Australian Economic Perspectives
SoMP - RBA trims both CPI & GDP outlook

Economics

Australia

Overview

Today's RBA Statement for the May quarter, as we expected, saw a trimming of forecasts for core CPI over the coming year. Importantly, mid 2014 has been snugged away from the top of the target, lowered from 3% y/y to 2¾%, while end 2014 has been lowered to 2½%, the centre of the RBA's inflation target, from 2¾% (Figure 1).

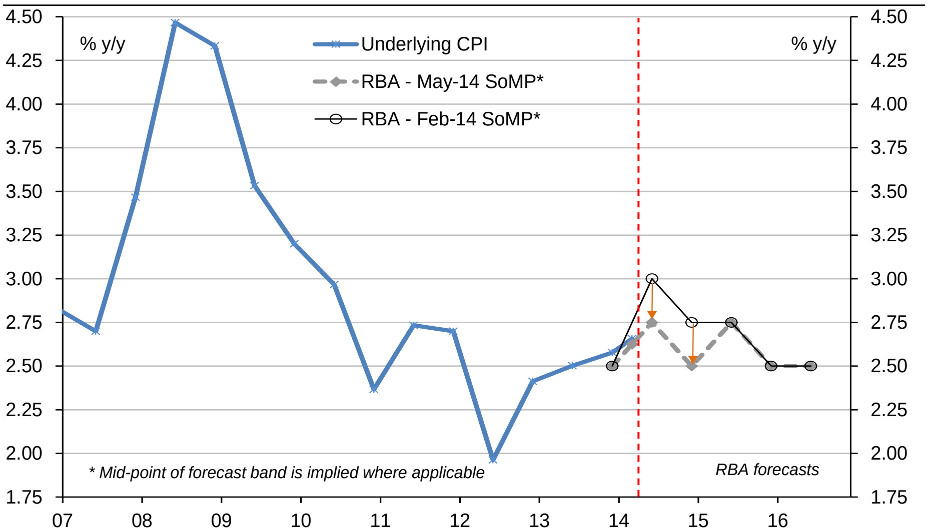
Significantly, and less expected, while the RBA lifted its GDP growth forecast by ¼%pt to 3% for mid 2014 (now consistent with UBS), it has trimmed its growth for CY15 by ¼% to 2¾% (below trend, and below UBS's 3.2% forecast). The higher AUD is largely to blame, despite the RBA's clearly more upbeat view of the domestic economy.

While some may be distracted by the near-term growth upgrade, the RBA today has trimmed both its growth and inflation outlook (Figures 1 & 4). Moreover, reflecting the "significant headwinds" ahead for the economy, in particular the mining capex correction, the fiscal consolidation, and still high AUD, the RBA notes that there is likely to be "a degree of spare capacity…for much of the forecast period", in turn suggesting the RBA believes there is no upward inflation pressure between here and mid 2016.

Reflecting this, the RBA sees today's 2.5% cash rate as "likely to be appropriate for some time yet". As always, there's considerable uncertainty about the outlook, particularly beyond the next 6 months (where we still look for a 3-handle on 2015 growth). For now, however, the headwinds facing the economy in the 2H14 suggest to us that the RBA is unlikely to start lifting rates this side of Christmas. We continue to see the RBA on hold this year, before they start to normalise rates in early 2015.

Week ahead: *Tuesday's 14/15 CW Budget is the highlight. On the data front, apart from Q1 house prices, the tone should again be relatively soft, on the back of weaker lending & car sales, and likely flat NAB biz cond. & conf. US retail sales, CPI & housing starts, and China IP – plus Q1 GDP for Japan & EU – are the offshore highlights.*

Figure 1: RBA trimmed its core CPI forecast by ¼%pt for end-14 to 2½% y/y



Source: ABS, RBA, UBS

Data week: 12th – 16th May

Monday
NAB business survey (Apr)

Tuesday
Federal Budget (2014/15)
Home loans (Mar)
ABS residential prices (Q1)

Thursday
Car sales (Apr)
RBA Ellis speech

Friday
Finance commitments (Mar)

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RBA – trims both CPI & GDP outlook

Global growth – still an 'average' pick-up

The RBA continues to see Australia's major trading partner growth being "around average this year", unchanged from February's SoMP. China's recent slowdown is seen as "temporary" (given authorities appear willing to support growth) while Japan's early 2014 pick-up is "as expected" (ahead of the consumption tax hike that could slow growth over the rest of the year). The US continues to show signs of moderate growth (with Q1's slowdown largely weather-related).

Global inflation is seen as still low, and monetary policy "highly accommodative". The RBA notes the recent fall in commodity prices, with further falls expected to see Australia's terms of trade "a bit lower over coming years", due to increased bulks supply (but demand remaining "strong"). The RBA notes financial markets have been "remarkably stable", & "investor appetite for risk" has increased. While the AUD has risen "by around 4%", it remains 10% lower than its earlier peak.

Domestic growth – upgraded to 'average', and a little more upbeat

The RBA notes activity has picked up over the past 6 months, growing close to its "long-run average pace", an upgrade from February's Statement, where growth was seen "below-trend". While much of this reflects strong resource exports, the RBA notes "better conditions in parts of the non-mining economy". This includes a lift in business survey conditions, a pick-up in consumption through 2013, and "strong" growth ahead for housing construction (previously "solid").

Reflecting this, the RBA has upgraded its mid-14 GDP forecast by ¼%pt to 3% (albeit still below trend). However, thereafter, GDP has been cut for end 2015 & mid 2016 by ¼%pt to 3¼% & 3½%, due to weaker exports and higher imports, from a higher AUD (that also lowers the CPI outlook).

