

# WEEKLY ECONOMIC COMMENTARY

Week beginning 24th June 2019

## ECONOMIC DATA ROUNDUP



### DATA RELEASED LAST WEEK

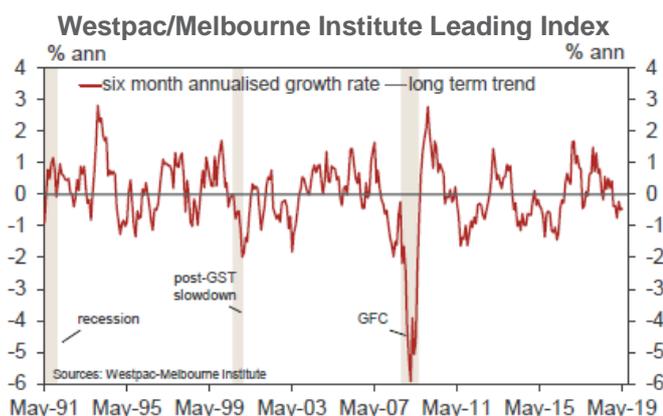
| Economic Data     | Period        | Actual | Previous |
|-------------------|---------------|--------|----------|
| House Price Index | March quarter | -3.0%  | -2.4%    |
| Skilled Vacancies | May           | -0.7%  | -1.6%    |

The **house price index** for residential properties for the weighted average of the eight capital cities fell 3.0% in the March quarter to be down 7.4% over the year. The index fell in all capital cities this quarter, Sydney (-3.9%), Melbourne (-3.8%), Brisbane (-1.5%), Perth (-1.1%), Canberra (-0.9%), Darwin (-1.8%), Adelaide (-0.2%) and Hobart (-0.4%). Annually, residential property prices fell in Sydney (-10.3%), Melbourne (-9.4%), Darwin (-4.2%), Perth (-2.7%) and Brisbane (-1.3%), rose in Hobart (+4.6%) and Adelaide (+0.8%) and was flat (0.0%) in Canberra.

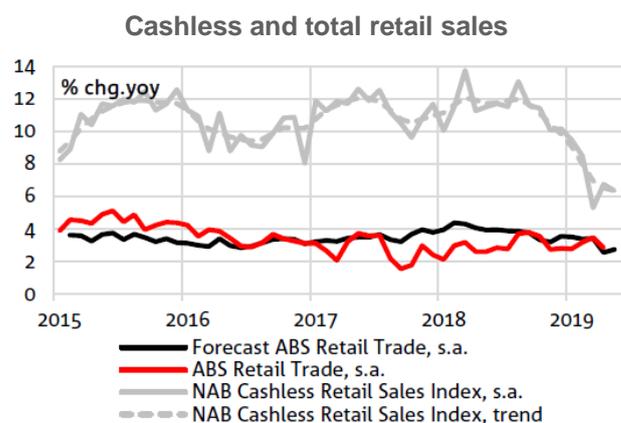
The **internet job vacancies index** fell 0.7% in May, the fifth consecutive monthly decline, to be down 5.7% over the year. Job advertisements decreased in seven of the eight occupational sub-groups with the strongest falls recorded for Labourers (-1.5%), Managers (1.3%) and Technicians and Trade Workers (-1.0%). Job advertisements remained steady for Community and Personal Service Workers.

The minutes of the RBA's June board meeting where they cut the cash rate to 1.25%, were released last week and confirmed that more monetary policy easing is coming. In particular, the RBA noted that "given the amount of spare capacity in the labour market and the economy more broadly, members agreed that it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead". This is interpreted as the RBA moving to an easing bias. The board members also "recognised, however, that lower interest rates were not the only policy option available to assist in lowering the rate of unemployment".

In other data releases, the six-month annualised growth rate in the **Westpac/Melbourne Institute Leading Index** (which indicates the likely pace of economic activity relative to trend three to nine months into the future) rose to -0.45% in May from -0.49% in April. This growth rate has been negative for six months now signalling that growth will remain "below trend" this year. The **NAB cashless retail sales index** fell 0.5% in May to be up 6.3% over the year. By industry, retail sales growth over the year was fastest for cafes, restaurants and takeaway while clothing & footwear and department store sales declined.



Source: Westpac/Melbourne Institute



Source: NAB Group Economics

Data over the next week

| Economic Data         | Date    | Period | Forecast | Previous |
|-----------------------|---------|--------|----------|----------|
| Private Sector Credit | 28 June | May    | +0.2%    | +0.2%    |

# ECONOMIC COMMENTARY

## LAST WEEK

The week started with a cautious tone ahead of the US Federal Reserve board meeting mid-week with yields, the US dollar and equities all rising. With a lack of data this week it was all about the speeches and news from central banks.

