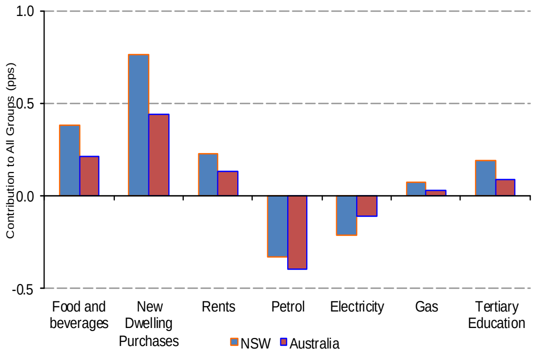
WEEKLY ECONOMIC & FINANCIAL MARKET ROUNDUP

Strong NSW economy reflected in Sydney CPI

Chart A: Annual Sydney and National CPI



Sydney annual **CPI** growth through the year to the June quarter was the highest of all capital cities, consistent with the strength of the NSW economy.

The Sydney CPI was 2.2% higher through the year to the June quarter. Nationally, the 8 capital city index was up 1.5% through the year.

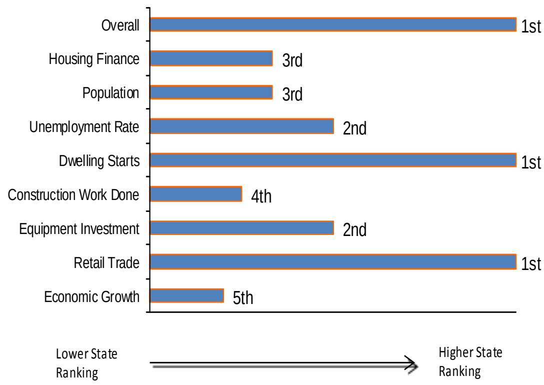
Contributing most to the differences between Sydney and national CPI were new dwelling purchases, food and non-alcoholic beverages, rents, and tertiary education. Despite rising over the June quarter, petrol prices have fallen through the year. The effect of the annual fall in petrol prices over the year had less impact in Sydney than for Australia as a whole, partly due to petrol having a smaller weighting in the Sydney CPI than in other states. Electricity prices fell by more in Sydney than for Australia as a whole during the year.

On a quarterly basis, the Sydney CPI rose 0.9% in the June quarter while nationally the 8 capital city index increased 0.7%. The main contributors to the quarterly rise in Sydney CPI were automotive fuel and medical and hospital services.

Importantly for monetary policy, annual underlying national inflation (which excludes volatile items such as petrol prices) was well within the RBA target band of 2-3%.

NSW economy standing out among the other states

Chart B: NSW Rankings - Commsec



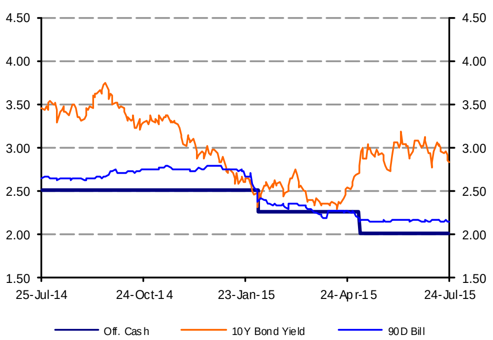
NSW retained its number one ranking for the fourth consecutive quarter, according to the **Commsec State of the States** report for July. The report concluded that the NSW economy continues to outperform the other states. Among the other states VIC rose two places to rank second overall while NT and WA both fell one place, to rank third and fourth respectively.

NSW rose two places on unemployment to rank second. On dwelling starts NSW retained its first place ranking but fell one place on housing finance to third place.

According to CommSec NSW ranked fifth on economic growth. However, in our view, this assessment is misleading partly because the measure excludes service exports, and NSW is predominately a service based economy. Additionally, the CommSec measure is based on current growth relative to decade averages - as NSW has been improving for a while, our decade average is starting to increase as stronger recent quarters are incorporated into the decade average calculation and weak figures from 10 years ago drop out.

