



Australia

The rise of the services sectors

July 2016

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AIA President

Graeme Bottrill



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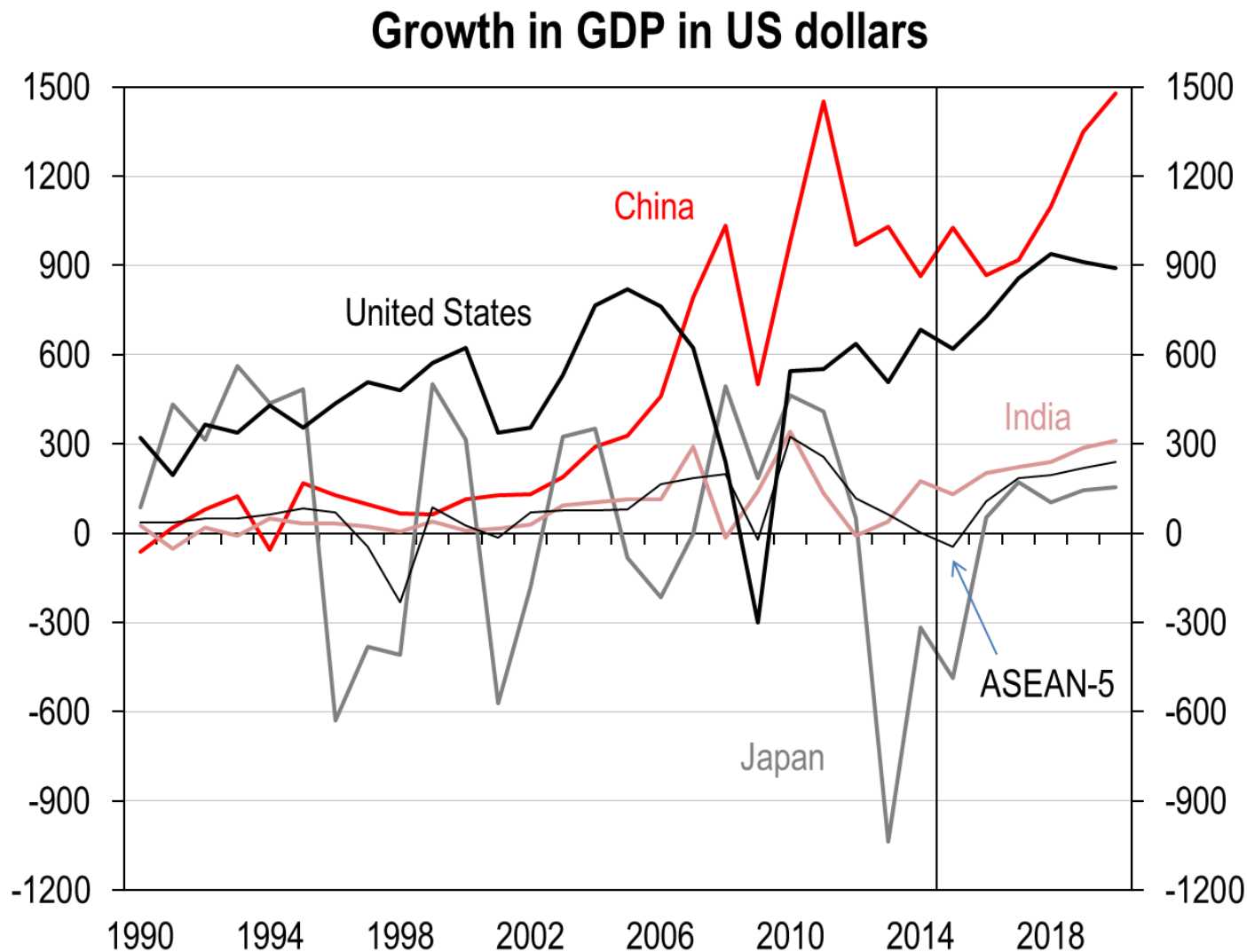
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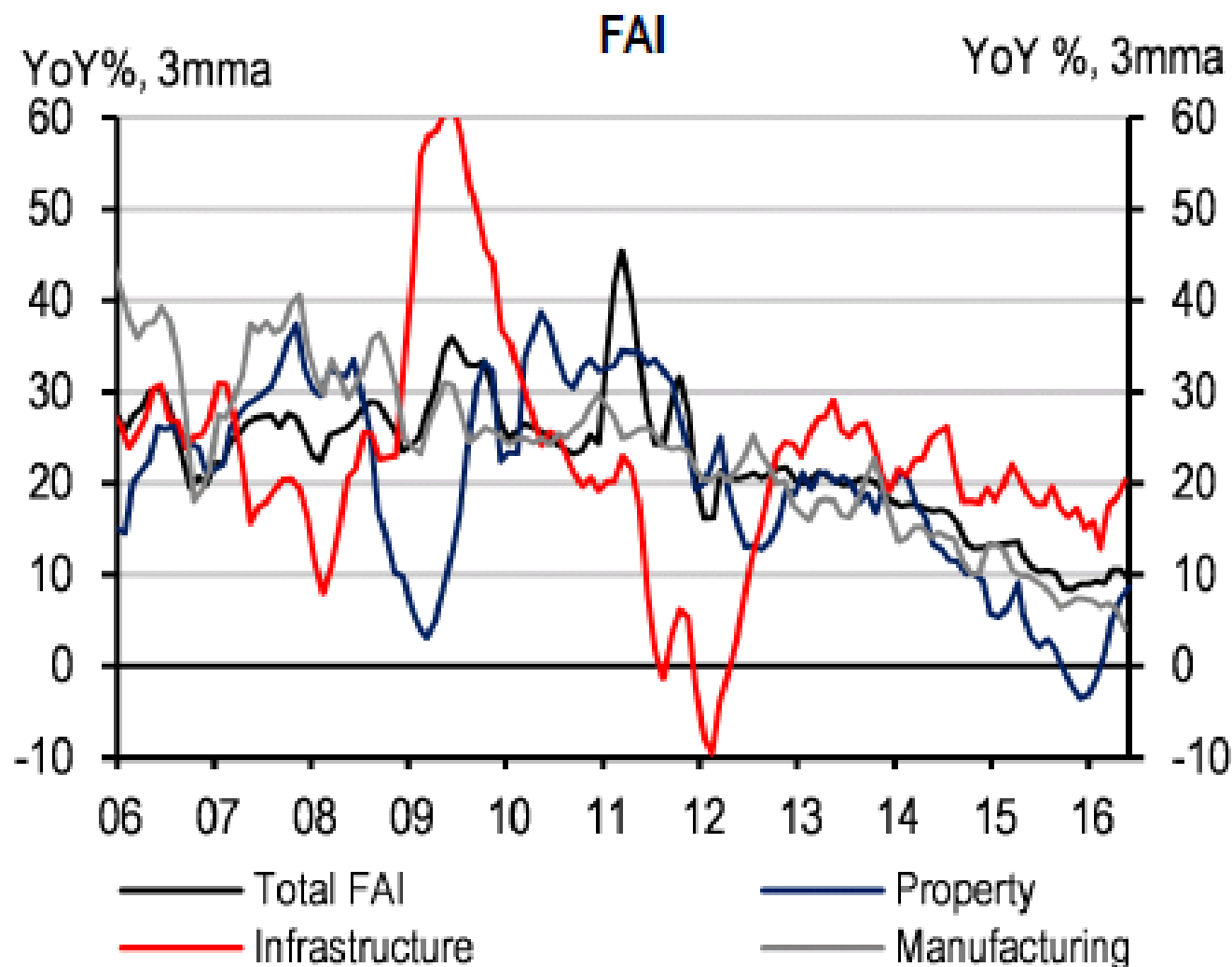
- **US:** Gradual recovery: the Fed's next move is up, but not until 2017
- **Europe:** Brexit is set to weaken growth in the UK and Europe
- **China:** Growth is being led by services, while exports are lacklustre
- **India:** A bright spot; getting a tail wind from lower energy costs
- **Asia:** Weak global trade and lack of reform are weighing on growth
- **Latin America and Africa:** Commodity crunch is still being absorbed
- **Global:** Inflation and rates are set to stay 'lower for longer'

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China is still contributing the most to global GDP growth

