

Economic and Market Overview – March

National Data and Impact of International Factors

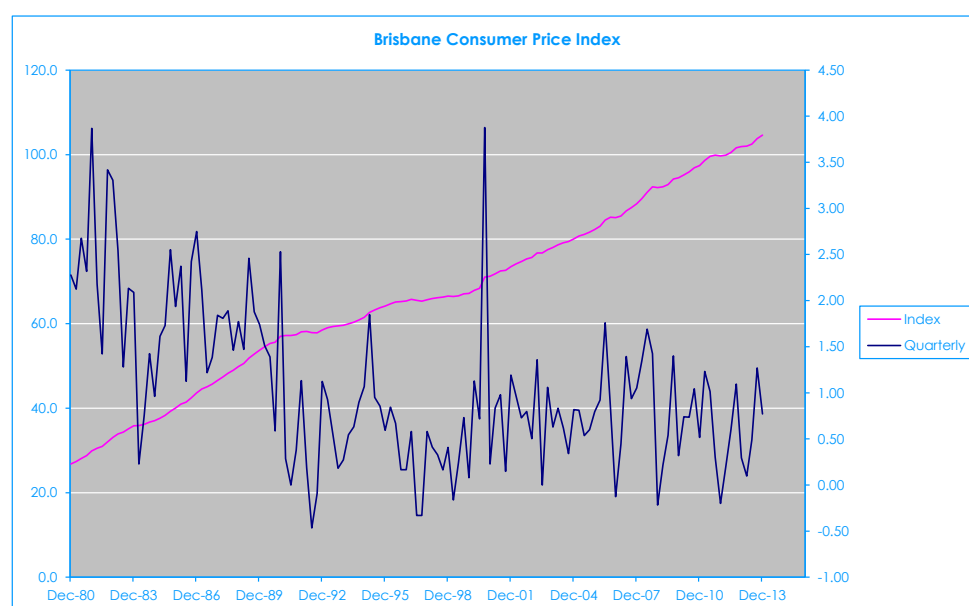
Consumer
Price Index
Dec Qtr 2013

The Australian Bureau of Statistics states:

- The most significant price rises this quarter were for domestic holiday travel and accommodation (+6.9%), fruit (+8.1%), vegetables (+7.1%), new dwelling purchase by owner-occupiers (+1.0%), international holiday travel and accommodation (+2.6%) and tobacco (+2.2%).
- The most significant offsetting price fall this quarter was for automotive fuel (-1.1%)

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

- Brisbane's headline consumer price index (CPI) increased 0.8% in December quarter 2013, to be 2.6% 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.
- For Brisbane, The Recreation and Culture group made the largest contribution to inflation in December quarter 2013 (0.26 of a percentage point). Within the Recreation and Culture group, Domestic holiday travel and accommodation increased 7.5% in the quarter.
- For Brisbane, the Health group recorded the largest detraction from inflation in December quarter 2013 (-0.04 of a percentage point). Within the Health group, Therapeutic appliances and equipment decreased 2.6% in the quarter.



Source: Chesterton Research

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

Economic
Activity

- The forecast for overall growth of Australia's major trading partners was little changed from that presented three months earlier. In 2014, trading partner growth was expected to be a little higher than in 2013, at around 4.5%, before returning to its decade average of around 4% in 2015.
- The recovery in the US economy strengthened through the second half of 2013, driven by private demand, particularly consumption.

Economic and Market Overview – March 2014 (Cont'd)

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

Economic Activity (Cont'd)

