

AUSTRALIAN MARKETS WEEKLY

What to make of the latest NAB Survey?



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- The week has begun with a broad risk-off tone, following disappointing earnings reports from Caterpillar and Nvidia, two industry bellwethers that both pointed to a slowdown in Chinese demand for their woes.
- On the back of this, oil prices are down around 3% and equities have opened around 0.4% lower. Risk sentiment was not helped by news overnight that Trump said the chance of a bipartisan deal to avert the government shutting down again was “less than 50-50” and again threatened to use his emergency powers if required to build the wall.
- It’s worth noting this week is the busiest week of the US earnings season, with over 100 of the S&P500 reporting, including Amazon, Apple (early tomorrow morning) and Facebook. Also on the global schedule data-wise is China PMIs, the FOMC meeting, US Payrolls and ISMs. Geopolitics will also remain a focus with further Brexit and US/CH trade talks. For Australia of course, the highlight will be Q4 CPI released tomorrow – NAB is expecting a soft headline outcome of 0.3% q/q, 1.6% y/y.
- In the light of the ongoing volatility, which spiked in December, what do we make of today’s NAB Business Survey? Sharp falls in equity markets likely played a large role in the significant drop in business conditions in December, as did some month-to-month volatility.
- Nevertheless, it’s a continuation of a downtrend in place for over a year.
- It will be important to watch the strength of any bounce back in conditions in coming months, to gauge the extent to which momentum in the economy may be easing. The moderation in conditions from very elevated levels over 2018, was not sufficient to stop unemployment declining; however, continued improvements in unemployment would likely be threatened if conditions deteriorated further.
- There are reasons for not over-reading the message of December at this stage: a few series show signs of noise or cross-industry/cross-state irregularities that warrant some caution in this regard, while seasonal adjustment has also had a significant influence, which suggests at least some bounce-back in January. Forward orders, capacity utilisation and business confidence were also relatively stable in the month, whereas they would normally, but not always confirm the decline in conditions if the economy was deteriorating rapidly.
- The trend in conditions will be important in the outlook for the economy – and the RBA’s forecasts and policy outlook. It seems hard for the Bank to be as confident about the outlook for growth, unemployment or interest rates given recent developments in the data. Today’s survey suggests very little prospect of an interest rate rise this year and a larger risk that the next move in rates may be down, though NAB still is more inclined to a longer period of on-hold rates before an eventual move higher.
- Prices and wages indications were again soft – suggesting little joy for the RBA on the inflation front. NAB looks for tomorrow’s headline and core CPIs to be relatively soft.

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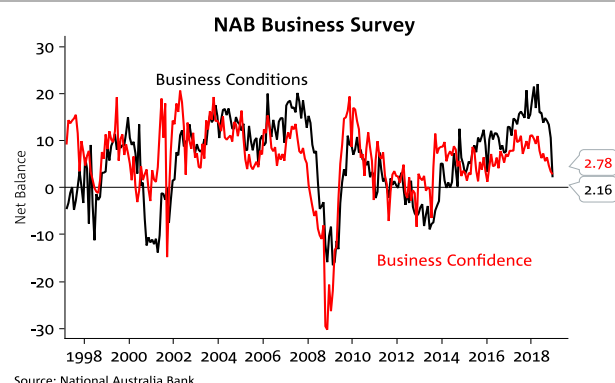
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7161	0.5	RBA cash	1.50	0
AUD/CNY	4.83	-0.5	3y swap	1.89	-5
AUD/JPY	78.2	0.4	ASX 200	5,877	-0.2
AUD/EUR	0.626	-0.1	Iron ore	79	6.9
AUD/NZD	1.047	-0.8	WTI oil	52.2	-1.6

Source: Bloomberg

Chart of the week: Fall in conditions, but not confidence

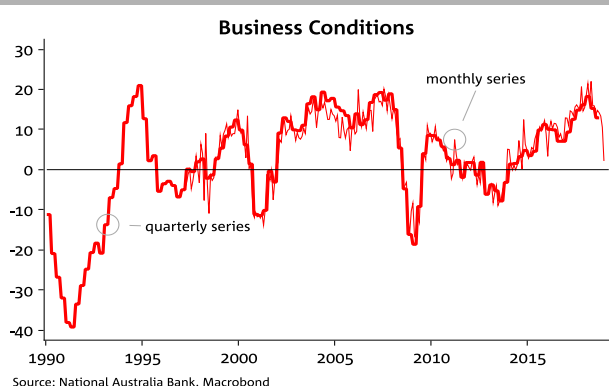


What to make of the latest NAB Business Survey?

