

Economic and Market Overview – April

National Data and Impact of International Factors

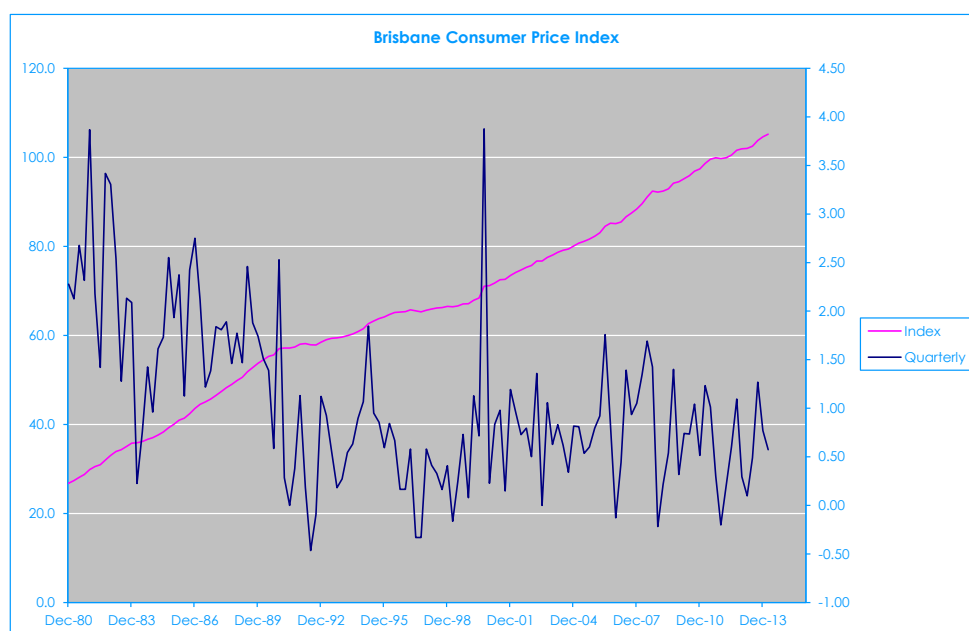
Consumer
Price Index
Dec Qtr 2013

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 and Minutes of the March Monetary Policy meeting. It is supplemented with Chesterton research as identified.

Economic Activity

- Growth of Australia's trading partners in late 2013 was close to its average pace of the past decade. Inflation in the major economies remained low.
- Recent data suggests that the US economy may have slowed a little from the strong growth recorded late last year, although at least some of this reflected the effects of particularly adverse winter weather across much of the country.

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

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Economic Activity (Cont'd)

- There have been further signs of a gradual recovery in the euro area, with a modest expansion in activity in the December quarter resulting in positive growth over the course of 2013. Output has increased in most euro area countries in the quarter. Measures of consumer and business confidence were around their long-run average levels, although unemployment rates remained elevated across much of the region.
- In Japan, GDP growth was a little lower than expected in the December quarter, in part reflecting weakness in exports. Growth in domestic demand remained strong, particularly in consumption ahead of the consumption tax increase in April.
- In China recent data was more difficult to interpret through this time period owing to the Chinese New Year Holiday. The limited data suggests that growth may have moderated a little in early 2014.
- Global commodity prices have been mixed over the month (preluding the march minutes). Increases in the prices of base metals, gold and oil were offset by declines in iron ore and coal prices, which have drifted lower in recent months.
- The unemployment rate increased to 6 per cent in January, continuing its gradual increase over the last 18 months. Participation rate has declined significantly since the middle of the 2013.
- There is evidence that forward-looking indicators of labour demand had stabilised, this follows earlier declines to low levels.
- Survey measures of business conditions edged higher in January and remained at above-average levels. The improvement in business sentiment in recent months has been broad based across industries. In the first reading for 2014/2015, the ABS capital expenditure data suggested that a small improvement was in prospect for non-mining business investment. The sharp decline in mining investment over 2014/2015 has been previously noted and expected.
- Overall, growth of domestic demand was estimated to have remained well below its trend pace in the quarter. Exports grew strongly in the December quarter, with resource exports increasing at a rapid pace, particularly for iron ore as additional capacity came on line, while services exports had been supported by an increase in international tourism.

