1 June 2020

AUSTRALIAN MARKETS WEEKLY

The main questions clients are asking about the Australian economy

National Australia Bank

In this issue

Analysis – the main questions clients are asking

This week, we thought it might be interesting to discuss the most common questions we are getting asked by businesses and investors on the outlook for the Australian economy.

There are eight questions commonly asked: (1) Could the Australia/China political situation deteriorate substantially and be a major negative for the Australian economy?; (2) What does the economy look like in two to three years?; (3) What happens after the JobKeeper and JobSeeker schemes end in September - will the economy fall off a cliff?; (4) What will be permanently different?; (5) What's the outlook for immigration?; (6) What are the opportunities for broader reform?; (7) What are the implications for the Australian economy if the US reopens too early and is then forced to have another phase of significant lockdowns?; and (8) Why is the US stock market so high?

The week ahead

- **Australia.** It's a big week domestically with the RBA Board Meeting (Tuesday) and Q1 GDP (Wednesday), though both are unlikely to faze markets too much given the very-backward looking nature of GDP and Governor Lowe's comprehensive remarks at a Senate Select Committee last Thursday. At that hearing Governor Lowe said the economy was tracking a bit better than earlier expected, broadly between the RBA's baseline and upside scenarios, again pushed back on the prospect of negative rates in Australia, defined forward guidance as "not going to be raising interest rates until full employment is achieved and we're sustainably within the 2-3% target", and said his "main concern is that we don't withdraw the fiscal stimulus too early". As for GDP, NAB is forecasting Q1 to fall -0.1% q/q (consensus -0.4%), though the debate is now turning to the extent to which Q3 GDP will be positive as the economy reopens after an expected horrific contraction in Q2 (NAB -7.5/-8.5% q/q for Q2).

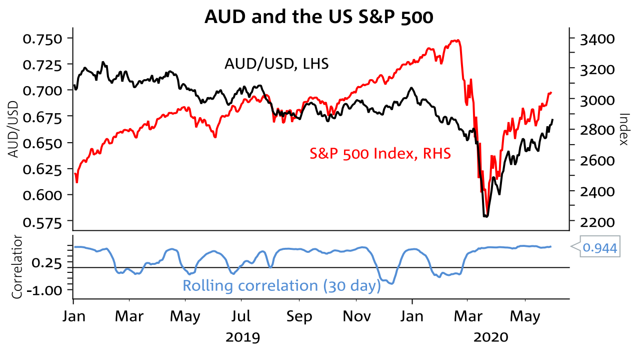
- **International.** It is all about the ECB (Thursday) and US Jobless Claims and Payrolls (Thursday and Friday). As for the ECB the consensus looks for a €500bn increase in QE via the Pandemic Emergency Purchase Program (already at €750bn). As for Payrolls, while they should show another sharp rise in the unemployment rate to 19.6% and the loss of 8m more jobs, more interest could be with Jobless Claims given the first signs of a peak last week and the consensus looking for another decline in continuing claims. Focus will also remain on signs of activity lifting with the US ISMs for May (Monday and Wednesday) as well as ongoing US/China political tensions.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6725	2.8	RBA cash	0.14	1
AUD/CNY	4.79	2.5	3y swap	0.28	0
AUD/JPY	72.3	2.6	ASX 200	5,795	3.2
AUD/EUR	0.604	0.5	Iron ore	99	6.8
AUD/NZD	1.078	0.5	Brent oil	37.7	6.0

Source: Bloomberg

Chart of the week: Risk sentiment continues to rally



Source: National Australia Bank, Bloomberg

Ivan Colhoun, Global Head of Research

The main questions customers are asking

This week we thought it might be interesting to discuss the most common questions we are asked by businesses and investors on the outlook for the Australian economy and markets. The top questions are:

1. Could the Australia/China political situation deteriorate substantially and be a major negative for the Australian economy;
2. What does the economy look like in two to three years;
3. What happens after the JobKeeper and JobSeeker schemes end in September, Will the economy fall off a cliff;
4. What will be permanently different after the Coronavirus;
5. What is the outlook for immigration;
6. What are the broader opportunities for reform;
7. What are the implications for the Australian economy if the US reopens too early and is forced to reimpose significant lockdowns; and
8. Why is the US stock market so high?

