WEEKLY ECONOMIC COMMENTARY

Week beginning 12th September 2016

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

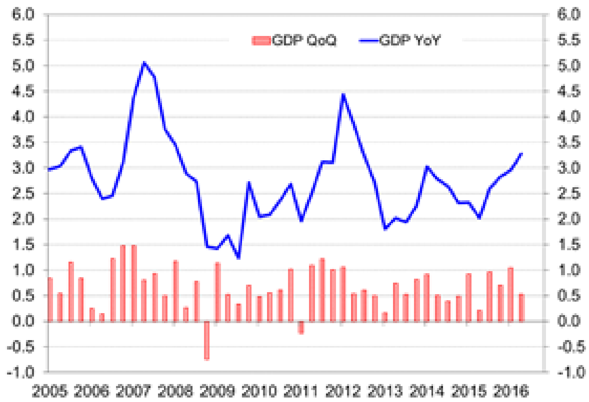
Economic Data	Period	Actual	Previous
ANZ Job Ads	August	+1.8%	-0.8%
Business Indicators – Inventories/Company profits	June quarter	+0.3% / +6.9%	+0.4% / -4.7%
Balance of Payments	June quarter	-$15.5bn	-$20.8bn
GDP	June quarter	+0.5%	+1.1%
Trade Balance	July	-$2.4bn	-$3.2bn
Housing Finance	July	-2.2%	+1.2%

After falling in July, **ANZ job advertisements** increased by 1.8% in August and are now up 8% over the year. Internet job ads were also up 1.8%, while newspaper job ads were down 5.0% in the month.

Business indicators for the June quarter were generally better than expected. **Company operating profits** increased by a larger than expected 6.9% in the quarter. Within the sub-categories, administrative and support services rose by a very large 29%, while construction fell 28%. In total, 14 sectors posted gains and only two sectors reported falls in profit growth. **Wages and salary growth** was up 0.8% with the categories benefiting from lower interest rates, e.g. financial services (+4.1%), real estate (+0.9%) and professional services (+2.8%), and those benefiting from demographic trends, e.g. health care and social assistance (2.5%), doing better than industries subject to cyclical price decline, e.g. mining (-1.4%) and manufacturing (-0.2%). **Inventories** were up 0.3% (as expected) but the last quarter was revised to -0.4% (from +0.4%).

The **current account deficit** for the June quarter was lower than expected at $15.5bn and was due to a substantial revision (-$4.4bn) to the international investment position data going back to 2012. Exports increased by 1.3% thanks to iron ore, coal and agricultural product gains while imports increased by 2.7% on the back of a large increase in consumption goods and food and beverages.

Economic growth or real **GDP** (chart right) increased by 0.5% in the June quarter to bring annual GDP to 3.3%, the strongest annual growth in four years. Across the expenditure side of the accounts, household consumption rose 0.4%, government consumption rose 1.9% (the strongest quarterly rise since 2008), private dwelling investment rose 1.6%, while business investment remained weak, falling 5.7%. Offsetting this was a very strong rise in state and local government investment spending, which underpinned a 15.5% surge in public investment in the quarter.



The **trade deficit** narrowed in July to -$2.4bn. Exports were up 2.8% due to a surge in the volatile gold exports, with most other resource exports (iron ore & coal) weaker. Imports fell 0.4% due to a 14.7% fall in consumption goods imports.

Housing finance fell 2.2% in July to be down 4.4% annually. Owner occupier finance fell 4.5% which was partially offset by an increase of 0.5% in investor finance.

As was widely expected, the RBA left the official cash rate unchanged (at 1.50%) after their monthly board meeting last week, also providing no forward guidance for markets in the accompanying statement. Apart from a small tweak to the housing sector commentary (given the recent recovery), the RBA's assessment of the local economy was unchanged – growth was still continuing and the labour market remains mixed but with some expansion in employment. Inflation remains low and is expected to remain low for some time. The global economy is still growing at a lower than average pace and China growth looks to be slowing.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Westpac-MI Consumer Confidence	14 Sept	September	+1.0%	+2.0%
NAB Business Survey - Conditions/Confidence	14 Sept	August	n/a	+8 / +4
Employment	15 Sept	August	+15,000	+26,200
Unemployment	15 Sept	August	5.7%	5.7%

ECONOMIC COMMENTARY

LAST WEEK

It was the gyrations in the oil price rather than economic data that captured most attention early last week. That said, much of the initial sharp spike in oil (on reports that Russia and Saudi Arabia had agreed to work together to freeze oil production) was later reversed as the “talks lacked substance or detail”.

