



Australian GDP picks up

Growth is rebalancing

Today's GDP numbers were positive. They showed that growth has picked up and that Australia's great rebalancing act is underway. GDP rose by +0.8% in Q4 to be +2.8% higher y-o-y (market had +2.5%). Mining investment fell in the quarter, but this was more than offset by a rise in household consumption and exports. Overall domestic demand picked up and the household saving rate has started to fall. More timely indicators suggest this rebalancing of growth has continued into Q1 2014, with business conditions and housing activity rising further. We expect the RBA to remain on hold for now, but for rates to rise before year-end.

**Australian GDP
rises
+2.8%
y-o-y in Q4**

Facts

- Real GDP rose by +0.8% in Q4, to be +2.8% higher for the year (market expected +2.5% y-o-y, HSBC had +2.7%).
- Household spending was a key driver of growth, with household consumption rising +0.8% q-o-q, to be +2.6% higher for the year. Dwelling investment picked up modestly, rising by +1.0% in Q4 and by +1.4% y-o-y. Mining investment was a drag, with engineering investment falling -1.5% in the quarter to be -4.9% lower for the year. Machinery and equipment investment fell by -18% y-o-y. Overall, gross national expenditure rose +0.3% in the quarter, to be +0.9% higher for the year.
- The external sector made a solid contribution to growth. Exports increased +2.4% q-o-q to be +6.5% higher over the past year, as rising capacity in the resources sector continued to come on line. Imports were -0.6% lower in Q4, to be -4.6% lower y-o-y.
- Nominal GDP rose by +1.6% q-o-q (+4.8% y-o-y). The terms of trade picked up by +0.6% in the quarter, to remain -1.2% lower y-o-y.
- Productivity improved in the quarter, with GDP per hour worked rising by +1.2% q-o-q, to be +1.9% higher over the past year.

Implications

Today's GDP numbers for Australia were an all-round positive result. GDP growth picked up in Q4 and accelerated to +2.8% y-o-y, which we see as close to trend.

Perhaps more importantly, the composition of growth was also favourable, as it provided evidence that monetary policy is working, with activity lifting in the non-mining sectors, as mining investment begins to fall. Australia's great rebalancing act is finally underway.

**Paul
Bloxham**



Chief Economist, Australia & New Zealand
HSBC Bank Australia Limited
+612 9255 2635
paulbloxham@hsbc.com.au

**Adam
Richardson**



Economist
HSBC Bank Australia Limited
+612 9006 5848
adamrichardson@hsbc.com.au

View HSBC Global Research at:
<http://www.research.hsbc.com>

Issuer of report
HSBC Bank Australia Limited

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Mining investment fell in the quarter, with both engineering construction and machinery & equipment investment falling. Importantly though, the impact of this decline on GDP is being partly offset by a fall in imports, as much of the equipment used in mining investment has been from offshore. The fall in engineering and equipment investment y-o-y subtracted -1.3 percentage points from growth in Q4, but this was offset by a fall in imports worth 1.0 percentage point of GDP over the same period. The net drag on the economy from the fall in mining investment will be reduced by the high-import share. This theme will continue to play out this year and next as mining investment continues to fall.

Further offsetting the mining slowdown is the ramp up in resources exports. Overall exports rose strongly, to be 6.5% higher y-o-y. Again, this ramp up in exports has a long way to run as new capacity in iron ore, coal and LNG production continues to come on-line.

Outside of mining, today's GDP numbers were quite positive. Household consumption growth picked up in the quarter and is running at +2.6% y-o-y, which is its fastest pace since early 2012. In line with this move, the household saving rate edged down, after a long period where it has remained fairly high and stable. Somewhat disappointingly, dwelling investment was still weak in Q4 and y-o-y. However, the forward-looking indicators of dwelling investment are now very positive, with building approvals having risen by +34% y-o-y in January. This implies that a significant rise in residential construction is likely in coming quarters.

