

AUSTRALIAN MARKETS WEEKLY

Consumer confidence – personal finances weighing



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- Why consumer confidence is diverging from business confidence is a key question being asked by clients. The divergence has gained prominence given the recent strength in employment would seemingly hint that we might be closer to the turning point in the monetary policy cycle than first thought. The counter to that view remains the low wage environment and the sense that subdued consumer confidence may be telling us that the economy is softer than headline employment growth would suggest.
- In this Weekly we explore why consumer confidence is currently subdued and whether it is likely to recover in the near term. We use three lenses: formally modeling consumer confidence to identify the main drivers; comparing consumer confidence across the states to identify any emerging trends; and finally comparing Australian consumers to the rest of the world.
- Our modelling suggests the current subdued level of consumer confidence is due to low wages growth, an elevated unemployment rate, and asset price appreciation that is not contributing as strongly as it has done in the past (see Chart of the week). The modelling can explain around 63% of the trends in consumer confidence and importantly offers hope that as the unemployment rate starts to fall and as wages growth stabilises and picks up, consumer confidence should as well. (note a 2% point change in the annual rate of wages growth would cause a 9.6 point change in the level of consumer confidence).
- Our state comparisons indicate there is some evidence of a two speed economy dynamic playing out. Consumer confidence is stronger in the non-mining states than in the mining states by around 5% points, though confidence has weakened in the non-mining states in recent times. Comparing Australian consumers to other countries also reveals Australian consumers are currently more worried about their own family finances, and while they are less gloomy about the outlook for the economy, they are also not as positive as consumers in other countries.
- The weakness in the family finances component no doubt reflects subdued wages growth and relatively elevated unemployment – these factors also align with our formal modelling. Other factors at play may include higher electricity prices and rental and housing affordability issues, though these are hard to disentangle in the modelling.
- Coming up: it's a busy week domestically with the Q2 GDP figures Wednesday and the RBA Board Meeting Tuesday, along with four RBA speeches! Other key data points include Retail Sales and the Trade Balance Thursday. Internationally most

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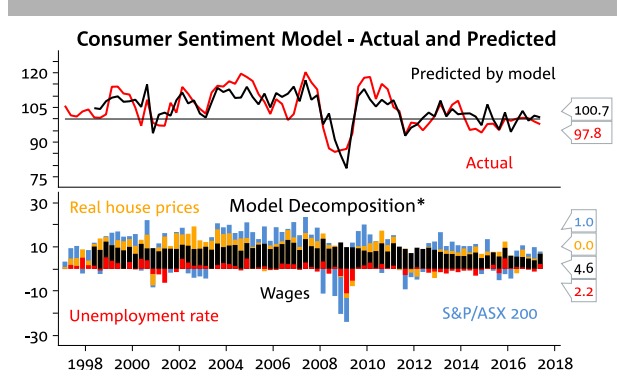
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7972	0.4	RBA cash	1.50	0
AUD/CNY	5.23	-0.8	3y swap	2.07	-3
AUD/JPY	87.6	1.0	ASX 200	5,725	-0.3
AUD/EUR	0.671	0.9	Iron ore	78.9	0.7
AUD/NZD	1.112	1.4	WTI oil	47.4	1.7

Source: Bloomberg

Chart of the week: Consumer confidence model



* Excludes the constant term of 92.8 from the analysis. R²=0.63
Source: National Australia Bank, W-MI

focus will be on the ECB and whether they discuss a tapering of their Asset Purchase Program (markets do not expect an announcement at this meeting), and on the Bank of Canada which is seen by the market as likely to hike rates by the October meeting (now 100% priced). Key international data includes the US Non-manufacturing ISM Wednesday and China's Trade data on Friday.

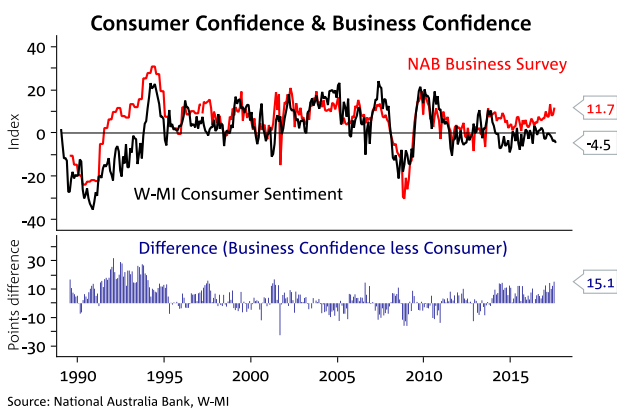
Diverging business & consumer confidence

Business Confidence and Conditions have picked up strongly over the past year and a half – trends that are normally associated with a pick-up in economic activity in the period ahead. Indeed, according to the recent run of data, most indicators of the economy have picked up, including employment, retail trade and capital investment expectations most recently.