Labour market – "signs of improvement"

The RBA now sees "some signs of improvement" in the labour market over recent months, in contrast to Feb's Statement where it "remained weak". While there remains a "fair degree of spare capacity" (delivering low unit labour cost growth), indicators of labour demand have increased, and the unemployment rate is no longer seen rising. Any fall, however, is seen beyond the next "year or so".

Figure 2: RBA Statement on Monetary Policy – forecasts and revisions

	Dec-13	Mar-13	Jun-14	Dec-14	Jun-15	Dec-15	Jun-16
			RBA Feb-2014 Statement (% y/y)				
GDP	2½	na	2¾	2¼ – 3¼	2½ – 3½	3 – 4	3 – 4½
Headline CPI	2.7	na	3¼	2¼ – 3¼	2¼ – 3¼	2 – 3	2 – 3
Underlying CPI	2½	na	3	2¼ – 3¼	2¼ – 3¼	2 – 3	2 – 3
			RBA May-2014 Statement (% y/y)				
GDP	2.8	na	3	2¾	2¼ – 3¼	2¾ – 3¾	2¾ – 4¼
Headline CPI	2.7	2.9	3	2¾	2½ – 3½	2¼ – 3¼	2 – 3
Underlying CPI	2½	2½ – 2 ¾	2¾	2½	2¼ – 3¼	2 – 3	2 – 3
			Revisions (% pts y/y)*				
GDP	¼	na	¼	0	-¼	-¼	-¼
Headline CPI	0	na	-¼	0	¼	¼	0
Underlying CPI	0	na	-¼	-¼	0	0	0

Source: RBA, UBS – RBA assumes $A at US$0.93, TWI at 71, Brent crude oil price at US$105, 2.5% cash rate ahead, and current carbon price legislation * Revisions based on mid-point where applicable

Inflation – trimming the near-term outlook

Inflation is forecast to remain consistent with the inflation target. But the RBA has nonetheless lowered its mid-14 & end 2015 forecasts for underlying inflation by ¼%pt to 2¾% and 2½% respectively, with core inflation no longer seen hitting the top of the target (Figure 1). Thereafter it is unchanged from February's Statement, being at 2½%, the target's mid-point by end 2015 & mid 2016.

The RBA see opposing forces impacting the inflation outlook. Spare capacity in the labour market is expected to keep wages growth low and put downward pressure on the inflation outlook, while rising imported inflation from the AUD depreciation since mid-2013 is expected to add upward pressure to the CPI outlook.

Risks – reasonably balanced, with mining/non-mining & AUD key

On the global front, risks are seen broadly balanced, with the RBA highlighting the possibility of renewed stimulus on China's 2H growth, while Japan's consumption tax hike is seen potentially disrupting growth more in the 2H14.

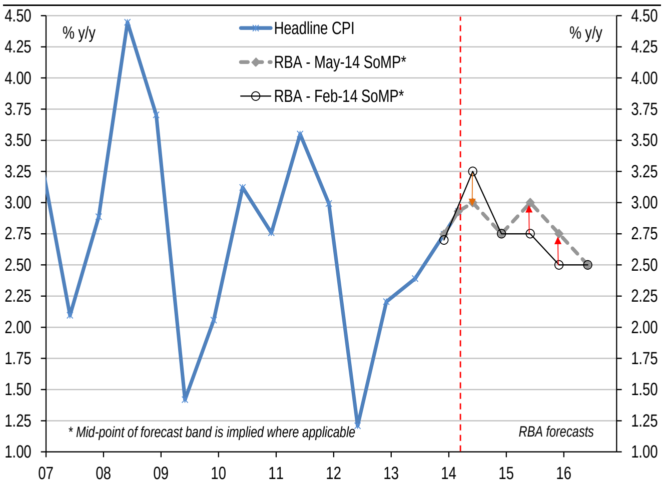
Domestically, the RBA sees a few key uncertainties. Firstly, there's the "timing and strength" of the decline in mining capex, and secondly, the same question around the "pick-up in activity in the non-mining economy". Finally, the RBA highlights the exchange rate as a "significant source of uncertainty" for the forecasts.

Policy – "a degree of spare capacity…for much of the forecast period"

The RBA views the "current low level" of the cash rate as both "stimulatory", and having the desired effect on lifting consumption growth, housing, and business conditions. Reflecting this, the RBA expects growth to pick-up gradually over time (only moving above trend in 2015/16), with the next year or so characterised by a still elevated unemployment rate, with spare capacity in the labour market, that helps keep domestic costs contained "for some time". Indeed, the RBA sees the existence of "a degree of spare capacity…for much of the forecast period".

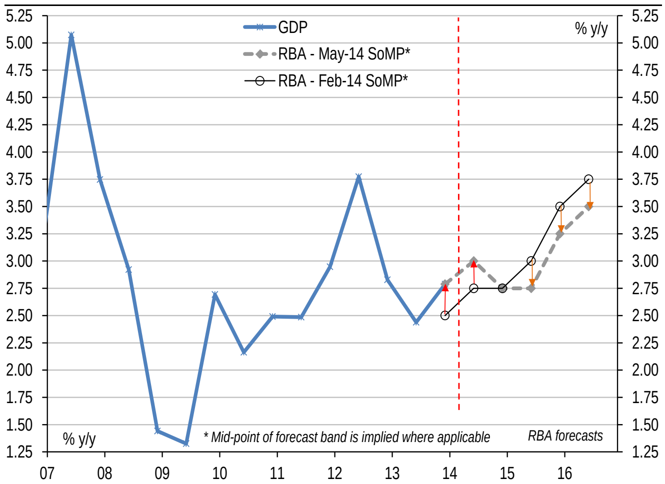
While the low cash rate is seen as providing a "substantial degree of stimulus", the economy continues to face "significant headwinds". These include the sharp fall in mining capex and the fiscal consolidation that's "in prospect", as well as an AUD that "remains high". As such, the RBA sees "the current accommodative monetary policy setting [as] likely to be appropriate for some time yet".

