WEEKLY ECONOMIC COMMENTARY

Week beginning 19th November 2018

ECONOMIC DATA ROUNDUP

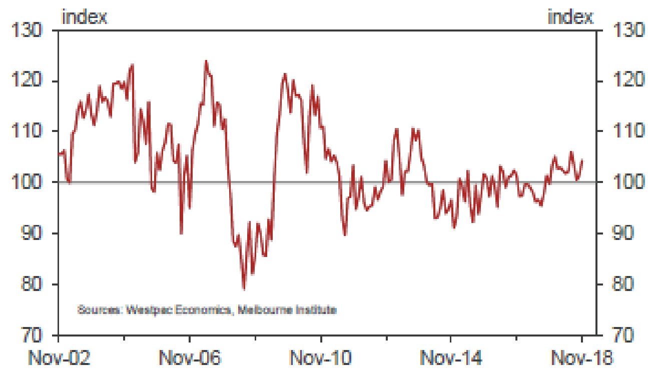
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Survey - Conditions	Oct	+13	+15
NAB Business Survey - Confidence	Oct	+4	+6
Westpac/MI Consumer Sentiment	Nov	+2.8%	+1.0%
Wage Price Index	Sept Quarter	+0.6%	+0.6%
Employment	Oct	+38,800	+5,600
Unemployment	Oct	5.0%	5.0%

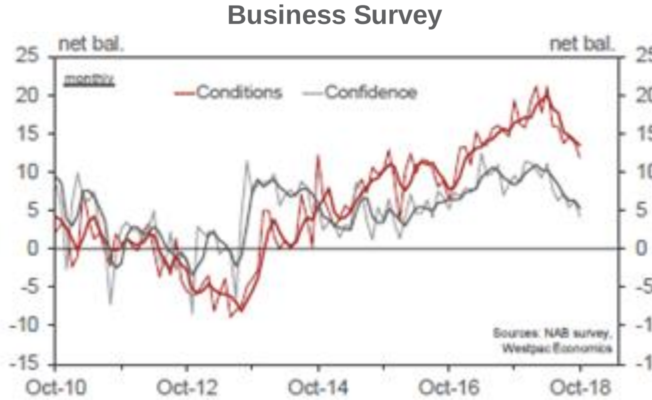
The **NAB business survey** continued to decline in October, with weakness across most indicators and industries. The **business conditions** index also fell two points to +12 in October and are now at their lowest level in two years. The weakness was evident across most industries with the employment index down four points to +7, profitability down two points to +12 while the trading conditions index edged up one point to +18 in October. The **business confidence** index fell two points to +4 in October. Confidence remains highest in mining, followed by manufacturing while retail and wholesale confidence remain weak, likely reflecting persistently weak conditions in the industry.

The Westpac/Melbourne Institute **consumer sentiment index** increased by 2.8% in November and now sits at 104.3, well above the 100 watermark level that indicates the number of optimists outweighs the pessimists. Households appear to have shrugged off the negative sentiment surrounding the declining house prices and the falling equity market over the last month. It looks as if this negativity was more than offset by the wage growth and the fall in unemployment to 5% last month.

Consumer Sentiment



Business Survey



The **wage price index** was up 0.6% in the September quarter with annual wage growth now at +2.3%, its highest level in three years and up from +2.1% last quarter. The 3.5% increase in the minimum wage on 1 July (+3.3% last year) partly attributed to the rise this quarter but while wage growth increased, the pace of growth remains low by historical standards. Private sector wages grew by 0.5% in the quarter (+2.1% annually) while public sector wages rose by 0.6% (+2.5%).

Employment increased by 38,800 in October with a rise of 42,300 in full-time employment partially offset by a fall of 9,500 in part time employment. An increase of 37,000 in the workforce resulted in the participation rate increasing to 65.6% and the **unemployment rate** remaining unchanged at its six-year low of 5.0%.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
DEWR Internet Vacancies Index	21 November	October	n/a	-0.6%

ECONOMIC COMMENTARY

LAST WEEK

Local economic data releases last week continued to be positive with wages growth moving higher, albeit gradually, while consumer sentiment strengthened and businesses conditions remained well above average. Even the employment data stayed strong, beating forecasts with the unemployment rate steady at 5.0% against a forecast of 5.2%. Nothing in last week's data changes the view that the next move in rates by the RBA will be up.

In offshore news, after edging closer to Brexit with a draft deal agreed between UK and EU negotiators, UK politics descended into chaos late in the week with high-profile ministerial resignations, speculation that a potential leadership challenge is on the cards and significant obstacles remaining to getting the Brexit deal through the UK parliament.

More turmoil is expected in coming weeks.

