WEEKLY ECONOMIC COMMENTARY

Week beginning 4th June 2018

ECONOMIC DATA ROUNDUP

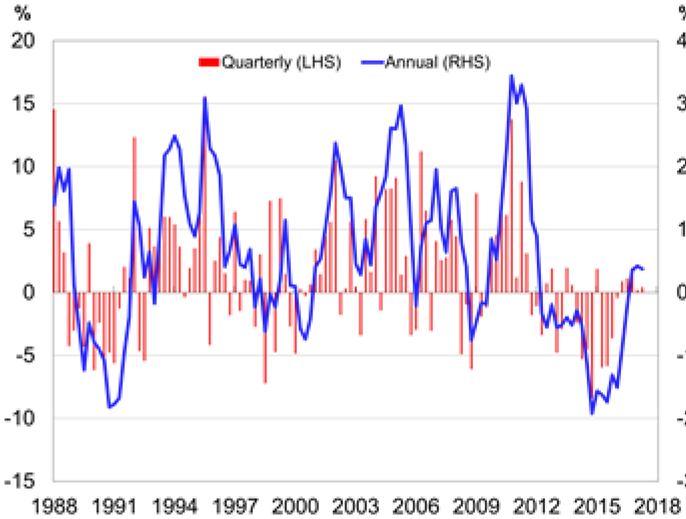
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	April	-5.0%	+2.6%
Private Sector Capital Expenditure (CAPEX)	March quarter	+0.4%	-0.2%
Private Sector Credit	April	+0.4%	+0.5%

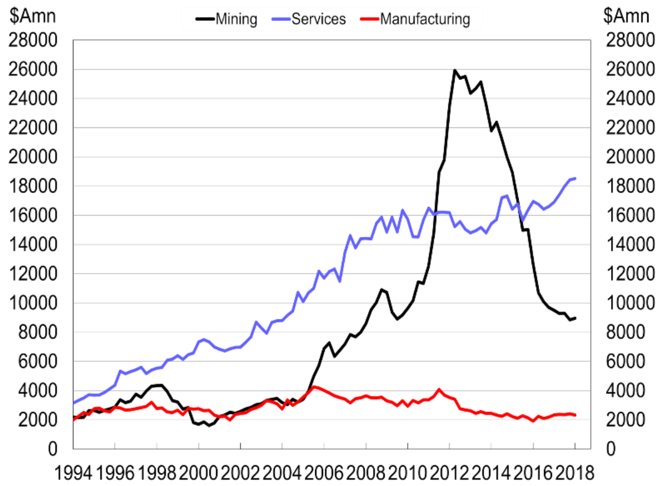
The number of **residential building approvals** were down 5.0% in April following an upwardly revised 3.5% rise in March with approvals up 1.9% over the year. Private sector house approvals were broadly unchanged, up 0.1% in the month to be up 11.1% over the year while the more volatile approvals for detached other dwellings (units) fell 11.5% in April to be down 7.5% annually. The majority of this month's apartment fall was recorded in the ACT (down 85%) after the previous month's strength while the apartment sector recorded small gains in NSW (+5.1%) and QLD (+1.2%) and Victoria (-8.4%) continues to trend lower.

Total **private new capital expenditure** (CAPEX) increased by 0.4% in the March quarter following an upwardly revised 0.2% rise (originally -0.2%) in the December quarter. The gain this quarter came from mining (+1.2%) and other selected industries, i.e. services and construction (+0.5%) that outweighed the drag from manufacturing (-3.4%). Mining CAPEX posted its largest quarterly rise since 2014 but non-mining CAPEX was virtually unchanged - following five consecutive quarters of growth.