- The recovery appeared to have been building momentum and the recent agreement to lessen the automatic cuts to federal government spending implied a more favourable outlook for public demand.
- Housing market conditions remain generally positive and the labour market has continued to improve.
- Conditions in the euro area have improved a little yet remaining weak overall.
- In China, growth remained a little above the government's target of 7.5 per cent. Growth in 2013 was supported by strong domestic demand, including from both consumption and investment.
- Economic conditions in Japan have shown further improvement. In the rest of easy Asia growth in the second half of 2013 appeared to have been close to its average of the past decade and had been broad based.
- In India there have been tentative signs that growth in economic activity had increased. Inflation remains high albeit easing a little.
- Australian consumer price inflation was higher-than-expected in the December quarter. The CPI rose by 0.9% in the December quarter on a seasonally adjusted basis to be 2.7% higher over the year.
- The unemployment rate in Australia has continued to edge higher in recent months, to 5.8% in December. The participation rate has dipped further and declined noticeably since mid 2013.
- The domestic economy has continued to grow at a below-trend pace over the second half of 2013. Although a range of indicators are more positive for economic activity around the turn of the year.
- The September quarter national accounts data reported that GDP increased by 0.6% in the September quarter and by 2.3% over the preceding year. Growth of domestic demand has remained weak, with non-mining investment subdued and fiscal restraint constraining public demand.
- In the September quarter domestic consumption growth has been below average. In contrast, exports had grown strongly over the year, contributing to aggregate growth, this outcome was expected.
- Business conditions have improved noticeably in recent months to above average levels.
- The effect of low interest rates were clearly evident in the housing market, where prices have increased further and turnover has picked up.

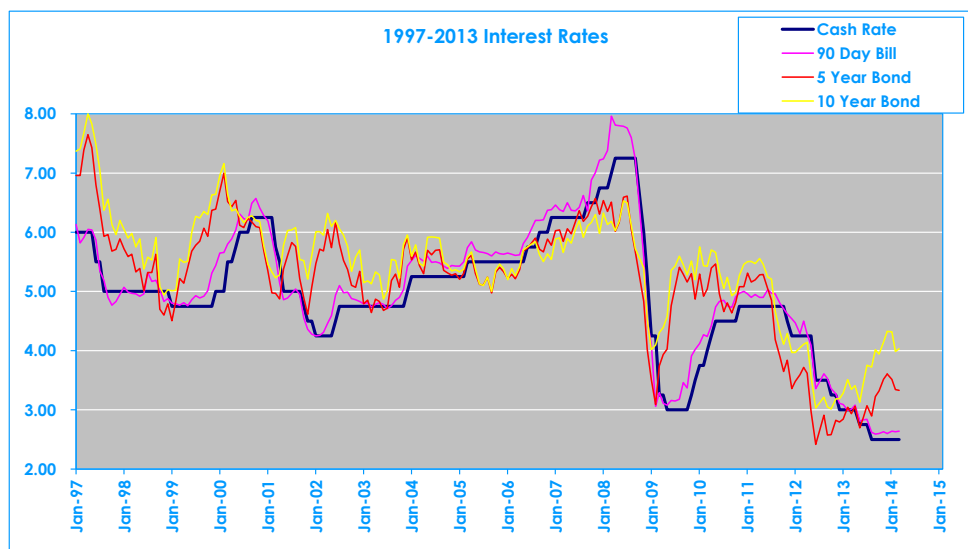
Interest Rates

- The Reserve Bank has maintained the cash rate target at 2.50 per cent.
- Given the substantial degree of monetary policy stimulus in place the RBA board kept policy unchanged while assessing the continuing impact of the stimulus.
- Rates on bank bills and certificates of deposit have been stable over the past few months, and remain close to historically low levels of around 2.50 per cent.
- Yields on long-term Commonwealth Government securities (CGS) have moved in a wide range during the past few months.

Economic and Market Overview – March 2014 (Cont'd)

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

Interest Rates (Cont'd)



Source: Chesterton Research

Interest Rates	28 Feb 13	31 Jan 14	28 Feb 14	12 mth change	One month change
Cash Rate	3.00%	2.50%	2.50%	(0.50%)	0.00%
90 day Bill	2.99%	2.64%	2.66%	(0.35%)	0.02%
5 year Bond	2.92%	3.33%	3.33%	0.41%	0.01%
10 Year Bond	3.36%	4.01%	4.07%	0.65%	0.07%
Spread 90 day to 10 year	(0.37%)	(1.37%)	(1.41%)	(1.00%)	(0.05%)
Spread 5 year to 10 year	(0.44%)	(0.68%)	(0.74%)	(0.24%)	(0.06%)

Source : Chesterton Research

International Equity Markets

- Global financial markets were relatively calm over the latter part of 2013, notwithstanding a decision by the US Federal Reserve to commence the process of reducing its monthly asset purchases in December.
- Global share prices increased by 2 per cent over 2013. Japanese equities rose particularly strongly, increasing by 57 per cent over 2013. While US shares rose by 30 per cent. In contrast, emerging market share prices tended to decline over the second half of 2013. (Slight discrepancy between movement recorded by RBA and Chesterton Research)
- Recently financial conditions have become considerably more unsettled in some emerging market economies in recent months.

