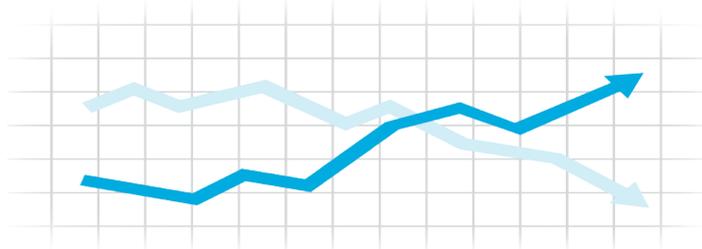


WEEKLY ECONOMIC COMMENTARY

Week beginning 13th March 2017

ECONOMIC DATA ROUNDUP



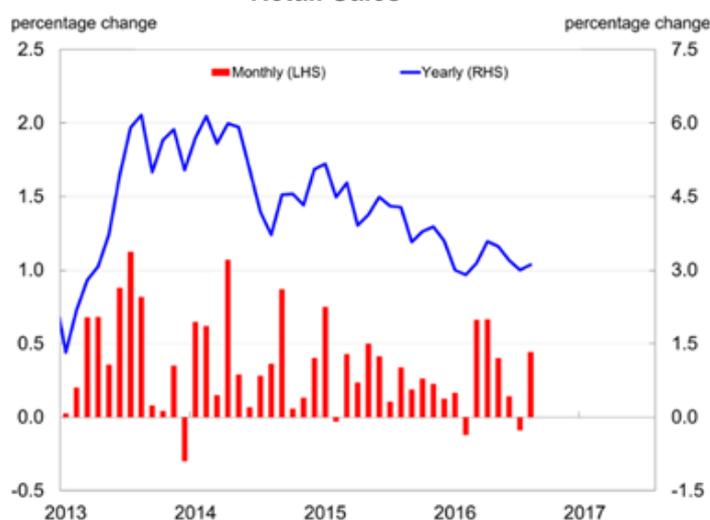
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	February	-0.7%	+3.9%
Retail Sales	January	+0.4%	-0.1%
Housing Finance	January	+1.3%	+2.4%

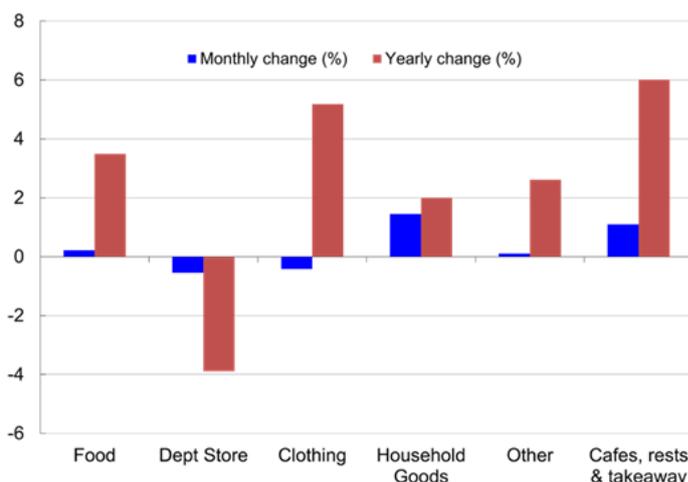
ANZ job advertisements fell 0.7% m/m in February after recording a solid 3.9% rise in January. Annual growth in job ads edged down to 6.9% y/y this month from 7.1% in January.

Retail sales increased by 0.4% in January to be up 3.2% over the year. The industry sectors of any strength were household goods (+1.4%), electrical and electronic goods sales (+2.4%) and cafes and restaurants and takeaways (+1.1%). Most of the other sectors were down, including department stores (-0.5%), clothing and soft goods (-0.4%) and the “other” sector (0.1%). Most states recorded minor to moderate sales growth in January, the exception being Victoria where retail sales increased by a strong 1.1%.

Retail Sales



Retail Sales by Industry



Total housing finance commitments (excluding re-financing) was up 1.3% in January, to be up 15.6% over the year. This month’s increase was driven by a 4.2% rise in the investor segment, which is up 27.5% over the year, while owner-occupier housing finance fell 0.2% in the month and is only up 1.9% over the year.

The RBA left the official cash rate unchanged last week, as widely expected. There were few surprises in the accompanying Statement, which was little changed from last month. The commentary on the international outlook was largely unchanged, although the RBA noted that “interest rates are expected to increase further in the United States”.

The RBA is currently balancing getting back to the inflation objective/target and lowering the unemployment rate more quickly against avoiding creating further increases in household debt.

