WEEKLY ECONOMIC COMMENTARY

Week beginning 21st March 2016

ECONOMIC DATA ROUNDUP

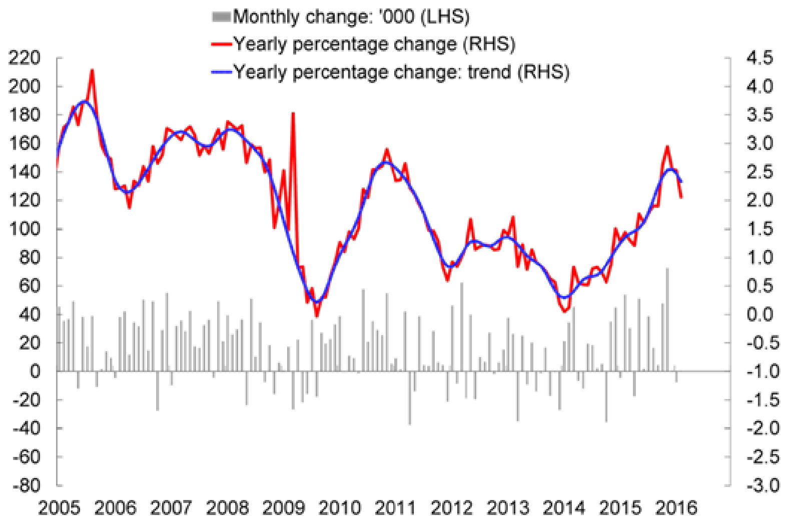
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
New Motor Vehicle Sales	February	-0.1%	+0.5%
Employment	February	+300	-7,900
Unemployment	February	5.8%	6.0%

New motor vehicle sales were down 0.1% in February to be up 2.3% annually. Sales of passenger vehicles decreased by 0.9% in the month while sports utility and other vehicles increased by 0.4% and 1.6% respectively.

Employment was weaker than expected, rising by only 300 in February. Full-time employment rose 15,900, while part-time employment fell 15,600. Against a weaker employment picture, the participation rate dropped to 64.9% in February, down from 65.1% a month prior, and reached the lowest level since September. This pushed the **unemployment rate** back to 5.8% from 6.0% in January and back to a two and half year low.

Employment Data



There was very little new information from the minutes of the Reserve Bank's early March Board meeting when interest rates were left at a record low 2.0% for a ninth consecutive time. The themes were very similar to the post-meeting press release: financial market volatility, below trend domestic growth, an easing in housing market conditions, and stating that low inflation would give it scope to cut interest rates, if the economy slowed.

The RBA also notes that it was still too early to know if a meltdown in global financial markets in January would filter through into slower world and domestic growth, but said it was watching the situation closely. Australia's job market was also being scrutinised closely, with the RBA confident that solid job creation would continue in coming months.

In an extended commentary on China, the RBA observed recent weakness in Chinese industrial production and the property sectors, but said the long-term prospects for the world's second largest economy remained upbeat, with relatively low levels of urbanisation suggesting China has plenty of capacity for growth over time.

In other news, the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, fell 0.15 points to 97.07 in February from 97.22 in January, the fourth decline in five months.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ABS Established House Price Index	22 Mar	Dec/quarter	+0.1%	+2.0%
DEER Internet Vacancies Index	23 Mar	February	n/a	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

Central banks were again in the spotlight last week but, unlike a week earlier, expectations for monetary policy changes were low and the US Federal Reserve, Bank of England and the Bank of Japan all left monetary policy unchanged after their board meetings. The US Federal Reserve delivered a ‘hold’ decision (as expected) last Thursday indicating that moderate US economic growth and “strong job gains” would allow it to tighten policy this year, with two 25 basis point rate hikes projected by the end of 2016 – half the number of hikes it projected last December. The downgrade in interest rate projections by more than expected saw US bond yields and the US dollar rally.

Markets also remained sensitive to oil prices which fell early last week following reluctance by Iran to participate in a production slowdown and in fact ramping up production and exports. Oil consequently fell, capping interest rates, pushed equity markets down and depressing commodity currencies.

Our local markets rallied on the better than expected drop in the unemployment rate and after a media report suggested concerns over the strong Australian dollar would spark a rate cut from the Reserve Bank.

By the close of trading on Friday, the 90-day bank bill was trading at 2.33% compared to 2.32% the previous Friday while in the long term maturities, 3 and 10 year bond yields closed lower at 1.95% and 2.55% respectively, from 2.04% and 2.68% a week earlier.

CURRENCY

The Australian dollar spiked higher over the weekend to start last week just below USD0.76.The currency received another boost mid-week following the US Federal Reserve’s dovish monetary policy stance. This unwound half of the expected rate hikes which saw the US dollar sell off against the cross rates and pushed the Australian dollar to a nine-month high of USD0.7671 last Friday.

By the close on Friday, the Australian dollar was trading at USD0.7607 compared to USD0.7496 a week earlier.

EQUITIES

Stocks around the world have risen for the past few weeks, rebounding from a low in mid-February, spurred by rising commodities prices, central bank stimulus and improving US economic data.

Our share market was no different, rallying for a third straight week after improved iron ore and oil prices saw resource and energy stocks lead the index higher.

By the close on Friday the S&P/ASX200 Index was trading at 5,183.1 compared to 5,166.4 a week earlier.

THIS WEEK

A very quiet, holiday-shortened week ahead with no key economic data releases locally or offshore scheduled. The only significant event is a speech by Reserve Bank Governor Glenn Stevens on Tuesday where his topic will be “Can we withstand a major global shock?”, which may gain some interest. It threatens to be a quiet week, but at least it’s only a four day one.

