WEEKLY ECONOMIC COMMENTARY

Week beginning 11th May 2019

ECONOMIC DATA ROUNDUP

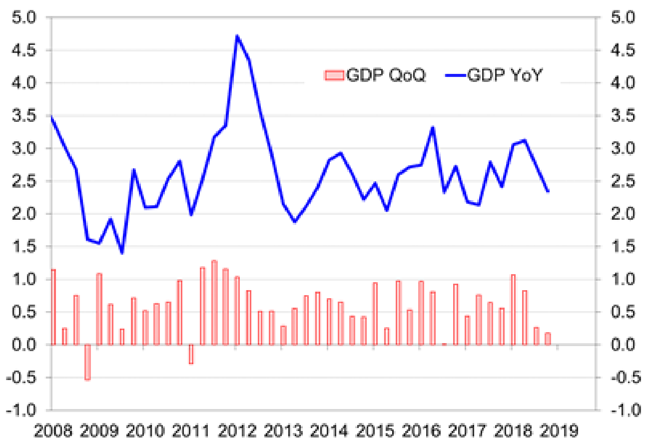
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	February	-0.9%	-1.7%
Business Indicators – Company Profits	Dec quarter	+0.8%	+1.9%
Business Indicators – Inventories	Dec quarter	-0.2%	+0.0%
Building Approvals	January	+2.5%	-8.4%
Balance of Payments	Dec quarter	-$7.2bn	-$10.7bn
GDP	Dec Quarter	+0.2%	+0.3%
Retail Sales	January	+0.1%	-0.4%
Trade Balance	Dec Quarter	$4.5bn	$3.7bn

ANZ Job Advertisements fell 0.9% in February, the fourth monthly decline in a row, to be down 4.3% over the year. The partial business indicators were slightly weaker than anticipated. **Company profits** were up 0.8% in the December quarter, up primarily due to higher commodity prices with mining profits up 4% (+26.3% annually) while non-mining profits were flat. **Inventories** were down 0.2% in the quarter, largely from mining (-2.8%) while **wage and salary incomes** (employment x wages) were up 0.8% and up 4.1% annually.

Residential building approvals were up 2.5% in January but still down 28.6% over the year. Private house approvals increased by 2.1% in January to be down 6.6% annually while the volatile Private other dwellings (units and apartments) rose 2.7% in the month but are down 51% annually. Approvals for renovations were down 2.2% in the month and by 2.5% over the year.

Real GDP



GDP grew by 0.2% in the December quarter with annual economic growth falling from 2.7% to 2.3%. The data confirms the economy slowed in the second half of last year with annualised GDP growth of just 0.9% compared to 3.8% in the first half of 2018. The slowdown this quarter was centred on housing (dwelling investment -3.4% and household consumption +0.4% which is the weakest in over two years) and the consumer against the backdrop of a further tightening of lending standards and persistent weak wages growth. A negative supply shock from the recent drought was another negative. There were some temporary factors holding down growth in the quarter, but there does look to be some genuine loss of momentum in the economy.

The **current account deficit** narrowed to -$7.2bn in the December quarter (or 1.5% of GDP) from -$10.8bn previously. This is the second lowest external deficit since March 1980. The narrowing reflected a larger trade surplus of $8.4bn (from $5.8bn last quarter) and a decline in the net income deficit to $15.3bn. The volume of exports fell by 0.7% while imports rose 0.1%.

Retail sales were up 0.1% in January and up 2.7% over the year. While households spent more on food (+0.3%), eating out at cafes and restaurants (+1.0%) and reading newspapers and books (+1.0%), department stores (-2.1%) and clothing (-0.3%) fell for the second consecutive month. Household goods retailing was also down (-0.05%) for the second month.

The **trade surplus** jumped in January, rising to $4.5bn – the second largest surplus on record. Exports were up 5.0% and were higher across all the major categories with a lift in the volatile non-monetary gold category accounting for the majority of the increase. Imports were up 3.3% with imports of capital goods up strongly in the month.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Housing Finance	11 March	January	-1.5%	+0.5%
Nab Business Survey – Conditions/Confidence	12 March	February	n/a	+7/+5
Westpac/MI Consumer Sentiment	13 March	March	n/a	+4.3%

ECONOMIC COMMENTARY

LAST WEEK

The RBA remained fairly confident when it once again left the official cash rate at 1.50% as expected last week after their monthly board meeting and their assessment of the economy remains upbeat. The accompanying statement was again very similar to the February version. Importantly, it did not make any change to the “patient balanced” policy stance that was detailed in the recent quarterly Statement on Monetary Policy and semi-annual testimony to the Federal Parliamentary Committee.

