

## Economic and Market Overview - September 2015

### Highlights

- The Consumer Price Index (CPI) rose 0.7% in the June quarter 2015, following a rise of 0.2% in the March quarter 2015.
- The Board decided to leave the cash rate unchanged at 2.0 per cent, effective of 4 August 2015.
- Queensland's State Final Demand (SFD) rose by 0.1%
- Trend employment in Queensland rose by 3,600 persons (up 0.2%) in July 2015.
- The trend estimate for total dwelling units approved in Queensland in June 2015 was 3,694, 0.2% higher than the May 2015 figure.
- The Labour Government handed over the Palaszczuk Government's first budget, focusing primarily on employment.

### National Data and Impact of International Factors

#### Consumer Price Index June Quarter 2015

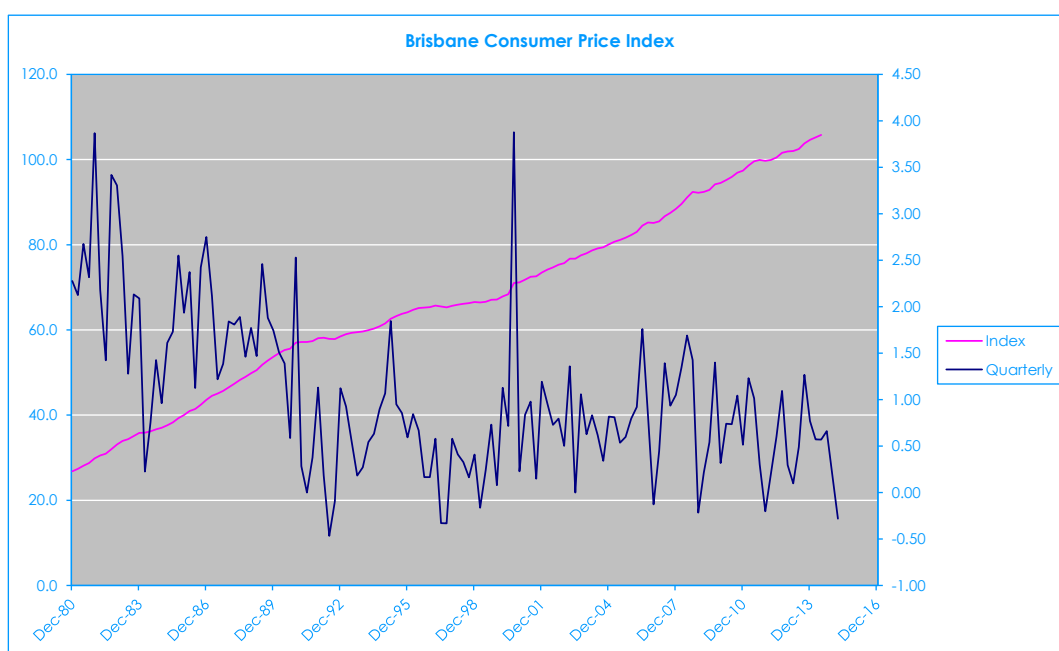
The Australian Bureau of Statistics states:

- The Consumer Price Index (CPI) rose 0.7% in the June quarter 2015, following a rise of 0.2% in the March quarter 2015.
- The most significant price rises this quarter were in automotive fuel (+12.2%), medical and hospital services (+4.5%) and new dwelling purchase by owner-occupiers (+1.5%). These rises were partially offset by falls in domestic holiday travel and accommodation (-5.4%) and pharmaceutical products (-1.8%). The increase in fuel is registered in four of the five fuel types with the quarterly rise the largest since December 1990.

Queensland Treasury and Trade Overview for June Quarter 2015 states:

- 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 June quarter 2015, Brisbane recorded stronger contributions from the CPI groups of furnishings, household equipment and services and transport. These were partly offset by deductions from the food and non-alcoholic beverages, recreation and culture and communication groups.
- For Brisbane, the *Transport* group made the largest contribution to inflation in June quarter 2015 (0.39 of a percentage point).
- For Brisbane, the *Food and non-alcoholic beverages* group recorded the largest deduction from inflation in June quarter 2015 (-0.12 of a percentage point). Within the *Food and non-alcoholic beverages* group, *Fruit* decreased 5.7% in the quarter.
- Australia's CPI for market sector goods and services, which excludes more volatile items, increased 0.3% in June quarter 2015, with an annual inflation rate of 1.6%.

