



KEY INDICATORS

LABOUR FORCE*

Total number employed **294,516**

Employment growth **0.6%**

Unemployment **6.5%** (actual rate)

Labour force participation **61.7%** (actual rate)

HOUSEHOLD

Number of dwelling approvals (all types)* **+25.5%**

New passenger vehicle registrations **-5.5%**

Consumer confidence (12-mth economic outlook) **-0.13**

(where + 1 = Better, - 1 = Worse)

* NOTE: Change in ABS definition of the Hunter Region and new time series now excludes Gloucester and Great Lakes LGAs

BUSINESS

Real value non-residential building approvals* **-11.4%**

New commercial vehicle registrations **-8.6%**

Business sentiment (12-mth outlook) **+0.16**

(where + 1 = Better, - 1 = Worse)

NATIONAL SUMMARY

The Australian economy's pace of growth improved in the second half of 2013, and this growth has persisted in early 2014. The question remains about the likely ongoing speed of growth in the Australian economy, with the recent positive outlook owing much to a rise in resource exports. Internationally advanced countries are seeing improved outcomes from last year overall, although some emerging economies, including China, slowed during the first half of 2014.

Positives for the national outlook include low interest rates, and residential construction which has been reported to be moving up strongly, along with improved intentions to invest outside the resources sector, which were formerly subdued. The national labour market has shown signs of mild improvement, and recently job growth has been accompanied by a rise in the labour force participation rate. Predicted falls in the Australian Dollar (AUD) may provide a silver lining for export-oriented and import-competing sectors, which have been squeezed in recent years.

On the other hand, while the Reserve Bank has indicated that the federal budget is unlikely to change the near-term outlook, the prospect of fiscal contraction has been linked to recent falls in consumer and business confidence. The Reserve Bank has also flagged that one of the biggest sources of uncertainty about the pace of growth in private demand remains the speed of the decline in capital spending by the resources sector, and the timing of recovery in non-mining spending and non-mining activity.

REGIONAL SUMMARY

The Hunter economy continues to face the forces of structural change, to a greater extent than the rest of the state. Employment has continued to decline since year start, if at a slower rate in recent months, and consumer and business sentiment remain sombre. The impact on jobs data of recently announced lay-offs in mining and manufacturing may be spread over some months.

Residential building approvals continued to increase, although at a slower rate than the state. It is possible that continued stimulatory interest rates, combined with depreciation of the currency, may assist new regional growth. However, given the structural forces at play, improving the competitiveness of the manufacturing sector remains a key focus both nationally and in the Hunter.

Identifying the key drivers of regional growth into the future is critical. While the Hunter has prospered from the resources boom, it faces the challenges of an ageing population and has difficulty retaining many of its skilled young people.

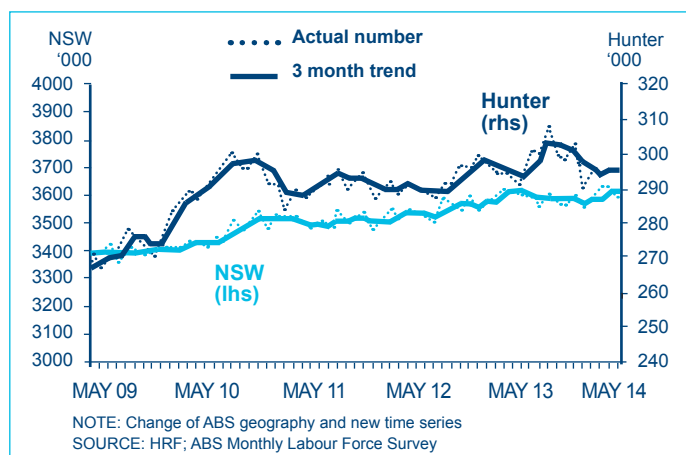
National Economics 'State of the Regions 2014-15' report highlights that high-income economies depend on sustained innovation to drive long-term growth. Australia's knowledge economy is concentrated in its capital cities, posing challenges for the Hunter, including business and resident uptake and use of information and communication technologies (ICT). Planned urban renewal in the Newcastle CBD may assist through increasing the city's functionality, connectedness and attractiveness.



