AUSTRALIAN MARKETS WEEKLY

Budget revision provides scope for additional stimulus to shore up recovery

National Australia Bank

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- The government has overestimated the total cost of its JobKeeper wage subsidy by $60 billion (3% of GDP) given the unexpected success in containing the virus and major tracking errors by the tax office. This reduces NAB's forecasts budget deficits to $70 billion in 2019-20 (3.5% of GDP) and $210 billion in 2020-21 (still a record peacetime deficit of 11% of GDP).
- The wage subsidy and additional welfare payments have played a vital role in supporting the economy at the worst point of the shock from the virus, but the damage to the labour market will take time to repair. While hospitality and entertainment have borne the brunt of record job losses, most other industries have seen job cuts in line with the experience of the last recession and the Reserve Bank's central scenario is that total employment will take until 2022 to regain its pre-virus level.
- In NAB's view the unexpected revision to the cost of JobKeeper allows the government to consider extending its wage subsidy and additional welfare payments past their legislated end-date of September, albeit in a narrower form. Although a tentative recovery is under way, almost 1 in 10 adults are now on unemployment benefits, with Governor Lowe and Treasury Secretary Kennedy both emphasising the need to restore confidence to ensure households and businesses spend and hire. This suggests room for further fiscal support as the economy recovers.

The week ahead – PM and Gov. Lowe speak, construction & capex survey, trade; RBNZ Financial Stability Report

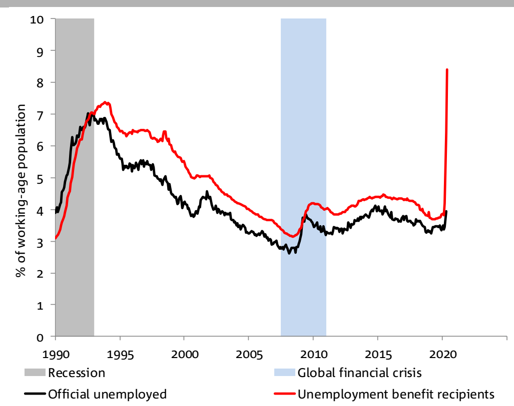
- **Australia:** The PM speaks on Tuesday, where he may discuss Australia-China relations. Governor Lowe testifies before the senate on Thursday on the impact of the virus. Construction work done should fall by 1.5% in Q1 on weaker housing activity. We forecast business capex to fall 3%, with equipment investment down 4%. Importantly, we expect a recession-like downward revision to firms' investment plans. ABS business and household surveys are due. April credit growth should slow after a large boost in March. **NZ**: The ANZ business survey is due Thursday and consumer confidence is on Friday. The RBNZ delivers its Financial Stability Report and press conference on Wednesday, which will raise concerns about financial stability risks brought on by COVID-19.
- **CH**: The National People's Congress continues until 28 May and will cover stimulus measures, Hong Kong and US-China trade. **US**: Monday is a holiday. May consumer confidence and the Fed Beige book are due. Friday's personal consumption should fall 12% in April. **EU**: Monday's May Ifo survey should improve from a record low base. **UK**: Monday is a holiday.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6524	0.0	RBA cash	0.13	0
AUD/CNY	4.66	0.7	3y swap	0.27	6
AUD/JPY	70.3	0.3	ASX 200	5,616	2.8
AUD/EUR	0.600	0.3	Iron ore	95	1.0
AUD/NZD	1.072	-0.8	Brent oil	35.2	1.1

Source: Bloomberg

Chart of the week: The massive hit to the labour market



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Budget revision provides scope for additional stimulus to shore up recovery

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The government has dramatically overestimated the cost of the wage subsidy policy

Last Friday saw the spectacular revelation that Treasury had overestimated the likely total cost of the JobKeeper wage subsidy by $60 billion (or 3% of annual GDP).[1]

- Previously, Treasury had estimated that the policy would cover about 6.5 million workers (or 52% of total employment) at a total cost over 2019-20 and 2020-21 of $130 billion (or 6.5% of GDP).
- Now, Treasury estimates that the policy will cover 3.5 million workers (28% of total employment) at a total cost over the two years of $70 billion (3.5% of GDP).

The massive reduction reflects a revision to the estimated coverage of the policy, which subsidises employee wages of businesses that have seen their turnover decline by at least 30% because of the virus. The government had thought 6.5 million workers might ultimately be covered by the scheme based on the assumption that health restrictions would last for six months. Incorrect information from the Australian Taxation Office suggested the scheme was almost at this point. Fortunately, Australia has had unexpected success in containing the virus, with the government aiming to roll back most restrictions by July.

