

AUSTRALIAN MARKETS WEEKLY



WA: Only creeping progress likely for now

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- In this Weekly, we delve further into the state of the WA economy.
- The state economy has seen some large fluctuations this decade, first from the boom, then, in recent years, the subsequent winding down in activity as major resource projects were completed. As the resources sector cooled, alongside commodity prices, a renewed focus on cost control ensued after the earlier heady days.
- For over a year now though, the resources sector has been spending money again. There has been a pick-up in operational expenditure to maintain production guidance. Further, the major iron ore producers also now working to bring on line new mines to replace aging assets in coming years.
- A recent trip across to the West to speak with clients confirmed that with the increase in resource sector activity, large “yellow toys” are now fully employed and busy. Contacts did point to labour shortages in some professions but are not rushing to pay “overs”; rather managing their costs and businesses through training and sequencing work. Resource exports are continuing to run at a high level, close to, if not at, peak capacity levels.
- Meanwhile the domestic side of the WA still looks bruised. Residential markets have seen still very low levels of new dwelling sales and very subdued levels of related development and construction activity. Prices in some suburbs did show an element of revival in 2017/18 as resources activity revived, but prices have failed to kick on. Though last year Perth prices fell as they did across in the East.
- The residential rental market is closer to being in balance, rentals and prices now “cheap” relative to other State/Territory capitals, but may well remain that way until demographics turn and lift the underlying demand for housing.
- Until business momentum can build and then coalesce with a return of improving demographics form a virtuous circle for the WA economy, growth is likely to languish overall.
- Australian data last week was marked by confirmation in the NAB Survey that Business Conditions are continuing to slow through February. The market is now fully discounting a RBA cut by September. This week’s key market moving events include the RBA Minutes tomorrow and Thursday’s February Labour Force report where we look for a steady unemployment rate of 5.0% but no headline growth in employment after last month’s 39.1K outsized gain. Sample rotation factors are also a headwind this month.
- Offshore this week, Brexit news will occupy market focus as the UK Government endeavours to put together a deal that would be backed by Commons’ MPs. The end of March looms, a date predetermined two years ago when Brexit would occur. The FOMC release their latest forecasts for the economy and the dot plot Fed funds forecasts. At least one of the two previously forecast further rises for this year are expected to be removed from FOMC member forecasts.

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

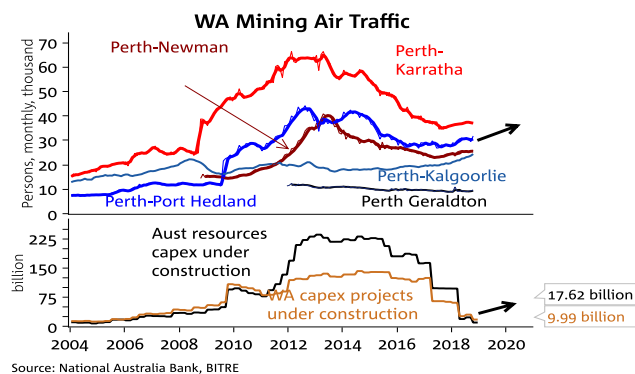
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week	Last	bp/% chg week
AUD	0.7086	0.6	RBA cash	1.50 0
AUD/CNY	4.76	0.6	3y swap	1.63 -6
AUD/JPY	79.0	0.8	ASX 200	6,193 0.2
AUD/EUR	0.626	-0.1	Iron ore	87 8.1
AUD/NZD	1.035	0.0	WTI oil	58.3 2.6

Source: Bloomberg

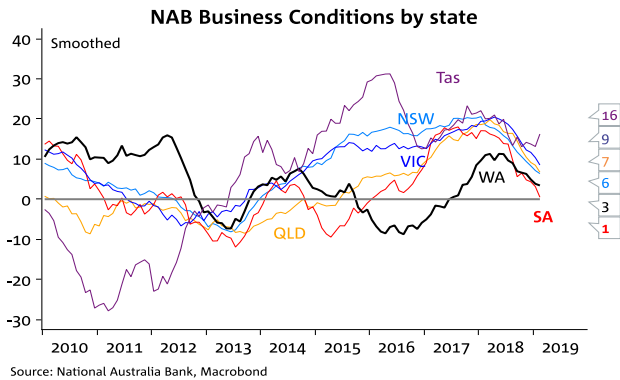
Chart of the week: Revival in WA resources activity



WA: Only creeping progress likely for now

The NAB Business Survey for February pointed out that, after some underlying revival in WA Business Conditions though 2017 and early 2018, as 2018 progressed and into this year, the revival has dissipated. By February, business conditions in the West had also pulled back to below national average.