In 2018, China’s economy grew at the slowest rate (6.6%) since 1990 and last week lowered its 2019 GDP growth forecast to between 6% and 6.5%. However, to compensate this lower growth, Chinese officials announced a major tax cut to help manufacturers.

In a barrage of economic data releases last week, the markets focussed on the weaker than expected GDP data which saw economic growth fall to 2.3% for 2018 (+3.8% for the first half of 2018 but only +0.9% for the second half) and adjusted for population growth, was actually negative. This fuelled further speculation that the RBA needs to cut rates and yields have fallen to their lowest level in almost three years, which is also the last time the RBA cut the cash rate.

By the close on Friday, the 90-day bank bill was trading at 1.86% compared to 1.87% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.59% and 2.03% respectively, from 1.67% and 2.16% a week earlier.

CURRENCY

Australia’s dollar has slid to a two-month low as poor growth data strengthened bets for interest rate cuts putting downward pressure on the currency. The Aussie is now set to test the long term support level of 70 cents after December quarter GDP was weaker than expected and the AUD fell through key support of USD0.7050.

Offshore, the Euro fell to its weakest level against the US dollar since June 2017 after Mario Draghi unexpectedly downgraded Europe's economic outlook and reversed plans to end stimulus. The ECB slashed its 2019 GDP estimate to 1.1% from 1.7% and cut all its inflation forecasts, unveiling new support measures, including more cheap loans for banks and said interest rates will stay at record lows for longer. The pound fell after a report revealed that UK and European Union negotiators failed to reach a Brexit deal. The GBP/USD fell 0.2% to 1.3154; Brexit talks ended after more than three hours in Brussels on Tuesday and will resume Wednesday.

By the close last Friday, the Australian dollar was trading at USD0.7008 compared to USD0.7090 a week earlier.

EQUITIES

Equity markets slipped into negative territory last week as economic data slightly disappointed market expectations and as investors await further details on US-China trade negotiations. Concerns over the prospects for lower global economic growth acknowledged by the ECB also added to the risk-off tone last week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,203.8 compared to 6,192.7 a week earlier.

THIS WEEK

After last week’s weak GDP data which caused sentiment to turn negative, the week ahead offers some more timely indicators of current sentiment with the latest NAB business conditions index and Westpac-Melbourne consumer sentiment index due for release. Analysts will be watching to see if there is a dip in these “forward looking indicators”.

INTEREST RATE VIEW

The local economic data releases last week have pushed market pricing further towards monetary policy easing, rates and the Australian dollar falling. Financial market futures have now fully priced in a rate cut by December with some calling a cut by August (80% probability), with a terminal cash rate now of 1.12% by mid-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	1.50
90 day Bank Bill	1.91	1.93	1.99	2.01	1.86
180 day Bank Bill	2.04	2.11	2.14	2.13	1.96
1 year swap	1.90	1.94	1.93	1.85	1.75
3 year swap	2.22	2.06	2.00	1.75	1.69
5 year swap	2.59	2.39	2.31	1.99	1.93
10 year swap	2.95	2.75	2.65	2.34	2.26
AUD/USD	0.7797	0.7112	0.7221	0.7079	0.7008
S&P/ASX200 Index	5,963.2	6,141.7	5,552.5	6,071.5	6,203.8

