

Economic and Market Overview - November 2015

Highlights

- Nationally, the Consumer Price Index (CPI) rose 0.5% to 108.0 in the September quarter 2015, following a rise of 0.7% per cent in the June quarter 2015. Locally, Brisbane recorded the second-highest increase reaching 108.1 while Sydney recorded the largest increase for all capital cities in Australia.
- The Board decided to leave the cash rate unchanged at 2.0 per cent.
- Trend employment in Queensland rose by 4,000 persons (up 0.2%) in September 2015. This was the tenth consecutive monthly rise in employment.
- Nationally, trend employment rose by 12,400 persons (up 0.1%) in September 2015, to be 2.0% higher over the year.
- The trend estimate for total dwelling units approved in Queensland in September 2015 was 3,741, 0.3% higher than the August 2015 figure. The national trend estimate for total dwelling approvals increased 1.8% during the month.
- The trend value of non-residential buildings approved in Queensland in September 2015 was \$463.0 million, a decrease of 2.4% over the month.
- Queensland recorded the fifth-highest annual growth in retail turnover of all states and territories (2.6%). Victoria recorded the highest increase (4.6%).

Consumer Price Index September Quarter 2015

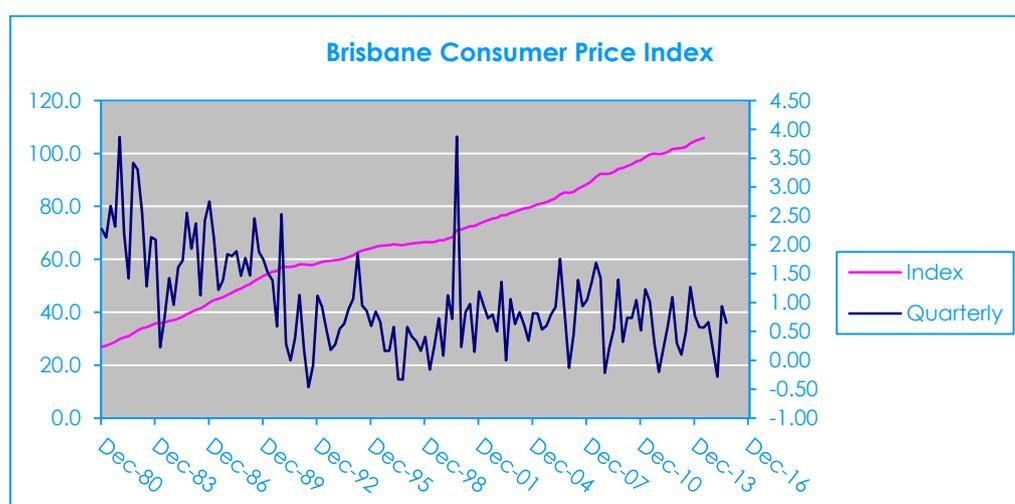
The Australian Bureau of Statistics states:

- Nationally, the Consumer Price Index (CPI) rose 0.5% in the September quarter 2015, following a rise of 0.7% per cent in the June quarter 2015.
- The most significant price rises this quarter were in international holiday travel and accommodation (+4.6 per cent), fruit (+8.2 per cent) and property rates and charges (+4.6 per cent). These rises were partially offset by falls in vegetables (-5.9 per cent), telecommunication equipment and services (-2.0 per cent) and automotive fuel (-1.7 per cent).

Queensland Treasury and Trade Overview for September Quarter 2015 states:

- Locally, Brisbane recorded the second-highest increase while Sydney recorded the largest increase for all capital cities in Australia.
- Compared with the weighted average of eight capital cities for September quarter 2015, Brisbane recorded stronger contributions from the CPI groups of recreation and culture, insurance and financial services, clothing and footwear, housing, alcohol and tobacco, and food and non-alcoholic beverages. These were partly offset by deductions from the communication, transport and health groups.
- For Brisbane, the *housing* group made the largest contribution to inflation in September quarter 2015 (0.21 of a percentage point).
- For Brisbane, the *communication* group recorded the largest deduction from inflation in September quarter 2015 (-0.06 of a percentage point). Within the *communication* group, telecommunication equipment and services decreased 2.0% in the quarter.
- Australia's CPI for market sector goods and services, which excludes more volatile items, increased 0.4% in September quarter 2015, with an annual inflation rate of 1.7%.

