WEEKLY ECONOMIC COMMENTARY

Week beginning 10th June 2019

ECONOMIC DATA ROUNDUP

RURAL BANK
Farmer focused.
Future driven.

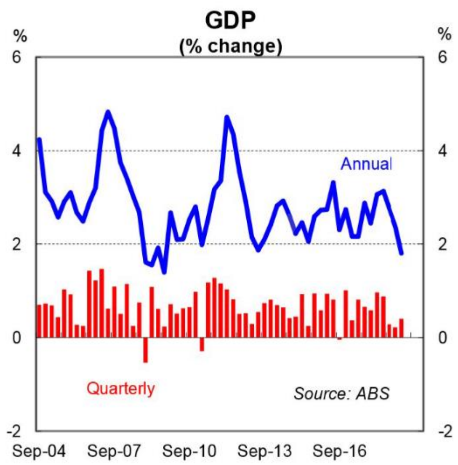
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	May	-8.4%	-0.1%
Current Account	March Quarter	-$2.9bn	-$7.2bn
Retail Sales	April	+0.1%	+0.3%
Economic Growth (GDP)	March Quarter	+0.4%	+0.2%
Trade Balance	April	$4.871bn	$4.95bn
Housing Finance	April	+0.2%	+2.8%

ANZ job advertisements were down 8.4% in May and down 14.9% over the year. This is the weakest monthly result since January 2010 and the steepest annual fall since 2013.

Australia's **current account deficit** narrowed in the March quarter to $2.9bn from a revised $6.3bn in the December quarter. This was the smallest deficit as a percentage of GDP since 1979 at 0.6% of GDP. Exports were up 1.0% in the quarter, led by a 6.5% increase in rural goods. The drought has led to a large increase in meat (+14.6%) and wool (+15%) exports over the quarter while cereal exports continue to fall. Resource exports were flat with metal ores falling 4.7% as cyclone activity in Western Australia hit iron ore exports.
Imports fell 0.1% in the quarter with a rise in consumer-related goods of 3.0% almost totally offset by a fall in intermediate and other goods of 2.7%. The terms of trade rose by 3.1% in the quarter reflecting the combination of a large rise in export prices (+2.7%) and a fall in import prices (-0.4%).

Retail sales were up only 0.1% in April to be up 2.8% over the year. By category, food (+0.2%), department stores (+1.8%), other retailing (+0.8%) all rose in April while there were falls in clothing (-1.2%), restaurants and cafes (-0.7%) and household goods retailing (-0.9%). Household goods retailing has been impacted by the recent very low turnover in the housing market.



Economic growth **(GDP)** increased by 0.4% in the March quarter with annual GDP falling from +2.3% to +1.8% - its slowest annual growth rate since September 2009. Household consumption (+0.3%), business investment (+0.6%), public demand (+0.8%) and net exports (+1.0%) made positive contributions to growth in the quarter while residential construction subtracted from growth (-2.5%).
The effects of the drought are evident in the GDP numbers with farm GDP down for the third consecutive quarter, contracting by 0.2% in March quarter and by 6.8% over the year (and down 16% from the peak in 2017).

The **trade balance** for April was slightly under expectations but still very strong at $4.871bn. The result was helped by a recovery in iron ore volumes, though the impact of the drought is still reducing rural exports. Imports were up 3% with rises in consumption goods (+3.5%), food and beverages (3%), passenger cars (6%), textiles and clothing (9%) and toys, books and leisure (5%). Exports were up 2.5% thanks mainly to a rebound in iron ore exports (+16% in April and +30% over the year). Rural goods exports fell by 1.6% driven by other rural goods (-5%) while meat exports and wool exports continue to lift.

The value of **housing finance** rose by 0.2% in April, the second increase in three months with housing finance now down 17.3% annually (last month was -20.3%). Owner occupier finance increased by 1.0% in April to be down 13.8% annually while investor finance fell 2.2% to be down 26.0% annually. The number of owner-occupier housing finance approvals (excluding re-finance) fell 1.1% in April and was down -13.5% annually.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
NAB Business Survey – Confidence/Conditions	11 June	May	n/a	+0/+3
Westpac/MI Consumer Sentiment	12 June	June	n/a	+0.6%
Employment	13 June	May	+20,000	+28,400
Unemployment	13 June	May	5.0%	5.2%

ECONOMIC COMMENTARY

LAST WEEK

The RBA lowered the official cash rate from 1.50% to 1.25% last week as correctly anticipated by nearly every analyst beforehand. In the accompanying statement the RBA reiterated its forecasts for economic growth and inflation and sounded less concerned about the housing market, noting that house price declines had slowed and that auction clearance rates had improved. The RBA said while the outlook for the global economy was “reasonable”, the risks stemming from the trade war between China and the US and weak international trade growth prompted the bank to cut.

The move was well communicated beforehand and caused relatively little change in yields.

