



# TCorp Local Government Services

Economic Commentary – April 2015

New South Wales  
Treasury Corporation

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## The Month in Review

### Economic and Market Trends

China's March quarter GDP data confirmed that the weaker property market has dragged down growth in the overall economy. While China's economy grew by 7% over the past year, the economy grew at a 5.3% annualised pace in the first three months of the year.

The Chinese data also reflected an ongoing shift in the drivers of growth, away from manufacturing and construction and towards household spending. For example, industrial production growth slowed to 5.6% y/y in March, which was almost half the pace of retail spending which grew by 10.2% y/y. This is consistent with the desire of China's policymakers to boost the services sector of the economy and ween growth away from investment. During this process, Chinese growth will become much less commodity intensive.

Further evidence of a soft-patch in US growth also emerged over the last month. GDP growth in the first quarter of 2015 slowed to a distinctly sub-trend pace. And while the US labour market has been a bastion of strength over the last year, the pace of jobs growth decelerated in March. Only 126,000 jobs were created in March, the weakest outcome for more than a year. While the stronger US\$ has likely contributed to the slowdown, most analysts maintain that this weakness will prove temporary, and is mainly driven by inclement weather and a port shutdown (due to industrial action) on the West Coast. And while stronger retail sales and housing starts in March suggest activity is beginning to improve, it appears that the recovery is likely to be more gradual than most forecasts had anticipated.

In Europe, markets continue to be driven by the ECB's QE program. Bond yields in Germany, for instance, are now negative out to 9 years. In Greece, reports suggest that the Government may struggle to repay their next instalment to creditors which is due in May. The Greek Government, however, denies that they asked to postpone their next scheduled payment.

Australian households appear to have loosened their wallets in 2015. Retail spending rose by a healthy 0.7% in February, while building approvals also remain elevated. Jobs growth has also improved in recent months, with strong increases recorded in both February and March. This resulted in the official unemployment rate falling from 6.3% in January to 6.1% in March.

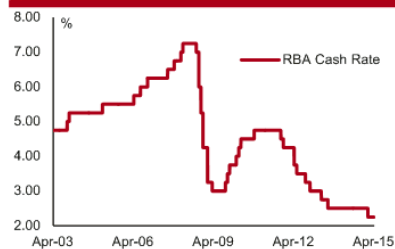
These data support the notion that the rebalancing of Australian growth is proceeding in a timely fashion, but there are some anomalies. For example, retail spending has improved at the same time consumer sentiment has weakened. Employment growth appears to have improved, but the number of job advertisements has been declining. Thus, policymakers will welcome the stronger data that has appeared over the last month but will remain cautious about their success in boosting domestic demand. The RBA left rates unchanged at 2.25% at its April Board meeting.

Inflation in the domestic economy – a key consideration for monetary policy – remained well contained in the March quarter. Headline inflation increased a meagre 0.2% q/q to 1.3% y/y, below the RBA's inflation target of 2-3%. The nadir in petrol prices at the beginning of the year weighed heavily on the energy components of the consumer basket. Heavy discounting post the Christmas period also suppressed the CPI. Core inflation – excluding volatile items – increased a stronger 0.6% q/q and 2.4% y/y. Nonetheless, core inflation remains in the bottom half of the target band, and does not pose a threat to further interest rate cuts.

