Australian Economic Perspectives
Public spending surprises…capex boost ahead

Economics

Australia

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Overview

Australia's growth has surprised materially to the upside over recent quarters, reaching 3.1% y/y in Q116, the fastest since Q312. While (net) exports have clearly been the largest driver (almost 2%pts y/y), there's also been a long-awaited – but stronger than expected – rebound in government spending (or public demand). Indeed, the trend of public spending (using a 3-qtr average) has lifted to 3¼% y/y, adding a significant ~¾%pt y/y to real growth – the biggest since the tail-end of massive GFC stimulus ended in 2010. This is incredibly ~twice the direct contribution of housing as at Q116.

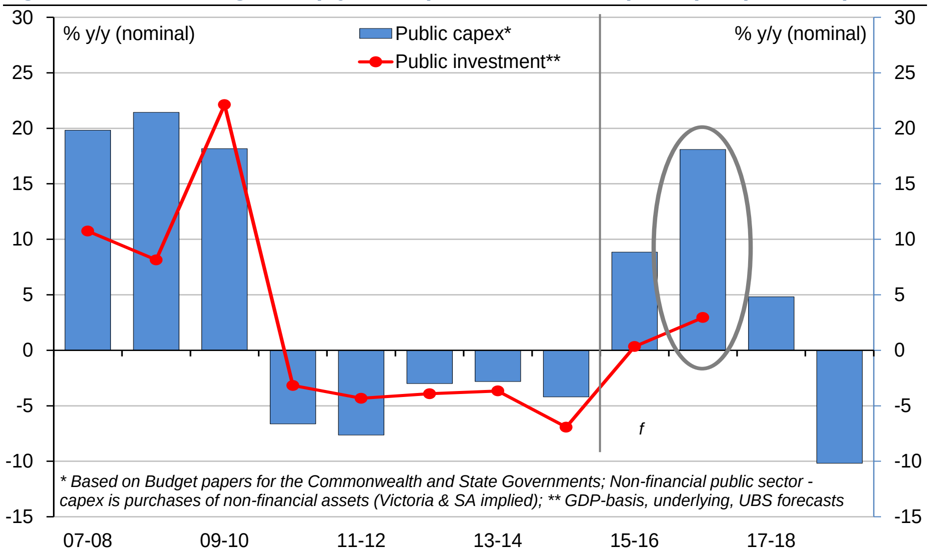
The main driver of this up lift is a 'mini-boom' in govt consumption, jumping to 3.7% y/y in Q116, the fastest since 2012. This largely reflects a pick-up in the public sector wage bill, a stark contrast to private wage growth that's slowed to a record slow pace. Public wages are tracking at solid growth of 3½% in 15/16 (led by QLD & VIC), & budgets imply a similar 3% rise in 16/17, triple the record low of just 1% in 13/14.

In contrast, public capex spending has so far stayed weak, falling 30% from a record high in Q110 to a 7-year low in Q315. It has however more recently shown signs of stabilising, while construction commencements imply a modest recovery ahead.

More surprisingly, our analysis of recent govt budgets imply capex could jump ~15% in 16/17, well above our forecasts. This faster pace of public spending (led by transport in NSW & VIC) could also provide more of a buffer against any drag from housing (particularly if downside risks played out ahead). While the case for new (productivity enhancing) infrastructure is strong, with a likely 5th consecutive year of ~4% national fiscal deficit, govt debt looks set to continue to track higher for a few more years.

Week ahead: *The highlight is the Federal election, with polling still tight between the 2 majors. Data-wise, Jun home prices will moderate & May credit could ease modestly, while job vacancies stay flat. US data should improve with core PCE seen lifting to 1.7% y/y, while spending likely remains solid. EU Jun CPI is key. May JP core CPI could retrace further into negative & Q2 Tankan moderates. CH Jun mfg PMI's should remain steady.*

Figure 1: Recent budgets imply a sharper than forecast pick-up in public capex



Source: ABS, Australian Government, State Governments, UBS

Data Week: 27th June – 2nd July

Wednesday
Engineering starts (Q1)
HIA home sales (May)

Thursday
ABS Job vacancies (May qtr)
Private sector credit (May)
Financial accounts (Q1)

Friday
Manufacturing PMI (Jun)
CoreLogic-RP data dwelling prices (Jun)
RBA commodity prices (Jun)

Saturday
Australian Federal Election

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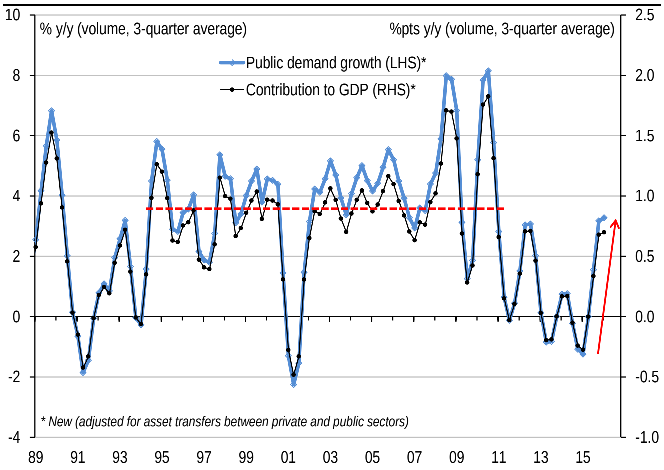
Public spending surprises…capex boost ahead

Australia's real GDP growth has surprised materially to the upside over recent quarters, reaching 3.1% y/y in Q116, the fastest since Q312. While (net) exports have clearly been the largest driver (almost 2%pts y/y), there's also been a long-awaited – but stronger than expected – rebound in government spending (or public demand). Indeed, the trend of public spending (using a 3-qtr average) has lifted to 3¼% y/y, and contributed a significant ~¾%pt y/y to real growth – the biggest since the tail-end of the massive GFC stimulus ended in 2010 (Figure 2).

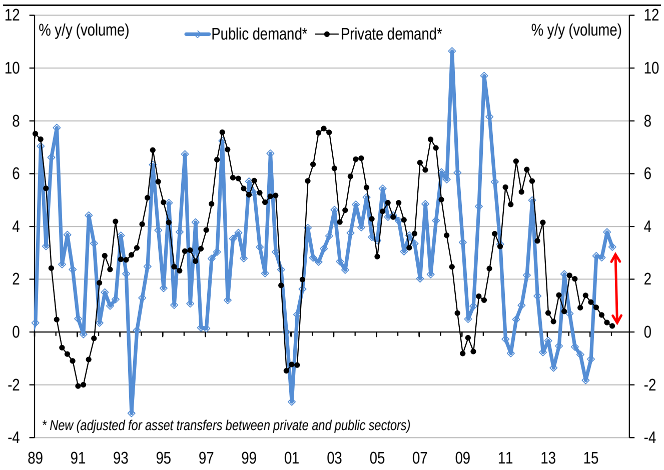
This lift in public demand sharply contrasts the slowdown in private demand towards flat y/y in Q116 (Figure 3, i.e. with strong consumption & housing being offset by collapsing business capex). Indeed, the ~¾%pt contribution of public demand was incredibly around twice the direct contribution of housing activity (i.e. dwelling investment across new housing & renovations) in Q116 (Figure 4).