Other Domestic Data Releases

Chart C: Domestic Interest Rates



The **Deloitte Access Economics Business Outlook** for July concluded that "The Premier State is in premier condition" and that "…(DAE) estimates have NSW as the fastest growing state in 2014-15."

The **RBA Minutes of the Monetary Policy Meeting** were released, in which the Board decided to leave the cash rate unchanged at 2.0%. The Bank noted that very low interest rates were working to support strong growth in dwelling investment, and although output growth in the March quarter had been stronger than expected, growth over the year remained below average. The Bank noted that there were early indications that the strength in the March quarter had not carried through to the June quarter.

Chart D: Share Price Index

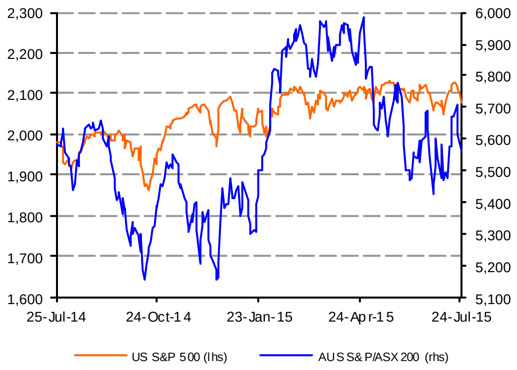


Chart E: Exchange Rate

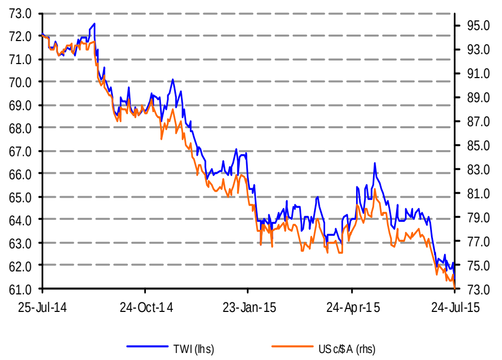


Chart F: Commodities

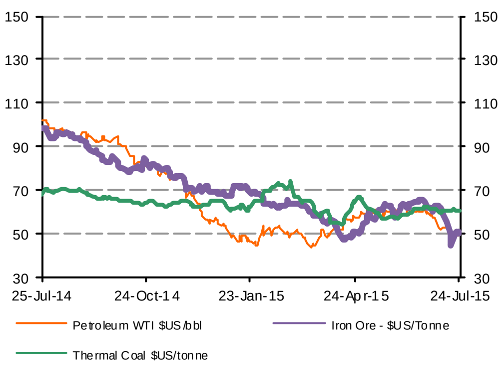
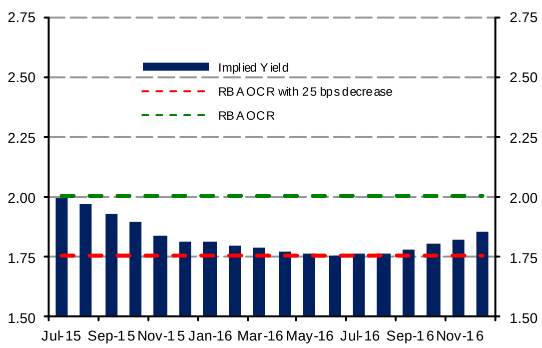


Chart G: Interest Rate Expectations



The HIA, in its bi-annual **Housing Scorecard**, ranked NSW first for residential building conditions. NSW replaces WA, which fell to second ahead of Victoria in third. The HIA cited the strength of the new home building recovery in New South Wales as the primary reason for the climb in its rank.

Markets

The **ASX200** fell 1.8% compared to last Friday and the **US S&P500** was down 2.2%.