While markets seemed a little more settled later in the week, sentiment remains downbeat on anxiety surrounding the outlook for global economic growth and the potential for further rate moves by central banks. The World Bank cut its global economic growth forecast for 2019 to 2.6% from 2.9%, citing slowing trade.

The pick of the busy economic data last week was March quarter GDP which came in as expected at +0.4% for an annual GDP of only 1.8% (the slowest in 10 years), down from 2.3% last quarter and 1% below “trend”.

By the close on Friday, the 90-day bank bill was trading at 1.37% compared to 1.42% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.08% and 1.48% respectively, from 1.09% and 1.46% a week earlier.

CURRENCY

The Australian dollar managed to squeeze a little higher early last week thanks to a weaker US dollar. Trade tensions were again in the spotlight with Trump continuing his “tit-for-tat” negotiations with China as well as raising tariffs on Mexican imports and now bringing India into the negotiations.

The Australian dollar managed to rally following the RBA rate cut last Tuesday, temporarily breaking through 70 cents, mainly on a perceived neutral outlook by the RBA, but the AUD is expected to weaken in the long term on the anticipation of further rate cuts to come, lower oil prices and an expected unwind of the recent rally in the iron ore price.

By the close last Friday, the Australian dollar was trading at USD0.6971 compared to USD0.6915 a week earlier.

EQUITIES

After an early sell off last week, global equity markets rallied following comments by the US Federal Reserve that they are "closely monitoring" the impact of US trade tensions and stand ready to ease policy if US economic growth is threatened. This was perceived to hint that US rates could be cut in future and this boosted global equity markets.

By the close last Friday, the S&P/ASX200 Index was trading at 6,443.9 compared to 6,396.9 a week earlier.

THIS WEEK

We will get a read on the reaction to the Federal election outcome this week with the release of the latest monthly business and consumer sentiment data. The main focus however will be on May employment data to see whether the unemployment rate reverses the rise recorded last month. Analysts are expecting a hefty rise in employment due to the effect of the election (the AEC claim over 80,000 people were employed in over 7,000 polling places) and unemployment to fall to 5.0%

INTEREST RATE VIEW

RBA Governor Philip Lowe noted that it is “not unreasonable to expect a lower cash rate”, hinting he will contemplate further easing below 1.0% if he thinks it is needed. Financial markets are already largely convinced that the cash rate will fall further, though the timing is still an open question. Currently pricing suggests only a 35% chance of a cut in July, but this increases to around 80% for a cut in August and there is a risk that the cash rate will be pushed below 1% in 2020.

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	1.25
90 day Bank Bill	2.06	1.99	1.86	1.65	1.37
180 day Bank Bill	2.16	2.14	1.96	1.67	1.37
1 year swap	2.01	1.93	1.75	1.46	1.22
3 year swap	2.24	2.00	1.69	1.37	1.16
5 year swap	2.61	2.31	1.94	1.61	1.38
10 year swap	2.96	2.65	2.27	1.99	1.74
AUD/USD	0.7588	0.7221	0.7006	0.6999	0.6971
S&P/ASX200 Index	6,045.2	5,552.5	6,203.8	6,310.9	6,443.9

CHART OF THE WEEK

The Richest Countries in the World

Since the 2008 financial crisis, global private wealth has been steadily growing. In fact, overall private wealth worldwide reached $204 trillion in 2018, which is a 26% increase over the past decade.

This chart, which uses numbers from the Global Wealth Migration Review 2019, examines the top 10 richest countries and the growth of private wealth from 2008 to 2018.

Rank	Country	Private Wealth in $USD (2018)	10-yr change (%)
#1	United States	$60.7 trillion	27%
#2	China	$23.6 trillion	130%
#3	Japan	$19.1 trillion	18%
#4	United Kingdom	$9.1 trillion	4%
#5	Germany	$8.8 trillion	7%
#6	India	$8.1 trillion	96%
#7	Australia	$6.0 trillion	48%
#8	Canada	$6.0 trillion	23%
#9	France	$5.9 trillion	-7%
#10	Italy	$3.8 trillion	-14%

Combined, the 10 countries above represent 74% of total private wealth worldwide.

These trends are staying consistent with the numbers seen in 2017. Asian countries such as China and India showed the highest uptick in wealth gains, holding their #2 and #3 spots on the list, while European countries such as France and Italy saw a decrease.

Trends in the Wealth Landscape

Over the last 10 years, China has experienced the largest increase in wealth at 130%. This growth also means that China now boasts more high-net-worth individuals (HNWIs) than any other country except the United States.
While India doubled its total private wealth over the 10-year period, wealth per adult remains at just 22% of the global average.

The US continues to lead in wealth numbers, holding 30% ($60.7 trillion) of the world's total private wealth. Unsurprisingly, the US remains home to the most millionaires in the world.