Australia/China Political Situation.

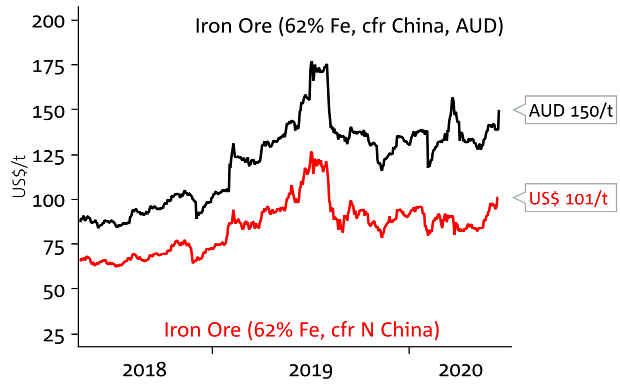
This question has shot to the top of investors' focus in recent weeks following Australia's push for a global coronavirus inquiry and broadly synchronous tariffs totalling 80.5% imposed by China on Australian barley exports, China's banning of meat exports from four Australian abattoirs and the potential for increased Chinese inspections for iron ore.

We published a note ten days ago (email Tapas.Strickland@nab.com.au if you would like a copy), noting that:

- The barley issue has been brewing for over a year (dating back to 2018).
- China has been displeased by the way Australia has pushed for the coronavirus inquiry.
- China has from time-to-time imposed go-slows on coal imports in recent years without a significant impact on the Australian economy);
- Relations between the US and China are also very tense as the two super-powers battle for their global leadership positions. Geopolitical commentators expect this to be a multi-decade process, rather than one is solved quickly.

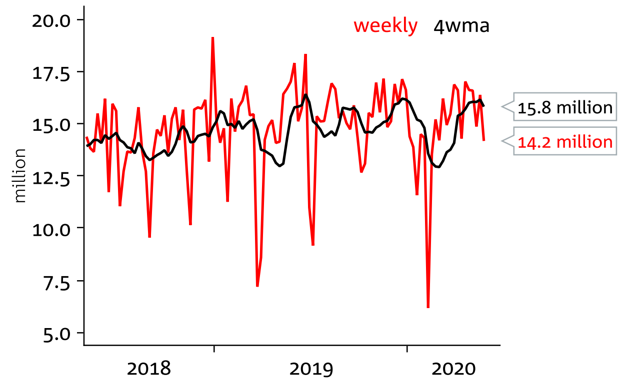
As always, it is the iron ore trade that must be monitored most closely, given roughly half of Australia's goods exports to China are this one commodity. While this reliance might suggest a significant risk to the Australian economy, it's also the case that China is extremely reliant on Australia, given it imports around 830 million tonnes of ore a year. This mutual reliance suggests iron ore may be less a risk than some fear, especially with increasing concerns about the spread of coronavirus in Brazil in recent times, where Brazil is the second-largest supplier of iron ore to China. May data showed encouraging lifts in Chinese steel and construction PMIs.

Chart 1: Iron ore prices lift with Brazilian supply worries



Source: Platts, Bloomberg, Macrobond, National Australia Bank

Chart 2: Australian iron ore exports to China still strong



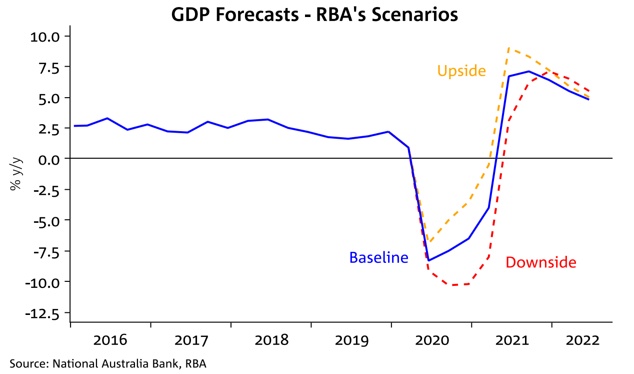
Source: Global Ports, Bloomberg, Macrobond, National Australia Bank

The outlook for the economy in two to three years' time...

