

## Economic and Market Overview – June 2015

### Highlights

- Brisbane's headline consumer price index (CPI) remained relatively unchanged in the March quarter 2015, but was 1.4% higher over the year.
- Australian equity prices have increased by 7 per cent, with resource sector equity prices partially recovering and financials' equity prices increasing strongly.
- The Board decided to lower the cash rate by 25 basis points to 2.25 per cent.
- Queensland's state final demand (SFD) rose by 0.1%.
- Trend employment in Queensland rose by 3,400 persons (0.1%) in March 2015, the fifth consecutive monthly gain.
- The trend estimate for total dwelling units approved in Queensland in April 2015 was 21.0% higher than the April 2014 estimate.
- The Federal budget has been announced and is focusing on building jobs, growth and opportunity and providing a credible path to surplus.

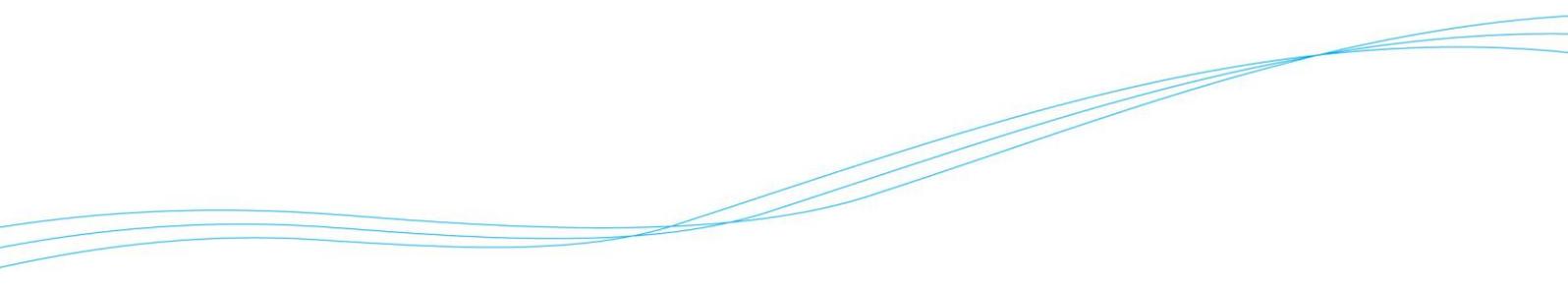
### National Data and Impact of International Factors

#### Consumer Price Index April Qtr 2015

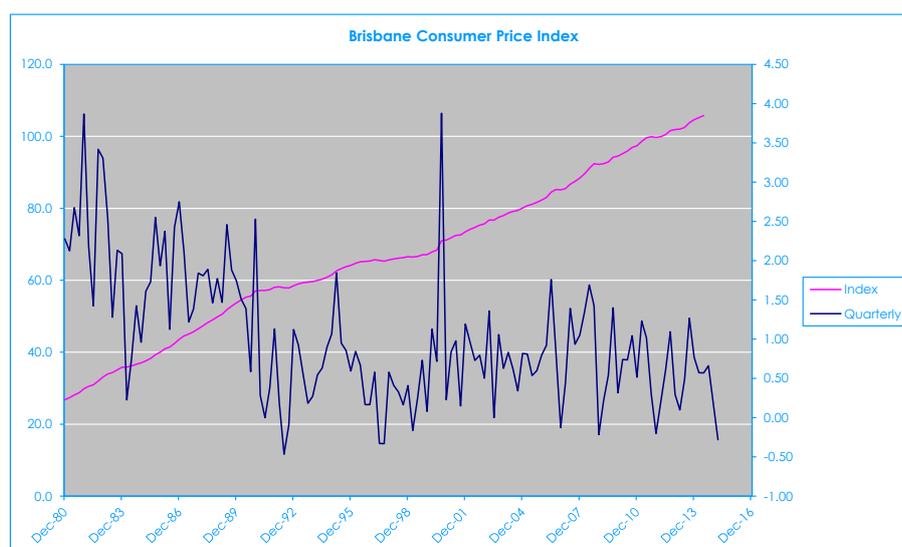
The Australian Bureau of Statistics states:

