

## Economic and Market Overview – January

### National Data and Impact of International Factors

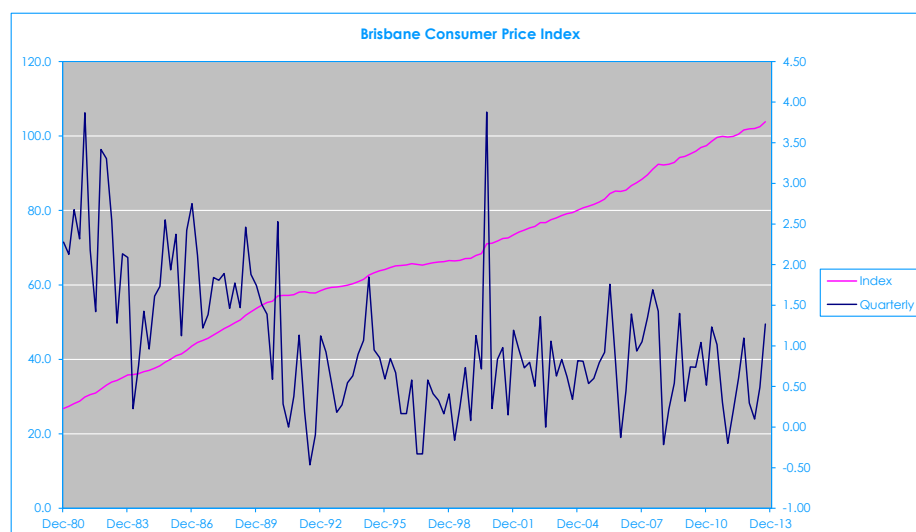
Consumer  
Price Index  
Sept Qtr 2013

The Australian Bureau of Statistics states:

- The most significant price rises in the September quarter were for automotive fuel (+7.6%), international holiday travel and accommodation (+6.1%), electricity (+4.4%), property rates and charges (+7.9%), water and sewerage (+9.9%) and domestic holiday travel and accommodation (+3.5%).
- The most significant offsetting price fall in the September quarter was for vegetables (-4.5%).

Queensland Treasury and Trade Overview of the September Qtr 2013 states:

- Brisbane's headline consumer price index (CPI) increased 1.3% in September quarter 2013, to be 2.2% higher over the year. In annual terms, Brisbane recorded the fourth-highest increase while Darwin recorded the largest increase for all capital cities in Australia.
- The Brisbane, the housing group made the largest contribution to inflation in September quarter 2013 (0.58 of a percentage point). Within the Housing group, Electricity increased 18.9% in the quarter.
- For Brisbane, the Food and non-alcoholic beverages group recorded the largest deduction from inflation in September quarter 2013 (-0.03 of a percentage point). Within the Food and non-alcoholic beverages group, Vegetables decreased by 6.5% in the quarter.



Source : Chesterton Research

The following commentary is extracted from the Reserve Bank of Australia in its November statement on monetary policy. It is supplemented with Chesterton research as identified.

Economic  
Activity

- In the past months growth in Australia's major trading partners remained around the average of the past decade.
- Preliminary estimates for January have seen declines across various commodities with the index. The largest contributors to the fall in January were declines in the prices of coking coal and iron ore. The prices of many rural commodities also fell, while the base metals subindex rose in the month.

## Economic and Market Overview – January 2013 (Cont'd)

### National Data and Impact of International Factors (Cont'd)

#### Economic Activity (Cont'd)

- Changed expectations about the path of US monetary policy during October also further eased pressures in the emerging market economies, with a continued unwinding of the sharp rise in bond yields that had occurred between late May and August.
- The Australian economy expanded at a bit below trend pace last year. Business surveys and the Bank's liaison suggest that business conditions have been below average for some time. Consistent with this, business investment declined in the first half of 2013; estimates suggest that much of this is due to a large fall in mining investment, but there was also a small decline in non-mining investment.
- Growth in household consumption appears to have remained below average over 2013, although indicators have been a bit more positive of late.
- Retail sales increased modestly over 2013 to September. However, growth looks to have picked up through the later part of 2013.
- Conditions in the housing sector show continued improvement in response to lower interest rates.
- Resource exports are likely to continue to grow strongly as more mining investment projects are scheduled for completion in the coming years.
- Other exports have fared less well given the high value of the Australian dollar, although the depreciation since earlier in 2013 will provide some assistance for businesses in the trade sector.
- For the Australian economy, there are both upside and downside risks for growth and so for inflation. Some of these relate to the path for business investment. There is uncertainty surrounding the profile for mining investment, which will depend on the viability and timing of projects and variations in costs to those already underway.
- Difficulty also exists in predicting the timing and strength of the expected upturn in non-mining investment. While near-term indicators remain subdued, low interest rates and improvement in consumer and business confidence suggest potential for a stronger recovery in non-mining investment than currently anticipated.