This question likely reflects some businesses largely writing the economy off for this year. This is understandable given the massive negative impact many, but not all, businesses experienced from the pandemic over late March to May. However, apart from international travel-related activities – such as tourism, foreign university students – which are likely to be constrained for an extended period, economic activity is slowly beginning to recover as Australian states and territories relax restrictions.

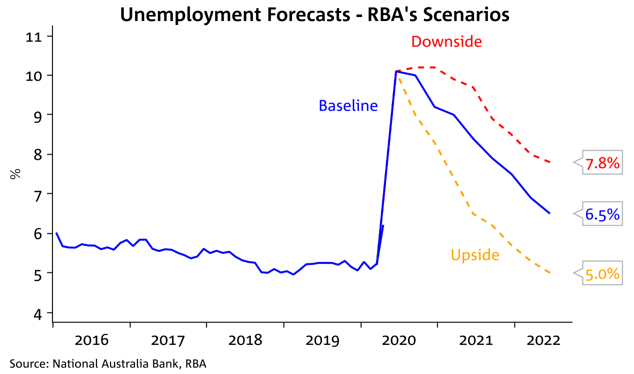
This is thankfully earlier than many businesses were led to believe at the onset of the crisis, where health officials advised the government of a six-month fight against the virus. This suggests that after a disastrous Q2 GDP contraction of high single-digits (NAB's forecast is for a high single digit decline), that Q3 GDP is likely to be positive to some extent. The RBA Governor noted last week that the economy was currently tracking between its baseline and positive economic scenarios as relaxation of restrictions was occurring slightly earlier than expected.

Chart 3: Economy is tracking between the RBA's baseline and upside scenarios



Source: National Australia Bank, RBA

Chart 4: Unemployment better than RBA baseline?



Source: National Australia Bank, RBA

Perhaps the most important point is to note the dependence of any forecast for the economy on the outlook for the spread/control of the virus. It is after all, the spread of the virus and related containment restrictions and/or consumer actions, that have driven the massive impact on the economy. As we have seen, in virtually all countries that have imposed containment, lockdown and social distancing policies, after around a month, infection and death rates begin to decline. The outlook over coming years depends first on: (i) whether there's a large second wave of infections as economies re-open leading to further broad restrictions; and (ii) when an anti-viral treatment and/or vaccine becomes available.

It seems possible that a vaccine will be available in 12-18 months, while some anti-viral treatments appear also to have some initial helpful impacts. This would suggest that the outlook for the economy in two to three years is considerably improved, with many but perhaps not all aspects of life returning more to normal. Businesses, governments, policy makers and consumers will likely have to manage some of the lasting effects of this unusual recession, including n ongoing elevated level of unemployment and perhaps greater cautiousness amongst consumers and businesses. We discuss some of the longer-lasting effects in the section on what might be permanently different below.

What happens after JobKeeper and JobSeeker at the end of September?

This is a very interesting question and one we've been thinking about from a couple of different perspectives. First, that there is likely to be a role for further fiscal policy support during the recovery phase of the economy. Whether there is further support and exactly what that looks like of course remains to be seen, though the Australian Financial Review today reports that the Government will this week announce a package for the housing sector with an increased First Home Buyers Grant and support for home renovations, along with funds for NSW to assist in the bring-forward of construction of the new Western Sydney Airport rail link. Infrastructure projects are expected to feature highly.