Consumer Price Index September Quarter 2015 (Cont'd)



Source: Chesterton Research

The following commentary is extracted from the Reserve Bank of Australia in its 3 November 2015 statement on monetary policy and Board Meeting Minutes. It is supplemented with Chesterton research as identified.

Economic Activity

- The Board decided to leave the cash rate unchanged at 2.0 per cent.
- The global economy is expanding at a moderate pace, with some further softening in conditions in the Asian region, continuing US growth and a recovery in Europe.
- Key commodity prices are much lower than a year ago, in part reflecting increased supply, including from Australia. Australia's terms of trade are falling.
- The Federal Reserve is expected to start increasing its policy rate over the period ahead, but some other major central banks are continuing to ease monetary policy.
- Moderate expansion in the economy continues.
- While GDP growth has been somewhat below longer-term averages for some time, business surveys suggest a gradual improvement in conditions over the past year. This has been accompanied by somewhat stronger growth in employment and a steady rate of unemployment.
- Inflation is low and should remain so, and is forecast to be consistent with the target over the next one to two years.
- Low interest rates are acting to support borrowing and spending.
- Credit growth has increased a little over recent months, with growth in lending to investors in the housing market easing slightly while that for owner-occupiers is picking up.
- Dwelling prices continue to rise in Melbourne and Sydney, though the pace of growth has moderated of late. Growth in dwelling prices has remained mostly subdued in other cities.
- Prices for commercial property have been supported by lower long-term interest rates.
- Equity prices have moved in parallel with developments in global markets. The Australian dollar is adjusting to the significant declines in key commodity prices.

Economic Activity (Cont'd)

Federal Budget

On 12 May 2015 The Federal Budget was announced and key highlights are as follows:

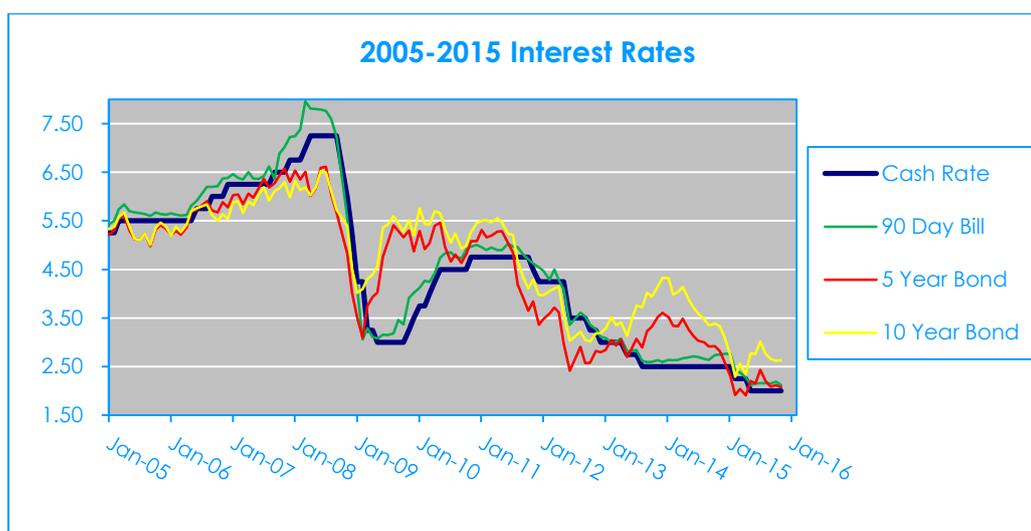
- The focus is on building jobs, growth and opportunity and providing a credible path to surplus.
- Will provide \$5.5 billion including \$5 billion of tax relief to create jobs and small business growth.
- Will reduce the tax rate for the more than 90 per cent of incorporated business with annual turnover less than \$2 million. The company tax rate for these businesses will be reduced by 1.5 percentage points to 28.5 per cent.
- Will provide over \$330 million in targeted spending on new jobs initiatives aimed at employers and young job seekers to support the transition to work.
- The deficit is projected to fall from \$35.1 billion in 2015–16 to \$6.9 billion in 2018–19.
- Will provide \$450 million to strengthen Australia's intelligence capabilities, including updating information technology systems and to counter extremist messaging.
- As of 15 September 2015 Malcom Turnbull was sworn in as the 29th Prime Minister of Australia.

State Budget

On Tuesday, 14 July 2015, the Labour Government handed the Palaszczuk Government's first budget and key highlights are as follows.

