KPMG

Quarterly Economic Outlook

Global and Australian Forecasts
KPMG Economics

—

June 2017

Contents

Executive Summary

Global economy

- Led by growth in both emerging market and developing economies, global economic conditions have improved moderately in Q1 2017. Growth in advanced economies, however, remains below trend.
- Economic growth in Europe continues to be uneven across the member countries and aggregate economic growth of just 0.5% q/q was recorded in the Euro area (EA-19) in Q1 2017.
- A second GDP estimate for US revised economic growth up from 0.7% to 1.2% in Q1 2017 reinforcing the tightening stance the US central bank has been taking on interest rates. However, labour market figures in May came in ahead of expectations with unemployment now 4.3% - down 0.1% from the previous month.
- The major Asian economies of Japan and China grew by 0.3% q/q and 1.3% q/q, respectively.
- Commodity prices have also seen an uptick, although recent volatility has seen oil prices fall.
- Headline measures of inflation in most countries are heading up towards their respective 'target range' although core inflation remains low.
- Equity markets and bond yields have, in general, risen reflecting improved economic conditions and an easing of uncertainty.

Australian economy

- The government is now forecasting the Budget will achieve a surplus by 2020-21
- The unemployment rate fell 0.2 percentage points to 5.5% in May, although labour market conditions remain mixed (and diverge across the country).
- Inflation rate is slowing bouncing back to RBA target rate. Headline inflation picked up to 2.1% y/y in Q1 2017 with underlying inflation hovering around 1.9% y/y (trimmed mean basis).
- Consumer sentiment in Australia remains subdued, declining 1 point in May to 98, down from 99 in April.

Australian forecasts

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
GDP (Real)	2.7%	1.7%	2.3%	2.6%	2.5%	2.7%	2.8%
Inflation (1)	1.0%	1.3%	1.6%	1.7%	1.7%	1.8%	1.9%
Unemployment, % (1)	5.7%	5.9%	6.1%	6.1%	6.0%	5.8%	5.5%
A/US (1)	0.746	0.756	0.756	0.759	0.765	0.771	0.776

(1) = Average through the year

Global Outlook

Financial conditions remain relatively loose in line with the current stance of monetary policy but this is expected to head towards tighter territory with the gradual glide towards policy 'normalisation' – shifting gears from 'accommodative' to 'neutral'. Of late, the USD has traded at a lower range vis-à-vis key trading partners as the market unwinds positions from the over optimism in expected expansionary fiscal stimulus. The Euro was weaker against the dollar prior to the French Presidential elections but has strengthened with the landslide victory of the pro-Euro globalist Emmanuel Macron. Sterling has rallied back up to around £1.30/USD and is also trading higher against all the majors shrugging off some of the Brexit blues. The Yen, which is often viewed as a safe haven asset, appreciated significantly since the start of the year in conjunction with geopolitical tensions but has retreated back to around ¥110 to the U.S. dollar by mid-June

Risks to the downside are ever present. Key elections in Europe loom and geopolitical uncertainty is still a primary concern in markets. Geopolitical risks remain even though recent elections in Europe (Austria, The Netherlands and France) have signalled a rejection of isolationist policies and provided some upside to economic sentiment. Uncertainty in the U.K. has picked-up with the UK for elections results and the possibility of a 'hard Brexit' still on the cards. Negotiations on Brexit remain complicated with Britain's Brexit Minister David Davis accusing the European Commission of 'trying to bully the British people' with a hefty €100 billion bill for leaving the bloc and European Commission President Jean-Claude Juncker indicating that talks will be 'tough'.

Attention now turns to the elections in Germany (which must be held before 22 Oct 2017) and Italy (which must be held no later than 20 May 2018). Financial markets are most concerned with the banking sector in Italy and any fallout between the Italian authorities and the European Commission will likely put further strain on European unity. Across the globe, tensions in Turkey, Syria and North Korea have contributed to increased risk and uncertainty. After wide fluctuations in global oil prices (between mid-$50 to mid-$40 a barrel), OPEC (along with Russia) are in discussion again to renew production agreements which will place upward pressure on prices in the face of strong U.S. shale production. Credit build-up and the web of wealth management products (WMP) are raising concerns about the health of the financial system in China.

Chart 3
Output Gap by Country

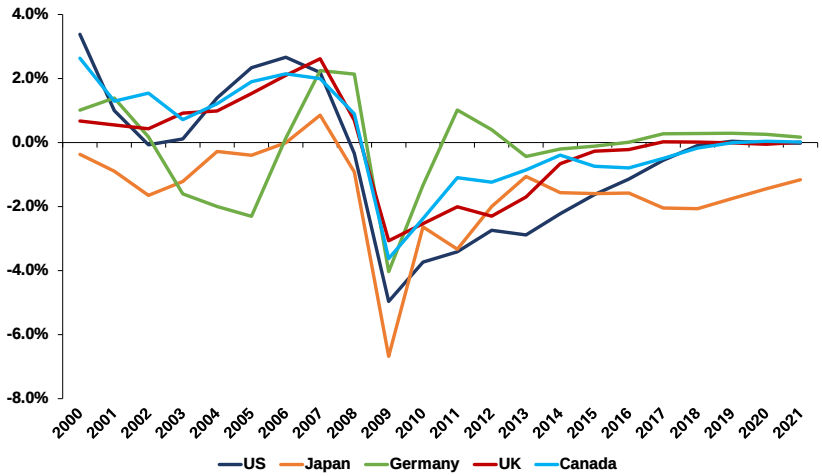
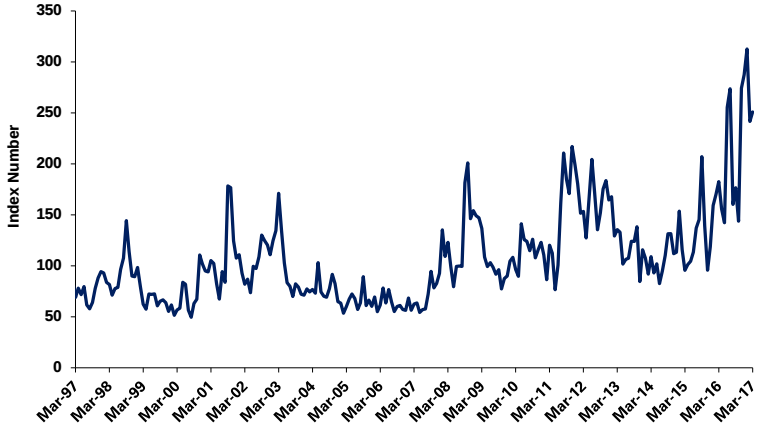


Chart 4
Global Economic Policy Uncertainty Index



Source: KPMG Economics, Davis, www.policyuncertainty.com

Global Outlook

In the U.S., President Trump's 'reflation trade' that excited the markets in the early part of the year has started to unwind as a result of the administration's seeming inability to deliver on pro-growth policies. Second estimate for economic growth was revised up from 0.7% to 1.2% in Q1 2017, however, this figure is still weak compared to 2.1% recorded in Q4 2016. This deceleration was primarily driven by falls in inventory investment and government spending, and a surge in imports. Disposable personal income and personal consumption expenditures both increased by a mere 0.2%. The labour market has been strengthening with the recent May unemployment rate coming in ahead of expectations at 4.3% - down 0.1% from the previous month. Consumer price inflation, as measure by the Fed's preferred core PCE indicator, still remains subdued and below the Fed's 2% longer-run objective and slightly went down to 1.7% in April.

One recent 'win' for the Trump administration has been the vote in the House to dismantle the Affordable Care Act (Obamacare). The bill still has to be passed in the Senate where, due to ideological differences within the GOP, remains uncertain. The administration also averted a government shutdown till September with a Republican-Democrat agreement in congress. The next big policy reform will be on taxes with White House officials labelling it the 'biggest tax cut' in history. Proposals include slashing the federal income tax rate to 15% for businesses and a one-time tax on earnings that U.S. corporations have parked overseas. Interestingly, President Trump has not pressed ahead with several campaign promises, most notably that of labelling China a currency manipulator. This has in turn had a positive reaction in financial markets. There was also a change in the language at the recent March G20 meeting in Baden-Baden, Germany. The joint communique broke with tradition of endorsing free trade and rejecting protectionism and had no mention at all of climate change.

The U.K. economy slowed to its weakest expansion in 12 months at 0.2% q/q in Q1 2017, down from the initial estimate of 0.3% q/q. This deceleration was predominantly driven by the erosion of household spending power by higher inflation, with other parts of the economy failing to fully compensate. The performance by the dominant services sector - which represents about 80% of output - had been weaker than anticipated expanding by just 0.2% in Q1 2017. The parliamentary elections called on 8 June have created uncertainty and volatility in markets again. The fallout from Brexit is starting to take effect in the capital city with a number of financial institutions indicating that they will possibly be moving hundreds of jobs away from London to other European capitals like Dublin, Frankfurt and Luxembourg in preparation for Brexit.

Chart 5

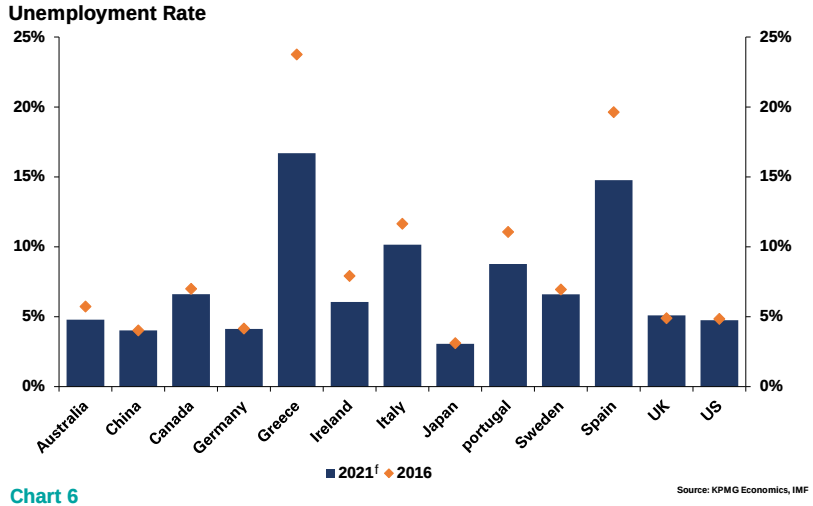
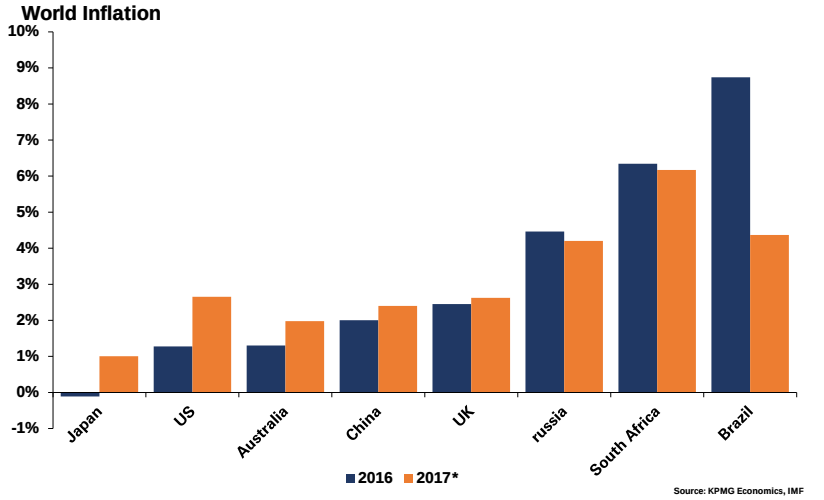


Chart 6



Global Outlook

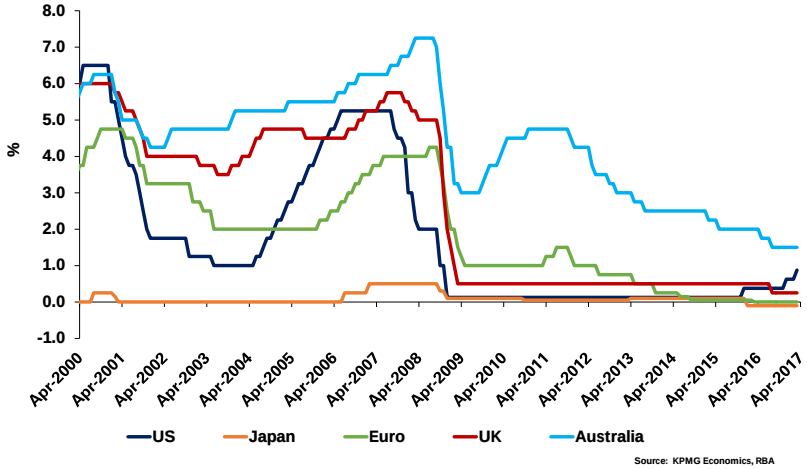
Economic growth in Europe was uneven across the member countries. Flash estimates for Q1 2017 indicate that the Euro area (EA-19) grew by 0.5%. Unemployment rates across the member countries were also varied. The Euro area unemployment rate in April fell 0.2% from the previous month at 9.3% but was down from 10.2% year-on-year. The broader EU-28 had an unemployment rate of 7.8% down from 7.9% the previous month. Price inflation has fallen back to 1.6% after reaching 2% in April although the risk of deflation appears to have dissipated. Looking ahead, the Eurozone's 'hard' and 'soft' business indicators were consistent with the economy continuing to grow at a gradual pace.

