

AUSTRALIAN MARKETS WEEKLY

Economic and fiscal outlook



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This is the final Australian Markets Weekly for the year - back 13 January. We would like to thank all our readers for their support of NAB Markets Research this year and wish you a safe and joyous festive season and a prosperous new year.

MYEFO – a downgraded economic outlook is problematic for the government's surplus goals

- The Mid-Year Economic and Fiscal Outlook (MYEFO) released today reveals downgrades to the economic outlook. Growth is slower in the near term and the government has reduced its expectation for wages growth. This has forced the government to lower its expected budget surpluses, where it now forecasts only small surpluses (ranging from 0.2 to 0.4% of GDP) in the next four years.
- Given the average forecast error for the MYEFO forecast of the current financial-year budget outcome is 0.6% of GDP, the lowered surplus outlook suggests there is a risk that the government does not deliver a surplus in 2019-20. The government did not announce any material fiscal stimulus, with additional spending – on drought, aged care and a slight bring-forward of infrastructure projects – only totalling \$1.2b in 2019-20 and \$1.1b in 2020-21. This suggests the RBA will have to continue to carry the burden of supporting growth.

NAB's 2020 outlook – a little weaker than both the Government and RBA forecasts

- NAB's forecasts for the economy see GDP growth at a moderately below trend 2.0% in 2020 and 2.4% in 2021. These rates of growth are not sufficient to prevent the unemployment rate rising somewhat, with unemployment expected at 5.5% in 2021.
- While the global outlook has improved, the RBA will likely need to provide further support to the economy, especially given the government has not provided material additional fiscal stimulus. NAB forecasts the RBA to cut the cash rate twice by 25bp in February and June 2020, bringing the cash rate to 0.25%. We see risk of quantitative easing in H2 2020, should the economy turn out weaker than we forecast.

The month ahead – AU RBA minutes, labour data, retail sales; NZ GDP

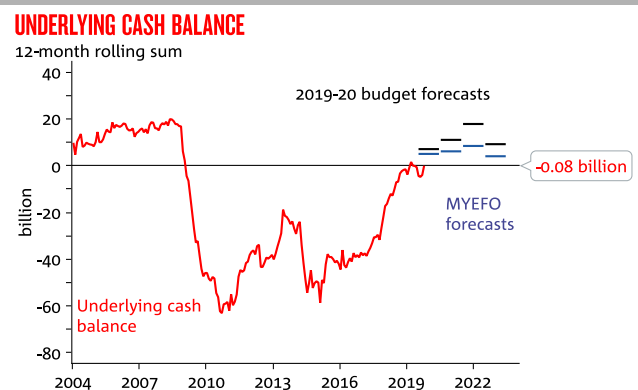
- **AU:** The RBA minutes might repeat that “a case could be made to ease” policy, though the Board remained in assessment mode until February. There could also be more about unconventional policy given Governor Lowe's recent speech on the topic. Thursday's November labour market survey should see an unchanged unemployment rate and a 17k increase in employment after last month's shock fall. November retail sales released on 10 January is the highlight in the following weeks, where NAB forecasts a solid rise of 0.6% m/m (we have revised up since Friday).
- **Global:** For Thursday's NZ Q3 GDP BNZ anticipate a 0.5% q/q expansion, compared with the RBNZ's 0.3% forecast. Elsewhere attention remains focused on US impeachment proceedings, Chinese PMIs and Brexit developments following the UK election.

Key markets over the past week

	Last	% chg week		Last	pp/% chg week
AUD	0.6878	0.8	RBA cash	0.75	0.0
AUD/CNY	4.81	0.1	3y swap	0.79	0.1
AUD/JPY	75.2	1.6	ASX 200	6856	1.5
AUD/EUR	0.618	0.2	Iron ore	86.2	2.9
AUD/NZD	1.043	0.1	Brent oil	65.0	1.2

Source: Bloomberg

Chart of the week: Downgraded budget surplus outlook



Source: National Australia Bank, Commonwealth Treasury, Department of Finance

Mid-year economic and fiscal outlook

Downgrades to the economic outlook are problematic for the government's surplus goals

The Mid-year Economic and Fiscal Outlook (MYEFO) released today reveals a less favourable economic outlook. Growth is slower in the near term while, once again, the Government has had to reflect the reality of slower wages growth. This has forced the government to lower its forecast budget surpluses, with only small surpluses (ranging from 0.2 to 0.4% of GDP) now forecast over the next four years.

Given the average forecast error for the MYEFO forecast of the current financial-year budget outcome is 0.6% of GDP, the lowered surplus outlook suggests there is a increased risk that the government does not deliver a surplus in 2019-20. That risk is even higher for 2020-21 where another small forecast surplus of 0.3% of GDP is forecast.