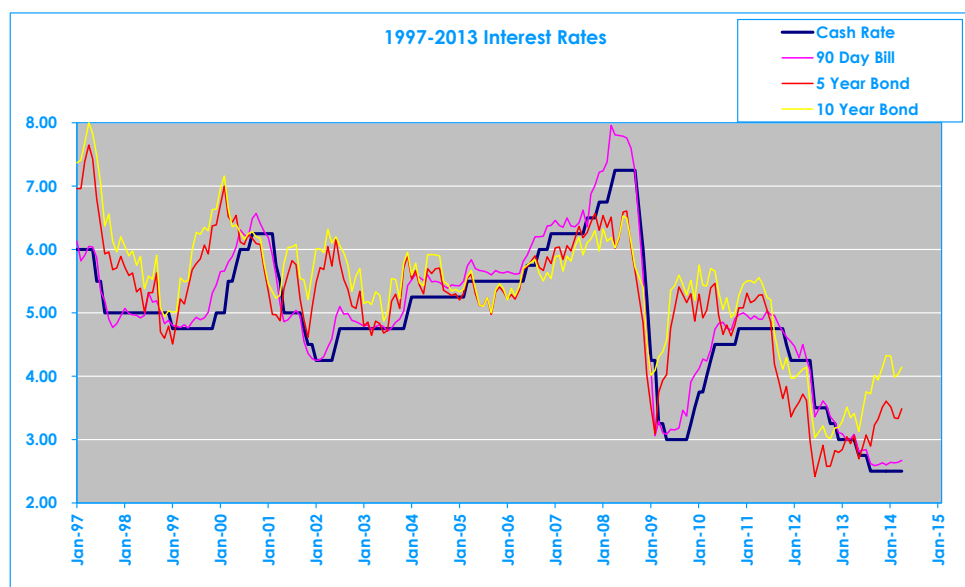
Interest Rates

- The Reserve Bank has maintained the cash rate target at 2.50 per cent.
- The RBA board in the March meeting on Monetary Policy judged it prudent to leave the cash rate unchanged noting that the cash rate could remain at its current level for some time if the economy was to evolve broadly as expected.
- 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 – April 2014 (Cont'd)

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

Interest Rates (Cont'd)



Source: Chesterton Research

Interest Rates	31 Mar 13	31 Jan 14	31 Mar 14	12 mth change	One month change
Cash Rate	3.00%	2.50%	2.50%	(0.50%)	0.00%
90 day Bill	3.11%	2.66%	2.72%	(0.45%)	0.06%
5 year Bond	3.05%	3.33%	3.45%	0.28%	0.12%
10 Year Bond	3.45%	4.07%	4.09%	0.63%	0.02%
Spread 90 day to 10 year	(0.34%)	(1.41%)	(1.37%)	(1.08%)	0.04%
Spread 5 year to 10 year	(0.39%)	(0.74%)	(0.64%)	(0.35%)	0.10%

Source : Chesterton Research

International Equity Markets

- Conditions in financial markets have generally steadied over the past months as concerns about a number of emerging market economies has eased amid a general improvement in risk sentiment. At the time of the RBA's March meeting on Monetary Policy it was noted that some emerging market economies remained under pressure.
- Sovereign bond yields in the major economies showed little change through most of February, until late in the month when the situation in Ukraine led to falls in global bond yields. In Italy and Spain, yields continued to fall, reaching their lowest levels since 2006.
- Global Equity markets rebounded in February recovering most of the losses experienced around late January, with the US equity market recording new highs.

Indices	31 Mar 13	28 Feb 14	31 Mar 14	12 mth change	One month change
All Ordinaries	4,979.90	5,415.40	5,403.00	8.50%	(0.23%)
Property Trusts	1,013.40	1,021.90	1,005.30	(0.80%)	(1.62%)
Nikkei	12,397.91	14,841.07	14,827.83	19.60%	(0.09%)
Hang Seng	22,299.63	22,836.96	22,151.06	(0.67%)	(3.00%)
Dow Jones	14,578.54	16,321.71	16,457.66	12.89%	0.83%
Nasdaq	3,267.52	4,308.12	4,198.99	28.51%	(2.53%)
FTSE	6,411.70	6,809.70	6,598.40	2.91%	(3.10%)