- The Consumer Price Index (CPI) rose 0.2% in the March quarter 2015, following a rise of 0.2% in the December quarter 2014.
- The most significant price rises this quarter were for domestic holiday travel and accommodation (+3.5%), tertiary education (+5.7%) and medical and hospital services (+2.2%). These rises were partially offset by falls for automotive fuel (-12.2%) and fruit (-8.0%).

Queensland Treasury and Trade Overview of the March Quarter 2015 states:

- Brisbane's headline consumer price index (CPI) remained unchanged in March quarter 2015, but was 1.4% higher over the year. In annual terms, 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 March quarter 2015, Brisbane recorded stronger contributions from the CPI groups of Health and Food and non-alcoholic beverages. These were partly offset by detractions from the transport, furnishings, household equipment and services and communication groups.
  - For Brisbane, the Health group made the largest contribution to inflation in March quarter 2015 (0.2 of a percentage point). Within the Health group, pharmaceutical products increased 6.2% in the quarter.
  - For Brisbane, the Transport group recorded the largest detraction from inflation in March quarter 2015 (-0.44 of a percentage point). Within the Transport group, Automotive fuel decreased 13% in the quarter.
  - Australia's CPI for market sector goods and services, which excludes more volatile items, increased 0.3% in March quarter 2015, with an annual inflation rate of 2.0%.
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## 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 May statement on monetary policy and Board Meeting Minutes. It is supplemented with Chesterton research as identified.

### Economic Activity

- Growth of Australia's Major Trading Partners (MTPs) eased a little in the first few months of 2015, but remained close to its long-run average.
- In China, economic growth moderated further in the March quarter, the slowing apparent across a range of domestic activity indicators. Conditions remain subdued in the property and manufacturing sectors. GDP growth eased further in the quarter (7.3% to 7%), driven by weaker growth in domestic expenditure, which was reflected in a sharp fall in imports.
- Conditions in the property market remain weak, as prices and sales volumes have continued to fall and growth of investment has slowed. The authorities have announced further measures to support the property market including: a lower minimum down payment for second mortgages of 40 per cent; lower down payment requirements for home buyers participating in housing fund contribution schemes; and more generous capital gains tax concessions.
- Conditions in the industrial sector have softened, especially for construction-related products, but growth in the production of a range of other manufactured items has also slowed.
- Growth of real fixed asset investment has moderated and remains relatively low in year-ended terms. While real estate and manufacturing investment growth have both weakened in recent months, growth of infrastructure investment has been resilient, consistent with the pick-up in approvals for infrastructure projects announced by the authorities in the second half of 2014.
- Inflationary pressures remain subdued. In March, CPI inflation was 1.4 per cent in year-ended terms, which is well below the CPI inflation target for 2015 of 3 per cent. Producer prices have continued to decline, consistent with excess capacity in manufacturing and falling global commodity prices.
- The terms of trade declined by 11 per cent over 2014 and are expected to have declined further over the first part of this year, judging by recent levels of commodity prices.