Firstly, as expected, the US Fed left rates unchanged last week but significantly changed their language around future monetary policy, acknowledging a deterioration in the international environment (trade), “uncertainties” around the economic outlook and soft inflation. The Fed said it will “closely monitor” the incoming information and “will act as appropriate to sustain the expansion”, seen as shifting from a neutral stance to an easing bias and opening the door for a US rate cut in the months ahead.

After threatening more tariffs if China’s President Xi Jinping declined a one-on-one at the G-20 summit in Japan this week, Donald Trump gave markets a glimmer of trade hope, saying he’ll have an “extended meeting” with Xi at the summit on Wednesday. This according to Trump, followed a “very good” phone call with the Chinese leader.

The RBA board minutes released last week were predictably cautious but justifying their decision to cut the cash rate this month. The RBA noted that unemployment was expected to decline “a little” and inflation was expected to pick up “only gradually”. This outlook was based on the technical assumption that “interest rates would be lower in the period ahead” which supported the market view that more rate cuts are to come.

Unlike other central banks, the Bank of England held their cash rate steady at 0.75% last week and reiterated their mild tightening bias. In a final contender elimination vote last week,

The outcome of all this news, not economic data, was that rate cuts by most central banks are “imminent” which saw yields continue to grind lower last week.

By the close on Friday, the 90-day bank bill was trading at 1.22% compared to 1.30% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 0.90% and 1.28% respectively, from 0.99% and 1.37% a week earlier.

## CURRENCY

A stronger US dollar ahead of the US Federal Reserve meeting saw the Australian dollar weaken early last week. The AUD traded to a low of USD0.6832 last Wednesday before rallying as risk appetite improved from US-China trade optimism and the US dollar weakened on heightened speculation of lower US interest rates this year.

By the close last Friday, the Australian dollar was trading at USD0.6923 compared to USD0.6900 a week earlier.

## EQUITIES

Global equity markets climbed on hopes for a de-escalation of the US-China trade quarrel, adding to a European rally sparked by pledges of fresh stimulus by the European Central Bank as early as July. Equity markets also continued to benefit from the low interest rate environment.

Share markets are approaching record highs on the back of positive investor sentiment and growing expectations of rate cuts by central banks.

By the close last Friday, the S&P/ASX200 Index was trading at 6,650.8 compared to 6,554.0 a week earlier.

## THIS WEEK

It’s another quiet week on the economic calendar with just May private sector credit data due for release. Markets will continue to focus on central bank commentary and speculate on the timing of upcoming rate cuts and we may get some volatility as investors square up positions before financial year-end.

## INTEREST RATE VIEW

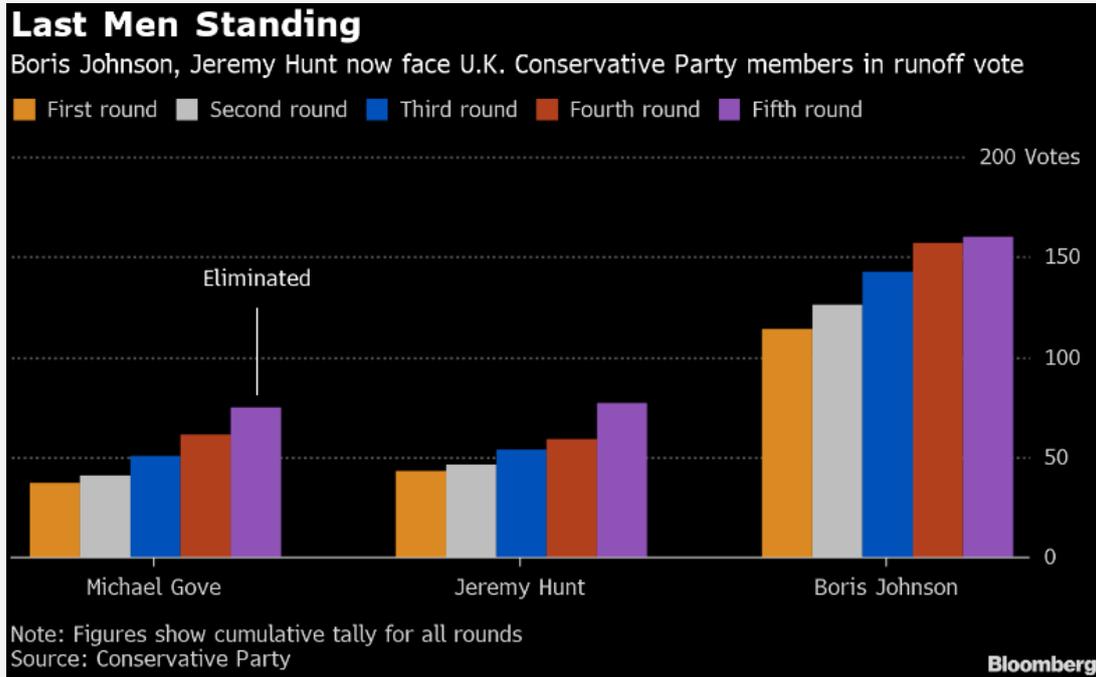
The RBA board minutes published last week were unusually clear in suggesting that the RBA intended to ease monetary policy further. This was further reinforced by Governor Lowe’s speech last week. According to futures markets, another RBA rate cut is now 80% priced in for July but a cut in August is more than fully priced in.