Chart 1: WA momentum slowing again recently



The recent national accounts reflected the softer state of the national economy but also the still weakened growth picture in WA.

Full state growth numbers (Gross State Product) are only released annually and this financial year's won't be available until the 18/19 state growth report is released late this year. As a partial substitute, the recent national GDP report painted a picture of a still bruised WA activity through the prism of State Final Demand (SFD). (SFD includes private consumption, business investment, and government spending. Note that SFD does not include external trade, exports a particularly important sector for the WA economy. SFD can thus give a misleading impression of State economic growth.)

The December quarter national accounts revealed SFD for WA had weakened again this last half after hints of stability in the previous year. WA SFD was contracting again, a decline of 1.6% y/y over the year to the December quarter, contraction evident on an almost continuous basis since resources sector construction activity peaked in 2012.

Some of this seemed to represent the closing elements of the wind down in spending as the new major LNG projects were completed. But there were also signs of continuing weakness in consumer spending, weak levels of real estate-driven construction activity and uneven public sector spending.

2018 a cautious turning point for resources activity

Seeds of a turnaround in the WA resources sector began to emerge in the latter part of 2017. Through 2017, apart from work associated with the completion of major projects, contracts for new work continued in short supply as the larger companies focussed on preserving cash and cutting costs after the heady days of the boom.

From late 2017, new contracts for work – much of it associated with catch up investment to sustain production – began to appear. That revival in work continued through 2018 and into this year.

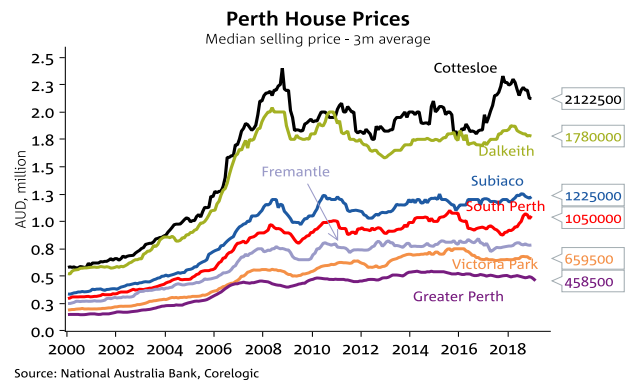
A recent trip across to the West confirmed that there is now an excess demand for the large “yellow toys” used in mine production. Not only are the large items of mining kit in short supply but so are specialised parts, supply lags now longer, including wait times for the specialised nature of the equipment involved. Wait times of nine months or longer for new items of specialised equipment are being quoted by industry contacts.

The industry also reports that while the volume of work on the ground is picking up again, it's far from looking and feeling like the previous boom. The level of competition for contracts remains vigorous and those with work on offer are reportedly managing costs closely.

Real estate remains very soft

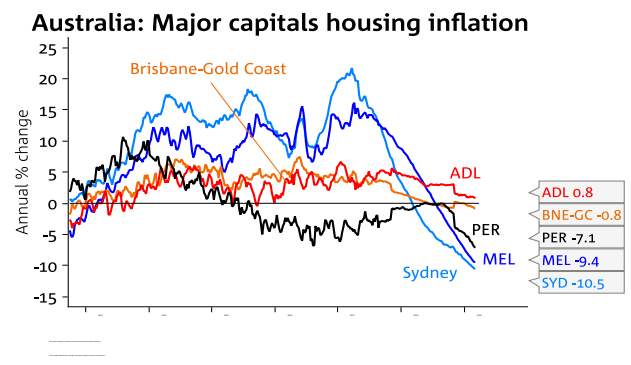
There were early hints of a recovery in the Perth residential real estate market during the latter part of 2017 and in the first part of 2018, perhaps picking up on the mining sector revival. Prices in some of the higher-priced suburbs moved higher as some buyers anticipated a fuller recovery after an extended period of weakness.

