

AUSTRALIAN MARKETS WEEKLY



Forward indicators point to a weaker labour market & lower rates

In this issue

Forward indicators point to a weaker labour market & lower interest rates 2

Calendar of economic releases 5

Forecasts 6

Analysis – Forward indicators point to a weaker labour market & lower interest rates

- The RBA has cut the cash rate to 1%, arguing that lower rates are an effort to reduce unemployment and not a response to a deteriorating outlook, which it still views as "reasonable".
- The forward indicators of labour demand tell a different story. All three major measures of job vacancies are falling, while surveyed hiring intentions have rolled over. That said, surveyed unemployment expectations are mixed.
- Constructing a summary index from these leading indicators, the labour market has rapidly cooled and is at a point consistent with unemployment edging higher and lower interest rates. With the RBA cutting rates, this deterioration contradicts its more optimistic narrative, where we think a weaker outlook will see it cut rates again later this year, alongside the government delivering additional fiscal stimulus.

The week ahead – NAB business survey and an update from regulators; Fed testimony

- The June NAB Business Survey is released on Tuesday and will show if the post-election bounce in business confidence has translated into improved business conditions. The Council of Financial Regulators, which is chaired by Governor Lowe, is publishing a quarterly update on regulation and the housing market on Wednesday. Internationally, Fed Chair Powell delivers his semi-annual testimony to the House on Wednesday and the Senate on Thursday and the FOMC minutes are out on Wednesday.

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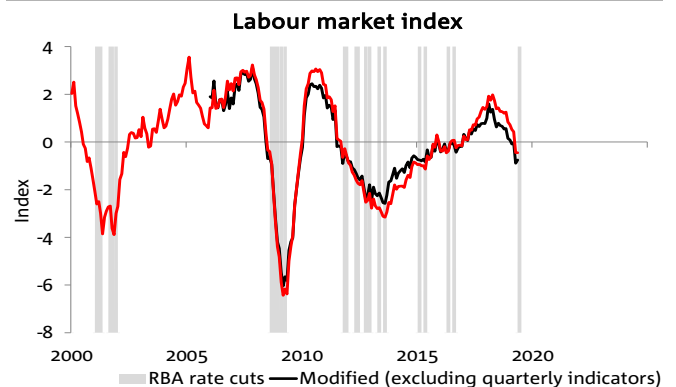
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6986	0.3	RBA cash	1.00	-25
AUD/CNY	4.81	0.9	3y swap	1.03	2
AUD/JPY	75.7	0.2	ASX 200	6,678	0.5
AUD/EUR	0.622	0.8	Iron ore	112	-1.9
AUD/NZD	1.052	0.8	WTI oil	57.6	-1.5

Source: Bloomberg

Chart of the week: The labour market has rapidly cooled



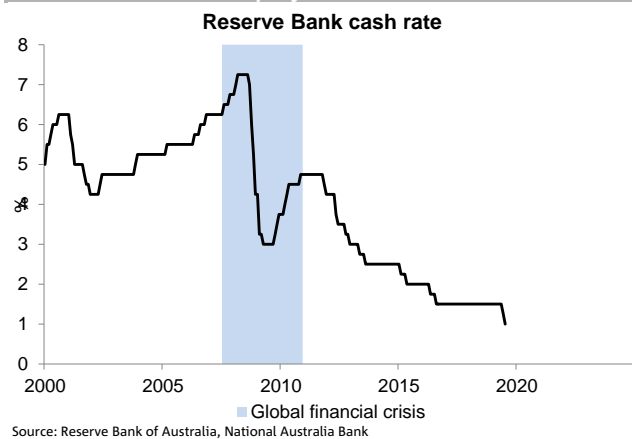
Forward indicators point to a weaker labour market & lower interest rates

- The RBA has cut the cash rate to 1%, arguing that lower rates are an effort to reduce unemployment and not a response to a deteriorating outlook, which it still views as “reasonable”.
- The forward indicators of labour demand tell a different story. All three major measures of job vacancies are falling, while surveyed hiring intentions have rolled over. That said, surveyed unemployment expectations are mixed.
- Constructing a summary index from these leading indicators, the labour market has rapidly cooled and is at a point consistent with unemployment edging higher and lower interest rates. With the RBA cutting rates, this deterioration contradicts its more optimistic narrative, where we think a weaker outlook will see it cut rates again later this year, alongside the government delivering additional fiscal stimulus.

