

AUSTRALIAN MARKETS WEEKLY

Budget preview, what we know so far



In this issue

Victoria starts to re-open	2
RBA rate cut, markets say November is more likely	2
Budget preview – what can we expect	2
More than a crisis budget – a reset in budget strategy	2
What we know so far from the press leaks	3
How to judge the budget?	4
Calendar of economic releases	5
Forecasts	6

Budget preview, what we know so far

- The Federal Budget is on October 6 and today's Weekly summarises the key budget initiatives that will likely be announced. While we can debate the pros/cons of individual policies, the key message is the profound shift in the government's fiscal strategy to even more willingness to extend the bridge to the recovery.
- The 2020-21 Budget is set to record a deficit of around \$200bn, up from a deficit of \$85.3bn in 2019-20, while Treasurer Fyrdenberg has indicated the budget will be in deficit over the forward estimates (i.e. over the next four years). This "first phase" of deficits is expected to last until "the unemployment rate is comfortably back under 6%". In this phase the automatic stabilisers will be allowed to work, fiscal support will be temporary and proportionate, while there will be likely structural reforms.
- As for possible measures, the press suggest: bringing forward of the phase-2 tax cuts to July 2021; an investment tax allowance; a possible "JobStart" program that would see the government subsidise new employment for SMEs; and additional infrastructure spending of up to \$10bn.

NAB's rate call – rate cut and QE in October or November (November now more likely)

- NAB changed its RBA rate call last Tuesday and is expecting the Bank to cut the cash rate to 0.10%, along with the 3-year yield target (YCC) and the TFF rate. We also expect the RBA to announce outright QE purchases in the 5-10 year area of the curve.
- NAB expects these further easing measures to be announced at the either October or November Board meetings. Since then, journalists with known links to Martin Place suggest November is more likely at this stage as do markets.

The week ahead

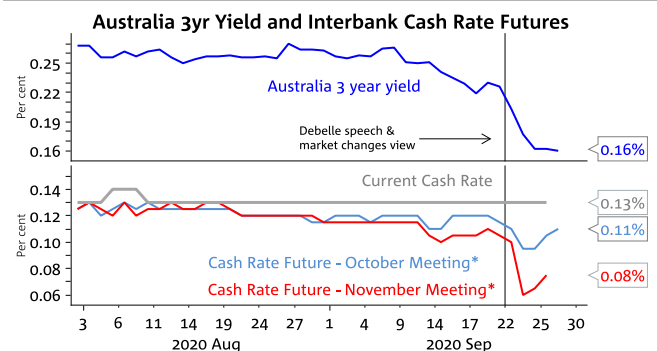
- **Australia:** It is a quiet week ahead of the October 6 Budget and RBA October Board Meeting. Datawise there is a smattering of data, including Credit and Building Approvals on Wednesday, Job Vacancies on Thursday, and a final read on Retail Sales on Friday. House Price data on Thursday though could create a few headlines with weekly data showing house prices have actually increased in Perth, Adelaide and Brisbane.
- **International:** The China PMIs are on Wednesday with little change in positive momentum expected. The first US presidential debate is on Tuesday, while Congress continues to be unable to agree on the size of a 4th fiscal package amid signs of stalling in the labour market – Jobless Claims on Thursday and Payrolls on Friday will be watched closely. The Manufacturing ISM is also out on Thursday, along with Personal Income/Spending. **EU/UK:** possible restrictions to combat the resurgence in COVID-19 is the focus. The Times report the UK may announce a hard lockdown in Northern England and London. Outside of that, UK-EU trade talks continue.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7042	-2.3	RBA cash	0.13	0
AUD/CNY	4.79	-3.3	3y swap	0.13	-2
AUD/JPY	74.3	-1.5	ASX 200	5,965	1.7
AUD/EUR	0.605	-1.4	Iron ore	114	-1.9
AUD/NZD	1.075	-0.7	Brent oil	41.9	1.2

Source: Bloomberg

Chart of the week: RBA cash rate cut priced for November



* 100 - price. Interbank futures are the average of the cash rate over the month
Source: National Australia Bank, Bloomberg

