



TCorp Local Government Services

Economic Commentary – August 2016

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The Month In Review

Economic and Market Trends

Early indications suggest that the Brexit referendum outcome may have a substantial negative impact on the UK economy. While most of this evidence is anecdotal at this stage, business surveys have slumped, hiring intentions have plummeted and the Bank of England (BoE) revealed that its business liaison program had pointed towards a sharp fall in business investment intentions since the referendum. In response to this, the BoE cut its policy rate from 0.5% to 0.25% and re-started its quantitative easing program, purchasing both government and corporate bonds. The BoE also announced a funding program for UK banks and indicated that further stimulus measures would likely be forthcoming. The aggressive BoE response has also pushed the British currency lower.

At this stage, the negative effects of the Brexit referendum appear to be confined to the UK itself. European business confidence remained firm in July, while manufacturing activity in Germany appears to have jumped substantially higher in recent months.

The tone of US economic data also remains favourable, with non-farm payrolls (+255,000) and wages growth (+0.3%) growing strongly in July. New home sales increased by a faster-than-expected 12.4% in July, while the consumer confidence index also surged in August. The Atlanta Federal Reserve currently estimates that annualised GDP growth in Q3 will be around 3.5% which would be a marked acceleration from the pace evident in the first half of 2016.

At the US Federal Reserve's Annual Jackson Hole Conference, Fed Chair Janet Yellen stated that the case for a rate hike had 'strengthened' in recent months. Her comments were followed up by the Fed's Vice Chair Stanley Fischer who suggested that the first rate hike could occur as soon as September. The August employment report will be very important for Fed policymakers when deciding whether a September rate increase is appropriate.

Japanese policymakers also announced further easing measures over the last month. The Bank of Japan decided to step up the pace of its equity product purchases, while additional fiscal spending measures were also unveiled. Both measures, however, fell short of expectations. Further easing measures are expected in 2016.

The Reserve Bank of Australia (RBA) cut its cash rate to 1.50% following its August policy meeting. The recent disinflation provided scope for the RBA to cut rates, while the RBA was also confident that tighter bank supervisory measures would prevent a further sharp increase in house prices and household debt. With overall Australian growth just moderate, the RBA decided that a rate cut was justified.

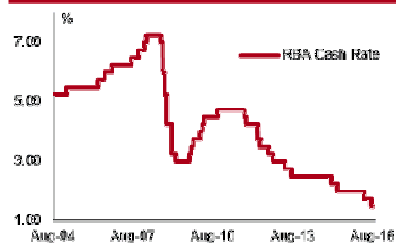
Most of the economic data released over the last month supported the RBA's decision. The weakness of retail spending evident over the last 6 months persisted in June, with spending rising by just 0.1%. Indeed, retail sales increased by just 2.8% over the last year, down from an annual pace of almost 6% two years ago.

Equity markets were more downbeat in August. Despite the US equity market testing new highs, it finished the month 0.1% lower. The ASX200 fell more sharply (-2.3%), despite the weaker AS (-1.0%). Commodity prices were mixed. Brent oil increased 10.8% in the month, while iron ore prices fell 0.7%. Gold prices fell 3.1%. Comments made by US policymakers in Jackson Hole pushed bond yields higher as investors reassessed the probability of rate hikes in 2016. The US 10-year yield increased 13bps to 1.58%. In contrast the Australian 10-year yield fell 5bps to 1.82%.