The tax office realised last week based on payments data that only 2.9 million workers are currently covered by the scheme (23% of total employment), compared with 6.4 million first reported, as some companies incorrectly filled out the application form. The most common mistake occurred when companies with one eligible employee entered 1,500 workers on the form, which is the dollar amount of the fortnightly subsidy for one person. This alone accounted for 0.8 million of the overestimation of covered workers.

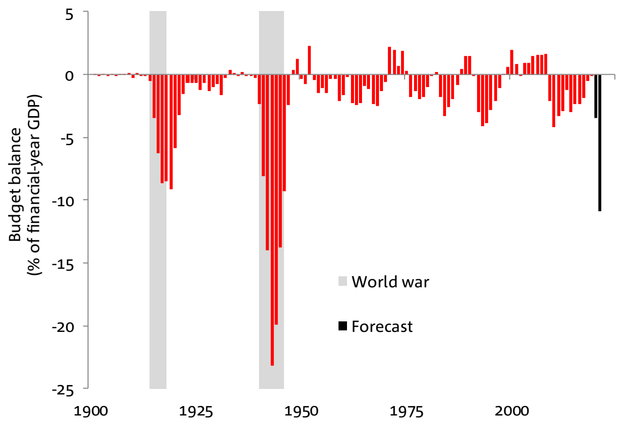
The massive downward revision reduces the likely still-substantial peak in the budget deficit

With the Commonwealth budget delayed from May to October, Treasurer Frydenberg will issue an economic and fiscal outlook next month, after the release of Q1 GDP on 3 June. In the meantime, the $60 billion revision to the cost of the JobKeeper policy significantly reduces NAB's forecast budget deficits for 2019-20 and 2020-21.

- Previously, NAB had forecast an underlying cash budget deficit of about $85 billion in 2019-20 (about 4.5% of GDP) and roughly $250 billion in 2020-21 (13% of GDP).
- Factoring in the revision to the JobKeeper subsidy, the forecast deficit is reduced to about $70 billion in 2019-20 (3.5% of GDP) and about $210b in 2020-21 (which still represents a record peace-time shortfall of 11% of GDP).

Although outside NAB's forecast horizon, the legislated short life of most of the stimulus measures would see a major improvement in the budget in 2021-22 because Treasury's costings show the stimulus peaks in 2020-21 before falling to almost zero in 2021-22.

Chart 1: The budget could post a revised deficit of 11% of GDP in 2020-21



Note: Underlying budget balance from 1970-71 onwards.
Source: Australian Bureau of Statistics, Reserve Bank of Australia, Treasury, Vamplew (1987), National Australia Bank

The windfall of lower-than-planned expenditure on the JobKeeper policy means that the government has options to provide further fiscal support, such that the deficit may end up larger than these revised estimates. In particular, the JobKeeper wage subsidy and expanded JobSeeker unemployment benefit are legislated to end in September, an abrupt finish that could pose a significant challenge to the labour market. In our view, the two

[1] See Department of the Treasury and the Australian Taxation Office, *JobKeeper update*, Joint media release, 22 May 2020.

schemes, together with an increase in other welfare payments, have played a vital role in supporting the economy at its worst point in Q2 by almost offsetting the immense hit to household income from job losses and pay cuts.

Table 1: Government assistance has almost offset the massive hit to household income from the virus in Q2

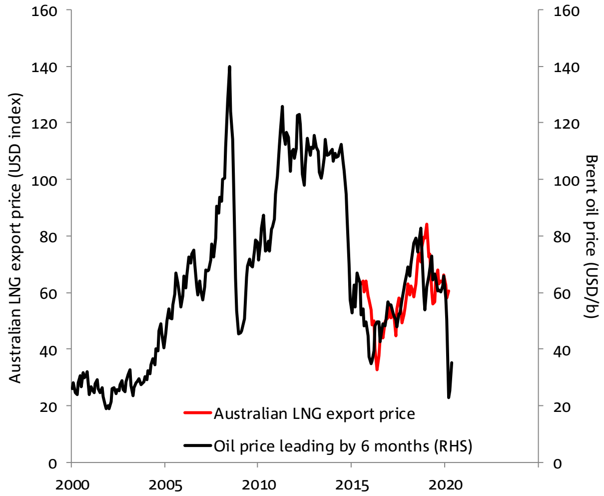
Change in Q2 household income	($b)
(1) Income (includes JobKeeper subsidy)	
- wages bill	-14.3
- self-employed income	-2.2
(2) Welfare payments	
Stimulus payment	5.3
Unemployment benefits	7.0
- Boost for existing recipients	1.9
- New recipients in April	0.4
- New recipients in May and June	4.8
Net income change	-4.2

Note: See the appendix for underlying assumptions.
Source: Australian Bureau of Statistics, Reserve Bank of Australia, Treasury, Vamplew (1987), National Australia Bank

The $60 billion revision provides scope to taper the end of this assistance and hence continue to support the economic recovery. The government seems open to this idea, mentioning the possibility of further assistance to tourism. Alternatively, but perhaps less likely, the government might decide to extend the scope of the JobKeeper wage subsidy to the casual and foreign workers currently not covered by the scheme.

