Week ended Friday 31 July 2015

WEEKLY ECONOMIC & FINANCIAL MARKET ROUNDUP

NSW GOVERNMENT | The Treasury

Chart A: Residential Building Approvals

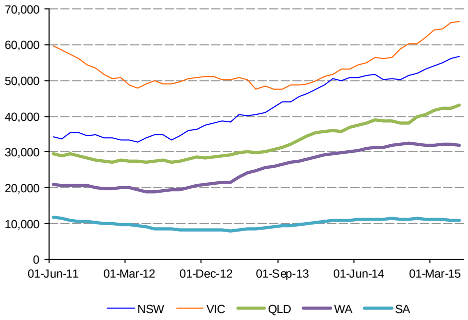
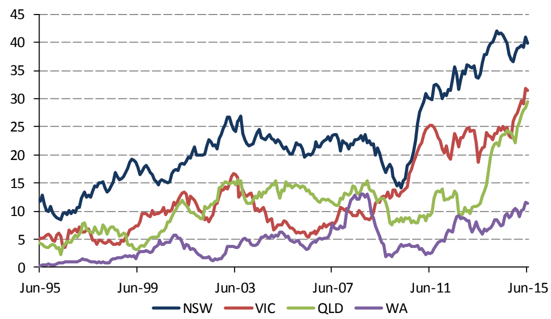


Chart B: Share of 4+ storey multi units to total building approvals



NSW residential building approvals remain around 20 year highs

There were 57,509 dwellings approved in NSW in the 12 months to June, the highest annual total in 20 years.

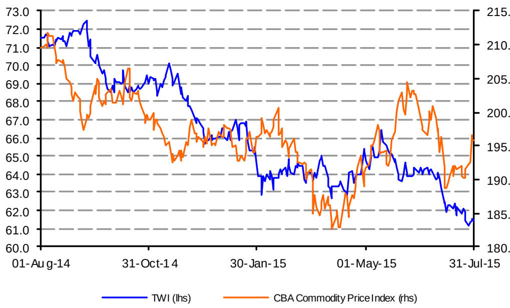
Approvals for detached houses rose in June and are 25% higher than a year earlier. Multi-unit approvals (including semi-detached) fell in June but can be very volatile depending on the timing of approvals.

NSW is different to other states in that there is a higher proportion of multi-unit approvals. Chart B shows this proportion has increased in recent years, as has the gap in the multi-unit share compared to other states. 4+ storey multi units now account for around 40% of total dwelling approvals, compared to only around 10% twenty years ago.

The number of annual detached housing approvals are around 20 per cent lower than in the mid 1990s, this contrasts to 4 + storey multi-units which are over 260 per cent higher over the same time period.

Growth in annual building approvals is currently centred around the eastern states. In particular Queensland residential building approvals grew by 28% through the year, potentially indicating improving affordability relative to Sydney or increased attention by international investors.

Chart C: Exchange Rate & Commodity Prices



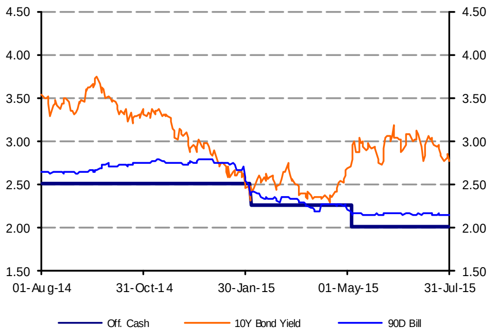
Aussie dollar falls to new recent lows

During the week, the Australian dollar fell to its lowest level since mid 2009.

Falling commodity prices are contributing to this, with demand for Australian dollar denominated assets partially linked to investor sentiment around global commodity markets. Subdued expectations for China's economic growth and potential future increases in US interest rates are also influencing the downward trend in the Australian dollar.

A lower exchange rate should assist the NSW tourism, manufacturing, and education sectors. Additionally, with NSW less reliant on mining than the national economy as a whole, falling commodity prices should continue to have less impact on the NSW economy than for the mining states of Queensland and Western Australia.

