

## Economic and Market Overview – October 2014

### Highlights

- Brisbane's CPI for September 2014 was 2.6%.
- China GDP consistent with target of 7.5%
- 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
- Queensland economic growth projected at 3%
- Cash rate unchanged for 17 months, government bonds declining and low bank borrowing costs have resulted in investors looking for strong investment returns based on lower borrowing costs
- October was a volatile month on the equity markets but the major markets showed growth during the month but also relatively strong growth over the past 12 months.
- REITS still recovering in comparison to other equities but have strengthened over the past 12 months.
- The pattern of output growth reflects the transition from the investment to the export phase of the mining boom, and the gradual pick-up in the growth of non-mining economic activity.
- Non-mining business investment remains low relative to its average share of economic activity over recent decades and the Bank's liaison continues to report that firms are reluctant to undertake significant investment projects until they see a sustained period of strong demand.
- GDP growth is expected to be a little below average over 2014/15
- Queensland's state final demand (SFD) rose by 0.4% in seasonally adjusted (Queensland) terms in June quarter 2014, following a 1.0% fall in the previous quarter. Queensland SFD was 0.4% lower over the year to June quarter 2014

### National Data and Impact of International Factors

#### Consumer Price Index September Qtr 2014

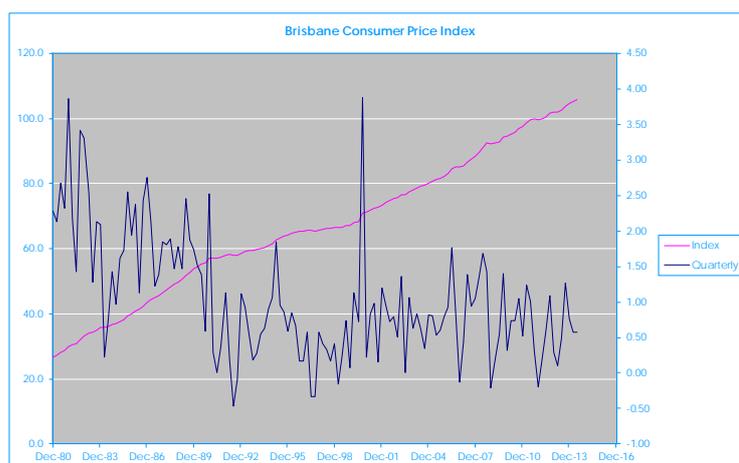
The Australian Bureau of Statistics states:

- The Consumer Price Index (CPI) rose 0.5% in the September quarter 2014, following a rise of 0.5% in the June quarter 2014.
- The most significant price rises this quarter were for fruit (+14.7%), new dwelling purchase by owner-occupiers (+1.1%), property rates and charges (+6.3%) and other services in respect of motor vehicles (+5.8%). These rises were partially offset by falls in electricity (-5.1%) and automotive fuel (-2.5%).

Queensland Treasury and Trade Overview of the September Quarter 2014 states:

- Brisbane's headline consumer price index (CPI) increased 0.7% in September quarter 2014, to be 2.6% higher over the year. In annual terms, Brisbane recorded the second-highest increase for all capital cities in Australia.
- Compared with the weighted average of eight capital cities for September quarter 2014, Brisbane recorded stronger contributions from the CPI groups of housing, clothing and footwear, recreation and culture, insurance and financial services, alcohol and tobacco and food and non-alcoholic beverages. These were partly offset by furnishings, household equipment and services and transport groups.
- For Brisbane, the Housing group made the largest contribution to inflation in September quarter 2014 (0.34%). Within the housing group, water and sewerage increased 7.0% in the quarter.
- Australia's CPI for market sector goods and services, which excludes more volatile items, increased 0.3% in September quarter 2014, with an annual inflation rate of 1.8%.

