

# AUSTRALIAN MARKETS WEEKLY



## Time for another wage/tax tradeoff?

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- The RBA Governor’s Speech last week focused on the reasons for slow wages growth in Australia and around the world (spare capacity in the labour market, end of mining boom, lower productivity, increased job insecurity, greater competition due to globalisation and technology). This is a topic also occupying the minds of other central bankers.
- Clients should monitor the trends in wages growth in the low unemployment regions of the world (Germany, Japan, the UK and US) and in NSW in Australia for an assessment of the degree of structural change in the labour market.
- One possible left-field solution to the “problems” of low wages growth and the failure of the Senate to support the passage of the Government’s corporate tax cuts for larger businesses, could be a different type of wage-tax trade-off. In the 1980s, there were a number of income accords, whereby income tax cuts were traded off in place of wage rises so as to reduce inflation. Could an agreement be fashioned to trade-off a corporate tax cut for bigger businesses for wage increases for workers, so as to lift wages growth across the country?
- The RBA will be under continued focus this week with the Board meeting Statement tomorrow and the quarterly Statement on Friday. While no change in policy is odds on, it will be all about whether there is any more anxiety about the exchange rate, together with the RBA’s readings on the economy and their forecasts.
- We expect the RBA to acknowledge the rise in the currency without being unduly alarmed, especially given the weaker USD is a good part of the story. No material change in the forecasts seems likely, though the Bank is expected to recognise the improving domestic economic indicators of late without any formal change in the monetary policy bias from the very neutral setting.

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](#)

The Reserve Bank Governor spoke on [The Labour Market and Monetary Policy](#) in Sydney last week. The Governor started his speech by noting that at the many offshore meetings of central bank governors and G20 finance ministers he attends, there were two main topics of conversation. The first is the good news that the global economic outlook has improved: forecasts for growth are being revised higher and the more-or-less constant pessimism of recent years is being replaced by cautious optimism. The second topic of discussion, however, is why is wages growth so low, even in countries such as the UK, US, Britain, Germany and Japan, where unemployment has already fallen to quite low levels?

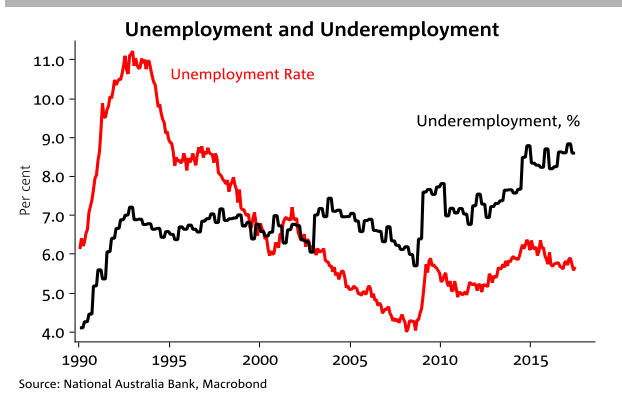
The answer to this question is important not only for the outlook for consumer spending, but also has financial stability implications and it may even impact the

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7984	0.5	RBA cash	1.50	0
AUD/CNY	5.37	0.1	3y swap	2.04	-5
AUD/JPY	88.3	-0.1	ASX 200	5,708	0.4
AUD/EUR	0.680	-0.6	Iron ore	68.7	2.4
AUD/NZD	1.062	-0.8	WTI oil	49.9	7.4

Source: Bloomberg

### Chart of the week: Un/underemployment key



ability of central banks to achieve inflation targets. We conclude this week's article by suggesting that Australian policy makers might consider a somewhat novel approach to raising wages growth somewhat by negotiating with the Senate wage rises for the lower paid as a trade-off for the stalled corporate tax rate cuts for larger companies (this policy is currently opposed by the minor parties and the opposition in the Senate).