	Value	Change on Year	Change on Week
US S&P 500	2,079.7	5.1 %	-2.2 %
ASX200	5,566.1	-0.3 %	-1.8 %
Australian Dollar (USD)	0.7299	-22.5 %	-1.6 %
TWI	61.40	-14.8 %	-1.3 %
Oil (USD/bbl)	48.45	-52.5 %	-4.8 %
Gold (USD/oz)	1,080.80	-16.5 %	-4.6 %
Thermal Coal (USD/tonne)	60.04	-11.6 %	-0.8 %
Australian 10-yr bond	2.82%	-63.1 bps	-12.5 bps
US 10-yr bond	2.27%	-24.0 bps	-7.0 bps
Australian 90-day bill	2.14%	-50.2 bps	-0.2 bps

Market Interest Rate Expectations

Current **market expectations**, as shown by the **implied yield** curve on ASX 30 day interbank cash rate futures (refer Chart F), indicate an expectation that the RBA will lower rates to 1.75% towards the end of this year.

According to the **ASX target rate tracker**, as of 24 July, there is a 16% expectation that the RBA will lower the cash rate to 1.75% at its policy meeting on 4 August 2015.

International Bond Yield Spreads

10-yr bond yield	Yield	Change on Year	Change on Week	Spread on 10-yr US bond week end	Spread on 10-yr US bond year ago
Australian (AUS)	2.82%	-63.1 bps	-12.5 bps	54.7 bps	93.8 bps
United States (US)	2.27%	-24.0 bps	-7.0 bps	- -	- -
Germany (GER)	0.73%	-44.8 bps	-7.7 bps	-154.4 bps	-133.6 bps
Italy (ITA)	1.86%	-75.1 bps	-4.5 bps	-40.6 bps	10.5 bps
Portugal (PRT)	2.51%	-112.1 bps	-13.3 bps	23.5 bps	111.6 bps
Spain (ESP)	1.90%	-63.1 bps	-5.0 bps	-36.9 bps	2.2 bps

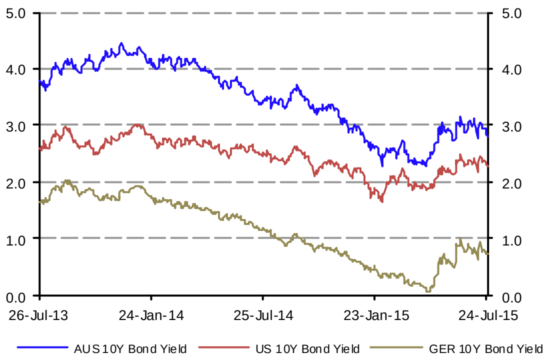
Key International Data Releases

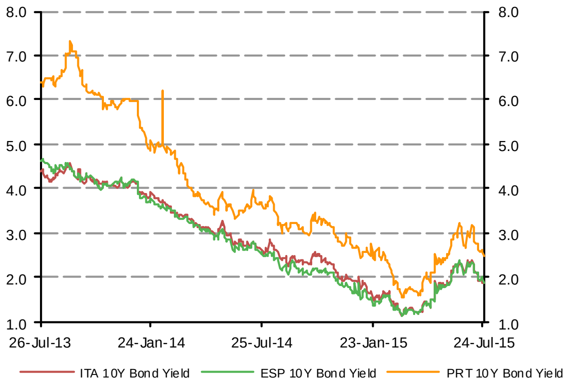
US: Existing home sales for June rose 3.2% to an annual rate of 5.49 million units, the highest level since February 2007 and above market expectations. Ongoing signs of strong demand for housing is helping to sustain the US housing market recovery and the economy in general.

UK: The Bank of England released the Minutes of the Monetary Policy Committee meeting of 8 July, where the Bank Rate was left unchanged at 0.5% and the quantitiative easing program maintained at existing levels. The Bank noted that, "…given the likely persistence of the headwinds weighing on the economy, when the Bank rate did begin to rise, it was expected to do so more gradually than in previous cycles. Moreover, the persistence of those headwinds, together with the legacy of the financial crisis, meant that Bank Rate was expected to remain below average historical levels for some time to come."

