AUSTRALIAN MARKETS WEEKLY

Population growth remains very strong – QLD strengthening

National Australia Bank

In this issue

- **Australia's population continues to grow very rapidly (+1.6% y/y), with growth again underpinned by strong net overseas migration. The increase of nearly 400,000 in the four quarters to June 2017 sees Australia's population on track to hit 25 million in late 2018. That growth is nearly two Hobarts or three Toowoombas or Darwins.**
- **The growth in the population is an important underpinning to overall economic growth, ensuring demand for housing and infrastructure spending, the latter set to be an important source of Australian economic growth over the next few years, with NSW already recording strong infrastructure spending growth.**
- **Victoria's population growth remains the standout among the states (+2.3% y/y), supported by overseas and interstate migration, though growth in NSW and the ACT also remains very strong. Tasmania is also benefiting from increased interstate migration from the mainland, while SA and NT continue to lose residents to other states, constraining their population growth rates.**
- **The big change in state population growth in recent years is the pick-up in population growth in evidence in QLD – and what looks like a possible bottoming in population growth in WA. QLD appears to be benefiting from increased flows out of NSW, a traditional flow that was reduced due to a weak labour market in QLD. The improvement in QLD employment prospects in recent times, coupled with once-again significant house price differentials should continue to support this pick-up.**
- **There are only a few events this week in Australia – today's just released MYEFO mid-year update on Australia's budget revealing better tax revenues from stronger employment and higher commodity prices and slower spending growth. That's more good news for the Government. Tomorrow sees the Minutes from the RBA December Board meeting, though with very little change in the post-Board Statement, it would be a surprise to see much new in the Minutes. RBA Governor Lowe recently said there was no strong case for any early change in monetary policy, though NAB expects the RBA to move rates up around half a percent in the second half of 2018 as the unemployment rate falls more noticeably.**
- **This is the last AMW for 2017 – AMW will return on 15 January. Australian events over the Christmas break include: 21 Dec (detailed November labour force data including the industry composition of employment growth in recent quarters – though these are very volatile), 29 Dec (Credit for November); 5 Jan (Trade Balance, which should bounce back a little due to stronger iron ore volumes and higher coal prices); 9 Jan (Building Approvals – will the current improvement continue?) and 11 Jan (Retail Sales). The iPhone boosted US and UK retail sales in November, so this will likely also be a factor in Australia, though we suspect the ABS is also missing some on-line spending, which works in the other direction.**
- **NAB would like to wish those readers celebrating holidays a safe and happy festive season and we look forward to your support again in 2018.**

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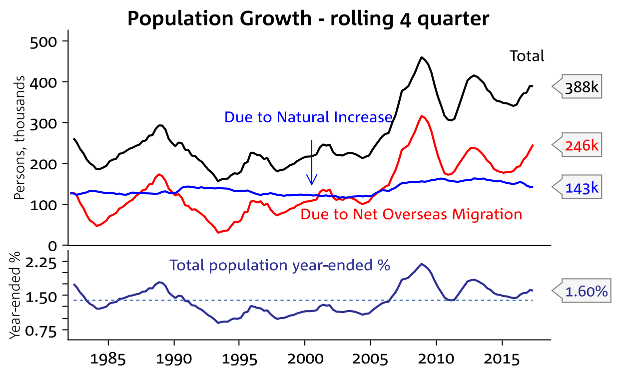
Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7648	1.6	RBA cash	1.50	0
AUD/CNY	5.07	1.8	3y swap	2.11	6
AUD/JPY	86.2	0.8	ASX 200	6,035	0.6
AUD/EUR	0.651	1.8	Iron ore	69.0	0.7
AUD/NZD	1.093	0.3	WTI oil	57.4	-1.0

Source: Bloomberg

Chart of the week: nearly 400K new Australians (+1.6%)



Source: National Australia Bank, Macrobond

Ivan Colhoun, Chief Economist, Markets

Australian population growth remains very strong at +1.6% y/y. QLD population growth picking up.

Australia's population continues to grow very strongly, expanding by nearly 400,000 persons (+388K) to 24.6 million persons over the four quarters to June 2017 (see Chart of the Week). This is equivalent to a new ACT, two Hobarts, three Toowoombas or Darwins and is nearly 70-90,000 more than the populations of Sydney's Central Coast, Woollongong and QLD's Sunshine Coast.