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

### Federal Budget

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

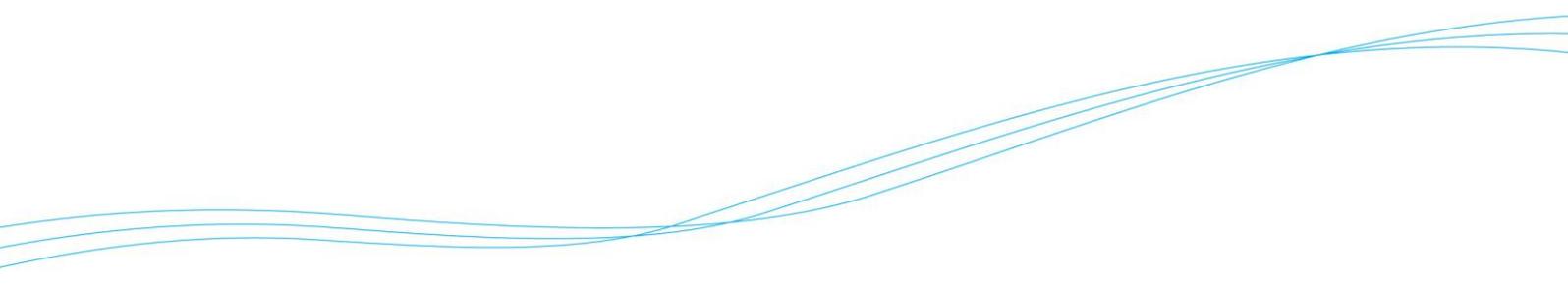
- The focus is on building jobs, growth and opportunity and providing a credible path to surplus.
- Will provide \$5.5 billion including \$5 billion of tax relief to create jobs and small business growth.
- Will reduce the tax rate for the more than 90 per cent of incorporated business with annual turnover 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.
- Despite falls in revenue, the Government will continue to reduce the budget deficit each year. This will see the deficit 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

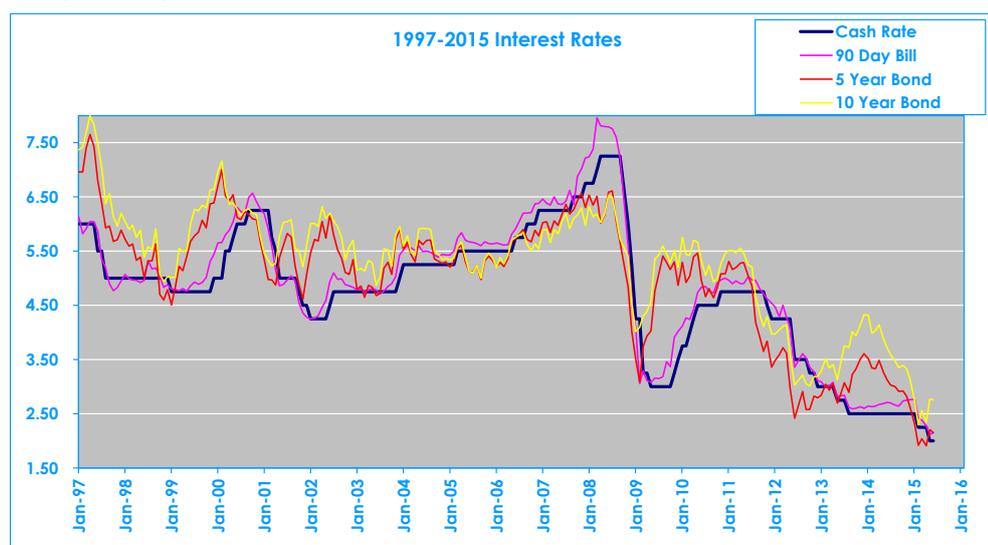
On the 3 June 2014 the final budget of the Newman Government's first term was delivered. Highlights are as follows:

- Note: The new State Budget will be handed down on Tuesday, 14 July 2015.
- The focus of the budget was for a return to surplus by F2016.
- 3% economic growth is forecast for the year ahead, predicted on an upturn in the housing market, household consumption growth and an increase in net exports.
- No new taxes or increased fees for the property industry were in the budget.
- Importantly for the property industry a focus on the Government's Strong Choices Investment Program includes \$500 million for the Local Government Co-Investment Fund, which is a critical piece of the Government's review of the infrastructure charges framework.