New Zealand: The Reserve Bank of New Zealand reduced the Official Cash Rate by 25 basis points to 3.0%. The Governor noted that, "A reduction (in rates) is warranted by the softening in the economic outlook and low inflation. At this point, some further easing seems likely." The Governor also noted that international economic and financial market uncertainty, combined with a softer domestic growth outlook contributed to the decision.

Charts H & I: International Bond Yields





Japan: Japan's goods trade deficit in the first half of 2015 fell by 77.4% from a year earlier to ¥1.73 trillion. In first half of 2015, the value of exports increased 7.9 percent from a year earlier to ¥37.81 trillion, partly driven by increased vehicle exports to the US and semiconductor exports to Asia. Imports dropped 7.4 percent to ¥39.53 trillion, mainly due to the falling value of lower crude oil imports in response to lower average oil prices.

Upcoming Key International Data Releases (27/7 – 31/7)

- **US:** Advance reading of GDP for June Quarter, Federal Reserve FOMC policy meeting
- **Europe:** Unemployment for June, flash estimate of July CPI
- **UK:** Advance reading of GDP for June Quarter

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
27-Jul	28-Jul	29-Jul	30-Jul	31-Jul
			Building Approvals, Jun-15 International Trade Price Index, Jun-15 RBA Glenn Stevens speech Deloitte Access Investment Monitor July 2015	Producer Price Index, Jun-15 RBA Private Sector Credit, Jun-15
3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
ANZ Job Ads, Jul-15 HIA New Home Sales, Jun-15	RBA Board Meeting, Aug-15 Retail Trade, Jun-15 International Trade in G/S, Jun-15		Labour Force, Jul-15	RBA SOMP , Aug-15 Overseas Arrivals/Departures, Jun-15 Housing Finance, Jun-15
10-Aug	11-Aug	12-Aug	13-Aug	14-Aug
Lending Finance, Jun-15	NAB Monthly Business Survey	W-MI Consumer Sentiment, Jul-15 RBA Lowe Speech Wage Price Index, Jun-15	Detailed Labour Force, Jul-15 Average Weekly Earnings, May-15	
17-Aug	18-Aug	19-Aug	20-Aug	21-Aug
	Motor Vehicle Sales, Jul-15 RBA August Board Meeting Minutes			
24-Aug	25-Aug	26-Aug	27-Aug	28-Aug
	Balance of Payments Prelim, Jun-15	Construction Work Done Prelim, Jun-15	Private Capex Survey, Jun-15	
31-Aug	1-Sep	2-Sep	3-Sep	4-Sep
Business Indicators, Jun-15 Mineral and Petrol Explor, Jun-15 HIA New Home Sales, Jul-15 RBA Private Sector Credit, Jul-15	Balance of Payments, Jun-15 GFS, June-15 Building Approvals, Jul-15	National Accounts, Jun-15	International Trade in G/S, Jul-15 Retail Trade, Jul-15	Overseas Arrivals/Departures, Jul-15

