WEEKLY ECONOMIC COMMENTARY

Week beginning 25th February 2019

ECONOMIC DATA ROUNDUP

RURAL BANK
Farmer focused.
Future driven.

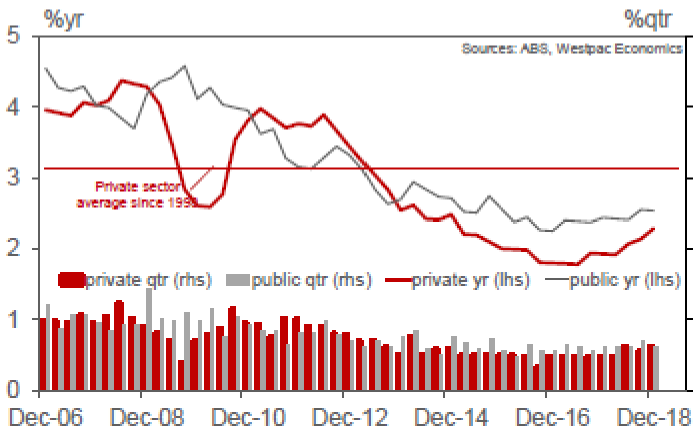
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Skilled Vacancies Index	January	+1.3%	+0.7%
Wage Price Index	Dec quarter	+0.5%	+0.6%
Employment	January	+39,100	+21,600
Unemployment	January	5.0%	5.0%

The **Internet Skilled Vacancy Index** increased by 1.3% in January 2019, reaching its highest level since March 2012 and now stands 3.3% above the level recorded a year ago.

The **wage price index** rose by 0.5% in the December quarter and is now up 2.3% over the year (previously +2.1%). Public sector wages were up 0.6% to be up 2.5% annually while private sector wages were also up 0.6% in the quarter and are now up 2.3% annually – the fastest growth since 2014. Looking at wages including bonuses, annual growth was steady at 2.7%.
Annual wage growth was up in 10 sectors and down in eight. Arts and recreation had the best improvement (+2.7% from 2.3%), retail trade rebounded to 2% (from 1.8%) and financial and insurance services grew 2.4% (from 2.3%). Across industries, information media and telecommunication saw the slowest wage growth (+1.6%, down from 1.9%) followed by mining at +1.8%.

Wage Price Index



Employment increased by 39,100 in January following a downwardly revised rise of 16,900 in December (originally reported as +21,600). Full-time employment was up 65,400 this month and was partially offset by a reduction of 26,300 in part-time employment. A rise in the participation rate to 65.7% saw the **unemployment rate** hold steady at 5.0% in January.

The minutes of the February RBA board meeting were released last week. However, given the Governor's speech and the Statement on Monetary Policy were already delivered, the minutes lacked any new news, merely confirming the commentary already delivered. The minutes did discuss in greater detail that there were "significant uncertainties around the forecasts, with scenarios where an increase in the cash rate would be appropriate at some point and other scenarios where a decrease in the cash rate would be appropriate." They go on to note that the probabilities around these scenarios are now more evenly balanced than they had been over the past year given that "the outlook had become more uncertain over the preceding few months". The minutes highlighted the sharp slowing in credit growth, the continued downturn in the housing market and the potential for the housing downturn to spill over into consumption growth.

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, fell to -0.43% in January from -0.29% last month. The **NAB cashless retail sales index** (which measures all retail spending by consumers using debit and credit cards (both in person and online), BPAY and Paypal) increased by 0.6% in January with year-on-year growth in retail sales now up 9.3% (down from +9.7% last month).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Construction Work Done	27 February	Dec quarter	+1.0%	-2.8%
Private Sector Capital Expenditure (CAPEX)	28 February	Dec quarter	+1.0%	-0.5%
Private Sector Credit	28 February	January	+0.3%	+0.2%

ECONOMIC COMMENTARY

LAST WEEK

It was a quiet start to last week in global markets with the US closed for Presidents' Day and an absence of data releases elsewhere. While there's still no firm deal, positive whispers continue about an agreement to avert the coming US-China trade war deadline which improved investor sentiment as the week progressed. Across the Atlantic however the European Central Bank raised concerns last week about rising risks to the European economy from Brexit and the US tariff negotiations. To this end, Honda announced that it was closing its UK factory and the loss of 3,500 jobs.