Figure 3: Headline CPI trimmed ¼%pt near-term, but 2015 raised ¼%pt



Source: ABS, RBA, UBS

Figure 4: GDP raised ¼%pt near-term to 3% y/y mid-14, but outlook from mid-14 cut by ¼%pt



Source: ABS, RBA, UBS

Australian Economic Outlook

	Calendar Year (average % y/y change)				Fiscal Year (average % y/y change)			
	2012	2013	2014 (f)	2015 (f)	2011/12	2012/13	2013/14 (f)	2014/15 (f)
REAL:								
GDP	3.6	2.4	3.0	3.2	3.6	2.6	2.7	3.2
Non-farm GDP	3.7	2.4	2.8	3.3	3.7	2.8	2.5	3.1
Private Consumption	2.5	2.0	3.0	3.0	2.5	2.0	2.6	3.2
Dwelling Investment	-3.4	2.0	6.5	4.2	-2.2	-0.1	3.4	7.0
Business Investment *	17.0	-2.5	-3.0	-2.2	23.1	6.3	-3.4	-4.3
- Machinery & equipment *	1.1	-10.0	-6.9	-3.1	12.6	-4.3	-11.1	-5.0
- Non-residential construction *	33.5	0.7	-2.5	-3.8	37.4	13.9	-0.3	-6.4
Domestic Final Demand	4.2	1.0	2.1	2.1	5.1	1.9	1.6	1.9
- Private Final Demand *	5.0	1.1	2.0	2.1	6.0	2.8	1.5	1.8
- Public Final Demand *	1.3	0.1	1.8	2.2	2.1	-1.4	2.2	1.9
Stocks (contribution)	0.0	-0.6	0.1	0.2	0.1	-0.3	-0.3	0.2
GNE	4.0	0.4	2.1	2.3	5.0	1.6	1.3	2.1
Exports	5.7	6.8	7.0	7.5	4.7	6.0	6.0	8.5
Imports	6.2	-2.8	1.8	4.0	11.4	0.5	-2.0	3.6
Net Exports (%pts contribution)	-0.1	2.1	1.2	0.9	-1.3	1.2	1.7	1.2
NOMINAL:								
Nominal GDP	3.4	3.5	4.3	4.3	5.6	2.5	4.2	4.3
OTHER KEY INDICATORS								
Headline CPI	1.8	2.4	2.9	2.4	2.3	2.3	2.8	2.6
RBA 'underlying' CPI **	2.3	2.5	2.7	2.6	2.4	2.4	2.7	2.5
Wage Price Index	3.6	2.9	2.9	3.2	3.6	3.3	2.7	3.2
Employment	1.2	1.0	1.0	1.6	1.2	1.2	0.8	1.5
Unemployment Rate (% at year-end)	5.3	5.8	5.8	5.5	5.1	5.6	6.0	5.7
Dwelling Commencements ('000s)	151	168	190	175	145	162	184	180
Current Account Balance (% of GDP)	-4.1	-2.9	-2.9	-2.8	-3.2	-3.7	-3.0	-2.7

QUARTERLY		Sep-13	Dec-13	Mar-14 (f)	Jun-14 (f)	Sep-14 (f)	Dec-14 (f)	Mar-15 (f)	Jun-15 (f)
GDP	(% q/q)	0.6	0.8	0.7	0.7	0.9	0.8	0.8	0.7
	(% y/y)	2.4	2.8	2.9	2.9	3.1	3.1	3.3	3.2
		Sep-13	Dec-13	Mar-14	Jun-14 (f)	Sep-14 (f)	Dec-14 (f)	Mar-15 (f)	Jun -15 (f)
Headline CPI	(% q/q, nsa)	1.2	0.8	0.7	0.6	0.9	0.4	0.6	0.4
	(% y/y, nsa)	2.2	2.7	3.1	3.2	2.9	2.6	2.4	2.3
RBA 'underlying' CPI *	(% q/q, sa)	0.7	0.9	0.6	0.6	0.5	0.7	0.7	0.6
	(% y/y, sa)	2.3	2.6	2.9	2.8	2.6	2.4	2.5	2.5
FINANCIAL MARKETS (at end qtr)		Sep-13	Dec-13	Mar-14	Jun-14 (f)	Sep-14 (f)	Dec-14 (f)	Mar-15 (f)	Jun -15 (f)
- Cash (%)		2.50	2.50	2.50	2.50	2.50	2.50	3.00	3.00
- 90 Day Bills (%)		2.58	2.63	2.67	2.60	2.70	2.70	3.10	3.10
- 3-year Commonwealth Bonds (%)		2.77	2.80	2.81	3.50	3.50	3.70	4.00	4.00
- 10-year Commonwealth Bonds (%)		3.90	4.26	4.07	4.30	4.40	4.50	4.60	4.70
- S&P/ASX 200 (Index)		5200	5250	5400	5500	5600	5700		
Exchange Rates (end qtr):	AUD/USD	0.934	0.893	0.928	0.900	0.879	0.850	0.850	0.850
	AUD/EUR	0.690	0.648	0.673	0.677	0.679	0.680	0.687	0.694
	AUD/JPY	91.8	94.0	95.6	97.2	95.8	93.5	94.6	95.6
	TWI	71.2	68.9	71.0	68.7	67.5	65.7	65.9	66.1

Source: ABS, Datastream, RBA, UBS estimates * adjusted for private & public transfers ** 3-core average, sa

UBS Australian Forecasts: What & Why?

