Australian Economic Perspectives
Is Australia about to join the low inflation world?

Economics

Australia

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Overview:
Is Australia on the cusp of joining the low inflation world? While major global central banks have spent much of the post-GFC period trying to lift CPIs toward their targets, relatively higher inflation outcomes have continued in Australia, with only a single sub-2% core inflation print in the past 15 years. We show Australia's inflation has been typically 1% faster in almost every sub-category compared with the US, Canada & EU.

But recent quarters have delivered Australia's lowest core inflation prints (on average) in 18 years. Moreover, looking at the inflation components suggests new competitive, supply or regulatory pressures in areas that have in the past significantly contributed to upward price pressure for Australia (such as, housing, utilities & food).

We now believe structural disinflationary pressures have intensified in Australia (& are touching 30% of the CPI basket). While often characterised as a small market, with oligopolistic structures, we believe new entrants in some sectors, new regulatory pressures, & disinflation from rapid housing supply, point to downside inflation risks.

We see an 80% probability that inflation will print below the RBA's end-2016 2½% y/y mid-point forecast. We expect (probability of 45%) headline & core CPI to stabilise near 2% y/y in 2016, the bottom of the 2-3% target. We see a significant – one in three (35%) – likelihood inflation could trend below the target, at 1¾% y/y for 2016 & 2017.

Lower trend inflation for Australia would have material implications, likely translating into a lower RBA neutral cash rate, a lower trend AUD, and tighter yield spreads to offshore peers, both in nominal and inflation linked bonds. If structurally lower inflation did lead to lower interest rates, it would (all things equal) be positive for equities, given the yield heavy bias of the Australian market. A lower AUD would also aid offshore earners. Of course, lower inflation would bring negative profit implications in some sectors, such as consumer staples, general insurers, domestic health care and telcos.

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Executive summary & Thesis Map

- Is Australia on the cusp of joining the low inflation world? While major central banks around the world have spent most of the post-GFC period trying to lift inflation toward their targets, Australia has had relatively high inflation. Indeed, Australia has managed a single sub-2% core inflation print in the past 15 years.

- Australia's persistence of higher inflation has typically rested on a range of factors from faster economic growth (3.0% GDP for Australia, against 1.8% for the US, & 2.2% for Canada over past decade or so), faster real wage growth, or less competitive pressures due to both the tyranny of distance & a broad range of more oligopolistic market structures in Australia.

- But the past few quarters have seen the lowest core inflation prints in 18 years. Moreover, a look at recent inflation components show heightened new competitive or regulatory pressures appearing in areas that have, in the past, significantly contributed to inflationary pressure (ie, housing, utilities & food).

- We take a detailed look at Australia's CPI sub-components, and compare their y/y growth and contribution to that in the US, Canada & EU. We find Australia's inflation has been typically 1% y/y faster than elsewhere in almost every category, but particularly housing, health, education, tobacco & alcohol.

- Looking ahead, however, we now believe structural disinflationary pressures have intensified in Australia, with the risk core inflation could move below the RBA's 2-3% target for only the second time in 15 years. This reflects heightened competitive pressure from new entrants in a range of sectors (food, clothing, insurance & communications), new regulatory resistance to above CPI price rises (for utilities, health insurance & property rates), slowing housing rents as supply increases, as well as record low wage growth in the economy. Indeed, we see competitive & regulatory pressures intensifying in 30% of the CPI basket, with disinflationary forces broadening to close to 50% when the impact of significant housing supply on rents & construction costs are included.

- We see an 80% probability inflation will print below the RBA's end-16 2½% mid-point forecast. We expect (with a probability of 45%) headline & core CPI to stabilise near 2% y/y in 2016, the bottom of the RBA's 2-3% target, rising to 2.3% in 2017 (trimmed from a prior 2.4% y/y). We see a significant – one in three (35%) – likelihood inflation could trend below the target, at 1¾% y/y for 2016 & 2017. We see only a 20% chance core inflation reaches 2½% in 2016.

- Structurally lower inflation in Australia, when coupled with a higher reliance on external demand to generate growth, could likely translate into a lower RBA neutral cash rate, a lower trend for the AUD, and tighter yield spreads to offshore peers. In rates markets, we prefer playing this theme via longs in AUD IRS 5y5y versus USD and 10y ACGBs versus USTs.

- If structurally lower inflation leads to lower rates, it would (all things equal) be positive for equities, given the yield heavy bias of the Aussie market (a positive for REITs, infrastructure/utilities & banks). A lower AUD would aid offshore earners. Of course, lower inflation would also have negative profit implications for some sectors, such as consumer staples, general insurers and telcos (where we remain underweight).

Australia

UBS Research THESIS MAP **Is Australia about to join the low inflation world?**

PIVOTAL QUESTIONS

Q: Have structural disinflationary pressures intensified in Australia?

Yes. While often characterised as a relatively small market, dominated by less competitive oligopolistic market structures, we believe new entrants in the food, clothing, communications & insurance sectors, disinflationary pressures in housing from a significant increase in supply, as well as renewed regulatory pressures in utilities, health insurance and property charges, point to downside inflation risks.

Q: Can Australia's inflation trend below the RBA's 2-3% target

Possibly. Post the GFC, most global central banks have been trying to lift inflation rates. In contrast, Australia has seen only a single sub-2% underlying inflation print in 15 years. We believe Australia could be on the cusp of joining the world in a more disinflationary trend, with both headline and core inflation measures trending below the RBA's 2-3% target over the coming couple of years.

Q: Will sub-target core inflation lead to an RBA rate cut?

Possibly. We doubt a short period of sub-target underlying inflation is a sufficient condition alone for the RBA to trim the cash rate. However, it lowers the hurdle for further rate cuts, should other factors come into play, like rising unemployment, a sustained high AUD or a deteriorating global backdrop.

UBS VIEW

Australia's inflation won't reach the target 2½% mid-point by end-16, as forecast by the RBA: We expect (probability of 45%) headline & core CPI to stabilise near 2% y/y in 2016, the bottom of the RBA's 2-3% target. We see a significant – one in three (35%) – likelihood inflation could trend below the target, at 1¾% y/y for 2016 & 2017. We see only a 20% chance inflation reaches 2½% in 2016.

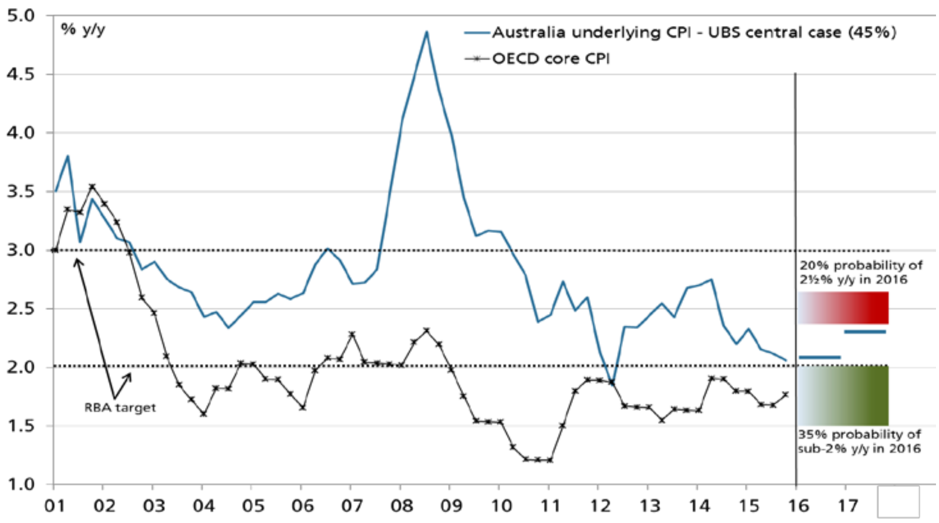
EVIDENCE

Recent trends & disinflationary signals in past higher inflation sectors: Comparing Australia's inflation to the US, Canada & Europe, we find it has typically been 1% y/y faster in almost every sector. This may in part reflect stronger GDP & real wage growth, and more oligopolistic markets. But the past few quarters have delivered the lowest average core inflation prints in 18 years. A look at the inflation components show heightened new competitive or regulatory pressures in areas that have in the past been significant contributors to higher inflation for Australia. Further, record low wage growth trends, slower population growth and a sharp uplift in housing supply – putting downward pressure on housing costs, including rent – also suggest less upside inflation risks in the period ahead.

WHAT'S PRICED IN?

Consensus is for 2% inflation 1 year ahead (& 2½% in 2 years): Consensus looks for the lagged impact of a lower exchange rate to bring rising imported inflation, which with ongoing structural market pressures, sees inflation trend around 2% in 2016 (rising to 2½% in 2017). UBS sees inflation remaining around 2% , with our 35% risk scenario for consistent sub-target inflation prints.

We see an 80% probability inflation will be below RBA's end-16 2½% forecast



Source: ABS, RBA, UBS forecasts

Why has Aussie inflation been so high?

Since the early 2000s, Australia's inflation rate has been persistently faster than its advanced economy peers, with headline inflation averaging 2.7% against 2.2% in the OECD & the US, and an even lower 1.9% in both Canada & the Euro area. The results are similar when we compare underlying measures of inflation since 2002 (see Figure 1). This was not always the case, with Figures 2 & 3 showing that in the prior decade – the 1990s – Australia's inflation rate was often below that in the OECD, the US, Canada & Europe for sustained periods of time (a decade in which Australia moved to an inflation targeting regime, with a 2-3% band).

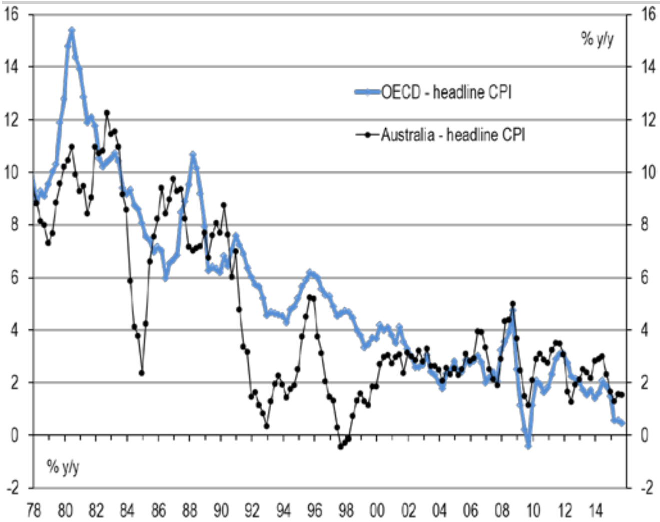
Moreover, in the first half of this decade (2010-2014) – despite Australia's recent significant headwinds from slowing China growth and falling commodity prices – Australia's inflation rate has continued to averaged significantly faster than in other advanced economies. While inflation in the US & Europe has trended toward zero during this period, it has averaged 2.4% y/y for Australia, reaching only 1.2% y/y at its lowest. For core inflation, Australia has averaged 2.5% y/y so far this decade, well above a 1.7% y/y pace for the US, 1.6% y/y for the OECD, 1.4% for Canada and 1.1% for Europe (Figures 4 & 5).