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



Source: Chesterton Research

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

### Economic Activity

- As has been the case for some years now, growth of Australia's major trading partners remains close to its long-run average, notwithstanding a slight easing in the June quarter.
- Growth of global industrial production has moderated over the past year or so, which has contributed to lower commodity prices, although the strength of commodity supply has also been a significant factor.
- In most of Australia's trading partners, core inflation has been stable in year-ended terms over recent months at rates below central bank targets.
- In China, gross domestic product (GDP) growth picked up in the June quarter, remaining at 7 per cent in year-ended terms, which is the government's target for this year. However, a range of indicators suggest that growth of consumption and industrial production, including steel production, moderated in the first half of 2015.
- The forecast for Australia's terms of trade has been revised down by 4 per cent since May. This follows the recent declines in a number of commodity prices and the expected effects of a more subdued outlook for Chinese steel demand on iron ore prices.
- Domestically, financial conditions have generally eased since May. Interest rates for borrowers were reduced broadly in line with the reduction in the cash rate in May. More recently, this reduction has been partially offset by lenders raising mortgage rates for investor housing loans.
- Over recent months, the Australian dollar has depreciated noticeably against the US dollar and on a trade-weighted basis, although it has generally moved in line with the currencies of other commodity-exporting countries. Over the past year the Australian dollar has depreciated by about 15 per cent on a trade-weighted basis.
- Consumption growth has picked up since 2013 – supported by low interest rates and accompanied by a fall in the household saving ratio. Low interest rates are also providing support to housing market conditions, which remain strong overall.

## Economic Activity (Cont'd)

- Survey measures of business conditions have increased over recent months to be clearly above their long-run average levels and profits in the non-mining business sector have grown noticeably. Notwithstanding those improvements, non-mining business investment has continued to fall and the available data on investment intentions do not indicate that there is likely to be a significant pick-up in non-mining business investment over the next year or so.
- Labour market conditions are generally better than had been expected a few months ago, although spare capacity still remains. The unemployment rate over recent months was around the levels that have been recorded over much of the past year.
- Inflation in the June quarter was broadly as expected and inflationary pressures remain contained. Consumer price inflation has been affected by movements in fuel prices, which are around 10 per cent lower than they were a year earlier. Looking through the effects of such temporary factors, various measures suggest that underlying inflation was around ½ per cent in the quarter and 2¼ per cent over the year.
- Growth in the Australian economy is expected to pick up gradually to be over 3 per cent by 2017.
- The unemployment rate is forecast to be lower than previously anticipated.

## 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.

## State Budget

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

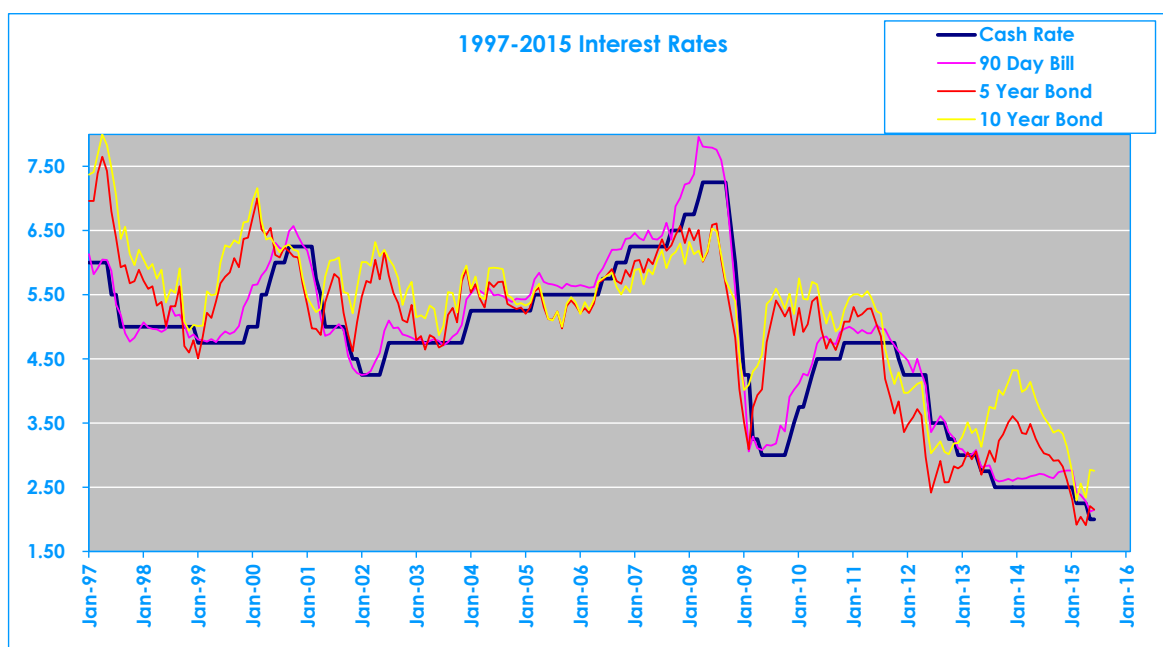
- *Jobs Now, Jobs for the Future:* This budget has a strong focus on employment, with the creation of the 'Working Queensland' program.
- *Infrastructure:* A new independent statutory body is being established by the Government to deliver a whole-of-government perspective to infrastructure planning and 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.

