

AUSTRALIAN MARKETS WEEKLY

Consumption has held despite consumer worries



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- Friday saw another lower than expected US CPI, the core CPI printing at 0.1% in September, the sixth such reading in seven months. Even so, Fed Chair Yellen said overnight that “my guess is that these soft readings won’t persist, and with ongoing strengthening of the US labour market, I expect inflation to move higher next year. Most of my colleagues on the FOMC agree”. That’s a clear indication she gave the nod to current market pricing expecting another rate hike this year.
- This week, we take a closer look at consumer confidence and consumption.
- In recent years, while business confidence has not only stabilized, it’s been trending higher and has been above its long-term average since mid-2015. In contrast, consumer confidence surveys have generally been lagging, though last week’s reading for October from the monthly Westpac-Melbourne Institute survey puts it back at its long term average. The weekly ANZ-Roy-Morgan survey has also been at its long term average overall for this year.
- Our recent research on the drivers of consumer confidence found the labour market as a prominent influence. Recent readings on steadying consumer confidence are consistent with the improving tone of the labour market. (We also look for another upbeat labour market report this Thursday.)
- The major constraint on consumer spending growth has been household incomes growth. But even this, with lagging consumer worries, has not depressed spending, unduly. Despite declines in real income growth per employed person for three years, real per capita consumption has remained positive. The household saving ratio has been in modest trend decline since the second half of 2014, more consistent with average to above average consumer spirits.
- NAB’s forecasts for consumption call for 2-2½% growth this year and the next two years. Most of this stems from continued population growth (1.6% to March 17).
- For the local week ahead, most interest will be on Thursday’s September labour market report. Leading indicators of labour demand such as last week’s NAB Survey’s Employment Index and job advertising point to further good employment reports in the near term. NAB’s modelling points to a solid 25K rise (above the 15K consensus) and a steady unemployment rate of 5.6%. NAB also releases its quarterly Business Survey on Thursday with its larger sample estimates as well as capital expenditure expectations and factors constraining growth.
- China’s President Xi Jinping is addressing the 19th Party Congress on Wednesday, an important five-yearly event for China. That’s followed by Q3 GDP on Thursday where the market looks for 6.8% growth after Q2’s 6.9%. PBoC Governor Zhou suggested overnight this estimate might be too conservative.

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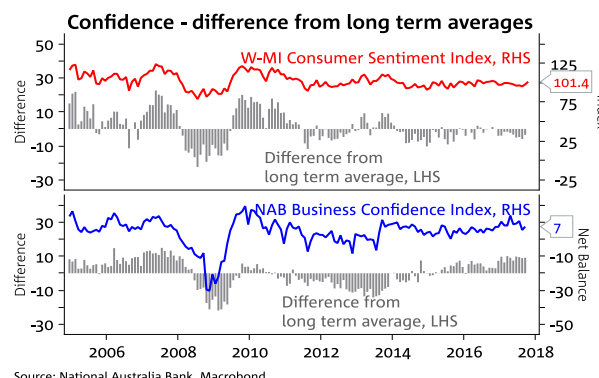
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7875	1.5	RBA cash	1.50	0
AUD/CNY	5.19	0.8	3y swap	2.19	3
AUD/JPY	88.2	1.0	ASX 200	5,850	2.0
AUD/EUR	0.667	1.0	Iron ore	62.5	0.5
AUD/NZD	1.098	0.2	WTI oil	51.9	4.6

Source: Bloomberg

Chart of the week: Mind the narrowing gap



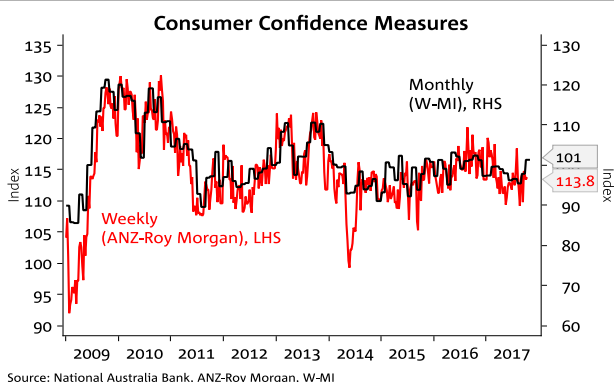
Consumer Confidence back to average

The divergence between consumer and business confidence has gotten a lot of airplay this year. While Business Confidence has been generally running *above* average for over two years now, Consumer Confidence has been lagging, with measured consumer spirits mostly *below* average for the past three years, though not grossly so (see Chart on front page).