The RBA has cut the cash rate to 1% in an effort to reduce unemployment

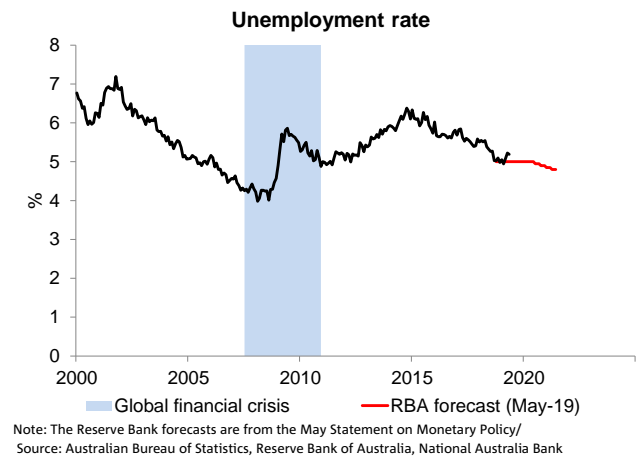
After signalling that the next move in interest rates was up last year, the Reserve Bank recently embarked on a new easing cycle, cutting the cash rate in June and again in July. The cash rate is now at 1%, which is the lowest level since the bank was established in 1960.

Chart 1: The Reserve Bank has cut the cash rate in an effort to reduce unemployment ...



Governor Lowe has repeatedly said that the reduction in rates does not reflect a deterioration in the outlook, which he still characterises as “reasonable”. Instead, lower interest rates are aimed at reducing the unemployment rate in an effort to return inflation to the 2-3% target band, with the bank now putting the NAIURU at 4.5% or less.

Chart 2: ... which has edged up over recent months



Unemployment has edged higher and other indicators of spare capacity have also ticked up

With the Reserve Bank effectively targeting spare capacity in the economy, we think it would be disappointed by the recent increase in the unemployment rate. The unemployment rate has edged higher over recent months, increasing from an eight-year low of 4.9% in February to 5.2% in May.

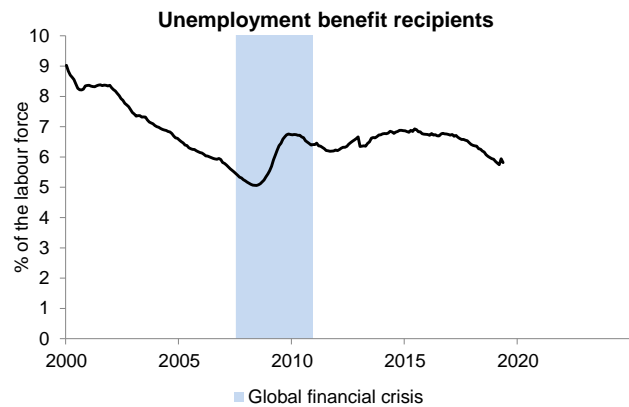
The increase in the unemployment rate has been echoed in other measures of spare capacity in the labour market.

- The underemployment rate, which mainly captures part-time workers who would like to work more hours, has increased from a five-year low of 8.1% to February to 8.6% in May.
- An unemployment rate based on unemployment benefit recipients has increased from a ten-year low of 5.7% in March to 5.9% in April, although it ticked down to 5.8% in May.

Chart 3: The underemployment rate has increased ...



Chart 4: ... as has the number of people on welfare



Note: The number of unemployment benefit recipients was seasonally adjusted by NAB.
Source: Australian Bureau of Statistics, Department of Social Security, National Australia Bank