### Interest Rates

- The Board decided to lower the cash rate by 25 basis points to 2.25 per cent, effective on 4 February 2015.
  - Financial conditions are very accommodative globally, with long-term borrowing rates for several major sovereigns reaching all-time lows over recent months. Some risk spreads have widened a little but overall financing costs for creditworthy borrowers remain remarkably low.
  - Credit growth picked up to moderate rates, with stronger growth in lending to investors in housing assets.
  - Dwelling prices have continued to rise in Sydney, though trends have been more varied in a number of other cities over recent months.
  - The CPI recorded the lowest increase for several years in 2014. This was affected by the sharp decline in oil prices at the end of the year and the removal of the price on carbon.
  - The Australian dollar has declined noticeably against a rising US dollar over recent months, though less so against a basket of currencies. It remains above most estimates of its fundamental value.
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## Interest Rates (Cont'd)



Source: Chesterton Research

Interest Rates	30 Apr 14	31 Mar 15	30 Apr 15	12 mth change	One month change
Cash Rate	2.50%	2.25%	2.25%	(0.25%)	0.00%
90 day Bill	2.70%	2.25%	2.27%	(0.45%)	0.02%
5 year Bond	3.33%	1.86%	2.11%	(1.47%)	0.25%
10 Year Bond	3.96%	2.33%	2.67%	(1.63%)	0.34%
Spread 90 day to 10 year	(1.26%)	(0.08%)	(0.40%)	1.18%	(0.32%)
Spread 5 year to 10 year	(0.63%)	(0.47%)	(0.55%)	0.16%	(0.09%)

Source : Chesterton Research

## International Equity Markets

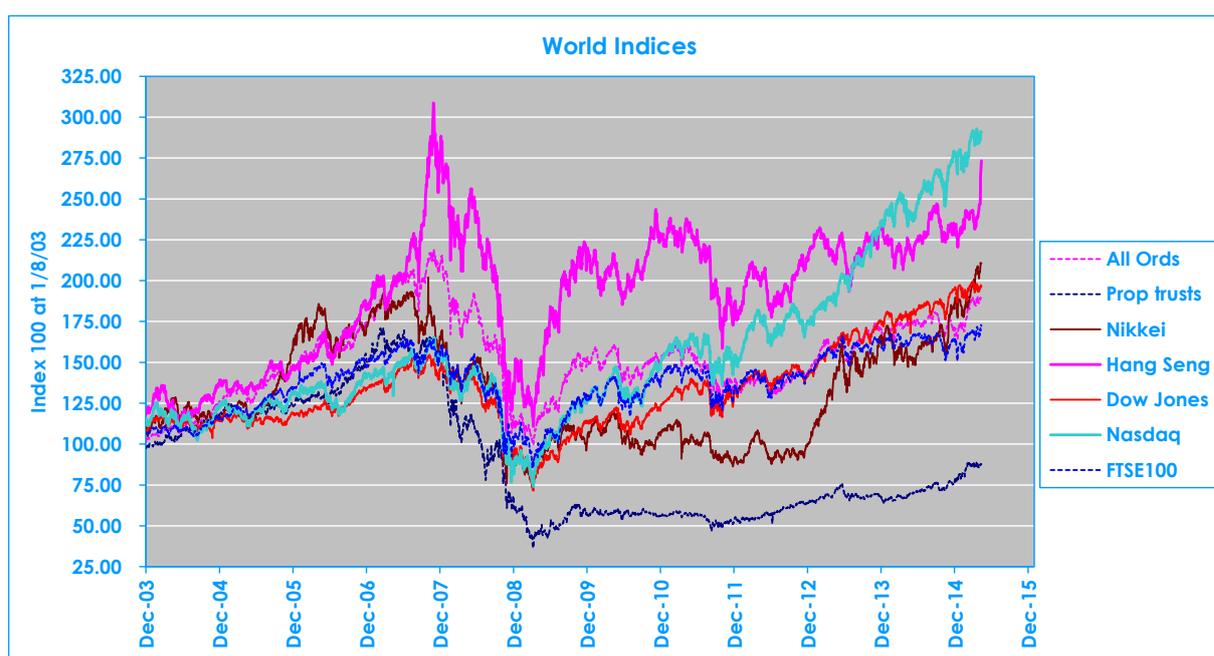
The following commentary is extracted from the Reserve Bank of Australia in its February statement on monetary policy:

