

AUSTRALIAN MARKETS WEEKLY

Testing and (hints of) building capacity



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- Markets open the week to news over the weekend of air strikes against Syria, thus far drawing only verbal condemnation from Russia. Even Russia’s prediction of ‘global chaos’ if the West hits Syria again has not filled markets with fresh dread, if the limited FX market movements so far this morning are any guide. The risk sensitive AUD/USD poked its head above 0.78 on Friday night, but has opened marginally weaker this morning after the military action against Syria. US equity markets closed lower despite stronger-than-expected major bank earnings. On the commodities side, the largest mover has been oil, which rose sharply last week and has continued to rise.
- Thursday’s jobs report and an expected 5.5% unemployment rate for March would suggest an incremental reduction in spare capacity, though unemployment is still above the NAIURU full employment rate, thought to be around 5%.
- Leading indicators of labour demand such as from the monthly NAB Business Survey and Job Ads suggest that further near-term trend employment growth is expected. NAB’s forecast for employment is for a rise of 25K, a little above the 20K consensus.
- Tomorrow’s RBA Minutes are unlikely to flesh out too many new hints on monetary policy. Of keen interest tomorrow will be Chinese GDP and March growth reports, growth expected to be a still solid 6.8%. Thursday is shaping up as another important day for the AUD and the AUD/NZD, NZ’s Q1 CPI then set for release. NAB’s forecasts suggest upside risk for both currency pairs, the NZ CPI likely to be low.
- A month ago, we explored alternative measures of labour market tightness, notably from SEEK, a hot topic given the interest in assessing how close the economy is to full employment and any follow-on inflationary consequences. Such alternative indicators also pointed to only gradual progress being made time toward full employment.
- This week we take a look at another reflection of labour market tightness, this one from the quarterly NAB Business Survey, the March quarter survey due out Thursday. In addition to the larger sample estimates of Business Conditions and Business Confidence, the quarterly survey polls business on constraints to growth.
- One such restraint, the Difficulty of Finding Suitable Labour, by December last year was reported by over half of all firms, at 55.5% of firms, and a little above the 53.4% still nominating Sales/Orders as a restraint. While the Sales and Order constraint has been trending somewhat lower, the Difficulty of Finding Suitable Labour jumped 10% points last year. It’s an indication pointing to a greater shrinkage in perceived labour market spare capacity than the ABS measures have so far reported.
- Also released in the NAB Survey will be an update on Capex plans for the year ahead. This measure of Capex intentions has been lifting since the end of 2012, foretelling the rise in non-mining business investment since 2013. Rises initially were moderate but are now lifting more noticeably. Mining capex has been restrained but anecdotal reports point to recent rises in “catch-up”/operational capex and some LNG expansion interest.

To contact NAB’s market experts, please click on one of the following links:

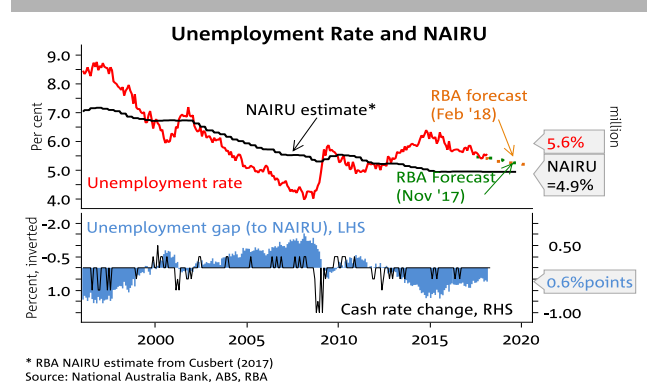
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7775	1.5	RBA cash	1.50	0
AUD/CNY	4.88	0.5	3y swap	2.29	10
AUD/JPY	83.5	1.8	ASX 200	5,854	0.8
AUD/EUR	0.630	1.0	Iron ore	65.0	0.6
AUD/NZD	1.057	0.5	WTI oil	66.8	5.3

