WEEKLY ECONOMIC COMMENTARY

Week beginning 14th May 2018

ECONOMIC DATA ROUNDUP

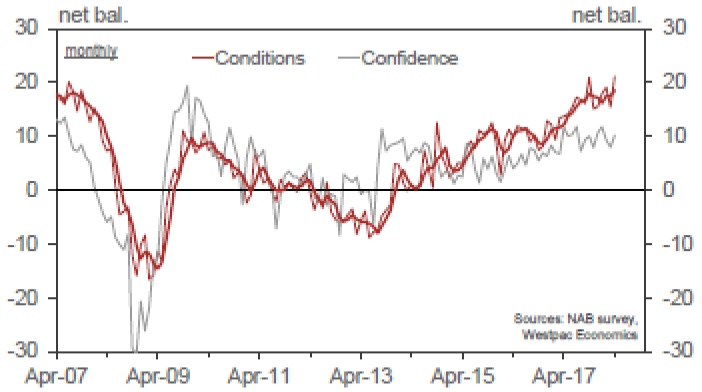
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	April	-0.2%	0.0%
NAB Business survey – Conditions	April	+21	14
NAB Business survey – Confidence	April	+10	7
Retail Sales	March	+0.0%	+0.6%
Housing Finance	March	-2.2%	-0.2%

ANZ job ads fell 0.2% in April, the third consecutive monthly fall, to be up only 8.6% over the year (down from +11.5% in March) and the slowest annual gain since May 2017.

The **NAB business survey** increased in April with business conditions increasing to an equal highest level since the survey commenced (March 1997) and confidence well above average levels. The **business conditions** index increased to +21 in April from +14 previously with strong gains recorded in trading conditions (sales) up seven points to +28, profitability up six points to +22 and employment up four points to +13 in April. Conditions increased in all industries this month except for manufacturing and retail. The **business confidence** index increased from +7 in March to +10 in April. Mining is the most confident this month followed by construction while confidence is lowest in recreation and personal services, and finance, property & business.

Business Confidence and Conditions



After rising by an impressive 0.6% in February, **retail sales** were unchanged in March bringing retail sales to +3.1% over the year. The detail showed a solid 0.7% gain for basic food sales but declines recorded across every other spending category in March, including restaurants and cafes (-0.8%), department stores (-0.5%) household goods (-0.3%) and clothing and footwear (-0.2%).

The total number of owner occupier **housing finance approvals** fell 2.2% in March to be down 3.5% over the year. The value of housing finance commitments fell heavily in March, down 4.8% to be down 6.0% over the year. Owner-occupier housing finance was down 1.5% in March (+3.2% annually) while investor finance fell 9.0% (-16.1% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Wage Price Index	16 May	March quarter	+0.5%	+0.6%
Westpac/MI Consumer Sentiment Index	16 May	May	n/a	+102.4
Employment	17 May	March	+15,000	+4,900
Unemployment	17 May	April	5.5%	5.5%

ECONOMIC COMMENTARY

LAST WEEK

Financial markets were in a slightly risk-averse mood last week, partly due to President Trump's announcement that the US will withdraw from the Iran nuclear agreement. The rally in the oil price (on supply concerns) pushed US treasury yields through the psychological 3% level which also affected local bond yields. A slight improvement in risk appetite late in the week after low US CPI data saw a partial recovery and yields drifted lower.

All eyes last week were on the Federal Budget and then the reply from the opposition with a greater focus given this is the last budget before the next Federal election (due before 18th May 2019). For the Government, the focus was tax reform; infrastructure; health and aged care - made possible by a much-improved starting position, thanks to strong employment growth and higher commodity prices. The economic impact of the Federal budget however is likely to be small with personal income tax cuts immaterial in the short term and is not likely to change household spending behaviours. The Budget also had little to no effect on financial markets or Australia's AAA credit rating.

By the close on Friday, the 90-day bank bill was trading at 1.93% compared to 2.02% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.16% and 2.78% respectively, from 2.18% and 2.77% a week earlier.

CURRENCY

The Australian dollar found some support early last week from the latest NAB business survey which saw conditions match their all-time high. This support soon evaporated as the AUD traded to a new 11-month low of USD0.7414 as a rally in the US dollar, weak retail sales data and falling commodity prices overshadowed any potential upside from the federal budget last week. A lower than expected US inflation number late in the week caused traders to pare back their aggressive US interest rate hike expectations which saw the US dollar weaken and allow the AUD to bounce off its weekly lows last Friday. By the close last Friday, the Australian dollar was trading at USD0.7540 from USD0.7527 a week earlier.

EQUITIES

Global share markets started the week with a rally, boosted by Apple's sixth straight day of gains giving the tech sector a lift and by a surge in oil prices to their highest level since 2014, boosting mining and energy stocks. The US share market was volatile as President Trump confirmed expectations last week, announcing that the US would quit the Iranian nuclear deal and reinstate sanctions, adding to the concern about the outstanding US/China trade negotiations. Also weighing on the markets was fresh political turmoil in Italy with the prospect of a return to the polls.

