

WEEKLY ECONOMIC COMMENTARY

Week beginning 18th February 2019

ECONOMIC DATA ROUNDUP



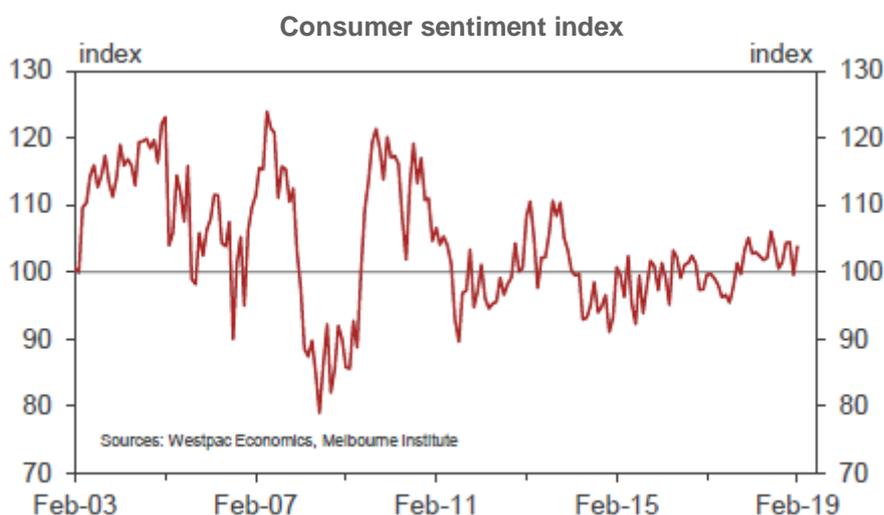
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Confidence	January	+4	+3
NAB Business Conditions	January	+7	+3
Housing finance	December	-6.1%	-0.9%
Westpac/MI Consumer Sentiment	February	+4.3%	-4.7%

The NAB Business survey recorded a rebound in both conditions and confidence in January. **Business confidence** increased by one point to +4 in January. After falling sharply in December, **business conditions** saw a moderate rebound in January, rising one point to +7. January saw a lift in both trading (+3 points) to +10 and profitability (+4 points) to +5 while the employment index was up one point to +5 in the month. The decline in conditions has occurred fairly broadly, with all industries except mining seeing a material decline through 2018 – conditions remain close to the weakest level in four years.

The number of **housing finance approvals** fell sharply in December with the number of owner occupier loans falling 6.1% to be down 11.6% annually. Approvals excluding refinancing were even weaker, down 8.2% and down 14.4% annually. The value of lending for housing fell 5.9% in December to be down 19.8% annually with lending to owner-occupiers falling 5.3% (-16.2% annually) while investor loans (excluding re-financing) also declined, down 4.6% for the month and down 27.8% for the year.

The **Westpac/Melbourne Institute consumer sentiment index** was up 4.3% in February, almost offsetting the fall last month. Now at a level of 103.8, the index is indicating that optimists outnumber pessimists and back above the long run average of 101.4. The current conditions index increased 2.5% in February while the expectations gauge jumped 5.4%. The survey was taken in the first week of February and the RBA's change in forward guidance to a neutral monetary policy stance may have played a part in lifting sentiment.



In other data released last week, the ANZ-Roy Morgan Consumer Confidence index fell 3.4% last week to a three-month low, with all the confidence subindices falling. The drop was most likely on the back of the RBA's downgrade to its economic growth forecast. The Westpac/MI consumer inflation expectation index was up to 3.7% in February from 3.5% in January.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Skilled Vacancies	20 February	January	n/a	+0.7%
Wage Price Index	20 February	Dec quarter	+0.6%	+0.6%
Employment	21 February	January	+15,000	+21,600
Unemployment	21 February	January	5.0%	5.0%

ECONOMIC COMMENTARY

LAST WEEK

Financial markets started the week on a quiet note, meandering with no clear direction as investors began to estimate the chances of another US government shutdown given the latest breakdown in negotiations and prospects for the never-ending US-China trade talks. Market are still being driven by suggestion rather than iron clad clarity, especially over the trade negotiations. To that end, as the week progressed, market sentiment was boosted by some more encouraging news on US-China trade negotiations and a tentative deal in Congress to avoid another US government shutdown. News that Trump “wants to meet with President Xi very soon” and comments by the US President that “I think it’s going along very well” were considered encouraging and financial markets reacted.