Figure 2: A rebound in public demand to ~3¼% y/y is contributing a large ¾%pt y/y to real GDP growth…



Source: ABS, UBS

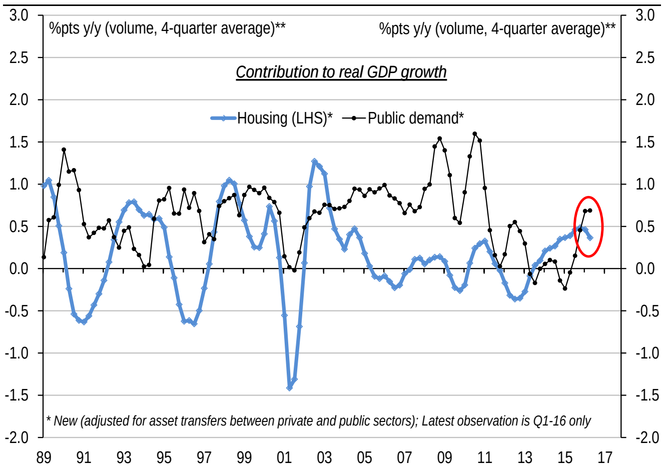
Figure 3: Public demand's rebound is also helping to offset the slowing to ~flat in private demand



Source: ABS, , UBS

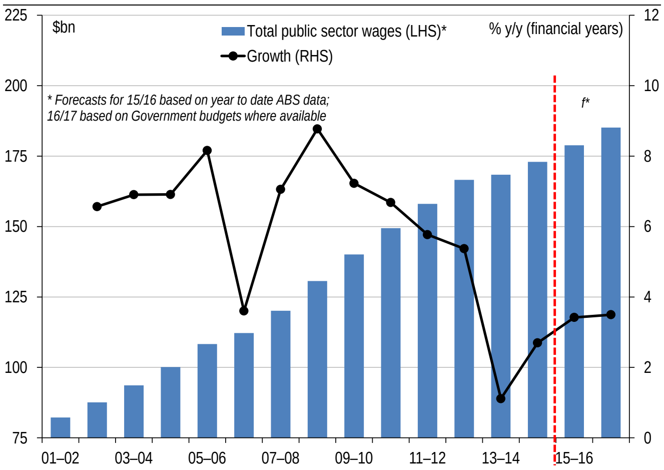
The main driver of the lift in public demand so far has been a 'mini-boom' in public consumption, which has jumped to 3.7% y/y in Q116, the fastest since 2012, up from ~flat in 2014. This mainly reflects a pick-up of the total public sector wage bill, a stark contrast to private wage growth that's slowed to a record low pace (although a lift in defence spending has also contributed modestly).

Figure 4: Public demand is contributing ~¾%pt y/y to real GDP, almost twice the direct impact of housing activity



Source: ABS, UBS

Figure 5: Public wages re-accelerated to 3½% y/y in 15/16, & heading to crack $184bn (~11% of GDP) in 16/17



Source: ABS, Australian Government, State Governments, UBS

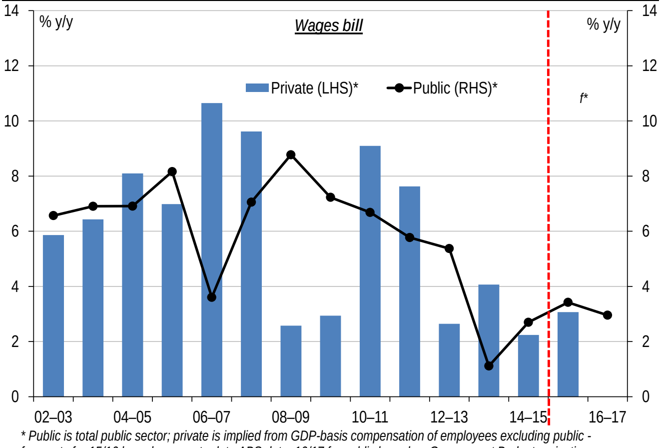
Specifically, the total public sector wage bill (i.e. employee expenses across wages & salaries, and other expenses like superannuation, in both the financial & non-financial sectors across all forms of federal, state, local government) is tracking solid growth of 3½% y/y in 15/16. Indeed, budget projections imply a similar 3% pace in 16/17, which would be about triple the record low pace of just 1% y/y in 13/14 (albeit still below the 6%+ pace through the 2000s, Figure 5).

Within the States, QLD & VIC are the stand-outs, with public sector employee expenses of 5½% p.a. for 14/15 & 15/16, compared with an average of 2¾% p.a. for the other major States. In level terms, public wages are set to crack a record $184bn next year (or almost 11% of GDP), having surged by a cumulative 124% over a 15-year period since 01/02, with average growth of ~5½% y/y.

This recent strength means that public sector wages are set to grow more quickly than private sector wages for a 2nd consecutive year in 15/16 (Figure 6). Using the economy-wide wages bill – based on GDP-basis compensation of employees – we estimate that private wages are currently growing by only ~3% y/y in 15/16, albeit also showing some bounce after dropping to a record low of just 2¼% y/y in 14/15 (Figure 6).

In contrast to the stronger (wage-led) public consumption, public investment has been weak. After real activity spiked to a GFC-stimulus record high level in Q110, it subsequently collapsed a cumulative ~30% by Q315, which was the lowest level in 7 years (Figure 8). Indeed, public investment as a share of the overall economy has slumped from a cycle peak of over 6% in 2010, to under 4½% of GDP now, only just above a record low ratio (Figure 9).