Figure 1: Inflation comparisons – inflation has on average been higher in Australia from 2002-2014

	% y/y (Q102 to Q414)					%pt y/y 'gap' to Australia			
	Australia	US	Canada	OECD	Euro (19)	US	Canada	OECD	Euro (19)
Headline	2.7%	2.2%	1.9%	2.2%	1.9%	0.5%	0.8%	0.5%	0.8%
Headline ex-food and energy	2.5%	1.9%	1.6%	1.9%	1.5%	0.6%	0.9%	0.6%	1.0%
Goods	2.2%	1.7%	1.3%	--	1.8%	0.5%	0.8%	--	0.4%
Goods less food and energy	1.5%	0.0%	0.0%	--	--	1.5%	1.6%	--	--
Services	3.5%	2.6%	2.5%	--	2.0%	0.9%	1.0%	--	1.5%
Services less housing	3.4%	3.0%	2.7%	2.3%*	--	0.4%	0.7%	1.1%*	--
Trimmed mean (15% / 16%)	2.8%	2.1%	1.8%	--	--	0.8%	1.0%	--	--
Weighted median	3.0%	2.2%	2.0%	--	--	0.8%	1.0%	--	--

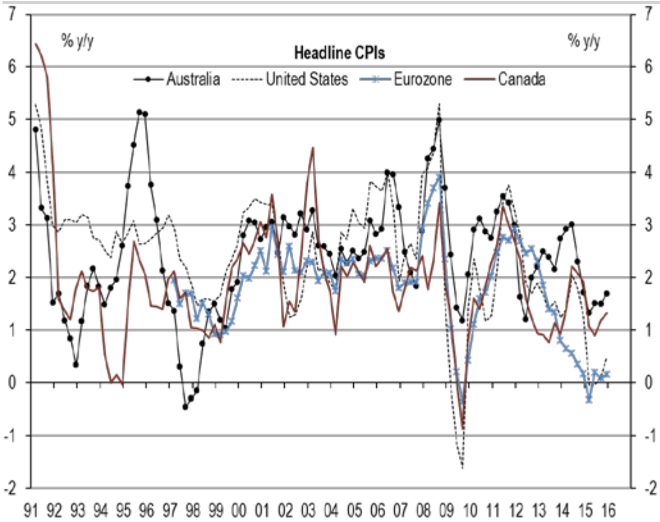
Source: ABS, BLS, Statistics Canada, OECD, Euro Stat, UBS; * 9 selected OECD countries

Figure 2: Australia had relatively low inflation through the 1980s & 1990s, as compared to the OECD…



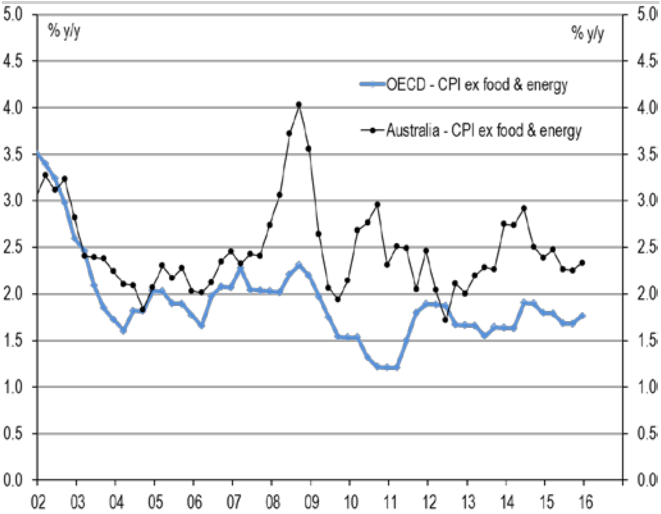
Source: ABS, OECD, UBS (Australia ex GST in 2000)

Figure 3: …Australia's inflation was also lower than the US, albeit has never trended below Canada



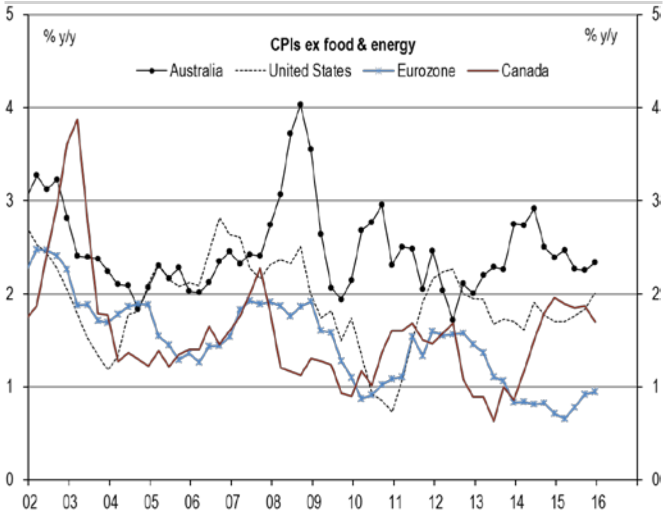
Source: ABS, BLS, Statistics Canada, OECD, Euro Stat, UBS (Aust ex GST in 2000)

Figure 4: Australia has had relatively high core inflation since 2002 relative to the OECD…



Source: ABS, OECD, UBS

Figure 5: …Australia's (core) inflation since 2002 has also been high relative to Europe, the US & Canada



Source: ABS, BLS, Statistics Canada, OECD, Euro Stat, UBS

This persistence of higher inflation has occurred notwithstanding the weight of world-wide research highlighting the reduced impact of exchange rates on countries' domestic inflation outcomes, reflecting in part the trends toward increased globalisation, world trade and corporates 'pricing to market'. In Australia's case, the rationale for higher average inflation has often rested on a range of factors from faster economic growth (3.0% GDP for Australia, against 1.8% for the US, and 2.2% for Canada), faster real wage growth, or less competitive pressures due to both the tyranny of distance & a broad range of more oligopolistic structures in a smaller marketplace (a topic discussed later).

Key sectors driving Australia's higher CPI outcomes…

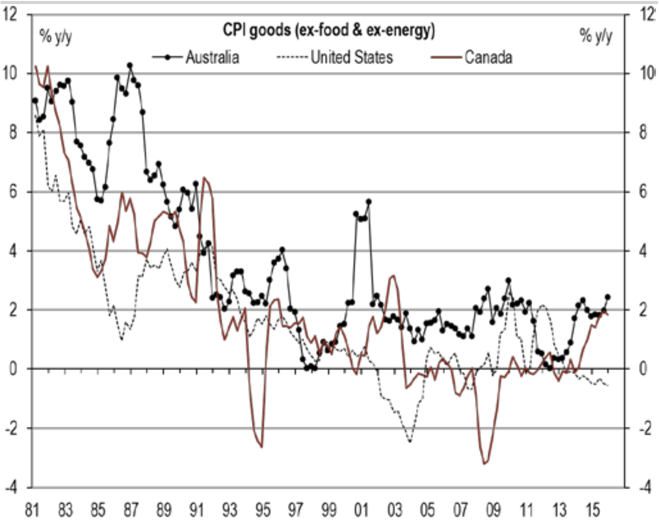
Figure 1 compares (at a relatively high level) the inflation rates for Australia, US, Canada, the OECD and Europe. In all cases, Australia's experience from 2002-2014 is at least ½%pt higher per year. There are a number of observations:

- Australia's higher inflation rate (by around ½%pt per year) is not a reflection of food & energy prices, because abstracting from these leaves a similar but slightly larger gap (of ½%pt–1%pt y/y, Figure 1).
- Goods prices in Australia appear to have risen about ½%pt y/y faster than elsewhere, and an even larger 1½%pts y/y faster when food & energy is excluded (at least for the US & Canada, Figures 1 & 6).
- Services price inflation in Australia have been running about 1%pt y/y faster than elsewhere, being a slightly less ½%pt–¾%pt y/y for services outside of the housing sector (see Figures 1 & 7).

How broad-based is Australia's higher inflation, when we take a more detailed look across the individual sectors in the economy?

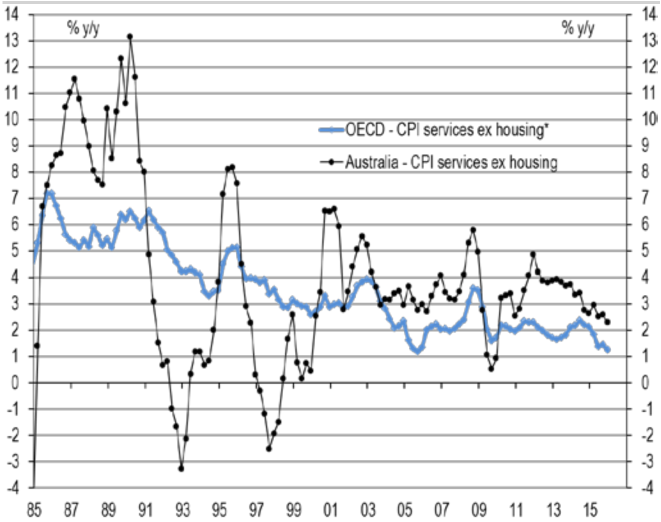
- When we compare Australia's y/y inflation, we find the higher overall rate is broad-based, across nearly every category. In particular, it is materially higher – running 1½%pts–3%pts y/y faster – in housing, health, education, cigarettes & alcohol, while running ½%pt–1%pts y/y faster in communications, recreation & culture (including air travel) and to a lesser extent, food (see Figure 8). Only for automotive fuel, clothing & footwear and personal care, has Australia's inflation rate generally averaged lower than in the US, Canada & Europe.

Figure 6: Goods price (ex food & energy) inflation has been consistently higher in Aust than US & Canada…



Source: ABS, BLS, Statistics Canada, UBS

Figure 7: Service prices ex housing in Australia have been ½%pt- ¾%pt higher than in the OECD…



Source: ABS, OECD, UBS; * OECD is average of 9 selected countries

- When comparing %pt contributions (for the US & Canada), housing becomes less of an issue relative to the US (given housing's much larger weight there), albeit Australia still has a higher contribution to inflation from housing than Canada. Thereafter, it depends on the different weightings in each country, but generally areas like food, recreation & culture, cigarettes & alcohol are all areas consistently contributing more to inflation in Australia (Figure 8).

Overall, as Figure 8 reveals, prices rise at an average 1% y/y faster pace in just about all categories relative to the US, Canada & Europe, with most categories contributing 0.1%pts to 0.2%pts y/y extra to Australia's bottom-line inflation.

Figure 8: Inflation in Australia is higher in almost all categories

	% y/y (Q102 to Q414)				%pt y/y 'gap' to Australia			% pts y/y (Q102 to Q414)			%pt contribution 'gap' to Australia	
	Australia	US	Canada	Euro (19)	US	Canada	Euro (19)	Australia	US	Canada	US	Canada
Food and non-alcoholic beverages	2.8%	2.6%	2.6%	1.9%	0.2%	0.2%	0.9%	0.5%	0.4%	0.4%	0.1%	0.1%
Health	5.3%	3.6%	1.6%	2.1%	1.7%	3.7%	3.3%	0.2%	0.3%	0.0%	0.0%	0.2%
Housing (including utilities)	4.5%	2.5%	2.3%	2.9%	1.9%	2.2%	1.6%	0.9%	0.9%	0.6%	0.0%	0.3%
Education	5.8%	5.2%	3.6%	2.8%	0.6%	2.3%	3.0%	0.2%	0.1%	0.1%	0.0%	0.1%
Recreation and culture	0.9%	0.7%	-0.3%	0.3%	0.2%	1.1%	0.6%	0.1%	0.0%	0.0%	0.1%	0.1%
Cigarettes	8.3%	5.9%	6.3%	5.7%	2.4%	2.0%	2.6%	0.2%	0.0%	0.1%	0.1%	0.1%
Clothing and footwear	-0.4%	0.1%	-0.5%	0.9%	-0.5%	0.1%	-1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Communication	0.6%	-1.1%	1.9%	-2.0%	1.7%	-1.2%	2.7%	0.0%	0.0%	0.1%	0.1%	0.0%
Household furnishings	1.0%	-0.4%	1.2%	1.1%	1.4%	-0.2%	-0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
Alcohol	3.2%	2.2%	1.6%	1.7%	1.1%	1.6%	1.5%	0.1%	0.0%	0.0%	0.1%	0.1%
Personal care	0.2%	1.8%	1.2%	1.3%	-1.6%	-1.0%	-1.1%	0.0%	0.1%	0.0%	0.0%	0.0%
Automotive fuel	4.2%	6.9%	4.8%	3.9%	-2.7%	-0.6%	0.3%	0.1%	0.3%	0.2%	-0.1%	-0.1%
Other (mainly transportation ex-fuel)	1.4%	1.3%	1.6%	--	0.1%	-0.2%	--	0.2%	0.2%	0.2%	0.0%	-0.1%

Source: ABS, Eurostat, BLS, Statistics Canada, UBS

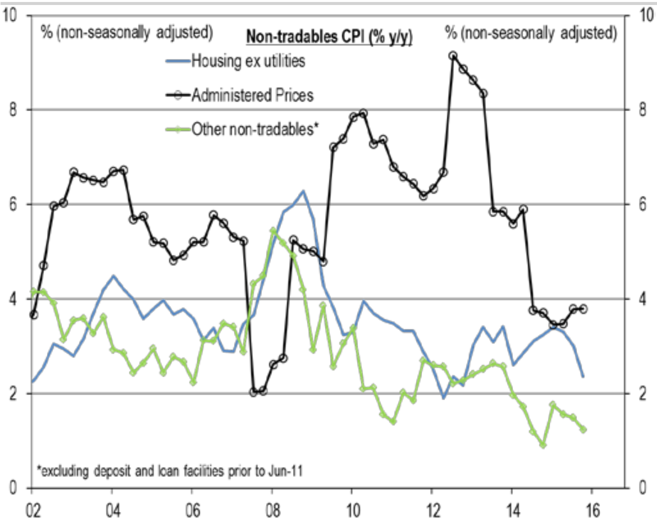
Looking at administered prices…

Inflation can also be separated into tradable (mostly 'goods') and non-tradable inflation (mostly 'services'). In contrast to the former (40% of Australia's CPI), the latter (60%) are exposed to only a low degree of international competition. Non-tradable inflation, as shown in Figure 9, can be usefully separated into three further categories, each roughly one-third on non-tradable inflation, namely housing (excluding utilities), administered prices (where the public sector is a significant provider, such as health, education & utilities) and other non-tradables (mainly services, such as restaurants & takeaway, or household cleaning).