Attention soon turned to the RBA Board meeting where, as was widely expected, the RBA left the official cash rate unchanged maintaining a neutral monetary policy stance with no explicit forward guidance. Although weaker than forecast, economic growth (or GDP) for the June quarter was broadly in line with the RBA's expectations, as outlined in their August Statement of Monetary Policy, and suggests the transition towards non-mining growth continues, this had no implications for monetary policy.

Offshore, following weak US payrolls data over the weekend, US manufacturing data last week was also weaker than expected, which has reduced expectations of a US rate hike pushing the US dollar and yields lower. Two weeks ago, the futures market was pricing a probability of a September US rate hike at 45% while December was at 81%. Today September is priced at only 25% while December is at 60%. There was also no change in cash rates from the Bank of Canada (0.50%) or the Bank of England (0.25%) after meetings held last week.

By the close of trading on Friday, the 90-day bank bill was trading unchanged at 1.73% while in the long term maturities, 3 and 10 year bond yields closed at 1.53% and 1.97% respectively, from 1.42% and 1.87% a week earlier.

CURRENCY

Hopes of a US Federal Reserve rate hike in September look to have been dashed by recent poor US data releases, which has seen the US dollar weaken and push the Australian dollar higher. A renewed currency warning from retiring RBA Governor Glenn Stevens in an interview for the Financial Review last Friday resulted in the Australian dollar pulling back from a high of USD0.7730 to 0.7642.

By the close on Friday, the Australian dollar was trading at USD0.7638 compared to USD0.7544 a week earlier.

EQUITIES

After posting some small gains early last week, the local share market sold off late in the week as blue chip stock including the major banks and miners gave back earlier gains, and broad-based selling spread through the market.

The sell-off also came after weakness in US equities, dragged down by Apple after its new iPhone 7 (with water proofing and no headphone socket), failed to impress Wall Street. Our share market has now lost 4% since hitting its highest point for the year back on 1st August, at 5,611, also partly explained by the current ex-dividend season.

By the close on Friday the S&P/ASX200 Index was trading at 5,339.2 compared to 5,372.8 a week earlier.

THIS WEEK

After a busy week for data, this week is a little quieter although the monthly employment data will gain some attention. Market is forecasting a 15,000 rise in the number employed over August and for the unemployment rate to remain unchanged at a 2½-year low of 5.7%. The latest business survey and consumer sentiment data plus a speech from the RBA’s chief economic forecaster will also gain some focus.

INTEREST RATE VIEW

The market currently retains a view that there is still one (or maybe two) rate cuts left in the RBA, but we may have to wait until next year. The view for another rate cut is based on the premise that the slowing housing sector will place pressure on economic and jobs activity in 2017 and that inflation remains low. Market action over the weekend has increased talk of a US rate hike and if this eventuates may see the RBA (and markets) to wind back local rate cut expectations.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.00	2.00	1.75	1.50	1.50
90 day Bank Bill	2.15	2.32	2.00	1.79	1.73
180 day Bank Bill	2.21	2.43	2.14	1.98	1.93
1 year swap	1.97	2.16	1.89	1.70	1.66
3 year swap	2.05	2.14	1.83	1.69	1.63
5 year swap	2.45	2.38	2.09	1.92	1.87
10 year swap	3.03	2.68	2.38	2.16	2.07
AUD/USD	0.6980	0.7364	0.7253	0.7598	0.7544
S&P/ASX200 Index	5,040.6	5,090.0	5,318.9	5,475.8	5,372.8

