# WEEKLY ECONOMIC COMMENTARY

**Week beginning 29th January 2019**

## ECONOMIC DATA ROUNDUP

### DATA RELEASED LAST WEEK

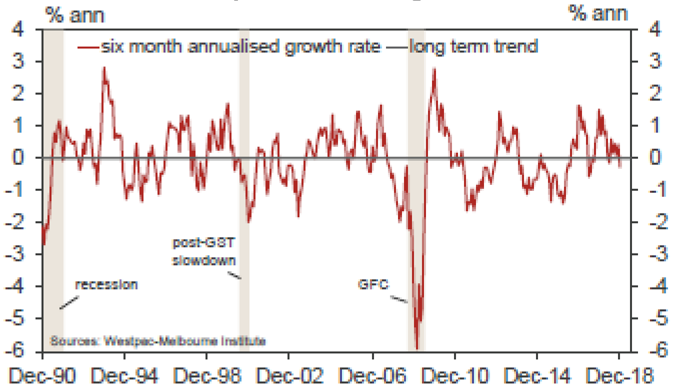
| Economic Data | Period | Actual | Previous |
|---|---|---|---|
| Dept. of Employment - Internet job vacancies | December | +0.7% | +0.1% |
| Employment | December | +21,600% | +37,000 |
| Unemployment | December | 5.0% | +5.1% |

The **Internet Vacancy Index** increased by 0.7% in December and now stands 1.4% above the level recorded a year ago. Five of the eight occupational groups recorded increases in job advertisements over the month to December 2018, with the strongest gains recorded for Community and Personal Service Workers (+ 1.4%), Professionals (+1.0%), and Technicians and Trades Workers (+0.9%). Job advertisements for Machinery Operators and Drivers, Sales Workers, and Labourers decreased in December 2018 (-1.2%, -0.8%, and -0.8% respectively).

**Employment** increased by 21,600 in December whcih follows an upwardly revised 39,000 increase in November (originally reported as +37,000) with a 24,600 rise in part-time employment partially offset by a 3,000 fall in full-time employment. Although the participation rate was unchanged this month at 65.6% the rise in employment was enough to see the **unemployment rate** fall from 5.1% to 5.0% in December.

In other data releases, 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 to -0.27% in December from +0.42% in November. While the growth rate in the Index has been volatile on a monthly basis, it has shown a significant deterioration over the last six months, declining from +0.59% in July to -0.27% in December.

**Westpac/MI Leading Index**




The **NAB's cashless retail sales index** rose 0.9% in December, up from a 0.4% (revised) increase in November and is now up 9.9% over the year. While some Christmas spending was brought forward to November (through the Black Friday and cyber Monday sales) the data suggests that spending for Christmas was weak with consumers reluctant to spend. This was a result of a contraction recorded in four of the six major sectors (household goods, department stores, other retailing and cafes, restaurants and takeaways) in December.

Data over the next week

| Economic Data | Date | Period | Forecast | Previous |
|---|---|---|---|---|
| NAB Business Survey (Conditions/Confidence) | 29 January | December | n/a | +11/+3 |
| Headline Inflation – Quarterly | 30 January | Dec/quarter | +0.4% | +0.4% |
| Headline Inflation – Annual | 30 January | Dec/quarter | +1.6% | +1.9% |
| Underlying Inflation – Quarterly | 30 January | Dec/quarter | +0.4% | +0.4% |
| Underlying Inflation – Annual | 30 January | Dec/quarter | +1.7% | +1.8% |
| Import & Export Prices | 31 January | Dec/quarter | -1.0%/+2.6% | +1.9%/+3.7% |
| Private Sector Credit | 31 January | December | +0.3% | +0.3% |

# ECONOMIC COMMENTARY

## LAST WEEK

It was a very quiet open to the week with the US out for Martin Luther King holiday last Monday. US markets reopened very defensively on Tuesday with US/China trade tensions, weak Chinese GDP data, the continued US government shut-down and Brexit plan B weighing on investor sentiment. In addition, the IMF cut its forecast for the world economy, predicting it will grow at the weakest pace in three years in 2019 and warning fresh trade tensions would spell further trouble and blamed softening demand across Europe and recent tremors in financial markets for its second downgrade in three months. The IMF now expects the world economy to grow by 3.5% in 2019 and 3.6% in 2020 (previously 3.7% for both years) but left its projections for the US (2.5%) and China (6.2%) unchanged.