The RBA board minutes last week note that financial market pricing implied that the official cash rate was expected to remain unchanged for a considerable period with some expectation of a decrease by the end of 2019.

The US Federal Reserve January board minutes were also released with the decision to adopt a patient approach to monetary policy reflecting weakness in global economic growth, particularly Europe and China, tightening in financial conditions and an easing in US inflation.

Markets rallied hard late last week thanks to Westpac (a week after NAB) changed their view on monetary policy. However, Westpac now expect the RBA to cut the official cash rate twice this year (August and November) which pushed yields lower. By the close on Friday, the 90-day bank bill was trading at 1.89% compared to 1.97% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.64% and 2.10% respectively, from 1.66% and 2.11% a week earlier.

CURRENCY

The Australian dollar sold off last week after the release of the minutes from the RBA board meeting which confirmed its shift to a neutral monetary policy outlook. Traders were approaching the AUD from the sell side in anticipation of a potential RBA rate cut on the back of continued weakness in the housing market. News that US trade negotiators have asked to keep the Chinese yuan stable as part of the trade negotiations triggered a USD sell off. The request is aimed at neutralising any effort by Beijing to devalue the currency to counter American tariffs. Both sides have tentatively agreed the issue will be part of the framework of any final deal. The weaker US dollar persisted and pushed the AUD to a high of USD0.7207.

Then, last Friday, news that a major Chinese port was banning the import of Australian coal raised fears that this would hurt an already slowing economy sending the AUD lower, down over one cent last Friday before finding support.

By the close last Friday, the Australian dollar was trading at USD0.7094 compared to USD0.7086 a week earlier.

EQUITIES

Optimism of a breakthrough in the US-China negotiations saw investors flock back to riskier assets which gave global equity markets a boost last week. US equity markets were also buoyed by some strong quarterly earnings results from market heavyweights Walmart and Amazon. As the week progressed this buying activity waned but equity markets did manage to post a gain for the week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,167.3 compared to 6,066.1 a week earlier.

THIS WEEK

Quarterly business capital expenditure and construction work done as well as monthly private sector credit are due for release this week. These will be the first quarterly indicators that feed into the upcoming December quarter GDP data out next week and will be watched for any trend or slowdown in activity given the recent downward revisions to GDP by both economists and the RBA.

INTEREST RATE VIEW

The second major bank in the last two weeks have changed their view on the RBA cash rate, the latest last week, now saying the RBA may cut rates twice this year. However, in a speech to the House of Representatives last week, RBA governor Lowe indicated that rates would only fall if there was a sustained increase in unemployment – which was not the RBA's forecast. Financial futures currently have the probability of a cut in the cash rate by the end of the year at almost 80%.

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	1.78	1.95	1.94	2.08	1.89
180 day Bank Bill	1.95	2.15	2.12	2.19	2.01
1 year swap	1.86	1.96	1.97	1.96	1.81
3 year swap	2.19	2.09	2.16	1.92	1.75
5 year swap	2.62	2.41	2.50	2.19	2.00
10 year swap	3.01	2.73	2.84	2.54	2.34
AUD/USD	0.7823	0.7278	0.7246	0.7106	0.7094
S&P/ASX200 Index	5,999.8	6,247.3	5,716.2	5,865.7	6,167.3