Earlier today, we published the December NAB Business Survey. The survey of 400-500 Australian businesses was conducted from 8-14 January (a little later than the normal monthly business survey, but in line with the traditional December survey period). Despite being taken in early/mid-January, businesses were asked about their business performance during December.

The results were very weak. Businesses reported a sharp deterioration in business conditions in December – and indeed the sharpest fall in conditions since the Global Financial Crisis, with conditions falling from +11 to +2 (conditions remember is the average of Profitability, Trading and Employment). However, at +2, this still means that more businesses were experiencing an improvement in conditions than were reporting deteriorating conditions.

Chart 1: Conditions fell



To some extent, the sharp decline in December is not surprising. Equity markets were very weak over the October to December period; there was considerable uncertainty related to the China-US trade dispute; and reports of Christmas retail sales, on the whole tended to be somewhat disappointing, in part likely reflecting the timing of public holidays in the latter part of the month; the pull-forward of sales into November, as online Black Friday events grow in popularity in Australia; and the weakness in global equity markets.

Importantly, abstracting from the sharp fall in December, the result reflects a continuation of a trend that has been in place for the past year, though this moderating trend, was not sufficient to prevent the national unemployment rate from reaching a six-year low of 5% in Q4 2018.

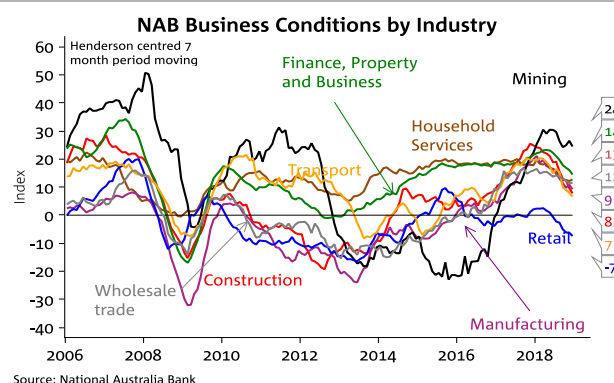
In thinking about how to interpret the importance and implications of this month's outcome, it's important to assess the extent to which December's result might reflect noise in the data.

It's likely that weakness in global share markets between October and December was a prime influence in the weaker business conditions reported in December – business conditions also deteriorated sharply during the Global Financial Crisis and the early 2000s tech bust. The weakness in equity markets reflected a combination of concerns about European and Chinese economic growth and some re-rating of very high P/E tech shares. These are real developments that affect the global growth input into Australian business outcomes.

Looking more deeply into this month's data, there are a few reasons to suspect, things are probably not quite as bad as suggested:

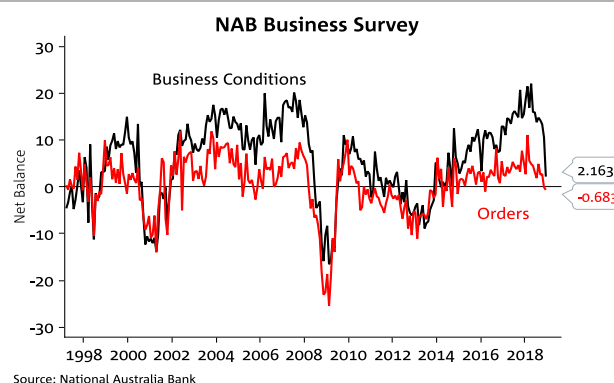
- (i) there are a few sectors and states where the results look to incorporate more noise than signal (eg. the weakness in South Australia and Transport in the month);
- (ii) there are a few non-conforming trends, that suggest risk of some bounce-back next month (eg. the fact that weakness was considerably more severe in Victoria and Queensland than in NSW and WA; while on an industry basis, again, some of the movements this month seem outsized in recent months (manufacturing, construction – from two months ago – and Retail and Wholesale this month (though there may be some truth to these movements in December).