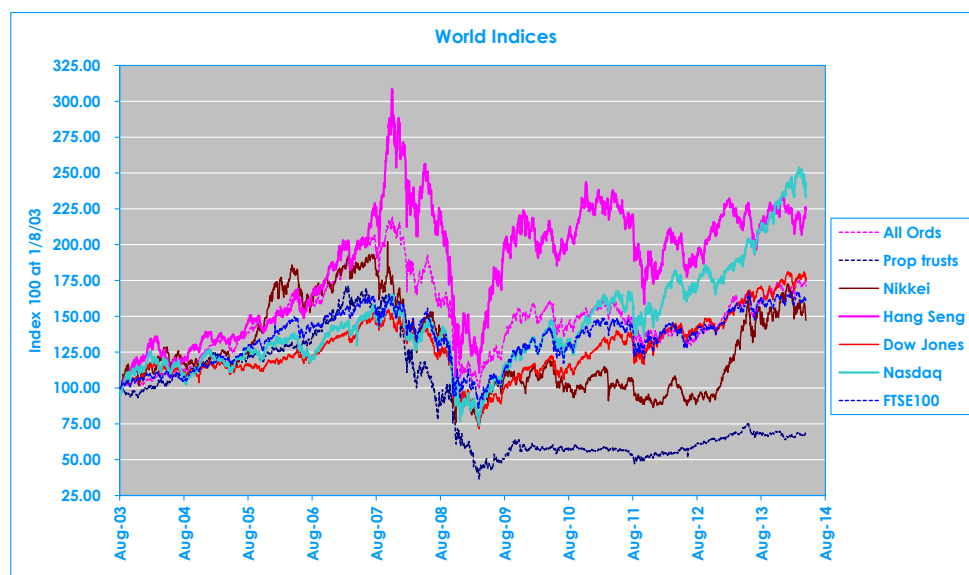
Source : Chesterton Research

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

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International Equity Markets (Cont'd)

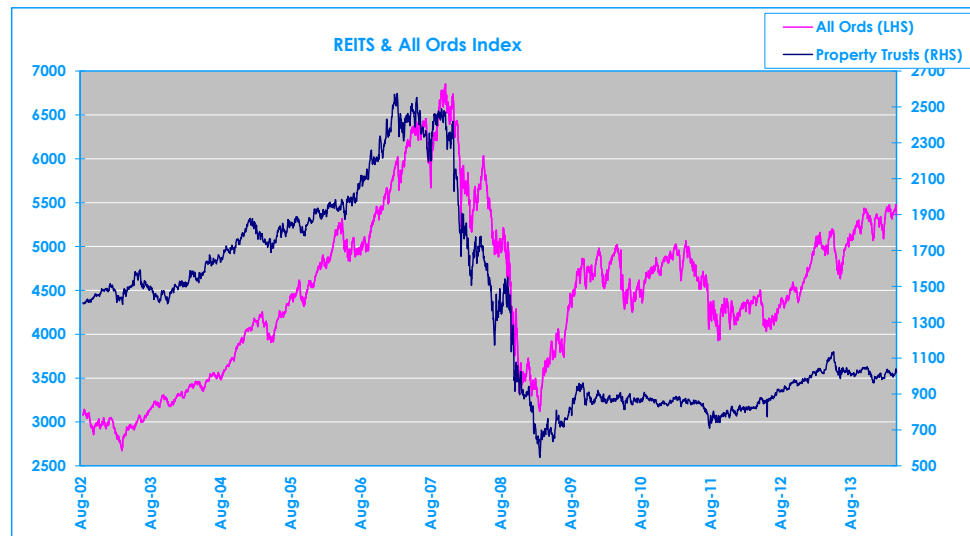
- The Japanese market was the notable exception, with equity prices recording further declines in an environment of heightened volatility.
- Foreign exchange markets were generally subdued over February with major currencies broadly unchanged and most emerging market currencies appreciating somewhat following the sharp falls in January.
- The European Central Bank reiterated its expectation that its policy rate would remain at current or lower levels for an extended period whilst the Bank of Japan announced an expansion in its bank lending schemes.



Source: Chesterton Research

Domestic Equity Markets

- Australian equity prices followed the major markets in February, rising by 4% over the month, underpinned by a solid reporting season.
- REITS have continued to remain relatively flat over the proceeding few months.



