WEEKLY ECONOMIC COMMENTARY

Week beginning 21st May 2018

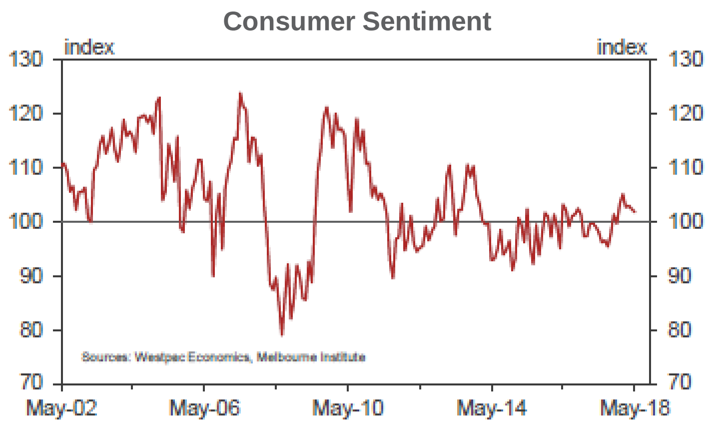
ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Wage Price Index	March quarter	+0.5%	+0.6%
Westpac/MI Consumer Sentiment Index	May	-0.6%	+102.4
Employment	March	+22,600	+4,900
Unemployment	April	5.6%	5.5%

The **Wage Price Index** was up 0.5% in the March quarter with annual wage growth unchanged at +2.1% (for the third consecutive quarter and just above the record low of +1.9% in 2016/17. Private sector wages were up 0.5% in the quarter (+1.9% annually) while public sector wages were also up 0.5% in the quarter but now up 2.3% annually. Total public sector wages increased strongly in Tasmania (+1.1%), South Australia (+0.9%) and Victoria (+0.8%).

The **Westpac Melbourne Institute Consumer Sentiment Index** fell 0.6% in May to 101.8, a seven month low, from 102.4 in April. The survey was conducted over the period 7th to 12th May and despite the decline this month, sentiment did show a clear Budget boost (as was expected). The May survey included the extra question: “What impact do you expect the Budget to have on your family finances over the next 12 months?” with responses indicating the Budget was relatively well-received. The survey this month detail points to a positive boost from the budget which included personal income tax cuts but were more than offset by a 5.8% fall in confidence towards current family finance.



Employment increased by 22,600 in April, while March data was revised to a fall of 700 (from +4,900). Full time employment increased by 32,700 which was partially offset by a fall in part time employment of 10,100. Despite the increase in employment this month, the participation rate increased, as did the **unemployment rate** from 5.5% March to 5.6% in April.

The minutes of the RBA’s May board meeting provide further support to the view that the RBA isn’t going to raise interest rates while the Royal Commission is prompting banks to tighten their lending standards. This was suggested by the new comment in the minutes this month that “it would be appropriate to hold the cash rate steady and for the Reserve Bank to be a source of stability and confidence” The RBA has retained its optimistic forecasts for economic growth and inflation and once again commented that “it was more likely that the next move in the cash rate would be up, rather than down”.

The NAB cashless retail sales index fell 0.6% in April, the weakest result since December 2017, to be up 9.3% annually. Generally, most sectors were weak in April, with only cafes, restaurants and takeaway and department stores recording a gain this month. Food recorded the weakest result, followed by clothing and footwear.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Dept. of Employment Internet Vacancies	23 May	April	n/a	+0.9%
Construction Work Done	23 May	March quarter	+1.3%	-19.4%

ECONOMIC COMMENTARY

LAST WEEK

Both the RBA minutes and deputy RBA Governor Guy Debelle's speech last week confirmed recent RBA assertions that the next move in the official cash rate is most likely up, although there is not "a strong case for a near term adjustment". Market reaction to both events was only minor as this news has been known (and factored into yields) for some time now while data out last week was mixed (benign wage data, solid employment but weaker consumer sentiment) simply reinforced the current market pricing.

Global markets have been focussed again on politics – North Korea appearing less amicable to negotiations, rising Middle East tension a fresh wave of Euro-scepticism over Italian politics and the implications for oil. A higher oil price (a four-year high) and US rate hike expectations (futures yields predict a 100% chance of a US rate hike in June plus at least another by year end) has pushed US bond yields to eight-year highs last week and has also driven local long term bond yield higher while a modest drop in short term funding yields has seen our yield curve steepen.