The World's Millionaires: Top three Countries

United States:	17,350,000
China:	3,480,000
Japan:	2,809,000
World total:	42,155,000

Source: Credit Suisse

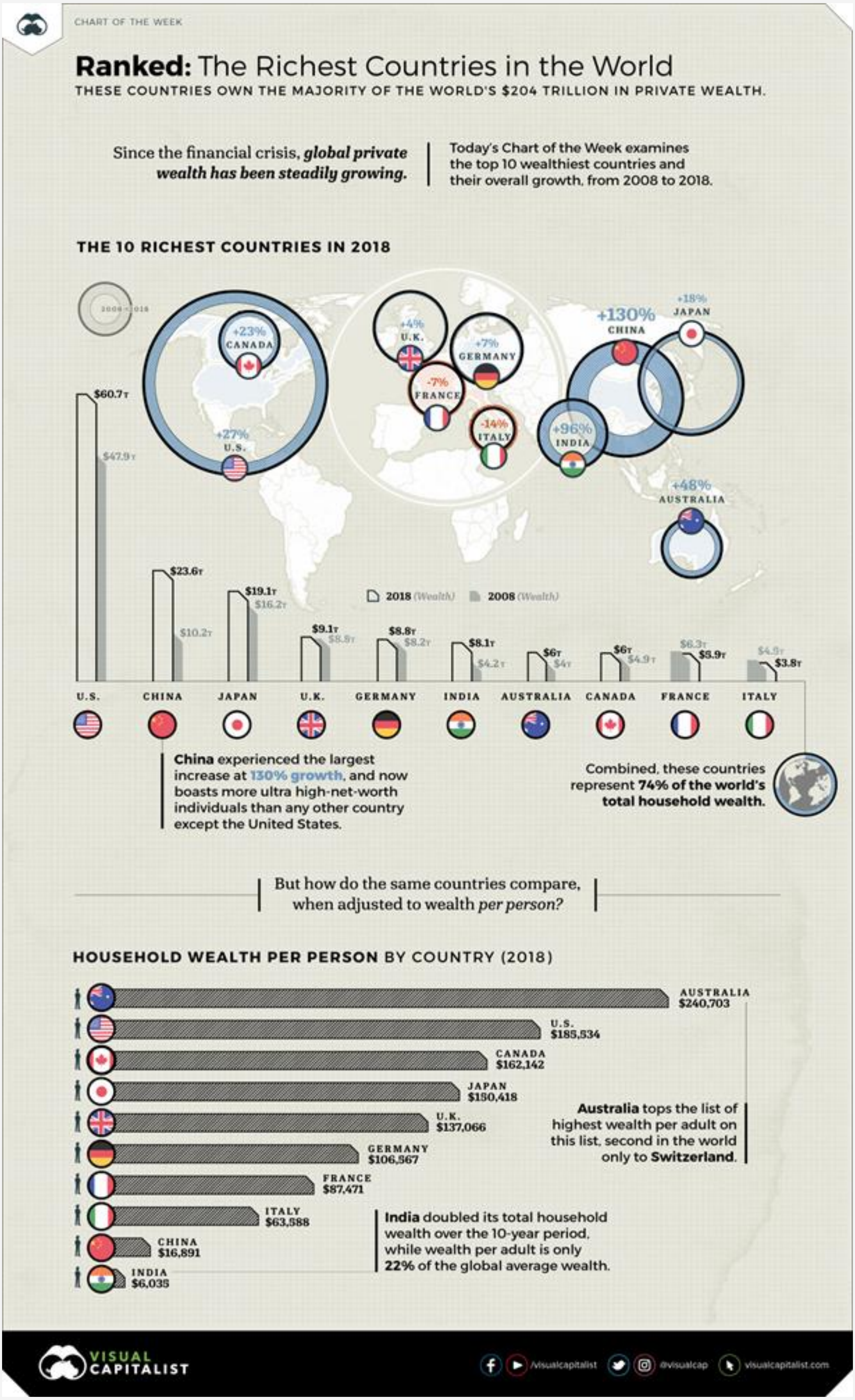
Australia now tops the above list in terms of highest wealth per adult, and it is second in the world only to Switzerland in the context of major nations. Despite the recent turmoil and uncertainty stemming from Brexit, the United Kingdom still saw overall growth in the past decade, moving from #5 to #4 rank on the list of countries with the highest private wealth.

Projections from New World Wealth estimate that total global wealth will reach $291 trillion by 2028, driven by strong growth in Asia.

Rising Wealth Inequality

Unfortunately, this growth is also linked to the growing problem of wealth inequality gap across the globe, and the gap seems to get bigger every year.

The average global wealth per adult is approximately $27,000 – but of the total adult population, 64% have a net worth of less than $10,000. The bottom half of adults in the world now own less than 1% of all household wealth. By contrast, 85% of all household wealth is owned by the richest 10%, and the top 1% own almost half (47%) of the world's household wealth.



Source: *Visualcapital, 24 May 2019*
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About Rural Bank

Rural Bank is a division of Bendigo and Adelaide Bank Limited and provides exceptional financial services, knowledge and leadership for Australian farmers to grow.

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