WEEKLY ECONOMIC COMMENTARY

Week beginning 29th April 2019

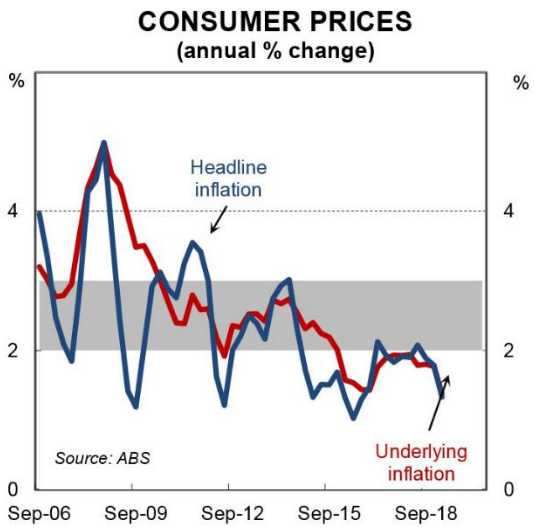
ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Skilled Vacancies	March	-1.5%	-0.9%
Headline Inflation - quarterly	March quarter	+0.0%	+0.5%
Headline Inflation - annually	March quarter	+1.3%	+1.8%
Underlying Inflation – quarterly	March quarter	+0.2%	+0.4%
Underlying Inflation – annually	March quarter	+1.4%	+1.8%
Export Prices	March quarter	+4.5%	+4.4%
Import Prices	March quarter	-0.5%	+0.5%

The **Internet Skilled Vacancy Index** fell by 1.5% in March and has now fallen for three consecutive months to be down 3.8% over the year. Job advertisements decreased in all eight occupational groups in March with the strongest falls recorded for Labourers (-1.8%), Sales Workers (-1.6%) and Clerical and Administrative Workers and Technicians and Trades Workers (both down by 1.4%).

Headline **inflation** was unchanged in the March quarter which meant that annual headline CPI fell to 1.3% from an annual rate of 1.8% in the December quarter. More importantly, the RBA's preferred measure of core or underlying inflation was up 0.2% in the quarter to be up 1.4% annually, the lowest rate since September 2016 and down from 1.8% previously.



In total, six of the 11 expenditure groups increased in the quarter. Within these increases, two groups, education and health, were due to seasonally higher regulated prices for secondary and tertiary education (+2.7%) and pharmaceutical products (+5.0%) respectively. Another increase, food (+1.3%) and non-alcoholic beverages, was due to drought and adverse weather conditions reducing supply and higher input costs. A large part of the weakness in headline inflation was driven by an 8.7% quarterly fall in petrol prices which should reverse in the next quarter given the recent surge in crude oil prices. A flat quarterly outcome in the housing group was also well below the average (of +0.6% over the last five years) and suggests that the housing downturn is weighing on underlying inflation.

Australia's **export prices** rose by 4.5% in the March quarter to be up 15.3% annually and was the highest reading since the March quarter last year. There were higher prices received for: crude materials, inedible, except fuels (+11.7%); commodities and transactions (+6.5%); food and live animals (+2.2%); miscellaneous manufactured articles (+1.3); machinery & transport equipment (+0.9%) and beverages & tobacco (+0.6%).

Import prices fell 0.5% in the quarter, the first decrease in the index since the third quarter of 2017, to be up 5.2% annually. The main contributors to the decline were mineral fuels, lubricants and related materials (-5.9%); chemicals and related products (-2.2%); food and live animals (-1.2%) and crude materials, inedible, except fuels (-0.9%).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Private Sector Credit	29 April	March	+0.3%	+0.3%
Building Approvals	03 May	March	-10.0%	+19.1%

ECONOMIC COMMENTARY

LAST WEEK

Currency and interest rate markets appeared to be in a risk averse mood last week in very thin trading due to the public holidays and with the release of lower than expected CPI data, yields across the curve traded lower.
Both the headline and underlying March quarter inflation figures came in below market and RBA expectations last week. Overall, inflation has reduced in almost all sub-categories and analysts are now speculating that there is a chance the RBA may move to an easing bias at their next board meeting in May.
Last week (post the CPI data) saw a few more banks change their policy view and join the contingent of economists predicting one to two RBA rate cuts this year. The market is now pricing the 7th May RBA board meeting as “live” for a possible rate cut (with a 50% probability) although some still expect the continued strength in the labour market keeping monetary policy on hold. When the RBA last eased monetary policy in August 2016 the unemployment rate was 5.7% (versus 5.0% today).
By the close on Friday, the 90-day bank bill was trading at 1.56% compared to 1.69% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.30% and 1.78% respectively, from 1.47% and 1.95% a week earlier.