One exception to the more positive run of data has been consumer confidence. Australia has two measures – the ANZ-Roy Morgan weekly measure and the Westpac-Melbourne Institute monthly measure – with both of these measures remaining subdued and indeed having deteriorated over the past six months as business conditions in contrast have improved (In this Weekly we use the monthly measure).

The divergence between lacklustre consumer confidence and more optimistic business confidence/conditions is now the widest it has been since 2001 at 15.1 points (normalising both series at 0). The length of the divergence is also the greatest since the early 1990s recession, though at the time both were trending in the same direction. Encouragingly, that divergence resolved in favour of business confidence with businesses sentiment recovering first out of the recession.

Chart 1: Consumer and business confidence diverge



To explore why consumer confidence is so subdued and whether it is likely to recover in line with business confidence as it did during 1992-1995 we use three lenses. We model consumer confidence to identify the main drivers; compare consumer confidence across the Australian states to identify any emerging trends; and see how confident Australian consumers are currently relative to the rest of the world.

Modelling consumer confidence

Our reading of the economic literature finds four variables can consistently explain trends in consumer

confidence around the world: Unemployment, Wages, Equity Prices and Real House Prices.

For Australia, these variables explain around 63% of consumer confidence through time – a high level of explanatory power. Importantly, these variables predict the current subdued level of consumer confidence.

A decomposition of the model is shown in chart of the week (front page) and reveals the decreased contribution of wages growth to consumer confidence through time. This no doubt reflects the subdued pace of wages growth that Australian household have experienced over the past few years. The unemployment has also been a factor, though does not have a strong impact in the model – some of the effect is likely to be picked up via equity prices and wages.

To illustrate these findings even more clearly, we can display the model in deviations from long-run average terms (Chart 2). Chart 2 clearly shows subdued wages growth is detracting from the average level of consumer confidence, along with the unemployment rate. Interestingly, equity prices and real house prices are not contributing as much to consumer confidence as they had in the past – likely reflecting diverging houses price trends with recent house price growth concentrated in Sydney and Melbourne and the underperformance of the ASX.

Chart 2: Wages growth contributing less to confidence

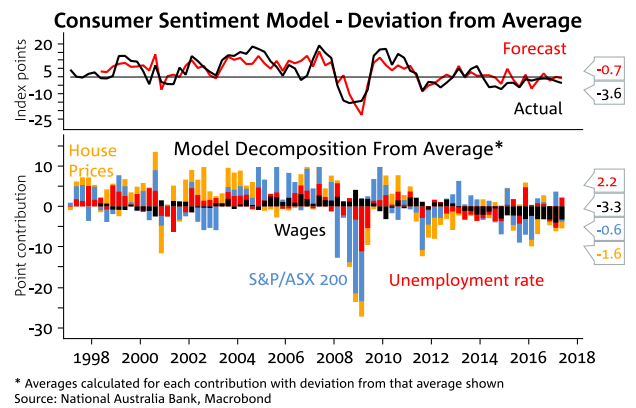
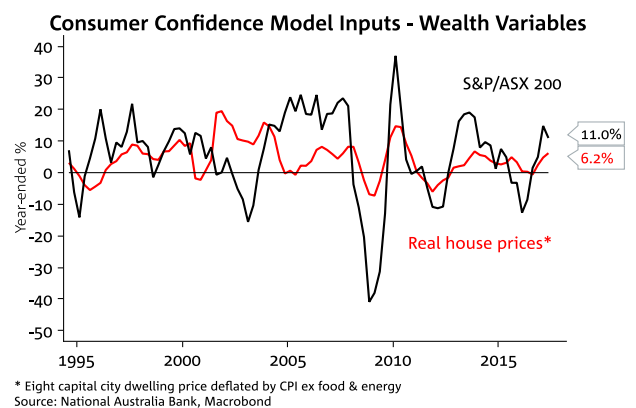