### Financial/Economic Data

April 2015

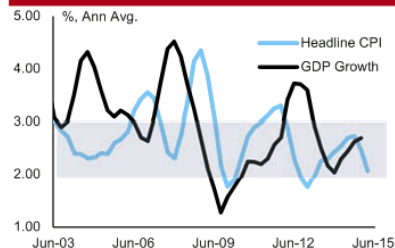
#### RBA Cash Rate



#### Australia Dollar



#### Australian Economy



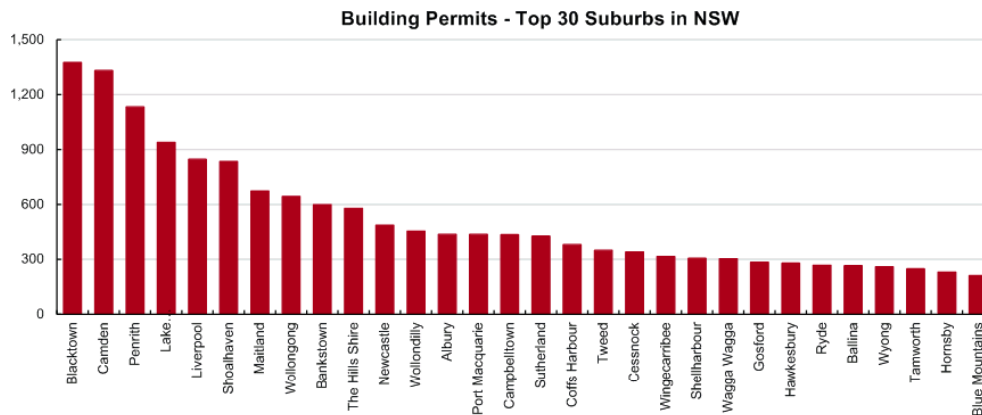
#### Unemployment Rate



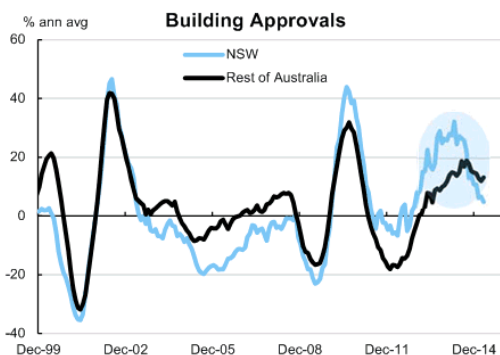


## The State of NSW NSW building permits soar

A booming property market is always a double edged sword. A rapid increase in house prices can be a risk to financial stability and home affordability. But at the same time, rising house prices are generally symptomatic of strong demand for dwellings. The Australian Statistician’s building approvals data showed that residential permits increased 25% over the past 12 months to March. Most of the improvement has been captured in NSW where almost 55,000 permits had been approved. The surge in housing sector activity has benefitted other parts of the NSW economy. Housing construction tends to be labour intensive, and so employment growth in the construction sector has been healthy. And once construction of a dwelling is complete, home owners tend to fill it with furniture, which is a positive for wholesalers and retailers.



As one would suspect, the rise in building permits has not been uniform across the suburbs of NSW. Building activity can be affected by the availability of land, the level of house prices, council regulations and weather conditions. Looking at building permits in individual suburbs (the data covers roughly 60% of total), Blacktown has seen the largest number of approvals over the past year, roughly 7 times the State average. Camden was close behind while permits in Penrith were also multiples above the State average. The top performing suburbs were generally larger and more affordable than the underperforming suburbs.



### Market Movements and Economic Data

Financial Data	30 Apr	Monthly change
Cash Rate	2.25%	0.00
Corporate Bond Yield*	3.49%	0.31 ▲
Term Deposit**	2.40%	0.00
ASX200	5790	-1.7% ▼
S&P500	2086	0.9% ▲
AUD/USD	0.791	0.030 ▲

Economic Data***	30 Apr	Quarterly change
Headline CPI	1.3%	-0.4% ▼
Trimmed Mean CPI	2.3%	0.1% ▲
GDP Growth	2.5%	-0.2% ▼
House Prices	7.0%	-2.4% ▼
Unemployment Rate	6.3%	0.1% ▲

\*A-rated 5-year rate, source: RBA \*\*Average 90-day rate of the five largest banks for \$10,000, source: RBA \*\*\*National data, v/y, source: ABS, RBA

Overall, the stellar run-up in aggregate residential building permits in NSW will prove indispensable for economic growth in the year ahead. The aggressive rise in house prices in Sydney will keep policymakers on their toes, although recently implemented mortgage lending guidelines by the Australian Prudential and Regulatory Authority should help keep a lid on speculative activity in the property market, allowing the housing sector to provide the economy with a essential source of growth.

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