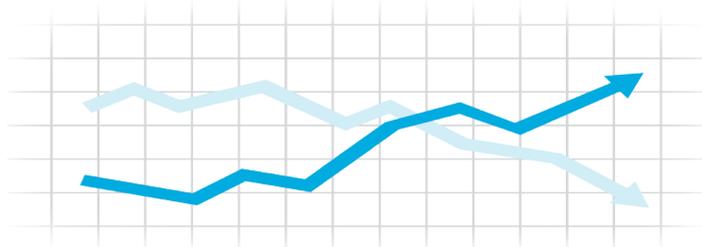


WEEKLY ECONOMIC COMMENTARY

Week beginning 13th November 2017

ECONOMIC DATA ROUNDUP



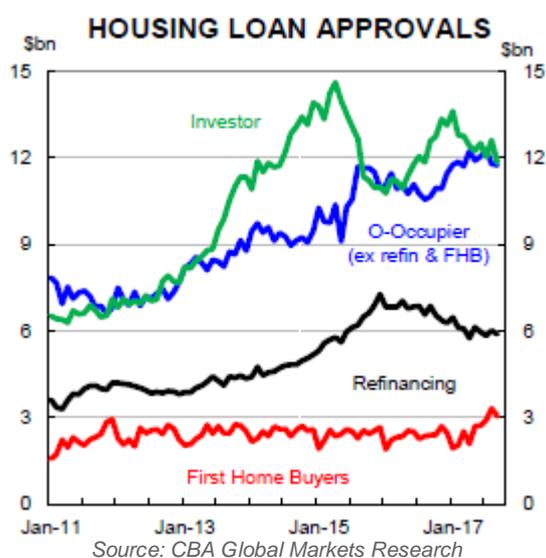
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	October	+1.4%	-0.7%
Housing Finance	September	-4.0%	+1.0%

ANZ Job advertisements increased by 1.4% in October, more than reversing the 0.7% fall in September and are now up 12.5% over the year.

The value of **housing finance commitments** (excluding re-financing) was weaker than expected falling 4.0% in September, the largest monthly fall in two years, to be up only 3.9% over the year. The weakness was spread across all finance segments, first home buyers, owner occupiers and investors alike. Finance to owner occupiers was down 2.1% (+3.9% annually) while investor finance was down 6.2% (and -6.0% annually). With this sector showing nearly 30% less annual growth than a year ago, APRA's macro-prudential policy initiatives are having the desired effect of slowing investors and interest-only loan demand. The amount of housing finance to owner-occupiers fell 2.3% in September and is up only 2.6% over the year.

As expected, the Reserve Bank left the official cash rate unchanged at 1.50% after their November Board meeting last week, with the sentiments in the post meeting statement little changed from last month.



The RBA noted that conditions in the global economy were continuing to improve, that its forecasts for growth in the Australian economy were largely unchanged and to look for "GDP growth to pick up - to average around 3% over the next few years". Regarding housing, the statement singles out the Sydney market as experiencing an easing, but notes that the Melbourne housing market is still strong. On the negative side, the statement describes the household consumption outlook as remaining a "source of uncertainty", thanks to weak income growth and high debt levels.

Since the last RBA board meeting, the AUD has fallen around two cents to USD0.768. Despite this welcomed move, the RBA repeated its warning that "an appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast".

The overall tone of the RBA's latest quarterly **Statement on Monetary Policy** was much the same as it was in August. The Statement saw the RBA shift away from the previous practice of displaying forecast bands (e.g. 2% to 3% for inflation) to point forecasts rounded to the nearest 0.25%. For GDP the numbers were unchanged, the RBA forecasting December quarter 2017 growth at 2.5%, rising to 3.25% by the end 2018 and 2019. For underlying inflation, the RBA expects the December quarter CPI forecast to be 1.75%, 1.75% by the end 2018 and 2% for 2019, a "little lower" than the previous forecast due to the upcoming reweighting of CPI. The forecast unemployment rate is 5.5% in 2017; 5.5% in 2018 and 5.25% in 2019.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
NAB Business Survey - Conditions	14 Nov	October	n/a	+12
NAB Business Survey - Confidence	14 Nov	October	n/a	+7
Westpac/MI Consumer Sentiment	15 Nov	November	-1.4%	+3.6%
New Motor Vehicle Sales	15 Nov	October	+1.0%	-0.5%
Wage Price Index	15 Nov	Sept. quarter	+0.6%	+0.5%
Employment	16 Nov	October	+18,000	+19,800
Unemployment	16 Nov	October	5.5%	5.5%

ECONOMIC COMMENTARY

LAST WEEK

The RBA left monetary policy unchanged last week and the cash rate has now remained unchanged for 15 months. This is the second longest period of unchanged monetary policy since the GFC. There was little in the accompanying statement to suggest that it had altered its previous neutral bias, with the RBA remaining relatively upbeat about the economy despite recent weak economic data releases.

The RBA's statement on monetary policy was consistent with its post-meeting statement, confirming a broadly neutral tone on the economy, with the economic growth outlook unchanged and some downward revisions to inflation forecasts. In summary, the RBA's view suggests more confidence around improving non-mining business investment and that expected/continued strong employment will eventually help wages growth, while dwelling investment seem to have peaked but concerns remain around consumption. Following the statements, financial markets remain of the view that the official cash rate will be unchanged for some time.

Celebrating one year as US President last week, Donald Trump's trip through Asia did little to drive geopolitical volatility and his tweet on North Korea was largely ignored with no market reaction.

By the close of trading on Friday, the 90-day bank bill was trading at 1.71% from 1.70% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.95% and 2.62% respectively, from 1.91% and 2.58% a week earlier.