Even so, measures of Consumer Confidence are showing signs of improvement. The weekly ANZ-Roy Morgan (ANZ-RM) measure has this year been trending at around its long term average (this survey started in 2007). In some contrast, the monthly Westpac-Melbourne Institute (W-MI) survey of Consumer Sentiment, while mostly lower this year, has risen recently. It's averaged 2% below its longer-term average though has risen of late and is back to its average in October.

Consumer spirits are therefore currently looking relatively neutral for growth.

Chart 1: Stabilising consumer spirits

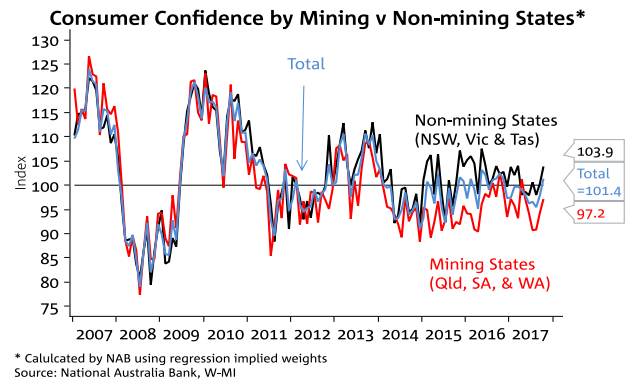


Where consumers' worries have remained on the defensive, it's been more to do with understandable nagging concerns over the state of their own personal finances. This has been held back by lower levels of housing affordability, talk of higher interest rates, as well as constrained incomes growth. The responses to the question of how their own finances have fared compared to a year earlier continues to trend below average. At the other end of the scale, consumers continue to see now as a good "time to buy major household items" and that the state of "family finances over the next 12 months" is still expected to improve.

From other perspectives, there's been a mix of forces – some regional and others more pervasive in nature – affecting consumer spirits and consumption. At the regional level, confidence had been more downbeat in the more mining-oriented states, though such effects now seem to be diminishing a little.

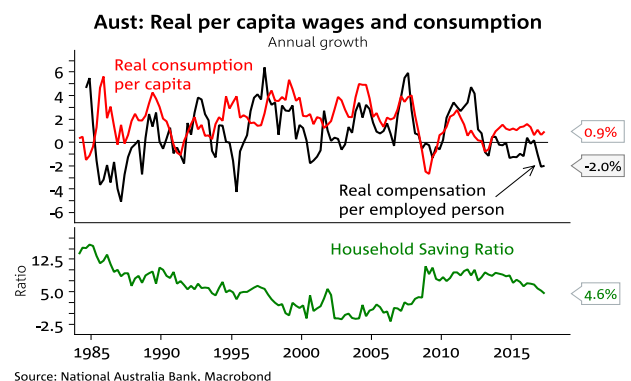
At the broadest macroeconomic level, the largest drag seems to have been the slower growth in wages and compensation. And, until this year, it's also flowed from the somewhat elevated levels of unemployment and much higher than average under-employment. More recently, concerns over cost of living pressures, given voice recently by news of rising gas and electricity prices, continue as a drag.

Chart 2: A regional convergence



Improvements in the health of the labour market, evidenced by a higher availability of jobs on offer and news of rising employment have become more prominent and supportive of confidence and spending. In fact, recent NAB research into the drivers of consumer sentiment point to the prominence of the labour market as a key driver. This should continue to play out as supportive of consumer spending and growth over the next one to two years.

Chart 3: Consumption outpacing income growth



All of these forces – both negative and positive are playing out in real time and we will be watching them closely. The improvement in the labour market this year looks to be dominating. News that the unemployment rate has been beginning to trend lower – a trend expected to continue – appears to be playing some part - as well as tentative signs that underemployment is beginning to recede.

For these reasons, we are especially attuned to labour market developments ahead. If, as we expect, unemployment continues to trend lower, that would be supportive of consumer sentiment and household consumption.