Forward indicators of the demand for labour have rolled over

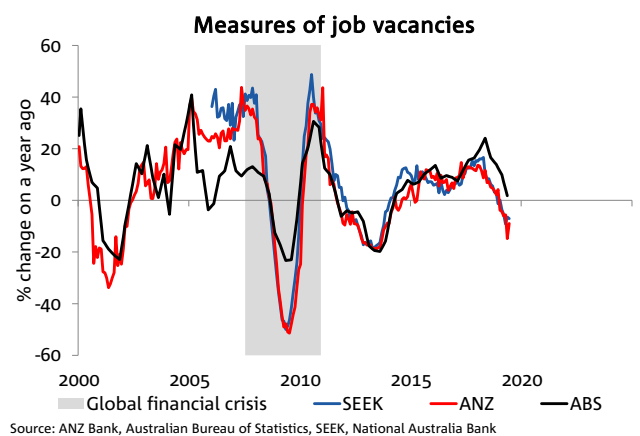
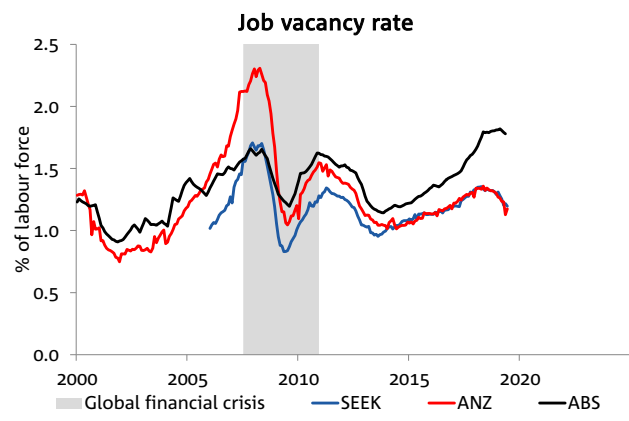
Leading indicators of the demand for labour have turned down, pointing to the risk of a further increase in unemployment. All three major measures of job vacancies are now falling:

- ANZ job ads have dropped 11% from their 2018 peak.
- SEEK job ads are down about 8% from their 2018 high.
- The Bureau of Statistics measure of job vacancies has just started falling, down 1% in Q2.

The Reserve Bank favours the Bureau of Statistics series, which estimates vacancies by directly surveying firms and government. It has tracked the more timely monthly series over most of this decade, but lagged them since early 2018.

Interestingly, most of the decline in Q2 in the bureau’s measure of vacancies reflects the administrative services category, which has likely captured the increased use of job hire companies over recent years.

Chart 5: Vacancy rates have peaked as measures of job vacancies have fallen

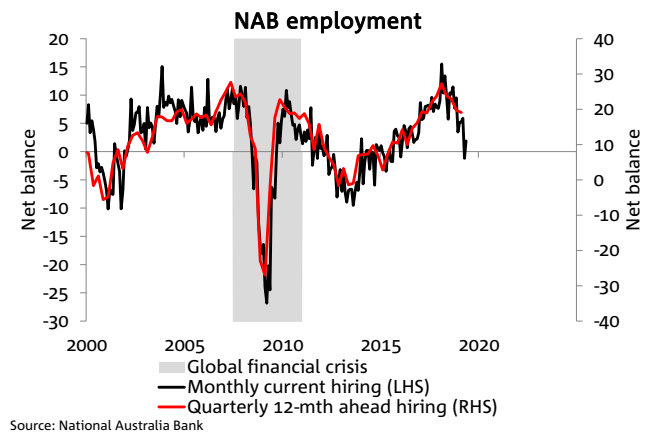


Source: ANZ Bank, Australian Bureau of Statistics, SEEK, National Australia Bank

The NAB business survey also points to weaker hiring

Similar to the weaker trend in job vacancies, surveyed hiring intentions have also rolled over. The NAB quarterly business survey shows that 12-month ahead employment expectations peaked in early 2018 and the monthly survey suggests it could show further deterioration given the close correlation between current and expected hiring.