- *Jobs Now, Jobs for the Future:* This budget has a strong focus on employment, with the creation of the 'Working Queensland' program.
- *Infrastructure:* A new independent statutory body is being established by the Government to deliver a whole-of-government perspective to infrastructure planning and investment. Infrastructure and capital grants include \$3.9 billion for roads and transport, \$607 million for education and training, \$2.4 billion for energy and water, and \$1.4 billion for health and community.
- *Support for rural and regional Queensland:* Total spending on regional infrastructure is \$4.762 billion.
- *Debt action plan:* The debt is forecast to reduce for the first time since 1999-2000.

Economic Activity (Cont'd)



| Interest Rates | 25 Nov 14 | 25 Oct 15 | 25 Nov 15 | 12 mth change | One month change |
|--------------------------|-----------|-----------|-----------|---------------|------------------|
| Cash Rate | 2.50% | 2.00% | 2.00% | (0.50%) | 0.00% |
| 90 day Bill | 2.78% | 2.19% | 2.30% | (0.48%) | 0.11% |
| 5 year Bond | 2.72% | 2.15% | 2.33% | (0.39%) | 0.18% |
| 10 Year Bond | 3.21% | 2.67% | 2.87% | (0.34%) | 0.20% |
| Spread 90 day to 10 year | (0.43%) | (0.48%) | (0.57%) | (0.14%) | (0.09%) |
| Spread 5 year to 10 year | (0.49%) | (0.52%) | (0.54%) | (0.05%) | (0.02%) |

Source : Chesterton Research

The following commentary is extracted from the Reserve Bank of Australia in its November statement on monetary policy:

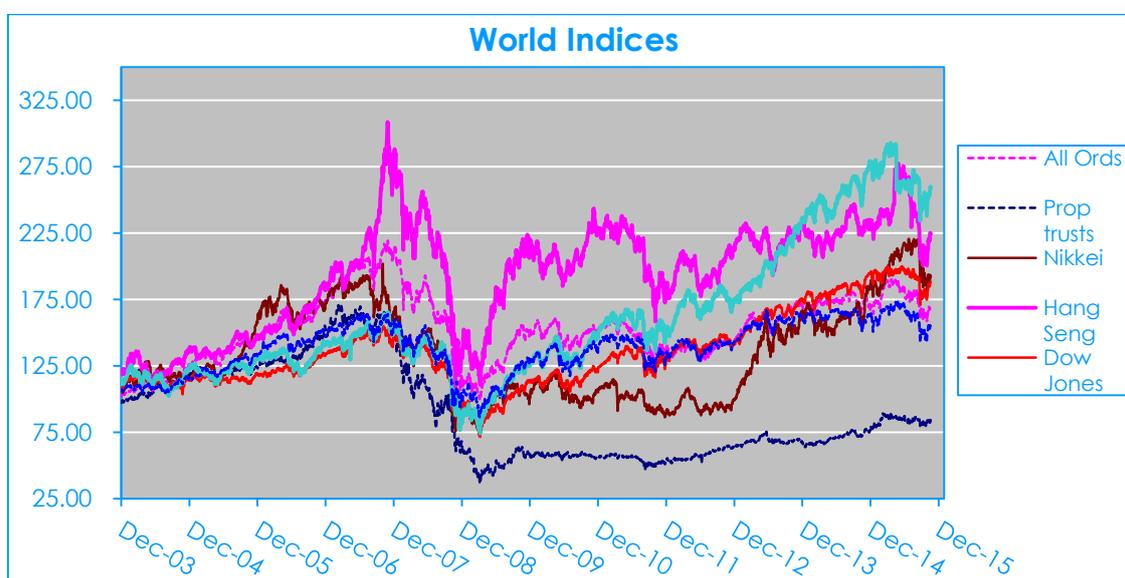
- The Australian equity market has largely followed movements in global share markets in recent months, falling in August in response to concerns about Chinese growth, before partially retracing these falls in early October.
- Continued speculation about the likely date of the first rise in the US federal funds rate has also contributed to increased volatility. Australian share prices are unchanged on a total returns basis since end 2014, underperforming US and European markets.
- In the past few months, around \$22 billion in mergers and acquisitions (M&A) deals have been announced by listed companies. Completed M&A activity has been concentrated in the financial and consumer discretionary sectors.
- The valuation of Australian equities, as measured by the forward price-earnings ratio, remains a little above the average since 2003..
- Underlying profits of financial companies rose by 5 per cent, driven by a substantial increase in profits at real estate and diversified financial companies. The major banks reported increases in full-year profits, although growth slowed due to lower growth in non-interest income.
- The banks reported modest increases in net interest income over the year, driven by growth in average interest earning assets.
- Company shareholder distributions grew strongly across most sectors compared to the same period in 2014.
- Listed corporations' balance sheets expanded by 3 per cent over the June half 2015, largely driven by an increase in the Australian dollar value of offshore assets. Debt rose by 5 per cent over the half year.
- Overall, the book value gearing ratio – the ratio of debt to equity – rose by 2 percentage points to 56 per cent, which remains below the average over the past 20 years.