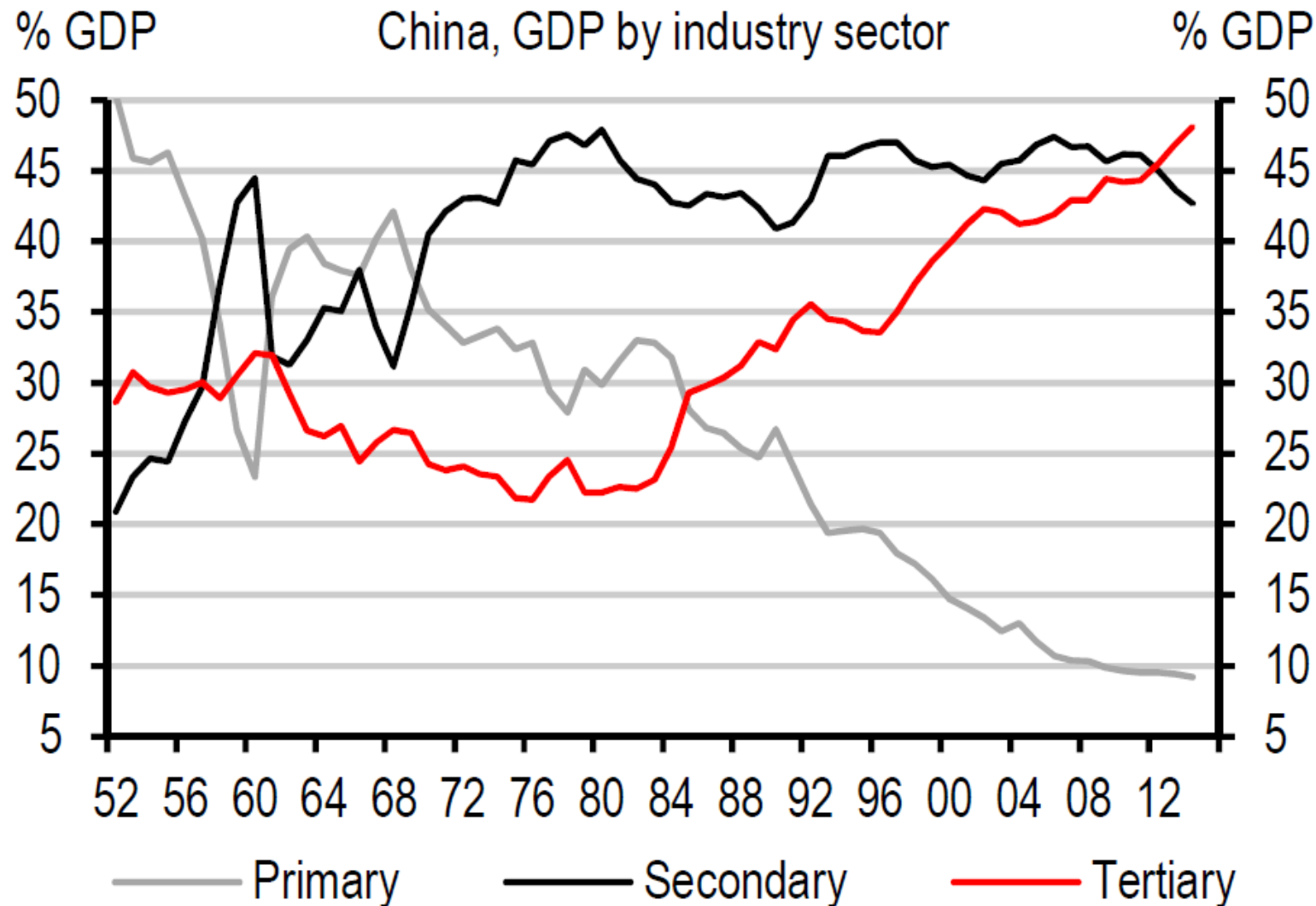


Chinese investment has been slowing, but is stabilising

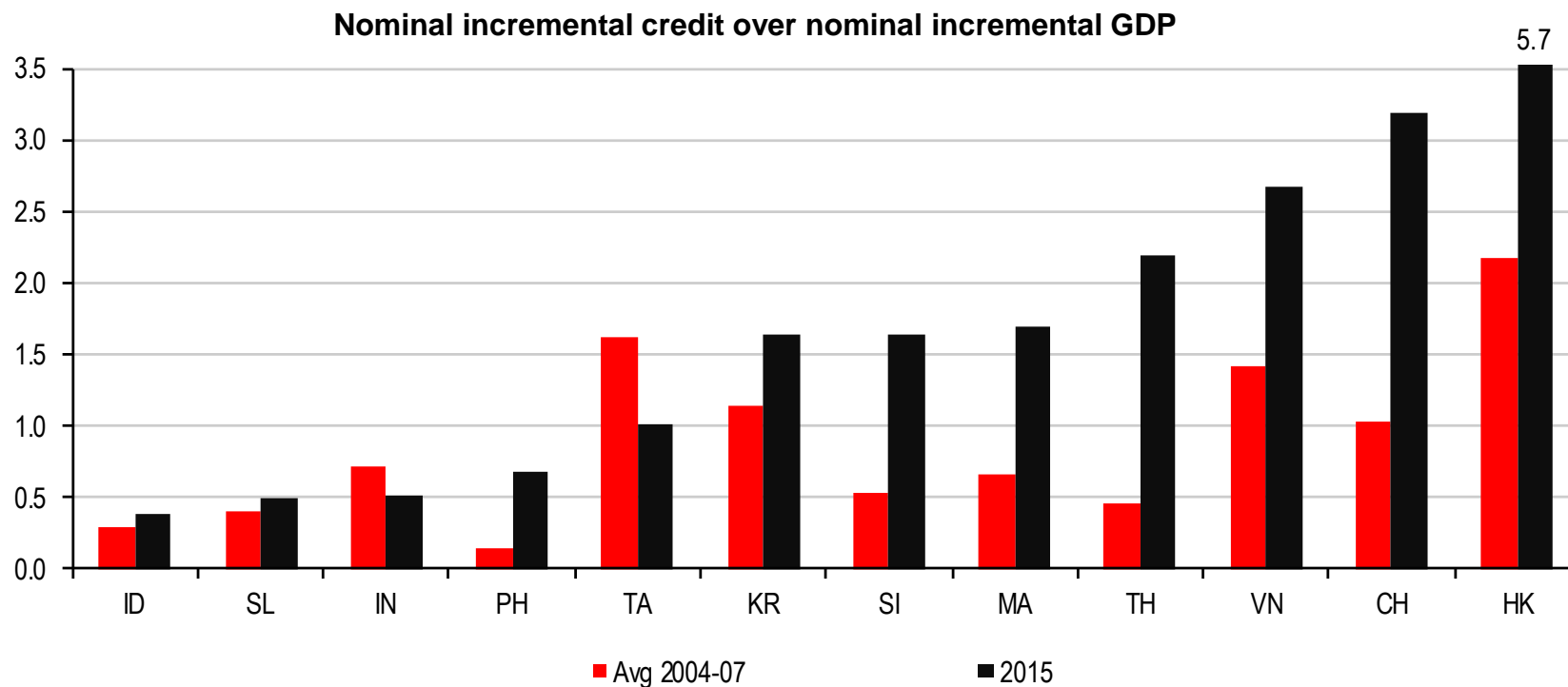


Source: CEIC HSBC

China's growth is shifting to being driven by services

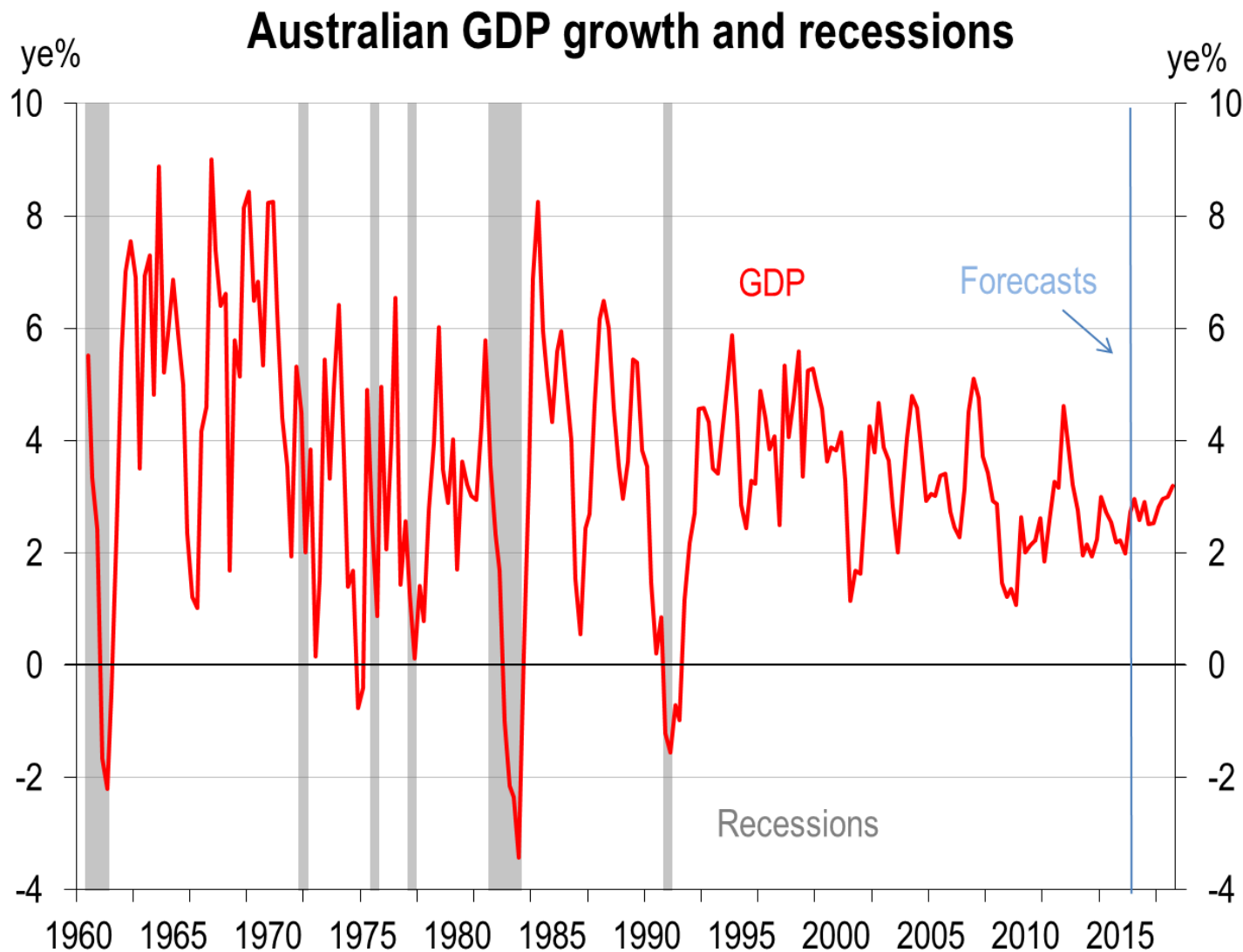


Rising debt has been delivering less GDP in China



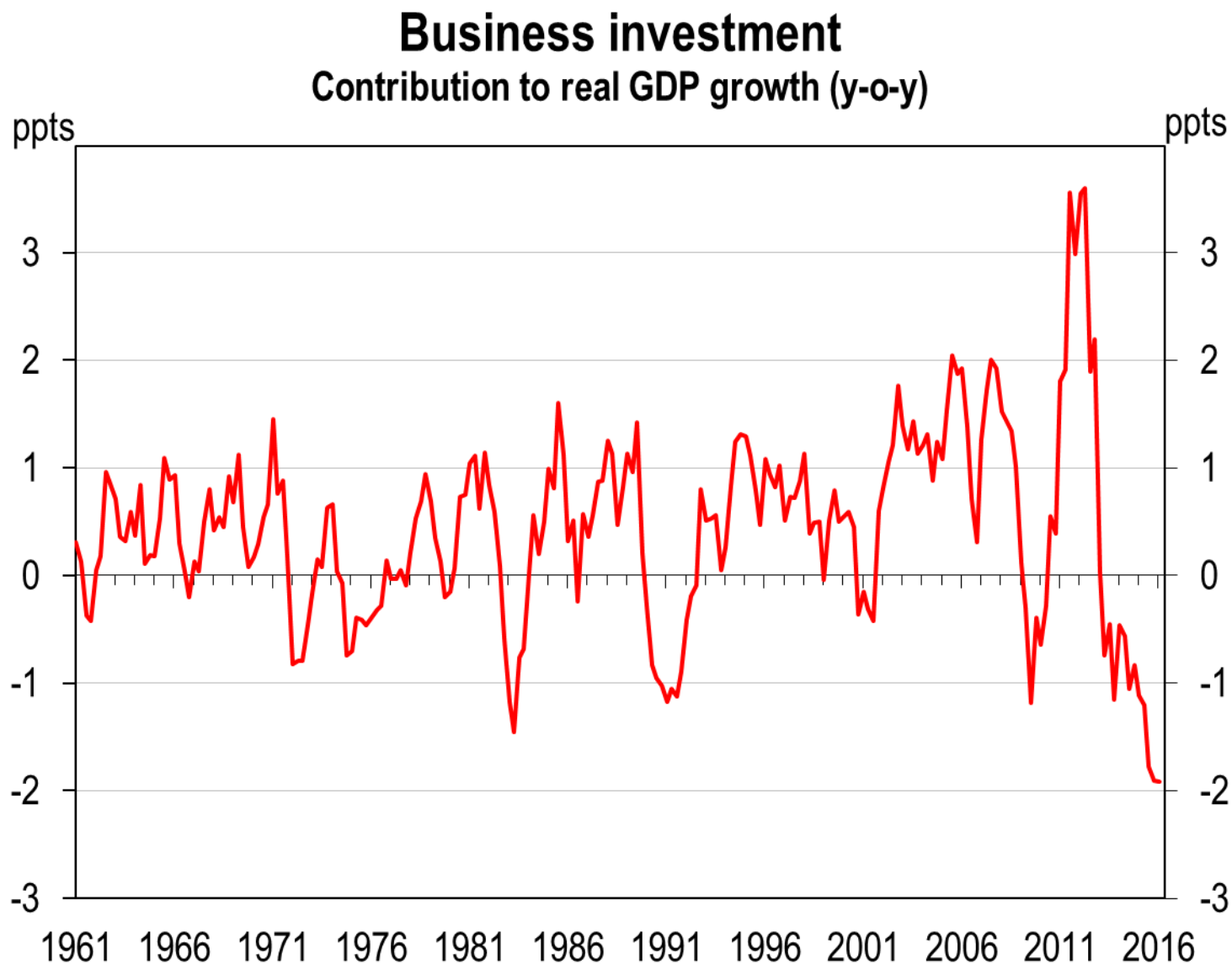
- **Mining** investment and commodity prices have fallen significantly
- **Resource export** volumes are still ramping up
- **Housing** boom is cooling, but services exports are ramping up
- **Business conditions** are improving, creating jobs, particularly in services
- **Business investment** outlook is still weak, but for how long?
- **Inflation** is low, which means a further RBA cut is likely
- **Election** should be focused on reform and fiscal policy, but may not be

Australia is in its 25th year of continuous GDP growth



Source: ABS, HSBC estimates

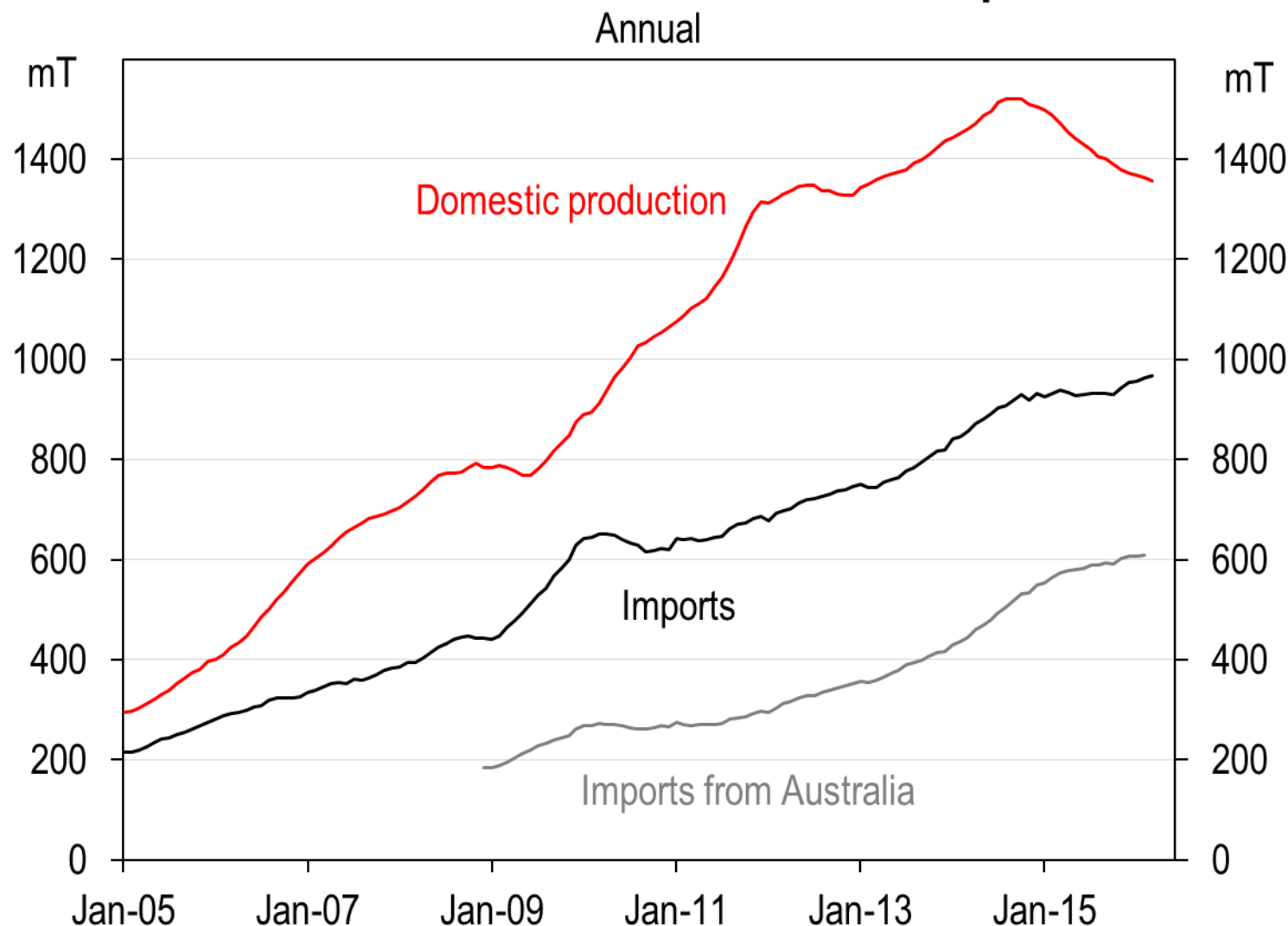
Mining investment is falling significantly



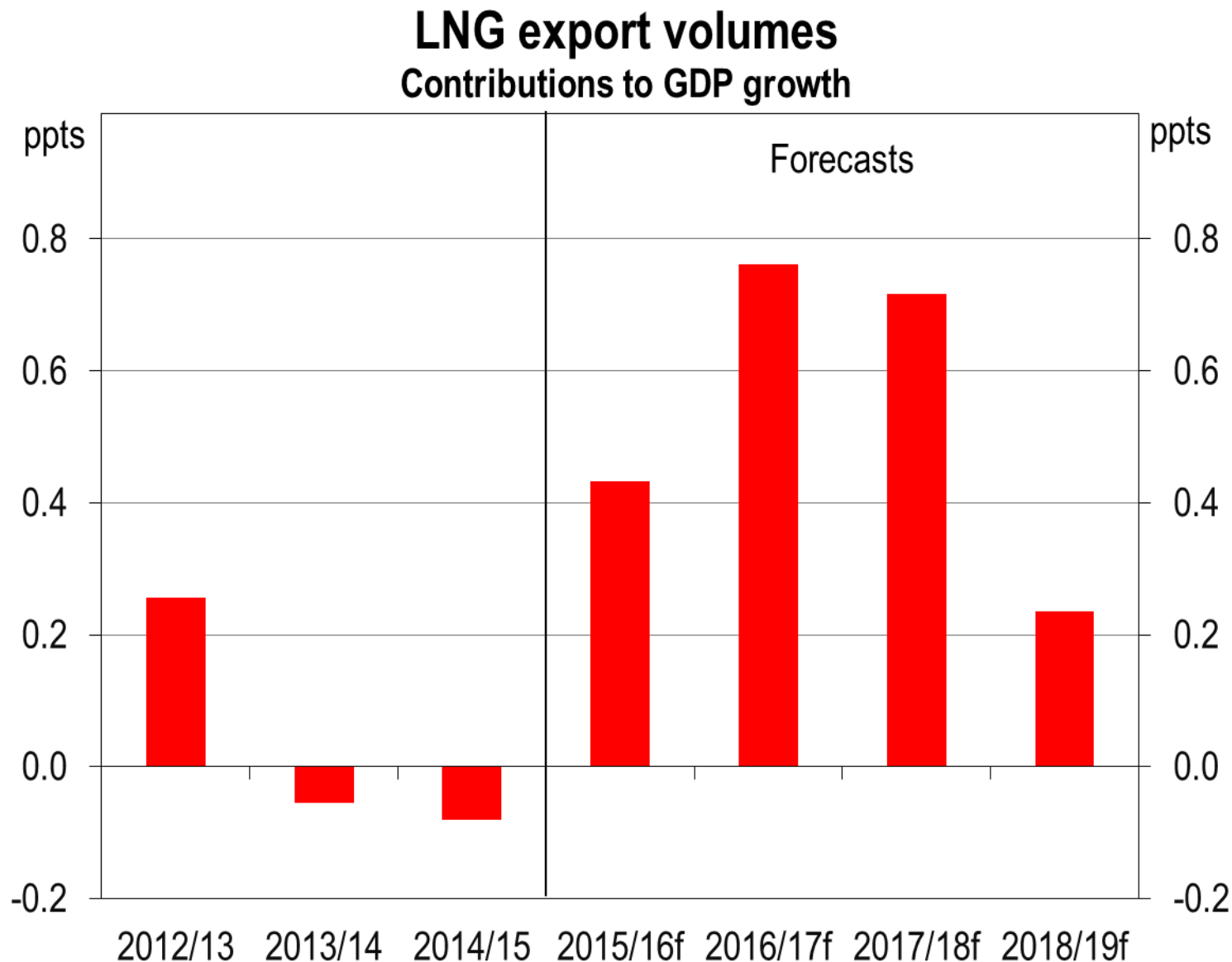
Source: ABS

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Chinese Iron Ore Production and Imports



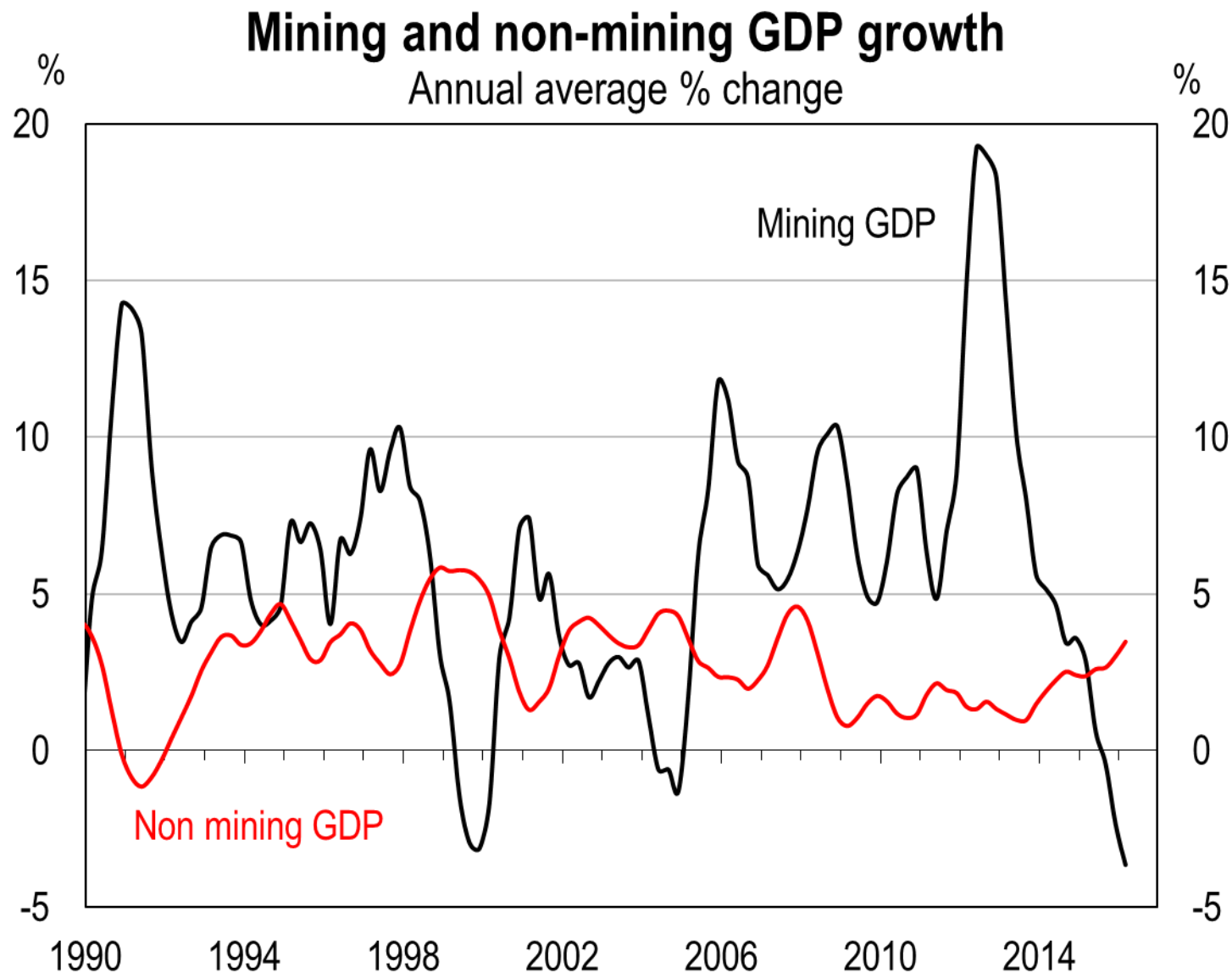
The ramp-up in LNG export volumes has only just begun



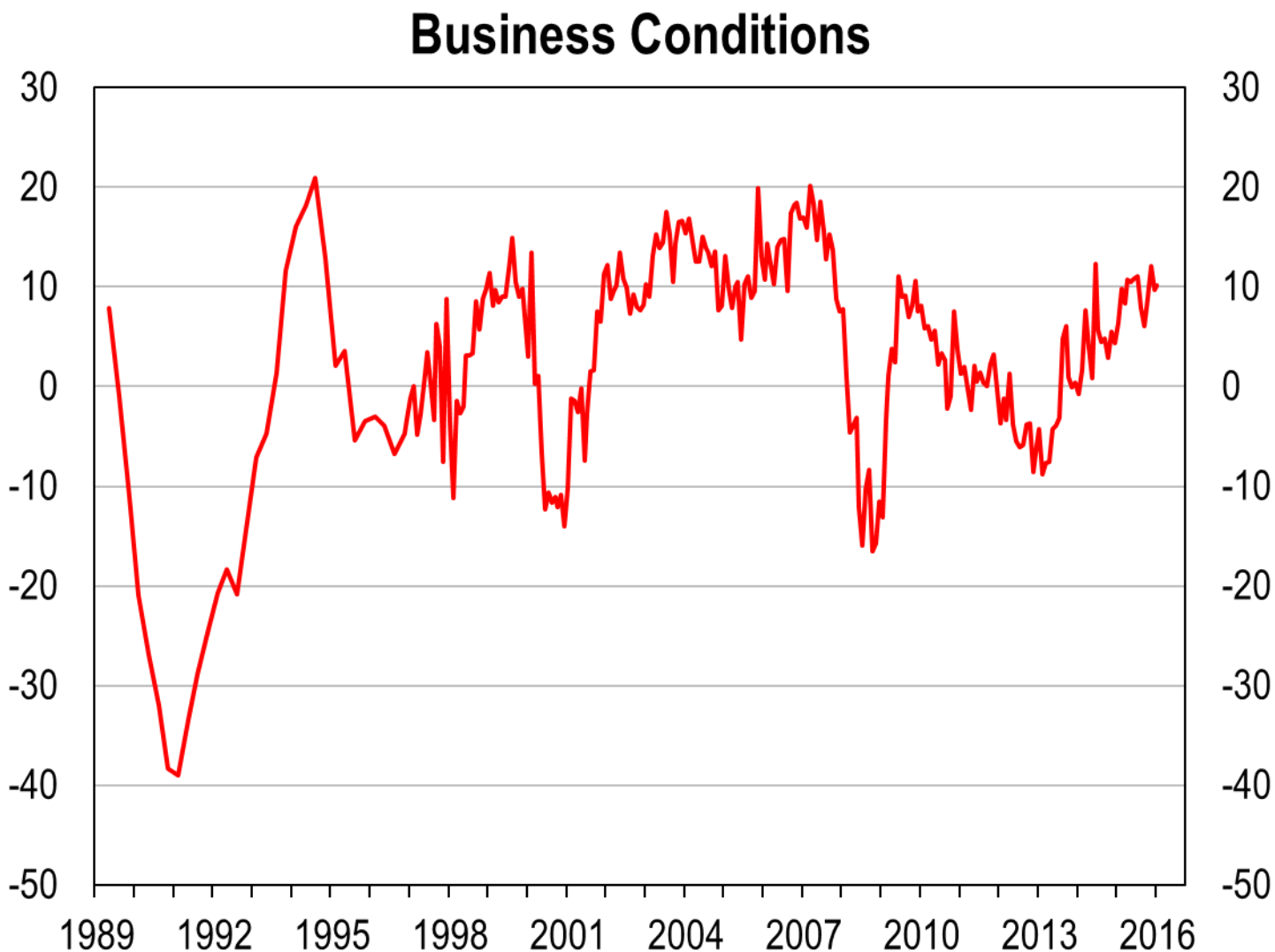
Source: BREE, HSBC forecasts

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Mining GDP is falling, but non-mining GDP is rising