## 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

- Continued growth in Australia's major trading partners has been around its long-run average.
- Recent data for China was consistent with GDP growth target of 7.5 per cent. The growth rates of industrial production and retail sales had remained fairly steady, while the growth of fixed asset investment had declined a little further. The manufacturing Price market Index for August had declined to around the average level of recent years.
- Conditions in the Chinese residential property market continued to weaken and had a potential to spill over to broader activity and the financial system. There is scope for further adjustments to policy settings by the authorities
- The modest easing of growth of Australia's trading partners in the June quarter had largely reflected the contraction of output in Japan, which had been expected following the consumption tax increase in April.
- The economies of east Asia overall had been growing at similar rate to recent years, while the United States had recorded a strong rebound in growth in the June quarter.
- In contrast, economic activity in Europe remained weak, with real GDP in the Euro area unchanged in the June quarter and the unemployment rate falling only gradually. Inflation had declined further and remained well below the target of the European Central Bank (ECB) of below but close to 2 per cent.
- Commodity prices overall had declined a little over the past month. The price of iron ore had fallen to around its recent lows while coal prices were little changed, following sharp declines earlier in the year.

### Federal Budget

On 13 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.

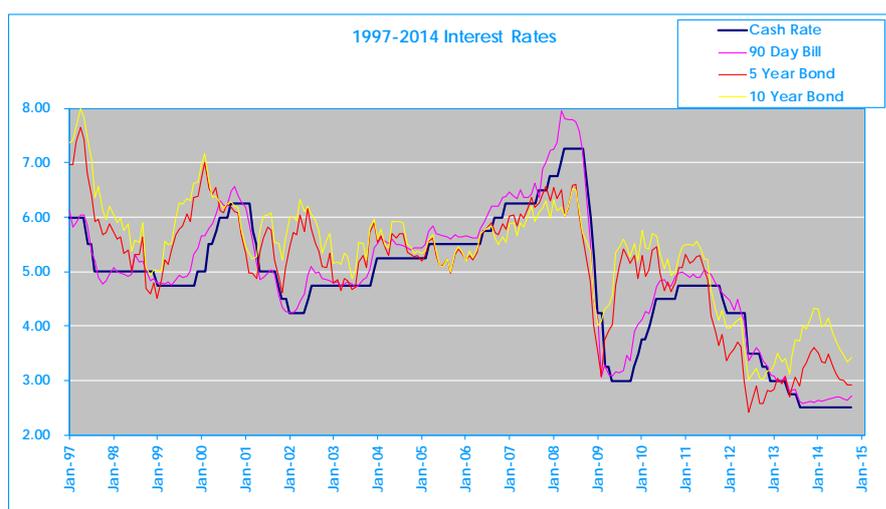
## National Data and Impact of International Factors (Cont'd)

### State Budget

- On the 3 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.
- 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 left the cash rate target at 2.50 per cent now for 17 consecutive months being the longest period the cash rate has been held steady since November 2003.
- Current setting of monetary policy was accommodative. Interest rates remain very low and had declined a little for borrowers since the cash rate was last changed. Investors continued to look for higher returns in response to low rates on safe instruments and were accepting more risk.
- Credit growth had picked up, including to businesses. Credit growth for investor housing was running at around 10 per cent per annum. The average interest rate on all outstanding housing loans had fallen by around 15 basis points since the cash rate was reduced in August 2013.
- During this time, the exchange rate remained above most estimates of its fundamental value.
- The current stance of monetary policy was considered to be contributing to sustainable growth and inflation outcomes consistent with the target over the period ahead.
- Yields on Australian government bonds also declined over the past month.
- Australian banks continued to raise funds relatively cheaply,



Source : Chesterton Research

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

### Interest Rates (Cont'd)

Interest Rates	31 Oct 13	30 Sep 14	31 Oct 14	12 mth change	One month change
Cash Rate	2.50%	2.50%	2.50%	0.00%	0.00%
90 day Bill	2.63%	2.76%	2.76%	0.13%	0.00%
5 year Bond	3.40%	2.97%	2.84%	(0.43%)	(0.13%)
10 Year Bond	4.02%	3.48%	3.30%	(0.54%)	(0.18%)
Spread 90 day to 10 year	(1.39%)	(0.72%)	(0.54%)	0.67%	0.18%
Spread 5 year to 10 year	(0.62%)	(0.51%)	(0.46%)	0.11%	0.05%