In a 2014 RBA Bulletin article looking at the drivers of non-tradables (or domestically driven) inflation, the RBA noted "administered prices are an important reason for the relatively high and stable nature of overall non-tradable inflation". Indeed, as we wrote in 2010, the rise in these types of services inflation (health, housing, utilities, education, finance & insurance) added more than ½%pt to overall y/y inflation in the 2000s, relative to the 1990s (see Figure 10).

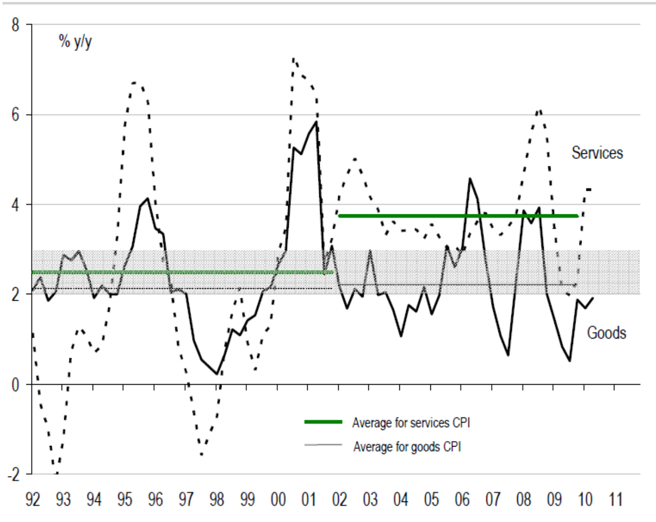
It is therefore clear that the high average inflation rates over the past decade for administered prices, such as health (4.8% y/y), insurance (4.8% y/y), utilities (7.7% y/y) & education (5.3% y/y) have been key drivers of Australia's relatively high inflation outcomes compared with the rest of the world.

Figure 9: Non-traded inflation – (publically influenced) administered prices have been a key inflation driver…



Source: ABS, RBA, UBS

Figure 10: …helping services prices to push up overall inflation in the 2000s



Source: ABS, UBS, reprinted from 2010 UBS research

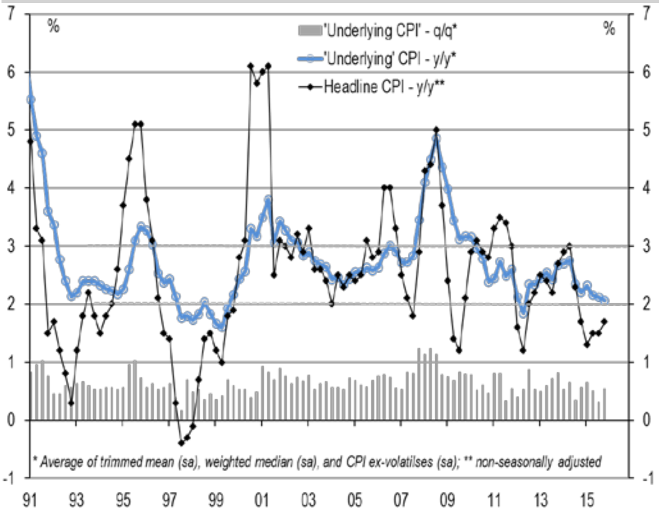
The case for lower inflation ahead?

In 2006, the Bank for International Settlements (BIS) published some research ("Globalisation & Monetary Policy") which highlighted the problems or challenges globalisation would present to all central banks, but particularly for commodity-rich countries such as Australia. One of its key conclusions was that globalisation had reduced the importance of domestic factors for inflation, with global trends to be increasingly relevant in determining local inflation outcomes.

Ten years on, post the global financial crisis (GFC) and European debt crisis, policy makers in most advanced economies have spent the past several years trying to lift subdued headline and core inflation rates to their targets. Indeed, as RBA Deputy Governor Phil Lowe highlighted early last year, at that time, "in all advanced economies, inflation [was] currently below target and this is also true in quite a few emerging market economies. Of course, one reason for the low inflation rates [has been] the recent large decline in oil prices. But even so…core or underlying rates of inflation are also below target almost everywhere."

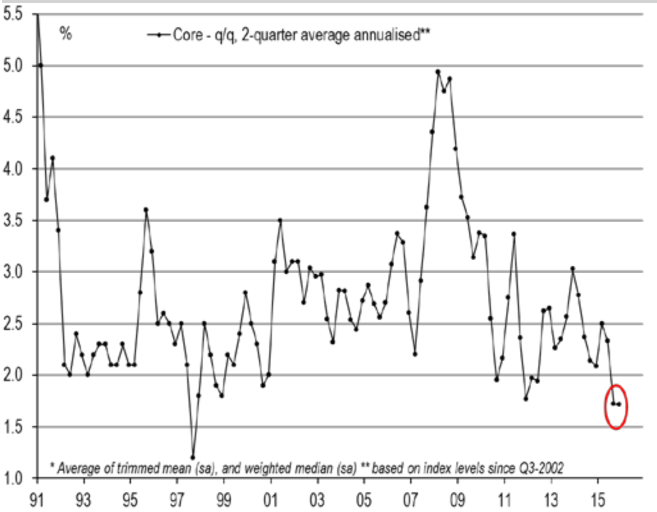
In contrast for Australia, while headline inflation has also recently been below the 2-3% target, significantly driven by movements in oil prices, its post GFC average of around 2¼% y/y (with a low of 1.2% y/y) has been well above the ~zero rates seen in many major economies, like the US, Europe & Japan. Moreover, Australia has not been one of the many advanced economies with core inflation below target; Australia has printed only a single sub-target (2-3%) inflation outcome in 15 years, in early 2012 (Figure 11). At 2.1% y/y, Australia's end-15 core inflation remains twice the 'around 1%' average for the major economies.

Figure 11: Australia has printed only a single sub-target (2-3%) inflation outcome in 15 years



Source: ABS, RRBA, UBS

Figure 12: The past 3 core inflation prints have been the lowest in 18 years…



Source: ABS, UBS

Key drivers of a lower inflation outlook

While core inflation has remained within the RBA's 2-3% inflation target, it has very recently drifted lower toward 2% y/y. Indeed, the past few quarters have produced the lowest core inflation outcomes, on average, in 18 years (Figure 12).

For a number of reasons, we believe this could be the beginning of Australia's belated transition to a more disinflationary environment (earlier and prematurely foretold by the BIS in 2006).

1. Renewed competitive pressures in a number of industries…

As noted earlier, a number of factors are often attributed to Australia's higher than global-average inflation, including higher wages growth and faster population & GDP growth. In addition, Australia's distance from, and relatively smaller-sized marketplace has supported oligopolistic structures in a range of sectors that in part contributes to Australia's relatively high yielding equity market, above global average margins, and by extension, inflation. However, in recent times, there has been renewed competitive pressures emerging in a number of sectors:

- **Food** – Over the past 5 years, German grocer ALDI's entrance into Australia's food & liquor sector has been very successful, and ALDI continues to see double-digit sales growth. This has contributed to a more competitive backdrop among the few key players in this space. As Australia remains one of the most profitable grocery markets globally, there is clearly scope for greater price deflation in food and the risk of a price war. As shown in Figure 13, the trend in food inflation (15% of the CPI) has more than halved from around 4% y/y to under 2% y/y. International experience suggests this could move significantly lower again over the next few years. We forecast food inflation to trend in the range of ½%-1½% y/y over the next few years.

- **Clothing** – Clothing inflation has typically averaged around zero over the past decade or so, reflecting in part falling world prices as well as the trend rise of the Australia's exchange rate. While the recent 35% depreciation in the AUD is likely to place some upward pressure on clothing prices, we expect the relatively recent arrival of new entrants (Zara, UniGlo, H&M to name a few) to limit clothing inflation. As shown in Figure 15, clothing & footwear prices (4% of the CPI) have been falling by ½%-¾% y/y over the past 3 years, and this may continue. We forecast clothing & footwear inflation to trend in the range of -½% to -1% y/y over the next few years.

- **Communications** – Competition headwinds have been building for some time in communications, most particularly in the mobile and data space, reflecting the arrival of new entrants which has brought significant margin pressure to existing players. This has also contributed to a significant increase in service and data provision as firms compete, putting significant downward pressure on measured (hedonic) CPI prices. Over the past couple of years, historic 1-2% price inflation in communications (3% of the CPI) has collapsed to -6% (Figure 20). A return to positive price growth appears unlikely in the near-term given ongoing competitive pressures. We forecast communications inflation to trend in the range of -2% to -3% y/y over the next few years.

- **General insurance** – There was a significant intensification of competition in personal lines in 2014-15 as new players entered, including on-line, and a number of insurers also sought to gain market share. Regulatory changes in compulsory third-party motor vehicle also put downward pressure on insurance premiums. Having seen general insurance inflation (1½% of the CPI) trend up from 2% in the mid-2000s to almost 8% by the end of the decade, it has since retraced, with recent inflation a more moderate 4%. Financial services make up the rest of the finance & insurance category (totalling 5% of the CPI), and we expect ongoing regulatory and competitive pressures in this sub-sector as well. We forecast finance & insurance inflation (Figure 23) to trend in the range of 1%-2% y/y over the next few years.