More importantly for the near-term outlook, the government did not announce any material fiscal stimulus, with additional spending – on drought, aged care and a slight bring-forward of infrastructure projects – only totalling \$1.2b in 2019-20 and \$1.1b in 2020-21.

As such, it will remain up to the Reserve Bank to support the economy, if growth remains sub-trend as NAB expects and unemployment begins to drift higher. NAB expects two further 25bp rate cuts in February and June 2020, reducing the cash rate to 0.25%.

Weak wages growth weighs on the economic outlook

Treasury's near-term forecasts for real GDP, unemployment and inflation have all been downgraded to match the RBA's latest forecasts. Treasury now forecasts annual real GDP growth of 2¼% in 2019-20, down from 2¾% at budget-time, which is marginally stronger than NAB's forecast for 2% growth.

Table 1: MYEFO forecasts have been downgraded

	Key MYEFO Economic Forecasts					RBA Forecasts	
	Outcome 2018-19	2019-20	Budget Forecasts 2020-21	2021-22	2022-23	2019-20	2020-21
Real GDP	2	2¼	2¼	3	3	2¼	2¼
April forecast		2¼	2¼	3	3	–	–
Employment (b)	2.2	1¼	1¼	1¼	1¼	2	2
April forecast		1¼	1¼	1¼	1¼	–	–
Unemployment rate (b)	5.2	5¼	5¼	5	5	5.2	5.1
April forecast		5	5	5	5	–	–
Inflation (CPI) (b)	1.7	2	2¼	2¼	2¼	1.9	1.9
April forecast		2¼	2¼	2¼	2¼	–	–
Wages (WPI) (b)	2.3	2¼	2¼	2¼	3	2.3	2.3
April forecast		2¼	3¼	3¼	3¼	–	–
Wages bill	4.5	4¼	4¼	4¼	4¼	–	–
April forecast		4¼	4¼	5	5	–	–
Terms of trade	5.5	-4	-8¼	–	–	–	–
April forecast		-5¼	-4¼	–	–	–	–
Nominal GDP	5.3	3¼	2¼	4¼	4¼	–	–
April forecast		3¼	3¼	4¼	4¼	–	–

(a) Year-average growth unless otherwise stated.

(b) Year-ended growth to the June quarter; unemployment rate June quarter average.

Source: ABS, Treasury, NAB

Despite the near-term downgrade, the government's growth forecasts are unchanged from 2020-21 onwards. The weaker outlook for consumption has been largely offset by a stronger forecast turnaround in mining investment and residential construction, resulting in growth rising to 2¾% in 2020-21 – in contrast, NAB expects weaker growth of 2¼% in 2020-21.

Importantly, for both underlying economic growth and tax receipts, wages growth remains slow – below Treasury's continually optimistic forecasts for wages in recent years. Treasury now expects wages growth of

2½% for the next two years, before rising to 3% by 2022-23 – around ½ to ¾ ppt lower in each forecast year. Even so, Treasury's outlook is stronger than the RBA's expectation of flat wages growth of 2.3%. Stalled wages growth suggests continuing headwinds to consumer spending and tax revenue.

Lower surpluses amid a weaker outlook

The government now forecasts smaller budget surpluses over the forecast horizon. In 2019-20, the budget surplus is expected to be \$5b, or 0.3% of GDP, downgraded from \$7b. Seasonally adjusting the monthly figures, we estimate that the government needs surpluses of \$0.7b on average in each of the next eight months to reach a \$5b surplus for 2019-20.

Further, the surpluses in the next four years are now forecast to range between 0.2 to 0.4% of GDP, instead of the 0.4 to 0.8% of GDP surpluses forecast in April. The cumulative surplus in 2019-20 to 2022-23 has almost halved to \$23.5b, from \$45b forecast in April. The downward revision is driven by the weaker outlook, which lowers expected revenue from individuals' taxes, company tax and GST.

