

The Australian Economy in 2015/16 – Rebalancing with low rates and a low AUD

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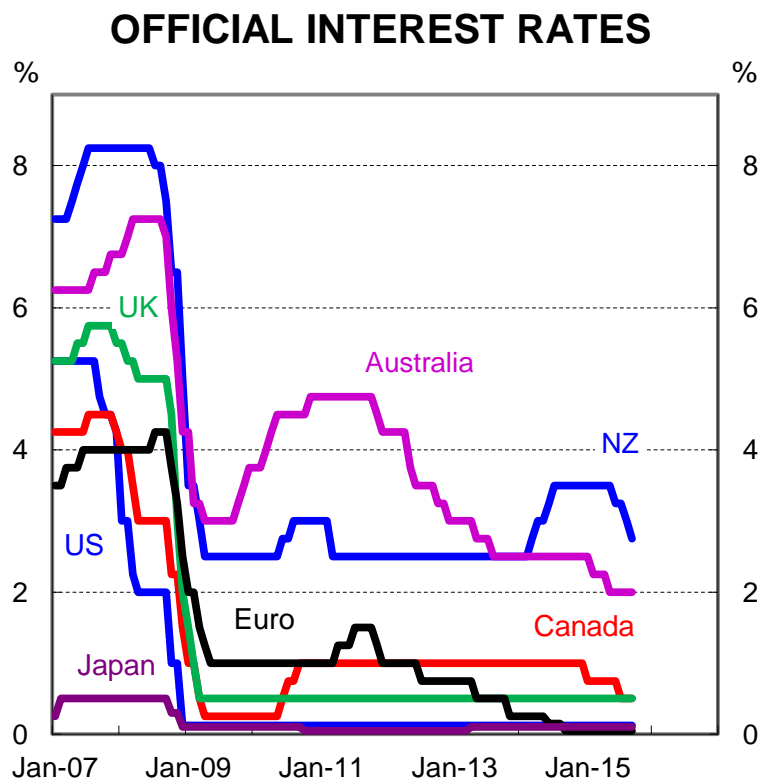
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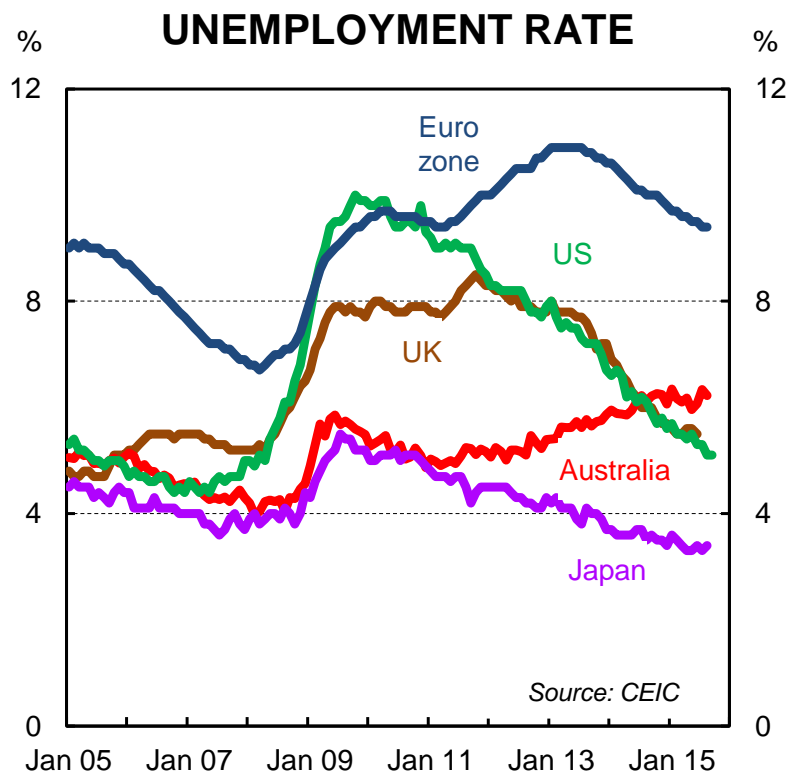
Minimum Investment Amount for Hong Kong Investors: HK\$500,000

The global economy



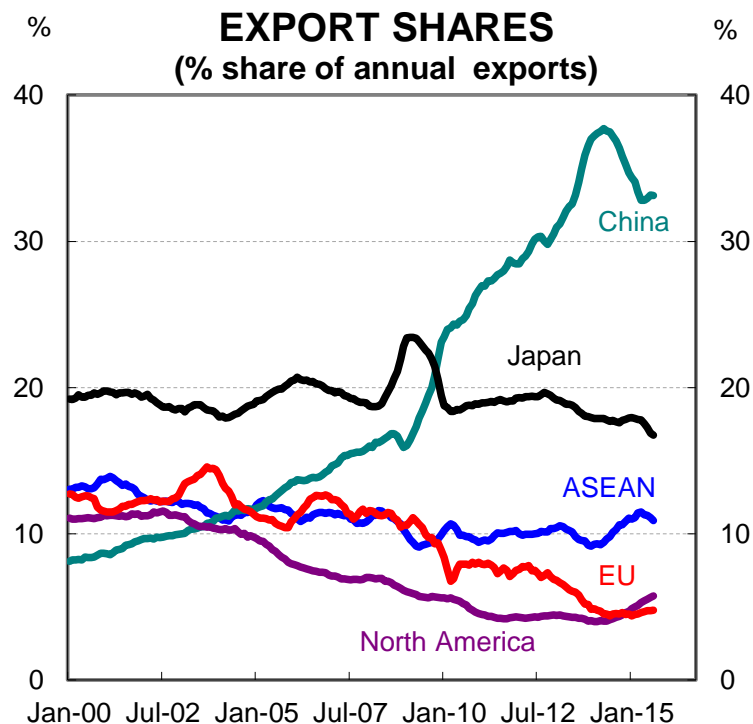
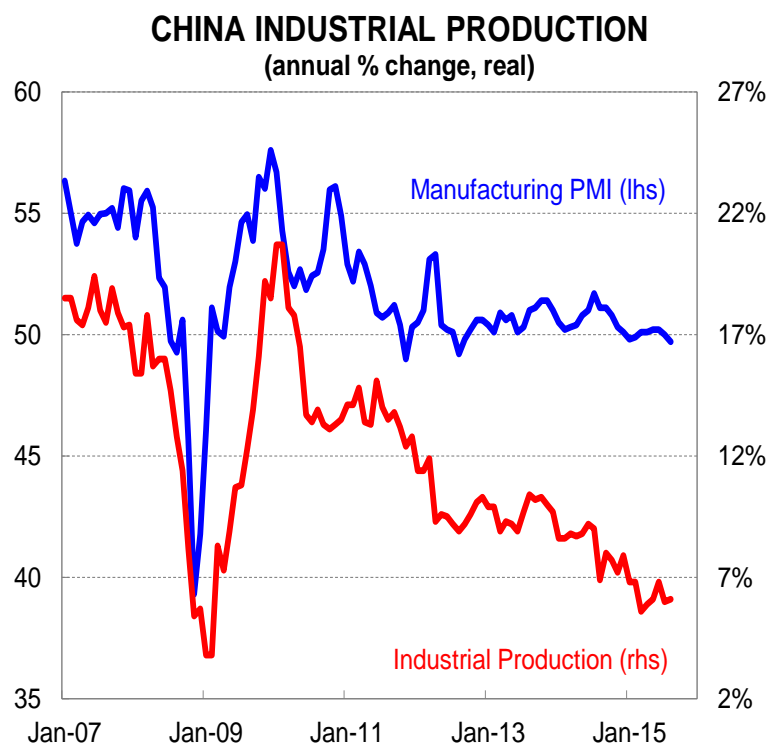
- Advanced economies on a two-speed path.
- China's growth to slow a little (6½% in 2016).
- Commodity prices to remain under pressure on supply/demand imbalance.
- Inflation to remain low globally.
- Global low interest rate environment to continue.
- But US to raise interest rates late 2015/early 2016.
- Emerging markets to remain under pressure

The global economy



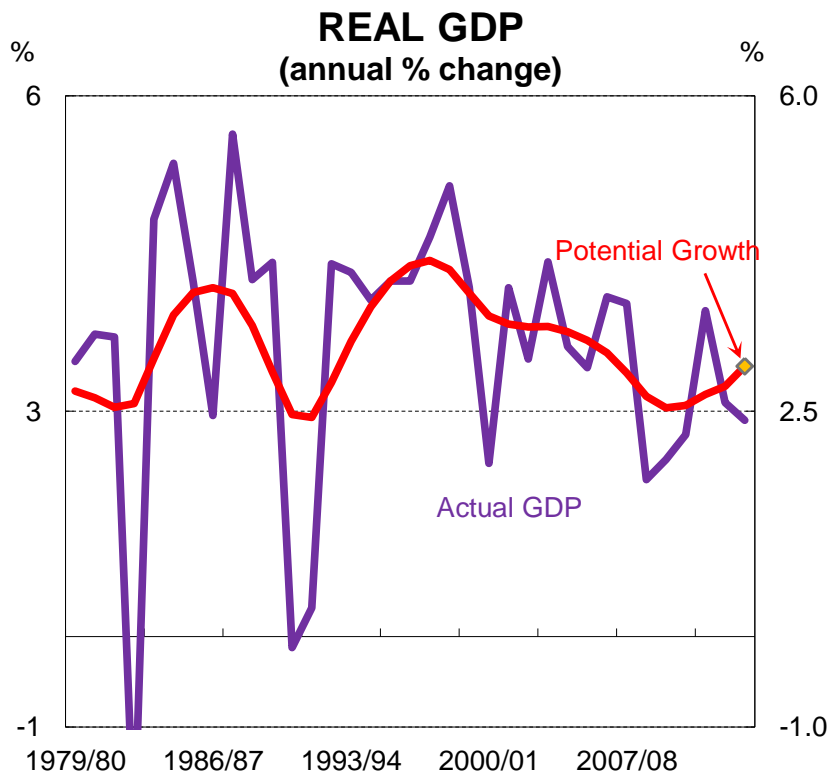
- Unemployment rates coming down in the Eurozone, US, and UK.
- US and UK unemployment rates near the 'full employment' level.
- Strength in the US and UK labour markets underpin expectations of eventual rate rises.
- Eurozone economy to continue to struggle.
- USD and GBP have outperformed.
- Australia's long period of labour market outperformance is over.

The Chinese economy



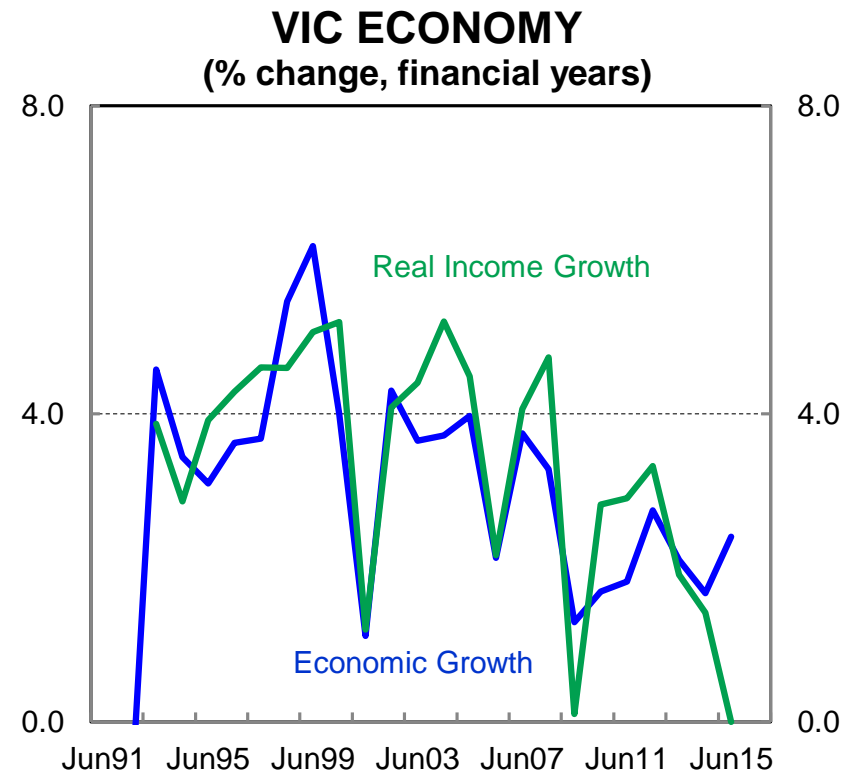
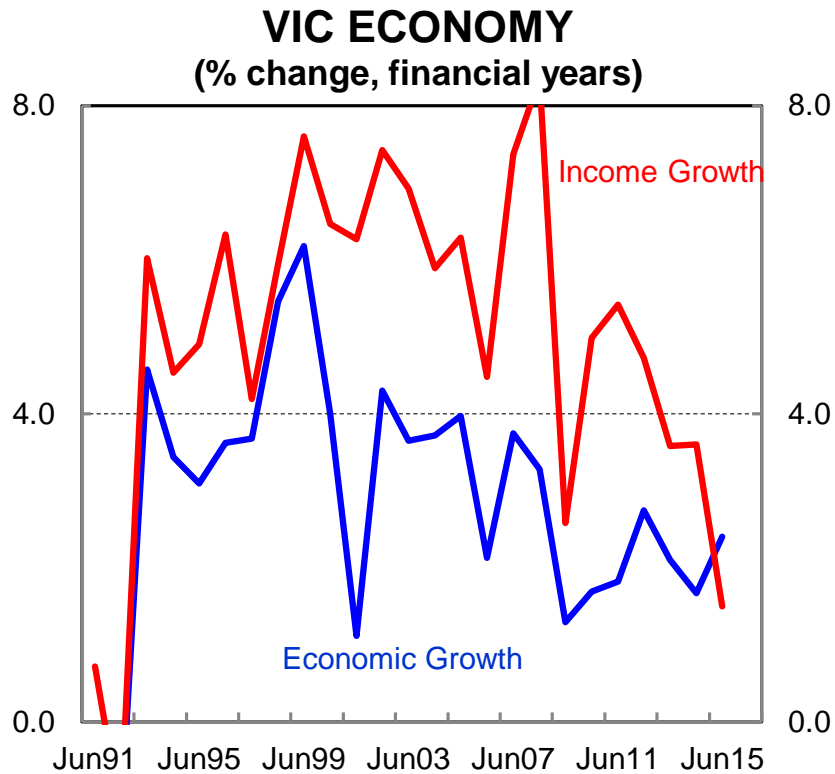
- The Chinese economy needs to rebalance away from investment led growth and towards consumption led growth.
- Industrial production growth has slowed which has had an impact on commodity prices.
- We expect GDP growth in China to ease to 6½% in 2016.