Indices	28 Feb 13	31 Jan 14	28 Feb 14	12 mth change	One month change
All Ordinaries	5,120.40	5,205.10	5,415.40	5.76%	4.04%
Property Trusts	1,041.30	989.20	1,021.90	(1.86%)	3.31%
Nikkei	11,559.36	14,914.53	14,841.07	28.39%	(0.49%)
Hang Seng	23,050.27	22,035.42	22,836.96	(0.93%)	3.64%
Dow Jones	14,054.49	15,698.85	16,321.71	16.13%	3.97%
Nasdaq	3,160.19	4,103.88	4,308.12	36.32%	4.98%
FTSE	6,360.80	6,510.40	6,809.70	7.06%	4.60%

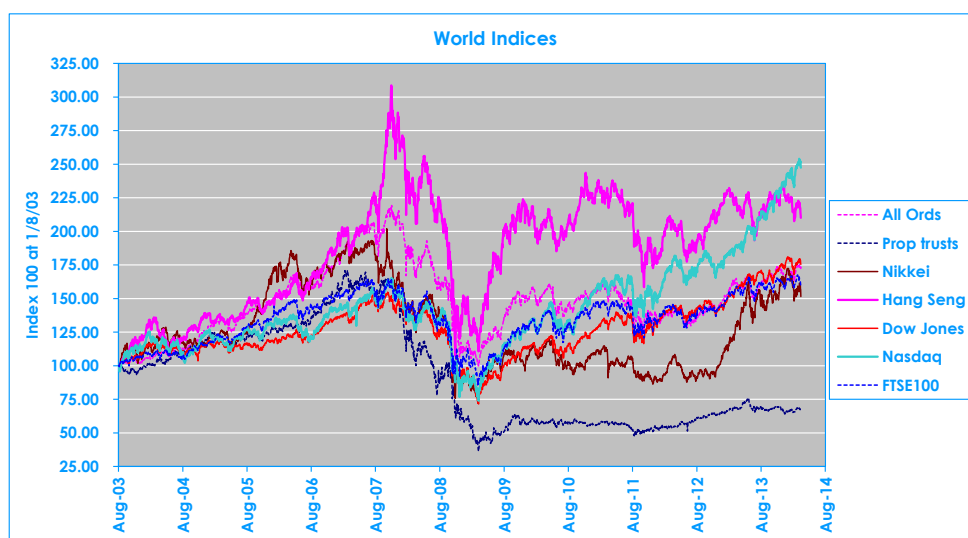
Source : Chesterton Research

Economic and Market Overview – March 2014 (Cont'd)

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

International Equity Markets (Cont'd)

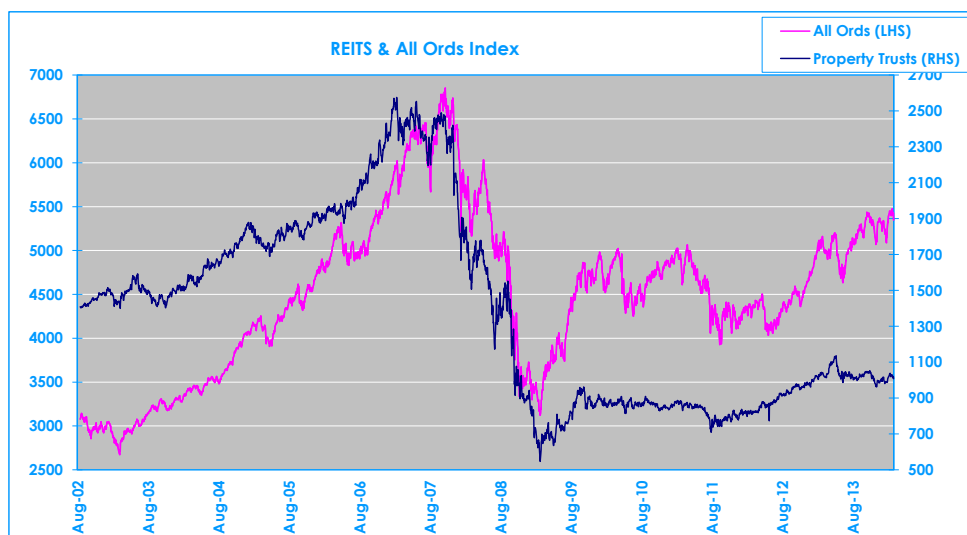
- Despite price-earnings ratios in the major markets remaining close to longer-term averages, the start of the New Year saw most share markets decline. Mainly as a result of the growing concerns in emerging markets.
- The European Central Bank has made it clear that it would further action will be taken if existing measures were not sufficient to address the risk of deflation in the euro area. Ireland, Portugal and Spain raised significant amounts in bond issues in January.