Data over the next two weeks

Economic Data	Date	Period	Forecast	Previous
NAB Business survey (confidence/conditions)	14 Mar	February	n/a	+10/+16
Westpac/MI Consumer Sentiment	15 Mar	March	+0.5%	+2.3%
New Motor Vehicle Sales	15 Mar	February	+1.0%	+0.6%
Employment	16 Mar	February	+18,000	+13,500
Unemployment	16 Mar	February	5.6%	5.7%

ECONOMIC COMMENTARY

LAST WEEK

Despite no move in the official cash rate from the RBA last week, yields have drifted gradually higher over the last week. The main reason being rising investor expectations of an increase to interest rates by the US Federal Reserve later in the month following further better than expected US economic data releases. The probability of a March US rate hike jumped to 92% following the data.

The European Central Bank also left interest rates on hold, their quantitative easing program and their easing bias unchanged last week with ECB president Mario Draghi appearing more optimistic on European growth, noting economic risks are starting to recede, though not enough to end monetary stimulus. This more optimistic stance pushed European yields higher last week.

By the close of trading on Friday, the 90-day bank bill was trading at 1.79% unchanged from a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 2.13% and 2.98% respectively, from 2.01% and 2.81% a week earlier.

CURRENCY

The US dollar rallied early last week on European and Asian geopolitical tensions, with developments in the upcoming French election boosting the chances for anti-European Union candidate Marine Le Pen, and news that North Korea had launched four missiles, three landing inside Japan's exclusive economic zone, which didn't help sentiment. The increased expectations that the US Federal Reserve will raise rates next week also supported the greenback.

Despite the US dollar strength, the Australian dollar remained firm, pushing through the USD0.76 level following an upbeat assessment of the Australian economy from the RBA where it noted that recent (positive) developments in commodity prices have provided a significant boost. That said, a large fall in the price of oil and weaker iron ore and copper prices saw commodity linked currencies sell off late in the week.

By the close on Friday, the Australian dollar was trading at USD0.7520 compared to USD0.7755 a week earlier.

EQUITIES

Oil prices hit a three month low last week after a large rise in US inventories raised doubts that OPEC production cuts can ease the world oil glut. Our share market has traded in a narrow range with strength in financials offset by weakness in mining and energy stocks. Another reason for the range trading was the prospect of a US rate hike which has seen investors become cautious about taking the share market higher, especially after the Dow reached a record high a week ago. By the close on Friday the S&P/ASX200 Index was trading at 5,775.6 compared to 5,729.6 a week earlier.

THIS WEEK

The major event this week will be the monthly labour force data (on Thursday) where economists are forecasting an increase of 18,000 in employment. With the unemployment rate just rounding up to 5.7% last month, this increase should push the unemployment rate down to 5.6%. We also get the latest monthly business and consumer sentiment data out on Tuesday and Wednesday respectively.

Offshore, we have the US Federal Reserve board meeting where there is a good chance (better than 90%) that US rates will increase by 25 basis points.

INTEREST RATE VIEW

There were only a few changes of note in last week's RBA statement following their board meeting where (as expected) rates were unchanged. The 1.5% cash rate has been unchanged since the 25 basis point cut at the August 2016 board meeting, with most economists still predicting the cash rate will remain on hold at 1.5% despite three rate hikes in the US forecast for 2017.

<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	2.33	1.74	1.77	1.78	1.79
180 day Bank Bill	2.46	1.95	2.00	2.00	2.01
1 year swap	2.21	1.69	1.78	1.78	1.86
3 year swap	2.21	1.71	2.04	2.07	2.23
5 year swap	2.46	1.98	2.52	2.55	2.74
10 year swap	2.76	2.23	2.97	2.96	3.20
AUD/USD	0.7496	0.7527	0.7488	0.7664	0.7520
S&P/ASX200 Index	5,166.4	5,207.8	5,584.6	5,760.7	5,775.6

CHART OF THE WEEK

Hug a farmer, they've just saved Australia's economic bacon

Agricultural growth surged by an extraordinary 27.6% in 2016, the latest Australian Bureau of Statistics national accounts have revealed, following a record harvest in every state. While agriculture enjoyed a double-digit leap, the traditional driver of the Australian economy - mining - grew by just 4.6%. Retail struggled, and manufacturing and construction went backwards.

Agriculture had 10 times its average contribution to the economy in the three months to December, making up 0.5% of the country's 1.1% growth. It usually contributes just .05%.