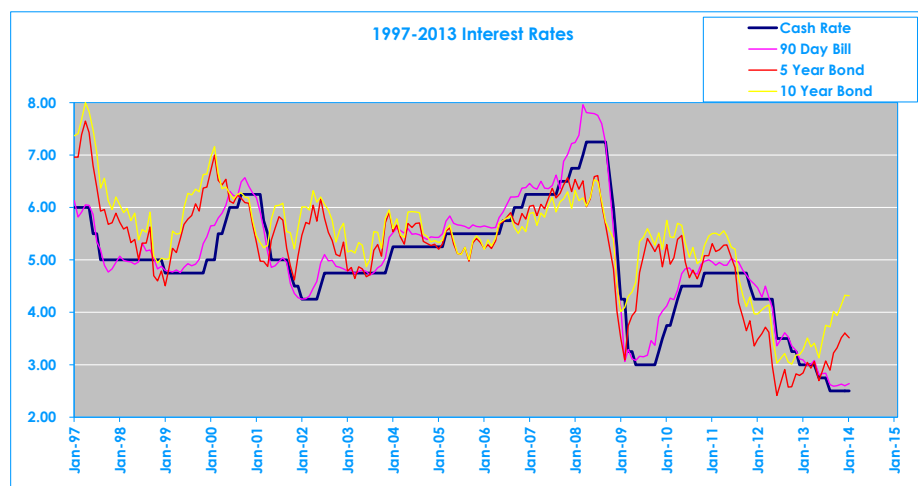
#### Interest Rates

- The Reserve Bank Board maintained the target cash rate at 2.50 per cent at its December meeting.
- The easing in monetary policy since late 2011 has supported interest-sensitive spending and asset values, the full effect however is still to be realised in the future.
- Rates on bank bills and certificates of deposit (CDs) are mostly unchanged from the time of the previous statement, with the yield on the 3-month bank bill remaining historically low
- Yield on long-term Commonwealth Government Securities (CGS) have fluctuated in a relatively wide range during past months. Uncertainty about fiscal and monetary policy in the United States has been an influence, as has diminished expectations for a lower cash rate.

## Economic and Market Overview – January 2013 (Cont'd)

### National Data and Impact of International Factors (Cont'd)

#### Interest Rates (Cont'd)



Source : Chesterton Research

| Interest Rates           | 31 Dec 12 | 29 Nov 13 | 31 Dec 13 | 12 mth change | One month change |
|--------------------------|-----------|-----------|-----------|---------------|------------------|
| Cash Rate                | 3.00%     | 2.50%     | 2.50%     | (0.50%)       | 0.00%            |
| 90 day Bill              | 3.09%     | 2.63%     | 2.65%     | (0.46%)       | 0.02%            |
| 5 year Bond              | 2.84%     | 3.52%     | 3.47%     | 0.68%         | (0.04%)          |
| 10 Year Bond             | 3.29%     | 4.33%     | 4.24%     | 1.04%         | (0.08%)          |
| Spread 90 day to 10 year | (0.20%)   | (1.70%)   | (1.59%)   | (1.50%)       | 0.10%            |
| Spread 5 year to 10 year | (0.44%)   | (0.81%)   | (0.77%)   | (0.37%)       | 0.04%            |

Source : Chesterton Research

#### International Equity Markets

- Global share prices have increased by 5 per cent since the previous statement (till November statement), with much of this occurring since September, to be almost 20 per cent higher over 2013.

