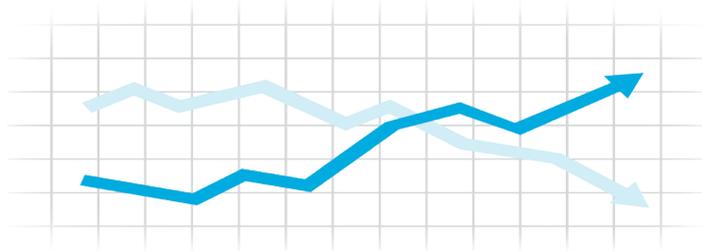


WEEKLY ECONOMIC COMMENTARY

Week beginning 16th January 2017

ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	December	-1.9%	+1.6%
Building Approvals	November	+7.0%	-11.8%
Retail Sales	November	+0.2%	+0.5%
ABS Job Vacancies	November quarter	+2.3%	+1.3%

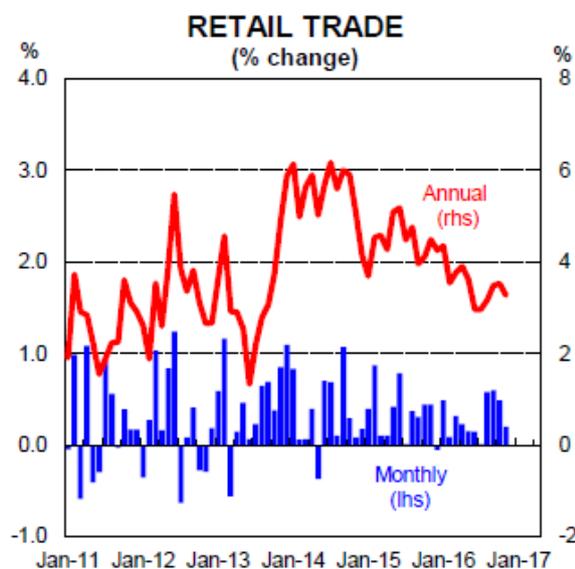
ANZ Job advertisements fell 1.9% in December, the first decline since July 16, following a 1.6% rise in November to be up 3.7% over the year.

Residential building approvals increased by 7.0% in November but remain down 4.8% over the year. The increase this month was driven by an increase in the high-density “apartments” sector of +18.5% (-8.9% annually). Private sector housing approvals were down 0.2% in November (-2.9% annually).

Retail sales were up 0.2% in November, the weakest result since July 16 with annual sales now 3.3%. The main contributor to the small gain this month was Clothing and Footwear (+1.7%), followed by Food (+0.4%) and household goods sales (+0.2%). Cafes, restaurants and take-away services fell by 0.8%, the largest decline in this component since November 2015, while department store sales fell 0.3%. By state, NSW and Victoria reported the strongest results (+0.5% and +0.4% respectively), while Western Australia was weakest (-0.6%).

ABS job vacancies index was up 2.3% in 3 months to November to be up 7.3% over the year. Public sector vacancies rose 2.2% while private sector vacancies rose 2.9%.

In other data, the **NAB online retail sales index** increased by 1.1% in November (+0.5% in October) and is up 13.3% over the year. There was increased spending in groceries and liquor (+3.8% monthly move), fashion (+5.1%), personal and recreational goods (+6.2%), department and variety stores (+0.5%) and daily deals category (+2.2%). It was partially offset by a slowdown in spending in homeware and appliances (-4.4%), media (-4.6%), food catering (-8.2%) and games and toys (-4.8%).



Data over the next two weeks

Economic Data	Date	Period	Forecast	Previous
Housing Finance	17 Dec	November	+1.5%	-0.8%
New Motor Vehicle Sales	17 Dec	December	+1.0%	-0.6%
Westpac/MI Consumer Sentiment	18 Dec	January	n/a	-3.9%
Employment	19 Jan	December	+5,000	+39,100
Unemployment	19 Jan	December	5.7%	5.7%

ECONOMIC COMMENTARY

LAST WEEK

Following a generally positive first week of trading for 2017, markets settled down last week with many returning to work from the first time following the Christmas/New Year break which saw volumes return to some normality. That said, activity remained constrained as financial markets seem to be at a crossroads, unsure of the next move given the sell-off in bonds, the rally in the US dollar and the appreciation in equities since the US election. This may be the case until Donald Trump takes office on the 20th January.