Figure 13: Food inflation has already slowed, and competition from new offshore entrants will likely keep strong disinflationary pressures in play

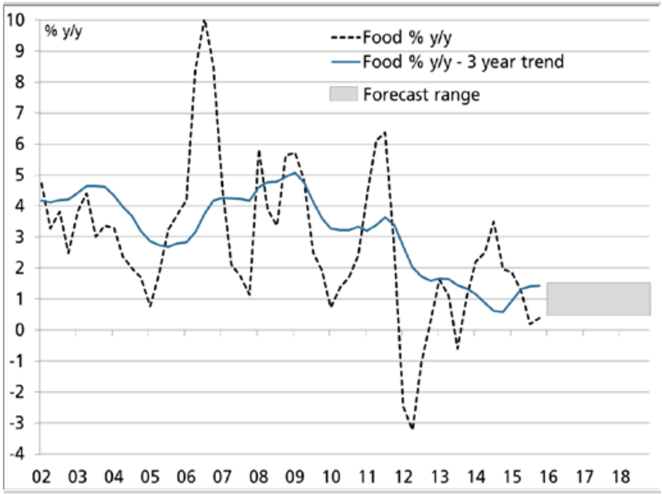


Figure 14: Alcohol & tobacco inflation has recently been trending higher, driven by significantly higher taxation of cigarettes…alcohol inflation has been slowing

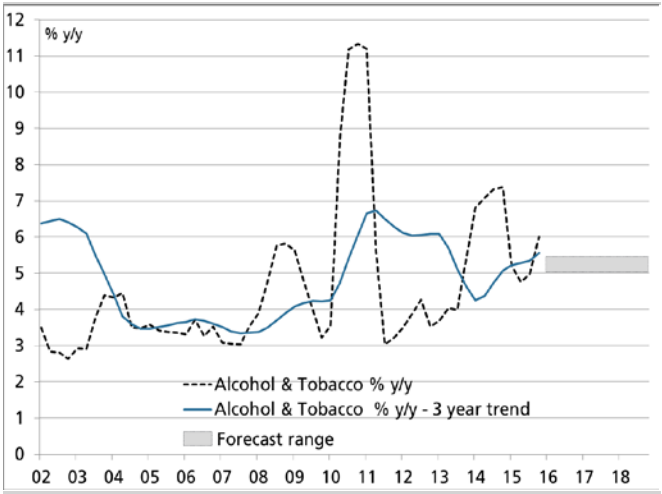


Figure 15: Clothing & footwear prices has been falling despite lower AUD…competition from new offshore entrants should keep disinflationary forces in play

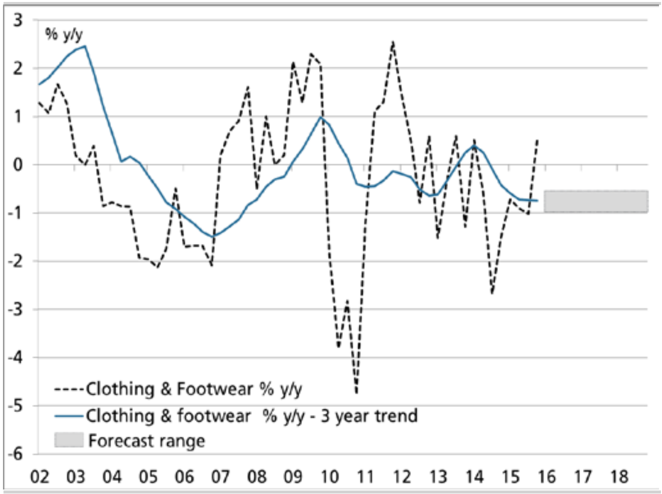


Figure 16: Housing inflation has slowed mostly on utilities and rents…we expect further significant slowing in rent growth and more moderate utilities & construction costs

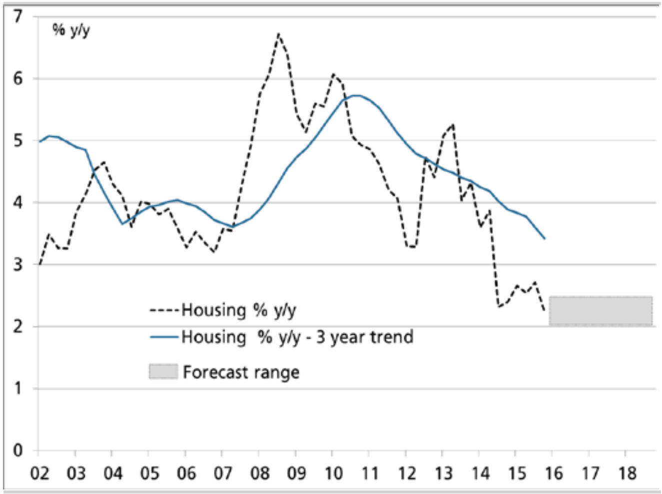


Figure 17: Furnishings & HH goods inflation has risen, due likely to a lower AUD. With the AUD nearer its trough & falling world prices, inflation should move lower ahead

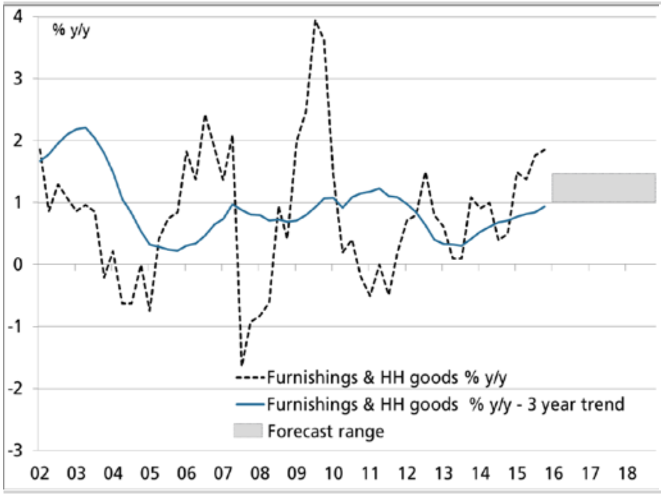
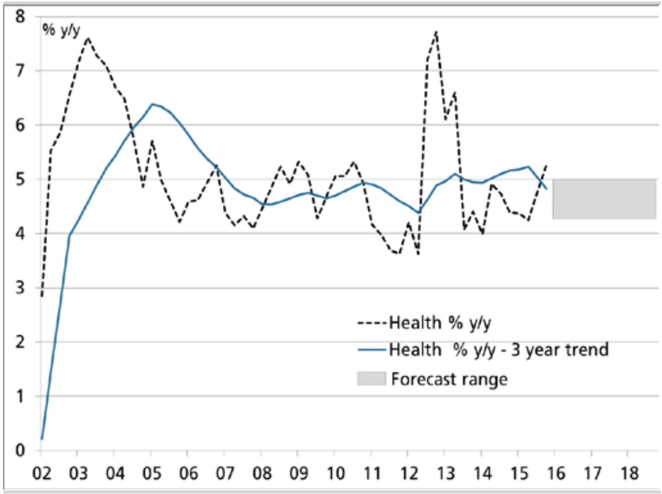


Figure 18: Health inflation, now coming under the scrutiny of the government, is likely to remain high, but toward the bottom of its recent range…



Sources: ABS, UBS forecasts

Figure 19: Transport inflation has been held down by falling oil prices…trend lower autos, maintenance and fares inflation should see a rebound to a lower trend

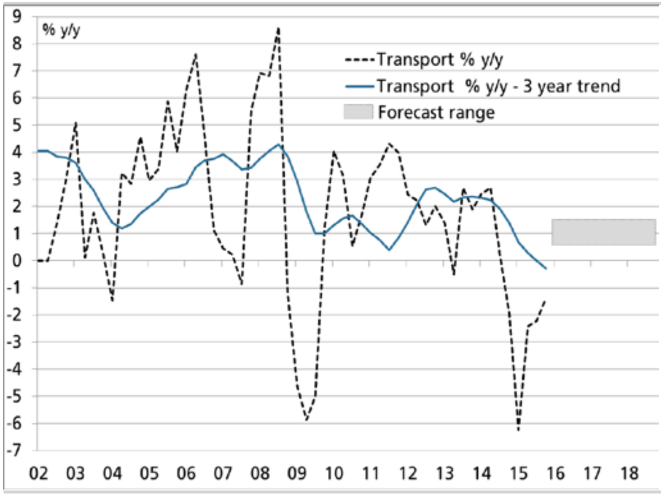


Figure 20: Communications inflation has plummeted on increased competition and data allowance increases (measured as a price fall)…this is expected to continue

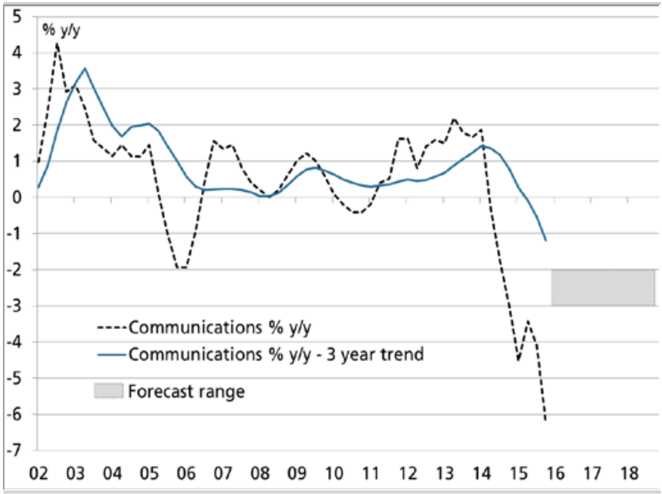


Figure 21: Recreation & culture inflation, driven by a lower AUD and less competitive pressures in travel, has risen significantly…a higher trend is likely to persist

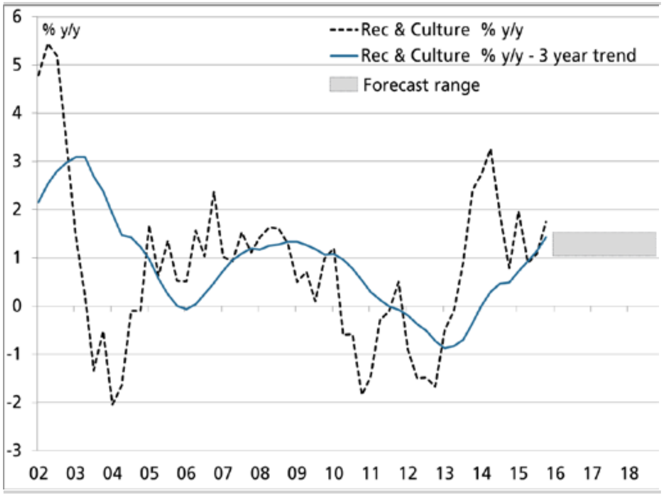


Figure 22: Education have been trending around 5½% y/y, and we anticipate a modestly slower-to-similar pace to continue in the years ahead…

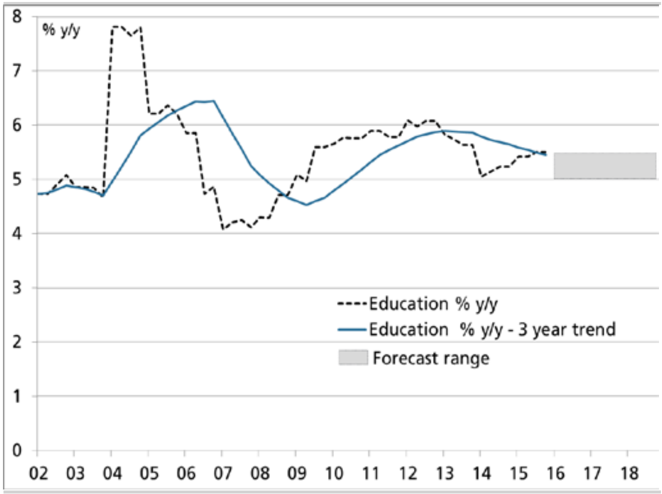


Figure 23: Finance & insurance competition has seen premium inflation slow. This sector is likely to face further competition and government attention

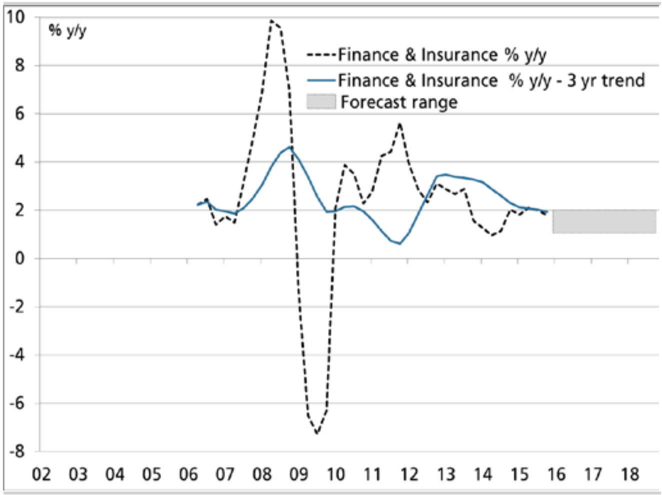
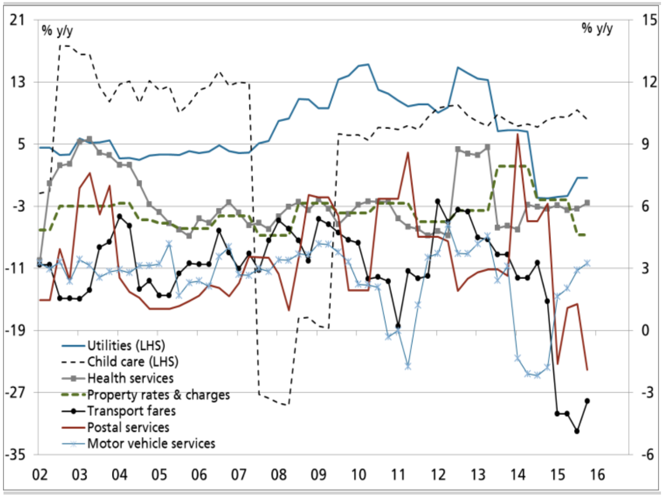


Figure 24: Administered prices – while child care and health services inflation has stayed high, there has been falling inflation elsewhere, particularly utilities & postal



Sources: ABS, UBS forecasts

2. Regulatory pressure in a number of sectors…

As discussed earlier (see Figure 9), government influenced prices (administered prices) have contributed significantly to Australia's inflation rate over the past decade. However, in a number of areas, regulatory 'push-back' (in part due to a political focus) – as well as the repeal of Australia's 'carbon tax' – have seen a significant retracement in inflationary pressures.