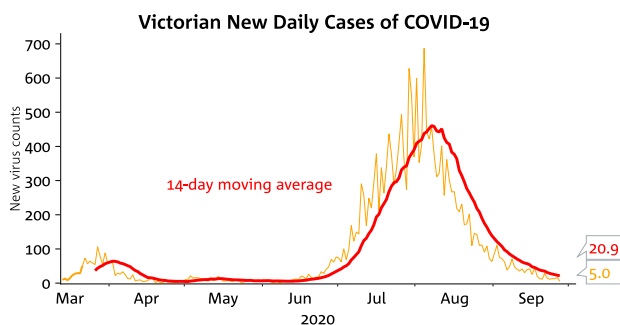
Victoria starts to re-open

Restrictions were eased moderately in Melbourne today following new virus cases falling below the 30-50 re-opening benchmark; currently averaging 20.3, with only 5 cases reported on Monday (Chart 1). The largest changes are the lifting the curfew, increasing outdoor gathering limits to 5 people, and lifting workforce limits for supermarkets and food distribution (now 100%), manufacturing (90%) and large-scale construction (85%). Premier Andrews notes 127,000 jobs could return.

The easing roadmap has also been tweaked, with only virus benchmarks to guide further re-opening, whereas before both virus benchmarks and dates were used. A more comprehensive easing (phase 3) is set to occur once the 14-day average is <5, though Victoria does not go back to where restrictions were prior to the second wave until there is an average of zero cases (see link).

The still stringent benchmarks are seeing more calls for a faster re-opening. The experience of NSW and QLD in their track and trace programs suggest a faster pace of re-opening is possible if case numbers remain in the single digits. If Victoria eased restrictions more quickly, a much sharper bounce in activity would likely occur.

Chart 1: VIC cases fall sharply, just 5 in the past 24 hours



* Dark red line represents Victoria's 14-day moving average which is the benchmark used for determining re-opening benchmarks
Source: National Australia Bank, government sources gathered by covid19data.com

RBA rate cut, markets say November is more likely

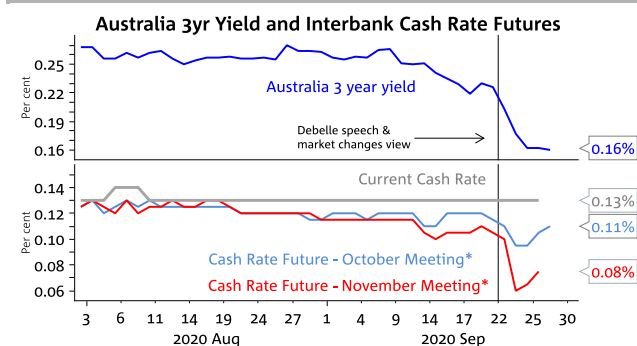
Last week's speech by RBA Deputy Governor Guy Debelle saw markets aggressively reprice the chances of the RBA easing policy further (see speech here). Partly on the back of that speech, NAB revised its rate call last Tuesday and now sees the RBA easing policy further by cutting the cash rate, 3-year yield target and TFF rate by 15bps to 0.10% (from 0.25%). We also expect outright QE purchases in the 5-10 year area of the curve so as to lower longer-dated rates and provide additional stimulus via portfolio rebalance effects. We have pencilled in October or November for the decision (see NAB Change in Policy View – 22 September 2020 for details).

Numerous press reports subsequent to our rates call from sources known to be close to Martin Place suggest November is now more likely (see Kehoe, Maley, and McCran). The RBA is reportedly wanting to see the exact contents of the Budget, as well as not wanting to distract from the government's October 6 Budget. Such distancing may also be desirable if the RBA is set to

announce outright QE in the 5-10-year area of the curve in order to avoid perceptions of monetary financing of the deficit given Governor Lowe's strong views (*"I want to make it very clear that monetary financing of fiscal policy is not an option under consideration in Australia, nor does it need to be"* – see July 2020 speech).

Markets have clearly listened to the apparent steer from Martin Place and are currently tilted slightly more toward a November change (reversing some of the pricing for October). The cash rate future for November now prices in 5bps of easing, while the 3-year yield has fallen to 0.16% and is well below the current YCC target of 0.25% (Chart 2). An open question remains on the remuneration of ES balances which is already at 0.10% and it is plausible this is either unchanged (like in the UK where reserve balances receive the same as the bank rate), or cut slightly to remain positive and thereby preserve the RBA's cash rate corridor system.

Chart 2: AUD consolidates along with stocks



* 100 - price. Interbank futures are the average of the cash rate over the month
Source: National Australia Bank, Bloomberg

Budget preview – what can we expect

Australia's highly anticipated and much delayed 2020-21 Budget is set to be handed down on Tuesday October 6 at 7.30pm. Today's Weekly focuses on what we can expect, summarising what we know so far from recent speeches from Treasurer Frydenberg and from the extensive backgrounding of journalists as typically happens in the lead up to budget night.