Another risk to the budget is the hit from the significantly lower export price of liquefied natural gas (LNG), which is Australia's third-largest commodity export. LNG prices rely on the lagged price of Brent crude oil, which has slumped given the price war between Saudi Arabia and Russia and greatly reduced global demand for oil. Oil prices have rebounded from their low, but are still 40% below the government's last budget assumption of $US64 per barrel.

Chart 2: Lower oil prices point to sharply lower LNG export prices



Note: The oil price for May 2020 is the latest daily observation.
Source: Australian Bureau of Statistics, Bloomberg, National Australia Bank

Treasury still expects 10% unemployment, while the Reserve Bank anticipates a less disastrous fall in total hours worked

Notwithstanding the revision to the JobKeeper programme, Treasury still expects the unemployment rate to peak at 10%, although it acknowledges that the measured level of the unemployment is highly uncertain given the impact of social distancing restrictions on the participation rate.

This is a key risk to any forecast of unemployment given almost all of the record number of people who lost their job in April left the workforce, capping the rise in the unemployment rate. Detailed data released last week show that nearly all of the people who left the workforce in April did not look for work, either actively, where they were still not counted as unemployed because they were unable to start work, or passively, by simply viewing job advertisements.

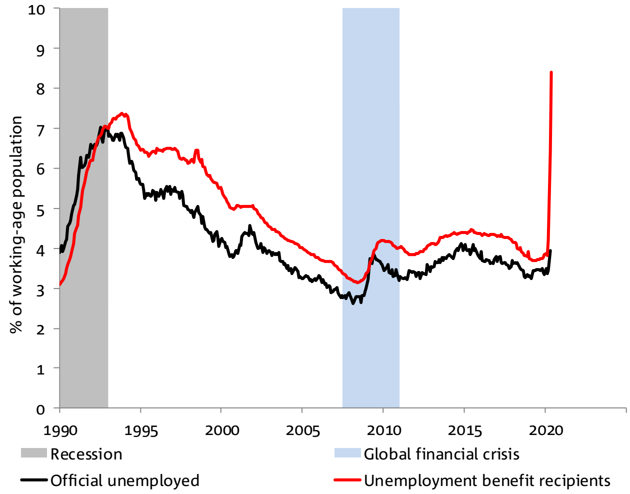
We expect that most of these people will rejoin the workforce given that administrative data on the number of people on unemployment benefits is currently about 1.8 million, or a record 8.4% of working-age population (this covers both the JobSeeker payment and Youth Allowance). The government ordinarily requires people on unemployment benefits to search for work, but this mutual obligation test has been suspended until 1 June.[2] Unless the government extends this suspension, this points to a substantial rebound in the workforce as these people either restart their job search or gain employment.

For its part, the Reserve Bank has focused on total hours worked as a better measure of the virus's effect on the labour market because it captures both job losses and the reduction in hours worked by existing employees (e.g., 5.6% of workers are working zero hours at present, most of whom have been stood down). Governor Lowe recently said that the number of total hours worked would fall further, but may not fall as far as the Reserve Bank's forecast 20% decline as firms make use of the JobKeeper scheme.[3]

[2] See Minister for Employment, Skills, Small and Family Business, *Transcript of doorstop interview*, Parliament House, 14 May 2020.

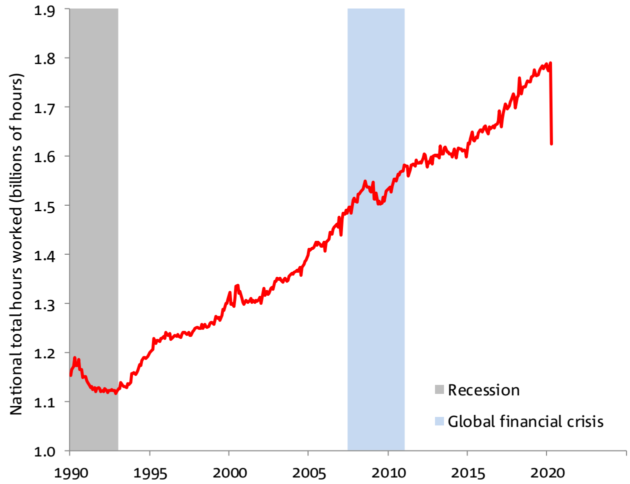
[3] See Reserve Bank Governor Lowe, *Remarks to FINSIA forum*, 22 May 2020.