- **Utilities** – A combination of factors, from the need to invest in the network after previous underinvestment, as well as the introduction of a 'carbon tax', contributed to a significant increase in electricity prices from 2007. Tighter domestic supplies have also added to gas prices over recent years. As shown in Figure 24, utility prices (4% of the CPI) have trended in double-digits. Over the past two years, the repeal of Australia's carbon tax, plus recent changes to competition policy by government regulators in an environment of weaker demand growth, have seen a significant slowing in utilities inflation. Ongoing regulatory pressure is expected to see utilities inflation revert to the more moderate pace of 4-5% y/y seen in the early 2000s (Figure 24).

- **Health insurance** – After annual premium rises consistently in excess of 6% (Figure 24) over the past few years, Australia's Health Minister has recently vowed to 'break the cycle' of insurance premiums rising beyond inflation. Increased scrutiny over premium rises, which need to be approved by the government, could see ongoing disinflationary pressure on premiums (4½% of the CPI). This year's increase is lower at 5.6%, but could trend even lower in the years ahead. We expect future premium growth to slow to a 4-5% y/y range. With insurance more than 50% of the health inflation category (the rest being pharmaceuticals & equipment), we forecast health inflation to trend in the range of 4¼% to 5% y/y over the next few years (Figure 18).

- **Property rates & charges** – Given the 'soft' link to housing prices, council property rates & charges rose significantly during 2013-14 (Figure 24). However, the repeal of the carbon tax (which added to council charges), as well as greater scrutiny from State Governments, including council amalgamations for the purpose of cost savings, has seen annual rate rises drop to 4.6% y/y, their slowest since 2007 (after 8% y/y in 2013). Together with the recent moderation in house prices (and likely further significant slowing ahead), this should see a reduction in the trend of property charges inflation over the next few years, to the current 4-5% y/y pace (from 6-7% y/y previously).

- **Urban transport fares** – Urban transport fares have been trending around 3½% over the past decade, but recently collapsed to 'flat', reflecting restructuring of fares in Victoria (with current Q4 y/y for fares at -4% y/y, Figure 24). While a largely one-off, it reflects attempts by governments to limit the growth in administered prices. The impact of a mid-16 restructuring of NSW transport fares is uncertain. However, we expect transport fares to trend around 2% y/y, over coming years, almost half their prior pace.

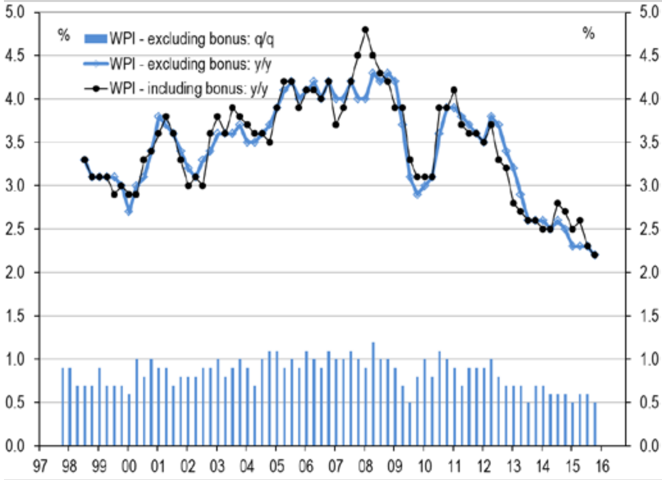
3. Other drivers, including record low wages growth and housing supply

- **Record (18 year) low wages growth** – Despite a relatively firm jobs market, wages growth has seen a dramatic slowing over the past 2 years, from almost 4% y/y mid-12 to just over 2% y/y end-15 (Figure 25). The current 2.2% y/y pace is an 18-year record low, and compares to decade and a half average of 3½%. This slowdown is not related to Australia's rebalancing away from high wage to low wage jobs – as the wage data abstracts from such compositional

impacts – albeit the rotation to lower average paid jobs has nonetheless separately put downward pressure on economy-wide labour income growth.

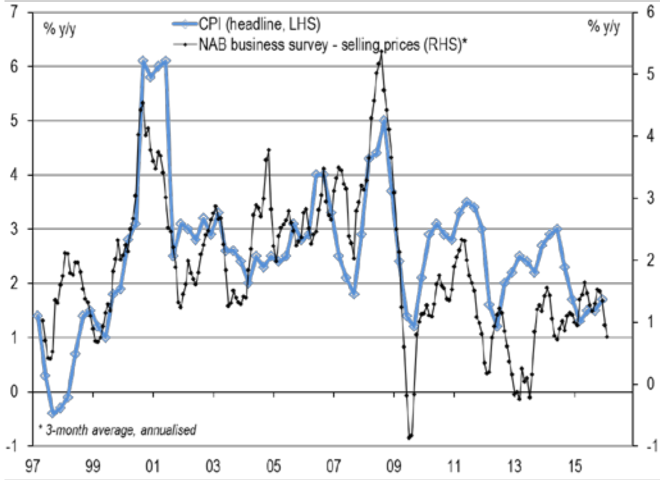
Slower wages growth is likely to be imparting disinflationary impacts across a broad range of non-tradable sectors, largely services, from takeaway food, housing, clothing to autos services. Lower wages growth may also help tradable sectors offset some of the upward pressure from a lower AUD. Business surveys point to ongoing low price pressures (Figure 26).

Figure 25: Wage growth has halved in Australia, from around 4% in 2H00's to a record 18 year low of 2% y/y



Source: ABS, UBS

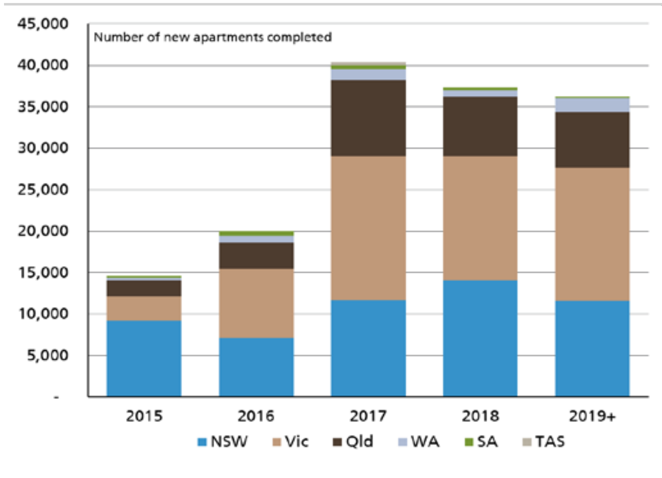
Figure 26: Business surveys of selling prices continue to point to ongoing disinflationary pressure



Source: NAB, ABS, UBS

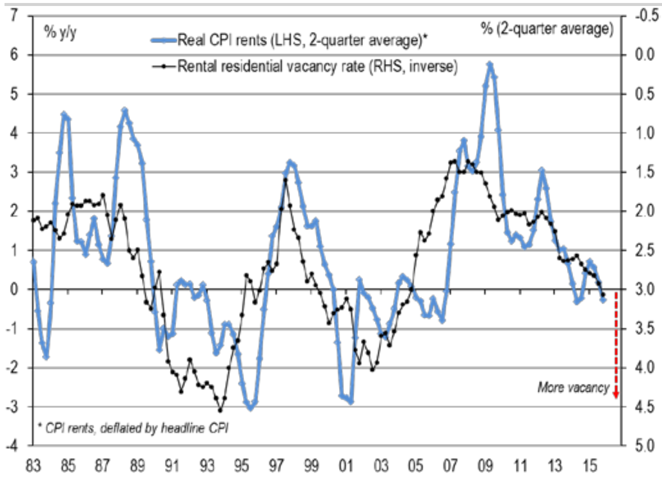
- **Housing supply increase** – While most evidence points to Australia having underbuilt housing over the past decade, the significant increase in housing supply over that has been occurring, and is expected to intensify (especially in apartments, see Figure 27) over the coming few years, should continue to support downward pressure on housing rents (7% of the CPI, Figure 28). Having trended above 4% since the GFC, rental growth has slowed sharply (Figure 29), and should remain lower than in the past for at least the next few years (with some risk it may turn negative). A slowing housing cycle should also put downward pressure on construction costs (Figure 30).

Figure 27: The sharp increase in the supply of new inner city & CBD apartments is seen continuing to put downward pressure on rents and property charges



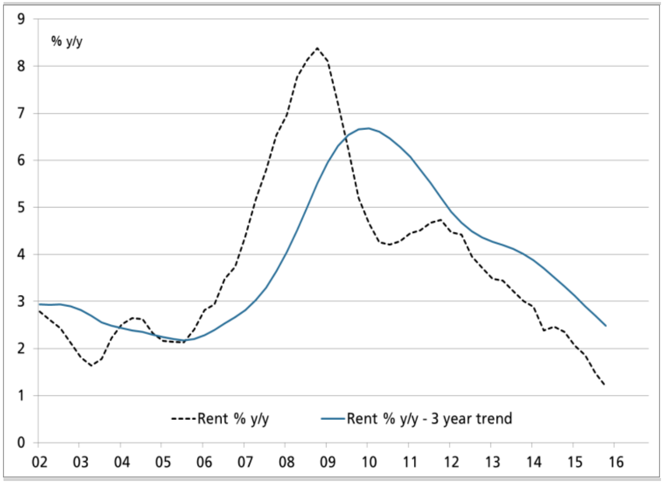
Source: UBS; Based on company level pipelines of developments of 100+ units

Figure 28: Rising vacancy rates have been putting downward pressure on residential rental growth



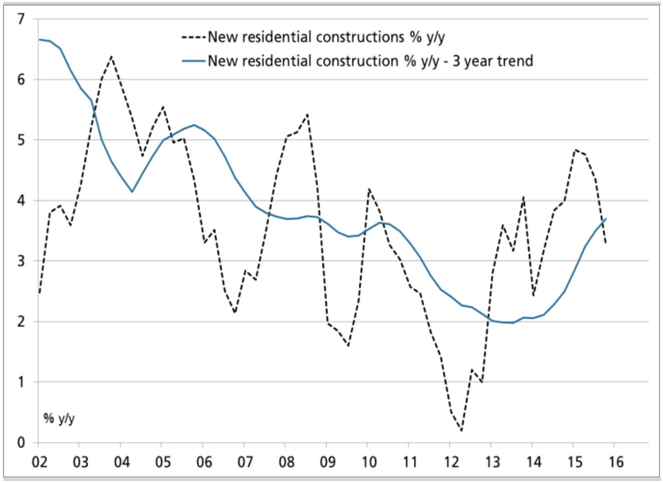
Source: ABS, REIA, UBS

Figure 29: CPI rents have slowed sharply over the past few years as residential supply has increased. We look for rental growth to trend closer to 1% in the period ahead



Source: ABS, UBS

Figure 30: CPI new construction costs have risen in the recent housing pick-up. A slowing in construction from 2017 should put downward pressure on prices



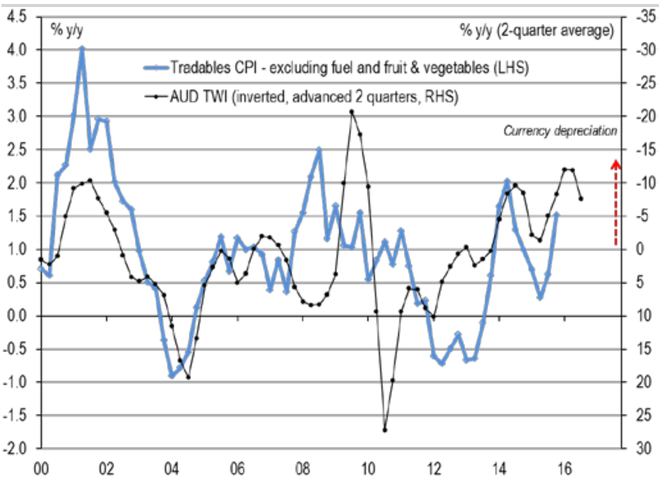
Source: ABS, UBS

Where is inflation not easing?