Chart 2: Still volatile Perth suburban prices



However, the residential market failed to kick on. The market softened again, prices moving lower, prices generally in Perth almost moving in lock step with the growing weakness seen in the major Eastern seaboard markets.

Chart 3: Perth prices still declining

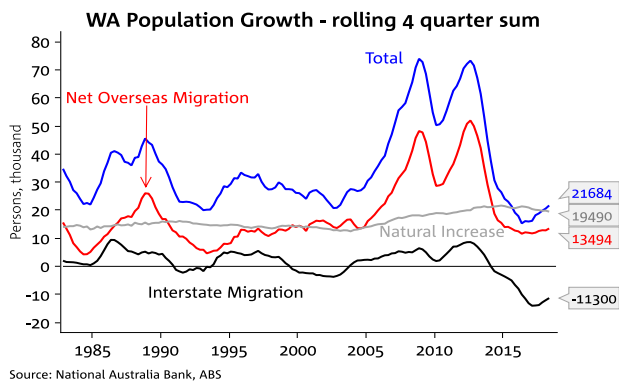


Unhelpful demographics

Hampering the Perth market has been a combination of continued over-supply of unsold property and the continued demand headwind from the outflow of people

leaving the West to find work in the East. Over the year to the June quarter of 2018, nearly all (19,490 of the 21,684 net increase in WA’s population) of the growth in the population was accounted for by “natural increase”.

Chart 4: Still people leaving the West

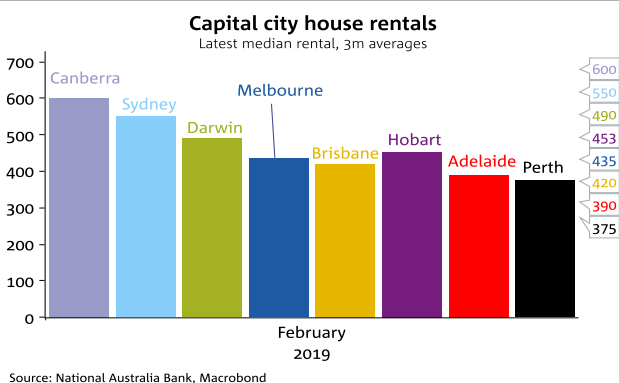


As one property observer at a recent meeting remarked recently in Perth, more babies doesn’t mean more households. There was a 13,494 net inflow of international migrants into WA, but this was virtually offset by a net outflow interstate of 11,300. The net result was little to no growth in the implied underlying demand for housing, into a market that remains over-supplied. Sales of new dwellings reportedly remains very weak, new residential construction activity also. New residential construction in WA is at the weakest level for 15 years.

Rental vacancy rate declining

Seemingly running against the grain of what might be suggested from absent growth in underlying demand, Perth’s residential vacancy rate has now fallen back to 2.8%, the lowest in five years.

Chart 5: Renting is cheap in Perth



This stemmed not from underlying demographics but an increased demand in the existing population to rent. (The vacancy rate had peaked at 7.3% in June 2017.) Industry observers reported that reasons for a declining vacancy rate included the increased attractiveness of renting (eg less sharing) and some decline in the available stock of rentals.

We also observe that Perth is currently the cheapest place to rent among *all* the State and Territory capitals, house rentals even cheaper than in Hobart and Adelaide! There are early signs also that rental rates in Perth are beginning to bottom.

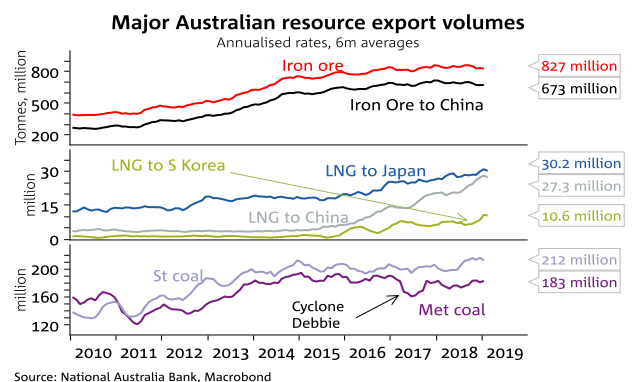
Business contacts in Perth report that retailing sector conditions remain difficult in the West, more so than even the weakened levels evident in the East in recent times. Household consumption in WA grew by 0.5% over the year to the December quarter of 2018, suggestive of some squeeze in rates of per capita consumption. Retail sales levels have been virtually static now since 2015, though there are some encouraging signs of somewhat better trading conditions in recent months, ABS data reveals.

