

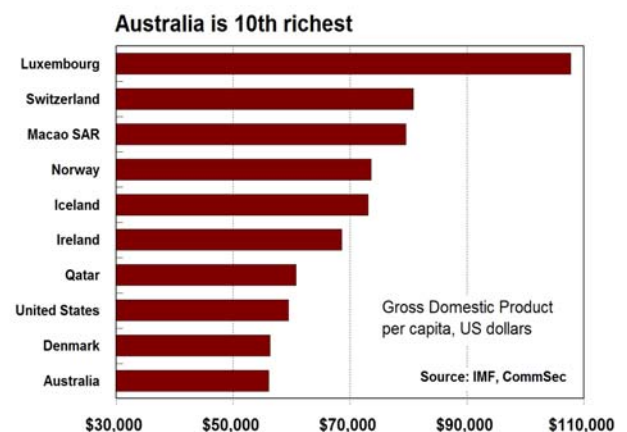
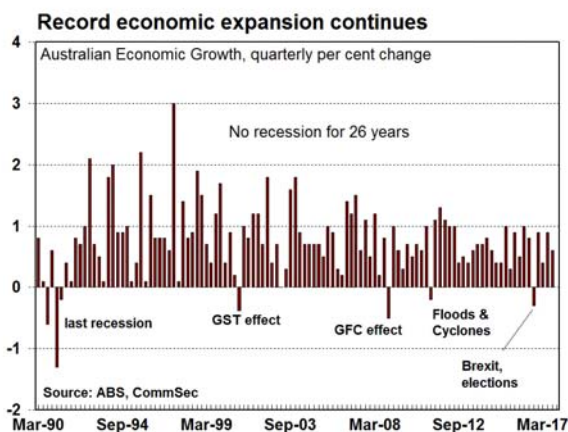
Australia: How well are we really doing?

Economic & financial issues

- This report is a stocktake on Australia's economic performance.

Big Picture

- The Australian economy has not experienced a recession for 26 years (defined as two consecutive quarters of contraction). This is Australia's longest ever economic expansion. This is also the longest economic expansion by any advanced nation in the modern era. So in simple, 'big picture' terms, Australia has done well. And it has done well for some time.
- The **Australian economy** probably grew around 2.5 per cent in 2017, down from the decade average of 2.7 per cent. The current annual economic growth rate is 2.8 per cent – a rate of economic growth the Reserve Bank regards as the 'speed limit'. That is, it is generally considered that if the economy grows much faster than 2.75-3.0 per cent, then the annual rate of prices (inflation) starts to rise.
- Also in a 'big picture' sense, interest rates, inflation, wages, and unemployment are indicators that many Aussies are familiar with. So it is useful to assess how we have been doing on these measures.
- The official **interest rate** (cash rate) was left unchanged over all of 2017, remaining at a record low of 1.5 per cent. Many Australians are paying off home loans at the lowest interest rates experienced in 60 years.
- The **unemployment rate** stands at 5.4 per cent, a 4½-year low and down from 5.8 per cent at the end of 2016. In the year to November, 383,300 jobs were created, the biggest annual gain for over 12 years.
- **Wages** grew by 2.0 per cent in the year to September, up from a record (20-year) low of 1.9 per cent.
- The **annual inflation rate** stands at 1.8 per cent. Once volatile factors are removed, underlying inflation is also around 1.8 per cent. The Reserve Bank aims for inflation to be between 2-3 per cent.
- So wages continue to outpace prices – a key metric in assessing the standard of living in a monetary sense. In fact the growth in real wages is more pronounced if you consider other inflation gauges – the household consumption deflator stands at a 1.1 per cent annual rate while retail prices actually fell 0.3 per cent in the year to



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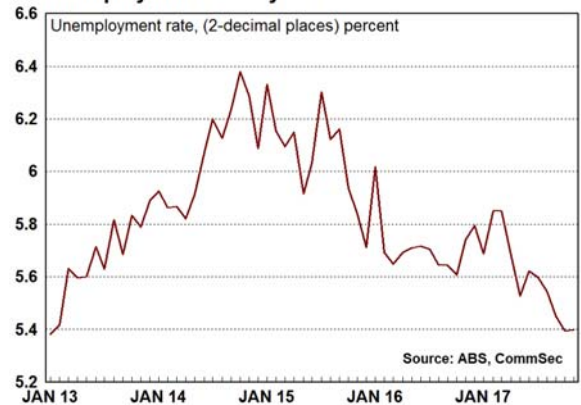
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September.

