

# AUSTRALIAN MARKETS WEEKLY



## Diagnosing the weakness in consumer spending

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- In this weekly, we explore the weakness in consumer spending, which helped drive the broader economic slowdown that took the RBA by surprise in the second half of last year. Our analysis suggests that weaker consumer spending reflects a combination of falling house prices, falling welfare payments and sluggish growth in wages. These trends seem likely to persist, which we think will lead to the RBA marking down its forecast for growth to accelerate sharply over the course of 2019.
- The flood of Australian data last week revealed weaker-than-expected Q4 GDP and January retail sales, confirming a less optimistic outlook for household activity against the RBA's forecast.
- NAB has changed its view on monetary policy and we now think that the RBA will make two rate cuts in 2019. Growth appears to have lost significant momentum, placing at risk further improvement in the labour market at a time when inflation poses little constraint on policy and financial stability risks have abated. We have pencilled in one 25bp cut to 1.25% in July and a further 25bp cut to 1% in November.
- We see the timing of a rate cut as very data dependent; any deterioration in the labour market would lead to cuts and this could happen earlier than financial markets currently anticipate. If, as we expect, the loss of momentum in private-sector activity seen in H2 2018 continues, then there is unlikely to be much improvement in the labour market despite its resilience to date. This means the RBA outlook for a further fall in unemployment to gradually lift wages and ultimately inflation is in doubt.
- Determining the timing of rate cuts is difficult, but we are forecasting two 25bp cuts in July and November. In this respect, we note that the RBA is independent and the political cycle should and will be irrelevant to the timing of a rate cut. With monetary policy being forward looking, we think the RBA will act this year on a "no regrets" basis to boost economic activity and to offset a likely (on our forecasts) increase in unemployment in 2020.
- On the data, this week promises a quieter schedule. The NAB Business Survey and home loan approvals on Tuesday are the highlights. For home loans, NAB expects a further decline of 2% in owner-occupier approvals, the same as the market consensus. RBA Deputy Governor Debelle speaks on "Climate change and the economy" on Tuesday. The topic does not suggest near-term policy relevance, though Q+A or any policy comments will be the first since Q4 GDP.
- Offshore this week, US President Trump is expected to release the 2020 Budget and UK Parliament votes again on PM May's Brexit deal. Data-wise, the US CPI on Tuesday is expected to rise 0.2% m/m after three months of flat prints. Chinese monthly activity figures on Thursday are important, as markets look for signs that easier policy is having an effect. Annual growth rates for retail sales and industrial production are expected to slow to 8.1% and 5.5%, from 9% and 6.2%, respectively, while growth in fixed assets investment is expected to stay broadly unchanged at 6%.

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

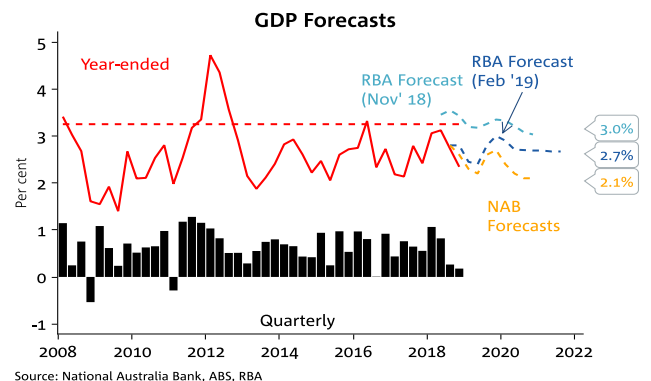
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

### Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7040	-0.7	RBA cash	1.50	0
AUD/CNY	4.73	-0.6	3y swap	1.68	-11
AUD/JPY	78.2	-1.3	ASX 200	6,190	-0.5
AUD/EUR	0.627	0.2	Iron ore	83	-0.5
AUD/NZD	1.035	-0.5	WTI oil	56.2	-0.7

Source: Bloomberg

### Chart of the week: RBA too optimistic on growth?



## Diagnosing the weakness in consumption

- The sharp slowdown in GDP in H2 2018 likely came as a surprise to the RBA. Growth is now well below the RBA's estimate of potential and we think the Bank will revise down its outlook for this year given housing construction has rolled over and consumer spending is showing broad-based weakness.
- To get a better sense of the drivers of spending, we have estimated a simple model, where consumption is determined by labour income, welfare payments, net housing wealth and financial assets.
- This model suggests that recent weakness in consumption reflects net housing wealth shrinking as house prices fall, welfare payments declining, partly a result of tougher eligibility requirements, and ongoing weak growth in real wages. These trends are likely to persist, raising the prospect that consumer spending continues to disappoint, underpinning subpar growth in the overall economy. This raises the risks that unemployment will not continue to fall.