Germany remains the economic powerhouse of Europe with economic growth of 0.6% q/q in Q1 2017, up from 0.4% q/q in Q4 2016. Household and state spending together with construction and equipment were strong during the first quarter. Also, external demand is driving the export sector and filtering through the economy. According to the Federal Statistical Office, German exports were up 10.8% (y/y) and imports 14.7% (y/y) in March 2017. The foreign trade balance showed a surplus of €60.3 billion q/q in Q1 2017. Domestic conditions remain strong with the April GfK Consumer Climate Indicator rising to its highest level in since February. There has also been an upswing in manufacturing and construction sentiment among businesses. Data from the Federal Labour Office shows Germany's unemployment continues to trend downwards, hitting a new low of 5.7% in May.

The outcome of the French elections have been positive for the French and European markets with the CAC 40 ending the session over 4% higher after the election results. Macron's win has been viewed as positive for trade and globalisation and also a vote for the Euro. It remains to been seen, however, if President Macron can implement his policies with the legislative elections still to come in June. French Q1 2017 GDP was 0.3% q/q with the Bank of France forecasting GDP to climb back up to 0.5% q/q in Q2 2017 following the election of Macron. The unemployment rate in France remains high at 10.1% with youth unemployment persistent at over 23%.

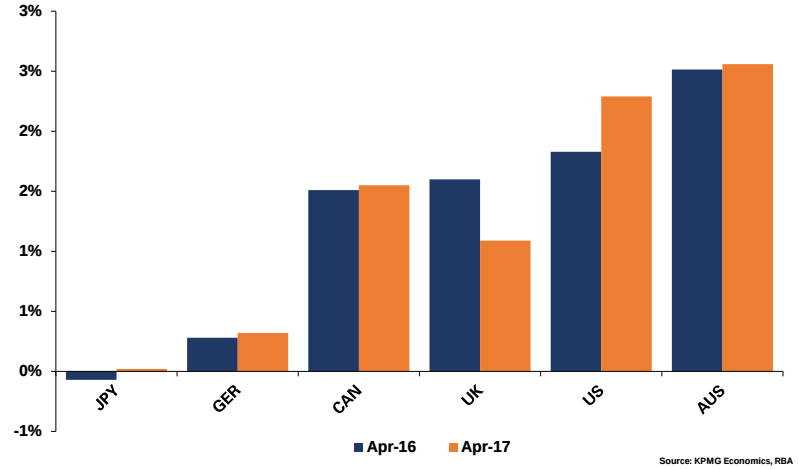
There continues to be instability in the Italian banking sector with concerns over bank debt and non-performing loans. The share of non-performing loans to total bank loans edged up 0.25% to 12.5% in March 2017. The 'far reaching' restructuring plan for Monte dei Paschi de Siena (MPS) was accepted at the beginning of June, however, the viability of other banking institutions remain uncertain. The Bank of Italy has estimated that the Italian economy grew 0.2% q/q in Q1 2017. Moderate growth is expected to continue for the remainder of the year. On the positive side, business activity increased at the fastest rate for almost a decade in April driven by rising demand. Unemployment remains elevated at 11.1% with youth unemployment over 34%. The government posted an improved budget deficit of 2.4% of GDP in 2016 with an improved primary surplus. The European Commission has set a new target budget deficit ratio of 2.1% of GDP for 2017 in order to ensure that Italy's high debt-to-GDP ratio begins to decline in 2018.

Chart 7
Official Interest Rates



Source: KPMG Economics, RBA

Chart 8
10 Year Government Bond Yields



Source: KPMG Economics, RBA

Global Outlook

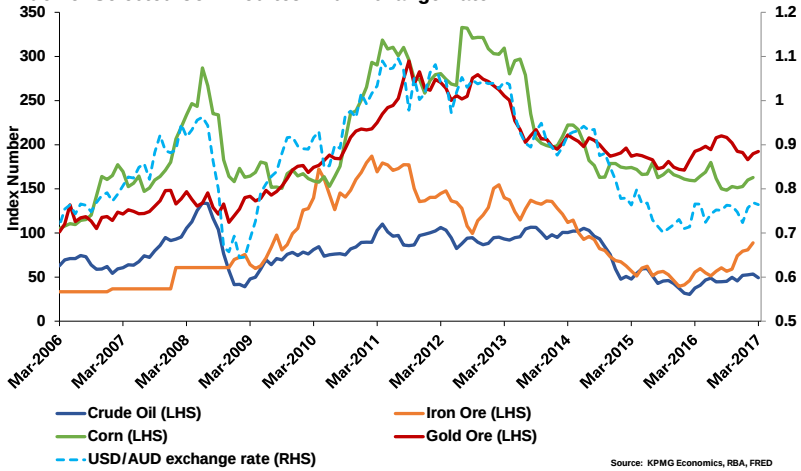
The Japanese economy grew by 0.3% q/q in Q1 2017 led by corporate profits, government spending and net exports. Japan's economy has now experienced five consecutive quarters of positive economic growth. Labour market conditions are tight with unemployment falling further to 2.8% in March, the lowest level since June 1994. Wage and price growth, however, remain weak although headline inflation was in positive territory at 0.4% in April (year-on-year). Looking ahead, a continued rise in exports, business investment and accommodative monetary policy is likely to support modest growth for the remainder of 2017. The BoJ's monetary policy stance remains accommodative with the key interest rate at -0.1% and 'yield curve control' maintaining 10-year JGBs at around 0.0%.

The Chinese economy grew by 1.3% q/q in Q1 2017 (and 6.9% y/y). Growth was supported by increased spending on infrastructure and construction activity. The Chinese Government has set a target for growth of around 6.5% this year. The Chinese economy is expected to lose momentum in the second half of the year, with May's Caixin Manufacturing PMI number fell to 49.6 which suggest a contraction in activity. Manufacturing activity was down, while the Caixin Services PMI was 52.8 in May up from April value of 51.5.

High level of debt continues to present medium-term risk to the Chinese economy although steps are being taken to control this. The PBOC is managing money market liquidity carefully and the money supply (M2) has been decelerating since the start of the year. As a result, credit market conditions have tightened slightly. The PBOC has raised interest rates for its Standing Lending Facility (SLF) loans to 3.3% in March. The base lending rate is unchanged at 4.35%. The Renminbi has continued to devalue against the U.S. dollar trading around 6.8 per dollar in June. Foreign exchange reserves rose in May to US $3.05 trillion for a fourth straight month, as capital controls on moving money offshore and a less bullish U.S. dollar curtailed capital outflows. Heightened risk through wealth management products (WMP) are also raising concerns about the health of the financial system in China. A hard landing still possible although the market appears to have considered this risk.

Chart 9

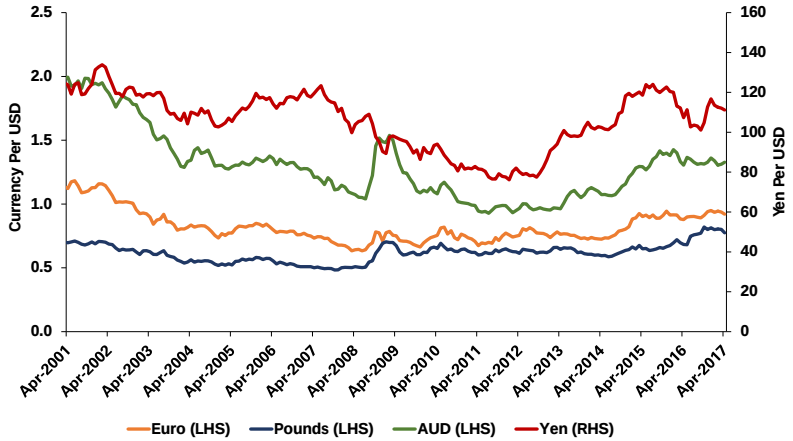
Index of Selected Commodites And Exchange Rate



Source: KPMG Economics, RBA, FRED

Chart 10

Exchange Rates (USD)



Source: KPMG Economics, RBA

Global Outlook

Despite the disruption from the demonetisation of the two highest-denomination bank notes (500 and 1,000 Indian Rupee), the Indian economy powers on with government data projecting GDP will likely grow at an annual rate of 7.1% in 2016-17. The ripple effects from demonetisation have not been as deep and long as some have expected. Economic fundamentals in India remain relatively strong and Finance Minister Arun Jaitley projects 7.2% growth in 2017 and 7.7% in 2018. The ADB has also projected India's growth rate to improve to 7.4% in 2017-18, up from 7.1% in 2016-17. Headline inflation rose to 2.2%% in May down significantly from 3.8% recorded in March 2017. The RBI's benchmark rate (Policy Repo Rate) remains at 6.25%. Implementation of a goods and services tax will commence 1 July 2017. This will replace existing multiple indirect taxes which have been a major barrier with a uniform GST across the country. These reforms are expected to improve business confidence and investment prospects and boost economic growth.

Following the corruption scandal, South Korea have elected a new liberal president, Moon Jae-In. One of the President's first priorities will be on the subject of national security and addressing North Korea's advancing nuclear ambitions. President Moon prefers dialogue, diverging from his predecessor, and a return to the so-called 'Sunshine Policy' could be on the cards. Despite these internal political disturbances and geopolitical tensions especially from North Korea, South Korea's economy expanded by 1.1% q/q in Q1 2017. This growth was mainly propelled by construction sector, which grew by 5.3% q/q in Q1 2017.

The Philippines have named Nestor Espenilla as its next central bank Governor ending months of speculation and uncertainty. Mr. Espenilla, comes from within its ranks the Bangko Sentral ng Pilipinas and is the Deputy Governor in-charge of Banking Supervision. He takes up the position in July 2017. Bangko Sentral ng Pilipinas kept its benchmark rate unchanged at 3.0% in March 2017. The Philippine economy Expanded 6.4% q/q in the first quarter of 2017, down from 6.6% q/q in Q4 2016 on weaker government spending. The growth outlook, however, remains strong backed by strong exports and domestic consumption.

