WEEKLY ECONOMIC COMMENTARY

Week beginning 25th January 2016

ECONOMIC DATA ROUNDUP

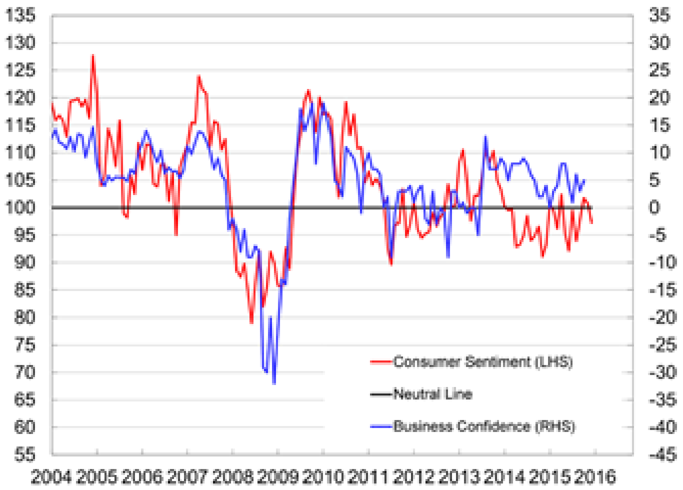
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
New Motor Vehicle Sales	December	-0.5%	+1.0%
Westpac/MI Consumer Sentiment	January	-3.5%	-0.8%

New motor vehicle sales were down 0.5% in December and are now up 2.2% over the last year. Sales of passenger and sports utility vehicles decreased by 0.4% and 0.1% respectively while sales for other vehicles increased by 0.8%. In 2015, sales of luxury passenger cars and sports utility vehicles made up 10.3% of the market, rising 17.5% over the year. And while SUV sales also surged to historic highs in 2015, rising 15.9%, other passenger car sales hit 15-year lows, rising only 2.7%. Despite the decline in sales in December; 2015 turned out to be the best year ever for sales, with more than 1.15 million vehicles sold.

The **Westpac/MI consumer sentiment index** fell by 3.5% in January, back below 100 to a level of 97.3 points, indicating there are now more pessimists about the economy than optimists. The survey was conducted during a period when there was a lot of media attention on falling global stock markets, questions about the health of the Chinese economy and falling commodity prices. Given the focus on these events, it is surprising that the fall in consumer sentiment was not worse. Most sub-categories posted falls with the views on “current conditions” down 3.5%, “family finances in one year’s time” down 5.1%, “economic conditions in one year’s time” down 4.9% and “time to buy a major item” down 1.7%.

Consumer Sentiment and Business Confidence



In other news, the ANZ Roy Morgan weekly consumer confidence index fell 0.8% in the week ending 17 January, following a 1.9% fall in the previous week. Further losses on the share market amid ongoing concerns around China’s economic growth prospects are likely to have weighed on confidence.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
NAB Business Survey, conditions/confidence	25 Jan	December	n/a	+10/+5
DEER Internet Vacancies Index	27 Jan	December	+1.0%	+1.2%
Headline Inflation (CPI) – quarterly	27 Jan	Dec/quarter	+0.3%	+0.5%
Headline Inflation (CPI) – annual	27 Jan	Dec/quarter	+1.6%	+1.5%
Underlying Inflation (CPI) – quarterly	27 Jan	Dec/quarter	+0.4%	+0.3%
Underlying Inflation (CPI) – annual	27 Jan	Dec/quarter	+2.0%	+2.1%
International Trade Import Priced	28 Jan	Dec/quarter	-0.7%	+1.4%
International Trade Export Priced	28 Jan	Dec/quarter	-3.6%	0.0%
Private Sector Credit	29 Jan	December	+0.5%	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

Another volatile week of trading and a sea of red for equity markets as markets remain in the grip of risk aversion. In the absence of any major economic data releases in Australia, markets focused on offshore events last week. The main economic data release was news that China's economy slowed in December, recording the weakest quarter of growth since 2009, as the Chinese government tries to manage a transition from infrastructure to consumer-led expansion. Chinese industrial production, retail sales and fixed-asset investments all slowed in December, while gross domestic product rose by an annualised 6.9% in the December quarter, its lowest level in 25 years. Adding to the negative sentiment, the International Monetary Fund downgraded its forecasts for global economic growth in 2016 and 2017 by 0.2% each year to 3.4% and 3.6%, respectively.

