WEEKLY ECONOMIC COMMENTARY

Week beginning 26th November 2018

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

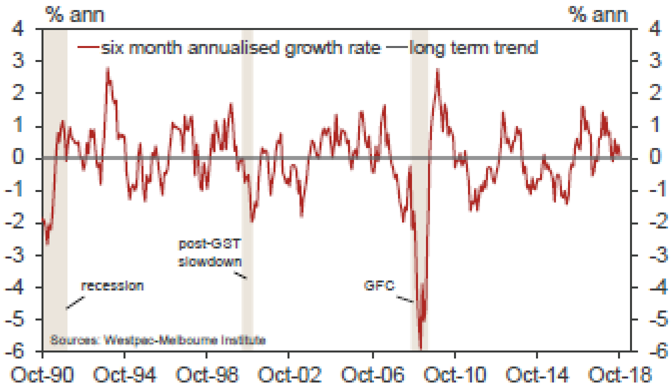
Economic Data	Period	Actual	Previous
DEWR Internet Vacancies Index	October	-0.5%	-0.6%

The **Internet Vacancy Index** decreased by 0.5% in October and has now fallen for seven consecutive months but the falls have mostly been fairly small (and subject to revisions). Despite the recent falls, the index remains 0.6% above the level recorded a year ago (and 28.3% (or 39,600 advertisements) higher than the October 2013 low point). Job advertisements rose in four of the eight occupational groups and remained steady in one. The strongest gains were recorded for Professionals (+ 5.3%), Community and Personal Service Workers (+4.1%), and Technicians and Trades Workers (+2.7%). A decrease in job advertisements was recorded for Labourers (-9.5%), Sales Workers (-6.7%), and Machinery Operators and Drivers (-3.6%).

In other economic 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 three to nine months into the future, fell from +0.41% in September to +0.08% in October.

The **NAB cashless retail sales index** increased by 0.8% in October, rebounding from a much weaker +0.2% in September to be up 11.0% over the year. Annual growth is positive for all six major industry groups. Cafes, restaurants & takeaways remains the fastest growing category (+16.7%), followed by food (+10.0%), department stores (+9.9%), household goods (+8.3%), clothing and footwear (+7.2%) and other retailing (+4.9%).

Westpac Leading Index



The minutes from the RBA's November board meeting released last week had very little new information and as expected, the minutes were consistent with the post-meeting press statement and the subsequently released Statement on Monetary Policy. The RBA did retain a positive view on both the global and domestic economic conditions and noted that wages growth and inflation are expected to rise only gradually, the labour market is in good shape and the unemployment rate is expected to gradually decline to 4.75% by mid-2020.

The RBA again stated that "members continued to agree that the next move in the cash rate was more likely to be an increase than a decrease, but that there was no strong case for a near-term adjustment in monetary policy".

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Construction Work Done	28 November	Sept quarter	+0.9%	+1.6%
Private Capital Expenditure (CAPEX)	29 November	Sept quarter	+1.5%	-2.5%
Private Sector Credit	30 November	October	+0.4%	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

A lack of any domestic economic data release of importance (in fact none) meant that market direction last week came from events offshore and all the focus was on equities, once again.

Comments last week from US Federal Chairman Jay Powell and Fed Vice Chairman Richard Clarida sounded cautious and warned of slower global growth which would cause a headwind to US economic activity for which US monetary policy must account. This has weighed on US bond yields, US interest rate expectations and in turn the USD and resulted in the probability attached to a 25 basis point US rate hike in December being reduced from 80% to 66% in the past week.

Following the IMF's recent downgrade of global growth, the OECD revised down their global growth projections for 2019 and 2020 to 3.5% (from 3.7%) citing deteriorating prospects in some emerging markets and tighter financial conditions in advanced economies. The OECD also warned that "increased trade tensions and uncertainty about trade policies remain a significant source of downside risk to global investment, jobs and living standards".

Trading was interrupted by the US Thanksgiving holiday and Black Friday last week which saw any market movements accentuated because volumes were lower than normal.

By the close on Friday, the 90-day bank bill was trading unchanged for the week at 1.94%. In the long-term maturities, three and 10 year bond yields closed at 2.06% and 2.65% respectively, from 2.08% and 2.68% a week earlier.

CURRENCY

The Australian dollar opened last week just above 73 cents thanks to some US dollar weakness driven by concerns about the timing and magnitude of future US rate hikes. From there, the AUD slipped lower as weakness in equities eroded risk sentiment. Moves above 73 cents remain unsustainable for the AUD at the moment with a combination of risk aversion in equities together with a sharp drop in oil prices never going to be a good combo for the AUD.

The British pound and the euro rallied late last week after Britain and the European Union agreed in principle to a text setting out their future relationship before a scheduled Brexit summit to be held this weekend.

By the close last Friday, the Australian dollar was trading at USD0.7246 from USD0.7271 a week earlier.

EQUITIES

Equity markets were again selling off last week after a failed APEC conference once again raised concerns over a US-China trade war and the Brexit negotiations remain delicately poised. The technology sector was particularly weak, off 4% within the S&P500 with Apple shares down another 3.5% on reports of reductions in production orders for three iPhone models – the stock is now 20% off its early October record high. The downtrend in oil prices seems unstoppable at the moment with oil prices falling by over 6% to their lowest levels in a year causing a sharp fall in energy stocks although they did partially recover late in the week. The global equity rout has now wiped out all the gains made this year.

By the close last Friday, the S&P/ASX200 Index was trading at 5,716.2 compared to 5,730.6 a week earlier.

