

# AUSTRALIAN MARKETS WEEKLY

*A high-frequency read on the economy*



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## Analysis – A high-frequency read on the economy

- With the election providing a short-lived boost to employment via the hiring of temporary workers to run the poll and the election and lower expected interest rates both contributing to a rebound business confidence – but not business conditions – we have explored their broader impact using a range of high-frequency indicators.
- The federal election and lower expected interest rates have contributed to a modest improvement in auction clearance rates and a slower rate of decline in house prices, although these improvements started earlier this year (also, the increase in clearance rates is on depressed volumes, with anecdotes of stronger post-election sales yet to be reflected in higher sales). These developments are encouraging, but the housing market still faces significant headwinds, such as tight credit conditions, a record backlog of homes under construction and a weaker labour market.
- More broadly, we find it hard to see an impact from the election on consumer confidence, job ads and retail sales, contradicting anecdotes of pre-election weakness and post-election strength. While mindful that the high-frequency data are noisy, we plan to monitor them closely to gauge the impact of upcoming income tax cuts.

## The week ahead – The RBA is likely to signal the need for lower interest rates

- RBA Governor Lowe speaks on Thursday on *The Labour Market and Spare Capacity*, a week after labour market data revealed an unchanged unemployment rate of 5.2%. This was a weak result given the May figures were boosted by 80,000 temporary workers required to run the federal election. We think Lowe will emphasise the need for easier policy to reduce unemployment given the RBA now puts the NAIRU at 4.5%, likely paving the way for the cash rate to fall below 1%. Lowe may signal a July move, but we think it more likely that the Board will deliver the next cut in August when it has an updated set of forecasts. The RBA minutes on Tuesday have been overtaken by events, with Lowe speaking at length last week on the June rate cut.
- Offshore, the focus is on Wednesday's FOMC meeting to see if Fed rhetoric shifts to support market pricing of lower interest rates.

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

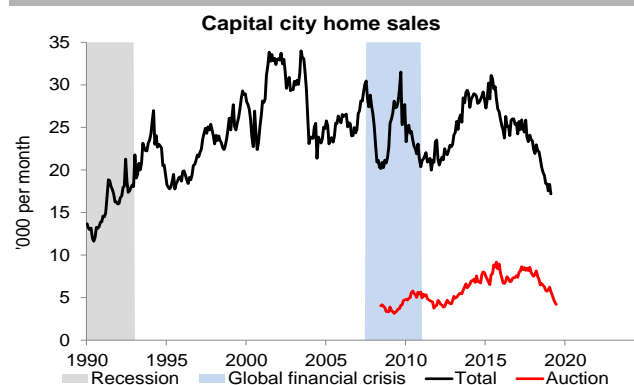
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

## Key markets over the past week

|         | Last   | % chg week |          | Last  | bp/% chg week |
|---------|--------|------------|----------|-------|---------------|
| AUD     | 0.6878 | -1.2       | RBA cash | 1.25  | 0             |
| AUD/CNY | 4.76   | -1.4       | 3y swap  | 1.08  | -9            |
| AUD/JPY | 74.7   | -1.0       | ASX 200  | 6,541 | 1.5           |
| AUD/EUR | 0.613  | -0.4       | Iron ore | 103   | 6.3           |
| AUD/NZD | 1.057  | 0.3        | WTI oil  | 52.6  | -1.2          |

Source: Bloomberg

## Chart of the week: Auction volumes are low



## A high-frequency read on the economy

- With the election providing a short-lived boost to employment via the hiring of temporary workers to run the poll and the election and lower expected interest rates both contributing to a rebound business confidence – but not business conditions – we have explored their broader impact using a range of high-frequency indicators.
- The federal election and lower expected interest rates have contributed to a modest improvement in auction clearance rates and a slower rate of decline in house prices, although these improvements started earlier this year (also, the increase in clearance rates is on depressed volumes, with anecdotes of stronger post-election sales yet to be reflected in higher sales). These developments are encouraging, but the housing market still faces significant headwinds, such as tight credit conditions, a record backlog of homes under construction and a weaker labour market.
- More broadly, we find it hard to see an impact from the election on consumer confidence, job ads and retail sales, contradicting anecdotes of pre-election weakness and post-election strength. While mindful that the high-frequency data are noisy, we plan to monitor them closely to gauge the impact of upcoming income tax cuts.

### The election and tax cuts will affect key economic indicators

Financial markets and policy-makers are likely to find it hard to read the underlying trend in some of the key monthly indicators over the next few months.

This reflects impacts from:

- The federal election; and
- The first and second tranches of personal income tax cuts, where the first tranche is due in July and the second tranche should be implemented over the next one to three months.

