

Economic and Market Overview – May

National Data and Impact of International Factors

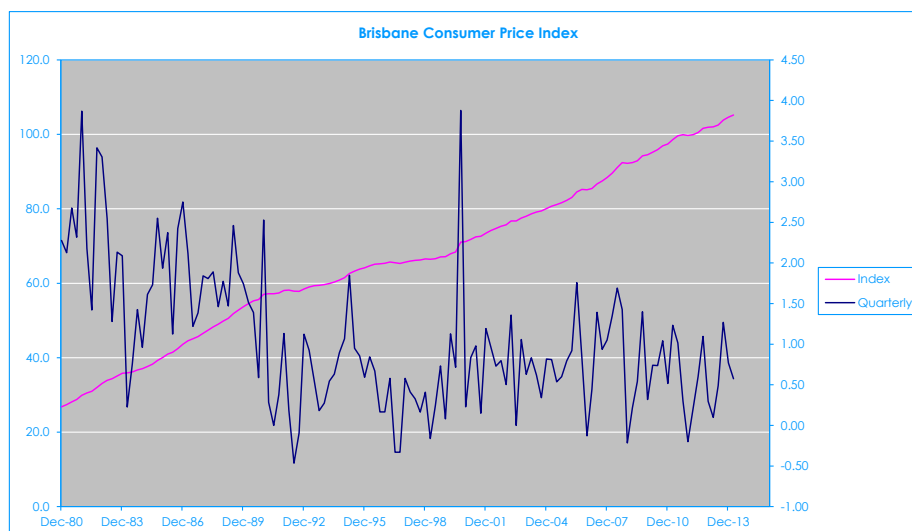
Consumer Price Index Mar Qtr 2014

The Australian Bureau of Statistics states:

- The most significant price rises this quarter were for tobacco (+6.7%), automotive fuel (+4.1%), secondary education (+6.0%), tertiary education (+4.3%), medical and hospital services (+1.9%) and pharmaceutical products (+6.1%).
- These rises were partially offset by falls in furniture (-4.3%), maintenance and repair of motor vehicles (-3.3%), international holiday travel and accommodation (-2.4%) and domestic holiday travel and accommodation (-2.4%).

Queensland Treasury and Trade Overview of the March Qtr 2014 states:

- Brisbane's headline consumer price index (CPI) increased 0.6% in March quarter 2014, to be 3.1% higher over the year. In annual terms, Brisbane recorded the second-highest increase while Darwin recorded the largest increase for all capital cities in Australia.
- For Brisbane, the Alcohol and tobacco group made the largest contribution to inflation in March quarter 2014 (0.25 of a percentage point). Within the Alcohol and tobacco group, tobacco increased 6.4% in the quarter
- For Brisbane, the Recreation and culture group recorded the largest deduction from inflation in March quarter 2014 (-0.24 of a percentage point).



Source : Chesterton Research

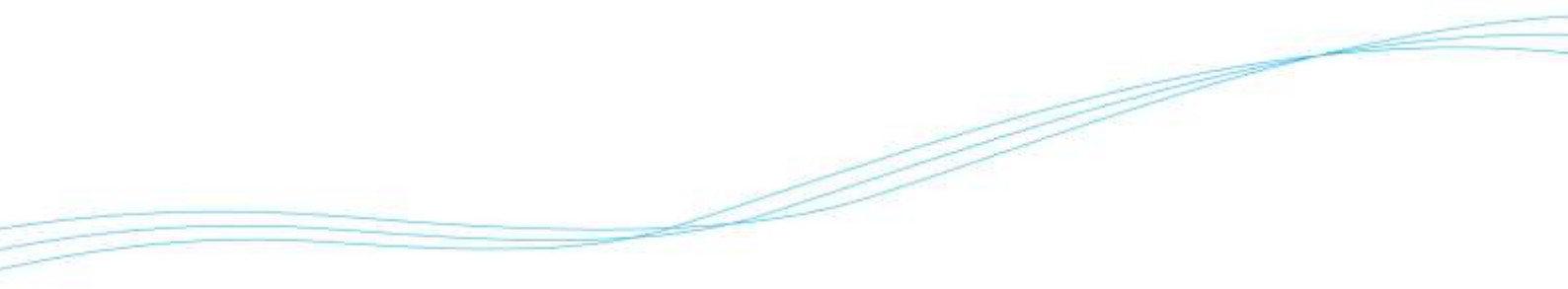
The following commentary is extracted from the Reserve Bank of Australia in its May statement on monetary policy and Minutes of the May Monetary Policy meeting. It is supplemented with Chesterton research as identified.