Oil prices were on fire last week, jumping 3% higher last Wednesday with both Brent and West Texas Intermediate prices trading at their highest level since November 2014 as the US aims to curb Iran's exports which boosted resource and energy stocks last week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,116.2 compared to 6,062.9 a week earlier.

THIS WEEK

The latest Westpac/Melbourne Institute consumer sentiment index due on Wednesday carries extra significance this week as it will be one of the first readings on how the budget was received – in particular, the income tax cuts. In other data out this week we get March quarter wage price data and the latest monthly employment numbers. Although employment has slowed, economists are still forecasting a rise in employment (+15,000) and a steady unemployment rate (5.5%).

INTEREST RATE VIEW

The income tax cuts announced in the Budget last week won't dramatically boost economic growth and unlikely to prompt the RBA to hike interest rates before late next year. The personal income tax cuts sound large ($13.4bn over four years), but they are worth just 0.2% of GDP in 2019/20. As such, they won't boost economic growth which economists forecast to be closer to 2.5% over the next three years rather than the RBA and Treasurer's forecast of 3.0%.

Financial markets have therefore barely reacted to the Budget announcements and have not changed their view on the timing of RBA cash rate moves – still starting around mid-2019.

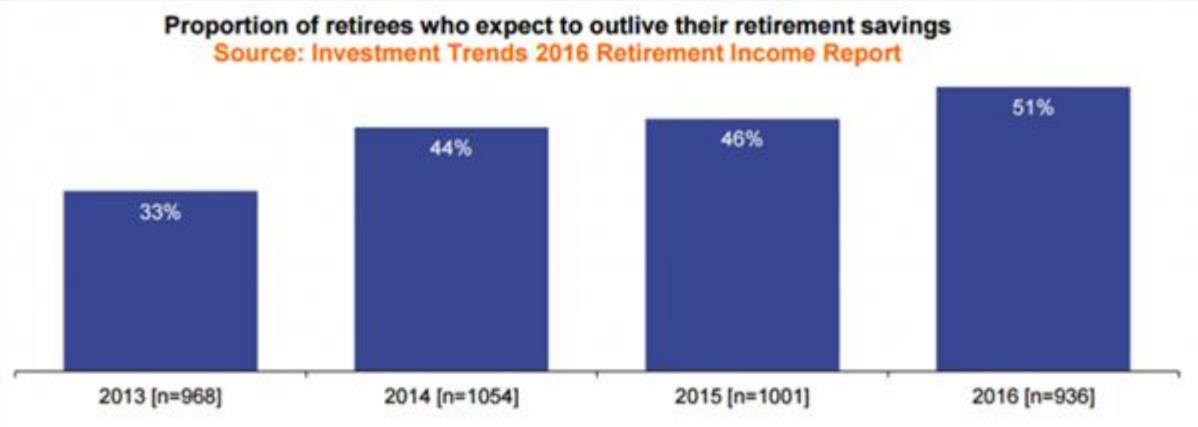
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.74	1.71	1.76	2.07	1.93
180 day Bank Bill	1.91	1.89	1.91	2.16	2.04
1 year swap	1.72	1.77	1.84	2.02	1.95
3 year swap	1.95	2.02	2.18	2.27	2.22
5 year swap	2.38	2.40	2.61	2.63	2.60
10 year swap	2.85	2.82	3.03	2.93	2.95
AUD/USD	0.7398	0.7660	0.7864	0.7795	0.7540
S&P/ASX200 Index	5,836.9	6,021.8	5,855.9	5,829.1	6,116.2

CHART OF THE WEEK

Big increase in retirees expecting to outlive their savings

One of Australia's leading research firms, Investment Trends, has revealed fewer people feel prepared for retirement than at any time since this question was first asked in 2012. The survey of almost 7,000 Australians over the age of 40 revealed only 44% feel prepared for retirement, but worryingly, this is down from 49% in 2015.

In addition, the 2016 Retirement Income Report shows a remarkable increase in the proportion of retirees who expect to outlive their retirement savings, reaching 51% from only 33% in 2013, as shown below. At a time when Australians have access to more education and advice on retirement than ever, and after 25 years of compulsory superannuation, the worsening of expectations is disappointing.



Reasons for the loss of confidence

The researchers identified many reasons for the lack of confidence about future finances from Australians who have not yet retired, as shown in the table below, including:

- Inability to accumulate sufficient wealth and then not having enough to retire on
- The rising prices of goods and services (although less of a concern than last year)
- Worries about potential falls in the share market affecting the value of superannuation
- Adverse regulatory changes to superannuation.

This poor result is despite share markets performing reasonably well in the last two years (many global markets are trading at an all-time high), superannuation funds delivering solid results and a strong property market supported by low unemployment.

