

# WEEKLY ECONOMIC COMMENTARY

Week beginning 11th February 2019

## ECONOMIC DATA ROUNDUP



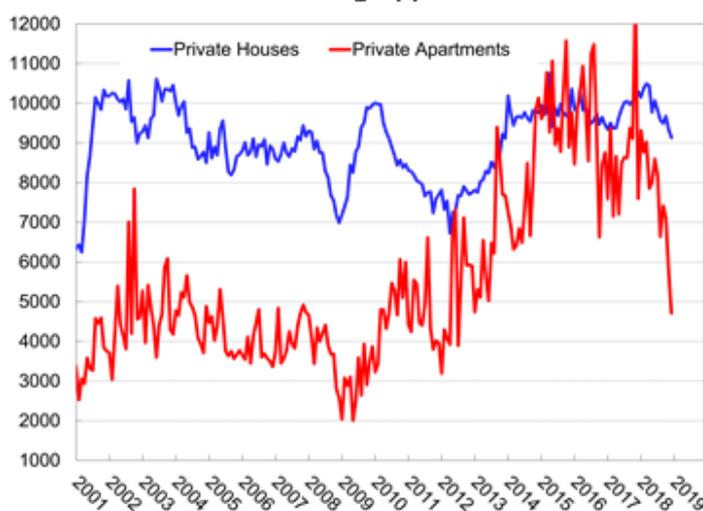
### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ job advertisements	January	-1.7%	+0.0%
Building Approvals	December	-8.4%	-9.1%
Balance of Trade	December	+\$3.681bn	+\$1.925bn
Retail Trade	December	-0.4%	+0.4%

**ANZ Job Advertisements** fell 1.7% in January and are now down 3.7% over the last 12 months (+4.2% last month). This is the first annual decline since April 2015.

**Residential building approvals** fell 8.4% in December after a revised 9.8% fall in November. Building approvals are now down 22.5% over the year – the weakest in five and a half years. Private apartment approval numbers were down 18.8% in December following the 18% decline in November while private detached house approvals fell 2.2% after a 3.0% fall in November. Non-residential approvals also fell sharply (down 9.8% in value terms) and are trending down.

Building Approvals



Source: ABS and Citi Research

The **trade balance** increased to a surplus of \$3.7bn in December – the second-largest surplus on record with November’s surplus revised up to +\$2.25bn. Imports were down 5.7% in the month with falls recorded across capital items (-\$1.1bn), consumption goods (-\$0.7bn) and intermediate items (-\$0.7bn). Exports were also weaker, falling 1.6% in December with falls in the volatile gold exports (-56.7%), metal ores and coal exports (-2.1%) offset by a 9.5% rise in rural exports (despite the drought) and manufacturing goods (+10.6%).

**Retail sales** were down 0.4% in December to be up only 2.8% over the last year. The fall in household goods (-2.8%), department stores (-1.1%) and clothing sales (-2.4%) this month suggests the prominence of Black Friday sales dragging sales into the previous month did play a role in the slowdown. Spending on food (+0.5%) and eating out (+1.1%) was up.

In other news, the **NAB on-line retail sales** index fell 1.4% in December, reversing much of the 2.9% rise last month, to be up 9.0% over the year. The NAB on-line retail sales index measures all on-line retail spending by consumers using various electronic payment methods such as credit cards, BPAY, and Paypal.

### Data over the next week

Economic Data	Date	Period	Forecast	Previous
NAB Business Confidence/Conditions	12 February	January	n/a	+3/+2
Housing finance	12 February	December	-2.0%	-0.9%
Westpac/MI Consumer Sentiment	13 February	February	+1.0%	-4.7%

# ECONOMIC COMMENTARY

## LAST WEEK

The RBA left the official cash rate unchanged after their first board meeting for 2019 last week, as expected. In the accompanying commentary, the RBA did acknowledge that downside risks had increased, with comments in the statement around the international outlook, the Australian GDP outlook, the labour market and inflation all less positive than the December statement. Interestingly, the comments on housing were largely unchanged despite recent weakness.

