



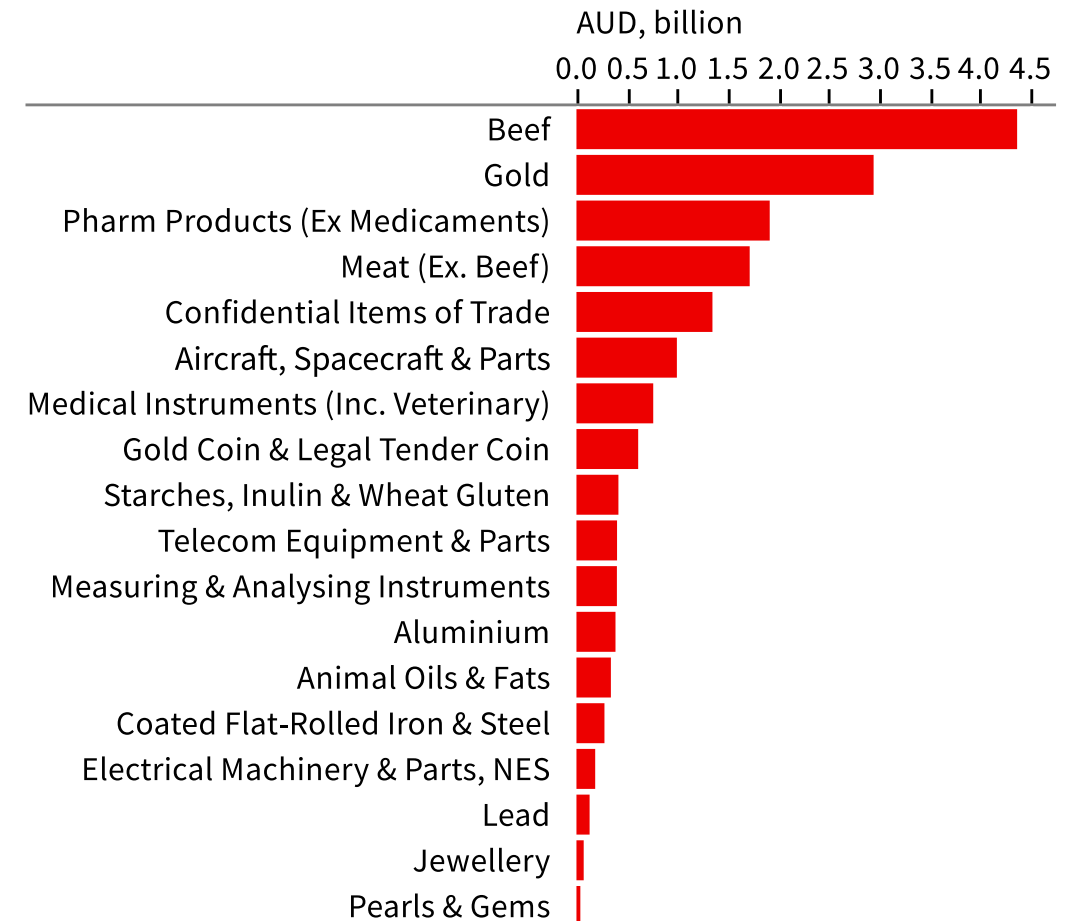
Markets and Macro Update

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Some facts on Australian trade with the US

- **From a product view beef is our largest export to the US:**
 - The US accounts for 23% of our beef exports, 39% go to Japan, 14% go to Korea and 24% to the rest of the world
 - Australia is a much smaller beef producer than the US, but US producers focus on high end markets.
- **Gold is the second largest export (and gold coins are also a relatively large export):**
 - Beyond that, the value of exports to the US reduces quickly and tends to be in highly specialised areas i.e. Pharmacological Products, medical instruments.
 - Note: aircraft, spacecraft & parts are 40% re-exports (ie we service planes in Australia for other carriers).
- **Australian exports to the US are less than 5% of our overall export basket**

Australia Goods Exports to the US (2024)



Source: National Australia Bank, DFAT

Tariff rate up, global growth down

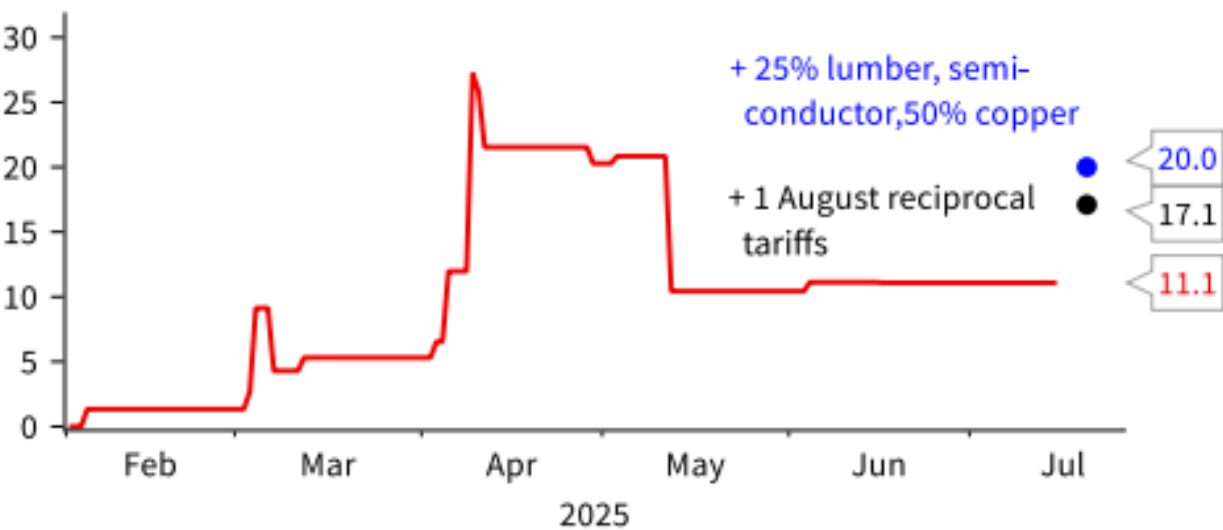
The effective tariff rate is likely to settle higher than most had anticipated

Key Economic Forecasts

	2024	2025		2026		2027
US	2.8	1.6	(-0.1)	1.6	(-0.1)	1.9
Euro-zone	0.8	1.2		1.2		1.3
Japan	0.2	1.0		0.7		0.6
UK	1.1	1.1	(0.1)	0.9		1.5
Canada	1.6	1.2		0.8	(-0.1)	2.1
China	5.0	4.8	(0.5)	4.0		3.9
India	6.7	6.7		6.2	(0.1)	6.4
Latin America	2.4	2.2	(0.1)	1.7		1.9
Other East Asia	4.0	3.3		3.2	(-0.1)	3.4
NZ	-0.6	0.7	(-0.4)	2.7	(-0.1)	2.4
Global	3.3	3.1	(0.1)	2.9	(0.1)	3.0
Major trading partners	3.5	3.4	(0.1)	3.0	(-0.1)	3.1

(Change since June Forward View in brackets)

Cumulative change in US average tariff rate (ppts)



Source: National Australia Bank. NAB calculations based on 2024 trade flows before substitution effects. 75% of Canada/Mexico exports to US assumed to be USMCA compliant. "+ sectoral tariffs" assumes 25% tariff on semi-conductors and other electronics, copper, lumber and pharmaceutical. Reciprocal tariffs based on original notice but modified by Trump 'letters'

A new regime

A framework to think about Trump 2.0

Out

- Secular multi-decade decline in interest rates
- Boost to valuations in other asset classes (equities, property infrastructure)
- Inflation declines and inflation vol falls, facilitating the “Great Moderation”
- Private sector leverage rises
- Free movement of goods and labour across borders
- Free trade supported by rules-based system (WTO)
- Comparative advantage drives trade
- Age of the multi-national and liberal democracy
- Capital wins vs. labour and takes a greater share of GDP
- Peace dividend dominates
- Asia as a centre of production, US a centre of consumption