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

Economic Activity

- Growth of Australia's major trading partners was little changed since the February Statement on Monetary Policy, with growth in 2014 and 2015 still expected to be around its long-run average pace.
- Slight moderation in the growth of Australia's major trading partners in the March quarter is expected to be temporary.
- In China, GDP growth and other indicators of activity eased slightly in 2014. In year-ended terms, growth was still consistent with the government's annual target of 7.5%
- Chinese steel prices remained below the average of recent years, notwithstanding a slight increase over April. Lower steel prices were consistent with some easing in Chinese steel demand, as well as some apparent tightening in credit conditions for steel production and use of iron ore as collateral for borrowing
- In Japan, economic activity appears to have increased strongly in the March quarter, prior to the increase in the consumption tax in April. Recent surveys point to a subsequent decline in business conditions.
- In the remainder of Asia, output growth appears to have been around its decade-average pace and exports have been growing at a similar rate to recent years.
- The US economy is showing signs of moderate growth. While the economy recorded negligible GDP growth in the March quarter, primarily due to the effect of poor weather, more recent indicators have been consistent with further economic recovery.
- Economic activity in the euro area was picking up gradually, although spare capacity remained substantial. Inflation in recent months has declined further in recent months to rates well below the European Central Bank's target in all countries. This remained a concern for policymakers, even though price declines in some of the periphery economies had helped to improve their competitiveness.
- Growth in the domestic economy has picked up a little over the past two quarters. This has been driven by very strong exports as well as an increase in the growth of consumption and dwelling investment.

Federal Budget

- On the 13th of May 2014 The Federal Budget was announced key highlights are as follows:
 - National debt is predicted to fall to \$380 billion by 2023/24 from the over \$600 billion predicted at the Mid-Year Financial Outlook.
 - The 2013/2014 deficit of \$49 billion is predicted to drop to \$29.8 billion by 2014/2015
 - Amongst the spending and cuts was an \$80 billion reduction to health and education, family tax benefits and welfare changes. A re-introduction of fuel indexation and \$11 billion infrastructure package.
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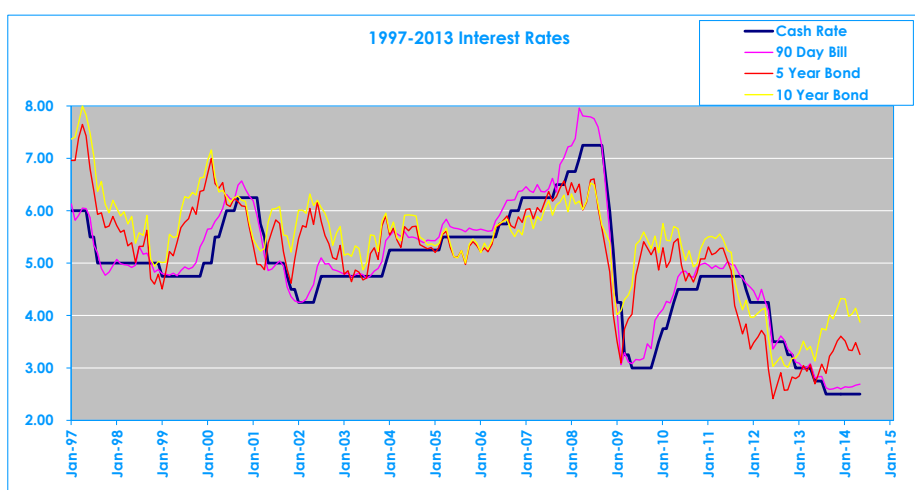
National Data and Impact of International Factors (Cont'd)

State Budget

- On the 3rd of June 2014 the final budget of the Newman Government's first term was delivered.
- The focus of the budget was for a return to surplus by F2016.
- Notably, 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.
- Other beneficiaries include Brisbane's underground Bus and Train Project (\$1 billion) and a Rural and Regional Economic Development Fund (\$700 million).