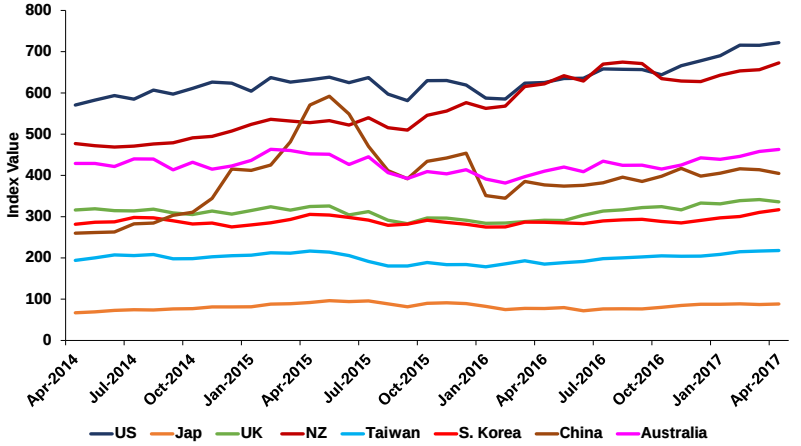
Chart 11

Volume of exports of goods and services

Source: KPMG Economics, IMF

Chart 12

Share Price Index



Source: KPMG Economics, RBA

Global Outlook

Growth in Real GDP

Year End December	2016	2017	2018	2019	2020	2021	2022
OECD	1.8%	2.0%	2.1%	2.0%	1.8%	1.7%	1.7%
Americas							
Brazil	-3.6%	-1.3%	1.0%	2.2%	2.4%	2.4%	2.4%
Canada	1.4%	2.6%	2.3%	1.8%	1.5%	1.4%	1.4%
Latin America	-0.6%	2.3%	2.8%	2.6%	2.5%	2.5%	2.5%
Mexico	2.1%	2.5%	2.5%	2.5%	2.7%	2.8%	2.9%
USA	1.6%	2.1%	2.2%	2.4%	2.4%	2.3%	2.3%
Europe							
EMU	1.7%	1.7%	1.8%	1.6%	1.3%	1.2%	1.2%
France	1.1%	1.3%	1.5%	1.4%	1.3%	1.3%	1.3%
Germany	1.8%	1.8%	1.7%	1.5%	1.2%	1.0%	1.0%
Greece	-0.1%	0.5%	2.7%	2.5%	2.3%	2.3%	2.6%
Ireland	5.2%	3.9%	2.6%	3.3%	2.4%	1.8%	1.4%
Italy	1.0%	1.0%	1.2%	1.2%	1.1%	1.1%	1.1%
Russian Federation	-0.2%	0.7%	1.6%	2.5%	1.7%	1.5%	1.6%
UK	1.8%	1.9%	1.5%	1.6%	1.8%	1.9%	1.9%
Africa	1.6%	2.4%	4.0%	4.0%	3.7%	3.6%	3.7%
South Africa	0.5%	1.3%	2.3%	2.3%	2.3%	2.6%	3.0%
Middle East	3.9%	3.0%	2.5%	2.4%	2.6%	2.9%	2.9%
Asia							
China	6.7%	6.7%	4.7%	4.8%	4.2%	4.1%	4.0%
East Asia	3.5%	4.2%	4.6%	4.6%	4.4%	4.3%	4.3%
Hong Kong	1.9%	2.6%	2.0%	1.8%	1.6%	1.5%	1.5%
Indonesia	5.0%	5.1%	5.0%	5.1%	4.9%	4.8%	4.6%
India	7.5%	7.4%	7.9%	7.2%	6.9%	6.8%	6.8%
Japan	1.0%	0.9%	0.7%	0.5%	0.2%	0.1%	-0.1%
Singapore	2.0%	3.4%	3.9%	2.6%	2.3%	2.9%	3.5%
South Korea	2.8%	3.1%	3.4%	2.9%	2.5%	2.4%	2.6%
Taiwan	1.5%	2.7%	1.8%	2.0%	2.1%	2.4%	2.7%
Vietnam	6.1%	4.9%	4.3%	5.2%	5.9%	5.8%	5.4%
Oceania							
New Zealand	4.0%	3.2%	3.6%	3.4%	2.8%	2.4%	2.3%
World	**3.1%**	**3.4%**	**3.3%**	**3.3%**	**3.1%**	**3.0%**	**3.1%**

Annual Inflation

Year End December	2016	2017	2018	2019	2020	2021	2022
OECD	1.3%	2.6%	2.0%	1.9%	1.8%	1.6%	1.4%
Americas							
Brazil	7.0%	4.5%	4.6%	5.4%	4.9%	3.8%	3.0%
Canada	0.8%	2.2%	1.7%	1.5%	1.4%	1.3%	1.3%
Latin America	3.9%	5.8%	3.2%	3.6%	3.6%	3.2%	2.9%
Mexico	3.2%	4.6%	2.2%	2.2%	2.3%	2.4%	2.2%
USA	1.4%	2.4%	1.9%	1.8%	1.7%	1.5%	1.2%
Europe							
EMU	0.7%	1.8%	1.5%	1.5%	1.3%	1.1%	0.9%
France	0.4%	1.4%	1.4%	1.5%	1.4%	1.3%	1.1%
Germany	1.1%	1.7%	1.4%	1.4%	1.2%	1.1%	1.0%
Greece	-0.1%	0.2%	1.1%	1.2%	1.3%	1.2%	1.1%
Ireland	-0.5%	3.0%	1.2%	1.4%	1.3%	1.2%	1.1%
Italy	0.2%	2.1%	1.8%	1.7%	1.3%	0.9%	0.6%
Russian Federation	5.7%	4.1%	4.4%	4.4%	4.3%	3.9%	3.6%
UK	0.7%	2.4%	2.7%	2.5%	2.1%	1.8%	1.7%
Africa	15.4%	6.7%	6.6%	6.1%	5.5%	4.8%	4.1%
South Africa	5.7%	7.3%	6.1%	4.2%	2.6%	1.5%	1.1%
Middle East	7.4%	7.9%	4.8%	3.7%	3.1%	2.5%	1.9%
Asia							
China	2.2%	2.5%	1.3%	1.4%	0.6%	0.1%	-0.2%
East Asia	2.3%	2.0%	2.9%	2.7%	2.4%	2.0%	1.7%
Hong Kong	2.0%	2.0%	1.9%	1.8%	1.8%	1.7%	1.5%
Indonesia	3.3%	5.0%	4.6%	4.4%	4.2%	3.9%	3.6%
India	3.7%	4.3%	5.4%	4.3%	3.7%	3.2%	2.9%
Japan	-0.2%	0.7%	0.5%	0.6%	0.6%	0.5%	0.4%
Singapore	0.0%	1.5%	1.9%	1.9%	2.3%	2.6%	2.7%
South Korea	1.5%	2.9%	3.1%	2.6%	2.4%	2.2%	2.0%
Taiwan	1.0%	1.2%	1.6%	0.8%	0.4%	0.3%	0.2%
Vietnam	4.5%	3.5%	2.4%	4.9%	5.3%	4.5%	3.6%
Oceania							
New Zealand	0.6%	2.2%	2.1%	2.3%	1.7%	1.3%	1.1%

KPMG

Australian Outlook

Australian Outlook

The Australian economy eked out a 0.3% q/q growth in Q1 2017, slowing from 1.1% q/q in Q4 2016. Annual growth slowed to 1.7% y/y from 2.4% in Q4 2016, the slowest pace since September 2009. The decrease is attributed to weather-related disruptions (including storms and flooding) to exports and a drop-off in dwelling investment (4.4% q/q). Negative weather Impacts are expected to impact GDP growth in Q2 as disruptions continued to negatively impact iron ore and coal exports activity.

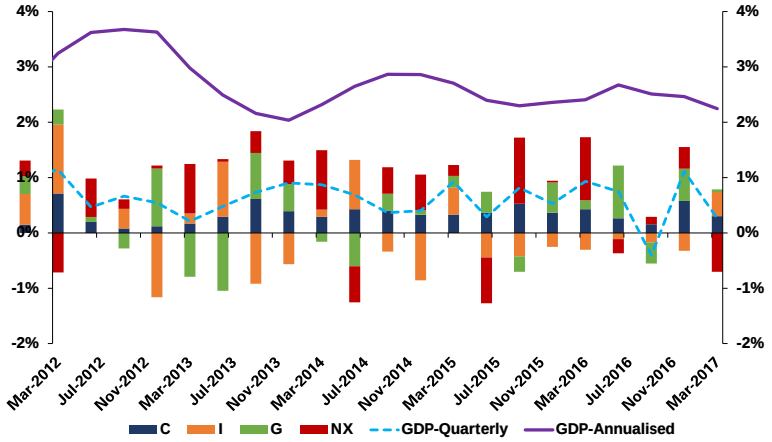
Household consumption was subdued and expanded by only 0.5% q/q, adding 0.3 percentage points to GDP growth for 2017 Q1, government consumption grew by a mere 0.2% q/q in Q1 2017 and added 0.05%. There was an uplift in investment, growing by 2.2% q/q suggesting that the decline in mining investment is almost over and a transition into non-mining related investment is gaining momentum. Overall, Investment contributed 0.4 percentage points towards GDP, while the household savings ratio dipped to 4.7%.

Labour market conditions remain mixed (and diverge across the country). The Australian economy added 42,000 (seasonally adjusted) jobs in May 2017 bringing the total number of employed people to 12.15 million. The unemployment rate fell 0.2 percentage points to 5.5% (seasonally adjusted). Spare capacity and slack still linger in the labour market (specifically with regard to 'under-employment') and the associated unemployment gap remains. Labour costs stay subdued with public sector wage growth outstripping private sector growth - seasonally adjusted public sector wages grew 0.6% q/q in Q1 2017 (2.4% y/y) whilst private sector wages rose by 0.5% q/q (1.8% y/y) in the same quarter.

Headline inflation picked up to 2.1% y/y in Q1 2017 (0.5% q/q) with underlying inflation hovering around 1.9% y/y (trimmed mean basis). Inflation remains contained, driven in part by muted labour costs, and falls under the RBA's medium-term target of 2.5%. The effects of Cyclone Debbie on food prices will start flowing through in the next couple of quarters and it is anticipated that inflation will rise slightly over the next few months. The RBA's official cash rate (OCR) remains accommodative at 1.5%, as a result of a 'no-change' to the cash rate by the RBA Board meeting in June 2017.

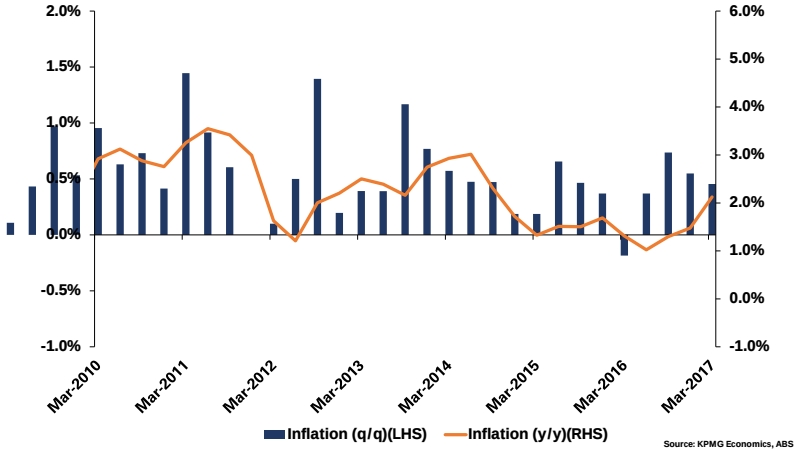
KPMG Economics' forecasts for the Australian economy have not substantially changed since the last Quarterly Economic Outlook with real GDP growth expected to be around 1.7% for FY17.

Chart 13
GDP Growth by Component



Source: KPMG Economics, ABS

Chart 14
Quarterly and Annual Rate of Inflation



Source: KPMG Economics, ABS

Government

The 2017-18 Federal Budget was delivered by the Treasurer on 9 May 2017 and contained a number of key measures. Budget repair is still very much the focus, with the Budget forecasted to move toward surplus by 2020-21 and remain in surplus over the medium-term. The underlying cash deficit is expected to be $29.4 billion (-1.6% of GDP) in 2017-18 and improve over the forward estimates to a projected surplus of $7.4 billion (0.4% of GDP) in 2020-21. The net operating balance is expected to improve from -$19.8 billion (-1.1% of GDP) in 2017-18 to $17.5 billion (0.8% of GDP) in 2020-21. As compared with MYEFO, the Budget suggests a slight reduction in GST receipts in 2019-20 and a slightly worse Underling Cash Balance (UCB) for 2016-17 and 2018-19.

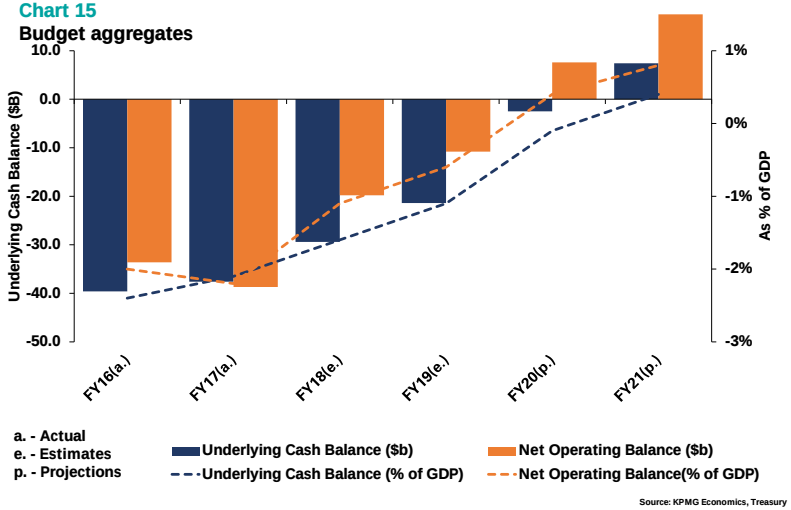
Treasury has forecasted real GDP growth to bounce back to 2.75% in 2017-18 and reach 3% over the forward estimates. Unemployment is expected to be around 5.75% in 2017-18 before falling to 5.5% in 2018-19. Net debt as a share of GDP is expected to peak at 19.8% in 2018-19 and then projected to decline to 8.5% by 2027-28.

The government is committing $75 billion in infrastructure funding and financing from 2017-18 to 2026-27 with the view that this will improve long-run productivity and economic growth. This includes investments in rail ($8.4 billion for Melbourne-Brisbane rail) , road and an equity injection of $5.3 billion to fund the first stage of the Western Sydney Airport - planned for operation in 2026. Regional economies are expected to benefit from the government's Budget priorities supported by the establishment of the Regional Investment Corporation (RIC) and the Regional Growth Fund (RGF), amongst others.

