



TCorp – Local Government Services

Economic Commentary – April 2014

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Financial Data	30 Apr	Monthly Change	Economic Data***	31 Mar	Quarterly Change
Cash Rate	2.50%	↔ 0.00	Headline CPI	2.90%	▲ 0.20
Corporate Bond Yield*	4.36%	▼ -0.21	Underlying CPI	2.60%	↔ 0.00
Term Deposit**	2.95%	▼ -0.10	GDP Growth	2.80%	▲ 0.40
ASX200	5489	▲ 1.7%	House Prices	9.30%	▲ 1.30
AUD/USD	0.9266	▲ 0.0036	Unemployment	5.80%	▼ -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

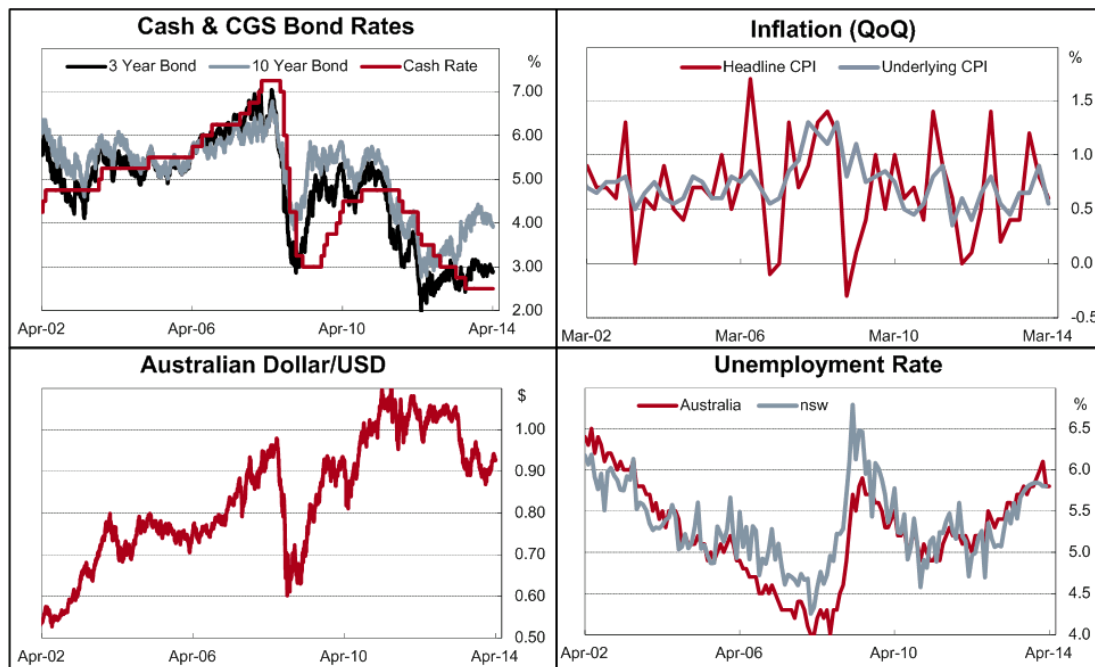
***National data, y/y, source: ABS, RBA

Market Trends

The Reserve Bank of Australia (RBA) again indicated that it expects to keep rates stable for “a considerable period” as it remains hopeful that the housing recovery and stronger consumer spending will offset the prospective fall in mining investment and fiscal consolidation. One potential factor that could have pushed the RBA to change rates was a pick-up in inflation, but the March quarter CPI data was subdued and suggests pricing pressures remain well contained.