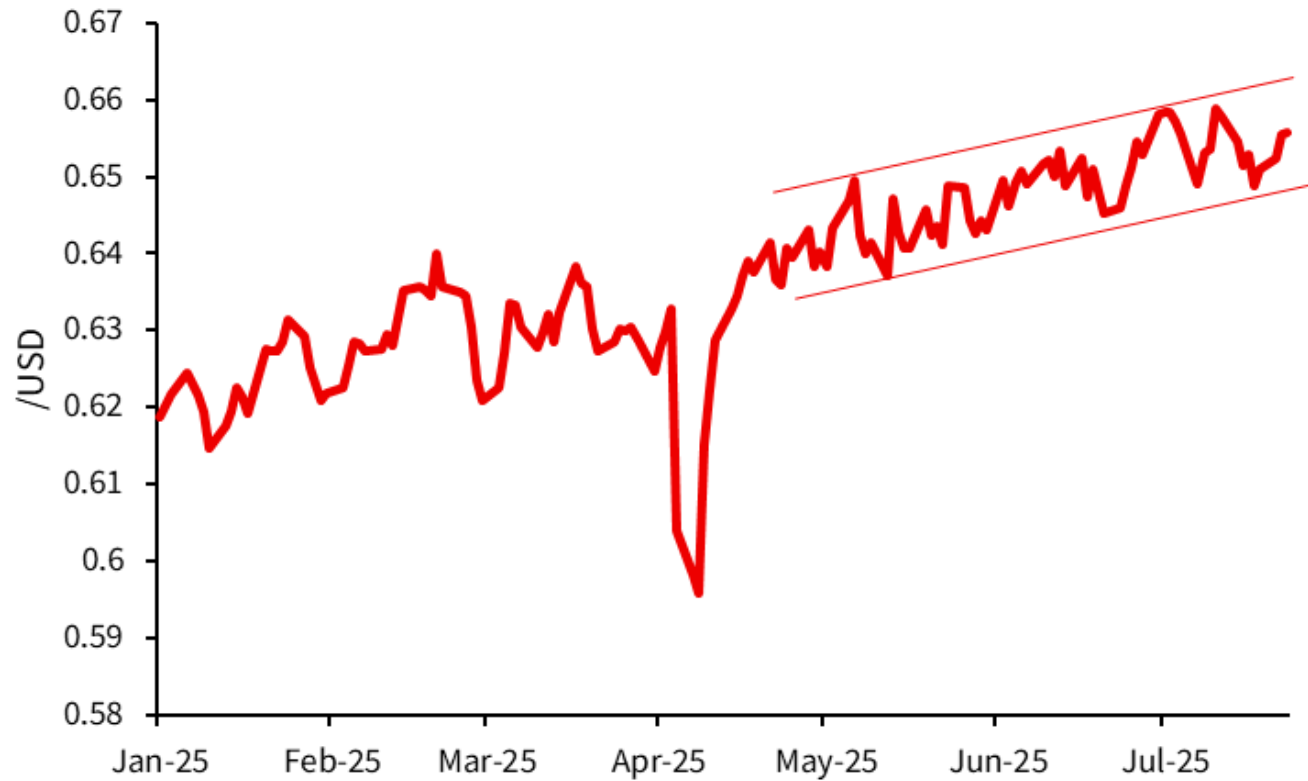
In

- Economic security and national interest subordinates foreign policy, increased use of “Economic Statecraft” :
 - ✓ Tariffs
 - ✓ Export controls
 - ✓ Sanctions
- Restrictions on immigration
- “Higher for longer” rates outlook as equilibrium real rates move higher and term premium reprices
 - ✓ Valuation boost over for growth assets
 - ✓ Steeper curves
- Rules based trading system no longer
- Near-shoring / Friend-shoring / Onshoring
- Re-industrialisation / Re-militarisation / Reconstruction
- Public sector leverage rises
- Consumption shift from US to Asia