Forecasts versus consensus

- Our 2014 forecast for 3.0% real GDP growth is above consensus of 2.7%, and Commonwealth Treasury and RBA forecasts of 2.5%.
- Our forecast that the RBA will remain 'on hold' at 2.5% for 2014, while the 'median', is a non-consensus call with 30% seeing a 1H14 cut and 40% 2H14 hikes.

Recent forecast changes

- On March 6, we reiterated our 2014 real GDP forecast of 3.0% – with a cut to capex offset by stronger net exports and housing (with dwelling commencements upgraded again to 190k).

Key growth drivers

- We see the current 2½% pace of growth lifting to a little over 3% by the end of 2014. Better wealth, confidence and lower interest rates should combine with a better global backdrop, to see a moderate pick-up in consumption and housing, and stronger exports post the mining capex boom. A lower AUD (USD0.85 ahead) should drive a lift in non-mining capex growth into 2014/15.
- However, the downdraft from falling mining activity, a slower China and falling commodity prices, will constrain the pick-up in growth. Weaker nominal income growth will impact wages, spending and hiring, as well as the Government's Budget, and see a less buoyant economy than normally is the case when the world recovers.
- Better affordability, low rates and rising income, are underpinning a strong uplift in housing activity. We forecast 190k dwelling commencements in 2014 (from 168k in 2013), adding up to ½%pt to GDP growth.
- Better wealth & a stabilising jobs market should see a lift in consumption growth from 2%, to 3% in 2014 (+½%pt to growth), still below historical averages. With income growth modest, we see a lower saving rate as key.
- Exports should rise strongly in 2014 & 2015, due to expanded export capacity in resources, post the mining capex boom. However, weaker mining capex will sharply drag on growth in 2014 & 2015.

Key inflation drivers

- We see core inflation moderating somewhat, after surprisingly lifting recently.
- A falling AUD will lift imported inflation in 2014. But only modestly rising demand & elevated unemployment, driving ongoing subdued wages growth and weak pricing power, should see domestic/non-traded inflation pressures fall, helped by a decline in the carbon price mid-2014 and low global inflation pressures.

Monetary & fiscal policy outlook

- RBA – while growth is likely to stabilise and lift in 2014 such that the RBA does not lower rates further, a sub-trend pace of growth and elevated unemployment should see the RBA 'on hold' until early 2015.
- Government – we see fiscal policy as a mild drag on growth in the period ahead, as the new Coalition attempts to return the budget to structural balance.

Key forecast risks

- Downside: The forecast US and global recovery losses steam, or China slows more rapidly than expected. An AUD back above parity would likely undermine the recent lift in business confidence and improvement in domestic growth outlook. Consumers may not become a little less cautious as expected, keeping the saving rate elevated. A weaker nominal environment drags on growth, and non-mining activity more than expected.
- Upside: An AUD toward USD0.80 or lower would provide more stimulus to the domestic economy, as could more rate cuts from RBA. Consumer appetite for credit could strengthen more than expected, driving stronger domestic spending and non-mining capex growth.

Key growth signposts

- The AUD moving towards USD0.80-85.
- Improved business survey conditions and confidence.
- A peak in the unemployment rate.

Positions on key controversies

- Mining capex unwind – this is likely to be concentrated from mid-2014, not earlier, and we expect some offset from non-mining capex into 2015. A sharper than expected correction carries key risks for our outlook.
- Consumer caution – we do not expect the consumer to return to the leverage-keen environment of the 2000s. However, we do expect some modest retracement from the still high household savings rate.
- Terms of trade – a much weaker outlook for commodity prices will mean the pick-up in Australia's growth will be more export volume led, with a more sluggish domestic recovery. However, it does not ensure a recession or the need for further cash rate cuts.

Market trends

Monetary policy: The RBA – no cuts, no hikes for 2014

- **Cash:** The RBA has moved to a neutral bias, noting that "the most likely course is likely to be a period of stability in interest rates". We expect a further drift lower in the AUD (easing financial conditions), better global growth (supporting commodity demand) and ongoing moderate improvement in domestic activity, to see the RBA refrain from any further cuts to the already historically low cash rate. But an only moderate below-trend uplift in domestic growth, as mining capex corrects lower, should also limit inflation and the need to lift rates this year. The passing of the inflation trough – & unemployment rate peak – by late 2014, together with ongoing positive consumer and housing trends, should see the RBA begin normalising rates in early 2015.

Aussie 10-years – target 4½% in 2014

- **US 10-years:** Post the Fed's start to tapering, US 10-years backed up to 2.7-3.0%, removing much of the distortion from QE, and returning yields to our 'fair value' range (Figure A). Our models do not point to any further significant rise in yields, driven by an 'on hold' Fed and improving deficit position in 2014. However, improving growth and expectations of Fed rate hikes mid 2015 should still see yields rise from 2H14. We target 3.5% end 2014 and 4.0% end 2015.

- **Australian 10-years:** Aussie 10-years have risen, and by a little more than their off-shore peers, helped by the recent run of stronger domestic data. We look for yields to continue to drift higher, in line with their global peers, with some risk of underperformance given the deterioration in the federal budget that is driving a significant uplift in issuance (along with some risk the market may start to price rate hikes later in 2014). We target 4.5% end 2014 and 4.7% end 2015.