### The economy slowed sharply in H2 2018, with growth tracking below estimates of potential

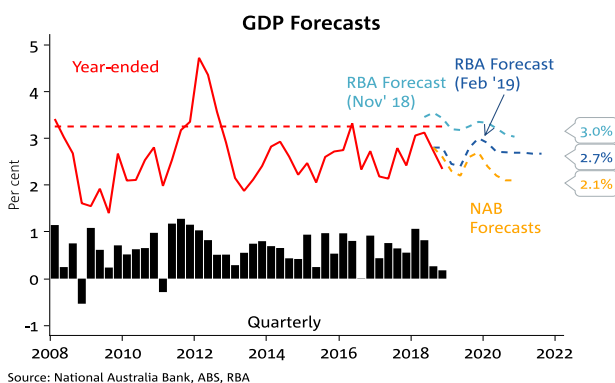
Last week's GDP figures revealed yet another weak quarter of activity, with GDP increasing by only 0.2% in the final quarter of 2018 after a 0.3% increase the previous quarter.

This marked slowdown in the second half of 2018 brought down the annual growth rate in GDP to 2.3%. This is below the Reserve Bank's recently-revised estimate of potential growth of 2.5-2.75% and well below the median of economist estimates of trend growth of 2.75% (NAB's estimate is for trend between 2.25 and 2.5%).

### The RBA has overestimated growth and we think it will mark down its outlook again

It is clear that the slowing in growth has come as a surprise to the Reserve Bank, where year-ended growth in Q4 2018 was 0.5ppt below the Bank's forecast of 2.8%, which was downgraded only last month.

Chart 1: The RBA has been surprised by the slowdown in the economy



Reserve Bank staff would now be updating the Bank's outlook ahead of the April Board meeting, where we think that the much weaker starting point will see the Bank revise down its forecast for 3% growth over the course of 2019.

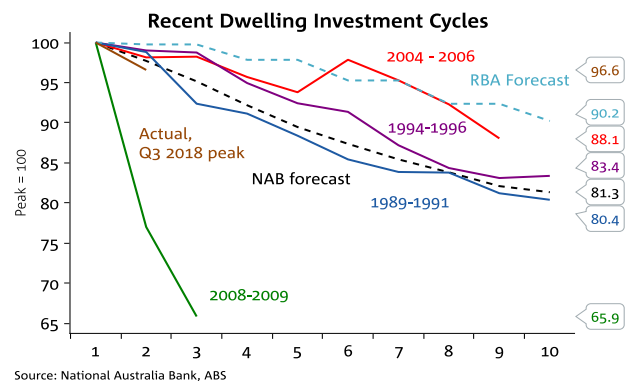
In our view, this forecast is unlikely to be met given the unfolding downturn in housing construction is likely to be much deeper than the Bank anticipated and with weak growth in consumer spending continuing (see Table 1 and Chart 2).

Table 1: The split of GDP in Q4 2018 relative to the RBA's revised February 2019 forecasts

	Levels		Quarterly		Year-ended		
	Dec-18	% ppt cont.		% ppt cont.	RBA f/c	% ppt cont.	
Household consumption	261905	0.42	0.2		2.1	2.0	1.1
Private investment	87307	-1.34	-0.3			0.3	0.1
Private business	54225	0.42	0.0		-0.9	0.9	0.1
Dwellings	26318	-3.41	-0.2		5.9	2.5	0.1
Ownership transfer costs	6764	-6.61	-0.1			-11.5	-0.2
Public	112664	1.50	0.4		4.2	5.5	1.3
Public consumption	89290	1.82	0.3			5.6	1.1
Public investment	23374	0.30	0.0			4.7	0.2
Net exports	1241		-0.2				0.7
Exports	99131	-0.67	-0.1		1.3	4.7	1.0
Imports	97890	0.12	0.0		5.4	1.5	0.3
Change in inventories	685		0.2				0.0
Stat. discrepancy	-2256		-0.1				-0.8
<b>Real GDP</b>	<b>461547</b>	<b>0.2</b>			<b>2.8</b>	<b>2.3</b>	