Long term bond yields were firmer (yields lower) last week because of investor safe-haven demand as equity markets sold-off. This weakness has seen investors scale back expectations of future US rate hikes.

By the close on Friday, the 90-day bank bill was trading unchanged for the week at 1.94%. In the long-term maturities, three and 10 year bond yields closed at 2.06% and 2.68% respectively, from 2.09% and 2.76% a week earlier.

CURRENCY

The US dollar hit a 16-month high against a basket of currencies early last week as investors once again focussed on the potential impact of higher US interest rates and political risks in Europe over Brexit negotiations and the Italian budget which put pressure on the euro and sterling.

The British pound plummeted over 2% last week (the biggest fall in 17 months) against both the US dollar and Euro as the UK political unrest escalated and speculation PM Theresa May's government is in turmoil over her Brexit proposal.

The Australian dollar has weathered the storm in offshore currency markets but remains at the mercy of market sentiment, falling through 72 cents to a low of USD0.7164 early last week on US dollar strength and weakness in equity markets only to recover late in the week following another solid employment report.

By the close last Friday, the Australian dollar was trading at USD0.7271 from USD0.7244 a week earlier.

EQUITIES

Global share markets continued to weaken last week, led by weakness in financials, resource and technology. Technology stocks were down last week after Apple was hit hard by renewed worries about trade with Mexico and Canada and slowing iPhone sales following a cut in forecasts from two of their major suppliers which sparked a wider sell off in the sector. Energy stocks were hit hard last week after the oil price fell over 6% to a nine month low after OPEC predicting a faster decline in demand for its crude in 2019, spurred by a slowing world economy and surges in supplies from rivals.

By the close last Friday, the S&P/ASX200 Index was trading at 5,730.6 compared to 5,921.8 a week earlier.

THIS WEEK

With no major economic data out this week (only DEWR Internet vacancies index), the market focus will clearly be on offshore events, with the recent share market volatility and the Brexit chaos front of mind. Locally we have the release of the minutes from the RBA's last board meeting and a speech by RBA Governor Philip Lowe but nothing "new" is expected.

INTEREST RATE VIEW

Despite the solid economic data released last week, the RBA is still some time away from moving monetary policy with analysts and the market still expecting the next move by the RBA to be a lift in the cash rate.

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	1.72	1.94	1.95	1.93	1.94
180 day Bank Bill	1.89	2.06	2.14	2.09	2.12
1 year swap	1.78	1.98	1.98	1.96	1.98
3 year swap	2.01	2.28	2.10	2.16	2.19
5 year swap	2.37	2.68	2.40	2.53	2.53
10 year swap	2.76	3.06	2.74	2.91	2.87
AUD/USD	0.7573	0.7519	0.7272	0.7123	0.7271
S&P/ASX200 Index	5,957.3	6,087.4	6,339.2	5,942.4	5,730.6

CHART OF THE WEEK

Ranking the world's most valuable brands

In just 10 years, tech brands have taken over the list. Tech has already conquered the stock market and the realm of digital advertising.

Now the technology sector also has a strangle hold on another measure: the value of consumer brands.

The massive scale and reach of tech companies has helped their brand values to skyrocket over the last decade.

In fact, even just adding Google and Apple's most recent numbers together gives a figure that rivals the GDP of Sweden.

What is brand value, anyway?

This data on the most valuable brands comes from the *BrandZ Top 100 Global Brands report for 2017*, which uses a specific methodology to quantify the financial worth of different brands around the world.

In this case, by "brand", we are referring to the intangible asset that exists in the minds of consumers, which is usually an image forged over time through exposure to branding, ads, publicity, and other types of personal experiences.

Meanwhile, the "brand value" is the dollar amount a brand contributes to the overall value of a corporation.

Measuring this intangible asset reveals an additional source of shareholder value that otherwise would not exist.