**Table 1: The government’s income tax cuts for 2019-20 should boost spending in Q3**

|         | Tax cuts     |                |           | Boost to GDP   |                  |             |
|---------|--------------|----------------|-----------|----------------|------------------|-------------|
|         | Original \$b | Additional \$b | Total \$b | Original % GDP | Additional % GDP | Total % GDP |
| 2018-19 | -0.4         | 0.0            | -0.4      | 0.0            | 0.0              | 0.0         |
| 2019-20 | -4.1         | -3.5           | -7.6      | 0.2            | 0.2              | 0.3         |
| 2020-21 | -4.4         | -3.7           | -8.1      | 0.0            | 0.0              | 0.0         |
| 2021-22 | -4.5         | -3.8           | -8.3      | na             | na               | na          |
| 2022-23 | -13.4        | -8.6           | -22.0     | na             | na               | na          |
| 2023-24 | -11.2        | na             | na        | na             | na               | na          |
| 2024-25 | -17.9        | na             | na        | na             | na               | na          |
| 2025-26 | -19.6        | na             | na        | na             | na               | na          |
| 2026-27 | -21.1        | na             | na        | na             | na               | na          |
| 2027-28 | -22.9        | na             | na        | na             | na               | na          |
| 2028-29 | -24.6        | na             | na        | na             | na               | na          |

Source: Australian Bureau of Statistics, Department of Treasury, National Australia Bank

### The federal election has already affected employment and likely unemployment

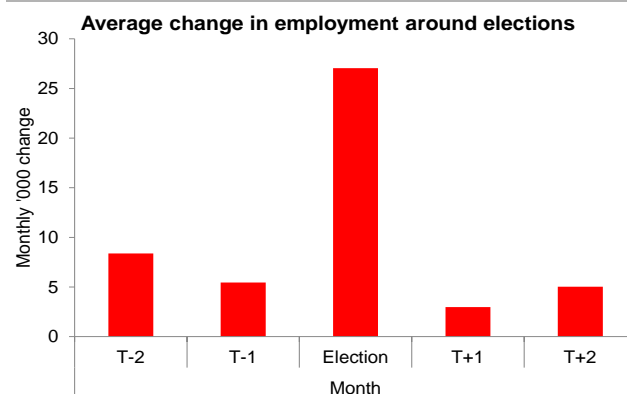
We are monitoring high-frequency indicators to judge the impact of the election and upcoming tax cuts given we already think that the election had an impact on official series such as the labour force survey. This is where the hiring of 80k temporary workers by the Australian Electoral commission boosted employment and likely reduced unemployment.

- **Employment.** Based on past experience, we estimate the temporary election workers boosted employment

in May by a net 20k. The impact was less than 1:1 because: (1) employment is based on a survey of households rather than a census of payrolls; and (2) many temporary workers already had jobs.

- **Unemployment rate.** The impact of the temporary election workers on the unemployment rate is harder to judge, but we estimate that it likely lowered the rate by 0.1pp in May from what otherwise would be the case.

**Chart 1: The average boost to employment from election workers is about 20k**



Note: Calculated over elections from 1980 to 2016.

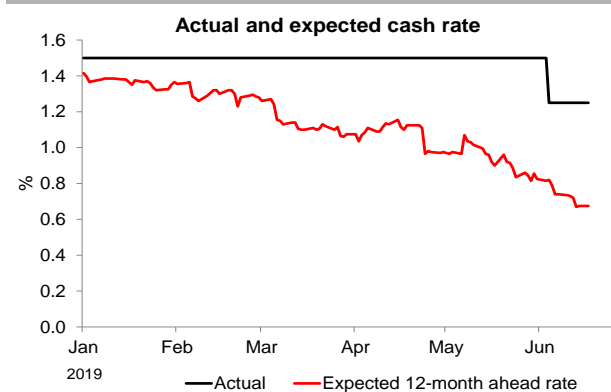
Source: Australian Bureau of Statistics, Australian Electoral Commission, National Australia Bank

### The federal election and lower expected interest rates have boosted business confidence

The federal election, which saw the unexpected return of the Liberal/NP Coalition government, and significantly lower expected interest rates appear to have boosted business confidence. That said, conditions continue to deteriorate as the private sector loses momentum.

- **Business confidence.** NAB business confidence rose from zero in April to 7 in May, which was the highest reading since July last year. Confidence rose in every industry except manufacturing, with the largest increase in mining.
- **Business conditions.** NAB business confidence fell from 3 in April to 1 in May, which was the lowest level since 2014. Conditions fell in mining, retail and finance, business and property services. Conditions rose in manufacturing, construction and wholesale trade.

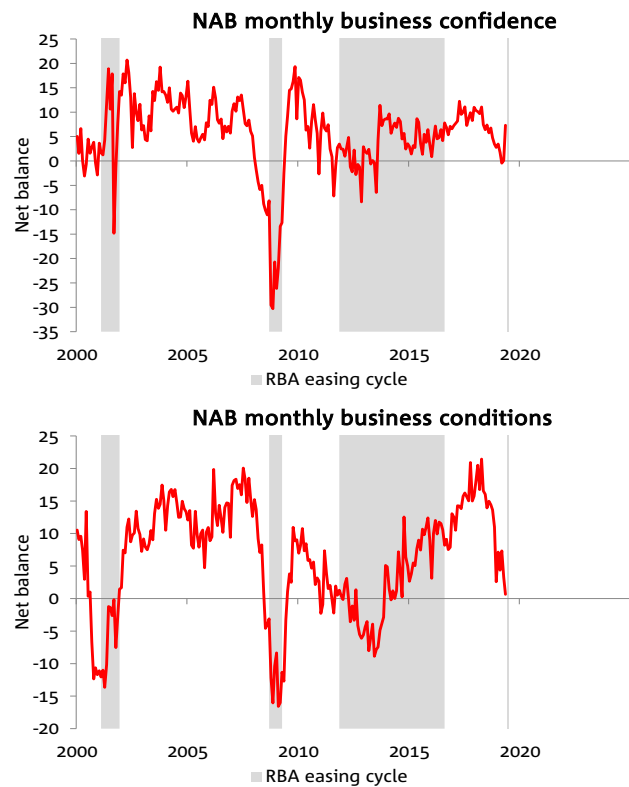
**Chart 2: The market is pricing in a significantly lower cash rate**



Note The expected 12-month ahead rate is from the cash futures market.