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

### Interest Rates

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

- The Board decided to leave the cash rate unchanged at 2.0 per cent, effective of 4 August 2015 and 1 September 2015.
- The Federal Reserve is expected to start increasing its policy rate later this year, but some other major central banks are continuing to ease policy. Hence, global financial conditions remain very accommodative. Despite fluctuations in markets associated with the respective developments in China and Greece, long-term borrowing rates for most sovereigns and creditworthy private borrowers remain remarkably low.
- Whilst the economy's growth rate has been somewhat below longer-term averages, it has been associated with somewhat stronger growth of employment and a steady rate of unemployment over the past year.
- Recent information confirms that domestic inflationary pressures have been contained. That should remain the case for some time, given the very slow growth in labour costs. Inflation is thus forecast to remain consistent with the target over the next one to two years, even with a lower exchange rate.
- In such circumstances, monetary policy needs to be accommodative. Low interest rates are acting to support borrowing and spending. Credit is recording moderate growth overall, with growth in lending to the housing market broadly steady over recent months.
- In other asset markets, prices for equities and commercial property have been supported by lower long-term interest rates. The Australian dollar is adjusting to the significant declines in key commodity prices.



## Interest Rates (cont'd)

Interest Rates	31 Jul 14	31 Jul 15	31 Aug 15	12 mth change	One month change
Cash Rate	2.50%	2.00%	2.00%	(0.50%)	0.00%
90 day Bill	2.68%	2.18%	2.16%	(0.52%)	(0.02%)
5 year Bond	2.96%	2.21%	2.08%	(0.88%)	(0.13%)
10 Year Bond	3.51%	2.76%	2.67%	(0.83%)	(0.09%)
Spread 90 day to 10 year	(0.83%)	(0.58%)	(0.51%)	0.31%	0.07%
Spread 5 year to 10 year	(0.55%)	(0.55%)	(0.59%)	(0.04%)	(0.04%)