Source: Chesterton Research

Domestic Equity Markets

- Australian equity prices have declined by 6.5 per cent since the previous Statement (November), broadly following overseas market developments. Over 2013, Australian equity prices rose by 15 per cent, underperforming global equity markets, particularly Japan and the United States.
- REITS have continued to remain relatively flat over the proceeding few months.



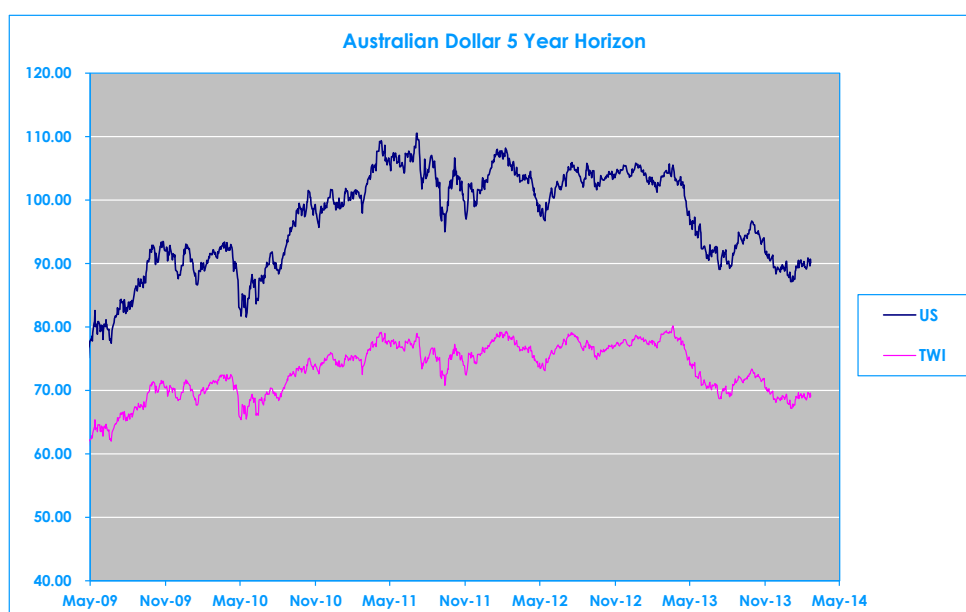
Source: Chesterton Research

Economic and Market Overview – March 2014 (Cont'd)

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

Australian Dollar

- The Australian dollar depreciated by 3% on a trade-weighted basis over the past two months leading into the February RBA monetary policy board meeting.



Source: Chesterton Research

Economic Outlook

- The Australian economy expanded at a below-trend pace over the previous year to the September quarter, although recent indicators of performance point to some improvement toward the end of 2013.
- GDP growth is likely to strengthen a little in 2014 though to a pace that is still only trend at best. Growth is then expected to pick up to an above-trend pace by mid 2016.

Output Growth & Inflation Forecasts						
	Year Ended					
	Dec 2013	June 2014	Dec 2014	June 2015	Dec 2015	June 2016
GDP Growth	2.50%	2.75%	2.25-3.25%	2.5-3.5%	3-4%	3-4.5%
Non-farm GDP Growth	2.50%	2.75%	2.25-3.25%	2.5-3.5%	3-4%	3-4.5%
CPI Inflation	2.70%	3.25%	2.25-3.25%	2.25-3.25%	2-3%	2-3%
Underlying Inflation	2.50%	3.00%	2.25-3.25%	2.25-3.25%	2-3%	2-3%
	Year Average					
	2013	2013/14	2014	2014/15	2015	2015/16
GDP Growth	2.25%	2.50%	2.25-3.25%	2.25-3.25%	2.5-3.5%	3-4%