Exports a mainstay until demographics offer support

Until economic growth can coalesce with improving demographics to virtuous circle for the WA economy, growth is likely to languish overall.

The export sector has always been at the cutting edge of the WA economic story, exports accounting for 53.9% of the nominal WA economy in 2017/18, exports of goods and services accounting for 34.6% on the national total.

Chart 6: Resource exports growth mostly done



The new LNG plants have been in production ramp up phase, shipments to China rising commensurately. Iron ore shipments have continued at a high absolute level, at an annual rate of just under 830mt, little changed from the year before. Shipment volumes were (350mt) less than a decade ago.

The further step up in iron ore prices has been producing enhanced cash flow for iron ore producers, even if at the expense of production difficulties currently being faced by Brazil’s and the world’s largest producer Vale. The WA State Government also stands to benefit as a result of the resilience in the iron ore price, in the region of \$1bn. (There is a larger spin off for the Commonwealth Government.)

Farmers are waiting now for a good autumn break before grain sowing can commence in earnest.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT	
Monday, 18 March 2019									
NZ	Performance Services Index	Feb				56.3	21.30	8.30	
JN	Trade Balance	Feb		305.1		-1415.236	23.50	10.50	
NZ	Non Resident Bond Holdings	Feb				54.1	2.00	13.00	
JN	Industrial Production MoM / YoY	Jan F		/		-3.7/0	4.30	15.30	
EC	Trade Balance SA	Jan		15		15.6	10.00	21.00	
Tuesday, 19 March 2019									
NZ	Dairy Auction Avg. Winning Price MT	19 March				3271	early am		
NZ	Westpac Consumer Confidence	1Q				109.1	20.00	7.00	
AU	RBA's Kent gives speech in Sydney, Bonds and Benchmarks						22.00	9.00	
JN	The BOJ releases 4Q Money Flow						23.50	10.50	
AU	House Price Index QoQ / YoY	4Q		-2/-5		-1.5/-1.9	0.30	11.30	
AU	RBA Minutes of March Policy Meeting						0.30	11.30	
UK	Claimant Count Rate	Feb				2.8	9.30	20.30	
UK	Jobless Claims Change	Feb				14.2	9.30	20.30	
UK	ILO Unemployment Rate 3Mths	Jan		4		4	9.30	20.30	
GE	ZEW Survey Current Situation / Expectations	Mar		13/-11		15/-13.4	10.00	21.00	
US	Durable Goods Orders	Jan F		0.4		0.4	14.00	1.00	
Wednesday, 20 March 2019									
NZ	BoP Current Account Balance NZD	4Q		-3.55		-6.149	21.45	8.45	
AU	Westpac Leading Index MoM	Feb				-0.01	23.30	10.30	
JN	BOJ Minutes of January Policy Meeting						23.50	10.50	
AU	RBA's Bullock gives speech in Perth						0.00	11.00	
JN	Machine Tool Orders YoY	Feb F				-29.3	6.00	17.00	
UK	CPI MoM / YoY	Feb		0.4/1.8		-0.8/1.8	9.30	20.30	
UK	RPI MoM	Feb		0.7/2.5		-0.9/2.5	9.30	20.30	
US	MBA Mortgage Applications	15 March				2.3	11.00	22.00	
US	FOMC Rate Decision	20 March	2.25/2.5	2.25/2.5		2.25/2.5	18.00	5.00	
US	Interest Rate on Excess Reserves	44256		2.4		2.4	18.00	5.00	
Thursday, 21 March 2019									
NZ	GDP SA QoQ / YoY	4Q	0.5/2.4	0.6/2.5		0.3/2.6	21.45	8.45	
AU	Employment Change / Unemployment Rate	Feb	0/5	15/5		39.1/5	0.30	11.30	
AU	Participation Rate	Feb	65.6	65.7		65.7	0.30	11.30	
NZ	Credit Card Spending YoY	Feb				6.9	2.00	13.00	
EC	ECB Publishes Economic Bulletin								
UK	PSNB ex Banking Groups	Feb		0.4		-14.9	9.30	20.30	
UK	Retail Sales Inc Auto Fuel MoM / YoY	Feb		-0.4/3.3		1/4.2	9.30	20.30	
UK	Bank of England Bank Rate						0.75	12.00	23.00
UK	BOE Asset Purchase Target	Mar		435		435	12.00	23.00	