CURRENCY

The Australian dollar started the week lower in the face of broad-based US dollar strength and concerns about weakening global economic growth. The AUD took another turn down following the weak CPI data last Wednesday which raised the probability of an RBA rate cut, the currency temporarily falling below the key psychological 70-cent level for the first time in three months before finding a small amount of buying support.
By the close last Friday, the Australian dollar was trading at USD0.7028 compared to USD0.7186 a week earlier.

EQUITIES

Equity markets, in contrast to currency and rates, were upbeat, with the S&P 500 and the Nasdaq hitting record highs last week following a flood of strong company earnings reports for the past quarter, higher oil prices and weaker bond yields last week. In the US, about 80% of firms have beat earnings estimates so far this earning season, supporting equity markets that are trading at record highs.
The energy sector was the big outperformer on the surge in oil prices following the news that the US planned to cancel all waivers granted to countries reliant on Iranian oil imports.
By the close last Friday, the S&P/ASX200 Index was trading at 6,385.6 compared to 6,259.8 a week earlier.

THIS WEEK

The only data of note to be released this week is building approvals for March. After a strong 19% rise in February due to a 62% spike in the volatile apartment approvals, economists are forecasting a 10% decline in total approvals this month. Other data releases include March private sector credit and CoreLogic house prices. Offshore, the US Federal reserve will meet this week but no change to rates is widely expected.

INTEREST RATE VIEW

While inflation was not on the RBA’s radar as a trigger to move monetary policy, the downward surprise to CPI last week puts the RBA’s CPI target range of 2% to 3% more difficult to achieve and may just swing the RBA to at least move to an easing bias, if not cut the official cash rate at the next board meeting in May.
Financial futures shifted from a ~10% expectation of a rate cut before the CPI to over 60% after. A June cut is now fully priced, and a second cut is almost fully priced in by the end of 2019.

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	2.05	1.92	2.08	1.78	1.56
180 day Bank Bill	2.15	2.07	2.19	1.84	1.61
1 year swap	2.04	1.95	1.92	1.58	1.42
3 year swap	2.29	2.10	1.89	1.46	1.38
5 year swap	2.66	2.43	2.15	1.67	1.64
10 year swap	2.99	2.78	2.49	1.99	2.02
AUD/USD	0.7546	0.7032	0.7097	0.7101	0.7028
S&P/ASX200 Index	5,953.6	5,665.2	5,905.6	6,176.1	6,385.6