| Indices         | 31 Dec 12 | 29 Nov 13 | 31 Dec 13 | 12 mth change | One month change |
|-----------------|-----------|-----------|-----------|---------------|------------------|
| All Ordinaries  | 4,664.60  | 5,314.36  | 5,353.10  | 14.76%        | 0.73%            |
| Property Trusts | 973.80    | 1,016.60  | 984.90    | 1.14%         | (3.12%)          |
| Nikkei          | 10,395.18 | 15,661.87 | 16,291.31 | 56.72%        | 4.02%            |
| Hang Seng       | 22,656.92 | 23,881.29 | 23,306.39 | 2.87%         | (2.41%)          |
| Dow Jones       | 13,104.14 | 16,086.41 | 16,576.66 | 26.50%        | 3.05%            |
| Nasdaq          | 3,019.51  | 4,059.89  | 4,176.59  | 38.32%        | 2.87%            |
| FTSE            | 5,897.80  | 6,650.60  | 6,749.10  | 14.43%        | 1.48%            |

Source : Chesterton Research

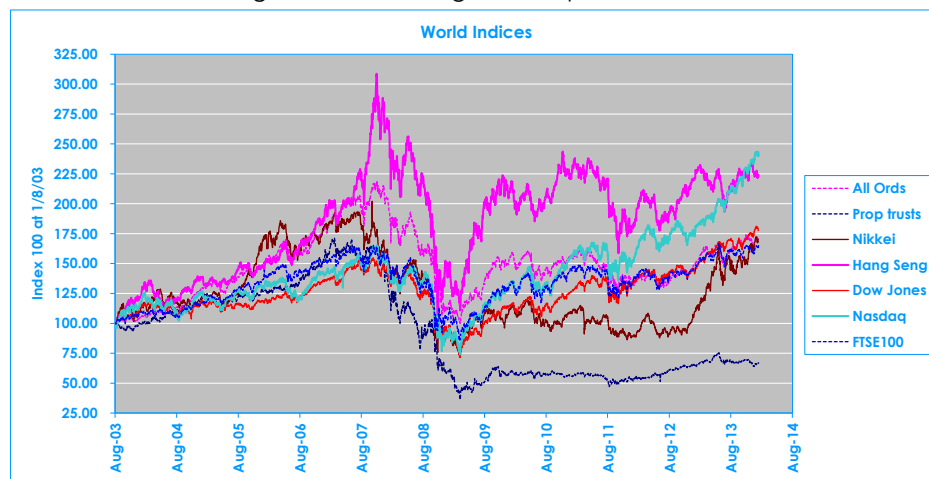
- Among advanced economies, recent increases have been larger in the euro area than in the United States. Nonetheless, US share prices have continued to reach new record highs in recent months.
- As early as next month US Congress will be faced with lifting the debt ceiling. In a similar situation to 203 this may cause falls in share prices and increased market volatility.

## Economic and Market Overview – January 2013 (Cont'd)

### National Data and Impact of International Factors (Cont'd)

#### International Equity Markets (Cont'd)

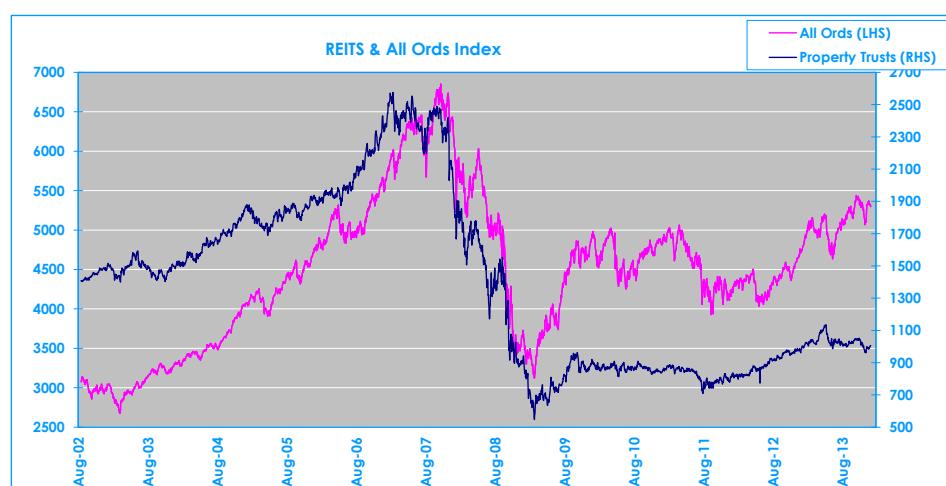
- Share prices in developing economies have been buffeted by the shifting expectations regarding the outlook for US monetary policy. The growing expectation that the Federal Reserve would reduce the scale of its asset purchases from September saw share prices fall by more than 10 per cent in some cases. However, these declines have since been more than reversed, with the MSCI Emerging Markets index now almost 10 per cent higher (at the November statement) than at the time of the previous Statement.
- The pace of growth in China has increased a little through the year and is consistent with the government's target of 7.5 per cent.