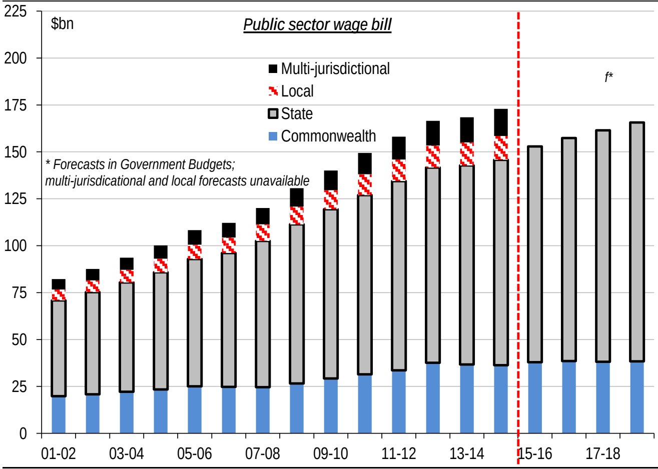
Figure 6: Public wages are now growing faster than private wages (which have been around a record low)



* Public is total public sector; private is implied from GDP-basis compensation of employees excluding public - forecasts for 15/16 based on year to date ABS data; 16/17 for public based on Government Budget projections

Source: ABS, Australian Government, State Governments, UBS

Figure 7: The largest upward driver of public sector wages is State Governments

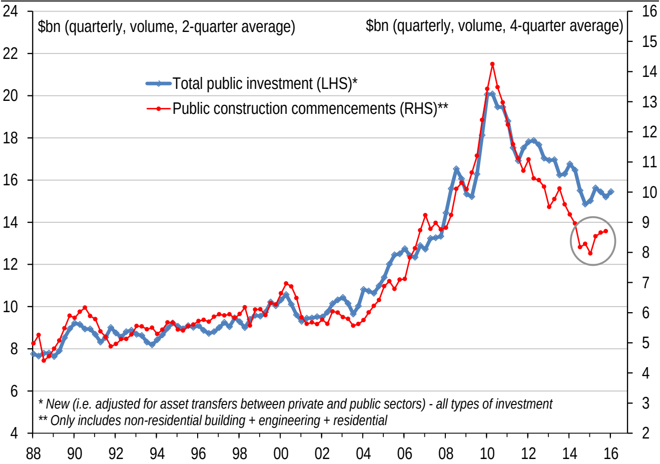


Source: ABS, Australian Government, State Governments, UBS

More recently, the trend of public investment has finally stabilised. Notably, Q415 public sector construction commencements (which only includes non-residential building, engineering & residential, but exclude other public investment) imply a modest recovery ahead in the near term (Figure 8 again).

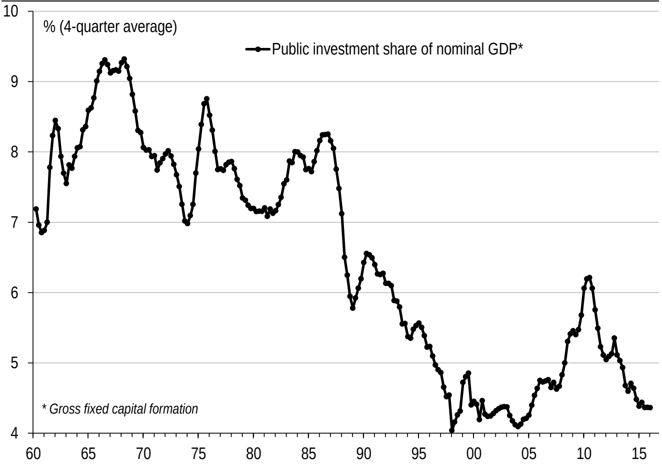
However, far more positively, our analysis of the recently released budgets implies that public investment could now jump by a very strong ~15% y/y in 16/17, led by transport infrastructure (particularly in NSW & VIC). While the budget capex growth rates have not historically aligned perfectly with the GDP-basis public investment numbers (Figure 1), the trends are close enough to add upside risks to Australia's growth outlook.

Figure 8: Public investment stabilising after collapsing ~30%; while commencements imply some recovery



Source: ABS, UBS

Figure 9: Public investment share of GDP has slumped to just 4.4% of GDP, near a record low ratio…



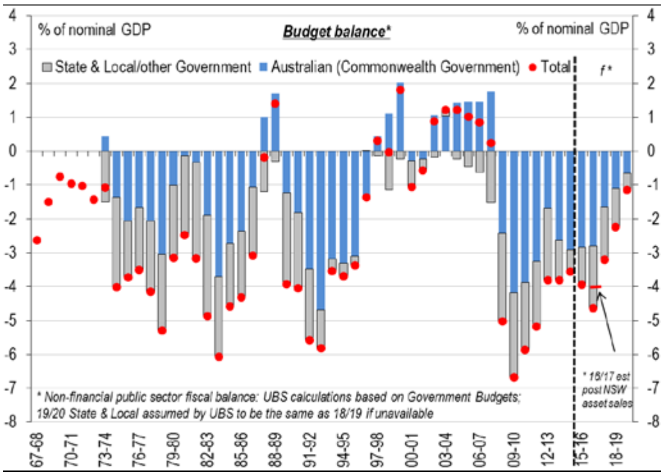
Source: ABS, UBS

More broadly, current government budgets project faster government spending, especially wages, which is combining with subdued tax revenues amid weak nominal GDP. This has resulting in a notable annual fiscal easing of ~½%pt of GDP in 15/16, from about 3.6% to 3.9% of GDP, the largest easing in 6 years.

Indeed, based on current budget projections, the Australia-wide government non-financial public sector fiscal deficit will increase further from 3.9% in 15/16, to a large 4.6% of GDP in 16/17, which would be the biggest deficit in 5 years (Figure 10). However, the impact of proceeds from announced NSW asset transactions could ultimately see it little changed at around 4% of GDP, albeit this shows little improvement from 15/16, and a national fiscal deficit still wider than in 14/15.

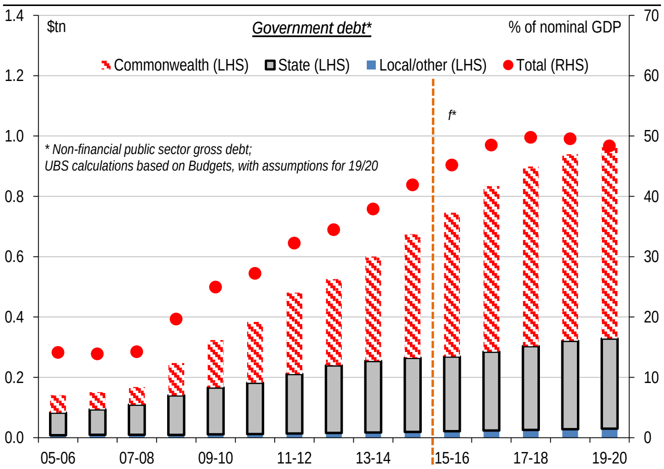
The persistent run of deficits is resulting in total Government debt – for the non-financial public sector, across the Commonwealth, state & local govts – continuing to track higher (Figure 11). Indeed, government debt has already risen from only ~$58bn before the GFC, to ~$746bn now (45% of GDP), and is projected to lift further towards ~$1tn by 2020 (with a peak near 50% of GDP). So while faster public spending (now 22% of GDP) is supporting growth – and may provide some offset to a future weaker housing sector – it is also weighing on the fiscal position.

