

# WEEKLY ECONOMIC COMMENTARY

Week beginning 17th December 2018

## ECONOMIC DATA ROUNDUP



### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Housing Finance	October	+2.2%	-1.0%
House Price Index	Sept Quarter	-1.5%	-0.7%
NAB Business Survey Conditions	October	+11	+12
NAB Business Survey (Confidence/Conditions)	October	+3	+4
Westpac/MI Consumer Sentiment	October	+0.1%	+2.8%

*This will be the last commentary for 2018. The Rural Bank Treasury Team wishes you compliments of the Season and look forward to being back with the next edition of the Weekly Economic Commentary on 7th January 2019.*

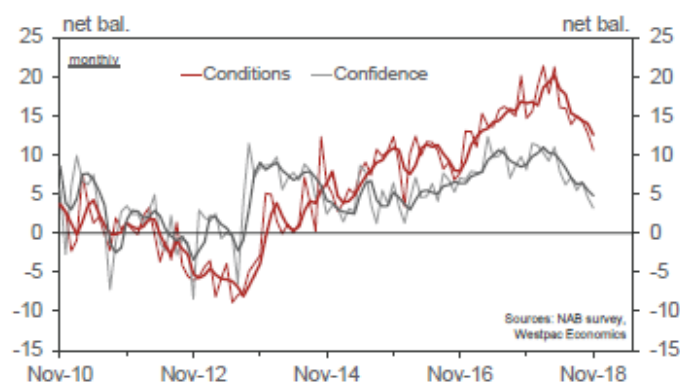
The number of **housing finance approvals** increased by 2.2% in October, to be down 4.8% over the last 12 months. The value of finance for owner-occupier loans (excluding re-financing) increased by 4.8% in the month and is now down 6.0% annually. The value of investor finance loans was up 0.6% in October (the first rise since February) but is still down 17.9% annually.

The **house price index** fell 1.5% in the September quarter and is now down 1.9% over the year. The largest quarterly falls were in Melbourne (-2.6%) and Sydney (-1.9%) while the largest gains were in Hobart (+1.3%) and Adelaide and Brisbane (both +0.6%).

The NAB business survey was down again in November, with weakness widespread across industries and regions. **Business conditions** fell 2 points to +11 in October, the lowest level since November 2016. The decline was driven by profitability (down 5 points to +8) and trading conditions (down 2 points to +15) offset by a 2 point rise in the employment index to a relatively high +9. The **business confidence** index fell 2 points to +3 from an upwardly revised +5 in October. Confidence remains highest in mining, followed by manufacturing and construction while retail, finance, business & property services and recreational & personal services remain the weakest.

The Westpac Melbourne Institute **consumer sentiment index** rose 0.1% in December to 104.4 from 104.3 in November, the index remaining above 100 indicating optimists outnumber pessimists. There was no evidence of negative wealth effects in the data with sentiment holding up despite falling house prices. However, households remain risk averse with the “wisest place for savings” considered to be less risky assets like deposits, superannuation or the repayment of debt - shares and property remain out of favour. The labour market also remains a source of consumer comfort with the unemployment rate remaining at a six and a half year low while a sharp drop in petrol prices (around 20% since the last survey) has provided some additional support to confidence.

**Business conditions and Confidence**



**Consumer Sentiment**



Data over the next week

Economic Data	Date	Period	Forecast	Previous
Employment	20 December	November	+20,000	+32,800
Unemployment	20 December	November	5.0%	5.0%
Private Sector Credit	31 December	November	+0.4%	+0.4%

# ECONOMIC COMMENTARY

## LAST WEEK

Offshore events once again were the focus for markets last week. The delay of the parliamentary vote on the Brexit agreement last week followed by the vote of no confidence in Prime Minister Theresa May sent the British pound lower and UK yields higher. Then, news that China was planning to cut US car tariffs provided a positive tone to markets only to have US President Trump threaten to close down the US government if he didn't get his funding for border security and the great wall of Mexico. Then, President Trump said it would be "foolish" for the US Federal Reserve to raise rates again this week, demanding help in his trade fight with China. The plea justly fell on deaf market ears with no shift in market expectations for a US rate rise this Thursday which stands at just over a 90% probability.

In local data releases, the latest business conditions and confidence indices continued to deteriorate while consumer sentiment surprisingly increased, despite the negatives around falling house prices in Sydney and Melbourne, a falling equity market (down 13% from its recent peak), ongoing concerns around global trade wars and geopolitical uncertainty. By the close on Friday, the 90-day bank bill was trading at 2.02% compared to 1.99% last week. In the long-term maturities, three and 10 year bond yields closed at 1.98% and 2.47% respectively, from 1.91% and 2.45% a week earlier.

## CURRENCY

The Australian dollar managed to rally to a high of USD0.7246 last week as risk aversion eased but a rally in the US dollar as sentiment once again turned defensive and weak Chinese data saw the AUD close the week below 72 cents.

The British pound was the worst performer last week, falling sharply after news that Prime Minister Theresa May had decided to delay the scheduled vote in Parliament on her Brexit withdrawal deal, Sterling making an 18-month low against the US dollar before it found some buying support after Theresa May survived a no confidence vote late in the week.

After the initial rally the AUD fell to a low of USD0.7180 before finding support at 72 cents and trading in its familiar range for most of the week, although the bias remains to "sell any rally".

By the close last Friday, the Australian dollar was trading at USD0.7192 compared to USD0.7227 a week earlier.

