ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Period</th>
<th>Actual</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Motor Vehicle Sales</td>
<td>May</td>
<td>+0.6%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>ABS Established House Prices</td>
<td>March quarter</td>
<td>+1.5%</td>
<td>+4.1%</td>
</tr>
<tr>
<td>DER Internet Vacancies Index</td>
<td>May</td>
<td>+1.2%</td>
<td>+0.1%</td>
</tr>
</tbody>
</table>

New Motor Vehicle Sales increased by 0.6% in trend terms in May to be up 0.8% over the year. Sales for sports utility vehicles and other vehicles increased by 0.7% and 1.5% respectively. There was no movement in sales for passenger vehicles in May. The largest upward movement across all states and territories was in the Northern Territory (+1.3%) while the only downward movement across all states and territories was in the Australian Capital Territory (-0.7%), continuing a downward trend that began in January 2017.

The ABS established house price index for the eight capital cities increased by 2.2% in the March quarter to be up 10.2% over the year. Prices rose in Sydney (+3.0%), Melbourne (+3.1%), Adelaide (+1.5%), Canberra (+2.8%) and Hobart (+3.4%) and fell in Perth (-1.0%) and Darwin (-0.9%) with Brisbane unchanged. Annually, residential property prices are up in Sydney (+14.4%), Melbourne (+13.4%), Hobart (+11.3%), Canberra (+8.9%), Adelaide (+5.0%) and Brisbane (+3.5%) and down in Darwin (-5.9%) and Perth (-3.5%).

The Department of Employment Internet Vacancy Index rose by 1.2% in May 2017 to be up 2.7% over the last year. Job advertisements rose in all states and territories and all eight occupational groups. The strongest increases were recorded for Machinery Operators and Drivers (+2.7%), Labourers (+1.8%) and Technicians and Trades Workers (+1.7%) while the smallest increase was for Community and Personal Service Workers (+0.2%).

The release of the minutes of the June RBA board meeting, where they left the cash rate unchanged, indicates an RBA which is cautiously optimistic with their view of the economy. The RBA continues to forecast economic growth returning to trend, a little above 3% and a return of inflation to target over the next couple of years as wages and prices pick up. International economic conditions were noted to be improving although headline inflation had eased and core inflation remained low.

In other news, the six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend for three to nine months into the future, fell 0.2% in May to 0.62% from 1.01% in April. While growth remains above trend (positive) the index is pointing to a clear slowdown since the start of the year.

Data over the next two weeks

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Date</th>
<th>Period</th>
<th>Forecast</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS Job Vacancies</td>
<td>29 June</td>
<td>May</td>
<td>n/a</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Private Sector Credit</td>
<td>30 June</td>
<td>May</td>
<td>+0.4%</td>
<td>+0.4%</td>
</tr>
</tbody>
</table>
LAST WEEK

Interest rate markets traded in a narrow range last week with very little economic data released to provide traders with direction. The release of the minutes from the RBA’s June board meeting showed that monetary policy remains firmly on hold as the RBA assesses developments in housing and labour markets.

In a speech last week, RBA Governor Philip Lowe said that over the next couple of years economic growth will “be a bit stronger than it has been recently”. He noted the pick-up in the global economy was helping and that the return of mining investment to more normal levels “is almost complete.” Lowe was upbeat on the global economy saying over 2017 there had been a broad-based improvement, although he noted it wasn’t a boom and there were still risks.

On the longer term outlook, Lowe said “As things currently stand, it looks likely that average growth in per capita incomes over the next quarter of a century will be lower than over the past quarter of a century. We should, though, be capable of stronger growth than we have seen over the past few years.”

By the close of trading on Friday, the 90-day bank bill was trading unchanged for the week at 1.72%. In the long term maturities, 3 and 10 year bond yields closed at 1.76% and 2.37% respectively, from 1.77% and 2.41% a week earlier.

CURRENCY

A stronger US dollar saw the Australian dollar weaken last week. With a lack of economic data out last week the currency was vulnerable to commodity price moves and the weaker oil price added to the Aussie weakness.

There was a small sell off in the currency following the announcement that ratings agency Moody’s had downgraded the credit rating of 12 banks including the four majors citing “elevated risk in the household sector (high debt, low household income growth), which heightens the sensitivity of the banks to an adverse shock” for the move. This sell off was quickly reversed as Moody’s decision effectively now aligns its credit ratings with the S&P equivalents (where one exists).

By the close on Friday, the Australian dollar was trading at USD0.7571 compared to USD0.7583 a week earlier.

EQUITIES

Weakness in the major global equity markets mid-week flowed through to our share market, the sell off assisted by weaker resource stocks on the back of lower commodity prices (in particular oil, copper and silver). Energy stocks have borne the brunt of falling oil prices (to a nine month low) due to concerns that the oil supply glut will continue.

While OPEC (and allies) may have pared back production this is being offset by relentless drilling in the US and more output in Libya.

By the close on Friday the S&P/ASX200 Index was trading at 5,715.9 compared to 5,774.0 a week earlier.

