

## Economic and Market Overview – February

### National Data and Impact of International Factors

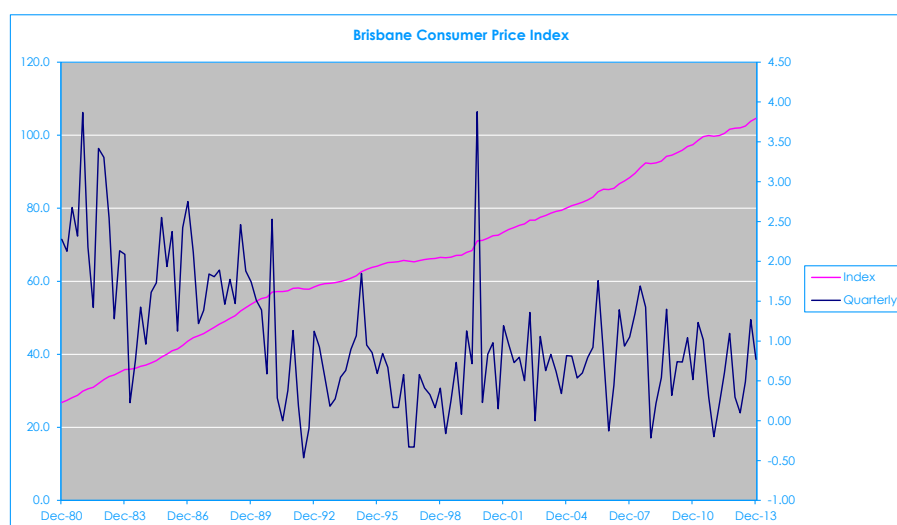
Consumer  
Price Index  
Sept Qtr 2013

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

- In the second half of 2013, growth in Australia's major trading partners looks to have continued at close to the average pace of the past decade. With the Reserve Bank of Australia's (RBA) forecast little changed from the previous statement.
- Overall, commodity prices are lower in the past three months than in the preceding period, with spot prices for iron ore and coking coal having declined over the past couple of months.

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

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

#### Economic Activity (Cont'd)

- Growth in the US economy in 2014 is expected to be a little stronger than earlier anticipated – reflecting stronger domestic demand – supported by stimulatory monetary policy and an easing in the extent of fiscal tightening.
- Chinese growth in 2014 is expected to be around 7.5 per cent, similar to growth in 2013.
- Survey measures of business conditions move to above-average levels late in 2013. Retail sales and bank's liaison point to a pick-up in household consumption growth in the December quarter and measures of consumer sentiment remain a little above average levels, despite easing somewhat from a few months ago. Leading indicators suggest that dwelling investment is likely to have increased in the quarter and will grow further over coming months
- Strengthening conditions in the housing market more generally are evident in further increases in housing turnover and prices. Trade data imply strong growth of exports in the December quarter, boosted in part by new resource projects coming on line.
- Overall, growth is thought likely to strengthen a little in 2014, though to a pace that is still a little below trend. It is then expected to pick up further to an above-trend pace by 2015/2016. This outlook is a little stronger than it was at the time of the November Statement, primarily owing to the lower exchange rate, which is expected to boost exports and restrain imports (to the benefit of domestic production). The outlook for the various components of domestic demand is little changed.
- The outlook over the year ahead continues to be affected by the substantial fall in mining investment and planned fiscal restraint. At the same time, low interest rates are stimulating prices and turnover in the established housing market, as well as construction of new dwellings. In addition to boosting activity directly, it is likely that these trends will, in time, be associated with stronger growth in some areas of household consumption.
- The outlook for household consumption is little changed from previous with an expectation of growth below average through 2014, before gradually rising to around average by the end of the forecast period.