Australian rates markets reacted to the RBA statement by unwinding some of the recent rate cut expectations, yields moving higher across the curve, despite the RBA softening their growth and inflation forecasts. Then 24 hours later in a speech entitled "The year ahead", RBA Governor Philip Lowe emphasised the uncertain economic outlook and consistent with that, shifted the RBA's monetary policy stance from "tightening" to "neutral". The key phrase from Dr Lowe was "Over the past year, the 'next-move-is-up' scenarios were more likely than the 'next-move-is-down' scenarios. Today, the probabilities appear to be more evenly balanced".

The RBA (and for that matter also the US Federal Reserve) have articulated a balanced economic outlook – and yet the market has moved to assume that "balanced" implies more risk of a medium-term rate cut than a rate hike. The comments drove a sharp rally in interest rates and a sharp fall in the AUD. The futures market currently implies a stable cash rate for the next three to six months but puts a low in the cash rate at below 1.25% – even though it is not till early 2020.

By the close on Friday, the 90-day bank bill was trading at 2.01% compared to 2.05% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.61% and 2.11% respectively, from 1.73% and 2.21% a week earlier.

## CURRENCY

The AUD continued to grind lower alongside a stronger USD. It has been underperforming on crosses as the weaker data weighs on the market view that the RBA's tone must shift. The RBA board meeting where it left rates unchanged gave the AUD a brief boost but the gains were short-lived and the AUD fell from USD0.7240 to 0.7110 fairly quickly following a shift by the RBA to a neutral monetary policy stance as they acknowledged increased economic risks at home and abroad, downgrading its forecasts for the economy.

By the close last Friday, the Australian dollar was trading at USD0.7079 compared to USD0.7238 a week earlier.

## EQUITIES

Our share market posted gains last week tracking similar moves on Wall Street, our market boosted by a solid rally in banking stocks following the release of the Hayne Royal Commission report which was not as harsh as anticipated.

The rally would have been better but for a risk-off tone re-emerging after White House economic adviser Larry Kudlow threw cold water on prospects of a US-China trade deal saying there was a "pretty sizable distance to go" in the trade talks. By the close last Friday, the S&P/ASX200 Index was trading at 6,071.5 compared to 5,862.8 a week earlier.

## THIS WEEK

This week will see the release of the latest monthly business and consumer sentiment data. Following last month's falls in both, analysts will be keen to see whether there is a stabilisation or potential recovery this month after the large fall recorded last month. We also have housing finance data for December which is also expected to continue the recent trend of declines.

## INTEREST RATE VIEW

The RBA has clearly become less comfortable with their previous positive outlook and have revised down their forecasts for growth (from 3.5% to 3%) and inflation (from 2.25% to 2.0%) while retaining the forecast that wages will lift and unemployment will fall to 4.75% by the end of 2020. That said, some economists still believe these new forecasts are optimistic and predict the RBA will revise them lower in coming months, justifying the pricing of a potential rate cut.