Table 2: Lower surpluses in the next four years

	Key Budget Aggregates 2019-20				
	Actual 2018-19	2019-20	Forecasts		
		2020-21	2021-22	2022-23	
Underlying cash balance (\$b)	-0.7	5.0	6.1	8.4	4.0
(% of GDP)	0.0	0.3	0.3	0.4	0.2
April forecast (\$b)		7.1	11.0	17.8	9.2
(% of GDP)		0.4	0.5	0.8	0.4
Headline cash balance (\$b)	-7.2	-2.8	-2.5	-1.4	-6.6
(% of GDP)	-0.4	-0.1	-0.1	-0.1	-0.3
April forecast (\$b)		-4.4	-0.5	0.5	1.5
(% of GDP)		-0.6	-0.5	0.5	1.5
Net debt (\$b)	374	392	379	365	361
(% of GDP)	19.2	19.5	18.4	16.9	16.0
April forecast (\$b)		361	350	351	352
(% of GDP)		18.0	16.8	17.8	18.8

Source: National Australia Bank, Treasury

There is uncertainty about whether the budget will reach a surplus in 2019-20

Given previous budget forecast errors, the lowered surplus and growth outlook, there's a risk that the government does not deliver a surplus in 2019-20. In our view, that risk is even higher for 2020-21 where another small surplus of 0.3% of GDP is forecast.

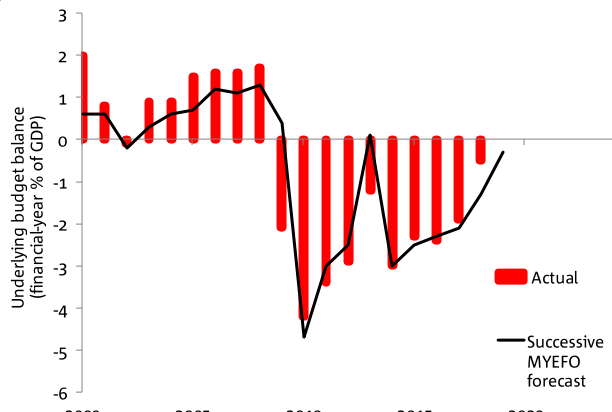
Although the financial year is almost half over, history shows that the MYEFO estimates are only a very rough guide to where the budget will end up. The average absolute forecast error for the MYEFO forecast of the current financial-year budget outcome is 0.6% of GDP and a 95% confidence interval around a MYEFO budget estimate is +/-1.6% of GDP!

Part of this large forecast error reflects the government's difficulty in forecasting the economy and labour market, but commodity prices are also important given the impact on company tax.

- There is uncertainty about the outlook for growth given private-sector demand has deteriorated, with residential construction activity falling and business investment and consumer spending weak. Weaker private-sector activity should be reflected in a weaker labour market, which has repercussions for income tax revenue.

- There is uncertainty around the outlook for commodity prices, particularly iron ore. MYEFO assumes that the iron ore price would fall to \$US55/t by Q2 2020, whereas the current spot price is \$US86/t, providing an important windfall for the budget bottom-line.

Chart 2: The MYEFO finds it hard to forecast the current financial-year budget outcome



Note: The successive MYEFO forecasts are for the current financial-year budget.
Source: Department of Finance, National Australia Bank

No material fiscal stimulus as government sticks to surplus plan

Key for the near-term outlook was whether the MYEFO revealed any suggestion that the government was prepared to support moderately sub-trend economic growth. Not unexpectedly, MYEFO revealed that the government remains committed to fiscal consolidation, even as the deterioration in the outlook presents headwinds to its forecast surpluses. Policy announcements in MYEFO were small, with additional spending – on drought, aged care and a slight bring-forward of infrastructure projects – only totalling \$1.2b in 2019-20 and \$1.1b in 2020-21.

Table 3: Policy announcements in MYEFO are small

	Estimates		Projections		Total
	2019-20	2020-21	2021-22	2022-23	
Total payment impact of policy decisions taken since the 2019 PEFO	-2,449	-2,955	-1,865	-1,000	-8,268
Election Commitments	1	9	54	38	102
Increased Drought Support	-325	-234	-77	-129	-766
Aged Care Package	-173	-218	-171	-63	-625
Accelerated Infrastructure Spending	-750	-1,403	-1,239	-797	-4,189
Other new policy decisions	-1,201	-1,108	-432	-49	-2,790
add Payments impacts of non-economic parameter and other variations	465	754	501	2,377	4,097
Net payment impact of policy decisions in the 2019-20 MYEFO	-736	-354	69	2,329	1,307

Source: National Australia Bank, Treasury

In our view, the economic outlook suggests further stimulus is required to reduce unemployment and lift inflation. While monetary policy works with long and variable lags, fiscal stimulus is well placed to provide support to the economy in the near term given the low cost of borrowing and the health of the government’s balance sheet.

In the short run, bringing forward personal income tax cuts or providing cash hand-outs would provide helpful support to households, while infrastructure spending is important to the medium-term economic outlook.

Unfortunately, such stimulus seems unlikely until at least the May budget and, even then, will likely be constrained by the government’s surplus objectives. This means the RBA will likely need to continue to provide the bulk of support to the economy in the near term – with NAB forecasting further 25bp interest rate cuts in February and June 2020, to 0.25%. If the Government does not provide some additional policy support in the May Budget, the risks of unconventional policy in the second half of 2020, rise.