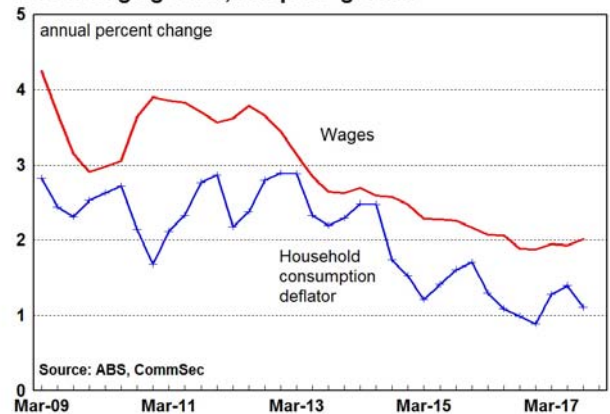
Sentiment & wealth

- According to the NAB monthly survey, **business conditions** are close to the best they have been for 20 years. While the business conditions index eased from a 20-year high in November, the rolling average stood at a 9½-year high. Business confidence is also above the long-term average.
- **Consumer confidence** is improving as people adapt to the ‘new black’: slower growth of wages and prices in the economy. Consumers are by no means pessimistic. But neither are they optimistic – a better description is ‘OK’.
- Certainly Australians have never been wealthier. **Total household wealth (net worth)** stood at a record \$9,868.3 billion at the end of September, up \$48.5 billion or 0.5 per cent over the quarter. In per capita terms, CommSec estimates that wealth rose to a record \$399,571 in the September quarter, up by \$405 over the quarter and up around \$22,136 over the year.
- On the sharemarket, **total returns (dividends and share prices)** grew by 12.5 per cent in 2017. The total return measure (All Ordinaries Accumulation index) stands at record highs.
- **Australian home prices** grew by 4.2 per cent in 2017 after lifting by 5.8 per cent in 2016. Over the past six years the value of Australian homes has lifted by almost 40 per cent.

Unemployment at 4½-year low



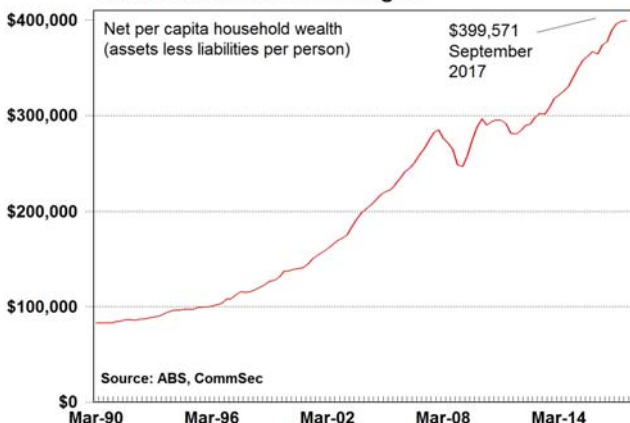
Low wage growth; low price growth



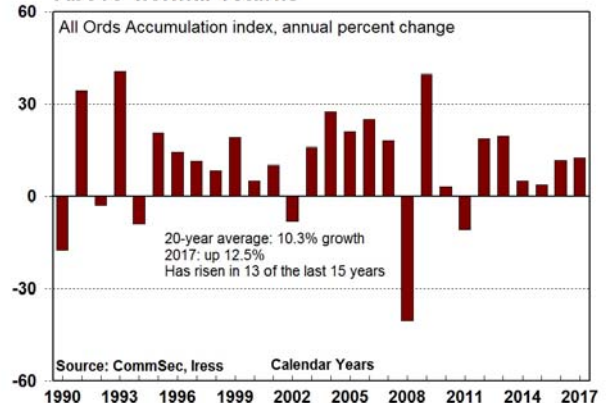
Consumer finances and spending

- In the year to September **household income** stood at \$1515.7 billion, up 2.4 per cent over the previous year. **Household spending** was \$1009.6 billion, up 3.5 per cent on the year. Spending includes the number of items being bought (volumes) as well as price changes. The volume of goods rose by 2.4 per cent in the year to September while prices rose by 1.1 per cent.
- In dollar terms, **the gap between household income and spending** was \$506.1 billion, just short of the record gap of \$508.96 billion in the year to September 2015. Looking further back, the gap between income and spending was \$450.8 billion in the year to September 2011.
- The **ratio of household debt to household assets** was steady at 21 per cent in the September quarter, broadly the same as nine years ago.
- The **ratio of interest payments on housing and other personal debt to quarterly household disposable**

Aussie wealth at record highs



Above 'normal' returns



income was steady at 8.8 per cent in the September quarter, broadly the same level as 14 years ago.