Australian economy - growth still positive despite headwinds



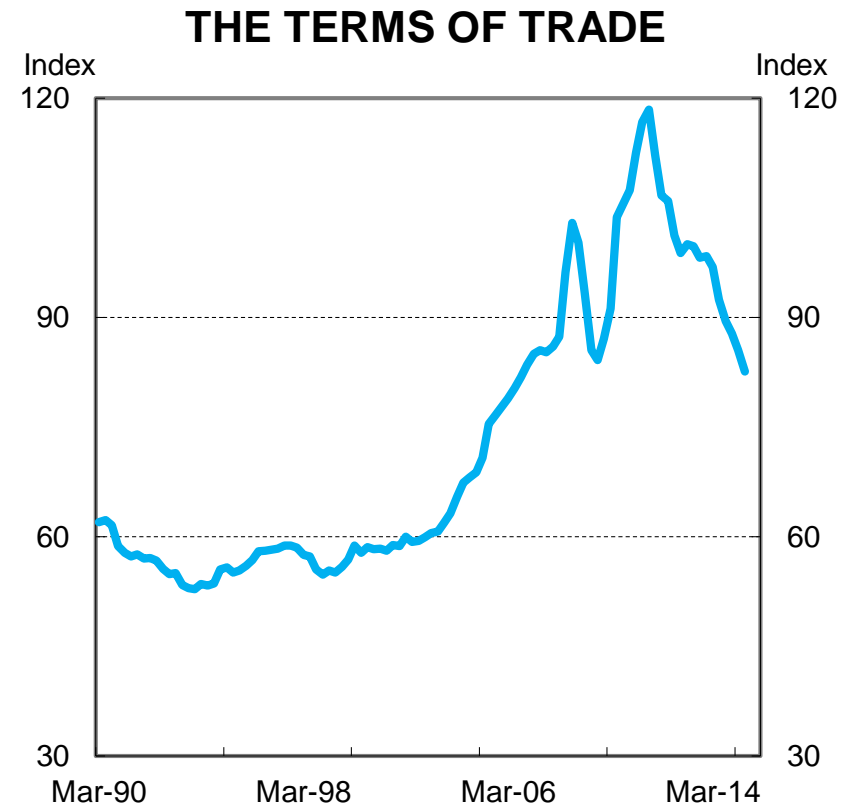
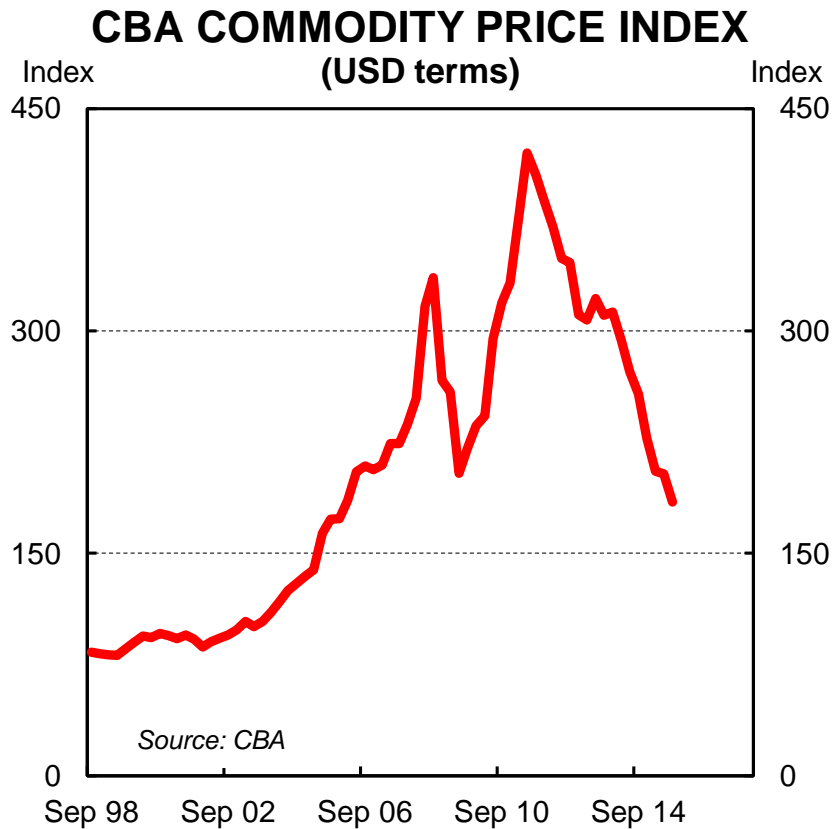
- Australia is in its 24th of uninterrupted economic growth.
- But growth running a little below trend (potential growth).
- RBA has some firepower on the interest rate front.
- AAA credit rating looks pretty sound.

But income growth has been a problem



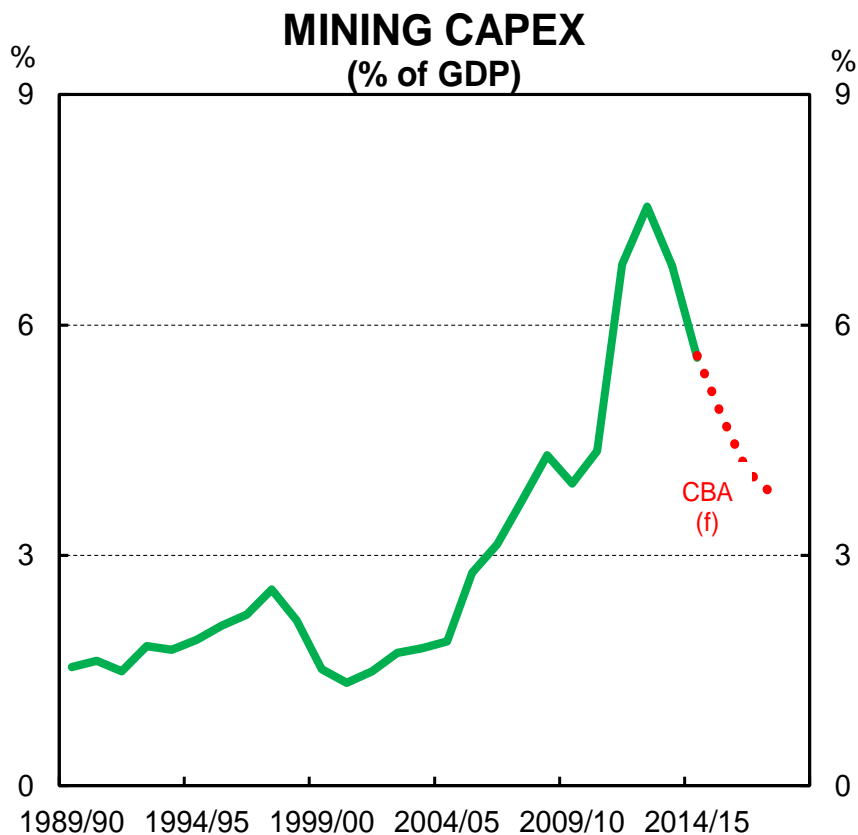
- Economic growth is important for jobs.
- Income growth is important for living standards and spending power.

Key commodity price falls have weighed on income growth



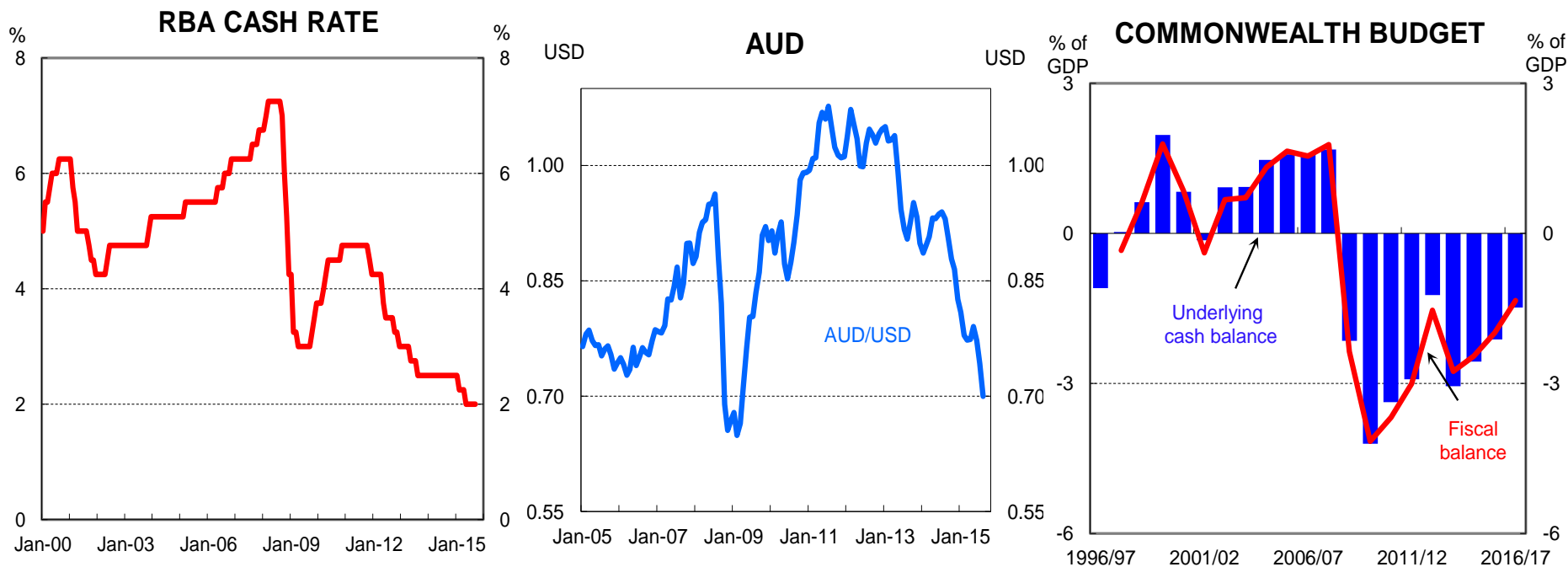
- The prices of Australia's two biggest exports, iron ore and coal, have fallen sharply after the past few years.
- Australia's terms of trade has fallen significantly from its peak.

The mining capex 'boom' is over



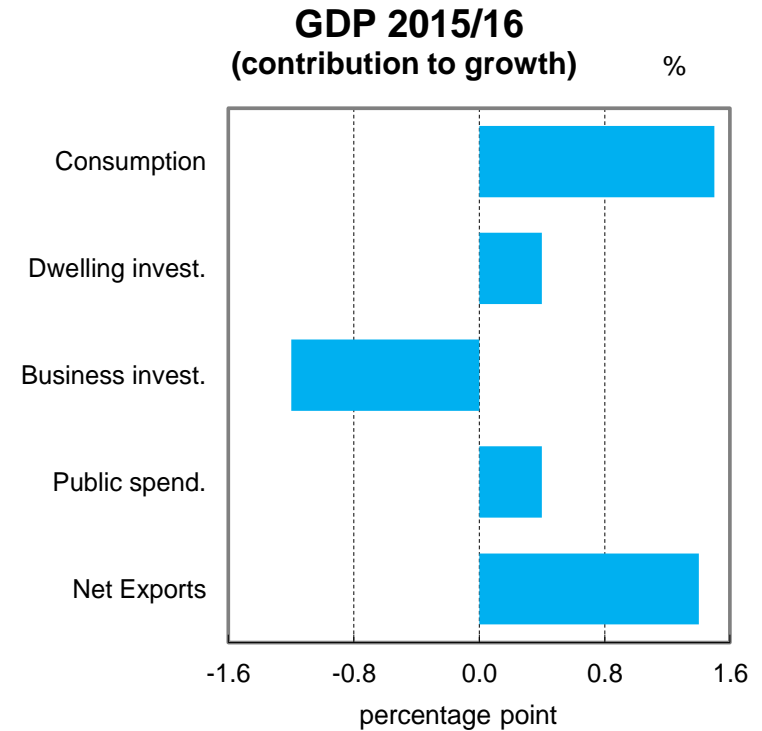
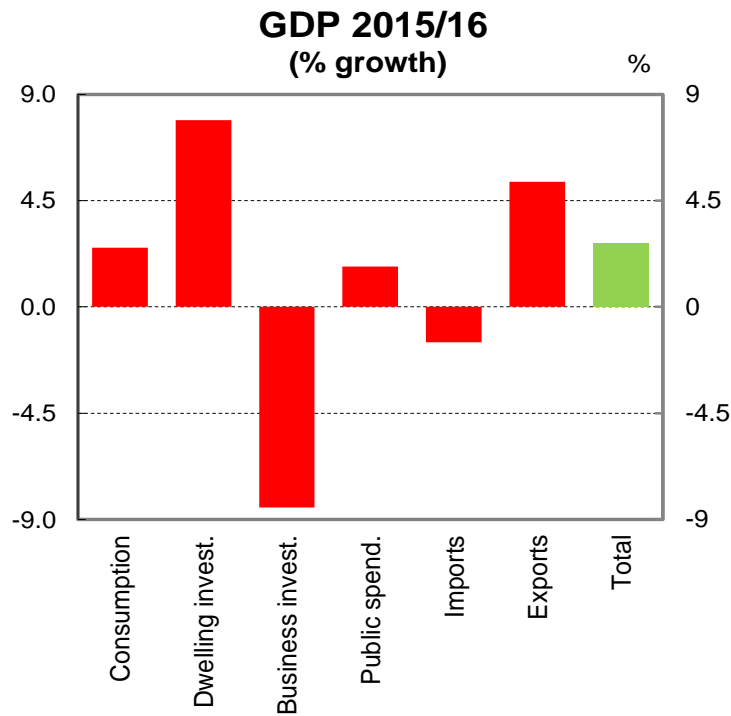
- Declining mining investment the biggest headwind to growth.
- Mining investment will continue to fall over the next few years.
- Job losses to continue to come out of the mining sector.
- The impact is being felt on a number of regional economies.
- Non-mining investment growth has been weak.

