WEEKLY ECONOMIC COMMENTARY

Week beginning 29th January 2018

ECONOMIC DATA ROUNDUP

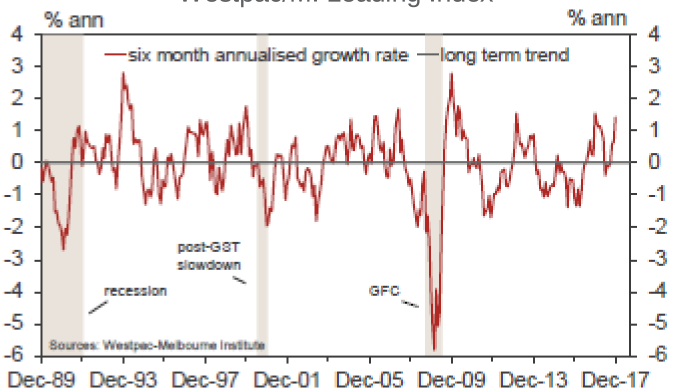
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
DEWR Internet Vacancies Index	December	+0.2%	+0.3%

The Department of Employment **Internet Vacancy Index** increased by 0.2% in December and has now risen for 14 consecutive months for the first time since March 2011. The index is now 8.1% higher over the year. Job advertisements rose in five of the eight occupational groups. The strongest increases were recorded for Technicians and Trades Workers (+1.7%) and Machinery Operators and Drivers (+1.2%) while the strongest decreases were for Labourers (-0.4%) and Professionals (-0.2%).

The six month annualised growth rate in the **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) increased from +0.66% in November to +1.41% in December, recovering from the fall mid last year and is now above the long term trend.

Westpac/MI Leading Index



The **NAB Cashless Retail Sales index** was up 0.2% in December following a strong 1.3% rise in November, to be up 8.7% over the year. The weaker result in December was driven by declines in household goods related to the introduction of the iPhone (the electronic goods sub-category fell 2.0% following a revised 3.8% rise in November), as well as in food, departments stores and “other retailing”. Spending at cafes, restaurants and takeaways remains the fastest growing category (up 16.6% annually), with spending on “other retailing” strong (+9.9%) while spending on household goods (+14.4% annually) and food remains solid (up 5.5%). Meanwhile, clothing and footwear sales are growing at a softer rate (+2.9% annually) while growth in department store sales was negative.

The International Monetary Fund last week lifted its global growth forecast for the next two years by 0.2% to 3.9%, the upgrade is led by the US (up 0.4% to 2.7%) and Europe (up 0.3% to 2.2%). If achieved, this would be the fastest pace of global growth since 2011. The US tax deal is largely responsible for the former, but the IMF sees the longer term impact of the deal as growth-negative. The IMF also lifted its growth forecast for other economies in 2018, forecasting Japan to grow 1.25%, up 0.5% and China to run at an impressive 6.6%, up 0.1%.
The Australian government has already been out praising the IMF’s revised global growth estimate, saying it supports its own optimism for stronger Australian growth.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
NAB Business Survey (conditions / confidence)	30 Jan	December	n/a	+12/+6
Headline Inflation – quarterly	31 Jan	Dec/quarter	+0.8%	+0.6%
Headline Inflation – annual	31 Jan	Dec/quarter	+2.1%	+1.8%
Underlying Inflation – quarterly	31 Jan	Dec/quarter	+0.5%	+0.4%
Underlying Inflation – annual	31 Jan	Dec/quarter	+1.9%	+1.9%
Private Sector Credit	31 Jan	December	+0.5%	+0.5%
Building Approvals	01 Feb	December	-6.0%	+11.7%

ECONOMIC COMMENTARY

LAST WEEK

With little data flow last week, market focus turned to offshore events for direction. Investors were encouraged by upgraded forecasts for global growth from the IMF and the news that the US Senate had struck a short-term funding deal to end the Federal Government shutdown until the 8th February. However, there remains significant division in the US Congress, so political risk will remain high on the list of things to watch throughout 2018.

Sentiment both here and offshore has clearly moved bearish with the consensus view now clearly for monetary policy tightening which is causing longer term yields to rise sharply and the yield curve to steepen.

By the close of trading on Thursday, the 90-day bank bill was trading at 1.79% compared to 1.80% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.22% and 2.86% respectively, from 2.24% and 2.87% a week earlier.