Figure 10: Fiscal easing sees 'total budget deficit' widen further to >4½% of GDP in 16/17, pre NSW asset sales



Source: RBA, Australian Government, State Governments, ABS, UBS

Figure 11: Budgets imply total Government debt is projected to spike further towards $1tn or 50% of GDP



Source: ABS, Australian Government, State Governments, UBS

Australian Economic Outlook

	Calendar Year (%y/y change)				Fiscal Year (%y/y change)			
	2014	2015	2016 (f)	2017 (f)	2013/14	2014/15	2015/16 (f)	2016/17 (f)
REAL:								
GDP	2.7	2.5	2.7	2.7	2.5	2.3	2.9	2.4
Private Consumption	2.8	2.8	3.0	2.8	2.6	2.7	3.0	2.9
Dwelling Investment	7.4	9.8	7.0	-2.0	5.1	8.1	9.1	3.9
Business Investment *	-4.1	-9.4	-11.5	-4.5	-3.6	-6.2	-12.4	-8.2
- Machinery & equipment *	-1.8	-5.0	-5.5	-3.3	-10.0	1.9	-8.2	-5.0
- Non-residential construction *	-6.7	-13.6	-19.2	-7.9	-0.7	-11.8	-18.0	-14.3
Domestic Final Demand	1.2	1.1	1.0	1.6	1.3	0.8	0.9	1.3
- Private Final Demand *	1.6	0.8	0.6	1.2	1.6	1.1	0.4	1.1
- Public Final Demand *	-0.7	2.1	2.3	2.7	0.4	-0.2	2.8	2.2
Stocks (%pts contribution)	0.1	0.0	0.1	0.0	-0.3	0.2	0.0	0.1
GNE	1.1	1.1	1.1	1.6	1.0	1.0	0.9	1.4
Exports	6.7	5.9	7.0	6.8	5.8	6.5	7.0	6.3
Imports	-1.6	1.5	0.4	2.2	-1.8	0.1	-0.2	2.6
Net Exports (%pts contribution)	1.7	1.0	1.5	1.1	1.6	1.3	1.6	0.9
Nominal GDP	2.9	1.8	2.6	4.8	4.0	1.6	2.3	3.7
OTHER KEY INDICATORS								
Headline CPI	2.5	1.5	1.3	2.0	2.7	1.7	1.4	1.7
RBA 'underlying' CPI **	2.5	2.1	1.8	2.1	2.6	2.3	1.8	2.0
Wage Price Index	2.5	2.2	2.0	2.4	2.6	2.4	2.1	2.1
Employment	0.7	1.9	1.8	1.6	0.5	1.2	2.2	1.6
Unemployment Rate (quarterly, % at year-end)	6.2	5.8	5.9	5.9	6.0	6.1	5.9	5.9
Dwelling Commencements (000s)	199	221	217	190	181	214	219	210
Current Account Balance (% of GDP)	-3.0	-4.8	-5.3	-3.9	-3.2	-3.7	-5.2	-4.7

QUARTERLY		Sep-15	Dec-15	Mar-16	Jun-16 (f)	Sep-16 (f)	Dec-16 (f)	Mar-17 (f)	Jun-17 (f)
GDP	(% q/q)	1.0	0.7	1.1	0.2	0.5	0.6	0.9	0.6
	(% y/y)	2.7	2.9	3.1	3.0	2.5	2.3	2.2	2.7
		Sep-15	Dec-15	Mar-16	Jun-16 (f)	Sep-16 (f)	Dec-16 (f)	Mar-17 (f)	Jun-17 (f)
Headline CPI	(% q/q, nsa)	0.5	0.4	-0.2	0.5	0.8	0.4	0.4	0.3
	(% y/y, nsa)	1.5	1.7	1.3	1.1	1.5	1.5	2.1	1.9
RBA 'underlying' CPI **	(% q/q, sa)	0.3	0.6	0.2	0.5	0.6	0.6	0.5	0.5
	(% y/y, sa)	2.1	2.0	1.6	1.6	2.0	1.9	2.2	2.1
FINANCIAL MARKETS (at end qtr)		Sep-15	Dec-15	Mar-16	Jun-16 (f)	Sep-16 (f)	Dec-16 (f)	Mar-17 (f)	Jun-17 (f)
- Cash (%)		2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50
- 90 Day Bills (%)		2.19	2.38	2.29	2.00	1.75	1.75	1.75	1.75
- 3-year Commonwealth Bonds (%)		1.81	2.03	1.90	1.50	1.35	1.45	1.51	1.58
- 10-year Commonwealth Bonds (%)		2.64	2.96	2.50	2.30	2.20	2.30	2.33	2.35
- S&P/ASX 200 (Index)		5022	5296	5083	5300	5400	5500		
Exchange Rates (end qtr):	AUD/USD	0.70	0.73	0.77	0.70	0.69	0.68	0.68	0.68
	AUD/EUR	0.63	0.67	0.68	0.60	0.58	0.59	0.58	0.58
	AUD/JPY	84.1	87.5	86.5	74.8	73.5	76.2	76.5	76.8
	TWI	59.9	62.7	64.4	60.1	59.2	60.2	60.6	60.9

Source: ABS, Datastream, RBA, UBS estimates * new – adjusted for asset transfers ** 3-core average, sa

UBS Australian Forecasts: What & Why?

Forecasts vs. Consensus

- We forecast real GDP growth of 2.7% y/y in 2016 (vs consensus of 2.6%) and 2.7% y/y in 2017 (vs consensus of 2.8%).

Latest forecast changes

- On 3 June, following better than expected Q1 GDP, we upgraded our 2016 GDP forecast to 2.7% (was 2.5%) on better consumption, housing & exports albeit weaker business investment, but left 2017 unchanged at 2.7%.
- On 3 May, we changed our RBA view to another 25bp cut in August & cut our 10-year bond yield forecast to 2.3% end-16 (was 2.5%) & 2.4% end-17 (was 2.65%).