Chart 3: Wealth not as supportive as in the past

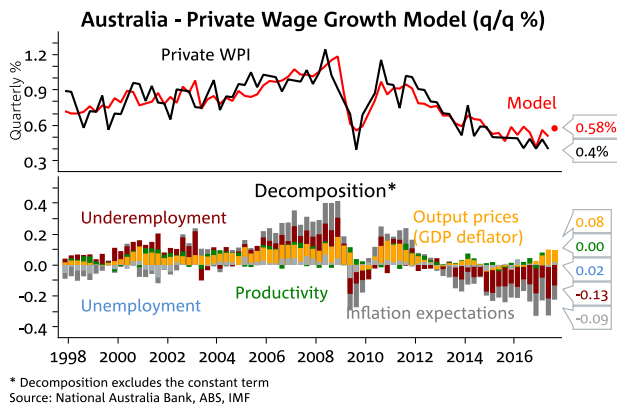


The above analysis suggests wages growth will be key in driving a sustained recovery in consumer confidence. We have previously noted that wages growth is

unlikely to pick up until inroads are made into elevated unemployment and underemployment (Chart 4). There are hints that wages growth is starting to stabilise and the recent rise in the minimum wage should also start to see a lift in wages growth in Q3. As wages growth starts to lift, so should consumer confidence (Chart 2).

According to our estimates, the 2% downward trend in wages growth since 2008 has detracted around 10 points off the level of consumer sentiment. Correspondingly, if wages growth were to lift from the current 1.9% pace to 3%, it would be enough to lift consumer confidence by around 5 points *ceteris paribus* – note the actual lift would likely be greater as it would most likely be accompanied by a fall in the unemployment rate.

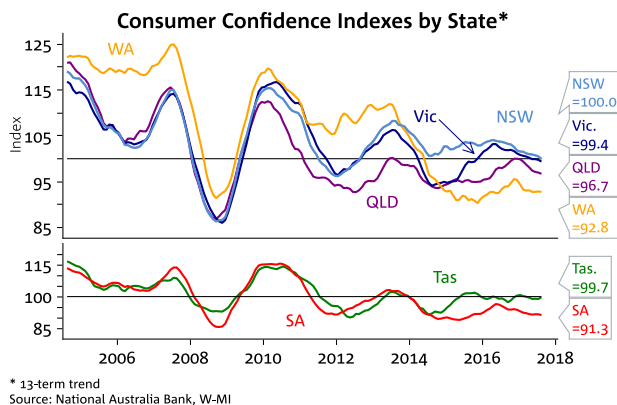
Chart 4: Wages model – underemployment a factor



State divergences

Most indicators across Australia have been impacted to some extent by the unwind of the mining investment boom and lower commodity prices. Consumer confidence is no different with confidence weaker in the more mining oriented states of WA and QLD compared to the non-mining states of NSW and Vic (Chart 5).

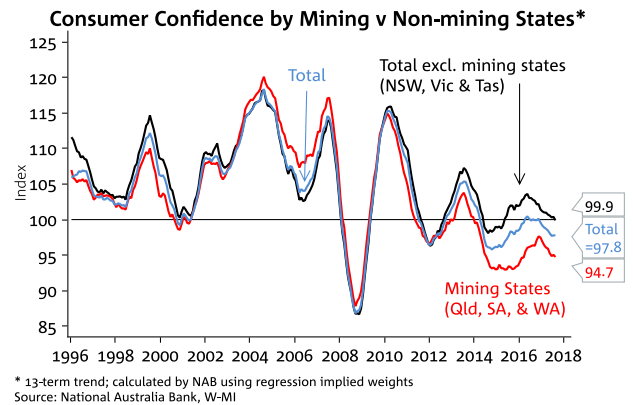
Chart 5: Consumer confidence by state - detailed



Consumer confidence in WA is yet to recover significantly from the mining bust lows, and while sentiment in QLD had started to pick-up it has edged back down more recently. To fully encapsulate these effects we can reconstruct the consumer confidence index into those including and excluding the mining states (Chart 6). While it shows sentiment is higher in the

non-mining states with the divergence around 5% points, it also shows that sentiment has ticked lower over recent months in both mining and non-mining states.