The RBA will be comforted by this set of GDP numbers as it provides evidence that their strategy to rebalance growth from being mining-led to driven by the non-mining sectors is underway. Monetary policy is working. Timely indicators also generally suggest these trends continued in more recent months.

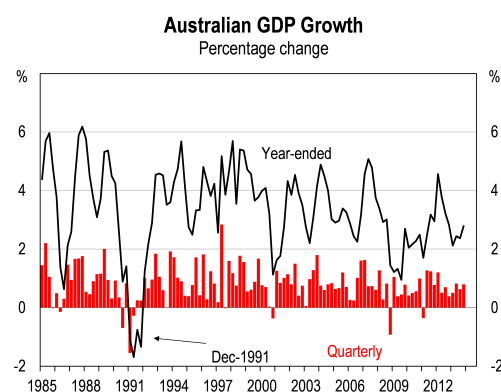
We see the RBA as unlikely to cut rates further and, if our central case plays out and growth continues to rebalance, we expect they may have to lift rates before the end of the year.

Bottom line

GDP surprised modestly to the upside and the components suggest that growth is rebalancing, which is favourable.

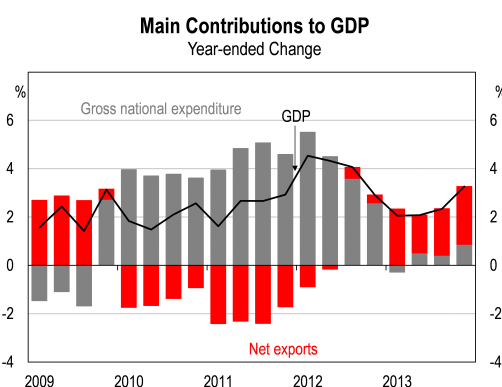
We continue to expect that the RBA's easing phase is done and expect that they may have to lift interest rates before year-end.