Fiscal and monetary policy response – and AUD response



- The RBA has cut rates to a record low of 2.0%
- The Federal Government has let the economy drive the budget.
- The AUD has fallen sharply against the USD and most other major currencies.

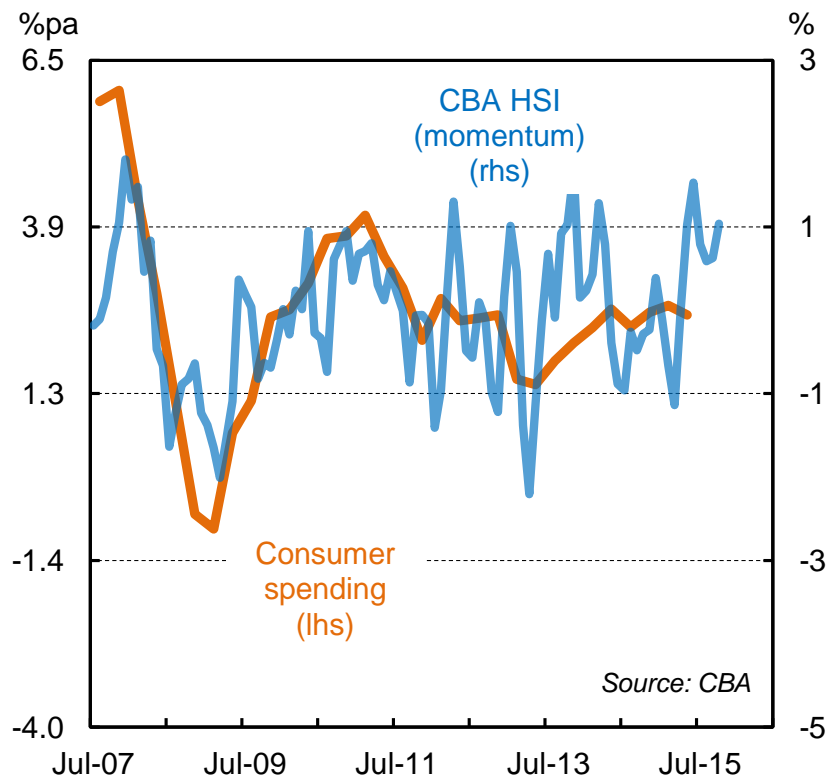
GDP growth – 2.7% in 2015/16



- Economic growth in Australia to run a little below trend in 2015/16.
- Growth to be driven by consumption, net exports and dwelling investment.
- Business investment (largely mining investment) to be a drag on growth.

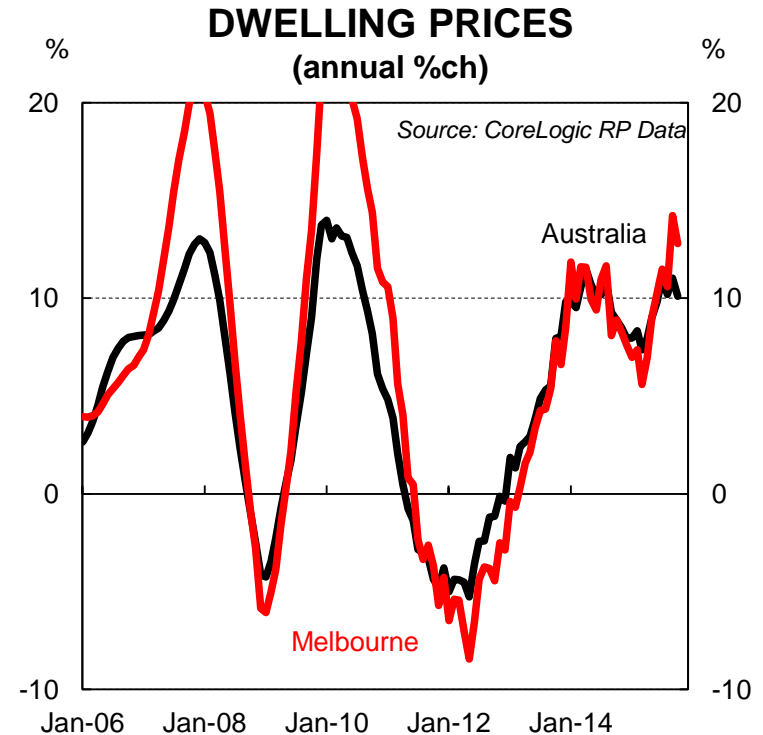
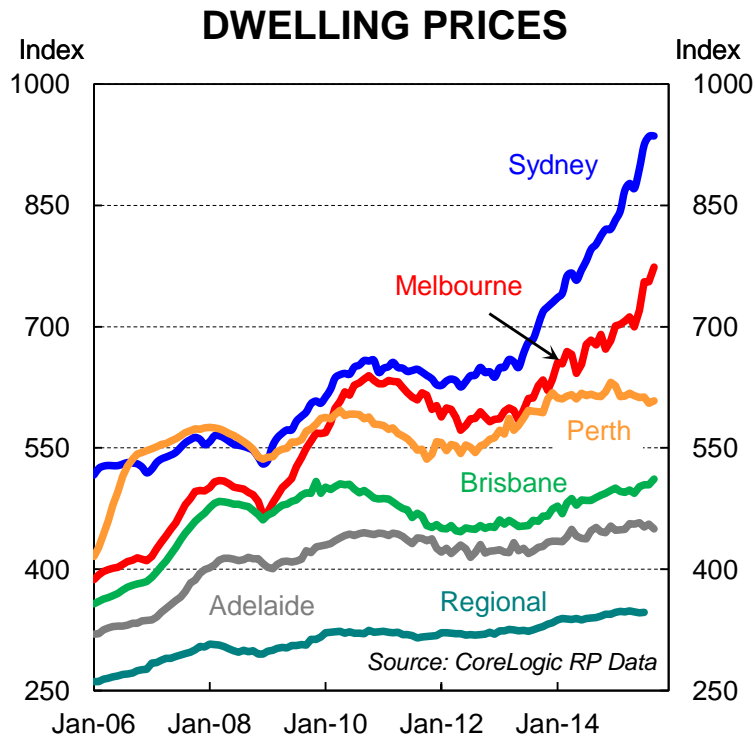
Consumer spending

CBA H/HOLD SPENDING INDICATOR



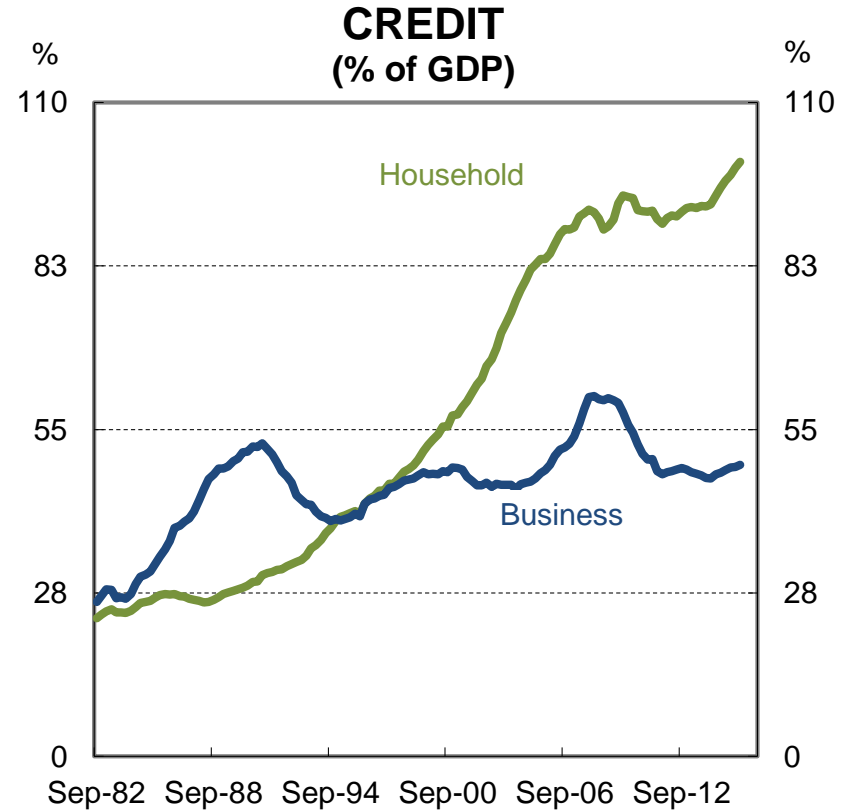
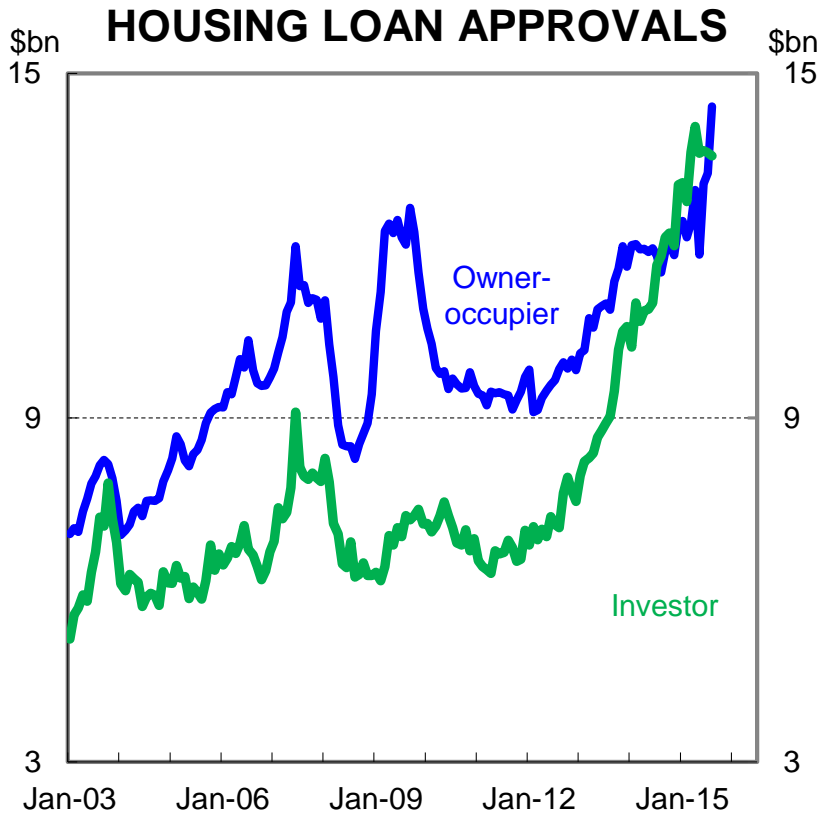
- Consumer spending is being supported by:
 - wealth effects (i.e. dwelling prices);
 - low interest rates
 - population growth;
 - lower AUD; and
 - modest jobs growth
- The headwinds on consumer spending are:
 - consumer sentiment (job security fears);
 - an elevated savings rate; and
 - soft wages growth.