Source : Chesterton Research

## International Equity Markets

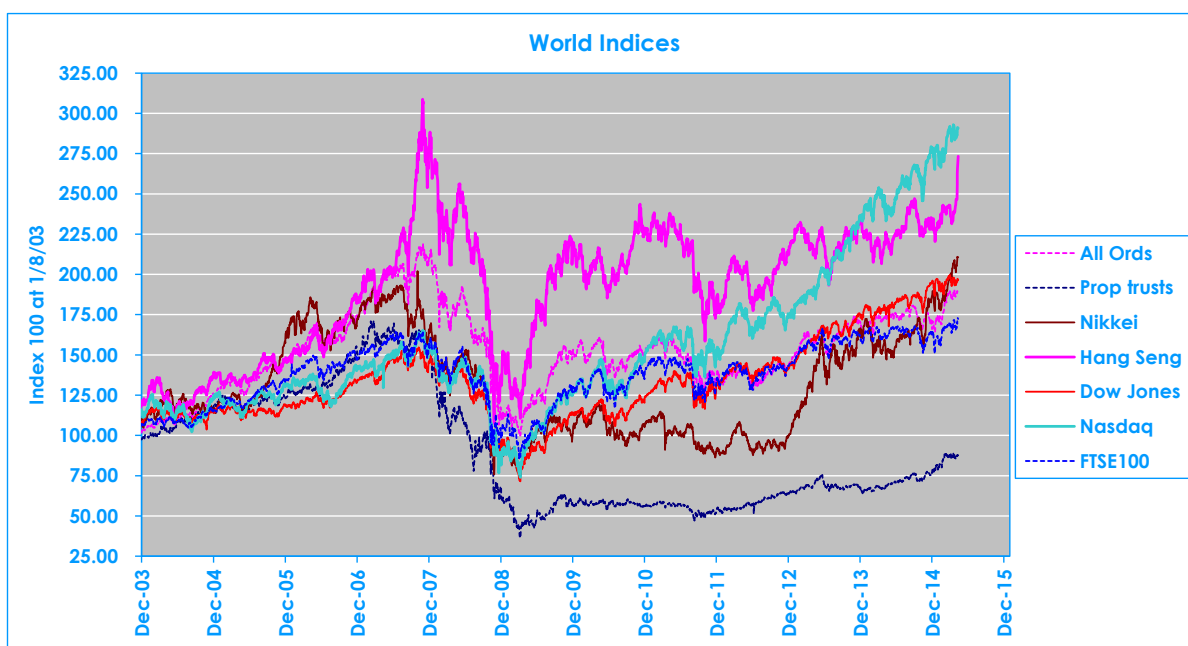
The following commentary is extracted from the Reserve Bank of Australia in its August statement on monetary policy:

- US and euro area equity prices have been broadly unchanged over recent months, despite fluctuating in response to the evolving situation in Greece and falls in Chinese equity prices. These developments had a greater impact on euro area share prices, which at one stage were more than 10 per cent below their mid-April peak. In Japan, share prices have continued to increase, to be almost 20 per cent higher than at the start of the year.
- European banks have generally increased their profitability over the quarter and strengthened their capital ratios. Profits from retail banking, wealth management and equities trading tended to increase, while loan loss provisions continued to decline and a number of banks made further progress in reducing their cost bases.
- While provisions for legal expenses have declined, six US and European banks agreed in June to pay almost US\$6 billion in fines to various US and UK authorities for misconduct and manipulation of foreign exchange markets. A number of these banks also pleaded guilty to criminal charges of market manipulation. The fines bring the amount paid by banks to global regulators since the end of 2008 to US\$200 billion.
- Equity prices in emerging market economies have drifted down since late April or early May, but are mostly still higher than at the start of the year. Chinese equity prices have declined by 30 per cent since mid June to be back around end-March levels. This decline largely reflects some correction from excessively high levels and has been associated with a partial reversal of the sharp run-up in margin debt over the prior year.
- Equity prices stabilised for a time following aggressive policy intervention, but subsequently fell again as investors questioned the continuation of this support. Hong Kong equity price indices have been weighed down by these declines, owing to the large number of Chinese companies listed in Hong Kong, but the decline in other Hong-Kong listed companies' share prices has been modest.
- Brazilian share prices have also fallen by around 15 per cent from their peak three months ago, reflecting concerns about deteriorating fiscal and economic conditions (amid lower commodity prices).

## International Equity Markets (Cont'd)

Indices	31 Jul 14	31 Jul 15	31 Aug 15	12 mth change %	One month change %
All Ordinaries	5623.1	5681.7	5222.1	0.59	-4.60
Property Trusts	1,122.78	1,305.70	1,241.50	1.83	-0.64
Nikkei	15618.07	20,585.24	18,890.48	49.67	-16.95
Hang Seng	24,756.85	24,636.28	21,670.58	-1.21	-29.66
Dow Jones	16,563.30	17,689.86	16,528.03	11.27	-11.62
Nasdaq	4,369.77	4,588.91	4,274.58	2.19	-3.14
FTSE	6,730.10	6,696.30	6,247.90	-0.34	-4.48

