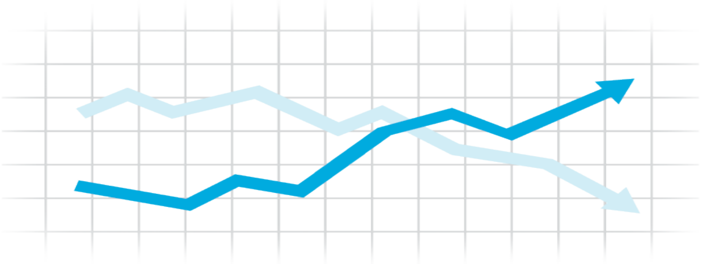
WEEKLY ECONOMIC COMMENTARY



Week beginning 2nd April 2018

ECONOMIC DATA ROUNDUP

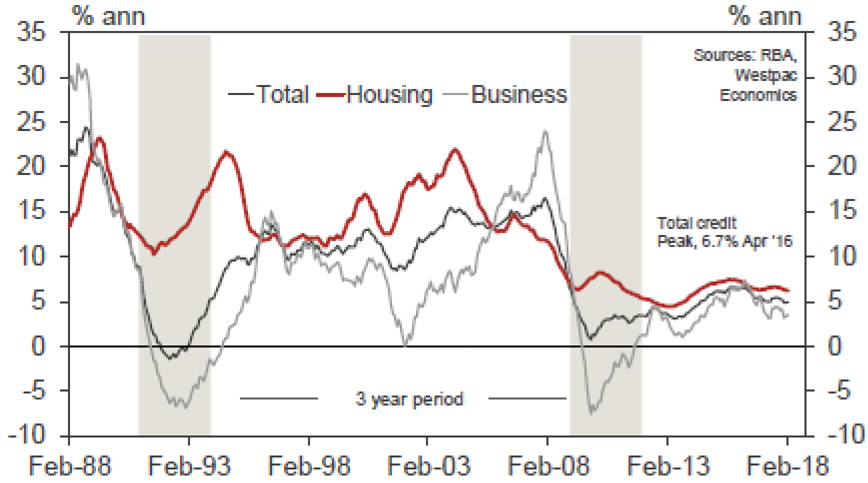
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ABS Job Vacancies	February quarter	+4.3	+2.7%
Private Sector Credit	February	+0.4%	+0.3%

ABS Job vacancies increased by 4.3% in the three months to February and are now up 19.3% over the year, indicating that the labour market remains strong. Private sector vacancies increased by 4.2% in the quarter to be up 20.7% annually while public sector vacancies were up 6.0% in the quarter and up 7.7% annually.

Private sector credit increased 0.4% in February to be up 5.0% over the year. The increase this month was driven by an improvement in lending for housing, particularly for owner-occupiers as well as a small increase in business credit. Housing credit was up 0.5% in February (+6.2% annually) with owner-occupier housing credit up 0.7% and investor credit up 0.2%. Business credit was up 0.1% in the month to be up 3.6% annually while personal credit fell 0.2% and is now down 1.1% over the year.

Credit Growth



Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	03 April	March	n/a	-0.3%
RBA Board Meeting - Rates Decision	03 April	April	1.50%	1.50%
Retail Trade	04 April	February	+0.5%	+0.1%
Building Approvals	04 April	February	-5.0%	+17.1%
Trade Balance	05 April	February	+$700m	+$1.06bn

ECONOMIC COMMENTARY

LAST WEEK

With very little economic data released last week to influence market direction, the focus remained on developments offshore with trade tensions remaining the dominant force, although trading was thin ahead of the Easter long weekend. The combination of month and quarter end book-squaring also created uncertainty for financial markets with risk aversion the clear theme for trading last week.

This saw the yield curve flattened last week as long dated bond yields fell while equity markets experienced further falls as investors squared positions for month-end.

By the close on Friday, the 90-day bank bill was trading at 2.03% compared to 2.00% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.06% and 2.61% respectively, from 2.09% and 2.66% a week earlier.

CURRENCY

After falling to a five-week low against every G10 counterpart (except the yen) early last week, optimism that the US and China may begin trade negotiations and ease the potential for a trade war saw the US dollar bounce as the week progressed. The US dollar also finding support last week from strengthening economic growth data and quarter-end book squaring trades. With this US dollar strength, the Australian dollar posted a small fall over the shortened week, with sentiment remaining vulnerable to rising geopolitical risks.

By the close last Friday, the Australian dollar was trading at USD0.7672 from USD0.7711 a week earlier.

EQUITIES

Our market opened with a massive sell off last Monday after US equities went into free-fall (down 3%) the previous Friday night to close the week with its largest weekly fall since January 2016. However, US equities started this week on a positive note (up 3%), aided by comments from the White House over the weekend that confirmed the US and China are "are already at the negotiating table" around tariffs and trade imbalances.

Equity markets spent most of the week fluctuating around current levels with uncertainty around trade discussions, the recent volatility around technology stocks (related to the Facebook privacy issues and potential increased regulations around social media), quarter-end position squaring and Easter holidays impacting trading last week.