CHARTS OF THE WEEK

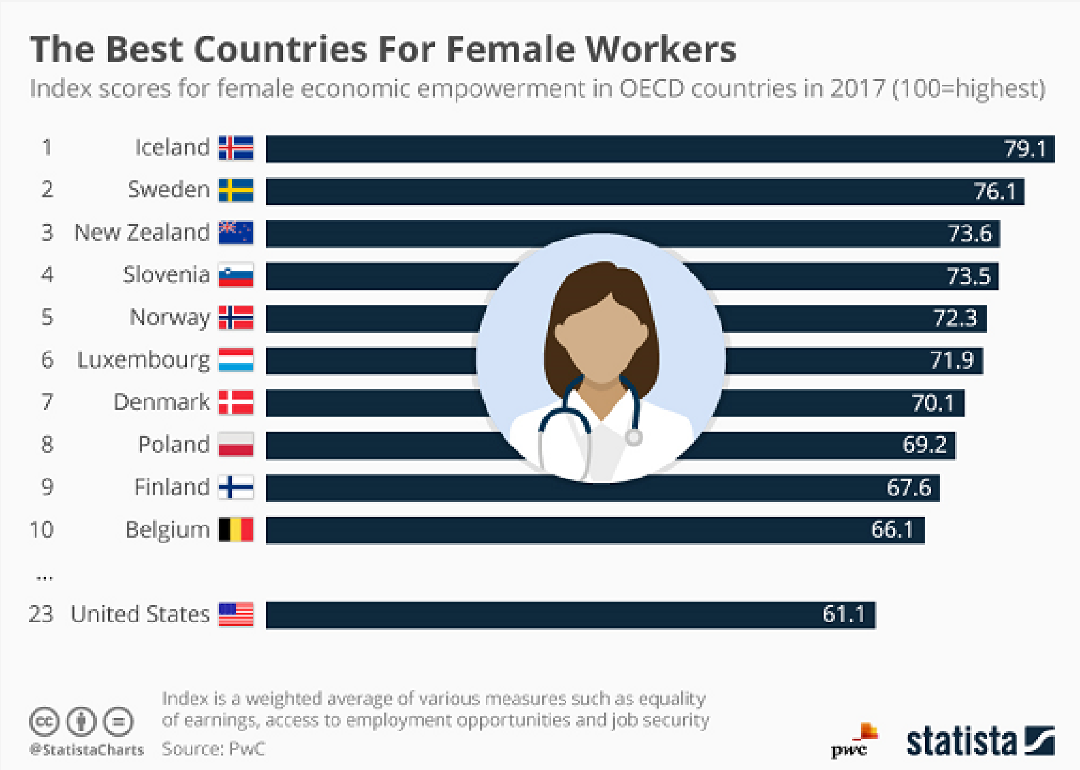
The best countries for female workers

Following International Women's Day last Friday, PwC has released its annual "Women in Work Index". Focusing on 2017, the research evaluates female economic empowerment via several measures such as equality of earnings, ability of women to access employment opportunities and job security.

Out of 33 OECD countries in the analysis, Iceland was named the best nation for female workers with an index score of 79.1. Sweden came second with 76.1 while New Zealand was third with 73.6.

Nordic countries occupied five of the top-10 places while the world's largest English-speaking economies have a lot of work to do to catch up. Canada was the highest ranked in 11th place while the UK came 13th. The US only managed a score of 61.1, meaning it comes in 23rd. Since 2000, Luxembourg and Poland have made the most notable improvements while Portugal, the US and Austria have all dropped the most places.

PwC said that an increase in female employment could reap huge economic dividends. For example, if the US matched Sweden's levels of female employment, its economy would be boosted to the tune of $1.8 trillion. If all OECD nations did the same, the collective increase in GDP would be $6 trillion.



Who Are the Richest Women in the World?