The upcoming review of the JobKeeper payment due by the end of June – and the massive under spend relative to forecasts that was mainly due to better-than-assumed health outcomes – mean the government has the option of either extending the scheme for some sectors yet to reopen (eg, international tourism) or think about additional measures of support for the economy as it recovers.

That said, it is quite likely that there may be a secondary though smaller negative impact on the economy at the beginning of Q4 as most of the JobKeeper and JobSeeker payments cease. By that time, however, it is to be expected that the reopening of various sectors leads to an improvement in the underlying economy that offsets some of the run-off of these temporary schemes. In broad terms, it is possible that total hours worked reaches a low in June. The unemployment rate is more difficult to predict because it reflects the extent of workforce participation, which is impacted by both of these schemes. There might be some further job losses in early October as the two temporary schemes end.

At that same time, the six-month deferrals of principal and interest repayments by banks are also due to expire. To date, house prices have been less significantly impacted than might have been expected, likely due to the significant government support packages and the absence of forced selling as banks support customers impacted by the virus (there is also doubt over whether prices are accurately measured at present given the steep decline in home sales). Like the end of JobKeeper and JobSeeker, there is the possibility of a greater impact as these support schemes end, but, like the government support schemes, there might be consideration given to provide additional support for employees of certain sectors that may be slower to recover. Banks are beginning to contact customers who received a repayment deferral to discuss their specific circumstances as customers approach the halfway period of their deferrals.

What will be permanently different after the Coronavirus?

This is also a very interesting question, which of course will only be able to be answered in hindsight. It's likely that the shorter the overall disruption, the more things are unchanged permanently. Here are a range of possibilities:

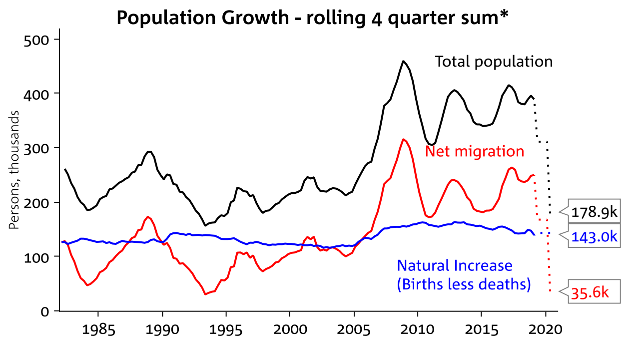
- Increased cautiousness/aversion to leverage – research after the Spanish flu pandemic in 1918-19 suggested that the episode had a lasting impact on consumer behaviour, with increased conservatism visible for up to two decades! That pandemic of course had a very significant second wave. The World Health Organisation has recently suggested the second wave of this pandemic may be far smaller, which might reduce this effect if realised. It's certainly possible however that businesses that have had a near-death experience and consumers that have lost their jobs – even temporarily – may hold higher levels of precautionary cash balances for an extended period;
- Shifts in manufacturing onshore, including for certain essential items such as PPE/medicaments – while this is possible, it's perhaps more likely that governments increase strategic stocks of these items. It has also been fantastic to witness the speed at which local manufacturing businesses have pivoted to increase production of certain essential items;
- Companies hold higher levels of inventories. This might seem a logical development given the supply-chain interruptions in the early phase of this crisis. However, the substantial collapse in demand would mean that businesses would have more money tied up in stock at a period of lower demand, which may increase the risk of business failure. The net result appears unclear outside of essential items.
- Increased working from home, leading to a reduction in the demand for commercial office space. Relatedly, as businesses realise workers can work productively from remote locations, the attractiveness of inner-city/close to CBD housing may be reduced relative to regional or lifestyle destinations. This issue is explored in greater detail below;
- Continued/accelerated shift in the trend to online retail spending. This seems likely and a number of retailers have flagged they are likely to accelerate this transition given the increase in online sales during the crisis. However, some of the strength in online sales likely reflects the inability to transact in person. We're currently noticing a strong pick-up in demand for some items as retail establishments reopen, such as clothing and footwear, and we expect pent-up demand in some areas, such as travel, car sales, and services. Other areas of spending will have experienced a significant, but likely temporary, pull-forward of demand, such as home office equipment and white goods for storage, while other elements are already reverting to more normal levels, such as supermarket sales, as the degree of working from home reduces somewhat.
- Reduced business travel. The rise of Zoom and other VC applications makes it likely that more business meetings are conducted virtually rather than face-to-face. That said, my view is that the experience of a board presentation over VC still isn't as good as meeting in person, so this may not be as big an impact as many might think.
- Reduced international tourism. With the national border closed, there is a continuing impact on international tourism, although it's to be hoped that Australia and NZ can soon form a "trans-Tasman tourism bubble". There's also likely to be a significant switch to domestic tourism while the border is closed. Longer term, it's likely to be the case, as in previous shocks to international travel and tourism (eg. SARS and September 11), that once it's safe to do so, that international travel will fully recover (though presumably to healthier countries first).
- Increased investment in the health care sector worldwide. One obvious conclusion from the past few months has been that a number of countries' health systems could benefit from increased investment.