National Data and Impact of International Factors

International and Domestic Equity Markets

| Indices | 25 Nov 14 | 25 Oct 15 | 25 Nov 15 | 12 mth change % | One month change % |
|-----------------|-----------|-----------|-----------|-----------------|--------------------|
| All Ordinaries | 5,320.90 | 5386.3 | 5245.2 | 0.65 | -1.41 |
| Property Trusts | 1,130.13 | 1,295.70 | 1,271.60 | 1.66 | -0.24 |
| Nikkei | 17,383.58 | 18,947.12 | 19,847.58 | 15.64 | 35.51 |
| Hang Seng | 23,843.91 | 23,116.25 | 22,498.00 | -7.28 | -53.03 |
| Dow Jones | 17,814.94 | 17,623.05 | 17,813.39 | -1.92 | 1.90 |
| Nasdaq | 4,758.25 | 4,630.85 | 4,672.88 | -1.27 | 0.42 |
| FTSE | 6,731.10 | 6,417.00 | 6,337.60 | -3.14 | -0.79 |

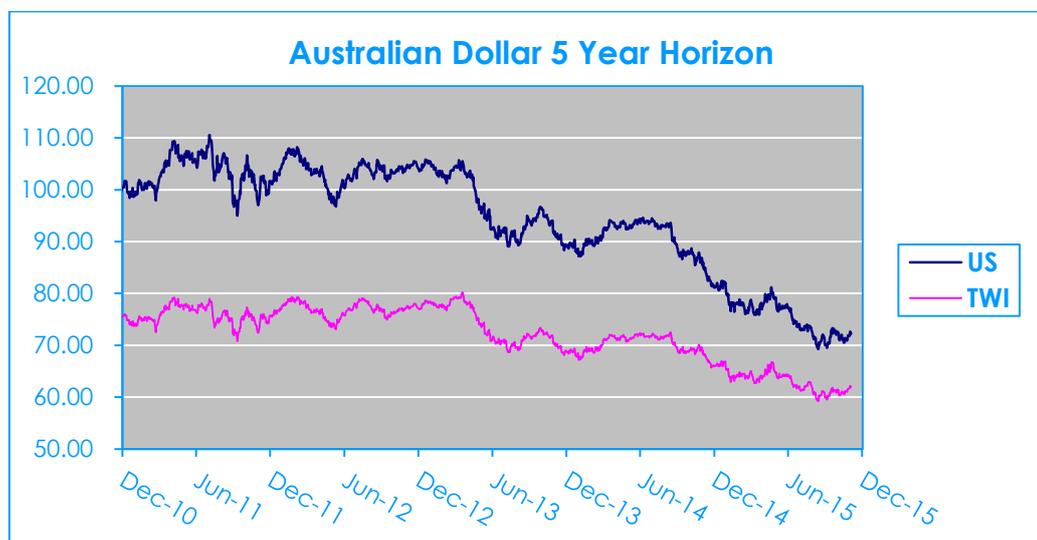
Source : Chesterton Research



Source: Chesterton Research

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

Australian Dollar



Source: Chesterton Research

| Output Growth & Inflation Forecasts | | | | | | |
|-------------------------------------|--------------|----------|------------|------------|------------|------------|
| | Year Ended | | | | | |
| | June 2015 | Dec 2015 | June 2016 | Dec 2016 | June 2017 | Dec 2017 |
| GDP Growth | 2.00% | 2.25% | 2-3% | 2.25-3.25% | 2.75-3.75% | 3-4% |
| CPI Inflation | 1.50% | 1.75% | 1.25-2.25% | 2-3% | 2-3% | 2-3% |
| Underlying Inflation | 2.25% | 2.00% | 1.25-2.25% | 2-3% | 2-3% | 2-3% |
| | Year Average | | | | | |
| | 2014/15 | 2015 | 2015/16 | 2016 | 2016/17 | 2017 |
| GDP Growth | 2.75% | 2.25% | 2.25% | 2-3% | 2.25-3.25% | 2.75-3.75% |

