AUSTRALIAN MARKETS WEEKLY

Could the economy grow more quickly? Is progress at risk of becoming too slow?

In this issue

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Ask the Economists

Ask the FX Strategists

Ask the Interest Rate Strategists

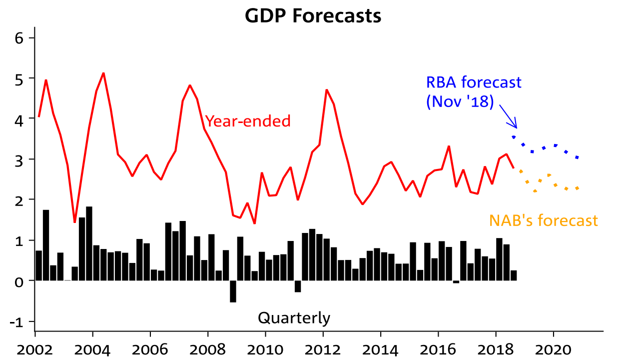
- It's a big week for local rate and currency markets with three big RBA events – the first communications since December last year. First we have the February Board meeting, tomorrow; Governor Lowe speaks at lunchtime on Wednesday and the February Statement on Monetary Policy is published on Friday. The Hayne Royal Commission Recommendations are also expected to be released at 4.10pm this afternoon.
- In this Weekly, we take a closer look at the issues the RBA Board will face at its meeting tomorrow. The Bank's growth forecasts will need to be trimmed (due to the weak Q3 outcome and revisions to history). At the same time, unemployment is falling more quickly than previously forecast, while the inflation rate remains low and relatively stable – and not showing much sign of quicker progress back toward the target band.
- At the same time, it seems likely that the various communications will be interpreted as more dovish by markets, as risks around the RBA forecasts have risen over the two months since the early December Board meeting. These increased global risks saw the Fed adopt a more patient and symmetric outlook for policy last week.
- For us, the changes to the RBA's forecasts and risks surrounding those changes have not been particularly large. This should allow the RBA to await greater information, while sounding less confident that the next move in rates is more likely to be up.
- The questions we are asking ourselves are about whether the outlook means progress on the inflation front will now be considered too slow and whether the economy could afford to grow a bit more quickly? These are more open questions than seemed to be the case only a few months ago and justify the market pricing the risk that any move in rates in the near term, is more likely to be a cut.
- On the local data front this week, the central focus will be the consumer with the release of Retail Sales for December in the wake of reportedly weak trading over Christmas and New Year. We look for a weaker-than-market 0.3% fall in December sales, compared to the market's flat forecast. This release also comes with December quarter volumes, a key component of consumer spending and GDP. NAB is looking for 0.5% q/q real growth after just 0.2% in Q3. NAB's model forecast for Household Consumption and GDP is 0.5%. International trade for December is also out tomorrow, with an improved trade surplus likely due to largely to reduced aircraft imports.
- Offshore, NZ has its Q4 labour market report out on Thursday with unemployment tipped to back up slightly to 4.1% from a very low 3.9% in Q3. There are various Fed speakers scheduled this week, including Chair Powell, while China has its Lunar New Year holidays. President Trump is expected to deliver his State of the Union address, Tuesday, US time.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7250	1.0	RBA cash	1.50	0
AUD/CNY	4.89	1.1	3y swap	1.89	-1
AUD/JPY	79.4	1.0	ASX 200	5,887	-0.3
AUD/EUR	0.633	0.6	Iron ore	84.0	8.6
AUD/NZD	1.051	0.3	WTI oil	55.4	6.5

Source: Bloomberg

Chart of the week: RBA downgrade likely



Source: National Australia Bank, ABS

Ivan Colhoun, Chief Economist, Markets and Global Head of Research

David de Garis, Director, Economics, Markets

Is progress at risk of becoming too slow? Could the economy grow more quickly? Will the RBA Board remain patient?

While the most frequent question we are being asked at present is whether the RBA will drop its refrain that "the next move in interest rates is more likely to be up", we feel consideration of the above questions is more important than the answer to the question of will the RBA alter its soft – and admittedly conditional –bias.