Chart 3: A record share of the adult population is on unemployment benefits



Note: The number of JobSeeker recipients in early May 2020 is from the Minister for Employment, Skills, Small and Family Business. The number of Youth Allowance recipients was assumed to grow at the same rate as JobSeeker recipients in May. The working-age population was assumed to grow at the same rate in May as in April.
Source: Australian Bureau of Statistics, Department of Social Security, Minister for Employment, Skills, Small and Family Business, National Australia Bank

Chart 4: Total hours worked slumped on massive job losses and much reduced hours for remaining employees

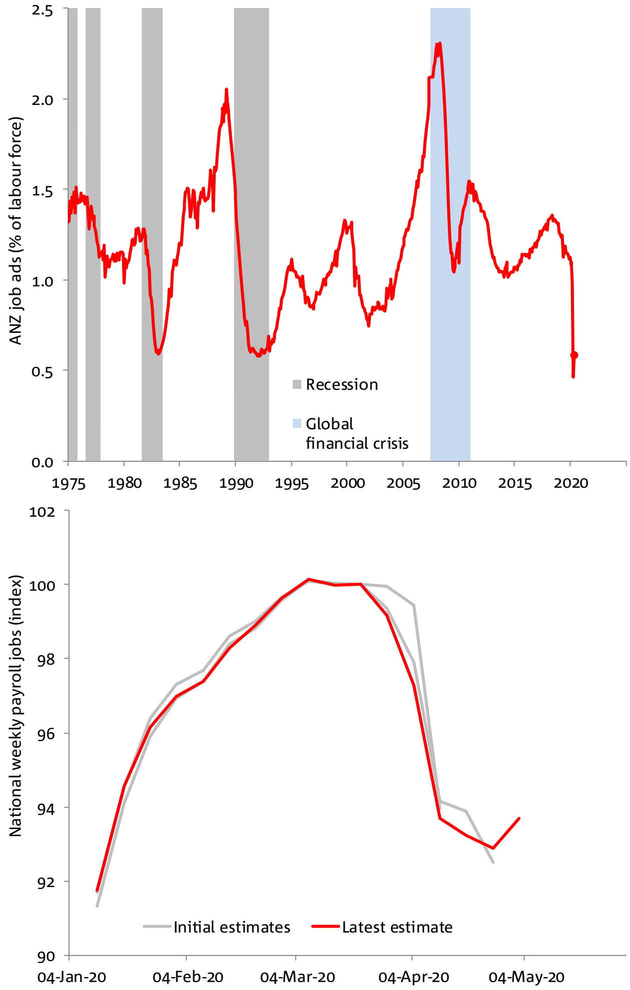


Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

A tentative recovery has commenced, with the shape of the recovery depending on confidence about health and finances

The gradual easing of health restrictions has marked the tentative start of economy recovery. There has been some rebound in confidence, while NAB's balance-sheet measure of consumer spending has stabilised in recent weeks, albeit at depressed levels. Job ads have also picked up from their multi-decade low in May to date and weekly payroll jobs appear to be stabilising. Measures of mobility have increased.

Chart 5: Job ads have rebounded from their multi-decade low, while payrolls appear to be stabilising

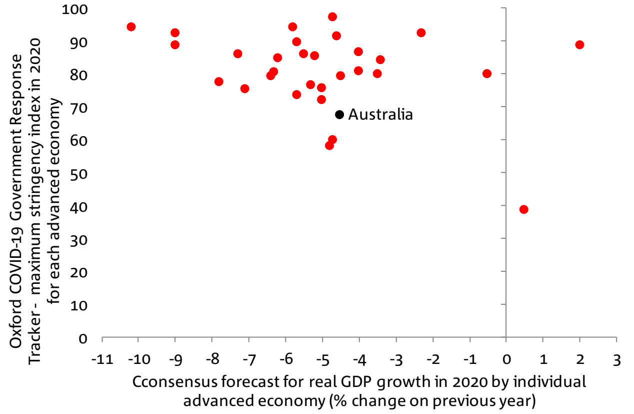


Note: The labour force was assumed unchanged in May 2020. ANZ job ads are assumed to grow by 27% in May, in line with the rebound in SEEK ads to date.
Source: Australian Bureau of Statistics, Melbourne Institute, SEEK, National Australia Bank

Speaking last week, Governor Lowe argued that "restoring confidence on the health front is a precondition for a strong (economic) recovery", while noting the unpredictability of whether medical scientists will develop either a vaccine or antiviral treatment. Rolling back health restrictions assists recovery, but Lowe pointed out that countries with fewer health restrictions were also experiencing very large economic contractions, suggesting the underlying factor was a reluctance by households and businesses to spend.[4]

[4] See Reserve Bank Governor Lowe, *Q&A session*, 22 May 2020.