This rate of population growth is an important underpinning of overall GDP growth, with significant ongoing demand impacts on both housing construction and infrastructure. The latter is expected to be a strong contributor to economic growth over coming years (with NSW infrastructure spending currently leading the way).

As has been the case for the best part of a decade, net overseas migration of 246,000 accounts for the bulk of the population growth (nearly two-thirds of the total), while the natural increase in the population (births less deaths contributed just over a third of the increase, +143,000). Net migration was 52,000 higher than in the previous financial year, driven by increased migrants moving to Australia (+57,000). Net natural growth in the population was actually a little slower than last year (nearly 12,000) owing mainly to a slight slowing in births (9,000 less than last year).

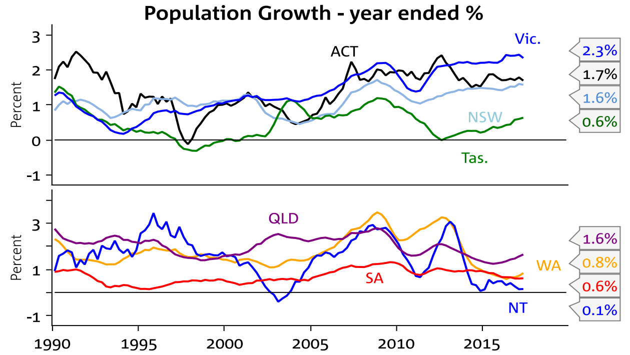
Growth in Victoria's population remains the standout among the states, with nearly a million persons added over the past ten years and the population growing a very strong 2.3% or 144,000 over the four quarters to June. As Charts 2-3 show, Victoria is benefiting not only from strong net overseas migration, but also from net interstate migration from WA, SA and NSW, the former two likely reflecting relative economic fundamentals and for NSW better housing affordability.

The ACT and NSW are also still recording strong rates of population growth. It's worth noting though the pick-up in QLD population growth in recent quarters along with a possible bottoming in WA population growth. The pick-up in QLD is important as it will help underpin strengthening growth in that state. To the extent it is centred in Brisbane, it may also help lessen apartment over-supply. It appears likely that the traditional net flow of NSW residents to QLD has re-emerged, likely in part reflecting more attractive house prices.

Importantly, WA population growth also appears to have found a bottom, with net overseas migration improving a little over the past four quarters, though WA residents net continue to leave the state for other states, at least through to mid-year, for which these data relate. The improvement in the labour markets in QLD and WA – evident in the NAB business survey and SEEK job advertisements – is likely to mean population growth has (and will) continue to improve in these states.

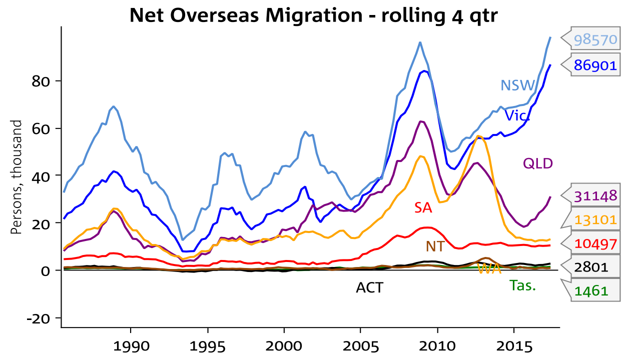
The other noticeable trends in the interstate migration movements are continuing net losses of residents from SA and the NT, while Tasmania's population is currently seeing net inflows from the mainland, something that likely reflects considerably lower house prices than in Sydney and Melbourne.