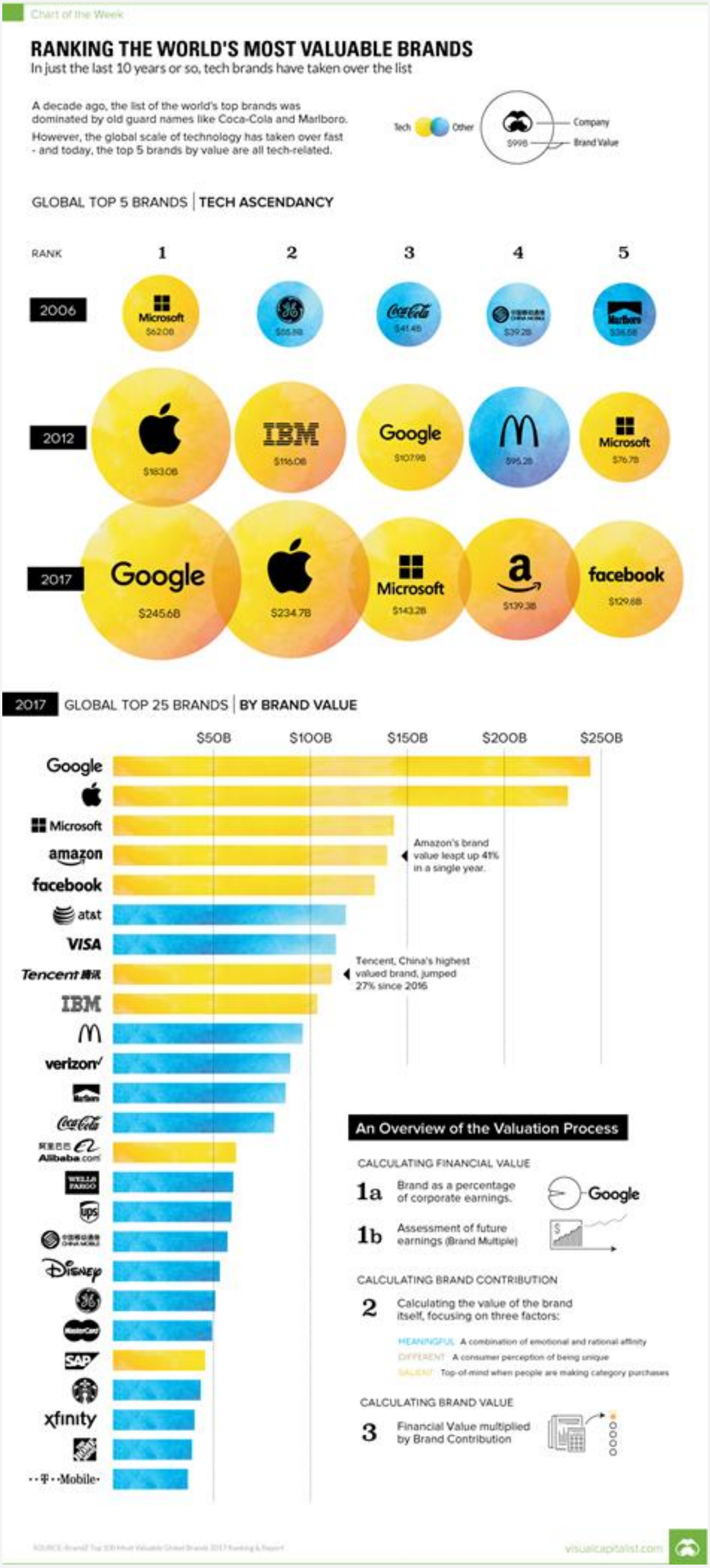


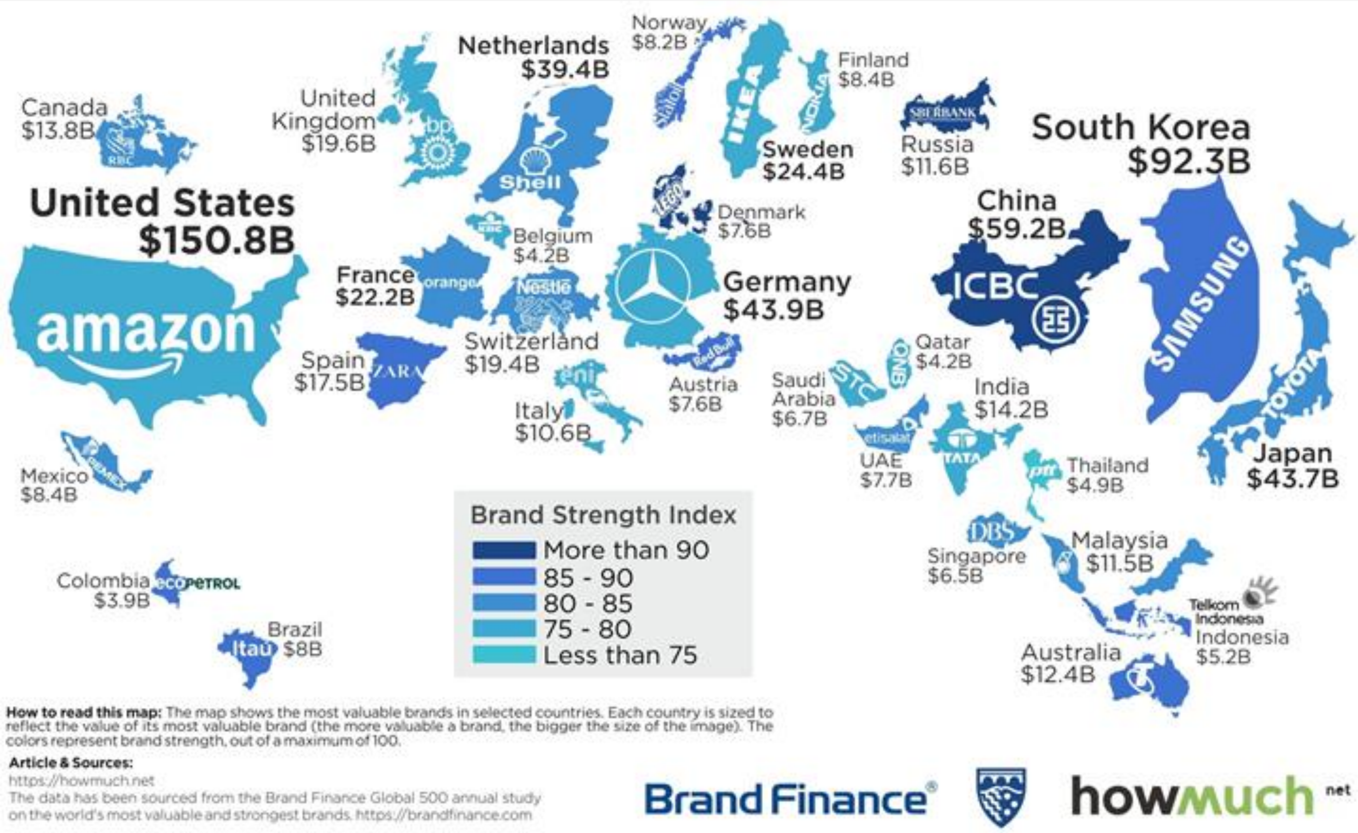
CHART OF THE WEEK

The most valuable brand in each country in 2018

This infographic comes from HowMuch.net, and it helps to make the international brand value picture a lot clearer. Using updated rankings from Brand Finance's Global 500 Report, it shows the top brand for each country in 2018.

There is a pretty steep drop from the US to other countries on the map. After retail giant Amazon, which ranks as the world's top brand at $150.8 billion, the next biggest brand in any other country is Samsung (South Korea) at $92.3 billion. From there, it's another big fall to get to the next tier, which includes China's ICBC ($59.2 billion), Germany's Mercedes-Benz ($43.9 billion), Japan's Toyota ($43.7 billion), and Royal Dutch Shell ($39.4 billion).

After that, the remaining brands on the list are in the $4 billion to $25 billion range, including well-known names like Nestlé ($19.4 billion), Zara ($17.5 billion), and RBC ($13.8 billion). While small compared to Amazon, these are still mostly large international or national brands.

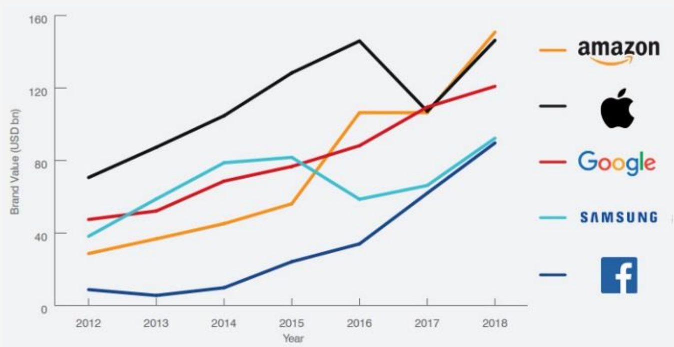


It's worth noting that there are many countries that are not represented above as they do not have a brand large enough to make the top 500 list.

As Amazon continues to rapidly scale its revenue, and as the Jeff Bezos Empire expands, we are all now very familiar with the online retailer's dominance.

That said, while Amazon appears massive on the above map, it actually only just edged out Apple as the most dominant brand overall. Further, because Apple is also based in the US, the iconic tech company doesn't have its logo appear on the map itself.

Here's a look at how brand value for the top five brands has changed over time. According to *Brand Finance*, the value of Amazon's brand increased by 42% between 2017 and 2018.



Not to be confused with market capitalization or enterprise value, brand value is defined as a marketing-related intangible asset that generates economic benefits for a brand within a company. In other words, this is the value of the image of the brand itself, as represented in the minds of stakeholders.

Source: *Visual Capitalist, by Jeff Desjardins, on July 28th, 2017 and February 1st, 2018*
www.visualcapitalist.com/chart-valuable-brands-world

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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Future driven.

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