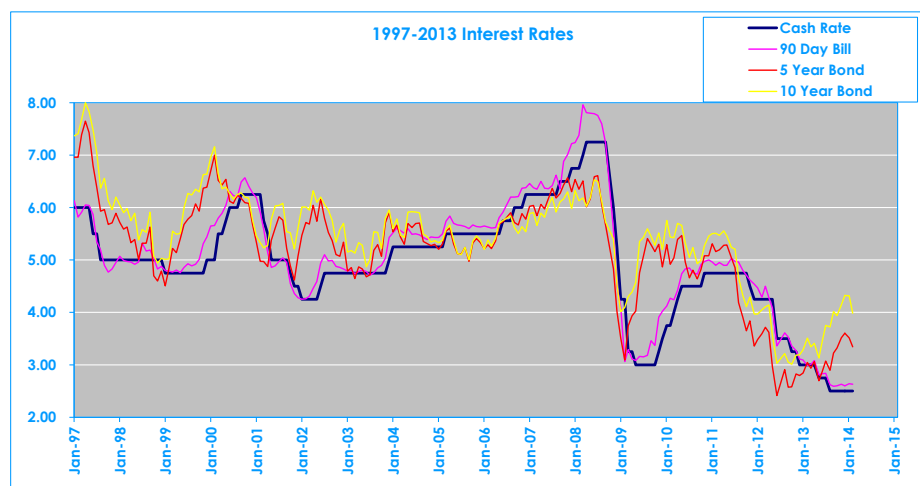
#### Interest Rates

- The Reserve Bank has maintained the cash rate target at 2.50 per cent since the previous Statement (November)
- Yields on money market instruments imply an expectation that there is little chance of an easing in monetary policy in 2014.
- 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, but in net terms are around 20 basis points lower than at the time of the previous Statement.

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

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

#### Interest Rates (Cont'd)



Source : Chesterton Research

Interest Rates	31 Jan 13	31 Dec 13	31 Jan 14	12 mth change	One month change
Cash Rate	3.00%	2.50%	2.50%	(0.50%)	0.00%
90 day Bill	2.99%	2.65%	2.64%	(0.34%)	(0.01%)
5 year Bond	2.99%	3.47%	3.33%	0.49%	(0.15%)
10 Year Bond	3.46%	4.24%	4.01%	0.78%	(0.23%)
Spread 90 day to 10 year	(0.47%)	(1.59%)	(1.37%)	(1.12%)	0.22%
Spread 5 year to 10 year	(0.47%)	(0.77%)	(0.68%)	(0.30%)	0.09%

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)
- More recently, global share prices have fallen significantly in response to some weaker global economic data, along with renewed concerns about the outlook for emerging markets. These falls have been relatively broad based, though most pronounced for Japan and several emerging markets.

Indices	31 Jan 13	31 Dec 13	31 Jan 14	12 mth change	One month change
All Ordinaries	4,901.00	5,353.10	5,205.10	6.20%	(2.76%)
Property Trusts	1,015.50	984.90	989.20	(2.59%)	0.44%
Nikkei	11,138.66	16,291.31	14,914.53	33.90%	(8.45%)
Hang Seng	23,729.53	23,306.39	22,035.42	(7.14%)	(5.45%)
Dow Jones	13,860.58	16,576.66	15,698.85	13.26%	(5.30%)
Nasdaq	3,142.13	4,176.59	4,103.88	30.61%	(1.74%)
FTSE	6,276.90	6,749.10	6,510.40	3.72%	(3.54%)