Kaixin Owyong

NAB’s 2020 outlook

Below trend growth in 2020

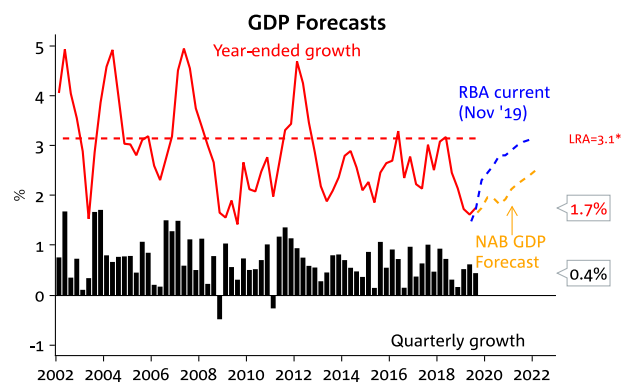
NAB’s forecasts for the economy see GDP growth at a below trend 2.0% in 2020 and 2.4% in 2021. Importantly, our forecasts are well below the RBA’s and Government’s latest forecasts (Chart 3) and suggest the RBA and the government will struggle to reach full employment and lift inflation to target without further stimulus. (See NAB’s Forward View for details).

Table 4: Key economic forecasts for 2020

	2018	2019-F	2020-F	2021-F
Domestic Demand (a)	2.9	1.0	1.4	2.4
Real GDP (annual average)	2.7	1.8	2.0	2.4
Real GDP (year-ended to Dec)	2.1	2.0	2.1	2.5
Terms of Trade (a)	1.8	5.4	-6.5	-1.8
Employment (a)	2.7	2.2	0.9	0.8
Unemployment Rate (b)	5.0	5.4	5.6	5.6
Headline CPI (b)	1.8	1.8	1.9	2.4
Core CPI (b)	1.8	1.4	1.7	2.1
RBA Cash Rate (b)	1.50	0.75	0.25	0.25
\$/A/US cents (b)	0.71	0.69	0.71	0.74

(a) annual average growth, (b) end-period, (c) through the year inflation

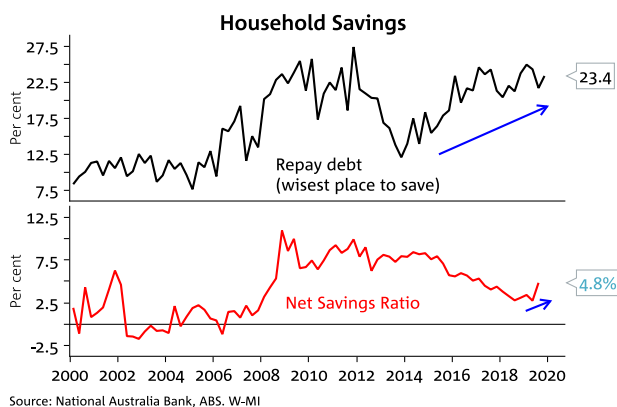
Chart 3: Growth likely to fall short of expectations



Source: National Australia Bank, ABS

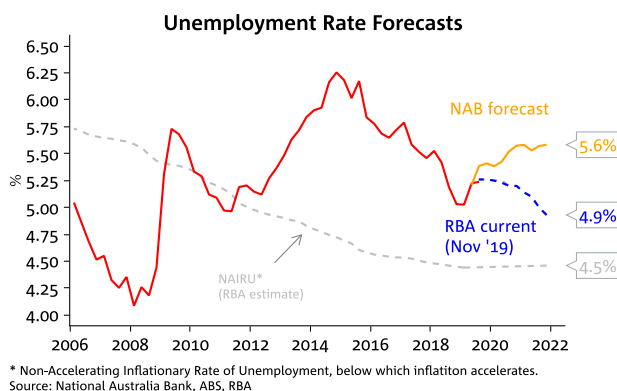
NAB remains concerned about the state of private demand, particularly weak consumer spending. Q3 GDP figures revealed a substantial lift in the household savings rate to 4.8%, as households held on to the \$7b worth of tax cuts that occurred in the quarter, while surveys suggest repaying debt remains a high priority for households (Chart 4). Investment intentions have also softened, while business credit growth remains subdued.

Chart 4: Households in balance sheet repair mode



On the positive side a rebound in the housing market should help, although spillovers to the broader economy are likely to be limited for now given residential building approvals continue to trend lower. Approvals should stabilise sometime in 2020, especially given population growth remains strong at 1.6% y/y (equivalent to 400k people or the size of Canberra being added to Australia's population in a year).