INTEREST RATE VIEW

There has been a lot of focus in the recent rally in the Australian dollar and if the currency remains persistently high in coming weeks, it may be that the Reserve Bank once again starts the process of “jawboning” (talking down the Aussie) or even cutting interest rates again to push the currency lower.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.25	2.00	2.00	2.00	2.00
90 day Bank Bill	2.31	2.18	2.35	2.29	2.33
180 day Bank Bill	2.37	2.26	2.47	2.40	2.44
1 year swap	2.13	2.06	2.20	2.12	2.18
3 year swap	2.18	2.14	2.22	2.08	2.15
5 year swap	2.46	2.53	2.54	2.35	2.40
10 year swap	2.84	3.08	2.96	2.67	2.70
AUD/USD	0.7605	0.7223	0.7140	0.7160	0.7607
S&P/ASX200 Index	5,842.3	5,170.5	5,106.7	4,992.0	5,183.1

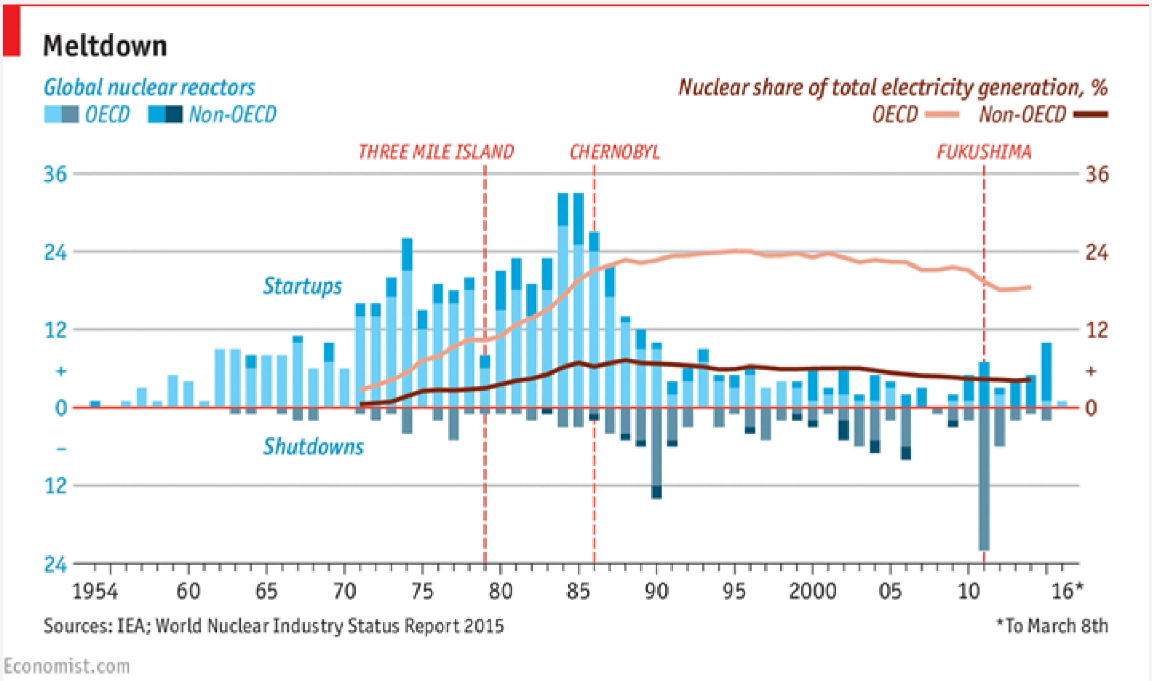
CHART OF THE WEEK

Global nuclear power on the fifth anniversary of Fukushima

On March 11th 2011 a tsunami engulfed Japan's north-east coast, flooding towns, farmland and severely damaging the Fukushima Dai-ichi nuclear power plant. Almost 19,000 people were killed by the tsunami, and a further 160,000 were evacuated after the power plant's core leaked radiation into the sea and surrounding area in the worst nuclear disaster since Chernobyl in 1986.

Five years on, Fukushima is still an exclusion zone and tens of thousands are stuck in temporary shelter. Japan shut down all but two of its 43 reactors over safety concerns. And other countries have recently sped up efforts to replace nuclear power with greener renewables. Germany plans to close all 17 of its nuclear plants by 2022, a process that has already begun. France passed a bill last year mandating that the share of nuclear power in the country's electricity mix be cut from 75% to 50% within ten years.

Meanwhile commodity prices have slumped, resulting in a cut to wholesale electricity prices. That makes it harder for many nuclear plants to cover their running costs, also leading to closures. Where markets are freer, it is harder for nuclear-power operators to make money, and too risky for them to build costly plants from scratch.



Yet as countries try to cut carbon emissions, such closures often lead to the burning of more fossil fuels. Adding renewable-energy capacity does not solve the problem: when the wind doesn't blow and the sun doesn't shine, nuclear energy still provides the best low-carbon source of reliable "base-load" electricity.

Thus in Germany the proportion of electricity produced by coal-fired plants has increased since reactors were closed down, so pushing up carbon emissions. Governments should shape energy policies to keep existing reactors running: they provide low-carbon energy, and decommissioning them is as likely to create safety problems as leaving them running. It is reckoned that decommissioning the Fukushima plant will cost $20 billion, while the clean-up could come to $100 billion.

Source: Economist.com
Chart of the day, by the data team.
10th March 2016

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.

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