Theresa May was back in Parliament last week, seeking approval for her Brexit deal less than a week after suffering a 230-vote defeat. The UK Parliament is inching toward a plan to delay Brexit as a way of avoiding a no-deal divorce come the 29th March deadline. Theresa May is still against the idea of a postponement, saying she doesn't believe it solves anything, but she hasn't ruled it out. Germany and France have said publicly that an extension is possible.

Locally, the heat remained in the labour market with unemployment falling to 5% but there was no impact on markets.

By the close on Friday, the 90-day bank bill was trading at 2.08% compared to 2.06% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.71% and 2.22% respectively, from 1.81% and 2.32% a week earlier.

## CURRENCY

The Australian dollar weakened alongside risk appetite last week as global growth fears added to the usual concerns about trade negotiations and Brexit developments (or the lack thereof). A fall in commodity prices, led by falls of over 2% in oil and copper, have also weighed on the AUD. Some US dollar weakness against a basket of currencies and thanks to a stronger British pound gave the AUD some support late in the week.

The AUD had a small rally after better than expected unemployment data last Thursday but it was short-lived as traders interpreted the NAB's mortgage rate rise as increasing the odds of an RBA rate cut. This, with some US dollar strength pushed the AUD a cent lower over the week to trade below 71 cents.

By the close last Friday, the Australian dollar was trading at USD0.7097 compared to USD0.7193 a week earlier.

## EQUITIES

US equities opened the week sharply lower reflecting a change in market sentiment following headlines suggesting US-China trade talks are not heading in the right direction. Weak growth data out of China while US housing data was also weaker than expected. Despite the weak overseas market, our share market focussed on the positive employment data and the increased expectation of an RBA rate cut to post a small gain for the week.

By the close last Friday, the S&P/ASX200 Index was trading at 5,905.6 compared to 5,879.6 a week earlier.

## THIS WEEK

The week ahead is dominated by the release of the December quarter CPI data on Wednesday. With both headline and underlying inflation expected to record a 0.4% rise in the quarter, annual inflation will remain below the RBA target range once again with a 2.4% fall in petrol prices over the quarter subtracting from the headline rate. Ahead of the CPI, the latest NAB business survey is released and given global headwinds through December, is expected to remain soft.

Offshore, the US Federal reserve board meets but is expected to keep monetary policy unchanged because the US and global economic outlook has deteriorated. In the UK, MPs will debate and vote on several amendments to the Brexit deal.