Source: Bloomberg

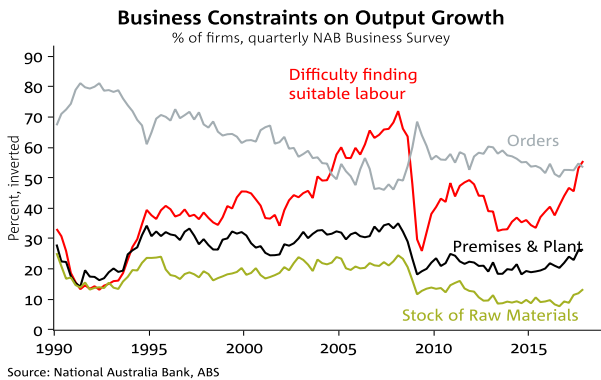
Chart of the week: Still above NAIURU



Labour more difficult to find

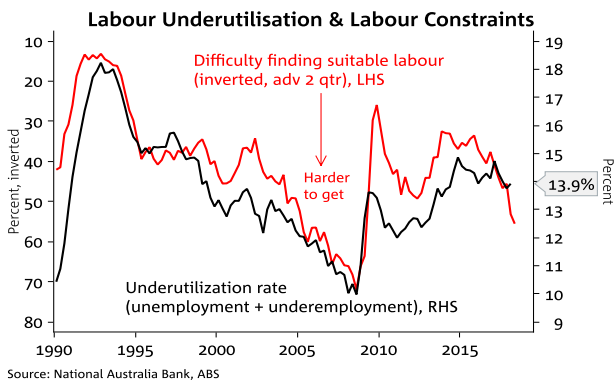
Thursday sees the release of the NAB quarterly Business Survey. Along with the larger (quarterly) sample estimates of Business Conditions and Business Confidence, this Survey provides estimates of constraints on business growth and on firms' capex plans. Until a year ago, the most prominent constraint on growth was a lack of top line business growth, Sales and Orders, though it has been evident that for the past few years, this constraint on growth has been showing some net overall decline, if not a startling one. (in the survey, businesses can nominate one or more constraint.)

Chart 1: Business growth constraints



The largest change in the past two to three years has been in firms reporting increasing "Difficulty of finding suitable labour" at a time when reductions in the traditional ABS measures of labour market spare capacity have reduced much less. At 55.5% in the December quarter, this was the highest since the September quarter of 2008, "difficulty" having then reached a peak of 71.9% in the March quarter of 2008 when the cash rate was 7¼%! At that time, the unemployment rate was 4% (and under 3% in WA), private sector wages and inflation were both growing by 4%, inflation having been above target since 2006.

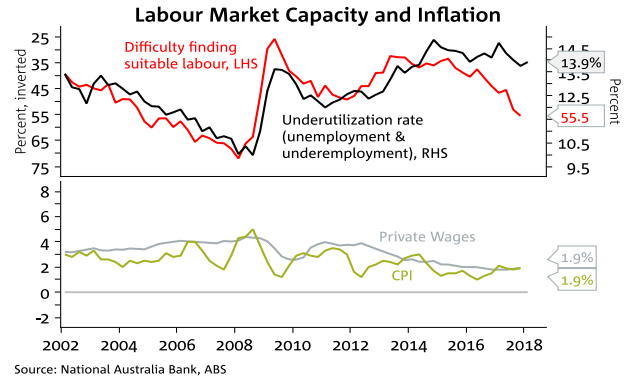
Chart 2: An increasing shrinkage of suitable labour



The NAB Survey has led the ABS labour market measure of spare capacity by around two quarters. In our mind, the recent trends in "Difficulty" suggest either that the ABS measure of unemployment/under-utilisation is set to fall this year in a clearer fashion and/or it's saying that suitable labour is harder to find even in a labour market that seems to have a degree of spare capacity.

Only time will tell which interpretation is more correct. If it's the latter and economic momentum continues, it's going to be a test of what the response of businesses will be. Will there be an increase in wages as competition heats up to attract new staff and retain existing staff. Or will business choose to defer recruitment or offer more targeted one-off financial incentives to attract/retain staff? SEEK advertised salaries suggest there is some evidence pointing to some increase in salaries on offer in some sectors.