- Major equity markets posted modest returns in 2014. Markets in the United States and Japan outperformed others, rising by 11 and 7 per cent, respectively, with much of this underpinned by higher company earnings. European share prices rose only slightly, as earnings were little changed and banking stocks fell due to concerns about possible exposures to Greek and Russian debt.
- Advanced economy share prices have, overall, subsequently increased slightly in 2015. European share prices have outperformed amid the announcement by the ECB of its sovereign bond purchase program, notwithstanding a sharp fall in Greek share prices over January as banking stocks fell by almost 40 per cent. Share prices in other advanced economies have generally been little changed
- Share prices in a number of emerging markets increased strongly over 2014, with prices rising by around 30 per cent in India, China and Turkey, and by around 20 per cent in a number of other Asian economies. However, share prices in several emerging markets have fallen since late November. These declines have been most pronounced in oil-producing nations such as Brazil, Malaysia and Mexico.
- The deadline for the Greek Financial Crisis of 18 June occurred after this publication with talks deadlocked. Markets have been factoring in the probability of Greek defaulting and exiting the Euro.

## International Equity Markets (Cont'd)

Indices	30 Apr 14	31 Mar 15	30 Apr 15	12 mth change %	One month change %
All Ordinaries	5470.80	5861.90	5773.70	3.91	-0.88
Property Trusts	1062.70	1286.30	1272.30	2.24	-0.14
Nikkei	14304.11	19,206.99	19,520.01	49.03	3.13
Hang Seng	22133.97	24,900.89	28,133.00	27.67	32.32
Dow Jones	16,580.84	17,776.12	17,840.52	11.95	0.64
Nasdaq	4,114.56	4,900.88	4,414.25	7.86	-4.87
FTSE	6,780.03	6773.00	6,960.60	-0.07	1.88