Chart 5: Unemployment to rise with growth below trend



RBA to support the economy with further rate cuts

With the government committed to a budget surplus and MYEFO showing no material lift in stimulus, it is likely the RBA will have to do the heavy lifting in H1 2020. NAB forecasts the RBA cutting rates in Feb and Jun, taking the cash rate to 0.25%.

If there continues to be reluctance by the government in delivering fiscal stimulus come the May budget and the unemployment rate continues to drift higher, the RBA will have to contemplate what further stimulus they could provide. Governor Lowe is on the record noting "QE becomes an option" at a cash rate of 0.25%. NAB currently assesses this as a risk, though the probability is now starting to rise given government rhetoric around fiscal stimulus.

What could a QE program look like in Australia?

Governor Lowe in a recent speech noted "QE becomes an option" at a cash rate of 0.25%, though at the time deemed it unlikely that the RBA would need to undertake QE in the near future given the Bank forecasts the economy to move towards full employment (Chart 5).

(see [speech for details](#)). However, if growth undershoots the RBA's forecasts and potential, then the unemployment rate is at risk of rising not falling – having already increased to 5.3% (note figures for November are out on Thursday).

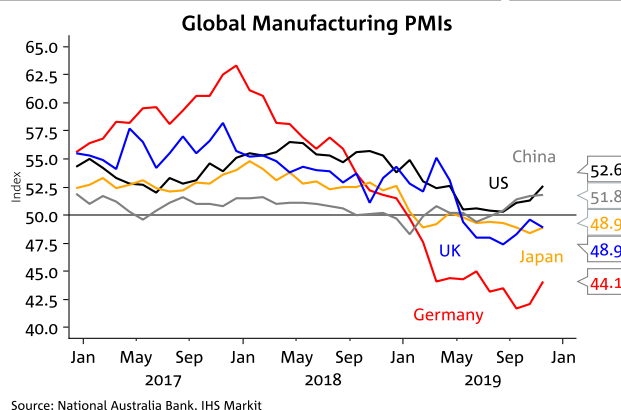
In terms of QE options, Governor Lowe has noted QE would be done by purchasing government bonds, including the possibility of state government bonds. NAB's prior research on this, notes a QE package of around \$115bn (or 6% of GDP) would be needed to lower the unemployment rate and lift inflation back towards target (email Tapas.Strickland@nab.com.au if you would like a copy). Such a program could reduce 10yr bond yields by roughly 35bps with a range of 10-70bps and lower the exchange rate by about 1.8% (range 0.5-3.5%).

Upside risks - international outlook more favourable

More optimistically, the international outlook is a little more favourable following the resolution of key risk events – the UK Tory party won a sizeable majority which should mean less uncertainty around Brexit, while a phase-one US-China trade deal should alleviate some trade and investment anxieties to a degree as we head into the US election cycle.

Global PMIs have stabilised, though in Europe are below the 50-expansion level. The wild card for markets in 2020 will be if Europe undertakes meaningful fiscal stimulus as advocated by ECB President Lagarde. There is some hope here with Germany's Bundesbank noting "we should not make a fetish out of" balanced budgets.

Chart 6: International environment stabilising



It is unclear the extent to which improved global sentiment spills over to Australia given the headwinds Australia faces are still mostly domestic in nature (slow wages growth, balance sheet repair, weaker housing construction and drought). Nevertheless, to the extent international developments were weighing on business sentiment, then this should reduce uncertainty. The AUD may also be under some downward pressure should the global economy stabilise at a time that the RBA continues to ease rates and undertakes QE.