Chart 6: Sentiment greater outside of mining

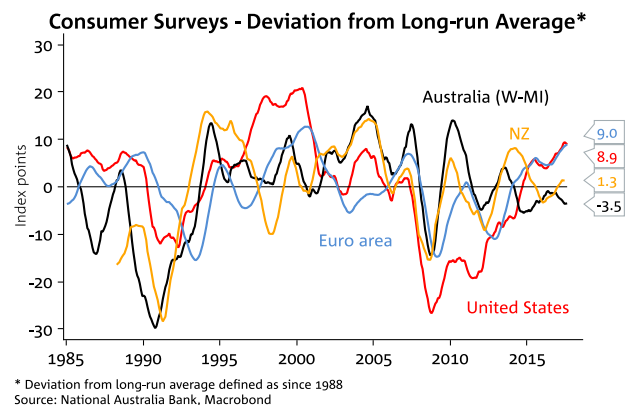


International comparisons

Are Australian consumers unusual in being subdued? International comparisons would currently say yes. We compare consumer confidence as deviations from long-run averages and find consumer confidence in both the US and Europe has recently hit highs, while consumers across the ditch in NZ are also more confident than previously.

To work out why Australian consumers are more pessimistic than those overseas we breakdown consumer confidence into its five components. [Consumer confidence is normally constructed as an average of five questions: (1) Family finances in the past year; (2) Family finances in the next year; (3) Economic conditions in the next year; (4) Economic conditions in the next five years; and (5) is it a good time to buy an asset].

Chart 7: Australian consumers gloomier than others



Australian consumers appear more gloomy about their own personal finances when compared to those in the US and Europe (Chart 8). This gloom is also translated into responses about whether it is a good time to buy durables (Chart 9), which of course likely in turn reflects high house prices in some cities. However, Australian consumers are not as pessimistic when it comes to the outlook for the economy over the next year and the next five years, but also are not as positive as other international consumers (Chart 10).

Chart 8: Aussies gloomy about family finances

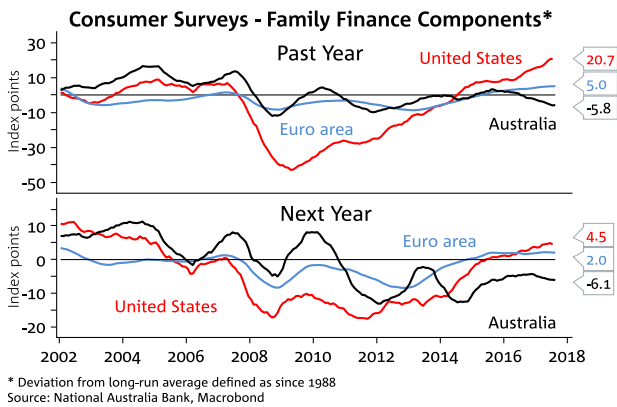


Chart 9: Aussies also gloomy about buying durables

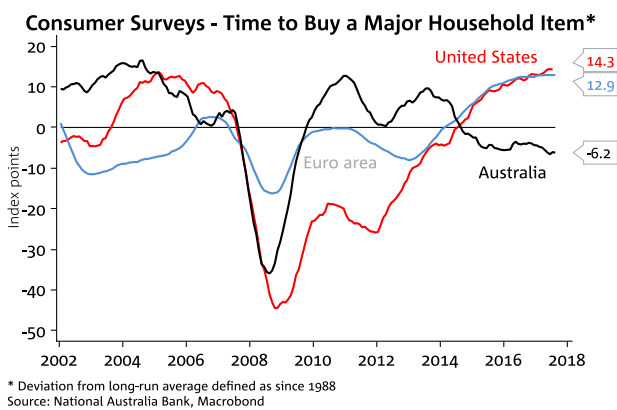
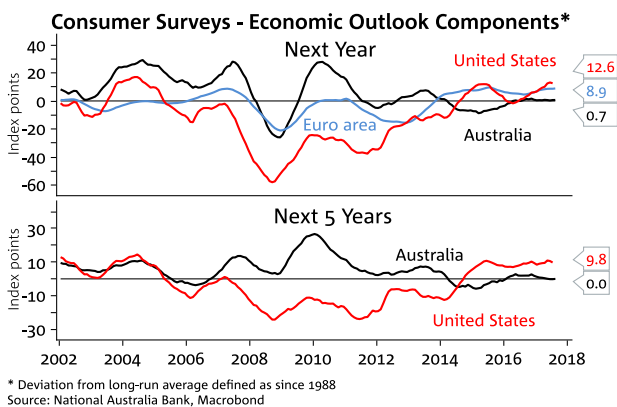