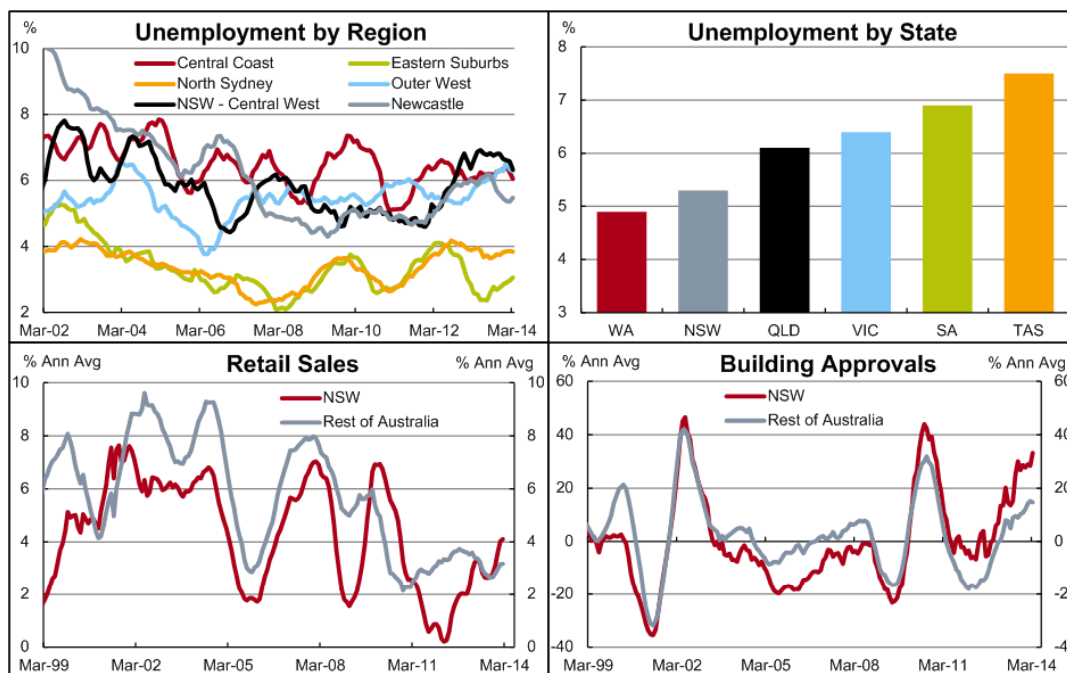
The stronger A\$ may, however, be weighing on business confidence, which has now declined to its lowest level since the Federal election in 2013. Business conditions have eased a little since January but remain at a much healthier level than for the preceding 18 months. The reception of the Federal Budget in May will be important in influencing confidence over the remainder of 2014.

There are more encouraging signs that the US economy is emerging from its slowdown towards the end of 2013. Retail sales rose by 1.1% in March following a 0.7% gain in February, while employment increased by 192,000 in March, regaining the momentum it had in 2013. While GDP growth stalled in Q1, recent indicators suggest that growth will recover to a 3-4% pace in Q2.





Local Government – Key Themes



NSW employment fundamentals outperform

NSW flexed its economic muscle once more, showing a substantial improvement in the State’s labour market conditions. The NSW unemployment fell again from 5.7% in February to 5.3% in March, outperforming the national reading of 5.8%. Generally speaking, stronger employment dynamics tend to promote activity in other sectors of the economy, such as household spending and dwelling investment.

This strength was evident across the State, with employment growth showing a turnaround in momentum given the peak in unemployment across most of the region in 2012/13. The broad based nature of this improvement will promote sustainable gains in State-wide economic momentum, which should flow through to higher confidence among households and the business community.

Elsewhere in the data, the Statistician’s measure of consumer spending also highlights the continual outperformance of NSW relative to the other States, with retail trade accelerating at a faster annual average rate than in the rest of Australia. Likewise, building approvals rose for NSW in March, adding to the already healthy pipeline of construction work to be done. Investor demand (both domestic and foreign) has helped fuel demand for housing, while the sale of the Port of Newcastle to offshore investors is a reminder that NSW remains an attractive destination for investment.

While mining investment is set to become a large drag on the overall economy, NSW is favourably placed given the economy’s alignment to the services sector. That is, as engineering construction continues to taper in the resource-reliant States, lower interest rates will continue to provide stimulus to the prominent interest rate sensitive sectors in NSW, such as housing construction and retail spending.

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