### Reasons for slow wages growth in Australia

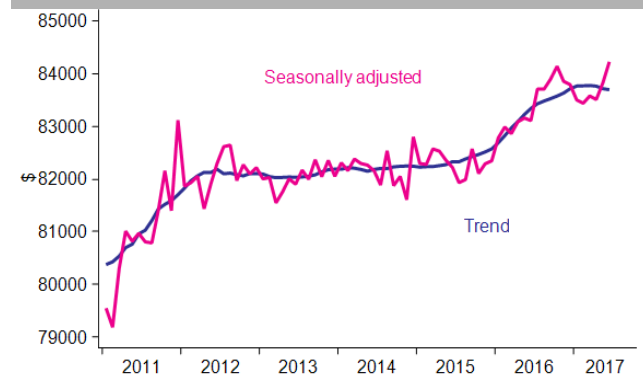
The Governor cited quite a number of domestic and global reasons for the slow rate of wages growth in Australia (and around the world) at the present time:

- Spare capacity in the labour market, evidenced by unemployment above full employment (estimated at around 5% in Australia), but also in elevated levels of underemployment (those with a job that desire to work longer hours). As Chart 1 shows, while the unemployment rate has been falling gradually for some time in Australia, underemployment remains near cycle highs, meaning there remains greater spare capacity in Australia's labour market than suggested by the headline unemployment rate. The RBA would like to see some reduction of underemployment before raising rates, much as Fed Chair Yellen desired a reduction in the U6 measure of US unemployment, as this would likely be a prerequisite for a pick up in wages growth and a sustained return of inflation to the Bank's 2-3% target;
- The unwind of the mining investment boom in Australia;
- Low productivity growth in Australia (and around the world) – which is part of the reason for lower inflation and lower inflationary expectations;
- The after effects of the Global Financial Crisis, which have increased worker insecurity and meant a reduction in the number of workers switching jobs. [This is likely to be especially true amongst older workers, meaning there may well also be an ageing population aspect to the trend];
- Increased competition for firms, both from increased globalisation and from technology, the latter meaning that fewer and fewer firms and sectors are truly non-traded (ie not subject to import competition), any more.

Bank of England Chief Economist, Andy Haldane, has also been pondering the reasons why wages are not reacting to low unemployment as in previous cycles ([Work, Wages and Monetary Policy](#)). Haldane concludes that labour market structures are effectively changing back more towards the pre-industrial revolution era, when labour was organised much more on a piecemeal basis, rather than the organised and unionised workforces that have existed over much of the past 100 years.

The answer to the extent to which there has been a structural shift in the labour market along the lines posited by Haldane, or whether we are simply at the bottom of a deep cyclical downturn, will not be clear for some years. Investors should monitor developments in wages growth in Japan, the US, UK and Germany, for lead indications of how wages may continue to develop, as these regions currently have very low levels of unemployment. In Australia, NSW currently has the

Chart 1: SEEK Average Advertised Salary - NSW



Source: SEEK, National Australia Bank

lowest rate of unemployment nationally at around 4.8%, so we should monitor wages trends in that state also.

### Implications of slow wages growth

The Governor also noted some important implications of slow wages growth. Obviously, the lower is wages growth, the slower will be sustainable growth in consumer spending (and hence overall growth) across time. This concern has been behind the RBA's increased focus on medium-term financial stability risks, whereby the Bank has questioned the sustainability of household debt growing significantly faster than household income, which in turn has seen the RBA accept a slower return of inflation to the 2-3% inflation target.

The Governor also notes that central banks with a less flexible inflation target have had to provide additional stimulus irrespective of financial stability concerns. The counterpart of this development has meant that the RBA does not feel it needs to match the interest rate increases that have been occurring in other countries along with the US in recent months. Indeed, we would expect that the RBA will be guided by its confidence in progress toward a sustainable return of inflation to the 2-3% target. This in turn will likely require further reduction in Australia's unemployment and underemployment rates, which would usually be expected to see some pick up in wages growth. It will be a more interesting discussion for inflation-targeting more broadly if wages growth remains very low for an extended period, for some of the reasons Haldane suggests, as this would question the ability of central banks to achieve inflation targets across time. That would not seem to be as significant a cause for concern if unemployment remained very low, or continued to fall, and indeed over the course of history, central banks have evolved or altered their policy targets.

