  |        |                 |            |        |            | 3.45             | 12.45 |
| GE   | PPI MoM/YoY   | Jun    |                 | -0.1/2.3   |        | -0.2/2.8   | 7.00             | 16.00 |
| JN   | BOJ Kuroda speaks at press conference after MPM   |        |                 |            |        |            | 7.30             | 16.30 |
| CH   | FX Net Settlement - Clients CNY   | Jun    |                 |            |        | -85        | 8.00             | 17.00 |
| EC   | ECB Current Account SA  | May    |                 |            |        | 22         | 9.00             | 18.00 |
| UK   | Retail Sales Ex Auto Fuel MoM/YoY   | Jun    |                 | 0.5/2.5    |        | -2/1       | 9.30             | 18.30 |
| UK   | Retail Sales Inc Auto Fuel MoM/YoY  | Jun    |                 | 0.4/2.6    |        | -1/1       | 9.30             | 18.30 |
| EC   | Euro Area First Quarter Government Deficit/Debt   |        |                 |            |        |            | 10.00            | 19.00 |
| UK   | CBI Business Optimism   | Jul    |                 |            |        | 1          | 11.00            | 20.00 |
| UK   | CBI Trends Total Orders/Prices  | Jul    |                 | /          |        | 16/23      | 11.00            | 20.00 |
| EC   | ECB Deposit Facility Rate/Main refinancing rate   | Jul 20 |                 | -0.4/0     |        | -0.40/0.00 | 12.45            | 21.45 |
| EC   | ECB Marginal Lending Facility/Asset Purchase target   | Jul 20 |                 | 0.25/60    |        | 0.25/60    | 12.45            | 21.45 |
| US   | Initial Jobless Claims  | Jul 15 |                 | 245        |        | 247        | 13.30            | 22.30 |
| US   | Philadelphia Fed Business Outlook   | Jul    |                 | 22.9       |        | 28         | 13.30            | 22.30 |
| EC   | Consumer Confidence   | Jul A  |                 | -1.1       |        | -1         | 15.00            | 0.00  |
| US   | Leading Index   | Jun    |                 | 0.4        |        | 0          | 15.00            | 0.00  |
| <b>Friday, 21 July 2017</b>                              |   |        |                 |            |        |            |                  |       |
| NZ   | Net Migration SA  | Jun    |                 |            |        | 5900       | 23.45            | 8.45  |
| AU   | RBA's Debelle (Deputy Governor) speaks: Global Influences on Domestic Monetary Policy – at the CEDA/University of Adelaide luncheon, Adelaide |        |                 |            |        |            | 3.40             | 12.40 |
| NZ   | Credit Card Spending MoM/YoY  | Jun    |                 | /          |        | 0.9/7.6    | 4.00             | 13.00 |
| AU   | RBA's Michele Bullock, Assistant Governor (Financial System), at Melbourne Institute/The Australian Economic & Social Policy Conference, Melb |        |                 |            |        |            | 4.30             | 13.30 |
| UK   | Public Finances (PSNCR)/PSNB ex-Banking Groups  | Jun    |                 | 4.9        |        | 13/7       | 9.30             | 18.30 |
| CA   | CPI NSA MoM/YoY   | Jun    |                 | 0/1.1      |        | 0.1/1.3    | 13.30            | 22.30 |
| CA   | CPI Core- Common/Trim YoY%  | Jun    |                 | 1.3/       |        | 1.3/1.2    | 13.30            | 22.30 |
| CA   | CPI Core- Median YoY%   | Jun    |                 |            |        | 1.5        | 13.30            | 22.30 |
| CA   | Retail Sales/Ex Autos MoM   | May    |                 | 0.3/0.1    |        | 0.8/1.5    | 13.30            | 22.30 |
| US   | Baker Hughes U.S. Rig Count/Oil Rigs  | Jul 21 |                 | /          |        | 952/765    | 18.00            | 3.00  |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |        |                 |            |        |            |                  |       |
| Japan, BoJ   |   | 20-Jul | -0.1%           | -0.1%      |        | -0.1%      |                  |       |
| Europe ECB   |   | 20-Jul | -0.4%           | -0.4%      |        | -0.4%      |                  |       |
| US Federal Reserve                                       |   | 27-Jul | 1.00-1.25%      | 1.00-1.25% |        | 1.00-1.25% |                  |       |
| Australia, RBA   |   | 1-Aug  | 1.50%           | 1.50%      |        | 1.50%      |                  |       |
| UK BOE   |   | 3-Aug  |                 |            |        | 0.25%      |                  |       |
| Canada, BoC  |   | 6-Sep  |                 |            |        | 0.75%      |                  |       |
| New Zealand, RBNZ  |   | 10-Aug | 1.75%           | 1.75%      |        | 1.75%      |                  |       |