Source: Chesterton Research



Source: Chesterton Research

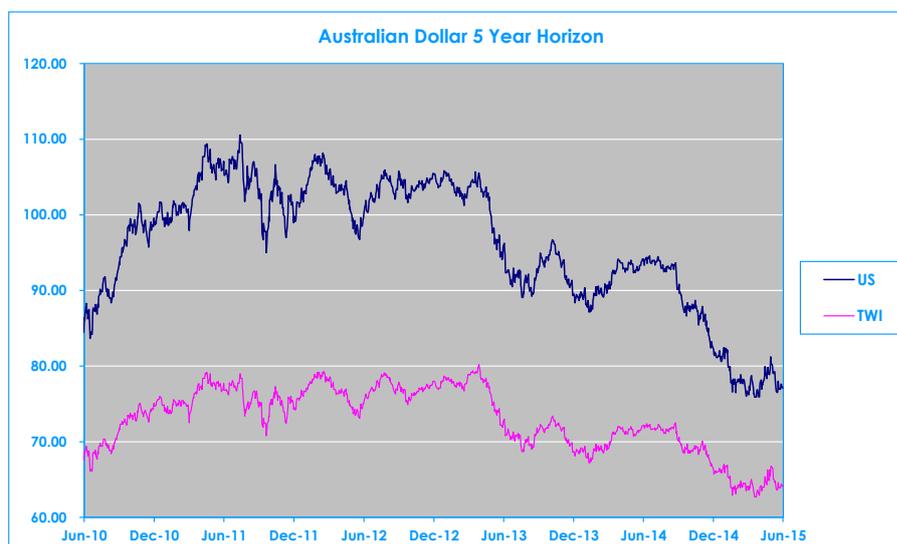
## Domestic Equity Markets

- Australian equity prices were little changed over 2014, driven by substantial declines in the resources sector.
- The market underperformed global equity markets, although this was offset to some extent by the generally higher dividends paid by Australian companies.
- Since the start of 2015, Australian equity prices have increased by 7 per cent, with resource sector equity prices partially recovering and financials' equity prices increasing strongly.
- Resource sector share prices fell by 19 per cent over 2014 in response to lower commodity prices.
- Share prices outside the resources and financial sectors increased by 6 per cent over 2014. Defensive sectors, such as healthcare and telecommunications, tended to outperform the broader market.
- Valuations of Australian equities, as measured by forward price-earnings ratios, have increased to be above their decade averages for all sectors. Valuations have increased in the resources sector as the downward revisions to earnings expectations were larger than the share price declines.

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

### Australian Dollar

- The Australian dollar (at 31 May) has continued to decline, relative to the US dollar for a successive quarter. It closed at 76.34 US cents, which is down from 82.02 at the end of the December quarter.



Source: Chesterton Research

### Economic Outlook

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

- Over the second half of 2014 the Australian economy grew slightly below its average rate. Falls in mining investment detracted significantly from overall growth, although this was offset by a strong increase in resource exports.
- The forecasts for GDP growth over the coming quarters of 2015 are a bit lower than those presented in the November statement. GDP growth is now expected to remain below trend over the course of this year and then to pick up to an above-trend pace in the latter part of the forecast period.
- Interest rates were a lot lower than assumed; combining them with strong population growth will support household demand. Consumption growth is still expected to pick up over the forecast period. The saving ratio is forecast to decline gradually, as it has done for the last few years. Leading indicators suggest that dwelling investment will continue to contribute to GDP growth over coming quarters. The Bank's forecast is for dwelling investment growth to ease gradually from the end of 2015.
- Export growth is expected to continue to make a sizeable contribution to GDP growth, particularly towards the end of the forecast period.
- Reflecting the depreciation of the Australian dollar and a downward revision to domestic demand, import volumes are expected to be lower in the near term than previously forecast. Growth in imports related to the non-mining sector are expected to pick up in line with non-mining activity, while imports related to mining activity are expected to continue falling over the next couple of years.
- While employment growth picked up a bit over the past year, a number of indicators suggest that spare capacity in the labour market has increased, consistent with below-trend growth in the economy.

## Economic Outlook (Cont'd)

- Consistent with subdued labour market conditions, wage growth remains weak. According to the RBA business liaison, many firms expect to see a period of low and stable wage growth ahead. It is not expected to decline further, although pressure on public and private sector employers to contain costs means that wage growth is likely to remain low for some time and pick up only gradually towards the end of the forecast period.

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 May 2015

## Queensland Economic Drivers within National Economy

### Economic Activity

- Queensland's State Final Demand (SFD) rose by 0.1% in seasonally adjusted (sa) terms in March quarter 2015, following a 0.9% decline in the previous quarter. Domestic demand conditions in Queensland remain weak, with SFD 2.1% lower than a year earlier.

Indicator	% Change		Contribution to SFD	
	Qtr	Annual	Qtr	Annual
<b>Household Consumption</b>	0.90%	2.30%	0.50%	1.20%
<b>Dwelling Investment</b>	13.80%	15.70%	0.70%	0.70%
<b>Business Investment</b>	(11.30%)	(24.40%)	(1.70%)	(4.20%)
Engineering Construction	(18.90%)	(42.30%)	(1.30%)	(4.20%)
Non-residential building	(4.30%)	(2.30%)	(0.10%)	(0.10%)
<b>Public Final Demand</b>	2.50%	0.70%	0.50%	0.10%
<b>State Final Demand</b>	0.10%	(2.10%)	0.10%	(2.10%)