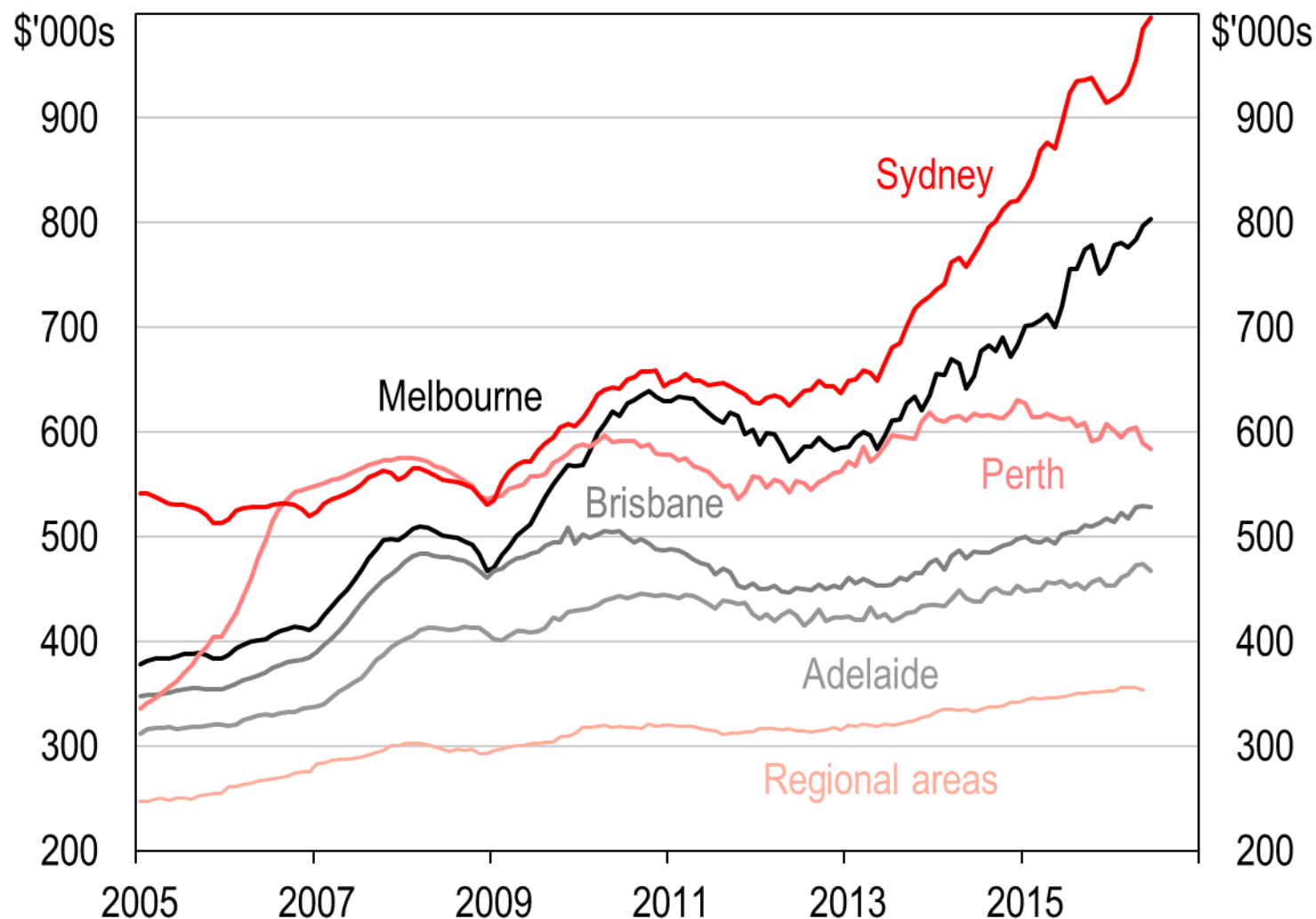


Source: ABS, HSBC estimates



Housing market has been booming

Housing prices by region



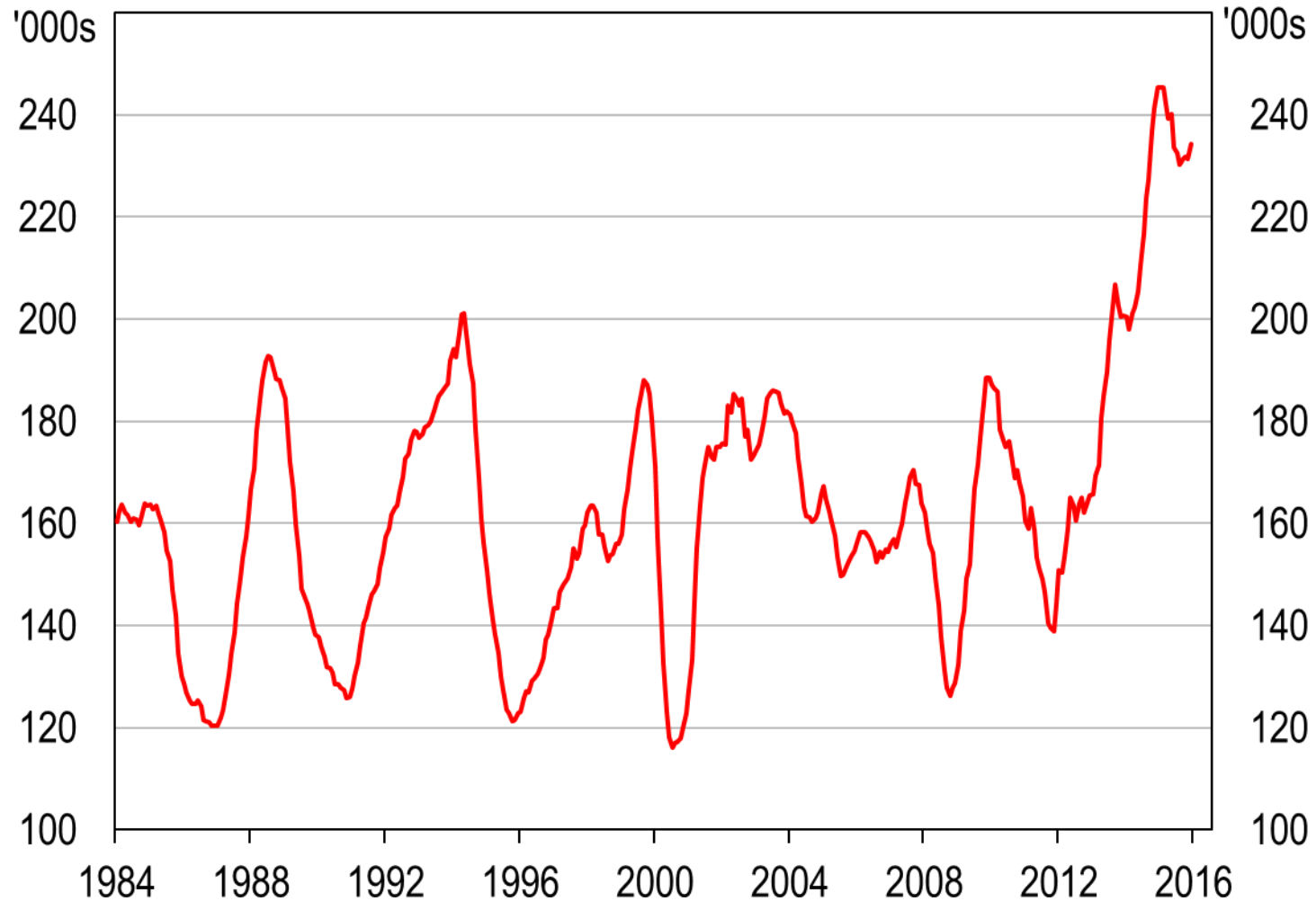
Source: Core Logic RP-Data-Rismark

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The housing construction boom is past its peak

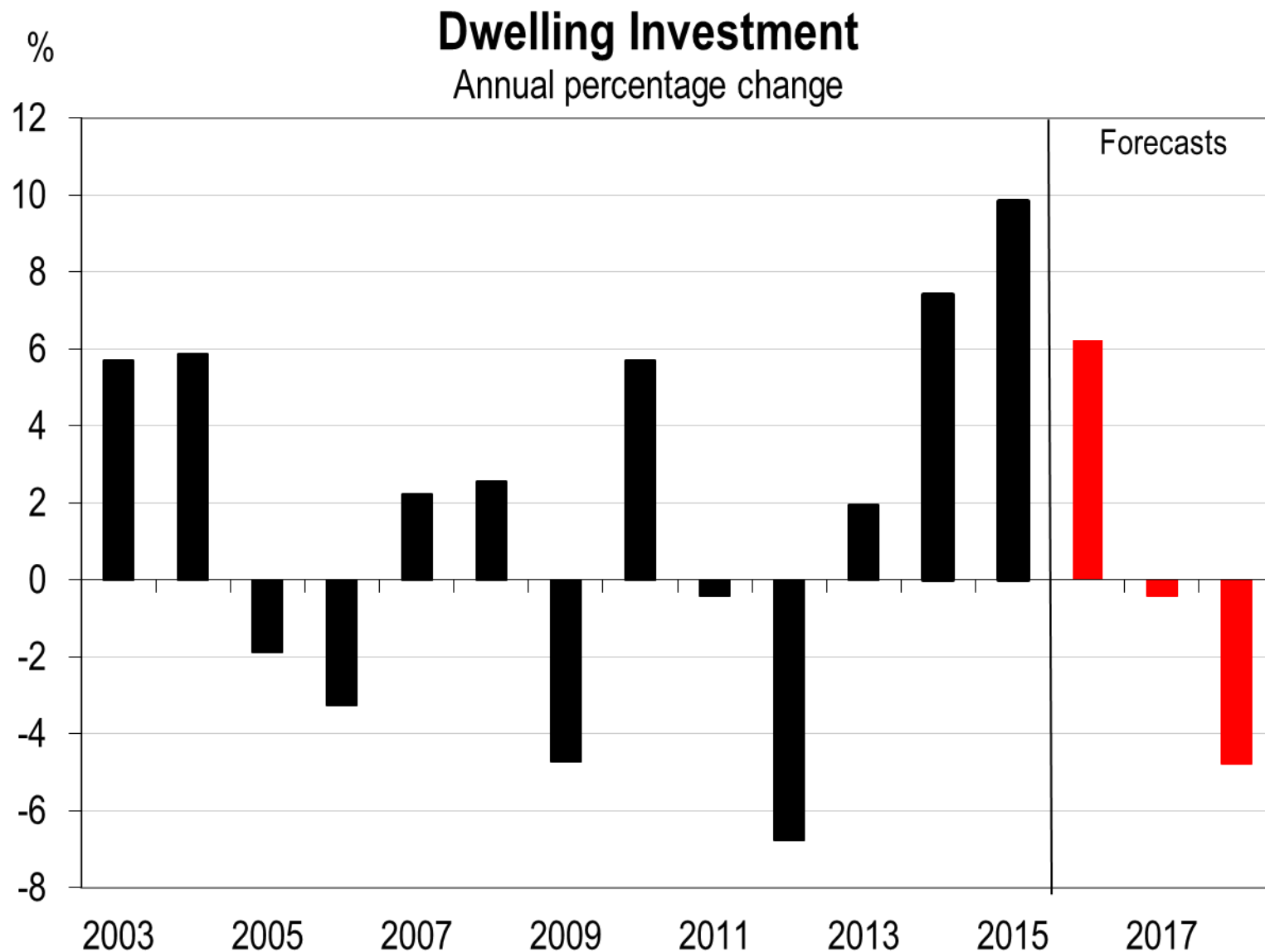
Residential Building Approvals

Number of buildings, 6 month annualised



Source: ABS

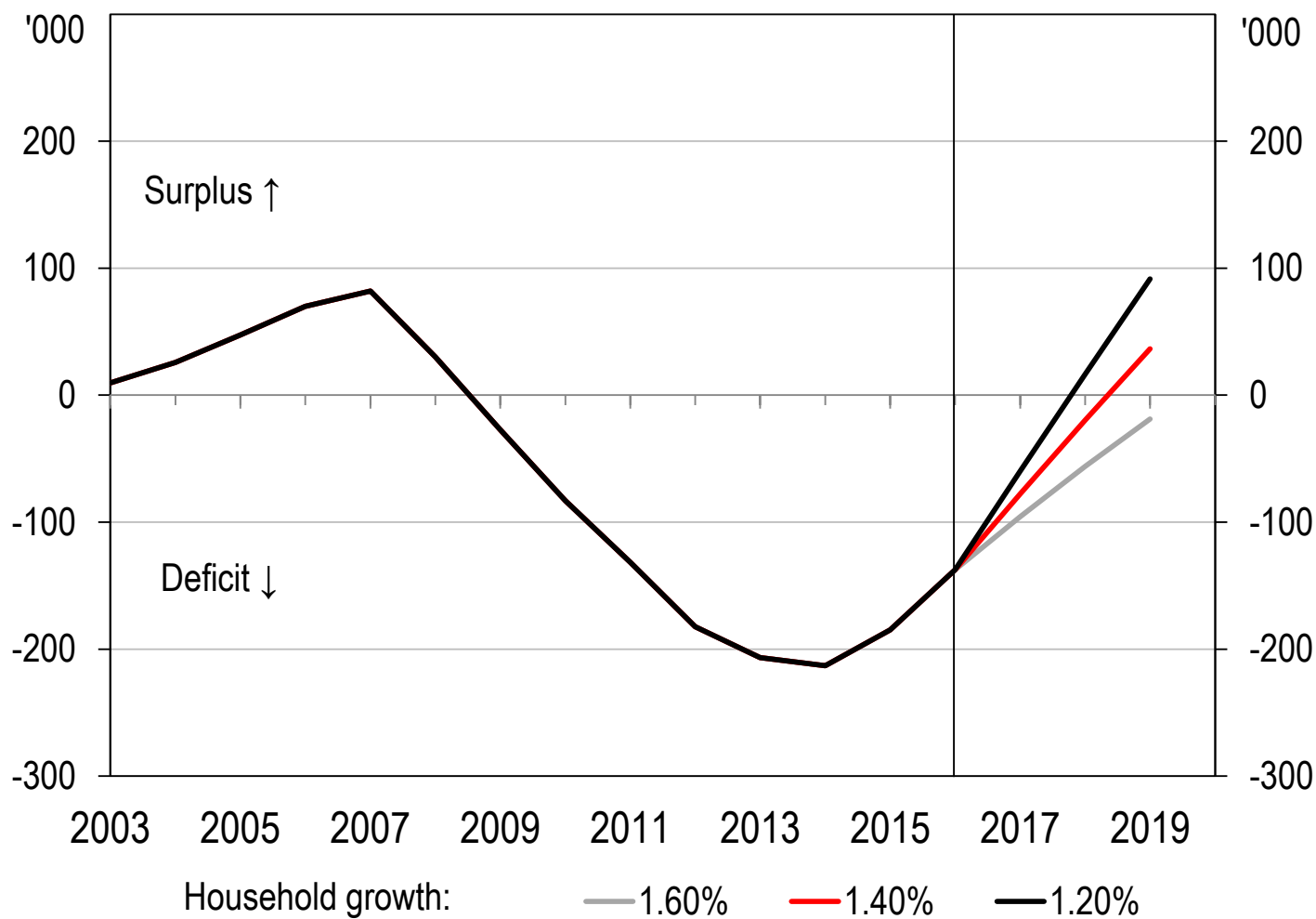
Dwelling construction is set to contribute less to growth



