



TCorp – Local Government Services

Economic Commentary – March 2014

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| Financial Data | 31 Mar | Monthly Change | Economic Data*** | 31 Mar | Quarterly Change |
|-----------------------|---------|----------------|------------------|----------------|------------------|
| Cash Rate | 2.50 | ↔ | 0.00 | Headline CPI | 2.70% ▲ 0.50 |
| Corporate Bond Yield* | 4.57% | ▲ | 0.09 | Underlying CPI | 2.60% ▲ 0.25 |
| Term Deposit** | 3.05% | ▼ | -0.05 | GDP Growth | 2.80% ▲ 0.40 |
| ASX200 | 5394.83 | ▼ | -9.99 | House Prices | 9.50% ▲ 1.40 |
| Australian Dollar | 0.9230 | ▲ | 0.0306 | Unemployment | 6.00% ▲ 0.30 |

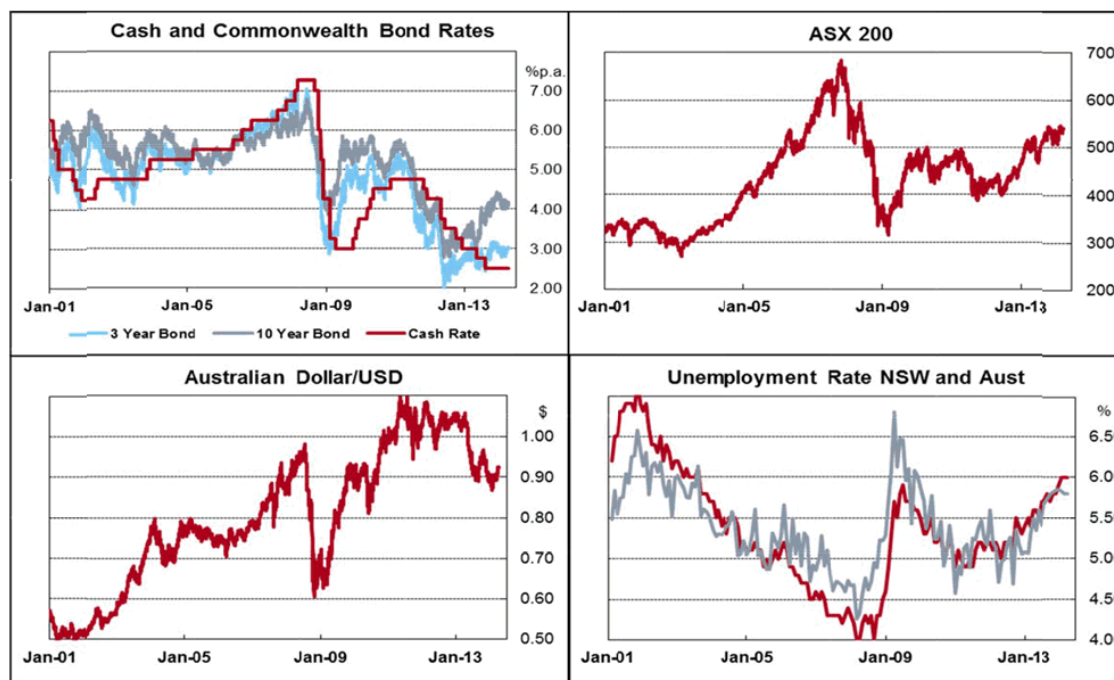
* A 5-year rate, source: RBA (new data series) ** Average 90-day rate of the five largest banks for \$10,000, source: RBA
 ***National data, y/y, source: ABS, RBA

Market Trends

The Reserve Bank continued to suggest that interest rates will remain steady for a considerable period of time in March, although at the Bank’s March Board meeting they did reinstate their concerns with the strength of the A\$. Indeed, the A\$ was the big mover in March rising by more than 3 cents against the US\$.