Consumption OK, so far

While consumer sentiment until recently has been below par, consumption has not lagged relative to incomes. In fact, it's been a little higher than what would have expected on the basis of nominal incomes, prices, and confidence. Despite the two consumer confidence surveys running at or below average levels until recently, per capita consumer spending has continued to record some overall growth. Real consumption growth has been a little faster than real incomes growth.

This modest rise in per capita consumption is also reflected in the trend decline in the household saving ratio, that's been declining in annual terms since the September quarter of 2014. This has come at a time when growth in real compensation per employee has also been in decline.

While the labour market and continued fast population growth are positives for consumption, higher inflation from the surge in utility prices this half will act as some drag for now. Utility price impacts will also be important to monitor as far as the effects on business are concerned.

Over time, the bulk of household consumption growth is forecast to be generated by the still rapid clip in population growth, such growth that was running at 1.6% over the year to the March quarter of this year.

If, as we expect, the labour market continues to show further signs of trend improvement and the degree of labour market slack declines, wages growth should also begin to move somewhat higher, generating the wherewithal for even somewhat higher consumption, in time.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 16 October 2017								
CH	Foreign Direct Investment YoY CNY	Sep				9.1	10-18 Oct release	
NZ	Performance Services Index	Sep				57.3	22.30	8.30
UK	Rightmove House Prices MoM/YoY	Oct		/		-1.2/1.1	0.10	10.10
CH	CPI/PPI YoY	Sep		1.6/6.3		1.8/6.3	2.30	12.30
JN	Industrial Production MoM/YoY	Aug F		/		2.1/5.4	5.30	15.30
EC	Trade Balance SA	Aug				18.6	10.00	20.00
CA	Int'l Securities Transactions	Aug				24.0	13.30	23.30
US	Empire Manufacturing	Oct		20		24.4	13.30	23.30
CA	Existing Home Sales MoM	Sep				1.3	14.00	0.00
CA	Bloomberg Nanos Confidence	Oct 13				58.4	15.00	1.00
CA	Business Outlook Future Sales	3Q				31.0	15.30	1.30
CA	BoC Senior Loan Officer Survey	3Q				2.1	15.30	1.30
Tuesday, 17 October 2017								
NZ	CPI QoQ/YoY	3Q		0.4/1.8		0.0/1.7	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 15				113.8	23.30	9.30
AU	RBA Oct. Rate Meeting Minutes						1.30	11.30
AU	RBA's Ellis Participates in a Panel						1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Sep				0.0/1.7	1.30	11.30
NZ	Non Resident Bond Holdings	Sep				61.2	3.00	13.00
ED	ECB's Constancio Speaks at Conference in Lisbon						9.00	19.00
UK	BOE's Carney, Ramsden and Tenreiro Testify to Lawmakers						9.15	19.15
UK	CPI MoM/YoY	Sep		0.3/3		0.6/2.9	9.30	19.30
UK	CPI Core YoY	Sep		2.8		2.7	9.30	19.30
UK	PPI Input NSA MoM/YoY	Sep		1.3/8.2		1.6/7.6	9.30	19.30
UK	House Price Index YoY	Aug				5.1	9.30	19.30
EC	CPI MoM/YoY	Sep		0.4/1.5		0.3/1.5	10.00	20.00
GE	ZEW Survey Current Situation/Expectations	Oct		89/19.5		87.9/17.0	10.00	20.00
EC	ZEW Survey Expectations	Oct				31.7	10.00	20.00
EC	CPI Core YoY	Sep F		1.1		1.1	10.00	20.00
US	Import Price Index MoM	Sep		0.5		0.6	13.30	23.30
US	Industrial Production MoM	Sep		0.25		-0.9	14.15	0.15
US	NAHB Housing Market Index	Oct		63		64.0	15.00	1.00
US	Fed's Harker Speaks on Equitable Transit						18.00	4.00