Seasonally adjusted figures, March Qtr 2015

Sourced from ABS 5206.0 summarised by OESR

- Household consumption rose 0.9% in March quarter 2015, to be 2.3% higher over the year. Reflecting soft labour market conditions and modest income growth, household consumption growth remained below average. By component, insurance and other financial services (up 2.3%), purchase of vehicles (up 9.6%) and furnishings and household equipment (up 3.0%) were the main contributors, while expenditure on recreation and culture (down 0.7%), cigarettes and tobacco (down 3.4%) and electricity, gas and other fuel (down 1.5%) recorded the largest detractions.
- Dwelling investment rose by 13.8% in March quarter 2015, to be 15.7%. 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.

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

### Economic Activity

- Business investment fell 11.3% in March quarter 2015, to be 24.4% lower over the year. It is expected to continue to fall in 2015, before returning to a more sustainable longer term growth path from 2016-17. Further, lower commodity prices will make additional investment in resources outside of the LNG sector less attractive.
- Non-residential building construction (shops, offices, factories etc.) fell 4.3% in the quarter, to be 2.3% lower than a year earlier. Machinery and equipment investment fell 2.1% in the March quarter, but was 0.3% higher over the year.

### Labour Force

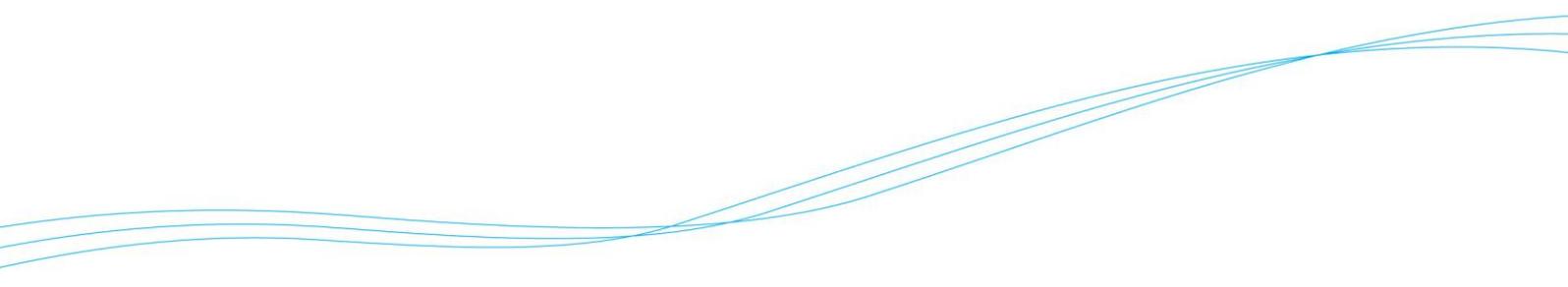
- Trend employment in Queensland rose by 3,400 persons (0.1%) in March 2015, the fifth consecutive monthly gain. Monthly employment growth was entirely driven by an increase in full-time employment (up 4,800 persons), with part-time employment falling in the month (down 1,400 persons). Full-time employment has risen for the past six months, up 26,100 persons over this period, led by a rise in female full-time workers
- Consistent with the shift towards full-time employment growth, trend aggregate hours worked in Queensland continued to rise in March 2015, to be 1.2% higher over the year.
- Queensland's trend participation rate rose 0.1 percentage point in March 2015, to 65.3%, but was 0.7 percentage point lower than a year earlier.
- With the labour force growing at a similar pace to employment in March 2015, the trend unemployment rate in Queensland was unchanged, at 6.5% for the fourth consecutive month.
- Nationally, trend employment rose 20,700 persons (0.2%) in March 2015, to be 1.6% higher over the year. The national trend unemployment rate was unchanged in the month, at 6.2%.