CA	Wholesale Trade Sales MoM	Jan		0.5		0.3	12.30	23.30	
US	Philadelphia Fed Business Outlook	Mar		5		-4.1	12.30	23.30	
US	Initial Jobless Claims	16 March		225		229	12.30	23.30	
US	Leading Index	Feb		0.1		-0.1	14.00	1.00	
EC	Consumer Confidence	Mar A		-7.1		-7.4	15.00	2.00	
Friday, 22 March 2019									
JN	Natl CPI YoY / ex Fresh Food YoY	Feb		0.3/0.8		0.2/0.8	23.30	10.30	
JN	Nikkei Japan PMI Mfg	Mar P				48.9	0.30	11.30	
GE	Markit/BME Germany Manufacturing PMI						48	8.30	19.30
GE	Markit Germany Services PMI						54.8	8.30	19.30
EC	Markit Eurozone Manufacturing PMI						49.5	9.00	20.00
CA	Retail Sales MoM	Jan		0.4		-0.1	12.30	23.30	
CA	CPI NSA MoM / YoY						0.6/1.4	12.30	23.30
CA	CPI Core- Common YoY%	Feb		1.8		1.9	12.30	23.30	
CA	CPI Core- Median YoY%	Feb		1.8		1.8	12.30	23.30	
CA	CPI Core- Trim YoY%	Feb		1.8		1.9	12.30	23.30	
US	Markit US Manufacturing PMI						53.6	13.45	0.45
US	Markit US Services PMI						55.8	13.45	0.45
US	Wholesale Inventories MoM	Jan		0.1		1.1	14.00	1.00	
Upcoming Central Bank Interest Rate Announcements									
Japan, BoJ		25-Apr	-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	
Australia Forecasts																				
Household Consumption	2.6	2.0	2.4	0.4	0.7	0.7	1.0	0.4	0.9	0.3	0.4	0.4	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Underlying Business Investment	1.4	2.3	5.1	3.4	0.2	3.9	0.2	0.9	-1.1	-1.8	0.4	1.1	1.5	1.2	1.6	1.0	1.5	1.0	1.2	1.2
Residential Construction	4.4	-7.8	-8.1	-4.1	-0.1	-1.4	0.9	3.4	2.2	0.5	-3.4	-2.1	-3.0	-2.9	-2.1	-2.1	-1.8	-1.9	-0.9	-0.9
Underlying Public Spending	5.1	5.6	4.5	1.3	1.3	1.1	0.7	1.6	0.6	2.5	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	5.0	2.6	2.5	-2.2	2.9	0.8	-1.4	4.1	1.3	-0.1	-0.7	1.1	1.4	1.1	0.6	0.5	0.5	0.4	0.6	0.6
Imports	4.2	1.7	3.6	2.8	0.1	3.2	1.0	1.8	0.6	-1.0	0.1	0.6	0.9	0.7	1.0	0.9	1.0	0.8	1.0	1.0
Net Exports (a)	0.2	0.2	-0.2	-1.0	0.6	-0.5	-0.5	0.5	0.1	0.2	-0.2	0.1	0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Inventories (a)	0.0	-0.1	0.0	0.4	-0.7	0.3	0.1	0.1	0.1	-0.3	0.2	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%				0.7	0.8	0.9	0.8	0.9	0.7	0.5	0.3	0.5	0.6	0.5	0.6	0.6	0.7	0.6	0.7	0.7
Dom Demand - ann %	3.0	1.9	2.4	2.2	2.5	3.5	3.3	3.4	3.3	2.9	2.5	1.7	1.6	2.0	2.3	2.3	2.4	2.5	2.6	2.6
Real GDP - % q/q				0.4	0.8	0.6	0.6	1.1	0.8	0.3	0.2	0.6	0.8	0.5	0.6	0.5	0.6	0.5	0.6	0.6
Real GDP - % y/y	2.8	2.1	2.3	2.2	2.1	2.8	2.4	3.1	3.1	2.7	2.3	1.9	1.8	2.2	2.5	2.4	2.2	2.2	2.2	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	0.7
CPI headline - ann %	1.9	1.9	2.5	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.8	1.5	1.8	2.0	2.3	2.6	2.6	2.5	2.4	2.4
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	0.5
CPI underlying - ann %	1.8	1.9	2.2	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	2.2	2.2
Wages (Pvte WPI - qtr %)				0.5	0.5	0.5	0.5	0.5	0.6	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 %)	2.1	2.5	2.7	1.8	1.8	1.9	1.9	1.9	2.1	2.1	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Unemployment Rate (%)	5.3	5.1	5.1	5.9	5.6	5.5	5.4	5.5	5.6	5.1	5.0	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.2
Terms of trade	1.5	-1.2	-0.1	5.4	-5.9	-0.1	-0.1	3.1	-1.1	0.9	3.1	-3.8	-0.1	-1.9	0.9	0.6	-0.3	-0.9	0.1	0.1
G&S trade balance, \$Abn	22.1	17.2	11.4	6.6	3.3	1.0	-1.3	4.1	3.8	5.8	8.4	4.7	5.2	3.4	4.0	4.3	3.5	2.0	1.7	1.7
% of GDP	1.2	0.9	0.6	1.5	0.7	0.2	-0.3	0.9	0.8	1.2	1.7	1.0	1.1	0.7	0.8	0.8	0.7	0.4	0.3	0.3
Current Account (% GDP)	-2.1	-2.3	-2.6	-1.6	-2.4	-2.8	-3.4	-2.3	-2.5	-2.3	-1.5	-2.3	-2.2	-2.5	-2.4	-2.3	-2.5	-2.7	-2.8	-2.8