As for the headline budget numbers, media report a deficit of around \$200bn for 2020-21 (around 10% of GDP), up from a 2019-20 deficit of \$85.3bn (4.3% of GDP). Deficits seem inevitable over the forward estimates. NAB's view is that fiscal policy continues to be well-placed to support the recovery (especially given limited further monetary policy ammunition) and we would encourage the government to continue the bridge to recovery given the unknown length of the pandemic, and undertake necessary fiscal stimulus to restore confidence as we start to emerge from the pandemic.

More than a crisis budget – a reset in budget strategy

The 2020-21 Budget is set to be very different to typical Liberal-National governments that have strived for *"budget surpluses of sufficient size to significantly reduce gross debt and eliminate net debt by the end of the medium term"*. After all, the 2020-21 Budget will be

all about combating the COVID-19 Pandemic and associated recession. Consequently, the key objectives of the Budget will be in extending the bridge of temporary fiscal support until the health crisis is overcome and borders reopen, as well providing necessary expansionary fiscal policy to help stimulate demand and restore consumer and business confidence.

Treasurer Frydenberg outlined this shift in budget strategy in his recent speech titled "[Fiscal Strategy Update](#)".¹ Treasurer Frydenberg stated the Budget will be allowed to remain in deficit over the forward estimates (i.e. over the next four years), with this period termed as the "first phase" and expected to last until "*the unemployment rate is comfortably back under 6%*". In this phase the automatic stabilisers will be allowed to work in full, fiscal support will be given in a temporary and proportionate manner (thereby allowing the budget to improve as the recovery takes shape), while there will be likely structural reforms to position the economy for growth. Phase 2 will then be focused on traditional budget consolidation.

The profound shift in strategy has seen political commentators compare the upcoming 2020-21 Budget to the Keating budget at the height of the early 1990s recession – Phillip Coorey notes the shift towards Keating style stimulus and reform, noting "*the budget on October 6 will eerily resemble Keating's 1992 post-recession plan, titled One Nation. Wage subsidies, infrastructure spending, tax cuts, investment incentives for business, skills, industrial relations changes and lower energy costs*" are set to feature (see [A Tale of two legacies looms large as ex-PMs surface](#)).

What we know so far from the press leaks

The Treasurer has pre-announced many Budget measures already, while there have been numerous press articles citing government sources on various initiatives as is typical in the leadup to the budget. From this we can surmise the headline budget measures are likely to be:

- [Income tax cuts \(phase 2\) being brought forward by a year to July 2021 \(from July 2022\)](#). This sees the top threshold of the 19% tax bracket lifted from \$37,000 to \$45,000, while 37% threshold rises to \$120,000.
- [Additional infrastructure spending of up to \\$10bn](#) that would be distributed via the states for shovel-ready projects (see [AFR](#)).
- [Investment tax allowance](#) to encourage business investment, though little detail has been given here.

¹ This shift in strategy echoes the findings from Treasury Secretary Kennedy's Pandemic Modelling – [A primer on the macroeconomic effects of an influenza pandemic](#). In that paper, Secretary Kennedy noted that during a pandemic, the key policy implications were the need to "*quickly re-establishing consumer and investor confidence*" and "*Governments might also consider policies that help viable businesses through the worst of the pandemic*". And in a large pandemic "*...there is likely to be a need for expansionary fiscal policy to help stimulate demand and, most importantly, to restore consumer and business confidence. Of course, expansionary fiscal and monetary policies will only be effective if they are accompanied by a range of other policy measures that maintain financial stability and promote business continuity.*"

- [A possible "JobStart" program that could see SMEs receive hiring incentives](#) by the government possibly making a contribution to the wage or payroll taxes due on new employees. The AFR reports the PM was mulling this over (see [link](#)).
- [Responsible Lending Reform](#). The Treasurer has announced the relaxation of responsible lending laws, noting that obtaining credit had become more burdensome for borrowers given lengthy credit approval processes. Instead the Government is set to simply the laws with lenders being able to rely on the information provided by borrowers (see [Consumer Credit Reforms for details](#)). It is unclear to what degree this will see a pick-up in credit growth, though it is notable that major bank share prices were up some 5-7% following the announcement.
- [Insolvency Law Reform](#). Insolvency laws around SMEs are set to be reformed, including drawing on key features from Chapter 11 in the US. The proposed changes are mooted to allow businesses with liabilities of less than \$1m to be able to trade while insolvent while a debt restructuring plan is developed and voted on by creditors. (see [Insolvency reforms to support small business for details](#)).
- [A new gas policy, including a pledge to develop a gas fired power station if needed](#).