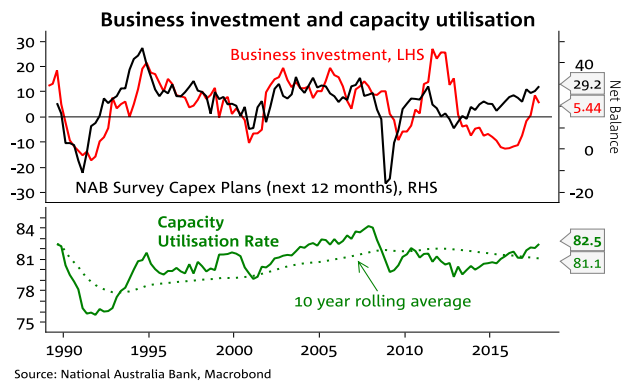
Chart 3: An important time for wages and inflation



Capex also a focus this week

While businesses have been recruiting with greater gusto, they have also been increasing capex spending. An increasing proportion of businesses have been reporting their intention to lift capex for some years now. By the end of last year, that proportion had reached 29.2% of all businesses, the highest level since before the GFC.

Chart 4: Businesses in expansion mode



Initially, that intention seemed to have been deferred. It's now rising. And anecdotally, much of the rise in capex has been of a catch-up nature, spending having been delayed. But now with capacity utilisation pushing above its longer term average and profitability levels above average and signs of building confidence, some important foundations are being laid for further growth. Resource industries have also been in catch-up mode, now lifting operational capex and bringing facilities and infrastructure up to scratch to sustain production. Reports of late also hint at a few greenfield projects, notably in LNG.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT/AEST
Monday, 16 April 2018								
NZ	Performance Services Index	Mar				55	21.30	8.30
NZ	Food Prices MoM	Mar	0.4			-0.5	21.45	8.45
JN	BOJ Amamiya speaks at IMF, FSA and BOJ's FinTech conference						7.10	18.10
US	Empire Manufacturing	Apr		18.6		22.5	11.30	22.30
US	Retail Sales Advance MoM	Mar		0.4		-0.1	11.30	22.30
CA	Bloomberg Nanos Confidence	41365				57.79	13.00	0.00
US	Business Inventories	Feb		0.6		0.6	13.00	0.00
US	NAHB Housing Market Index	Apr		70		70	13.00	0.00
US	Fed's Bostic Speaks on the Economy and Rural Market Trends						16.15	3.15
US	Net Long-term TIC Flows	Feb				62.1	19.00	6.00
Tuesday, 17 April 2018								
NZ	REINZ House Sales YoY	Mar				1.2	20.00	7.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	42095				115.1	22.30	9.30
AU	RBA April Meeting Minutes						0.30	11.30
CH	GDP SA QoQ/YoY	1Q	1.45/6.8			1.6/6.8	1.00	12.00
CH	Retail Sales YoY/YTD YoY	Mar	9.7/9.7			9.4/9.7	1.00	12.00
CH	Industrial Production YoY/YTD YoY	Mar	6.3/6.9			6.2/7.2	1.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Mar	7.7			7.9	1.00	12.00
JN	Industrial Production MoM/YoY	Feb F				4.1/1.4	3.30	14.30
UK	Jobless Claims Change	Mar				9.2	7.30	18.30
UK	Average Weekly Earnings 3M/YoY	Feb		3		2.8	7.30	18.30
GE	ZEW Survey Current Situation	Apr		88		90.7	8.00	19.00
EC	ZEW Survey Expectations	Apr				13.4	8.00	19.00
US	Housing Starts	Mar		1266/2.4		1236/-7	11.30	22.30
US	Fed's Williams Speaks on Economic Outlook at Event in Madrid						12.15	23.15
US	Industrial Production MoM	Mar		0.35		1.1	12.15	23.15
US	Fed's Quarles to Testify Before House Financial Services panel						13.00	0.00