Targeting AUD/USD to 0.70 by year-end

Real rate differentials should work in favour of the AUD

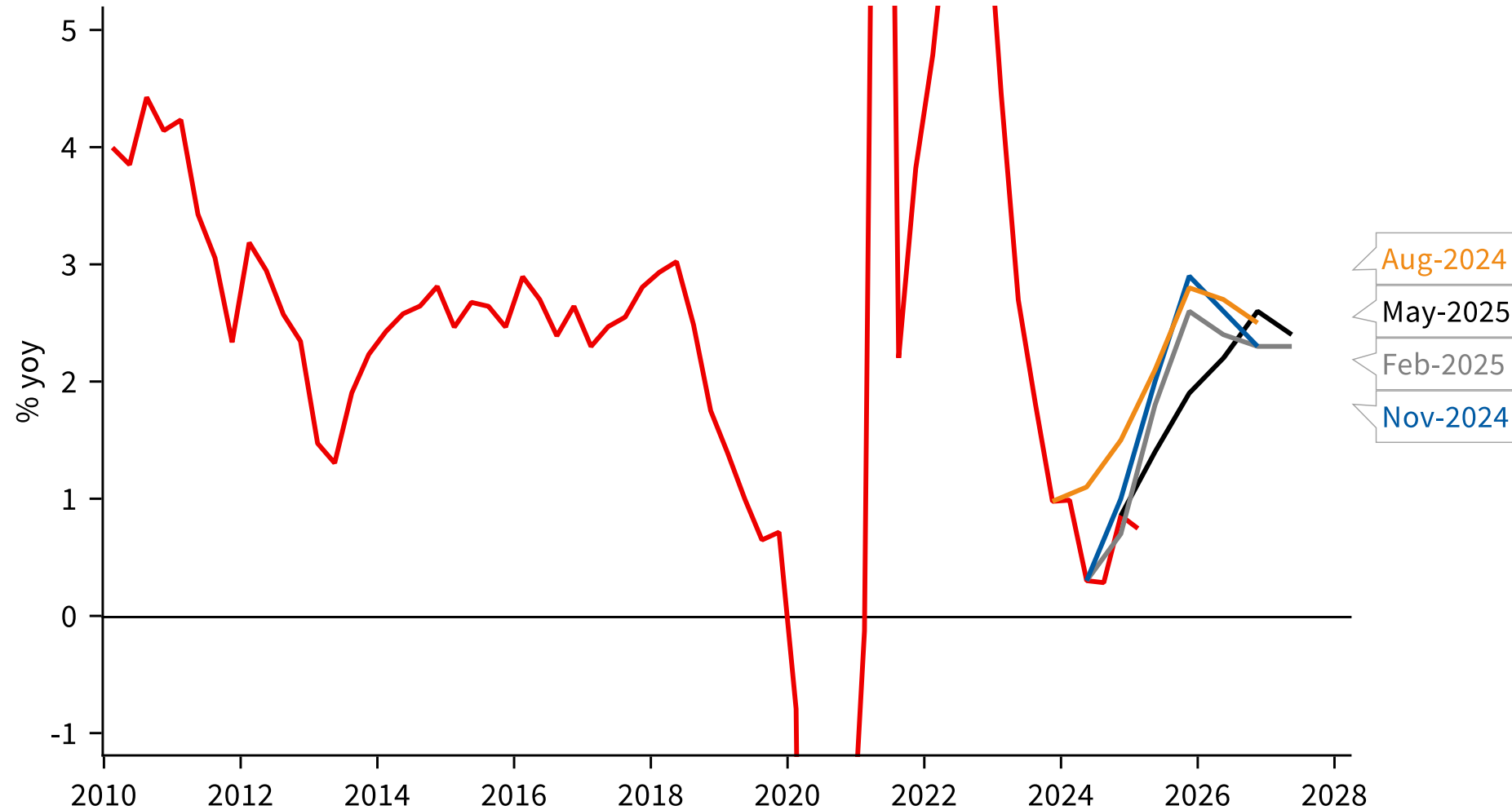
AUD/USD in a gentle uptrend



Consumption growth is picking up

But not as robustly as the RBA had earlier expected

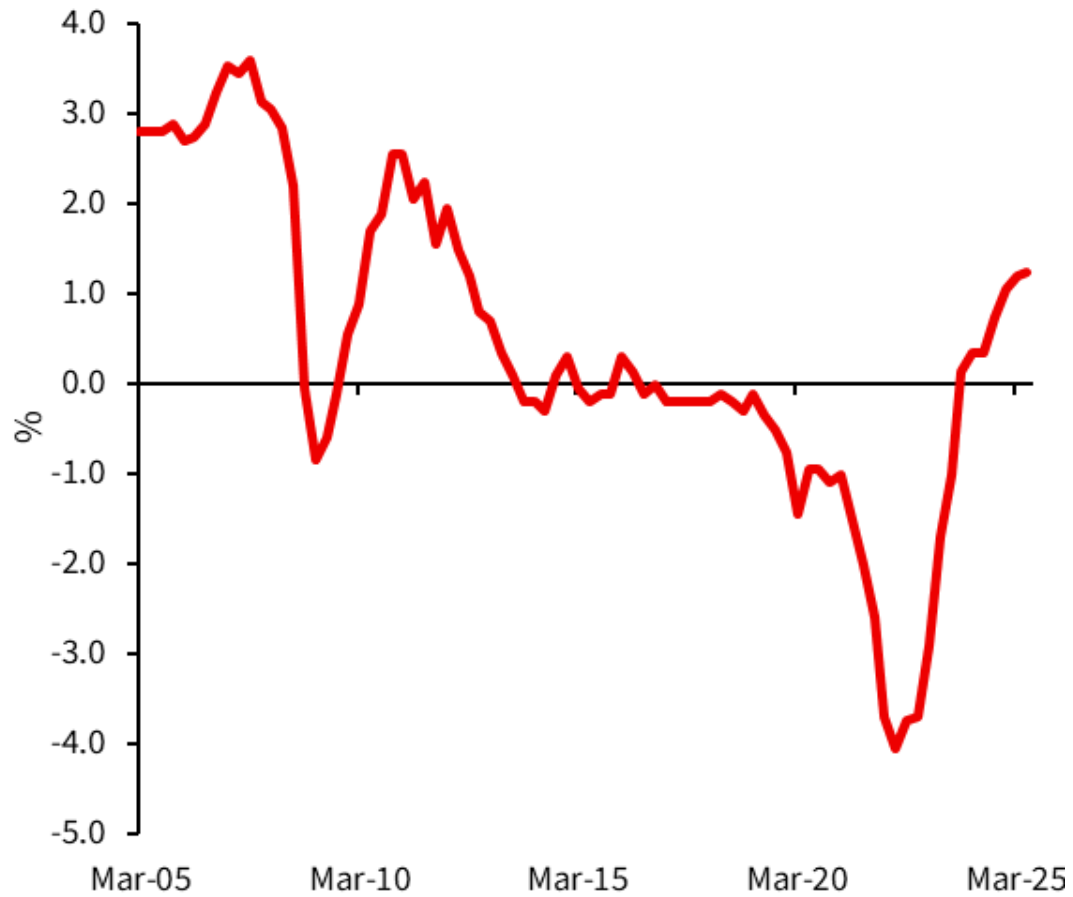
RBA real household consumption forecasts



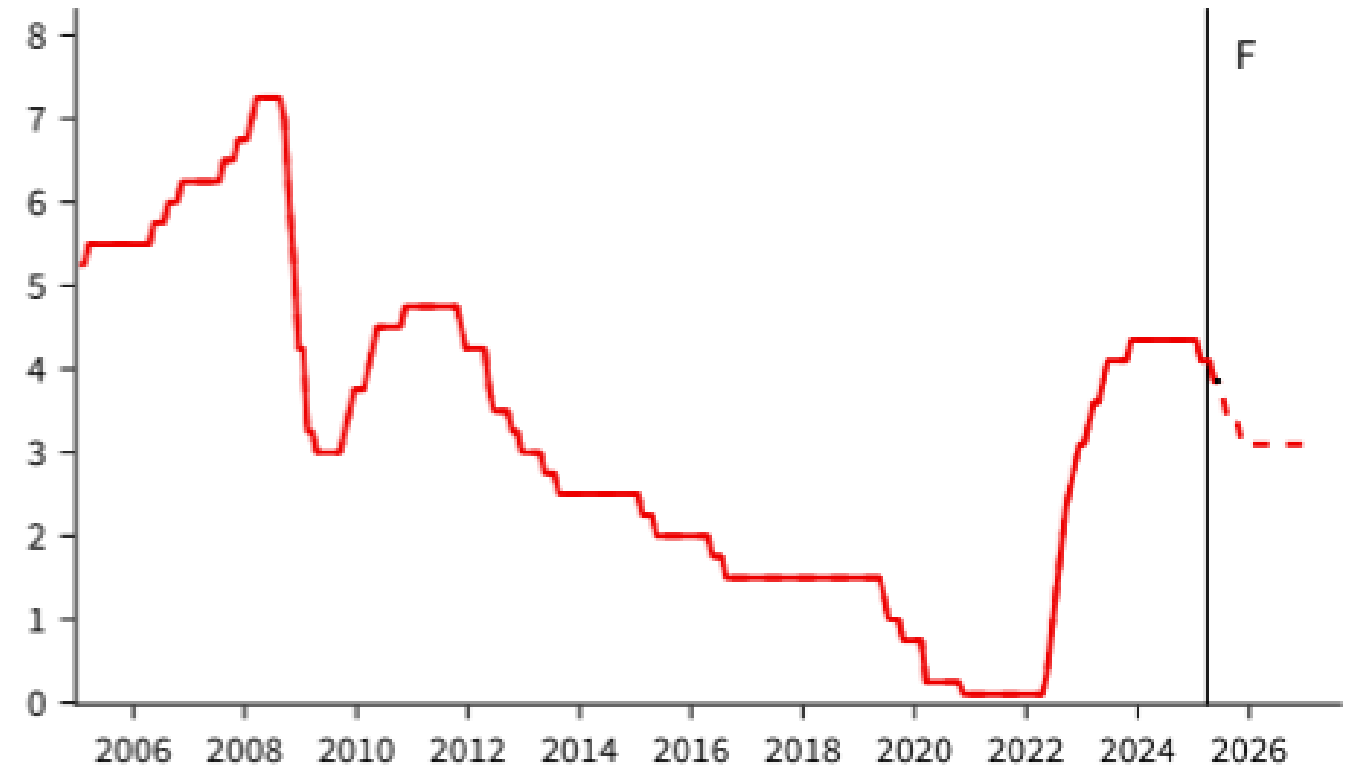
Source: National Australia Bank, Australian Bureau of Statistics, Account in-house, Macrobond

The RBA need a relatively quick return to a neutral policy setting

AUS real cash rate is elevated



RBA forecast (%)