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

# FORECASTS

| Economic Forecasts             |       |       |      |                    |            |            |            |            |            |            |             |            |            |            |            |            |            |            |            |            |
|--------------------------------|-------|-------|------|--------------------|------------|------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Annual % change                |       |       |      | Quarterly % change |            |            |            |            |            |            |             |            |            |            |            |            |            |            |            |            |
|                                |       |       |      | 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   | 2.6   | 2.6  | 2.1                | 0.6        | 0.6        | 0.9        | 0.6        | 0.8        | 0.5        | 0.3         | 1.0        | 0.5        | 0.8        | 0.6        | 0.6        | 0.5        | 0.5        | 0.4        | 0.5        |
| Underlying Business Investment | -10.0 | -11.5 | -1.3 | 3.4                | -3.2       | -1.8       | -5.1       | -2.6       | -3.4       | -2.1       | -4.9        | 1.3        | 0.4        | -0.5       | 0.8        | 0.9        | 1.2        | 0.9        | 0.5        | 0.9        |
| Residential Construction       | 10.1  | 7.6   | -2.0 | 0.7                | 4.9        | -1.3       | 4.8        | 0.7        | 4.0        | 1.4        | -1.2        | 1.9        | -4.4       | 1.5        | 0.2        | 0.2        | 0.4        | -0.3       | -0.1       | -0.2       |
| Underlying Public Spending     | 2.6   | 4.6   | 2.7  | 2.7                | 1.1        | 1.9        | -0.8       | 2.3        | 0.5        | 2.9        | -0.3        | 0.9        | 0.5        | 0.7        | 0.5        | 0.8        | 0.7        | 0.7        | 0.7        | 0.7        |
| Exports                        | 6.0   | 7.9   | 6.7  | 6.1                | 3.3        | -2.9       | 4.8        | 0.3        | 2.7        | 2.0        | 1.4         | 3.7        | -1.6       | 2.6        | 3.5        | 2.2        | 0.8        | 0.7        | 0.7        | 0.9        |
| Imports                        | 2.0   | 0.2   | 6.3  | 4.0                | 2.1        | 1.1        | -1.2       | 0.1        | -0.8       | 3.4        | 0.8         | 1.9        | 1.6        | 1.4        | 1.1        | 1.1        | 1.0        | 0.9        | 0.7        | 0.9        |
| Net Exports (a)                | 0.7   | 1.5   | 0.1  | 0.5                | 0.2        | -0.8       | 1.2        | 0.0        | 1.1        | -0.3       | 0.1         | 0.4        | -0.7       | 0.3        | 0.5        | 0.3        | 0.0        | 0.0        | 0.0        | 0.0        |
| Inventories (a)                | 0.1   | 0.1   | 0.0  | -0.1               | 0.7        | -0.3       | -0.1       | 0.0        | -0.1       | 0.3        | 0.2         | -0.4       | 0.5        | -0.4       | 0.0        | 0.1        | 0.0        | 0.0        | 0.0        | 0.0        |
| Domestic Demand - qtr%         |       |       |      |                    | 0.5        | 0.6        | -0.1       | 0.6        | 0.1        | 0.8        | -0.5        | 1.1        | 0.3        | 0.7        | 0.5        | 0.6        | 0.6        | 0.5        | 0.5        | 0.5        |