The government has also introduced a number of measures to address the issue of housing affordability. One of the main initiatives is a tax concession for first home buyers within a superannuation scheme. Under this proposal, voluntary contributions of up to $15,000 per year and $30,000 in total will attract concessional tax treatment. KPMG's overall assessment is that the measures will improve housing affordability in Australia, although the markets where the problem is most acute, Sydney and Melbourne, are unlikely to get much relief in the short-term.

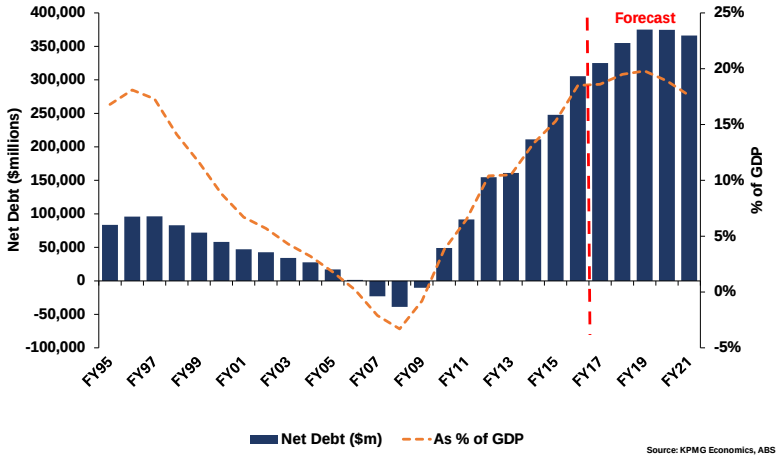
The Budget seeks to introduce a bank levy on authorised deposit-taking institutions (ADIs) with liabilities of more than $100 billion. This is envisaged to raise at least $1.5 billion per year to assist with budget repair. Additional Tier 1 capital and deposits protected by the Financial Claims scheme will be excluded from the levy.

Chart 15
Budget aggregates



Source: KPMG Economics, Treasury

Chart 16
Australian Government Net Debt



Source: KPMG Economics, ABS

Production

Australian industries account for approximately 85% of the value of Australian GDP. Finance and Insurance Services (10.6%), Construction (9.1%), Health Care and Social Assistance (8.2%) and Mining (8.1%) remain the four largest sectors within the Australian economy, accounting for just over 36.1% of industry Gross Value-Added (IGVA). Finance and Insurance Services and Health Care and Social Assistance continue to grow while the Manufacturing sector shrinks as a proportion of domestic production activity, now representing 6.9% of IGVA.

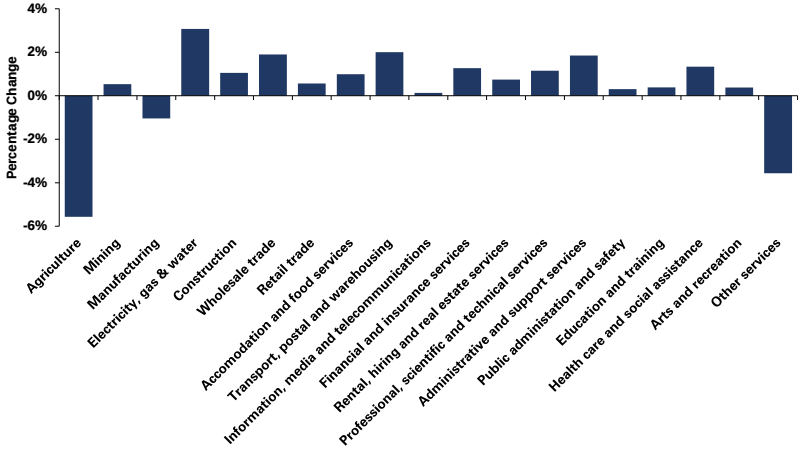
IGVA growth in Q1 2017 was relatively broad-based with 17 of the 20 industries recording positive growth for the quarter. Strongest growth was observed in Electricity, Gas and Water (3.1% q/q), Transport, Postal and Warehousing (2.0% q/q), and Wholesale Trade (1.90% q/q). Manufacturing (-1.0% q/q), Other Services (-3.6% q/q), and Agriculture (-5.6% q/q) all experienced falls in output over the quarter. Cyclone Debbie contributed to the fall in Agricultural output with its impact expected to drag on into Q2 or Q3 2017. Treasury expects the overall impact of Cyclone Debbie to reduce real GDP growth 0.25 of a percentage point in Q2 2017.

ABARES latest agricultural commodities report (March 2017) forecasts a drop in the gross value of crop production by 11.3% to $30 billion in 2017-18 - this follows an increase of 20.2% in 2016-17. The decrease is a consequence of favourable seasonal conditions in 2016 (which saw a record production of wheat and barley) and unfavourable weather conditions in Q1 2017. Farm production is forecasts to increase 3.9% and livestock production 4.4% in 2017-18.

The Department of Industry, Innovation and Science (DIIS) anticipate Australia's metallurgical coal production to increase by 3.4% to 196 million tonnes (Mt) in 2016-17 and remain at around similar levels (198 Mt) in 2017-18. Coal production is expected to increase at an average annual rate of 1.4% till 2021-22. Iron ore export volumes (Australian iron ore industry is export-oriented with 85-90% of production exported) are also forecasts to grow by 8.2% to 850 Mt in 2016-17 and 890 Mt in 2017-18, supported by productivity improvements and capacity expansions.

Chart 17

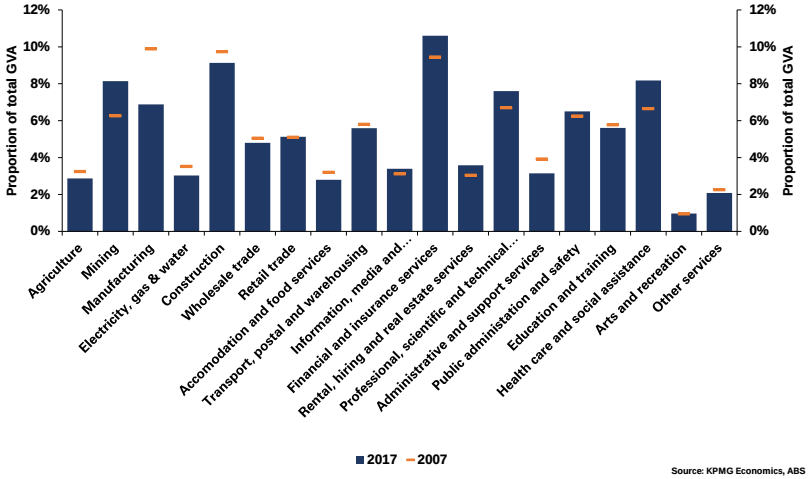
Gross Value Added Growth, March Quarter



Source: KPMG Economics, ABS

Chart 18

Share of Gross Value Added by Industry, 2007 vs. 2017



Source: KPMG Economics, ABS

Consumption

Household consumption expenditure grew 0.5% q/q in seasonally adjusted terms in Q1 2017, and 2.5% on a rolling 12-month basis. Of the states and territories, Victoria recorded the highest annual household consumption growth, up 0.71% q/q over Q1 2017 and 3.0% y/y. This was followed by South Australia with growth of 0.48% q/q in Q1 2017 (2.51% y/y). NSW saw growth of 0.7% q/q (2.35% y/y) and Queensland reported household consumption growth of 0.16% q/q (2.1% y/y). Western Australia was the only state and territory to see negative growth of -0.1% q/q in Q1 2017.

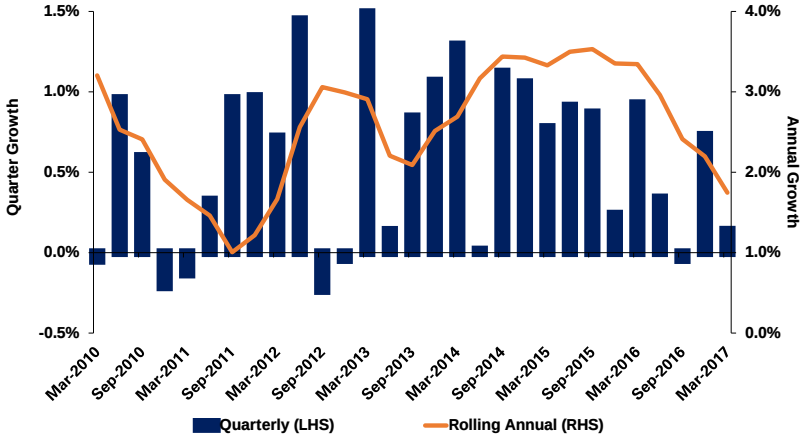
Retail trade growth has been on the downtrend since 2015. Q1 2017 figures indicate that retail sales grew by only 0.1% q/q and, in fact, dipped slightly (-0.1%) in March from the previous month. Queensland and the Northern Territory reported falls of 1.0% q/q and 0.6% q/q respectively, possibly due to weather related events. South Australia recorded the highest quarterly growth rate of 1.1% q/q. The weaker than expected retail numbers highlight the downside risks in consumer spending and the broader economy.

The category that saw the strongest growth was food retailing growing by 0.6% q/q in Q1 2017. This was followed by household goods retailing (0.4% q/q) and other retailing (0.4% q/q). Department store retail was flat. On the downside, clothing, footwear and personal accessory retailing experienced negative growth in the March quarter, down 1.0% q/q.

The current debate within the retail market surrounds the slowdown in bricks-and-mortar (traditional) retail with speculation of a recession in consumer spending as a result of depressed traditional sales volume. The counter argument is that consumers have shifted preference to online and offshore retail sales thereby picking up the slack in the retail market. The NAB Online Retail Sales Index, for instance, shows that online retail sales growth accelerated to 11.7% y/y in January 2017 and consumers spent approximately $21.8 billion. This, however, still only represents a small proportion of spending in the retail market.

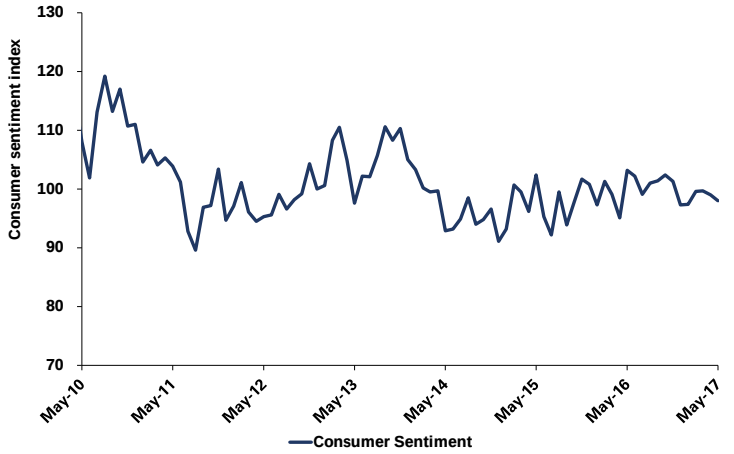
Consumer sentiment, as measured by the Westpac-Melbourne Institute Index of Consumer Sentiment, declined 1.0% in May to 98.0 from 99.0 in April. The Index has been hovering around 100 mark since February, reflecting a balance of optimists and pessimists within the 1,200 survey respondents. This was, however, a surprisingly resilient result given the recent attention on housing affordability concerns, labour market conditions and geopolitical uncertainty. The main drag on the Index were consumers' concerns about 'economic conditions in the next 12 months' and 'economic conditions in the next 5 years' which fell 6.5% and 2.7% respectively. Consumer attitudes towards spending also fell with the 'time to buy a major household item' sub-index down 2.9% from the previous month.

Chart 19
Retail Sales, Australia



Source: KPMG Economics, ABS

Chart 20
Consumer Confidence



Source: , Westpac-Melbourne Institute, KPMG Economics

Investment

Housing affordability has been thrust back into the spotlight with a suite of measures in the recent Federal Budget 2017-18 targeted at improving housing affordability. Despite slight improvements - the HIA New Home Sales indicator declined 1.1% m/m in March and the HIA Housing Affordability Index improved by 1.9% q/q in the quarter - housing affordability still remains a challenge and the issue is most pronounced in the major capital cities of Sydney and Melbourne.