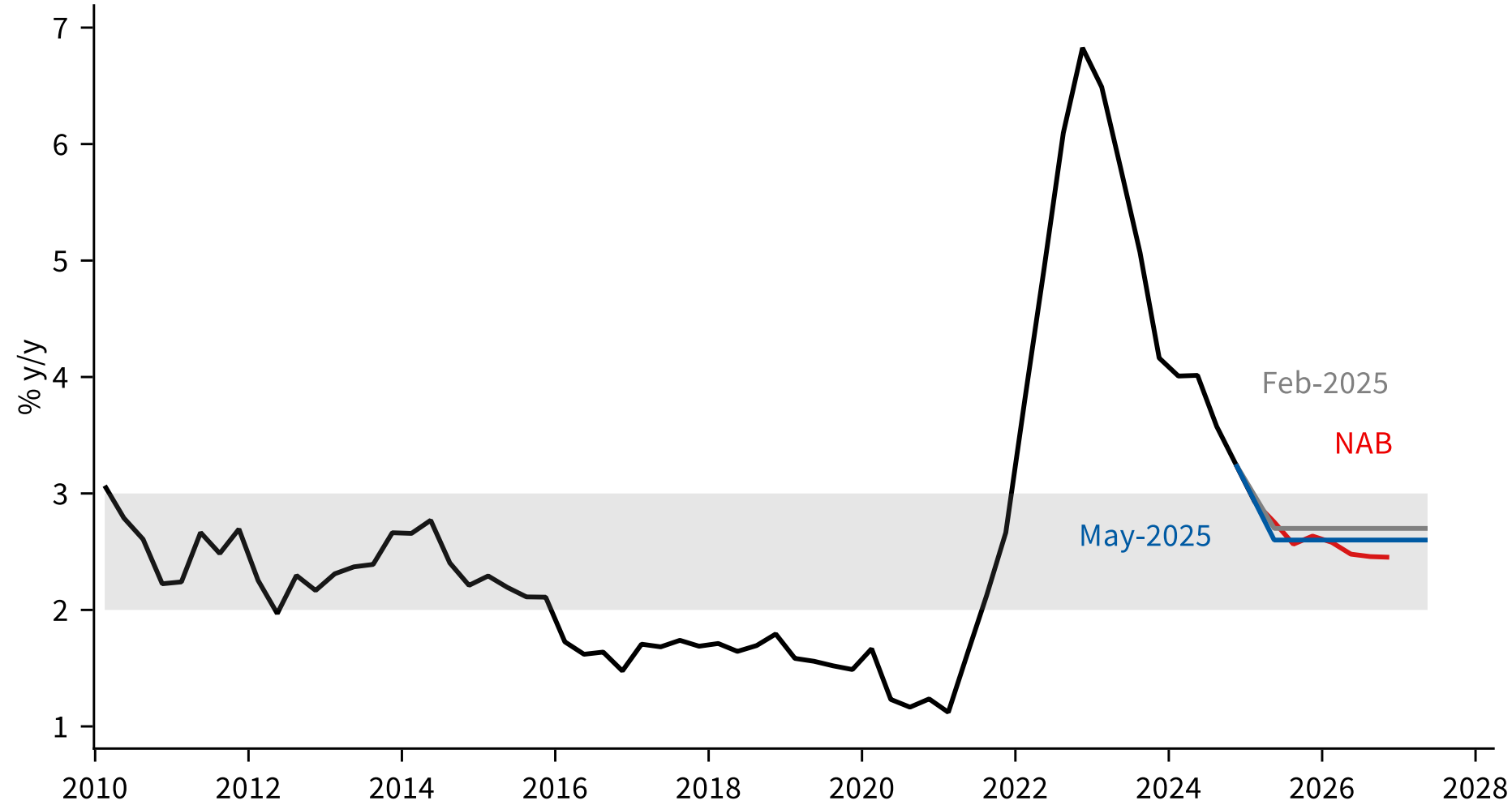


Source: RBA, ABS and NAB.