| Dom Demand - ann %             | 1.3   | 1.5   | 2.1  | 2.3                | 1.1        | 1.4        | 1.3        | 1.4        | 1.4        | 1.6        | 1.2         | 1.8        | 1.7        | 1.6        | 2.7        | 2.2        | 2.5        | 2.3        | 2.2        | 2.1        |
| <b>Real GDP - qtr %</b>        |       |       |      |                    | <b>1.0</b> | <b>0.2</b> | <b>0.9</b> | <b>0.5</b> | <b>0.9</b> | <b>0.7</b> | <b>-0.4</b> | <b>1.1</b> | <b>0.3</b> | <b>0.5</b> | <b>1.1</b> | <b>0.9</b> | <b>0.5</b> | <b>0.5</b> | <b>0.4</b> | <b>0.6</b> |
| <b>Real GDP - ann %</b>        | 2.4   | 2.5   | 2.3  | 2.7                | 2.5        | 2.0        | 2.5        | 2.6        | 2.5        | 3.1        | 1.8         | 2.4        | 1.7        | 1.5        | 3.0        | 2.8        | 3.1        | 3.1        | 2.4        | 2.1        |
| CPI headline - qtr %           |       |       |      |                    | 0.2        | 0.7        | 0.5        | 0.4        | -0.2       | 0.4        | 0.7         | 0.6        | 0.4        | 0.4        | 1.1        | 0.7        | 0.5        | 0.5        | 0.7        | 0.7        |
| CPI headline - ann %           | 1.5   | 1.3   | 2.3  | 2.5                | 1.3        | 1.5        | 1.5        | 1.7        | 1.3        | 1.0        | 1.3         | 1.5        | 2.1        | 2.1        | 2.4        | 2.6        | 2.6        | 2.7        | 2.3        | 2.4        |
| CPI underlying - qtr %         |       |       |      |                    | 0.6        | 0.5        | 0.4        | 0.5        | 0.2        | 0.5        | 0.4         | 0.5        | 0.4        | 0.5        | 0.5        | 0.4        | 0.5        | 0.5        | 0.6        | 0.6        |
| CPI underlying - ann %         | 2.2   | 1.6   | 1.8  | 2.0                | 2.4        | 2.2        | 2.2        | 2.0        | 1.6        | 1.6        | 1.6         | 1.6        | 1.9        | 1.8        | 1.9        | 1.8        | 1.9        | 1.9        | 2.0        | 2.1        |
| Wages (Pvte WPI - ann %)       | 2.1   | 1.9   | 1.9  | 1.9                | 2.2        | 2.2        | 2.1        | 2.0        | 2.0        | 2.0        | 1.9         | 1.8        | 2.0        | 2.0        | 1.9        | 1.8        | 1.8        | 1.8        | 1.9        | 2.0        |
| Unemployment Rate (%)          | 6.0   | 5.7   | 5.6  | 5.5                | 6.1        | 6.0        | 6.2        | 5.9        | 5.8        | 5.7        | 5.7         | 5.6        | 5.9        | 5.5        | 5.5        | 5.5        | 5.5        | 5.5        | 5.5        | 5.5        |
| Terms of trade                 | -11.7 | 0.1   | 9.2  | -1.4               | -2.0       | -4.3       | -2.8       | -4.1       | -1.9       | 2.5        | 4.3         | 9.5        | 6.6        | -6.6       | -4.1       | -1.7       | -1.6       | -1.3       | -1.3       | -1.5       |
| G&S trade balance, \$Abn       | -36.6 | -12.6 | 17.9 | -7.0               | -4.4       | -11.2      | -9.0       | -12.1      | -8.0       | -7.3       | -3.4        | 6.1        | 9.2        | 4.1        | 2.6        | 2.0        | 0.3        | -1.1       | -2.4       | -3.8       |
| % of GDP                       | -2.2  | -0.7  | 1.0  | -0.4               | -1.1       | -2.8       | -2.2       | -2.9       | -1.9       | -1.7       | -0.8        | 1.4        | 2.1        | 0.9        | 0.6        | 0.5        | 0.1        | -0.2       | -0.5       | -0.8       |
| Current Account (% GDP)        | -4.7  | -2.6  | -1.9 | -3.5               | -3.2       | -5.1       | -5.0       | -5.6       | -3.5       | -3.8       | -2.6        | -0.8       | -0.7       | -2.0       | -2.4       | -2.5       | -3.0       | -3.3       | -3.6       | -3.9       |