However, to first answer the question everyone is asking we would note that this "bias" terminology has not appeared in RBA Interest Rate Decisions (the statements that are released on Tuesdays at 2.30pm after the Board Meeting), but has been contained in Board Meeting Minutes, RBA speeches and Statements of Monetary Policy. As such, it's quite possible that the answer to this question will not be clarified until the Governor speaks on Wednesday at 12.30pm, rather than tomorrow at 2.30pm.

Our suggestion for any indication to a change in bias tomorrow is to check whether there has been a change in the final paragraph of the Interest Rate Decision, where throughout 2018 the Board has concluded:

"The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time".

It's also worth noting, that the bias statement, has always been framed along the lines of, if further progress on reducing unemployment and returning inflation towards the midpoint of the target band occurs as is expected, then the next move in the cash rate was more likely to be a rise. Further as progress towards these objectives was expected to be gradual, no near-term move was contemplated.

As the Board sits down tomorrow – and in communications to be released in coming days – it seems inevitable that its near-term growth forecasts will need to be revised down and that increasing downside risks to the outlook will be considered. The latter are chiefly – but not entirely – external - with the slowing in global trade, weaker growth in Europe and China and the swoon in equity markets over October to December likely to be of chief concern, though with some reversal in equity markets occurring in January.

On the domestic front, the good news has been the continuing strength in the labour market, with the unemployment rate remaining at 5% in December, while the December quarter CPI revealed that inflation remains low and importantly **stable.** Unemployment has continued to track lower a little more quickly than RBA forecasts, and while core inflation is still slowly tracking higher, the risk seems to be of the return to target taking even longer than envisaged.

At the same time, there have been mixed reports on Christmas retail trading, house prices and turnover continue to soften, while funding pressures have led to some further "out-of-cycle" mortgage interest rate rises, which at the margin also act to delay the forecast return to target. And the NAB Survey's measure of Business Conditions plunged in December, one of the favourite indicators of the economy of former RBA Governor, Glenn Stevens!

Taking the latter point first, we have investigated a number of high-frequency internal indicators and find no evidence that Australian economic activity plunged in December or January – possibly outside of the weak retail sector. Rather, we suspect the reading may be the result of seasonal volatility and possibly the challenging make-up of the calendar in December (the structure of the public holidays being close to weekends). With that in mind, our judgment remains extremely cautious about reading too much into the size of the fall in December and hence would not be surprised to see a modest improvement in the Survey. (NB the January NAB survey is released in just eight days' time. That said it is important to highlight that we still do not have any information on the January survey outcome at the time of writing).

The more important questions arguably to be asking are:

- Is progress at risk of becoming too slow?
- Could the economy grow more quickly?
- Will the RBA Board remain patient?

GDP outlook – slower growth

The RBA will have to revise its near-term growth forecasts down. Recent Q3 data revealed GDP growth (plus revisions) was a lot weaker than embodied in the November SoMP forecast. GDP growth is currently at 2.8% y/y, a still healthy level, but around ¾ ppt lower than what the RBA had pencilled in. To achieve the currently slated 3½% y/y growth (to the nearest ¼ ppt) to Q4 2018, the Bank would need a stellar 1.2% growth outcome in Q4. Instead, a more likely growth outcome of around 0.5% q/q would see annual growth hold steady at around trend. (To be fair, a lot of the upward revision reflected upward revisions to history by the ABS the previous quarter, so to some extent we are back to the same profile of a couple of quarters ago).

Table 1: Growth will be revised down

RBA SoMP forecasts

	Sep-18	Dec-18		Jun-19		Dec-19		Jun-20		Dec-20	
		RBA	NAB	RBA	NAB	RBA	NAB	RBA	NAB	RBA	NAB
GDP growth (y/y %)	2.8	3½	2.7	3¼	2.2	3¼	2.6	3¼	2.3	3	2.3
Unemployment rate (%)	5.2	5	5.1	5	4.8	5	4.7	4¾	4.7	4¾	4.8
CPI inflation (y/y %)	1.9	2	1.6	2	1.7	2¼	2.2	2¼	2.3	2¼	2.5
Core inflation (y/y %)	1.8	1¾	1.7	2	1.9	2¼	2.1	2¼	2.2	2¼	2.3

(a) Nov '18 technical assumptions: $A at US$0.73, TWI at 63; Brent crude oil price at US$72 per barrel.
Highlighted figures differ to NAB's latest Forward View due to updated forecasts for Q4 2018
Sources: NAB; RBA Statement on Monetary Policy

Key for the medium-term outlook is what happens to household spending. The RBA has repeatedly flagged downside risks around its consumption profile – and in Q3 that risk partially materialised. For the second time in a year, household spending grew at a rate of only 0.3% q/q, though a slightly stronger Q4 result is likely (watch real retail trade tomorrow).