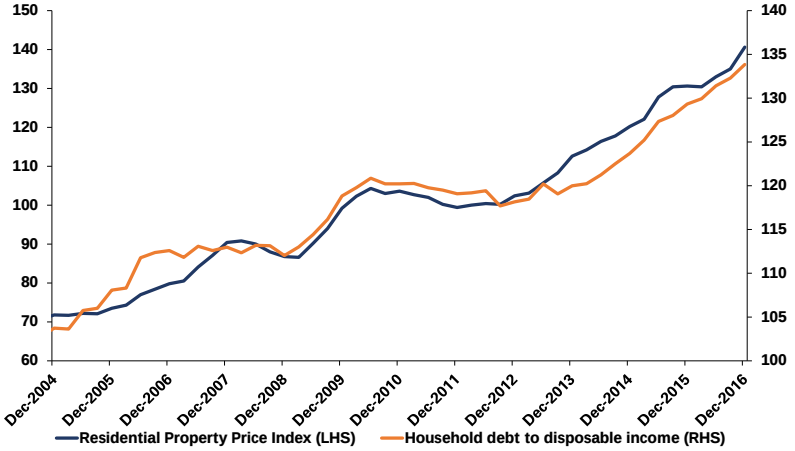
Following a growth of 2.6% in the previous quarter, gross fixed capital formation declined by -0.6% q/q (seasonally adjusted) in the March quarter of 2017. Year-on-year, gross fixed capital formation was down -0.4% on a seasonally adjusted basis for March 2017.

Looking ahead, the ABS Survey of Private New Capital Expenditure is indicating that spend will continue to trend lower over the coming 12 months – this has been a common theme since 2012-13. Estimates for total capital expenditure (Capex) for 2017-18 is $80.6 billion, 3.9% lower than the estimate for 2016-17. The mining sector was the main contributor to the slide in Capex, declining 20%. Investment in the manufacturing sector is also estimated to fall for 2017-18 at $6.5 billion, 1.2% lower than the estimate for 2016-17. As a consequence, estimates for spend on Buildings and Structures is 7.0% lower for 2017-18 then 2016-17. 'Other selected industries' have picked up a bit of the slack with Capex estimates for 2017-18 at $46.8 billion, 8.3% higher than the estimate for 2016-17.

In terms of leading indicators, business confidence has been relatively strong and business sentiment is gaining momentum in the near-term. The NAB Business Confidence Index surged to 13 in April from 6 in March 2017, indicating expected improving conditions by firms and the business community. Small business sentiment also rose sharply in Q1 2017 while services and manufacturing PMIs are in the expansionary range (above 50) and increasing at a positive rate. Non-mining business investment is expected to pick-up along with strong business conditions and low costs of debt.

Chart 21

House Prices and Household Debt

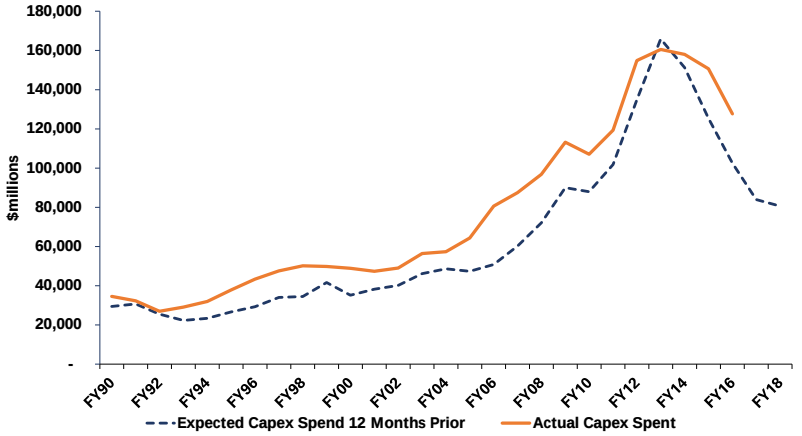


Source: KPMG Economics, ABS, RBA

Chart 22

Private new capital expenditure

Actual and expected, Original



Source: KPMG Economics, ABS

Labour Market

Indicators of the strength of the labour market remain mixed since the last KPMG Quarterly Economic Outlook. The Australian labour market is still undergoing a structural shift in its composition, with a significant number of people being employed on a part-time and causal basis. At the end of May 2017, the domestic labour force comprised around 8.3 million full-time employed persons (approximately 68% of the total employed labour force) and 3.9 million part-time employed persons (approximately 32% of the total employed labour force). The proportion of full-time employed persons has been trending downwards.

The unemployment rate fell by 0.2 percentage points to 5.5% (seasonally adjusted) in May 2017, down from the previous month and its lowest since February 2013. The Australian economy added 42,000 jobs (ahead of expectations) in May 2017 bringing the size of the labour force to around 12.2 million employed people.

Of note is that full-time employment increased by 52,063 in the month and part-time employment decreased by 10,105 indicating that the reversal in April – an decrease in full-time (and an increase in part-time) employment - was not persistent. Labour market conditions have generally firmed, however the trend of a declining proportion of full-time-to-total employed workers still remains. The underemployment rate softened by 0.1 points in May to 8.8% from the February reading. Underemployment remains an issue and may be an increasing problem for many in the labour force.

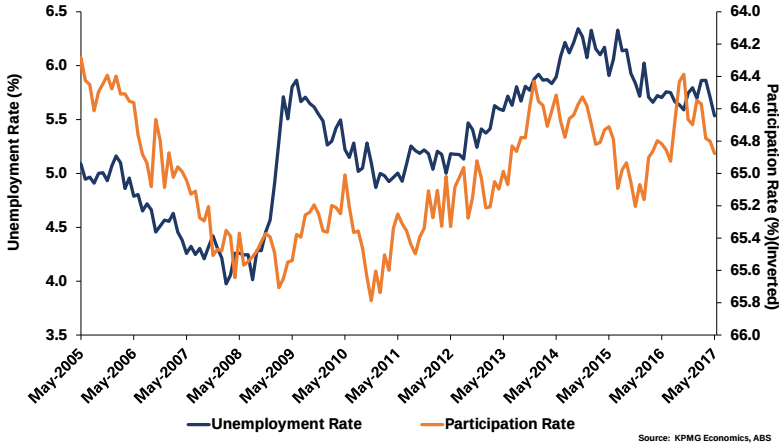
The labour force participation rate marginally increase by 0.1 percentage point to 64.9% in the month of May 2017. Since the start of the year, the labour force participation rate has been edging up, a positive signal in the labour market as discouraged workers return and first-time participants enter the labour force. The labour force participation rate is currently at its highest point since March 2016.

Forward-looking indicators signal moderate growth in the labour market for the remainder of 2017. The ANZ Job Advertisements Series showed a 0.4% m/m increase in the number of job advertisements in May 2017, and a 7.4% increase year-on-year. This suggests encouraging and improving labour market conditions in Australia, closing the gap on spare capacity in the labour market. These improvements, however, are modest and wage growth is likely to remain subdued for the remainder of 2017 as a consequence.

KPMG maintains its forecast for the unemployment rate at around 6% for FY18.

Chart 23

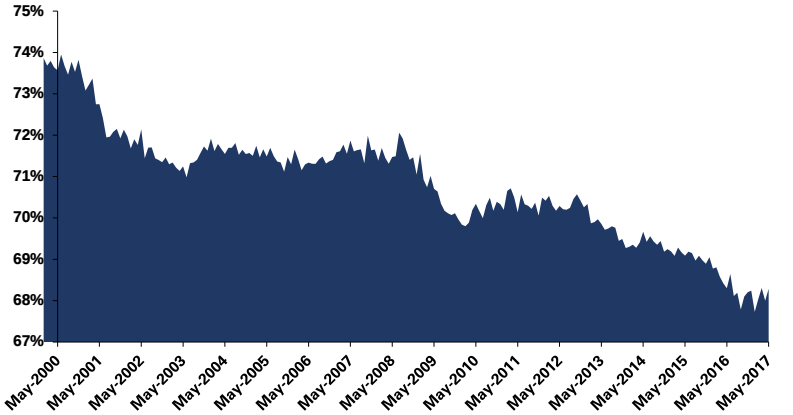
Unemployment and Participation Rates



Source: KPMG Economics, ABS

Chart 24

Proportion of full-time to total Employment



Source: KPMG Economics, ABS

Net Exports

Australian exports are expected to remain strong over the year supported by healthy demand for commodities in resources and energy as well as a competitive Aussie dollar. The rise in commodity prices since the start of the year has begun to dissipate but strong demand is still expected to hold sway. Preliminary estimates for the May 2017 Index of Commodity Prices indicates that the Index decreased by 6.8% (on a monthly average basis), following a 4.4% decline in April 2017 in SDR terms. The decline was led by decreases in iron ore, coking coal and thermal coal prices. In Australian dollar terms, the Index decreased by 4.5% in May 2017 from 134.5 in April 2017. Despite recent decreases, over the past year, the index has increased by 27.1 per cent in Australian dollar terms and is still substantially above the recent trough of 93.3 in December 2015.

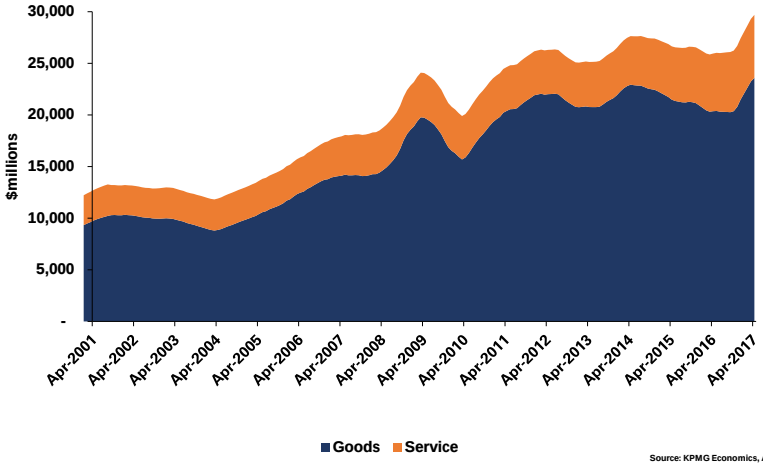
In April 2017, Australia's balance on goods and services showed the trade surplus narrowed 82.0% to $0.6 billion m/m (seasonally adjusted) from $3.2 billion (seasonally adjusted) in March 2017. Notwithstanding the slight decline, Australia has now recorded a trade surplus for the last six months (since November 2016). Exports of goods and services rose 1.3% to $30.6 billion. Export of goods contributed $24.1 billion while export of services contributed $6.27 billion to the trade balance. Import of goods and services fell 0.6% to $30 billion, with imports of goods contributing $23.6 billion and import of services contributing $6.4 billion. Short-term visitor arrivals decreased by 0.7% m/m in March 2017 from 715,700 to 710,800. This followed increases in January (1.1% m/m) and February (0.4% m/m) 2017. The longer-term trend of positive growth rates in visitor arrivals is indicative of a healthy tourism sector. New Zealand (114,500), China (106,500) and the U.S. (62,700) were the largest source of short-term arrivals to Australia.

Australia's net export position is projected to improve with the value of resources and energy exports. DIIS have revised upwards their outlook for Australia's resources and energy export earnings for 2017-18, reflecting strength in prices (particularly for iron ore and coal) and growth in export volumes (LNG). Australia's Terms of Trade (ToT) was up to 109.7 in Q 2017 from 102.9 in Q4 2016 partly supported by commodity prices. KPMG maintains its forecast for the ToT at around 97.0 for 2017.

The Australian dollar has marginally depreciated against the U.S. dollar since February 2017, and is currently trading at around USD 0.75c. On a trade-weighted basis, the Australian dollar is also lower at around 64 in May 2017 compared with 67 in February. An expected further rate hike by the U.S. for 2017 should already be partially priced-in but risks remain to the downside. Combined with the maintenance of the current cash rate by the RBA, the AUD will likely come under pressure over the remainder of 2017. KPMG's forecasts have the AUD/USD exchange rate settling around the USD 0.75c level for the immediate future.

Chart 25

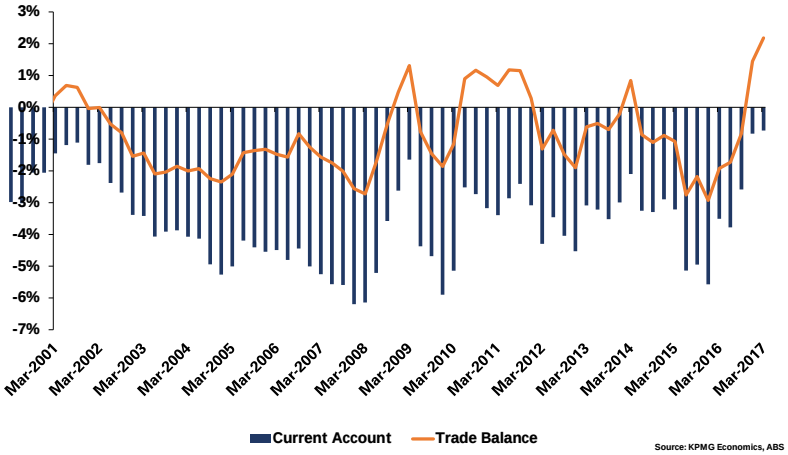
Rolling Annual: Exports by Type



Source: KPMG Economics, ABS

Chart 26

Current Account and Trade Balance



Source: KPMG Economics, ABS

Forecast Assumptions

Changes in key assumptions impacting KPMG's Economics forecasts since November 2016 include:

Global

- a rise in 10-year bond yields in most jurisdictions through 2017
- a tightening in the spread between sovereign bonds and corporate bonds, suggesting the margin for corporate borrowing compresses
- oil prices stablising to trade in a tight range of US$54/bbl to $58/bbl until the end of 2018
- equity prices to retreat from recent high's once the 'sugar hit' from the commencement of the Trump Administration in the US wear's off.