Source: National Australia Bank, ABS

Chart 2: Residential investment is turning down more sharply than the RBA's forecast in February



### The RBA is focused on the tension between weak growth and the solid labour market

Although the slowdown in growth started in Q3 2018, the Reserve Bank initially hesitated to believe the extent of the weakness. This was because slower growth jarred with evidence of a solid labour market, with the Bank placed more weight on strong employment gains and low unemployment over disappointing growth in output.

We think that the Bank's decision to initially downplay the weakness in GDP has been tested by the poor result for Q4, leaving the Reserve Bank less certain about the true health of the economy as it confronts the "growing tension between strong labour market data and softer GDP data."<sup>1</sup>

With growth running below the Reserve Bank's estimate of potential, we think that the Bank will find it hard to continue to forecast that unemployment will continue to edge lower and could factor in little further progress in the labour market. If this is correct, it follows that the Bank would find it harder to forecast a further pick-up in wage growth, such that growth and inflation would likely stay low for longer.

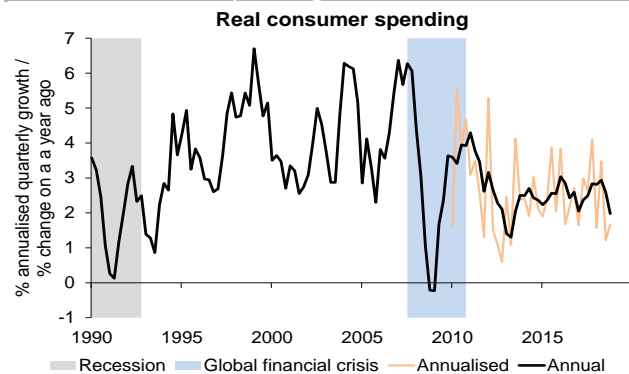
<sup>1</sup> See Reserve Bank Governor Lowe, *The housing market and the economy*, 6 March 2019 (<https://www.rba.gov.au/speeches/2019/sp-gov-2019-03-06.html>)

**Weak GDP growth reflects weak consumer spending**

In updating its forecasts, consumer spending will form a key part of the story for the Reserve Bank. This is because any rethink of the Bank’s view on the labour market has implications for consumption, which in turn drives GDP given it accounts for about 60% of output.

Moreover, consumption played a key role in the slowdown in GDP last year, with consumer spending posting the weakest growth in H2 2018 since the early 2010s, increasing at an annualised rate of only 1.2% in Q3 and 1.7% in Q4.

**Chart 3: Consumer spending was weak in H2 2018**



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

Importantly, the slowdown in consumer spending last year did not appear to be driven by any one-offs in the data, with the weakness relatively broadly based. This is seen in Table 2, which compares annual growth in each category of spending in Q4 2018 with growth in Q4 2017 and average growth over the 2010s to date.

**Table 2: Growth has slowed across most categories of consumer spending**

Real consumption by type of spending	Dec-17 % yoy	Dec-18 % yoy	Change from previous year pp	Average for 2010s to date % pa	Dec-18 % yoy	Difference from average pp
Food	3.9	3.6	-0.3	2.8	3.6	0.8
Tobacco	3.1	-6.4	-9.5	-4.8	-6.4	-1.6
Alcohol	2.5	0.3	-2.2	1.8	0.3	-1.5
Clothing	3.4	5.4	2.0	3.9	5.4	1.5
Rent	2.4	2.4	-0.1	2.3	2.4	0.1
Utilities	-2.5	-0.7	1.8	-1.2	-0.7	0.5
Furnishings & h'hold equipment	1.9	1.5	-0.3	3.6	1.5	-2.1
Health	3.5	4.5	1.1	4.3	4.5	0.3
Motor vehicles	1.6	-4.2	-5.9	4.1	-4.2	-8.3
Petrol	2.4	-0.8	-3.2	0.5	-0.8	-1.3
Transport services	0.6	3.6	3.0	0.7	3.6	2.9
Communications	5.5	4.5	-1.0	8.0	4.5	-3.5
Recreation	3.6	2.4	-1.2	2.5	2.4	-0.1
Education	2.1	1.5	-0.6	2.2	1.5	-0.7
Hospitality	5.8	0.4	-5.4	2.2	0.4	-1.8
Insurance	2.9	2.6	-0.3	3.1	2.6	-0.5
Other	1.5	1.1	-0.3	2.2	1.1	-1.0
<b>Total</b>	<b>2.8</b>	<b>2.0</b>	<b>-0.9</b>	<b>2.4</b>	<b>2.0</b>	<b>-0.5</b>

