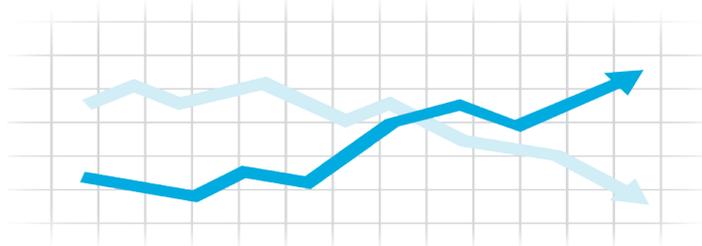


# WEEKLY ECONOMIC COMMENTARY

Week beginning 13<sup>th</sup> February 2017

## ECONOMIC DATA ROUNDUP

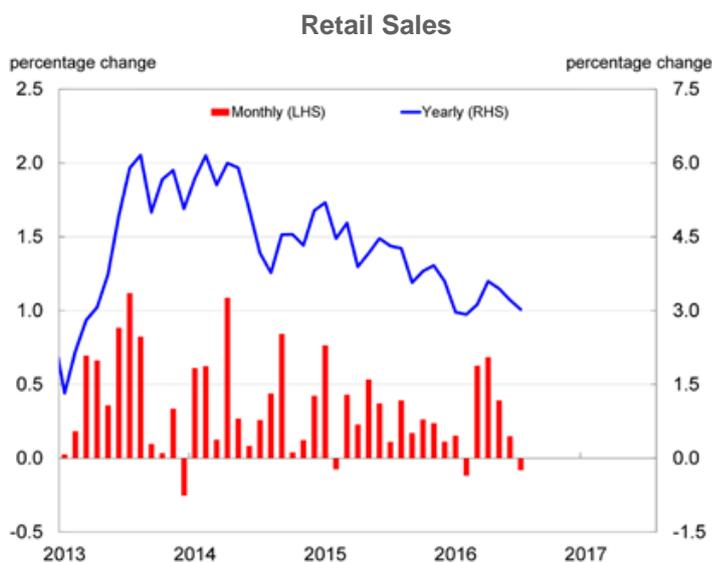


### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	January	+4.0%	-1.9%
Retail Sales	December	-0.1%	+0.2%
Housing Finance	December	+0.8%	+0.9%

**ANZ job advertisements** jumped 4.0% in January, more than reversing the revised 2.2% fall in December to bring annual growth in job ads to 7.1%.

**Retail sales** were down 0.1% in December, the first fall in five months, to now be up only 3.0% over the year. Surprisingly given the strength of the housing market, hardware, building and garden supplies sales fell a sharp 6.6% in the month. This could be attributed to the end of some pre-Christmas clearance sales, while the general extent of discounting also appeared a little deeper than usual possibly due to the closure of the Masters chain of hardware stores in December. Clothing and soft goods sales were up 1.4% following a 2.3% rise November while food was up 0.5% and department store sales rose 0.3%. Large store sales fell by 0.2% in December while small store sales (which tend to be more volatile) rose by 0.1%. Sales were weak in Victoria (-0.4%), NSW (-0.3%) and the ACT (-0.7%) and were flat in Queensland, while sales in WA were up 0.6%.



The value of **housing finance** (excluding re-financing) was up 0.8% in December and is now up 10.2% over the year. Owner-occupied finance rose by 2.6% in the month to be up 2.3% annually with a sharp 3.4% increase for upgraders. Finance for first home buyers fell by 1.2%. Investor finance fell by 1.0% in December but remains up 19.9% over the year.

The latest **Statement on Monetary Policy** from the RBA last week started off by saying “the global economy entered 2017 with more momentum than earlier expected” but had few surprises. The new forecast for underlying inflation shows inflation running between 1½ to 2½% until the end of 2018 and then up to 2% to 3%. The RBA sees wages growth to be broadly unchanged this year, after which it picks up gradually over 2018 and 2019. The Bank published the unemployment rate forecasts for the first time, expecting the unemployment rate at 5% to 6% over the forecast horizon.

In other data, the **NAB Quarterly Business Survey** is providing some mixed signals about the outlook. Unlike the monthly survey data, both confidence and conditions fell to +5 in the December quarter. The leading indicators were less encouraging while firms responding to the survey continue to indicate solid investment intentions, albeit slightly lower for the quarter. The Survey’s read on inflation remains very subdued and points to a continued absence of wage pressure.