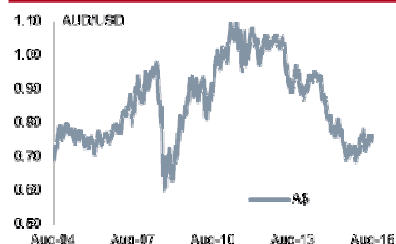
Financial/Economic Data

August 2016

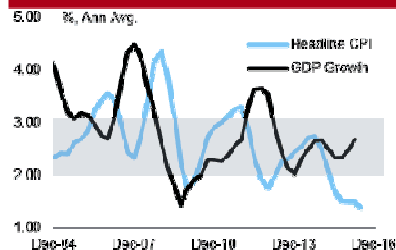
RBA Cash Rate



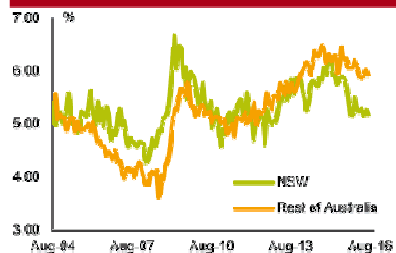
Australia Dollar



Australian Economy



Unemployment Rate

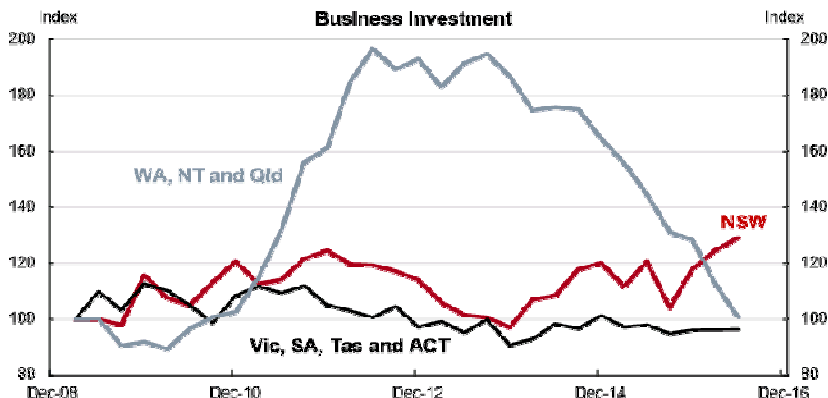




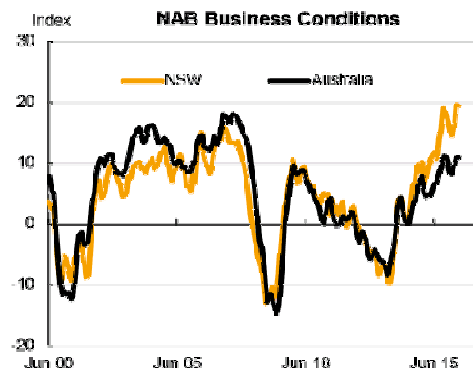
The State of NSW

NSW businesses leading the rest of Australia out of the investment doldrums

NSW firms have responded to the strong growth opportunities in the State by increasing investment in their businesses. Over the year to June 2016, NSW business investment has increased by 7% compared with a decline of 23.4% in the rest of the Australia. While this confirms that NSW businesses are substantially more upbeat than their counterparts in the rest of the nation, the difference is even starker when viewed over a longer-term perspective.



As shown in the chart above, NSW business investment is 30% higher than it was in early 2009. In contrast, investment in the mining States has now returned to the level it was in 2009 as the mining boom unwinds. But the really interesting comparison is with the other non-mining States, where investment remains below the level that it was in 2009.



Market Movements and Economic Data		
Financial Data	31 Aug	Monthly change
Cash Rate	1.50%	-0.25 ▼
Corporate Bond Yield*	2.68%	-0.13 ▼
Term Deposit**	2.15%	0.00 —
ASX200	5562	6.3% ▲
S&P500	2174	3.6% ▲
AUD/USD	0.760	1.9% ▲
Economic Data***		
	31 Aug	Quarterly change
Headline CPI	1.0%	-0.3% ▼
Trimmed Mean CPI	1.7%	0.0% —
GDP Growth	3.1%	0.0% —
House Prices	7.0%	-3.0% ▼
Unemployment Rate	5.8%	0.1% ▲

* All-pled Cash rate, source: RBA. ** Average 90-day rate of the five largest banks for \$1,000, source: RBA. *** Headline rate, %; source: ABS, RBA.

The strength of business investment in NSW reflects the positive momentum in the economy and the broad-based nature of its growth. This is also reflected in the NAB Business Survey, where NSW has a clear lead across the nation. The large pipeline of infrastructure projects have provided firms with the confidence that activity will remain healthy for a sustained period, while the strength of the labour market is proving to be a magnet for workers which then underpins the demand for housing and consumer spending. Record levels of housing construction are adding to that mix, while export-oriented firms have also responded to the weaker A\$ and have boosted sales.

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