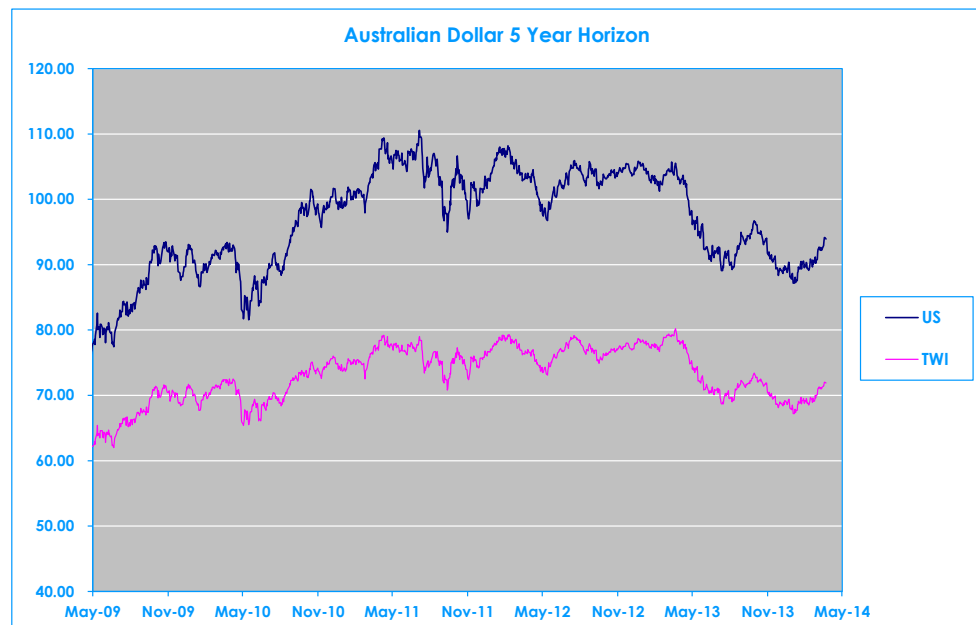
Source: Chesterton Research

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

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

Australian Dollar

- The Australian Dollar has appreciated a little through February though it remains around 14% below its peak in early April 2013.



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

- Wage growth remains subdued in line with the weak conditions in the labour market and relatively low consumer and union inflation expectations. The wage price index rose by 0.7% in December quarter (2013), to be 2.6% higher over the year.
- The unemployment rate increased to 6% in January, continuing its gradual increase of the past 18 months, while the participation rate declined significantly since the middle of the previous year.
- Growth in household spending picked up slightly in the December quarter. The pace of growth is expected to remain below average for a time.
- Stronger retail sales seen in the latter months of 2013 continued into the early part of this year. Sales growth may have eased somewhat.
- 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.

Queensland Economic Drivers within National Economy

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 – April 2014 (Cont'd)

Queensland Economic Drivers within National Economy (Cont'd)

Labour Force

- Trend employment in Queensland rose 0.2% in March 2014, the eleventh consecutive month of growth. Trend employment growth in Queensland was driven by part-time employment, up 5,300 persons, while full-time employment fell 1,100 over the month. Over the year to March 2014, Queensland recorded a 39,100 person increase in trend employment (up 1.7%), and was the largest contributor to the 75,200 person gain in national employment.
- With trend labour force growing at a similar pace to employment in March, Queensland's trend unemployment rate was unchanged at 6.1%. The trend participation rate in Queensland was 66% in March 2014, 0.1 percentage point higher than the upwardly revised February result. While the participation rate edged higher over the past two months, it remains 1.4 percentage points lower than mid-2011 levels.
- In more volatile seasonally adjusted (sa) terms, employment in Queensland rose 12,000 persons (up 0.5%) in March 2014, consolidating the upwardly revised 32,500 increase in February. Over the year to March 2014, Queensland recorded the strongest sa Employment growth of any state, up 2.7% (61,000 persons). Queensland's sa unemployment rate fell 0.1 percentage point to 6.1% in March 2014.
- Nationally, sa employment rose 18,200 persons in March 2014, well above market expectations of a 5,000 person gain. With employment growing at a faster rate than the national labour force, the sa unemployment rate fell to 5.8% in March, below market expectations of 6.0%