These data challenge the RBA's view that household consumption growth will continue at around 3% y/y. Household spending is currently growing at 2.5% y/y and, unless Q4 2018 is as strong as Q4 2017 (a very strong +1.1% q/q), spending growth is likely to soften further in year-ended terms.

The less assured tempo of household spending growth makes it difficult, in our view, to justify GDP growth of around 3% y/y. To do so, the Bank would need very good reason to believe the recent soft spending data is not representative of the underlying pace of growth. (This morning's poor Building Approvals – a re-run of recent soft data – adds more downside risk to residential dwelling investment). The past few months have provided little reassurance on this front, though it's encouraging that employment continues to grow, unemployment remains low and there are few indications that falling house prices are significantly affecting consumer spending or consumer confidence, though of course the risk is this may occur to an extent. Fortunately, last year's Budget means there will be some income tax cuts for low-income earners from 1 July 2019, while it's quite possible that some further cuts may be announced in this year's Budget, if not before, ahead of the federal election (likely to be held on 18 May).

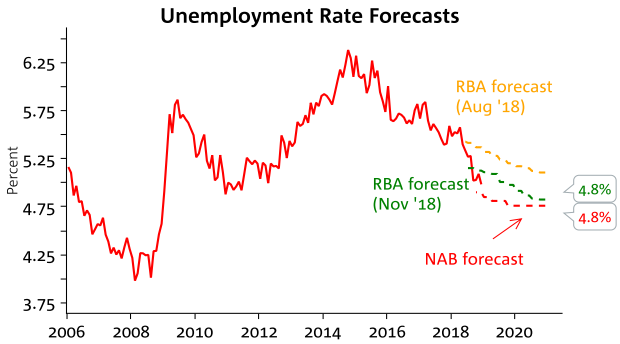
NAB's forecasts for year-ended Dec 2019 GDP were already quite a lot weaker than the RBA's at 2.7% (incorporating a weaker outlook for consumer spending already). It's likely the RBA will have to move in that direction – at least to 3%, quite possibly to 2.75%. While this remains at or above the Bank's estimate of trend growth, the weakness in consumption presents a downside risk to its forecast and therefore means that there is slower ongoing progress reducing unemployment and returning inflation to target.

Unemployment outlook – still on track

Interestingly, while growth disappointed in Q3 and negative revisions to history occurred, on unemployment, the RBA looks broadly on track. The unemployment rate fell to 5% in December producing an average rate over Q4 of 5.1%, broadly in line – if anything a little ahead of the RBA's expectation of around 5%.

There's little sign that the pace of progress in the labour market will accelerate in the near-term, particularly with economic growth somewhat slower (although still above trend), though to be fair, labour force participation has been broadly flat the past year allowing employment growth to more fully flow into reductions in the unemployment rate. In November, the Bank favourably revised its outlook for the unemployment rate – to be closer to NAB's view of around 4¾% at the end of 2020 – we see little reason to shift this outlook.

Chart 2: Progress slightly faster than expected by RBA



* Q2 2017 Bulletin
Source: National Australia Bank, ABS, RBA
NAIRU is the Non-Accelerating Inflationary Rate of Unemployment, below which inflaiton accelerates.

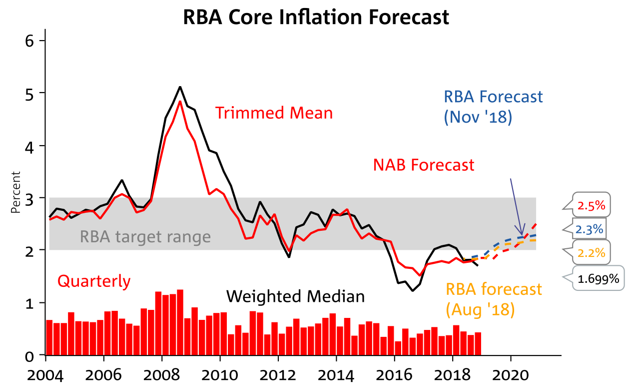
Inflation outlook – still slow progress?