Source: Chesterton Research



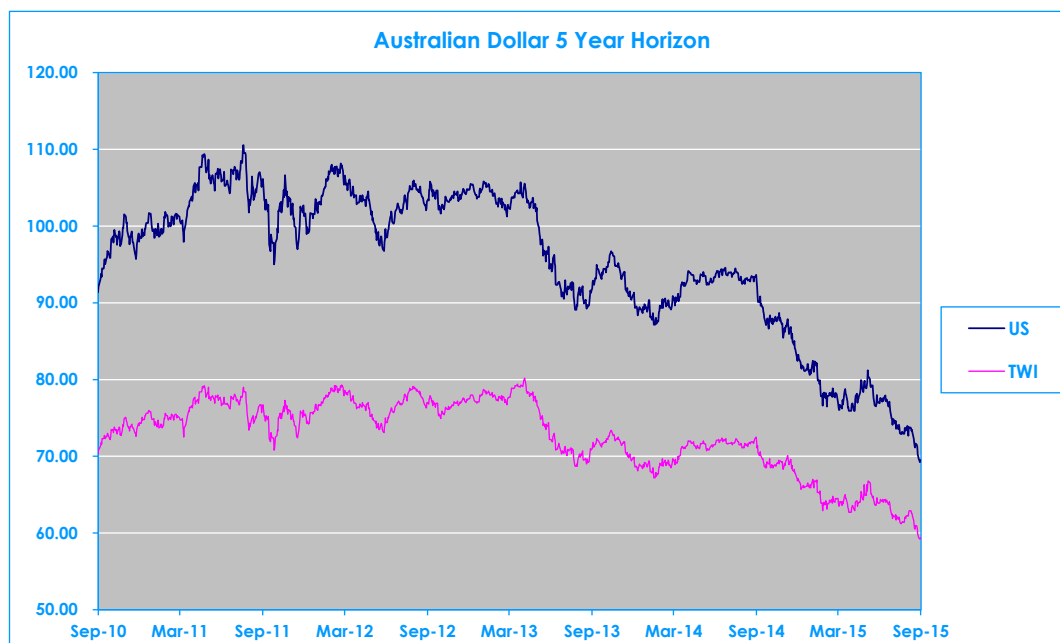
Source: Chesterton Research

## Domestic Equity Markets

- The Australian market has performed similarly to other advanced equity markets over the more recent period. It has continued to be weighed down in recent months by lower resource sector share prices, while share prices rose slightly in the financial sector and most other sectors.
- Volatility in equity prices increased following developments in Greece and the Chinese equity market, though it remains well below the levels experienced in 2008/09.
- Within the resource sector, share prices of the larger miners – which have lower costs of production – have tended to outperform those of smaller miners. Energy sector share prices have also declined over the past few months, alongside lower oil prices.
- Financial sector equity prices have risen slightly over the past few months. Outside the financial and resource sectors, share prices in other sectors were mixed.
- Forward price-earnings (PE) ratios for Australian equities have decreased in recent months as earnings expectations have risen slightly. Similarly to other advanced equity markets, forward PE ratios remain above their historical averages.

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

### Australian Dollar



Source: Chesterton Research

Output Growth & Inflation Forecasts						
	Year Ended					
	Dec 2014	June 2015	Dec 2015	June 2016	Dec 2016	June 2017
GDP Growth	2.50%	2.25%	2.25-3.25%	2.75-3.75%	3-4%	3-4.25%
Non-farm GDP Growth	2.75%	1.25%	2.25-3.25%	2.75-3.75%	3-4%	3-4.25%
CPI Inflation	1.70%	1.25%	2-3%	2.25-3.25%	2.25-3.25%	2.25-3.25%
Underlying Inflation	2.25%	2.25%	2-3%	2-3%	2-3%	2-3%
	Year Average					
	2014	2014/15	2015	2015/26	2016	2016/17
GDP Growth	2.75%	2.25%	1.75-2.75%	2.25-3.25%	2.75-3.75%	2.75-4.25%

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

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
<b>Household Consumption</b>	0.90%	3.10%	0.50%	1.60%
<b>Dwelling Investment</b>	2.70%	11.10%	0.10%	0.50%
<b>Business Investment</b>	(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%)
<b>Public Final Demand</b>	0.60%	0.40%	0.10%	0.10%
<b>State Final Demand</b>	(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 3,600 persons (up 0.2%) in July 2015. The monthly gain was driven by a rise in part-time employment (up 3,300 persons), while full-time employment also increased marginally (up 300 persons). Trend employment in Queensland was 0.7% higher over the year to July 2015, largely driven by an increase in female full-time workers.
- Queensland's trend participation rate was unchanged in the month, from a downwardly revised 65.3%. Following a sharp fall in 2014, Queensland's trend participation rate has been unchanged so far in 2015, coinciding with a 29,800 person gain in trend employment over this period.