Figure #1: GDP is picking up pace



Source: ABS

Figure #2: Exports continued to be a key support



Source: ABS

Figure #3: Incomes rising despite falling commodities due to lower AUD

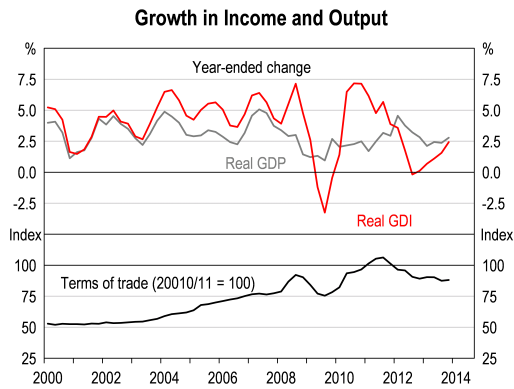


Figure #4: Household saving falling as economy rebalances

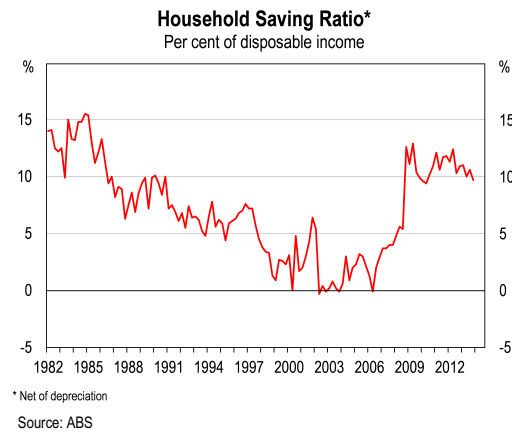


Figure #5: Household consumption is picking up

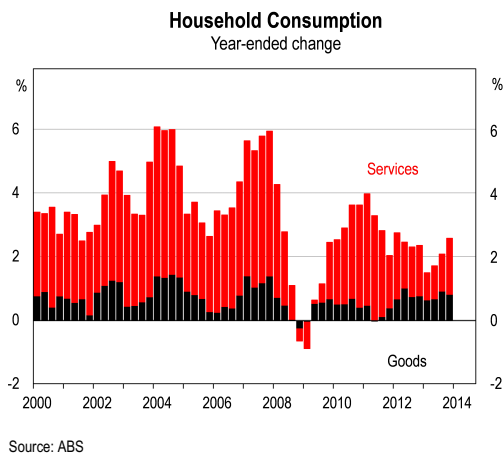
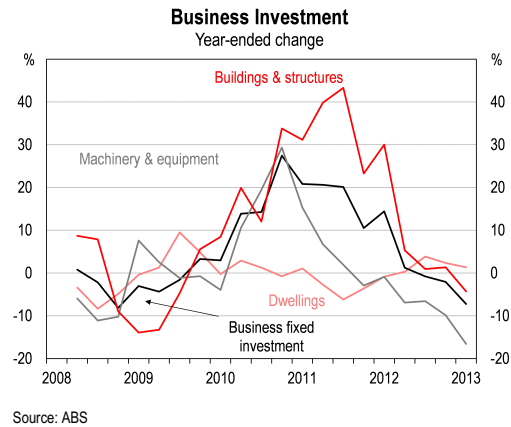


Figure #6: Mining investment falling, dwelling investment rise yet to come



Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Paul Bloxham and Adam Richardson

This document has been prepared and is being distributed by the Research Department of HSBC and is intended solely for the clients of HSBC and is not for publication to other persons, whether through the press or by other means.

This document does not provide individually tailored investment advice and should not be construed as an offer or the solicitation of an offer to buy or sell any securities or to participate in any trading strategy. The information contained within this document is believed to be reliable but we do not guarantee its completeness or accuracy. Any opinions expressed herein are subject to change without notice. HSBC may hold a position in, buy or sell on a principal basis or act as a market maker in any financial instrument discussed herein.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analyst(s) are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Additional disclosures

- 1 This report is dated as at 05 March 2014.
- 2 All market data included in this report are dated as at close 05 March 2014, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

*** Legal entities as at 8 August 2012**

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR

Issuer of report

HSBC Bank Australia Limited

Level 32

HSBC Centre

580 George Street

Sydney, NSW 2000, Australia

Telephone: +61 2 9006 5888

Fax: +61 2 9255 2205

Website: www.research.hsbc.com

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This material is distributed in the United Kingdom by HSBC Bank plc. In the UK this material may only be distributed to institutional and professional customers and is not intended for private customers. Any recommendations contained in it are intended for the professional investors to whom it is distributed. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR. This material is distributed in Japan by HSBC Securities (Japan) Limited. This material may be distributed in the United States solely to "major US institutional investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934); such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States. Note, however, that HSBC Securities (USA) Inc. is not distributing this report, has not contributed to or participated in its preparation, and does not take responsibility for its contents. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV). HSBC Bank (Panama) S.A. is regulated by Superintendencia de Bancos de Panama. Banco HSBC Honduras S.A. is regulated by Comisión Nacional de Bancos y Seguros (CNBS). Banco HSBC Salvadoreño, S.A. is regulated by Superintendencia del Sistema Financiero (SSF). HSBC Colombia S.A. is regulated by Superintendencia Financiera de Colombia. Banco HSBC Costa Rica S.A. is supervised by Superintendencia General de Entidades Financieras (SUGEF). Banistmo Nicaragua, S.A. is authorized and regulated by Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF).

This material is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document has been prepared without taking account of the objectives, financial situation or needs of any specific person who may receive this document. Any such person should, before acting on the information in this document, consider the appropriateness of the information, having regard to the personal objectives, financial situation and needs. In all cases, anyone proposing to rely on or use the information in this document should independently verify and check its accuracy, completeness, reliability and suitability and should obtain independent and specific advice from appropriate professionals or experts. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of any companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform banking or underwriting services for or relating to those companies. This material may not be further distributed in whole or in part for any purpose. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. (070905)

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

© Copyright 2014, HSBC Bank Australia Ltd, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Australia Limited. MICA (P) 118/04/2013, MICA (P) 068/04/2013 and MICA (P) 077/01/2014