US	Total Net TIC Flows/Long term flows	Aug		/		-7.3/1.3	21.00	7.00
Wednesday, 18 October 2017								
AU	Westpac Leading Index MoM	Sep				-0.1	0.30	10.30
AU	NAB Cashless Retail Sales Index (new)	Sep					1.30	11.30
AU	NAB Commercial Property Survey	Q3					1.30	11.30
JN	BOJ Sakurai makes a speech						2.30	12.30
EC	ECB President Draghi speaks in Frankfurt						9.10	19.10
UK	Jobless Claims Change	Sep				-2.8	9.30	19.30
UK	Average Weekly Earnings 3M/YoY/ex bonus	Aug		2.1/2		2.1/2.1	9.30	19.30
UK	Employment Change/Unemployment rate 3M/3M	Aug		4.3		181.0/4.3	9.30	19.30
EC	Construction Output MoM/YoY	Aug		/		0.2/3.4	10.00	20.00
US	Fed's Dudley and Kaplan Discuss Economic Development						13.00	23.00
EC	ECB's Praet is chairing a panel in Frankfurt						12.45	22.45
US	Fed's Dudley and Kaplan Discuss Economic Development						13.00	23.00
CA	Manufacturing Sales MoM	Aug				-2.6	13.30	23.30
US	Housing Starts #/MoM	Sep		1180/0		1180.0/-0.8	13.30	23.30
US	Building Permits #/MoM	Sep		1230/-3.3		1300.0/5.7	13.30	23.30
EC	ECB's Coeure is chairing a panel in Frankfurt						15.15	1.15
US	U.S. Federal Reserve Releases Beige Book						19.00	5.00
Thursday, 19 October 2017								
JN	Trade Balance Adjusted	Sep		317.9		367.3	0.50	10.50
AU	NAB Business Confidence	3Q				7	1.30	11.30
AU	Employment Change/Unemployment rate	Sep	25/5.6	15/5.6		54.2/5.6	1.30	11.30
AU	RBA FX Transactions Market	Sep				571.0	1.30	11.30
AU	RBA's Bullock Gives Speech in Sydney							
CH	GDP SA QoQ/YoY	3Q		1.7/6.8		1.7/6.9	3.00	13.00
CH	Industrial Production YoY/YTD YoY	Sep		6.4/6.7		6.0/6.7	3.00	13.00
CH	Retail Sales YoY/YTD YoY	Sep		10.2/10.3		10.1/10.4	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Sep		7.7		7.8	3.00	13.00
AU	HIA House Affordability Index	3Q				69.4		
JN	All Industry Activity Index MoM	Aug		0.2		-0.1	5.30	15.30
CH	FX Net Settlement - Clients CNY	Sep				-27.6		
JN	Machine Tool Orders YoY	Sep F				45.3	7.00	17.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Sep		-0.1/2.5		1.0/2.8	9.30	19.30
US	Initial Jobless Claims	Oct 14				243.0	13.30	23.30
US	Philadelphia Fed Business Outlook	Oct		20.5		23.8	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 15				49.5	14.45	0.45
US	Leading Index	Sep		0.1		0.4	15.00	1.00
Friday, 20 October 2017								
NZ	Net Migration SA	Sep				5490.0	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Sep		/		-0.7/6.4	3.00	13.00
GE	PPI MoM/YoY	Sep		0.1/2.9		0.2/2.6	7.00	17.00
JN	BOJ Kuroda speaks in Tokyo						7.35	17.35
EC	ECB Current Account SA	Aug				25.1	9.00	19.00
UK	Public Finances (PSNCR)/Central Government NCR	Sep		/		0.0/1.0	9.30	19.30
CA	CPI NSA MoM/YoY	Sep		/		0.1/1.4	13.30	23.30
CA	CPI Core- Common/Trim YoY%	Sep		/		1.5/1.4	13.30	23.30
CA	CPI Core- Median YoY%	Sep		/		1.7	13.30	23.30
CA	Retail Sales MoM/ex autos	Aug		/		0.4/0.2	13.30	23.30
US	Existing Home Sales #/MoM	Sep		5.3/-0.93		5.4/-1.7	15.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rigs	Oct 13		/		936.0/748.0	18.00	4.00
US	Fed's Mester Speaks on Global Regulatory Structure						19.00	5.00
US	Yellen Speaks to National Economists Club in Washington						0.15	10.15
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		26-Oct	-0.4%	-0.4%		-0.4%		
Canada, BoC		26-Oct				1.00%		
Japan, BoJ		31-Oct	-0.1%	-0.1%		-0.1%		
US Federal Reserve		2-Nov	1.00-1.25%	1.00-1.25%		1.00-1.25%		
UK BOE		2-Nov				0.25%		
Australia, RBA		7-Nov	1.50%	1.50%		1.50%		
New Zealand, RBNZ		9-Nov				1.75%		