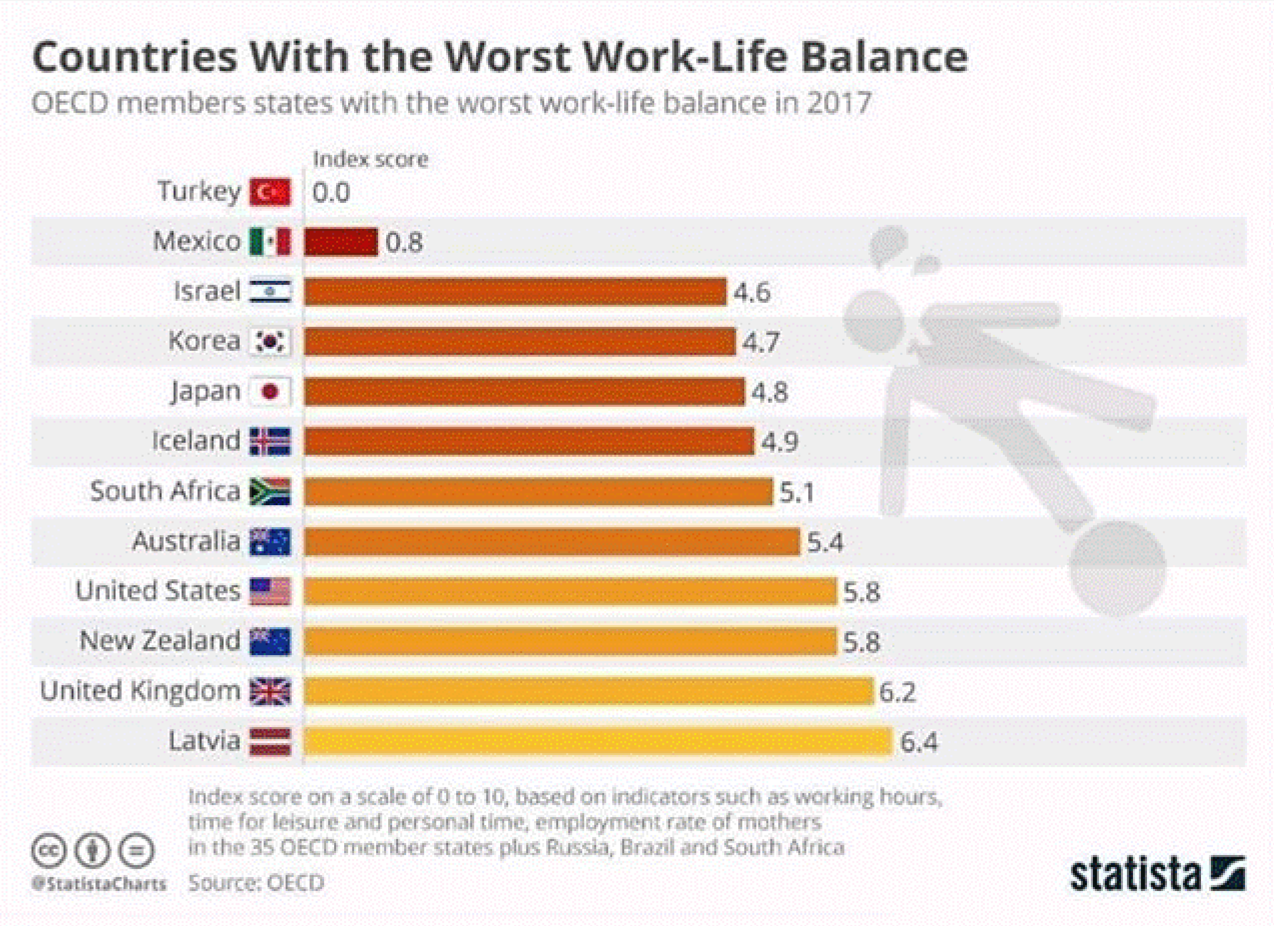
CHART OF THE WEEK

People in Turkey don't have a work-life balance, according to the Organisation for Economic Co-operation and Development (OECD). Mexicans aren't really in the balance either. The US and the UK also perform pretty poorly, out of all 35 OECD member countries (plus Russia, Brazil and South Africa) covered in the Better Life Index for 2017.

The most important aspect for a healthy work-life balance is the amount of time people spend (not) at work.

The authors of the Better Life Index note that "evidence suggests that long work hours may impair personal health, jeopardise safety and increase stress."

And the Dutch are apparently the people who enjoy the best work-life balance.



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.

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