There was some focus on President-elect Trump's first formal post-election press conference last Thursday. The reaction of markets, especially a sharp decline in the US dollar, suggests they were disappointed in the lack of economic policy details in Trump's speech. It instead focused on:

- setting out how Trump would avoid conflicts of interest between the Presidency and his business empire;
- denouncing the validity of recently published memos concerning Trump; and
- answering questions about the relationship between Trump and Vladimir Putin.

By the close of trading on Friday, the 90-day bank bill was trading at 1.78% compared to 1.79% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.98% and 2.70% respectively, from 1.97% and 2.68% a week earlier.

CURRENCY

The Australian dollar dipped following the release of weaker than expected retail sales data last week, but more than recovered ground on broad-based US dollar weakness. Our currency then received a further boost following Trump's first press conference that contained very few specifics about his plans to cut taxes and raise infrastructure spending, leading traders to sell the US dollar. Across the Atlantic, the British pound hit a 10-week low last week after British PM Theresa May reiterated her position that Britain's exit from the EU would be a clean break, frightening investors who want the government to pursue a more measured negotiating strategy that prioritises trade deals with Europe.

By the close on Friday, the Australian dollar was trading at USD0.7481 compared to USD0.7314 a week earlier.

EQUITIES

Global equities were mostly lower last week, driven lower by the oil price and the negative sentiment following Trump's press conference. The Dow Jones index looks less likely to make the magic 20,000 level soon despite coming close in recent days. Gold prices rose to a seven-week high last week, boosted by uncertainty over how the incoming US presidential administration will implement plans for economic growth.

By the close on Friday the S&P/ASX200 Index was trading at 5,721.1 compared to 5,755.6 a week earlier.

THIS WEEK

The data highlight this week will be the December labour force figures on Thursday. Analysts are forecasting a 5,000 rise in the number employed following a very strong 39,100 gain in November. The unemployment rate is expected to remain unchanged at 5.7%. The latest Westpac consumer sentiment data (out on Wednesday) will gain some caution as it will be impacted by the summer holidays and may consequently be a little volatile.

INTEREST RATE VIEW

The market's views on the direction of official interest rates has shifted sharply towards the end of 2016. Pricing over the past three months has swung from a near certainty of a 25 basis point rate cut in 2017, to a high probability of a rate rise instead. The consensus now is that the RBA will spend the next year sitting on the sidelines as it is difficult to imagine another rate cut against a background of resurgent commodity prices, rising US interest rates and uncomfortably high house price growth.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.00	1.75	1.50	1.50	1.50
90 day Bank Bill	2.31	1.96	1.75	1.78	1.78
180 day Bank Bill	2.43	2.11	1.99	2.00	2.03
1 year swap	2.13	1.83	1.76	1.81	1.84
3 year swap	2.12	1.80	1.83	2.12	2.10
5 year swap	2.41	2.01	2.11	2.61	2.53
10 year swap	2.82	2.17	2.34	3.07	2.89
AUD/USD	0.6947	0.7630	0.7578	0.7423	0.7481
S&P/ASX200 Index	4,892.8	5,429.6	5,434.0	5,538.6	5,721.1

CHART OF THE WEEK

Australian House Prices Rise Most in Seven Years on Low Rates Average home prices climbed 10.9% last year, CoreLogic data shows

Source: Bloomberg - by Emily Cadman, 3 January 2017

Australian house values increased at the fastest pace in seven years in 2016, as record-low interest rates helped fuel demand for property despite warnings such price increases may be unsustainable.

The average dwelling value in the nation's eight state and mainland territory capitals rose 10.9% last year, compared to 7.8% in 2015, data from CoreLogic Inc. released Tuesday showed. That's the biggest increase since 2009.

The CoreLogic data shows a jump in the pace of growth since the early part of 2016, when average increases were running nearer to 6%. The Reserve Bank of Australia cut interest rates to record lows in May and August in an effort to spur inflation, counting on an increase in supply and tighter lending restrictions to help restrain the housing market.

However, the data suggests rate cuts, "had the side effect of boosting an already overheated housing market," Michael Workman, a senior economist at Commonwealth Bank of Australia, wrote in a note to clients.