Source: Australian Bureau of Statistics, National Australia Bank

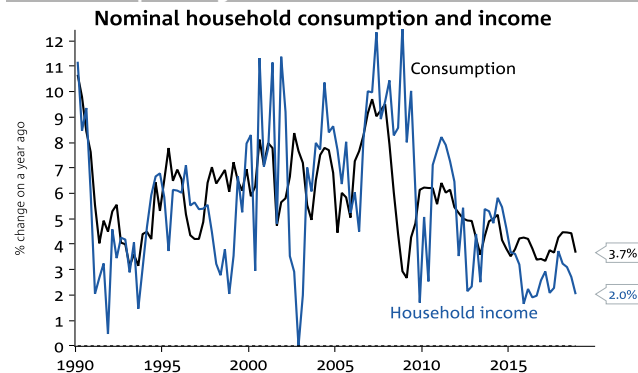
**We estimated a simple model for consumer spending**

To get a better sense of the drivers of the recent weakness in consumption, we estimated a simple model of spending, which covered income and wealth.

Income has been a key constraint on household spending over the past few years, with households spending at a faster rate than growth in income. Mindful, though that some consumers are credit-constrained, we split income into government welfare payments and wages.

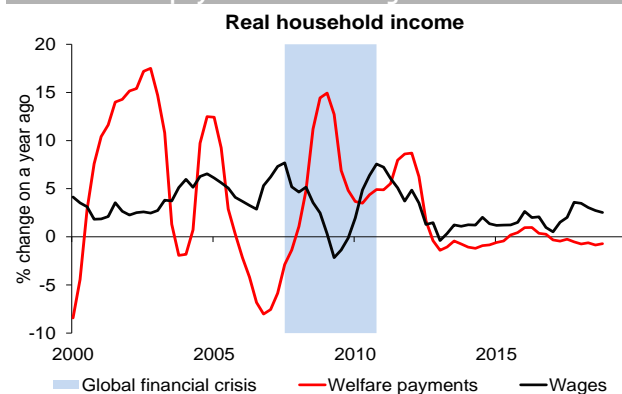
Wealth also matters, but is harder to measure. We opted to split housing and financial wealth, calculating housing wealth net of residential mortgages and splitting financial wealth into pension/insurance assets and other financial assets (ie. deposits, managed funds and equities).

**Chart 4: Weak income growth has been a constraint on consumer spending**



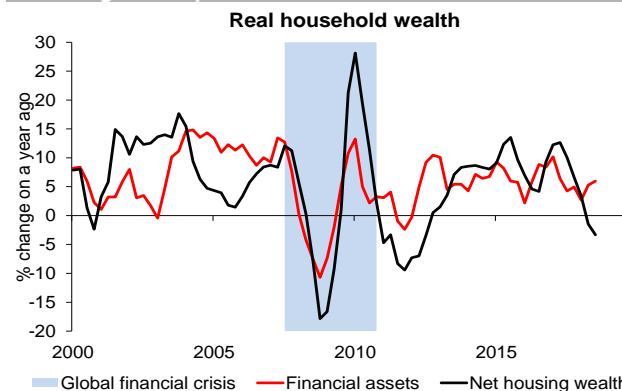
Source: National Australia Bank, ABS

**Chart 5: Labour income is growing at a modest rate, while welfare payments are falling**



Source: Australian Bureau of Statistics, Reserve Bank of Australia, National Australia Bank

**Chart 6: Net housing wealth is falling because of declining house prices**



Source: Australian Bureau of Statistics, Reserve Bank of Australia, National Australia Bank

Combining these indicators, we estimated an error-correction model of real consumer spending, specifying consumption as a long-run function of:

- Labour income;
- Welfare payments;
- Net housing wealth;
- Pension and insurance assets; and
- Other financial assets.<sup>2</sup>

<sup>2</sup> The model was specified in log terms and used quarterly data in real terms, where we deflated the series using the price deflator for consumer spending. We also seasonally adjusted the figures on household assets and debt.

