

NAB forecast change: Four cash rate rises over the remainder of 2010

Following the RBA's decision on Tuesday to leave the official interest rate unchanged at 3.75 per cent, National Australia Bank has slightly revised the forecast path for interest rate policy over 2010. We continue to expect a cash rate of 4.75 per cent by the end of the year.

After the RBA surprised, by pausing at the February meeting, we now expect 25 basis point increases in the cash rate at the May, June, August and November meetings. That leaves our cash rate expectation of 4.75 per cent by end 2010 unchanged.

The release of the December 2009 NAB Monthly Business Survey confirmed that Australian economic activity is accelerating and, in our view, that makes further rate rises virtually inevitable. We expect that the growth momentum, improving labour markets and lower productivity growth will lead a pre-emptive central bank to make significant further policy adjustment by mid year.

While the RBA are currently assessing the impact of their moves in late 2009 they nevertheless have an obvious tightening bias and each meeting from here brings with it the possibility of a decision to raise the cash rate. That is, the exact timing of rate adjustments is very data dependent.

The RBA in today's Statement on Monetary Policy have very similar growth and inflation forecasts to NAB's. There is nothing in today's statement that leads us to significantly change our view on interest rates.

In 2011, we expect the Australian economy to further accelerate, growing by around 4 per cent over the year. This is well above any measure of 'trend' growth for Australia and some inflationary concerns are likely to mount as capacity utilisation rises and labour markets tighten. Consistent with this, the RBA will continue raising the cash rate until policy settings have a clearly contractionary influence on economic activity. As such, we still expect a cash rate of 5.5 per cent by the end of 2011.

The market is currently pricing in less rate hikes than our forecasts, with the market at about 4.0 per cent by the end of June and 4.5 per cent by the end of the year (NAB 4.25 per cent by June and 4.75 per cent by December).

Alan Oster
Group Chief Economist
03 8641 3464 (Mobile 0414 444 652)

Rob Henderson
Chief Economist Markets
02 9237 1836 (Mobile 0413 744 271)

5 February 2009

Macroeconomic, Industry & Markets Research

Australia

Alan Oster	Group Chief Economist	+ (61 3) 8634 2927
Jacqui Brand	Personal Assistant	+ (61 3) 8634 2181

Rob Brooker	Head of Australian Economics & Commodities	+ (61 3) 8634 1663
John Sharma	Economist – Australia	+ (61 3) 8634 4514
Ben Westmore	Economist – Australia & Commodities	+ (61 3) 8634 8602

Dean Pearson	Head of Industry Analysis	+ (61 3) 8634 2331
Gerard Burg	Economist – Industry Analysis	+ (61 3) 8634 2788
Daniel Farley	Economist – Property	+ (61 3) 8634 2168
Brien McDonald	Economist – Industry Analysis & Risk Metrics	+ (61 3) 8634 3837
Frank Drum	Economist – Agribusiness	+ (61 3) 8634 2041

Michael Lee	Senior Economist – Modelling and Econometric Support	+ (61 3) 8634 8562
-------------	--	--------------------

Tom Taylor	Head of International Economics	+ (61 3) 8634 1883
Robert De Iure	Economist – Country Risk	+ (61 3) 8634 4611
John O'Connor	Economist – International	+ (61 3) 8634 8076
Mark Rodrigues	Economist – International	+ (61 3) 8634 1823

Global Markets Research - Wholesale Banking

Peter Jolly	Head of Markets Research	+ (61 2) 9237 1406
Robert Henderson	Chief Economist Markets - Australia	+ (61 2) 9237 1836
Spiros Papadopoulos	Senior Economist – Markets	+ (61 3) 8641 0978
David de Garis	Senior Economist – Markets	+ (61 2) 9237 1180

New Zealand

Tony Alexander	Chief Economist – BNZ	+ (64 4) 474 6744
Stephen Toplis	Head of Market Economics - BNZ	+ (64 4) 474 6905
Craig Ebert	Market Economist - BNZ	+ (64 4) 474 6799
Mark Walton	Market Economist – BNZ	+ (64 4) 474 6799

London

Tom Vosa	Head of Market Economics - Europe	+ (44 20) 7710 1573
David Tinsley	Market Economist – Europe	+ (44 20) 7710 2910

	Foreign Exchange	Fixed Interest/Derivatives
Sydney	+800 9295 1100	+ (61 2) 9295 1166
Melbourne	+800 842 3301	+ (61 3) 9277 3321
Wellington	+800 64 642 222	+800 64 644 464
London	+800 747 4615	+ (44 20) 7796 4761
New York	+1 800 125 602	+1877 377 5480
Singapore	+ (65) 338 0019	+ (65) 338 1789

DISCLAIMER: [While care has been taken in preparing this material,] National Australia Bank Limited (ABN 12 004 044 937) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") are accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts.

To the extent permissible by law, the National shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, the National limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. The National, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer."

UK Disclaimer: So far as the law and the FSA Rules allow, National Australia Bank Limited ("the Bank") disclaims any warranty or representation as to the accuracy or reliability of the information and statements in this document. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document. This document does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances. The Bank may have proprietary positions in the products described in this document. This document is for information purposes only, is not intended as an offer or solicitation nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. No part of this document may be reproduced without the prior permission of the Bank. This document is intended for Investment Professionals (as such term is defined in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001) and should not be passed to any other person who would be defined as a private customer by the rules of the Financial Services Authority ("FSA") in the UK or to any person who may not have experience of such matters. Issued by National Australia Bank Limited A.C.N. 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the state of Victoria, Australia. Regulated by the FSA in the UK.

U.S. DISCLAIMER: This information has been prepared by National Australia Bank or one of its affiliates or subsidiaries (collectively, "NAB"). If it is distributed in the United States, such distribution is by National Australia Capital Markets, LLC (NACM) which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to NACM, 200 Park Avenue, New York, NY 10166 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of NACM or NAB and/or its affiliates may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.