Chart 1: Victoria a standout, but QLD & WA turning



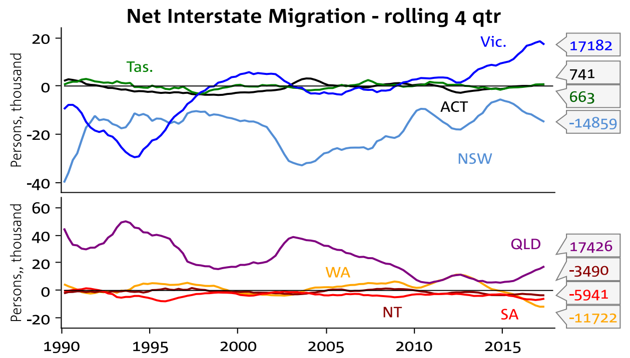
Source: National Australia Bank, ABS

Chart 2:Marked improvement in QLD; Vic/NSW strong



Source: National Australia Bank, ABS

Chart 3: Victoria benefiting; NSW to QLD flows rising



Source: National Australia Bank, ABS

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 18 December 2017								
AU	Budget MYEFO Underlying cash balance		-25.0	-25.7		-29.4	1.15	12.15
CH	China holds Central Economic Work Conference Dec. 18-20							
NZ	Performance Services Index	Nov				55.6	21.30	8.30
JN	Trade Balance Adjusted	Nov		264.95		322.9	23.50	10.50
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		123.7/-2.1	0.00	11.00
UK	Rightmove House Prices MoM/YoY	Jan		/		-2.6/1.2	0.10	11.10
AU	New Motor Vehicle Sales MoM/YoY	Nov		/		0.0/1.0	0.30	11.30
CH	China November Property Prices						1.30	12.30
NZ	Non Resident Bond Holdings	Nov				60.9	2.00	13.00
EC	ECB's Hansson speaks on outlook for Estonia, euro area						9.00	20.00
EC	CPI MoM/YoY	Nov		/		0.1/1.4	10.00	21.00
EC	CPI Core YoY	Nov F				0.9	10.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Dec		/		17.0/17.0	11.00	22.00
CA	Int'l Securities Transactions	Oct				16.8	13.30	0.30
CA	Bloomberg Nanos Confidence	Dec 15				59.0	15.00	2.00
US	NAHB Housing Market Index	Dec		70		70.0	15.00	2.00
Tuesday, 19 December 2017								
NZ	Westpac Consumer Confidence	4Q				112.4	21.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec 17				115.1	22.30	9.30
NZ	ANZ Activity Outlook/Business Confidence	Dec		/		6.5/-39.3	0.00	11.00
AU	RBA Dec. Rate Meeting Minutes						0.30	11.30
JN	Machine Tool Orders YoY	Nov F				46.9	6.00	17.00
GE	IFO Business Climate	Dec				117.5	9.00	20.00
GE	IFO Current Assessment/Expectations	Dec		/		124.4/111.0	9.00	20.00
EC	Construction Output MoM/YoY	Oct		/		0.1/3.1	10.00	21.00
EC	Labour Costs YoY	3Q				1.8	10.00	21.00
US	Housing Starts/MoM	Nov		1250/-3.1		1290.0/13.7	13.30	0.30
US	Building Permits/MoM	Nov		1275/-3.1		1297.0/5.9	13.30	0.30
US	Current Account Balance	3Q		-116.5		-123.1	13.30	0.30
NZ	Global Dairy Auction, early AM NZT		mixed			+0.4		
Wednesday, 20 December 2017								
NZ	Trade Balance NZD/12m YTD	Nov	-355	-550/-2700		-871.0/-2986.0	21.45	8.45
NZ	BoP Current Account Balance NZD/% of GDP	3Q	-4.5/-2.6	-4.2/-2.5		-0.6/-2.8	21.45	8.45
AU	Westpac Leading Index MoM	Nov				0.1	23.30	10.30
AU	Skilled Vacancies MoM	Nov				0.5	0.00	11.00
AU	NAB Cashless Retail Sales Index	Nov					0.30	11.30
NZ	Credit Card Spending MoM/YoY	Nov		/		0.8/2.9	2.00	13.00
JN	All Industry Activity Index MoM	Oct		0.3		-0.5	4.30	15.30
JN	Convenience Store Sales YoY	Nov				-1.8	7.00	18.00
GE	PPI MoM/YoY	Nov		/		0.3/2.7	7.00	18.00