Source : Reserve Bank Statement of Monetary Policy

Queensland Economic Drivers within National Economy

The following commentary is extracted from the ABS State Details document by The State of Queensland Treasury for the June quarter 2015

[Economic Activity – September 2015 \(quarter\) is released 2 December 2015](#)

Queensland's state final demand (SFD) fell by 0.4% in trend terms in June quarter 2015, following a 0.6% decline in the previous quarter. Domestic demand conditions in Queensland remain weak, with SFD 2.4% lower than a year earlier.

| Indicator | % Change | | Contribution to SFD | |
|------------------------------|----------|----------|---------------------|---------|
| | Qtr | Annual | Qtr | Annual |
| Household Consumption | 0.90% | 3.10% | 0.50% | 1.60% |
| Dwelling Investment | 2.70% | 11.10% | 0.10% | 0.50% |
| Business Investment | (8.40%) | (28.30%) | (1.10%) | (4.70%) |
| Engineering Construction | (17.30%) | (49.70%) | (1.00%) | (4.60%) |
| Non-residential building | (2.20%) | (7.40%) | (0.10%) | (0.20%) |
| Public Final Demand | 0.60% | 0.40% | 0.10% | 0.10% |
| State Final Demand | (0.40%) | (2.40%) | (0.40%) | (2.40%) |

Seasonally adjusted figures, June Qtr 2015

Sourced from ABS 5206.0 summarised by OESR

- Household consumption (trend) rose 0.9% in June quarter 2015, to be 3.1% higher over the year. By component, insurance and other financial services (up 2.2%), food (up 1.0%) and rent and other dwelling services (up 0.5%) were the main contributors, while expenditure on cigarettes and tobacco (down 2.4%) and electricity, gas and other fuel (down 0.4%) were the only components to fall in the June quarter.
- Dwelling investment (trend) rose by 2.7% in June quarter 2015, with both construction of new dwellings (up 3.2%) and alterations and additions (up 2.2%) rising in the quarter. Total dwelling investment was 11.1% higher over the year. Supported by expectations of a sustained period of low interest rates and more attractive rental yields in Brisbane relative to Sydney and Melbourne, investor demand in medium-to-high density dwellings has grown strongly.
- Business investment fell 8.4% in June quarter 2015, following a 9.4% decline in the previous quarter. Total business investment is 28.3% lower over the year, as the large LNG projects near completion and transition to production and exports. The decline in overall business investment, from unprecedented levels, is expected to moderate in 2015-16, before returning to a more sustainable longer term growth path from 2016-17.
- Non-residential building construction (shops, offices, factories etc.) fell 2.2% in the quarter, to be 7.4% down on a year earlier. Machinery and equipment investment fell 2.1% in the June quarter, to be 3.4% lower over the year.

Labour Force

- Trend employment in Queensland rose by 4,000 persons (up 0.2%) in September 2015. This was the tenth consecutive monthly rise in employment. The gain in September was driven by a rise in part-time employment (up 6,500 persons), which more than offset the decline in full-time employment (down 2,500 persons). Trend employment in Queensland was 1.5% higher over the year to September 2015.
- Queensland's trend participation rate was unchanged at 65.4% in September 2015. Following a sharp fall in the second half of 2014, Queensland's trend participation rate has edged higher, coinciding with a 38,100 person gain in trend employment so far in 2015.
- With employment growing at a similar pace as the labour force in September 2015, the trend unemployment rate in Queensland was unchanged in the month, from a downwardly revised 6.3% in August. The unemployment rate for female and males in Queensland was unchanged at 5.36% and 7.0% respectively.
- Nationally, trend employment rose by 12,400 persons (up 0.1%) in September 2015, to be 2.0% higher over the year. The national employment gain of 232,400 persons over the past year has been driven by growth in New South Wales and Victoria. Meanwhile, the national trend unemployment rate was unchanged in the month, at 6.2%.