Chart 10: On economy, not gloomy but also not positive



Conclusions

Our state comparisons indicate there is some evidence of a two speed economy dynamic playing out, while international comparisons suggest Australian consumers are more pessimistic than consumers in the US, Europe and NZ. Overall It seems Australian consumers are worried about their own family finances, and while they are relatively less gloomy about the outlook for the economy, they are also not as positive as others offshore.

Formal modelling supports these findings and attributes subdued consumer confidence to low wages growth, an elevated unemployment rate, and asset price appreciation that is not contributing as strongly as in the past (see Chart of the week). Importantly, the modelling offers hope that as the unemployment rate starts to fall and as wages growth stabilises and picks up, consumer confidence should as well.

Finally, while it is reasonable to assume that consumer sentiment should impact on household consumption which comprises around 60% of GDP, the evidence for this is chequered with only a weak association between consumer confidence and household consumption. The strongest association has been from the family finances component to household durable consumption, while wider household consumption which includes non-durable goods and services has a weaker relationship still – see an [RBA Bulletin article on the issue](#).

Week Ahead

Domestically the main releases are the RBA Board Meeting Tuesday and Q2 GDP figures Wednesday. Before then we get a slew of pre-GDP partials which will help shape the markets’ expectation for GDP. The market currently expects growth of 0.8% q/q and 1.8% y/y, while NAB expects a 0.6% q/q outcome. That said the broad thrust of indicators seems to be improving currently and we expect a bounce-back from the weather-related weakness of Q1 which has also impacted Q2 coal exports.

The RBA is expecting a y/y outcome of 1¾% according to its August SoMP forecasts, so there is likely to be some acknowledgement in tomorrow’s RBA Board statement of the economy’s bounce-back in Q2. Following the Board Meeting, Governor Lowe is giving a dinner speech in Brisbane. The other major domestic pieces of data include Retail Sales and International Trade Thursday. Retail Sales are expected to be soft (+0.1%), while the trade surplus is likely to be larger, unless the ABS includes the arrival of the mammoth Prelude LNG facility in imports.

Offshore, the market will be focused on two central bank meetings – the ECB and the Bank of Canada. For the ECB, the market is not convinced that Thursday’s ECB meeting will signal a tapering of its Asset Purchase Program with leaks from unofficial sources suggest this may not occur until the October or even December meeting. Wednesday’s BoC meeting will be an important signpost for markets, the market pricing a more than 50% chance of a hike this week, and fully pricing by the October meeting. There are also seven Fed speakers this week too while Congress returns, with the debt ceiling yet to be lifted.