Source: Bloomberg, National Australia Bank

**Chart 3: Business confidence rebounded in May, but conditions fell further**



Source: Reserve Bank of Australia, National Australia Bank

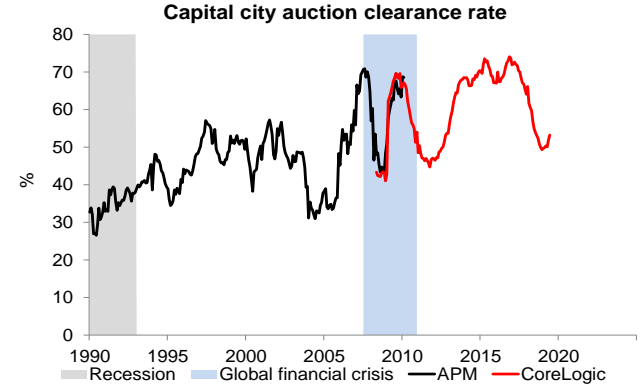
**The election and lower expected interest rates have also supported some housing indicators**

The federal election and lower expected interest rates have also contributed to a modest improvement in auction clearance rates and a slower rate of decline in house prices. However, we note that the improvement in these series started earlier this year and the increase in clearance rates is on depressed volumes. The election potentially had more impact on these indicators given that the Labor Party planned to curb concessions for investment in housing in 2020. There have also been anecdotes from property developers about significantly higher inquiries post the election, although these have yet to translate into a clear lift in sales.

- **Auction clearance rates.** The capital city auction clearance rate troughed at 49% in December, increasing to 53% in June to date, which is the highest level since August 2018. The improvement has occurred on much lower volumes, where June is on track to be the lowest level of auction sales since 2012, down about 30% from December last year.
- **House prices.** Capital-city prices have fallen continuously since late 2017, with the largest declines of 0.9% per month occurring in late 2018/early 2019. Since then, prices have fallen at a slower rate and are down 0.2% in June to date. If prices are unchanged for the rest of the month, this would be the smallest monthly fall since March 2018.

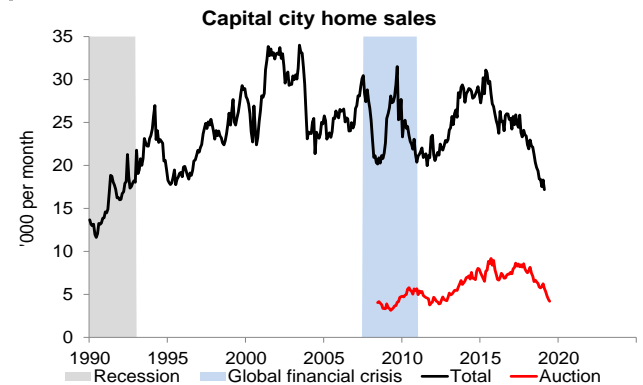
While these are positive developments, we think that market conditions will remain challenging reflecting: (1) tight credit conditions; (2) significantly lower building approvals; (3) a record backlog of homes under construction (mainly high-rise apartments); and (4) weaker leading indicators of employment.

**Chart 4: The auction clearance rate troughed in December 2018**



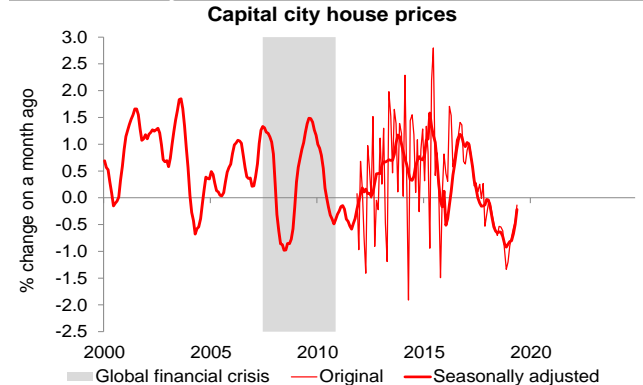
Note: The June 2019 observation is the average of the month to date. The data have been seasonally adjusted by NAB.  
Source: Australian Property Monitors, CoreLogic, Melbourne Institute, National Australia Bank

