TCorp – Local Government Services

Economic Commentary – May 2014

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Financial Data	31 May	Monthly Change		Economic Data***	31 Mar	Quarterly Change	
Cash Rate	**2.50%**	↔	0.00	Headline CPI	**2.90%**	▲	0.20%
Corporate Bond Yield*	**4.13%**	▼	-0.23	Underlying CPI	**2.65%**	▲	0.10%
Term Deposit**	**2.95%**	↔	0.00	GDP Growth	**3.50%**	▲	0.80%
ASX200	**5489**	▲	0.6%	House Prices	**10.90%**	↔	0
AUD/USD	**0.931**	▲	0.0023	Unemployment	**5.80%**	▼	-0.10%

* 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

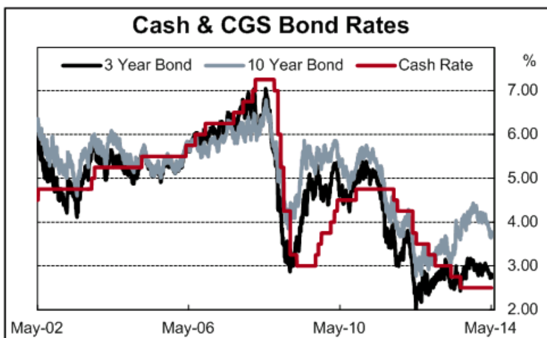
Economic and Market Trends

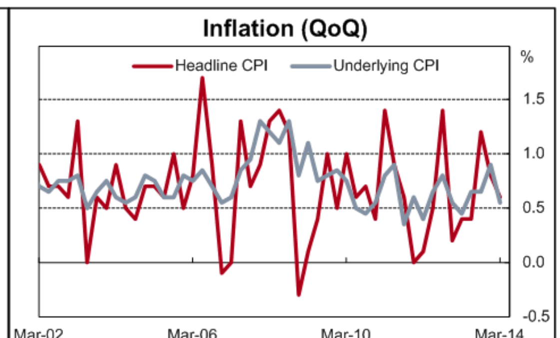
The Australian economy was reported to have expanded by 1.1% in the March quarter (3.5% y/y), although the export sector drove most of this result. The interest rate sensitive sectors, such as housing investment and household expenditure, also contributed to growth, although more timely measures suggest momentum has slowed on a national basis. Outside of this however, domestic activity remains relatively subdued, with government spending, business investment and inventory building activity all subtracting from growth in the quarter.

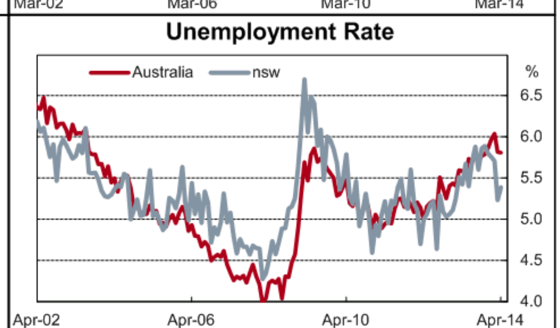
An update on private business capital expenditure plans were also released in the month. Investment intentions for businesses outside of the resource sector were upgraded for the 2014/15 financial year to $50b (from $45b this time last year) which alleviated some concerns about growth in these sectors over the coming year. Overall investment, however, is still expected to decline in the coming years.

The 2014/15 Federal Budget was the other key event in the month, unveiling a substantial tightening of fiscal policy via a combination of spending cuts and revenue increases. That said, the impact of these decisions accrues incrementally over time, so the impact on activity in the next year should be relatively modest. We estimate that it will cut growth by around ½ a percentage points of GDP in FY15, which is in line with expectations before the Budget was brought down.

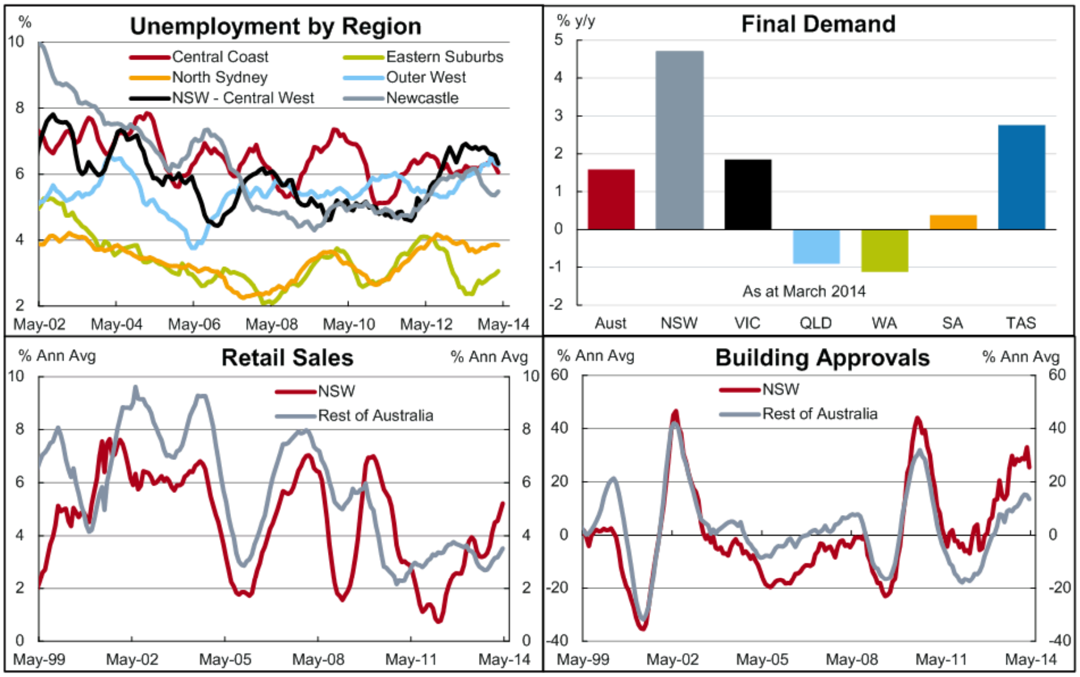
There was little movement in the A$ over the month, despite continued falls in bulk commodity prices. Elsewhere, US 10-year bond yields tumbled from 2.83% in early April to a low of 2.48% in late May - down a remarkable 50bps since the start of 2014. This is all the more surprising as the US economic data remains strong, although US equities rallied with the S&P500 hitting a new high in the month.







Local Government – Key Themes



NSW GDP growth outpaces the nation

Within the details of the latest round of GDP growth data, NSW state final demand was recorded to have expanded at an incredible 2.4% over the March quarter, 3 times the quarterly growth rate of Tasmania (which was next placed). Annual growth in the NSW economy is now running at 4.7% - a steep acceleration from the 2.5% growth rate achieved in 2013. In addition, activity was also broad based, with both the public and private sectors contributing to demand.

Within the private sector, household expenditure posted another solid quarterly gain of 0.8%, with annual consumption accelerating to 3.5%. More recent indicators of retail spending suggests that this trend has continued in NSW. Residential construction activity in NSW also saw an impressive improvement, rising by 7.9% in the quarter. This represents the flow on effects from the rampant pickup in building approvals, which is still boasting a current annual run-rate of 25% (versus 13% for the remainder of Australia). Private business investment (8.0% q/q) and non-residential construction (26.0% q/q) were also incredibly strong, and continue to defy downbeat readings of national business confidence readings.

Overall, these data adds credence to the view that while mining investment is set to become a large drag on the Australian economy, NSW continues to be 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.