Tapas.Strickland@nab.com.au

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 4 September 2017								
AU	Melbourne Institute Inflation MoM	Aug				0.1	2.00	11.00
AU	Inventories/Company Operating Profits QoQ	2Q	0.5/-3.0	0.3/-4		1.2/6.0	2.30	11.30
AU	ANZ Job Advertisements MoM	Aug				1.5	2.30	11.30
EC	Sentix Investor Confidence	Sep		27		27.7	9.30	18.30
Tuesday, 5 September 2017								
NZ	Volume of All Buildings SA QoQ	2Q		1.6		-3.5	23.45	8.45
AU	Commonwealth Bank Australia PMI Services/Composite	Aug		/		57.0/56.7	0.00	9.00
UK	BRC Sales Like-For-Like YoY	Aug				0.9	0.10	9.10
AU	AiG Perf of Services Index	Aug				56.4	0.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 3				113.5	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Aug		/		52.0/51.8	1.30	10.30
NZ	ANZ Commodity Price	Aug				-0.8	2.00	11.00
AU	BoP Current Account Balance/Net exports growth contrib	2Q	-8.0/0.0	-8/0		-3.0/-0.7	2.30	11.30
AU	Government Spending QoQ	2Q	0.5			-1.0	2.30	11.30
CH	Caixin China PMI Services/Composite	Aug		/		51.5/51.9	2.45	11.45
AU	RBA Cash Rate Target	Sep 5	1.5	1.5		1.5	5.30	14.30
GE	Markit Germany Services/Composite PMI	Aug F		53.4/55.7		53.4/55.7	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Aug F		54.9/55.8		54.9/55.8	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Aug		53.5/54		53.8/54.1	9.30	18.30
EC	Retail Sales MoM/YoY	Jul		-0.3/2.5		0.5/3.1	10.00	19.00
EC	GDP SA QoQ/YoY	2Q F		0.6/2.2		0.6/2.2	10.00	19.00
AU	RBA Governor Lowe's Remarks at Board Dinner						10.10	19.10
US	Fed's Brainard Speaks to The Economic Club of New York						13.00	22.00
AU	RBA Governor Lowe's Remarks at Board Dinner							
US	Factory Orders/Core Capital GoodsOrders	Jul		-3.3/		3.0/0.4	15.00	0.00
US	Fed's Kashkari Holds Townhall Event in Minneapolis						18.10	3.10
NZ	World Dairy Auction, GDT weighted price index					-0.4	Early am NZT	
Wednesday, 6 September 2017								
NZ	ANZ Job Advertisements MoM	Aug				-1.0	23.00	8.00
US	Fed's Kaplan Speaks in Dallas						0.00	9.00
JN	Labor Cash/Real Earnings YoY	Jul		0.5/0		-0.4/-0.8	1.00	10.00
AU	GDP SA QoQ/YoY	2Q	0.6/1.6	0.8/1.8		0.3/1.7	2.30	11.30
AU	RBA's Heath Gives Speech in Tasmania						3.30	12.30
GE	Factory Orders MoM/YoY	Jul		0.2/5.8		1.0/5.1	7.00	16.00
CA	Labor Productivity QoQ	2Q				1.4	13.30	22.30
CA	Int'l Merchandise Trade	Jul		-3.3		-3.6	13.30	22.30
US	Trade Balance	Jul		-44.6		-43.6	13.30	22.30
US	Markit US Services PMI	Aug F		56.9		56.9	14.45	23.45
CA	Bank of Canada Rate Decision	Sep 6		0.75		0.8	15.00	0.00
US	ISM Non-Manf. Composite	Aug		55.5		53.9	15.00	0.00
US	U.S. Federal Reserve Releases Beige Book						19.00	4.00
Thursday, 7 September 2017								
AU	AiG Perf of Construction Index	Aug				60.5	0.30	9.30
AU	Retail Sales MoM	Jul	0.1	0.2		0.3	2.30	11.30
AU	Trade Balance	Jul	1500	950		856.0	2.30	11.30
JN	Tokyo Avg Office Vacancies	Aug				3.2	3.00	12.00
JN	Leading Index CI	Jul P		105.1		105.9	6.00	15.00
GE	Industrial Production SA MoM/YoY	Jul		0.6/4.6		-1.1/2.4	7.00	16.00
UK	Halifax House Prices MoM/3m YoY	Aug		0.2/2.1		0.4/2.1	8.30	17.30
CH	Foreign Reserves	Aug				3080.7	9.25	18.25
EC	ECB Main Refinancing/Deposit Facility Rate	Sep 7		0/-0.4		0.0/-0.4	12.45	21.45
EC	ECB Marginal Lending Facility/Asset Purchase Target	Sep 7		0.25/60		0.3/60.0	12.45	21.45
CA	Building Permits MoM	Jul		-1		2.5	13.30	22.30
US	Initial Jobless Claims	Sep 2		242		236.0	13.30	22.30
US	Nonfarm Productivity/Unit Labour costs	2Q F		1.2/0.35		0.9/0.6	13.30	22.30
US	Bloomberg Consumer Comfort	Sep 3				53.3	14.45	23.45
CA	Ivey Purchasing Managers Index SA	Aug				60.0	15.00	0.00
US	Fed's Mester Speaks on Economic Outlook and Monetary Policy						17.15	2.15
Friday, 8 September 2017								
NZ	Mfg Activity Volume QoQ	2Q				-0.3	23.45	8.45
US	Fed's Dudley Speaks on U.S. Economic Outlook, Monetary Policy						0.00	9.00