| <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               | 1.25       |
| 90 day Bank Bill     | 2.11                 | 2.07                | 1.81                | 1.48               | 1.22       |
| 180 day Bank Bill    | 2.22                 | 2.20                | 1.88                | 1.46               | 1.22       |
| 1 year swap          | 2.03                 | 1.97                | 1.63                | 1.30               | 1.01       |
| 3 year swap          | 2.18                 | 2.00                | 1.53                | 1.24               | 0.95       |
| 5 year swap          | 2.52                 | 2.29                | 1.75                | 1.46               | 1.14       |
| 10 year swap         | 2.84                 | 2.61                | 2.08                | 1.83               | 1.54       |
| AUD/USD              | 0.7404               | 0.7107              | 0.7107              | 0.6873             | 0.6923     |
| S&P/ASX200 Index     | 6,225.2              | 5,467.6             | 6,195.2             | 6,491.8            | 6,650.8    |

# CHARTS OF THE WEEK

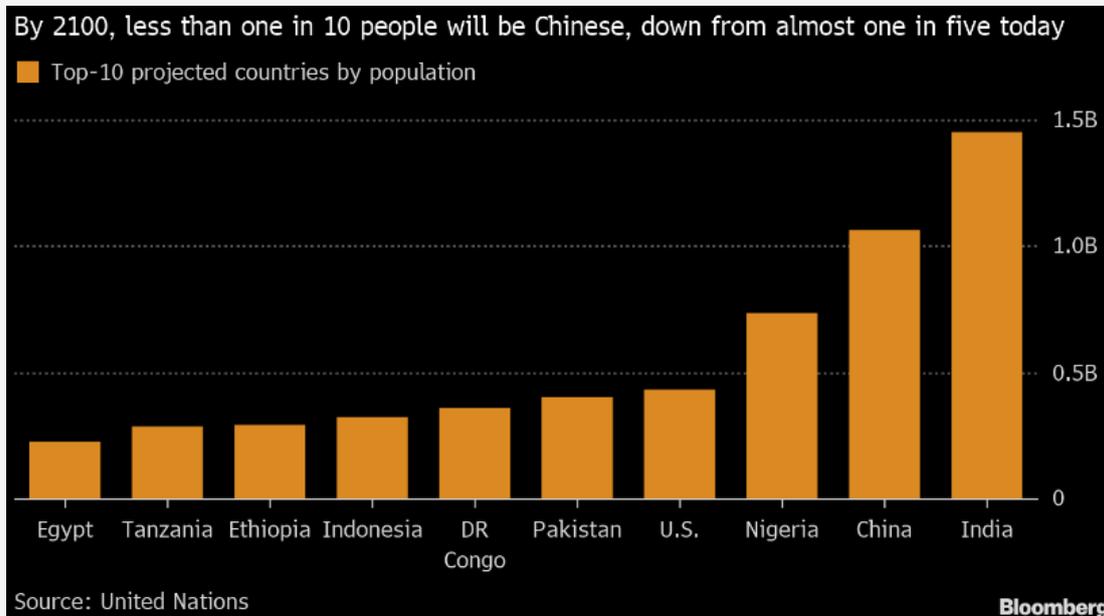
## The race for number 10

Either Boris Johnson or Jeremy Hunt will succeed Theresa May as UK prime minister. The two contenders for the leadership of the ruling Conservative Party won the backing of MP's after Michael Gove was eliminated in a fifth round of voting last Thursday. The winner will be chosen by grassroots members of the party in a postal vote over the coming month.



## A New World Population Order by the year 2100

India will overtake China as the world's most populous nation around 2027, while China's population is expected to fall by 375 million by 2100, according to United Nations estimates.



Around that year, the global population could peak at nearly 11 billion, the US will lose its third-place standing to Nigeria, and four countries on the African continent, the Democratic Republic of the Congo, Ethiopia, Tanzania and Egypt, will bounce Brazil, Bangladesh, Russia and Mexico from the top 10. "Many of the fastest growing populations are in the poorest countries," said Liu Zhenmin, United Nations Under-Secretary-General for Economic and Social Affairs.

Source:  
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