Chart 2: Clear divergence by industry



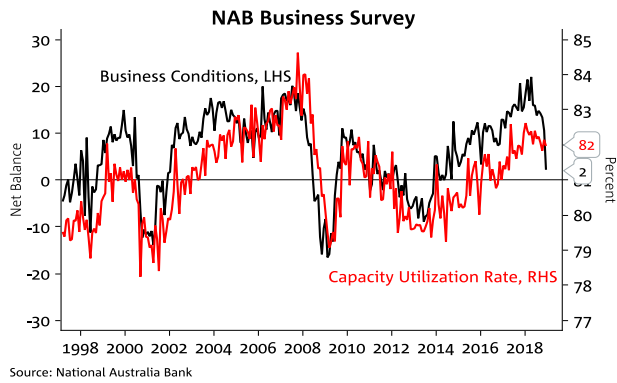
In addition, changing seasonal patterns mean that were we to record the same original responses in January as in December, the seasonally-adjusted level of conditions would rise by 6 basis points – all reason to be somewhat cautious about over-reading this month's result. The non-confirmation of Forward Orders and Capacity Utilisation against Business Conditions also argues in that direction.

Chart 3: Fall in Conditions not reflected in Orders



That said, the very sharp declines recorded this month, invariably must lead one to ask, did the Australian economy weaken sharply late in 2018? The RBA will also be considering this question as the staff finalise their forecasts for the February Statement on Monetary Policy and the RBA Board Meeting next week.

Chart 4: Fall in Conditions not reflected in CapU



For some time, NAB despite having a softer consumer spending and growth outlook than the RBA, saw room for the unemployment rate to continue to fall. That remains our core forecast. If today's level of conditions was sustained – or if conditions were to continue to deteriorate, this would put pressure on the likelihood that the unemployment rate could continue to fall. At +4, employment is still consistent with 18,000 jobs a month being created (just above the 17k needed to keep unemployment unchanged given population growth), which would make much slower inroads into unemployment and create less upward pressure on wages.

