WEEKLY ECONOMIC COMMENTARY

Week beginning 10th December 2018

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	November	-0.3%	+0.2%
Dwelling Approvals	October	-1.5%	+3.3%
Company Profits/Inventories	Sept quarter	+1.9%/0.00%	+0.6%/+0.7%
Current Account Balance	Sept quarter	-$10.7bn	-$13.5bn
GDP	Sept quarter	+0.3%	+0.9%
International Trade in Goods and Services	October	$2.316bn	$3.017bn
Retail Sales	October	+0.3%	+0.2%

ANZ Job Advertisements fell 0.3% in November reversing the prior month's gain to be up only 2.3% on an annual basis which is the slowest annual growth rate in the series since May 2015.

Residential building approvals fell by 1.5% in October to be down 13.4% on an annual basis. Private detached house approvals were up 2.7%, the first rise since June but were down 4.1% annually while the volatile private multi-unit (apartments) approvals fell 4.8% in October to be down 22.2% annually.

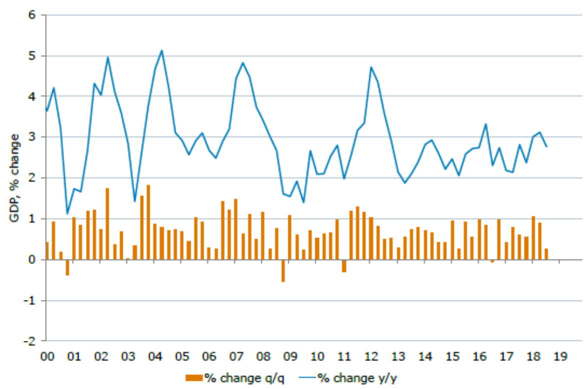
The business indicators that feed into the GDP data were mixed. **Company profits** posted a solid rise in the September quarter, up 1.9%, following an upwardly revised rise of 2.4% previously. The strength in profits was largely driven by the resources sector and higher commodity prices with mining profits up 3.4% in the quarter (+27% annually). **Inventories** were flat in the quarter while **wages and salaries** were up 0.9% in the quarter and up 4.3% annually.

The **current account deficit** narrowed to $10.7bn (or 2.2% of GDP) in the September quarter a result of positive net export volumes (+0.1%), with a larger fall in import volumes (-1.5%) and a 0.8% rise in the terms of trade. This reflected a larger trade surplus of $6.6bn (from $3.9bn last quarter) partly offset by a larger net income trade deficit of $16.9bn.

Economic growth **(GDP)** was weaker than estimated, up only 0.3% in the September quarter (the smallest quarterly rise in two years) to be up only 2.8% (from +3.4% last quarter). Household consumption (+0.3%), dwelling investment (+1.0%), government spending (+0.5%) and net exports (+0.3%) made positive contributions to growth. Consumer spending was weak, up only 0.3% while business investment was a drag on growth over the quarter, falling by 1.9% mainly due to a 7.5% fall in mining capex. Weakness was also shown in the rural areas with the agricultural, forestry and fishing sector down 1.6%, affected by the drought.

The **trade balance** deteriorated to a surplus of $2.3bn in October, driven by a 3.2% increase in imports and only a 1.3% increase in exports - reflecting the lingering effects of the drought as cereal and grain exports plunged by 15.4% in October to an eight-year low.

Real GDP



Source: ABS, ANZ Research

Retail sales increased by 0.3% in October to be up 3.6% over the year. Clothing and footwear sales were up 2.6%, food increased 0.2% while household goods sales were up 0.6%. The only category to post a fall this month was café, restaurants and takeaway which fell 0.9%.

In other data releases, the Corelogic house price index fell 0.9% in November with Sydney house price index down 1.4% in November (-8.1% annually) and Melbourne prices dropped 1.0% (-5.8% annually). The NAB online retail sales index increased by 0.7% in October while the 12 month growth in the index slowed to +14.7% compared to +16.7% last month.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Housing Finance	10 December	October	-0.5%	-1.0%
House Price Index	11 December	Sept Quarter	+0.2%	-0.7%
NAB Business Survey (Confidence/Conditions)	11 December	October	n/a	+4/+12
Westpac/MI Consumer Sentiment	12 December	October	n/a	+2.8%

ECONOMIC COMMENTARY

LAST WEEK

The US and China reached a trade truce at the G20 gathering over the weekend and agreed not to increase or impose further tariffs for three months, although the two sides starting new trade negotiations immediately. The news that tariffs were not going to increase set the tone for a positive start to last week with “risk-on” the order of the day. Equities rallied, the US dollar fell and yields moved higher. The rally however was short-lived as concerns emerged that there was no substance to the trade agreement actually being done and that the Trump-Xi handshake and agreed 90-day moratorium was nothing more than that and whether any progress on a deal was really made. Equities tumbled and investors once again fled to the safety of the US dollars and government bonds.