Chart 6: There is little correlation between measures of health restrictions and the forecast impact of the virus on GDP



Note: The stringency index is a weighted combination of assessed policies on: (1) school closures; (2) workplace closures; (3) cancellation of public events; (4) restrictions on the size of gatherings; (5) public transport closures; (6) stay at home requirements; (7) restrictions on internal movement; (8) restrictions on international travel; and (9) public information campaigns.
Source: Blavatnik School of Government, University of Oxford, Bloomberg, National Australia Bank

This brought home that while "one obvious source of uncertainty is the pace at which the various [health] restrictions are eased", "another source of uncertainty is the level of confidence that people have about their future, both in terms of their health and their own finances". Earlier work by Treasury Secretary and Reserve Bank Board-member Kennedy on modelling an influenza pandemic reached a similar conclusion, emphasising the need for policy-makers to restore household and business confidence to spend and hire.[5]

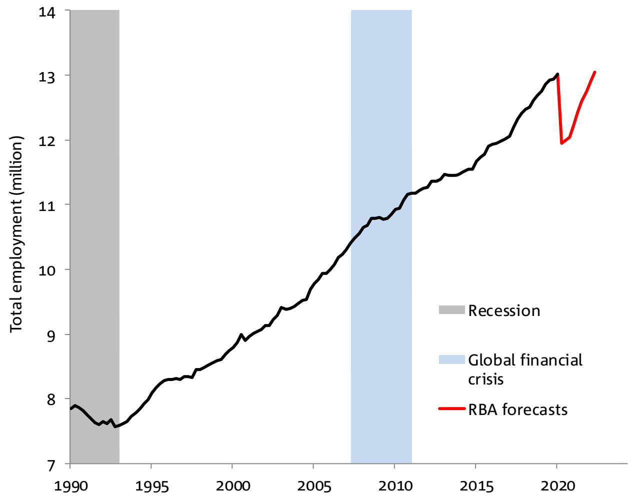
The Reserve Bank is forecasting a slow repair to the labour market

At this point, the Reserve Bank anticipates a slow recovery in the labour market. For example, in the bank's central scenario it takes until mid 2022 for employment to surpass its pre-virus level. Such a long period of adjustment is not surprising given the labour market historically lags the recovery in activity. This is borne out by our analysis of past recessions, which showed the median time for unemployment to return its pre-recession level was 7 years.[6]

This contrasts with Treasury's significantly more optimistic forecast that rolling back health restrictions will see a 0.9 million increase in employment by July as people who lost their job return to work.[7] Taking the Reserve Bank's forecast of a steep drop in employment in Q2 as a starting point, the Treasury estimate implies that employment would almost be back at its pre-virus level by July.

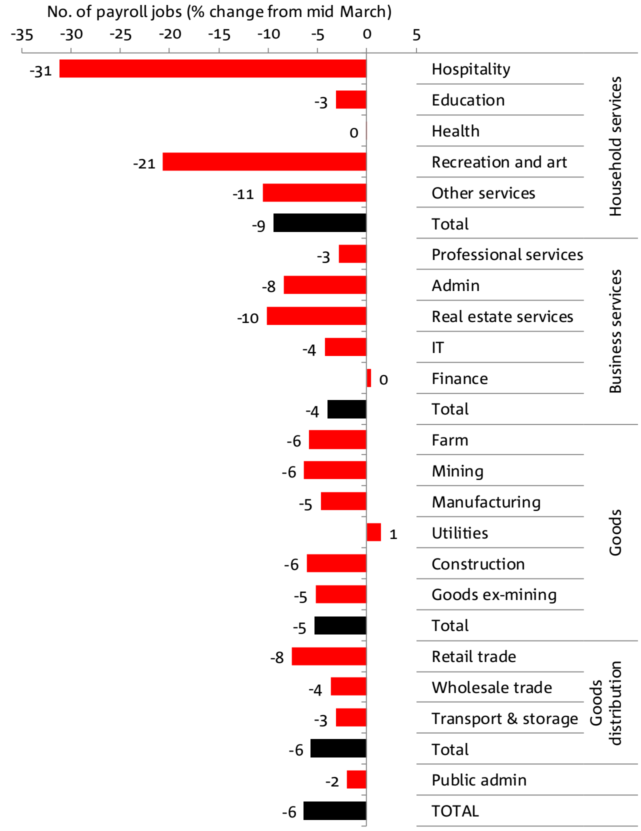
NAB's view of slow repair to the labour market is more in line with the Reserve Bank's forecast. Although the hospitality and entertainment sectors have borne the brunt of the decline in employment, nearly every other industry has also experienced substantial job losses, with percentage declines on a par with the early 1990s recession.