"It is a fantastic year for agriculture and it's made a very strong contribution to the Australian economy on the back of a record winter crop," said Trish Gleeson, a commodity analyst at the Bureau of Agricultural and Resource Economics and Sciences.

The farming boom looks set to continue, with export earnings in cotton projected to skyrocket by 56%, wheat 25% and sugar 23%.

The Deputy Prime Minister and Agriculture Minister, Barnaby Joyce, said regional areas had "saved the economy" but not enough Australians appreciated the contribution. "We are actually making money that actually helps this nation pay its bills," he said this week.

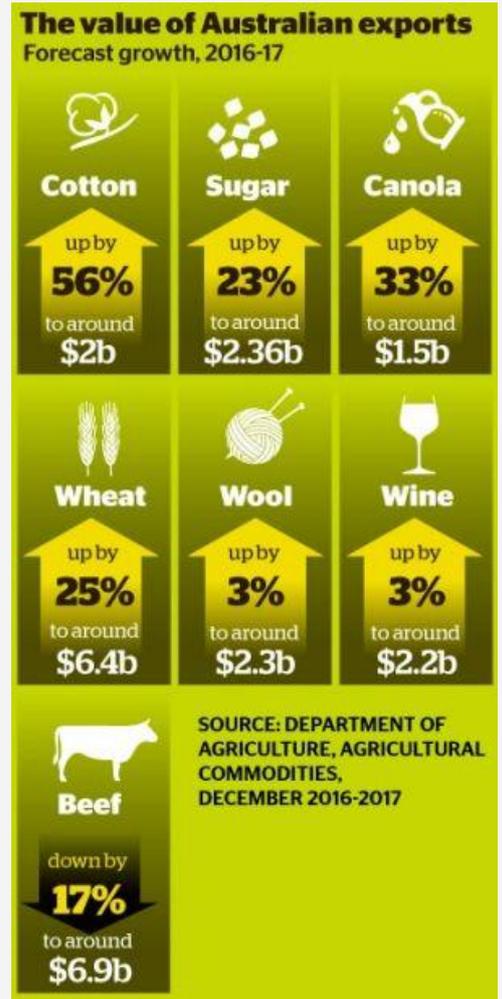
But hurdles remain on the horizon.

Sugar has become a major political issue in cane growing regions on the back of fears the industry might miss out on the wider boom. A pricing gridlock has forced Queensland growers to stock excess harvests despite the bumper crop.

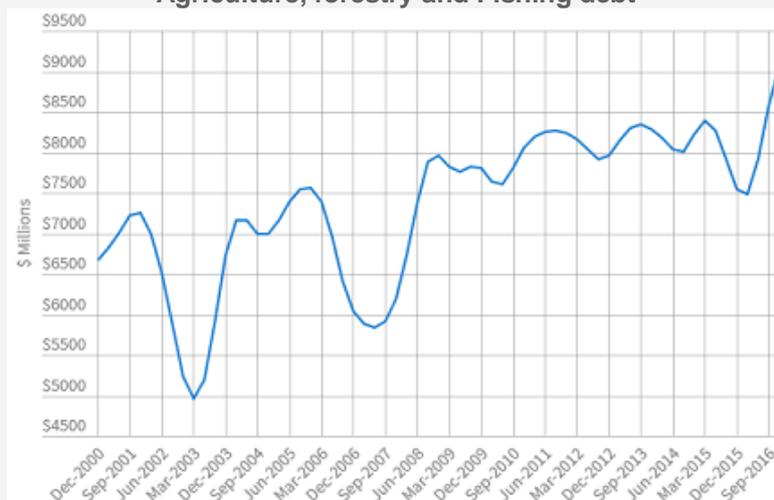
While the last year also saw strong gains for cattle across the country, export earnings this year are forecast to fall 17% for beef. Cattle farmers hope the projection will be reversed by a new deal signed this week between Indonesia and Australia to increase the import cattle weight limit from 350 to 450 kilograms.

Agriculture, forestry and fishing

Agriculture had 10 times its average contribution to the Australian economy in the three months to December (refer chart below)



Agriculture, forestry and Fishing debt



The other side of cattle production also looks promising, with China's insatiable demand for dairy showing few signs of letting up. Imports into China of infant milk formula increased by 42% last year to a record 200,000 tonnes, while butter surged by 53% to 65,000 tonnes. The Department of Agriculture and Water Resources is also targeting further trade inroads in India, where tariffs on wheat have been cut by 15% after a weak season, and imports are set to increase sevenfold to 3 million tonnes.

Source: Australian Bureau of Statistics, National Accounts, December 2016. Graphic: Eryk Bagshaw

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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