CURRENCY

After the news that the Republicans had rounded up enough votes to move a stoppage funding bill, the US dollar managed to post a small rally against most G10 currencies early last week. The Australian dollar started the week just above 80 cents, despite US dollar strength. However, a slowing in demand for iron ore from China last week inflated Chinese stockpiles and pushed iron ore prices and the Australian dollar lower. After trading through the psychological 80 cent level mid-week the AUD rallied after another bout of US dollar weakness, following comments from US Treasury Secretary Mnuchin that “a weaker dollar is not a concern and is good for us as it relates to trade and opportunities”. The Australian dollar was also a beneficiary of a strong oil price and a recovery in commodities and made a solid break higher, once again through the 80 cent level and then touching 81 cents to close the shortened week near its recent high.

By the close last Thursday, the Australian dollar was trading at USD0.8102 from USD0.8013 a week earlier.

EQUITIES

The US tax deal, strong US corporate earnings results and Senate negotiations to reopen the US Government (albeit temporarily) continued to buoy US equities last week. Shares in Netflix rose 10% in response to its latest earnings results, in turn boosting other technology stocks. Shares in Whirlpool rose 3.3% after President Trump lifted tariffs on imported washing machines and solar panels. European share markets continued to push higher last week (and to a 10-year high) on positive sentiment around merger activity.

Energy shares rose with oil prices continuing to climb following news that Saudi Arabia and Russia may extend production caps into 2019.

By the close last Thursday, the S&P/ASX200 Index was trading at 6,050.0 compared to 6,005.8 a week earlier.

THIS WEEK

The economic calendar picks up this week with the main focus being inflation data. A range of large price rises probably brings the headline CPI in the December quarter to +0.8% but this would still leave annual inflation rate at 2.1% just above the bottom of the 2% to 3% RBA target. Underlying inflation should be up 0.5% for the quarter and remain slightly below the target range at 1.9% over the year. In addition, December building approvals and private sector credit data is also out this week.

INTEREST RATE VIEW

Some better than expected economic data recently hasn’t changed the view that the RBA will begin tightening late this year at the earliest, although a continuation of this positive data suggests that the risks are becoming slanted to earlier tightening. Spare labour market capacity, low inflation, somewhat tighter financial conditions and still high household debt as well as a rising currency argue against any bringing forward of a move by the RBA. That said, the market still has just over one rate hike priced in over next 12 months but this may change if we have a good inflation number this week.

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	1.77	1.69	1.69	1.80	1.79
180 day Bank Bill	2.01	1.81	1.88	1.99	1.94
1 year swap	1.80	1.77	1.78	1.86	1.88
3 year swap	2.11	2.06	2.09	2.20	2.26
5 year swap	2.59	2.44	2.50	2.54	2.65
10 year swap	3.03	2.87	2.94	2.84	3.01
AUD/USD	0.7528	0.7980	0.7639	0.7796	0.8102
S&P/ASX200 Index	5,714.0	5,702.8	5,903.2	6,088.1	6,050.0