Inflation outlook

Underlying inflation expected to stabilise near target

Trimmed Mean Inflation Forecasts

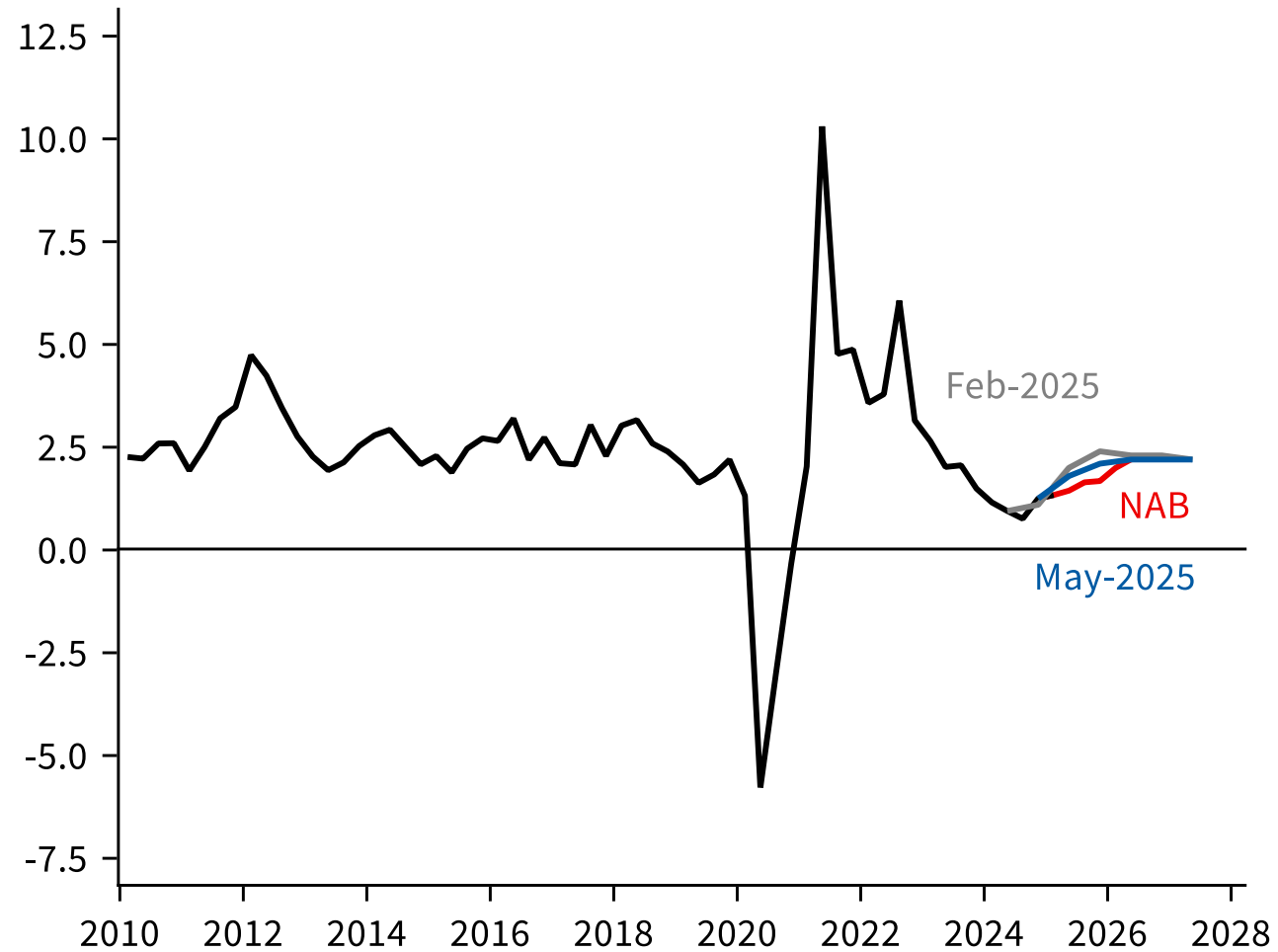


Source: National Australia Bank, ABS, RBA

Labour market and activity outlook

Downside risk to the RBA's GDP growth expectation this year

Australian Gross Domestic Product

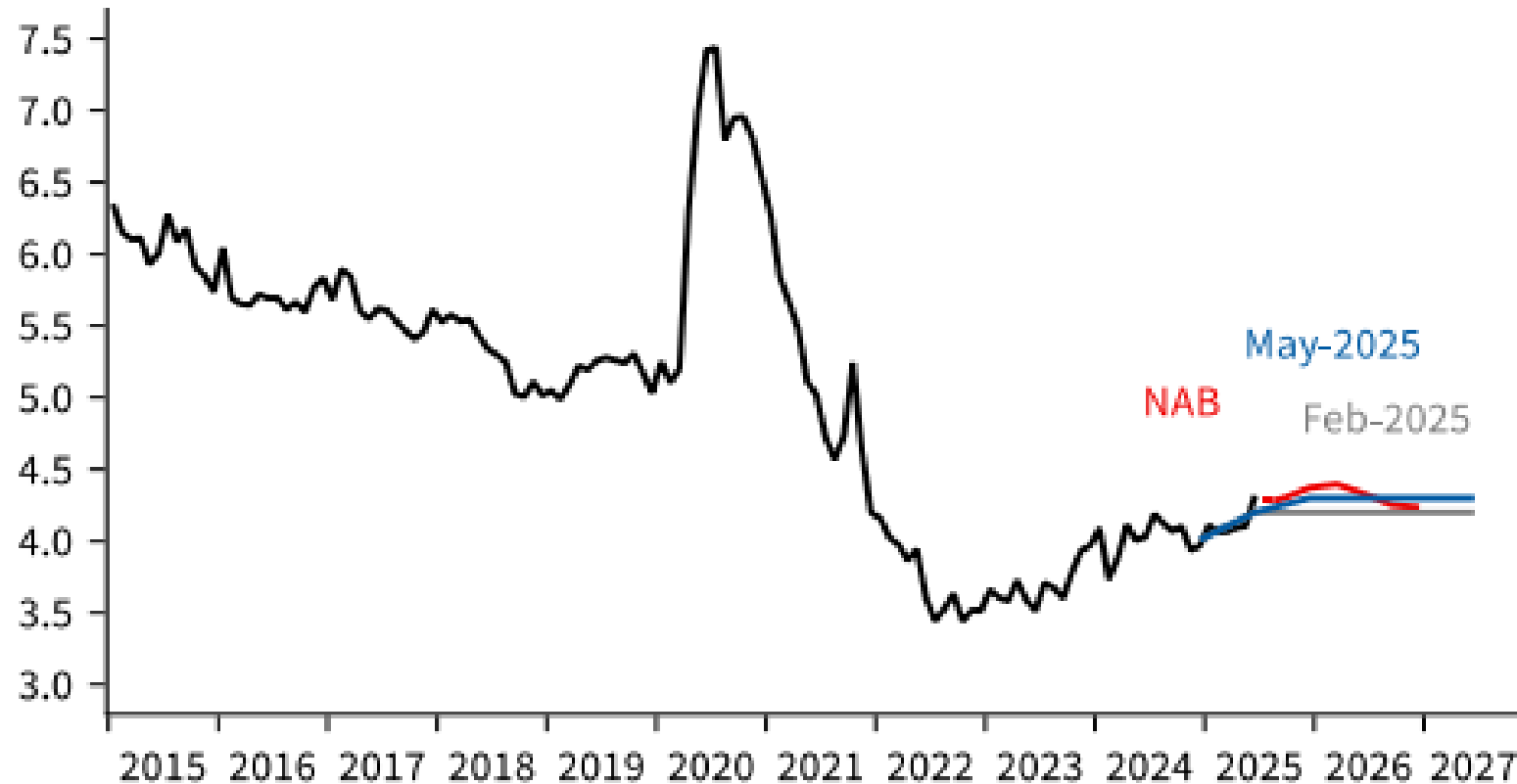


Source: National Australia Bank, ABS, RBA

Labour market outlook

A peak of 4.4%, before settling at 4.25%

Unemployment rate forecasts