It's likely that the RBA will need to highlight these increasing downside risks in its communications next week. These risks – plus continuing weakness in inflationary pressure – mean little chance of official interest rates rising this year – and greater chance of a possible reduction in interest rates, if conditions do not bounce back relatively smartly in the next few months.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Tuesday, 29 January 2019								
NZ	Trade Balance NZD	Dec	+382	150		264	21.45	8.45
AU	NAB Business Conditions	Dec				11	0.30	11.30
US	Retail Sales, Trade, Building Permits, Wholesale Inventories, TIC Flows						delayed by shutdown	
US	Conf. Board Consumer Confidence	Jan		124		128.1	15.00	2.00
Wednesday, 30 January 2019								
JN	Retail Sales MoM / YoY	Dec P		0.4/1		-1/1.4	23.50	10.50
AU	CPI QoQ / YoY	4Q	0.3 / 1.6	0.4/1.7		0.4/1.9	0.30	11.30
AU	CPI Trimmed Mean QoQ / YoY	4Q	0.4/1.8	0.4/1.8		0.4/1.8	0.30	11.30
AU	CPI Weighted Median QoQ / YoY	4Q	0.4/1.6	0.5/1.7		0.3/1.7	0.30	11.30
GE	GfK Consumer Confidence	Feb		10.3		10.4	7.00	18.00
GE	CPI Saxony MoM / YoY	Jan		/		0.4/1.9	8.00	19.00
UK	Mortgage Approvals	Dec		63.05		63.7	9.30	20.30
EC	Economic Confidence	Jan		106.8		107.3	10.00	21.00
US	MBA Mortgage Applications	25 Jan				-2.7	12.00	23.00
US	Cap Goods Orders Nondef Ex Air	Dec P		0		-0.6	29 Jan to 1 Feb	
US	New Home Sales	Dec		575		544	29 Jan to 1 Feb	
US	Wholesale Inventories MoM	Nov F		0.5		0.8	#VALUE!	field Not App
GE	CPI MoM	Jan P		-0.8/1.6		0.1/1.7	13.00	0.00
US	ADP Employment Change	Jan		182.5		271	13.15	0.15
US	GDP Annualized QoQ	4Q A		2.6		3.4	13.30	0.30
US	Core PCE QoQ	4Q A				1.6	13.30	0.30
US	GDP Price Index	4Q A		1.7		1.8	13.30	0.30
US	FOMC Rate Decision	30 Jan		2.25/2.5		2.25/2.5	19.00	6.00
US	Interest Rate on Excess Reserves			2.4		2.4	19.00	6.00
US	Fed Chairman Powell Holds Post-FOMC Press Conference						19.30	6.30
Thursday, 31 January 2019								
JN	BOJ Summary of Opinions						23.50	10.50
JN	Industrial Production MoM / YoY	Dec P		-0.5/-2.3		-1/1.5	23.50	10.50
AU	Export Price Index QoQ / Import Price Index QoQ	4Q	1.5 / 1	2.7/0.3		3.7/1.9	0.30	11.30
AU	Private Sector Credit MoM / YoY	Dec	0.3/4.4	0.3/4.4		0.3/4.4	0.30	11.30
CH	Non-manufacturing PMI	Jan		53.8		53.8	1.00	12.00
CH	Manufacturing PMI	Jan		49.3		49.4	1.00	12.00
JN	BOJ Deputy Governor Amamiya makes a speech						1.30	12.30
JN	Vehicle Production YoY	Dec				6.3	4.00	15.00
JN	PM Abe and ex BOJ Deputy Governor Nakaso speak at Daiwa's conf						4.05	15.05
EC	ECB's Coeure Speaks in Cape Town						8.00	19.00
GE	Unemployment Change (000's) / Claims Rate	Jan		-10/5		-14/5	8.55	19.55
EC	Unemployment Rate	Dec		7.9		7.9	10.00	21.00
EC	GDP SA QoQ / YoY	4Q A		0.2/1.2		0.2/1.6	10.00	21.00
CA	GDP MoM / YoY	Nov		-0.1/1.6		0.3/2.2	13.30	0.30
US	PCE Core MoM	Dec		0.2		0.1	13.30	0.30
US	Initial Jobless Claims	26 Jan		215		199	13.30	0.30
US	PCE Core YoY	Dec		1.9		1.9	13.30	0.30
CA	Industrial Product Price MoM	Dec		0.05		-0.8	13.30	0.30
US	Chicago Purchasing Manager	Jan		61.5		65.4	14.45	1.45
EC	ECB's Weidmann Speaks in Mannheim, Germany						16.00	3.00
CA	Speech by Wilkins, Bank of Canada Senior Deputy Governor						17.45	4.45
Friday, 1 February 2019								
NZ	ANZ Consumer Confidence Index	Jan				121.9	21.00	8.00
AU	AiG Perf of Mfg Index	Jan				49.5	21.30	8.30
AU	CoreLogic House Px MoM	Jan				-1.3	23.00	10.00
JN	Jobless Rate	Dec		2.5		2.5	23.30	10.30
AU	PPI QoQ / YoY	4Q		/		0.8/2.1	0.30	11.30
JN	Nikkei Japan PMI Mfg	Jan F				50	0.30	11.30
CH	Caixin China PMI Mfg	Jan		49.7		49.7	1.45	12.45
JN	Vehicle Sales YoY	Jan				-4.4	5.00	16.00
AU	Commodity Index SDR YoY	Jan				10.5	5.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Jan F		49.9		49.9	8.55	19.55
EC	Markit Eurozone Manufacturing PMI	Jan F		50.5		50.5	9.00	20.00
UK	Markit UK PMI Manufacturing SA	Jan		53.5		54.2	9.30	20.30
EC	CPI Estimate YoY	Jan		1.4		1.6	10.00	21.00
EC	CPI Core YoY	Jan A		1		1	10.00	21.00
US	Change in Nonfarm Payrolls / Unemployment Rate	Jan		165/3.9		312/3.9	13.30	0.30
US	Average Hourly Earnings MoM / YoY	Jan		0.3/3.2		0.4/3.2	13.30	0.30
CA	Markit Canada Manufacturing PMI	Jan				53.6	14.30	1.30
US	Markit US Manufacturing PMI	Jan F		54.8		54.9	14.45	1.45
US	ISM Manufacturing	Jan		54		54.1	15.00	2.00
US	Construction Spending MoM	Dec		0.2		-0.1	15.00	2.00
US	U. of Mich. Sentiment	Jan F		90.7		90.7	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
US, Federal Reserve		30-Jan	2.25-2.5%	2.25-2.5%		2.25-2.5%		
Australia, RBA		5-Feb	1.5%	1.5%		1.5%		
UK, BOE		7-Feb	0.75%	0.75%		0.75%		
New Zealand, RBNZ		13-Feb	1.75%	1.75%		1.75%		
Canada, BoC		6-Mar	2%	2%		1.75%		
Europe, ECB		7-Mar	-0.4%	-0.4%		-0.4%		
Japan, BoJ		15-Mar	-0.1%	-0.1%		-0.1%		