Chart 6: The monthly NAB business survey suggests year-ahead hiring intentions have fallen further



Source: National Australia Bank

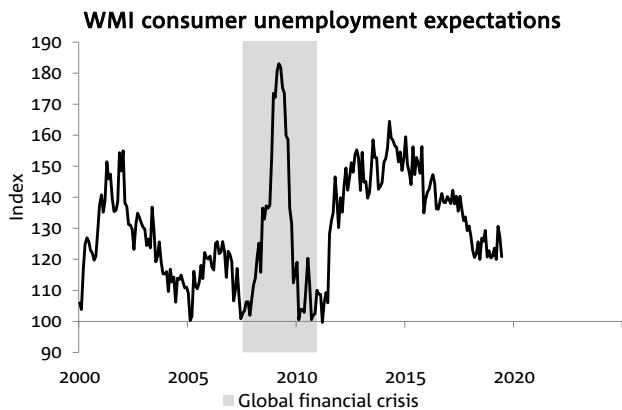
Expectations of unemployment are mixed

In contrast with declining job vacancies and weaker hiring intentions, there are mixed signals from surveyed unemployment expectations

- The Westpac-Melbourne Institute measure of consumer unemployment expectations over the next twelve months spiked to its highest level in two years in April, but this rise was completely unwound in June.
- The Bureau of Statistics measure of employees who expect to lose their job over the next twelve months has ticked up from 0.3% of total employment in Q4 2018 – which was the lowest level since just prior to the global financial crisis – to 0.4% in Q2.

We are inclined to discount the Westpac-Melbourne Institute series given its significant volatility, but we are also mindful that the recent pick-up in the bureau’s measure could also reflect noise.

Chart 7: The Westpac-Melbourne Institute measure of unemployment expectations is very volatile ...



Source: Westpac and Melbourne Institute, National Australia Bank

Chart 8: ... but employees think there is a marginally higher chance they will lose their job



Source: Australian Bureau of Statistics, National Australia Bank

The worsening trend in the forward indicators has been consistent with lower interest rates contradicting the RBAs narrative

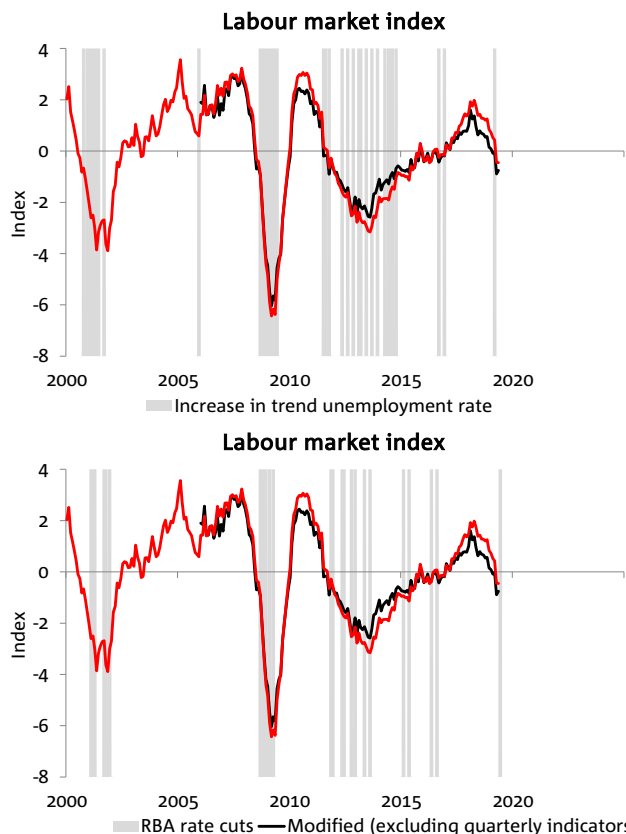
Combining the different measures of job vacancies, surveyed hiring and expected unemployment, we constructed a summary index of the demand for labour using principal components analysis. We also constructed a modified index based purely on the monthly indicators given that the quarterly series are only available with a delay.

Both indicators point to a rapidly cooling labour market from late 2018 onwards. The summary indexes are both slightly negative, which is a level consistent with both a trend increase in unemployment and lower interest rates. Unfortunately, though, the indexes do not provide a material lead on either unemployment or interest rates.

As such, the indicators suggest that the behaviour of the Reserve Bank to date is consistent with past experience, in that historically the bank has cut interest rates in response to a weaker labour market. This contradicts the Reserve Bank’s current narrative that there has been no deterioration in the outlook and lower rates are an effort to reduce unemployment.

The changed outlook for the labour market is consistent with NAB’s assessment that the economy has lost momentum, such that the Reserve Bank is likely to cut rates further to 0.75% in November, supported by additional fiscal stimulus from the government.