We experimented with using other indicators in the model, including income tax, small business profits and other household debt, but had mixed results. We plan, though, to do further work on analysing the impact of taxation on spending.

The model was estimated using quarterly data over the period from 1988 to 2018, which meant that we covered both the last recession and the global financial crisis.

**Income is the main driver of consumer spending, with a small estimated wealth effect**

The model results showed that it explains about 30% of the variation in quarterly consumer spending. This may seem low, but is similar to other models estimated over the years.

The model results show income is a key driver of spending, with a small estimated wealth effect over the long term. This is seen in Table 3, which reports that over the long run:

- The marginal propensity to consume out of both net housing wealth and financial assets is 0.01.
- The marginal propensity to consume out of social welfare payments is about 0.8, while the marginal propensity to consume out of wages is roughly 0.7.

We did not find these results surprising, although we had thought that the propensity to consume out of welfare payments might have been closer to 1.

Also, note that while the marginal propensity to consume out of wealth is small, net housing wealth is declining at present given falling house prices, which is rare historically.

**Table 3: The estimated marginal propensity to consume out of wealth is small**

	Implied marginal propensity to consume
Net housing wealth	0.01
Pension & insurance assets	0.01
Other financial assets	0.01
Welfare payments	0.77
Labour income	0.65

Source: Australian Bureau of Statistics, Reserve Bank of Australia, National Australia Bank

**The model has overestimated consumer spending in recent years, but picked the recent slowdown**

In judging the model’s performance, it overstated growth in consumer spending in 2015 and 2016, although it has correctly picked the recent slowdown in spending. That is, after estimated annualised growth of about 3% through 2017, the model forecast growth to slow to 1.25-1.5% from Q2 through to Q4 2018.

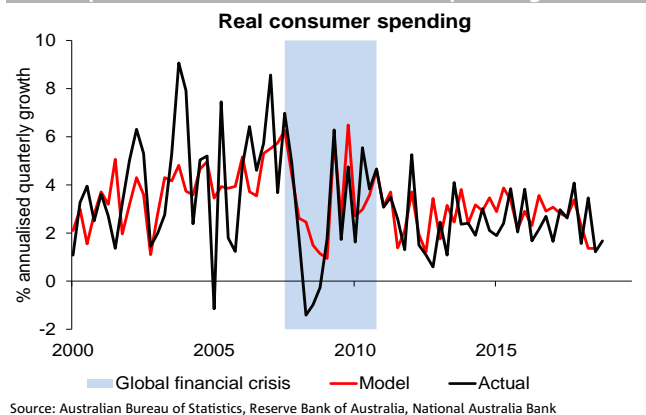
Using the model to get a better understanding of what has driven the slowdown in spending, it mainly reflects falling net household wealth and lower welfare payments, with wages having a smaller effect.

The spillover from net housing wealth may be surprising, but the model showed that housing has both a short- and long-run influence on spending and, as seen in Chart 6, wealth is shrinking at present.

As for the role of welfare payments, other work suggests that the spillover reflects the fact that the number of unemployment benefit recipients and aged and disability support pensioners is falling relative to the population.

In part, this reflects tougher welfare eligibility requirements.

**Chart 7: After overstating growth in 2015 and 2016, the model picked the recent slowdown in spending**



**Ongoing weakness in consumption points to sluggish growth in GDP**

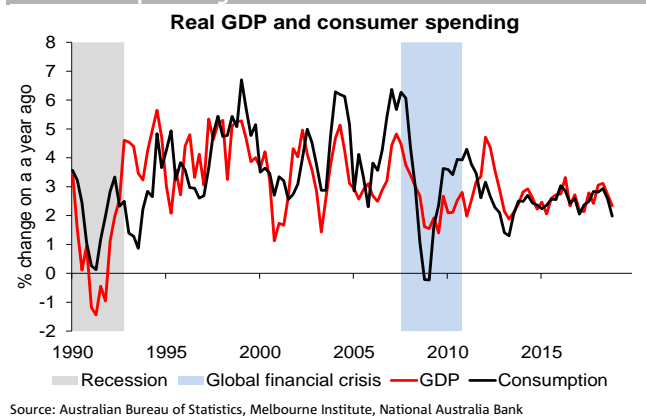
We think that these trends are likely to continue this year – net housing wealth should fall as house prices remain under pressure, welfare payments are likely to remain constrained, and growth in labour income should stay sluggish.