EC	ECB Current Account SA	Oct				37.8	9.00	20.00
UK	CBI Total Dist. Reported Sales/Retailing	Dec		/		30.0/26.0	11.00	22.00
CA	Wholesale Trade Sales MoM	Oct				-1.2	13.30	0.30
US	Existing Home Sales/MoM	Nov		5.53/0.91		5.5/2.0	15.00	2.00
Thursday, 21 December 2017								
NZ	GDP SA QoQ/YoY	3Q	0.7/2.5	0.6/2.4		0.8/2.5	21.45	8.45
NZ	Net Migration SA	Nov				5580.0	21.45	8.45
UK	GfK Consumer Confidence	Dec		-12		-12.0	0.10	11.10
AU	RBA FX Transactions Market	Nov				609.0	0.30	11.30
NZ	Credit Aggregates, Household YoY	Nov				6.4	2.00	13.00
NZ	New Residential Lending YoY	Nov				-14.1	2.00	13.00
JN	BOJ Kuroda speaks at press conference after MPM						6.30	17.30
UK	Public Finances (PSNCR)/Central Government NCR	Nov		/		-3.8/-7.0	9.30	20.30
UK	Public Sector Net Borrowing/PSNB ex Banking Groups	Nov		8.6/8.7		7.5/8.0	9.30	20.30
JN	BOJ Policy Balance Rate/10-Yr Yield Target	Dec 21		/		-0.1/0.0		
US	GDP Annualized QoQ	3Q T		3.3		3.3	13.30	0.30
US	Initial Jobless Claims	Dec 16				225.0	13.30	0.30
US	GDP Price Index	3Q T		2.1		2.1	13.30	0.30
US	Chicago Fed Nat Activity Index	Nov				0.7	13.30	0.30
US	Philadelphia Fed Business Outlook	Dec		21		22.7	13.30	0.30
CA	Retail Sales/Ex Auto MoM	Oct		/		0.1/0.3	13.30	0.30
CA	CPI NSA MoM/YoY	Nov		/		0.1/1.4	13.30	0.30
CA	CPI Core- Common/Trim YoY%	Nov		/		1.6/1.5	13.30	0.30
CA	CPI Core- Median YoY%	Nov				1.7	13.30	0.30
US	FHFA House Price Index MoM	Oct				0.3	14.00	1.00
EC	Consumer Confidence	Dec A				0.1	15.00	2.00
US	Leading Index	Nov		0.4		1.2	15.00	2.00
Friday, 22 December 2017								
UK	Lloyds Business Barometer	Dec				24.0	0.10	11.10
GE	GfK Consumer Confidence	Jan				10.7	7.00	18.00
UK	Current Account Balance	3Q		-21.25		-23.2	9.30	20.30
UK	GDP QoQ/YoY	3Q F		0.4/1.5		0.4/1.5	9.30	20.30
UK	Index of Services MoM/3m/3m	Oct		0.2/0.3		0.1/0.4	9.30	20.30
UK	Total Business Investment QoQ/YoY	3Q F		/		0.2/1.3	9.30	20.30
CA	GDP MoM/YoY	Oct		/		0.2/3.3	13.30	0.30
US	Personal Income/Spending	Nov		0.4/0.4		0.4/0.3	13.30	0.30
US	PCE Deflator MoM/YoY	Nov		0.3/1.8		0.1/1.6	13.30	0.30
US	PCE Core MoM/YoY	Nov		0.1/1.5		0.2/1.4	13.30	0.30
US	Durable Goods Orders/Core Orders	Nov P		1.8		-0.8	13.30	0.30
US	New Home Sales/MoM	Nov		651/-5		685.0/6.2	15.00	2.00
US	U. of Mich. Sentiment/5-10 Yr Inflation	Dec F		97.2		96.8	15.00	2.00
US	Kansas City Fed Manf. Activity	Dec				16.0	16.00	3.00
US	Baker Hughes U.S. Rig Count/Oil Rigs	Dec 15		/		931.0/751.0	18.00	5.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		21-Dec	-0.1%	-0.1%		-0.1%		
Canada, BoC		18-Jan				1.00%		
Europe ECB		25-Jan	-0.4%	-0.4%		-0.4%		
US Federal Reserve		1-Feb	1.25-1.50%	1.25-1.50%		1.25-1.50%		
Australia, RBA		6-Feb	1.50%	1.50%		1.50%		
New Zealand, RBNZ		8-Feb	1.75%	1.75%		1.75%		
UK BOE		8-Feb	0.5%			0.50%		