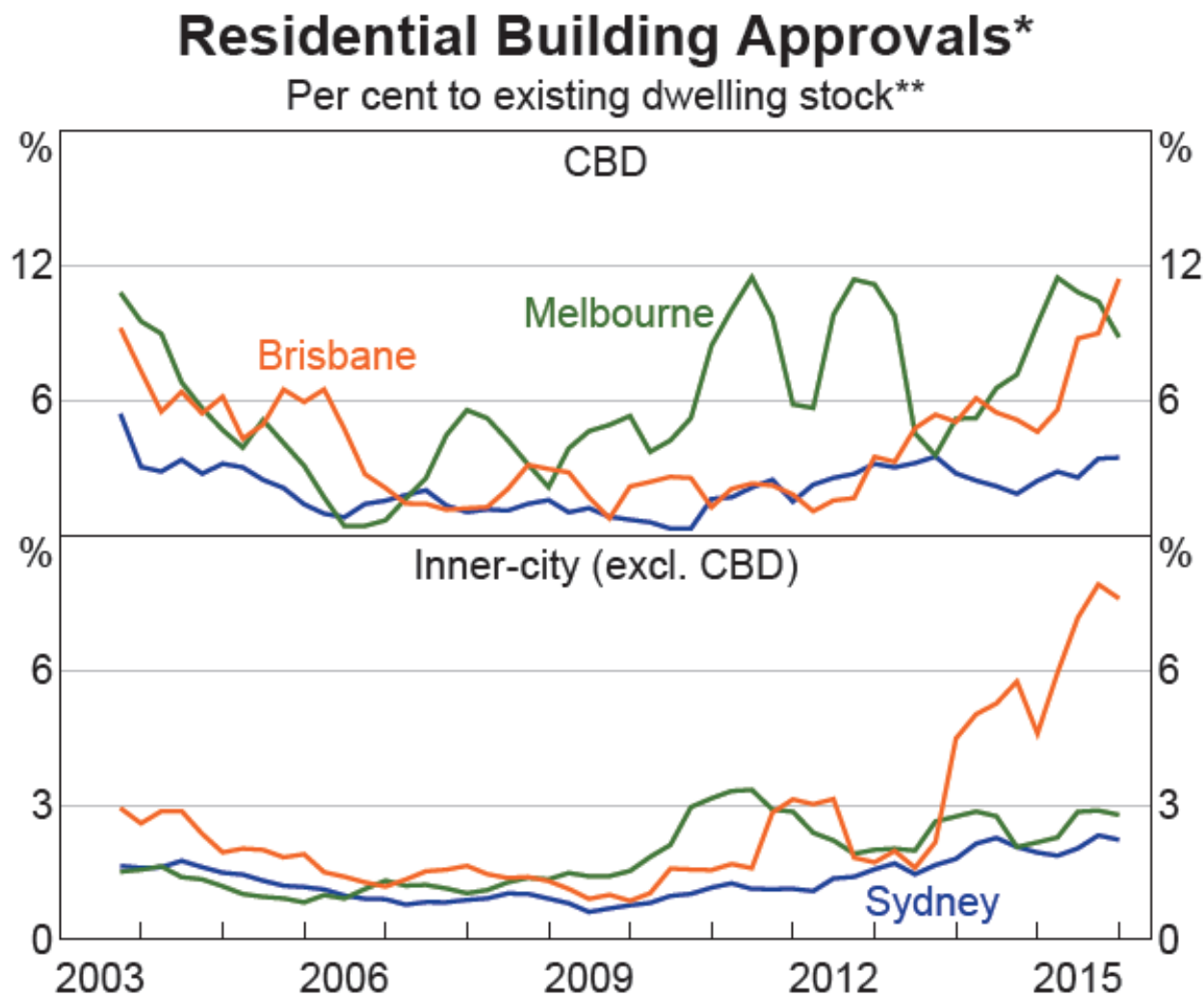
Source: ABS, HSBC estimates

Cumulative housing surplus/deficit

At current rate of construction over the forecast horizon



Significant amount of new apartments in Brisbane and Melbourne



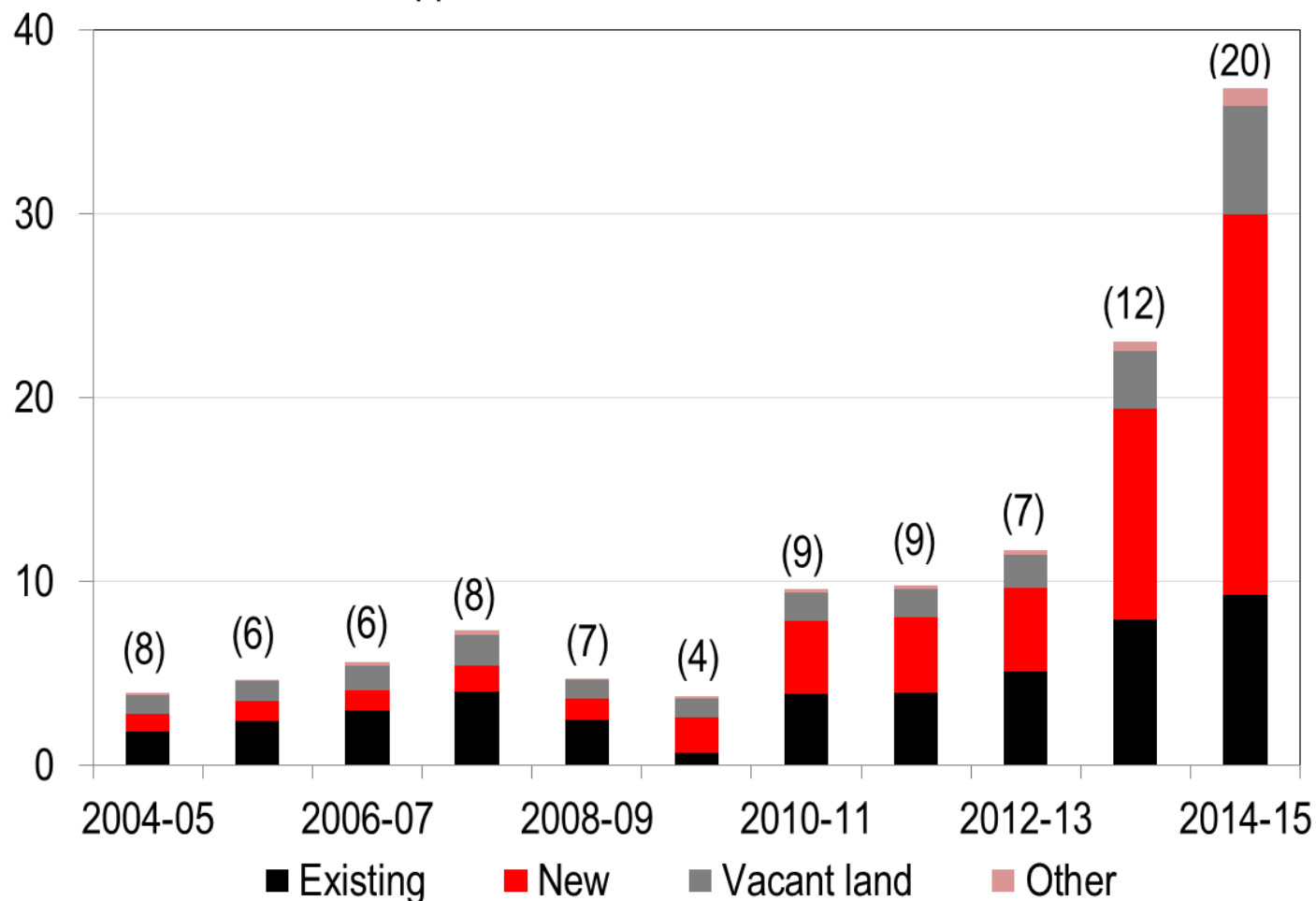
* Four-quarter rolling sum

** Dwelling stocks estimated by RBA

Foreign purchases have been ramping up

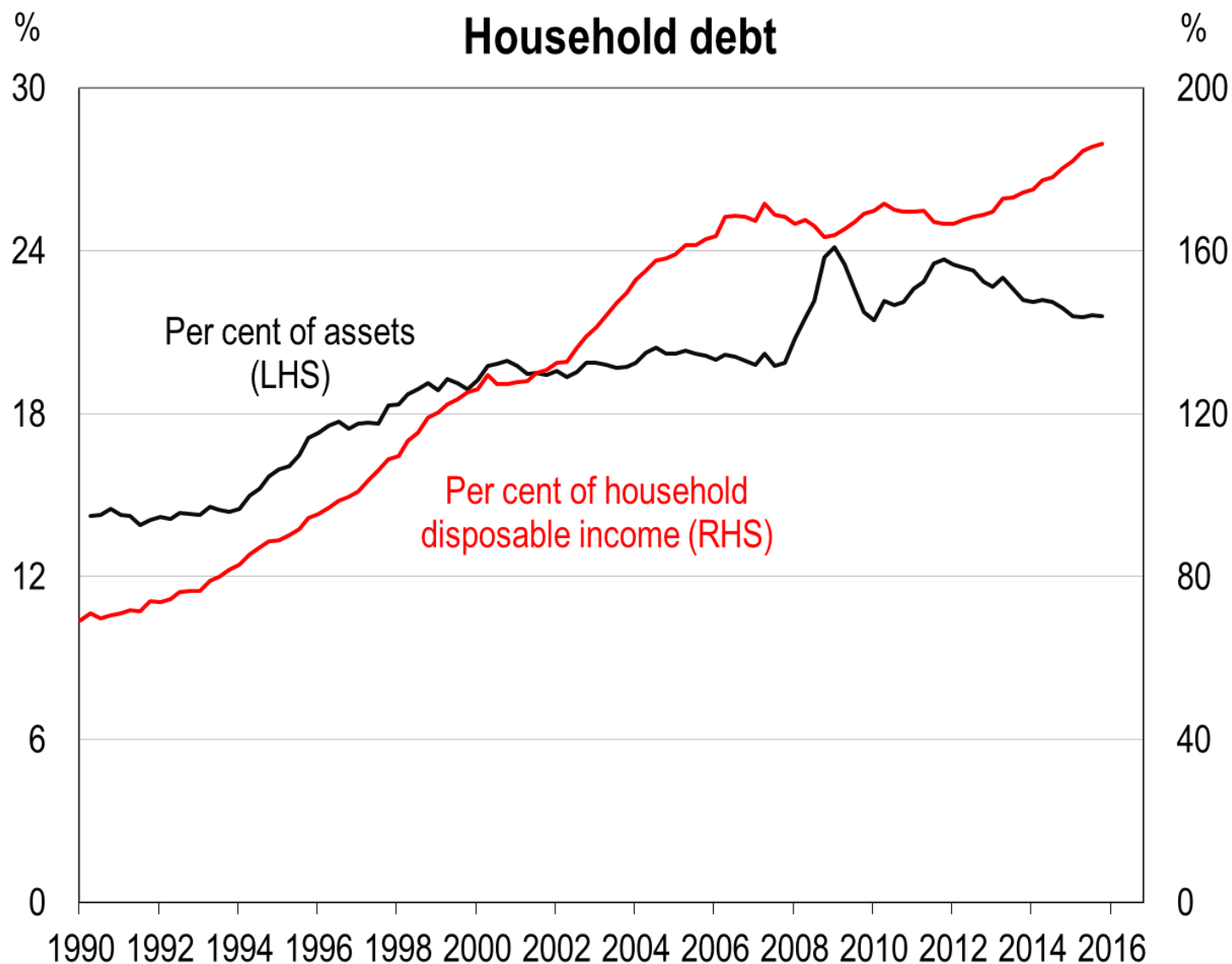
Foreign Investment Review Board approvals

Number of approvals for residential investment, thousands*



* Estimates of share of housing turnover in parentheses

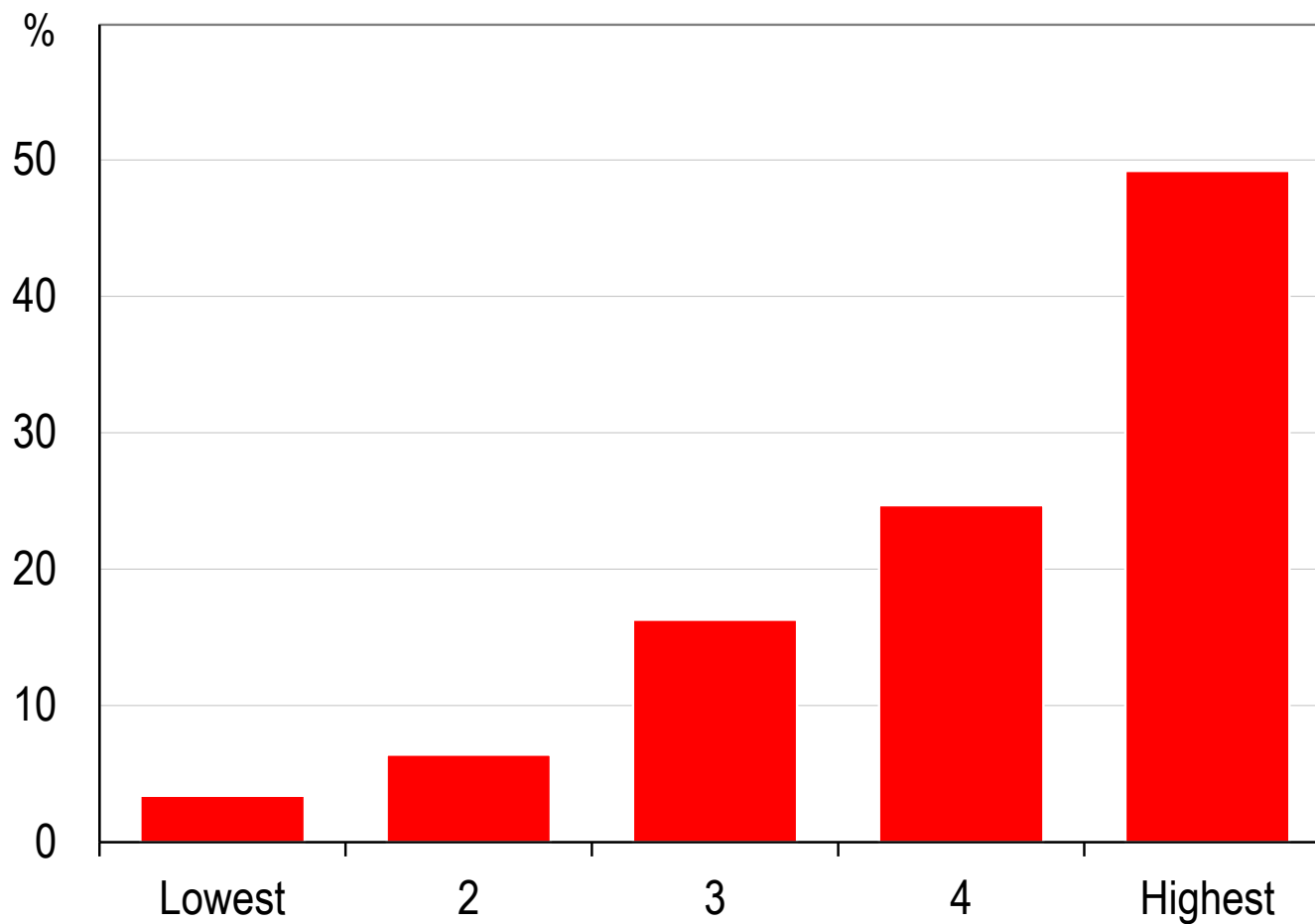
Household debt-to-income ratio has risen further



Source: ABS, RBA

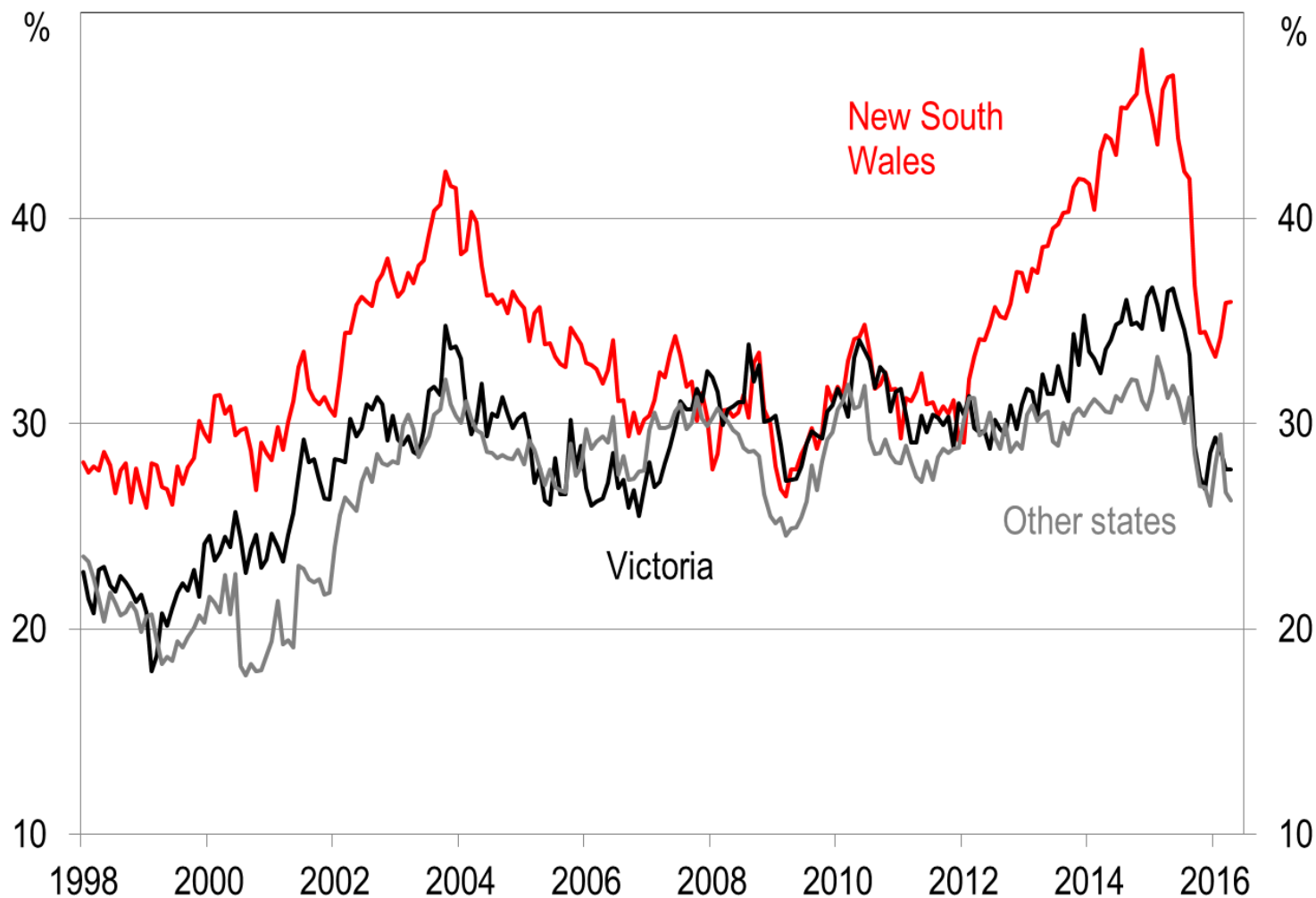
Household debt is mostly held by higher income earners

Household Debt by Income Group



Source: HILDA, RBA

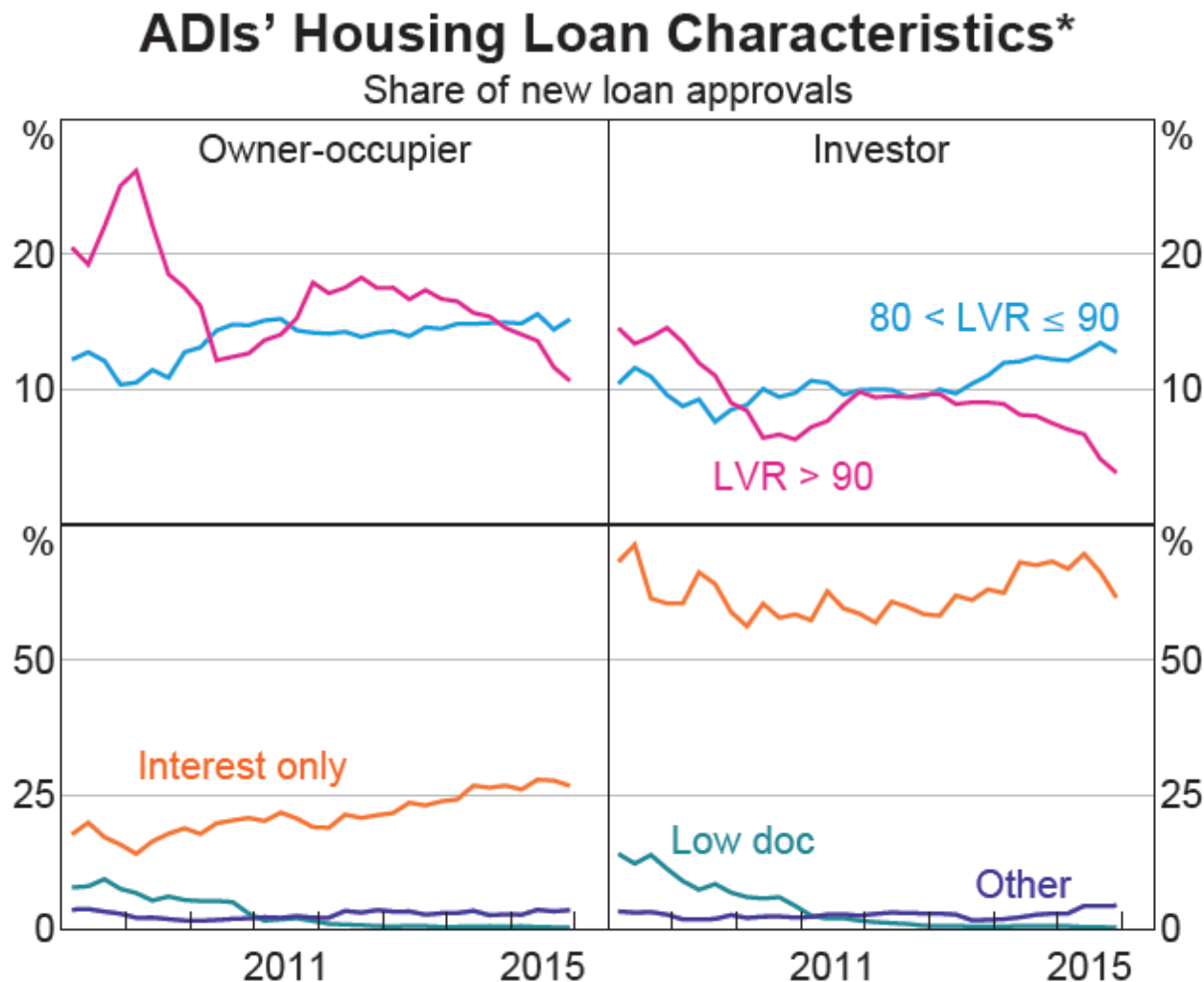
Investor share of housing loan approvals