THIS WEEK

Another quiet week ahead for economic data with only the ABS’s job vacancies and private sector credit data due for release – both unlikely to move the market. Markets however may see a little volatility this week as investors square up positions before the end of the financial year.

INTEREST RATE VIEW

The slow decline in the unemployment rate and the absence of any wage or inflation pressure suggests a rise in the official cash rate is unlikely for some time. Current market pricing agrees and shows there will be no change in the official cash rate in 2017 and only a 25% chance of a rate hike by June 2018 versus virtually no chance of a rate cut.

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>12 months ago</th>
<th>6 months ago</th>
<th>3 months ago</th>
<th>1 month ago</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Cash Rate</td>
<td>1.75</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
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<tr>
<td>90 day Bank Bill</td>
<td>2.00</td>
<td>1.79</td>
<td>1.80</td>
<td>1.74</td>
<td>1.72</td>
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<tr>
<td>180 day Bank Bill</td>
<td>2.15</td>
<td>2.04</td>
<td>2.00</td>
<td>1.88</td>
<td>1.85</td>
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<tr>
<td>1 year swap</td>
<td>1.82</td>
<td>1.86</td>
<td>1.81</td>
<td>1.70</td>
<td>1.74</td>
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<tr>
<td>3 year swap</td>
<td>1.79</td>
<td>2.23</td>
<td>2.09</td>
<td>1.88</td>
<td>1.94</td>
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<tr>
<td>5 year swap</td>
<td>2.02</td>
<td>2.70</td>
<td>2.56</td>
<td>2.26</td>
<td>2.28</td>
</tr>
<tr>
<td>10 year swap</td>
<td>2.23</td>
<td>3.08</td>
<td>3.00</td>
<td>2.70</td>
<td>2.65</td>
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<tr>
<td>AUD/USD</td>
<td>0.7378</td>
<td>0.7204</td>
<td>0.7615</td>
<td>0.7480</td>
<td>0.7571</td>
</tr>
<tr>
<td>S&amp;P/ASX200 Index</td>
<td>5,113.2</td>
<td>5,627.9</td>
<td>5,753.5</td>
<td>5,789.6</td>
<td>5,715.9</td>
</tr>
</tbody>
</table>
Bank-owned super funds earn less than term deposits

The bank-owned superannuation fund sector has performed so poorly that putting your money in term deposits over 10 years would have earned a better return than retail funds, according to new research from Industry Super Australia. That is despite the funds including growth assets like shares, property and private equity in their asset portfolios.

Not-for-profit industry and other super funds outperformed retail funds by almost 2% a year, the study found. Over 10 years, retail funds returned an average of 3.3% a year, compared to industry super’s 5.1%.

That outperformance makes a huge difference to your account. If you had $50,000 in a retail fund at the start of the period and you made no additional contributions, it would have grown by 38.3% to a total of $69,170. If you had the same balance in an industry fund, it would have grown by 64.4% to $82,220. Double the starting balance and you’d have $164,440 in your industry fund compared with $138,340 in a retail fund.

The reason for the difference is the profit model, Industry Funds Australia CEO David Whiteley said. “Consistent outperformance by industry super funds over bank-owned super funds reflects the differences between for-profit and not-for-profit business models, which over the past two decades have seen significantly different member outcomes.”

The ISA report also looked at the dollar value to fund members of the outperformance of industry funds and the underperformance of retail funds. The industry funds returned their members an extra $42.91 billion in outperformance above the median of all super funds over 10 years. The retail funds, meanwhile, cost their members $25.42 billion by underperforming the industry median.

Interestingly, the industry funds returned more to their members through outperforming the median despite having a smaller asset base. The latest figures from Australian Prudential Regulation Authority (APRA) show that retail funds had $579.9 billion in assets while industry funds have $517.9 billion.

The outperformance of industry funds showed up in other ways. Three-quarters of bank-owned super fund assets were in funds listed in the lowest 25% of return tables, and 94% of them performed below the median.

For industry funds, the situation is reversed. Three-quarters of all industry funds were in the top performance quartile, and 91% of them performed above the median.

The underperformance of retail funds happens regardless of size. Larger funds only reported higher returns in the not-for-profit sector, meaning the for-profit fee model undermined any advantage members might have got from economies of scale.

The five largest public-offer funds owned by the banks and AMP, each with more than $30 billion in assets, performed well below the median, the research found.
Matt Linden, public affairs director for Industry Super Australia, said “the performance of the system is being weighed down by bank funds”. While bank funds underperformed, they have managed to hold their membership. “Lots of people are disengaged with super and are not financially literate,” Mr Linden said. “Maybe the bank-owned funds are exploiting this disengagement for their benefit.”

Industry Super Australia CEO David Whiteley said the for-profit model “sits very uneasily” with both the interests of members and the “social policy objectives” of compulsory super. “It is now time for the banks to disclose the profit from compulsory super and for the regulator to investigate the chronic underperformance of bank owned super funds.”

Source: The New Daily, 25th May 2017
Article by: Rod Myer, Superannuation Editor
The New Daily is owned by a group of industry super funds
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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