Source : Chesterton Research

#### Domestic Equity Markets

- Australian equity prices have increased by around 7 per cent (at the time of the November statement) since last statement, reaching a 5.5 year high in October. Domestic equity prices have been supported by a broadly positive reaction to the local profit reporting season in August and better-than-expected Chinese economic data.
- REITS have continued to remain relatively flat over the proceeding few months.



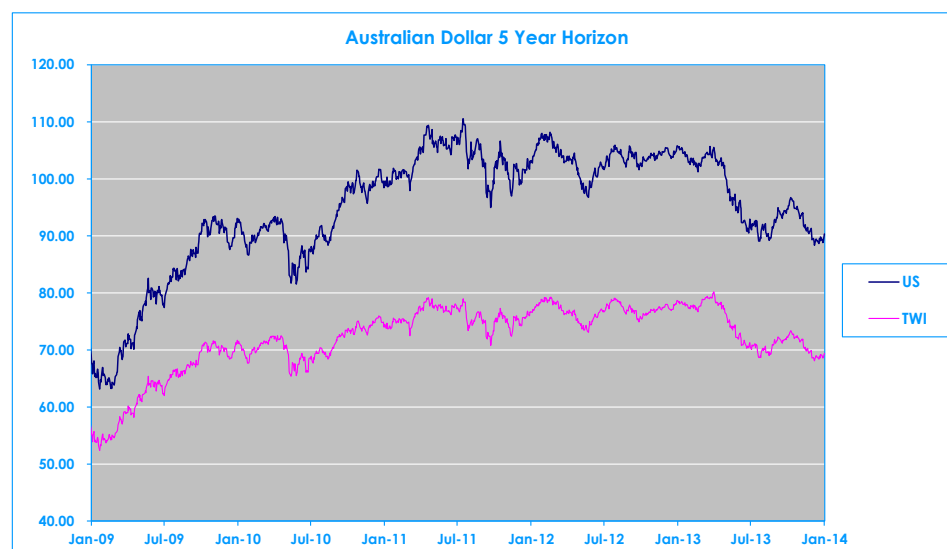
Source : Chesterton Research

## Economic and Market Overview – January 2013 (Cont'd)

### National Data and Impact of International Factors (Cont'd)

#### Australian Dollar

- The Australian dollar has dropped below its August 2013 low on a trade-weighted basis in late January. Since late October the dollar has been seen to decrease in TWI terms steadily.
- In trade-weighted terms, the Australian dollar remains nearly 12.5 per cent below its April peak.



Source : Chesterton Research

#### Economic Outlook

- The Australian economy was seen to continue to expand at a below-trend pace in the September quarter. At the same time, forward-looking indicators have generally improved.
- In the November Statement GDP growth was expected to drop to 2.25% in December recovering to 2.5% in June 2014.

| Output Growth & Inflation Forecasts |            |          |           |          |            |              |
|-------------------------------------|------------|----------|-----------|----------|------------|--------------|
|                                     | Year Ended |          |           |          |            |              |
|                                     | June 2013  | Dec 2013 | June 2014 | Dec 2014 | June 2015  | Dec 2015     |
| GDP Growth                          | 2.60%      | 2.25%    | 2.50%     | 2-3%     | 2.25-3.25% | 2.75 - 4.25% |
| Non-farm GDP Growth                 | 2.70%      | 2.25%    | 2.50%     | 2-3%     | 2.25-3.25% | 2.75 - 4.25% |
| CPI Inflation                       | 2.40%      | 2.50%    | 2.75%     | 2-3%     | 2 - 3%     | 1.5 - 2.5%   |
| Underlying Inflation                | 2.50%      | 2.25%    | 2.50%     | 2-3%     | 2 - 3%     | 1.75 - 2.75% |
| Year Average                        |            |          |           |          |            |              |
|                                     | 2012/13    | 2013     | 2013/14   | 2014     | 2014/15    | 2015         |
| GDP Growth                          | 2.60%      | 2.50%    | 2.50%     | 2-3%     | 2-3%       | 2.5-2.5%     |