Other key budget parameters/measures that will be important for the outlook, but do not include new policies, include:

- [Unemployment rate peak to be lower](#) and "not as high as what Treasury was first forecasting at 10%, but to increase nevertheless". The unemployment rate is currently 6.8%, though is expected to tick up as people return to the labour force. The Treasury's own effective unemployment measure is 9.3% which includes those who have left the labour force since March or are working zero hours.
- [Net Overseas Migration forecasts will be revised sharply down](#) with outflows now likely in both 2020-21 and 2021-22 due to international border restrictions. Importantly though Treasurer Frydenberg has stated "*migration will eventually return to the levels we are accustomed to*". This suggests Australia's high migration intake will continue once the pandemic abates. Note, prior to the pandemic net migration comprised around 2/3rds of Australia's population growth which grew by 400k a year.
- [Update on a pilot for international students and any further support for Universities](#). The government is expected to trial a restart of international education flows. There has been little development on this front so far with a mooted trial of 300 foreign students to Adelaide delayed in favour of repatriating more Australians from overseas. The university sector is also lobbying for fiscal support, coming under strain given the decline in international students.
- [JobKeeper to maintain its planned phase out, though of course could be extended or replaced with another scheme if the pandemic were to impact for even longer than expected](#). The gradual phasing out of JobKeeper was announced back in July with rolling eligibility requirements (that sees the payment

reduced in October from \$1,500 a fortnight to \$1,200 for full-time and \$750 for part-time. A further reduction occurs in January to \$1,000 for full-time and \$650 for part-time. The impact from this tapering will be important to monitor going forward. One hint of how it could play out is that Treasurer Frydenberg notes “some 60% of the people who are on JobKeeper nationally will be from that one state [Victoria] alone”.

- **No mention of extending JobSeeker Supplement beyond December 2020.** While the JobSeeker Supplement is set to be phased down in October (total JobSeeker unemployment benefit to around \$810 a fortnight from \$1,110 a fortnight), the government has not specified whether it will be continued after December. Treasurer Frydenberg notes: “we will reassess the situation closer to the end of the year- in early December. But the PM has signalled very clearly that we are leaning to providing additional support for those who need it into next year but we’ll make that decision at that time”.

How to judge the budget?

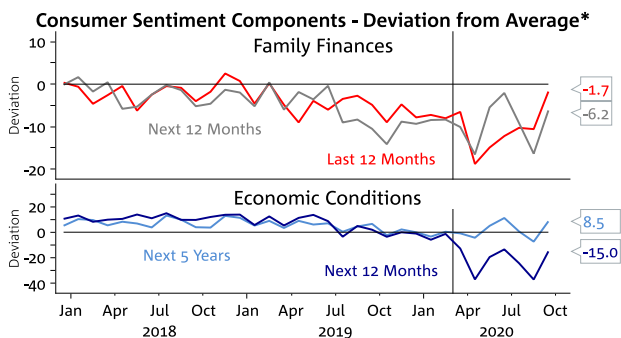
Unlike in prior budgets, the overwhelming aim of the budget is to deal with the pandemic-induced “recession like no other in living memory” (Frydenberg September 2020). Accordingly, we should judge the budget from two perspectives:

Whether the budget continues to build the bridge until the health crisis is overcome and borders re-open. Key here will be in boosting demand (outright stimulus) as well as supporting businesses and consumers that continue to be impacted the greatest.

In the words of current Treasury Secretary Kennedy, in a pandemic the key role of government is to “*quickly re-establishing consumer and investor confidence*” and “*Governments might also consider policies that help viable businesses through the worst of the pandemic*”.

In this respect the JobKeeper and JobSeeker programs have been helpful. Consumer confidence has bounced strongly since the lows of the pandemic and is mostly above the levels of where it was prior to the pandemic (Chart 3).

Chart 3: Consumer confidence has rebounded

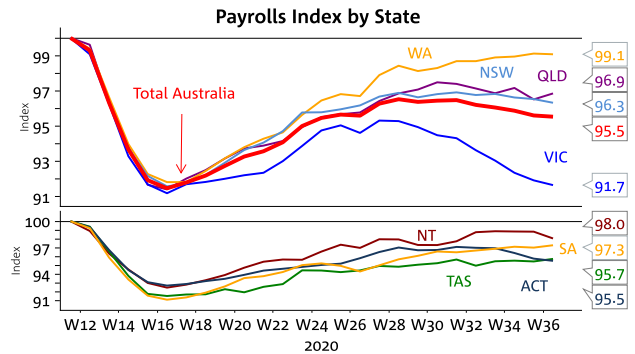


* Published index less its long-run average
Source: National Australia Bank, W-MI