Chart 7: On the Reserve Bank's forecasts, it takes until mid 2022 for employment to exceed its pre-virus level



Note: Employment is the mid-month of quarter observation. The forecasts are from the central scenario prepared by the Reserve Bank. The forecasts for Q3 2020, Q1 2021, Q3 2021 and Q1 2022 are interpolated from the published bank estimates.
Source: Australian Bureau of Statistics, Melbourne Institute, Reserve Bank of Australia, National Australia Bank

Chart 8: Employment has fallen most in hospitality and entertainment, but nearly every industry has shed jobs



Note: Percentage change from 14 March to 2 May 2020. There is no adjustment for seasonality. The percentage changes for the industry subgroups were estimated using industry weights from the labour force survey.
Source: Australian Bureau of Statistics, National Australia Bank

5 See Kieran Davies, *The economics of a pandemic – lessons from the Kennedy paper*, Australian Markets Weekly, 23 March 2020.

6 See Kieran Davies, *Lessons from past recessions and depressions*, Australian Markets Weekly, 14 April 2020.

7 See Treasurer Frydenberg, *Ministerial statement on the economy*, Parliament House, Canberra, 12 May 2020.

More fiscal stimulus can be justified to ensure recovery

All this underscores the unprecedented size of the shock to the labour market and the significant uncertainty surrounding the recovery. While the government's record fiscal stimulus was designed to support the economy at the worst point of the shock, we think that further stimulus can be justified to ensure a sustained recovery. This would be the fiscal equivalent of the Reserve Bank committing to low interest rates until progress is made towards full employment and inflation is sustainably within the 2-3% target band. The government might be reluctant to take that step, but public debt levels are still very manageable even with a forecast record peacetime budget deficit and bond yields are still near their record low.

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APPENDIX - Estimating the impact of government assistance on household income in Q2 2020

As shown in Table 1, we estimate that households lost about $4b in income in Q2 as extensive government assistance almost offset the substantial hit from record job losses and flat-to-down wages. To generate this figure, we used payrolls data to calculate the loss in income from both jobs and greatly reduced working hours. This loss was tempered by the JobKeeper wage subsidy and partly offset by the income from unemployment benefits and government stimulus payments.