However, by far the most noise about what might be permanently different surrounds the possibility that increased working from home might mean reduced demand for commercial real estate. To an extent, this seems a very likely outcome, with many large CBD-based organisations discovering they have staff that don't need to be based in the CBD. In addition, staff-members with long commutes have found a much more pleasant work experience, while maintaining output levels. This is not to say the number of staff working from home will skyrocket, but it seems likely that inner-city office demand will be reduced as a result of this experience.

What's the outlook for immigration?

This is a key consideration for the longer-term growth prospects for the Australian economy. There's no question that the actual rate of GDP growth in Australia has been higher than otherwise would have been the case, due to the elevated levels of immigration in evidence over the past decade or so since the GFC.

Chart 5: Population set to slow



* Forecasts derived from the government's comments on net migration
Source: National Australia Bank, ABS

Unlike other countries where population growth rates have begun to slow dramatically due to the ageing population, immigration has kept Australian population growth elevated at around 1.25-1.5% per annum over the past decade, with major cities' populations typically growing at around twice the rate of regional areas. It's likely that Australia's reputation as an attractive place to live may be enhanced by the recent favourable coronavirus health outcomes, which have been world leading. There's no reason also to think that Australia won't remain an attractive destination for foreign students to receive an education in the future or that governments of both sides of politics will suddenly decide that there are no beneficial effects for the country of continuing strong rates of immigration.

That said, it seems like it will probably be around a further 12 months or so before immigration begins to recover. An opening up of international travel will obviously be an important pre-requisite, while the rate of unemployment in Australia compared to other countries will also be important; immigration tends to not only require permission, but the opportunity to find work is also a very important determinant. As my best guess, immigration and population growth begin to recover from the middle of 2021 and is not fundamentally different from recent experience in the longer term.

What are the opportunities for reform?

Federal and state governments have begun to sound out with business leaders any opportunities for reform to support the economic recovery from the current crisis. In terms of possible reform areas that governments have already talked about, the Prime Minister last week signalled potential reform of Industrial Relations and the complex system of industrial awards and enterprise bargaining that exists in Australian wage setting.

Industrial Relations Minister Christian Porter is leading a new, time-bound, process bringing employers, industry groups, employee representatives and government to the table via working groups on five areas that Minister Porter will chair. A September deadline has been set for unions, businesses and the governments to report back by.

The PM has also announced the retention of the National Cabinet to oversee the relationship between federal and state and territory Governments.

NSW has canvassed the possibility of transitioning to a land tax rather than the current stamp duty-based system for raising revenue on real estate transactions. This has long been proposed, but is usually tied into reform of other broader federal and state financial relations. The NSW Government will soon receive the final report of its Federal Financial Relations Review that the Government commissioned last year.