Australia

- residential construction activity to soften in 2018 and 2019 due to a moderation in non-housing construction
- non-mining business investment to continue to steadily rise, although the decline in mining investment will continue to swamp aggregate investment such that negative growth remains in FY18
- household consumption activity to be limited by high debt levels, anemic wages growth and moderate employment growth
- limited fiscal reforms in Australia, thereby keeping the effective corporate tax rate and effective personal income tax rate the same as in FY16, with government spending also to be maintained at levels forecast in the recent MYEFO statement.

Australian Outlook

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
GDP (Real)	2.7%	1.7%	2.3%	2.6%	2.5%	2.7%	2.8%
Private Consumption	2.9%	2.3%	2.3%	2.4%	2.5%	3.1%	3.2%
Investment							
Housing	8.4%	2.3%	2.2%	-1.3%	-1.9%	0.2%	2.3%
Business	-10.7%	-7.3%	-0.7%	5.2%	5.7%	5.2%	4.3%
Government							
Consumption	3.7%	2.9%	1.8%	1.9%	1.9%	2.0%	2.1%
Investment	2.0%	6.2%	-5.7%	-4.2%	-3.5%	-0.2%	0.9%
Total domestic demand	1.3%	0.9%	1.5%	2.1%	2.2%	2.8%	3.0%
Export volumes	6.7%	7.2%	6.4%	5.2%	4.8%	3.2%	4.0%
Import volumes	-0.3%	3.2%	2.3%	3.0%	3.0%	4.1%	4.8%
Inflation (1)	1.0%	1.3%	1.6%	1.7%	1.7%	1.8%	1.9%
Real Personal Disposable Income	1.6%	1.2%	2.8%	2.8%	3.0%	3.0%	2.8%
Unemployment, % (1)	5.7%	5.9%	6.1%	6.1%	6.0%	5.8%	5.5%
Government Balance as % of GDP	-2.3%	-2.4%	-1.5%	-1.0%	-0.9%	-0.9%	-1.0%
Govt. debt as % of GDP	-4.4%	-1.2%	0.1%	0.6%	0.8%	0.8%	0.9%
Current account as % of GDP	-4.4%	-2.1%	-1.4%	-1.2%	-1.1%	-0.9%	-0.7%
A/US (1)	0.746	0.756	0.756	0.759	0.765	0.771	0.776
Terms of Trade (1)	96.7	97.0	96.2	95.3	95.0	94.6	94.0

(1) = Value at end of the year

KPMG

State Summary

State Summary

Economic performance across the states and territories continue to vary widely. The impact of shifts away from mining investment and towards resource exports is being felt most strongly in Queensland and Western Australia. Victoria, South Australia and the Northern Territory on the other hand, have been recording strong rates of growth. New South Wales remains the country's top contributor to domestic final demand with a share of approximately 31%, followed by Victoria (24%), Queensland (19%) and Western Australia (11%).

Economic activity in the Northern Territory, as measured by State Final Demand, slowed to 0.1% q/q in the March quarter 2017 following an increase of 3.8% q/q in the December quarter 2016. Year-on-year, the Northern Territory's State Final Demand increased by 10%, the highest among the states and territories. This was driven by household final consumption expenditure and gross fixed capital formation for investments in non-dwelling construction.

The Australian Capital Territory registered second-highest year-on-year growth rates among the state and territories. In the December quarter of 2016, State Final Demand in the Australian Capital Territory grew by 0.5% q/q and 5% y/y. Growth was supported by higher government consumption and service exports (in particular, higher education). Household final consumption and public gross fixed capital formation drove Victorian growth with State Final Demand growing by 1.2% q/q in the December quarter 2016 and 4.5% y/y.

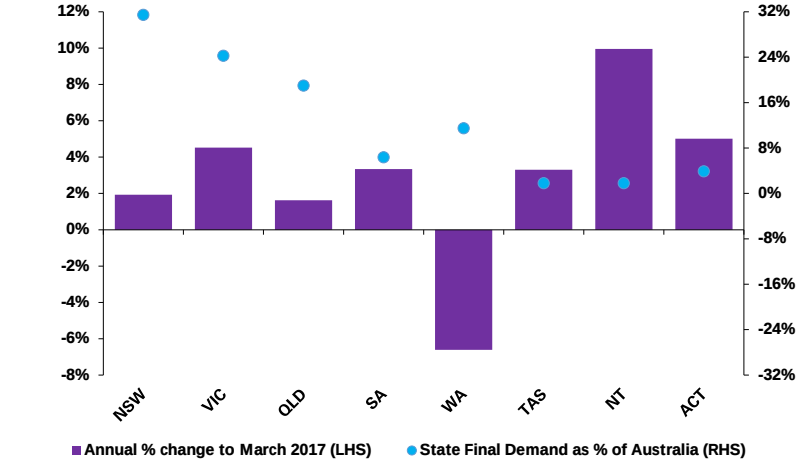
NSW State Final Demand registered no growth in the first quarter to settle at 1.9 % y/y. Queensland, South Australia and Tasmania registered State Final Demand growth rates of approximately 0%, 1.4% and 0.9% quarter-on-quarter in the March quarter and 1.6%, 3.3% and 3.3% year-on-year respectively.

Western Australia was the only state to record negative growth. State Final Demand has been trending downwards since 2012 reflecting the challenges ahead for an economy transitioning away from the mining and resources boom. For the March quarter 2017, Western Australia's State Final Demand decreased -0.2% q/q but decreased -6.6% y/y.

Victoria leads the way on population growth with an annual increase of 2.1%, while Tasmania and Northern Territory remain on the low side with annual growth of 0.5% and 0.3%, respectively.

Chart 27

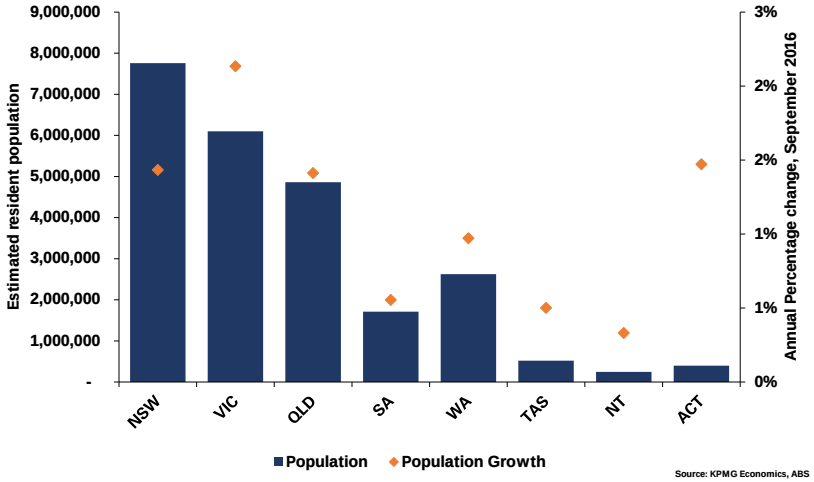
State Final Demand, March 2017



Source: KPMG Economics, ABS

Chart 28

Estimated resident population by State



Source: KPMG Economics, ABS

State Summary

Australia's population was a little over 24.22 million in the September quarter of 2016. The most populous state was New South Wales with an estimated 7.76 million – 32% of Australia's total population. The next most populous jurisdictions were Victoria (6.10 million), Queensland (4.86 million), Western Australia (2.62 million), and South Australia (1.71 million). These five states account for 95% of Australia's total population. Approximately 520,000, 246,000 and 398,000 people reside in Tasmania, the Northern Territory and the Australian Capital Territory respectively – a combined representation of 5% of Australia's population.

Victoria tops the ranks when it comes to population growth, with year-on-year growth of 2.1% in the September quarter of 2016, reflecting the economic opportunities and attractiveness of the state. Strong economic growth in the Australian Capital Territory as well as the expansion in the Public Administration and Safety sector - as a result of a lift in the freeze in Australian Public Service jobs in mid-2015 - have contributed to population a growth rate of 1.5% y/y in the September quarter 2016. New South Wales and Queensland had population growth rates of 1.4% each while the Northern Territory (0.3%) and Tasmania (0.5%) recorded the lowest population growth rates in Australia.

The unemployment rate for Australia fell 0.2 percentage points to 5.7% in April 2017, accompanied by a steady participation rate of 64.8%, both in seasonally adjusted terms. From a jurisdiction perspective, in Q1 2017, the Northern Territory and the Australian Capital Territory have the lowest unemployment rates, at 3.8% and 4.1% respectively. At the other end of the spectrum South Australia, Queensland and Victoria have the highest rates of unemployment at 7.3%, 6.3%, and 6.1% respectively.

Still of great concern are the rates of unemployment for people aged 15 year to 24 years ('youth unemployment'). Latest numbers (April 2017) show the unemployment rate for this cohort (Australia-wide) is 12.8%, a rate more than double the broader economy-wide unemployment rate of 5.7%. Of the states and territories, South Australia recorded the highest youth unemployment rate in Q1 2017 at 16.8% q/q. This was followed by Western Australia (15.1% q/q) and Queensland (14.1% q/q). The Northern Territory reported the lowest unemployment rate for 15 to 24 year olds at 8.8% q/q in Q1 2017.

Chart 29
Unemployment by State, March Quarter, 2017

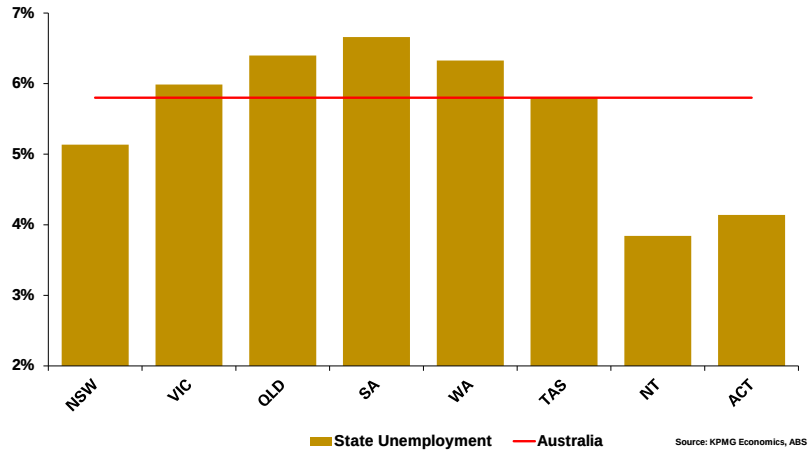
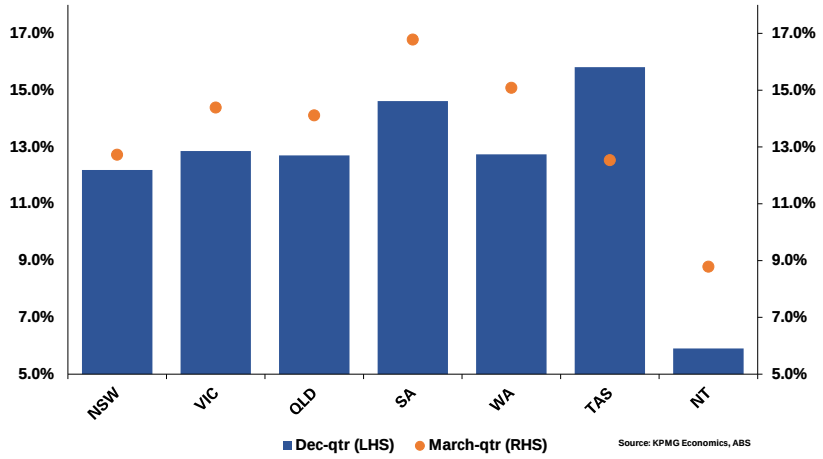


Chart 30
Youth Unemployment by State, March Quarter, 2017



State Summary

Comparing the rate at which debt has been increasing for various government levels, the State Government debt has been growing at a faster pace than either Commonwealth Government or Local Government debt.