Key growth drivers

- Ongoing record low interest rates will drive housing moderation ahead (not a downturn), which still adds to growth in 2016, with dwelling commencements holding at a high 200k in 2016 (albeit we forecast a fall to 185k by 2017 as well as a modest housing drag).
- Real consumption is driven by rising household wealth, dragging down the savings rate, a pick-up in housing-related consumption, solid jobs growth, and the lower AUD seeing a fading drag from net tourism departures.
- The export supply pick-up, post the mining capex boom, should add to real growth amid a lower AUD; while weak capex also restrains imports (but better domestic demand should see imports begin to rise in 2017).
- Ongoing solid employment reflects the growth of more labour intensive retail, housing & tourism sectors (on a lower AUD) – despite the loss of mining jobs. While the unemployment rate remains elevated, it should not rise much further, and hence we should avoid a negative feedback loop to asset prices and the real economy.
- Weak nominal GDP growth: staying low at 2.6% in 2016, before bouncing to 4.8% in 2017. This reflects a slower China and lower commodity prices resulting in a (mining) capex cliff, plus fiscal repair & slower wages, constraining GDP in coming years. The composition of GDP will also have more '(net) exports', but much less domestic demand.

Key inflation drivers

- Headline CPI may remain low in 2016 at 1.3%, but then rise in 2017 to 2.0% on a lower AUD & base effects of rising oil/petrol prices.
- Further ahead, for underlying CPI, very low wages and weak domestic demand (as well as global trends) should be dragging down inflation. However, weak productivity & a lower AUD should see core inflation trough in 2016.

Monetary & fiscal policy outlook

- RBA – We continue to view the economy as rebalancing better than expected, with the need for additional stimulus less clear. But given our view that structural disinflationary forces have likely intensified in Australia, & the RBA's revealed concern about the risk of persistent low inflation, we now look for another 25bp cut to 1.5% in August, post Q2 CPI.
- Government – we see fiscal policy as a drag on growth in the period ahead, as the Federal Coalition attempts to return the budget to structural balance.

Key forecast risks

- Downside risk: A delay of US Fed hikes in 2016, causing the AUD to fail to adjust as 'necessary', would likely undermine the still fragile lift in some parts of domestic activity and business conditions. Meanwhile, a deeper China property downturn could further sharply lower commodity prices and export income. The weaker nominal income environment, ongoing fiscal drag, record debt leveraging, and negative offshore news, could see consumers become more cautious given that a further drop in the household saving ratio is needed to deliver decent consumption growth. These scenarios could see the RBA trim the cash further.
- Upside risk: AUD closer to 0.60USD would provide more stimulus to the domestic economy, as could more RBA rate cuts. A pick-up in China, EU & Japan could support business confidence. Consumer debt appetite could strengthen further, driving stronger spending & non-mining capex.

Key growth signposts

- The AUD depreciating towards our USD0.68 end-16 target, which would support the rebalancing of growth.
- A sustained recovery in business and consumer confidence, which has been mixed recently.
- A peak in the unemployment rate, which is key to easing still elevated job insecurity (as well as boosting consumer confidence).

Positions on key controversies

- Consumer caution – we expect some continued stabilisation in confidence and real consumption growth – amid solid jobs growth and record low interest rates dragging down the household savings rate – despite ongoing weak wages growth.
- Terms of trade – a much lower level of commodity prices will mean Australia's growth will be more led by export volumes, with a more sluggish domestic economy.

Bond yield trends

Cash rate: Low inflation likely sees RBA cut again

- **Cash:** We continue to view the economy as rebalancing better than expected, with the need for additional stimulus less clear. While nominal growth is soft, the economy continues to rebalance; jobs are being created, particularly in the services sectors. Moreover, global data, including China's recent 'stimulus' have improved the backdrop from Australia's trading partners. But given our view that structural disinflationary forces have likely intensified in Australia, & the RBA's revealed concern about the risk of persistent low inflation, we now look for another 25bp cut to 1.5% in Aug, post Q2 CPI. Thereafter, we expect the cash rate to remain unchanged until at least end-17.

Aussie 10-years – we target 2.30% end-16

- **US 10-years:** The US Fed funds rate is forecast to rise very gradually, following the Dec-15 hike, moving up 50bp in 2H16 & 'every other' meeting in 2017, to take the funds rate to 0.88% end-16 & 1.88% end-17. We target US 10yrs of 2.0% end-16 & 2.3% end-17. Being at the bottom of our medium-term fair value, this suggests some upside risk to our forecasts, if the Fed hikes as planned (Figure A).

- **Aussie 10-years:** Aussie 10-years remain expensive relative to our model (Figure B). While US yields are forecast higher, we expect Aussie 10's to remain largely unchanged in 2016, outperforming due to low inflation, a further RBA cut (in contrast to Fed rate hikes). We target 2.30% for end-16 and 2.40% for end-17.

Australian 3-years – further momentum on RBA cut

- **Australian 3-years:** Aussie 3-years continue to trade expensive, at the bottom of our fair value range (Figure C). While 3-year bond yields are likely to remain below cash for 2016, the eventual pricing-out of further RBA cuts and improving growth into 2017 should see yields rise modestly through cash, albeit remaining capped as the RBA stays at its cycle low for a prolonged time. We target 1.45% end-16, rising to 1.70% end-17, as the RBA starts normalising rates late year.

Curve – bias to steepening

- **Yield curve:** The 10-3s curve bull-steepened modestly through 2015. From here, we see a further modest steepening pressure through 2016, albeit with a more significant flattening in 2017, as the RBA moving neutral dominates a modest rise in global long-yields.

AU–US 10-year spread – tightening pressure stays

- **Aussie-US 10-year spread:** The Aussie-US spread tightened in 2015 to 50bp, as forecast. Despite the early-16 widening to 70bp, we expect the recent re-tightening back to 50bp to move further to 30bp by end-year, and 10bp end-17 (Figure D), as the RBA is significantly 'out-hiked' by the US Fed.