**Chart 5: The increase in the clearance rate has been on lower auction volumes**



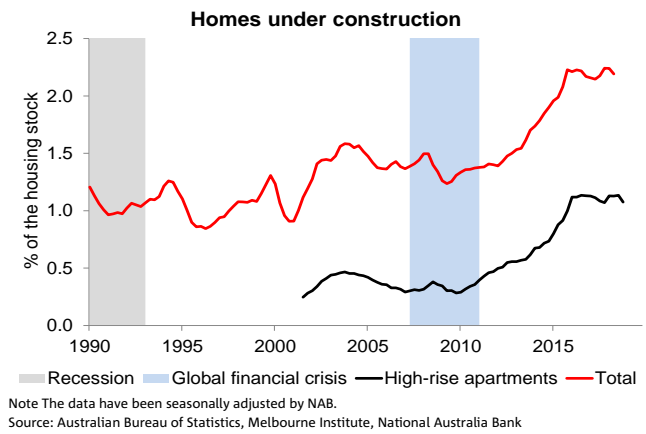
Note: The June 2019 observation for auction sales assumes sales continue at the latest weekly rate over the rest of the month. Total sales are as at February 2019. The data have been seasonally adjusted by NAB.  
Source: CoreLogic, Melbourne Institute, National Australia Bank

**Chart 6: House prices have fallen at a slower rate since late 2018/early 2019 ...**



Note: The June 2019 observation is as at 14 June 2019. The data have been seasonally adjusted by NAB.  
Source: Bloomberg, CoreLogic, National Australia Bank

Chart 7: ... although there is still a record number of homes under construction



**The election doesn't seem to have had an effect on either consumer confidence, job ads or retail sales**

Consumer confidence is off its lows from earlier this year, but the weekly ANZ/Roy Morgan series did not show much reaction to either the election or the Reserve Bank's rate cut in June. Similarly, it is hard to see the election disturbing the weak trend in daily SEEK job ads and NAB retail sales (we think it is too early to judge whether the rate cut has had much effect on these series). This contradicts some anecdotes that sales and ads were weak in the lead-up to the election and recovered strongly afterwards.

- **Consumer confidence.** The weekly ANZ/Roy Morgan series is off its March low of 110, averaging around 117 since the start of April, which is close to last year's average of 118. Even after smoothing the data slightly it is hard to see much impact from either the election or the June rate cut.
- **Job ads.** The SEEK daily job ads series in unadjusted terms shows a clear effect from Easter and Anzac Day, but there is no apparent pre-post-federal election impact in the numbers.
- **Retail sales.** The NAB daily retail sales series in unadjusted terms also shows a clear effect from the April holidays, but with no distortion from the election in the data.

Chart 8: ANZ/Roy Morgan consumer confidence failed to show much reaction to the election result

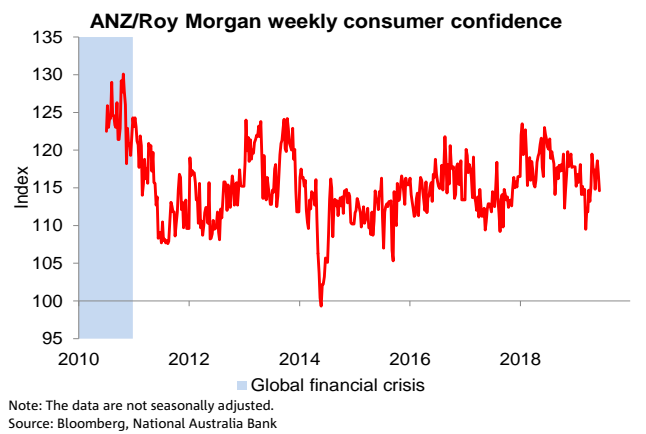


Chart 9: There is no clear pre-post election effect in SEEK daily job ads

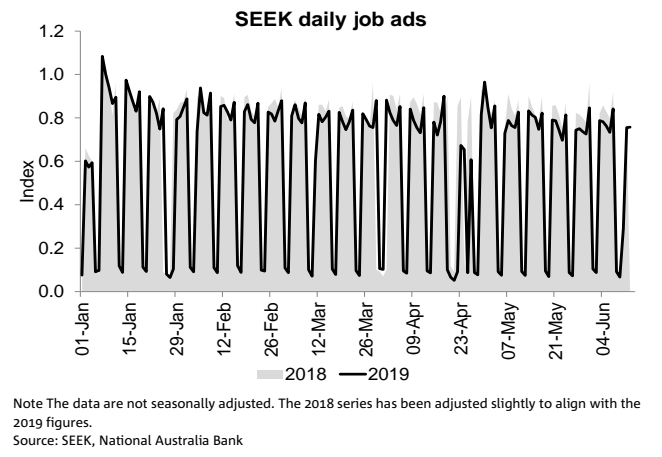
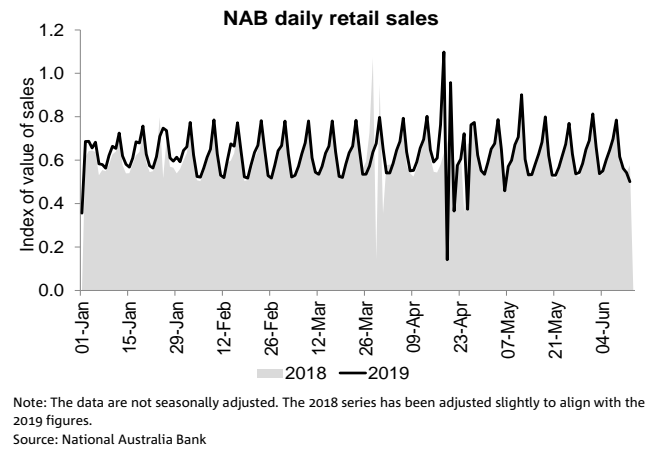


Chart 10: The same is true for NAB daily retail sales



**The high-frequency data are noisy, but offer a useful way to analyse events such as the election**

The difficulty in separating noise from signal in most monthly and quarterly economic indicators is considerable, let alone more volatile high-frequency data, but we still think it is useful to track these statistics to get a sense of how events such as the election are affecting the economy.