## Labour Force (Cont'd)

- With employment growing at a slightly faster pace than the labour force in July 2015, the trend unemployment rate in Queensland edged lower, to 6.3% (from an upwardly revised 6.4% in June). This improvement reflected a fall in the unemployment rate for females in Queensland (down 0.2 percentage point to 5.5%), while the unemployment rate for males was unchanged, at 7.0%.
- Nationally, trend employment rose by 17,800 persons (up 0.2%) in July 2015, to be 2.1% higher over the year. The national employment gain of 241,400 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 6.1%.

## Building Approvals and Construction

### *Dwelling approvals:*

- The trend estimate for total dwelling units approved in Queensland in June 2015 was 3,694, 0.2% higher than the May 2015 figure. The national trend estimate for total dwelling approvals decreased 1.2% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 0.2% in June 2015, with a total of 1,765 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,663, an increase of two approvals from the May 2015 figure.
- In June 2015, trend total dwelling units approved in Queensland accounted for 19.7% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 18.3% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland decreased 0.9% in June 2015 to a total of \$1,046.8 million. Australia's trend value of residential building work approved decreased 1.0% over the month to \$5,638.7 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in June 2015 was 15.9% higher than the June 2014 estimate. In comparison, total dwelling units approved in Australia increased 14.4% over the same period.

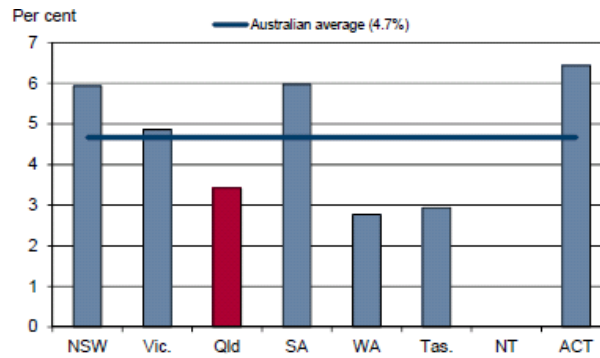
### *Non-residential building approvals:*

- The trend value of non-residential buildings approved in Queensland in June 2015 was \$522.3 million, an increase of 4.6% over the month. The value of non-residential buildings approved in Australia in June 2015 was \$2,219.1 million, a decrease of 0.6% over the month.

## Retail Trade

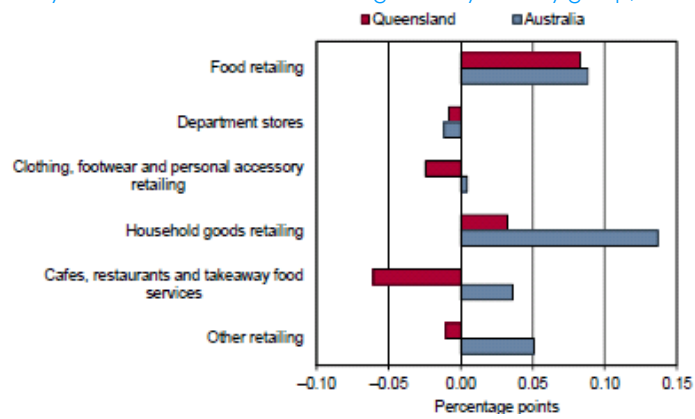
- The trend estimate of Queensland's retail turnover increased by less than 0.1% in June 2015. Australia's trend turnover increased 0.3% in June 2015.
- The trend value of Queensland's nominal retail turnover increased from \$4,947.2 million in May 2015 to \$4,949.0 million in June 2015.
- The trend value of Queensland's retail turnover increased by 3.4% over the previous 12 months, from \$4,785.3 million in June 2014.
- Queensland recorded the fifth-highest annual growth in retail turnover of all states and territories (3.4%). Australian Capital Territory recorded the highest increase.
- 'Food retailing' recorded the largest contribution to retail turnover growth in Queensland in the month (0.08 percentage point). 'Household goods retailing' recorded the largest contribution to retail turnover growth in Australia (0.14 percentage point) in June 2015.

### Annual Change in Retail Turnover, June 2015



Source: Government Statistician Queensland Treasure & Trade

### Monthly retail turnover contribution to growth by industry group, June 2015



Source: Government Statistician Queensland Treasure & Trade