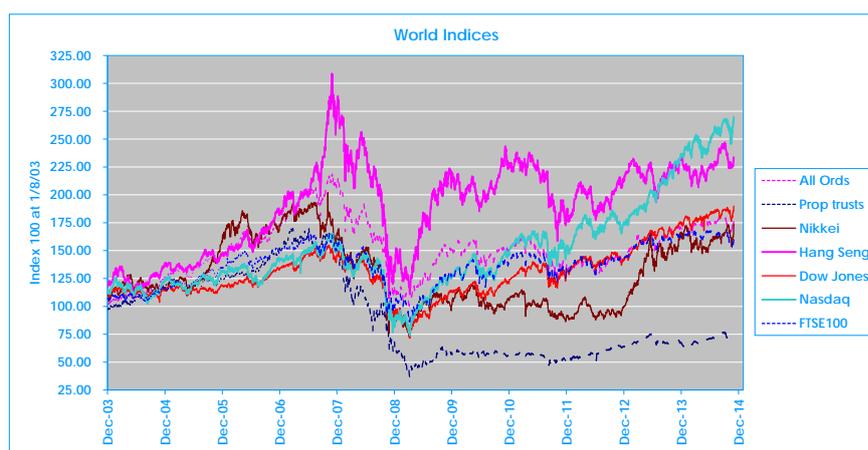
Source : Chesterton Research

### International Equity Markets

- Major equity markets weakened during September with further weakening to mid-October however closed the month higher than at the start of the month. The exception was the Japanese Nikkei which not only finished October strongly, despite weakening in the middle of the month but, grew in September.
- The volatility during the month was largely due to geopolitical factors including Syria/Iraq, Gaza and Ukraine.
- Over the past 12 months the US markets have performed strongly as has Japan

Indices	31 Oct 13	30 Sep 14	31 Oct 14	12 mth change	One month change
All Ordinaries	5,420.30	5,296.80	5,505.00	1.56%	3.93%
Property Trusts	1,045.50	1,080.16	1,153.43	10.32%	6.78%
Nikkei	14,327.94	16,173.52	16,413.76	14.56%	1.49%
Hang Seng	23,206.37	22,932.98	23,962.20	3.26%	4.49%
Dow Jones	15,545.75	17,042.90	17,390.52	11.87%	2.04%
Nasdaq	3,919.71	4,493.39	4,630.74	18.14%	3.06%
FTSE	5,420.30	5,296.80	5,505.00	1.56%	3.93%

Source : Chesterton Research



Source : Chesterton Research

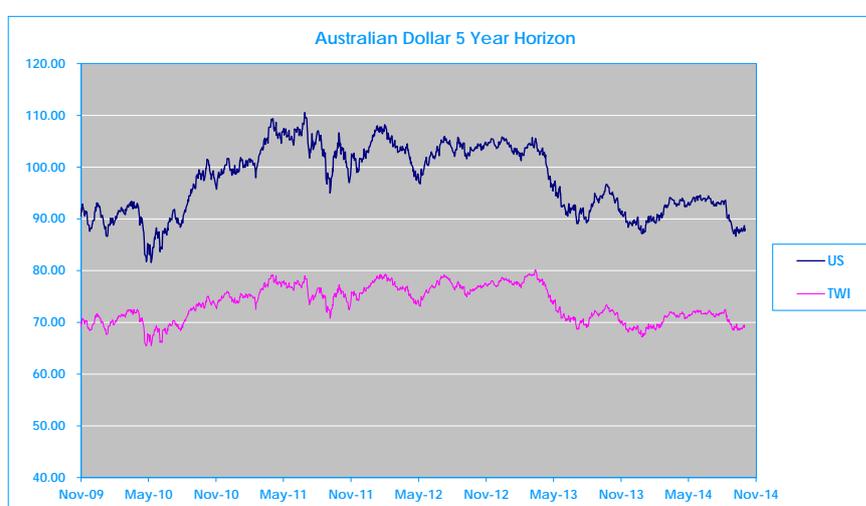
## National Data and Impact of International Factors (Cont'd)