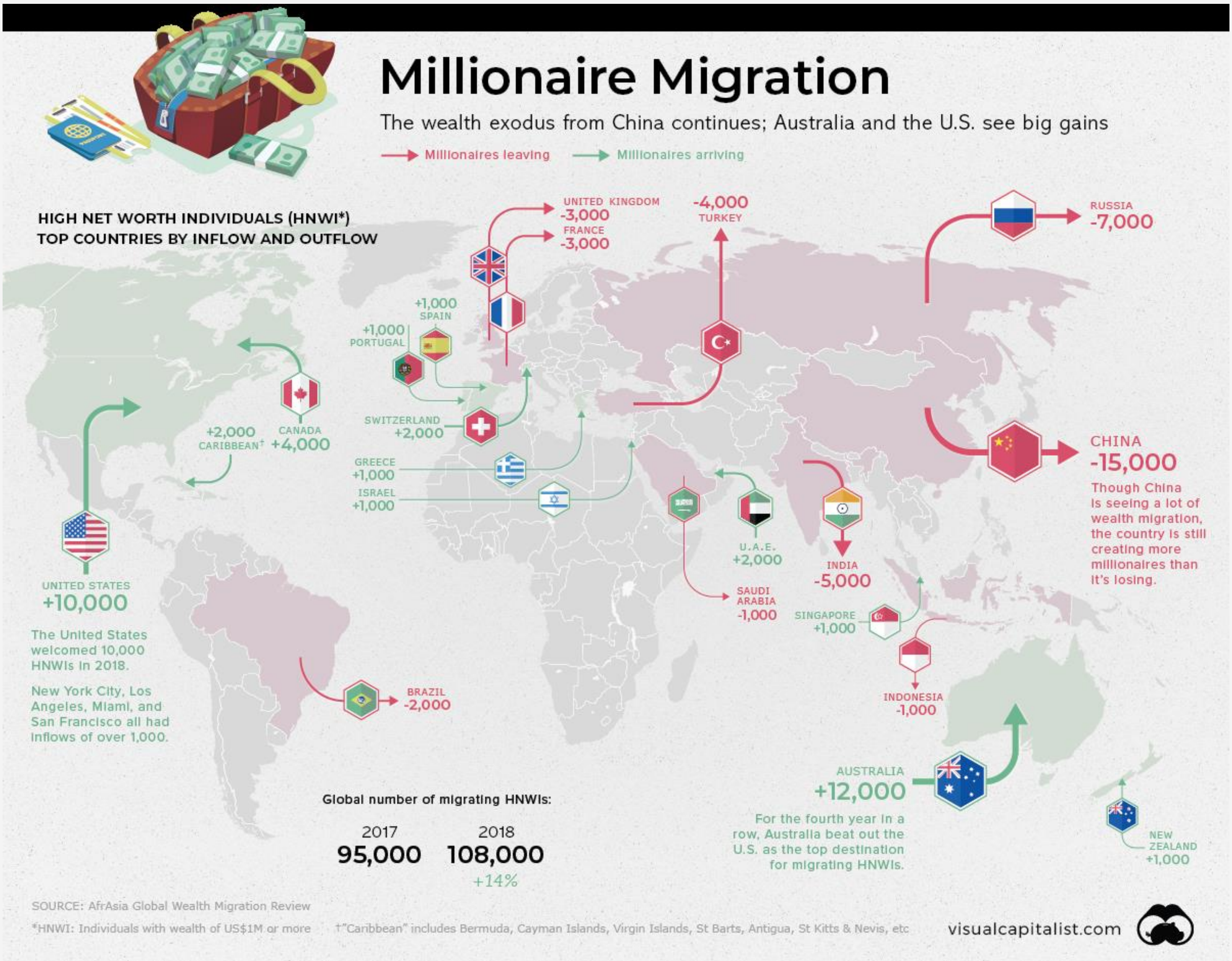
CHART OF THE WEEK

Mapping the Global Migration of Millionaires

The world's wealthiest people are also the most mobile. High net worth individuals (HNWI's) – persons with wealth over US$1 million – may decide to pick up and move for a number of reasons. In some cases they are attracted by jurisdictions with more favorable tax laws, or less pollution and crime. Sometimes, they're simply looking for a change of scenery.

The graphic below, using data from the annual Global Wealth Migration Review, maps the migration of the world's millionaires, and clearly shows which countries are magnets for the world's rich, and which countries are seeing a wealth exodus.

It's no secret that China has been a wealth creation machine over the past two decades. Although the country is still making a number of its citizens very wealthy, over 15,000 Chinese HNWI's still chose to migrate to other countries in 2018 – the most significant migration of any country.



Time-honored locations such as Switzerland and the Cayman Islands, continue to attract the world's wealthy, but no country is experiencing HNWI inflows quite like Australia.

The land down under has several attributes that make it an attractive destination for migrating millionaires. The country has a robust economy, and is perceived as being a safe place to raise a family. Even better, Australia has no inheritance tax and a lower cost of health care, which can make it an attractive alternative to the US.

In 2018, Australia jumped ahead of both Canada and France to become the seventh largest wealth market in the world.

Source: *Visual Capitalist, Mapping the Global Migration of Millionaires*
Article by *Nick Routley, 16th April 2019*
https://www.visualcapitalist.com/global-migration-of-millionaires/

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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Future driven.

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