Interest Rates

- The Reserve Bank has maintained the cash rate target at 2.50 per cent.
- The outlook for the global economy has evolved broadly in line with earlier expectations, resulting in little change in the updated forecasts for activity and inflation, with growth in activity expected to pick up only gradually and spare capacity in the labour market consequently remaining for some time with growth in domestic costs forecast to remain contained.
- Longer-term government bond yields are lower than at the time of the previous Statement on Monetary Policy (February) as published by the Reserve Bank of Australia (RBA), demand for Commonwealth Government Securities (CGS) has been very strong.
- Rates on 3-month bank bills and certificates of deposit (CDs) are little changed over the past few months.
- The pricing of money market instruments implies little likelihood of a change in monetary policy this year, although there is an expectation that the cash rate will be increased around the middle of 2015.



Source : Chesterton Research

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

Interest Rates (Cont'd)

Interest Rates	30 Apr 13	31 Mar 14	30 Apr 14	12 mth change	One month change
Cash Rate	3.00%	2.50%	2.50%	(0.50%)	0.00%
90 day Bill	2.93%	2.72%	2.70%	(0.21%)	(0.02%)
5 year Bond	2.73%	3.45%	3.33%	0.72%	(0.12%)
10 Year Bond	3.10%	4.09%	3.96%	0.99%	(0.13%)
Spread 90 day to 10 year	(0.17%)	(1.37%)	(1.26%)	(1.20%)	0.11%
Spread 5 year to 10 year	(0.37%)	(0.64%)	(0.63%)	(0.27%)	0.01%

Source : Chesterton Research

International Equity Markets

- The last month in relative terms was described as 'uneventful' in regards to financial markets by the RBA board, with little change in government bond yields and share prices in the major economies and stability in most exchange rates. Volatility in many asset classes was at multi-year lows.
- The US Federal Reserve has continued the process of scaling back its asset purchases.
- The European Central Bank has kept policy unchanged from its meeting in early April, however indicating preparedness to use additional measures such as asset purchases and negative deposit rate if the medium term outlook for inflation varied.

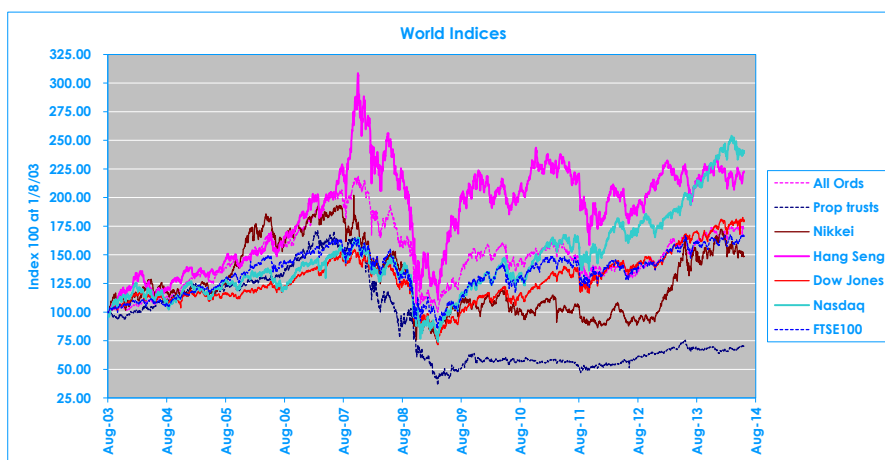
Indices	30 Apr 13	31 Mar 14	30 Apr 14	12 mth change	One month change
All Ordinaries	5,168.60	5,403.00	5,470.80	5.85%	1.25%
Property Trusts	1,097.00	1,005.30	1,062.70	(3.13%)	5.71%
Nikkei	13,860.86	14,827.83	14,304.11	3.20%	(3.53%)
Hang Seng	22,737.01	22,151.06	22,133.97	(2.65%)	(0.08%)
Dow Jones	14,839.80	16,457.66	16,580.84	11.73%	0.75%
Nasdaq	6,430.10	4,198.99	4,114.56	(36.01%)	(2.01%)
FTSE	6,430.10	6,598.40	6,780.03	5.44%	2.75%