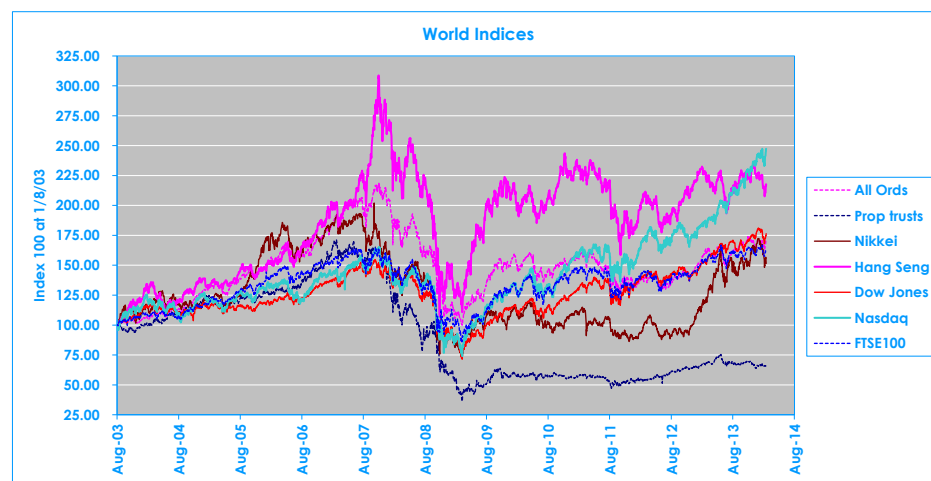
Source : Chesterton Research

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

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

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

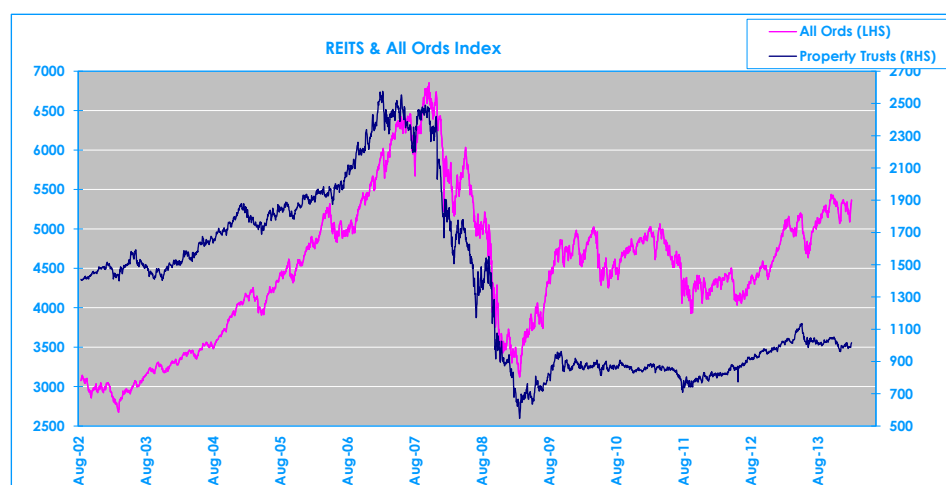
- US and euro area banking shares have significantly outperformed the broader market over the past year, with their prices up 40 and 25 per cent, respectively, over 2013.
- International bond market yields remain relatively unchanged in recent times.
- Corporate bond spreads in the United States and the Euro area have continued to narrow



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.



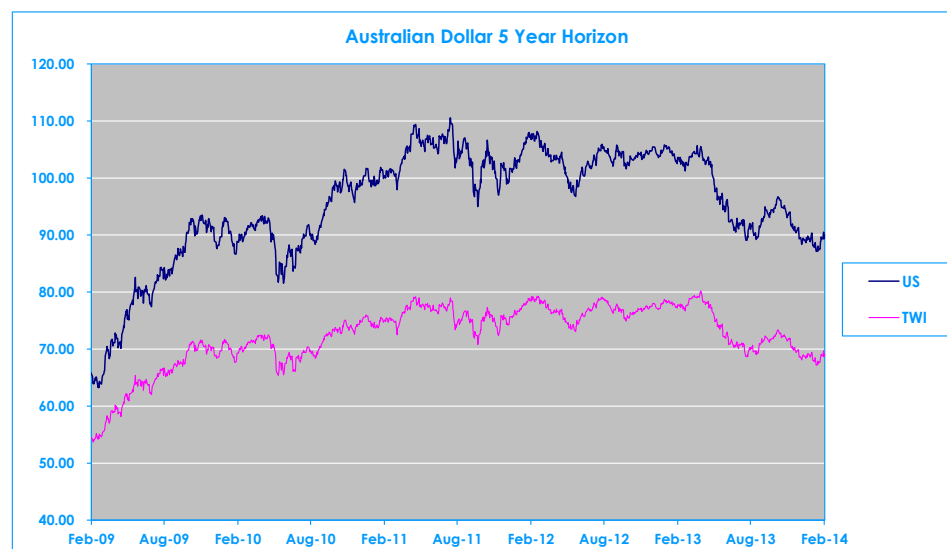
Source : Chesterton Research

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

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

#### Australian Dollar

- The Australian dollar has depreciated by a further 5 per cent on a trade-weighted basis and against the US dollar since the end of October, more than reversing the appreciation recorded over the previous three months.
- The Australian dollar has now depreciated by 14 per cent on a trade-weighted basis since its peak in early April 2013, though it remains 9 per cent higher than its average over the past 15 years and 15 per cent higher than its 15-year average in real terms.