Effective virus containment has also been a key factor with activity picking up quicker in states that controlled the virus earlier and which had little spillover from Victoria’s second wave of infections (Chart 4). High

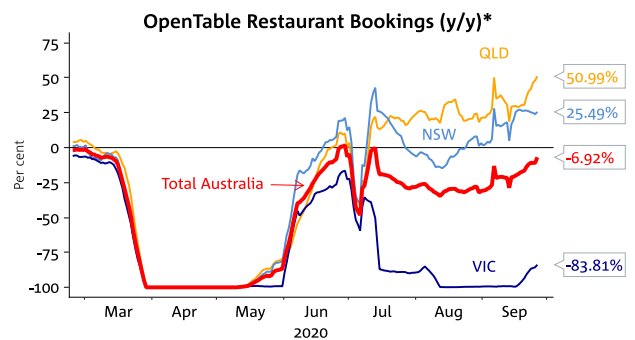
frequency data continue to show an uptick in activity across all states and territories except for Vic more recently (Chart 5). A further pickup in activity is likely as interstate border restrictions ease and as Victoria slowly comes out of lockdown.

Chart 4: Jobs rebound sharply in WA, all up bar Vic



Source: National Australia Bank, ABS

Chart 5: Restaurant bookings suggest less scarring



* One week moving average
Source: National Australia Bank, OpenTable

The key for the government will be not withdrawing this stimulus too quickly given the unknown length of this pandemic and a prolonged recovery ahead. Key will be the development of either an effective vaccine and/or further effective treatments, together with robust and comprehensive test and trace systems.

On this front, vaccine news is encouraging with final phase-3 trial results due over October and November from many vaccine candidates being trialled. First vaccinations could occur at the end of 2020 or more likely in 2021 if such a vaccine is proved effective. Importantly, to resume activity not everyone needs to be vaccinated initially. In the meantime, appropriate government support will be required for the duration of the pandemic.