Australian 3-years – significant sell-off risk

- **Australian 3-years:** The recent sell-off in yields has lifted Aussie 3-years over cash. Even if the RBA trims again, unless the economy slows sharply, the proximity to the end of the cutting cycle raises the risk 3-year yields could rise sharply into 2014. We target 3.7% end 2014, rising to 4.0% end 2015.

Yield Curve – flattening over 2014

- **Yield curve:** The curve has steepened to 120-130bp in 2H13, well above our 80bp fair value estimate, and reflecting the long-end bear steepening. While the RBA may keep 3-years relatively anchored for now, a likely significant 2014 sell-off in 3-years should help the curve flatten back to 80bp by end 2014.

Aussie – US 10-yr spread – worried about widening

- **Australian-US spread:** A less buoyant Australian outlook – & less easy policy – argues for long-end compression. However, in the near term, an on hold Fed and improving budget versus a re-active RBA and deteriorating budget raises the risk the spread could widen near-term.

Source for text and charts: Bloomberg, DataStream, UBS

** UBS forecasts for end 2014 & end 2015*

Figure A: US 10-year bond yield

Figure B: Australian 10-year bond yield

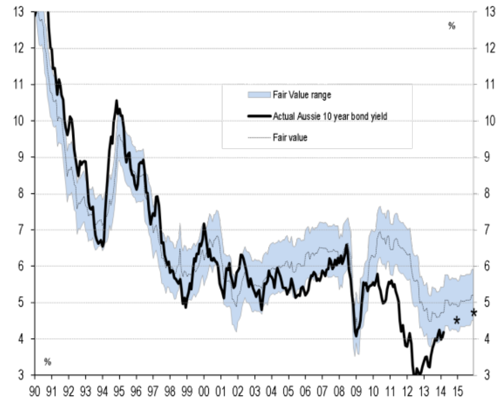


Figure C: Australian 3-year bond yield

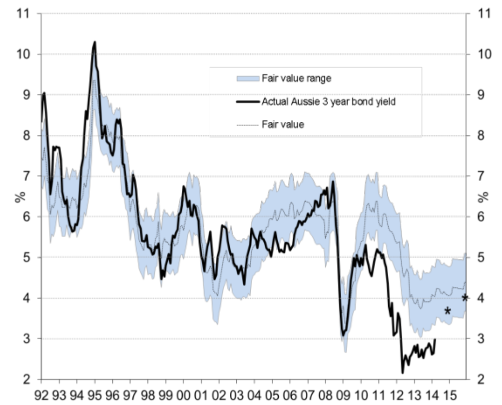
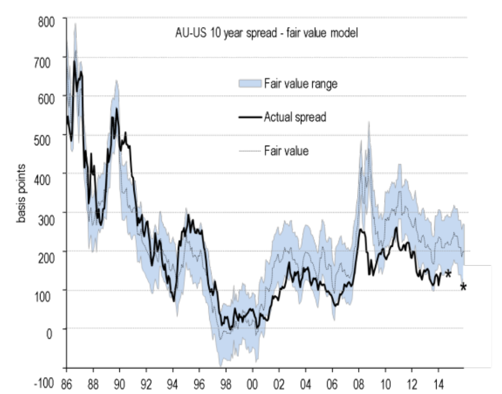


Figure D: AU-US 10-year bond yield spread



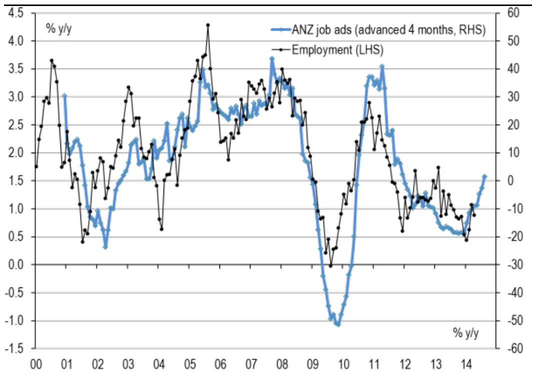
Week in Review: 5th – 9th May

Data was mixed with positive news concentrated in the labour market, as April ANZ job ads and employment reports beat, while arguably more forward looking data from retail sales, residential building approvals and car sales disappointed, and services and construction PMIs edged lower. The trade position remained in surplus for the 4th month. The RBA held rates as expected, but with no dovish tilt, leaving it to their SoMP to trim their forecasts for core CPI for this year (& GDP next year).

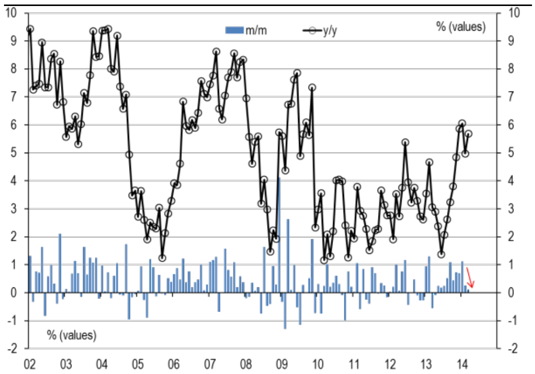
In the US, the April non-mfg ISM was stronger than expected, as was March's trade data, but Q1 GDP still looks destined to be revised negative, while Fed Chair Yellen kept a firm dovish tone in her remarks. China data was mixed, with a surprisingly weak April CPI and final PMI, but better than expected recovery in exports & imports; while EU composite PMIs continued to suggest a modest recovery. The BoE & ECB held as expected, but the latter signalled near-term easing is likely.