US	Fed's Harker Speaks on the Economics of Equitable Education						14.00	1.00
US	Fed's Evans Discusses Economic Outlook						16.10	3.10
US	Fed's Bostic to Speak on Economy at Bloomberg Event in Atlant						20.40	7.40
Wednesday, 18 April 2018								
JN	Trade Balance Adjusted	Mar		104		-201.495	22.50	9.50
AU	Westpac Leading Index MoM	Mar				0.29	23.30	10.30
AU	Skilled Vacancies MoM	Mar				0.6	0.00	11.00
AU	NAB Cashless Retail Sales Index	Mar					0.30	11.30
AU	NAB Commercial Property Survey	1Q					0.30	11.30
CH	New Home Prices MoM	Mar					0.30	11.30
UK	CPI MoM/YoY	Mar		0.3/2.7		0.4/2.7	7.30	18.30
UK	PPI Input NSA MoM/YoY	Mar		0.3/4.2		-1.1/3.4	7.30	18.30
UK	House Price Index YoY	Feb		4.5		4.9	7.30	18.30
EC	Construction Output MoM/YoY	Feb		/		-2.2/3.7	8.00	19.00
EC	CPI MoM/YoY	Mar		1.0/1.4		0.2/1.1	8.00	19.00
EC	CPI Core YoY	Mar F		1		1	8.00	19.00
CA	Bank of Canada Rate Decision			1.25		1.25	13.00	0.00
US	U.S. Federal Reserve Releases Beige Book						17.00	4.00
US	Fed's Dudley Speaks on Economic Outlook						18.00	5.00
US	Fed's Quarles Speaks in Washington						19.15	6.15
NZ	GDT Dairy Auction, early AM NZT							
Thursday, 19 April 2018								
NZ	CPI QoQ/YoY	1Q	0.3/0.9	0.5/1.1		0.1/1.6	21.45	8.45
AU	Employment Change/Unemployment Rate	Mar	25/5.5	20/5.5		17.5/5.6	0.30	11.30
AU	Participation Rate	Mar	65.7	65.7		65.7	0.30	11.30
AU	NAB Business Confidence	1Q				6	0.30	11.30
AU	RBA FX Transactions Market	Mar				310	0.30	11.30
EC	ECB Current Account SA	Feb				37.6	7.00	18.00
UK	Retail Sales Ex/Incl Auto Fuel MoM	Mar		-0.4/1.4		0.6/1.1	7.30	18.30
CA	ADP Publishes March Payrolls Report						11.30	22.30
US	Initial Jobless Claims	w/e Apr 14		230		242	11.30	22.30
US	Philadelphia Fed Business Outlook	Apr		21		22.3	11.30	22.30
US	Fed's Quarles Speaks at Institute of International Finance						12.10	23.10
US	Leading Index	Mar					13.00	0.00
Friday, 20 April 2018								
US	Fed's Mester Speaks on Economic Outlook and Policy						21.45	8.45
JN	Natl CPI YoY	Mar		1.1		1.5	22.30	9.30
JN	Tertiary Industry Index MoM	Feb		0		-0.6	3.30	14.30
CA	Retail Sales/Ex Autos MoM	Feb		0.5		0.3/0.9	11.30	22.30
CA	CPI NSA MoM/YoY	Mar		0.4		0.6/2.2	11.30	22.30
US	Fed's Evans Speaks on the Economy and Monetary Policy						12.40	23.40
EC	Consumer Confidence	Apr		-0.1		0.1	13.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		18-Apr	1.25%	1.25%		1.25%		
Europe, ECB		26-Apr	-0.4%	-0.4%		-0.4%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
Australia, RBA		1-May	1.5%	1.5%		1.5%		
US, Federal Reserve		2-May	1.5-1.75%	1.5-1.75%		1.5-1.75%		
New Zealand, RBNZ		10-May	1.75%	1.75%		1.75%		
UK, BOE		10-May	0.75%	0.75%		0.5%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Savings Time; AEST: Australian Eastern Standard Time (from 1 April)