CHART OF THE WEEK

Bank customers "share of wallet" remains steady

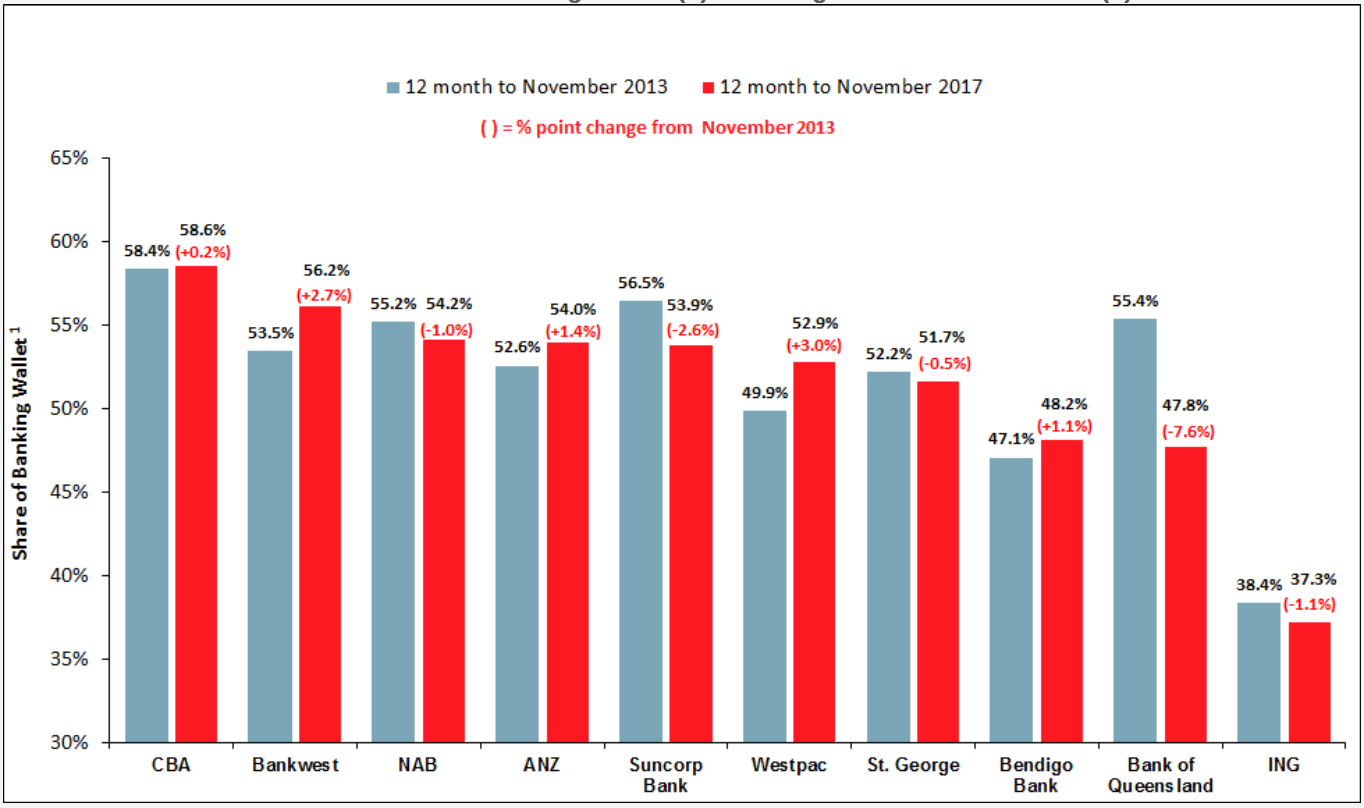
New results from Roy Morgan show that bank customers appear reluctant to increase their 'share of wallet' with the banks they deal with but rather choose to remain diversified across a range of providers. Currently most of the large banks capture just over half of their customers banking wallet or value, remaining generally unchanged over the last four years.

These are the latest findings from Roy Morgan's Single Source survey of over 50,000 consumers per annum.

Largest consumer banks all achieve less than 60% of their customers' potential value

In the year to November 2017, the CBA scored the highest 'share of wallet' of the 10 largest banks with 58.6%, virtually unchanged since 2013 (58.4%). BankWest is currently in second place with 56.2%, followed by NAB (54.2%) and ANZ (54.0%).

Share of Customer Banking Wallet (1) - 10 Largest Consumer Banks (2)



(1). Banking wallet includes dollars in deposits and transaction accounts, mortgages, personal lending and major card balances carried forward. (2). Based on Customer numbers.
Source: *Roy Morgan Single Source (Australia). 12 months to Nov. 2013, n= 49,572; 12 months to Nov 2017, n= 50,214*
Base: *Australians 14+.*

Results over the last four years (i.e. since 2013) shows that there were mixed outcomes across the 10 largest banks, with five showing small increases in 'share of wallet' and five showing small declines, leaving the overall average steady at around 52%.

Those showing an increase were Westpac (up 3.0% points), BankWest (up 2.7% points), ANZ (up 1.4% points), Bendigo Bank (up 1.1% points) and CBA (up 0.2% points). Declines over the last four years were seen from Bank of Queensland (down 7.6% points), Suncorp Bank (down 2.6% points), ING (down 1.1% points), NAB (down 1.0% points) and St. George (down 0.5% points).

Norman Morris, Industry Communications Director, Roy Morgan says:
"This research shows that although 'share of wallet' is an important metric to establish customer loyalty, it has shown to be difficult to increase. This is shown by the fact that over the last four years there has been no real change in the overall market on this measure. Attempts to cross sell banking products to existing customers in order to increase 'share of wallet' have had little impact, most likely due to a number of reasons, including insufficient benefit to consumers to consolidate banking with one bank, increased competition from new and existing providers, diversification of risk and general apathy and effort regarding changing providers.
"Competition in the overall financial services market, covering banking, wealth management, superannuation and insurance is currently very strong, giving consumers great choice. Evidence for this is that the average consumer deals with around four financial services providers to cover the full range of their needs."

Source: Roy Morgan Research, Finding No. 7455
Published 16th January 2018

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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