Source : Chesterton Research

- Share prices in advanced economies recovered strongly over February, fully unwinding the falls recorded over January as concerns about global economic growth resurfaced, and have since been broadly unchanged.
- Share prices in most advanced economies are now slightly above their levels at the end of last year.
- Share prices in emerging markets have increased roughly in line with those of advanced economies since early February, though with considerable divergences across countries.
- Share prices have risen by 20% in Turkey and by around 10% across a range of Asian economies.

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

International Equity Markets (Cont'd)



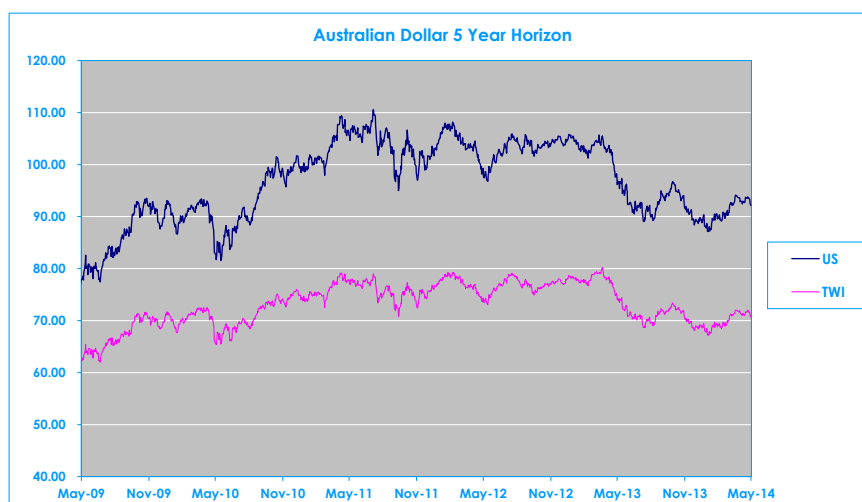
Source : Chesterton Research

Domestic Equity Markets

- Australian equity prices have risen by 6.5% since the February Statement on Monetary Policy, broadly in line with global equity markets. This partly reflected domestic economic data that was generally stronger than market expectations and positive company profit results.

Australian Dollar

- The Australian Dollar has appreciated by 4-5% on a trade-weighted basis and against the US dollar since the previous Statement on Monetary policy released by the RBA.
- Recent appreciation against the US dollar has been evident for a broad range of other currencies that had depreciated significantly over mid to late 2013. The Australian dollar has also been supported by improving local economic data
- The Australian dollar is still around 10% below its recent peak in April 2013.



Source : Chesterton Research

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

Economic Outlook

- The Australian economy began to strengthen a little in the latter part of 2013, although continues to face headwinds, including the downturn in mining investment and planned fiscal consolidation
- GDP growth picked up slightly in the December quarter but remained a little below trend in 2013. The pick-up in growth was underpinned by strong growth of resource exports, and slightly stronger consumption growth despite weak growth in household income.