Dwelling prices – two years of exceptional growth



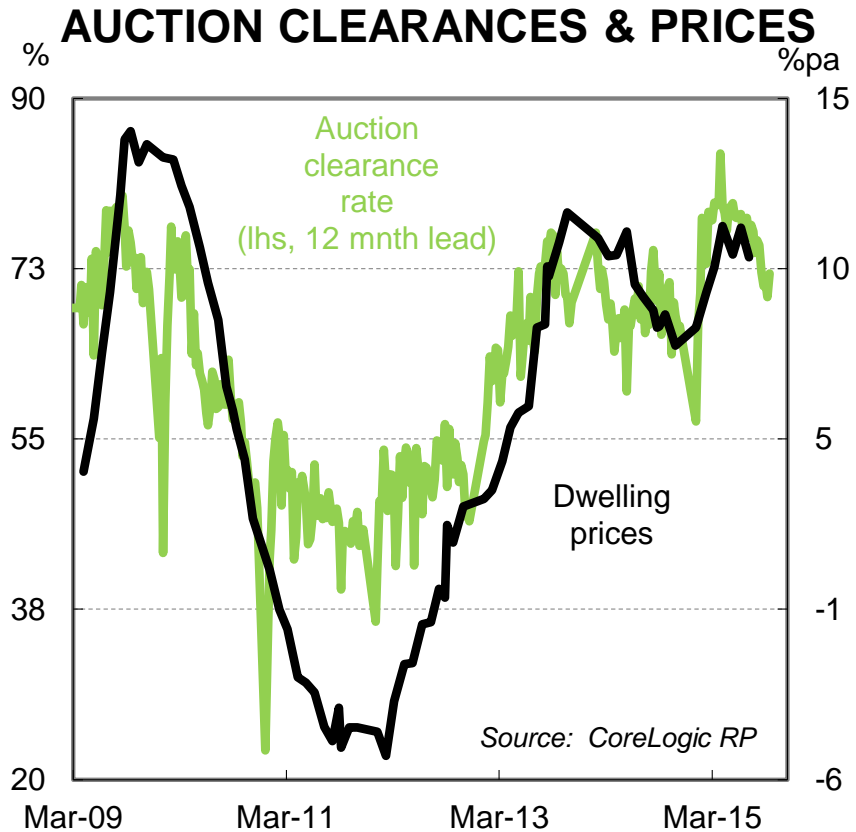
- Dwelling price growth has been fuelled by low interest rates, investor demand, foreign investment, strong population growth and some supply/demand imbalances.

Credit growth has picked up due to low interest rates



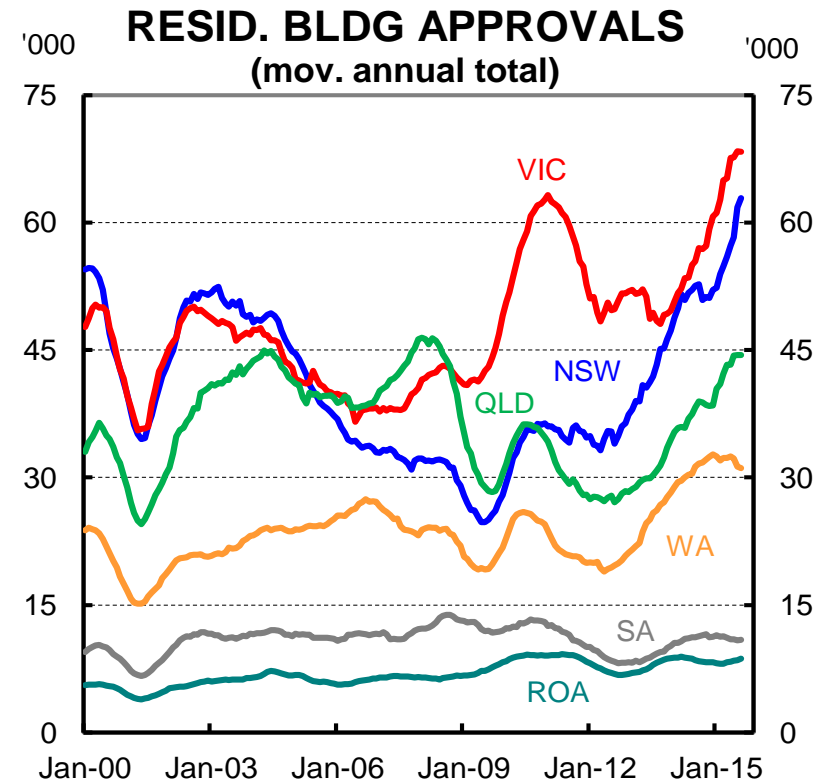
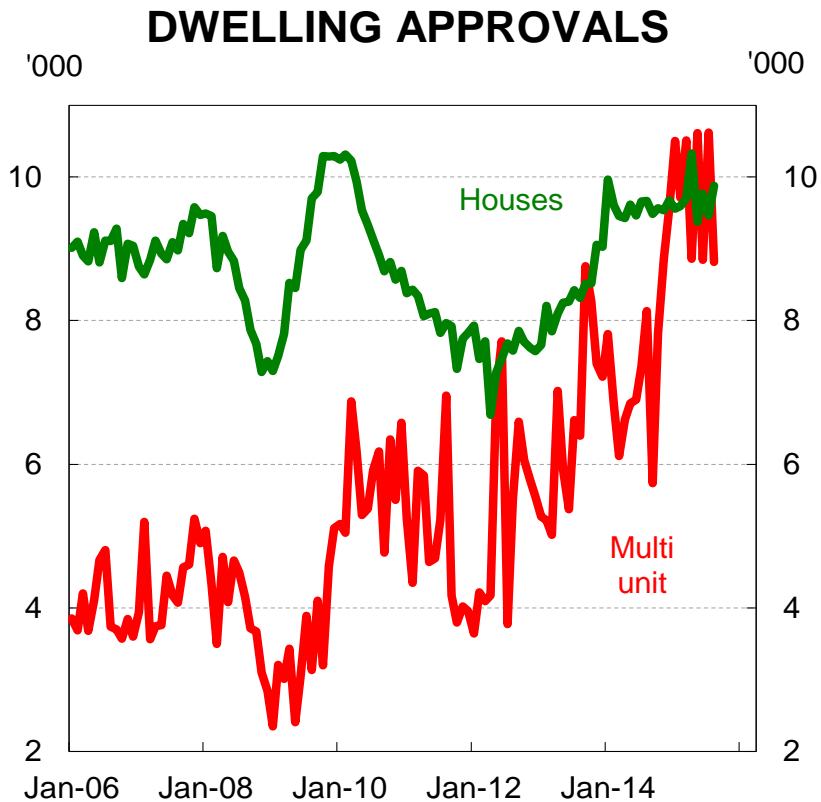
- Low interest rates have fuelled demand for housing particularly from the investor segment.
- Credit growth faster than income growth means leverage lifting

Auction clearance rates down – a leading indicator of price growth



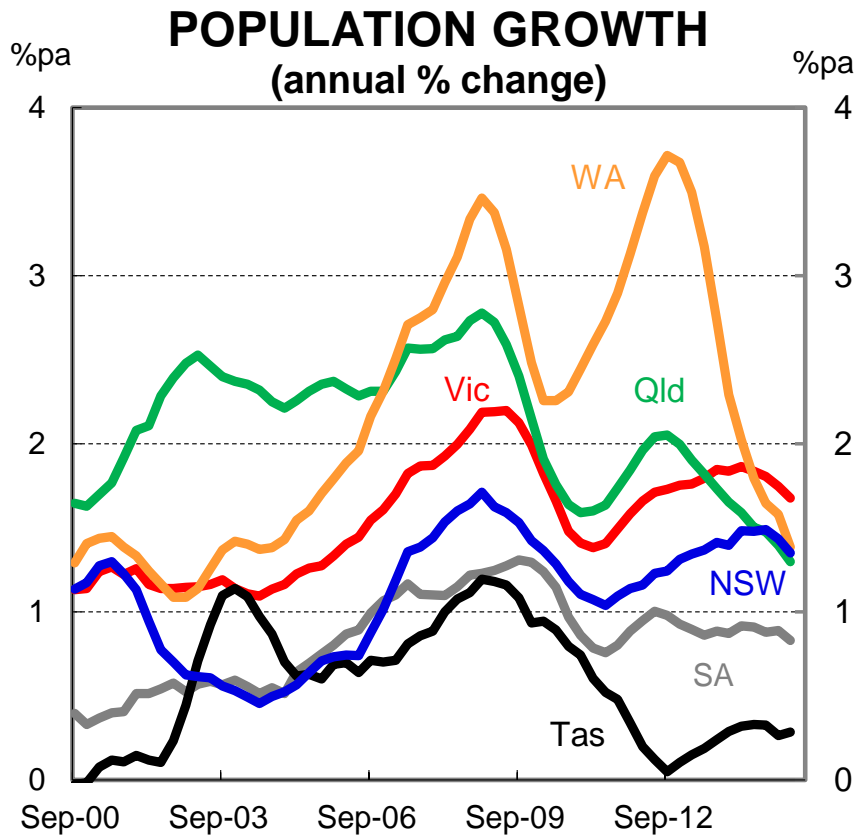
- Low auction clearance rates are consistent with cooling activity in the housing market.
- Dwelling price growth should moderate over 2015/16.

Residential construction to continue to lift



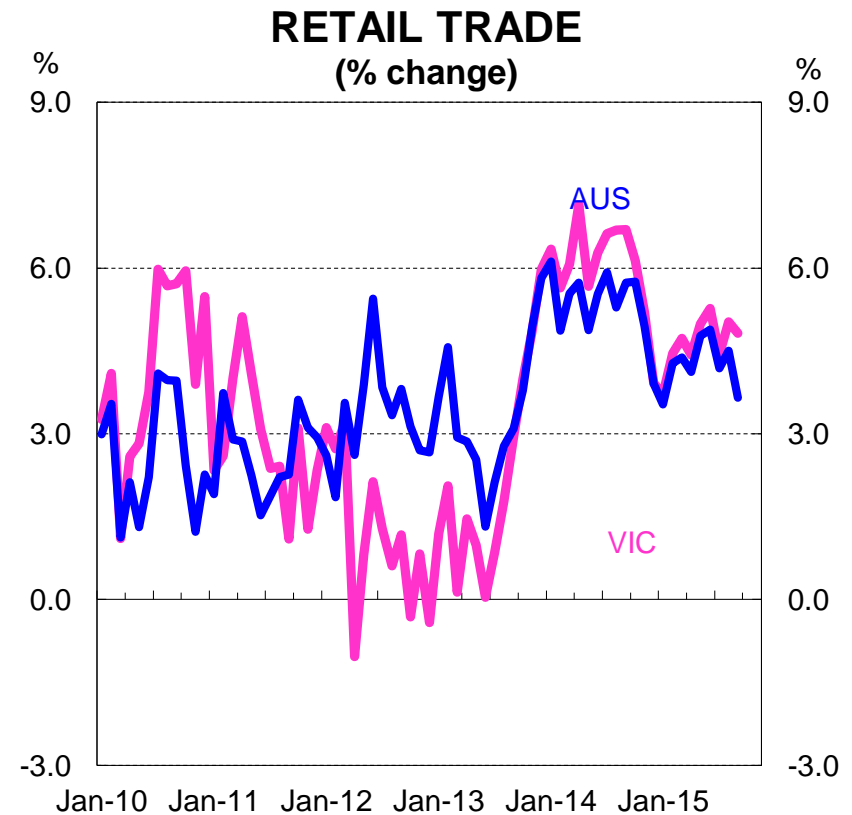
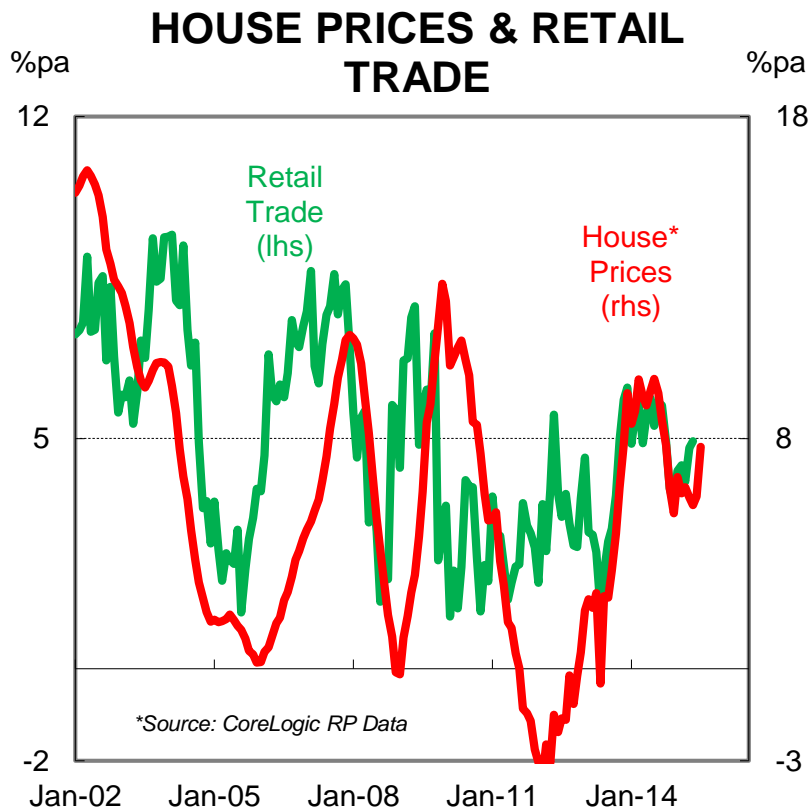
- A big lift in residential construction is underway and more to come.
- Apartments are driving the lift in dwelling construction.