Employment ...subdued

The May monthly labour force data flags some moderation in the recent trend of decline in Hunter employment numbers from their 2013 peak. While there has been some improvement in labour market conditions and outlook at a national and state level since late 2013, the Hunter has fared less well, with employment continuing to trickle downward in the three months to May, following a sharper decline from September 2013. The detailed data indicate underlying churn in the market, as the regional economy continues to undergo structural change. The Region's full-time employment base has shown resilience, declining only marginally from the start of the year, while part-time employment has borne the brunt of the change, falling 2.5% from the start of the year (using a 3-month moving average).

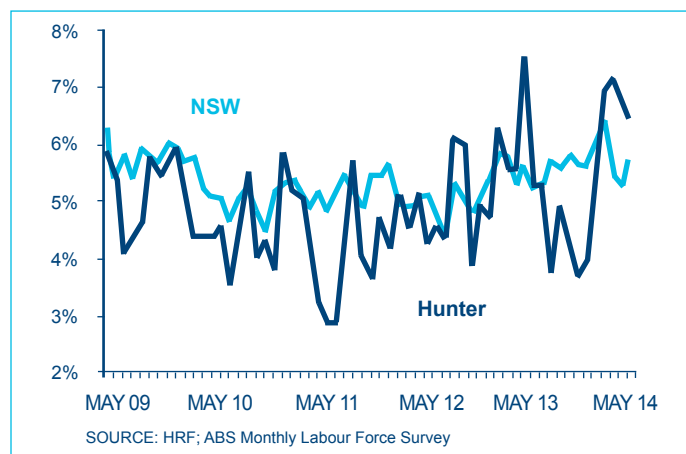
HUNTER REGION EMPLOYMENT NUMBERS



Unemployment ...worsening outlook

In May 2014 the Region's unemployment rate was little changed from the previous month, reflecting the greater overall stability in the labour market. While the Australian Bureau of Statistics (ABS) series exhibits considerable volatility, the Hunter's unemployment rate has been consistently above the state figure from the start of the year. At the national the recent mild growth in job numbers has been offset by a rise in labour force participation, resulting in a slight increase in the national unemployment rate over the month to June 2014. Within the Hunter, the effects of recently announced lay-offs in mining and manufacturing may be spread over some months. This, coupled with continued dampening of business investment prospects and employment intentions, makes a further rise in the regional unemployment rate in the short to medium-term seem likely.