With oil prices having fallen over 20% (in US$ terms) since the recent peak, a slightly softer outlook for economic growth and weak price growth for rents and new dwellings (large components of core inflation), it seems likely that the RBA will need to pare back its inflation outlook.

In November, the Bank revised up its trimmed mean inflation forecast for Q4 2019 to 2¼%, from 2%. Given recent developments – and another moderate Q4 2018 core CPI print – we expect this forecast will have to be reduced back to at least the 2% the RBA was previously forecasting.

Any larger downgrade would be surprising and would likely raise some considerable challenge to the medium-term track back to target. If the Bank were to revise the trimmed mean inflation forecast to 2% or less at the end of the 18-24 month forecast horizon, that would likely see the market increase its expectation of a possible rate cut in the nearer term. On balance the RBA is still likely to hold to a forecast of 2-2¼% for 2020, ascribing some of the softness for now to temporary factors. Importantly, the inflation rate, while low, is relatively stable, which is different to the situation that existed in early 2016, when the RBA and other global central banks, were spooked by the drop in inflation that accompanied the sharp fall in oil prices.

Chart 3: Still only slow progress – too slow?



Source: National Australia Bank, Macrobond

Policy outlook – increased downside risks. Less conviction the next move is up?

Over the two months since the RBA Board last met, it's likely to have become harder to be confident that the next move in interest rates will be up. "Up" is something RBA Board Member Ian Harper reiterated in late January (speaking personally rather than for the Board). We also note that the Fed signaled patience and a more symmetric view of the possible next move in US interest rates last week.

We suspect the RBA will inevitably sound more dovish than two months ago given ongoing global and domestic developments. A more symmetric outlook on policy and a close watching brief on developments could well be possible.

What would cause the Bank to cut interest rates?

Historically, the RBA has cut interest rates for a variety of inter-related factors:

- When the outlook for the economy has significantly changed;
- When its forecasts of inflation have been revised lower;
- When out of cycle interest rate increases have moved against the desired stance of policy, to a significant extent;
- When it has answered in the affirmative to the question, could the economy afford to grow more quickly? (This has typically been a situation where excess capacity has existed in the labour market, with low inflation); and
- At times, when downside risks have increased.

A combination of some of these elements is currently in existence to a moderate extent, which supports markets pricing that the next move in rates by the RBA could actually be a cut [presently the market prices a 57% chance of a rate cut by the end of the year and a peak 70% chance of a cut by mid 2020]. That said, while the downside risks to growth seem to have increased a little, for now, it's hard to argue that the growth outlook has dramatically changed. And while the forecasts for inflation may well be trimmed slightly, again it's hardly a significant downgrade.

This suggests, the main decision facing the Board at this stage, is whether the increased downside risk means progress at least on the inflation track back to target is at risk of becoming too slow? We suspect that for now the RBA will hold fire but sound more open to that possibility.

If an alternate question was asked, however, it might potentially yield a different policy conclusion. This question, first asked by RBA Governor Ian Macfarlane, is: *could the economy afford to grow more quickly without threatening inflation?* Governor Lowe has concluded in recent years that the risk of simply increasing indebtedness over-rode the pursuit of a faster return to target. That argument is somewhat harder to make when: (i) house prices are falling and lending growth slowing; (ii) funding pressures are pushing rates up out of cycle (though there may be other policy options that should be used ahead of an interest rate reduction); and (iii) the growth outlook does not look quite as rosy as two months ago (although some of these developments eg. trade wars and equity market weakness, may prove temporary).

Our conclusion is that the RBA Board will be much more focused on these downside risks in the near-term and as such, the market should be considering the risk of interest rates being reduced, if they are moved in the nearer term. If the economy can negotiate these near-term hurdles, and further progress be made on unemployment and inflation, then the next move in rates could still be upward, though not for some time.