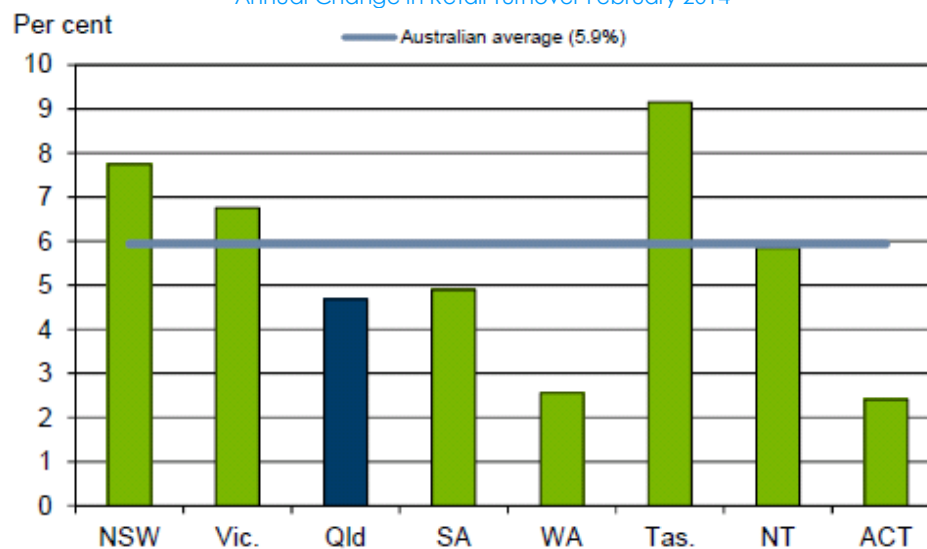
Retail Trade

- The trend estimate of Queensland's retail turnover increased 0.5% in February 2014. Australia's trend turnover increased by 0.7% during the month.
- The trend value of Queensland's nominal retail turnover increased from \$4,747.7

million in January 2014 to \$4,771.6 million in February 2014.

- Queensland recorded the third-lowest annual growth in retail trade of all states and territories (4.7%). Tasmania recorded the highest increase (9.2%).
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.17 percentage point). Food retailing recorded the largest contribution to retail turnover growth in Australia (0.27 percentage point) in February 2014.

Annual Change in Retail Turnover February 2014



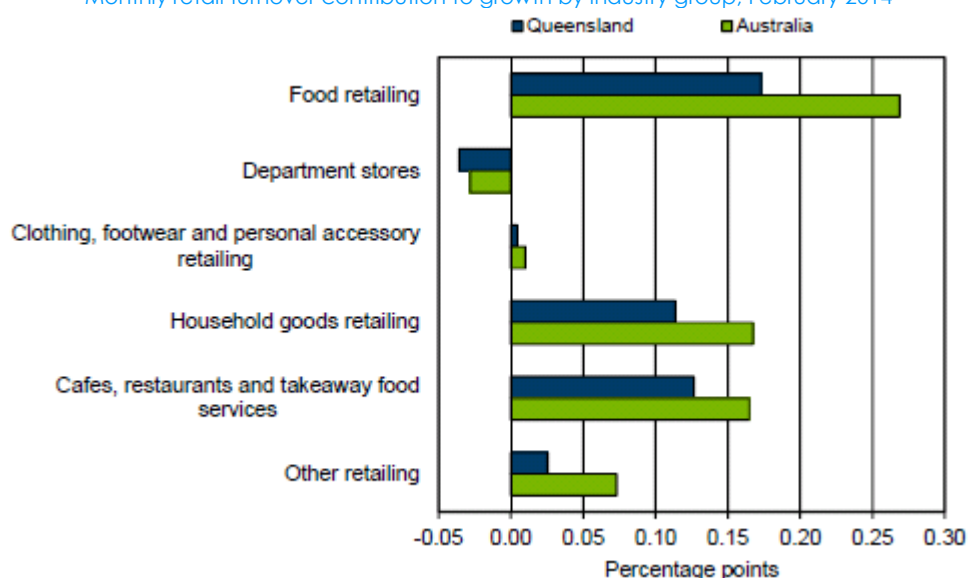
Source: Government Statistician Queensland Treasury & Trade

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

Queensland Economic Drivers within National Economy (Cont'd)

Retail Trade
(Cont'd)

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



Source: Government Statistician Queensland Treasury & Trade

Building Approvals & Construction

Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in February 2014 was 3,397, 1.2% lower than the January 2014 figure. The national trend estimate for total dwelling approvals increased 0.7% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 1.0% in February 2014, with a total of 1,631 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,341, an increase of 1.9% from the January 2014 figure.
- In February 2014, trend total dwelling units approved in Queensland accounted for 19.9% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 17.5% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland decreased 1.6% in February 2014 to a total of \$914.5 million. Australia's trend value of residential building work approved increased 0.2% over the month to \$4,951.4 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in February 2014 was 34.4% higher than the February 2013 estimate. In comparison, total dwelling units approved in Australia increased 27.6% over the same period.

Non-residential building

- The trend value of non-residential buildings approved in Queensland in February 2014 was \$559.2 million, an increase of 4.2% over the month. The value of non-residential buildings approved in Australia in February 2014 was \$3,352.3 million, an increase of 0.3% over the month.