However, late in the week sentiment turned negative as it was revealed that a US-China trade deal may not be as close as it seemed. Then weak data, especially US retail sales data which fell by an “unbelievable” and massive 1.2% in December (the biggest fall in nine years) against a forecast of +0.2% pushed markets lower.

In other news, the UK Brexit discussions are ongoing after the first vote of Prime Minister’s May Brexit plan was rejected. The 29th March deadline is fast approaching with no resolution in sight.

By the close on Friday, the 90-day bank bill was trading at 1.97% compared to 2.01% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.67% and 2.10% respectively, from 1.63% and 2.11% a week earlier.

CURRENCY

The Australian dollar’s efforts to claw back above the 71-cent level were dashed by a stronger US dollar which rallied against all major G10 currencies last week after the release of stronger than expected US CPI data.

The AUD briefly jumped to USD0.7128 riding on the coattails of the NZ dollar that surged following the release of the RBNZ February monetary policy decision but the rally was short-lived. Even a weaker US dollar late in the week following the negative news on the trade negotiations and shockingly weak US retail sales data couldn’t spur the AUD to rally.

By the close last Friday, the Australian dollar was trading at USD0.7086 compared to USD0.7079 a week earlier.

EQUITIES

Global equity markets have traded in positive territory most of last week reflecting rising optimism of an ease in US-China trade tensions and the avoidance of another US government shutdown with news reports suggesting President Trump will sign a border security deal. Sentiment did turn negative last Friday when the trade deal became less certain and equity markets fell, our market posting a small loss over the week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,066.1 compared to 6,071.5 a week earlier.

THIS WEEK

The labour force comes into focus this week, with the December quarter wage price index due Wednesday and employment for January due Thursday. Markets are hoping for a lift in wages (in line with the RBA’s forecast outlined in their February Statement on Monetary Policy) and unemployment to remain unchanged (employment up 15,000). The minutes of the RBA’s February monthly board meeting and the Governor’s parliamentary testimony will also be worth watching this week.

INTEREST RATE VIEW

Data out this week will provide a check on the RBA’s recently updated scenario for the economic outlook given the RBA governor’s recent speech highlighting a greater significance to “data dependency”. The RBA wants a pick-up in household disposable income to support the consumer and offset the impact from falling house prices. If this pick up doesn’t come from faster wages, continued low unemployment and fiscal stimulus then an RBA rate cut can’t be ruled out. Markets continue to factor in a 50% probability of an RBA rate cut by the end of the year.

<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	1.95	1.94	2.06	1.97
180 day Bank Bill	1.92	2.14	2.12	2.18	2.10
1 year swap	1.86	1.98	1.98	1.96	1.87
3 year swap	2.24	2.10	2.19	1.92	1.79
5 year swap	2.66	2.40	2.53	2.19	2.03
10 year swap	3.08	2.74	2.87	2.54	2.36
AUD/USD	0.7966	0.7272	0.7271	0.7153	0.7086
S&P/ASX200 Index	5,904.0	6,339.2	5,730.6	5,850.1	6,066.1