In the week to noon, the AUD lifted 1.2% to 0.938USD; but 10-year bond yields dropped a further 10bp to a 7-month low of 3.82%; while the ASX200 bounced a slight 0.2% to 5457.3.

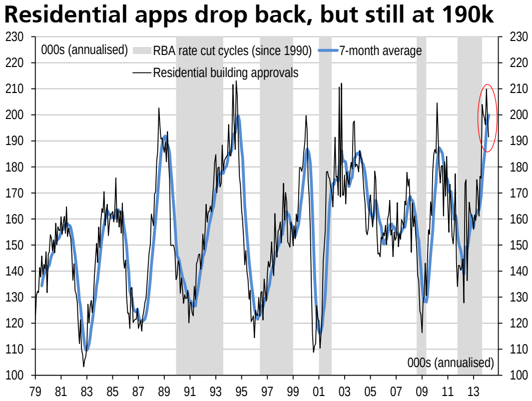
ANZ jobs ads and jobs growth beat consensus



Retail slowed though Q1, but the y/y still 6%



Residential apps drop back, but still at 190k



Source: RBA, ANZ, ABS, UBS

- **Employment** rose more than expected again, up 14k m/m in April, a 4th gain averaging 27k, rising by 0.9% y/y (albeit after 1.1% in March. The unemployment rate held at 5.8% (against consensus for a rise to 5.9%), with the Feb peak revised back down to 6.0% again. Elsewhere, **ANZ job ads** lifted 2.2% m/m in April, after +1.4%; turning positive y/y, to be up 1.5%, the best since mid-11.
- **Residential building approvals** missed, down 3.5% m/m after -5.4%, to 191k a.r., the lowest level since Aug-13. However, the trend is still around a record pace of 200k. Medium-density dragged again (-7.0%), while houses decreased further from its highest level in nearly 4 years (-0.7%). Alterations and additions hit a 1-year high (1.3% after +2%; +11% y/y). Elsewhere, non-residential building approvals slumped to the lowest level since early 2012.
- **Retail sales** (values) rose a less than expected 0.1% in March – the slowest gain in a year. The past two months have revealed a weaker trend, +0.2% pm, after a relatively rapid 0.7% pm over the prior 4 months. Despite this, the y/y rose to 5.7% from 5.0%. Q1 volumes jumped 1.2% q/q (after 1.1% q/q), with the y/y pace easing to a still firm 3.2% from 3.6% in Q413. Retail should add solidly to Q1 GDP.
- **Vfacts report** car sales dropped 5.2% y/y in April, the worst in 3-years, albeit rising 0.3% m/m.
- The **trade surplus** narrowed more than expected to $731mn in March (after $1257mn). Exports retraced 1.8% m/m (from a record level), but still rose 13% y/y, but imports stayed flat (+7% y/y).
- The April **PSI** & **PCI** were little changed, both edging down 0.3pts – with services to 48.6 and construction to 45.9, respectively.
- The **RBA's May-quarter SoMP** revised down their underlying CPI forecast by ¼%pt this year, with end-14 at 2½% y/y. For GDP, near-term growth was revised up ¼%pt to 3% y/y mid-14, but the outlook was cut by ¼%pt from mid-15 onwards.
- **Victoria's** State Budget showed their public non-financial sector deficit was revised better to -$2.5bn (-0.7% of GSP) in 13/14, but widens a little to -$3.0bn (-0.8% of GSP) in 14/15. However, **WA's** deficit deteriorated to -$4.3bn (-1.7% of GSP) in 13/14, but still narrows to -$2.5bn (-0.9% of GSP) in 14/15.

Week Ahead: 12th – 16th May

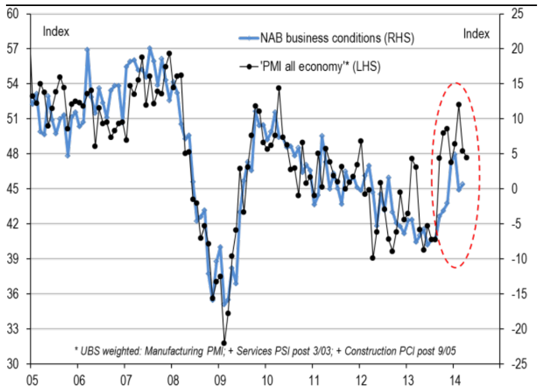
Tuesday's 14/15 Federal Budget will be the highlight for the upcoming week. On the data front, apart from a jump in the somewhat lagged Q1 ABS house prices, this week's data looks set to again be relatively soft, after last week's lower than expected residential approvals and retail sales. Recent softer PMIs suggest neither NAB biz conditions nor confidence will push higher in April, while industry data point to a step-back in March housing lending and a further fall in April car sales.

Offshore, US April retail sales (Tue), CPI (Thu) & housing starts (Fri) are highlights, while Yellen speaks again (Thu). Japanese Q1 GDP (Thu) is strong due to front loaded consumption pre VAT hike, while EU growth (Thu) should continue small gains. China IP for April (Tue), NZ's Budget (Thu) & retail trade (Wed), & the BoE inflation report (Wed) are the other key releases.