The most likely sources of upward pressure on Australia's inflation over the coming year should be the recent depreciation in the exchange rate. As we highlighted in 2013, a 10% fall in the AUD adds about 1% to imported inflation over the next 1-2 years, which in turn should add about 0.3%pts to headline CPI. The 35% fall in the AUD since mid-13 should therefore be adding about 3% to tradable inflation, or 1% to the CPI. While less tight than previously, as shown in Figure 31, this suggests there is some further upward pressure on tradables inflation ahead, albeit relative to the past, the transmission this decade does appear to be less significant, possible due to greater competition or weaker demand, than in the past.

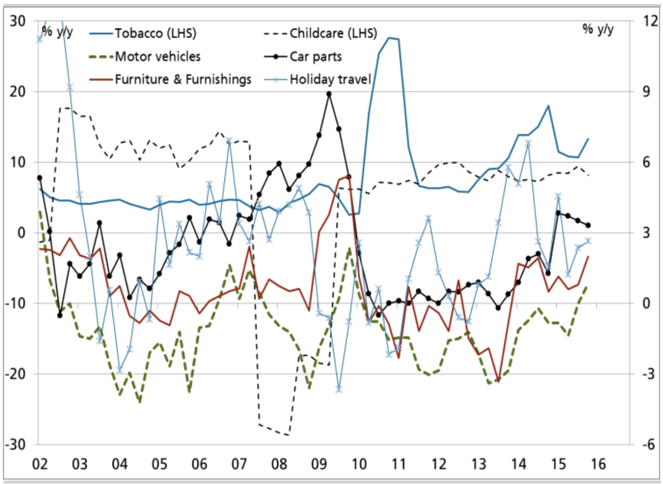
There are also a range of sectors where we're not seeing dis-inflationary trends, reflecting a range of strong demand or regulatory issues. These sectors include tobacco (due to a recent sharp lift in taxation), childcare (reflecting both demand and heightened regulatory requirements, Figures 24 or 32), education (demand, Figure 22), household goods (AUD, Figure 17), travel (both demand & AUD impacts), as well the AUD impact on cars and car parts (Figure 32).

Figure 31: Tradable inflation should face further upward pressure over the coming year from the lagged impact of a lower AUD



Source: RBA, Datastream, ABS, UBS

Figure 32: Sectors where there's less disinflation reflect stronger demand (travel, education) or regulatory taxes or requirements (tobacco, childcare) or AUD pass-through



Source: ABS, UBS

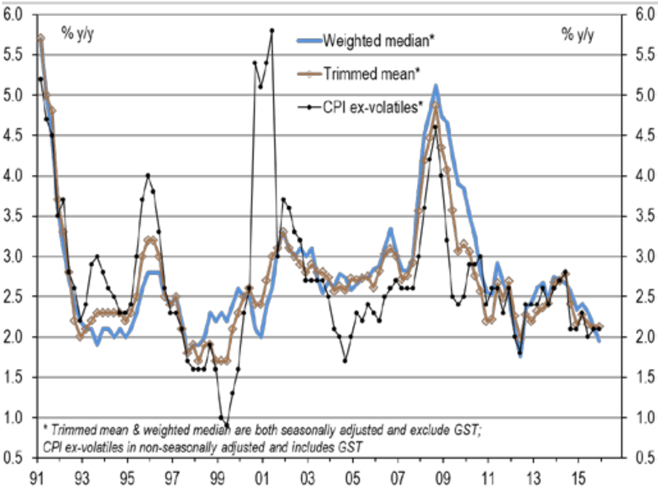
The outlook for inflation

The RBA looks at a range of 'core' measures to assess the pace of underlying inflation. The three core measures consistently published by the RBA in their Statement of Monetary Policy are the trimmed mean and weighted median (both 'statistical' measures of inflation) as well as the CPI ex volatile items (an exclusionary measure abstracting from fruit & vegetables, and petrol prices). As shown in Figure 33, they have broadly followed similar trends.

Using a bottom-up analysis, we are able to forecast our outlook for the headline inflation by considering each of the individual sectors' outlooks. Alternatively, considering the exchange rate and domestic wage pressures we can forecast the outlook by looking at the sum of both tradable and non-tradable inflation, a more 'top down' approach. For the core measures, given the statistical nature of the trimmed mean and weighted median measures, they cannot be forecast from the bottom-up. However, given underlying measures of inflation are meant to be predictive for the headline CPI – when volatility is averaged away – we are still able to ascertain these as a trend around the headline CPI.

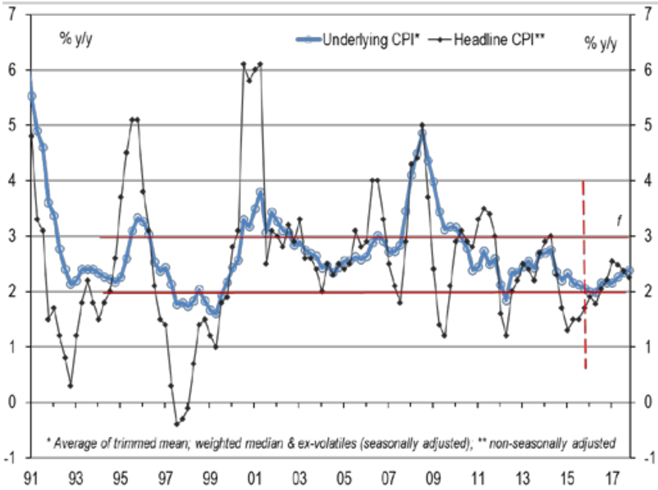
As shown in Figure 34, we've been forecasting headline CPI to remain below the 2-3% target in 1H16, before rising to 2.5% y/y early 2017, driven significantly by our forecast pick-up in global oil prices to USD47 in 2H16. Reflecting a less than normal (lagged) pass-through of imported inflation to the CPI, we have been forecasting core inflation of 2.0% 1H16, rising to a 2.3% average in 2017.

Figure 33: Underlying inflation – RBA's three preferred measures of core inflation have tended to move on similar paths…



Source: ABS, RBA, UBS

Figure 34: UBS Outlook – we see underlying CPI staying around the bottom of the 2-3% target in 2016, before lifting to 2¼% in 2017…below the RBA's 2½%e for both



Source: ABS, RBA, UBS forecasts

Bringing together our bottom-up analysis…

Notwithstanding our current forecasts, what does our analysis of the heightened competitive pressure from new entrants in a range of sectors (food, clothing, insurance & communications), renewed regulatory resistance to above target CPI price increases (for utilities, health insurance & property rates), slowing housing rents on significant supply increases as well as record low wages growth across the economy, argue for the CPI outlook? There are two ways we can approach this.

1) Tradable versus non-tradables

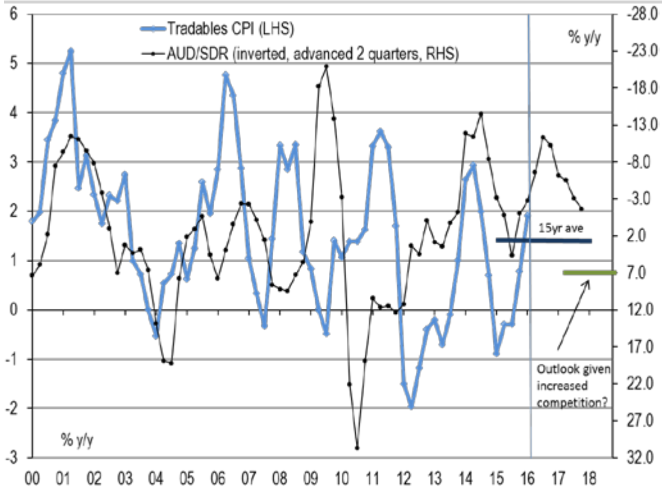
In this approach, we can aggregate tradables inflation (influenced significantly by the AUD), and non-tradables, with the latter split by administered prices, housing and other services (as earlier discussed):

- For tradables, we believe it's possible that the past 15 year average pace of 1.3% y/y could slow to ¾% y/y (Figure 35).

  - Competition in **food** (of which 50% is 'tradable', representing over 20% of the tradables basket). With food inflation potentially slowing from an historic average of 4% y/y to ½%-1½% y/y (Figure 13), this would detract over ½%pt from trend tradables inflation. Increased competition in **clothing & footwear** is also likely to contribute to a slower trend in tradables inflation (Figure 15). In addition, lower wages growth (Figures 25 & 26) could work against rises in imported inflation across the docks on the back of the recent (& often lagged impact) of a lower exchange rate over the past couple of years (Figure 31).

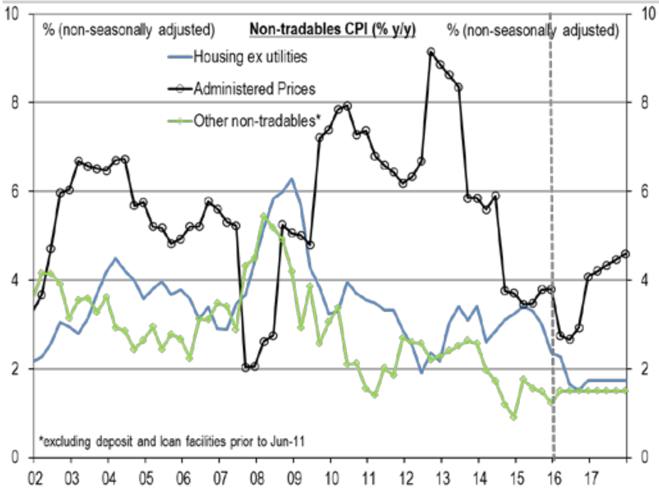
  - Given tradable goods are already exposed to significant international competition, it's unlikely the pace of inflation will accelerate further in other **areas where inflation has recently picked-up** (Figure 32), like alcohol & tobacco (were tax increases are likely a trend feature), furniture & household goods (where margins remain narrow), cars & car parts, recreation & culture.

Figure 35: Tradables and the AUD – greater competition in food and clothing could see the future trend in tradable inflation ease from 1.3% y/y to below 1% y/y



Source: ABS, UBS forecasts

Figure 36: Non-tradables – less administered price pressures, and less upward pressure from housing (rents & construction) should see slower non-tradable CPI



Source: ABS, UBS forecasts

- For non-tradables, we believe it's possible that the past 15 year average pace of 3.6% y/y could slow to 2½% y/y.

  - **Administered prices:** following a period of rapid inflation (7-9% y/y from 2010-12, Figure 36), we expect the future trend to be closer to 4¾% y/y (above the current 3¾% pace, as some of the recent more one-off disinflationary impacts unwind). There a range of areas discussed above (utilities, health, property rates & charges, and transport fares) where we expect the pace of inflation to be lower ahead than during the past five years. In contrast, there is little sign of disinflationary pressures in other areas of administered prices, such as education, childcare & postal services.

 - **Housing (excluding utilities)**: the 3½% y/y pace of inflation could potentially halve to around a 1¾% y/y rate. A slowing in housing inflation will likely reflect much slower (possibly negative) rental growth (Figure 29), as significant new supply of housing (especially apartments) is forecast over the next five years (Figure 27), while construction costs are seen averaging 2% (rather than 4%) as the construction cycle moderates and wages growth remains contained (Figure 30). In contrast, maintenance costs are expected to continue trending around 3%.