In our judgment, the election and expected lower interest rates have likely supported clearance rates and prices, which had started to improve earlier this year. We are wary about reading too much into this improvement given sales volumes remain low and the sector faces significant headwinds.

Other indicators, such as consumer confidence, job ads and retail sales, do not support anecdotes of significant pre/post-election effects on the numbers, with ongoing weakness intact.

With income tax cuts looming, we will continue to monitor the high-frequency indicators to judge their effect.

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# CALENDAR OF ECONOMIC RELEASES

| Country  | Economic Indicator  | Period  | Forecast  | Consensus | Actual | Previous  | GMT           | AEST     |
|--|---|---------|-----------|-----------|--------|-----------|---------------|----------|
| <b>Monday, 17 June</b>                                   |   |         |           |           |        |           |               |          |
| NZ   | Performance Services Index  | May     |           |           |        | 51.8      | 22.30         | 8.30     |
| US   | Empire Manufacturing  | Jun     |           | 11        |        | 17.8      | 12.30         | 22.30    |
| EZ   | ECB Forum in Portugal   |         |           |           |        |           | 17 to 20 June |          |
| US   | Total Net TIC Flows   | Apr     |           |           |        | -8.1      | 20.00         | 6.00     |
| <b>Tuesday, 18 June</b>                                  |   |         |           |           |        |           |               |          |
| NZ   | Westpac Consumer Confidence   | 2Q      |           |           |        | 103.8     | 21.00         | 7.00     |
| AU   | RBA's Kearns, Head of Financial Stability, at the Property Leaders' Summit 2019, Canberra |         |           |           |        |           | 23.15         | 9.15     |
| AU   | House Price Index QoQ / YoY   | 1Q      |           | -2.6/-6.9 |        | -2.4/-5.1 | 1.30          | 11.30    |
| AU   | RBA Minutes of June Policy Meeting  |         |           |           |        |           | 1.30          | 11.30    |
| EC   | Trade Balance SA  | Apr     |           | 16.25     |        | 17.9      | 9.00          | 19.00    |
| EC   | CPI MoM / YoY   | May     |           | 0.2/1.2   |        | 0.7/1.7   | 9.00          | 19.00    |
| GE   | ZEW Survey Expectations   | Jun     |           | -5.8      |        | -2.1      | 9.00          | 19.00    |
| CA   | Manufacturing Sales MoM   | Apr     |           | 0.4       |        | 2.1       | 12.30         | 22.30    |
| US   | Housing Starts  | May     |           | 1235      |        | 1235      | 12.30         | 22.30    |
| UK   | BOE Governor Carney on a panel at ECB Forum in Sintra                                     |         |           |           |        |           | 14.00         | 0.00     |
| <b>Wednesday, 19 June</b>                                |   |         |           |           |        |           |               |          |
| NZ   | Dairy Auction Avg. Winning Price MT   | 43252   |           |           |        | 3423      |               | early am |
| NZ   | BoP Current Account Balance NZD   | 1Q      |           | 0.16      |        | -3.256    | 22.45         | 8.45     |
| JN   | Trade Balance   | May     |           | -1200     |        | 60.402    | 23.50         | 9.50     |
| AU   | Westpac Leading Index MoM   | May     |           |           |        | -0.09     | 0.30          | 10.30    |
| NZ   | Non Resident Bond Holdings  | May     |           |           |        | 53.9      | 3.00          | 13.00    |
| UK   | CPI MoM / YoY   | May     |           | 0.3/2     |        | 0.6/2.1   | 8.30          | 18.30    |
| CA   | CPI NSA MoM / YoY   | May     |           | 0.1/2.1   |        | 0.4/2     | 12.30         | 22.30    |
| CA   | CPI Core- Trim YoY%   | May     |           | 2.1       |        | 2         | 12.30         | 22.30    |
| US   | FOMC Rate Decision  | 19 Jun  | 2.25/2.5  | 2.25/2.5  |        | 2.25/2.5  | 18.00         | 4.00     |