The World's Most Innovative Economies

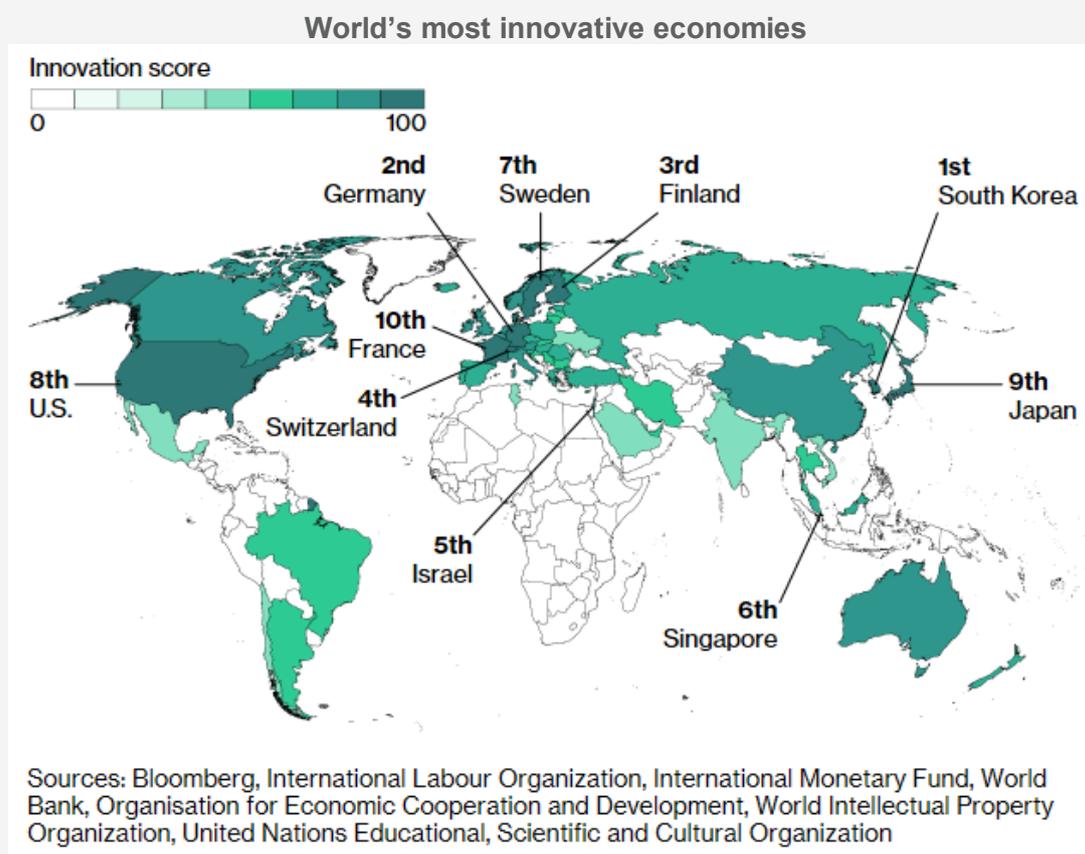
South Korea retained the global crown in the 2019 Bloomberg Innovation Index though improvements by Germany in research and education brought Europe's largest economy to near-parity in the annual ranking.

The battle for control of the global economy will be won and lost over control of innovative technologies. Korea's number one spot and China's shift up the rankings is a reminder that the U.S. trade war might slow but won't stop Asia's technological rise, Bloomberg Economics said.

The annual Bloomberg Innovation Index analyses dozens of criteria and scores countries using seven metrics, including research and development spending, manufacturing capability and concentration of high-tech public companies.

The ranking comes as global elites gather at this week's annual World Economic Forum in Davos, Switzerland, where they will discuss the future of globalisation, the role of the state and how innovation propels countries forward.

The US moved up to eighth place, a year after cracks in education scores pushed it out of the top 10 for the first time.



In the Bloomberg Index, Germany almost caught six-time champion South Korea on the strength of added-value from manufacturing and research intensity, much of it built around industrial giants such as Volkswagen AG, Robert Bosch GmbH and Daimler AG. Although South Korea extended its winning streak, its lead narrowed in part because of lower scores in patent activity.

Sweden, the runner-up in 2018, fell to the seventh spot. Patent activity boosted the scores for China and Israel, which was a big winner by jumping five spots to fifth overall. The Middle Eastern country surpassed Singapore, Sweden and Japan in the process.