Tasmania's public sector debt increased the most from FY15 to FY16 at 19% followed by South Australia at 12%. Queensland and New South Wells recorded the least growth in public debt at 4% and 8% respectively. On the other, Northern Territory did not register any additions to public debt, however, in terms of debt per head, Northern Territory leads the way at close to $27,000.

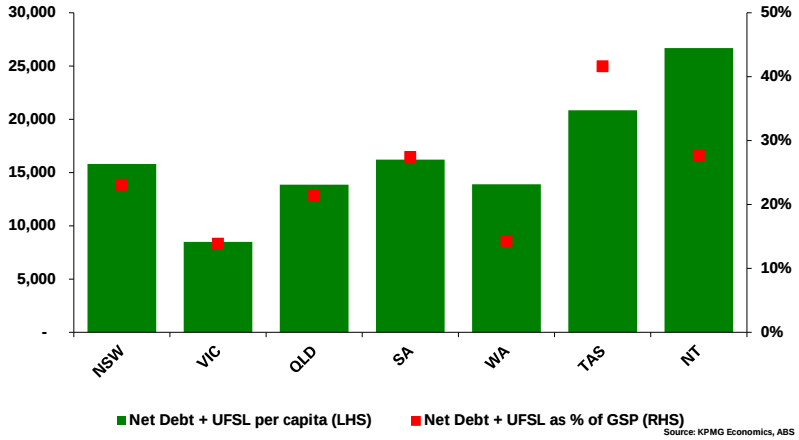
On the ability to pay, Tasmania remains in a very distressing state. Combined net debt and unfunded superannuation liabilities of Tasmania's State and Local Government Stood at about 41% of the GSP at the end of FY16, an increase from 35.6% at the end of FY15. On the other hand, given how larger and deeper the economies are, Western Australia and Victoria have a relatively better capacity to pay at 13.9 % and 14.3% to GSP, respectively.

Prices and wages vary considerably across capital cities in Australia in accordance with market forces. Highest price growth was seen in NSW (2.4%) and the ACT (2.3%) with the Northern Territory (0.5%) and Western Australia (1.0%) registering the lowest price increases. Year-on-year price inflation in Queensland and Western Australia remain below the Reserve Bank of Australia's Target Band for Inflation (being between 2% and 3%), reflecting spare capacity and a decline in mining activity.

Wage growth has also remained sluggish. Wage inflation was expectedly low in Western Australia (up 1.2% y/y in March 2017) and Queensland (1.9% y/y) but also in the ACT (up 1.8% y/y). Surprisingly wage growth was strongest in South Australia (2.2% y/y) and Tasmania (2.3% y/y) which have above average unemployment rates.

Chart 31

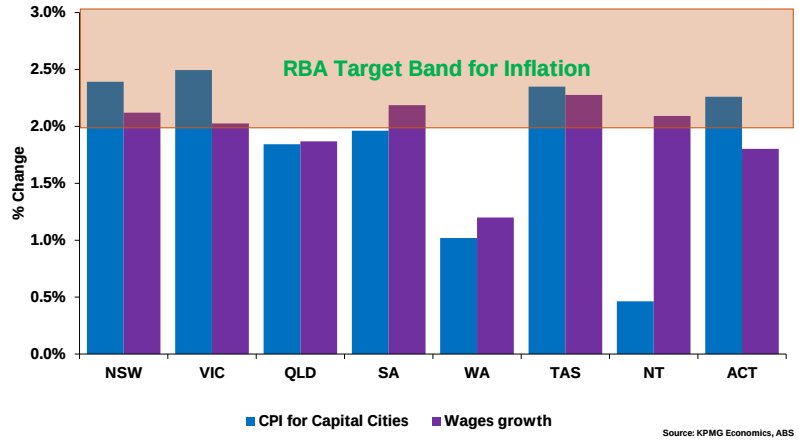
Net Debt and Unfunded Superannualtion Liabilities, $ per capita and % of GSP



Source: KPMG Economics, ABS

Chart 32

CPI and Wages Growth, 12 Months to March 2017



Source: KPMG Economics, ABS

State Summary

There were approximately 226,000 new dwellings approved to be built in Australia over the 12 months to the end of March 2017. On average, this reflects an approval rate of just over 830 new dwellings per 100,000 residents although this rate varies considerably across the states and territories. The Australian Capital Territory recorded the highest approval rate relative to its population with just over 1,370 approvals per 100,000 residents over the past 12 months till March 2017. This was followed by Victoria with 1,120 dwelling approvals per 100,000 residents. Tasmania and the Northern Territory have the lowest dwelling approval rates of 403 and 475 per 100,000 residents respectively.

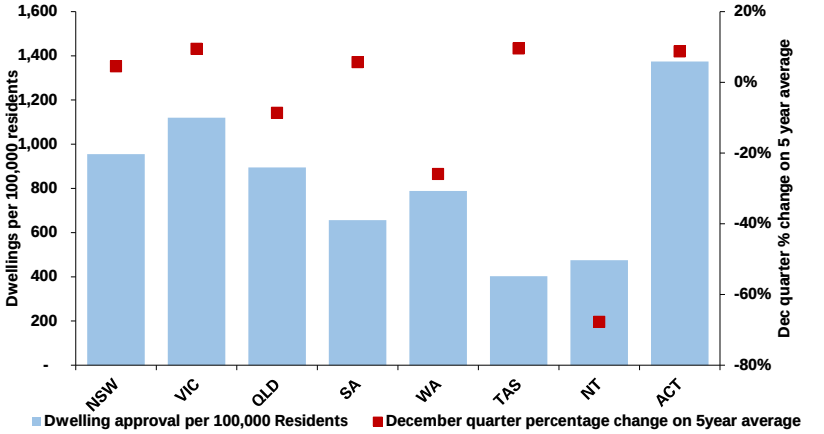
The total value of housing finance commitments across the states and territories equalled nearly $240.5 billion (seasonally adjusted) during the 12 months to March 2017. New South Wales recorded the largest year-on-year value of housing finance commitments in March 2017 at $86.6 billion followed by Victoria ($66.9 billion) and Queensland ($41.3 billion). The Australian Capital Territory and the Northern Territory led the way in terms of housing finance commitment-growth in March 2017 with rates of 15.8% m/m and 15.6% m/m respectively. On the other side of the spectrum, Western Australia and Victoria saw a decline in March 2017 housing finance commitments sliding 2.5% m/m and 2.6% m/m respectively.

Housing affordability remains a key issue amongst Australian households with house prices at record highs across capital cities. House prices and growth rates though vary considerably across the states and territories. The Residential Property Price Index reveals that house price growth has been highest in the states of New South Wales and Victoria with the December quarter 2016 change (over a 5-year average) increasing by 30% and 22% respectively. Western Australia and the Northern Territory, on the other hand, registered negative price growth of -3% and -6% respectively (December quarter 2016 over 5-year average).

House financing also exhibit a positive correlation with house prices. Housing finance commitments have increased (and decreased) along with movements in the residential property price index, resulting in increased borrowing to finance home purchases when prices rise.

Chart 33

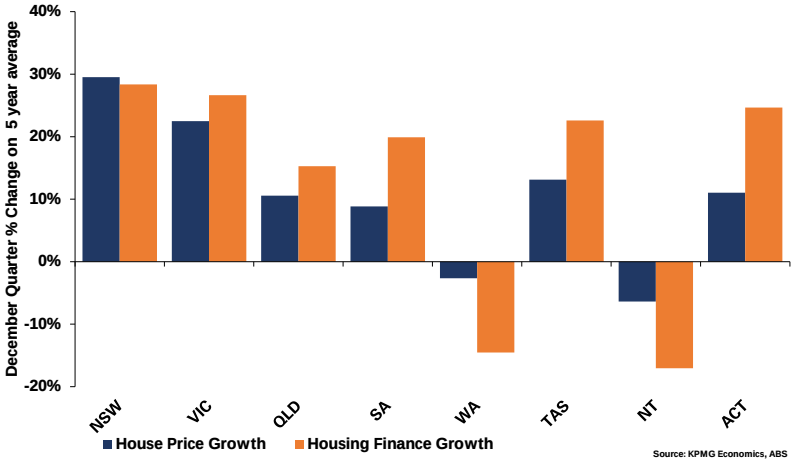
Dwelling Approval per 100,000 residents and percentage change on 5 year average



Source: KPMG Economics, ABS

Chart 34

House Finance commitments and Residential Price Inflation



Source: KPMG Economics, ABS

State Summary

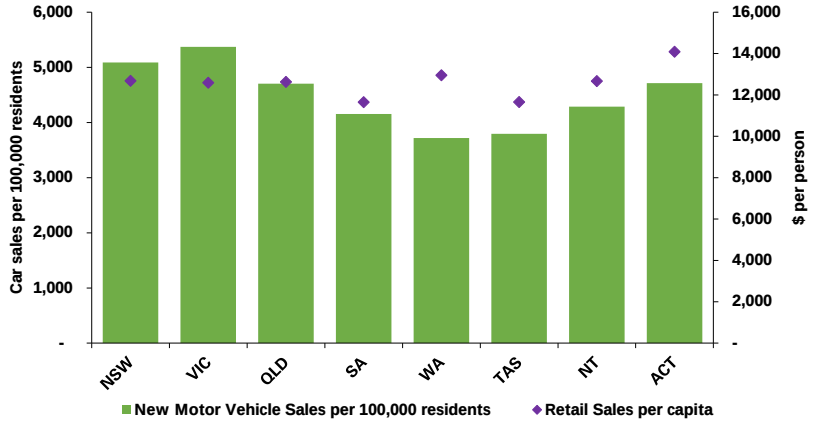
Auto sales have seen modest growth in April 2017. On a year-on-year seasonally adjusted basis, new motor vehicle sales in Australia grew a modest 0.1% (0.3% m/m). South Australia and Victoria recorded the strongest growth rates at 2.6% y/y and 2.2% y/y respectively. The largest decline was in Western Australia (-7.8% y/y) reflecting the state's deteriorating economic situation. The Australian Capital Territory, Tasmania and Queensland also posted declines in new motor vehicle sales of -5.2%, -3.4% and -0.7% y/y respectively.

In terms of volume, new motor vehicle sales were highest in New South Wales with around 395,000 sold in the 12 months to the end of April 2017. This was followed by Victoria and Queensland with around 328,000 and 229,000 sold respectively. Victoria had the most new motor vehicle sales per 100,000 residents at 5,372 with New South Wales second at 5,090 reflecting the relative health of the two state economies. Western Australia registered the lowest number of new motor vehicle sales at 3,719.

Retail sales continue to ease in March 2017, down 0.1% (seasonally adjusted) from the previous month. Queensland continues to be on a downward trend with retail sales falling 1.3% m/m in March 2017 and have not had positive growth since November 2016. The Northern Territory had the largest monthly retail decline of 1.8% reversing the positive growth (0.4%) it had in February 2017. On a per capita basis, the Australian Capital Territory had the retail turnover at around $14,000 per person followed by Western Australia ($12,952) and New South Wales ($12,683).

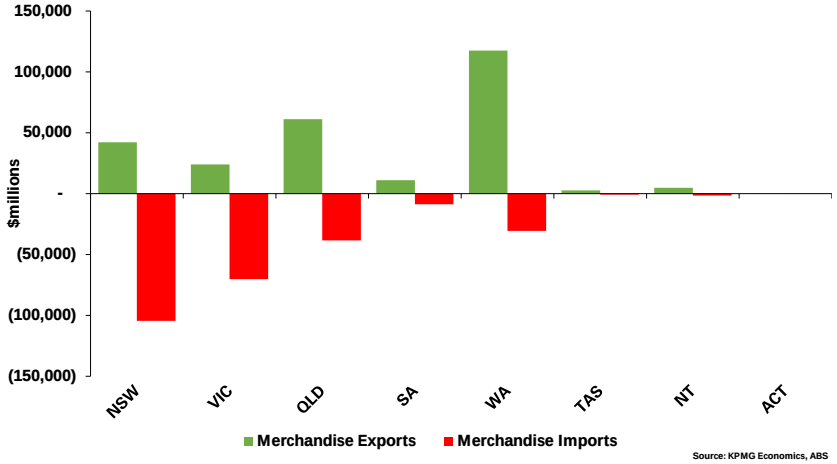
The majority of the states and territories were net exporters of merchandise for the year ending March 2017. The resource states of Western Australia ($86.9 billion) and Queensland ($23.0 billion) posted substantial positive merchandise trade balances over the past 12 months to April 2017. New South Wales and Victoria, in contrast, recorded negative merchandise trade balances and accounted for 69% of all imports into Australia.