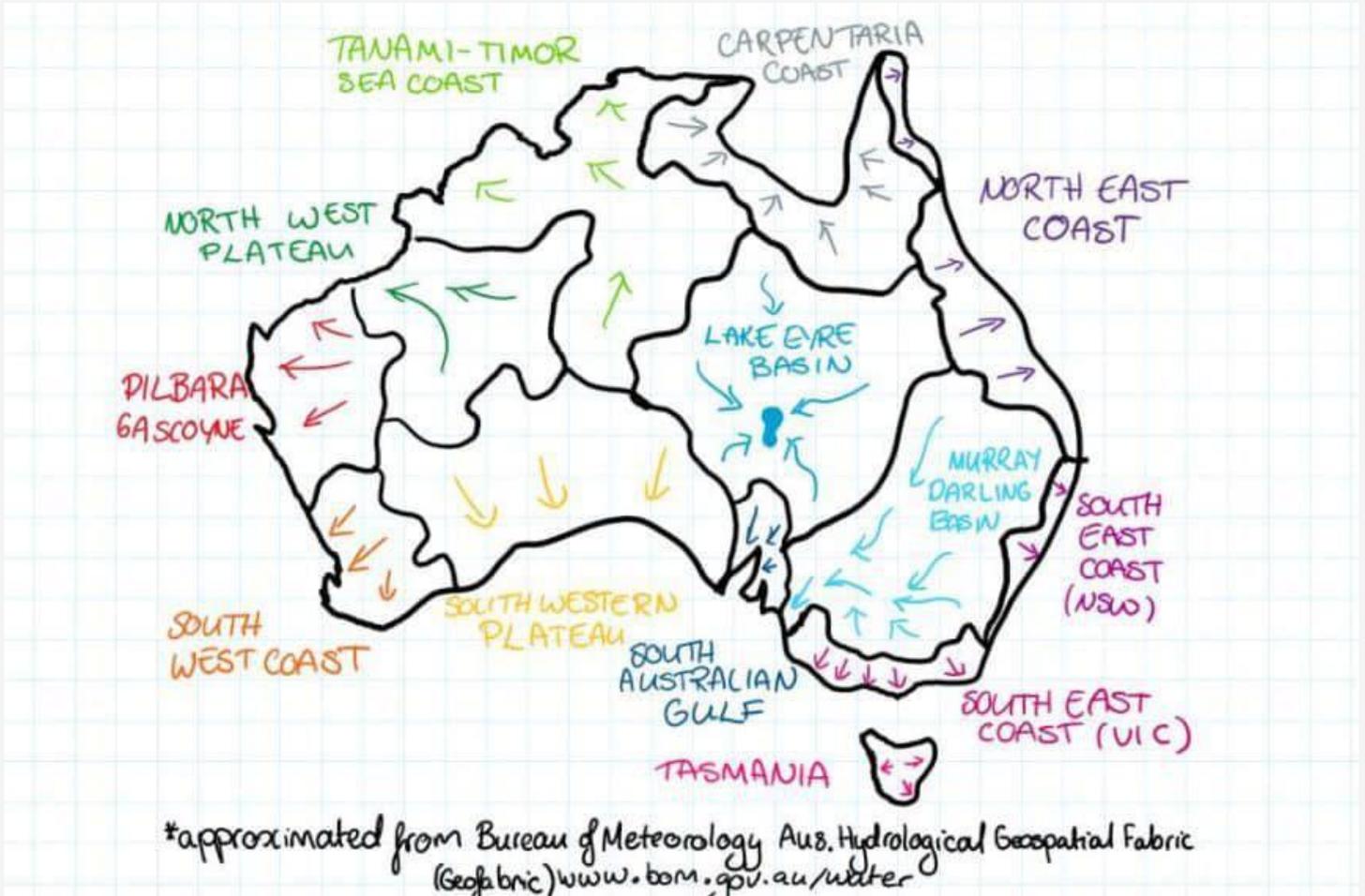
This was supported in a speech by the RBA governor last week and markets are now pricing in a 60% probability of a rate cut by December.

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	1.96	1.94	2.06	2.01
180 day Bank Bill	1.90	2.16	2.11	2.17	2.13
1 year swap	1.83	2.00	1.98	1.95	1.85
3 year swap	2.18	2.12	2.21	1.92	1.75
5 year swap	2.59	2.45	2.57	2.21	1.99
10 year swap	3.01	2.80	2.94	2.56	2.34
AUD/USD	0.7777	0.7320	0.7244	0.7185	0.7079
S&P/ASX200 Index	5,838.0	6,278.4	5,921.8	5,795.3	6,071.5

# CHART OF THE WEEK

Given the recent rains in far north Queensland, especially Townsville, I thought this was very topical.

ABC rural last week duplicated a map created by the Bureau of Meteorology showing where rain that falls in Australia eventually ends up. I thought it was interesting...



The Australian Hydrological Geospatial Fabric (Geofabric) is a specialised Geographic Information System (GIS). It identifies the spatial relationships of important hydrological features such as rivers, lakes, reservoirs, dams, canals and catchments. By detailing the spatial dimensions of these features, models can be developed to show how water is stored, transported and used through the landscape.

## 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.



Postal Address:  
PO Box 3660,  
Rundle Mall, SA 5000  
Telephone: 1300 660 115  
Facsimile: 08 8121 0106  
[service@ruralbank.com.au](mailto:service@ruralbank.com.au)  
[www.ruralbank.com.au](http://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.

© Copyright Rural Bank Ltd ABN 74 083 938 416 (A250677) (06/17)