Source for text and charts: Bloomberg, Factset, UBS

** UBS Macro Strategy forecasts for end-2016 & end-2017*

Figure A: US 10-year bond yield

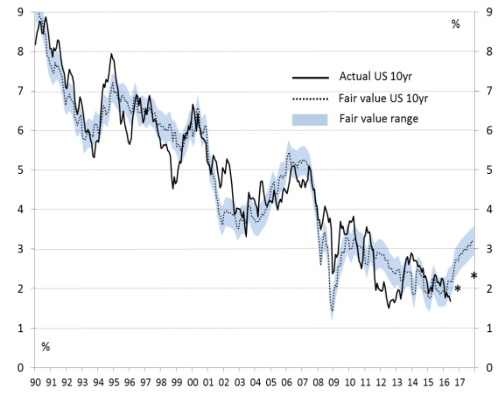


Figure B: Australian 10-year bond yield

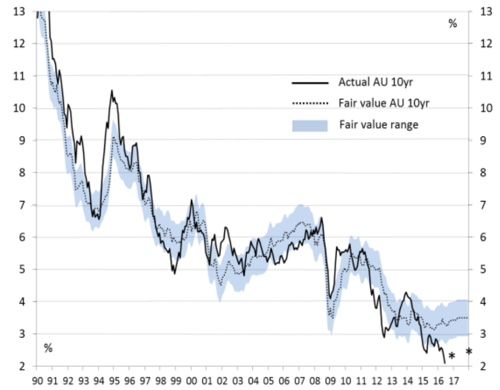


Figure C: Australian 3-year bond yield

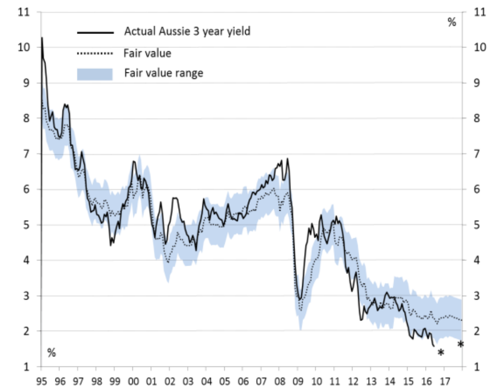
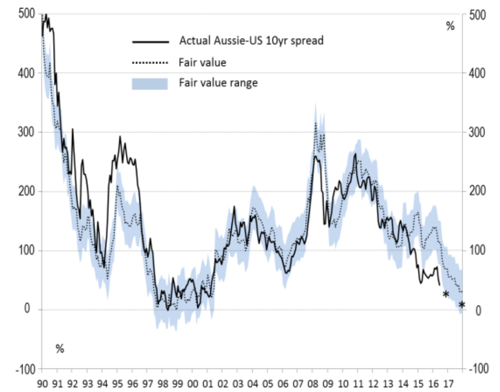


Figure D: AU-US 10-year bond yield spread



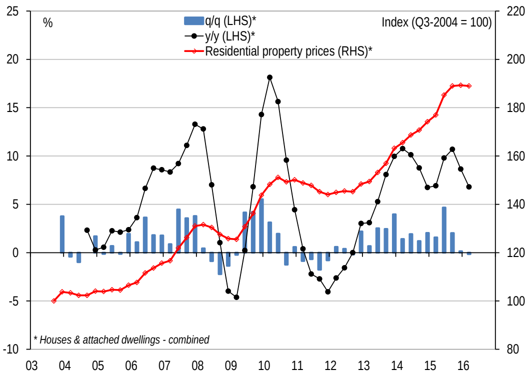
Week in Review: 20th – 24th June

June RBA minutes added little new, with the Board maintaining their 'neutral' tone. Data-wise, Q1 ABS residential property prices unexpectedly retraced, dragging the y/y to a still decent 6.8%. Meanwhile, Q4 population remained unchanged at a moderate 1.4% y/y pace, around its average for the past 2 years. On the labour market, May skilled vacancies rose again & lifted the y/y to a solid 10.5%, a 2-year high. The 2016/17 NSW Budget projected a large rise in infrastructure spending.

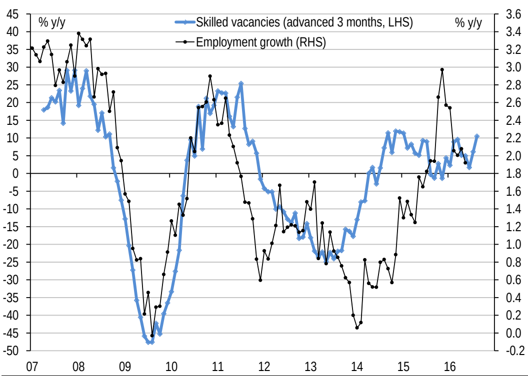
Offshore, in a relatively data-light week, US Fed Chair Yellen added little, echoing her cautious approach to adjusting monetary policy as outlined at the FOMC meeting and her recent June 6th speech. The German high court rejected the challenge to the ECB's OMT policy, while the UK referendum was still in the balance midday Friday. Elsewhere, US data missed expectation with a retracement in new home sales & only modest house price growth, while EU PMI's were mixed.

Over the (very volatile) week to noon, the AUD bounced 1.8% to 0.752, while the ASX200 rose 1% to 5207, but 10-year bonds sold off sharply, with yields lifting 10bp to 2.19%.

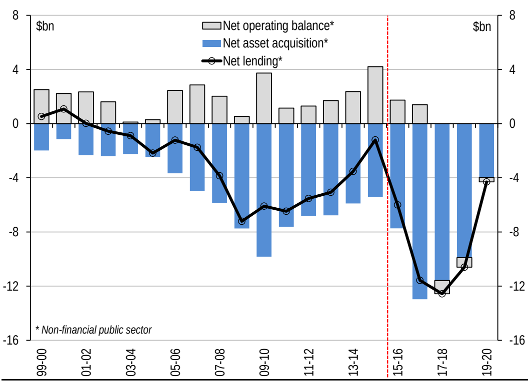
Q1 ABS house prices unexpectedly retrace, moderating the y/y to a still solid 6.8% y/y



Skilled vacancies consistent with solid jobs



NSW fiscal deficit to widen on record capex



Source: ABS, Department of Employment, NSW Treasury, UBS

- June **RBA minutes** were (again) less dovish than expected, with the Board reiterating their comment that "leaving the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and inflation returning to target over time".
- **ABS residential property prices** unexpectedly retraced 0.2% q/q in Q1 (UBS: +0.5%, mkt: +0.8%), dragging the y/y to a still above average 6.8%, after 8.7%. Notably, the two quarter average annualised rate has now slowed to ~flat, the weakest since Q2-12. By capital city, Perth (-1.7%, -4.5% y/y) retraced the most & Sydney also fell (-0.7%, albeit still +9.7% y/y on the 8.9% q/q rise in Q2-15), while Melbourne remained decent (+0.8%, lifting to 9.8% y/y).
- Department of employment **skilled vacancies** rose 0.8% m/m in May after bouncing 3.0% in April, seeing the y/y lift to a solid 10.5%, the highest since October 2014. This is consistent with the June RBA minutes, which noted that "forward-looking indicators in the near term had been mixed, but overall they were consistent with moderate employment growth in the months ahead."
- Q4 **population** rose a moderate 0.3% q/q, holding the y/y at 1.4%, with Q3 revised up to 1.4% (was 1.3%).
- The **NSW Budget** projected a 16/17 surplus of $3.7bn, revised up from a mid-year estimate of $2.5bn, with surpluses of $1½ - $2bn over the out-years. Net debt was seen close to zero in 16/17, rising modestly over the out-years to fund a 4yr $70bn+ infrastructure program, which sees the fiscal deficit widen to 2.1% of GSP in 16/17. New spending focused on health, prisons & education, while a tax on foreign housing purchases was introduced. Rating agencies confirmed NSW's AAA rating.