Chart D: Domestic Interest Rates



Other Domestic Data Releases

According to the ABS **Trade Price Index,** international export prices fell 4.4% in the June quarter 2015, and are down 8.9% through the year. Import prices rose 1.4% in the June quarter 2015, and are up 1.3% through the year. This implies that the terms of trade, to be released in early September, will have continued to fall in the June quarter.

The Deloitte Access Economics quarterly **Investment Monitor** stated that nationally, investment is losing momentum, as the strong growth in public sector infrastructure projects and improving non-mining business investment is unable to make up for the fall in mining investment. Infrastructure spending is driving investment in Victoria and NSW and will support a greater share of total investment activity going forward.

Chart E: Share Price Index

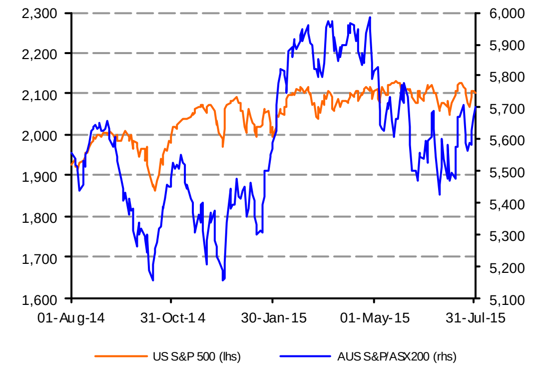


Chart F: Commodities

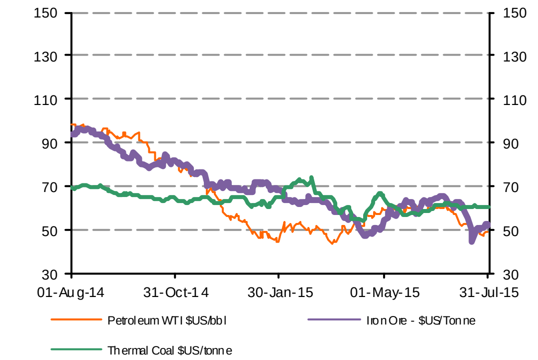
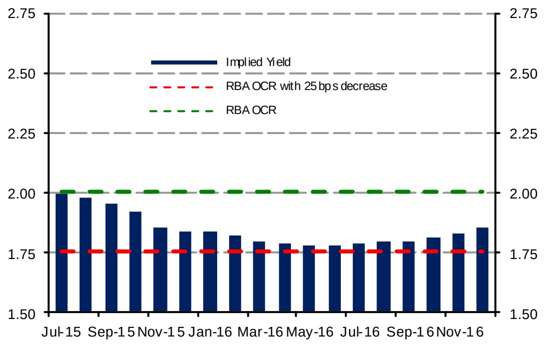
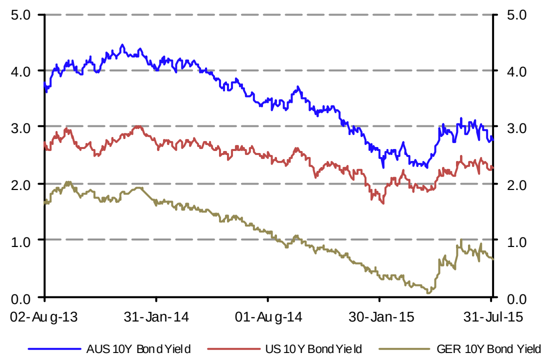


Chart G: Interest Rate Expectations



Charts H: International Bond Yields



National **private sector credit** figures for June showed that total credit rose by 0.4% during the month, and is up 5.9% for the year. Housing credit was the main contributor to monthly total credit growth while business credit was largely unchanged compared to May.

Markets

The **ASX200** rose 2.4% compared to last Friday and the **US S&P500** was down 1.2%.