### Domestic Equity Markets

- Geopolitical factors have put downward pressure on the Australian Equity Market. On 13 October 2014 the market opened down 107.6 points to 5185.7 compared to 5624.6 at the start of September 2014.
- General equities have been flat over the past 12 months whereas the REIT market has grown strongly.

### Australian Dollar

- To a large degree due to the strengthening of the US dollar the Australian dollar slipped from the 93 cents mark to round 87 cents throughout September. The weakening demand of Coal from China and weaker prices in that and iron ore also had an influence on the movement.
- It remained relatively stable throughout October



Source : Chesterton Research

### Economic Outlook

- Australian GDP growth picked up to an above average pace over the second half of 2013 and early 2014, with much of this increase accounted for by a surge in resource exports.
- The pattern of output growth reflects the transition from the investment to the export phase of the mining boom, and the gradual pick-up in the growth of non-mining economic activity.
- Rural exports also increased sharply in the March quarter,
- The pick-up in non-mining economic activity is occurring, albeit gradually. Non-mining business investment is estimated to have increased in the March quarter and survey measures of business conditions and investment intentions are around average.
- Dwelling investment grew strongly in the March quarter and is clearly in an upswing.
- Some labour market indicators have improved a little since the turn of the year, but overall conditions remain subdued. The participation rate is little changed over the year to date, after a period of significant decline.
- The low growth of wages and domestic costs in general has helped to contain inflation
- The outlook for domestic growth is not materially different from that presented in the May Statement. It continues to reflect the opposing forces of the decline in mining investment and ongoing fiscal consolidation on the one hand, and the strong growth in resource exports and the support from very low interest rates on the other.

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

### Economic Outlook (Cont'd)

- GDP growth is expected to be a little below average over 2014/15 and then pick up gradually to an above-average pace, with non-mining business investment and liquefied natural gas (LNG) exports forecast to add to growth.
- While consumption appears to have grown at a moderate rate over the year to date, it is expected to increase gradually to a pace a bit above average by later next year given further growth in household wealth, low interest rates and some improvement in labour market conditions.
- Inflation is projected to be consistent with the target over the forecast period.
- The key uncertainties for the domestic economy continue to be centred on the timing and extent of the decline in mining investment and how this is balanced by the expansion of resource exports and the recovery in non-mining activity.

Output Growth & Inflation Forecasts						
	Year Ended					
	June 2014	Dec 2014	June 2015	Dec 2015	June 2016	Dec 2016
GDP Growth	3.00%	2.50%	2.0%-3.0%	2.5%-3.5%	2.75%-3.75%	2.75%-4.25%
Non-farm GDP Growth	3.25%	2.75%	2.0%-3.0%	2.5%-3.5%	2.75%-3.75%	2.75%-4.25%
CPI Inflation	3.00%	2.00%	1.75%-2.75%	2.5%-3.5%	2.5%-3.5%	2.25%-3.25%
Underlying Inflation	2.75%	2.25%	1.75%-2.75%	2.25%-3.25%	2.0%-3.0%	2.0%-3.0%
	Year Average					
	2013	2013/14	2014	2014/15	2015	2015/16
GDP Growth	3.00%	3.00%	2.0%-3.0%	2.0%-3.0%	2.25%-3.25%	2.75-3.75%

Source : Reserve Bank Statement of Monetary Policy August 2014

## Queensland Economic Drivers within National Economy

### Economic Activity

- Queensland's state final demand (SFD) rose by 0.4% in seasonally adjusted (Queensland) terms in June quarter 2014, following a 1.0% fall in the previous quarter. Queensland SFD was 0.4% lower over the year to June quarter 2014.