The other measure to judge the Budget will be on whether it takes the opportunity for reform (in a crisis), to help shape Australia’s growth out of the pandemic. Here the press leaks are less definitive with no major tax reforms planned apart from the likely bringing forward of the phase-2 tax cuts. The lack of genuine structural reform has been an unfortunate feature of budgets of all political stripes in recent years.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Consensus	Actual	Previous	GMT	AEST
Monday 28 September							
EC	ECB Executive Board member Schnabel Speaks in					7:45 PM	19:45
CA	Bloomberg Nanos Confidence	Sep-25	--		53.1	10:00 PM	22:00
EC	ECB Executive Board member Schnabel Speaks in					11:30 PM	23:30
EC	ECB's Lagarde In European Parliament Hearing					11:45 PM	23:45
UK	Nationwide House PX MoM	Sep	--	--	2.00%	10:04 AM	10:04
US	Dallas Fed Manf. Activity	Sep		8.5	--	8	12:30 AM 00:30
US	Fed's Mester Participates in Economic Equality					4:00 AM	04:00
Tuesday 29 September							
AU	ANZ Roy Morgan Weekly Consumer Confidence	Sep-27	--	--	93.5	9:30 AM	09:30
JN	Tokyo CPI Ex-Fresh Food, Energy YoY	Sep		-0.20%	--	-0.10%	9:30 AM 09:30
JN	BOJ Summary of Opinions					9:50 AM	09:50
FR	Consumer Confidence	Sep		92	--	94	4:45 PM 16:45
SW	Ingves speech on current monetary policy					5:00 PM	17:00
UK	Mortgage Approvals	Aug	--	--	66.3k	6:30 PM	18:30
UK	Money Supply M4 MoM	Aug	--	--	0.90%	6:30 PM	18:30
EC	Economic Confidence	Sep		89.3	--	87.7	7:00 PM 19:00
EC	Consumer Confidence	Sep F	--	--	-13.9	7:00 PM	19:00
GE	CPI EU Harmonized MoM	Sep P		0.00%	--	-0.20%	10:00 PM 22:00
GE	CPI EU Harmonized YoY	Sep P		0.00%	--	-0.10%	10:00 PM 22:00
US	Fed's Williams Discusses Labor Countdown					10:25 PM	22:25
US	Advance Goods Trade Balance	Aug		\$-82.4b	--	-\$79.3b	10:30 PM 22:30
US	Wholesale Inventories MoM	Aug P	--	--	-0.30%	10:30 PM	22:30
US	Retail Inventories MoM	Aug	--	--	1.20%	10:30 PM	22:30
US	S&P CoreLogic CS US HPI YoY NSA	Jul	--	--	4.29%	11:00 PM	23:00
US	Fed's Williams Speaks at U.S. Treasury Market					11:15 PM	23:15
US	Conf. Board Consumer Confidence	Sep		90	--	84.8	12:00 AM 00:00
US	Fed Quarles to Speak on Financial Stability					5:00 AM	05:00
Wednesday 30 September							
NZ	Building Permits MoM	Aug	--	--	-4.50%	7:45 AM	07:45
UK	Lloyds Business Barometer	Sep	--	--	-14	9:01 AM	09:01
JN	Retail Sales MoM	Aug		1.90%	--	-3.30%	9:50 AM 09:50
JN	Industrial Production MoM	Aug P		1.10%	--	8.70%	9:50 AM 09:50
NZ	ANZ Business Confidence	Sep F	--	--	-26	10:00 AM	10:00
NZ	ANZ Activity Outlook	Sep F	--	--	-9.9	10:00 AM	10:00
CH	Manufacturing PMI	Sep		51.5	--	51	11:00 AM 11:00
CH	Non-manufacturing PMI	Sep		54.9	--	55.2	11:00 AM 11:00
JN	BOJ Outright Bond Purchase 3~5 Years					11:10 AM	11:10
AU	Private Sector Credit MoM	Aug	--	--	-0.10%	11:30 AM	11:30
AU	Building Approvals MoM	Aug	--	--	12.00%	11:30 AM	11:30
CH	Caixin China PMI Mfg	Sep		53.3	--	53.1	11:45 AM 11:45
JN	Vehicle Production YoY	Jul	--	--	-36.60%	2:00 PM	14:00
UK	GDP QoQ	2Q F		-20.40%	--	-20.40%	4:00 PM 16:00
UK	GDP YoY	2Q F		-21.70%	--	-21.70%	4:00 PM 16:00
JN	Machine Tool Orders YoY	Aug F	--	--	-23.30%	4:00 PM	16:00
EC	ECB's Lagarde Speaks at ECB and Its Watchers					5:20 PM	17:20