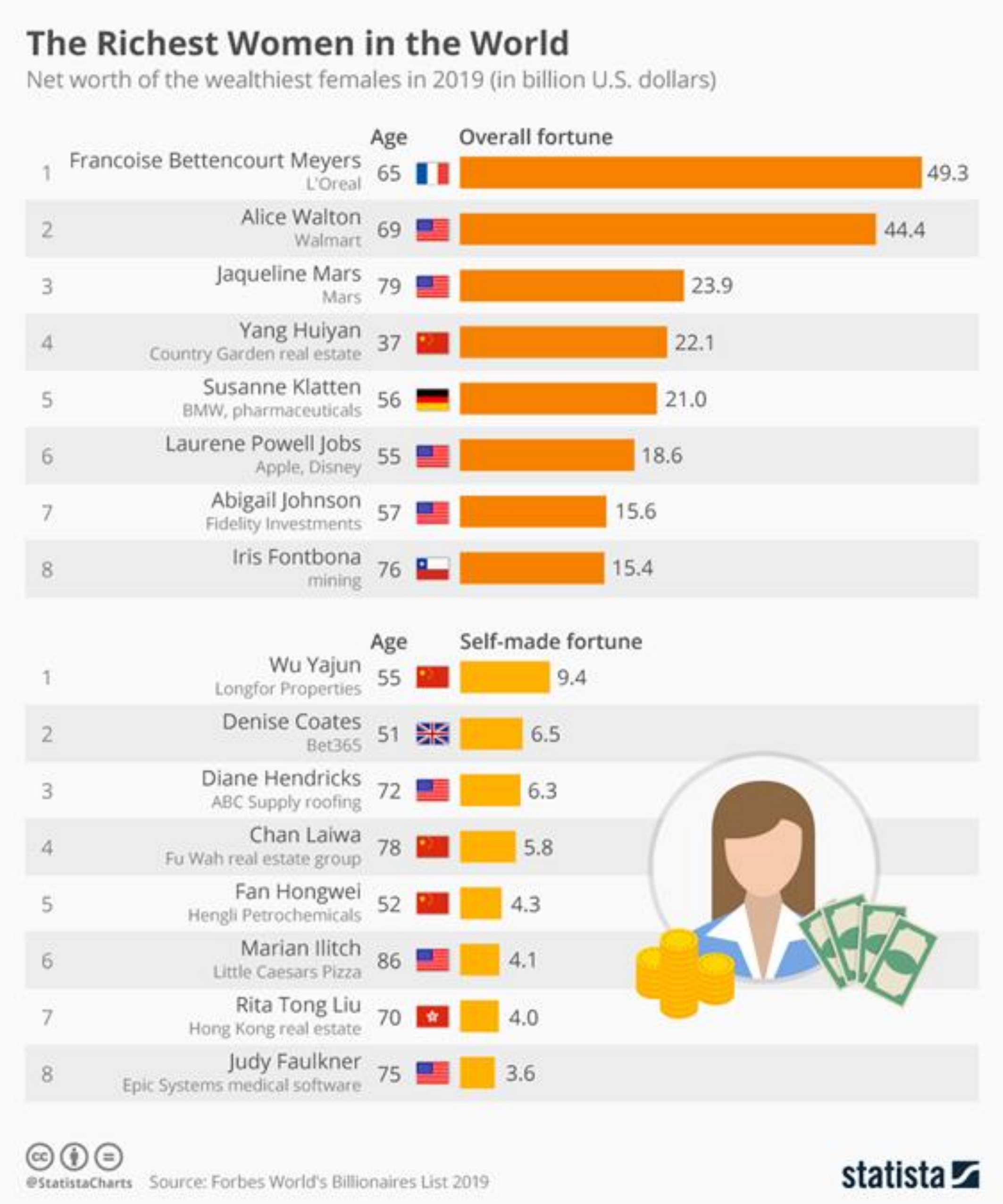
Forbes released its 2019 Billionaires List last week, revealing who the world's richest people are but also how the wealth of the superrich is distributed among the sexes.

According to the list, there are only 11 women among the 100 wealthiest people on the planet and all of them have made their fortune by inheritance from a wealthy relative or husband. French L'Oréal heiress Francoise Bettencourt Meyers tops the list this year, taking the lead from last year's richest woman, Walmart heiress Alice Walton.

The richest female self-made billionaire of 2019 comes in at rank 149 of the Billionaire's List. Wu Yajun of Beijing, China, made her fortune by cofounding Hong Kong-listed real estate company Longfor Properties with their then-husband. Since the divorce, she has been chairing the company by herself.

Overall, women from China and Hong Kong have a big presence the self-made billionaires list. Hong Kong native Rita Tong Liu also made it big by managing real estate in her notoriously expensive home city, while Chan Laiwa, also of Beijing, gathered her fortune by doing the same in hers.

CHARTS OF THE WEEK



The richest person in the world is still Amazon founder Jeff Bezos, who is currently going through a divorce and might not have had a prenuptial or postnuptial agreement with his wife. If MacKenzie Bezos was to receive half her husband's fortune, she would become the wealthiest woman in the world overnight. Even half of Bezos' staggering riches of US$131 billion would place MacKenzie well ahead of Bettencourt Meyers' net worth, which is US$49.3 billion.

Source: *StatistaCharts, by Niall McCarthy, 7th March 2019 and Katharina Buchholz 6th March 2019*
www.statista.com/chart/17260/index-scores-for-female-economic-empowerment/
www.statista.com/chart/16614/richest-women-in-the-world/

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.

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.