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

Exchange Rate Forecasts					
	18-Mar	Mar-19	Jun-19	Sep-19	Dec-19
Majors					
AUD/USD	0.7086	0.71	0.70	0.73	0.75
NZD/USD	0.6845	0.68	0.67	0.69	0.70
USD/JPY	111.55	113	113	110	108
EUR/USD	1.1321	1.15	1.18	1.20	1.23
GBP/USD	1.3290	1.35	1.40	1.43	1.45
USD/CHF	1.0023	0.98	0.98	0.99	0.97
USD/CAD	1.3344	1.31	1.31	1.27	1.27
USD/CNY	6.7137	6.75	6.70	6.68	6.60

Australian Cross Rates					
	18-Mar	Mar-19	Jun-19	Sep-19	Dec-19
AUD/NZD	1.0352	1.04	1.04	1.06	1.07
AUD/JPY	79.0	80	79	80	81
AUD/EUR	0.6259	0.62	0.59	0.61	0.61
AUD/GBP	0.5332	0.53	0.50	0.51	0.51
AUD/CNY	4.7573	4.79	4.69	4.88	4.92
AUD/CAD	0.9456	0.93	0.92	0.93	0.95
AUD/CHF	0.7102	0.70	0.69	0.72	0.72

Interest Rate Forecasts					
	18-Mar	Mar-19	Jun-19	Sep-19	Dec-19
Australia Rates					
RBA Cash rate	1.50	1.50	1.50	1.25	1.00
3 month bill rate	1.84	1.90	1.80	1.60	1.30
3 Year Swap Rate	1.63	1.63	1.45	1.35	1.35
10 Year Swap Rate	2.21	2.20	2.08	2.08	2.08
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	1.97	2.40	2.40	2.50	2.60
United States	2.59	2.80	2.80	3.00	3.00
New Zealand	2.06	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 Avg
Australia	2.5	2.6	2.4	2.8	2.1	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	1.4	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)					
	18-Mar	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	67.0	60	65	65	70
Gold	1299	1300	1320	1330	1350
Iron ore	87.5	84	82	78	76
Hard coking coal	214	200	193	178	170
Thermal coal	94	95	93	98	95
Copper	6447	6100	6250	6400	6300
Aust LNG (*)	16.2	14.0	11.3	11.6	11.4

(*) Implied Australian LNG export prices.

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