Source : Reserve Bank Statement of Monetary Policy November 2013

- Household consumption was below average in 2013 to the June quarter, consistent with soft labour market conditions.
- Retail sales volumes increased by 0.7 per cent, with prices little changed overall. Sales at retailers of clothing, footwear, accessories, food-related items and household goods increased, while department store sales declined.
- Resource exports are likely to continue to grow strongly as more mining investment projects are scheduled for completion in the coming years.

## Debt

- Consumer price inflation has been at or below the middle of the inflation target range over the past year, consistent with the generally subdued growth of domestic demand and costs.
- The outlook for domestic manufacturing has been hampered by Holden's move to cease making cars in Australia by 2017. This move will result in over 2900 job losses and further shakes confidence in the sector..
- Commonwealth debt is predicted to reach higher levels than previously estimated and is currently sitting at approximately \$300 billion dollars
- The Mid-Year Budget update forecasts a deficit for the current financial year of \$47.6 billion up from \$30.1 billion.
- The Mid-Year Budget also set the stage for long-term spending cuts in welfare, health and education after forecasting combined deficits of \$123 billion over the next four years a decline in growth, and gross debt to hit \$667 billion in a decade.
- Queensland state government debt sits at approximately \$80 billion dollars.
- Per capita this equates to approximately \$30,000 of debt per Queenslanders and more than \$120,000 for a family of four.

## Economic Activity

- Queensland's state final demand (SFD) grew by 0.1% in seasonally adjusted (sa) terms in September quarter 2013, to be 1.8% higher over the year

| Indicator                        | % Change |         | Contribution to SFD |         |
|----------------------------------|----------|---------|---------------------|---------|
|                                  | Qtr      | Annual  | Qtr                 | Annual  |
| <b>Household Consumption</b>     | 0.50%    | 2.60%   | 0.30%               | 1.30%   |
| <b>Dwelling Investment</b>       | (1.70%)  | (0.50%) | (0.10%)             | 0.00%   |
| <b>Business Investment</b>       | (1.70%)  | 3.60%   | (0.30%)             | 0.70%   |
| Engineering Construction         | 6.10%    | 8.50%   | 0.60%               | 0.90%   |
| Non-residential building         | 2.10%    | 25.50%  | 0.10%               | 0.60%   |
| <b>Public Final Demand</b>       | 1.70%    | (1.40%) | 0.40%               | (0.30%) |
| <b>State Final Demand</b>        | 0.10%    | 1.80%   | 0.10%               | 1.80%   |
| <b>Overseas exports of goods</b> | (0.10%)  | 16.20%  | na                  | na      |
| <b>Overseas imports of goods</b> | 0.80%    | (5.10%) | na                  | na      |

Seasonally adjusted figures, September Qtr 2013

Sourced from ABS 5206.0 summarised by OESR

- In line with subdued growth in employment and wages, *household consumption* rose by 0.5% in September quarter 2013 compared with 0.8% in June quarter 2013, and was 2.6% higher over the year. Expenditure on recreation and culture (up 3.0%), rent and other dwelling service (up 0.7%) and insurance and other financial services (up 1.3%) contributed the most to household consumption growth in the quarter.
- Business investment* fell by 1.7% in September quarter 2013, but was 3.6% higher over the year. Business investment in Queensland in the past two years has been driven by three major CSG-to-LNG projects, which in aggregate have a nominal construction value of over \$60 billion. New engineering construction rose 6.1% in the September quarter to reach a new record high of \$8.6 billion, but is expected to retreat from these levels as major projects near completion.
- Overseas exports of goods fell 0.1% in September quarter 2013 in real terms, after rising 3.9% in June quarter 2013. However, overseas exports of goods were 16.2% higher in September quarter 2013 than a year ago.
- Overseas imports of goods rose 0.8% in September quarter 2013 after falling 5.9% in the previous quarter. However, the ABS treatment of LNG imports has

somewhat distorted this series in recent years, given that some imports associated with the LNG projects are accounted for at the national level, but have not been assigned at the state and territory levels.