### Data over the next two weeks

Economic Data	Date	Period	Forecast	Previous
NAB Business Conditions	14 Feb	January	n/a	+11
NAB Business Confidence	14 Feb	January	n/a	+6
New Motor Vehicle Sales	15 Feb	January	+0.3%	-0.5%
Westpac/MI Consumer Sentiment	15 Feb	February	n/a	+0.1%
Employment	16 Feb	January	+10,000	+13,500
Unemployment	16 Feb	January	5.8%	5.8%

# ECONOMIC COMMENTARY

## LAST WEEK

The first Reserve Bank board meeting of 2017 last week left the official cash rate unchanged at 1.50% which came as no surprise to the market despite inflation continuing to run below target. There was no change in the Bank's neutral policy stance, but their assessment of the economy was more upbeat with the RBA's central forecast for "economic growth to be around 3% over the next couple of years" and suggesting that "some further pick-up in non-mining business investment is also expected." The recent uptick in the unemployment rate was somewhat disappointing, while the stronger demand from housing investors and rising leverage are likely to count against further cuts.

While interest rates were steady, the Australian dollar and, to a lesser extent, equities received a boost from the more upbeat view on the economy than expected.

The market closed the week with a rally as equities, interest rates and the US dollar all rose last Friday after Donald Trump said a "phenomenal" tax plan (reform) would be announced in two to three weeks. Sentiment was also boosted on news that in a letter Trump stated that he "looks forward to working with President Xi to develop a constructive relationship that benefits both the US and China."

By the close of trading on Friday, the 90-day bank bill was trading at 1.77%, unchanged from a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.94% and 2.70% respectively, from 1.98% and 2.80% a week earlier.

## CURRENCY

The Australian dollar continued to hold ground above USD0.76 despite persistent US dollar strength following the RBA board meeting and an upbeat speech by RBA Governor Lowe on the Australian economy. The US dollar strength came on the back of a US Federal Reserve member comment, as well as expectations of an imminent Trump stimulus package which has limited the Aussie's upside. Also weighing on our currency was a falling copper and oil price last week.

By the close on Friday, the Australian dollar was trading at USD0.7640 compared to USD0.7650 a week earlier.

## EQUITIES

As our market begins its reporting season, the US earnings season is drawing to a close with one of the best quarters of growth for quite some quarters. The good results have however been priced in so equity markets will need more to trade on in the short term and may retrace if reports in Australia disappoint. The local share market has enjoyed its best week in over two months. Last Friday was its most productive day since the 3<sup>rd</sup> January after US President Donald Trump promised clarity on tax cuts in the next two to three weeks.

By the close on Friday the S&P/ASX200 Index was trading at 5,720.6, up 99 points or 1.8%, and recouping more than last week's 1.6% loss, compared to 5,621.6 a week earlier.

## THIS WEEK

Focus this week will be on the latest monthly labour force data to see whether the recent trend of rising unemployment will continue. Ahead of this data we get the latest NAB business and Westpac consumer sentiment surveys with analysts forecasting a pick-up in sentiment.

## INTEREST RATE VIEW

The RBA's most recent forecasts imply that they do not believe a further easing of monetary policy is required. While there were slight downgrades to most key numerical forecasts in the latest statistics, the general narrative regarding the economic outlook was one of sounding a little more comfortable with current conditions. Market pricing is currently mixed, implying only a 15% chance that rates go lower from here. It also implies a 30% probability of a rate hike by February 2018.