US	Fed's George Speaks on the Economic Outlook						1.15	10.15
JN	GDP SA QoQ/Annualised QoQ	2Q F		0.8/3		1.0/4.0	0.50	9.50
AU	Home Loans/Investment Lending MoM	Jul	1.8	1/		0.5/1.6	2.30	11.30
CH	Trade Balance CNY	Aug				321.2	3.00	12.00
CH	Exports/Imports YoY CNY	Aug		/		11.2/14.7	3.00	12.00
CH	Trade Balance	Aug		48.6		46.7	3.45	12.45
CH	Exports/Imports YoY	Aug		5.1/10		7.2/11.0	3.45	12.45
AU	RBA's Debelle Participates in Panel in Sydney						4.00	13.00
JN	Machine Tool Orders YoY	Aug P				28.0	7.00	16.00
GE	Current Account Balance	Jul		20.5		23.6	7.00	16.00
GE	Labor Costs SA QoQ/YoY	2Q		/		0.5/2.5	7.00	16.00
UK	Industrial Production MoM/YoY	Jul		0.2/0.3		0.5/0.3	9.30	18.30
UK	Trade Balance	Jul		-3250		-4564.0	9.30	18.30
UK	BoE/TNS Inflation Next 12 Mths	Aug				2.8	9.30	18.30
AU	RBA Governor Lowe Gives Speech in Sydney						10.30	19.30
UK	NIESR GDP Estimate	Aug				0.2	13.00	22.00
CA	Net Change in Employment/Unemployment Rate	Aug		15/6.3		10.9/6.3	13.30	22.30
US	Fed's Harker Speaks on Consumer Finance in Philadelphia						13.45	22.45
CH	Foreign Direct Investment YoY CNY	Aug				2.3	8-18 Sep release	
US	Wholesale Inventories/Trade Sales MoM	Jul F		0.4/		0.4/0.7	15.00	0.00
US	Baker Hughes U.S. Rig Count	Sep 8				943.0	18.00	3.00
US	Consumer Credit	Jul		15		12.4	20.00	5.00
Saturday, 9 September 2017								
CH	CPI YoY	Aug		1.6/5.4		1.4/5.5	2.30	11.30
Sunday, 10 September 2017								
CH	New Yuan Loans/Aggregate Financing CNY	Aug		950/		825.5/1220.0	10-15 Sep release	
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		5-Sep	1.50%	1.50%		1.50%		
Canada, BoC		6-Sep				0.75%		
Europe ECB		7-Sep	-0.4%	-0.4%		-0.4%		
UK BOE		14-Sep				0.25%		
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%		
New Zealand, RBNZ		28-Sep	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				
	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Australia Forecasts																	
Household Consumption	2.7	2.6	2.8	2.3	0.6	0.6	0.9	0.6	0.8	0.5	0.3	1.0	0.5	1.0	0.6	0.8	0.4
Underlying Business Investment	-10.0	-11.5	-0.7	3.6	-3.2	-1.8	-5.1	-2.6	-3.4	-2.1	-4.9	1.3	0.4	0.7	-0.2	1.5	0.2
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
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
Exports	6.0	7.9	6.4	6.1	3.3	-2.9	4.8	0.3	2.7	2.0	1.4	3.7	-1.6	2.1	3.6	2.3	0.8
Imports	2.0	0.2	6.9	4.3	2.1	1.1	-1.2	0.1	-0.8	3.4	0.8	1.9	1.6	2.2	1.0	1.4	0.7
Net Exports (a)	0.7	1.5	-0.1	0.4	0.2	-0.8	1.2	0.0	1.1	-0.3	0.1	0.4	-0.7	0.0	0.6	0.2	0.0
Inventories (a)	0.1	0.1	0.1	-0.1	0.7	-0.3	-0.1	0.0	-0.1	0.3	0.2	-0.4	0.5	-0.3	-0.1	0.1	-0.1
Domestic Demand - qtr%					0.5	0.6	-0.1	0.6	0.1	0.8	-0.5	1.1	0.3	0.9	0.5	0.8	0.5
Dom Demand - ann %	1.3	1.5	2.3	2.4	1.1	1.4	1.3	1.4	1.4	1.6	1.2	1.8	1.7	1.9	2.9	2.6	2.7
Real GDP - qtr %					1.0	0.2	0.9	0.5	0.9	0.7	-0.4	1.1	0.3	0.6	1.0	1.0	0.4
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	1.6	3.0	2.9	3.1
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.6	0.4	0.5	1.2	0.7	0.5
CPI headline - ann %	1.5	1.3	2.5	2.7	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.1	2.2	2.7	2.8	2.9
CPI underlying - qtr %					0.6	0.5	0.4	0.5	0.2	0.5	0.4	0.5	0.4	0.4	0.5	0.5	0.5
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
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	2.1	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
Unemployment Rate (%)	6.0	5.7	5.6	5.4	6.1	6.0	6.2	5.9	5.8	5.7	5.7	5.6	5.9	5.6	5.4	5.4	5.4
Terms of trade	-11.7	0.1	9.7	-1.1	-2.0	-4.3	-2.8	-4.1	-1.9	2.5	4.3	9.5	6.6	-5.4	-5.1	-1.4	-3.1
G&S trade balance, \$Abn	-36.6	-12.6	16.4	-11.1	-4.4	-11.2	-9.0	-12.1	-8.0	-7.3	-3.4	6.1	9.2	4.0	1.8	1.4	-1.6
% of GDP	-2.2	-0.7	0.9	-0.6	-1.1	-2.8	-2.2	-2.9	-1.9	-1.7	-0.8	1.4	2.1	0.9	0.4	0.3	-0.4
Current Account (% GDP)	-4.7	-2.6	-2.0	-3.7	-3.2	-5.1	-5.0	-5.6	-3.5	-3.8	-2.6	-0.8	-0.7	-2.0	-2.5	-2.6	-3.4