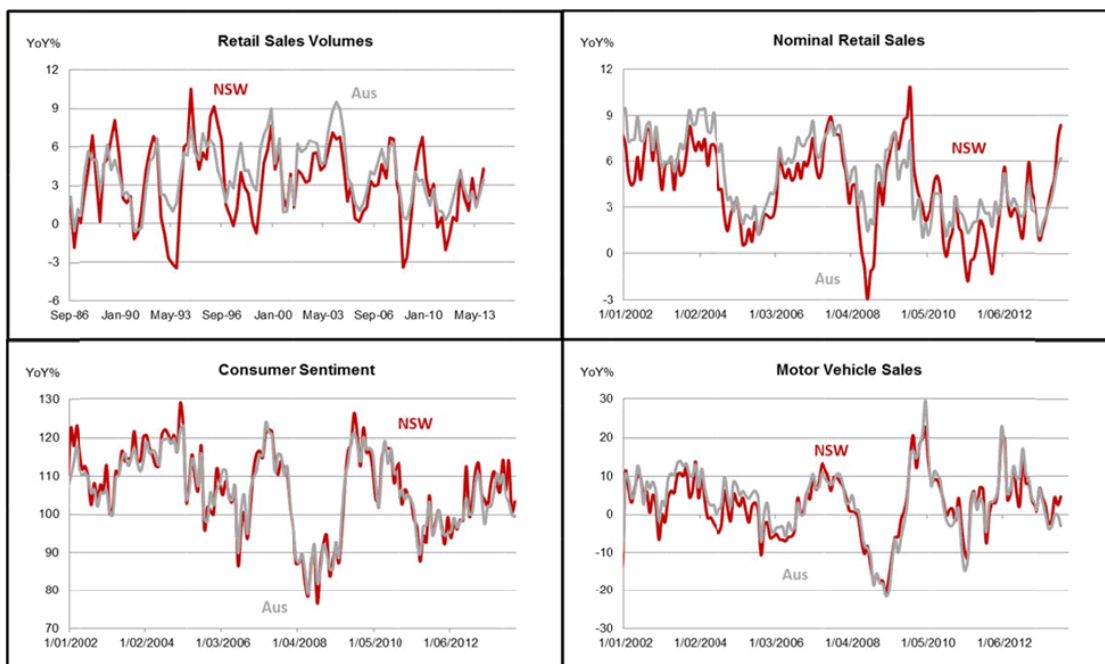
This rise in the A\$ was particularly noteworthy given a raft of weaker data emerging out of China and sharp falls in the price of iron ore. In effect, markets seemed to be betting that the weaker the data out of China, the more likely it was that Chinese policymakers will unleash a stimulus program, and this hope was vindicated late in the month.

While economic news from Australia remained upbeat, geopolitical concerns about the Ukraine situation and a continuation of mixed data from the US (which has been affected by inclement weather) kept the equity market on the back-foot. Similarly, debt markets remained range-bound as investors decided to wait for confirmation that the US recovery was on track before shifting out of bonds.





Local Government – Key Themes



NSW to lead the way in 2014

There are more signs that the NSW economy will outperform the rest of Australia over the next couple of years. The NSW unemployment rate – at 5.8% -- is now the lowest in Australia, while house price growth and retail sales growth is the strongest. Moreover, these factors can tend to become self-reinforcing for a time.

For example, as the mining investment boom winds down, some of the workers that moved across to WA and up to Qld to construct the large mining projects may relocate to NSW because it has the lowest unemployment rate. Similarly, fewer NSW residents will shift interstate if unemployment is higher there. This implies that NSW population growth will accelerate.

Of course, stronger population growth increases the demand for housing and supports house prices. As construction rises, it also increases employment and household incomes. With rising wealth and incomes, retail spending also rises. And retailers themselves will have to employ more people which feeds back into a healthy labour market.

What usually brings this process to an end is when the RBA raises interest rates in response to signs of rising wages growth and inflation. This cycle will be no different. But the RBA may well allow this process to run a little longer than usual, given the high level of the A\$ and the fact that mining investment is set to become a large drag on the economy. It is these two factors that make this economic cycle very unusual. Of course, rising house prices also reduce affordability and this, by itself, may start to restrain the demand for housing. The other factor that needs to be watched is the behaviour of investors, as they have been a key driver of the outperformance of NSW house prices.

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