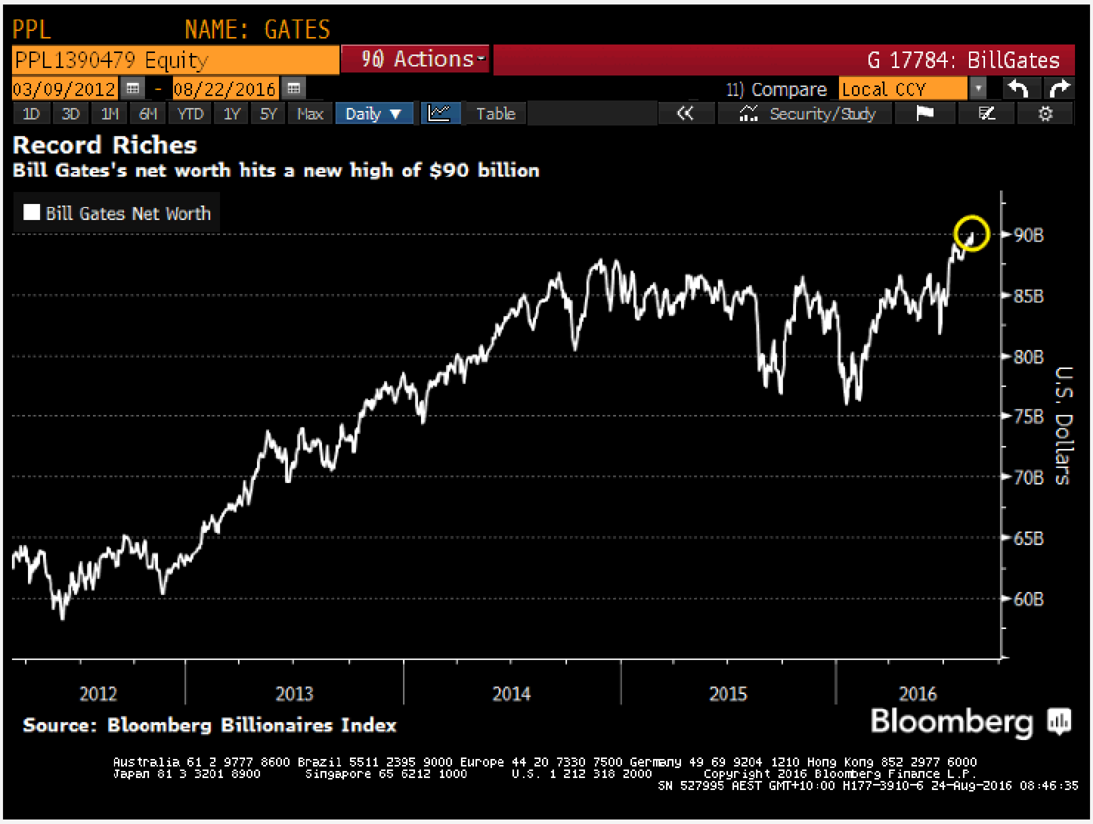
CHART OF THE WEEK

William Henry Gates III “Bill”

Source: Bloomberg, 22 August 2016

The net worth of the world’s richest person Bill Gates hit an all-time high of $90 billion last Friday.

Gates co-founded Microsoft, the world's biggest software maker, owns a mere 2.5% stake in the Redmond, Washington-based company. The rest of his fortune is managed through closely held Cascade Investment, which controls stakes in dozens of publicly traded companies, including Ecolab, Deere and is the largest shareholder of Canadian National Railway.



Gates’s fortune is now $13.5 billion bigger than that of the world’s second-wealthiest person, Spanish retail mogul Amancio Ortega, according to the Bloomberg Billionaires Index.

At $90 billion, the Microsoft Corp. co-founder’s net worth is equal to 0.5% of the US GDP.

As a comparison, Australia’s richest person, Gina Rinehart has a net worth according to Bloomberg of a mere $11.9bn and is number 89 on the Bloomberg millionaires’ rich list.

About Rural Bank and Rural Finance

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country.

From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for more than 65 years.

Together, Rural Bank and Rural Finance are supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

Rural Bank's specialist farm finance tools are available nationally via a network of banking partners, including Bendigo Bank and Community Bank® branches and Elders Rural Services. Additionally, Rural Finance has a network of offices across regional Victoria.

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