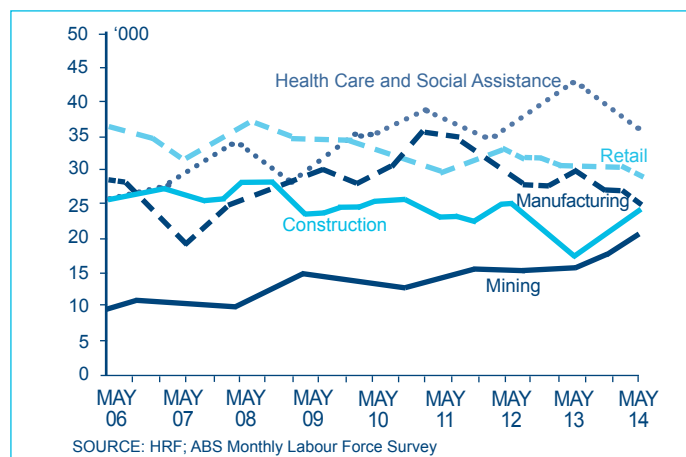
UNEMPLOYMENT RATE - HUNTER AND NSW



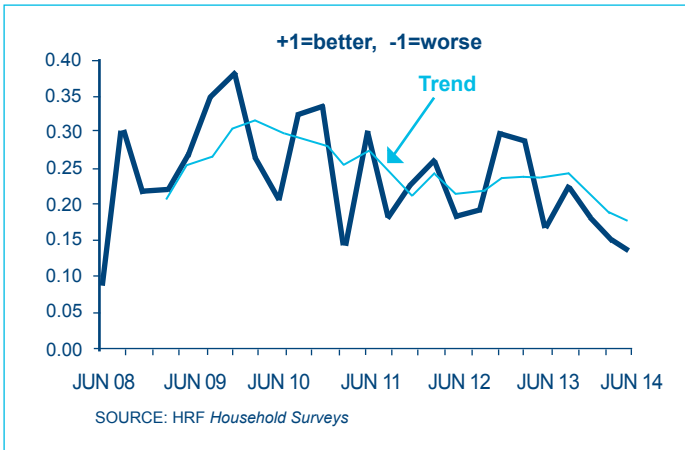
Sectoral Shifts ...varying fortunes

While there has been commentary that the Hunter's labour market is feeling the impact of a weakening regional economy in light of a post-boom slowdown, this is yet to be evident in industry-level labour force data for mining within the Region. The construction industry has recovered in 2013-14, echoing the national trend, and is likely to be further supported by commercial and residential construction within the Newcastle CBD and infrastructure investment flowing from Port of Newcastle developments. Employment in the Region's important health care and social assistance, retail and manufacturing sectors have continued to fall (although there is cyclical volatility in some sectors). Some analysts predict a softening of the AUD over the course of the year, which may provide a degree of relief for export-oriented and import-competing industries.

CHANGE IN EMPLOYMENT - SELECTED INDUSTRIES



FINANCIAL CIRCUMSTANCES IN 12 MONTHS TIME

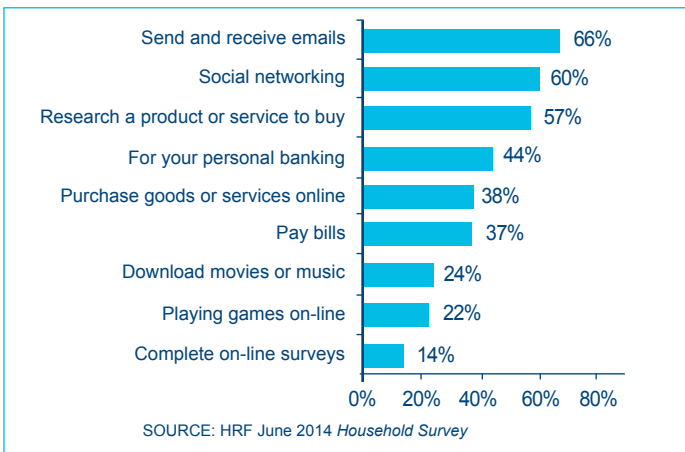


Household Consumption
...subdued



Hunter households' expectations for their personal financial circumstances continued to weaken in Jun-14 for both 3-month and 12-month outlooks, although still positive on average. Nationally, falls in consumer confidence have been linked to unpopular proposed savings measures in the May Federal budget, and lack of confidence in the labour market despite improvement in jobs growth and sustained low interest rates. Australia-wide retail sales contracted 0.5% in the March-May period. All indications are that the Hunter economy is weathering a post-boom slowdown, and that Hunter households are also facing a relative increase in the cost of living. Associated consumer caution is likely to result in further pressure on Hunter retail trade over the coming months. Growth in construction and housing sectors may provide a countervailing positive trend within the Region.

HUNTER RESIDENTS AND MOBILE PHONE USE, 2014

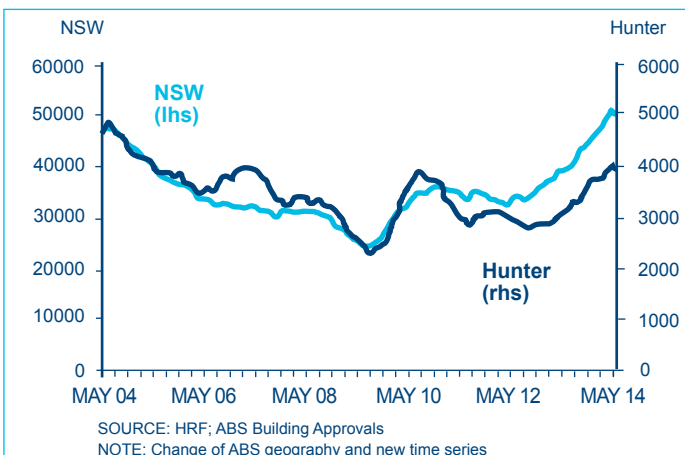


Consumers Online
...mobile phone activity



Within the retail and services sectors the internet is reducing consumer search costs and increasing choice and convenience. The June 2014 HRF survey shows the most popular online activity for Hunter households was purchasing goods and services, with over eight in 10 internet users having shopped online, followed by personal banking and paying bills (both by 80% of internet users). Smartphones have facilitated the use of converged communications. Their 'go anywhere' capability now includes web access and other services. Internet-use via mobile phones is commonly for information and business-related reasons and these uses have grown rapidly. The figure opposite shows the latest HRF data on mobile phone use amongst Hunter households. Most common internet use of mobiles was to send and receive emails and for social networking, but product-search, personal banking and online purchasing also feature prominently.