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

FORECASTS

		Annual % change				Quarterly % change															
		2017	2018	2019	2020	2017			2018			2019			2020						
Australia Forecasts						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.4	2.5	2.3	2.5	0.4	0.8	0.6	1.1	0.3	0.9	0.3	0.5	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.7	0.7
Underlying Business Investment	3.7	1.9	3.2	5.1	3.3	0.3	3.7	0.4	0.8	-0.8	-1.1	0.2	1.7	1.1	1.8	1.3	1.1	1.5	0.8	1.0	1.0
Residential Construction	-2.4	4.7	-7.7	-8.6	-3.8	0.2	-1.3	0.3	3.8	1.9	1.0	-2.5	-2.6	-3.1	-2.9	-2.3	-2.2	-1.9	-2.0	-0.9	-0.9
Underlying Public Spending	4.5	4.3	4.1	4.5	1.1	1.4	1.0	1.1	1.4	0.5	1.5	0.6	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	3.5	5.4	4.0	2.8	-1.9	2.8	0.8	-1.5	4.3	1.2	0.1	0.7	1.5	1.4	0.8	0.7	0.6	0.7	0.5	0.8	0.8
Imports	7.7	3.8	1.7	3.7	3.0	0.2	3.3	0.6	1.9	0.5	-1.5	0.3	0.8	0.7	1.0	0.8	0.8	1.0	0.9	1.1	1.1
Net Exports (a)	-0.8	0.4	0.5	-0.2	-1.0	0.5	-0.5	-0.5	0.5	0.2	0.3	0.1	0.2	0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Inventories (a)	-0.1	0.1	-0.1	0.0	0.4	-0.7	0.3	0.1	0.1	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.7	0.9	0.8	0.8	0.8	0.7	0.3	0.4	0.6	0.5	0.7	0.6	0.6	0.7	0.6	0.7	0.7
Dom Demand - ann %	2.9	2.9	2.1	2.5	2.2	2.5	3.5	3.2	3.4	3.2	2.7	2.2	2.0	1.8	2.2	2.4	2.3	2.5	2.5	2.6	2.6
Real GDP - qtr %					0.4	0.8	0.6	0.5	1.0	0.9	0.3	0.5	0.8	0.6	0.6	0.5	0.5	0.6	0.5	0.7	0.7
Real GDP - ann %	2.4	2.9	2.4	2.3	2.2	2.1	2.8	2.4	3.0	3.1	2.8	2.7	2.4	2.2	2.6	2.6	2.3	2.3	2.2	2.3	2.3
CPI headline - qtr %					0.5	0.2	0.6	0.6	0.4	0.4	0.4	0.3	0.6	0.4	0.4	0.8	0.5	0.6	0.6	0.7	0.7
CPI headline - ann %	1.9	1.9	1.9	2.4	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.6	1.8	1.7	1.8	2.2	2.1	2.3	2.5	2.5	2.5
CPI underlying - qtr %					0.5	0.6	0.3	0.5	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
CPI underlying - ann %	1.9	1.8	2.0	2.3	1.7	1.9	1.9	1.9	2.0	1.8	1.7	1.8	1.8	1.9	2.1	2.1	2.1	2.2	2.3	2.3	2.3
Wages (Pvte WPI - qtr %)					0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	1.9	2.1	2.5	2.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1	2.3	2.3	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Unemployment Rate (%)	5.6	5.3	4.8	4.8	5.9	5.6	5.5	5.4	5.5	5.6	5.1	4.9	4.8	4.7	4.8	4.7	4.8	4.7	4.8	4.8	4.8
Terms of trade	12.1	-0.1	-0.7	0.0	5.3	-5.9	-0.1	-0.1	3.1	-1.1	0.9	-3.4	-0.8	-1.2	-0.9	0.3	-0.4	0.3	-0.4	0.2	0.2
G&S trade balance, \$Abn	9.6	18.0	8.7	1.8	6.7	3.3	0.9	-1.2	4.2	3.9	6.6	3.3	3.2	2.6	1.4	1.5	0.9	0.9	0.1	0.0	0.0
% of GDP	0.5	1.0	0.4	0.1	1.5	0.7	0.2	-0.3	0.9	0.8	1.4	0.7	0.7	0.5	0.3	0.3	0.2	0.2	0.0	0.0	0.0
Current Account (% GDP)	-2.6	-2.5	-3.1	-3.5	-1.6	-2.4	-2.9	-3.4	-2.3	-2.6	-2.2	-2.9	-2.9	-3.1	-3.3	-3.3	-3.4	-3.4	-3.5	-3.5	-3.5