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

## Exchange Rate Forecasts

|               | 17-Jul        | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|---------------|---------------|--------|--------|--------|--------|--------|
| <b>Majors</b> |               |        |        |        |        |        |
| AUD/USD       | <b>0.7828</b> | 0.73   | 0.70   | 0.70   | 0.70   | 0.70   |
| NZD/USD       | <b>0.7343</b> | 0.71   | 0.68   | 0.68   | 0.68   | 0.69   |
| USD/JPY       | <b>112.56</b> | 114    | 118    | 120    | 120    | 122    |
| EUR/USD       | <b>1.1465</b> | 1.17   | 1.15   | 1.17   | 1.18   | 1.20   |
| GBP/USD       | <b>1.3101</b> | 1.28   | 1.27   | 1.28   | 1.28   | 1.26   |
| USD/CNY       | <b>6.7770</b> | 6.81   | 6.82   | 6.81   | 6.81   | 6.80   |
| USD/CAD       | <b>1.2649</b> | 1.33   | 1.37   | 1.35   | 1.34   | 1.33   |

## Australian Cross Rates

|         |               |      |      |      |      |      |
|---------|---------------|------|------|------|------|------|
| AUD/JPY | <b>88.1</b>   | 83   | 83   | 84   | 84   | 85   |
| AUD/EUR | <b>0.6828</b> | 0.62 | 0.61 | 0.60 | 0.59 | 0.58 |
| AUD/GBP | <b>0.5975</b> | 0.57 | 0.55 | 0.55 | 0.55 | 0.56 |
| AUD/NZD | <b>1.0660</b> | 1.03 | 1.03 | 1.03 | 1.03 | 1.01 |
| AUD/CNY | <b>5.3050</b> | 4.97 | 4.77 | 4.77 | 4.77 | 4.76 |
| AUD/CAD | <b>0.9902</b> | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 |
| AUD/CHF | <b>0.7545</b> | 0.71 | 0.67 | 0.74 | 0.71 | 0.68 |

## Interest Rate Forecasts

|                   | 17-Jul      | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|-------------------|-------------|--------|--------|--------|--------|--------|
| <b>Aust rates</b> |             |        |        |        |        |        |
| RBA Cash rate     | <b>1.50</b> | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   |
| 3 month bill rate | <b>1.70</b> | 1.75   | 1.75   | 1.75   | 1.75   | 1.75   |
| 3 Year Swap Rate  | <b>2.08</b> | 2.0    | 2.3    | 2.6    | 2.6    | 2.5    |
| 10 Year Swap Rate | <b>2.90</b> | 2.9    | 3.1    | 3.4    | 3.4    | 3.3    |

## Offshore Policy Rates

|                          |              |       |       |       |       |       |
|--------------------------|--------------|-------|-------|-------|-------|-------|
| US Fed funds             | <b>1.25</b>  | 1.25  | 1.50  | 1.75  | 2.00  | 2.00  |
| ECB deposit rate         | <b>-0.40</b> | -0.40 | -0.40 | -0.40 | -0.40 | -0.30 |
| BoE repo rate            | <b>0.25</b>  | 0.25  | 0.25  | 0.50  | 0.50  | 0.50  |
| BoJ excess reserves rate | <b>-0.10</b> | -0.10 | -0.10 | -0.10 | -0.10 | 0.90  |
| RBNZ OCR                 | <b>1.75</b>  | 1.75  | 1.75  | 1.75  | 2.00  | 2.25  |
| China 1yr lending rate   | <b>4.35</b>  | 4.10  | 4.10  | 4.10  | 4.10  | 4.10  |
| China Reserve Ratio      | <b>17.0</b>  | 16.5  | 16.5  | 16.5  | 16.5  | 16.5  |

## 10 Year Benchmark Bond Yields

|               |             |      |      |      |      |      |
|---------------|-------------|------|------|------|------|------|
| Australia     | <b>2.72</b> | 2.65 | 2.85 | 3.10 | 3.05 | 2.95 |
| United States | <b>2.33</b> | 2.50 | 2.75 | 3.00 | 3.00 | 3.00 |
| New Zealand   | <b>2.94</b> | 2.90 | 3.10 | 3.35 | 3.40 | 3.50 |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

| Dec year    | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 20 Yr Avg |
|-------------|------|------|------|------|------|------|-----------|
| Australia   | 2.1  | 2.8  | 2.4  | 2.5  | 2.3  | 2.7  | 3.4       |
| US          | 1.7  | 2.4  | 2.6  | 1.6  | 2.1  | 2.3  | 2.6       |
| Eurozone    | -0.2 | 1.3  | 1.9  | 1.7  | 2.0  | 1.9  | 1.5       |
| UK          | 1.9  | 3.1  | 2.2  | 1.8  | 1.6  | 1.6  | 2.4       |
| Japan       | 2.0  | 0.2  | 1.1  | 1.0  | 1.2  | 1.0  | 0.8       |
| China       | 7.7  | 7.3  | 6.9  | 6.7  | 6.5  | 6.3  | 9.2       |
| India       | 6.1  | 7.0  | 7.5  | 7.9  | 7.3  | 7.2  | 6.6       |
| New Zealand | 2.2  | 3.4  | 2.5  | 3.1  | 2.5  | 3.1  | 3.0       |
| World       | 3.4  | 3.5  | 3.2  | 3.1  | 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)

|                | 17-Jul | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
|----------------|--------|--------|--------|--------|--------|--------|
| WTI oil        | 46.70  | 54     | 56     | 58     | 59     | 60     |
| Gold           | 1231   | 1210   | 1220   | 1230   | 1240   | 1260   |
| Iron ore       | 65.7   | 65     | 61     | 60     | 58     | 60     |
| Hard cok. coal | 163    | 210    | 160    | 140    | 120    | 110    |
| Thermal coal   | 84     | 81     | 81     | 81     | 81     | 65     |
| Copper         | 5905   | 5610   | 5550   | 5550   | 5550   | 5550   |
| Aust LNG (*)   | 6.91   | 7.9    | 8.3    | 8.5    | 8.9    | 9.2    |

(\*) Implied Australian LNG export prices.

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