Week Ahead: 27th June – 2nd July

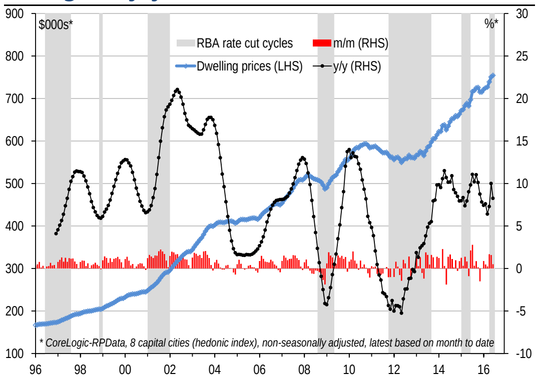
Next week, the Australian Federal election (Sat) is the highlight, with polling remaining tight between the two major parties. Data-wise, we expect a modest easing in credit (Thu) growth to moderate the y/y pace to 6.5%, while ABS job vacancies (Thu) could stay broadly flat after several strong quarters. June CoreLogic-RP data dwelling prices (Fri) will continue to rise at a decent pace, albeit the y/y slows to a still solid 8.2% on base effects. Q1 financial accounts (Thu) data is also out.

Offshore, US data should improve after recent weakness. May core PCE (Wed) is seen up 0.2%m/m, seeing the y/y lift to 1.7%, while spending (Wed) likely remains solid and the June mfg ISM (Fri) ticks modestly higher. The final print of Q1 GDP (Tue) may be revised up to a 1.0% a.r.. Elsewhere, EU Jun prelim CPI (Thu) is seen rising to flat y/y, but May JP core CPI (Fri) could retrace further into negative, while the Q2 Tankan (Fri) moderates again. CH Jun mfg PMI's (Fri) should remain steady.

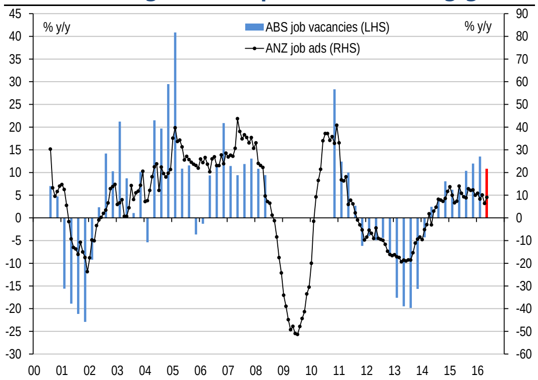
Date	Time (AEDT)	Data/Event	UBS	Market*	Previous
29-Jun	10:30	HIA new home sales (May)	nf	nf	-4.7%
29-Jun	11:30	Engineering starts (Q1)	nf	nf	+8.5%
30-Jun	11:30	Job vacancies (May qtr)	+0.0%	nf	+2.7%
30-Jun	11:30	Private sector credit (May)	+0.4%	+0.5%	+0.5%
30-Jun	11:30	Financial accounts (Q1)	-	-	-
1-Jul	09:30	AIG Manufacturing PMI (Jun)	nf	nf	51.0
1-Jul	10:00	Core-Logic RP Data home prices (Jun)	+0.5%	nf	+1.6%
1-Jul	16:30	Commodity prices (AUD, Jun)	nf	nf	+3.8%
2-Jul	-	Australian Federal Election	-	-	-

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

June home price may rise a decent 0.5% m/m, seeing the y/y moderate to a still solid +8.2%



May ABS job vacancies could remain relatively flat following several quarters of strong gains



Source: ABS, ANZ, CoreLogic-RP data, UBS

New home sales (May) & home prices (June)

Following a 5% fall in April, we expect a modest rise for home sales in May, albeit this will leave home sales on a flat to lower trend. Daily data suggests CoreLogic-RP data dwelling prices may rise by a decent 0.5% m/m in June, even after bouncing 1.6% m/m in May. This sees the y/y slow to a still solid 8.2% (after +10.0%). Looking ahead, house price growth is seen moderating to ~5% y/y by end-16 and flat for 2017.

Job vacancies (May qtr)

The recent less buoyant monthly job ads series suggest a relatively flat result for the ABS May quarter job vacancies print, after several quarters of strong gains (easing the y/y to a still healthy 11% from 14%).

Private sector credit (May)

We expect an easing in last month's strong business credit growth (of 0.8% m/m), to see total credit growth of 0.4% m/m (after 0.5%), moderating the y/y pace to 6.5% from 6.7% y/y.

Australian Federal Election

Australia's (double-dissolution) Federal election will be held on Saturday 2 July. Polling remains relatively tight between the ruling Coalition, led by Malcolm Turnbull & the Opposition Labor Party, led by Bill Shorten.