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) 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 – February 2013 (Cont'd)

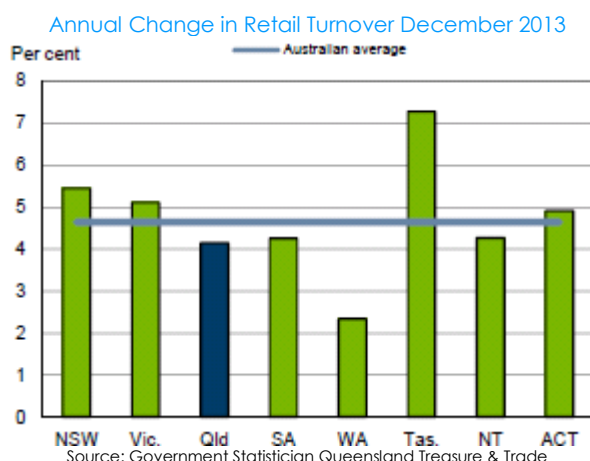
### Queensland Economic Drivers within National Economy (Cont'd)

#### Labour Force

- Trend employment in Queensland fell 0.1% in January 2014. Over the year to January, trend employment grew 18,900 persons (up 0.8%). This was driven by a 21,900 increase in part-time employment, while full-time employment fell 3,000. In the January labour force release, Queensland's trend employment growth was revised down for the past four months.
- With trend employment and labour force both falling 0.1% over the month, Queensland's trend unemployment rate was unchanged at 5.9% in January.
- The trend participation rate in Queensland edged lower, to 65.5% in January 2014, and is around 2 percentage points lower than mid-2011 levels.
- In more volatile seasonally adjusted (sa) terms, employment in Queensland fell 11,700 persons (down 0.5%) in January 2014, to be 17,700 lower (down 0.8%) than a year ago.
- Nationally, sa employment fell 3,700 persons in January, well below market expectations of a 15,000 gain. With the number of persons in the labour force rising in January, the sa unemployment rate rose 0.2 percentage point to 6.0%, above the 5.8% expected by market economists.

#### Retail Trade

- The trend estimate of Queensland's retail turnover increased 0.4% in December 2013. Australia's trend turnover increased by 0.6% during the month.
- The trend value of Queensland's retail turnover increased from \$4,681.9 million in November 2013 to \$4,700.8 million in December 2013.
- The increase in Queensland's nominal retail turnover increased by 4.1% over the previous 12 months, from \$4,513.6 million in December 2012.
- Queensland recorded the second-lowest annual growth in retail trade of all states and territories (4.1%). Tasmania recorded the highest increase (7.3%).
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month. It also recorded the largest contribution to retail turnover growth in Australia.

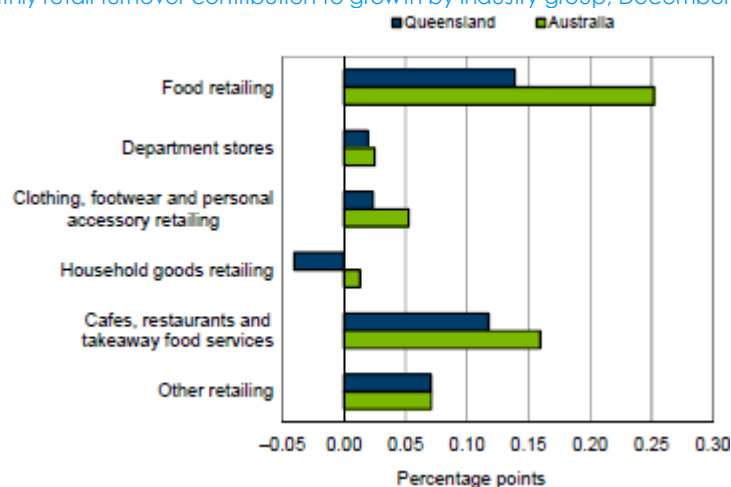


## Economic and Market Overview – February 2013 (Cont'd)

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

Retail Trade  
(Cont'd)

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



Source: Government Statistician Queensland Treasury & Trade

Building Approvals & Construction

#### Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in December 2013 was 3,517, 3.8% higher than the November 2013 figure. The national trend estimate for total dwelling approvals increased 1.5% during the month.
- The trend estimate for the number of private sector house approvals in Queensland decreased 0.8% in December 2013, with a total of 1,532 houses approved. Australia's trend estimate for the number of private sector house approvals was 8,665, an increase of 1.1% from the November 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 4.4% in December 2013 to a total of \$979.1 million. Australia's trend value of residential building work approved increased 2.2% over the month to \$5,005.5 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in December 2013 was 43.1% higher than the December 2012 estimate. In comparison, total dwelling units approved in Australia increased 25% over the same period.

#### Non-residential building

- The trend value of non-residential buildings approved in Queensland in December 2013 was \$563.7 million, an increase of 7.8% over the month. The value of non-residential buildings approved in Australia in December 2013 was \$3,439.1 million, an increase of 4.3% over the month.