By the close last Friday, the S&P/ASX200 Index was trading at 5,759.4 compared to 5,820.7 a week earlier.

THIS WEEK

While we have another Easter holiday-shortened week ahead we do have some data out this week – including monthly retail sales, building approvals and trade balance data. Markets will look closely at the retail sales data which has seen some additional monthly volatility lately due to changes in seasonal spending patterns. We also have the monthly RBA board meeting on Tuesday.

The RBA will almost certainly leave the official cash rate unchanged at 1.5% at its monthly board meeting and is likely to reiterate that rate hikes remain some way off by once again repeating that the progress in returning inflation to its target range is expected to be "gradual".

INTEREST RATE VIEW

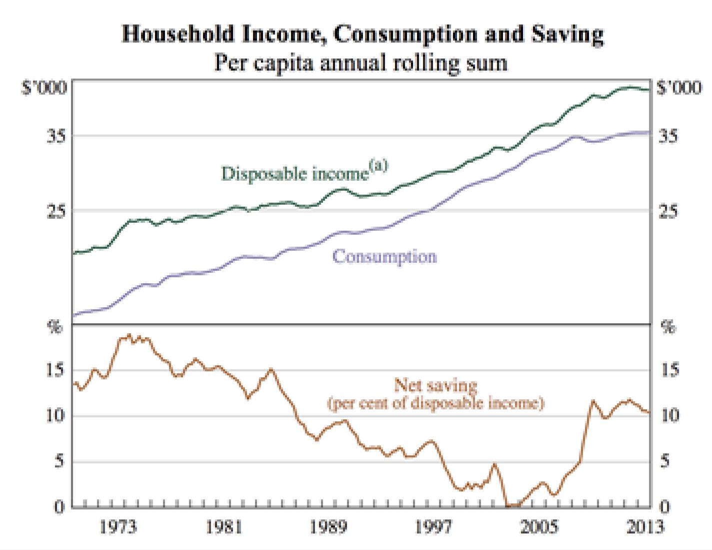
Banks borrow a considerable amount of money at rates linked to (BBSW), a benchmark used in the short term wholesale capital markets. BBSW has for some time traded at around 20 to 25 basis points above the RBA's official cash rate, reflecting "normal" credit risk. However, the margin over cash has increased to around 50 basis points in the last month effectively increasing short term funding rates by around 25 basis points or one full RBA rate hike. Despite financial markets not predicting a rate increase from the RBA till next year, if this elevated funding cost persists, banks may be forced to pass on the increased costs to borrowers through higher lending rates – doing the job for the RBA.

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	1.80	1.71	1.79	1.81	2.03
180 day Bank Bill	2.00	1.91	1.99	1.97	2.13
1 year swap	1.81	1.85	1.86	1.86	1.95
3 year swap	2.08	2.19	2.18	2.16	2.17
5 year swap	2.53	2.60	2.52	2.55	2.52
10 year swap	2.96	3.00	2.82	2.92	2.82
AUD/USD	0.7649	0.7843	0.7839	0.7761	0.7672
S&P/ASX200 Index	5,864.9	5,681.6	6,061.3	5,928.9	5,759.4

CHART OF THE WEEK

The average Australian's savings: how do you compare?

Here are Australia's savings rates by age, wealth and income. How do you stack up?



The average Australian is putting $427 under their mattress each month, according to a recent survey by Suncorp. The good news is that Australians are saving more now than at any point since the 1980s.

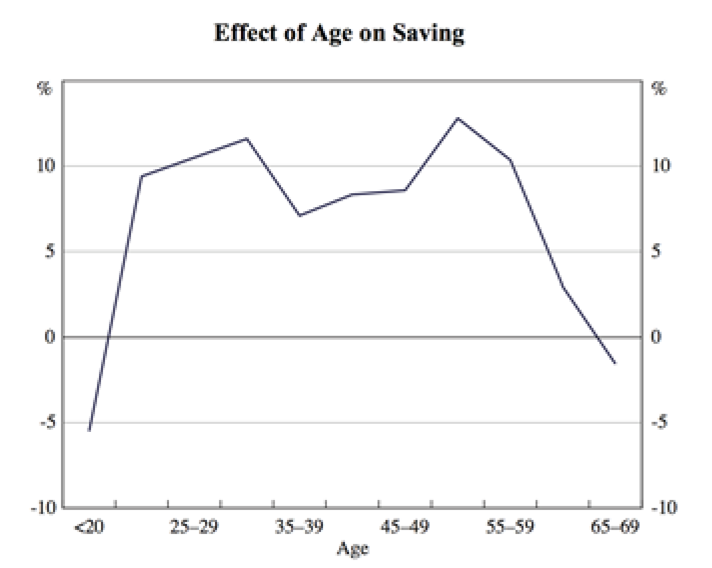
Between the 1970s and early 2000s there was a gradual decline in the rate of saving due to falling interest rates, greater availability of credit and stable economic conditions.

By 2003, Australians weren't saving enough for a Freddo frog.

The financial crisis whacked some sense back into us and there has been a strong resurgence in savings rates since then, with the national average now hovering around 12% of disposable income (refer chart right).