- **Payrolls data points to a $14.3 billion fall in the wages bill.** Timely weekly payrolls data show a very large 5.4% fall in the wages bill from mid March to the start of May, even with the payment of the JobKeeper wage subsidy (the subsidy is counted in the wages bill because affected firms pass on the subsidy to workers). Assuming the wages bill is broadly unchanged to the end of Q2, the average level of the wages bill in Q2 is 2.1% lower than the Q1 average. Adjusting this fall for seasonality, where the wages bill usually rebounds in Q2 from a holiday-affected Q1, it equals a 6% fall. Estimating the Q1 wages bill at $238 billion by assuming it grew at the same rate as in Q4 2019, a 6% fall in Q2 equals a dollar loss of $14.3 billion.
- **Small business profits are assumed to fall at the same rate as the wages bill, equalling a $2.2 billion loss.** Payrolls data excludes self-employed workers and hence small business profits. Assuming this income grew at the same rate in Q1 as Q4 2019, this puts small business profits at $37.2 billion in Q1. A 6% loss on this equals $2.2 billion.
- **Stimulus payment of $750 per welfare recipient provided $5.3 billion to households.** The government is providing two rounds of stimulus payments, with the first paid from 31 March onwards and the second from 13 July onwards. These payments are in addition to the recipient's usual welfare payment. On Thursday, Treasury Secretary Kennedy testified that $5.3 billion of the first payment had been made to 7.1 million people.
- **Unemployment benefits provided an additional $7.0 billion to households.** The fortnightly unemployment benefit was temporarily doubled from 27 April to $1,100 as the government provided a $550 per fortnight coronavirus supplement to existing payments. This meant that the 800k people who claimed benefits before the pandemic received an extra $550 per fortnight for two months in Q2, worth around $1.9b. Furthermore, the government reports an additional 300,000 people received unemployment benefits in April worth a maximum of $550 per fortnight. This rose to 1 million additional people on unemployment benefits by early May, by which time the maximum benefit had risen to $1,100 per fortnight. This is equivalent to an extra $5.1 billion that, in combination with the $1.9 billion boost to those already receiving benefits, points to a total boost of $7 billion to households.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday 25 May 2020								
US, UK - public holiday		1Q F		-2.3		-2.3	5.00	16.00
GE	IFO Current Assessment	May		82		79.5	7.00	18.00
GE	IFO Business Climate	May		78.3		74.3	7.00	18.00
CA	BoC's Poloz speaks						18.00	5.00
Tuesday 26 May 2020								
NZ	Trade Balance NZD	Apr		--		672	21.45	8.45
AU	PM Morrison speaks			--		--	1.30	12.30
JN	All Industry Activity Index MoM	Mar		-3.9		-0.6	3.30	14.30
EC	ECB's Lane speaks						11.45	22.45
US	Conf. Board Consumer Confidence	May		87		86.9	13.00	0.00
US	New Home Sales	Apr		490		627	13.00	0.00
Wednesday 27 May 2020								
CA	BoC's Poloz and Wilkins testify						20.00	7.00
NZ	RBNZ Financial Stability report						20.00	7.00
NZ	RBNZ's Orr speaks on financial stability						21.00	9.00
AU	Construction Work Done	1Q	-1.5	-1.5		-3	0.30	11.30
GE	Retail Sales MoM	Apr		-10		-5.6	27 May to 2 June	
GE	Retail Sales NSA YoY	Apr		-12		-2.8	27 May to 2 June	
EC	ECB's Largarde speaks						6.30	17.30
US	Fed's Bullard speaks on economy during the pandemic						15.30	2.30
Thursday 28 May 2020								
NZ	ANZ Business Confidence	May F		--		-45.6	0.00	11.00
AU	Private Capital Expenditure	1Q	-3	-2.6		-2.8	0.30	11.30
AU	CapEx expectation for 2020-21	2nd	75			100	0.30	11.30
AU	ABS business survey	mid May					0.30	11.30
AU	Preliminary merchandise trade	Apr		--		--	0.30	11.30
EC	Consumer Confidence	May F		--		-18.8	8.00	19.00
GE	CPI YoY	May P		0.7		0.9	11.00	22.00
US	Durable Goods Orders	Apr P		-18		-14.7	11.30	22.30
US	Core PCE QoQ	1Q S		--		1.8	11.30	22.30
US	GDP Annualized QoQ	1Q S		-4.8		-4.8	11.30	22.30
CA	Current Account Balance	1Q		--		-8.76	11.30	22.30
US	Fed's Williams speaks						14.00	1.00
Friday 29 May 2020								
NZ	ANZ Consumer Confidence Index	May		--		84.8	21.00	8.00
JN	Jobless Rate	Apr		2.7		2.5	22.30	9.30
JN	Tokyo CPI YoY	May		0.1		0.2	22.30	9.30
JN	Industrial Production MoM / YoY	Apr P		-4.7 / -10		-3.7 / -5.2	22.50	9.50
AU	ABS household survey	mid May					0.30	11.30
AU	Private Sector Credit MoM	Apr	0.4	0.6		1.1	0.30	11.30
EC	M3 Money Supply YoY	Apr		--		7.5	7.00	18.00
EC	CPI Core YoY	May P		--		0.9	8.00	19.00
EC	CPI Estimate YoY	May		0.4		0.4	8.00	19.00
US	PCE Core Deflator MoM / YoY	Apr		-0.3 / 1.1		-0.1 /1.7	11.30	22.30
US	Wholesale Inventories MoM	Apr P		--		-0.8	11.30	22.30
CA	GDP YoY	Mar		--		2.1	11.30	22.30
US	U. of Mich. Sentiment	May F		73.7		73.7	13.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Jun 2	0.25	0.25		0.25		
Europe, ECB		Jun 4	-0.50	-0.50		-0.50		
US, Federal Reserve		Jun 10	0/0.25	0/0.25		0/0.25		
Japan, BoJ		May 22	-0.10	-0.10		-0.10		
UK, BOE		Jun 18	0.10	0.10		0.10		
New Zealand, RBNZ		Jun 24	0.25	0.25		0.25		