Focus was once again also centred on the oil price which continued to plummet to a new 12-year low, initially sending equity markets and bond yields lower as investors moved into risk-free assets. A recovery in the oil price late in the week saw some reversal of this risk aversion and some profit-taking which pushed longer term bond yields higher last Friday.

By the close of trading on Friday, the 90-day bank bill was trading at 2.27% from 2.31% a week earlier while in the long term maturities, 3 and 10 year bond yields closed at 1.94% and 2.74% respectively, from 1.93% and 2.70% a week earlier.

CURRENCY

Risk aversion and weak commodity prices continue to weigh on the Australian dollar. The Aussie did however draw some support from a slight improvement in risk sentiment mid-week as the "fear factor" subsided, having been the worst performing G10 currency year to date, supported by a further reflection on the Chinese GDP data (however credible) that it was not as bad as first thought. The Aussie traded as low as USD0.6827 last week, a seven-year low before recovering late in the week after a bounce in the oil price and comments from the head of the European Central Bank boosted speculation of further monetary policy stimulus at their next meeting in March.

By the close on Friday, the Australian dollar was trading at USD0.7014 compared to USD0.6947 a week earlier.

EQUITIES

Global equity markets had some relief from the turbulence of the last two weeks with the US holiday last Monday but thereafter, the sell-off continued as investors still appeared risk averse, adding to the falls seen since the New Year.

The slide in commodities and the price of oil continued for most of the week, with Brent crude futures falling to a new 12-year low of $26.55. Sanctions on Iran were lifted last week, paving the way for increased exports and a general oversupply of oil in the midst of a global glut with comments in the Financial Times that the oil market "could drown in oversupply" not helping.

Equities did manage to post the first daily gain of 2016 late last week thanks to a recovery in the price of oil of almost 10% (to $32 a barrel) which was just enough to wipe out the earlier losses and the market closed marginally higher for the week.

By the close on Friday the S&P/ASX200 Index was trading at 4,916.0, compared to 4,892.8 a week earlier.

THIS WEEK

The highlight in the Australia Day holiday-shortened week ahead will be the December quarter CPI data on Wednesday. Economists are forecasting a 0.3% (+1.6% annually) rise in headline inflation and for the average of the underlying measures to rise 0.4% (+2.0% annually). Despite these low inflation numbers raising the risk of a near-term rate cut, unless the domestic economy shows signs of buckling under the weight of global developments, the RBA will probably "look through" the CPI data, particularly following the recent strength in employment and business conditions.

INTEREST RATE VIEW

According to futures pricing last Friday, the chance of a rate cut to 1.75% is now almost fully priced in at the June RBA board meeting, up from 50% late last year. The odds of a rate cut at the next RBA meeting in February now sits at 20% compared to 10% last week. Bets on an imminent rate cut could increase further if the oil price continues to fall and the December quarter consumer price index data comes in below expectations when published this week.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.00	2.00	2.00	2.00
90 day Bank Bill	2.65	2.14	2.16	2.37	2.27
180 day Bank Bill	2.69	2.25	2.22	2.48	2.40
1 year swap	2.44	2.05	1.94	2.23	2.09
3 year swap	2.39	2.17	2.01	2.26	2.11
5 year swap	2.61	2.58	2.38	2.60	2.42
10 year swap	2.96	3.17	2.90	3.03	2.84
AUD/USD	0.8001	0.7291	0.7276	0.7249	0.7014
S&P/ASX200 Index	5,501.8	5,566.1	5,351.6	5,207.6	4,916.0