### Building Approvals and Construction

#### Dwelling approvals

- Total dwelling units approved in Queensland in April 2015 was 3,631, 0.8% lower than the March 2015 figure. The national trend estimate for total dwelling approvals decreased 0.4% during the month.
- The number of private sector house approvals in Queensland decreased 0.5% in April 2015, with a total of 1,766 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,837, an increase of 1.1% from the March 2015 figure.
- In April 2015, trend total dwelling units approved in Queensland accounted for 19.1% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 18.0% of Australia's private sector house approvals.
- Residential building work approved in Queensland increased 1.8% in April 2015 to a total of \$1,097.6 million. Australia's trend value of residential building work approved decreased 0.1% over the month to \$5,796.6 million
- In annual terms, the trend estimate for total dwelling units approved in Queensland in April 2015 was 21.0% higher than the April 2014 estimate. In comparison, total dwelling units approved in Australia increased 16.5% over the same period.

#### Non-residential building approvals

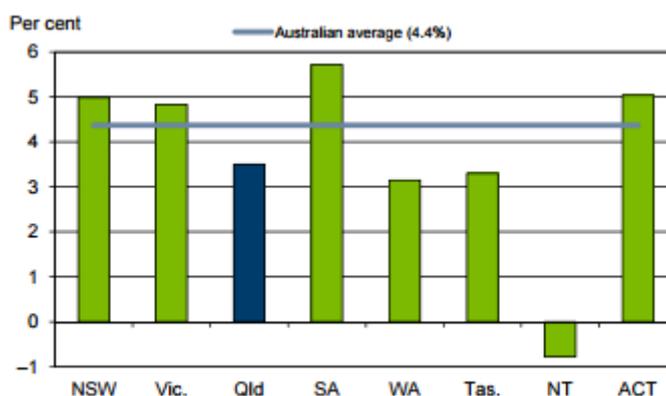
- Non-residential buildings approved in Queensland in April 2015 was \$432.8 million, an increase of 0.7% over the month. The value of non-residential buildings approved in Australia in April 2015 was \$2,237.0 million, a decrease of 3.3% over the month.
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## Queensland Economic Drivers within National Economy (Cont'd)

### Retail Trade

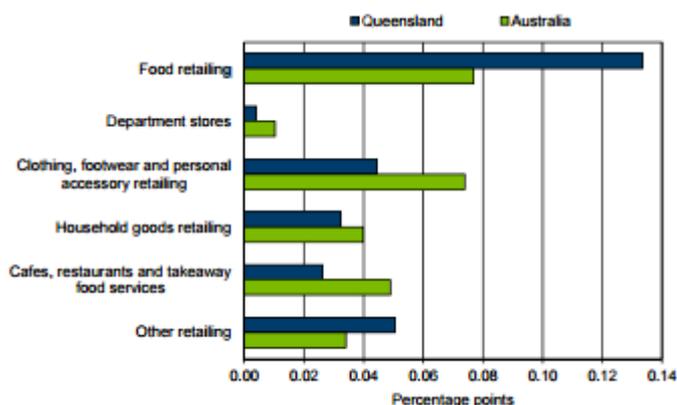
- Queensland's retail turnover increased 0.4% in April 2015. Australia's trend turnover increased 0.3%.
- Queensland's nominal retail turnover increased from \$4,943.8 million in March 2015 to \$4,962.6 million in April 2015.
- The increase in Queensland's nominal retail turnover in April 2015 mainly reflected higher spending in Food retailing and Other retailing.
- Queensland's retail turnover increased by 3.5% over the previous 12 months, from \$4,794.6 million in April 2014.
- Queensland recorded the fifth-highest annual growth in retail turnover of all states and territories (3.5%). South Australia recorded the highest increase (5.7%).
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.13 percentage point). Food retailing recorded the largest contribution to retail turnover growth in Australia (0.08 percentage point) in April 2015.

Annual Change in Retail Turnover April 2015



Source: Government Statistician Queensland Treasure & Trade

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



Source: Government Statistician Queensland Treasure & Trade