CURRENCY

The Australian dollar started to rally early last week, initially thanks to stronger commodity prices but then due to a weaker US dollar, which fell amid concerns the proposed US tax cuts will be significantly delayed.

While the unwinding of rate hike expectations was putting downward pressure on the currency and working against the earlier rally, the AUD did manage to post a small gain over the week.

By the close on Friday, the Australian dollar was trading at USD0.7684 from USD0.7654 a week earlier.

EQUITIES

Our share market broke through the psychological 6,000 level for the first time since the GFC last week as resource and energy stocks rallied on higher commodity prices. The oil price was the big mover last week, hitting a two year high on the back of political uncertainties in Saudi Arabia where Crown Prince Mohammed bin Salman (the heir to the Saudi throne) is driving an anti-corruption crackdown, arresting 11 princes and many more current and former ministers.

US equities fell late in the week as concerns re-emerged that Trump's proposed corporate tax cuts would be significantly delayed, possibly till January 2019. The sell off was also reflected in our market but we still managed to close above 6,000. By the close on Friday the S&P/ASX200 Index was trading at 6,029.4 compared to 5,959.9 a week earlier.

THIS WEEK

The economic calendar picks up this week with the latest monthly business and consumer sentiment data releases as well as monthly employment data. Employment continues to increase and is expected to post another monthly rise (forecast is for +18,000) leaving the unemployment rate unchanged at a four year low of 5.5%.

INTEREST RATE VIEW

With a run of weak economic data releases, low wages and inflation still below the RBA's target band, investors continue to push out the timing of any rate hike. The futures market currently has the first rate hike not fully priced in until early 2019, a marked change from two months ago when a rate hike was priced in by August 18.

<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	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.76	1.74	1.69	1.71	1.71
180 day Bank Bill	2.00	1.91	1.83	1.90	1.89
1 year swap	1.75	1.72	1.76	1.82	1.77
3 year swap	1.93	1.95	2.01	2.15	2.02
5 year swap	2.33	2.38	2.38	2.55	2.40
10 year swap	2.68	2.85	2.77	2.94	2.81
AUD/USD	0.7617	0.7398	0.7858	0.7820	0.7684
S&P/ASX200 Index	5,370.7	5,836.9	5,693.1	5,794.5	6,029.4

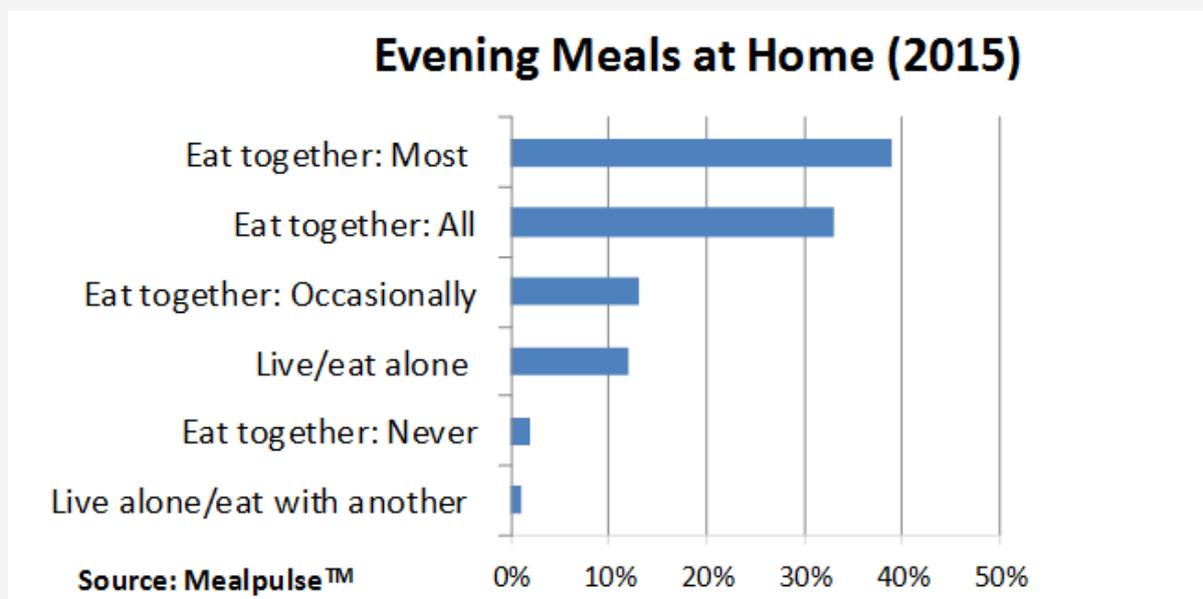
CHART OF THE WEEK

Households still eating dinner together

Despite busy schedules and other challenges, having dinner together at home is still commonplace.

Currently, 72% of households eat most or all dinners together, according to Freshlogic's consumer Mealpulse™ results. It is most common among households with children, whether established families or budgeting families (84-85%), and least common among high income singles and couples (63%). Low income singles and couples (68%) and empty nesters (69%) share similar results.

Eating most or all dinners together has declined from 75% four years ago, while living alone and eating alone has increased slightly from 10% to 12%. Eating alone is more common among empty nesters (24%) and singles and couples (16-18%).



Regardless of whether dinner takes place around the dinner table, in the lounge or in other settings, eating food together remains a significant part of the household routine, and this has implications for retailers and other food providers alike.

Source: *Freshlogic - specialist food market researchers and analysts*
Mealpulse™ is a research and analysis platform that enables users to gain food market insights through a better understanding of Australian food consumers and food consumer trends.
www.freshlogic.com.au

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



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