Chart 9: The weaker labour market is consistent with rising unemployment and lower interest rates



Note: The index is the first principal component across the various indicators. The trend unemployment rate has been rounded to one decimal place.
Source: ANZ Bank, Australian Bureau of Statistics, SEEK, Westpac and Melbourne Institute, National Australia Bank

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 8 July 2019								
GE	Industrial Production SA MoM / YoY	May		0.4/-3.2		-1.9/-1.8	6.00	16.00
Tuesday, 9 July 2019								
CH	Money Supply M2 YoY	Jun		8.6		8.5		9 July to 15 Jul
CH	New Yuan Loans CNY	Jun		1700		1180		9 July to 15 Jul
NZ	ANZ Truckometer Heavy MoM	Jun				0.8	22.00	8.00
AU	NAB Business Conditions / Confidence	Jun		/		1/7	1.30	11.30
JN	Machine Tool Orders YoY	Jun P				-27.3	6.00	16.00
IT	ECB's Visco at Central Bank Event on Late Governor Ciampi						8.00	18.00
US	NFIB Small Business Optimism	Jun		103.3		105	10.00	20.00
CA	Housing Starts	Jun		208.55		202.337	12.15	22.15
US	Fed's Bullard to Make Welcoming Comments in St. Louis						14.10	0.10
US	Fed's Bostic Speaks at Washington University in St. Louis						18.00	4.00
Wednesday, 10 July 2019								
NZ	REINZ House Sales YoY	Jun				-7.8		10 July to 15 July
NZ	Food Prices MoM	Jun	0.6			0.7	22.45	8.45
AU	Westpac Consumer Conf Index	Jul				100.7	0.30	10.30
CH	CPI YoY	Jun		2.7		2.7	1.30	11.30
CH	PPI YoY	Jun		0.2		0.6	1.30	11.30
UK	GDP (MoM)	May		0.3		-0.4	8.30	18.30
UK	Industrial Production MoM / YoY	May		1.5/1.3		-2.7/-1	8.30	18.30
UK	Trade Balance	May		-3200		-2740	8.30	18.30
CA	Bank of Canada Rate Decision	10 Jul		1.75		1.75	14.00	0.00
US	Wholesale Inventories MoM	May F		0.4		0.4	14.00	0.00
US	Fed's Powell Testifies Before House Financial Services Panel						14.00	0.00
UK	BOE's Tenreiro speaks in London						17.10	3.10
US	Fed's Bullard To Speak at Washington University in St. Louis						17.30	3.30
US	FOMC Meeting Minutes	19 Jun					18.00	4.00
Thursday, 11 July 2019								
CH	Foreign Direct Investment YoY CNY	Jun				8.5		11 July to 18 July
NZ	Electronic Card Transactions	Jun	0.7			0.2	22.45	8.45
AU	Consumer Inflation Expectation	Jul				3.3	1.00	11.00
AU	Home Loans MoM	May		-1		-1.1	1.30	11.30
GE	CPI MoM / YoY	Jun F		0.3/1.6		0.3/1.6	6.00	16.00
UK	BOE publishes Financial Stability Report.						9.30	19.30
EC	ECB Publishes Account of June 5-6 Policy Meeting						11.30	21.30
US	CPI MoM / YoY	Jun		0/1.6		0.1/1.8	12.30	22.30
US	CPI Ex Food and Energy MoM / YoY	Jun		0.2/2		0.1/2	12.30	22.30
US	Initial Jobless Claims	6 Jul		220.5		221	12.30	22.30
AU	RBA's Debelle Speech Via Videolink at FX week New York Conference						13.10	23.10
NZ	RBNZ's Orr Scheduled to Speak on Phase 2 Review						14.00	0.00
US	Fed's Powell Testifies Before Senate Banking Committee						14.00	0.00
US	Fed's Williams To Speak on Revitalization in Albany, New York						15.10	1.10
US	Fed's Bostic Speaks on Monetary Policy at Fiscal Conference						16.15	2.15
US	Fed's Barkin to Speak at Rocky Mountain Economic Summit						16.30	2.30
US	Fed's Kashkari Speaks at Townhall Event in South Dakota						21.00	7.00
Friday, 12 July 2019								
NZ	BusinessNZ Manufacturing PMI	Jun				50.2	22.30	8.30
CH	Trade Balance	Jun		45		41.65		12 July
CH	Exports YoY / Imports YoY	Jun		-1.5/-4.6		1.1/-8.5		12 July
JN	Industrial Production MoM / YoY	May F		/		2.3/-1.8	4.30	14.30
UK	BOE's Vlieghe speaks in London.						8.30	18.30
EC	Industrial Production SA MoM / YoY	May		0.2/-1.6		-0.5/-0.4	9.00	19.00
IT	ECB's Visco, Italy's Tria Speak in Milan						9.00	19.00
US	PPI Final Demand MoM / YoY	Jun		0.1/1.6		0.1/1.8	12.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		10-Jul	1.75%	1.75%		1.75%		
Europe, ECB		25-Jul	-0.4%	-0.4%		-0.4%		
Japan, BoJ		30-Jul	-0.1%	-0.1%		-0.1%		
US, Federal Reserve		31-Jul	2.25-2.5%	2.25-2.5%		2.25-2.5%		
UK, BOE		1-Aug	0.75%	0.75%		0.75%		
New Zealand, RBNZ		7-Aug	1.25%	1.25%		1.5%		
Australia, RBA		6-Aug	1.00%	%		1%		