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

FORECASTS

Economic Forecasts

Australia Forecasts	Annual % change 2016	2017	2018	2019	Quarterly % change 2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Household Consumption	2.8	2.1	2.0	2.4	0.9	0.5	0.3	0.9	0.4	0.8	0.1	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Underlying Business Investment	-11.9	2.9	4.8	4.8	-3.4	-2.4	-5.5	1.7	3.2	0.2	2.6	1.4	1.6	0.4	0.1	1.6	1.3	0.9	1.7	1.7
Residential Construction	8.6	-2.3	-2.2	-2.2	4.4	1.4	-0.9	2.6	-3.4	-0.5	-1.0	0.5	-0.9	-0.6	-0.8	-0.7	-0.4	-0.5	-0.3	-0.7
Underlying Public Spending	5.2	4.4	3.6	4.1	1.9	2.0	0.8	0.7	1.1	1.2	1.5	0.8	0.8	0.8	0.8	0.9	1.1	1.1	1.1	1.1
Exports	6.8	5.1	7.2	3.6	2.7	1.3	0.9	2.7	-1.6	3.3	1.9	1.6	2.2	1.5	1.1	0.9	0.8	0.8	0.6	0.8
Imports	0.2	7.4	4.1	4.2	-0.8	2.6	0.7	2.4	2.7	0.5	1.9	1.4	0.9	0.7	0.7	1.0	1.2	1.0	1.2	1.2
Net Exports (a)	1.2	-0.6	0.5	-0.2	1.1	-0.3	0.0	0.0	-0.9	0.5	0.0	0.0	0.3	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.1
Inventories (a)	0.1	-0.1	0.0	0.0	-0.1	0.3	0.1	-0.3	0.3	-0.6	0.2	-0.1	0.1	0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.1	0.6	-0.2	1.0	0.7	0.8	0.6	0.6	0.6	0.5	0.5	0.6	0.7	0.7	0.8	0.8
Dom Demand - ann %	1.8	2.6	2.3	2.7	1.5	1.8	1.5	2.3	2.2	2.4	3.2	2.8	2.6	2.3	2.2	2.2	2.4	2.5	2.8	3.0
Real GDP - qtr %					**1.0**	**0.8**	**-0.3**	**1.1**	**0.4**	**0.9**	**0.6**	**0.6**	**1.0**	**0.7**	**0.4**	**0.7**	**0.7**	**0.6**	**0.7**	**0.7**
Real GDP - ann %	2.6	2.3	2.9	2.6	**2.7**	**3.3**	**2.1**	**2.4**	**1.8**	**1.9**	**2.8**	**2.5**	**3.1**	**2.9**	**2.7**	**2.9**	**2.6**	**2.4**	**2.6**	**2.6**
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.8	0.5	0.5	0.6	0.7	0.5	0.5	0.5	0.7
CPI headline - ann %	1.3	2.0	2.2	2.2	1.3	1.0	1.3	1.5	2.1	1.9	1.8	2.1	2.1	2.4	2.3	2.2	2.2	2.3	2.2	2.2
CPI underlying - qtr %					0.2	0.4	0.4	0.5	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5
CPI underlying - ann %	1.5	1.8	1.9	2.1	1.5	1.5	1.5	1.5	1.7	1.9	1.9	1.9	1.9	1.7	1.9	2.0	2.1	2.1	2.1	2.2
Wages (Pvte WPI - qtr %					**0.5**	**0.5**	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
Wages (Pvte WPI - ann %)	1.9	1.9	1.9	2.3	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8	1.8	1.8	1.9	2.2	2.2	2.3	2.4	2.2
Unemployment Rate (%)	5.7	5.6	5.3	5.2	5.8	5.7	5.7	5.7	5.9	5.6	5.5	5.4	5.3	5.3	5.3	5.2	5.2	5.2	5.2	5.1
Terms of trade	0.5	12.0	-1.2	-0.4	-1.9	2.5	4.1	11.2	5.5	-6.1	-0.4	-0.2	-2.9	-0.9	-0.8	-0.3	-0.4	-1.0	-0.2	0.1
G&S trade balance, $Abn	-14.3	16.3	4.9	-5.6	-8.4	-7.4	-4.1	5.7	6.8	3.4	3.1	3.1	1.6	1.5	1.1	0.7	0.0	-1.3	-2.0	-2.3
% of GDP	-0.8	0.9	0.3	-0.3	-2.0	-1.8	-1.0	1.3	1.5	0.8	0.7	0.7	0.4	0.3	0.2	0.2	0.0	-0.3	-0.4	-0.5
Current Account (% GDP)	-2.9	-1.9	-2.5	-3.0	-3.7	-3.9	-2.9	-1.1	-1.3	-2.2	-2.0	-2.0	-2.5	-2.5	-2.6	-2.6	-2.8	-3.0	-3.2	-3.2