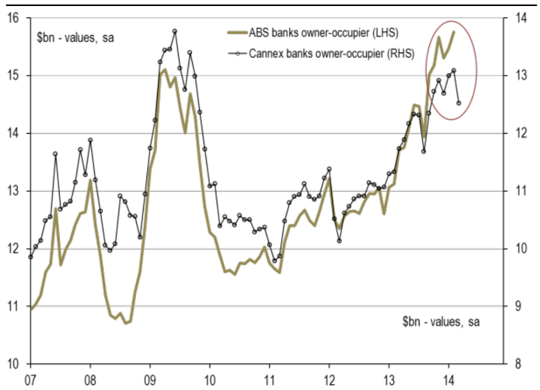
Date	Time (AEDT)	Data/Event	UBS	Market*	Previous
12 May	11:30	NAB business conditions (Apr)	'flat'	nf	0.7
12 May	11:30	NAB business confidence (Apr)	'flat'	nf	4.1
13 May	11:30	Home loans –total values ex refis (Mar)	-1.5%	nf	+2.2%
13 May	11:30	Home loans –owner-occupier number (Mar)	-3.0%	-1.0%	+2.3%
13 May	11:30	ABS house prices (Q1)	+2.5%	+3.0%	+3.4%
13 May	-	Northern Territory State budget (2014/15)	nf	nf	-$349mn
13 May	19:30	Commonwealth budget (2014/15)	-$25.0bn	-$30.0bn	-$34.0bn
15 May	11:30	Car sales (Apr)	'down'	nf	-0.3%
15 May	09:00	RBA Ellis speech, most likely on housing lending	--	--	--
16 May	11:30	Finance commitments – total, ex refis (Apr)	nf	nf	-0.4%

Source: ABS, Bloomberg, RBA, Reuters, Dow Jones * Market may not be final

Business conditions will likely remain flat in April, though confidence may be weaker…



Cannex data suggests a drop in new housing lending in March…



Source: ABS, NAB, AIG, CBA, PWC, Cannex, ABA, UBS

NAB business survey (Apr)

NAB business conditions edged up last month, after easing from recent highs, albeit well above mid-13 lows. We see conditions unchanged in April. We also look for stable confidence after a pull-back, but the risk is lower on uncertainty around the May budget, Ukraine & stronger AUD.

Federal Budget (2014/15)

Treasurer Hockey will bring down the 2014/15 Budget next Tuesday, 13 May. As the Coalition's first, there's more than the usual uncertainty as to its content. But more importantly, it's a budget that'll set the tone & direction for fiscal policy over coming years. Smaller govt, more infrastructure, budget repair, will likely be key themes. We expect additional fiscal drag of circa ¼%pt…see our preview from 7th May.

Car sales (Apr)

Industry data suggests that the timing of Easter and Anzac day was a significant drag on car sales in the month, likely dropping them 2-3%, to be down about 5% y/y, their weakest in about 3 years.

Housing loans (Mar)

Industry data suggests ongoing volatility for home loans with a solid drop-back of owner-occupiers in March. After last month's sharp jump in investor lending, some correction should also see a weaker total.

ABS house prices (Q1)

The somewhat lagged ABS house price data is likely to show a strong Q1 rise, given monthly data were up about 3% in Q1. We see the ABS series rising another 2.5%, after Q4's 3.4% gain, lifting the y/y to 11%.

RBA Ellis speech

Dr Luci Ellis, RBA Head of Financial Stability, speaks on Thursday at a housing conference. She also participates in a panel on Tuesday.