Beneath the runaway headline growth, a more nuanced picture of divergence between cities - and types of property - emerges. Home prices in Perth, which is still struggling with the end of the mining investment boom, fell 4.3% last year, compared to a 15.5% rise in Sydney.

CoreLogic's head of research Tim Lawless said this two-speed market was "most distinct" in Melbourne, where house values gained 15.1% last year, while apartments rose just 1.7%. "Concerns around unit oversupply have eroded buyer confidence," he said.

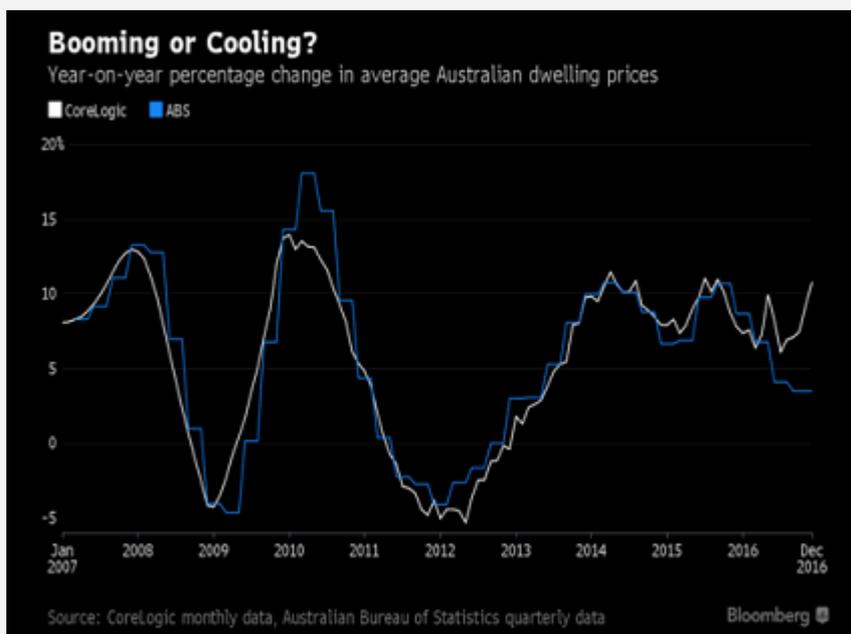
Apartment Glut

The RBA has repeatedly flagged concerns about a looming oversupply of inner-city apartments, with Morgan Stanley estimating there could be a nationwide surplus of 100,000 units by 2018. The major banks have also become more cautious about lending to both buyers and developers of apartments.

Lawless said house price growth will slow in 2017, noting that, in addition to other headwinds, mortgage rates from banks had already begun to rise. "Higher mortgage rates have the potential to quell housing demand, especially considering the record-high levels of household debt which implies consumers are highly sensitive to changes in the cost of debt," he said.

CoreLogic also flagged the risk regulators may take further steps to reduce speculative real estate investment. The latest data from the Australian Bureau of Statistics show that landlords have been progressively increasing their share of mortgage demand since the rate cuts last year.

One challenge for regulators is that the data isn't all pointing in the same direction. The most recent government data showed Sydney house prices in the year through September rose at the slowest pace since 2012.



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.



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



RURAL FINANCE
Let's talk

Postal address:
57 View Street
Bendigo VIC 3550
Telephone: 03 5448 2600
Facsimile: (03) 5441 8901
admin@ruralfinance.com.au
www.ruralfinance.com.au

Disclaimer: This report has been prepared by Rural Bank Treasury and is based on information obtained from public sources that are believed to be reliable. Whilst all care has been taken in compiling the information in this report, Rural Bank and Rural Finance make no representation as to the accuracy, completeness or timeliness of such information. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Rural Bank and Rural Finance and are subject to change without notice. Rural Bank and Rural Finance have no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only and does not take into account personal circumstances, objectives, financial situation or needs. The information contained within this report should not be relied upon without consulting independent, professional advice carefully to consider the appropriateness of the advice to your personal circumstances. Rural Bank and Rural Finance disclaim all liability in relation to any loss or damage suffered by the use of or reliance upon any information contained herein or in any attachment or annexure hereto by any person.

© Copyright Rural Bank Ltd ABN 74 083 938 416 AFSL/Australian Credit Licence 238042 and Rural Finance a Division of Bendigo and Adelaide Bank Ltd ABN 11 068 049 178 AFSL/Australian Credit Licence 237879