Indicator	% Change		Contribution to SFD	
	Qtr	Annual	Qtr	Annual
<b>Household Consumption</b>	0.00%	1.90%	0.00%	1.00%
<b>Dwelling Investment</b>	0.02%	8.10%	0.00%	0.40%
<b>Business Investment</b>	0.04%	(12.40%)	0.10%	(2.40%)
Engineering Construction	(1.10%)	(9.40%)	(0.10%)	(1.00%)
Non-residential building	12.20%	12.10%	0.30%	0.30%
<b>Public Final Demand</b>	1.80%	2.90%	0.40%	0.60%
<b>State Final Demand</b>	0.40%	(0.40%)	0.40%	(0.40%)

Seasonally adjusted figures, June Qtr 2014

Sourced from ABS 5206.0 summarised by OESR

- Household consumption was unchanged in June quarter 2014, and 1.9% higher over the year. By component, insurance and other financial services (up 1.5%) and rent and other dwelling services (up 0.6%) were the main contributors, while expenditure on vehicles (down 5.1%) and recreation and culture (down 1.2%) recorded the largest detractions.
- Dwelling investment rose by 0.2% in June quarter 2014, to be 8.1% higher over the year. Construction of new dwellings rose by 2.5% in the quarter, partially offset by a 2.6% fall in alterations and additions. Trends in new dwelling approvals suggest further strength in the dwelling sector in 2014-15.

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

### Economic Activity

- Business investment rose 0.4%, but was 12.4% lower over the year. While business investment in Queensland remains elevated, it is expected to return to more sustainable levels over the next few years, as the investment phase of the large LNG projects continues to wind down and the export phase ramps up.
- Non-residential building construction (shops, offices, factories, etc.) rose a strong 12.2% in the quarter, to be 12.1% higher than a year ago. Machinery and equipment investment rose 0.6% in June quarter 2014.

### Labour Force

- Trend employment in Queensland fell by 2,900 persons (-0.1%) in September 2014, following a similar decline in August. The monthly decline was driven by a fall in full-time employment, down 4,600 persons, while part-time employment rose 1,700 persons.
- Over the year to September 2014, Queensland recorded a 31,600 person increases in trend employment, driven by a 29,200 rise in part-time female employment. The 1.4% annual growth in Queensland's trend employment was slightly higher than the national average of 1.2%.
- The trend participation rate edged lower in September 2014, to 65.9%. ABS revisions have resulted in the trend participation rate declining for the past four months, to be unchanged over the year to September 2014. With the fall in employment outpacing the decline in the labour force in the month, Queensland's trend unemployment rate was marginally higher in September 2014, at 6.4%, from a downwardly revised 6.3% in August (previously 6.7%).
- Nationally, trend employment rose 5,600 persons in September 2014, to be 1.2% higher over the year. With employment growing at a similar rate to the labour force in the month, the trend unemployment rate was unchanged at 6.0%.

### Building Approvals and Construction

#### Dwelling approvals

- The trend estimate for total dwelling units approved in Queensland in August 2014 was 3,274, 2.7% higher than the July 2014 figure. The national trend estimate for total dwelling approvals increased 1.2% during the month.
- The trend estimate for the number of private sector house approvals in Queensland increased 0.8% in August 2014, with a total of 1,762 houses approved. Australia's trend estimate for the number of private sector house approvals was 9,298, remaining relatively unchanged compared with the July 2014 figure.
- In August 2014, trend total dwelling units approved in Queensland accounted for 20.2% of Australia's total dwelling unit approvals. Private sector house approvals in Queensland accounted for 19.0% of Australia's private sector house approvals.
- The trend nominal value of residential building work approved in Queensland increased 2.6% in August 2014 to a total of \$990.2 million. Australia's trend value of residential building work approved increased 1.4% over the month to \$4,938.3 million.
- In annual terms, the trend estimate for total dwelling units approved in Queensland in August 2014 was 13.0% higher than the August 2013 estimate. In comparison, total dwelling units approved in Australia increased 6.8% over the same period.