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

FORECASTS

Economic Forecasts

	Annual % change				Quarterly % change											
					2019				2020				2021			
Australia Forecasts	**2019**	**2020**	**2021**	**2022**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Household Consumption	1.4	-5.3	2.2	--	0.4	0.3	0.1	0.4	0.5	-9.1	0.1	2.7	1.2	0.7	1.1	1.2
Underlying Business Investment	-2.0	-22.4	-8.1	--	0.6	-0.4	-1.8	-1.5	-4.7	-21.1	-1.5	-2.4	0.7	-0.3	0.1	0.3
Residential Construction	-7.1	-14.3	-4.3	--	-2.0	-3.5	-1.2	-3.4	-2.0	-7.5	-5.3	-3.4	-0.5	1.6	2.9	3.6
Underlying Public Spending	4.9	4.0	3.8	--	1.1	1.7	2.0	0.1	0.8	1.1	1.0	1.0	1.0	0.9	0.8	0.8
Net Exports (a)	1.1	2.5	-1.3	--	0.4	0.5	0.0	0.1	0.5	3.2	-0.4	-0.8	-0.3	-0.2	-0.3	-0.4
Inventories (a)	-0.2	-0.8	1.0	--	-0.1	-0.3	0.2	0.2	-0.3	-2.2	1.6	1.2	0.0	-0.1	0.1	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.1	0.0	-7.2	-0.1	1.4	1.1	0.8	1.1	1.2
Dom Demand (y/y %)	1.2	-4.7	1.6	--	1.2	1.2	1.2	1.3	1.0	-6.7	-7.1	-5.9	-4.9	3.2	4.4	4.2
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.2	-8.4	1.0	4.1	2.0	0.4	0.8	0.8
Real GDP (y/y %)	1.8	-4.3	4.2	--	1.7	1.6	1.8	2.2	1.5	-7.6	-7.2	-3.9	-1.9	7.7	7.5	4.0
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-2.0	0.6	0.7	0.2	0.2	0.1	0.3
CPI headline (y/y %)	1.6	0.4	1.6	--	1.3	1.6	1.7	1.8	2.1	-0.5	-0.5	0.5	0.5	2.7	2.3	0.9
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.0	0.1
CPI underlying (y/y %)	1.4	1.5	0.9	--	1.5	1.4	1.4	1.4	1.6	1.5	1.6	1.5	1.3	1.1	0.6	0.4
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5
Private wages (y/y %)	2.3	1.7	1.2	--	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5
Unemployment Rate (%)	5.1	10.1	8.6	--	5.1	5.1	5.2	5.1	5.2	11.7	11.8	11.7	10.7	8.7	7.6	7.2
Terms of trade	5.2	-11.9	-2.0	--	3.3	1.5	0.2	-5.3	-2.5	-5.8	-3.4	-1.2	0.8	2.0	-0.1	-0.1
Current Account (% GDP)	0.5	0.9	-0.3	--	-0.4	0.9	1.3	0.2	0.1	2.4	1.2	0.0	-0.2	0.0	-0.4	-0.8

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

Exchange Rate Forecasts

	25-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Majors						
AUD/USD	0.652	0.62	0.64	0.68	0.69	0.70
NZD/USD	0.61	0.59	0.60	0.62	0.64	0.65
USD/JPY	107.7	109	109	109	109	109
EUR/USD	1.09	1.08	1.10	1.12	1.13	1.14
GBP/USD	1.22	1.23	1.27	1.30	1.32	1.33
USD/CNY	7.14	7.00	6.90	6.85	6.80	6.80
USD/CAD	1.40	1.43	1.41	1.39	1.37	1.35
USD/CHF	0.97	0.98	0.97	0.96	0.96	0.95
Australian Cross Rates						
AUD/NZD	1.07	1.05	1.07	1.09	1.08	1.07
AUD/JPY	70.2	68	70	74	75	76
AUD/EUR	0.60	0.57	0.58	0.60	0.61	0.61
AUD/GBP	0.54	0.50	0.50	0.52	0.52	0.52
AUD/CNY	4.66	4.34	4.42	4.62	4.69	4.73
AUD/CAD	0.91	0.89	0.90	0.94	0.95	0.94
AUD/CHF	0.63	0.61	0.62	0.65	0.66	0.66

Global GDP

	2019	2020	2021
Australia	1.8	-4.3	4.2
United States	2.3	-6.6	6.7
Eurozone	1.2	-6.5	6.0
United Kingdom	1.4	-6.1	6.2
Japan	0.8	-5.0	3.9
China	6.1	1.0	9.8
India	5.3	2.0	7.6
New Zealand	2.2	-6.5	1.9
World	3.0	-2.6	6.3

Interest Rate Forecasts

	25-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.10	0.15	0.20	0.25	0.30	0.30
3 Year Swap Rate	0.27	0.24	0.25	0.30	0.30	0.30
10 Year Swap Rate	0.86	0.85	0.90	1.05	1.18	1.28
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60
BoE repo rate	0.10	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20
RBNZ OCR	0.25	0.25	0.25	0.25	0.25	0.25
10-year Bond Yields						
Australia	0.86	0.90	0.95	1.05	1.15	1.25
United States	0.66	0.60	0.70	0.80	0.90	1.00
New Zealand	0.64	0.88	0.88	1.03	1.28	1.38

Sources: NAB Global Markets Research; Bloomberg; ABS

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