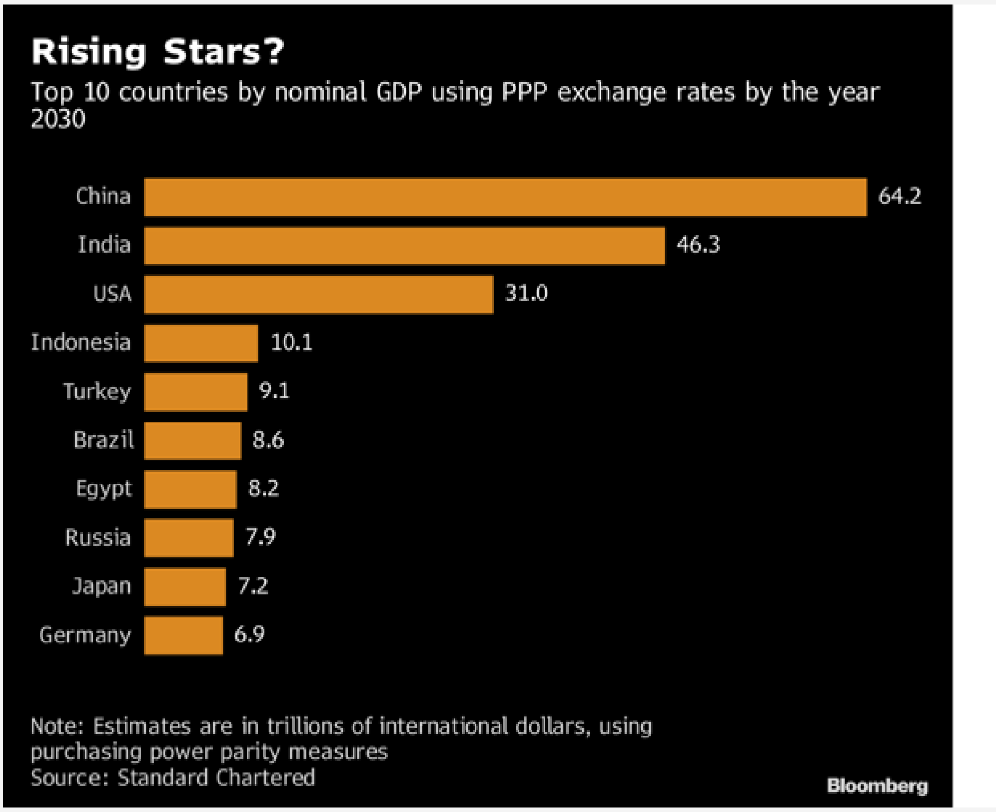
### INTEREST RATE VIEW

A below forecast CPI number this week may add additional fuel to the argument that the RBA needs to cut interest rates once again. While the RBA won't be too concerned about a slowdown in headline inflation, more of a worry if there is a decline in underlying inflation.

| 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 | 1.79 | 1.97 | 1.92 | 2.09 | 2.08 |
| 180 day Bank Bill | 1.94 | 2.15 | 2.07 | 2.22 | 2.19 |
| 1 year swap | 1.88 | 1.99 | 1.95 | 1.98 | 1.92 |
| 3 year swap | 2.26 | 2.15 | 2.10 | 1.96 | 1.89 |
| 5 year swap | 2.65 | 2.48 | 2.43 | 2.26 | 2.15 |
| 10 year swap | 3.01 | 2.83 | 2.78 | 2.60 | 2.49 |
| AUD/USD | 0.8102 | 0.7386 | 0.7032 | 0.7045 | 0.7097 |
| S&P/ASX200 Index | 6,050.0 | 6,300.2 | 5,665.2 | 5,654.3 | 5,905.6 |

# India’s GDP set to eclipse the US by 2030

**New York:** Seven of the world’s top 10 economies by 2030 will likely be current emerging markets, with China emerging as the largest by next year itself, according to Standard Chartered’s long-term forecasts.




*India is seen accelerating to 7.8% by the 2020’s while China’s will moderate to 5% by 2030 reflecting a natural slowdown given the economy’s size. Graphic: Bloomberg*

The prediction for a shake-up of the world’s gross domestic product (GDP) rankings comes in new long-term forecasts by Standard Chartered Plc, which includes a projection for China to become the largest economy by 2020, using purchasing power parity exchange rates and nominal GDP. India will likely be larger than the US in the same time period while Indonesia will break into the top five economies.

“Our long-term growth forecasts are underpinned by one key principle: countries’ share of world GDP should eventually converge with their share of the world’s population, driven by the convergence of per capita GDP between advanced and emerging economies,” Standard Chartered economists led by David Mann wrote in a note.

They project trend growth for India to accelerate to 7.8% by the 2020s while China’s will moderate to 5% by 2030 reflecting a natural slowdown given the economy’s size.

Asia’s share of global GDP, which rose to 28% last year from 20% in 2010, will likely reach 35% by 2030 - matching that of the euro area and US combined.

*Source:* *Livemint, Bloomberg, 8th January 2019*
*Article by:* *Edna Curren, Bloomberg*
*https://www.livemint.com*

## 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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