### A different wage-tax trade-off?

The focus on slow wages growth in Australia, together with the failure of the Australian government to progress its plan for corporate tax cuts for large businesses, made me think of an alternative possible partial solution to these twin issues. The possible solution has its roots in the Wages Accords made popular under the Hawke-Keating Government in conjunction with the ACTU. At one point, while enjoying the fruits of an improved budget but desiring a further reduction in inflation, the Government engaged in a wage-tax trade-off, announcing income tax cuts in place of a full national wage increase.

Could a similar but different arrangement be fashioned at the present time; one which seeks to slightly raise wages growth, instead of lowering it? While acknowledging that the less centralised wages setting scene in Australia would make the process more complicated than 20-30 years ago, it's possible that an arrangement could be crafted whereby: the Government negotiates support from the Senate for its corporate tax cuts for businesses with over \$50m per annum turnover, provided the businesses demonstrate that they have provided a wage increase to nominated workers of a nominated percentage. It would be up for debate as to the income levels receiving the wage increase – and the size of the wage rise also.

Such an arrangement would likely be budget-positive, producing some indirect funding for the corporate tax cuts, with the wage increases likely to provide a direct boost to spending and therefore budget revenues. This could be a useful contribution to lifting wages growth a little in the Australian economy at the present time, and boosting growth.

**Week ahead: RBA watch, Board statement and forecasts; US ISMs, payrolls, Eurozone growth**

Again the market will be on RBA watch this week, first with the RBA Board statement tomorrow afternoon and on Friday with the release of the quarterly Statement on Monetary Policy (SoMP). AUD watchers will be interested in whether the RBA remains measured about the rise in the Australian dollar – or notes as in a recent Q&A answer, that a lower Australian dollar would be helpful for the economy's transition. In July, the statement noted: *"The depreciation of the exchange rate since 2013 has also assisted the economy in its transition following the mining investment boom. An appreciating exchange rate would complicate this adjustment."*

This could be amended to add "overall" before "depreciation of the exchange rate". We expect a greater degree of confidence in the economic outlook could also be present in the statement, something that would be supportive of yields and the AUD. We would expect the Bank to flag the large increases electricity prices as boosting headline inflation in the year ahead, and the unemployment forecast may come down a little.

The most sensitive local data release is likely to be Friday's Retail Sales where we look for flat sales though the risk is assessed to be of an even lower outcome. Other primary data releases include Building Approvals on Wednesday and Trade on Thursday. The trade data might be affected by the large LNG plant facilities for the Ichthys and the giant Prelude floating LNG platform (though July data is more likely). Confidentially might yet see these not disclosed, as well as some uncertainty over timing in the measured data, including because of progress payments. Any sticker shock for the currency from bloated imports should prove to be short-lived; these are imports that will sustain LNG exports in coming years.

Offshore, after today's official measures of China's PMIs, it will be US releases that will continue as a centrepiece, with the June PCE deflators out tomorrow night along with the Manufacturing ISM (the Non-Manufacturing ISM is being released Thursday) ahead of Friday's Non-Farm Payrolls and whether it will reveal any material pick up in average hourly earnings. There will also be some focus on inflation and growth for the Eurozone, with the July CPI released tonight and the Advance estimate of GDP tomorrow night, annual growth expected to pick up to 2.1%, the same as in the US and above Australia's!

Please see our *What to Watch* – sent out on Friday – for more detail or let me know if you'd like to be included on the email list (mailto: [David.deGaris@nab.com.au](mailto:David.deGaris@nab.com.au)).