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

Exchange Rate Forecasts

	29-Jan	Mar-19	Jun-19	Sep-19	Dec-19
Majors					
AUD/USD	0.7159	0.71	0.70	0.73	0.75
NZD/USD	0.6837	0.68	0.67	0.69	0.70
USD/JPY	109.22	113	113	110	108
EUR/USD	1.1431	1.17	1.18	1.20	1.23
GBP/USD	1.3148	1.35	1.40	1.43	1.45
USD/CHF	0.9920	0.98	0.98	0.99	0.97
USD/CAD	1.3265	1.31	1.31	1.27	1.27
USD/CNY	6.7453	7.10	7.20	7.20	7.15

Australian Cross Rates					
	29-Jan	Mar-19	Jun-19	Sep-19	Dec-19
AUD/NZD	1.0471	1.04	1.04	1.06	1.07
AUD/JPY	78.2	80	79	80	81
AUD/EUR	0.6263	0.61	0.59	0.61	0.61
AUD/GBP	0.5445	0.53	0.50	0.51	0.52
AUD/CNY	4.8290	5.04	5.04	5.26	5.36
AUD/CAD	0.9496	0.93	0.92	0.93	0.95
AUD/CHF	0.7102	0.70	0.69	0.72	0.73

Interest Rate Forecasts

	29-Jan	Mar-19	Jun-19	Sep-19	Dec-19
Australia Rates					
RBA Cash rate	1.50	1.50	1.50	1.50	1.50
3 month bill rate	2.07	1.95	1.90	1.90	1.90
3 Year Swap Rate	1.89	1.85	1.85	1.95	2.05
10 Year Swap Rate	2.50	2.60	2.60	2.70	2.80
Offshore Policy Rates					
US Fed funds	2.50	2.50	2.50	2.50	2.50
ECB deposit rate	-0.40	-0.40	-0.40	-0.20	0.00
BoE repo rate	0.75	0.75	1.00	1.00	1.25
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	2.00
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	13.5	13.0	12.5	12.0	12.0
10-year Benchmark Bond Yields					
Australia	2.24	2.40	2.40	2.50	2.60
United States	2.74	2.80	2.80	3.00	3.00
New Zealand	2.32	2.85	3.10	3.20	3.30

Global GDP

Dec year	2015	2016	2017	2018	2019	2020	20 Yr Avg
Australia	2.5	2.6	2.4	2.9	2.4	2.3	3.4
US	2.9	1.6	2.2	2.9	2.1	1.8	2.6
Eurozone	2.0	1.9	2.5	1.9	1.7	1.6	1.5
UK	2.3	1.8	1.7	1.3	1.6	1.5	2.4
Japan	1.4	1.0	1.7	0.8	1.2	0.9	0.8
China	6.9	6.7	6.9	6.6	6.3	6.0	9.2
India	8.2	7.1	6.7	7.4	7.1	7.2	6.6
New Zealand	3.5	4.0	2.8	2.9	2.6	2.6	3.0
World	3.5	3.3	3.7	3.7	3.5	3.5	3.5
MTP Top 5	4.1	3.8	4.2	4.0	3.7	3.5	5.0

Commodity prices (\$US)

	29-Jan	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	60.1	85	80	77	78
Gold	1303	1276	1297	1305	1318
Iron ore	78.7	63	60	61	62
Hard coking coal	198	180	175	160	165
Thermal coal	99	105	103	101	100
Copper	5989	6350	6500	6600	6700
Aust LNG (*)	15.8	14.3	14.6	13.4	13.0

(*) Implied Australian LNG export prices.
Under review

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