Chart 35
Motor Vehicle and Retail Sales, 12 Month to 31 of March 2017



Source: KPMG Economics, ABS

Chart 36
Merchandise Exports and Imports, 12 Months to March 2017



Source: KPMG Economics, ABS

State statistical summary

Indicator	Date	Source	NSW	VIC	QLD	SA
Population	Sep-16	ABS 3101.0, Tab 4	7,757,843	6,100,877	4,860,448	1,710,804
Population as % of Australia	Sep-16	KPMG	32.0%	25.2%	20.1%	7.1%
Population	Jun-16	ABS 3101.0, Tab 4	7,726,924	6,069,636	4,843,303	1,708,135
Crude Birth Rate	2015	ABS.STAT	13.1	12.4	12.9	11.5
GSP	2015/16	ABS 5220.0, Tab 1	531,323	373,624	314,569	101,096
GSP as % of Australia GDP		KPMG	32.0%	22.5%	18.9%	6.1%
GSP Growth (y-o-y)	2014/15 / 2015/16	KPMG	3.5%	3.3%	2.0%	1.9%
GSP per capita	2015/16	KPMG	68,965	61,868	65,169	59,242
Household Consumption	2015/16	ABS 5220.0, Tab 2-8	316,821	232,990	182,808	61,553
Household consumption as % of GSP	2015/16	KPMG	59.6%	62.4%	58.1%	60.9%
Unemployment rate	Mar-17	ABS 6202.0, Tab 4-11	5.1%	6.0%	6.4%	6.7%
Youth unemployment rate	Mar-17	ABS 6202.0, Tab 16	12.7%	14.4%	14.1%	16.8%
Prisoners - All	Dec-16	ABS 4517.0, Tab 13	12,629	6,522	7,746	2,948
Prisoners - Indigenious	Dec-16	ABS 4517.0, Tab 14	3,031	535	2,463	572
Crude Imprisonment Rates per 100,000 residents	Dec-16	ABS 4517.0, Tab 18	211	138	206	219
Ratio of Indigenious to non-indigenious prisoners (RHS)	Dec-16	ABS 4517.0, Tab 19	0.32	0.09	0.47	0.24
Merchandise Exports	L2-mths to March 2017	ABS 5368.0, Tab 15a	41,202	23,691	59,320	10,895
Merchandise Exports a % Total Australian Merchandise Exports	L2-mths to March 2017	KPMG	15.0%	8.6%	21.6%	4.0%
Merchandise Imports	L2-mths to March 2017	ABS 5368.0, Tab 15b	(104,486)	(70,249)	(38,062)	(8,553)
Merchandise Imports a % Total Australian Merchandise Exports	L2-mths to March 2017	KPMG	-40.7%	-27.4%	-14.8%	-3.3%
Net Merchandise Trade	L2-mths to March 2017	KPMG	(63,284)	(46,558)	21,258	2,342
Gross Household Disposable Income per Capita	2015-16	ABS 5220.0 Tab 12-18	50,806	43,259	43,851	43,959
Gross Household Disposable Income per Capita % of Australian Average	2015-16	KPMG	1.07	0.92	0.93	0.93
Property income as % Primary income	2015-16	ABS 5220.0 Tab 12-18	0.13	0.13	0.13	0.13
Gross Household Compensation Income per Capita	2015-16	KPMG	35,000.00	30,500.00	31,600.00	29,700.00
Retail Sales	L2-mths to March 2017	ABS 8501.0 Tab 3	98,396	76,831	61,371	19,935
Retail Turnover as % of Australian Retail Turnover	L2-mths to March 2017	KPMG	32.2%	25.2%	20.1%	6.5%
Retail sales per capita	L2-mths to March 2017	KPMG	12,683	12,593	12,627	11,652
Retail Sales per capita as % of Gross Household Compensation income per capita	12-mths to Sept 16	KPMG	36.2%	41.3%	40.0%	39.2%
Motor Vehicle Sales	L2-mths to March 2017	ABS 9314.0, Tab 2	394,842	327,751	228,687	71,060
New Motor Vehicle Sales per 100,000 residents	L2-mths to March 2017	KPMG	5,089.58	5,372	4,705	4,154
New Private Capital Expenditure - Actual	2015-16	ABS 5625.0, Tab 10 Report	28,155	19,519	24,132	5,248
New Private Capital Expenditure (Actual) as % Total Australia	2015-16	KPMG	22.1%	15.3%	18.9%	4.1%
Dwelling approvals	L2-mths to March 2017	ABS 8731.0, Tab 7	74,105	68,339	43,503	11,231
Dwelling approvals per 100,000 residents	L2-mths to March 2017	KPMG	955.23	1,120.15	895.04	656.47
Housing Finance Commitments - Owner occupation ($'000)	L2-mths to March 2017	ABS 5609.0, Tab 7	86,603,432	66,889,967	41,323,981	13,162,558
Housing Finance Commitments - Owner occupation (% annual growth)	L2-mths to March 2017	KPMG	-0.2%	4.0%	5.7%	8.4%
Average Loan Size to Purchase Existing Dwelling	L2-mths to March 2017	ABS 5609.0, Tab 10c	434	377	317	281
Average Loan Size to Purchase Existing Dwelling (% Annual Growth)	L2-mths to March 2017	KPMG	0.7%	-0.2%	2.1%	3.2%
CPI for Capital Cities	L2-mths to March 2017	ABS 6401.0, Tab 5	2.4%	2.5%	1.8%	2.0%
Wages growth	L2-mths to March 2017	ABS 6345.0, Tab 2b	2.1%	2.0%	1.9%	2.2%
Taxation Revenue	2015-16	ABS 5506.0, Tabs 2-9	29,811	20,027	12,547	4,426
GST Distribution	2015-16	CGC	17,401	12,807	13,024	5,556
GST Distribution Relativities	2015-16	CGC	0.95	0.89	1.13	1.36
Net Debt + UFSL	2015-16	ABS 5512.0, Tabs 591-597	122,645	51,795	67,399	27,735
Net Debt + UFSL per capita	2015-16	KPMG	15,872	8,533	13,916	16,237
Net Debt + UFSL as % of GSP	2015-16	KPMG	23.1%	13.9%	21.4%	27.4%

State statistical summary

Indicator	Date	Source	WA	TAS	NT	ACT
Population	Sep-16	ABS 3101.0, Tab 4	2,623,164	519,783	245,657	398,349
Population as % of Australia	Sep-16	KPMG	10.8%	2.1%	1.0%	1.6%
Population	Jun-16	ABS 3101.0, Tab 4	2,617,074	519,063	245,191	396,294
Crude Birth Rate	2015	ABS.STAT	13.6	11.0	16.4	14.2
GSP	2015/16	ABS 5220.0, Tab 1	255,214	26,039	23,648	36,225
GSP as % of Australia GDP		KPMG	15.4%	1.6%	1.4%	2.2%
GSP Growth (y-o-y)	2014/15 / 2015/16	KPMG	1.9%	1.3%	2.7%	3.4%
GSP per capita	2015/16	KPMG	97,647	50,222	96,904	91,672
Household Consumption	2015/16	ABS 5220.0, Tab 2-8	102,158	17,749	10,466	16,446
Household consumption as % of GSP	2015/16	KPMG	40.0%	68.2%	44.3%	45.4%
Unemployment rate	Mar-17	ABS 6202.0, Tab 4-11	6.3%	5.8%	3.8%	4.1%
Youth unemployment rate	Mar-17	ABS 6202.0, Tab 16	15.1%	12.5%	8.8%	11.9%
Prisoners - All	Dec-16	ABS 4517.0, Tab 13	6,329	569	1,666	441
Prisoners - Indigenious	Dec-16	ABS 4517.0, Tab 14	2,405	92	1,393	105
Crude Imprisonment Rates per 100,000 residents	Dec-16	ABS 4517.0, Tab 18	314	141	923	144
Ratio of Indigenious to non-indigenious prisoners (RHS)	Dec-16	ABS 4517.0, Tab 19	0.61	0.19	5.10	0.31
Merchandise Exports	12-mths to March 2017	ABS 5368.0, Tab 15a	114,999	2,591	4,715	26
Merchandise Exports a % Total Australian Merchandise Exports	12-mths to March 2017	KPMG	42.0%	0.9%	1.7%	0.0%
Merchandise Imports	12-mths to March 2017	ABS 5368.0, Tab 15b	(30,561)	(846)	(1,588)	(8)
Merchandise Imports a % Total Australian Merchandise Exports	12-mths to March 2017	KPMG	-11.9%	-0.3%	-0.6%	0.0%
Net Merchandise Trade	12-mths to March 2017	KPMG	84,438	1,745	3,127	18
Gross Household Disposable Income per Capita	2015-16	ABS 5220.0 Tab 12-18	50,146	40,665	54,796	80,554
Gross Household Disposable Income per Capita % of Australian Average	2015-16	KPMG	1.06	0.86	1.16	1.70
Property income as % Primary income	2015-16	ABS 5220.0 Tab 12-18	0.12	0.14	0.12	0.26
Gross Household Compensation Income per Capita	2015-16	KPMG	40,300.00	23,900.00	44,500.00	55,500.00
Retail Sales	12-mths to March 2017	ABS 8501.0 Tab 3	33,977	6,060	3,113	5,612
Retail Turnover as % of Australian Retail Turnover	12-mths to March 2017	KPMG	11.1%	2.0%	1.0%	1.8%
Retail sales per capita	12-mths to March 2017	KPMG	12,952	11,659	12,670	14,088
Retail Sales per capita as % of Gross Household Compensation income per capita	12-mths to Sept 16	KPMG	32.1%	48.8%	28.5%	25.4%
Motor Vehicle Sales	12-mths to March 2017	ABS 9314.0, Tab 2	97,555	19,724	10,535	18,782
New Motor Vehicle Sales per 100,000 residents	12-mths to March 2017	KPMG	3,719	3,795	4,288	4,715
New Private Capital Expenditure - Actual	2015-16	ABS 5625.0, Tab 10 Report	43,087	943	5,575	794
New Private Capital Expenditure (Actual) as % Total Australia	2015-16	KPMG	33.8%	0.7%	4.4%	0.6%
Dwelling approvals	12-mths to March 2017	ABS 8731.0, Tab 7	20,682	2,093	1,167	5,473
Dwelling approvals per 100,000 residents	12-mths to March 2017	KPMG	788.44	402.67	475.05	1,373.92
Housing Finance Commitments - Owner occupation ($'000)	12-mths to March 2017	ABS 5609.0, Tab 7	23,925,508	2,824,395	1,169,086	4,588,597
Housing Finance Commitments - Owner occupation (% annual growth)	12-mths to March 2017	KPMG	-11.1%	15.6%	-12.2%	6.3%
Average Loan Size to Purchase Existing Dwelling	12-mths to March 2017	ABS 5609.0, Tab 10c	337	231	323	366
Average Loan Size to Purchase Existing Dwelling (% Annual Growth)	12-mths to March 2017	KPMG	-2.9%	6.1%	-1.7%	3.6%
CPI for Capital Cities	12-mths to March 2017	ABS 6401.0, Tab 5	1.0%	2.3%	0.5%	2.3%
Wages growth	12-mths to March 2017	ABS 6345.0, Tab 2b	1.2%	2.3%	2.1%	1.8%
Taxation Revenue	2015-16	ABS 5506.0, Tabs 2-9	8,997	1,068	608	1,568
GST Distribution	2015-16	CGC	1,890	2,249	3,286	1,036
GST Distribution Relativities	2015-16	CGC	0.30	1.82	5.57	1.10
Net Debt + UFSL	2015-16	ABS 5512.0, Tabs 591-597	36,464	10,837	6,556	
Net Debt + UFSL per capita	2015-16	KPMG	13,933	20,878	26,738	
Net Debt + UFSL as % of GSP	2015-16	KPMG	14.3%	41.6%	27.7%	

KPMG Economics

Contact us

Brendan Rynne
Melbourne
Tel: 03 9288 5780
bjrynne@kpmg.com.au

KPMG does not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective economic forecasts or projections are accurate, complete or reasonable. KPMG does not warrant or guarantee the achievement of any such forecasts or projections. Any economic projections or forecasts in this report rely on economic inputs that are subject to unavoidable statistical variation. They also rely on economic parameters that are subject to unavoidable statistical variation. While all care has been taken to account for statistical variation, care should be taken whenever considering or using this information. There will usually be differences between forecast or projected and actual results, because events and circumstances frequently do not occur as expected or predicted, and those differences may be material. Any estimates or projections will only take into account information available to KPMG up to the date of this report and so findings may be affected by new information. Events may have occurred since this report was prepared, which may impact on it and its findings.

The information contained herein is of a general nature and is not intended to address the specific circumstances of any particular individual or entity

KPMG

KPMG.com.au