[Ivan.Colhoun@nab.com.au](mailto:Ivan.Colhoun@nab.com.au)  
[David.deGaris@nab.com.au](mailto:David.deGaris@nab.com.au)

# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 31 July 2017</b>								
NZ	Building Permits MoM	Jun				7.0	23:45	8:45
UK	Lloyds Business Barometer	Jul				30.0	0:10	9:10
JN	Industrial Production MoM/YoY	Jun P		1.5/4.8		-3.6/6.5	0:50	9:50
AU	Melbourne Institute Inflation MoM/YoY	Jul		/		0.1/2.3	2:00	11:00
NZ	ANZ Activity Outlook/Business Confidence	Jul		/		42.8/24.8	2:00	11:00
AU	HIA New Home Sales MoM	Jun				1.1	2:00	11:00
CH	Manufacturing/Non-manufacturing PMIs	Jul		51.5/		51.7/54.9	2:00	11:00
AU	Private Sector Credit MoM/YoY	Jun	0.5/5.3	0.4/5.2		0.4/5.0	2:30	11:30
NZ	Credit Aggregates, Household YoY	Jun				8.1	4:00	13:00
UK	Mortgage Approvals	Jun		65		65.2	9:30	18:30
EC	Unemployment Rate	Jun		9.2		9.3	10:00	19:00
EC	CPI Estimate/Core YoY	Jul		1.3/1.1		1.3/1.1	10:00	19:00
CA	Industrial Product/Raw Material Price MoM	Jun		-0.3/-3.25		-0.2/-1.8	13:30	22:30
US	Chicago Purchasing Manager	Jul		60		65.7	14:45	23:45
CA	Bloomberg Nanos Confidence	Jul 28				58.8	15:00	0:00
US	Pending Home Sales MoM/YoY	Jun		1/		-0.8/0.5	15:00	0:00
US	Dallas Fed Manf. Activity	Jul		13		15.0	15:30	0:30
<b>Tuesday, 1 August 2017</b>								
AU	AIG Perf of Mfg Index	Jul				55.0	0:30	9:30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 30				115.1	0:30	9:30
AU	CoreLogic House Px MoM	Jul				-1.1	1:00	10:00
JN	Nikkei Japan PMI Mfg	Jul F				52.2	1:30	10:30
CH	Caixin China PMI Mfg	Jul		50.4		50.4	2:45	11:45
AU	RBA Cash Rate Target	Aug 1	1.50	1.50		1.50	5:30	14:30
JN	Vehicle Sales YoY	Jul				9.7	6:00	15:00
AU	Commodity Index AUD/SDR YoY	Jul		/		119.5/25.0	7:30	16:30
GE	Markit/BME Germany Manufacturing PMI	Jul F		58.3		58.3	8:55	17:55
GE	Unemployment Change (000's)/Claims Rate	Jul		-5/5.7		7.0/5.7	8:55	17:55
EC	Markit Eurozone Manufacturing PMI	Jul F		56.8		56.8	9:00	18:00
UK	Markit UK PMI Manufacturing SA	Jul		54.5		54.3	9:30	18:30
EC	GDP SA QoQ/YoY	2Q A		0.6/2.1		0.6/1.9	10:00	19:00
CA	MLI Leading Indicator MoM	Jun				0.1	12:00	21:00
US	Personal Income/Spending	Jun		0.4/0.1		0.4/0.1	13:30	22:30
US	PCE Deflator MoM/YoY	Jun		0/1.3		-0.1/1.4	13:30	22:30
US	PCE Core MoM/YoY	Jun		0.1/1.4		0.1/1.4	13:30	22:30
CA	Markit Canada Manufacturing PMI	Jul				54.7	14:30	23:30
US	Markit US Manufacturing PMI	Jul F		53.1		53.2	14:45	23:45
US	Wards Total Vehicle Sales	Jul		16.8		16.4		
US	ISM Manufacturing	Jul		56.4		57.8	15:00	0:00
NZ	Global Dairy Auction, early AM NZT		moderate increase			0.2		
<b>Wednesday, 2 August 2017</b>								
NZ	QVNZ Housing Report, prices 3m YoY	Jul				8.1	18:00	3:00
NZ	Employment Change QoQ/YoY	2Q	0.7/4.1	0.7/4.1		1.2/5.7	23:45	8:45
NZ	Unemployment/Participation Rate	2Q	4.8	4.8/70.6		4.9/70.6	23:45	8:45
NZ	Pvt Wages Ex/Incl Overtime QoQ	2Q	0.4	0.5/0.4		0.4/0.4	23:45	8:45
NZ	Average Hourly Earnings QoQ	2Q		0.9		0.3	23:45	8:45