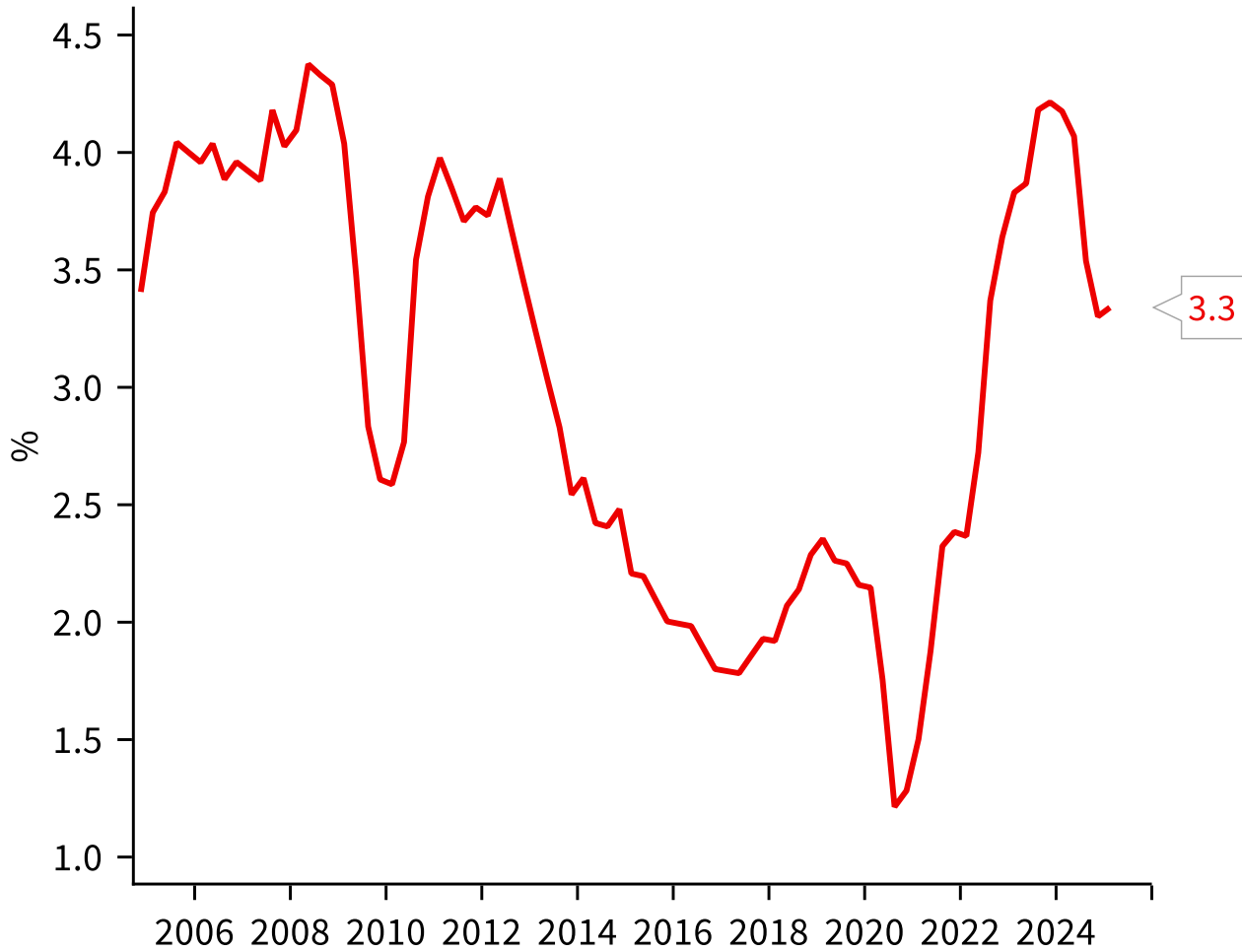


Source: National Australia Bank, RBA

Labour market indicators

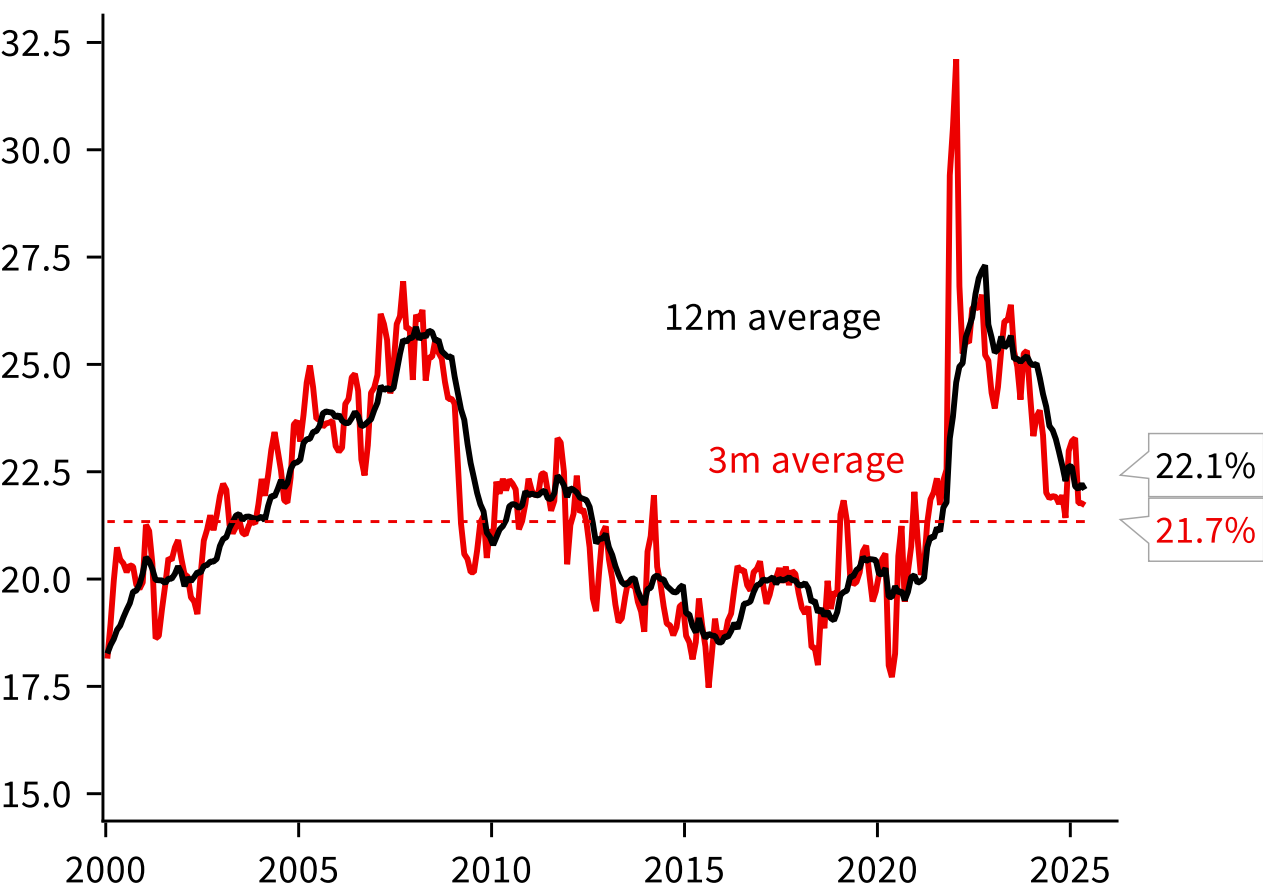
Wages pressures have cooled and job-finding is harder, even though unemployment is low

Private Sector Wages Growth



Source: National Australia Bank, Australian Bureau of Statistics

Job finding rate



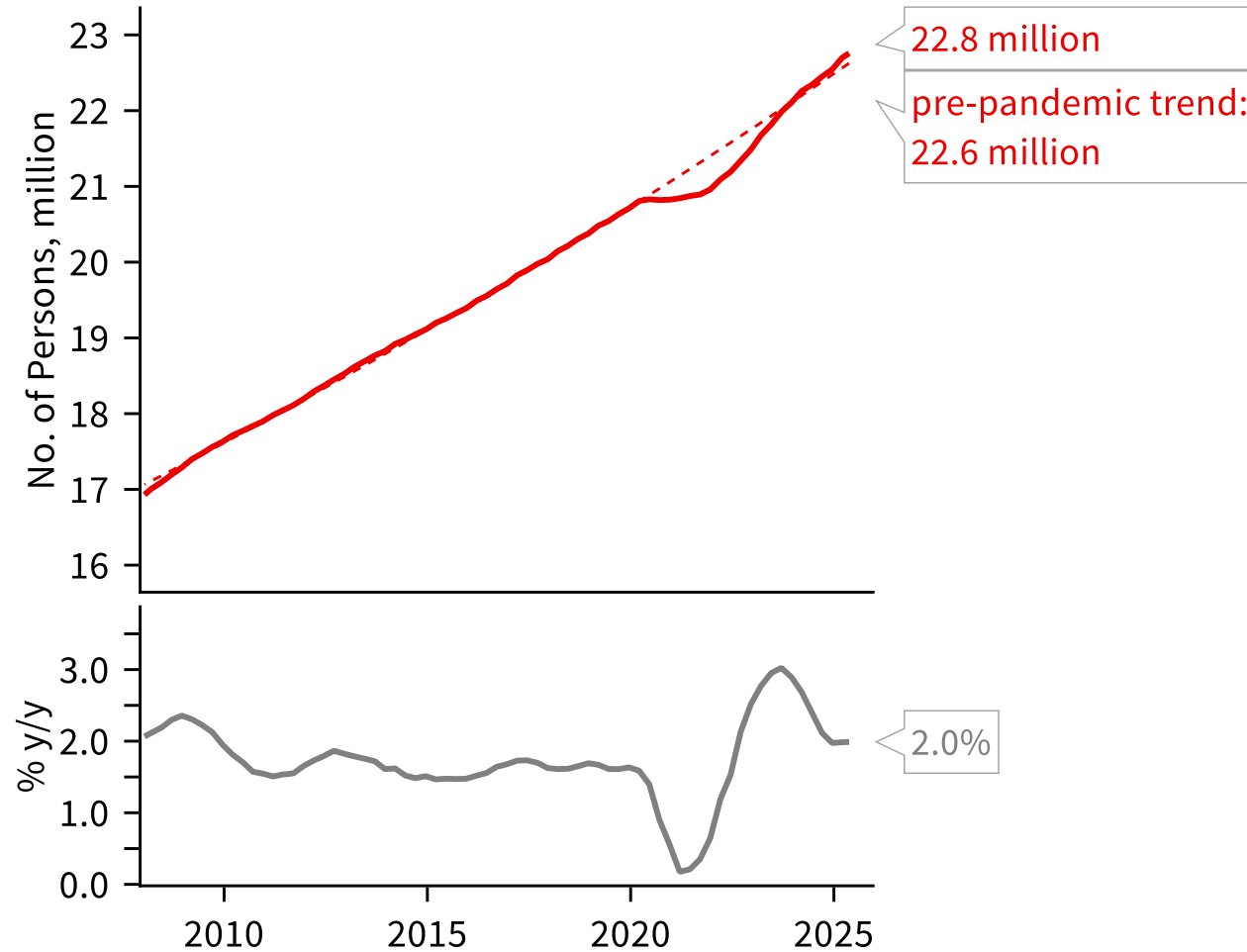
Dashed lines are 2000-2019 average. Calculated by NAB from ABS matched sample gross flows