Robust population growth in Victoria



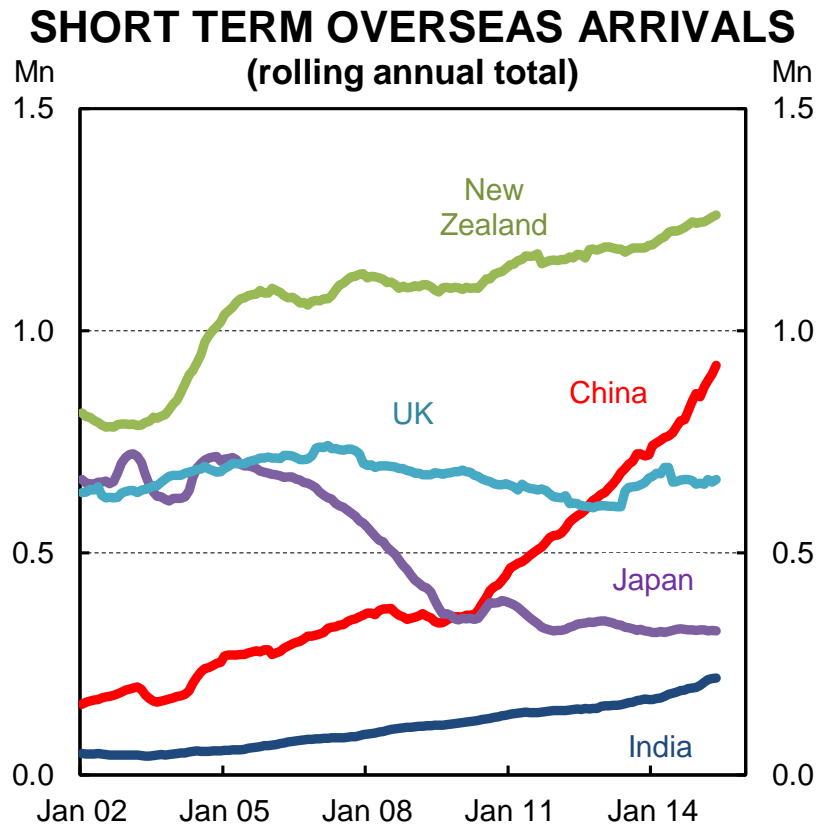
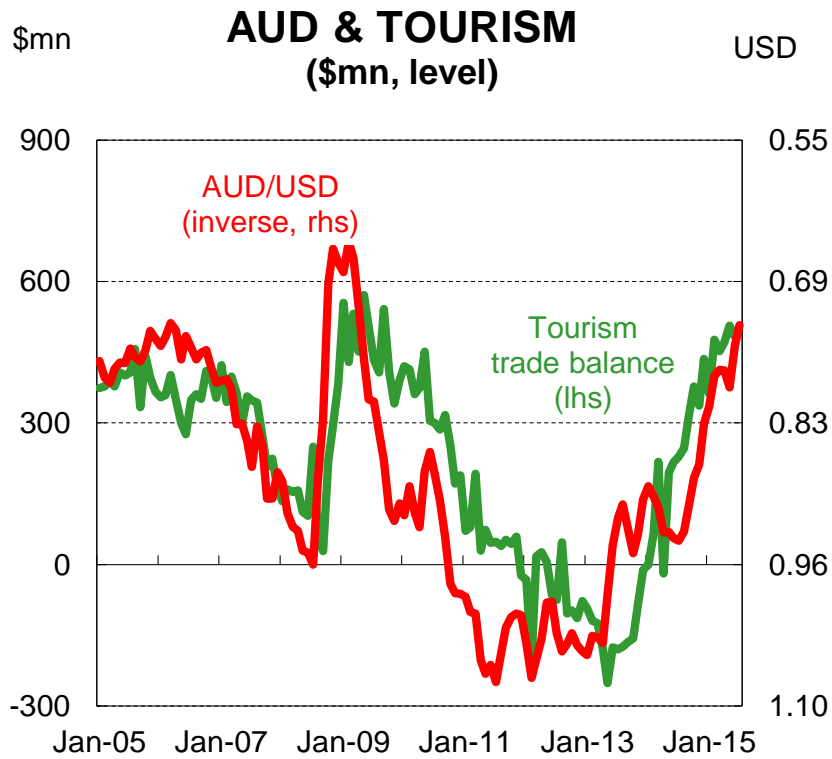
- Population growth has slowed in Australia – in line with softness in the labour market.
- Population growth in Victoria is the strongest.

Wealth effects have been positive for consumer spending.



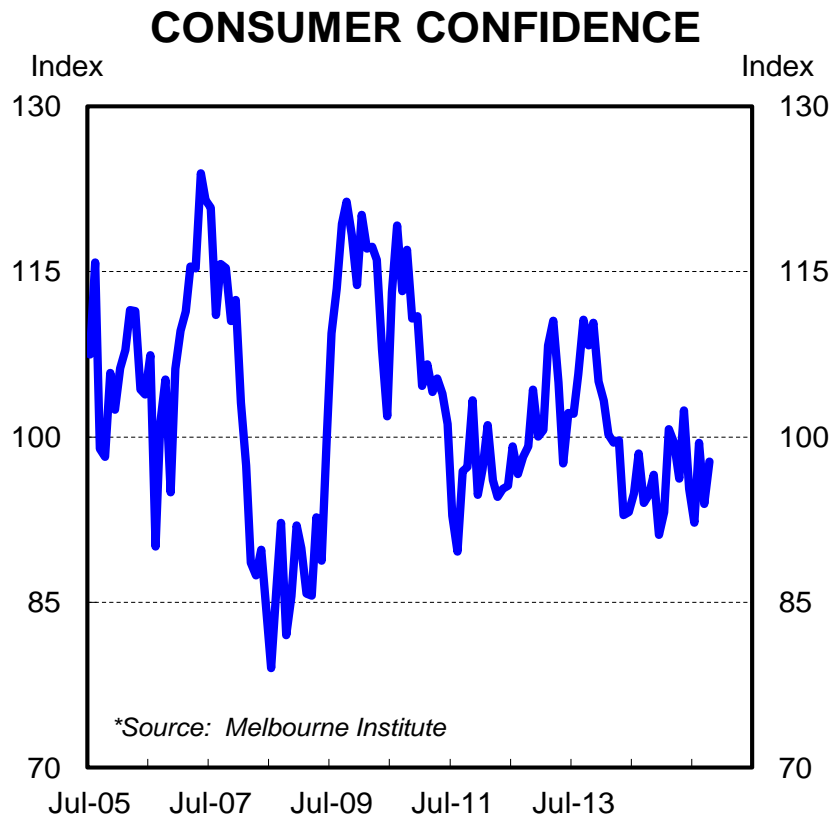
- Wealth effects and low interest rates have had a positive impact on consumer spending

Tourism boosted from lower AUD – will continue through 2016



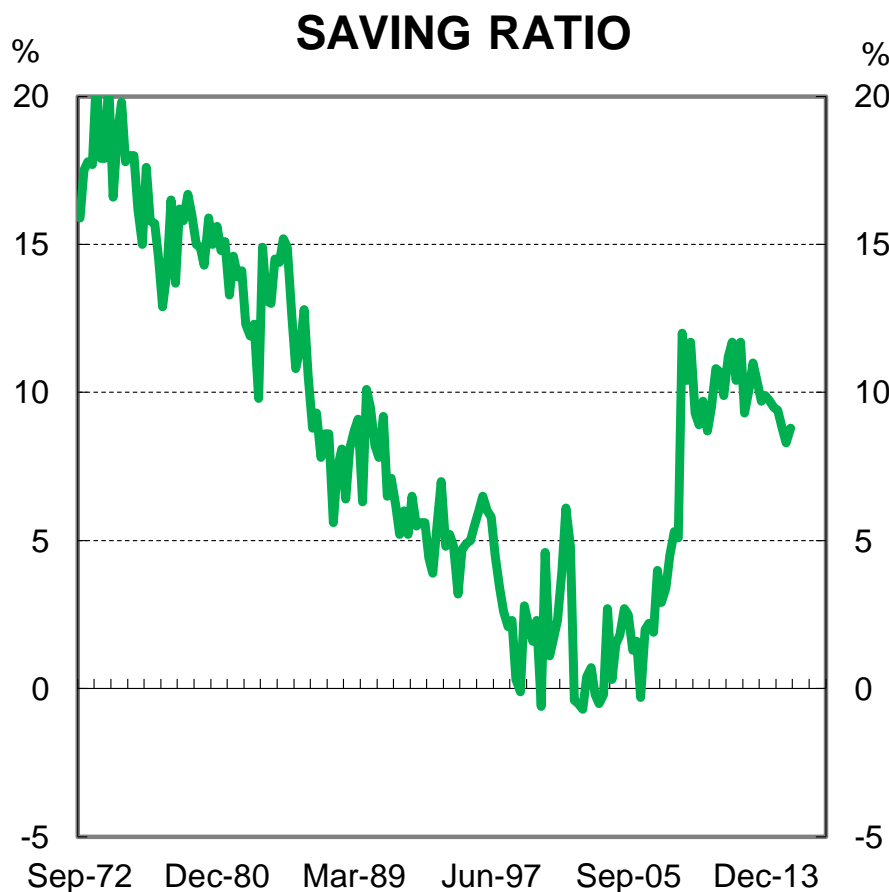
- Arrivals from China will continue to grow at a strong pace.
- Growth in arrivals has recently picked up from US and UK – trend to continue.
- Departures growth to slow.

Consumer confidence has been fragile – job security concerns remain



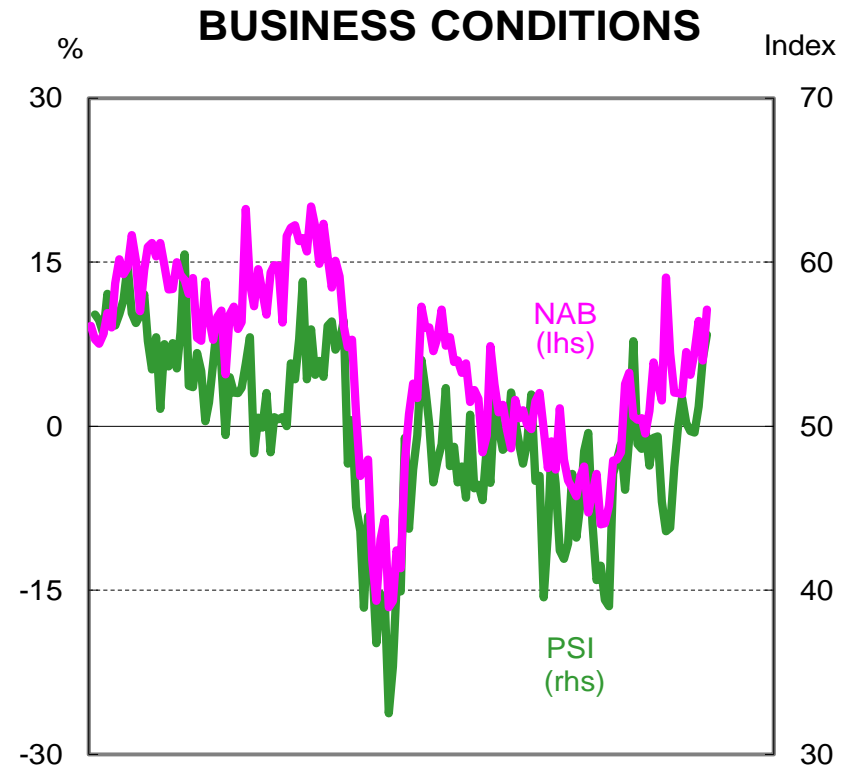
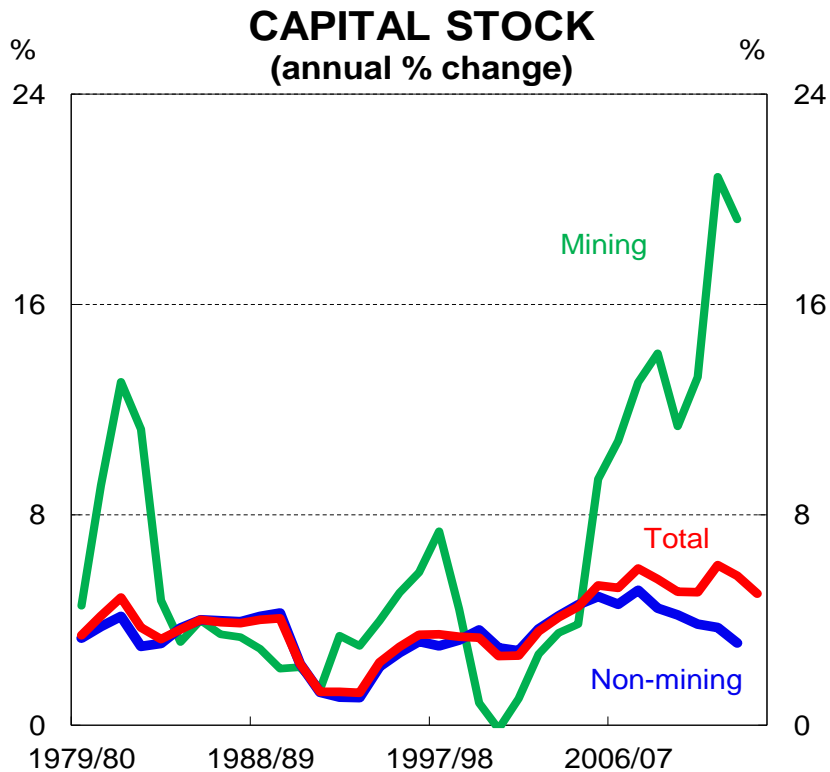
- Consumer sentiment tracking a little below the key 100 level.
- Concerns over job security remain elevated despite a flat unemployment rate.