## EQUITIES

The Huawei 'affair' – that over the weekend has seen China summon the US ambassador, related worries about the fate of Sino-US trade talks, concerns about growth now both in the US and the rest of the world, is plaguing stocks at a time when year-end book closings are now effectively no more than two weeks away.

Equity markets had a volatile week, reacting to the news on both sides of the Atlantic last week, selling off and then rallying back only to close the week lower despite Theresa May surviving a no confidence vote and some positive trade news late in the week. Our share market was impacted by the offshore moves and reacted accordingly, but not as severe, with daily moves only a fraction of the magnitude in the US or European markets.

Nonetheless, by the close last Friday, the S&P/ASX200 Index was trading at 5,602.0 compared to 5,681.5 a week earlier.

## THIS WEEK

There will be some focus this week on the government's Mid-Year Economic and Fiscal Outlook which is expected to reveal a healthier fiscal position than outlined in the 2018/19 Budget. This will allow the Government to bring forward its tax-cut plans or additional spending in the lead up to the election (likely to be in May). On the data front, we get the monthly employment numbers which will show that unemployment remains at 5.0%.

Offshore, the US Federal Reserve is expected to raise interest rates this week for the fourth time this year while the Bank of England and Bank of Japan meet but no rate move expected.

## INTEREST RATE VIEW

Despite the high probability of an US rate hike this week (the fourth this year), our official cash rate remains clearly on hold for now with the futures market not pricing in an RBA rate hike till early to mid-2020.

<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	1.77	2.06	1.92	1.94	2.02
180 day Bank Bill	1.95	2.16	2.10	2.12	2.18
1 year swap	1.82	1.99	1.92	1.98	1.97
3 year swap	2.09	2.20	2.09	2.19	2.05
5 year swap	2.40	2.56	2.43	2.53	2.36
10 year swap	2.71	2.90	2.78	2.87	2.68
AUD/USD	0.7673	0.7458	0.7201	0.7271	0.7192
S&P/ASX200 Index	5,997.0	6,094.0	6,165.3	5,730.6	5,602.0

## CHARTS OF THE WEEK

### The PNC Christmas Price Index through the years

For 35 years, the *PNC Financial Services Group* have calculated the prices of the twelve gifts from the classic carol "The Twelve Days of Christmas." The result is the *PNC Christmas Price Index*, a unique and whimsical holiday tradition that makes learning about the economy fun.

PNC calculated the cost of buying all goods and services in the *PNC Christmas Price Index* in 2018 was US\$39,094.93, approximately US\$450 or 1.2% more than last year's cost, but less than the US government's Consumer Price Index, which increased 2.5% over the year to October.



Based upon the song "The Twelve Days of Christmas"						
	TRADITIONAL			INTERNET		
	2017	2018	% Change 2018/17	2017	2018	% Change 2018/17
One Partridge in a Pear Tree	\$ 219.95	\$ 220.13	0.10%	\$ 269.00	\$ 284.18	5.60%
Partridge	\$ 20.00	\$ 20.18	0.90%	\$ 95.00	\$ 110.18	16.00%
Pear Tree	\$ 199.95	\$ 199.95	0.00%	\$ 174.00	\$ 174.00	0.00%
Two Turtle Doves	\$ 375.00	\$ 375.00	0.00%	\$ 455.00	\$ 450.00	-1.10%
Three French Hen	\$ 181.50	\$ 181.50	0.00%	\$ 281.50	\$ 291.50	3.60%
Four Calling Birds	\$ 599.96	\$ 599.96	0.00%	\$ 370.00	\$ 418.00	13.00%
Five Gold Rings	\$ 825.00	\$ 750.00	-9.10%	\$ 899.75	\$ 969.75	7.80%
Six Geese-a-Laying	\$ 360.00	\$ 390.00	8.30%	\$ 1,488.00	\$ 1,548.00	4.00%
Seven Swans-a-Swimming	\$ 13,125.00	\$ 13,125.00	0.00%	\$ 15,165.00	\$ 15,165.00	0.00%
Eight Maids-a-Milking	\$ 58.00	\$ 58.00	0.00%	\$ 377.28	\$ 391.68	3.80%
Nine Ladies Dancing <sup>^</sup>	\$ 7,552.84	\$ 7,552.84	0.00%	\$ 7,552.84	\$ 7,552.84	0.00%
10 Lords-a-Leaping <sup>*</sup>	\$ 9,708.74	\$ 10,000.00	3.00%	\$ 9,708.74	\$ 10,000.00	3.00%
11 Pipers Piping	\$ 2,708.40	\$ 2,804.40	3.50%	\$ 2,475.00	\$ 2,475.00	0.00%
12 Drummers Drumming	\$ 2,934.10	\$ 3,038.10	3.50%	\$ 1,620.00	\$ 1,620.00	0.00%
<b>Total Christmas Price Index<sup>*</sup></b>	<b>\$ 34,363.49</b>	<b>\$ 39,094.93</b>	<b>1.20%</b>	<b>\$ 40,662.11</b>	<b>\$ 41,165.95</b>	<b>1.20%</b>
True cost of Christmas in song <sup>*</sup>	\$ 169,827.52	\$ 170,609.46	0.50%	\$190,775.98	\$193,360.92	1.40%
"Core" index, excluding swans <sup>*</sup>	\$ 25,523.49	\$ 25,969.93	1.70%	\$ 25,497.11	\$ 26,000.95	2.00%

<sup>^</sup> Revised: 2017 Internet-only price adjusted

<sup>\*</sup> Revised: 2017 prices adjusted

2018 PNC Christmas Price Index®

## 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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