Mindful that our model only provides a rough fit of consumer spending, these drivers suggest that growth in consumer spending could stay weaker for longer.

If that is the case, then the risk is that this is reflected in continued subpar growth in GDP, particularly when growth in output now closely tracks growth in consumption (see Chart 8).

This reinforces our view that the Reserve Bank is likely to change course on monetary policy, cutting the rate to 1% to boost the economy.

**Chart 8: Growth in GDP has converged to growth in consumer spending**



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# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 11 March 2019</b>								
CH	Foreign Direct Investment YoY CNY	Feb				4.8	11 to 18 March	
NZ	Electronic Card Transactions	Feb	0.2	0.2	0.1	2	21.45	8.45
JN	Machine Tool Orders YoY	Feb P				-18.8	6.00	17.00
GE	Industrial Production SA MoM / YoY	Jan		0.5/-3.3		-0.4/-3.9	7.00	18.00
US	Retail Sales Advance MoM	Jan		0		-1.2	12.30	23.30
UK	BOE's Haskel Speaks in Birmingham						13.00	0.00
<b>Tuesday, 12 March 2019</b>								
NZ	ANZ Truckometer Heavy MoM	Feb				3.5	21.00	8.00
AU	NAB Business Conditions	Feb				7	0.30	11.30
AU	NAB Business Confidence	Feb				4	0.30	11.30
AU	Home Loans MoM	Jan	-2	-2		-6.1	0.30	11.30
AU	RBA's Debelle Gives Speech in Sydney						6.30	17.30
UK	Monthly GDP 3M/3M Change	Jan		0.2		0.3	9.30	20.30
UK	Trade Balance	Jan		-3500		-3229	9.30	20.30
UK	Industrial Production MoM / YoY	Jan		0.2/-1.3		-0.5/-0.9	9.30	20.30
UK	GDP (MoM)	Jan		0.2		-0.4	9.30	20.30
US	NFIB Small Business Optimism	Feb		102		101.2	10.00	21.00
US	CPI MoM / YoY	Feb		0.2/1.6		0/1.6	12.30	23.30
US	CPI Ex Food and Energy MoM / YoY	Feb		0.2/2.2		0.2/2.2	12.30	23.30
<b>Wednesday, 13 March 2019</b>								
NZ	Food Prices MoM	Feb	-0.5			1	21.45	8.45
AU	Westpac Consumer Conf Index	Mar				103.8	23.30	10.30
JN	PPI MoM	Feb		0.1		-0.6	23.50	10.50
JN	Core Machine Orders MoM / YoY	Jan		-1.5/-2.1		-0.1/0.9	23.50	10.50
EC	Industrial Production SA MoM / YoY	Jan		1/-2.1		-0.9/-4.2	10.00	21.00
US	MBA Mortgage Applications	8 Mar				-2.5	11.00	22.00
US	PPI Final Demand MoM / YoY	Feb		0.2/1.9		-0.1/2	12.30	23.30
US	Durable Goods Orders / Cap Goods Orders Nondef Ex Air	Jan P		-0.5/0.2		1.2/-1	12.30	23.30
US	Construction Spending MoM	Jan		0.4		-0.6	14.00	1.00
<b>Thursday, 14 March 2019</b>								
AU	Consumer Inflation Expectation	Mar				3.7	0.00	11.00
CH	Fixed Assets Ex Rural YTD YoY	Feb		6		5.9	2.00	13.00
CH	Industrial Production YTD YoY	Feb		5.5		6.2	2.00	13.00
CH	Retail Sales YTD YoY	Feb		8.1		9	2.00	13.00
CH	Property Investment YoY	Feb				9.5	2.00	13.00
GE	CPI MoM / YoY	Feb F		0.5/1.6		0.5/1.6	7.00	18.00
CA	New Housing Price Index MoM	Jan		0		0	12.30	23.30
US	Initial Jobless Claims	9 Mar		225		223	12.30	23.30
US	New Home Sales	Jan		622		621	14.00	1.00
<b>Friday, 15 March 2019</b>								
NZ	BusinessNZ Manufacturing PMI	Feb				53.1	21.30	8.30
NZ	Net Migration SA	Jan				5080	21.45	8.45
CA	Bank of Canada Wilkins Speech						22.50	9.50
JN	BOJ Policy Balance Rate	15 Mar				-0.1	around 2pm	
EC	EU27 New Car Registrations	Feb				-4.6	7.00	18.00
EC	CPI MoM / YoY	Feb		0.3/1.5		-1/1.4	10.00	21.00
CA	Manufacturing Sales MoM	Jan		0.4		-1.3	12.30	23.30
US	Empire Manufacturing	Mar		10		8.8	12.30	23.30
US	Industrial Production MoM	Feb		0.4		-0.6	13.15	0.15
US	Capacity Utilization	Feb		78.5		78.2	13.15	0.15
US	U. of Mich. Sentiment	Mar P		95.5		93.8	14.00	1.00
US	U. of Mich. Expectations	Mar P				84.4	14.00	1.00
US	Total Net TIC Flows	Jan				-33.1	20.00	7.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
UK, BOE		21-Mar	0.75%	0.75%		0.75%		
New Zealand, RBNZ		27-Mar	1.75%	1.75%		1.75%		
Australia, RBA		2-Apr	1.5%	1.5%		1.5%		
Europe, ECB		10-Apr	-0.4%	-0.4%		-0.4%		
Canada, BoC		24-Apr	1.75%	1.75%		1.75%		