| US   | Interest Rate on Excess Reserves  | 19 Jun  |           | 2.35      |        | 2.35      | 18.00         | 4.00     |
| US   | Fed Chair Powell Holds Press Conference After FOMC Meeting                                |         |           |           |        |           | 18.30         | 4.30     |
| <b>Thursday, 20 June</b>                                 |   |         |           |           |        |           |               |          |
| NZ   | GDP SA QoQ / YoY  | 1Q      | 0.6/2.4   | 0.6/2.3   |        | 0.6/2.3   | 22.45         | 8.45     |
| AU   | RBA Governor Lowe Gives Speech in Adelaide  |         |           |           |        |           | 1.15          | 11.15    |
| JN   | BOJ Policy Balance Rate   | 20 June | -0.1      | -0.1      |        | -0.1      | 20 June       |          |
| JN   | All Industry Activity Index MoM   | Apr     |           | 0.7       |        | -0.4      | 5.30          | 15.30    |
| EC   | ECB Publishes Economic Bulletin   |         |           |           |        |           | 8.00          | 18.00    |
| UK   | Retail Sales Inc Auto Fuel MoM / YoY  | May     |           | -0.5/0.75 |        | 0/0.75    | 8.30          | 18.30    |
| UK   | Bank of England Bank Rate   | 20 June | 0.75      | 0.75      |        | 0.75      | 11.00         | 21.00    |
| UK   | BOE Asset Purchase Target   | Jun     |           | 435       |        | 435       | 11.00         | 21.00    |
| US   | Philadelphia Fed Business Outlook   | Jun     |           | 10.35     |        | 16.6      | 12.30         | 22.30    |
| US   | Leading Index   | May     |           | 0.1       |        | 0.2       | 14.00         | 0.00     |
| EC   | Consumer Confidence   | Jun A   |           | -6.5      |        | -6.5      | 14.00         | 0.00     |
| UK   | BOE Governor Carney gives annual Mansion House Speech                                     |         |           |           |        |           | 20.00         | 6.00     |
| <b>Friday, 21 June</b>                                   |   |         |           |           |        |           |               |          |
| JN   | Natl CPI YoY  | May     |           | 0.7       |        | 0.9       | 23.30         | 9.30     |
| JN   | Markit Japan PMI Mfg  | Jun P   |           |           |        | 49.8      | 0.30          | 10.30    |
| GE   | Markit/BME Germany Manufacturing PMI  | Jun P   |           | 44.6      |        | 44.3      | 7.30          | 17.30    |
| EC   | Markit Eurozone Manufacturing PMI   | Jun P   |           | 48        |        | 47.7      | 8.00          | 18.00    |
| UK   | PSNB ex Banking Groups  | May     |           | 4.2       |        | 5.8       | 8.30          | 18.30    |
| CA   | Retail Sales MoM / Ex Auto MoM  | Apr     |           | 0.2/0.4   |        | 1.1/1.7   | 12.30         | 22.30    |
| US   | Markit US Manufacturing PMI / Services PMI  | Jun P   |           | 50.5/51   |        | 50.5/50.9 | 13.45         | 23.45    |
| US   | Fed Listens Event in Cincinnati with Brainard and Mester                                  |         |           |           |        |           | 16.00         | 2.00     |
| US   | Fed's Daly Hosts Podcast on Community Economics   |         |           |           |        |           | 19.00         | 5.00     |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |         |           |           |        |           |               |          |
| US, Federal Reserve                                      |   | 19-Jun  | 2.25-2.5% | 2.25-2.5% |        | 2.25-2.5% |               |          |
| UK, BOE  |   | 20-Jun  | 0.75%     | 0.75%     |        | 0.75%     |               |          |
| Japan, BoJ   |   | 20-Jun  | -0.1%     | -0.1%     |        | -0.1%     |               |          |
| New Zealand, RBNZ  |   | 26-Jun  | 1.50%     | 1.5%      |        | 1.5%      |               |          |
| Australia, RBA   |   | 2-Jul   | 1.25%     | 1.5%      |        | 1.25%     |               |          |
| Canada, BoC  |   | 10-Jul  | 1.75%     | 1.75%     |        | 1.75%     |               |          |
| Europe, ECB  |   | 25-Jul  | -0.4%     | -0.4%     |        | -0.4%     |               |          |