Consumer caution means a higher savings ratio



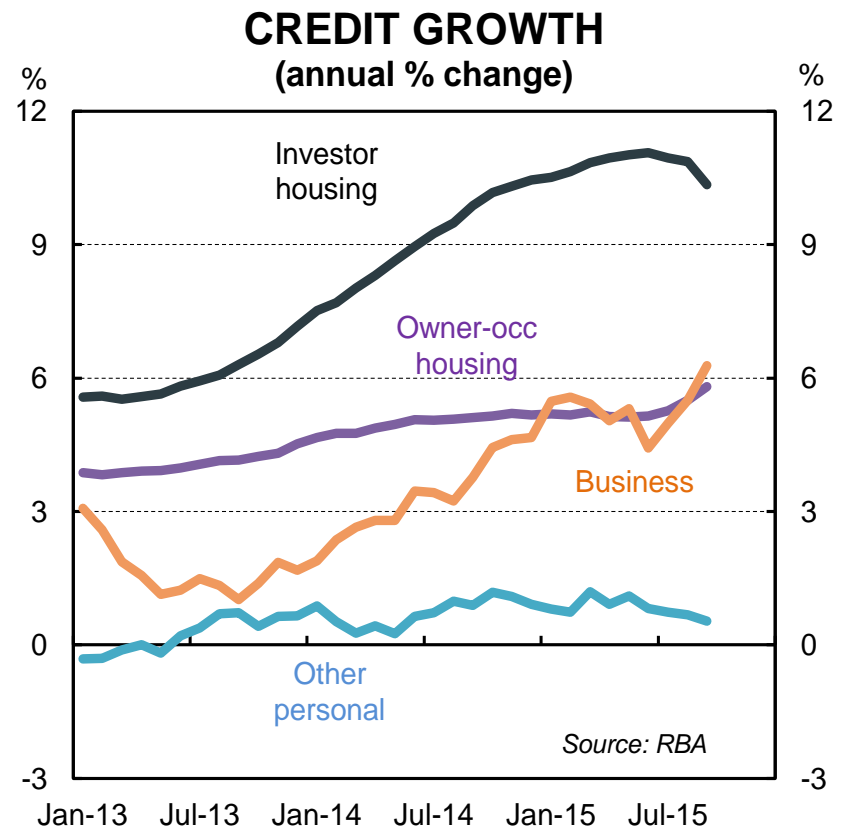
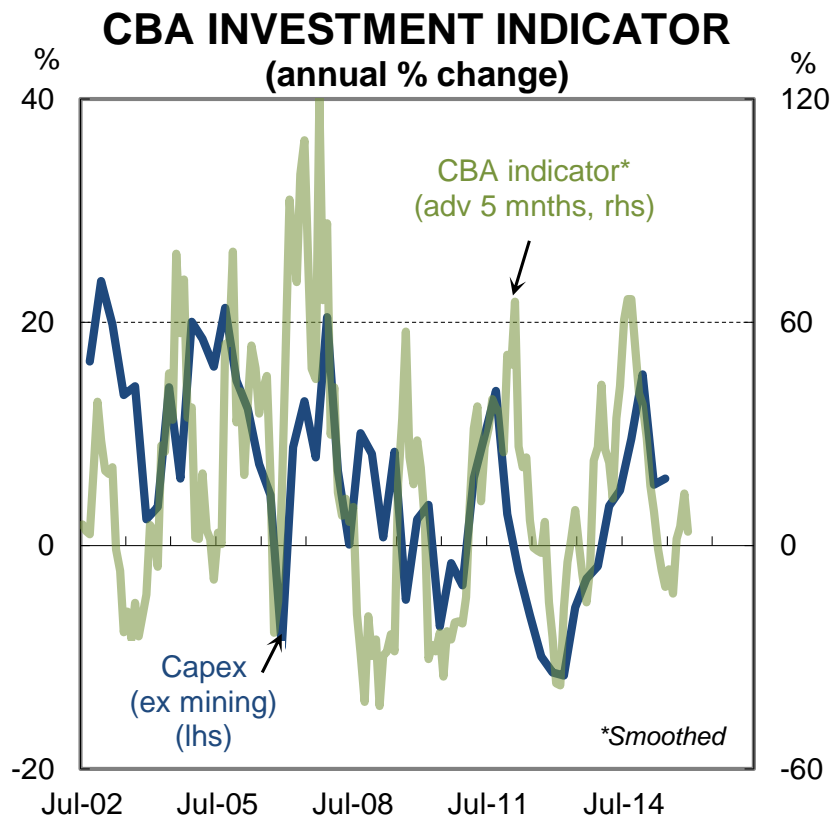
- Savings rate is elevated, largely due to consumer caution.
- But it has recently started to trend lower as rising asset prices encourage spending.
- Further falls in the savings ratio will boost consumer spending.

Business investment - a need to boost the non-mining capital stock



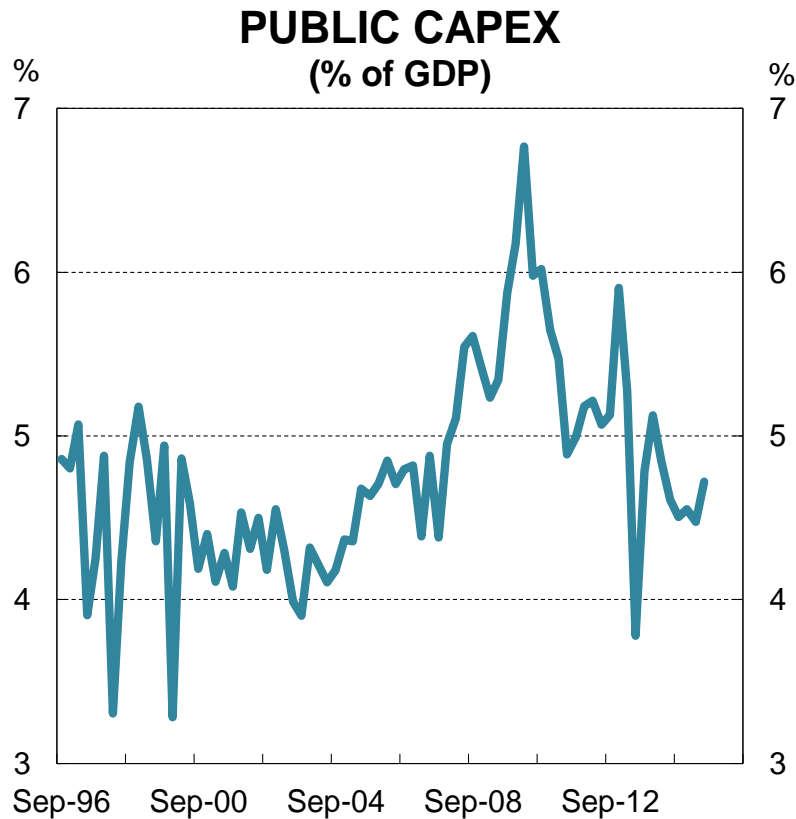
- Low interest rates are yet to simulate a material lift in non-mining business investment – hurdle rates have not adjusted to the low interest rate environment.
- There is a growing need to boost the non-mining capital stock.

Business investment has been weak, but conditions are positive



- CBA and official business lending data has recently picked up a little.
- But business conditions have recently moved into favourable territory.

Public investment – rhetoric vs reality



- Despite the rhetoric, public infrastructure spending is yet to lift.
- Capital works programs need to be at record highs given population growth continues.
- State Budgets imply a modest contribution to GDP growth in 2015/16.

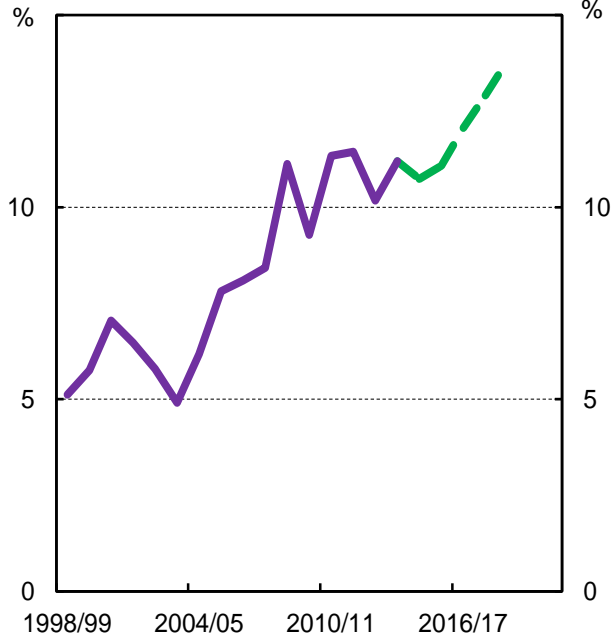
Capital Work Programs* (\$bn)

	2014/15	2015/16	2016/17	2017/18	2018/19
NSW	13.8	16.4	17.6	16.7	17.7
VIC	6.1	8.5	7.5	6.8	6.9
QLD	8.2	8.1	8.6	9.0	9.0
WA	6.6	6.2	6.0	6.1	5.7
SA	1.6	2.0	4.9	2.0	2.0
TAS	0.7	0.9	1.0	0.8	0.8
Total	36.9	42.7	45.9	41.2	41.8
%GDP	2.3	2.6	2.6	2.6	2.2

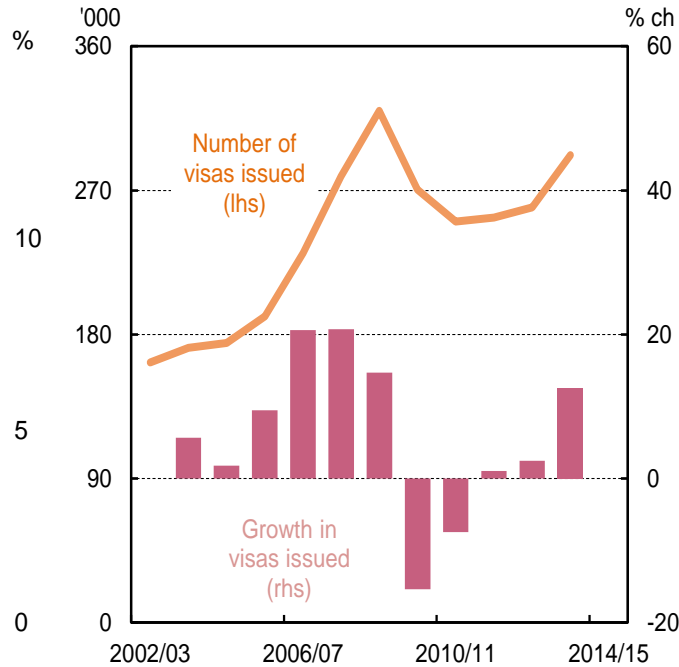
* Purchase of non-financial assets

Net Exports

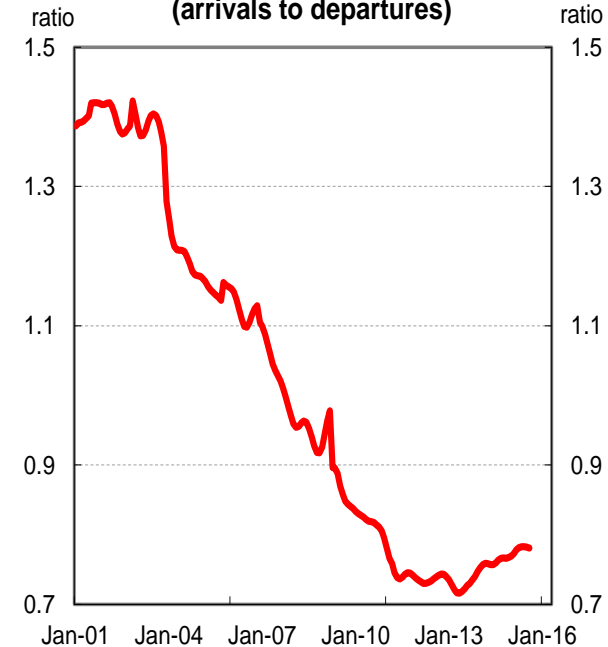
RESOURCE EXPORTS (% of GDP)