## Economic and Market Overview – January 2013 (Cont'd)

### Queensland Economic Drivers within National Economy (Cont'd)

#### Labour Force

- Trend employment in Queensland rose 0.1% in December 2013. Employment in trend terms has now risen in 14 of the last 15 months. Over the year to December, trend employment grew 35,200 persons, accounting for around three quarters of national jobs growth. This was driven by a 38,800 increase in part-time employment, while full-time employment fell 3,600. Queensland recorded the strongest trend employment growth of any State over the year.
- With trend employment growing stronger than the labour force, Queensland's trend unemployment rate fell to 5.7% in December, from an upwardly revised 5.8% in November.
- The trend participation rate in Queensland was unchanged at 65.8% in December 2013 but remains well below the peak of 67.4% recorded in October 2011.
- In more volatile seasonally adjusted (sa) terms, employment in Queensland fell 6,600 persons in December 2013, although it was 1.9% higher than a year ago.
- Nationally, sa employment fell 22,600 persons in December, well below market expectations of a 7,500 gain and more than reversing the 15,400 gain in November. However, with the number of persons in the labour force falling at a similar rate in December, the sa unemployment rate was unchanged at 5.8% in line with market expectations.

#### Retail Trade

- The Trend estimate of Queensland's retail turnover increased 0.4% in November 2013. Australia's trend turnover increased by 0.5% during the month.
- The Trend value of Queensland's retail turnover increased from \$4,662.1 million in October 2013 to \$4,681.2 million in November 2013.
- The increase in Queensland's nominal retail turnover in November 2013 mainly reflected higher spending in Other retailing and Cafes, Restaurants and Catering Services.
- The trend value of Queensland's retail turnover increased by 4.3% over the previous 12 months, from \$4,488.9 million in November 2012.
- Queensland recorded the fifth-highest annual growth in retail trade of all states and territories (4.3%). Tasmania recorded the highest increase (5.8%).
- Other retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.18 percentage point). Cafés, Restaurants and Catering Services recorded the largest contribution to retail turnover growth in Australia (0.15 percentage point) in November 2013.

Annual Change in Retail Turnover November 2013



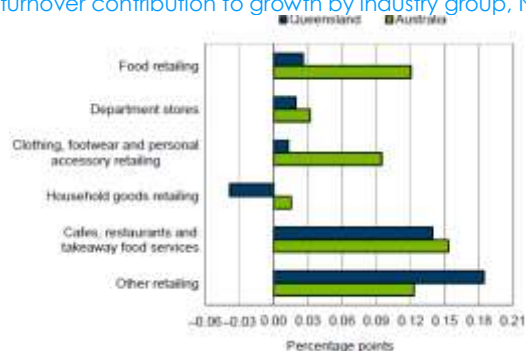
Source: Government Statistician Queensland Treasury & Trade

## Economic and Market Overview – January 2013 (Cont'd)

### Queensland Economic Drivers within National Economy (Cont'd)

Retail Trade  
(Cont'd)

Monthly retail turnover contribution to growth by industry group, November 2013



Source: Government Statistician Queensland Treasury & Trade

Building Approvals & Construction

#### Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in November 2013 was 3,356, 4.9% higher than the October 2013 figure. The national trend estimate for total dwelling approvals increased 2.4% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 0.3% in November 2013, with a total of 1,570 houses approved. Australia's trend estimate for the number of private sector house approvals was 8,574, an increase of 1.1% from the October 2013 figure.
- In November 2013, trend total dwelling units approved in Queensland accounted for 20.5% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 18.4% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland increased 5.3% in November 2013 to a total of \$924.2 million. Australia's trend value of residential building work approved increased 2.6% over the month to \$4,804.2 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in November 2013 was 38.3% higher than the November 2012 estimate. In comparison, total dwelling units approved in Australia increased 23.9% over the same period.

#### Non-residential building

- The trend value of non-residential buildings approved in Queensland in November 2013 was \$451.0 million, a decrease of 1.3% over the month. The value of non-residential buildings approved in Australia in November 2013 was \$3,031.5 million, an increase of 1.9% over the month.