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

# FORECASTS

| Economic Forecasts             |                 |      |      |      |                    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
|--------------------------------|-----------------|------|------|------|--------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
|                                | Annual % change |      |      |      | Quarterly % change |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
|                                | 2018            | 2019 | 2020 | 2021 | 2018               |      |      |      | 2019 |      |      |      | 2020 |      |      |      | 2021 |      |      |      |
| Australia Forecasts            | 2018            | 2019 | 2020 | 2021 | Q1                 | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |
| Household Consumption          | 2.6             | 1.5  | 2.3  | 2.3  | 0.4                | 0.8  | 0.3  | 0.4  | 0.3  | 0.2  | 0.5  | 0.6  | 0.7  | 0.6  | 0.6  | 0.6  | 0.6  | 0.6  | 0.5  | 0.6  |
| Underlying Business Investment | 0.9             | 0.9  | 4.3  | 3.6  | 0.6                | -1.0 | -2.1 | 0.0  | 0.6  | 1.2  | 0.7  | 1.8  | 0.3  | 1.7  | 0.4  | 1.4  | 0.4  | 0.9  | 0.7  | 1.5  |
| Residential Construction       | 4.7             | -8.2 | -8.3 | -1.6 | 4.1                | 1.7  | 0.7  | -2.9 | -2.5 | -3.3 | -3.0 | -2.2 | -2.0 | -1.8 | -1.9 | -0.8 | -0.2 | 0.5  | 0.2  | 0.8  |
| Underlying Public Spending     | 5.0             | 5.4  | 4.5  | 4.1  | 1.4                | 0.4  | 2.5  | 1.6  | 1.1  | 1.1  | 1.1  | 1.1  | 1.1  | 1.1  | 1.1  | 1.1  | 1.0  | 1.0  | 1.0  | 1.0  |
| Net Exports (a)                | 0.7             | 0.6  | -0.3 | -0.4 | 0.5                | 0.2  | 0.3  | -0.2 | 0.2  | 0.3  | 0.1  | 0.1  | 0.0  | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Inventories (a)                | 0.1             | -0.2 | -0.1 | 0.0  | -0.1               | 0.2  | -0.3 | 0.2  | -0.1 | -0.1 | -0.1 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| Domestic Demand (q/q %)        | --              | --   | --   | --   | 0.9                | 0.6  | 0.5  | 0.4  | 0.1  | 0.3  | 0.4  | 0.7  | 0.6  | 0.7  | 0.5  | 0.7  | 0.6  | 0.7  | 0.7  | 0.8  |
| Dom Demand (y/y %)             | 2.9             | 1.4  | 2.3  | 2.7  | 3.4                | 3.2  | 2.8  | 2.4  | 1.6  | 1.3  | 1.2  | 1.6  | 2.0  | 2.4  | 2.5  | 2.5  | 2.6  | 2.6  | 2.8  | 2.8  |
| Real GDP (q/q %)               | --              | --   | --   | --   | 1.0                | 0.9  | 0.3  | 0.2  | 0.4  | 0.4  | 0.4  | 0.8  | 0.5  | 0.6  | 0.5  | 0.6  | 0.5  | 0.6  | 0.5  | 0.7  |
| Real GDP (y/y %)               | 2.8             | 1.7  | 2.3  | 2.3  | 3.1                | 3.1  | 2.8  | 2.4  | 1.8  | 1.4  | 1.5  | 2.1  | 2.2  | 2.4  | 2.4  | 2.2  | 2.2  | 2.3  | 2.3  | 2.4  |
| CPI headline (q/q %)           | --              | --   | --   | --   | 0.4                | 0.4  | 0.4  | 0.5  | 0.1  | 0.7  | 0.4  | 0.6  | 0.4  | 0.4  | 0.5  | 0.7  | 0.5  | 0.5  | 0.6  | 0.7  |
| CPI headline (y/y %)           | 1.9             | 1.7  | 1.8  | 2.2  | 1.9                | 2.1  | 1.9  | 1.8  | 1.4  | 1.8  | 1.7  | 1.8  | 2.0  | 1.7  | 1.8  | 1.9  | 2.0  | 2.2  | 2.3  | 2.3  |
| CPI underlying (q/q %)         | --              | --   | --   | --   | 0.5                | 0.5  | 0.3  | 0.4  | 0.2  | 0.4  | 0.3  | 0.4  | 0.4  | 0.4  | 0.4  | 0.5  | 0.5  | 0.5  | 0.5  | 0.5  |
| CPI underlying (y/y %)         | 1.8             | 1.4  | 1.5  | 1.9  | 1.9                | 1.7  | 1.7  | 1.7  | 1.4  | 1.4  | 1.3  | 1.3  | 1.5  | 1.4  | 1.5  | 1.6  | 1.8  | 1.9  | 2.0  | 2.0  |
| Private wages (q/q %)          | --              | --   | --   | --   | 0.5                | 0.6  | 0.6  | 0.5  | 0.5  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  |
| Private wages (y/y %)          | 2.1             | 2.4  | 2.7  | 2.8  | 1.9                | 2.1  | 2.2  | 2.3  | 2.4  | 2.4  | 2.4  | 2.5  | 2.6  | 2.7  | 2.7  | 2.8  | 2.8  | 2.8  | 2.8  | 2.8  |
| Unemployment Rate (%)          | 5.3             | 5.2  | 5.3  | 5.4  | 5.5                | 5.5  | 5.1  | 5.0  | 5.1  | 5.2  | 5.2  | 5.2  | 5.3  | 5.3  | 5.3  | 5.3  | 5.3  | 5.4  | 5.3  | 5.4  |
| Terms of trade                 | 1.8             | 2.9  | -3.8 | -1.5 | 3.2                | -1.2 | 1.1  | 2.9  | 3.1  | -1.1 | -2.6 | -1.4 | -0.6 | -1.0 | 0.4  | -0.2 | -0.2 | -0.8 | -0.8 | -0.5 |
| Current Account (% GDP)        | -2.0            | -0.9 | -1.8 | -2.5 | -2.2               | -2.5 | -2.1 | -1.3 | -0.6 | -0.5 | -1.1 | -1.4 | -1.5 | -1.8 | -1.8 | -2.0 | -2.1 | -2.3 | -2.6 | -2.8 |