	Value	Change on Year	Change on Week
US S&P 500	2,103.8	9.3 %	1.2 %
ASX200	5,699.2	2.6 %	2.4 %
Australian Dollar (USD)	0.7294	-21.5 %	-0.1 %
TWI	61.40	-14.1 %	0.0 %
Oil (USD/bbl)	48.52	-50.4 %	0.8 %
Gold (USD/oz)	1,098.40	-14.9 %	1.6 %
Thermal Coal (USD/tonne)	60.23	-12.7 %	0.3 %
Australian 10-yr bond	2.76%	-75.7 bps	-5.3 bps
US 10-yr bond	2.27%	-30.0 bps	0.0 bps
Australian 90-day bill	2.14%	-50.0 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 G), 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 31 July, there is a 9% 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)	2.76%	-75.7 bps	-5.3 bps	49.4 bps	95.1 bps
United States (US)	2.27%	-30.0 bps	0.0 bps	- -	- -
Germany (GER)	0.66%	-50.8 bps	-6.7 bps	-161.1 bps	-140.3 bps
Italy (ITA)	1.78%	-87.4 bps	-8.9 bps	-49.5 bps	7.9 bps
Portugal (PRT)	2.38%	-128.9 bps	-12.3 bps	11.2 bps	110.1 bps
Spain (ESP)	1.85%	-66.7 bps	-5.2 bps	-42.1 bps	-5.4 bps

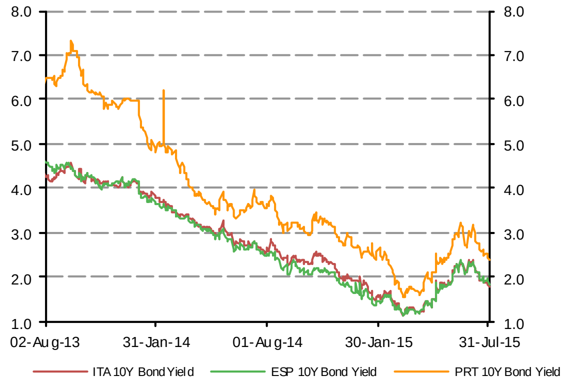
Key International Data Releases

US: The first of three readings of June quarter GDP showed growth rose (from 0.6% in the March quarter) to an annual rate of 2.3%, below market expectations of 2.6% growth. Consumer spending and dwelling investment contributed to the increase in the growth rate. Business spending fell, detracting from GDP growth. Extensive data revisions were made to historical GDP data. As a result, from the end of 2011 to the end of 2014, the US economy has now shown to have expanded at an annual 2.1%, compared to the 2.4% pace reported before.

The Federal Reserve decided to keep rates unchanged at 0.25% and noted in its statement that “The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labour market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.”

UK: GDP for the June quarter 2015 grew by 0.7% compared to the March quarter, in line with market expectations and above the quarterly 0.4% recorded in the previous quarter. Compared to the June quarter 2014, GDP growth was 2.6%. Growth was driven by the services sector. The rise in GDP in the June quarter represents the 10th consecutive quarter of growth.

Charts I: International Bond Yields



Europe: The euro area unemployment rate for June remained unchanged, compared to May, at 11.1%. Greece recorded the highest unemployment rate (25.6%) followed by Spain (22.5%). Germany recorded the lowest unemployment rate (4.7%) followed by the Czech Republic (4.9%). Preliminary euro zone inflation for July showed annual growth of 0.2%, unchanged from June and well below the ECB target of close to 2%.

Upcoming Key International Data Releases (03/8 – 07/8)

- **US:** Non-farm payrolls & unemployment rate for July
- **Japan:** Bank of Japan Policy Meeting
- **UK:** Bank of England Policy Meeting

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
ANZ Job Ads, Jul-15 HIA New Home Sales, Jun-15 AIG PMI, Jul-15 TD-MI Inflation Gauge, Jul-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, Jul-15**	**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	**RBA Board Meeting, Sep-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
7-Sep	8-Sep	9-Sep	10-Sep	11-Sep
	NAB Monthly Business Survey, Aug-15	**Housing Finance, Jul-15** **W-MI Consumer Sentiment, Aug-15**	**Labour Force, Aug-15**	**Lending Finance, Jul-15**

***Bolded items indicate an Economic Data Note will be associated with release.**

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	49.9k	204.1k	62.1k	41.5k	Number, 12mms	Mar qtr '14 Next: 14 Oct'15
	3.9%	10.8%	23.2%	30.6%	% 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	91.0	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