In terms of other items that would seem worthy of consideration – and tied in with the potential need noted above to provide further support for the economy as it begins to recover – two issues seem worthy of serious consideration:

i) Social housing. With the construction industry likely to require support as current pipelines of work dry up, fast-tracking the provision of social housing construction could be an attractive policy option; and

ii) Income tax cuts. While the Government has legislated two future tranches of income tax cuts, it would seem sensible to consider bringing forward the second phase of these tax cuts (which take effect from 1 July 2022) to support the economy's recovery. And unlike the last tax cuts which were mainly saved or used to pay off debt because they were included in annual tax returns, a small but permanent adjustment to regular take-home pay would be more likely to be spent than saved. This would also support businesses as the spending would be recycled throughout the economy.

More fundamental taxation reform which considers personal income and company tax rates along with the Goods and Services Tax (GST) be an option but seems politically challenging to achieve given the lack of political consensus among the major parties on key areas such as the company tax rate. The current Government attempted to reduce the company tax rate for all businesses in the previous Parliament but Labor and key Senate crossbenchers opposed the policy.

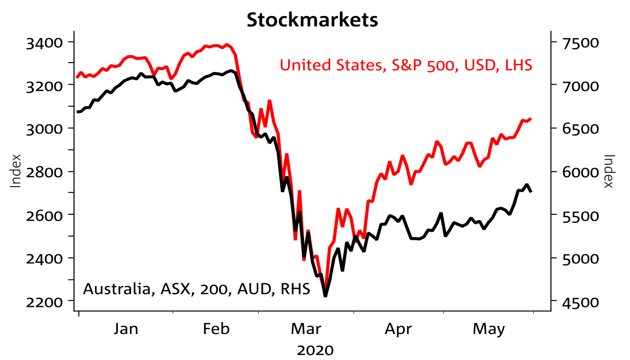
What are the implications for Australia if the US reopens too early and must reinstate restrictions?

This question in fact confronts every economy to an extent. If there's a serious second wave of infections at any stage, it's likely that governments and consumers will resort to either mandated or voluntary lockdowns, with further significant impacts on economic activity and unemployment. As the question specifically relates to the US economy's effect on Australia, it's worth noting that the US influence on Australia, while mainly indirect, is still very significant.

While Australia does not have a large share of exports destined to the US, because of the US's size, weakness in the US economy affects many of Australia's major trading partners in Asia that do export significantly to the US. The other very important influence is through financial markets, with a serious second wave of infections likely to again impact US stock markets, which in turn could significantly impact Australian stock markets and business investment and hiring decisions. My view is it would likely have a significant impact, though the purer domestic parts of the economy might hold up relatively better if Australia's international border remained closed.

Why is the US stock market so high?

Chart 6: Stocks rise sharply since late March



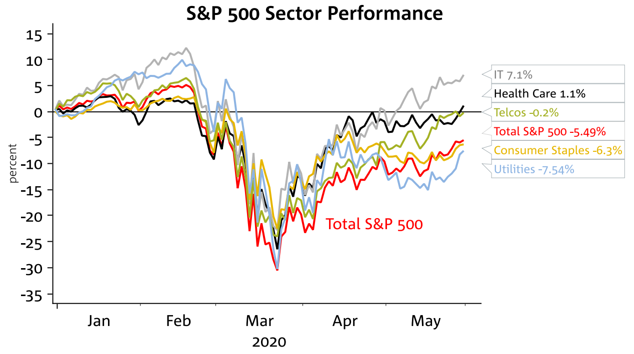
Source: National Australia Bank, Macrobond

Many market participants are amazed that the US stock market at around 3,040 is now only about 10% below its pre-Covid peaks of around 3,400, using the S&P500 as the benchmark. This is, of course, as the US unemployment rate may print close to 20% later this week.

How can we rationalise this? First, markets are always forward looking, trading to lows around 2,200 during March as participants realised the very significant economic impact from the spread of the virus and associated containment measures, before rebounding substantially on the back of economic stimulus from governments, low interest rates, containment-related progress restricting the spread of the virus, optimism that a treatment will be forthcoming and the beginnings of an increase in activity as the economy reopens. The Australian share market has not performed quite as well as the US stock market, remaining around 20% below pre-virus outbreak levels, but has improved significantly from the lows.