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

## Exchange Rate Forecasts

|               | 17-Jun | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|---------------|--------|--------|--------|--------|--------|--------|
| <b>Majors</b> |        |        |        |        |        |        |
| AUD/USD       | 0.688  | 0.71   | 0.73   | 0.74   | 0.75   | 0.75   |
| NZD/USD       | 0.65   | 0.67   | 0.68   | 0.69   | 0.70   | 0.70   |
| USD/JPY       | 108.6  | 107    | 108    | 107    | 106    | 105    |
| EUR/USD       | 1.12   | 1.12   | 1.13   | 1.13   | 1.13   | 1.14   |
| GBP/USD       | 1.26   | 1.22   | 1.24   | 1.24   | 1.25   | 1.27   |
| USD/CNY       | 6.92   | 6.96   | 6.95   | 6.92   | 6.90   | 6.85   |
| USD/CAD       | 1.34   | 1.33   | 1.30   | 1.29   | 1.27   | 1.28   |
| USD/CHF       | 1.00   | 0.98   | 0.98   | 1.02   | 1.02   | 1.00   |

| <b>Australian Cross Rates</b> | 17-Jun | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| AUD/NZD                       | 1.06   | 1.06   | 1.07   | 1.07   | 1.07   | 1.07   |
| AUD/JPY                       | 74.7   | 76     | 79     | 79     | 80     | 79     |
| AUD/EUR                       | 0.61   | 0.63   | 0.65   | 0.65   | 0.66   | 0.66   |
| AUD/GBP                       | 0.55   | 0.58   | 0.59   | 0.60   | 0.60   | 0.59   |
| AUD/CNY                       | 4.76   | 4.94   | 5.07   | 5.12   | 5.18   | 5.14   |
| AUD/CAD                       | 0.92   | 0.94   | 0.95   | 0.95   | 0.95   | 0.96   |
| AUD/CHF                       | 0.69   | 0.70   | 0.72   | 0.75   | 0.77   | 0.75   |

## Interest Rate Forecasts

|                              | 17-Jun | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|------------------------------|--------|--------|--------|--------|--------|--------|
| <b>Australian Rates</b>      |        |        |        |        |        |        |
| RBA cash rate                | 1.25   | 1.00   | 0.75   | 0.75   | 0.75   | 0.75   |
| 3 month bill rate            | 1.30   | 1.10   | 1.10   | 1.10   | 1.10   | 1.10   |
| 3 Year Swap Rate             | 1.08   | 0.95   | 0.95   | 1.20   | 1.30   | 1.40   |
| 10 Year Swap Rate            | 1.65   | 1.53   | 1.58   | 1.70   | 1.85   | 2.00   |
| <b>Offshore Policy Rates</b> |        |        |        |        |        |        |
| US Fed funds                 | 2.50   | 2.25   | 2.00   | 2.00   | 2.00   | 2.00   |
| ECB deposit rate             | -0.40  | -0.40  | -0.40  | -0.20  | 0.00   | 0.15   |
| BoE repo rate                | 0.75   | 0.75   | 1.00   | 1.00   | 1.25   | 1.25   |
| BoJ excess reserves rate     | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  |
| RBNZ OCR                     | 1.50   | 1.50   | 1.25   | 1.25   | 1.25   | 1.25   |
| China 1yr lending rate       | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   |
| China Reserve Ratio          | 13.5   | 12.00  | 12.00  | 12.00  | 12.00  | 12.00  |
| <b>10-year Bond Yields</b>   |        |        |        |        |        |        |
| Australia                    | 1.39   | 1.35   | 1.40   | 1.50   | 1.60   | 1.70   |
| United States                | 2.10   | 1.90   | 1.90   | 2.00   | 2.10   | 2.20   |
| New Zealand                  | 1.64   | 3.30   | 3.45   | 3.55   | 3.65   | 3.70   |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

|                | 2018 | 2019 | 2020 | 2021 |
|----------------|------|------|------|------|
| Australia      | 2.8  | 1.7  | 2.3  | 2.3  |
| United States  | 2.9  | 2.5  | 1.8  | 1.8  |
| Eurozone       | 1.8  | 1.2  | 1.4  | 1.5  |
| United Kingdom | 1.4  | 1.5  | 1.5  | 1.6  |
| Japan          | 0.8  | 0.2  | 0.5  | 1.0  |
| China          | 6.6  | 6.3  | 6.0  | 5.8  |
| India          | 7.1  | 7.1  | 7.2  | 7.1  |
| New Zealand    | 2.8  | 2.4  | 2.6  | 2.5  |
| World          | 3.6  | 3.3  | 3.4  | 3.5  |

## Commodity prices (\$US)

|                   | 17-Jun | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|-------------------|--------|--------|--------|--------|--------|
| Brent oil         | 62.2   | 68     | 70     | 70     | 75     |
| Gold              | 1340   | 1300   | 1310   | 1350   | 1370   |
| Iron ore          | 108    | 79     | 76     | 72     | 68     |
| Hard coking coal* | 198    | 178    | 170    | 165    | 160    |
| Thermal coal      | 74     | 85     | 90     | 93     | 90     |
| Copper            | 5798   | 6400   | 6300   | 6225   | 6150   |
| Aus LNG**         | 10     | 12     | 12     | 12     | 12     |

\* FOB quarterly contract prices (thermal coal is JFY contract)

\*\* Implied Australian LNG export prices

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