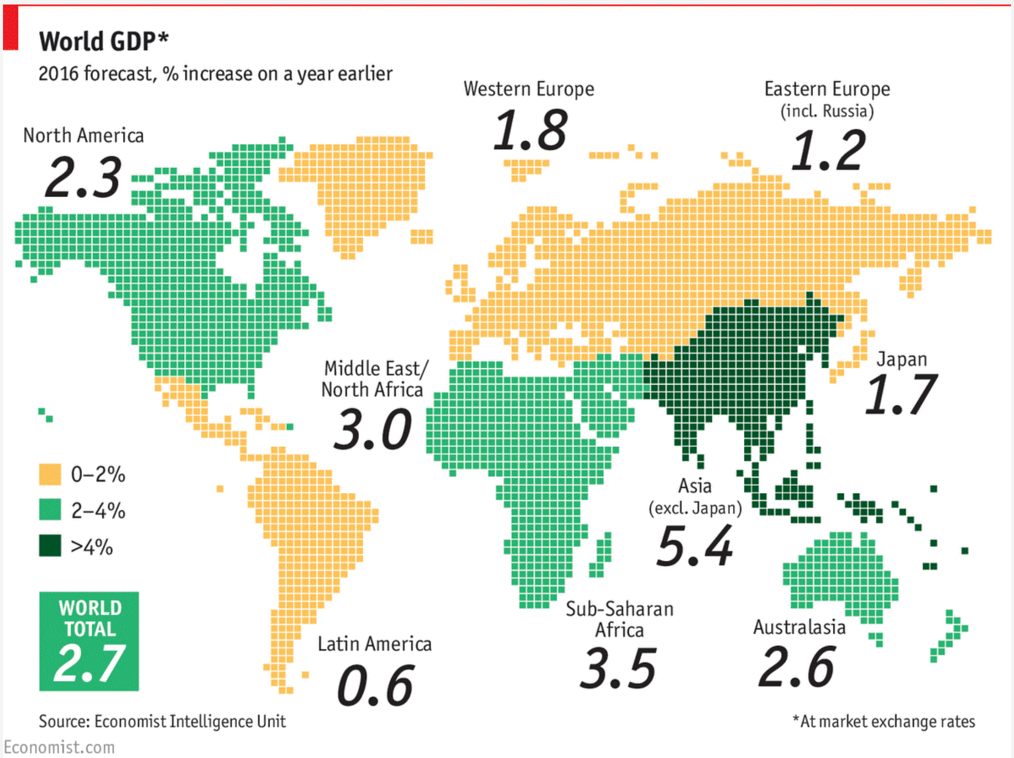
CHARTS OF THE WEEK

2016's global wealth forecast

Emerging markets have given the global economy most of its muscle since the recession ended in 2009. But in 2016 rich countries will account for their largest share of global growth this decade. The BRICs are in a sorry state. Brazil's government has been both incompetent and corrupt. Russia's has been no better, with a dose of military malevolence thrown in. China will perform reasonably well in 2016 - if you believe the government's numbers. By that reckoning, its GDP will rise by around 6.5%. The reality almost certainly will be lower. China is mired in debt and has mismanaged its currency and stock markets, sending shocks through the global economy. India looks perkier: it will grow by more than 7%. But that is worse than its average of 8.5% growth between 2005 and 2010. All said, the BRICs will make up only 16% of worldwide growth in 2016.

Against all this, the rich world will look solid, if unspectacular. America's economy will expand by around 2.5%, and the American jobs machine will crank out at least 2m new positions for a sixth straight year - the first time that has happened since the 1990s.

Europe will no longer be threatened by recession or deflation, and the euro zone's most obvious time-bomb, Greece, has been defused for now. The world economy as a whole is forecast to grow by 2.7% in 2016, and it hasn't managed an increase of more than 3% since 2011. Save for America, 2016 will be another year of repair, recovery, reform and risk for most countries.



Source: The Economist
30th December 2015, by the data team

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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