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
------- 5 May -------	------- 6 May -------	------- 7 May -------	------- 8 May -------	------- 9 May -------
AU PSI SERVICES (Apr) Act: 48.6, Pre: 48.9 AU RESIDENTIAL APPROVALS (Mar) Act: -3.5%, Pre: -5.4% r AU ANZ JOB ADS (Apr) Act: +2.2%, Pre: +1.4% US NON-MFG ISM (Apr) Act: 55.2, Pre: 53.1 CH HSBC PMI MFG (Apr f) Act: 48.1, Pre: 48.3 (Apr p)	AU TRADE BALANCE (Mar) Act: $731mn, Pre: $1257mn r RBA DECISION (May) Act: on hold at 2.50% VIC BUDGET (2014/15) US TRADE BALANCE (Mar) Act: -$40.3bn, Pre: -$41.9bn r EU PMI COMPOSITE (Apr f) Act: 54.0, Pre: 53.1 (Mar) UK PMI COMPOSITE (Apr) Act: 59.2, Pre: 57.8	AU PCI CONSTRUCTION (Apr) Act: 45.9, Pre: 46.2 AU RETAIL SALES – VALUES (Mar) Act: +0.1%, Pre: +0.3% r AU RETAIL – VOLUMES (Q1) Act: +1.2%, Pre: +1.1% r NZ EMPLOYMENT (Q1) Act: +0.9%, Pre: +1.0% r NZ UNEMPLOYMENT RATE (Q1) Act: 6.0%, Pre: 6.0% NZ LABOUR COST INDEX (Q1) Act: +0.3%, Pre: +0.6%	AU EMPLOYMENT (Apr) Act: +14.2k, Pre: +21.9k r AU UNEMPLOYMENT RATE (Apr) Act: 5.8%, Pre: 5.8% WA BUDGET (2014/15) CH TRADE BALANCE (Apr, USD) Act: +$18.5bn, Pre: +$7.7bn CH EXPORTS (Apr, y/y) Act: +0.9%, Pre: -6.6% CH IMPORTS (Apr, y/y) Act: +0.8%, Pre: -11.3% BOE & ECB DECISION (May) Act: no change, Pre: 0.5%/0.25%	RBA SOMP (May) RBA DEBELLE SPEECH NZ ELECTRONIC CARDS (Apr) Act: -0.4%, Pre: -0.2% CH CPI (Apr y/y) Act: +1.8%, Pre: +2.4% CH LOANS (Apr, RMB) Mkt: nf, Pre: 2070bn (due 10th) UK IP (Mar) Mkt: -0.2%, Pre: +0.9% CA EMPLOYMENT / UR (Apr) Mkt: +13.5k/6.9%, Pre: 43k/ 6.9%
------- 12 May -------	------- 13 May -------	------- 14 May -------	------- 15 May -------	------- 16 May -------
AU NAB BIZ. CONDITIONS (Apr) UBS: 'flat', Pre: +0.7 AU NAB BIZ. CONFIDENCE (Apr) UBS: 'flat', Pre: +4.1 NZ REINZ HOUSE PRICE (Apr) UBS: nf, Pre: +3.4%	AU HOME LOANS – VALUES (Mar) UBS: -1.5%, Pre: +2.2% AU HOME LOANS – O.O. NO. (Mar) UBS: -3.0%, Pre: +2.3% AU RESIDENTIAL PRICES (Q1) UBS: +2.5%, Pre: +3.5% COMMONWEALTH BUDGET (14/15) NT BUDGET (14/15) RBA ELLIS SPEECH NZ FOOD PRICES (Apr) UBS: nf, Pre: -0.3% US RETAIL SALES (Apr) UBS: +0.4%, Pre: +1.1% CH IP (Apr, y/y) UBS: +8.9%, Pre: +8.8%	NZ RETAIL TRADE – VOLUME (Q1) UBS: +0.5%, Pre: +1.2% US PPI (Apr) Mkt: +0.2%, Pre: +0.5% UK UNEMPLOYMENT RATE (Mar) UBS: 6.9%, Pre: 6.9% EU IP (Mar) UBS: +0.4%, Pre: +0.2% BOE INFLATION REPORT (May)	AU CAR SALES (Apr) UBS: 'down', Pre: -0.3% NZ PMI MFG (Apr) UBS: nf, Pre: 58.4 NZ BUDGET (2014) RBA ELLIS SPEECH FED YELLEN SPEECH US CPI (Apr) Mkt: +0.3%, Pre: +0.2% US IP (Apr) UBS: -0.1%, Pre: +0.7% US HOUSING MARKET INDEX (May) Mkt: 48, Pre: 47 JN GDP (Q1 p) UBS: +1.1%, Pre: +0.2% (Q4) EU CPI (Apr f, y/y) UBS: +0.7%, Pre: +0.7% (Apr p) EU GDP (Q1 a) UBS: +0.2%, Pre: +0.2% (Q4)	AU FINANCE COMMITMENTS (Mar) UBS: nf, Pre: -0.4% US HOUSING STARTS (Apr) UBS: 983k, Pre: 946k US UM CONSUMER CONF (May p) Mkt: 84.5, Pre: 84.1
------- 19 May -------	------- 20 May -------	------- 21 May -------	------- 22 May -------	------- 23 May -------
AU GOODS IMPORTS (Apr) Pre: +1.4% NZ PSI SERVICES (Apr) Pre: 58.3 NZ PPI (Q1) UBS: +0.5%, Pre: -0.4%	RBA MINUTES (May) RBA DEBELLE SPEECH UK CPI (Apr) Pre: +0.2%	AU CONSUMER SENTIMENT (May) Pre: +0.3% AU SKILLED VACANCIES (Apr) Pre: -2.6% AU WAGE PRICE INDEX (Q1) Pre: +0.7% NZ TOURIST ARRIVALS (Apr) +1.3% NZ CREDIT CARD BILLS (Apr) Pre: +1.3% FED MINUTES (Apr) FED YELLEN SPEECH	NZ ANZ-RM CONS. CONF. (May) Pre: 133.5 NZ RBNZ SURVEY EXPECT (Q2) US PMI MFG (May p) Pre: 55.4 CH HSBC MFG PMI (May p) Pre: 48.3 EU PMI COMPOSITE (May p) Pre: 54.0	US NEW HOME SALES (Apr) Pre: -14.5% GE IFO (May) Pre: 111.2 CA CPI (Apr) Pre: +0.6%
------- 26 May -------	------- 27 May -------	------- 28 May -------	------- 29 May -------	------- 30 May -------
NZ TRADE BALANCE (Apr) UBS: $800mn, Pre: $920mn	US DURABLES (Apr) Pre: +2.6% US FHFA HOME PRICES (Mar) Pre: +0.6% US S&P/CS HOME PRICES (Mar) Pre: +0.8% US CB CONSUMER CONFID (May) Pre: 82.3	AU CONSTRUCTION DONE (Q1) Pre: -1.0%	AU HIA NEW HOME SALES (Apr) Pre: +0.2% AU CAPEX (Q1) Pre: -5.2% AU CAPEX (2013/14 6th estimate) Pre: $167.1bn AU CAPEX (2014/15 2nd estimate) Pre: $124.9bn US GDP (Q1 p) Pre: +0.1% (Q1 a) US PENDING HOME SALES (Apr) Pre: +3.4%	AU CREDIT (Apr) Pre: +0.4% NZ DWELLING CONSENTS (Apr) Pre: +8.3% NZ ANZ OWN ACTIVITY (May) Pre: +52.5% NZ HOUSEHOLD CLAIMS (May) Pre: +0.4% JN CPI (Apr, y/y) Pre: +1.6% US CORE PCE DEFLATOR (Apr) Pre: +0.2% US INCOME/SPENDING (Apr) Pre: +0.5% / +0.9% CA GDP (Q1) Pre: +2.9%

UBS: UBS Forecast **Pre**: Previous Release **Act**: Actual **Mkt**: Market **a**: advanced **r**: revised **p**: preliminary **f**: final **nf**: no forecast **Note**: Dates subject to change