But of course that's only half the story. Savings rates differ widely depending on age, wealth and income.

Age



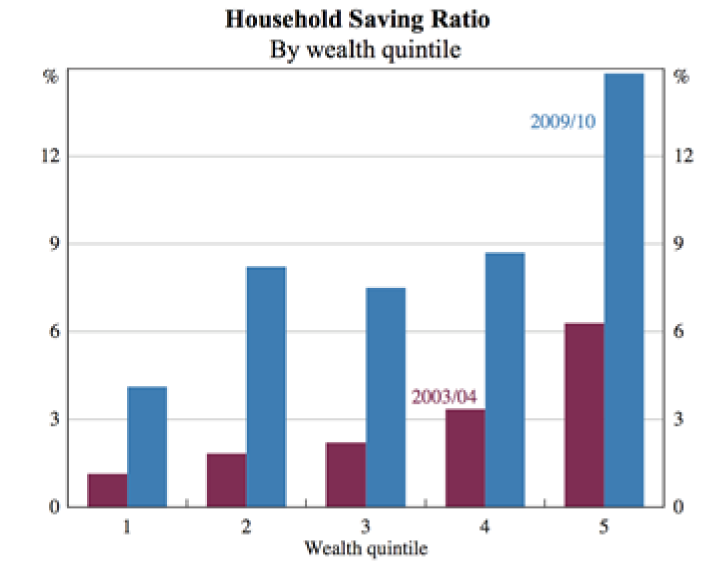
Refreshingly, Suncorp found that youngsters aged 25 to 34 were above average savers, putting away $533 a month.

A 2014 discussion paper by the Reserve Bank went into more detail, and also found that there was a dip in savings for those aged 35 to 45.

That's understandable due to significantly higher living costs around that time as middle-aged households are often paying off a mortgage and have children to support.

However, as the RBA notes, "the behaviour is also consistent with a myopic model of household behaviour. For example, Thaler and Shefrin (1981) argue that hyperbolic discounting can explain why younger households tend not to save enough for retirement, while Carroll and Samwick (1997) argue that younger households place more weight on saving for large purchases and emergencies to smooth near-term consumption rather than saving for longer-term (retirement) consumption".

Net worth



It's probably not too surprising to learn that wealth and income significantly affect our ability and propensity to save.

The richest 20% of households save nearly 15% of their disposable income, double the median.

Interestingly though, the effect of owning a home outright depends on age. For the young, it's associated with higher rates of saving and probably has a lot to do with personality, rather than a pure 'wealth effect'.

Older households, on the other hand, show a decreased tendency to save if they own their own home. That's probably down to feeling a greater amount of financial security, which reduces the desire to save for emergencies.

CHART OF THE WEEK

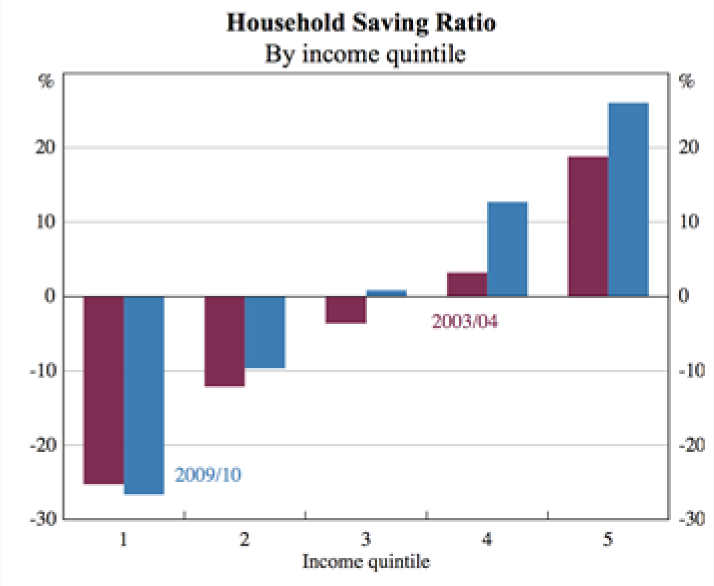
Income

The savings gap between rich and poor is even more extreme when separated by income: the top 20% of households save 25% of their income, compared to negative 26% for the lowest income earners.

As the RBA notes, that's actually somewhat counter-intuitive. “Economic orthodoxy would suggest that a household’s permanent or long-run level of income should not affect their saving ratio, since households with relatively high levels of permanent income would also have relatively high levels of consumption”.

They continue “Aggregate time series data on national saving supports this proposition: as countries grow richer, household incomes trend higher but saving ratios do not”.

In practice, though, higher income does correlate with a higher rate of saving.



How you compare to others isn't the best way to judge your accomplishments, but knowing where you stand relative to the herd can still be empowering. Whether you should cut out that second morning coffee or take an overdue holiday to spend time with the kids is up to you.

Source: *InvestSMART, Research & Advice*
Article by: *Graham Witcomb, Analyst*
This article was originally published on 10 March 2016.
All indications of performance returns are historical and cannot be relied upon as an indicator for future performance.

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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