THIS WEEK

This week sees the first release of partial indicators that feed into the upcoming September quarter GDP data with construction work done due on Wednesday and capital expenditure data on Thursday. Both are expected to show solid growth and have a positive impact to the upcoming GDP data. Also out this week is October private sector credit on Friday.

INTEREST RATE VIEW

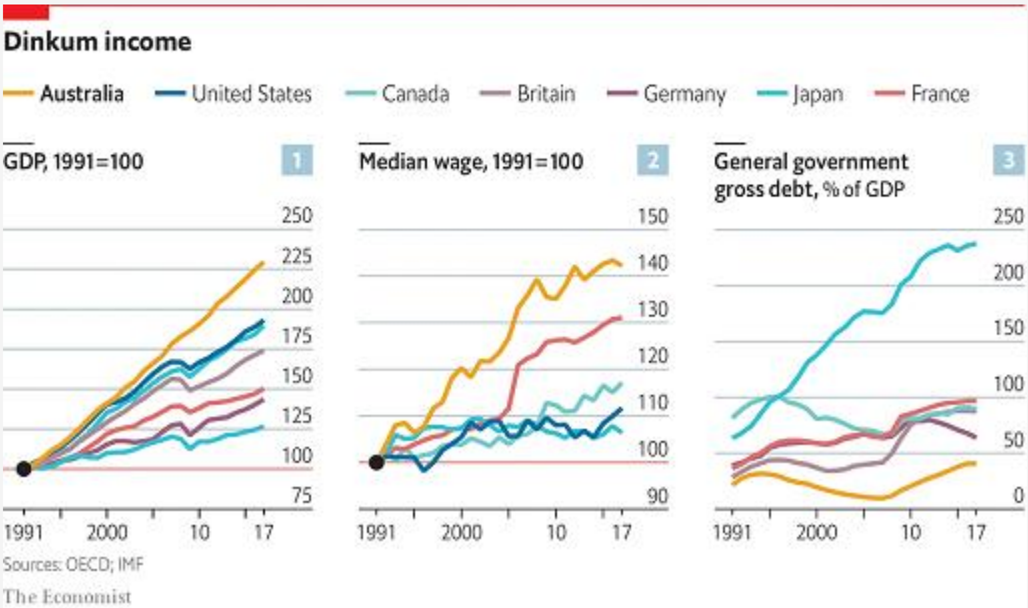
While the latest Statement on Monetary Policy confirmed that the RBA had revised up its growth and inflation forecasts and revised down the unemployment rate projections, last week's speech by RBA Governor Philip Lowe highlights the RBA's uncertainty around when we will see a notable pick up in wage pressures. Therefore any move in the official cash rate is still some way off.

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	1.73	1.94	1.95	1.92	1.94
180 day Bank Bill	1.90	2.06	2.15	2.07	2.12
1 year swap	1.77	1.96	1.96	1.95	1.97
3 year swap	1.99	2.23	2.09	2.10	2.16
5 year swap	2.33	2.61	2.41	2.44	2.50
10 year swap	2.70	2.96	2.73	2.80	2.84
AUD/USD	0.7623	0.7564	0.7278	0.7078	0.7246
S&P/ASX200 Index	5,982.6	6,032.8	6,247.3	5,664.1	5,716.2

CHART OF THE WEEK

The Australian economy’s remarkable run

The last time Australia suffered a recession, the Soviet Union still existed and the worldwide web did not. An American-led force had just liberated Kuwait, and almost half the world’s current population had not yet been born. Unlike most of its region, Australia was left unscathed by the Asian crash of 1997. Unlike most of the developed world, it shrugged off the global financial crisis, and unlike most commodity-exporting countries, it weathered the resources bust, too. No other rich country has ever managed to grow so steadily for so long. By that measure, at least, Australia boasts the world’s most successful economy.



By other measures, Australia’s economic performance is more remarkable still. Whereas many other rich countries have seen wages stagnate for decades, Australia’s have grown strongly, albeit less steadily in recent years. In other words, a problem that has agitated policymakers—and voters—around the world, and has been blamed for all manner of political upheaval, from European populism to the election of Donald Trump, scarcely exists in Australia.

And that is not the only way in which Australia stands out from its peers. At a time when governments around the world are souring on immigration, and even seeking to send some foreigners home, Australia has been admitting as many as 190,000 newcomers a year—nearly three times as many, relative to population, as America. Over 28% of the population was born in another country, far more than in other rich countries. Half of all living Australians were born abroad or are the child of someone who was.

In part, this tolerance for outsiders may be a reflection of another remarkable feature of Australian society: the solvency of its welfare state. Complaints about foreign spongers are rare. Public debt amounts to just 41% of GDP - one of the lowest levels in the rich world. That, in turn, is a function not just of Australia’s enviable record in terms of growth, but also of a history of shrewd policymaking. Nearly 30 years ago, the government of the day overhauled the pension system. Since then workers have been obliged to save for their retirement through private investment funds. The modest public pension covers only those without adequate savings.

For all its economic success, Australia is suffering from a political malaise. It used to have long-lived governments. Between 1983 and 2007, just three prime ministers held office (Bob Hawke and Paul Keating of Labor, and John Howard of the Liberals). Yet, since then, the job has changed hands six times. A full term is only three years, but the last time a prime minister survived in office for a whole one was 2004-07. For those who consider Australia’s unequalled economic performance the result, at least in part, of far-sighted decisions made 30 years ago, the current choppy politics seem like a harbinger of decline.

Source: *The Economist, The Wonder Down Under, 30 October 2108*
IMF, OECD
https://www.economist.com/graphic-detail/2018/10/30/the-australian-economys-remarkable-run

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.

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