WEEKLY ECONOMIC COMMENTARY

Week beginning 15th April 2019

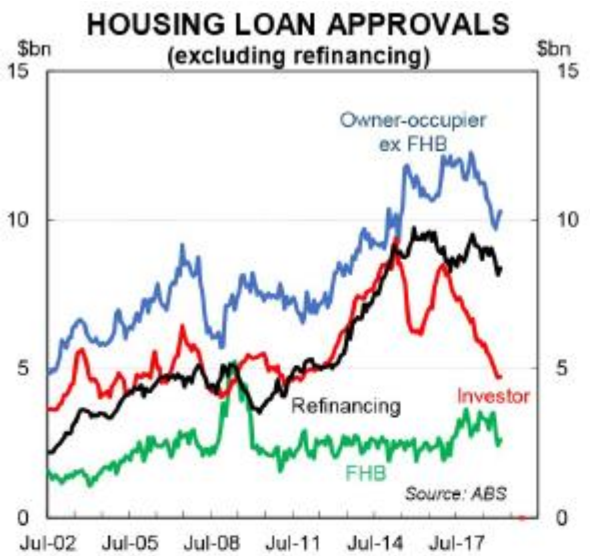
ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

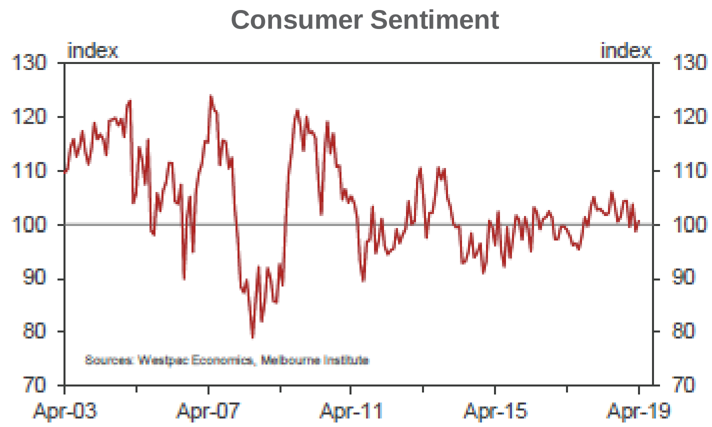
Economic Data	Period	Actual	Previous
ANZ Job Ads	March	-1.7%	-0.9%
Housing Finance	February	+2.7%	-1.2%
Westpac/MI Consumer Sentiment	April	+1.9%	-4.8%

The **ANZ Job Advertisements** index fell 1.7% in March and is now down 6% over the year. This series is in contrast to the more formal ABS job vacancies which continue to rise, with the divergence explained as changes in the way firms search for employees – through own websites rather than advertising broadly.

The combined total value of **housing finance approvals** across both owner occupier and investor segments (excluding refinancing) rose 2.7% in February, the first monthly gain since July 2018 and is now down 18.6% over the year. Both lending to investors and owner-occupiers (excluding refinancing) recorded positive gains in February. Owner-occupier loan finance was up 3.4% (and down 14% annually) while investor loan finance was up 0.9% (and down 29% annually).
The total number of owner occupier housing finance loan approvals (excluding refinancing) rose 0.8% in February, to be down 12.5% over the year while investor loans was up 0.9% (down 29.1% annually). The total number of housing finance approvals was up 2.8% in February (and down 16.6% annually).



The **Westpac Melbourne Institute consumer sentiment index** was up 1.9% in April to 100.7 indicating optimists outweigh pessimists (albeit marginally) once again. The survey was conducted over the period April 1 to 5 and captures consumer reactions to the Federal Budget via an additional question in the survey asking consumers about the impact of the budget. The response shows it was relatively well received with sentiment among those surveyed post-budget up 7.7% compared to pre-budget. Other factors that may have impacted sentiment this month include a continued lift in the equity market, a rise in petrol prices (average pump prices up 18¢/litre since February) and continued falls in house prices. Job security fears eased a little in April, falling by 2.5%, although not enough to offset last month's 8.9% jump.