Output Growth & Inflation Forecasts						
	Year Ended		Year Average			
	Dec 2013	June 2014	Dec 2014	June 2015	Dec 2015	June 2016
GDP Growth	2.80%	3.00%	2.75%	2.25-3.25%	2.75-3.75%	2.75-4.25%
Non-farm GDP Growth	2.60%	3.00%	3.00%	2.5-3.5%	2.75-3.75%	2.75-4.25%
CPI Inflation	2.70%	3.00%	2.75%	2.5-3.5%	2.25-3.25%	2-3%
Underlying Inflation	2.50%	2.75%	2.50%	2.25-3.25%	2-3%	2-3%
	Year Average		Year Average			
	2013	2013/14	2014	2014/15	2015	2015/16
GDP Growth	2.40%	2.75%	3.00%	2.25-3.25%	2.25-3.25%	2.5-4%

Source : Reserve Bank Statement of Monetary Policy May 2014

- In contrast business investment in both mining and non-mining sectors declined, with some of this reflected in lower capital imports as a large component of investment is imported.
- Quarterly growth in measured public demand has remained volatile, but its growth has been weak for several years and is expected to remain so for some time given planned fiscal restraint at both the state and federal levels of government
- Household consumption strengthened gradually over 2013 and grew at a pace consistent with trend GDP growth in the latter part of the year. It increased in March quarter 2014 at a similar rate to that of the previous quarter. Retail sales volumes increased by 1.2% in the March quarter 2014,
- Business investment has continued to fall from its peak in late 2012, but it remains high as a share of GDP. The largest declines have occurred in machinery and equipment and, to a lesser extent, engineering investment.
- The Capex survey indicates that there has been a slight improvement in non-mining investment expectations in 2014/2015 (compared with earlier surveys for 2013/2014). Current indicators suggest that any pick-up investment is likely to come from industries such as rental, hiring and real estate, information, media and telecommunications, construction and retail trade.

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.

Queensland Economic Drivers within National Economy (Cont'd)

Economic Activity (Cont'd)

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.

Labour Force

- Trend employment in Queensland rose a strong 0.3% in April 2014, the twelfth consecutive month of growth and the fastest monthly gain in four years. Trend employment growth was driven by part-time employment, up 6,500 persons over the month, while full-time employment rose 500 persons. Over the year to April 2014, Queensland recorded a 52,400 person increase in trend employment (up 2.3%), the strongest gain by any state and more than half of the national employment growth.
- Consistent with an improving labour market, the trend participation rate has edged higher over the past five months, to be 66.3% in April 2014. With trend labour force growing at a faster pace than employment in April, Queensland's trend unemployment rate rose to 6.3%, from an upwardly revised 6.2% in the previous month.
- In more volatile seasonally adjusted (sa) terms, employment in Queensland rose 4,400 persons (up 0.2%) in April 2014, consolidating strong gains in the previous two months. Over the year to April 2014, Queensland recorded the largest growth in sa employment of any mainland state, up 2.6% (or 60,400 persons). Despite employment growth in April 2014, Queensland's sa unemployment rate rose 0.2 percentage point to 6.3%.

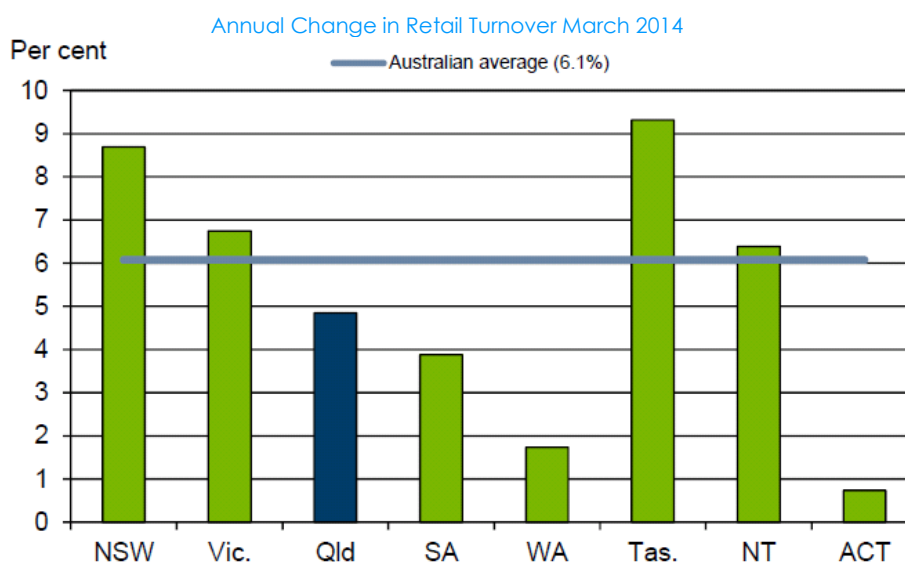
Queensland Economic Drivers within National Economy (Cont'd)