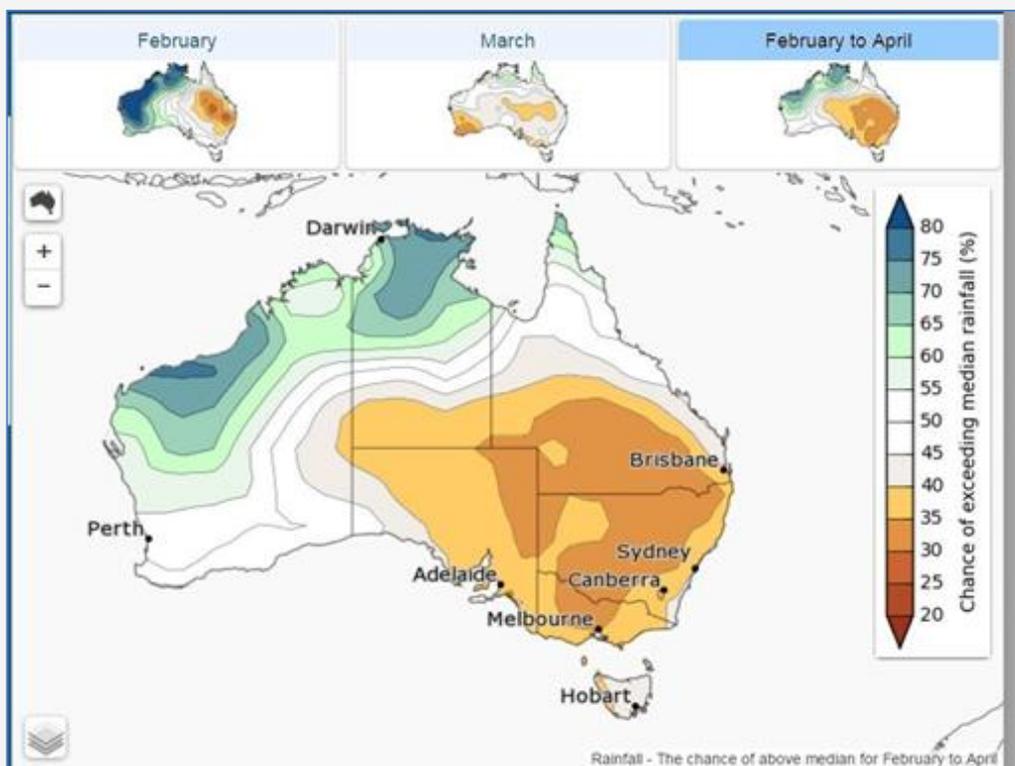
<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.00	1.50	1.50	1.50	1.50
90 day Bank Bill	2.28	1.75	1.76	1.78	1.77
180 day Bank Bill	2.39	1.96	2.00	2.03	2.00
1 year swap	2.11	1.68	1.75	1.83	1.79
3 year swap	2.05	1.66	1.93	2.08	2.08
5 year swap	2.29	1.89	2.33	2.51	2.54
10 year swap	2.57	2.11	2.68	2.87	2.95
AUD/USD	0.7101	0.7686	0.7617	0.7464	0.7640
S&P/ASX200 Index	4,765.3	5,530.9	5,370.7	5,766.9	5,720.6

## CHART OF THE WEEK

### Bureau of Meteorology forecasts drier than average three months in eastern Australia

The Bureau of Meteorology (BOM) is forecasting February to April rainfall is likely to be below average in much of eastern Australia and above average in parts of the north-west and the northern NT.

BOM climatologist Jeff Sabburg said in Queensland the dividing line ran east to west through Winton. "We can expect average rainfall for the three months and right on the tip of Cape York above average," he said. "South of that we are looking at drier conditions, like 65% chance of being drier than your median for those three months."



The bureau said all the climate drivers, the El Nino-Southern Oscillation and the Indian Dipole were neutral. "We are really relying on more local influences to determine weather," Mr Sabburg said. "But what we do have is the monsoonal influence in the north of the state and also the MJO (Madden-Julian Oscillation) which is an influence coming around the globe every 40 days. That is expected to put a weak to moderate influence over Australia in about a week's time. Once you get that scenario, it typically brings increased rainfall and cloudiness to northern Australia and the increased chances of tropical cyclone development."

#### **Warmer conditions expected**

Mr Sabburg said the forecasting centre was currently monitoring a weak low to the south-east of Papua New Guinea. The bureau is forecasting warmer conditions over the next three months in the south and average temperatures north of Winton.

Further out, two of the global models the BOM looks at are indicating a possible El Nino by June. "But as we come into autumn, all models decrease in their level of predictability, but when we get into autumn we will have a much better idea," Mr Sabburg said. "At this stage we are staying neutral right through to June."

Source: *ABC Rural by Robin McConchie*  
27<sup>th</sup> January 2017

## 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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