Data over the next week

Economic Data	Date	Period	Forecast	Previous
Employment	18 April	March	+10,000	+4,600
Unemployment	18 April	March	5.0%	4.9%

ECONOMIC COMMENTARY

LAST WEEK

Uncertainty remains over the lack of progress in cross-party talks on Brexit and US-China trade negotiations, weighing on investor sentiment and global trade, pushing bond yields higher last week. EU officials commented last week that Brexit looks like taking a while and the requested Brexit extension date of 30 June was considered not long enough, extending the date to 31 October (Halloween).

The International Monetary Fund (IMF) cut its outlook for global growth to the lowest since the GFC. The world economy is forecast to grow by 3.3% this year amid a bleaker outlook in most major advanced economies, down from the 3.5% it had forecast for 2019 in January. This was the third growth downgrade by the IMF in six months.

A cautious mood was reflected in most markets last week, investors pushing bond yields and the US dollar higher and global equities lower. Short term (BBSW) yields however continue to drift lower on easier funding conditions and increased expectations of RBA rate cuts.

By the close on Friday, the 90-day bank bill was trading at 1.69% compared to 1.73% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.44% and 1.89% respectively, from 1.46% and 1.91% a week earlier.

CURRENCY

Risk appetite was lower last week as questions around growth followed the IMF's growth forecasts. This, along with the US announcing it was considering tariffs on $11bn of European goods saw increased demand for the safe haven US dollar which strengthened against most other G20 currencies. Despite benefitting from positive US-China trade negotiations and stronger prices for oil and iron ore, the Australian dollar weakened on risk adverse sentiment, falling to a low of USD0.7088 last Monday. A speech mid-week by RBA deputy governor Guy Debelle where he suggested the RBA was in no hurry to cut interest rates prompted some short-covering (buying) which pushed the AUD up almost a cent, breaking through important resistance at USD0.7150 before profit taking saw the currency close the week virtually unchanged.

By the close last Friday, the Australian dollar was trading at USD0.7125 compared to USD0.7128 a week earlier.

EQUITIES

Global equity markets started the week once again on a positive note, the big mover was the price of oil which hit a five-month high, boosting energy stocks. Markets broke an eight-day rally last Wednesday on renewed global economic concerns after the IMF cut its world GDP forecasts and the Trump administration threatened more tariffs on the European Union. The sell-off was however short-lived as the market continued to post further gains into the weekend.

By the close last Friday, the S&P/ASX200 Index was trading at 6,181.3 compared to 6,180.7 a week earlier.

THIS WEEK

In a holiday-shortened week, the focus will be on the monthly labour force data where employment is expected to rise by 10,000. This is around half the amount normally required to absorb the average monthly increase in labour force numbers and therefore should result in an increase to the unemployment rate to 5.0%. The RBA has highlighted the importance of the labour market data in determining the likely direction of interest rates. A 5.0% print does not fulfil the "sustained increase in unemployment" and should not concern the RBA.

INTEREST RATE VIEW

The better than expected economic data and a speech from the RBA deputy governor last week containing no hints that the RBA had moved to an easing bias had the effect of markets winding back their expectations of future RBA rate cuts, albeit only marginally. A rate cut in the next few months now has a low probability but futures markets are still expecting at least one (99% priced in) and almost two rate cut by early next year.

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	2.07	1.94	2.06	1.85	1.69
180 day Bank Bill	2.16	2.10	2.19	1.94	1.77
1 year swap	2.02	1.96	1.95	1.70	1.58
3 year swap	2.27	2.17	1.90	1.62	1.53
5 year swap	2.63	2.55	2.17	1.87	1.76
10 year swap	2.93	2.93	2.54	2.21	2.13
AUD/USD	0.7795	0.7125	0.7187	0.7061	0.7125
S&P/ASX200 Index	5,829.1	5,895.7	5,773.4	6,179.6	6,251.3

CHART OF THE WEEK

Great start to the year for the ASX

When a country's economic growth slows, its stock market usually follows suit. Not in Australia.

Despite troubling economic signals, our benchmark S&P/ASX 200 Index has rallied almost 10% in the first quarter of 2019, its best-ever performance to begin a year in data going back almost three decades.

Strong commodity prices and expectations of easy monetary policy from the RBA (and other global central banks) are working in the market's favour even as property prices fall and the economy slows.

The chart below shows the stock market move in white versus Australia's economic growth (GDP) per capita in blue.

The question is: how long will this rally last if the economy continues to slow.

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.

RURAL BANK
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