Labour Force (Cont'd)

- Nationally, sa employment rose 14,200 persons in April 2014, above market expectations of a 6,750 person gain. With employment growing at a similar rate to the national labour force, the sa unemployment rate was unchanged at 5.8% in April, below market expectations of 5.9%.

Retail Trade

- The trend estimate of Queensland's retail turnover increased 0.4% in March 2014. Australia's trend turnover increased by 0.5% during the month
- The trend value of Queensland's nominal retail turnover increased from \$4,814 million in February 2014 to \$4,833.1 million in March 2014.
- Tasmania recorded the highest increase (9.3%) in annual growth in retail trade of all states and territories, followed by New South Wales (8.7%), Victoria (6.8%), the Northern Territory (6.4%) and Queensland (4.9%).
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.16 percentage point). Food retailing recorded the largest contribution to retail turnover growth in Australia (0.20 percentage point) in March 2014.

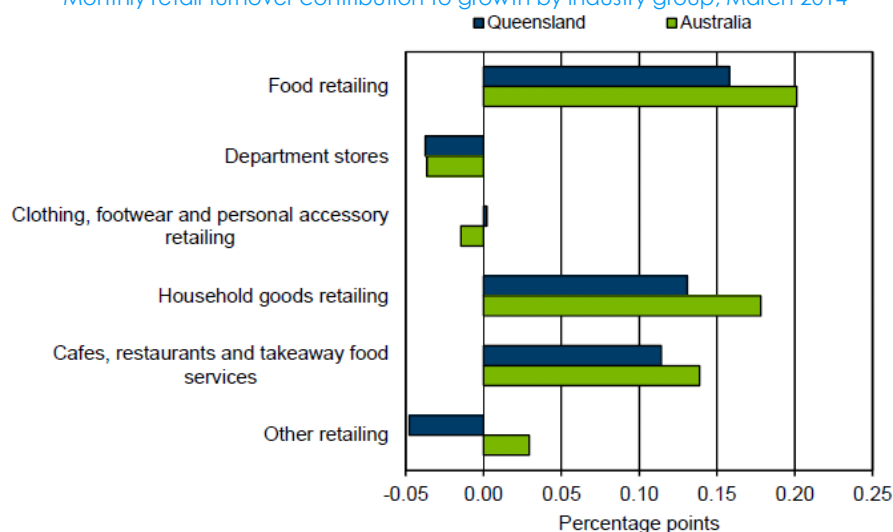


Source: Government Statistician Queensland Treasure & Trade

Queensland Economic Drivers within National Economy (Cont'd)

Retail Trade (Cont'd)

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



Source: Government Statistician Queensland Treasury & Trade

Building Approvals and Construction

Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in March 2014 was 3,091, 3.4% lower than the February 2014 figure. The national trend estimate for total dwelling approvals decreased 0.8% during the month.
- The trend estimate for the number of private sector house approvals in Queensland decreased 0.3% in March 2014, with a total of 1,590 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,392, an increase of 1.1% from the February 2014 figure.
- In March 2014, trend total dwelling units approved in Queensland accounted for 18.7% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 16.9% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland decreased 2.7% in March 2014 to a total of \$860.6 million. Australia's trend value of residential building work approved decreased 0.9% over the month to \$4,801.0 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in March 2014 was 20.1% higher than the March 2013 estimate. In comparison, total dwelling units approved in Australia increased 21.9% over the same period.

Non-residential building

- The trend value of non-residential buildings approved in Queensland in March 2014 was \$517.0 million, a decrease of 4.1% over the month. The value of non-residential buildings approved in Australia in March 2014 was \$2,871.3 million, a decrease of 4.6% over the month.