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

Exchange Rate Forecasts

	18-Dec	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Majors						
AUD/USD	**0.7648**	0.75	0.73	0.72	0.73	0.73
NZD/USD	**0.6998**	0.69	0.68	0.68	0.69	0.70
USD/JPY	**112.75**	114	115	116	117	118
EUR/USD	**1.1744**	1.17	1.20	1.21	1.24	1.26
GBP/USD	**1.3316**	1.37	1.40	1.41	1.43	1.44
USD/CNY	**6.6093**	6.67	6.59	6.55	6.52	6.50
USD/CAD	**1.2877**	1.28	1.29	1.29	1.29	1.29
USD/CHF	**0.9910**	0.98	0.97	0.97	0.94	0.94
Australian Cross Rates						
AUD/NZD	**1.0929**	1.09	1.07	1.06	1.05	1.04
AUD/JPY	**86.2**	86	84	83	85	86
AUD/EUR	**0.6512**	0.64	0.61	0.60	0.59	0.58
AUD/GBP	**0.5743**	0.55	0.52	0.51	0.51	0.51
AUD/CNY	**5.0548**	5.00	4.81	4.72	4.73	4.75
AUD/CAD	**0.9848**	0.96	0.94	0.93	0.94	0.94
AUD/CHF	**0.7579**	0.73	0.71	0.70	0.68	0.69

Interest Rate Forecasts

	18-Dec	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	**1.78**	1.75	1.75	2.00	2.25	2.25
3 Year Swap Rate	**2.12**	2.1	2.3	2.4	2.7	2.9
10 Year Swap Rate	**2.75**	2.9	3.0	3.1	3.3	3.5
Offshore Policy Rates						
US Fed funds	**1.50**	1.50	1.75	2.00	2.00	2.25
ECB deposit rate	**-0.40**	-0.40	-0.40	-0.40	-0.40	-0.20
BoE repo rate	**0.50**	0.50	0.50	0.50	0.50	0.75
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	**2.56**	2.70	2.70	2.80	2.85	3.05
United States	**2.35**	2.50	2.50	2.60	2.60	2.75
New Zealand	**2.74**	2.95	2.95	3.10	3.15	3.40

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2014	2015	2016	2017	2018	2019	20 Yr Avge
Australia	2.6	2.5	2.6	2.3	2.9	2.6	3.4
US	2.6	2.9	1.5	2.3	2.4	2.0	2.6
Eurozone	1.4	2.0	1.8	2.4	2.2	1.9	1.5
UK	3.1	2.3	1.8	1.5	1.5	1.5	2.4
Japan	0.3	1.4	0.9	1.8	1.4	0.9	0.8
China	7.3	6.9	6.7	6.8	6.5	6.3	9.2
India	7.0	7.5	7.9	6.4	7.1	7.3	6.6
New Zealand	3.4	2.5	3.0	2.5	2.9	2.9	3.0
World	3.5	3.4	3.2	3.5	3.6	3.5	3.5
MTP Top 5	4.0	4.1	3.7	4.2	3.9	3.6	5.0

Commodity prices ($US)

	18-Dec	Dec-17	Mar-18	Jun-18	Dec-18	Dec-19
WTI oil	57.42	51	52	54	58	60
Gold	1254	1270	1270	1280	1290	1300
Iron ore	69.0	62	60	62	60	60
Hard coking coal	232	160	140	120	100	101
Thermal coal	100	85	85	80	80	80
Copper	6855	6400	6340	6280	6280	6280
Aust LNG (*)	6.13	7.8	7.9	8.0	8.5	8.8

(*) Implied Australian LNG export prices.

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