Source: ABS

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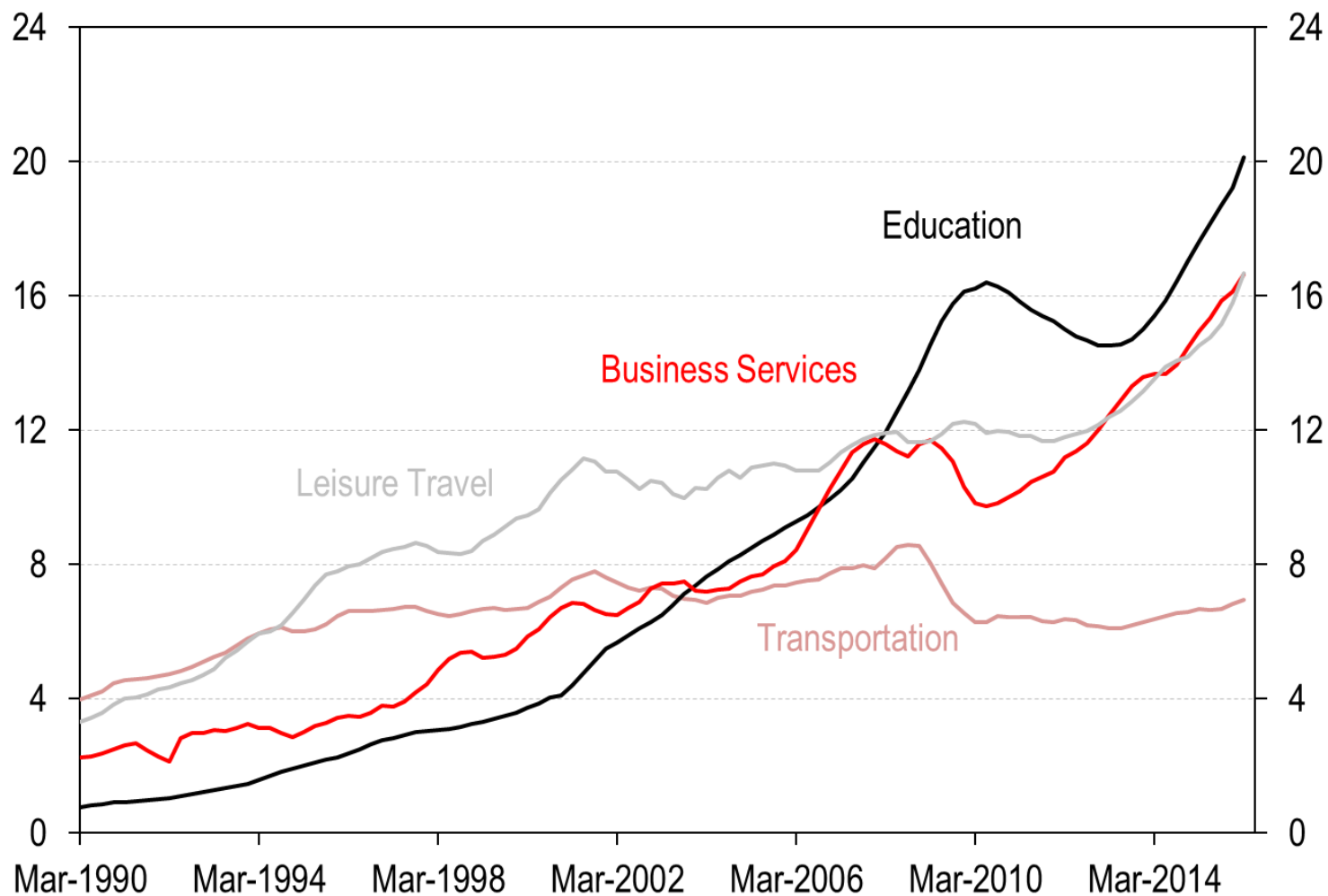
Loan-to-valuation ratios have been falling recently



* Series are break-adjusted for reporting changes; 'Other' includes loans approved outside normal debt-serviceability policies and other non-standard loans

Australian Services Exports

Rolling annual totals, A\$bn



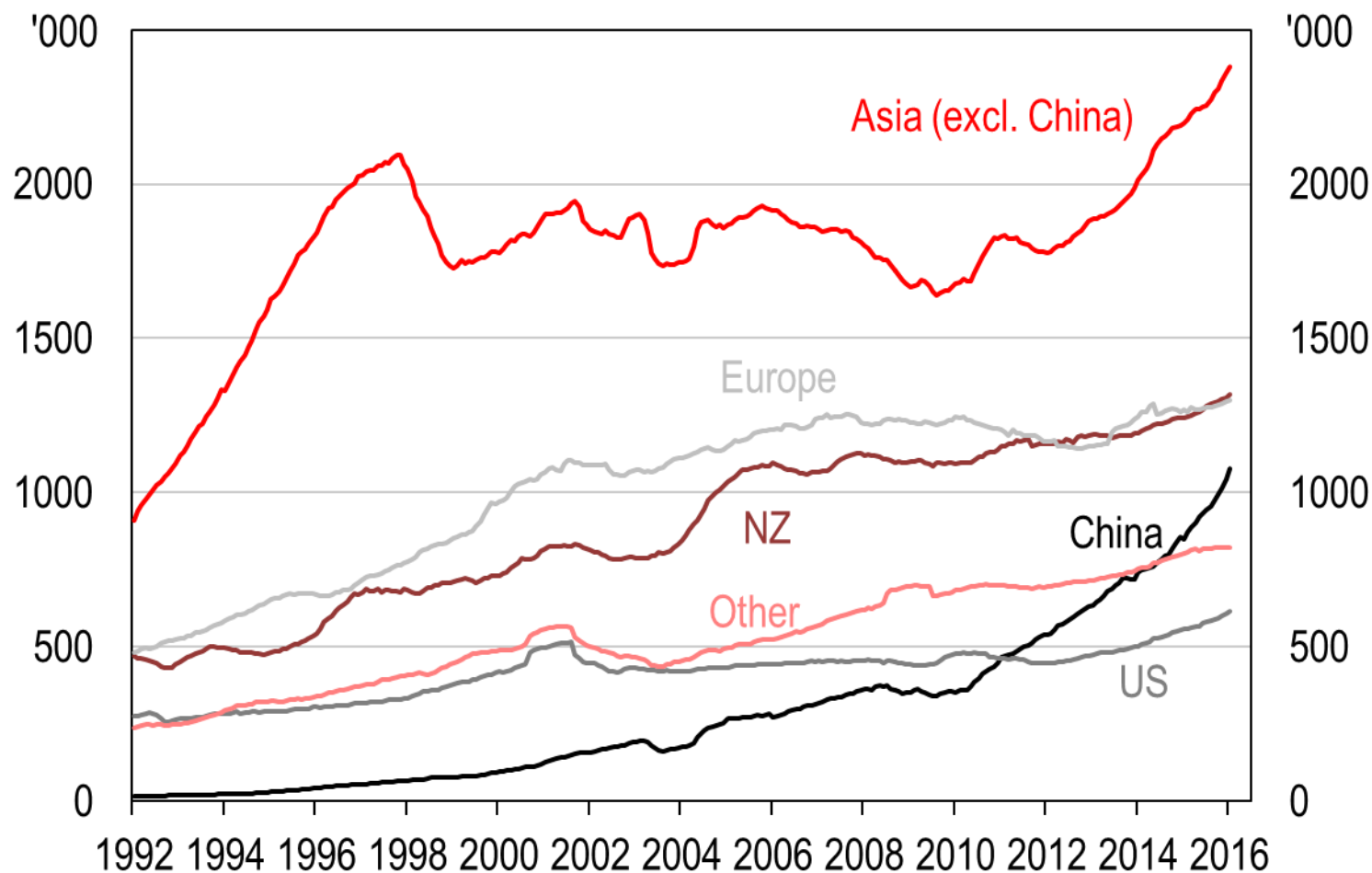
Source: ABS

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Asian tourist arrivals into Australia have risen strongly

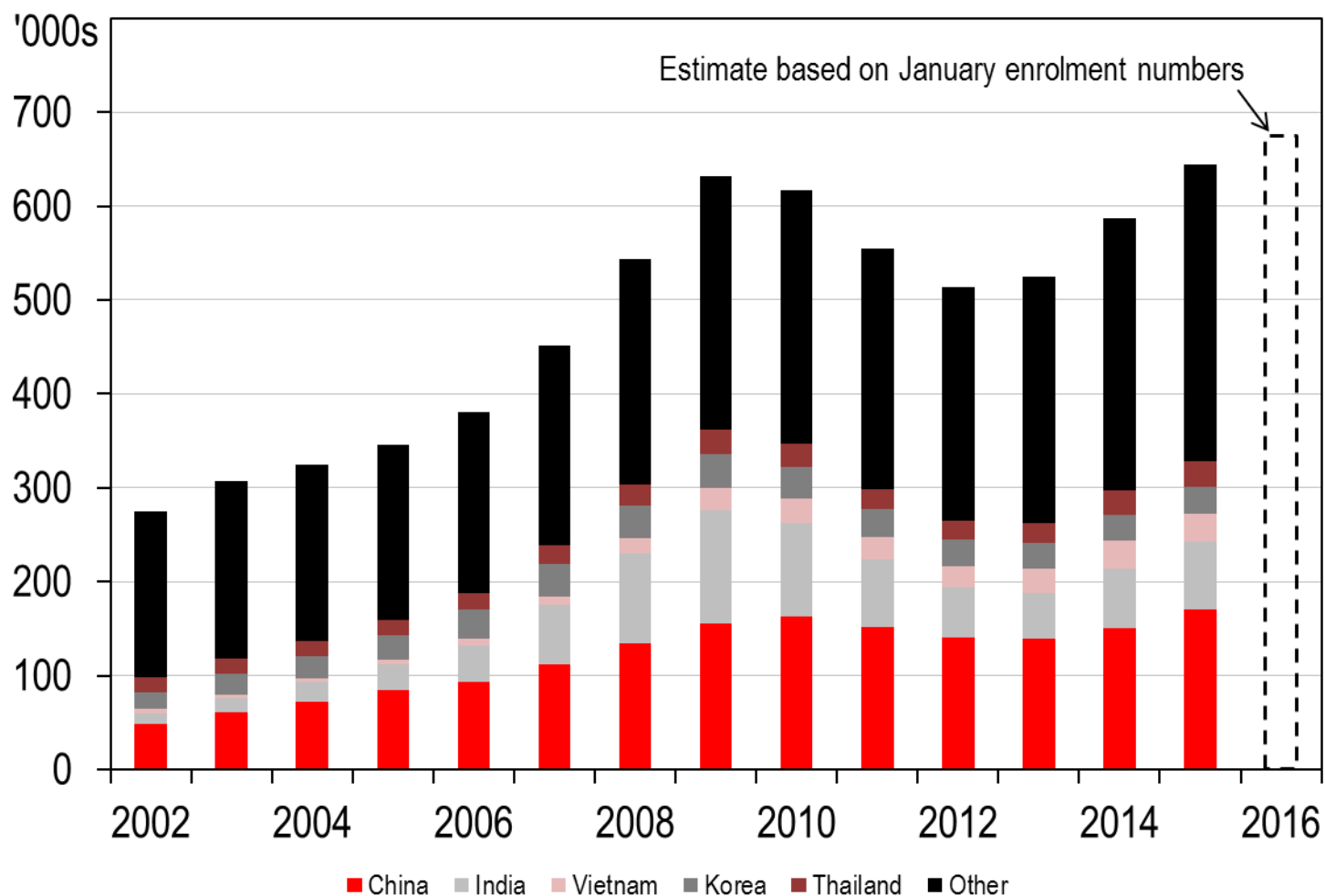
Country of Origin for Short-term Arrivals

Monthly, s.a., rolling annual sum



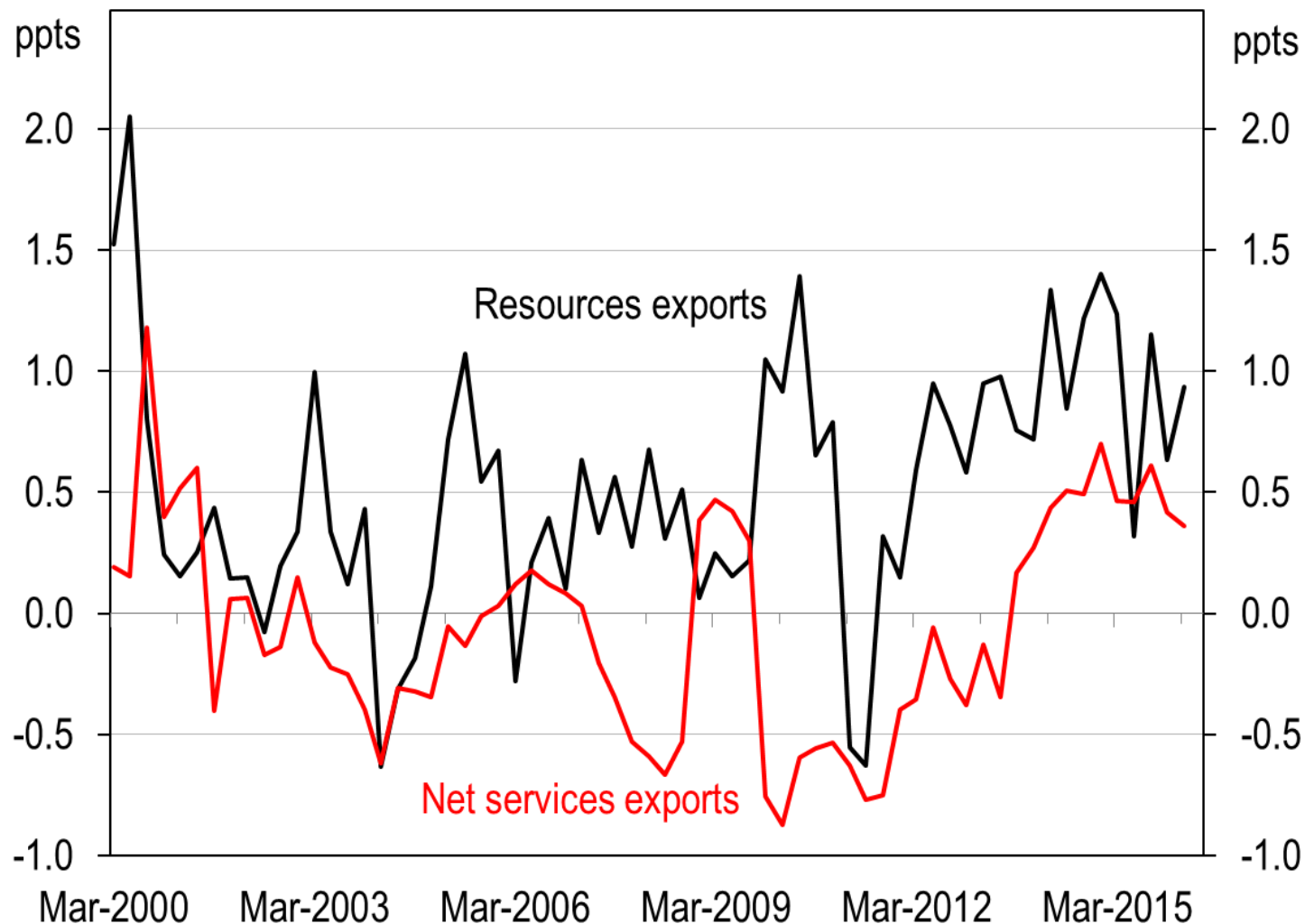
International student enrolments in Australia

Annual, by nationality

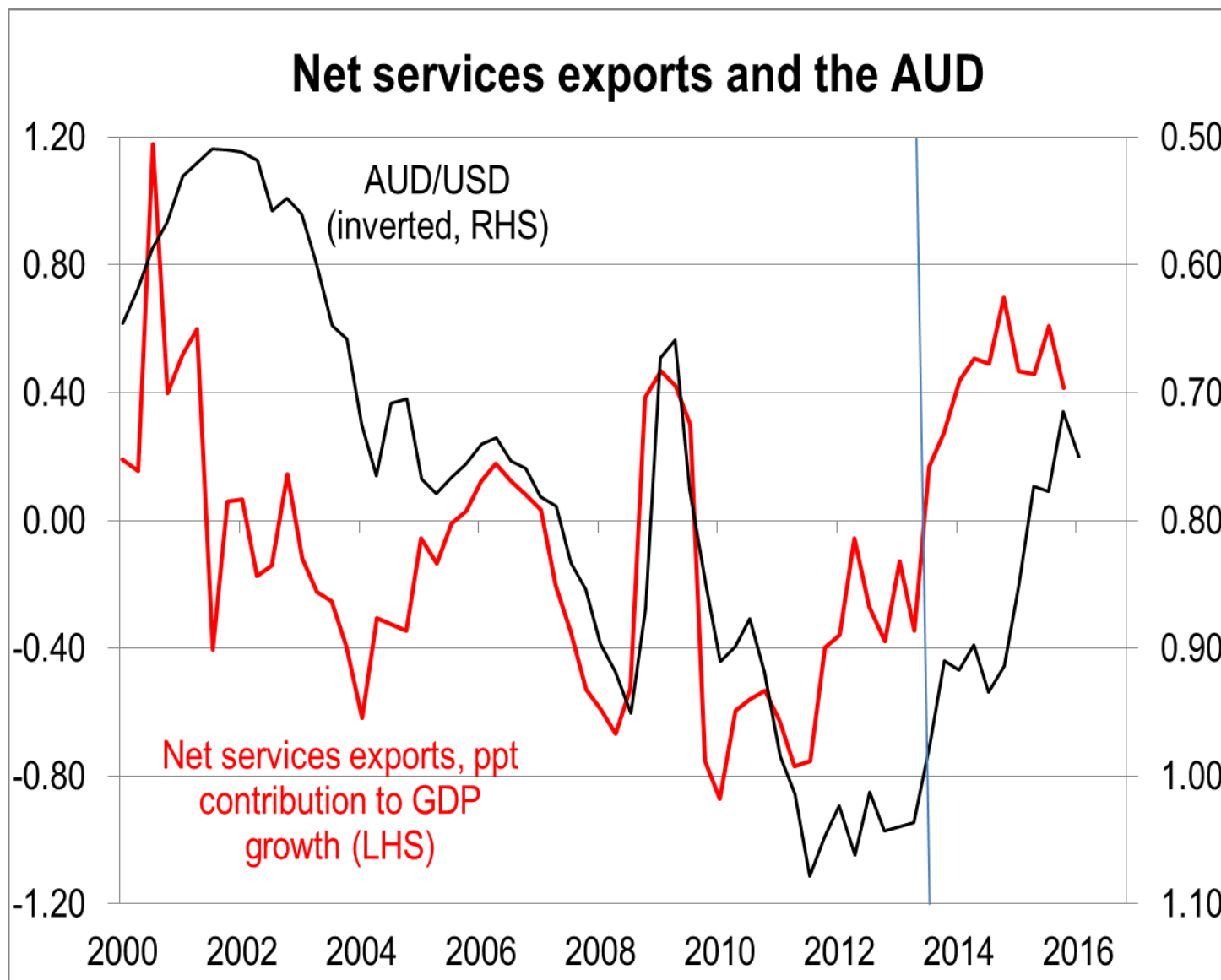


Net services exports are now contributing to growth

Contributions to real GDP growth (y-o-y)