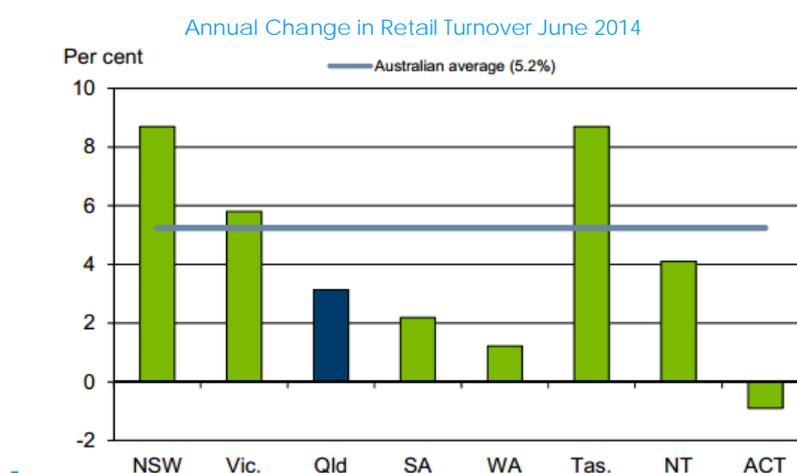
#### Non-residential building approvals

- The trend value of non-residential buildings approved in Queensland in August 2014 was \$411.4 million, a decrease of 0.7% over the month. The value of non-residential buildings approved in Australia in August 2014 was \$2,293.7 million, a decrease of 0.5% over the month.

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

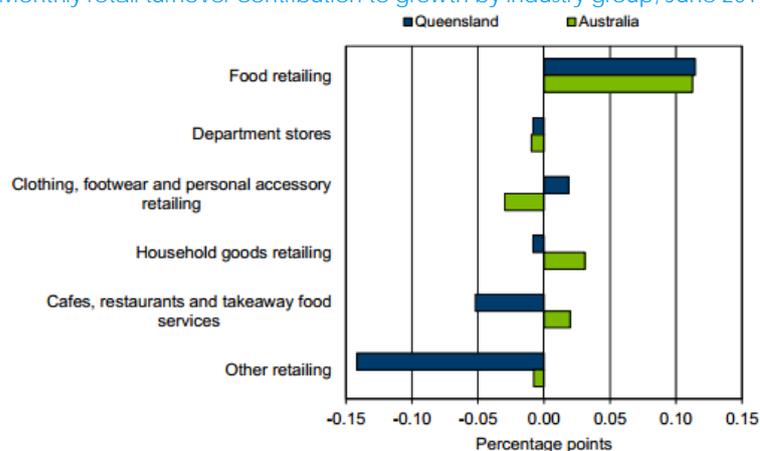
### Retail Trade

- The trend estimate of Queensland's retail turnover decreased 0.1% in July 2014. Australia's trend turnover increased 0.1% in July 2014.
- The trend value of Queensland's nominal retail turnover decreased from \$4,799.7 million in June 2014 to \$4,795.1 million in July 2014.
- The decrease in Queensland's nominal retail turnover in July 2014 mainly reflected lower spending in other retailing and Cafes, restaurants and takeaway food services.
- The trend value of Queensland's retail turnover increased by 3.1% over the previous 12 months, from \$4,649.4 million in July 2013.
- Food retailing recorded the largest contribution to retail turnover growth in Queensland in the month (0.11 percentage point). Food retailing recorded the largest contribution to retail turnover growth in Australia (0.11 percentage point) in July 2014.



Source: Government Statistician Queensland Treasure & Trade

### Monthly retail turnover contribution to growth by industry group, June 2014



Source: Government Statistician Queensland Treasure & Trade