GE	Unemployment Change (000's)	Sep		-10.0k	--	-9.0k	5:55 PM 17:55
GE	Unemployment Claims Rate SA	Sep		6.40%	--	6.40%	5:55 PM 17:55
US	MBA Mortgage Applications	Sep-25	--	--	6.80%	9:00 PM 21:00	
US	ADP Employment Change	Sep		650k	--	428k	10:15 PM 22:15
CA	GDP MoM	Jul		2.80%	--	6.50%	10:30 PM 22:30
CA	GDP YoY	Jul	--	--	-7.80%	10:30 PM	22:30
US	GDP Annualized QoQ	2Q T		-31.60%	--	-31.70%	10:30 PM 22:30
US	MNI Chicago PMI	Sep		52	--	51.2	11:45 PM 23:45
EC	ECB Chief Economist Lane Speaks at ECB					12:00 AM	00:00
US	Pending Home Sales MoM	Aug		2.00%	--	5.90%	12:00 AM 00:00
Thursday 1 October							
AU	AIG Perf of Mfg Index	Sep	--	--	49.3	8:30 AM	08:30
AU	CBA Australia PMI Mfg	Sep F	--	--	55.5	9:00 AM	09:00
JN	Japan Buying Foreign Bonds	Sep-25	--	--	¥300.1b	9:50 AM	09:50
JN	Tankan Large Mfg Index	3Q		-22	--	-34	9:50 AM 09:50
AU	CoreLogic House Px MoM	Sep	--	--	-0.50%	10:00 AM	10:00
JN	Jibun Bank Japan PMI Mfg	Sep F	--	--	47.3	10:30 AM	10:30
AU	Job vacancies	Aug	--	--	-43.20%	11:30 AM	11:30
AU	Commodity Index AUD	Sep	--	--	94.2	4:30 PM	16:30
GE	Markit/BME Germany Manufacturing PMI	Sep F		56.6	--	56.6	5:55 PM 17:55
EC	Markit Eurozone Manufacturing PMI	Sep F		53.7	--	53.7	6:00 PM 18:00
UK	Markit UK PMI Manufacturing SA	Sep F		54.3	--	54.3	6:30 PM 18:30
EC	Unemployment Rate	Aug		8.10%	--	7.90%	7:00 PM 19:00
US	Challenger Job Cuts YoY	Sep	--	--	116.50%	9:30 PM	21:30
US	Initial Jobless Claims	Sep-26	--	--	870k	10:30 PM 22:30	
US	Continuing Claims	Sep-19	--	--	12580k	10:30 PM	22:30
US	Personal Income	Aug		-2.10%	--	0.40%	10:30 PM 22:30
US	Personal Spending	Aug		0.70%	--	1.90%	10:30 PM 22:30
US	PCE Core Deflator MoM	Aug		0.30%	--	0.30%	10:30 PM 22:30
US	PCE Core Deflator YoY	Aug		1.50%	--	1.30%	10:30 PM 22:30
CA	Markit Canada Manufacturing PMI	Sep	--	--	55.1	11:30 PM	23:30
US	Bloomberg Consumer Comfort	Sep-27	--	--	49.8	11:45 PM	23:45
US	Markit US Manufacturing PMI	Sep F	--	--	53.5	11:45 PM	23:45
US	Wards Total Vehicle Sales	Sep		15.60m	--	15.19m	10:02 AM 10:02
US	ISM Manufacturing	Sep		55.9	--	56	12:00 AM 00:00
US	Fed's Williams Moderates Discussion with					1:00 AM	01:00
EC	ECB Chief Economist Lane Speaks in Online					1:45 AM	01:45
Friday 2 October							
NZ	ANZ Consumer Confidence MoM	Sep	--	--	-3.90%	7:00 AM	07:00
JN	Jobless Rate	Aug		3.00%	--	2.90%	9:30 AM 09:30
AU	Retail Sales MoM	Aug		-5.40%	--	3.20%	11:30 AM 11:30
JN	Consumer Confidence Index	Sep	--	--	29.3	3:00 PM	15:00
EC	CPI Core YoY	Sep P		0.40%	--	0.40%	7:00 PM 19:00
US	Change in Nonfarm Payrolls	Sep		865k	--	1371k	10:30 PM 22:30
US	Change in Private Payrolls	Sep		965k	--	1027k	10:30 PM 22:30
US	Unemployment Rate	Sep		8.20%	--	8.40%	10:30 PM 22:30
US	Average Hourly Earnings YoY	Sep		4.80%	--	4.70%	10:30 PM 22:30
US	Labor Force Participation Rate	Sep	--	--	61.70%	10:30 PM	22:30
US	Fed's Harker Discusses an Inclusive Workforce					11:00 PM	23:00
Upcoming Central Bank Interest Rate Announcements							
US, Federal Reserve		Nov 6	0/0.25	0/0.25	0/0.25		
Japan, BoJ		Oct 29	-0.10	-0.10	-0.10		
UK, BOE		Nov 5	0.10	0.10	0.10		
New Zealand, RBNZ		Nov 11	0.25	0.25	0.25		
Australia, RBA		Oct 6	0.25	0.25	0.25		
Canada, BoC		Oct 28	0.25	0.25	0.25		
Europe, ECB		Oct 29	-0.50	-0.50	-0.50		