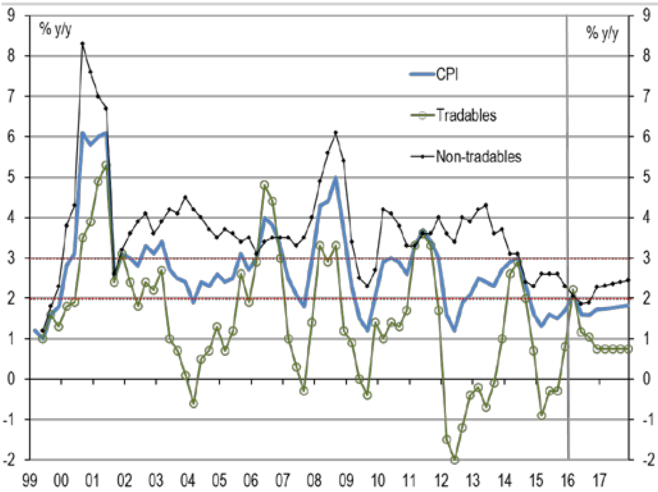
 - **Other non-tradables**: it's plausible that the previous decades 3% y/y pace slows closer to 1½%. Competition is likely to continue to put downward pressure on non-tradable food (including 'meals out' where slower wage growth will also impact), communications (Figure 20) and insurance (Figure 23). The material slowing in wages growth (Figure 25) will also likely have an impact, given the dominance of services in this inflation category.

Combining these outlooks for tradable and non-tradable inflation, and assuming the greater disinflationary pressures play out, this points to a significant risk inflation may trend below the RBA's 2-3% target – at about 1¾% y/y – over coming years, as shown in Figure 37. We see this as a 35% probability, against our central case of around 2% inflation (45% probability).

2) High-low range on all 11 CPI sub-sectors

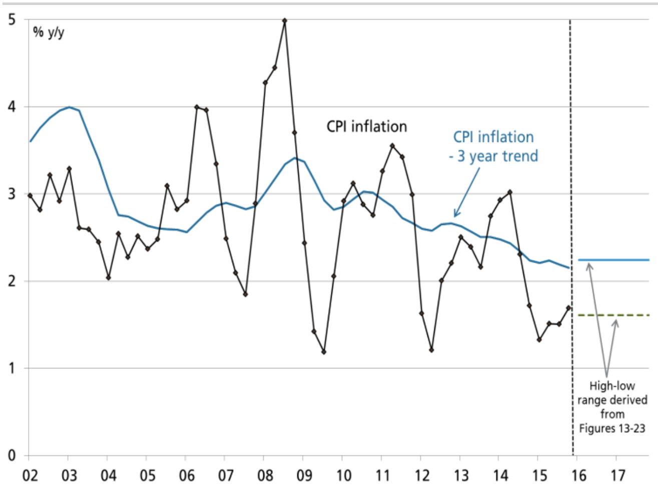
In this approach, we simply consider the top and bottom of the ranges for all of the 11 CPI subsectors discussed above, and shown in Figures 13 through 23. On this basis, as shown in Figure 38, if all the 'downside' risks play out, headline CPI is likely to trend between 1½%-1¾% y/y. This is broadly similar result to that using the tradables/non-tradables approach above.

Figure 37: Downside inflation scenario – 35% probability – derived from detailed bottom-up analysis of tradable and non-tradable inflation



Source: ABS, RBA, UBS forecasts

Figure 38: Downside inflation scenario – 35% probability – derived from high-low scenarios for all 11 CPI sub-sectors, as shown in Figures 13-23



Source: ABS, UBS forecasts

Our analysis assumes no change in the rate of GST (VAT) over the next couple of years (currently 10%), given this has been currently ruled out as a policy option by the Government, albeit this is a relatively 'one-off' factor as far as the trend in inflation is concerned.

Equity, FX & rates market implications

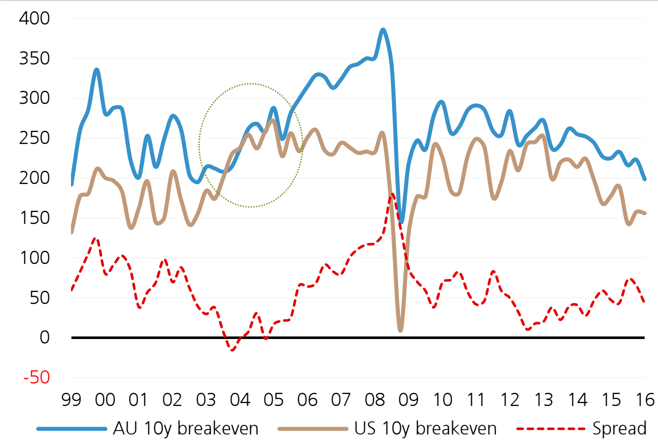
Interest rates and exchange rate implications

Structurally lower inflation in Australia, when coupled with a higher reliance on external demand to generate growth (as domestic trend growth has slowed sharply), would likely translate into a lower RBA neutral cash rate, a lower AUD, and tighter yield spreads to offshore peers. In rates markets, we prefer playing this theme via longs in AUD IRS 5y5y versus USD and 10y ACGBs versus USTs.

While we would not argue breakevens in Australia are rich – even with structurally lower inflation – higher headline CPI in the US would likely tighten the 10y Aussie–US breakeven spread further. With real yields in Australia optically & fundamentally cheap versus the US, we hold onto our preference for nominal spread tighteners.

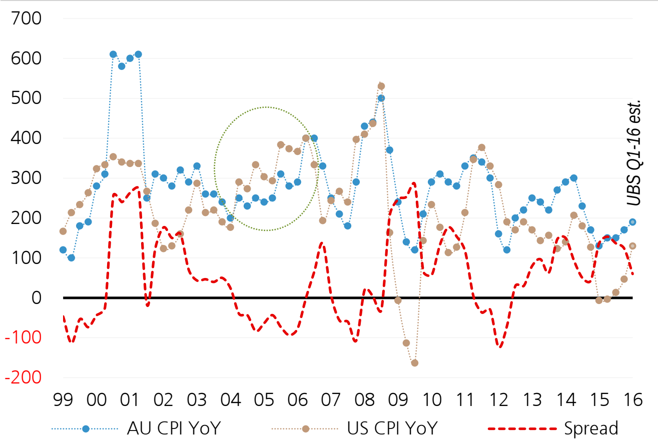
Over time, market metrics of long-term inflation expectations have tracked the trend (albeit, not always the level) in spot headline inflation fairly well. This becomes apparent when comparing 10y breakeven inflation (BEI) rates in Australia and the US (Figure 39) to headline CPI in the respective markets (Figure 40). Australian breakevens have since 1999 on average traded at levels 61bp higher than in the US, with headline inflation running at an average rate of 56bp over the US. While this is consistent with the 50bp mid-point differential in the two central banks' CPI targets, it appears the central banks' ability to over time hit their targets – rather than the targets per se – has been the driver for the breakeven spread.

Figure 39: Australia & US 10y breakeven inflation (bp)



Source: Bloomberg, RBA, UBS

Figure 40: Australia & US headline CPI (bp, y/y)



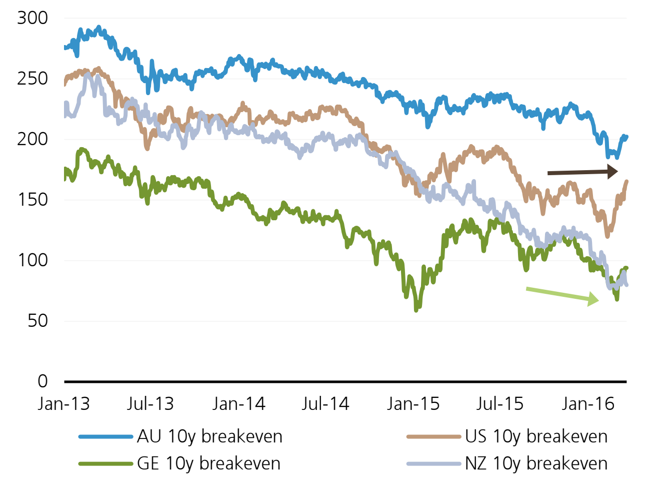
Source: Bloomberg, UBS

In 2003-2006, the inflation market foresaw a prolonged period of consistently and significantly higher price pressure in the US (see the green circles in Figure 39 and Figure 40, and consequently re-priced 10y US BEIs to trade at higher levels than for Australia. The implication is that one should not discount a flat or even negative breakeven spread between Australia and the US (or any other market for that matter) just because the RBA has a higher inflation target. What tends to count – even for longer BEIs – is the near-term (<2-year) outlook for headline CPI.

This also goes some way in explaining why BEIs in Australia currently trade at elevated levels relative to other developed markets (Figure 41). A sustained period of extremely depressed headline CPI prints in the euro area and New Zealand has pulled down long-term breakevens to valuations inconsistent with any notion that the central banks will be successful in generating even modest price pressures

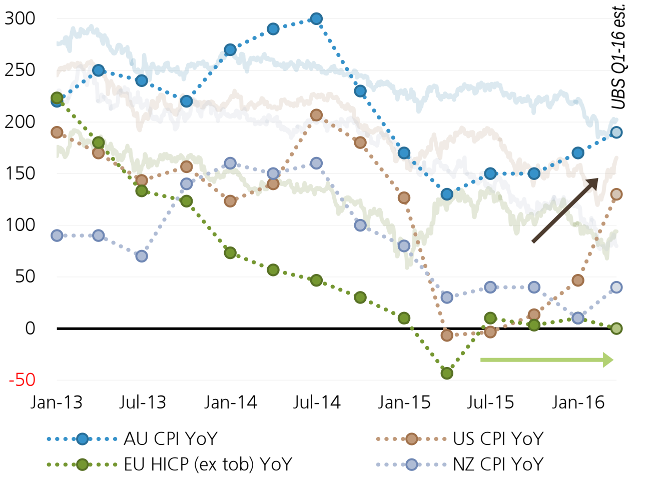
(Figure 42). US breakevens have fared better; partly as headline inflation has bounced in 2016, but recent Fed communication, indicative of its preference for being 'behind' rather than 'ahead of the curve' in stemming potential price pressures, has also been helpful. While inflation was still falling in other parts of the world, Australian headline CPI reached a low of 1.3% in Q115 before recovering (Figure 42).

Figure 41: Australia, US, Germany & New Zealand 10y breakeven inflation (bp)



Source: Bloomberg, UBS

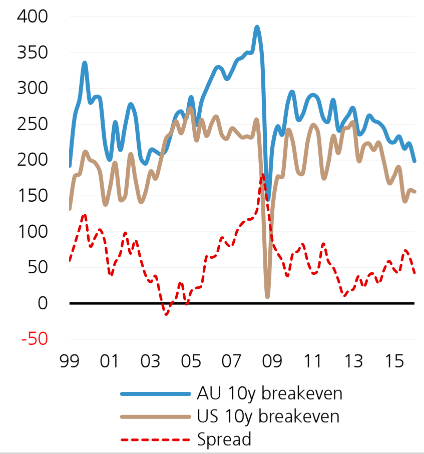
Figure 42: Low headline inflation has dragged down long-term breakevens globally (bp)



Source: Bloomberg, UBS

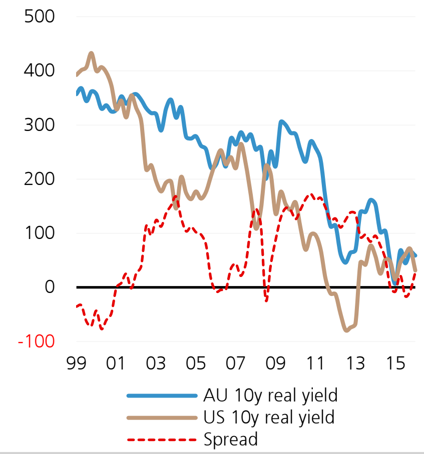
But, we would not argue that Australian breakevens are rich, even as we potentially stand before a period of structurally lower inflation. 10y BEIs of around 2% – a comparatively tight level versus spot inflation from a global perspective – already price in historically low inflation outcomes. The consensus among economists for Q116 headline CPI is 1.8%. If realised, it could well translate into higher Aussie BEIs. Even in our downside (25% probability) scenario, in which we see core inflation falling to around 1.75%, 10y BEIs at 2% seem fair.