In such situations in the past, the RBA has tended to await more information. The fact that the economy continues to perform reasonably well in spite of falling house prices and unemployment remains low, suggests this is the prudent course of action.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 4 February 2019								
CH	Public holiday - Lunar New Year						4 Feb to 8 Feb	
NZ	Building Permits MoM	Dec				-2	21.45	8.45
JN	Monetary Base YoY	Jan		4.6		4.8	23.50	10.50
AU	Melbourne Institute Inflation MoM / YoY	Jan		/		0.4/1.9	0.00	11.00
AU	Building Approvals MoM / YoY	Dec	1.5/-10.9	2/-10.9		-9.1/-32.8	0.30	11.30
AU	ANZ Job Advertisements MoM	Jan				0	0.30	11.30
NZ	Treasury Publishes Monthly Economic Indicators						1.00	12.00
US	Factory Orders	Nov		0.3		-2.1	15.00	2.00
US	Durable Goods Orders	Nov F		1.5		0.8	15.00	2.00
Tuesday, 5 February 2019								
US	PCE Core MoM / YoY	Dec		0.2/1.9		0.1/1.9	4 Feb to 8 Feb	
US	GDP Annualized QoQ	4Q A		2.6		3.4	4 Feb to 8 Feb	
US	GDP Price Index	4Q A		1.7		1.8	4 Feb to 8 Feb	
US	Core PCE QoQ	4Q A		1.6		1.6	4 Feb to 8 Feb	
AU	AiG Perf of Services Index	Jan				52.1	21.30	8.30
NZ	ANZ Commodity Price	Jan	2.50%			-0.2	0.00	11.00
AU	Trade Balance	Dec	2200	2225		1925	0.30	11.30
AU	Retail Sales MoM	Dec	-0.3	0		0.4	0.30	11.30
AU	Retail Sales Ex Inflation QoQ	4Q	0.5	0.5		0.2	0.30	11.30
US	Fed's Mester Discusses Economic Outlook and Monetary Policy						0.30	11.30
AU	RBA Cash Rate Target	5 Feb	1.5	1.5		1.5	3.30	14.30
GE	Markit Germany Services PMI	Jan F		53.1		53.1	8.55	19.55
EC	Retail Sales MoM / YoY	Dec		-1.6/0.5		0.6/1.1	10.00	21.00
CA	Canada trade data postponed by U.S. shutdown						13.30	0.30
US	Markit US Services PMI	Jan F		54.2		54.2	14.45	1.45
US	ISM Non-Manufacturing Index	Jan		57		57.6	15.00	2.00
Wednesday, 6 February 2019								
NZ	Public holiday - Waitangi Day							
US	Retail Sales Advance MoM / Ex Auto and Gas MoM	Dec		0.1/0.4		0.2/0.5	5 Feb to 15 Feb	
US	Housing Starts / Building Permits	Dec		1255/1290		1256/1328	5 Feb to 15 Feb	
US	Wholesale Inventories MoM	Dec P				0.3	5 Feb to 15 Feb	
US	Factory Orders	Dec		0.3		-2.1	5 Feb to 15 Feb	
US	Durable Goods Orders	Dec F		1.5		0.8	5 Feb to 15 Feb	
AU	RBA's Lowe Gives Speech in Sydney						1.30	12.30
GE	Factory Orders MoM / YoY	Dec		0.3/-6.7		-1/-4.3	7.00	18.00
US	MBA Mortgage Applications	1 Feb				-3	12.00	23.00
US	Trade Balance	Nov		-54		-55.5	13.30	0.30
CA	Building Permits MoM	Dec		-1		2.6	13.30	0.30
CA	Bank of Canada Deputy Governor Timoty Lane Speech						13.35	0.35
Thursday, 7 February 2019								
NZ	Dairy Auction Avg. Winning Price MT		stable			3057	early am	
NZ	N.Z. Government 6-Month Financial Statements	Dec					21.00	8.00
AU	AiG Perf of Construction Index	Jan				42.6	21.30	8.30
NZ	Unemployment Rate	4Q	4.2	4.1		3.9	21.45	8.45
NZ	Employment Change QoQ / YoY	4Q	0/2,3	0.3/2.6		1.1/2.8	21.45	8.45
NZ	Private LCI QoQ	4Q	0.6	0.6		0.5	21.45	8.45
US	Fed's Quarles Speaks on Bank Stress Testing						23.05	10.05
US	Fed Chairman Powell to Host Town Hall Meeting with Educators						0.00	11.00
AU	NAB Business Confidence	4Q				3	0.30	11.30
GE	Industrial Production SA MoM / YoY	Dec		0.8/-3.3		-1.9/-4.7	7.00	18.00
EC	ECB Publishes Economic Bulletin						9.00	20.00
EC	European Commission publishes Economic Forecasts						10.00	21.00
UK	Bank of England Bank Rate	7 Feb		0.75		0.75	12.00	23.00
UK	Bank of England Inflation Report						12.00	23.00
US	Initial Jobless Claims	2 Feb		222.5		253	13.30	0.30
US	Fed's Clarida Discusses Paper on Global Factor in Neutral Rate						14.30	1.30
Friday, 8 February 2019								
JN	BoP Current Account Balance	Dec		458.5		757.2	23.50	10.50
AU	RBA Statement on Monetary Policy						0.30	11.30
US	Fed's Bullard Speaks at St. Cloud State University						0.30	11.30
US	Trade Balance	Dec		-54		-55.5	13.30	0.30
CA	Housing Starts	Jan		205		213.419	13.15	0.15
CA	Hourly Wage Rate Permanent Employees YoY	Jan		1.59		1.5	13.30	0.30
CA	Net Change in Employment / Unemployment rate	Jan		5/5.7		9.3/5.6	13.30	0.30
Upcoming Central Bank Interest Rate Announcements								
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%		
US, Federal Reserve		20-Mar	2.25-2.5%	2.25-2.5%		2.25-2.5%		