Tapas Strickland

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday 16 December 2019								
GE	Markit/BME Germany Manufacturing PMI	Dec P		44.8		44.1	8.30	19.30
EC	Markit Eurozone Manufacturing PMI	Dec P		47.1		46.9	9.00	20.00
US	Empire Manufacturing	Dec		5		2.9	13.30	0.30
US	Markit US Manufacturing PMI	Dec P		52.6		52.6	14.45	1.45
Tuesday 17 December 2019								
NZ	Westpac Consumer Confidence	4Q		--		103.1	20.00	7.00
NZ	ANZ Business Confidence	Dec		--		-26.4	0.00	11.00
AU	Home Loans MoM	Oct		--		3.6	0.30	11.30
UK	Jobless Claims Change	Nov		--		33	9.30	20.30
US	Housing Starts	Nov		1340		1314	13.30	0.30
US	Industrial Production MoM	Nov		0.8		-0.8	14.15	1.15
US	Fed's Williams speaks on economic conditions						17.30	4.30
Wednesday 18 December 2019								
NZ	Dairy Auction Avg. Winning Price MT	Dec 17		--		3467	early am	
NZ	BoP Current Account Balance NZD	3Q		-6.336		-1.106	21.45	8.45
AU	Westpac Leading Index MoM	Nov		--		-0.07	23.30	10.30
GE	IFO Business Climate	Dec		95.4		95	9.00	20.00
UK	CPI YoY	Nov		1.5		1.5	9.30	20.30
EC	CPI MoM / YoY	Nov F		--		-0.3/0.7	10.00	21.00
US	Fed's Brianard speaks in Frankfurt						10.15	21.15
CA	CPI NSA MoM / YoY	Nov		--		0.3/1.9	13.30	0.30
CA	CPI Core- Common YoY%	Nov		--		1.9	13.30	0.30
Thursday 19 December 2019								
NZ	Trade Balance NZD	Nov		-800		-1013	21.45	8.45
NZ	GDP SA QoQ / YoY	3Q		0.5 / 2.3		0.5 / 2.1	21.45	8.45
AU	Unemployment Rate	Nov	5.3	5.3		5.3	0.30	11.30
AU	Employment Change	Nov	17	15		-19	0.30	11.30
JN	BOJ Policy Balance Rate	Dec 19		--		-0.1	around 2pm	
UK	Retail Sales Inc Auto Fuel YoY	Nov		2.6		3.1	9.30	20.30
UK	Bank of England Bank Rate	Dec 19		0.75		0.75	12.00	23.00
US	Philadelphia Fed Business Outlook	Dec		9		10.4	13.30	0.30
Friday 20 December 2019								
NZ	ANZ Consumer Confidence Index	Dec		--		120.7	21.00	8.00
JN	Natl CPI YoY	Nov		0.5		0.2	23.30	10.30
NZ	Credit Card Spending YoY	Nov		--		2.5	2.00	13.00
UK	GDP QoQ / YoY	3Q F		0.3 / 1		0.3 / 1	9.30	20.30
CA	Retail Sales MoM	Oct		--		-0.1	13.30	0.30
US	GDP Annualized QoQ	3Q T		2.1		2.1	13.30	0.30
US	U. of Mich. Sentiment	Dec F		99.2		99.2	15.00	2.00
EC	Consumer Confidence	Dec A		-7.6		-7.2	15.00	2.00
US	PCE Core Deflator MoM / YoY	Nov		0.1 / 1.5		0.1 / 1.6	15.00	2.00
Monday 23 December 2019								
JN	All Industry Activity Index MoM	Oct		--		1.5	4.30	15.30
Tuesday 24 December 2019								
CA	GDP YoY	Oct		--		1.6	13.30	0.30
US	New Home Sales	Nov		730		733	15.00	2.00
US	Durable Goods Orders	Nov P		0.2		0.5	13.30	0.30
Wednesday 25 and Thursday 26 December 2019								
Christmas and Boxing Day public holidays								
Friday 27 December 2019								
JN	Jobless Rate	Nov		--		2.4	23.30	10.30
JN	Tokyo CPI YoY	Dec		--		0.8	23.30	10.30