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

FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
					2018				2019				2020				2021			
	2018	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																				
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	0.4	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	1.5	1.4	1.5	1.7	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

	8-Jul	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Majors						
AUD/USD	0.698	0.71	0.73	0.74	0.75	0.75
NZD/USD	0.66	0.67	0.68	0.69	0.70	0.70
USD/JPY	108.5	107	108	107	106	105
EUR/USD	1.12	1.12	1.13	1.13	1.13	1.14
GBP/USD	1.25	1.22	1.24	1.24	1.25	1.27
USD/CNY	6.89	6.96	6.95	6.92	6.90	6.85
USD/CAD	1.31	1.33	1.30	1.29	1.27	1.28
USD/CHF	0.99	0.98	0.98	1.02	1.02	1.00

Australian Cross Rates

AUD/NZD	1.05	1.06	1.07	1.07	1.07	1.07
AUD/JPY	75.8	76	79	79	80	79
AUD/EUR	0.62	0.63	0.65	0.65	0.66	0.66
AUD/GBP	0.56	0.58	0.59	0.60	0.60	0.59
AUD/CNY	4.81	4.94	5.07	5.12	5.18	5.14
AUD/CAD	0.91	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

	8-Jul	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Australian Rates						
RBA cash rate	1.00	1.00	0.75	0.75	0.75	0.75
3 month bill rate	1.13	1.10	0.85	0.85	0.85	0.85
3 Year Swap Rate	1.03	0.80	0.80	1.10	1.25	1.40
10 Year Swap Rate	1.55	1.38	1.38	1.60	1.75	1.90
Offshore Policy Rates						
US Fed funds	2.50	2.00	2.00	2.00	2.00	2.00
ECB deposit rate	-0.40	-0.60	-0.60	-0.60	-0.60	-0.60
BoE repo rate	0.75	0.75	0.75	0.75	0.75	0.75
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
10-year Bond Yields						
Australia	1.33	1.20	1.20	1.40	1.50	1.60
United States	2.03	1.90	1.90	2.00	2.10	2.20
New Zealand	1.56	1.60	1.65	1.85	2.00	2.20

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	2.4	1.7	1.7
Eurozone	1.8	1.2	1.3	1.4
United Kingdom	1.4	1.5	1.4	1.5
Japan	0.8	0.7	0.4	0.9
China	6.6	6.3	6.0	5.8
India	7.1	6.7	7.2	7.1
New Zealand	2.8	2.4	2.6	2.5
World	3.6	3.2	3.3	3.5

Commodity prices (\$US)

	8-Jul	Sep-19	Dec-19	Mar-20	Jun-20
Brent oil	64.3	68	70	70	75
Gold	1397	1334	1382	1393	1398
Iron ore	122	79	76	72	68
Hard coking coal*	186	178	170	165	160
Thermal coal	68	85	90	93	90
Copper	5890	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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