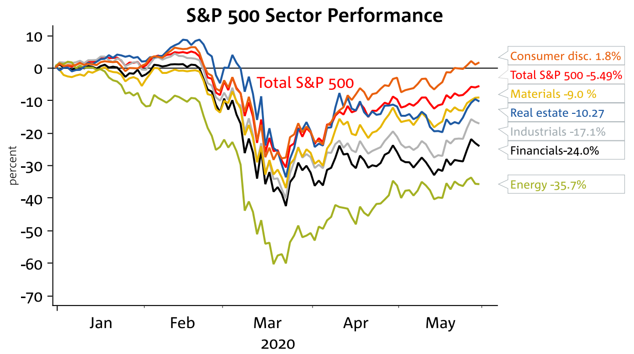
The relative performance likely reflects the different relative weightings and performance of various industry sectors in each country. The US has relatively higher weightings to IT and healthcare in its index, which have been noteworthy outperformers, while Australia has relatively higher weightings to financials, real estate, energy and materials, which have been poor performers to date.

Chart 7: IT and healthcare outperform



Source: National Australia Bank, Macrobond

Chart 8: Real Estate, Financials, Energy underperform



Source: National Australia Bank, Macrobond

My personal view is that the US stock market is already looking well beyond the next six months and anticipating that an antiviral treatment will reduce the severity of the impact of the virus and that a vaccine will be found. The market seems to be pricing an interruption to corporate earnings, which while severe in the short term, will prove short-lived (though some sectors will obviously see slower recoveries if international borders remain closed), though many economists and policy makers expect a longer and slower recovery. The fact that the discounted cash flow of these dividend streams will occur at even lower discount rates is no doubt another supporting factor.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday 01 June 2020								
NZ	**Queen's birthday public holiday**							
EC	Markit Eurozone Manufacturing PMI	May F		39.5		39.5	7.00	18.00
US	ISM Manufacturing	May		43.5		41.5	13.00	0.00
US	Construction Spending MoM	Apr		-6.5		0.9	13.00	0.00
Tuesday 02 June 2020								
NZ	Building Permits MoM	Apr		--		-21.3	21.45	8.45
NZ	Overseas Trade Indexes	1Q	1.4	--		2.6	21.45	8.45
AU	Company Operating Profit QoQ	1Q	-1.6	0		-3.5	0.30	11.30
AU	BoP Current Account Balance	1Q	7	6.1		1	0.30	11.30
AU	Net Exports of GDP	1Q	0.4	0.3		0.1	0.30	11.30
AU	Inventories SA QoQ	1Q	-0.9	-0.7		0.3	0.30	11.30
AU	RBA Cash Rate Target	Jun 2	0.25	0.25		0.25	3.30	14.30
Wednesday 03 June 2020								
AU	AiG Perf of Construction Index	May		--		21.6	21.30	8.30
AU	RBA's Bullock speaks on Panic, Pandemic and Payment Preferences						0.10	11.10
AU	Building Approvals MoM	Apr	-10	-12		-4	0.30	11.30
AU	GDP SA QoQ	1Q	-0.1	-0.4		0.5	0.30	11.30
AU	GDP YoY	1Q	1.6	1.4		2.2	0.30	11.30
CH	Caixin China PMI Services	May		47.5		44.4	0.45	11.45
GE	Unemployment Claims Rate SA	May		6.1		5.8	6.55	17.55
EC	Unemployment Rate	Apr		8.1		7.4	8.00	19.00
US	ADP Employment Change	May		-9500		-20236	11.15	22.15
US	ISM Non-Manufacturing Index	May		44		41.8	13.00	0.00
CA	Bank of Canada Rate Decision	Jun 3	0.25	0.25		0.25	13.00	0.00
US	Durable Goods Orders	Apr P		-19		-17.2	13.00	0.00
US	Fed Chair Powell speaks						14.00	1.00
Thursday 04 June 2020								
NZ	QV House Prices YoY	May		--		7.1	16.00	3.00
NZ	ANZ Commodity Price	May	-1.3	--		-1.1	0.00	11.00
AU	Trade Balance	Apr	7800	7500		10602	0.30	11.30
AU	Retail Sales MoM	Apr	-18	-18		8.5	0.30	11.30
GE	Markit Germany Services PMI	May F		31.4		31.4	6.55	17.55
EC	Retail Sales YoY	Apr		--		-9.2	8.00	19.00
EC	ECB Marginal Lending Facility	Jun 4		0.25		0.25	10.45	21.45
EC	ECB Main Refinancing Rate	Jun 4		0		0	10.45	21.45
EC	ECB Deposit Facility Rate	Jun 4		-0.5		-0.5	10.45	21.45
US	Trade Balance	Apr		-41.5		-44.4	11.30	22.30
Friday 05 June 2020								
AU	AiG Perf of Services Index	May		--		27.1	21.30	8.30
GE	Factory Orders MoM	Apr		-15		-15.6	5.00	16.00
US	Unemployment Rate	May		19.5		14.7	11.30	22.30
US	Change in Nonfarm Payrolls	May		-8000		-20500	11.30	22.30
US	Average Hourly Earnings YoY	May		8.9		7.9	11.30	22.30
CA	Unemployment Rate	May		--		13	11.30	22.30
CA	Hourly Wage Rate Permanent Employees YoY	May		--		10.5	11.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Jun 2	0.25	0.25		0.25		
Canada, BoC		Jun 3	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		Jun 16	-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