Queensland Economic Drivers within National Economy (Cont'd)

Building Approvals and Construction

Dwelling approvals:

- The trend estimate for total dwelling units approved in Queensland in September 2015 was 3,741, 0.3% higher than the August 2015 figure. The national trend estimate for total dwelling approvals increased 1.8% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 2.2% in September 2015, with a total of 1,976 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,520, a decrease of 0.1% from the August 2015 figure.
- In September 2015, trend total dwelling units approved in Queensland accounted for 20.4% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 20.8% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland decreased 1.7% in September 2015 to a total of \$1,008.1 million. Australia's trend value of residential building work approved decreased 1.1% over the month to \$5,723.1 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in September 2015 was 12.9% higher than the September 2014 estimate. In comparison, total dwelling units approved in Australia increased 6.8% over the same period.

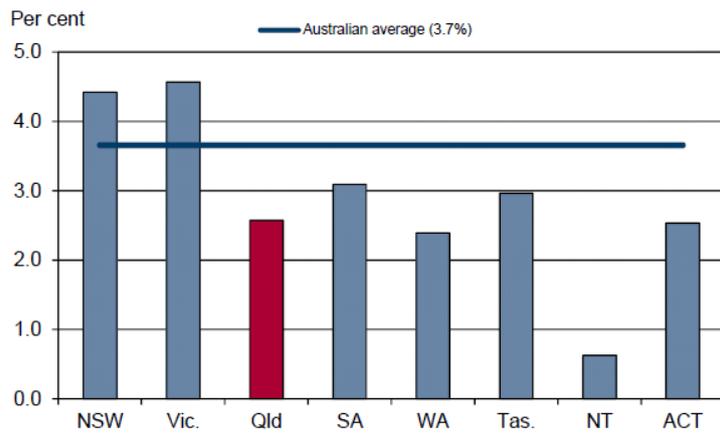
Non-residential building approvals:

- The trend value of non-residential buildings approved in Queensland in September 2015 was \$463.0 million, a decrease of 2.4% over the month. The value of non-residential buildings approved in Australia in September 2015 was \$2,656.8 million, an increase of 0.6% over the month.

Retail Trade

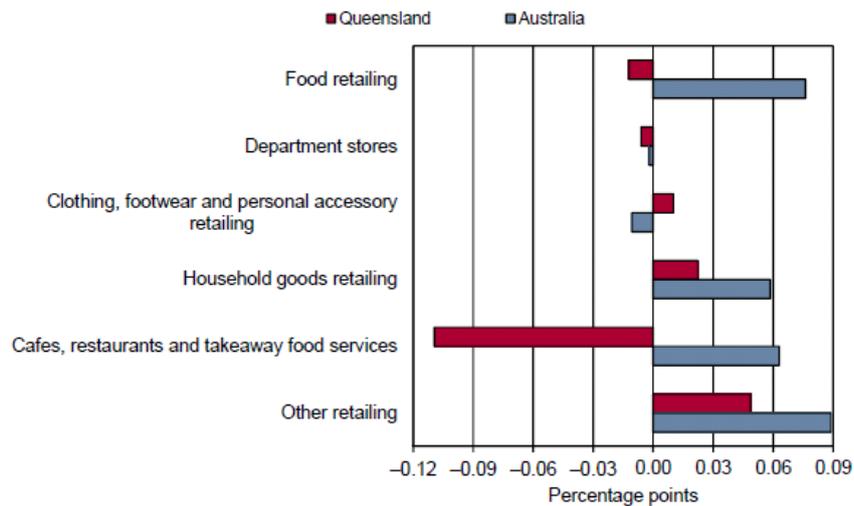
- The trend estimate of Queensland's retail turnover decreased 0.1% in September 2015. Australia's trend turnover increased 0.3% in September 2015.
- The trend value of Queensland's nominal retail turnover decreased from \$4,934.4 million in August 2015 to \$4,931.6 million in September 2015.
- The trend value of Queensland's retail turnover increased by 2.6% over the previous 12 months, from \$4,807.8 million in September 2014.
- Queensland was higher than Western Australia, Australian Capital Territory and Northern Territory in annual growth in retail turnover of all states and territories (2.6%). Victoria recorded the highest increase (4.6%).

Annual Change in Retail Turnover, September 2015



Source: Government Statistician Queensland Treasure & Trade

Monthly retail turnover contribution to growth by industry group, September 2015



Source: Government Statistician Queensland Treasure & Trade