FORECASTS

		Annual % change				Quarterly % change															
		2016	2017	2018	2019	2016				2017				2018				2019			
Australia Forecasts						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.9	2.7	2.5	2.5	1.0	0.6	0.5	0.8	0.4	0.9	0.5	1.0	0.4	0.6	0.5	0.7	0.6	0.6	0.7	0.7	0.7
Underlying Business Investment	-11.9	3.0	4.9	5.5	-3.4	-2.4	-5.4	1.6	3.2	0.3	4.0	-1.2	1.8	1.4	0.9	1.5	1.1	1.4	1.9	1.4	1.4
Residential Construction	8.6	-2.4	-3.2	-2.0	4.6	1.5	-1.0	2.5	-3.0	0.2	-1.7	-1.3	-0.4	-1.0	-0.6	-0.3	-1.0	-0.2	0.0	-0.5	-0.5
Underlying Public Spending	5.3	4.5	3.9	3.7	1.8	2.0	1.0	0.7	1.0	1.1	1.6	1.1	0.8	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0
Exports	6.8	3.9	4.9	3.7	2.5	1.2	0.8	3.2	-1.7	3.0	1.2	-1.8	2.1	2.1	1.6	1.3	0.3	0.6	0.8	1.0	1.0
Imports	0.2	7.6	4.0	4.5	-0.8	2.5	0.8	2.3	2.9	0.8	2.2	0.5	0.8	1.0	0.8	1.2	1.0	1.2	1.5	1.2	1.2
Net Exports (a)	1.2	-0.9	0.1	-0.3	1.0	-0.3	0.0	0.1	-1.0	0.4	-0.2	-0.5	0.2	0.2	0.1	0.0	-0.2	-0.1	-0.2	-0.1	-0.1
Inventories (a)	0.1	-0.1	-0.1	0.0	0.0	0.4	0.2	-0.4	0.4	-0.6	0.2	0.0	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	-0.1	1.0	0.7	0.9	0.9	0.6	0.5	0.6	0.5	0.7	0.6	0.7	0.9	0.8	0.8
Dom Demand - ann %	1.9	2.9	2.6	2.8	1.5	1.8	1.7	2.5	2.3	2.6	3.6	3.1	2.9	2.7	2.3	2.4	2.5	2.6	3.0	3.0	3.0
Real GDP - qtr %					1.0	0.8	-0.2	1.1	0.5	0.8	0.7	0.4	0.7	0.7	0.7	0.8	0.5	0.6	0.7	0.7	0.7
Real GDP - ann %	2.6	2.3	2.8	2.6	2.7	3.3	2.1	2.4	1.9	2.0	2.9	2.4	2.6	2.7	2.7	3.1	2.8	2.6	2.6	2.5	2.5
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.6	0.5	0.5	0.6	0.8	0.5	0.5	0.6	0.8	0.8
CPI headline - ann %	1.3	1.9	2.2	2.4	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.3	2.3	2.4	2.4	2.4	2.4	2.5	2.5
CPI underlying - qtr %					0.2	0.5	0.3	0.4	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
CPI underlying - ann %	1.5	1.8	1.9	2.2	1.5	1.5	1.4	1.5	1.7	1.8	1.9	1.8	1.8	1.7	1.9	2.0	2.1	2.2	2.2	2.3	2.3
Wages (Pvte WPI - qtr %)					0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	1.9	1.8	2.1	2.5	2.0	2.0	1.9	1.8	1.8	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	2.6	2.6
Unemployment Rate (%)	5.7	5.6	5.1	5.0	5.8	5.7	5.7	5.7	5.9	5.6	5.5	5.4	5.2	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade	0.5	12.2	-0.7	-0.7	-1.9	2.5	4.1	11.2	5.4	-6.0	-0.1	0.2	2.6	-1.5	-3.1	-1.0	-1.7	-2.4	0.9	0.4	0.4
G&S trade balance, \$Abn	-14.2	11.8	7.9	-18.2	-8.4	-7.5	-4.3	6.0	6.9	3.0	2.0	-0.1	3.6	3.3	1.0	0.1	-2.4	-5.3	-5.3	-5.2	-5.2
% of GDP	-0.8	0.7	0.4	-0.9	-2.0	-1.8	-1.0	1.4	1.5	0.7	0.4	0.0	0.8	0.7	0.2	0.0	-0.5	-1.1	-1.1	-1.0	-1.0
Current Account (% GDP)	-3.1	-2.3	-2.7	-4.0	-3.7	-3.9	-3.3	-1.4	-1.4	-2.4	-2.4	-3.1	-2.4	-2.4	-2.9	-3.1	-3.6	-4.2	-4.2	-4.1	-4.1