Monday 30 December 2019							
Tuesday 31 December 2019							
US	Wholesale Inventories MoM	Nov P		--	0.1	13.30	0.30
AU	Private Sector Credit MoM / YoY	Nov	0.2 / 2.4	0.2 / 2.5	0.1 / 2.5	0.30	11.30
CH	Manufacturing PMI	Dec		--	50.2	1.00	12.00
CH	Non-manufacturing PMI	Dec		--	54.4	1.00	12.00
US	Conf. Board Consumer Confidence	Dec		--	125.5	15.00	2.00
Wednesday 01 January 2020							
New Year public holiday							
Thursday 02 January 2020							
CH	Caixin China PMI Mfg	Dec		--	51.8	1.45	12.45
AU	Commodity Index SDR YoY	Dec		--	-5	5.30	16.30
CA	Markit Canada Manufacturing PMI	Dec		--	51.4	14.30	1.30
Friday 03 January 2020							
GE	Unemployment Change (000's)	Dec		--	-16	8.55	19.55
EC	M3 Money Supply YoY	Nov		--	5.6	9.00	20.00
GE	CPI MoM / YoY	Dec P		--	-0.8 / 1.1	13.00	0.00
US	Construction Spending MoM	Nov		--	-0.8	15.00	2.00
US	ISM Manufacturing	Dec		--	48.1	15.00	2.00
US	FOMC Meeting Minutes	Dec 11		--		19.00	6.00
Monday 06 January 2020							
AU	AiG Perf of Mfg Index	Dec		--	48.1	21.30	8.30
CH	Caixin China PMI Services	Dec		--	53.5	1.45	12.45
Tuesday 07 January 2020							
AU	ANZ Job Advertisements MoM	Dec		--	-1.7	0.30	11.30
EC	CPI Estimate YoY	Dec		--	1	10.00	21.00
EC	Retail Sales MoM / YoY	Nov		--	-0.6/1.4	10.00	21.00
US	Trade Balance	Nov		--	-47.2	13.30	0.30
US	ISM Non-Manufacturing Index	Dec		--	53.9	15.00	2.00
US	Factory Orders	Nov		--	0.3	15.00	2.00
Wednesday 08 January 2020							
NZ	QV House Prices YoY	Dec		--	3.3	16.00	3.00
AU	AiG Perf of Construction Index	Dec		--	40	21.30	8.30
AU	Building Approvals MoM / YoY	Nov	-2 / -16	--	-8.1 / -23.6	0.30	11.30
GE	Factory Orders MoM	Nov		--	-0.4	7.00	18.00
US	ADP Employment Change	Dec		--	67	13.15	0.15
Thursday 09 January 2020							
AU	Trade Balance	Nov	4000	--	4502	0.30	11.30
GE	Industrial Production SA MoM	Nov		--	-1.7	7.00	18.00
EC	Unemployment Rate	Nov		--	7.5	10.00	21.00
CA	Housing Starts	Dec		--	201.318	13.15	0.15
Friday 10 January 2020							
AU	AiG Perf of Services Index	Dec		--	53.7	21.30	8.30
AU	Retail Sales MoM	Nov	0.5	--	0	0.30	11.30
UK	Monthly GDP (MoM)	Nov		--	0	9.30	20.30
CH	New Yuan Loans CNY	Dec		--	1390	10 to 15 Jan	
Upcoming Central Bank Interest Rate Announcements							
Japan, BoJ		Dec 19	-0.10	-0.10	-0.10		
UK, BOE		Dec 19	0.75	0.75	0.75		
Canada, BoC		Jan 22	1.75	1.75	1.75		
Europe, ECB		Jan 23	-0.50	-0.50	-0.50		
US, Federal Reserve		Jan 29	1.5/1.75	1.5/1.75	1.5/1.75		
Australia, RBA		Feb 4	0.50	0.75	0.75		
New Zealand, RBNZ		Feb 12	1.00	1.00	1.00		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight 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	2.7	1.4	1.4	2.0	0.5	0.8	0.3	0.4	0.3	0.3	0.1	0.2	0.3	0.5	0.6	0.5	0.4	0.4	0.5	0.6
Underlying Business Investment	1.3	-3.0	-2.4	3.2	1.0	-1.0	-1.4	-0.4	0.9	-1.2	-2.9	-1.3	-0.1	-0.1	0.5	0.9	0.9	0.9	0.9	1.0
Residential Construction	4.7	-7.1	-7.8	-0.7	3.4	2.5	0.4	-3.0	-1.6	-3.7	-1.7	-2.4	-2.2	-2.0	-1.2	-0.4	0.4	-0.2	0.6	0.7
Underlying Public Spending	4.4	4.8	4.6	3.6	1.4	-0.5	2.0	0.7	1.0	1.7	1.7	0.8	1.1	1.1	0.9	0.9	0.9	0.9	0.8	0.8
Net Exports (a)	0.9	1.4	0.1	0.0	0.6	0.0	0.4	-0.1	0.4	0.5	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories (a)	0.1	-0.3	0.1	0.0	-0.1	0.3	-0.3	0.1	-0.1	-0.4	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.9	0.3	0.5	0.1	0.3	0.3	0.2	0.1	0.3	0.4	0.6	0.6	0.6	0.6	0.7	0.7
Dom Demand (y/y %)	2.9	1.0	1.4	2.4	3.7	3.3	2.6	1.8	1.2	1.2	0.9	0.9	1.0	1.0	1.4	2.0	2.3	2.4	2.5	2.6
Real GDP (q/q %)	--	--	--	--	0.9	0.7	0.3	0.2	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Real GDP (y/y %)	2.7	1.8	2.0	2.4	3.1	3.2	2.5	2.1	1.7	1.6	1.7	2.0	1.9	1.8	1.9	2.1	2.2	2.3	2.4	2.5
CPI headline (q/q %)	--	--	--	--	0.4	0.4	0.4	0.5	0.0	0.6	0.5	0.6	0.4	0.4	0.5	0.6	0.5	0.5	0.6	0.7
CPI headline (y/y %)	1.9	1.6	2.0	2.2	1.9	2.1	1.9	1.8	1.3	1.6	1.7	1.8	2.2	1.9	1.9	1.9	2.1	2.2	2.3	2.4
CPI underlying (q/q %)	--	--	--	--	0.5	0.5	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
CPI underlying (y/y %)	1.8	1.4	1.6	2.0	1.9	1.8	1.8	1.8	1.5	1.4	1.4	1.4	1.6	1.6	1.7	1.7	1.8	1.9	2.0	2.1
Private wages (q/q %)	--	--	--	--	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Private wages (y/y %)	2.1	2.3	2.5	2.8	1.9	2.1	2.1	2.3	2.4	2.3	2.2	2.2	2.3	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Unemployment Rate (%)	5.3	5.3	5.5	5.6	5.5	5.6	5.1	5.0	5.1	5.2	5.4	5.4	5.4	5.4	5.5	5.6	5.6	5.5	5.6	5.6
Terms of trade	1.8	5.4	-6.5	-1.8	3.3	-1.2	0.7	2.6	3.3	1.4	0.3	-4.5	-1.9	-1.9	0.0	-1.9	-0.3	0.2	0.2	0.6
Current Account (% GDP)	-2.1	0.7	-0.1	-0.5	-2.1	-2.6	-2.1	-1.3	-0.4	0.9	1.6	0.7	0.4	0.0	-0.1	-0.5	-0.6	-0.5	-0.5	-0.4