UK	BRC Shop Price Index YoY	Jul				-0.3	0:10	9:10
AU	Building Approvals MoM/YoY	Jun	2/-10.5	1/-11		-5.6/-19.7	2:30	11:30
JN	BOJ Funo speaks in Sapporo					2.30		11:30
JN	Consumer Confidence Index	Jul		43.5		43.3	6:00	15:00
UK	Markit/CIPS UK Construction PMI	Jul		54		54.8	9:30	18:30
EC	PPI MoM/YoY	Jun		-0.1/2.4		-0.4/3.3	10:00	19:00
US	MBA Mortgage Applications	Jul 28				0.4	12:00	21:00
US	Fed's Mester Speaks to Community Banking Conference						17:00	2:00
US	Fed's Williams Speaks in Las Vegas on Monetary Policy						20:30	5:30
<b>Thursday, 3 August 2017</b>								
NZ	ANZ Job Advertisements MoM	Jul				1.3	23:00	8:00
AU	AIG Perf of Services Index	Jul				54.8	0:30	9:30
JN	Nikkei Japan PMI Services/Composite	Jul		/		53.3/52.9	1:30	10:30
NZ	ANZ Commodity Price	Jul				2.1	2:00	11:00
AU	Trade Balance	Jun	1500	1800		2471	2:30	11:30
CH	Caixin China PMI Services/Composite	Jul				51.6	2:45	11:45
GE	Markit Germany Services/Composite PMI	Jul F		53.5/55.1		53.5/55.1	8:55	17:55
EC	ECB Publishes Economic Bulletin						9:00	18:00
EC	Markit Eurozone Services/Composite PMI	Jul F		55.4/55.8		55.4/55.8	9:00	18:00
UK	Markit/CIPS UK Services/Composite PMI	Jul		53.6/53.8		53.4/53.8	9:30	18:30
EC	Retail Sales MoM/YoY	Jun		0/2.5		0.4/2.6	10:00	19:00
UK	Bank of England Bank Rate/Asset Purchase Target	Aug 3		0.25		0.3	12:00	21:00
UK	BOE Asset Purchase Target	Aug		435		435	12:00	21:00
UK	Bank of England Inflation Report						12:00	21:00
US	Challenger Job Cuts YoY	Jul				-19.3	12:30	21:30
US	Initial Jobless Claims	Jul 29		240		244.0	13:30	22:30
US	Bloomberg Consumer Comfort	Jul 30				48.6	14:45	23:45
US	Markit US Services/Composite PMI	Jul F		54.2/		54.2/54.2	14:45	23:45
US	ISM Non-Manf. Composite	Jul		56.9		57.4	15:00	0:00
US	Factory Orders/Core Orders	Jun		2.8		-0.8	15:00	0:00
<b>Friday, 4 August 2017</b>								
JN	Labor Cash/Real Cash Earnings YoY	Jun		0.5/0.1		0.7/0.1	1:00	10:00
AU	Retail Sales MoM/Real Sales QoQ	Jun	0.0/1.3	0.2/1.2		0.6/0.1	2:30	11:30
AU	RBA Statement on Monetary Policy						2:30	11:30
GE	Factory Orders MoM/YoY	Jun		0.5/4.4		1.0/3.7	7:00	16:00
GE	Markit Germany Retail PMI	Jul				54.5	9:10	18:10
EC	Markit Eurozone Retail PMI	Jul				53.2	9:10	18:10
US	Change in Nonfarm Payrolls/Unemployment Rate	Jul		180/4.3		222/4.4	13:30	22:30
US	Average Hourly Earnings MoM/YoY	Jul		0.3/2.4		0.2/2.5	13:30	22:30
US	Trade Balance	Jun		-44.8		-46.5	13:30	22:30
CA	Net Change in Employment/Unemployment Rate	Jul		15/6.5		45.3/6.5	13:30	22:30
CA	Int'l Merchandise Trade	Jun		-1.3		-1.1	13:30	22:30
CA	Ivey Purchasing Managers Index SA	Jul				61.6	15:00	0:00
US	Baker Hughes U.S. Rig Count	Aug 4				958	18:00	3:00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		1-Aug	1.50%	1.50%		1.50%		
UK BOE		3-Aug				0.25%		
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		
Canada, BoC		6-Sep				0.75%		
Europe ECB		7-Sep	-0.4%	-0.4%		-0.4%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		