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

FORECASTS

Economic Forecasts					Annual % change															
					2016				2017				2018				2019			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																				
Household Consumption	2.7	2.4	2.1	2.5	0.9	0.4	0.3	1.1	0.5	0.7	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.6	0.6	0.6
Underlying Business Investment	-11.7	1.3	4.3	6.3	-3.4	-2.5	-4.6	1.3	2.2	0.8	0.6	0.7	0.9	1.4	1.8	1.4	1.8	1.1	1.8	1.3
Residential Construction	7.6	-1.8	0.9	-1.2	4.0	1.1	-0.9	1.9	-3.7	0.2	0.8	0.4	0.3	0.0	-0.2	-0.2	-0.2	-0.4	-0.4	-0.9
Underlying Public Spending	4.8	3.8	3.2	4.0	0.8	2.3	0.3	1.1	0.5	1.8	0.3	0.8	0.8	0.8	0.8	0.9	1.1	1.1	1.1	1.1
Exports	7.3	5.1	6.7	3.1	3.0	1.5	1.0	2.8	-2.2	2.7	3.5	1.8	1.5	0.9	0.9	0.8	0.8	0.7	0.6	0.8
Imports	0.0	6.5	4.7	5.1	-0.8	2.3	1.4	1.6	2.2	1.2	1.0	1.2	1.1	1.3	1.2	1.1	1.4	1.2	1.4	1.1
Net Exports (a)	1.5	-0.3	0.4	-0.4	1.1	-0.2	-0.1	0.3	-0.9	0.3	0.5	0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1
Inventories (a)	0.0	0.0	0.0	0.0	-0.1	0.3	0.1	-0.3	0.5	-0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.1	0.6	-0.3	1.2	0.6	1.0	0.4	0.6	0.6	0.6	0.7	0.7	0.8	0.7	0.8	0.7
Dom Demand - ann %	1.6	2.6	2.5	3.0	1.4	1.6	1.3	1.9	2.0	2.4	3.2	2.6	2.6	2.3	2.5	2.6	2.8	2.9	3.0	3.1
Real GDP - qtr %					1.0	0.8	-0.4	1.1	0.3	0.8	1.0	0.8	0.7	0.5	0.6	0.6	0.7	0.6	0.7	0.6
Real GDP - ann %	2.5	2.5	2.9	2.5	2.6	3.2	1.9	2.4	1.8	1.8	3.3	3.0	3.3	3.0	2.7	2.5	2.5	2.5	2.6	2.5
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	1.2	0.7	0.5	0.5	0.6	0.7	0.5	0.5	0.6	0.7
CPI headline - ann %	1.3	2.2	2.5	2.4	1.3	1.0	1.3	1.5	2.1	1.9	2.4	2.5	2.6	2.9	2.3	2.3	2.4	2.4	2.4	2.4
CPI underlying - qtr %					0.2	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.6
CPI underlying - ann %	1.5	2.0	2.0	2.2	1.6	1.5	1.5	1.6	1.9	1.9	2.0	2.0	2.0	1.9	2.0	2.1	2.1	2.2	2.2	2.2
Wages (Pvte WPI - qtr %)					0.5	0.4	0.5	0.4	0.5	0.4	0.5	0.4	0.5	0.4	0.8	0.7	0.6	0.6	0.6	0.6
Wages (Pvte WPI - ann %)	1.9	1.9	2.0	2.4	2.0	1.9	1.9	1.8	2.0	1.9	1.9	1.8	1.8	1.8	2.1	2.4	2.5	2.6	2.4	2.2
Unemployment Rate (%)	5.7	5.6	5.3	5.2	5.8	5.8	5.6	5.6	5.9	5.6	5.6	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.2	5.1
Terms of trade	0.6	9.1	-1.4	-0.1	-1.9	2.5	4.7	10.5	5.6	-6.0	-6.4	0.6	-3.2	-2.1	0.1	-0.3	0.2	-0.3	0.1	-0.5
G&S trade balance, \$Abn	-12.5	10.4	-17.1	-28.3	-8.1	-6.9	-3.7	6.2	7.4	3.1	-0.6	0.5	-2.2	-4.6	-4.9	-5.5	-5.9	-6.7	-7.4	-8.3
% of GDP	-0.7	0.6	-0.9	-1.5	-2.0	-1.6	-0.9	1.4	1.7	0.7	-0.1	0.1	-0.5	-1.0	-1.0	-1.2	-1.2	-1.4	-1.5	-1.7
Current Account (% GDP)	-2.6	-2.2	-3.9	-4.4	-3.6	-3.7	-2.6	-0.8	-1.1	-2.1	-3.0	-2.7	-3.5	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.6