Source : Reserve Bank Statement of Monetary Policy February 2014

- Growth of household consumption was below average over the year to the September quarter, broadly in line with growth in income and notwithstanding a strong rise in household wealth.
- Retail sales volumes increased by 0.9 per cent in the December quarter, with prices rising by 1.1 per cent. Sales increased particularly strongly at cafes, restaurants, takeaway stores and apparel retailers.
- Business investment has declined from its peak in late 2012, but remains very high as a share of output both historically and in comparison with other advanced economies.
- The run-up in business investment in recent years reflected very strong growth in mining investment. Over the next few years, however, mining investment is expected to fall with the RBA liaison suggesting that it is likely that the peak in the investment phase of the resources boom has passed.
- In recent months, the Capex survey indicates that there has been a slight improvement in non-mining investment expectations (compared with earlier surveys for 2013/2014), although firms continue to report that they have some spare capacity, which is likely to weigh on capital spending plans.
- Confidence within the construction sector has improved with strong growth in residential approvals.

Economic Activity

- Queensland's state final demand (SFD) fell by 0.4% in seasonally adjusted (sa) terms in December quarter 2013, following a 0.3% rise in the previous quarter. Queensland SFD was 0.6% higher over the year to December quarter 2013.

Indicator	% Change		Contribution to SFD	
	Qtr	Annual	Qtr	Annual
Household Consumption	0.30%	2.10%	0.20%	1.10%
Dwelling Investment	2.50%	(1.30%)	0.10%	(0.10%)
Business Investment	(2.90%)	(2.70%)	(60.00%)	(50.00%)
Engineering Construction	(2.30%)	(2.00%)	(0.03%)	0.00%
Non-residential building	(3.80%)	10.70%	(0.10%)	3.00%
Public Final Demand	(5.00%)	(6.00%)	(0.10%)	(0.10%)
State Final Demand	(0.40%)	0.60%	(0.40%)	0.60%
Overseas exports of goods	3.30%	2.80%	na	na
Overseas imports of goods	(4.90%)	(15.00%)	na	na

Seasonally adjusted figures, December Qtr 2013

Sourced from ABS 5206.0 summarised by OESR

- Household consumption rose a modest 0.3% in December quarter 2013, compared with 0.6% in the previous quarter, to be 2.1% higher over the year. Expenditure on hotels, cafes and restaurants (up 2.9%), health (up 2.2%) and insurance and other financial services (up 1.5%) contributed the most to

household consumption growth in the quarter.

- Business investment fell 2.9% in December quarter 2013, to be 2.7% lower over the year. Nevertheless, business investment in Queensland remains at a very high level, driven by three major CSG-LNG projects, which in aggregate have a nominal construction value of over \$60 billion. Following a record high in the September quarter 2013, new engineering construction fell 2.3%, to \$8.4 billion, in the December quarter. Business investment is expected to return to more sustainable levels over the next few years as these major projects transition into the production phase.
- Overseas exports of goods rose 3.3% in the December quarter, accelerating from 0.6% in the September quarter, to be 2.8% higher over the year.
- Overseas imports of goods fell 4.9% in December quarter 2013 after growing 0.8% in the previous quarter. However, the ABS treatment of LNG construction-related capital imports has somewhat distorted this series in recent years, given that some imports are accounted for at the national level, but not assigned at the state level.

Economic and Market Overview – March 2014 (Cont'd)

Queensland Economic Drivers within National Economy (Cont'd)