South Korea's staying power at No. 1 should receive a boost from fresh investments in strategic technologies and a regulatory program that encourages startups, according to Khoon Goh, head of research at ANZ in Singapore. He sees the challenge, though, in moving innovation beyond the "highly concentrated large chaebols," or family-run conglomerates.

Germany's rise in the Bloomberg ranking also seems tentative, as Europe's largest exporter struggles with a shortage of skilled workers and changing immigration policies, according to Juergen Michels, chief economist of Bayerische Landesbank. It must hone its strategy in high-tech sectors, including industries such as diesel, digital communications and artificial intelligence, he added.

CHARTS OF THE WEEK (CONT'D)

Britain fell one spot to 18th and lost out to China for the first time. China's score reflects a dichotomy in the world's second-largest economy: it ranked No. 2 in patent activity on the strength of R&D from Huawei Technologies Co. and BOE Technology Group, but still lags behind most innovative alums in overall productivity.

The US rose three spots to eighth, after falling out of the top 10 for the first time last year. Faster product cycles and intensifying competition are changing the ways managers have to work, according to Pfizer Inc.'s presentation at a recent conference on health care.

Bloomberg 2019 Innovation Index

2019 Rank	2018 Rank	YoY Change	Economy	Total Score	R&D Intensity	Manufacturing Value-added	Productivity	High-tech Density	Tertiary Efficiency	Researcher Concentration	Patent Activity
1	1	0	S. Korea	87.38	2	2	18	4	7	7	20
2	4	+2	Germany	87.30	7	3	24	3	14	11	7
3	7	+4	Finland	85.57	9	16	5	13	9	8	5
4	5	+1	Switzerland	85.49	3	4	7	8	13	3	27
5	10	+5	Israel	84.78	1	33	8	5	36	2	4
6	3	-3	Singapore	84.49	13	5	11	17	1	13	14
7	2	-5	Sweden	84.15	4	15	9	6	20	5	25
8	11	+3	U.S.	83.21	10	25	6	1	43	28	1
9	6	-3	Japan	81.96	5	7	22	10	39	18	10
10	9	-1	France	81.67	12	41	13	2	11	20	15
11	8	-3	Denmark	81.66	8	21	15	12	19	1	28
12	12	0	Austria	80.98	6	11	12	24	8	9	18
13	14	+1	Belgium	80.43	11	26	10	9	41	16	9
14	13	-1	Ireland	80.08	32	1	1	16	15	14	38
15	16	+1	Netherlands	79.54	16	29	21	7	42	12	12
16	19	+3	China	78.35	14	13	47	11	6	39	2
17	15	-2	Norway	77.79	17	49	23	15	17	10	11
18	17	-1	U.K.	75.87	20	45	26	14	5	21	19
19	18	-1	Australia	75.38	19	56	17	20	18	15	6
20	22	+2	Canada	73.65	22	39	27	22	31	19	8
21	20	-1	Italy	72.85	24	22	20	19	29	29	26
22	21	-1	Poland	69.10	36	20	40	18	16	38	37

Among 2019's ranked economies, the biggest losers were Tunisia and Ukraine, which both fell out of the top 50. Ten economies joined the ranking in 2019 as more reliable data became available.

The United Arab Emirates made the highest debut in 46th place. Brazil rejoined the index in the 45th spot after not being ranked last year. Also among the new entrants are some of the world's largest emerging economies: India, Mexico, Vietnam and Saudi Arabia. South Africa remains the only Sub-Saharan nation to be ranked.

The ranking process began with more than 200 economies. Each was scored on a 0-100 scale based on seven equally weighted categories. Nations that didn't report data for at least six categories were eliminated, trimming the list to 95. Bloomberg released the top 60 and category scores within this cohort.

Source: *Bloomberg, Sydney Morning Herald*
 By Michelle Jamrisko, Lee Miller & Wei Lu
 22nd January 2019

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