EDUCATION VISAS ISSUED

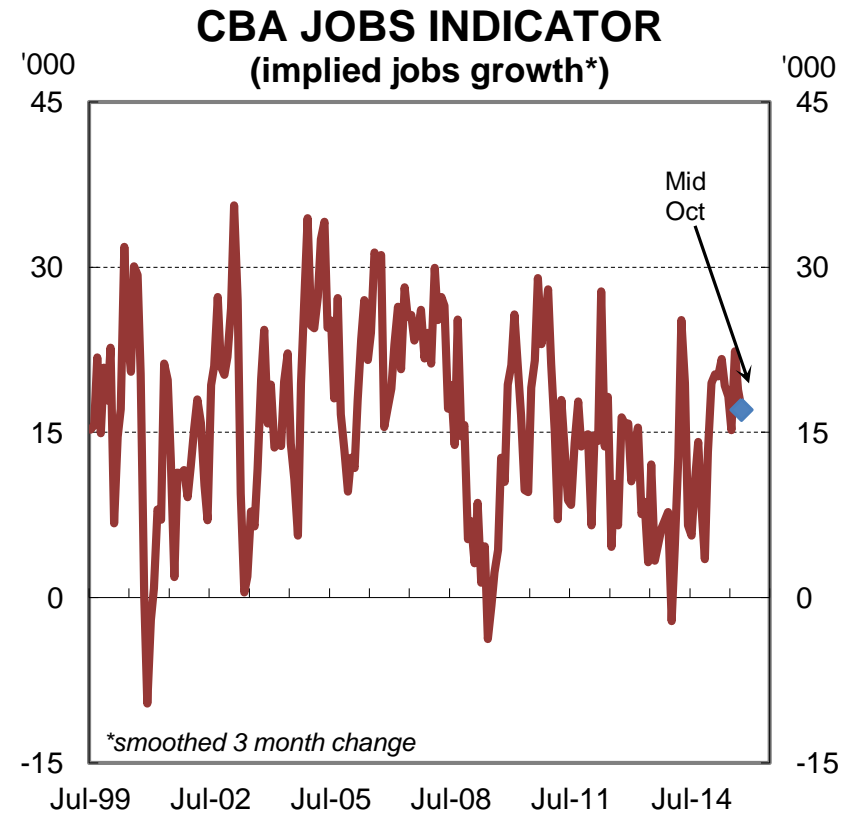
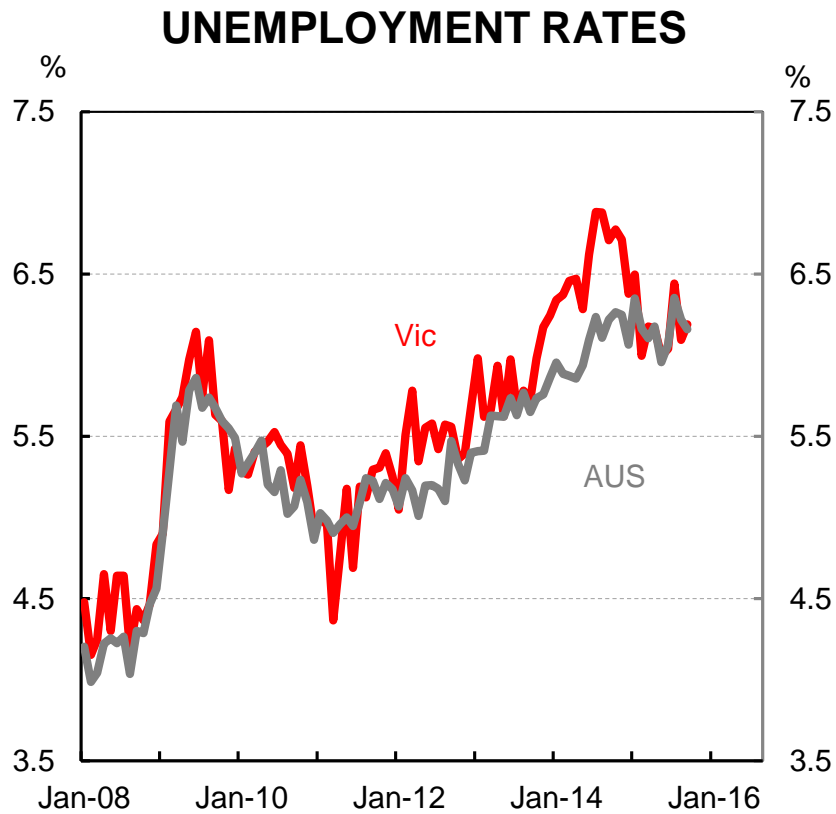


TOURIST DEFICIT (arrivals to departures)



- Resource exports will continue to lift, particularly once LNG plants become fully operational.
- Tourism exports to continue to lift due to a lower AUD.
- Education to also benefit from a lower AUD and rise of the Chinese middle class.

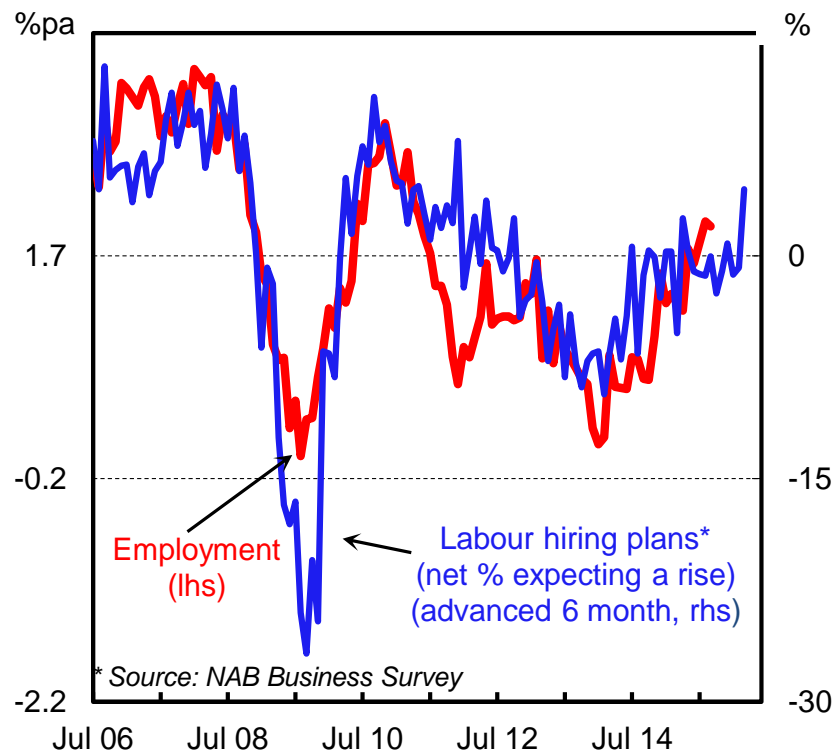
Unemployment rate has stabilised at a little over 6%



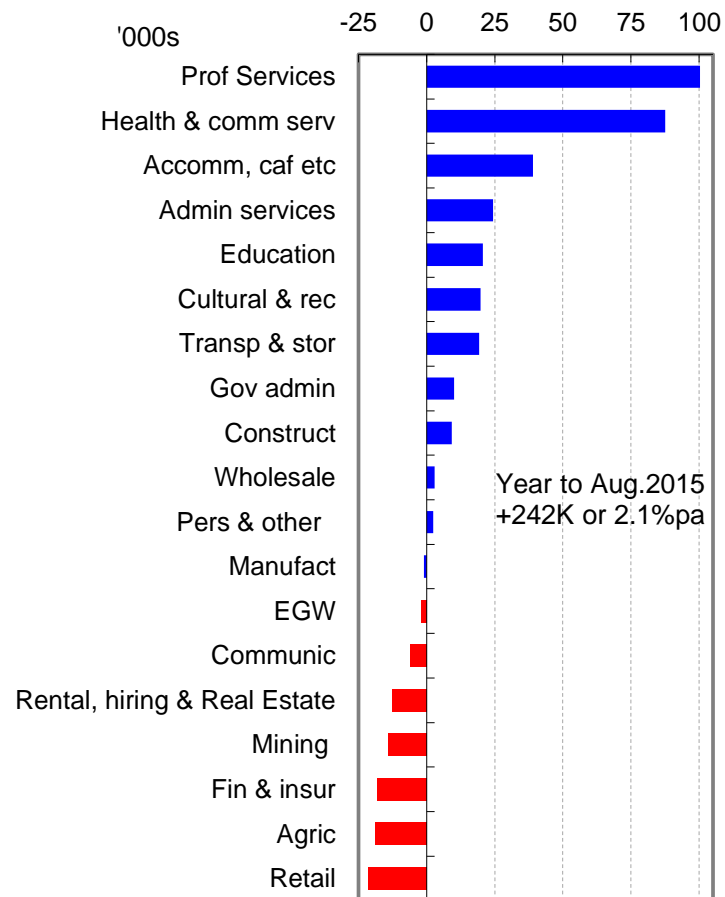
- Employment growth has been sufficient to keep the unemployment rate flat over the past year.

Leading indicator of jobs

EMPLOYMENT & JOB PLANS

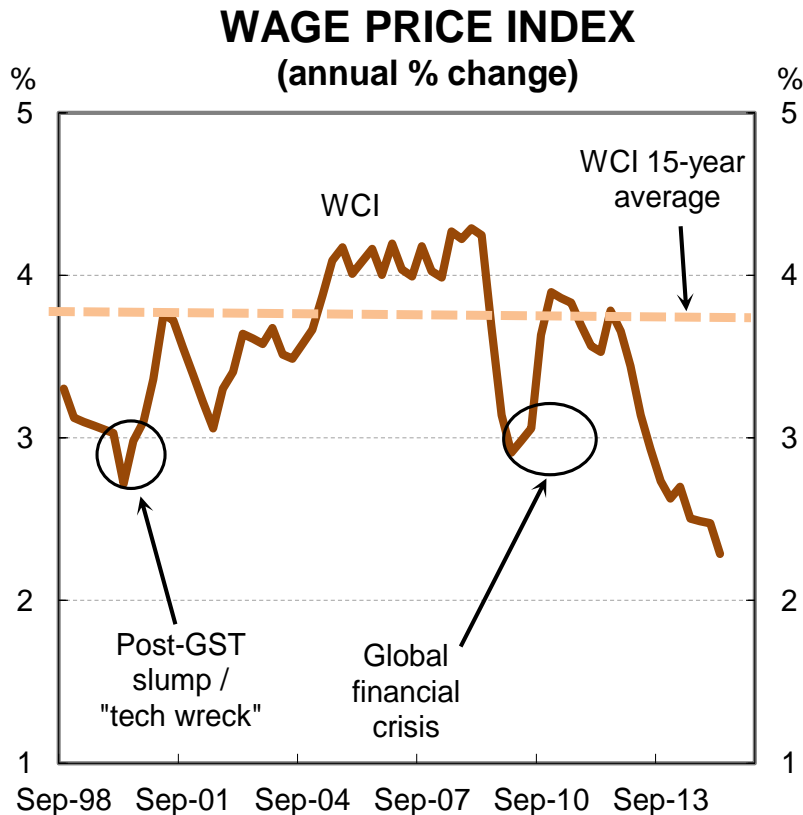


JOBS GROWTH BY SECTOR



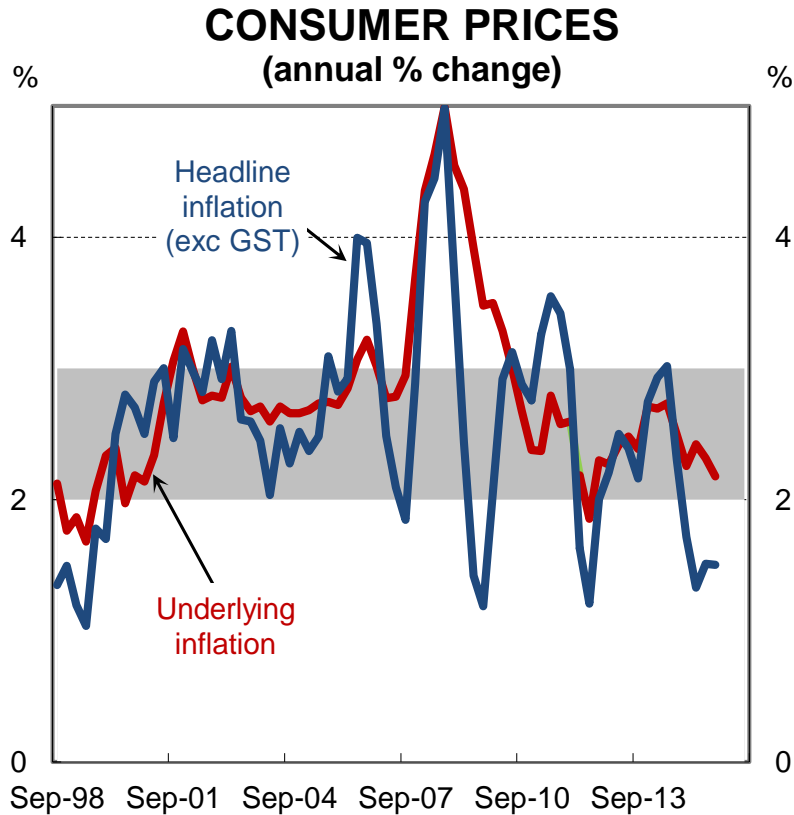
■ Jobs growth has largely been in professional services, health, construction and education.