Source: National Australia Bank, ABS

Population growth surged, but now normalising

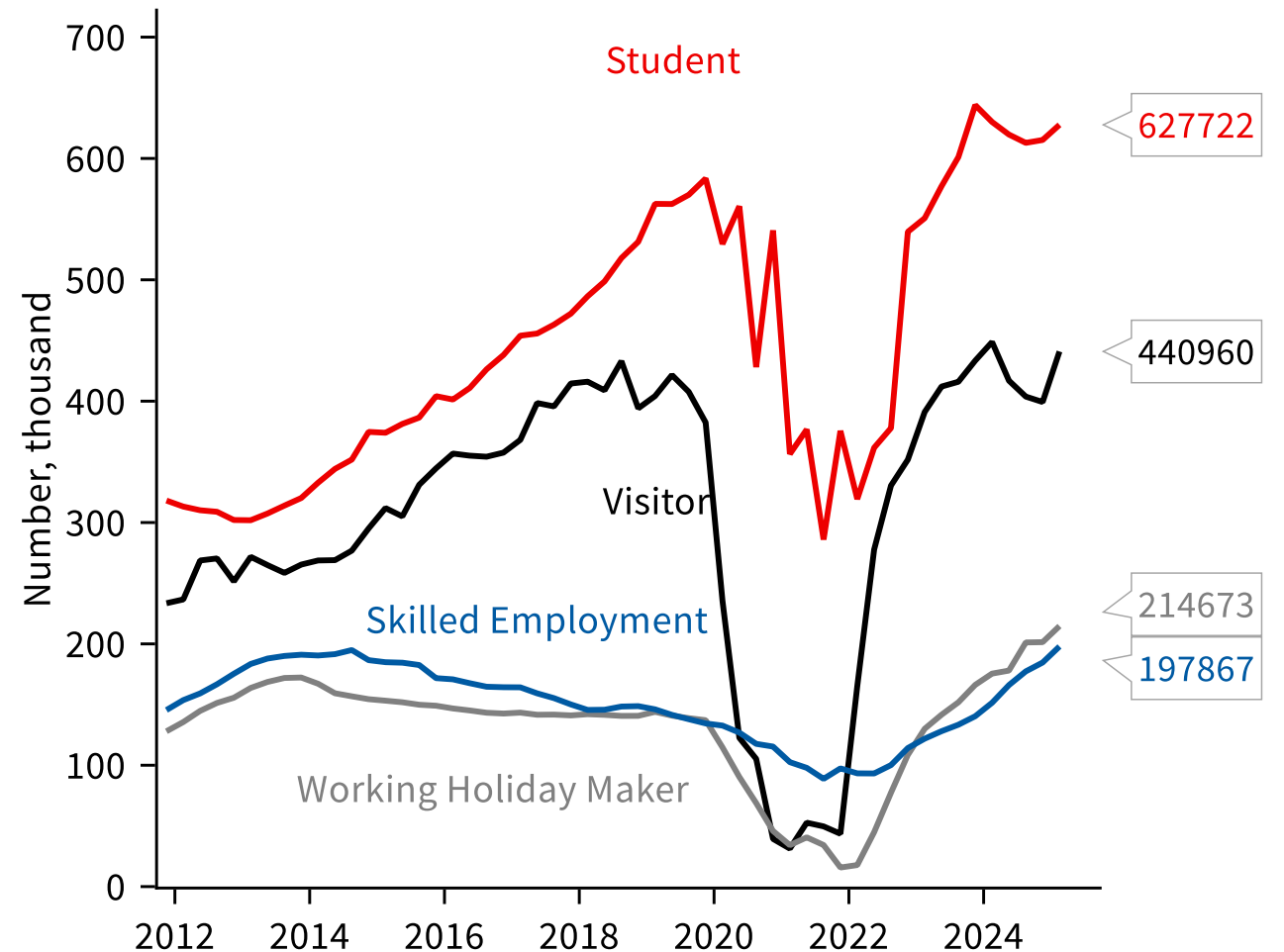
Has been masking the adjustment in spending per person