Labour Force

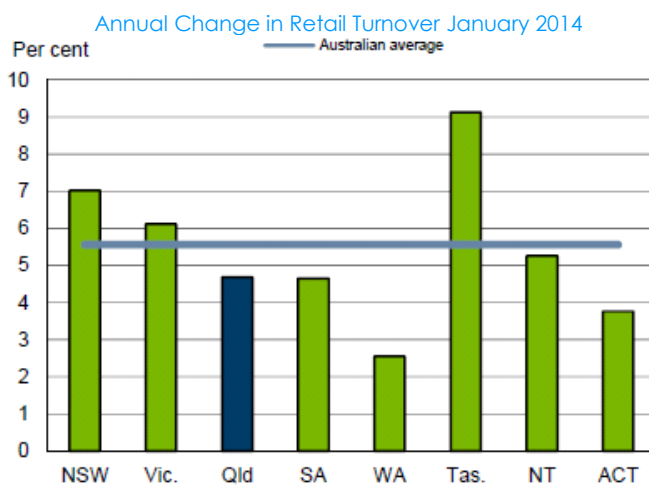
- Trend employment in Queensland increased 900 persons in February 2014, and has now risen in 16 of the last 17 months. Over the year to February 2014, Queensland recorded a 26,600 person increase in trend employment, the largest contributor to the 58,500 person gain in national employment. In February, trend employment growth in Queensland was driven by part-time employment (up 2,000 persons), while full-time employment fell 1,100.
- With trend labour force growing at a faster pace than employment in February, Queensland's trend unemployment rate edged higher, to 6.1% from an upwardly revised 6.0% in January.
- The trend participation rate in Queensland was 65.7% in February 2014, unchanged from an upwardly revised January result. Despite being 1.7 percentage points lower than mid-2011 levels, the trend participation rate has stabilised in recent months.
- In more volatile seasonally adjusted (sa) terms, employment in Queensland rose a strong 30,800 persons (1.3%) in February 2014, to be 40,100 higher (1.7%) than a year ago.
- Nationally, sa employment rose 47,200 persons in February, well above market expectations of an 18,000 person gain. With the labour force rising at a similar rate to employment growth in February, the sa unemployment rate was unchanged, at 6%, in line with market expectations.

Retail Trade

- The trend estimate of Queensland's retail turnover increased 0.6% in January 2014. Australia's trend turnover increased by 0.7% during the month.
- The trend value of Queensland's retail turnover increased from \$4,723.3 million in December 2013 to \$4,750.2 million in January 2014.
- The increase in Queensland's nominal retail turnover in January 2014 mainly reflected higher spending in Food retailing and Cafes, restaurants and catering

services.

- Queensland along with South Australia, recorded the third-lowest annual growth in retail trade of all states and territories (4.7%). Tasmania recorded the highest increase (9.1%).
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.19 percentage point). Food retailing also recorded the largest contribution to retail turnover growth in Australia (0.32 percentage point) in January 2014.

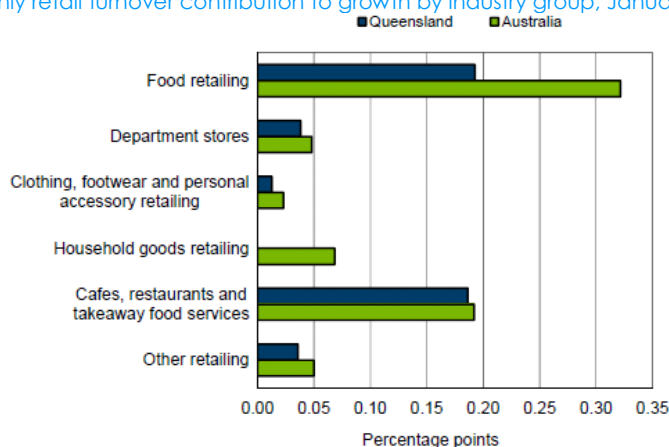


Economic and Market Overview – March 2014 (Cont'd)

Queensland Economic Drivers within National Economy (Cont'd)

Retail Trade
(Cont'd)

Monthly retail turnover contribution to growth by industry group, January 2014



Source: Government Statistician Queensland Treasury & Trade

Building Approvals & Construction

Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in January 2014 was 3,639, 2.6% higher than the December 2013 figure. The national trend estimate for total dwelling approvals increased 1.3% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 1.1% in January 2014, with total of 1,622 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,121, an increase of 2.0% from the December 2013 figure.
- In December 2013, trend total dwelling units approved in Queensland accounted for 21.2% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 17.7% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland increased 2.7% in January 2014 to a total of \$1,002.6 million. Australia's trend value of residential building work approved increased 1.1% over the month to \$5,000 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in January 2014 was 45.2% higher than the January 2013 estimate. In comparison, total dwelling units approved in Australia increased 28.4% over the same period.

Non-residential building

- The trend value of non-residential buildings approved in Queensland in January 2014 was \$764.1 million, an increase of 13.0% over the month. The value of non-residential buildings approved in Australia in January 2014 was \$3,433.8 million, an increase of 1.7% over the month.