Wages growth has slowed sharply



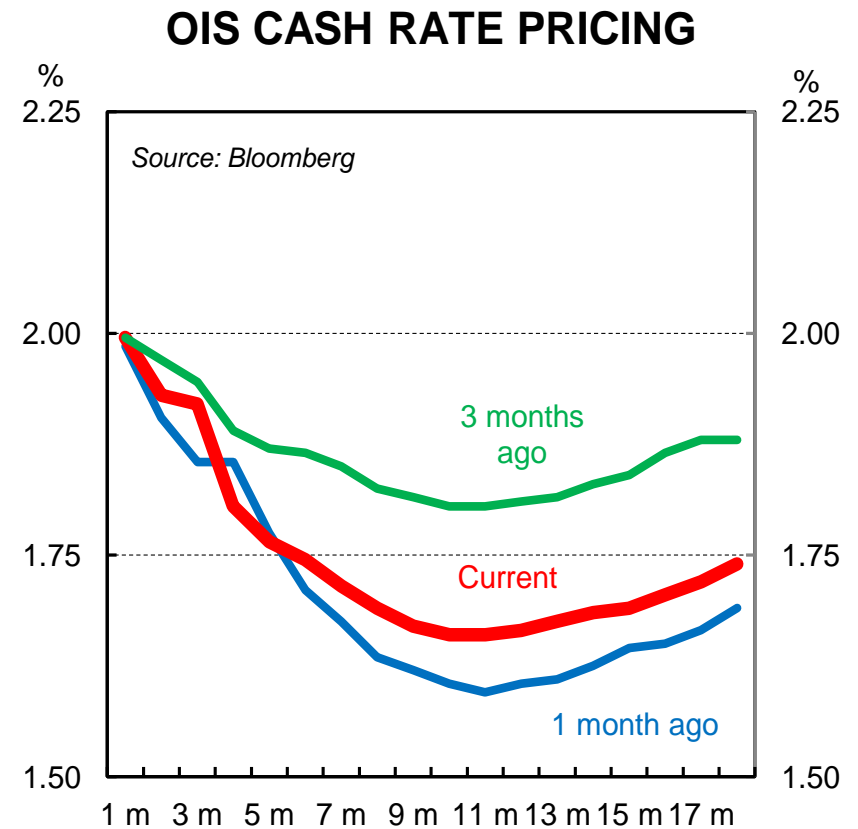
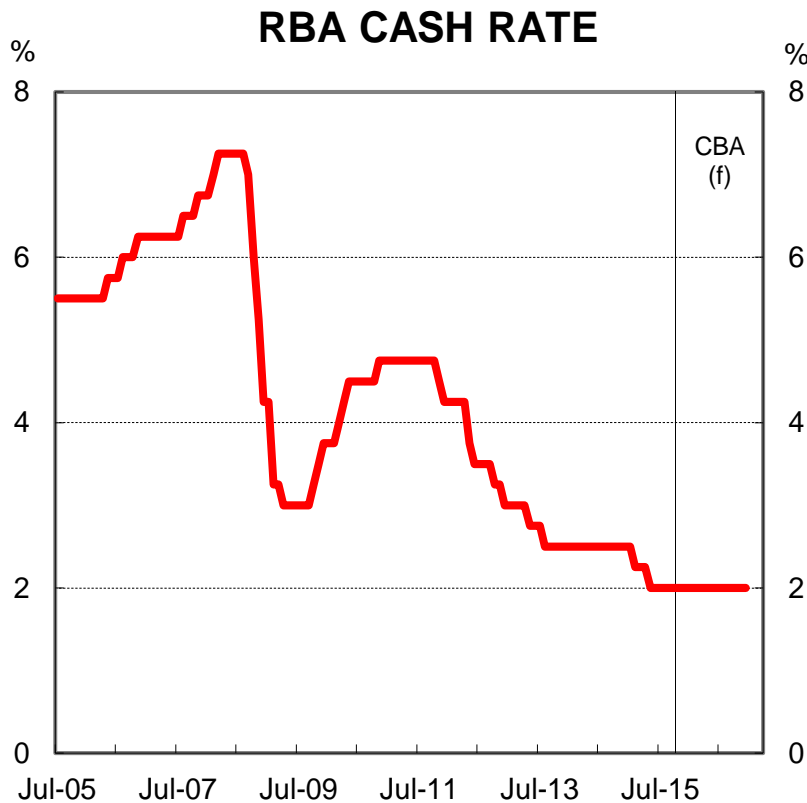
- Wages growth has been sliding as the unemployment rate lifts.
- Wages growth is compressing across sectors.
- Wages growth at its slowest pace since the 1990s recession.
- But slowing wages growth has supported the labour market and has capped the rise in the unemployment rate.
- Wages growth to remain around current levels for the next few quarters.

Inflation has slowed due to spare capacity in the economy



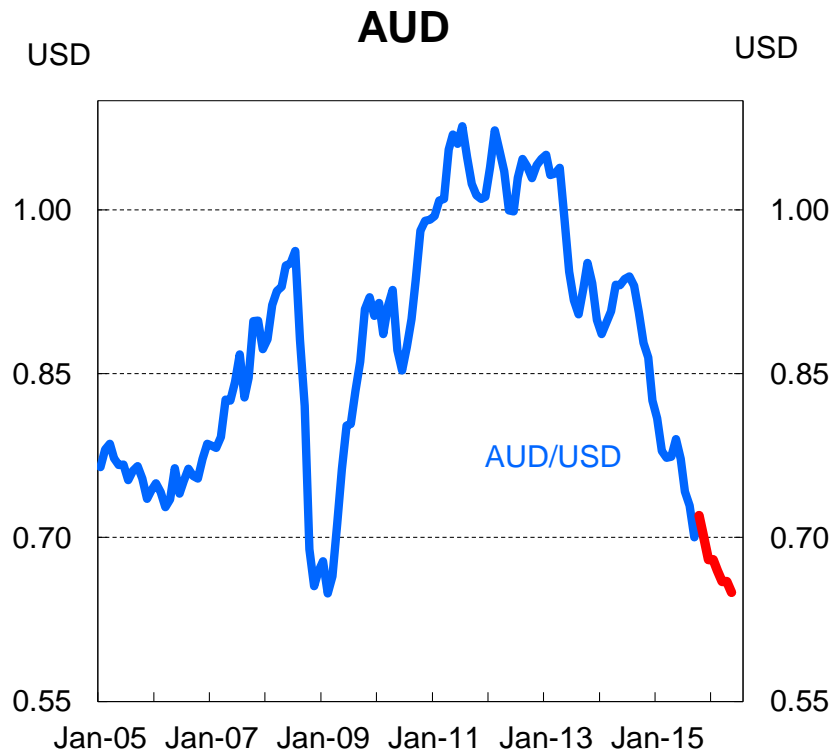
- Inflation has slowed in Australia.
- Lower wages growth is keeping a lid on consumer price inflation.
- And lower petrol prices have also contributed to lower inflation.
- Underlying inflation a little higher than headline inflation.
- RBA's target inflation band is 2-3%pa.
- Inflation to remain benign over the next year.

Interest rates at record lows and will stay low



- Market pricing another cut.
- We see the RBA on hold at 2.0%.

AUD – likely to trend a little lower, but not too much more



- Our forecasts have the AUD drifting a little lower due to:
 - US Federal Reserve raising interest rates;
 - some further downward pressure on commodity prices as Chinese economy rebalances; and
 - financial markets pricing the chance of further RBA policy easing.

Summary - Australian Economy Outlook

Themes over the next year

- Economic growth to run a little below trend as Australian economy rebalances.
- Income growth will be constrained due to softer commodity prices, but should start to lift off the back of a lower AUD.
- The AUD to go a little lower which will assist exporters.
- Unemployment rate to stay around its current level.
- Wages growth below long-run average which will support the labour market.
- Interest rates to stay low.
- Federal government budget pressures to continue.



CBA Australian Economic Forecasts

	2012/13	2013/14	2014/15	2015/16	2016/17	2012	2013	2014	2015	2016
	(a)	(a)	(a)	(f)	(f)	(a)	(a)	(a)	(f)	(f)
Economic Activity										
Private final demand	2.1	0.9	1.0	1.0	1.4	4.5	1.0	1.0	1.1	1.0
<i>Of which: H/hold spending</i>	1.9	2.2	2.5	2.7	2.9	2.5	1.7	2.4	2.6	2.8
Dwelling investment	-3.8	5.3	8.3	7.9	2.3	-6.1	0.4	8.0	9.7	4.4
Business investment	4.1	-5.2	-6.2	-8.5	-4.8	15.8	-1.6	-5.8	-7.8	-7.9
Public final demand	-0.2	1.6	0.5	1.7	1.4	3.2	-1.4	1.4	1.8	1.3
Domestic final demand	1.6	1.0	0.9	1.2	1.4	4.2	0.5	1.1	1.2	1.0
Inventories (contrib to GDP)	-0.1	-0.3	0.2	0.1	0.1	0.0	-0.4	0.0	0.1	0.2
GNE	1.5	0.7	1.1	1.3	1.5	4.2	0.1	1.1	1.3	1.2
Exports	6.0	5.8	6.6	5.3	8.2	6.0	6.2	6.7	5.3	6.9
Imports	0.7	-1.8	-0.4	-1.5	0.9	6.2	-1.8	-1.7	0.6	-1.8
<i>Net exports (contrib to GDP)</i>	1.0	1.5	1.4	1.4	1.6	-0.2	1.6	1.7	1.0	1.9
GDP	2.5	2.5	2.4	2.7	3.1	3.6	2.1	2.7	2.4	3.0
Prices & Wages										
CPI	2.3	2.7	1.7	2.3	2.8	1.8	2.4	2.5	1.6	2.8
Underlying CPI	2.4	2.6	2.4	2.7	2.9	2.2	2.5	2.5	2.5	2.8
Wage Price Index	3.3	2.6	2.4	2.7	3.0	3.6	2.9	2.5	2.4	2.9
Nominal GDP	2.2	4.1	1.7	3.8	5.3	3.3	3.3	3.1	2.2	4.9
Real h/hold disposable income	0.8	1.6	1.6	1.8	2.3	2.0	1.6	1.4	1.6	2.2
Labour Market										
Employment	1.2	0.6	1.2	2.0	1.9	1.2	0.9	0.7	1.8	1.9
Unemployment rate	5.4	5.8	6.2	6.1	5.8	5.2	5.7	6.1	6.2	6.0
External Accounts										
Current Account: \$bn	-59.4	-51.2	-57.2	-59.8	-42.2	-64.1	-53.3	-48.5	-64.8	-50.8
<i>% of GDP</i>	-3.9	-3.2	-3.6	-3.6	-2.4	-4.3	-3.4	-3.0	-4.0	-3.0

CBA Global Economic Forecasts

CBA Global Growth Forecasts

	2013 (a)	2014 (a)	2015 (f)	2016 (f)
World	2.9	3.0	2.8	3.1
United States	2.2	2.4	2.6	2.6
Japan	1.5	-0.1	0.7	0.9
Eurozone	-0.4	0.9	1.4	1.4
United Kingdom	1.7	2.6	2.5	2.4
Canada	2.0	2.5	1.0	2.0
China	7.7	7.3	7.0	6.5
India	6.9	7.4	7.3	7.5

- CBA forecasts envisage sub-trend global growth continues, although the gap should narrow in 2016.
- Advanced economies supported by solid growth/pick ups in the US, UK and Canada.
- EZ to fare better than previously expected.
- China to slow further but should do a little better than the consensus.

CBA FX Forecasts

	End-Period Forecasts				
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Majors					
AUD	0.68	0.66	0.65	0.67	0.69
EUR	1.10	1.08	1.05	1.08	1.10
JPY	119	118	117	115	118
GBP	1.52	1.52	1.51	1.54	1.57
CAD	1.34	1.36	1.40	1.38	1.35
NZD	0.62	0.60	0.58	0.59	0.60
CHF	0.95	0.99	1.00	0.98	0.97
Selected Cross Rates					
EUR-JPY	131	127	123	124	130
EUR-GBP	0.72	0.71	0.70	0.70	0.70
EUR-CHF	1.05	1.07	1.05	1.06	1.07

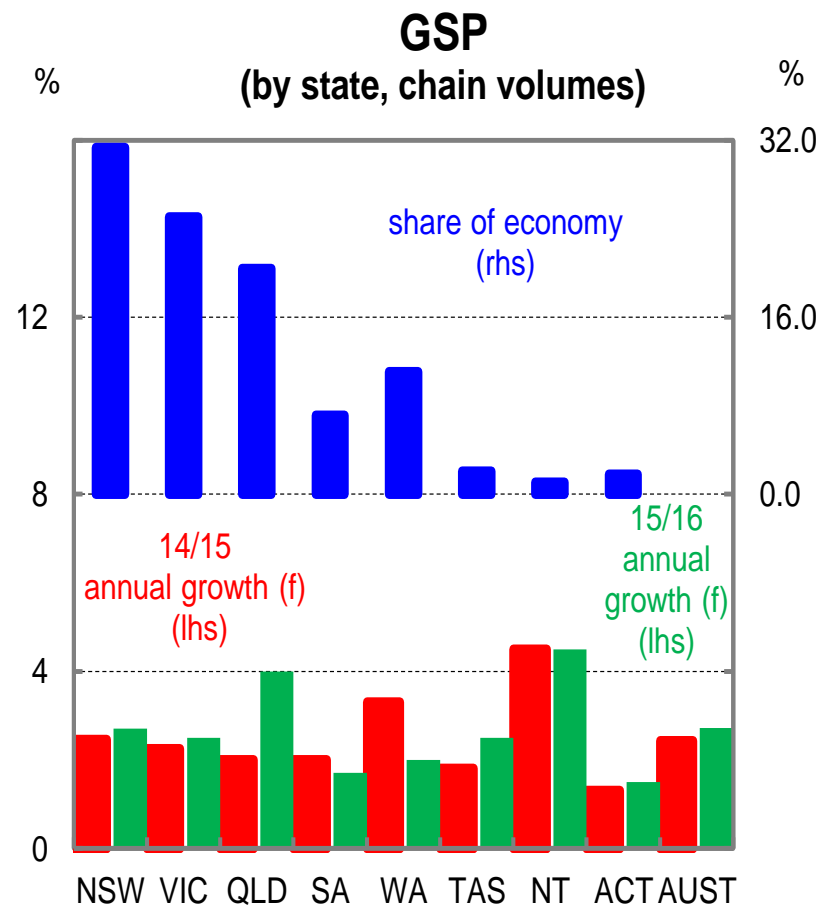
	End-Period Forecasts				
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
AUD Cross Rates					
AUD-NZD	1.10	1.10	1.12	1.14	1.15
EUR/AUD	1.62	1.64	1.62	1.61	1.59
AUD-JPY	81	78	76	77	81
GBP/AUD	2.24	2.30	2.32	2.30	2.28
AUD-CAD	0.91	0.90	0.91	0.92	0.93
AUD-CHF	0.65	0.65	0.65	0.66	0.67
AUD-CNY	4.39	4.32	4.26	4.36	4.42
AUD-SGD	0.97	0.95	0.97	0.95	0.92
TWI	59.4	58.4	57.2	58.1	59.1
East Asia					
USD-CNY	6.45	6.55	6.55	6.50	6.40
USD-SGD	1.42	1.44	1.42	1.42	1.42

Forecasts – Gross State Product

Gross State Product Forecasts

	2014/15	2015/16	2016/17
%	(f)	(f)	(f)
NSW	2.5	2.7	2.8
VIC	2.3	2.5	2.8
QLD	2.0	4.0	4.5
SA	2.0	1.7	1.9
WA	3.3	2.0	3.2
TAS	1.8	2.5	2.0
NT	4.5	4.5	3.0
ACT	1.3	1.5	2.3
AUST	2.4*	2.7	3.1

* Actual



QLD GSP pushed significantly higher by LNG exports