- One of the significant changes in consumer spending in recent years has been the **increased demand for services** rather than physical goods. In addition, consumers have been able to purchase more discretionary goods and services because the affordability of a raft of items has improved. In fact, the affordability of food, clothing, cars and overseas travel are all at the best levels recorded. In response, Aussies have sought to spend more of their budgets on their homes, as well as items like mobile phones, entertainment and travel.
- The Australian Bureau of Statistics recently released data showing the **most important components of consumer spending** (and therefore the most important components of the Consumer Price Index). Items like Restaurant Meals, Take Away & Fast Food, Overseas Travel and Domestic Travel all feature on the list of major consumer purchases.

Outlook & implications

- The standard of living enjoyed by Australians is one of the highest in the world. In fact, Australia is the third richest of the big, advanced nations when measured in terms of GDP per capita.
- Of course the standard of living is much broader than just income per person. It includes things like the cost and access to public transport, the standard of economic infrastructure like roads, the quality of hospitals and schools, the standard of homes and the cost and access to water, electricity and gas.
- Mercer conduct a survey each year of the cities with the highest quality of living and in 2017, Sydney was ranked 10th in the world of 231 cities with Melbourne in 16th spot and Perth in 22nd place.
- Over 2018, household spending growth is expected to lift modestly on the back of continued improvement in the job market, slightly higher growth of wages and slow growth of prices.

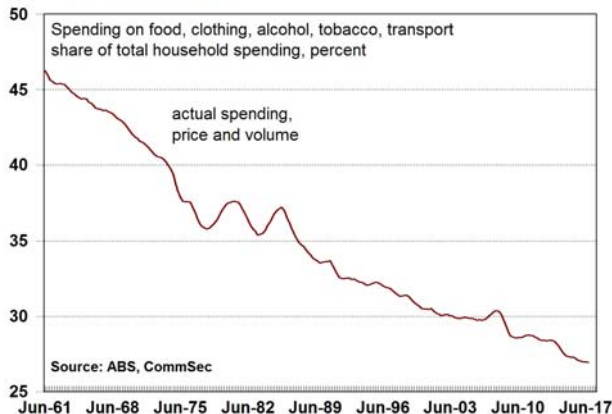
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AVERAGE WEEKLY HOUSEHOLD EXPENDITURE

| Main items | \$ per week | % of total |
|--|-------------------|--------------|
| ALL GROUPS CPI | \$1,594.18 | 100.0 |
| New dwelling purchase by owner-occupiers | \$124.07 | 7.8 |
| Rents | \$115.12 | 7.2 |
| Other financial services | \$64.04 | 4.0 |
| Medical and hospital services | \$59.49 | 3.7 |
| Restaurant meals | \$52.94 | 3.3 |
| International holiday travel and accommodation | \$50.24 | 3.2 |
| Automotive fuel | \$44.39 | 2.8 |
| Motor vehicles | \$44.38 | 2.8 |
| Domestic holiday travel and accommodation | \$42.67 | 2.7 |
| Tobacco | \$41.51 | 2.6 |
| Telecommunication equipment and services | \$41.37 | 2.6 |
| Take away and fast foods | \$40.76 | 2.6 |
| Electricity | \$34.57 | 2.2 |
| Maintenance and repair of the dwelling | \$34.25 | 2.1 |
| Maintenance and repair of motor vehicles | \$30.83 | 1.9 |
| Beer | \$29.69 | 1.9 |
| Wine | \$28.35 | 1.8 |
| Secondary education | \$27.09 | 1.7 |
| Tertiary education | \$26.25 | 1.6 |
| Property rates and charges | \$23.39 | 1.5 |
| Furniture | \$22.19 | 1.4 |
| Other services in respect of motor vehicles | \$21.53 | 1.4 |
| Child care | \$21.51 | 1.3 |
| Other non-durable household products | \$21.04 | 1.3 |
| Vegetables | \$20.43 | 1.3 |
| Garments for women | \$20.23 | 1.3 |
| Audio, visual and computing equipment | \$19.44 | 1.2 |
| Insurance | \$18.89 | 1.2 |
| Fruit | \$17.11 | 1.1 |
| Personal care products | \$17.01 | 1.1 |
| Other recreational, sporting and cultural services | \$16.73 | 1.0 |
| Pharmaceutical products | \$16.49 | 1.0 |
| Water and sewerage | \$16.28 | 1.0 |
| Sports participation | \$15.60 | 1.0 |

Source: ABS, CommSec

Record low share



Gap still widening