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

Exchange Rate Forecasts

	16-Apr	Mar-18	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Majors							
AUD/USD	0.7775	0.79	0.78	0.77	0.75	0.76	0.75
NZD/USD	0.7359	0.73	0.72	0.71	0.70	0.71	0.70
USD/JPY	107.35	110	110	109	109	107	105
EUR/USD	1.2337	1.25	1.28	1.30	1.30	1.27	1.30
GBP/USD	1.4256	1.44	1.45	1.47	1.48	1.45	1.46
USD/CNY	6.2846	6.28	6.25	6.20	6.18	6.23	6.24
USD/CAD	1.2607	1.23	1.22	1.24	1.25	1.21	1.22
USD/CHF	0.9626	0.93	0.92	0.90	0.91	0.93	0.92

Australian Cross Rates

AUD/NZD	1.0565	1.08	1.08	1.07	1.06	1.07
AUD/JPY	83.5	87	86	84	82	81
AUD/EUR	0.6302	0.63	0.61	0.59	0.58	0.59
AUD/GBP	0.5454	0.55	0.54	0.52	0.51	0.52
AUD/CNY	4.8863	4.96	4.88	4.77	4.64	4.70
AUD/CAD	0.9802	0.97	0.95	0.95	0.94	0.91
AUD/CHF	0.7484	0.73	0.72	0.69	0.68	0.70

Interest Rate Forecasts

	16-Apr	Mar-18	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Australia Rates							
RBA Cash rate	1.50	1.50	1.50	1.50	1.75	2.00	2.25
3 month bill rate	2.08	1.80	1.80	2.05	2.05	2.30	2.55
3 Year Swap Rate	2.29	2.1	2.4	2.5	2.6	3.2	3.4
10 Year Swap Rate	2.94	3.0	3.3	3.4	3.5	3.9	4.0
Offshore Policy Rates							
US Fed funds	1.75	1.75	2.00	2.25	2.25	2.75	3.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.20	0.00	0.00
BoE repo rate	0.50	0.50	0.75	0.75	1.00	1.25	1.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	1.75	2.25	2.75
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	17.0	16.0	16.0	16.0	16.0	16.0	16.0
10-year Benchmark Bond Yields							
Australia	2.74	2.85	2.80	3.10	3.10	3.40	3.65
United States	2.84	3.00	3.00	3.25	3.25	3.50	3.50
New Zealand	2.84	2.95	3.00	2.95	3.20	3.35	3.80

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	2.8	2.6	3.4
US	2.6	2.9	1.5	2.3	2.7	2.3	2.6
Eurozone	1.4	2.0	1.8	2.5	2.5	2.4	1.5
UK	3.1	2.3	1.9	1.8	1.8	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	3.6	3.5	4.0	2.9	2.8	3.0	3.0
World	3.5	3.4	3.2	3.6	3.8	3.6	3.5
MTP Top 5	4.0	4.1	3.7	4.2	4.0	3.7	5.0

Commodity prices (\$US)

	16-Apr	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
WTI oil	66.8	60	61	61	60	59	60	61	62
Gold	1341	1330	1320	1330	1360	1380	1370	1380	1390
Iron ore	65.0	73	67	63	61	60	58	60	62
Hard coking coal	193	215	175	130	110	101	99	100	100
Thermal coal	93	85	90	90	90	90	65	65	65
Copper	6797	6760	6690	6630	6630	6630	6630	6630	6630
Aust LNG (*)	11.8	10.5	11.2	11.5	11.8	11.7	11.3	11.7	11.8

(*) Implied Australian LNG export prices.

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