ECONOMIC FACTS

ECONOMIC GROWTH						
ECONOMIC INDICATOR	**NSW**	**Australia**	**Vic**	**Qld**		**Latest Period**
Gross State/Domestic Product (GSP/GDP)	2.1%	2.5%	1.7%	2.3%	% change year ago (Constant prices)	2013-14 (annual) Next: Nov '15
	31.3%	-	22.0%	18.9%	Share of national	
	$492.4b	$1,583.6b	$350.4b	$296.2b	Level (current prices)	GDP: 2.3% tty March Quarter 2015
State/Domestic Final Demand	1.9%	0.8%	3.4%	-2.1%	% change on same qtr last yr	Mar qtr '15 Next: 2 Sep '15
	0.5%	0.0%	1.3%	0.1%	% change on last qtr	
BUSINESS INVESTMENT						
Business Investment	1.2%	-6.1%	10.1%	-21.6%	% change year ago (Constant prices)	Mar qtr '15 Next: 2 Sep '15
• **New Non-Res Construction**	-9.7%	-13.1%	15.5%	-33.2%		
• **New M&E**	7.0%	2.5%	6.6%	2.1%		
Business Confidence	12	10	7	6	Index	Jun'15 (mthly) Next 11 Aug '15
Business Conditions	12	11	18	0		
HOUSING						
Housing Finance	-12.9%	-12.5%	-5.7%	-11.6%	% change year ago, (ex-refi, owner occ.) number of commitments	May'15 (mthly) Next 7 August '15
Dwelling Approvals	57.1k	218.4k	67.3k	42.6k	Number of app 12mms	May'15 (mthly) Next 30 July '15
	28.4%	17.6%	50.4%	-5.0%	% change year ago	
Dwelling commencements	50.0k	202.7k	61.4k	40.8k	Number, 12mms	Mar qtr '14 Next: 14 Oct'15
	11.8%	17.9%	26.4%	20.9%	% change year ago	
Dwelling Investment	7.8%	9.2%	8.6%	15.7%	% change year ago (Constant prices)	Mar qtr '15 Next: 2 Sep '15
Residential Prices	13.1%	6.9%	4.7%	3.9%	% change year ago	Mar qtr '15 Next: 22 Sep '15
LABOUR FORCE						
Employment	2.5%	1.9%	3.0%	0.5%	% change year ago	Jun'15 (mthly) Next: 6 Aug '15
	3.7m	11.8m	2.9m	2,4m	Level	
	31.3%	-	25.1%	20.0%	Share of national	
Unemployment Rate	5.8%	6.0%	6.0%	6.1%	Current rate	
Youth unemployment rate	12.7%	13.5%	15.0%	14.3%	12 mma rate	July'15 (mthly) Next 13 Aug '15
CONSUMER						
Retail Sales	6.1%	4.7%	5.0%	3.0%	% change year ago	May'15 (mthly) Next 04 Aug '15
Consumer Confidence	91	92.2	93.2	93.4	Index	July'15 (mthly) Next 12 Aug '15
CPI (Capital cities)	2.2%	1.5%	1.1%	1.5%	% change year ago	June qtr '14 Next: 28 Oct '15

Other						
ECONOMIC INDICATOR	**NSW**	**Australia**	**Vic**	**Qld**		**Latest Period**
Population	7,6m	23,6m	5,9m	4,8m	Level	Dec qtr '14 Next: 24 Sep '15
	32.0%	-	24.9%	20.1%	Share of national	
	1.4%	1.4%	1.8%	1.4%	% change year ago	
Regional Population	Greater Sydney: 4,840,628 Newcastle (SA4): 167,679 Wollongong (SA4): 130,409					As at 30 Jun'14 Next: 30 Mar'16
Wage Price Index						Mar qtr '15 (qtrly) Next: 12 Aug '15
Public Sector	+2.3%	+2.5%	+3.2%	+2.3%	% change year ago	
Private Sector	+2.1%	+2.2%	+2.4%	+2.3%	% change year ago	
Official cash rate %	2.00%				Lowered 0.25 basis points May '15	Next: 4 Aug '15

ECONOMIC FORECASTS	**NSW Forecasts (as per 2015-16 Budget)**				**Australian Gov't Forecasts (as per 2015-16 Budget)**			
	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
State/Domestic Final Demand	2.7	3 ¼	3 ½	3 ½	1.0	n.a.	n.a.	n.a.
Gross State/Domestic Product	2.1	2 ½	3	3	2.5	2 ½	2 ¾	3 ¼
Employment [(a)]	0.6	1 ¼	1 ¾	1 ¾	0.7	1 ½	1 ½	2
Unemployment rate [(b)]	5.7	6	5 ¾	5 ¾	5.9	6 ¼	6 ½	6 ¼
CPI [(c)]	2.8	1 ¾	2 ½	2 ¾	3.0	1 ¾	2 ½	2½
Wage Price Index	2.5	2 ¼	2 ½	2 ¾	2.5	2 ½	2 ½	2 ¾

(a) Australia- per cent change through the Year to June quarter (b) Australia- per cent in the June quarter (c) Per cent change, through the year to the June Quarter