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

Exchange Rate Forecasts

	16-Oct	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Majors						
AUD/USD	0.7875	0.75	0.74	0.73	0.73	0.73
NZD/USD	0.7172	0.70	0.69	0.69	0.70	0.70
USD/JPY	112.05	116	118	118	118	120
EUR/USD	1.1804	1.17	1.18	1.20	1.22	1.20
GBP/USD	1.3287	1.33	1.30	1.31	1.28	1.26
USD/CNY	6.5854	6.67	6.64	6.64	6.62	6.65
USD/CAD	1.2487	1.26	1.27	1.30	1.31	1.33
USD/CHF	0.9761	0.98	0.98	0.97	0.96	0.98

Australian Cross Rates

	16-Oct	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
AUD/NZD	1.0980	1.07	1.07	1.06	1.05	1.04
AUD/JPY	88.2	87	87	86	86	88
AUD/EUR	0.6671	0.64	0.63	0.61	0.60	0.61
AUD/GBP	0.5927	0.56	0.57	0.56	0.57	0.58
AUD/CNY	5.1860	5.00	4.91	4.85	4.83	4.85
AUD/CAD	0.9834	0.95	0.94	0.95	0.96	0.97
AUD/CHF	0.7687	0.73	0.72	0.71	0.70	0.72

Interest Rate Forecasts

	16-Oct	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.75	2.00
3 month bill rate	1.70	1.75	1.75	1.75	2.00	2.25
3 Year Swap Rate	2.19	2.4	2.5	2.7	3.0	3.2
10 Year Swap Rate	2.93	3.2	3.3	3.4	3.6	3.7
Offshore Policy Rates						
US Fed funds	1.25	1.50	1.75	2.00	2.00	2.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.30	0.00
BoE repo rate	0.25	0.25	0.50	0.50	0.50	0.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	2.00	2.25
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	17.0	16.5	16.0	16.0	16.0	16.0
10-year Benchmark Bond Yields						
Australia	2.77	3.00	3.05	3.05	3.30	3.40
United States	2.29	2.60	2.75	2.75	3.00	3.00
New Zealand	2.93	3.10	3.35	3.40	3.50	3.60

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2014	2015	2016	2017	2018	2019	20 Yr Avge
Australia	2.8	2.4	2.5	2.5	2.9	2.5	3.4
US	2.6	2.9	1.5	2.1	2.3	2.0	2.6
Eurozone	1.4	1.9	1.8	2.2	2.0	1.6	1.5
UK	3.1	2.2	1.8	1.5	1.4	1.6	2.4
Japan	0.2	1.1	1.0	1.5	1.0	0.7	0.8
China	7.3	6.9	6.7	6.7	6.5	6.3	9.2
India	7.0	7.5	7.9	6.8	7.4	7.6	6.6
New Zealand	3.4	2.5	3.1	2.5	3.0	2.6	3.0
World	3.5	3.3	3.2	3.4	3.6	3.4	3.5
MTP Top 5	4.0	4.1	3.8	4.0	3.8	3.5	5.0

Commodity prices (\$US)

	16-Oct	Dec-17	Mar-18	Jun-18	Dec-18	Dec-19
WTI oil	51.88	51	52	54	58	60
Gold	1301	1270	1270	1280	1290	1300
Iron ore	62.5	62	60	62	60	60
Hard coking coal	182	160	140	120	100	101
Thermal coal	96	85	85	80	80	80
Copper	6860	6400	6340	6280	6280	6280
Aust LNG (*)	6.69	7.8	7.9	8.0	8.5	8.8

(*) Implied Australian LNG export prices.

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