By the close on Friday, the 90-day bank bill was trading at 1.94% compared to 1.93% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.23% and 2.91% respectively, from 2.16% and 2.78% a week earlier.

CURRENCY

Continued US dollar strength and the RBA's message of "no near term pressure for a move in the cash rate" has seen the Australian dollar once again fall through the 75 cent level early last week. The AUD was further hurt by the weak wage data which pushed the currency to a low of USD0.7447 before profit taking and a weakening US dollar late in the week helped the AUD push back through the 75 cents and off its 11-month low.

By the close last Friday, the Australian dollar was trading at USD0.7519 from USD0.7540 a week earlier.

EQUITIES

Our share market opened the week virtually unchanged from the Friday close and traded in a narrow range for most of the week, closing slightly lower on a daily basis. Doubts about whether the US and China would resolve their trade issues put a cap on any potential rally last week.

There was a lot of unrest on the Gaza strip last week that has seen dozens of Palestinian deaths as tens of thousands converged to protest against the opening of the US embassy in Jerusalem. This unrest saw further support for the oil price which came on top of the renewed US sanctions on Iran. Resource and energy were again winners with news of the possible US sanctions on Iran pushing the oil price to a new four year high and breaching $80 per barrel last week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,087.4 compared to 6,116.2 a week earlier.

THIS WEEK

A quiet week ahead for data with the only significant data out being construction work done for the March quarter, the first partial indicator that will feed into the upcoming important GDP data out in early June. Within the detail, residential construction is expected to grow this quarter.

Geopolitical developments (US-China trade negotiations, resumption of Brexit negotiations, the Iran sanctions and Italian politics) will continue to simmer below the surface and may affect markets given the lack of data.

INTEREST RATE VIEW

This week's data releases (especially wage growth and employment/unemployment) do nothing to alter the market's view that the RBA is on hold until well into next year (a full 25 basis point hike is not priced until July next year).

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	1.74	1.72	1.77	2.07	1.94
180 day Bank Bill	1.89	1.89	1.92	2.16	2.06
1 year swap	1.73	1.77	1.88	2.03	1.98
3 year swap	1.91	2.01	2.25	2.29	2.28
5 year swap	2.29	2.36	2.66	2.65	2.68
10 year swap	2.72	2.74	3.05	2.97	3.06
AUD/USD	0.7434	0.7557	0.7924	0.7708	0.7519
S&P/ASX200 Index	5,727.4	5,945.7	5,940.9	5,868.8	6,087.4

CHART OF THE WEEK

An internet minute in 2018

In your everyday life, a minute might not seem like much. But when it comes to the vast scale of the internet, a minute of time goes much further than you ever could have imagined. That's because the internet has a degree of scale that our linear human brains are unaccustomed to operating on.

This week's chart is from Lori Lewis and Chadd Callahan of Cumulus Media, and it shows the activity taking place on various platforms such as Facebook or Google in each 60 second span. It really helps put an internet minute in perspective.

The numbers for these services are so enormous that they can only be shown using the 60 second time scale.

Any bigger, and our brains can't even process these massive quantities in any useful capacity. Here are just a few key numbers scaled to a monthly basis, for fun:

- 42,033,600,000 Facebook logins
- 159,840,000,000 Google searches
- 1,641,600,000,000 WhatsApp messages sent
- 8,078,400,000,000 emails sent

On an annualized basis, the data becomes even more ridiculous, with something close to 100 trillion emails sent. (No wonder it's so hard to get to inbox zero!)

Every Google search comes at a cost to the planet. In processing 3.5 billion searches a day, the world's most popular website accounts for about 40% of the internet's carbon footprint. Despite the notion that the internet is a "cloud," it actually relies on millions of physical servers in data centers around the world, which are connected with miles of undersea cables, switches, and routers, all requiring a lot of energy to run. Much of that energy comes from power sources that emit carbon dioxide into the air as they burn fossil fuels; one study from 2015 suggests internet activity results in as much CO2 emissions as the global aviation industry.

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.

RURAL BANK
Farmer focused.
Future driven.

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