Figure 43: Australia & US 10y breakeven inflation (bp)



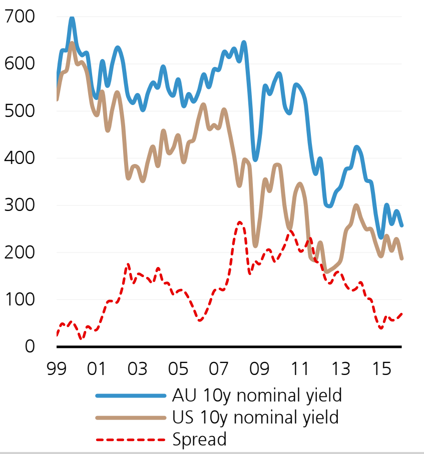
Source: Bloomberg, RBA, UBS

Figure 44: Australia & US 10y real yield (bp)



Source: Bloomberg, RBA, UBS

Figure 45: Australia & US 10y nominal yield (bp)



Source: Bloomberg, RBA, UBS

However, if spot CPI picks up in other markets, chances are that overseas BEIs will outperform (i.e., tighten to) Australia, particularly as some overseas markets look unduly cheap (e.g., we consider NZGB linkers attractive at current levels for investors with a medium-term time horizon).

UBS Economics expects US CPI to recover to 2.2% in Q416. Under such a scenario – and with Aussie CPI unlikely to be higher – **we think the 10y Aussie – US BEI spread could tighten further from current levels of ~35bp**.

We expect this to help the **10y nominal yield spread between ACGBs and USTs reach 50bp at end-16** and 35bp at end-17 (currently ~70bp). If the RBA cuts the cash rate from 2%, these forecasts might be on the conservative side. We see the 5y5y IRS AUD – USD spread tightening to 42bp this year, from ~85bp currently (see 'Australia Rates Strategy: Revising our Australian bond yield forecasts'). We target a year-end 2016 AUD/USD cross of 0.68, as discussed in more detail in the Global FX Atlas.

The interest rate market's expectation of future inflation – so-called breakeven inflation (Figure 43) – is one of two components that together make up nominal bond yields (Figure 45). The other component is real yields (Figure 44). The relationship between nominal and index-linked bonds in covered in detail in 'Global Macro Strategy Forum: Inflation-linked questions'.

Australian equities and the potential for low CPI

If Australian inflation does surprise to the downside (sub 2%) over the next 1 to 2 years, this may well have significant implications for the Australian share-market, particularly via the potential links to the RBA cash rate, the 10 year bond yield and the AUD. If CPI (all things equal) does allow the RBA cash rate and the long bond yield to push lower it should (all things equal) be positive for the stock market given the yield heavy bias of the Australian market. This would particularly be the case if downside inflation surprise occurs against a relatively benign domestic growth backdrop where growth continues at a trend or moderately below trend pace allowing reasonable earnings growth.

An ongoing low or potentially lower interest rate backdrop would likely extend the focus on defensive yield areas such as REITs, infrastructure/utilities and banks (particularly in the case of banks if growth remains benign & bad debts stay low).

Beyond the domestic inflation backdrop, global factors will of also influence the path of interest rates, particularly the long bond yield so it is possible that downside domestic inflation surprise may not translate to lower absolute bond yields if for instance US inflation and interest rates begin to move up significantly. From this perspective positioning for a lower AUD may be a more robust investment stance as the AUD should weaken if Australian inflation undershoots US inflation and interest rate differentials narrow. A lower AUD should benefit the Australian economy and listed earnings cycle, though offshore investors may want to hedge against the contingency of a significantly lower AUD. This potential low inflation scenario suggests an ongoing attraction in the USD earners portion of the Australian market as per our current strategy.

Of course low inflation has, and may continue to have, negative profit implications for certain areas of the market. For some time we have been underweight consumer staples (supermarkets), general insurers and telcos based on a thesis of rising competitive intensity pressuring revenues and margins. We remain underweight these sectors. We discuss the pricing power and profitability outlook for each of these sectors in more detail below. We also discuss the potential implications of lower price inflation in the healthcare sector where inflation has been running at a well above CPI level of c5% for many years.

Consumer Staples (Supermarkets) – Remain Underweight

Within the retail space, we continue to view supermarkets as the least attractive segment, given increased competition and changing consumer habits are putting pressure on prices. Competition in the Australian grocery market has intensified driven by a major change in market structure with ALDI in particular becoming an increasingly effective competitor.

After many years of food price inflation running at c3-5%, a backdrop which helped facilitate an extended period of expanding margins, domestic food prices have come under significant pressure over the last 1-2 years with price inflation currently sitting just above zero in year on year terms. We expect further downward pressure in food prices.

We would attach the caveat that food prices do track soft commodity prices with a lag to some extent, so a significant rise in soft commodity prices would have some inflationary impact. A tail risk on the downside for food inflation is the possibility of an all-out supermarket price war. This risk is non-trivial in our view due to competitive pressure the traditional market leader (WOW) is currently under.

Woolworths (WOW) has come under considerable pressure due in part to the lift in competitive intensity in the sector. WOW's food & liquor business accounts for 85% of group EBIT, and has lost significant momentum over the last year or so. For the first time in >10 years, LFL sales trends turned negative in Q4FY15. This has resulted in multiple profit downgrades, a 30% share price decline over 12 months, and senior management departures. WOW has for some time had the highest EBIT margins of any listed supermarket in the developed world. Our thesis has been that WOW's margins need to re-base; the question is how far they need to fall to fund the turnaround of Australian F&L (defined as a recovery in LFL sales growth and at least stable market share)? Over the past 10 years WOW has grown EBIT margins by ~350bp, equivalent to a ~35bp lift pa. For FY15, WOW EBIT margins at 8.1% were the highest of any listed supermarket operator globally (~450bp above the global average). FY16 we forecast margins to fall fairly dramatically to 5.5%. We anticipate further pressure out to FY18 where we expect the margins to bottom at 5.1%.

Wesfarmers (WES), the other consumer staples major, has been less effected given its diversification (the Coles supermarkets division is c40% of WES EBIT) and the superior performance from its supermarkets business. At the recent result, Coles delivered accelerating LFL sales in a soft market, maintaining top-line growth of c6% in Q216 (+4.7% in 1Q), a strong result suggesting market share gains accelerated. This was despite a step up in price and labour investment by WOW.

The key risk for Coles remains a price war. As discussed #1 market player (WOW) is under pressure, which is dangerous for the market. Our base case remains pricing pressure no "price war", but the risks appear to be building. We estimate a c50bp decline in Coles FY16 EBIT margin versus UBSe (5.4%) could see the WES share price fall to between $33 and $38 per share, all else equal. This of course would put additional downward pressure on the food component of the CPI basket.

Consumer discretionary – Competition less intense

In the more AUD sensitive areas, we see a likelihood of rising prices in clothing and footwear and household goods and furnishings, albeit we see a likelihood that the impact of the lower currency on prices is dampened by wholesalers absorbing some of the higher cost of goods.

The profitability impacts should be relatively minimal given with the potential for a shift from moderate deflation to moderate inflation in key segments, such as electronics, as having some positive impacts on profitability (all things equal) albeit the impact on demand may offset this.

Telcos - Competitive pressures are intensifying

The communications CPI series is "hedonic" or quality adjusted (in this case it is data quantity adjusted). Actual deflation is less in raw terms, but competitive pressures are intensifying in mobile and fixed broadband.

Telstra (TLS), the market leader, is facing headwinds from rising competition across both mobile and fixed broadband. On the positive side, despite mobile voice penetration peaking, industry growth should benefit from 3G-4G migration and a forecast growth in mobile data traffic.

An irrational pricing environment, such as the one experienced post the Vodafone-Hutch merger, where carriers pursued subscriber and revenue share at the expense of profitability and margins, presents downside risk to our forecasts. Mobile is 50% of our TLS valuation. TLS shares have retraced significantly over the last year and we currently rate TLS a neutral.

General insurance – Competition remains intense

After a period of exceptional profitability over 2012-14 for Commercial and Personal Lines, top-line growth has become increasingly difficult for the majors to deliver given rising competition. Rate reductions have been persistent and severe in some areas. Challenger brands have gained significant traction, with IAG and SUN losing around 5% share over the past five years, predominantly in Motor.

Although SUN and IAG continue to manage the margin/volume trade-off well, 1H16 was another half that illustrated how challenging this balance has become. Both insurers began modestly raising rates in personal lines again (after a 12mth period where price discounting was evident, particularly for SUN). Premium rates were lifted by 1-3% across Motor and Home & Contents (H&C) – as a consequence the majors were once again unable to match market growth rates.

Challengers maintain growth above 15% in Motor and Home & Contents

The challengers continue to erode majors' market share, growing at 17% in Motor and 26% in H&C, we estimate. On a 12-month basis, this group – Youi, Hollard, A&G and Progressive – now accounts for close to $1.6bn of premium, ~10% of the Personal Lines market (3.7% five years ago). While it will logically prove increasingly difficult to maintain this trajectory off a higher base, we believe 15-20% growth could be sustained over CY16E, given a number of well-entrenched strategies in place.

Although not directly relevant for the CPI, commercial rates continue to ease at a c3-4% rate. Commercial is c 30% of profits versus 70% for personal. Overall we rate the sector as a neutral, but to not see the sector as a compelling opportunity given the competition constrained earnings growth outlook.

Health sector inflation – Should ease eventually

The recent government review of private health insurance premiums allowed a c5-6% increase in premiums, broadly in line with the rate of premium inflation of previous years. Listed private health insurer MPL (Medibank Private) achieved a

5.64% average increase effective April 1. This is less than a 1% reduction from the approved 2015 rate change (+6.59%). Rate increases across other insurers were generally lower than 2015, but only by 0.6%, with an average of 5.59%.

Private health funds set to over-earn for longer

Health funds have in our view achieved a remarkably good outcome relative to the rhetoric and public statements in the months leading up to final submissions. MPL and the major health funds are likely to significantly over-earn well into 2017 relative to our view of a long-term sustainable margin.

Given budgetary constraints we see this rate of annual increase as ultimately unsustainable and we would expect lower further outcomes c3-4%. This should help ease the healthcare component of the CPI (of which it is more than 50%).

A government-initiated Prosthetics pricing reduction (potentially implemented at the upcoming May budget) should help facilitate this shift and lessen the margin impact on health insurance. Downward pressure on prosthetics pricing would be more of an issue for private hospital operator Ramsay (RHC), more so than Healthscope (HSO) in our view, as they derive higher levels of profitability from prosthetics pricing.

Demographics suggest incentives for governments to influence price

In terms of the broader healthcare basket we would note that the demographics of aging suggest usage of healthcare will likely be in a strong structural uptrend. With the "volume" of healthcare services set to rise steadily, government will be keen to control price. This is particularly where it is a direct funder of a particular service. We have seen this in respect of the pathology and in terms of PBS and MBS schemes. On balance we think there will be some degree of at least moderate downward pressure on healthcare inflation in coming years.

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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.
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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
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Insurance Australia Group[5, 7]	IAG.AX	Neutral	N/A	A$5.58	31 Mar 2016
Medibank Private Limited[7]	MPL.AX	Sell	N/A	A$2.93	31 Mar 2016
Ramsay Health Care Limited[18a]	RHC.AX	Neutral	N/A	A$61.36	31 Mar 2016
Suncorp Group Ltd[2, 4, 7, 18b]	SUN.AX	Buy	N/A	A$11.91	31 Mar 2016
Telstra Corporation Limited[4, 5, 7]	TLS.AX	Neutral	N/A	A$5.33	31 Mar 2016
Wesfarmers Limited	WES.AX	Neutral	N/A	A$41.45	31 Mar 2016
Woolworths Limited[4, 13]	WOW.AX	Sell	N/A	A$22.10	31 Mar 2016

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