Net services exports have been supported by the lower AUD

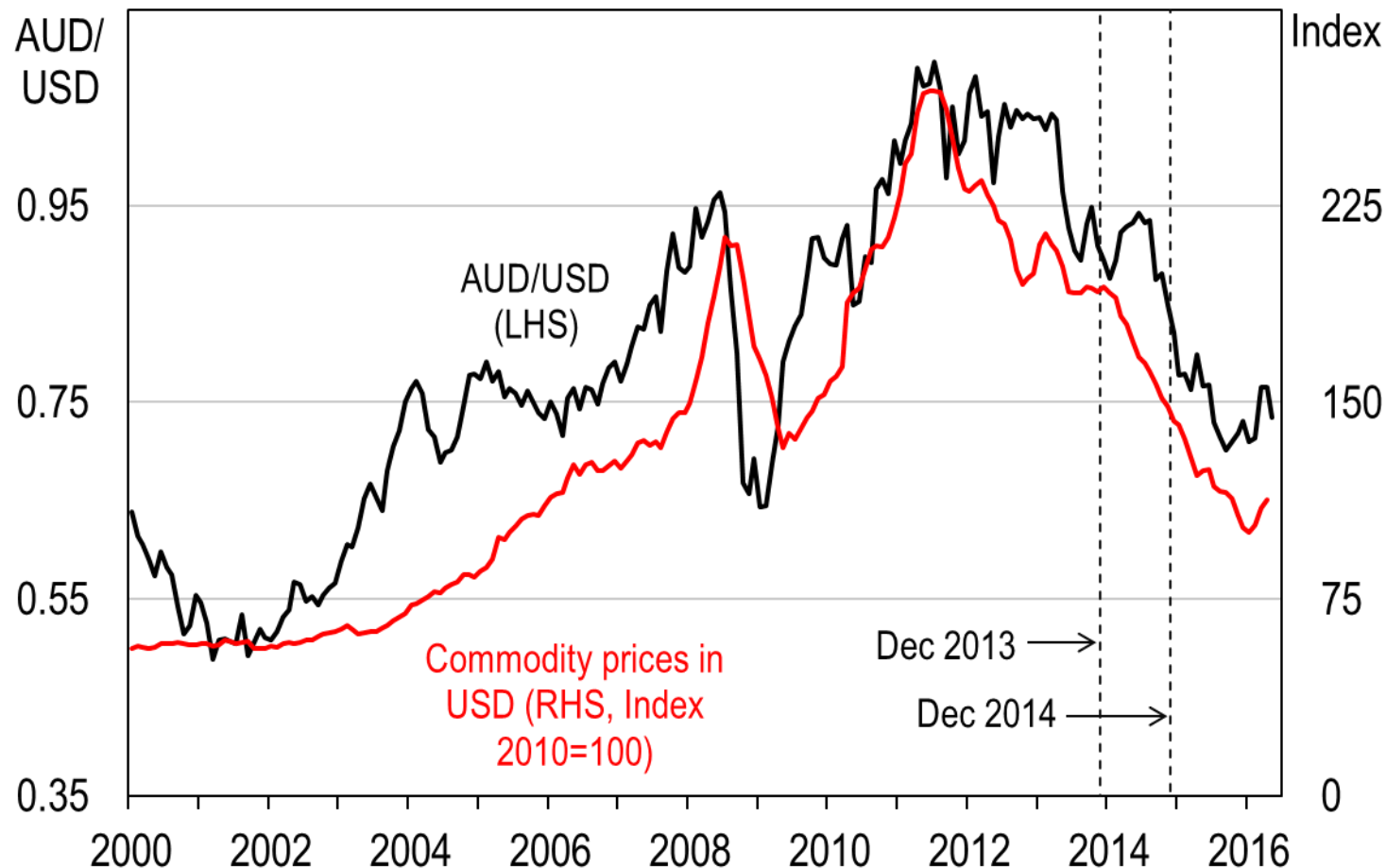


Source: ABS, HSBC estimates

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The AUD is higher than commodity prices imply

Australia's Commodity Prices and the AUD

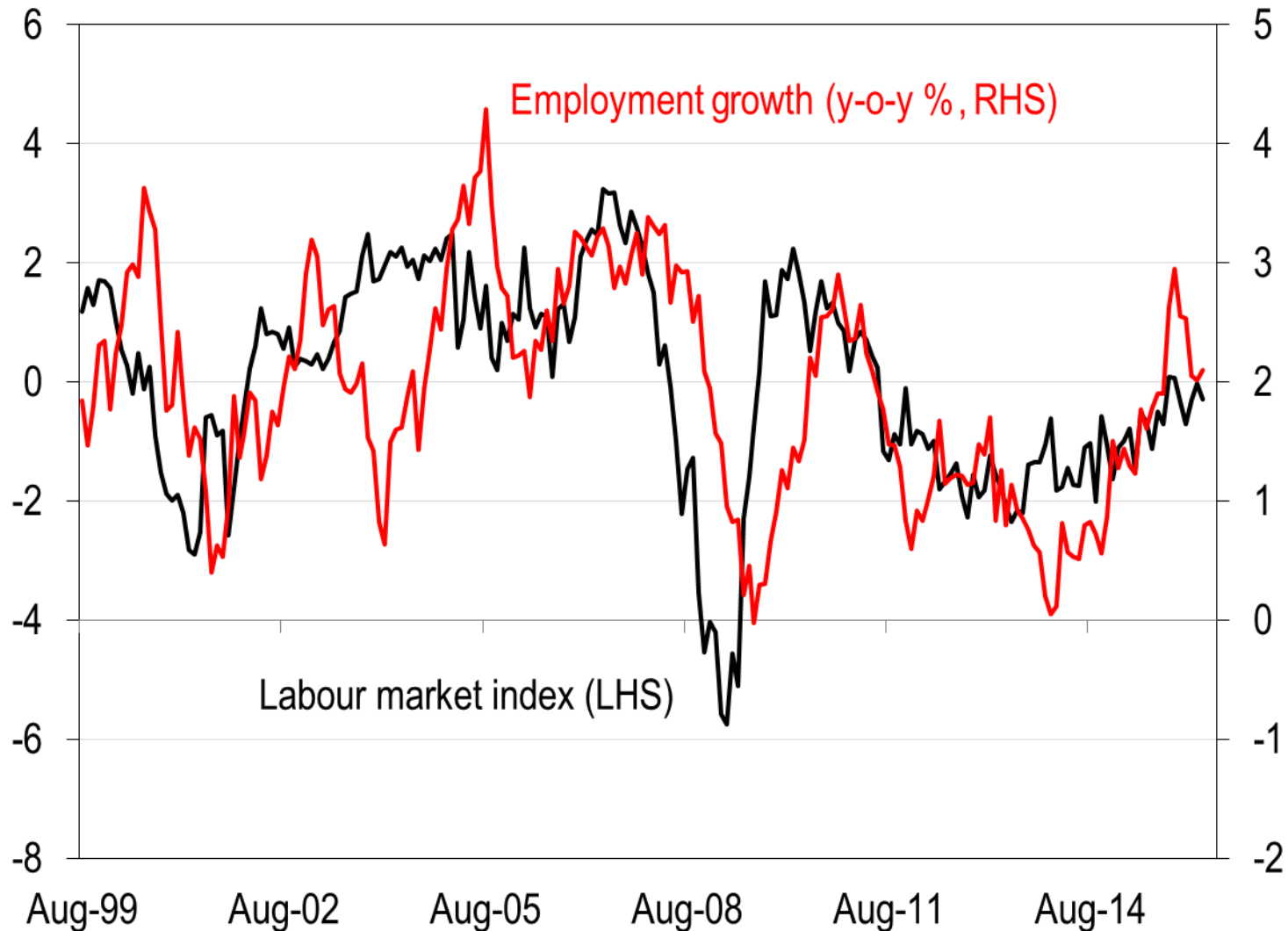


Dec 2013: RBA Governor says "85c would be closer to the mark than 95c"

Dec 2014: RBA Governor says "probably 75c is better than 85c"

Jobs growth has been gradually picking up pace

Labour market index and jobs growth

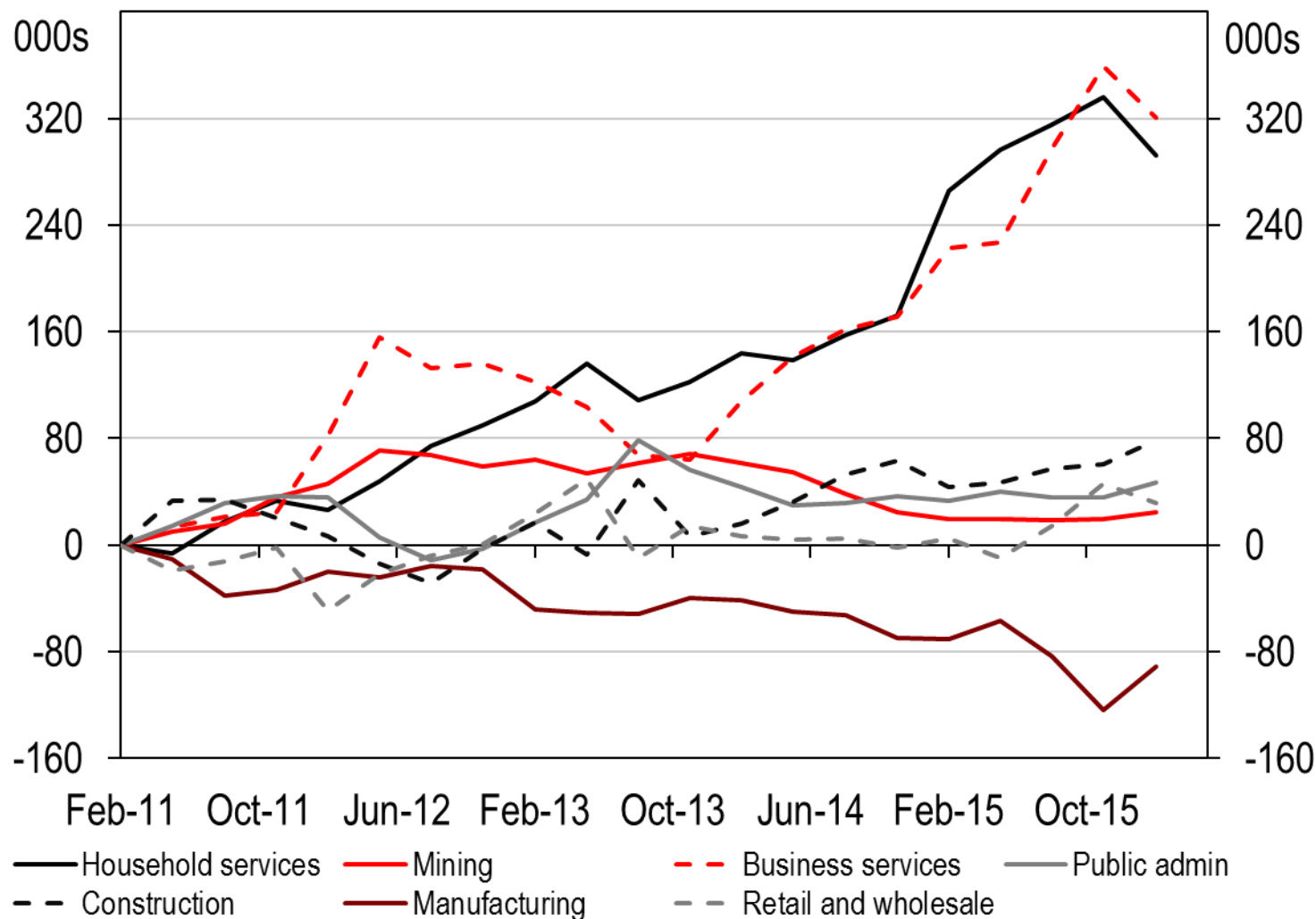


Source: ABS, HSBC estimates

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The rebalancing towards services has been creating jobs

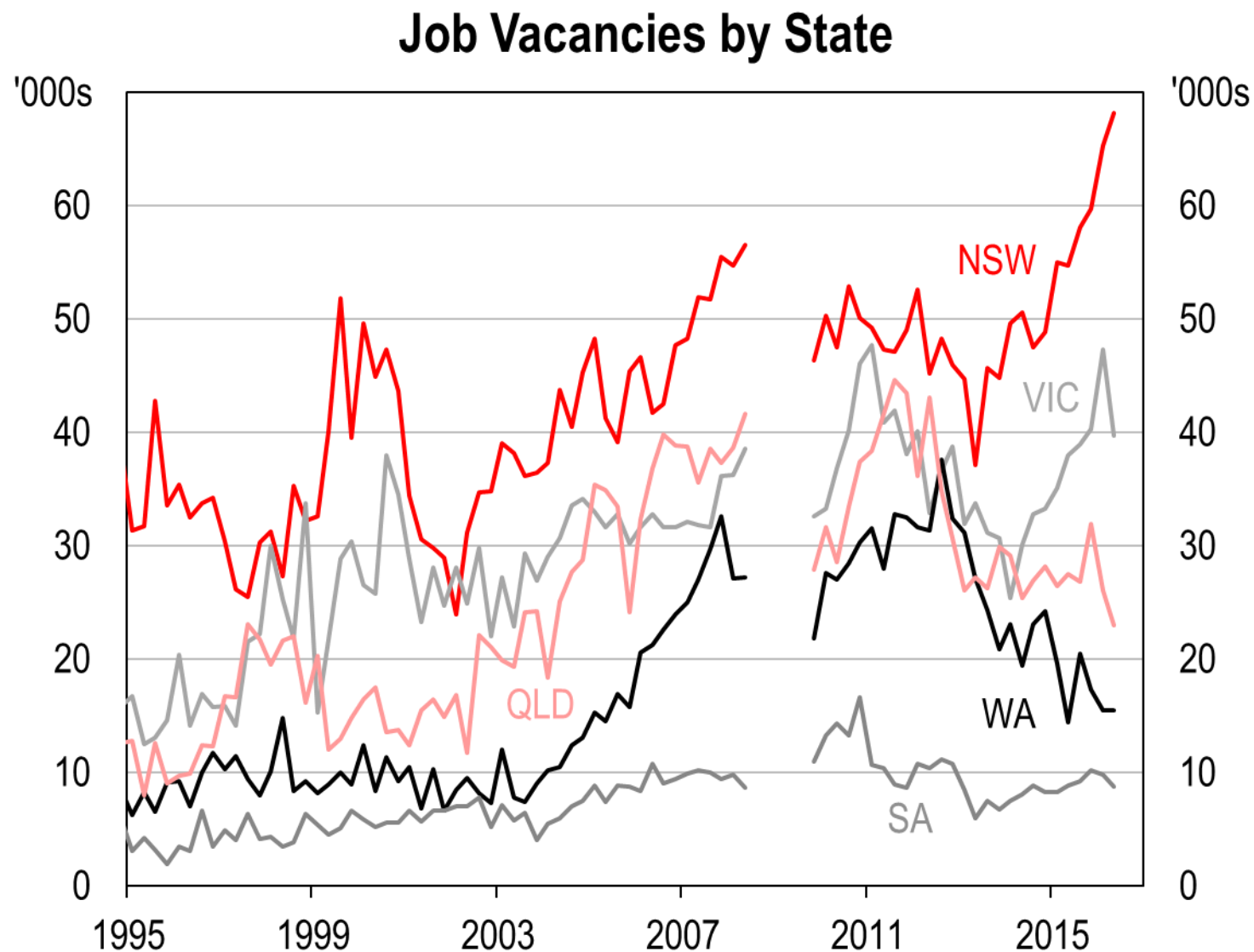
Employment by sector Cumulative change since February 2011



Source: ABS

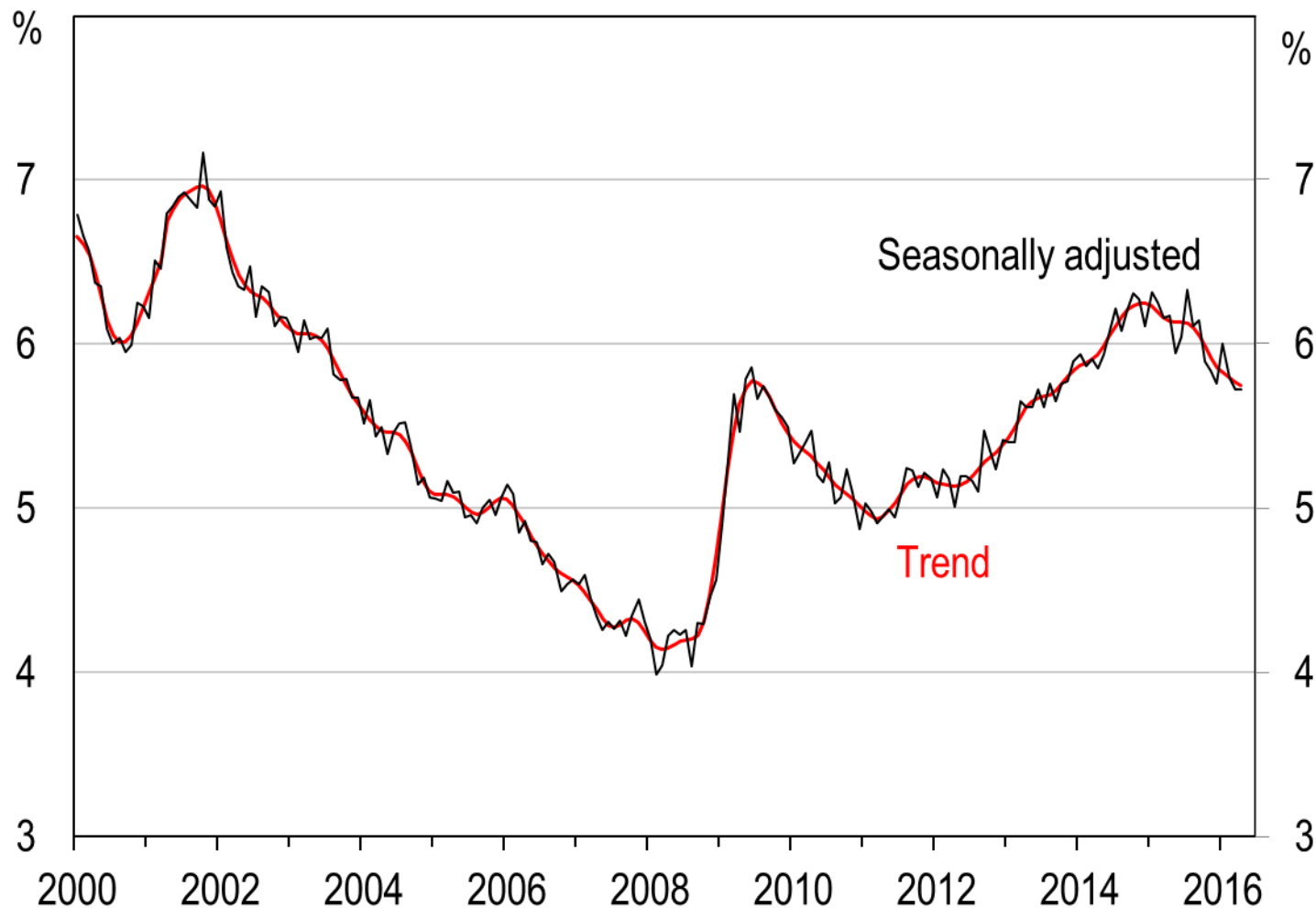
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Divergent trends across the state labour markets