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

Exchange Rate Forecasts						
	16-Dec	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Majors						
AUD/USD	0.688	0.68	0.69	0.70	0.71	0.71
NZD/USD	0.66	0.65	0.65	0.66	0.67	0.67
USD/JPY	109.4	109	109	108	110	108
EUR/USD	1.11	1.14	1.16	1.16	1.17	1.17
GBP/USD	1.34	1.35	1.35	1.35	1.33	1.36
USD/CNY	6.98	7.05	7.00	6.90	6.85	6.85
USD/CAD	1.32	1.31	1.30	1.30	1.31	1.32
USD/CHF	0.98	0.98	0.96	0.96	0.96	0.96

Australian Cross Rates						
	16-Dec	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
AUD/NZD	1.04	1.05	1.06	1.06	1.06	1.06
AUD/JPY	75.3	74	75	76	78	77
AUD/EUR	0.62	0.60	0.59	0.60	0.61	0.61
AUD/GBP	0.52	0.50	0.51	0.52	0.53	0.52
AUD/CNY	4.80	4.79	4.83	4.83	4.86	4.86
AUD/CAD	0.91	0.89	0.90	0.91	0.93	0.94
AUD/CHF	0.68	0.67	0.66	0.67	0.68	0.68

Interest Rate Forecasts						
	16-Dec	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Australian Rates						
RBA cash rate	0.75	0.50	0.25	0.25	0.25	0.25
3 month bill rate	0.90	0.60	0.35	0.35	0.35	0.35
3 Year Swap Rate	0.79	0.55	0.40	0.35	0.35	0.45
10 Year Swap Rate	1.33	1.05	0.92	0.92	0.92	1.02
Offshore Policy Rates						
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.75	0.75	0.75	0.75	1.00	1.00
BoJ excess reserves rate	-0.10	-0.20	-0.30	-0.30	-0.30	-0.30
RBNZ OCR	1.00	1.00	1.00	1.00	1.00	1.00
China 1yr lending rate	4.35	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	13.0	12.00	12.00	12.00	12.00	12.00
10-year Bond Yields						
Australia	1.17	0.90	0.80	0.80	0.80	0.90
United States	1.82	1.70	1.70	1.70	1.80	1.90
New Zealand	1.53	0.95	1.05	1.10	1.30	1.45

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP				
	2018	2019	2020	2021
Australia	2.7	1.8	2.0	2.4
United States	2.9	2.3	1.7	1.8
Eurozone	1.9	1.2	1.1	1.4
United Kingdom	1.4	1.3	1.0	1.5
Japan	0.3	1.1	0.6	0.9
China	6.6	6.1	5.9	5.8
India	7.4	5.1	6.2	7.1
New Zealand	2.8	2.2	2.2	2.0
World	3.6	3.0	3.2	3.5

Commodity prices (\$US)					
	16-Dec	Mar-20	Jun-20	Sep-20	Dec-20
Brent oil	65.0	70	75	75	75
Gold	1474	1483	1518	1547	1572
Iron ore	na	72	68	71	69
Hard coking coal*	137	165	160	155	152
Thermal coal	67	93	90	88	90
Copper	6106	6225	6150	6125	6100
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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