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

# FORECASTS

## Economic 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
<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
Real GDP - qtr %					1.0	0.2	0.9	0.5	0.9	0.7	-0.4	1.1	0.3	0.5	1.1	0.9	0.5	0.5	0.4	0.6
Real GDP - ann %	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

	31-Jul	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Majors</b>						
AUD/USD	0.7984	0.73	0.70	0.70	0.70	0.70
NZD/USD	0.7518	0.71	0.68	0.68	0.68	0.69
USD/JPY	110.53	114	118	120	120	122
EUR/USD	1.1747	1.17	1.15	1.17	1.18	1.20
GBP/USD	1.3144	1.28	1.27	1.28	1.28	1.26
USD/CNY	6.7374	6.81	6.82	6.81	6.81	6.80
USD/CAD	1.2462	1.33	1.37	1.35	1.34	1.33
USD/CHF	0.9692	0.97	0.96	1.06	1.01	0.97

### Australian Cross Rates

	31-Jul	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
AUD/NZD	1.0620	1.03	1.03	1.03	1.03	1.01
AUD/JPY	88.2	83	83	84	84	85
AUD/EUR	0.6797	0.62	0.61	0.60	0.59	0.58
AUD/GBP	0.6074	0.57	0.55	0.55	0.55	0.56
AUD/CNY	5.3791	4.97	4.77	4.77	4.77	4.76
AUD/CAD	0.9950	0.97	0.96	0.95	0.94	0.93
AUD/CHF	0.7738	0.71	0.67	0.74	0.71	0.68

## Interest Rate Forecasts

	31-Jul	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Australia Rates</b>						
RBA Cash rate	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	1.69	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	2.05	2.0	2.3	2.6	2.6	2.5
10 Year Swap Rate	2.87	2.9	3.1	3.4	3.4	3.3
<b>Offshore Policy Rates</b>						
US Fed funds	1.25	1.25	1.50	1.75	2.00	2.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30
BoE repo rate	0.25	0.25	0.25	0.50	0.50	0.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.90
RBNZ OCR	1.75	1.75	1.75	1.75	2.00	2.25
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
<b>10-year Benchmark Bond Yields</b>						
Australia	2.68	2.65	2.85	3.10	3.05	2.95
United States	2.29	2.50	2.75	3.00	3.00	3.00
New Zealand	2.99	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	6.7	6.5	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	3.4	3.5	3.5
MTP Top 5	4.1	3.9	4.0	3.8	3.9	3.8	5.0

## Commodity prices (\$US)

	31-Jul	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
WTI oil	49.94	54	56	58	59	60
Gold	1270	1210	1220	1230	1240	1260
Iron ore	68.7	65	61	60	58	60
Hard cok. coal	165	210	160	140	120	110
Thermal coal	86	81	81	81	81	65
Copper	6303	5610	5550	5550	5550	5550
Aust LNG (*)	7.05	7.9	8.3	8.5	8.9	9.2

(\*) Implied Australian LNG export prices.

## CONTACT DETAILS

### Market Economics

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

David de Garis  
Director, Economics  
+61 3 8641 3045  
david.degaris@nab.com.au

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

### Markets Research

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

### Group Economics

Alan Oster  
Chief Economist  
+61 3 8634 2927  
alan\_oster@national.com.au

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

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