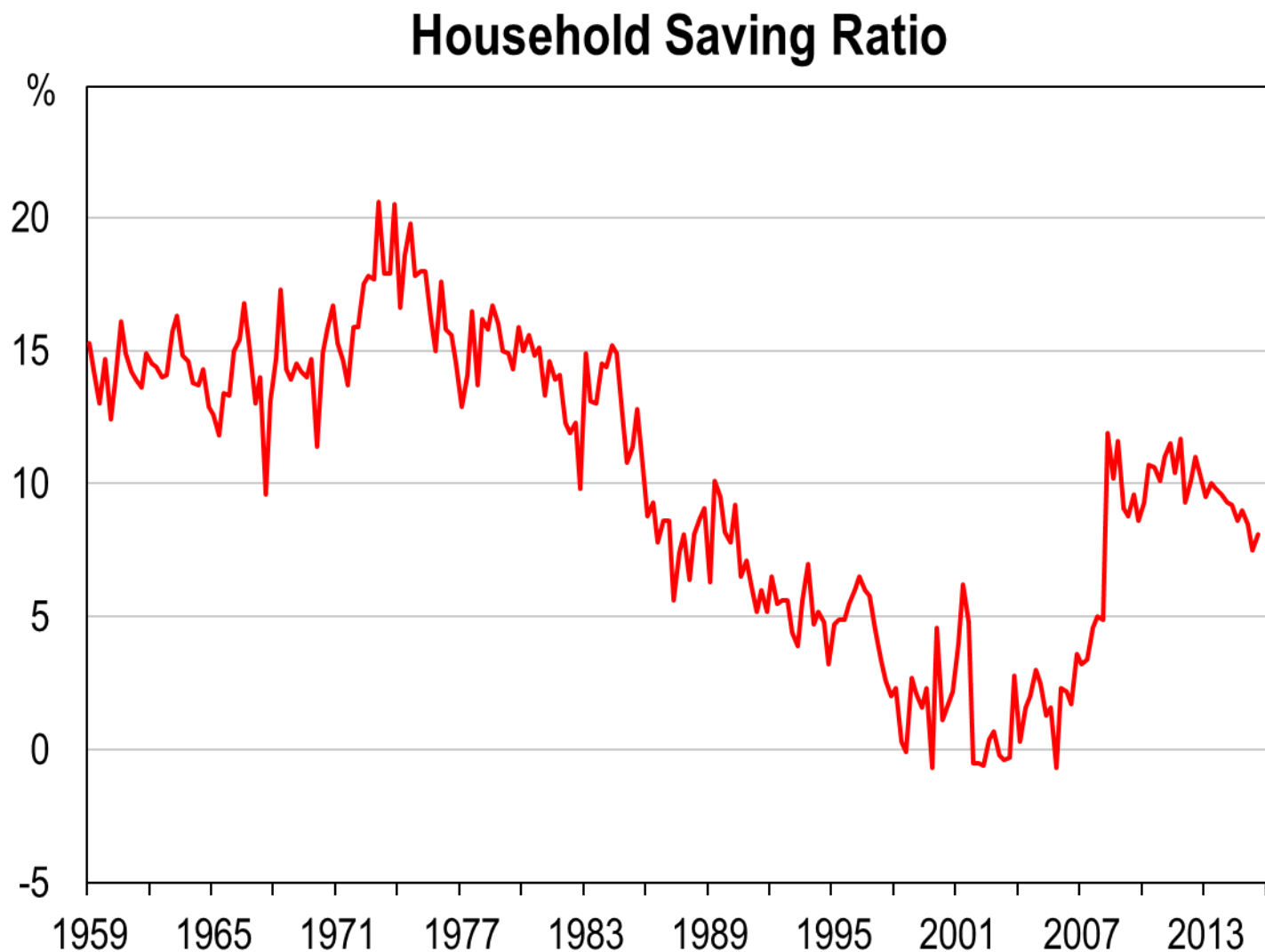


Unemployment rate has been edging lower

Unemployment rate

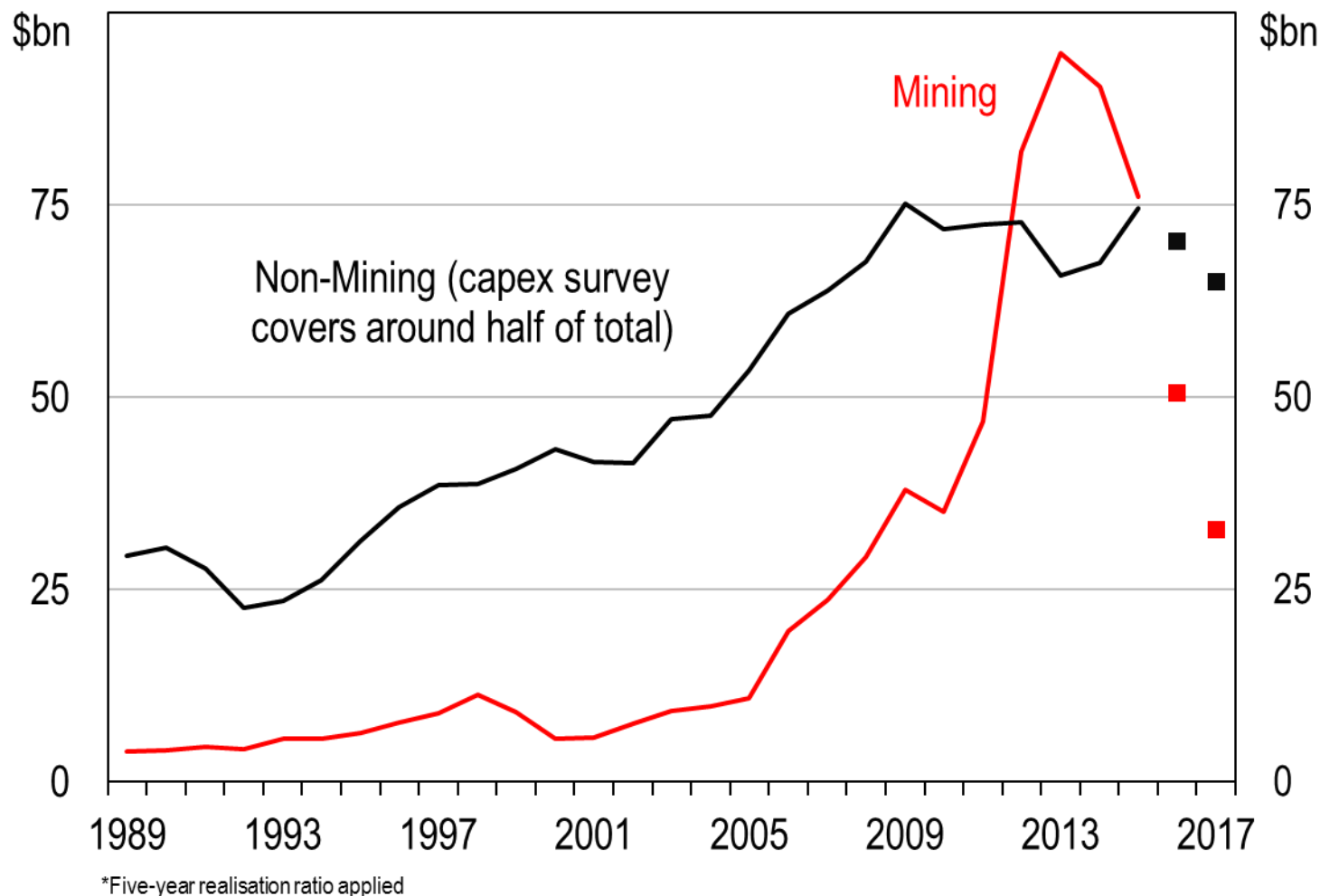


Households have been reducing their saving



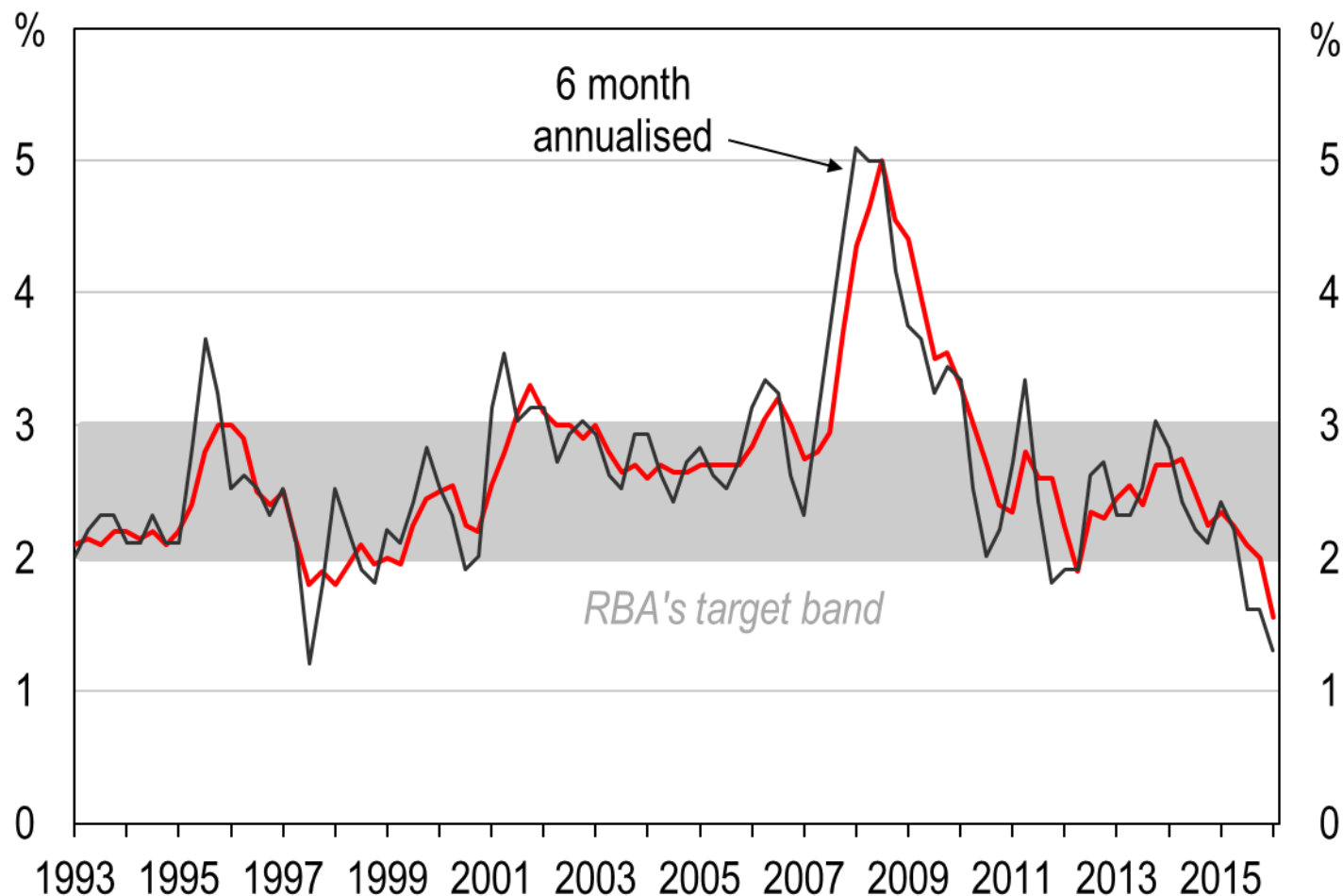
Capital Expenditure Survey

Current prices



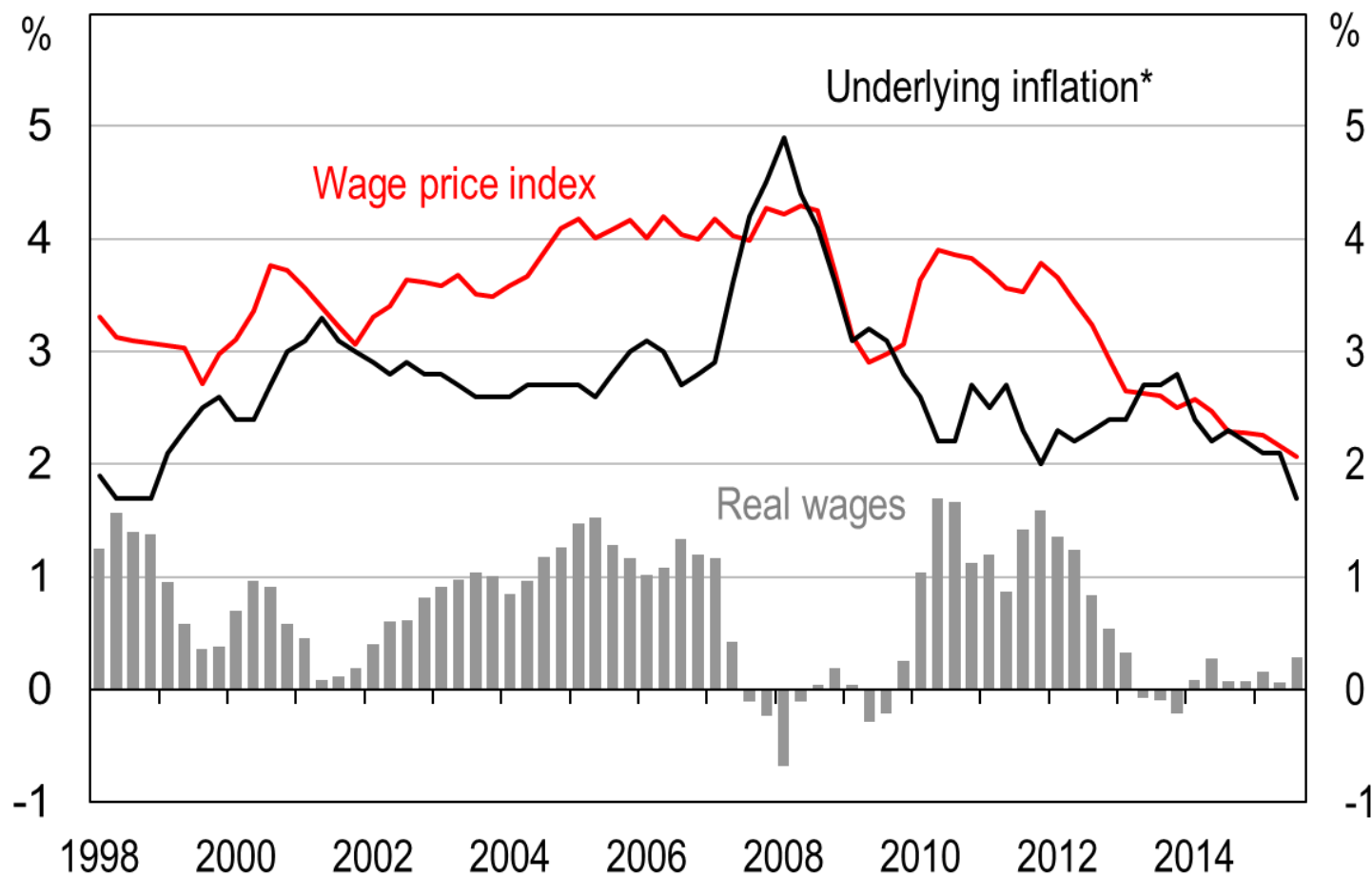
Underlying Inflation

Average of trimmed mean and weighted median (annual)