NUMBER OF DWELLING APPROVALS (annualised)



Housing Investment
... moderate recovery



One of the policy objectives of the current stimulatory monetary regime is to encourage construction, given waning investment in the resources sector. While this policy has begun to take effect at national and state level, the impact has been more moderate in the Hunter, where rates of growth have slowed from the start of 2014, following strong growth (29%) in the year ended December 2013. Growth in Hunter residential approvals has slowed since early 2014 compared with the same period in 2013 (3% and 8% respectively), adding to the overall picture of soft consumer demand in the Region. Nationally residential building construction has maintained strong growth, supported by the continuation of a record low interest rate. State-wide the growth in total building approvals has been higher than the Region, averaging 6% from the beginning of the year. Debate continues as to whether we have reached the peak of the house-price cycle at the state and local level.

Region ICT Use

...SME's slow to go online

Information and communication technologies are now integral to our economy and society. As Hunter consumers embrace online retail, Hunter retailers will need to transform to meet this challenge. The June 2014 HRF survey of Hunter businesses reports that 57% have a dedicated website, compared to 64% of small businesses nationally (Sensis, 2013). Lack of time and resources, uncertainty of benefits to business, and lack of knowledge and expertise were key reasons cited by Hunter businesses for not having a dedicated website. When asked how they would like to improve their knowledge of ICT, just over one-third of Hunter businesses felt they did not need to improve their knowledge. However, those who wanted to indicated that they would like to know more about marketing via social networks (30%), developing a presence online (26%) and accepting online payments (21%).

ICT USAGE BY HUNTER BUSINESSES

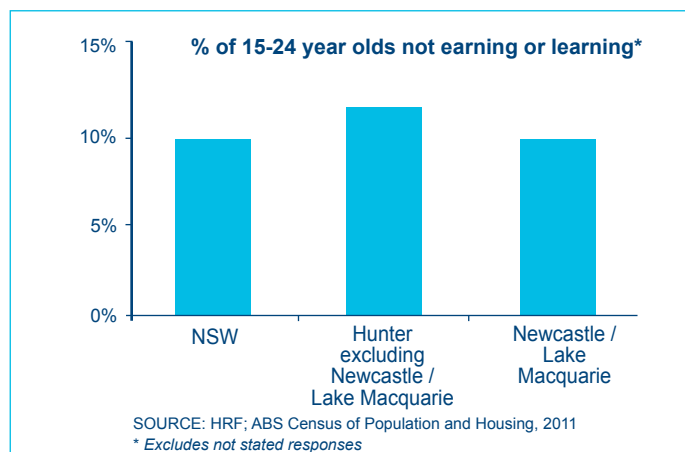


Regional Resilience

...participation in earning and learning

Participation in work, education and training are key to maintaining individual capability and a socially-inclusive society. Young people who are not fully engaged in either education or work are at greater risk of unemployment, cycles of low pay and employment insecurity. In 2011, 10% of Newcastle and Lake Macquarie residents aged 15 to 24 years were neither earning nor learning, a figure on par with the state. The comparable figure was 12% for the rest of the Hunter Region. Nationally, unemployment levels for 15-24 year olds have remained high since the start of 2014, at or above 12%. The challenge for the Hunter lies in adequately skilling the Region's young people for the changing nature of employment, establishing effective pathways around transition and retaining these skills via the generation of sufficient and diverse employment opportunities within the Region.

15-24 YEAR OLDS NOT EARNING OR LEARNING



Regional Economy

...subdued outlook

While Hunter business performance expectations remain in positive territory on balance, the index continued to decline in June 2014. 12-month outlook for business confidence was at its lowest point since the Global Financial Crisis, underpinned by dampened profitability prospects and hiring intentions. The business outlook for the regional economy has declined. Businesses, on balance, expect regional economic conditions to worsen in the next 3 months. This is not surprising given consumer demand remains weak and the labour market is stagnant and may weaken further before the regional economy recovers. The outlook for the Hunter economy remains subdued. In the near term, the risks of reduced demand for Hunter exports, and of fiscal consolidation, may outweigh the stimulus of new infrastructure investment, possible improvements in residential construction and efforts to increase productivity.

OUTLOOK FOR THE REGIONAL ECONOMY