The RBA had their board meeting last week and ended the year much as it began with “no change” to monetary policy. What is also largely unchanged over the year is the RBA’s generally positive view on the economic outlook was toned down slightly. Their accompanying statement reveals the RBA retains concerns about trade disputes and the combination of high household debt, credit conditions tightening and weak income growth. In contrast, concerns over a higher currency have declined and the RBA doesn’t seem too concerned about the recent decline in house prices. So, a change to the official cash rates is still some time off, especially after the weaker than expected GDP data last week.

By the close on Friday, the 90-day bank bill was trading at 1.99% compared to 1.95% last week. In the long-term maturities, three and 10 year bond yields closed at 1.91% and 2.45% respectively, from 2.01% and 2.59% a week earlier.

CURRENCY

Risk sensitive currencies including the Australian dollar benefitted from the trade truce and a subsequent sell off in the US dollar last Monday. The AUD also got a boost from higher commodity prices thanks to a 5% rise in the price of oil last week trading to a high of USD0.7393. However, as the week progressed and US-China trade news raised many questions around a lack of detail, the US dollar benefitting from flight to quality buying and the AUD gave back some of its gains.

The AUD fell through the psychological 73-cent level following the weaker than expected GDP data which left annual GDP growth at 2.8%, well below the RBA’s forecast of 3.5%.

The AUD found some support at 72 cents however with commodities in a tailspin and China-US tension ratcheting higher it may prove to be only temporary.

By the close last Friday, the Australian dollar was trading at USD0.7227 from USD0.7315 a week earlier.

EQUITIES

A real see-saw ride for equity markets last week. An initial strong rally last Monday was quickly reversed when Trump twitter claims of a “fantastic trade deal” were not backed up and the Chinese were noticeably “mum” on what was agreed at the G20 meeting. Concerns about the outlook for the US economy also hurt sentiment with banks, technology and industrials leading the losses. Global equity markets were a sea of red last week, down 3%.

By the close last Friday, the S&P/ASX200 Index was trading at 5,681.5 compared to 5,667.2 a week earlier.

THIS WEEK

Apart from some housing data, the focus for economists will be on the latest monthly NAB business survey and Westpac consumer sentiment to see whether the recent trade tension and equity market volatility has impacted confidence.

INTEREST RATE VIEW

The disappointing September quarter GDP data last week prompted a sharp fall in market interest rate expectations with the futures market no longer pricing in a rate hike for next year and only a 20% chance of a hike by mid-2020, down from a 60% probability a week ago.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.76	2.06	1.93	1.94	1.99
180 day Bank Bill	1.92	2.16	2.12	2.11	2.14
1 year swap	1.79	2.01	1.93	1.98	1.92
3 year swap	2.01	2.24	2.05	2.21	2.00
5 year swap	2.35	2.61	2.37	2.57	2.32
10 year swap	2.70	2.96	2.73	2.94	2.65
AUD/USD	0.7513	0.7588	0.7146	0.7244	0.7227
S&P/ASX200 Index	5,994.4	6,045.2	6,143.8	5,921.8	5,681.5

CHART OF THE WEEK

GDP growth, 2018

With Australia's latest GDP data showing annual economic growth falling to 2.8% in the September quarter (from +3.4% last quarter), I thought it was interesting to see how this compares with other countries.

Economic growth is the increase in inflation-adjusted market value of goods and services produced by an economy over time.

Source: welovemapsandfacts.com

About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010. It is the only Australian-owned and operated dedicated agribusiness bank in the country, providing exceptional financial services, knowledge and leadership for Australian farmers to grow.

RURAL BANK
Farmer focused.
Future driven.

Postal Address:
PO Box 3660,
Rundle Mall, SA 5000
Telephone: 1300 660 115
Facsimile: 08 8121 0106
service@ruralbank.com.au
www.ruralbank.com.au

Disclaimer: This report has been prepared by Rural Bank Treasury and is based on information obtained from public sources that are believed to be reliable. Whilst all care has been taken in compiling the information in this report, Rural Bank Limited ABN 74 083 938 416 AFSL / Australian Credit Licence 238042 makes no representation as to the accuracy, completeness or timeliness of such information. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Rural Bank and are subject to change without notice. Rural Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only and does not take into account personal circumstances, objectives, financial situation or needs. The information contained within this report should not be relied upon without consulting independent, professional advice carefully to consider the appropriateness of the advice to your personal circumstances. Rural Bank disclaims all liability in relation to any loss or damage suffered by the use of or reliance upon any information contained herein or in any attachment or annexure hereto by any person.