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

# FORECASTS

## Economic Forecasts

	Annual % change				Quarterly % change														
	2018	2019	2020	2017				2018				2019				2020			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Australia Forecasts</b>																			
Household Consumption	2.5	2.1	2.4	0.4	0.8	0.6	1.1	0.3	0.9	0.3	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Underlying Business Investment	1.6	3.8	5.7	3.3	0.3	3.7	0.4	0.8	-0.8	-2.5	1.6	1.3	1.7	2.2	1.2	1.2	1.3	1.0	1.7
Residential Construction	4.7	-7.7	-8.6	-3.8	0.2	-1.3	0.3	3.8	1.9	1.0	-3.4	-2.6	-3.1	-3.0	-2.3	-2.2	-1.9	-2.1	-0.9
Underlying Public Spending	4.3	4.1	4.5	1.1	1.4	1.0	1.1	1.4	0.5	1.5	1.4	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	5.1	3.7	2.5	-1.9	2.8	0.8	-1.5	4.3	1.2	0.1	-0.4	1.8	1.5	1.0	0.6	0.5	0.5	0.4	0.6
Imports	3.8	1.6	3.7	3.0	0.2	3.3	0.6	1.9	0.5	-1.5	0.5	0.5	0.8	1.0	0.9	0.9	0.9	0.8	1.1
Net Exports (a)	0.3	0.5	-0.2	-1.0	0.5	-0.5	-0.5	0.5	0.2	0.3	-0.2	0.3	0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Inventories (a)	0.1	-0.1	0.0	0.4	-0.7	0.3	0.1	0.1	0.1	-0.3	0.2	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	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Dom Demand - ann %	2.9	1.9	2.5	2.2	2.5	3.5	3.2	3.4	3.2	2.7	2.5	1.7	1.6	2.0	2.3	2.4	2.5	2.4	2.6
Real GDP - % q/q				0.4	0.8	0.6	0.5	1.0	0.9	0.3	0.2	0.8	0.7	0.6	0.5	0.5	0.6	0.5	0.7
Real GDP - % y/y	2.8	2.2	2.2	2.2	2.1	2.8	2.4	3.0	3.1	2.8	2.3	1.9	1.8	2.2	2.7	2.4	2.2	2.1	2.2
CPI headline - qtr %				0.5	0.2	0.6	0.6	0.4	0.4	0.4	0.5	0.2	0.6	0.6	0.8	0.5	0.6	0.6	0.7
CPI headline - ann %	1.9	1.9	2.6	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.8	1.5	1.8	2.0	2.2	2.6	2.6	2.6	2.5
CPI underlying - qtr %				0.5	0.6	0.3	0.5	0.5	0.4	0.3	0.4	0.5	0.6	0.5	0.6	0.6	0.6	0.5	0.5
CPI underlying - ann %	1.8	1.9	2.3	1.7	1.9	1.9	1.9	2.0	1.8	1.7	1.7	1.6	1.8	2.0	2.2	2.3	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
Wages (Pvte WPI - ann %)	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 (%)	5.3	4.9	4.9	5.9	5.6	5.5	5.4	5.5	5.6	5.1	5.1	5.0	4.9	4.9	4.9	4.9	4.8	4.9	4.9
Terms of trade	1.3	-1.1	-0.1	5.3	-5.9	-0.1	-0.1	3.1	-1.1	0.9	2.4	-3.8	0.3	-1.9	0.9	0.6	-0.3	-0.9	0.1
G&S trade balance, \$Abn	23.1	22.1	16.6	6.7	3.3	0.9	-1.2	4.2	3.9	6.6	8.4	5.5	6.7	4.6	5.3	5.5	4.8	3.3	3.0
% of GDP	1.2	1.1	0.8	1.5	0.7	0.2	-0.3	0.9	0.8	1.4	1.7	1.1	1.4	0.9	1.1	1.1	0.9	0.6	0.6
Current Account (% GDP)	-2.2	-2.4	-2.7	-1.6	-2.4	-2.9	-3.4	-2.3	-2.6	-2.2	-1.8	-2.4	-2.2	-2.6	-2.5	-2.4	-2.6	-2.8	-2.9