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

FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
	2019	2020	2021	2022	2019				2020				2021				2022			
Australia Forecasts					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	1.4	-7.8	2.8	3.2	0.4	0.3	0.1	0.5	-1.1	-11.4	1.5	3.2	1.5	1.0	0.6	0.8	0.6	1.0	0.7	0.8
Underlying Business Investment	-1.7	-22.3	-11.6	7.9	0.8	-0.2	-1.7	-1.5	-1.0	-21.2	-7.2	-6.1	-1.8	4.3	2.7	1.7	1.4	2.0	1.3	2.0
Residential Construction	-6.9	-14.4	-4.4	12.8	-1.7	-3.5	-0.7	-4.1	-1.7	-7.6	-5.4	-3.4	-0.5	1.6	2.9	3.6	3.6	3.2	2.5	1.8
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	2.9	-1.1	-0.9	0.2	0.6	0.1	-0.1	0.5	3.6	-0.5	-0.7	-0.3	-0.3	-0.2	-0.3	-0.2	-0.3	-0.2	-0.2
Inventories (a)	-0.2	-0.8	1.3	0.0	0.0	-0.4	0.1	0.2	-0.2	-2.4	1.6	1.3	0.1	0.1	-0.1	0.0	0.0	0.1	-0.1	0.0
Domestic Demand (q/q %)	-	-	-	-	0.3	0.4	0.4	0.2	-0.5	-8.7	0.2	1.4	1.0	1.2	0.9	1.0	0.9	1.1	0.9	0.9
Dom Demand (y/y %)	1.3	-6.2	1.4	4.0	1.2	1.3	1.2	1.3	0.5	-8.6	-8.8	-7.7	-6.3	3.8	4.6	4.2	4.1	4.0	3.9	3.9
Real GDP (q/q %)	-	-	-	-	0.5	0.6	0.6	0.5	-0.3	-8.6	2.1	3.1	0.7	0.9	0.6	0.7	0.6	0.9	0.6	0.7
Real GDP (y/y %)	1.8	-4.3	2.9	2.8	1.7	1.6	1.8	2.2	1.4	-7.9	-6.5	-4.1	-3.1	7.0	5.4	2.9	2.8	2.7	2.8	2.8
CPI headline (q/q %)	-	-	-	-	0.0	0.6	0.5	0.7	0.3	-2.0	1.6	0.7	0.4	0.2	0.3	0.3	0.1	0.2	0.5	0.8
CPI headline (y/y %)	1.6	0.7	1.6	1.2	1.3	1.6	1.7	1.8	2.2	-0.4	0.6	0.5	0.6	2.9	1.6	1.3	1.0	0.9	1.1	1.6
CPI underlying (q/q %)	-	-	-	-	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.2	0.2	0.1	0.1	0.2	0.4	0.6
CPI underlying (y/y %)	1.4	1.8	1.4	0.8	1.4	1.4	1.5	1.4	1.7	1.7	1.8	1.8	1.8	1.6	1.2	0.9	0.5	0.5	0.7	1.2
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	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.3	7.5	6.4	5.1	5.1	5.2	5.2	5.2	6.8	8.6	8.4	8.3	7.7	7.2	6.9	6.7	6.5	6.3	6.2
Terms of trade	5.1	-2.9	-1.0	0.9	3.3	1.4	0.2	-5.2	2.9	-2.9	0.3	-0.5	-1.3	0.6	1.3	0.6	-0.1	-0.1	-0.1	-0.1
Current Account (% GDP)	0.6	-3.7	2.8	1.9	-0.6	1.0	1.4	0.3	1.7	5.2	4.5	3.6	3.0	2.8	2.7	2.6	2.3	2.0	1.8	1.5

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

Exchange Rate Forecasts						
	15-Jun	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Majors						
AUD/USD	0.684	0.70	0.72	0.74	0.74	0.75
NZD/USD	0.64	0.64	0.66	0.67	0.68	0.69
USD/JPY	107.5	109	109	109	109	108
EUR/USD	1.12	1.13	1.15	1.17	1.18	1.19
GBP/USD	1.25	1.27	1.30	1.32	1.33	1.35
USD/CNY	7.08	7.10	7.05	6.95	6.85	6.80
USD/CAD	1.36	1.41	1.39	1.37	1.35	1.30
USD/CHF	0.95	0.97	0.96	0.96	0.95	0.95

Australian Cross Rates						
	15-Jun	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
AUD/NZD	1.06	1.09	1.09	1.10	1.09	1.09
AUD/JPY	73.5	76	78	81	81	81
AUD/EUR	0.61	0.62	0.63	0.63	0.63	0.63
AUD/GBP	0.55	0.55	0.55	0.56	0.56	0.56
AUD/CNY	4.84	4.97	5.08	5.14	5.07	5.10
AUD/CAD	0.93	0.99	1.00	1.01	1.00	0.98
AUD/CHF	0.65	0.68	0.69	0.71	0.70	0.71

Interest Rate Forecasts						
	15-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	0.27	0.25	0.30	0.30	0.30	0.30
10 Year Swap Rate	0.87	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	0.88	0.95	1.05	1.15	1.25	1.35
United States	0.70	0.70	0.80	0.90	1.00	1.10
New Zealand	0.80	0.88	1.03	1.28	1.38	1.63

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP			
	2019	2020	2021
Australia	1.8	-4.3	2.9
United States	2.3	-6.8	5.3
Eurozone	1.2	-7.5	5.7
United Kingdom	1.4	-8.4	6.4
Japan	0.7	-6.3	3.2
China	6.1	1.0	9.8
India	5.3	-1.5	8.0
New Zealand	2.3	-8.3	4.2
World	3.0	-3.7	6.2

Commodity prices (\$US)						
	15-Jun	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	38.2	38	43	48	52	58
Gold	1732	1690	1700	1710	1710	1720
Iron ore	na	81	80	78	75	73
Hard coking coal*	111	145	148	151	147	145
Thermal coal	53	62	65	67	63	61
Copper	5762	5100	5300	5400	5500	5750
Aus LNG**	10	7	7	7	8	8

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

** Implied Australian LNG export prices

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