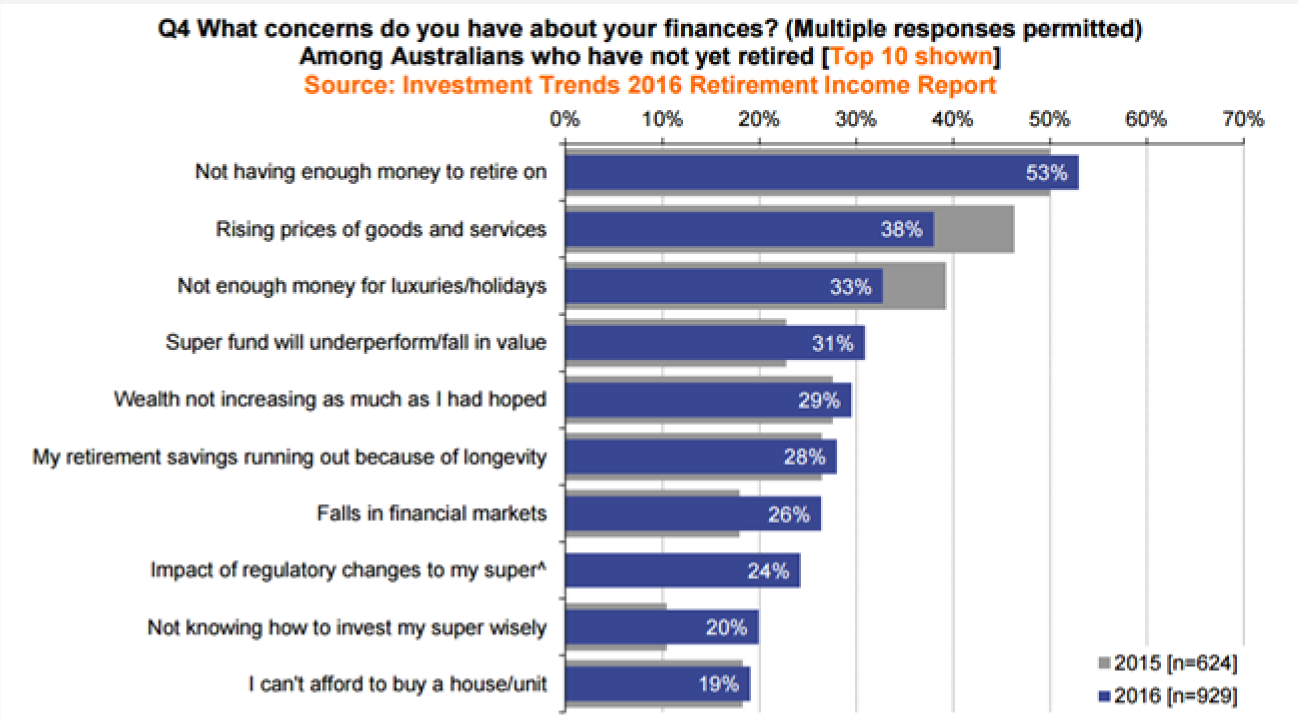


CHART OF THE WEEK

The same concerns translate into income worries, with half those surveyed saying they need at least $3,000 a month in retirement, but only one-third of respondents expecting to achieve this level.

The role of financial advice and planning for aged care

Most Australians do not have a good understanding of retirement products such as annuities or allocated pensions, with only 11% describing the retirement product range as “appealing”. The traditional focus on the accumulation stage for superannuation and the media attention on contribution rules and advantages of super have left innovation in the retirement phase in the shadows.

The planning for aged care is even worse. Less than one in five people not yet retired have considered how much it might cost to cover aged care needs. Most people expect to simply turn to government services or the medical profession to cover aged care needs, without considering the future ability of government budgets to pay for such a service.

“As an industry, we must address Australians’ lack of engagement on the topic of aged care and better prepare them for potential aged care needs,” said Investment Trends’ Senior Analyst, King Loong Choi. “This will require further action from super funds, financial advisers and product providers. The government and medical professionals also have a role to play in growing Australians’ awareness of the financial aspect of aged care, particularly in light of our aging population.”

Only about 20% of Australians have a financial adviser, but the research shows those people allocate about twice as much to retirement savings as those without a planner, who tend to spend more on lifestyle choices such as holidays, renovations, new vehicles or boats.

With interest rates on savings low, and share markets considered expensive, there are a few ways to address the potential shortage of money in retirement. These include the unpalatable choices of saving more, spending less or working for longer. Those sacrifices might be necessary to avoid a retirement worrying about money. It also helps to understand the superannuation rules and to take advantage of the tax-efficiency of long-term saving in super.

Source: Cuffelinks, by Graham Hand, 23rd March, 2017
Graham Hand is Managing Editor of Cuffelinks.
Cuffelinks is an investments newsletter providing content written by financial market professionals with experience in wealth management, superannuation, banking, academia and financial advice.

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.

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