	1-Jun	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Majors						
AUD/USD	0.673	0.64	0.68	0.69	0.70	0.70
NZD/USD	0.62	0.60	0.62	0.64	0.65	0.66
USD/JPY	107.7	109	109	109	109	108
EUR/USD	1.11	1.10	1.12	1.13	1.14	1.15
GBP/USD	1.24	1.27	1.30	1.32	1.33	1.35
USD/CNY	7.12	6.90	6.85	6.80	6.80	6.70
USD/CAD	1.37	1.41	1.39	1.37	1.35	1.30
USD/CHF	0.96	0.97	0.96	0.96	0.95	0.95
Australian Cross Rates						
AUD/NZD	1.08	1.07	1.09	1.08	1.07	1.06
AUD/JPY	72.4	70	74	75	76	76
AUD/EUR	0.60	0.58	0.60	0.61	0.61	0.61
AUD/GBP	0.54	0.50	0.52	0.52	0.52	0.52
AUD/CNY	4.79	4.42	4.62	4.69	4.73	4.69
AUD/CAD	0.92	0.90	0.94	0.95	0.94	0.91
AUD/CHF	0.65	0.62	0.65	0.66	0.66	0.67

Global GDP

	2019	2020	2021
Australia	1.8	-4.3	4.2
United States	2.3	-7.4	6.8
Eurozone	1.2	-8.4	6.3
United Kingdom	1.4	-7.6	6.6
Japan	0.8	-7.6	3.8
China	6.1	1.0	9.8
India	5.3	-1.5	8.0
New Zealand	2.3	-8.7	2.9
World	3.0	-3.8	6.5

Interest Rate Forecasts

	1-Jun	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.10	0.20	0.25	0.30	0.30	0.35
3 Year Swap Rate	0.28	0.25	0.30	0.30	0.30	0.30
10 Year Swap Rate	0.88	0.90	1.05	1.18	1.28	1.38
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	0.90	0.95	1.05	1.15	1.25	1.35
United States	0.66	0.70	0.80	0.90	1.00	1.10
New Zealand	0.82	0.88	1.03	1.28	1.38	1.63

Sources: NAB Global Markets Research; Bloomberg; ABS

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