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

## Exchange Rate Forecasts

	11-Mar	Mar-19	Jun-19	Sep-19	Dec-19
<b>Majors</b>					
AUD/USD	0.7035	0.71	0.70	0.73	0.75
NZD/USD	0.6796	0.68	0.67	0.69	0.70
USD/JPY	111.05	113	113	110	108
EUR/USD	1.1232	1.15	1.18	1.20	1.23
GBP/USD	1.2974	1.35	1.40	1.43	1.45
USD/CHF	1.0085	0.98	0.98	0.99	0.97
USD/CAD	1.3427	1.31	1.31	1.27	1.27
USD/CNY	6.7229	6.75	6.70	6.68	6.60

### Australian Cross Rates

AUD/NZD	1.0352	1.04	1.04	1.06	1.07
AUD/JPY	78.1	80	79	80	81
AUD/EUR	0.6263	0.62	0.59	0.61	0.61
AUD/GBP	0.5422	0.53	0.50	0.51	0.51
AUD/CNY	4.7296	4.79	4.69	4.88	4.92
AUD/CAD	0.9446	0.93	0.92	0.93	0.95
AUD/CHF	0.7095	0.70	0.69	0.72	0.72

## Interest Rate Forecasts

	11-Mar	Mar-19	Jun-19	Sep-19	Dec-19
<b>Australia Rates</b>					
RBA Cash rate	1.50	1.50	1.50	1.25	1.00
3 month bill rate	1.86	1.90	1.80	1.60	1.30
3 Year Swap Rate	1.68	1.63	1.45	1.35	1.35
10 Year Swap Rate	2.26	2.20	2.08	2.08	2.08
<b>Offshore Policy Rates</b>					
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
<b>10-year Benchmark Bond Yields</b>					
Australia	2.03	2.40	2.40	2.50	2.60
United States	2.64	2.80	2.80	3.00	3.00
New Zealand	2.07	2.85	3.10	3.20	3.30

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

Dec year	20 Yr						
	2015	2016	2017	2018	2019	2020	Avg
Australia	2.5	2.6	2.4	2.8	2.2	2.2	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	1.4	1.6	1.5
UK	2.3	1.8	1.8	1.4	1.3	1.6	2.4
Japan	1.4	1.0	1.9	0.8	0.9	0.6	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	3.9	3.1	2.8	2.6	2.6	3.0
World	3.5	3.3	3.8	3.7	3.5	3.5	3.5
MTP Top 5	4.1	3.8	4.3	4.0	3.6	3.4	5.0

## Commodity prices (\$US)

	11-Mar	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	65.9	60	65	65	70
Gold	1297	1300	1320	1330	1350
Iron ore	81.4	84	82	78	76
Hard coking coal	207	200	193	178	170
Thermal coal	96	95	93	98	95
Copper	6412	6100	6250	6400	6300
Aust LNG (*)	16.3	14.0	11.3	11.6	11.4

(\*) Implied Australian LNG export prices.

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