Civilian 15+ Population



Source: National Australia Bank, ABS

Temporary Visa Holders in Australia

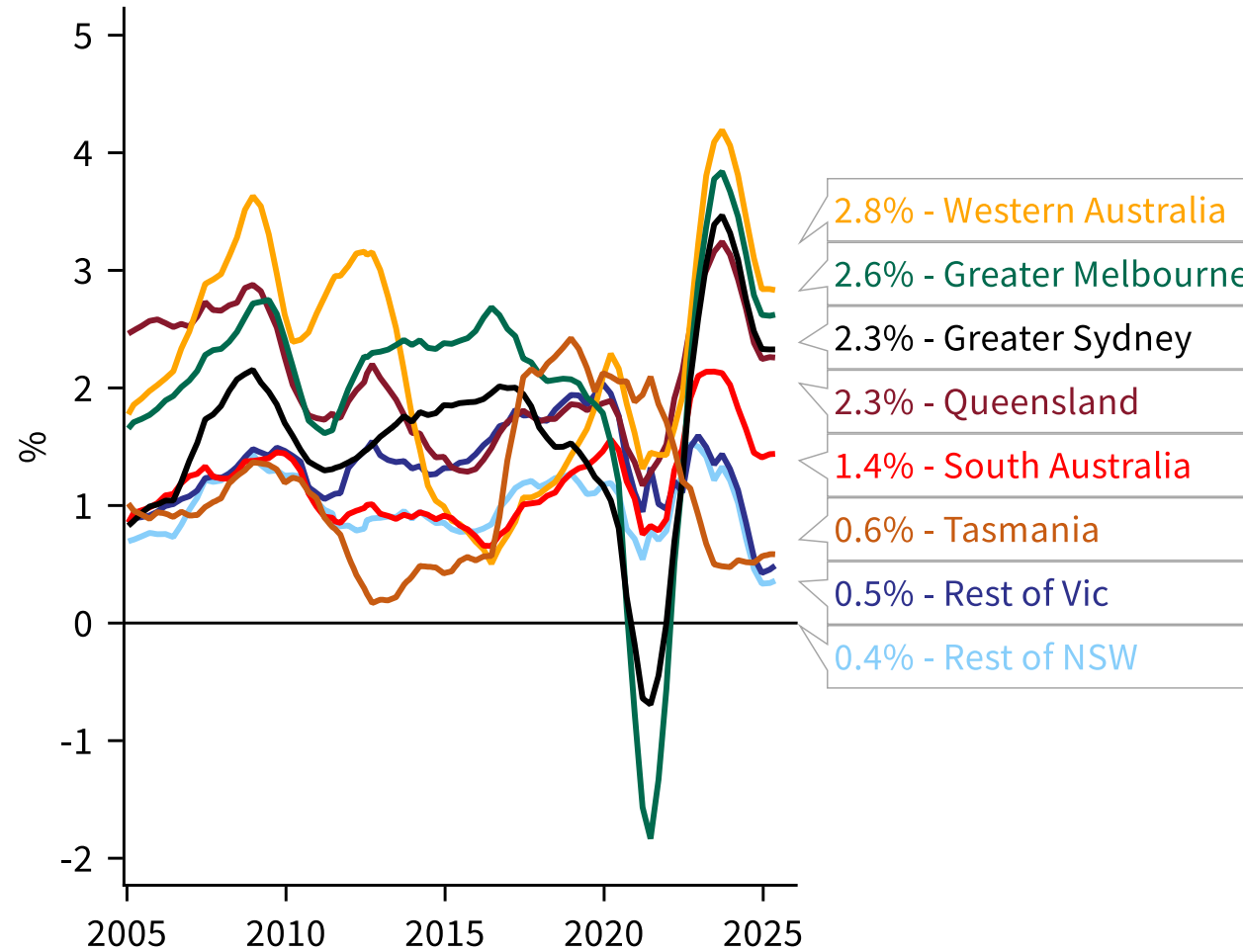


Source: National Australia Bank, Home Affairs

The pandemic rearranged population

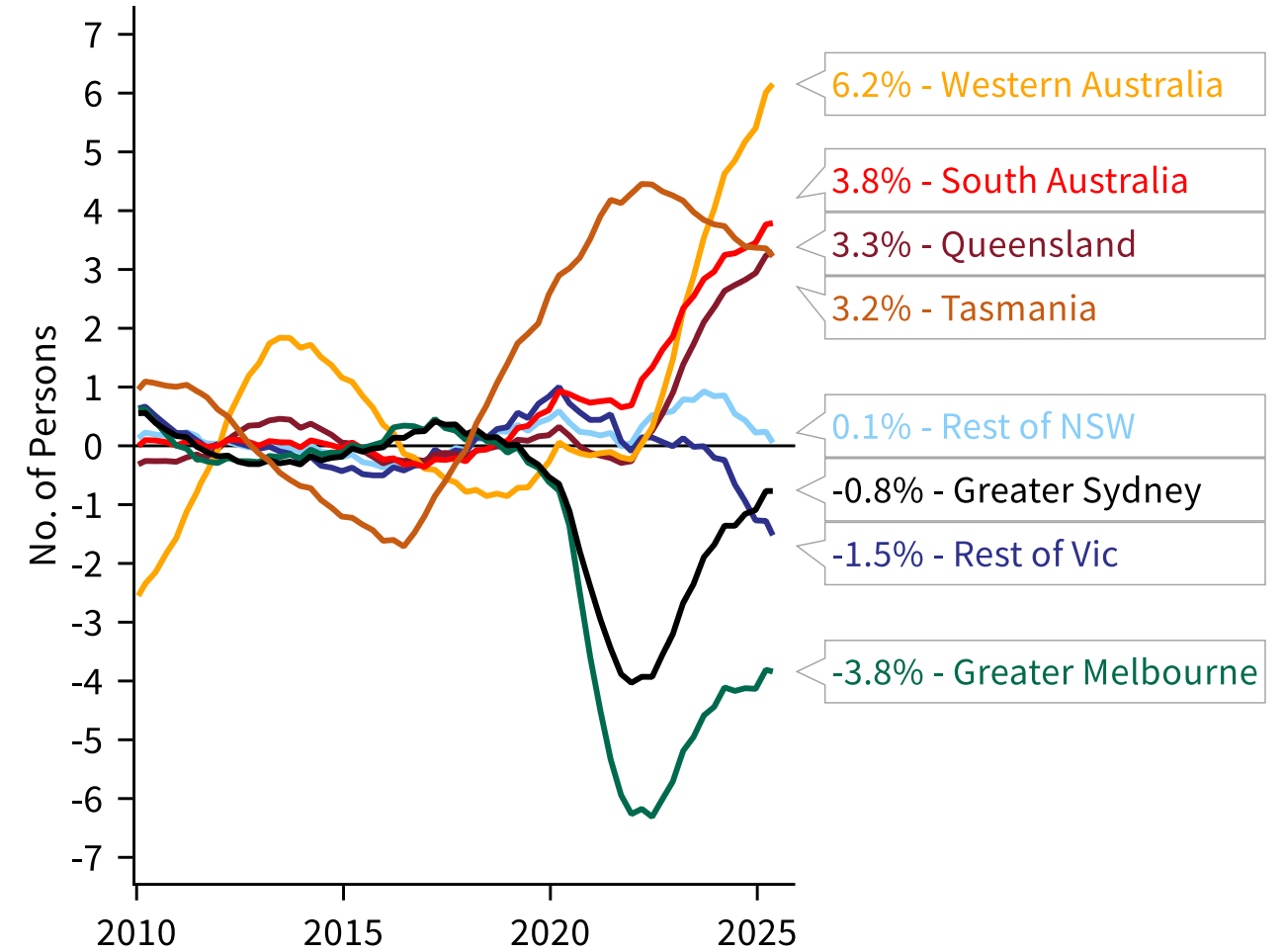
Melbourne is much smaller, WA, QLD, SA much bigger

Population Growth (15+)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Population (15+) deviation from 2010-2019 trend

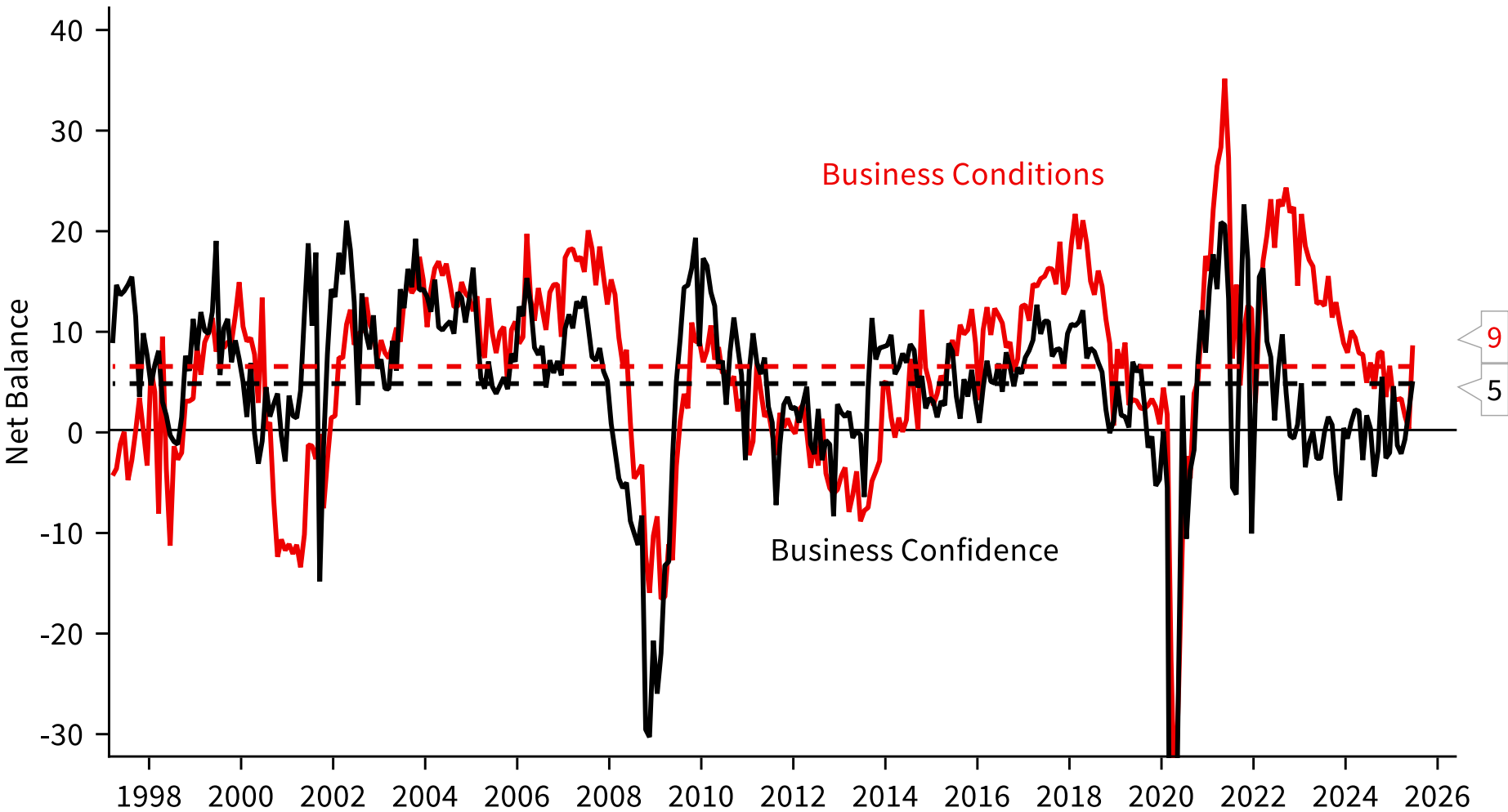


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Business conditions picked up in June

Business conditions popped above average in June

NAB Business Survey



Source: National Australia Bank, National Australia Bank, Macrobond

In summary

Australian and global outlook

Australia

- GDP growth in 2025 will be better than 2024, at 1.7%
- However, this is still sub-trend growth and will likely see the unemployment rate rise to 4.4%
- The RBA is now more comfortable that inflation is comfortably in the RBA's 2-3% target band
- And so monetary policy should be at a neutral setting (ie, not restrictive, not stimulatory)
- NAB views a neutral policy rate as somewhere between 3.00-3.25%
- And is thus forecasting 3x 25bp rate cuts, in August, November and February

Global

- 2025 likely to be another year of sub-trend growth for the global economy
- Uncertainty remains the key theme across the global economy – as trade barriers, fiscal and monetary policy settings and foreign policy relationships are far from settled
- We are not forecasting recession in the US this year, but expect a decent growth moderation in 2H25
- US inflation is expected to rise as the impact of tariffs is passed on to final consumers
- Chinese growth likely to be in the low-mid 4s in 2025

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