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

Exchange Rate Forecasts

	4-Sep	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Majors						
AUD/USD	0.7954	0.78	0.75	0.74	0.73	0.73
NZD/USD	0.7170	0.72	0.70	0.69	0.69	0.70
USD/JPY	109.46	112	116	118	118	118
EUR/USD	1.1893	1.19	1.17	1.18	1.20	1.22
GBP/USD	1.2955	1.28	1.27	1.29	1.29	1.28
USD/CNY	6.5423	6.65	6.67	6.64	6.64	6.62
USD/CAD	1.2405	1.27	1.30	1.31	1.32	1.33
USD/CHF	0.9593	0.97	0.96	1.06	1.01	0.97

Australian Cross Rates

AUD/NZD	1.1093	1.08	1.07	1.07	1.06	1.04
AUD/JPY	87.1	87	87	87	86	86
AUD/EUR	0.6688	0.66	0.64	0.63	0.61	0.60
AUD/GBP	0.6140	0.61	0.59	0.57	0.57	0.57
AUD/CNY	5.2037	5.19	5.00	4.91	4.85	4.83
AUD/CAD	0.9867	0.99	0.98	0.97	0.96	0.97
AUD/CHF	0.7630	0.76	0.72	0.78	0.74	0.71

Interest Rate Forecasts

	4-Sep	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	1.74	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	2.07	2.0	2.1	2.4	2.5	2.5
10 Year Swap Rate	2.79	2.9	3.1	3.4	3.4	3.3
Offshore Policy Rates						
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
10-year Benchmark Bond Yields						
Australia	2.63	2.65	2.85	3.10	3.05	2.95
United States	2.17	2.40	2.75	3.00	3.00	3.00
New Zealand	2.83	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	2.6	2.9	1.5	2.0	2.3	2.6
Eurozone	-0.2	1.3	1.9	1.7	2.1	1.9	1.5
UK	1.9	3.1	2.2	1.8	1.6	1.4	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	3.0	3.0
World	3.4	3.5	3.3	3.2	3.4	3.5	3.5
MTP Top 5	4.1	4.0	4.1	3.7	3.9	3.8	5.0

Commodity prices (\$US)

	4-Sep	Sep-17	Dec-17	Mar-18	Jun-18	Dec-18
WTI oil	47.31	50	51	52	54	58
Gold	1339	1240	1240	1260	1270	1290
Iron ore	78.9	62	60	58	60	60
Hard coking coal	207	160	140	120	110	100
Thermal coal	96	85	85	85	65	65
Copper	6810	6150	6180	6120	6060	6060
Aust LNG (*)	6.51	7.3	7.8	7.9	8.0	8.5

(*) 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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