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
------- 20 Jun -------	------- 21 Jun -------	------- 22 Jun -------	------- 23 Jun -------	------- 24 Jun -------
NZ SERVICES PSI (May) Act: 56.9, Pre: 57.8 r	AU ABS HOUSE PRICES (Q1) Act: -0.2%, Pre: +0.2% RBA MINUTES (Jun) RBA DEBELLE SPEECH RBA HEATH SPEECH NSW BUDGET (2016/17) FED CHAIR YELLEN TESTIMONY	AU SKILLED VACANCIES (May) Act: +0.9%, Pre: +3.0% r NZ TOURIST ARRIVALS (May) Act: +0.1%, Pre: -1.1% NZ CREDIT CARD BILLS (May) Act: +0.0%, Pre: +2.5% US FHFA HOME PRICES (Apr) Act: +0.2%, Pre: +0.8% r US EXISTING HOME SALES (May) Act: +1.8%, Pre: +1.3% r FED CHAIR YELLEN TESTIMONY	AU POPULATION (Q4, y/y) Act: +1.4%, Pre: +1.4% r RBA ELLIS PANEL PARTICIPATION RBA DEBELLE SPEECH US NEW HOME SALES (May) Act: -6.0%, Pre: +12.3% r US MFG PMI (Jun p) Act: 51.4, Pre: 50.7 (May f) EU MFG / COMPOSITE PMI (Jun p) Act: 52.6 / 52.8, Pre: 51.5 / 53.1 UK REFERENDUM	US DURABLES (May p) UBS: +0.8%, Pre: +3.4% (Apr f) US UM CONS. CONF. (Jun f) UBS: 94.3, Pre: 94.3 (Jun p) GE IFO (Jun) Mkt: 107.4, Pre: 107.7
------- 27 Jun -------	------- 28 Jun -------	------- 29 Jun -------	------- 30 Jun -------	------- 1 Jul -------
NZ TRADE BALANCE (May) UBS: $200mn, Pre: $292mn	US GDP (Q1 f, ar) Mkt: +1.0%, Pre: +0.8% US S&P-CS HOUSE PRICES (Apr) Mkt: nf, Pre: +0.1% US CB CONS. CONF. (Jun) UBS: 93.4, Pre: 92.6	AU ENGINEERING STARTS (Q1) Mkt: nf, Pre: +8.5% AU HIA NEW HOME SALES (May) Mkt: nf, Pre: -4.7% US SPENDING (May) UBS: +0.5%, Pre: +1.0% US CORE PCE (May) UBS: +0.2%, Pre: +0.2% US PENDING HOME SALES (May) Mkt: -1.0%, Pre: +5.1%	AU ABS JOB VACANCIES (May qtr) UBS: +0.0%, Pre: +2.7% AU CREDIT (May) UBS: +0.4%, Pre: +0.5% AU FINANCIAL ACCOUNTS (Q1) NZ DWELLING CONSENTS (May) Mkt: nf, Pre: +6.6% NZ ANZ OWN ACTIVITY (Jun) Mkt: nf, Pre: 30.4% NZ HOUSEHOLD CLAIMS (May) Mkt: nf, Pre: +0.8% EU CPI (Jun p, y/y) Mkt: +0.0%, Pre: -0.1% UK GDP (Q1 f) UBS: +0.4%, Pre: +0.4% JP IP (May p) Mkt: -0.2%, Pre: +0.5% CA GDP (Apr) Mkt: +0.1%, Pre: -0.2%	AU MFG PMI (Jun) Mkt: nf, Pre: 51.0 AU CL-RP DWELLING PRICES (Jun) UBS: +0.5%, Pre: +1.6% AU $A COMMODITY PRICES (Jun) Mkt: nf, Pre: +3.8% AUSTRALIA FEDERAL ELECTION (2nd) US MFG PMI (Jun f) / ISM (Jun) Mkt: 51.4 / 51.5, Pre: 50.7 / 51.3 CH OFFICIAL/CAIXIN MFG PMI (Jun) Mkt: 50.1/49.2, Pre: 50.1/49.2 EU UNEMPLOYMENT RATE (May) Mkt: nf, Pre: 10.2% EU MFG PMI (Jun f) UBS: 52.6, Pre: 52.6 (Jun p) JP CORE CPI (May) UBS: -0.4%, Pre: -0.3% (y/y) JP TANKAN (Q2) UBS: 5, Pre: 6
------- 4 Jul -------	------- 5 Jul -------	------- 6 Jul -------	------- 7 Jul -------	------- 8 Jul -------
AU BUILDING APPROVALS (May) Pre: +3.0% AU ANZ JOB ADS (Jun) Pre: +2.4% US HOLIDAY All US markets closed	AU SERVICES PSI (Jun) Pre: 51.5 AU TRADE BALANCE (May) Pre: -$1579mn AU RETAIL SALES (May) Pre: +0.2% RBA DECISION (Jul) Pre: 1.75% NZ QSBO EXPECT TRADING (Q1) UBS: 10%, Pre: 6.5% NZ ANZ COMMODITY PRICES (Jun) Pre: +1.0% US FACTORY ORDERS (May) Pre: +1.9%	AU VISITOR ARRIVALS (May) Pre: +1.2% RBA DEBELLE SPEECH US TRADE BALANCE (May) Pre: -$37.4bn US NON-MFG ISM (Jun) Pre: 52.9 FED MINUTES (Jun)	AU CONSTRUCTION PCI (Jun) Pre: 46.7 SA BUDGET (2016/17) US ADP PAYROLLS (Jun) Pre: +173k UK IP (May) Pre: +2.0% ECB MINUTES (Jun)	US PAYROLLS (Jun) Pre: +38k US UNEMPLOYMENT RATE (Jun) Pre: 4.7% CH CPI (Jun, y/y) Pre: +2.0% (due 10th) CA EMPLOYMENT (Jun) Pre: +13.8k
------- 11 Jul -------	------- 12 Jul -------	------- 13 Jul -------	------- 14 Jul -------	------- 15 Jul -------
AU HOME LOAN VALUES (May) Pre: -1.8% AU HOME LOAN O/O NO. (May) Pre: +1.7% NZ ELECTRONIC CARDS (Jun) Pre: -0.6% CH TOTAL SOCIAL FINANCE (Jun) Pre: 660bn (RMB, due 10th to 15th)	AU NAB BIZ CONDITIONS (Jun) Pre: 10.1 AU NAB BIZ CONFIDENCE (May) Pre: 2.7 RBA ELLIS SPEECH NZ REINZ HOUSE PRICES (Jun) Pre: +2.1%	AU WMI CONS. CONF. (Jul) Pre: -1.0% AU FINANCE COMMITMENTS (May) Pre: -2.6% NZ FOOD PRICES (Jun) Pre: -0.5% FED BEIGE BOOK (Jul) CH TRADE BALANCE (Jun) Pre: $50.0bn (USD) JP IP (May f) Pre: +0.5% (Apr f) EU IP (May) Pre: +1.1% BOC DECISION (Jul) Pre: 0.50%	AU EMPLOYMENT (Jun) Pre: +17.9k AU UNEMPLOYMENT RATE (Jun) Pre: 5.7% AU CAR SALES (Jun) Pre: -1.1% RBA ELLIS PANEL PARTICIPATION NZ MFG PMI (Jun) Pre: 57.1 NZ ANZ-RM CONS. CONF. (Jul) Pre: 118.9 US PPI (Jun) Pre: +0.4% BOE DECISION (Jul) Pre: 0.50%	US RETAIL SALES (Jun) Pre: +0.5% US CORE CPI (Jun) Pre: +0.2% US IP (Jun) Pre: -0.4% US UM CONS. CONF. (Jul p) Pre: 94.3 (Jun p) CH GDP (Q2, y/y) Pre: +6.7% CH IP (Jun, y/y) Pre: +6.0% EU CPI (Jun f, y/y) Pre: -0.1% (May f)

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

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