Wage Price Index and Underlying inflation

Year-ended percentage change

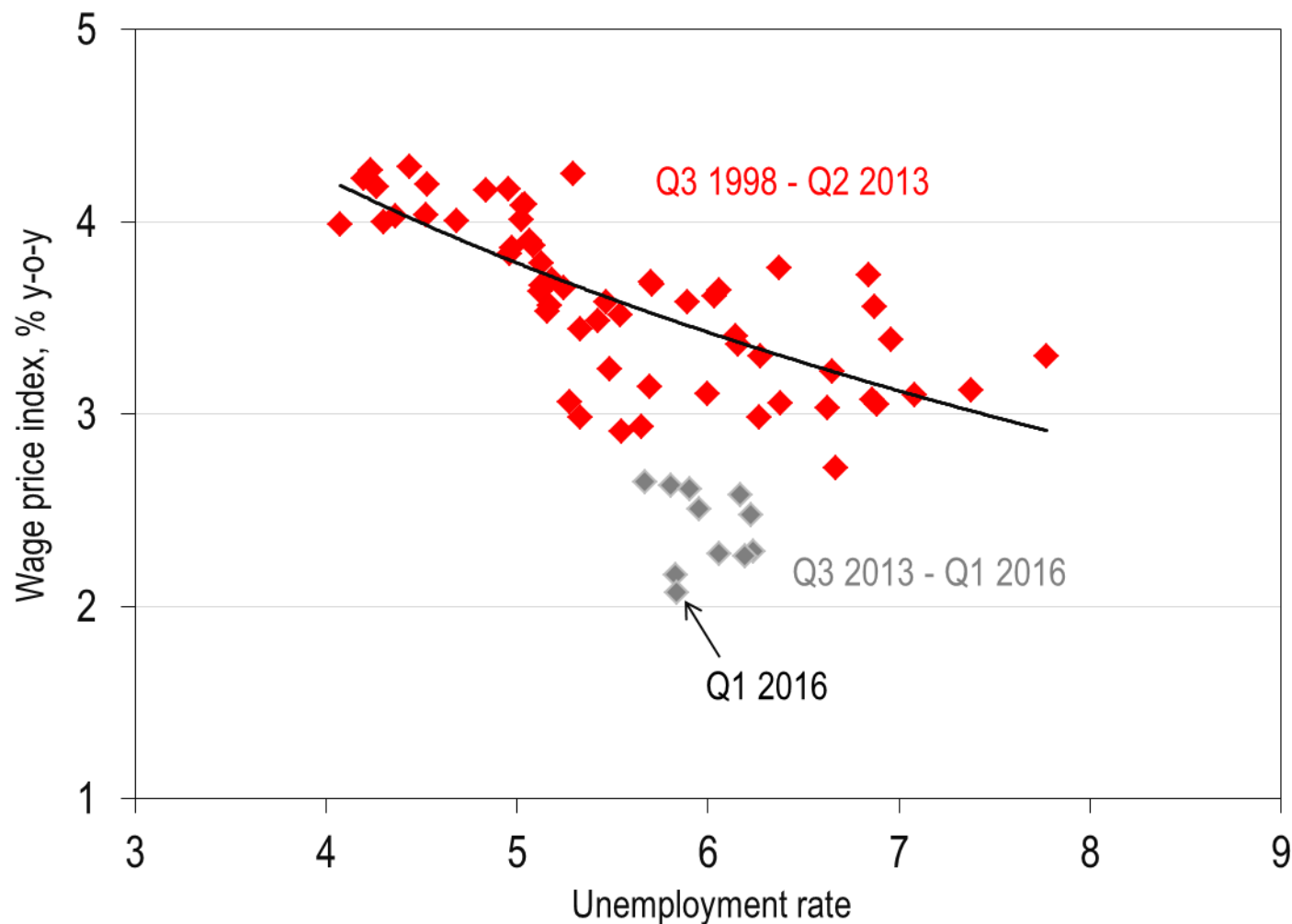


*Average of trimmed mean and weighted median

Lower unemployment is not lifting wages growth yet

Unemployment rate and wage growth

Quarterly



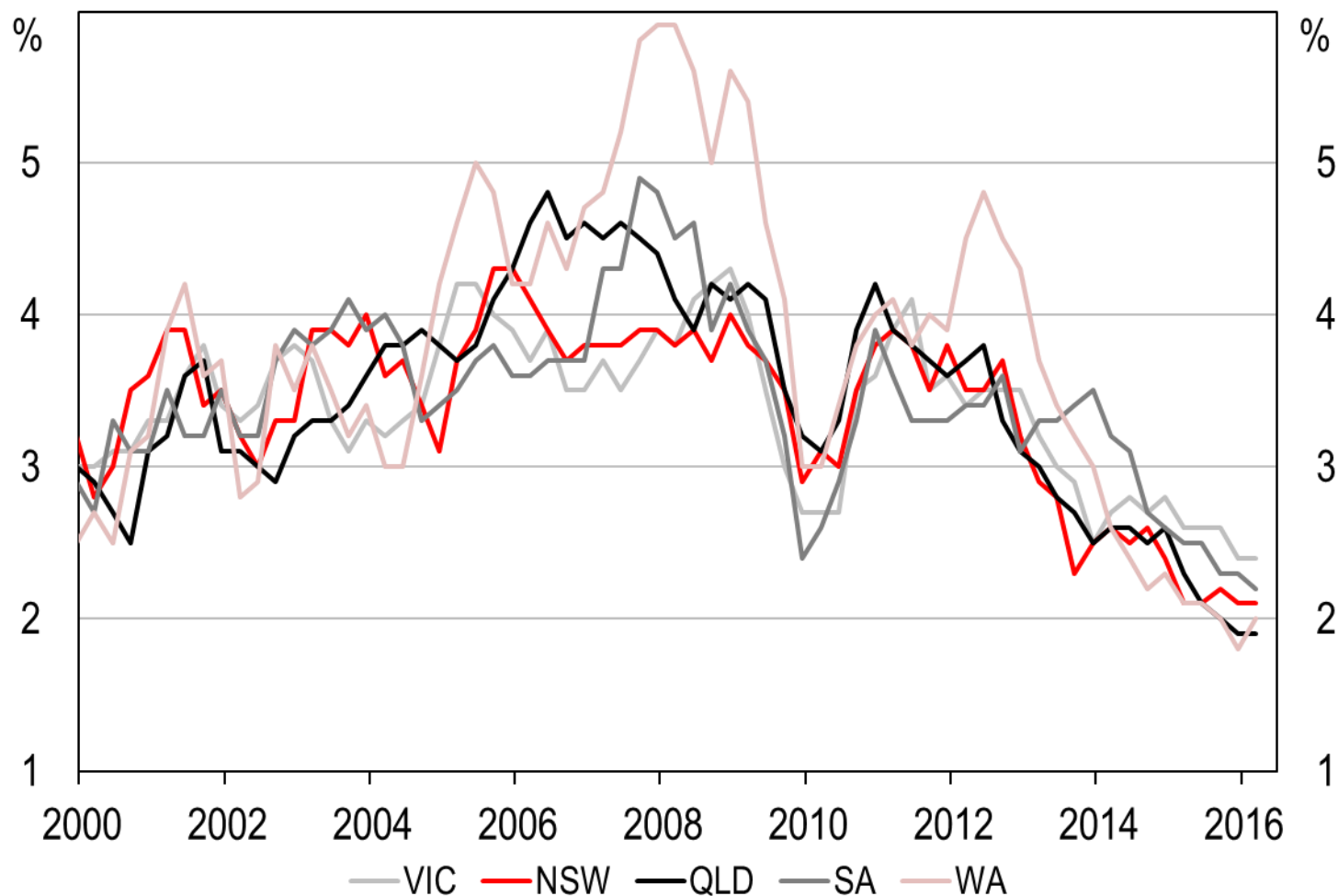
Source: ABS

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Wages growth is weak, even in New South Wales

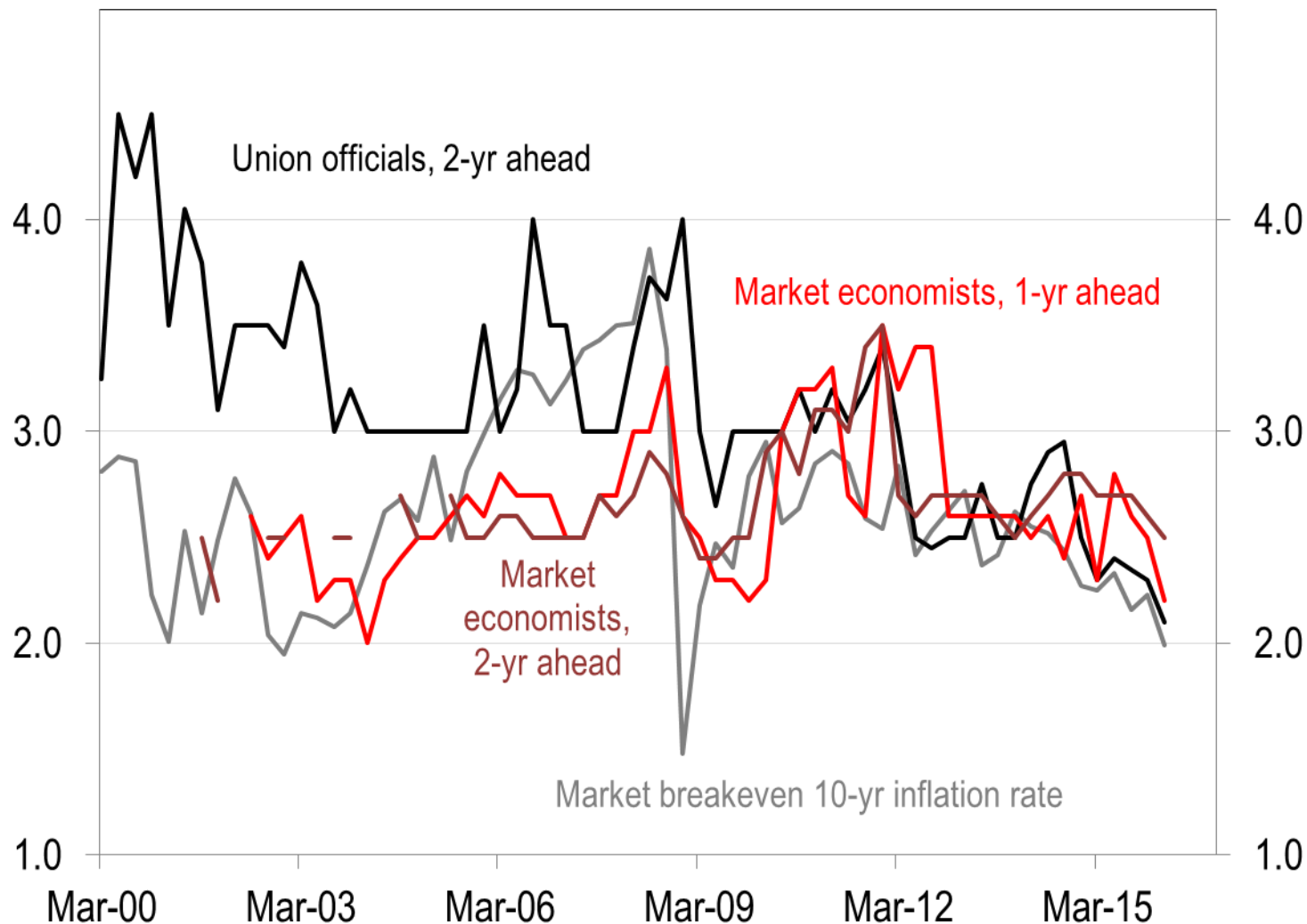
Wage growth by state

Annual % change

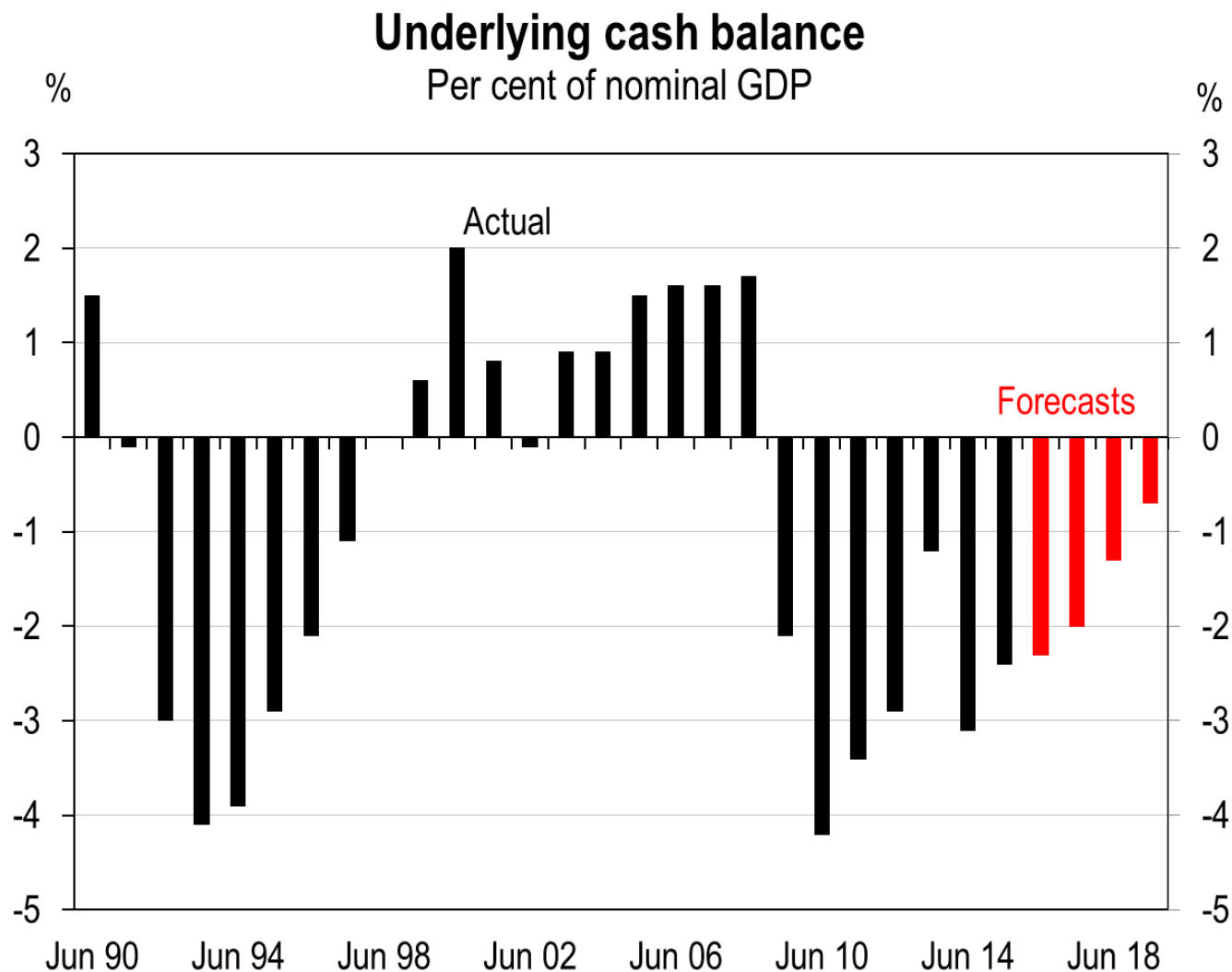


Inflation expectations falling, but still in the 2-3% band

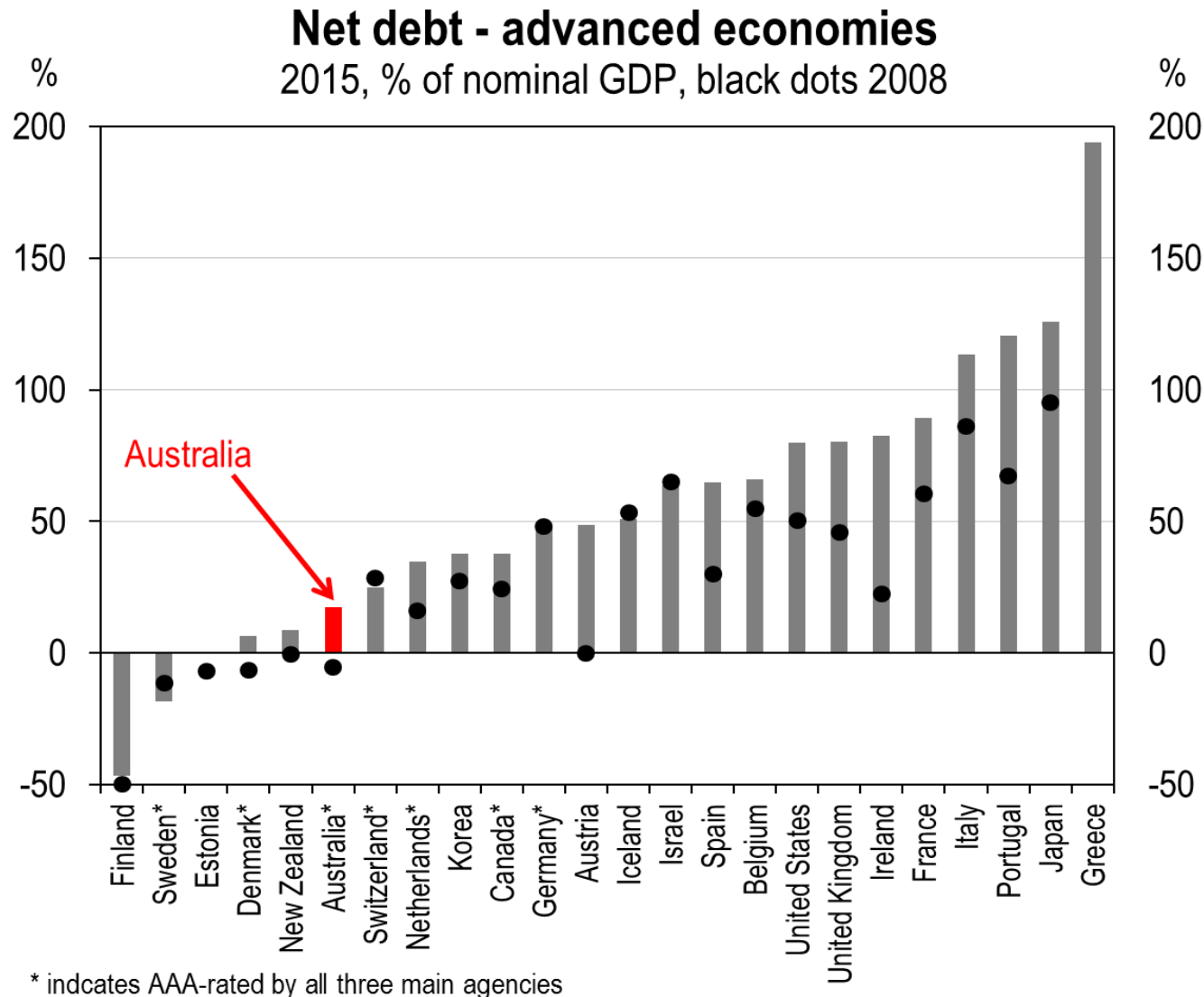
Inflation expectations



Budget deficits are expected to persist for some time



Australian government debt is low by global standards



Key economic forecasts for Australia

HSBC's forecasts for Australia

	Year-average			Year-ended						
	2015	2016e	2017e	Q415	Q116e	Q216e	Q316e	Q416e	Q117e	Q217e
% *										
AUSTRALIA										
GDP	2.5	2.8	2.8	3.1	3.2	2.7	2.4	2.1	2.6	2.9
Consumption	2.8	2.9	2.8	3.0	3.1	2.8	2.5	2.6	2.7	2.9
Public consumption	2.9	2.8	1.6	3.7	2.8	2.5	2.2	1.6	1.4	1.6
Investment	-4.3	-4.7	0.5	-6.3	-6.6	-2.9	-2.9	-0.7	0.2	0.9
- Dwelling	9.8	6.2	-0.4	7.0	7.5	6.5	4.0	2.8	0.3	-1.6
- Business	-9.3	-10.3	-1.2	-12.6	-12.1	-8.7	-7.3	-4.3	-2.1	-0.2
- Public	-1.6	1.2	7.9	0.9	-4.3	6.0	2.7	6.7	8.2	8.2
Final domestic demand	1.1	1.0	2.1	0.9	0.7	1.4	1.3	1.7	1.9	2.2
Domestic demand	1.1	1.2	2.1	1.0	0.7	1.7	1.3	1.7	1.9	2.2
Exports	5.9	8.7	8.1	6.6	11.2	7.8	9.2	6.8	8.2	8.5
Imports	1.5	0.6	5.8	-2.0	-1.1	2.2	3.4	5.6	5.8	5.8
GDP (% quarter)	--	--	--	1.1	0.4	0.5	0.4	0.8	0.9	0.9
CPI	1.5	1.3	2.4	1.3	1.3	1.3	1.4	2.2	2.3	2.5
Trimmed mean	2.2	1.6	2.1	1.7	1.5	1.7	1.6	1.9	2.1	2.2
Unemployment rate	6.1	5.9	5.6	6.1	5.8	5.8	5.8	5.7	5.6	5.5
Labour price index	2.2	2.1	2.5	2.1	2.1	2.1	2.2	2.4	2.4	2.5
Current A/C (%GDP)	-4.8	-4.6	-4.4	-5.1	-4.7	-4.3	-4.3	-4.3	-4.3	-4.5
Terms of trade	-11.5	-4.9	-1.3	-11.5	-5.9	-2.4	1.0	2.1	-0.6	-3.4
Budget balance (%GDP)	-2.5	-2.1	-1.5							
Capital city house prices	9.0	4.3	2.3	7.7	4.4	2.4	2.7	2.6	1.7	2.3
Private sector credit	6.4	6.6	5.3	6.7	7.0	6.4	6.2	6.1	5.6	5.1
USD/AUD (end period)	0.73	0.70	0.70	0.77	0.74	0.70	0.70	0.70	0.70	0.70
Cash rate (end period)	2.00	1.50	1.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50

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