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

FORECASTS

Economic Forecasts

	Annual % change				Quarterly % change															
					2017				2018				2019				2020			
Australia Forecasts	2017	2018	2019	2020	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	0.7	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
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
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
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
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
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
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
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
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
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**
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**
CPI headline - qtr %					0.5	0.2	0.6	0.6	0.4	0.4	0.4	1.0	0.6	0.4	0.4	0.8	0.5	0.6	0.6	0.7
CPI headline - ann %	1.9	2.0	2.4	2.4	2.1	1.9	1.8	1.9	1.9	2.1	1.9	2.2	2.4	2.4	2.4	2.2	2.1	2.3	2.5	2.5
CPI underlying - qtr %					0.5	0.6	0.3	0.5	0.5	0.4	0.3	0.5	0.5	0.5	0.5	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
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
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
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
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
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
% 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
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

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

Exchange Rate Forecasts

	4-Feb	Mar-19	Jun-19	Sep-19	Dec-19
Majors					
AUD/USD	**0.7250**	0.71	0.70	0.73	0.75
NZD/USD	**0.6897**	0.68	0.67	0.69	0.70
USD/JPY	**109.44**	113	113	110	108
EUR/USD	**1.1456**	1.17	1.18	1.20	1.23
GBP/USD	**1.3078**	1.35	1.40	1.43	1.45
USD/CHF	**0.9955**	0.98	0.98	0.99	0.97
USD/CAD	**1.3099**	1.31	1.31	1.27	1.27
USD/CNY	**6.7422**	6.88	6.82	6.68	6.60
Australian Cross Rates					
AUD/NZD	**1.0512**	1.04	1.04	1.06	1.07
AUD/JPY	**79.3**	80	79	80	81
AUD/EUR	**0.6329**	0.61	0.59	0.61	0.61
AUD/GBP	**0.5544**	0.53	0.50	0.51	0.52
AUD/CNY	**4.8881**	4.88	4.77	4.88	4.95
AUD/CAD	**0.9497**	0.93	0.92	0.93	0.95
AUD/CHF	**0.7217**	0.70	0.69	0.72	0.73

Interest Rate Forecasts

	4-Feb	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	**2.04**	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	**2.48**	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	**2.69**	2.80	2.80	3.00	3.00
New Zealand	**2.22**	2.85	3.10	3.20	3.30

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2015	2016	2017	2018	2019	2020	20 Yr Avge
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)

	4-Feb	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	62.7	85	80	77	78
Gold	1317	1276	1297	1305	1318
Iron ore	84.0	63	60	61	62
Hard coking coal	204	180	175	160	165
Thermal coal	98	105	103	101	100
Copper	6126	6350	6500	6600	6700
Aust LNG (*)	15.6	14.3	14.6	13.4	13.0

(*) Implied Australian LNG export prices.

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