CAPEX Growth



CAPEX level by industry sector



Source: ABS & Citi Research

Private sector credit was up 0.4% in April and is now up 5.1% over the year. Housing credit was up 0.4% in the month, the slowest pace since December with annual growth 6.0% - the slowest annual growth rate since March 2014. Within housing credit, owner-occupier credit was up 0.6% in April (+8.0% annually) while investor credit was up 0.1% (+2.3% annually). Business credit increased by 0.5% in April (+4.3% annually) while personal credit fell 0.3% (-1.2% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	4 June	May	n/a	-0.2%
Business Indicators (Inventories/Wages)	4 June	March quarter	-0.5%/+1.1%	+0.2%/+1.0%
Retail Sales	4 June	April	+0.3%	+0.0%
Current Account Balance	5 June	March quarter	-$10.3bn	-$14bn
RBA Board Meeting – Rates Decision	5 June	June	1.5%	1.5%
Economic Growth (GDP)	6 June	March quarter	+0.8%	+0.4%
Trade Balance	7 June	April	$0.9bn	$1.527bn

ECONOMIC COMMENTARY

LAST WEEK

With both the US and UK markets closed early last week there was little news to divert attention away from geopolitical developments. The main attention turned to Italy last week although uncertainties about the US relationship with China and North Korea added to the market concerns. Populist leaders failed to form a new Italian government last week, forcing the resignation of the proposed Prime Minister Giuseppe Conte. With fears of a fresh election, political turmoil and worries of another euro crisis has pushed the credit risk (and yields) on Italian bonds higher to levels last seen in 2012.

This risk aversion took hold in global markets pushing equity markets and government bond yields sharply lower last Wednesday as investors flocked into safe haven assets. However, 24 hours later, the panic over Italy and associated risk subsided with markets partially (but not completely) recovering the previous day's losses.

Just when things were settling down the US announced it will levy tariffs on steel and aluminium from the European Union, Canada and Mexico accounting for 40% of US steel imports. The retaliation was swift and strong with Canada and Mexico announcing tariffs on steel, aluminium and other US imports and the EU saying it would also retaliate. Equity markets in the US and Europe went into a tailspin on Friday as trade tensions escalated and investors once again rushed to the safe haven of government bonds.

By the close on Friday, the 90-day bank bill was trading at 1.99% compared to 1.94% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.12% and 2.71% respectively, from 2.16% and 2.79% a week earlier.

CURRENCY

Unlike geopolitical volatility in equity and bond markets, the currency markets have been relatively measured by comparison although the US dollar and Japanese yen did have a "safe-haven" bid tone last week.

The Australian dollar is having a roller-coaster ride at the moment as price action continues to be dominated by geopolitical events and the changes in the demand for the US dollar. The AUD has managed to hold its ground finding good buying support below 75 cents last week to close the week virtually flat thanks to stable commodity prices and overall resilient risk appetite. By the close last Friday, the Australian dollar was trading at USD0.7556 from USD0.7564 a week earlier.

EQUITIES

A big "flight to safety" move out of equities and into government bonds saw global equity markets sell off last Wednesday only to bounce back a day later and only to sell off again last Friday.

Our share market traded in a wide 235 point range over the week but finished the week lower, a weaker oil price hurt the energy sector and added to the negative sentiment and sell off last week.

By the close last Friday, the S&P/ASX200 Index was trading at 5,990.4 compared to 6,032.8 a week earlier.

THIS WEEK

The data flow picks up this week with retail sales, GDP, company profits and trade data due for release. The market focus will be on March quarter economic growth to see if there is a pick-up in growth and annual GDP starts to move towards the RBA's (and government's) estimate of 3% by the end of 2018. The RBA is certain to leave the cash rate unchanged this week at their monthly board meeting but analysts will focus on whether the RBA raises any concerns about the recent escalation of geopolitical events offshore and whether these will impact Australia in any way.

INTEREST RATE VIEW

All major Australian economists surveyed by Bloomberg last week expect that the RBA will remain on hold for the 20th successive meeting this week, with more to come. Market forecast for the RBA's official cash rate remain unchanged with the next move (up) not expected till well into 2019.

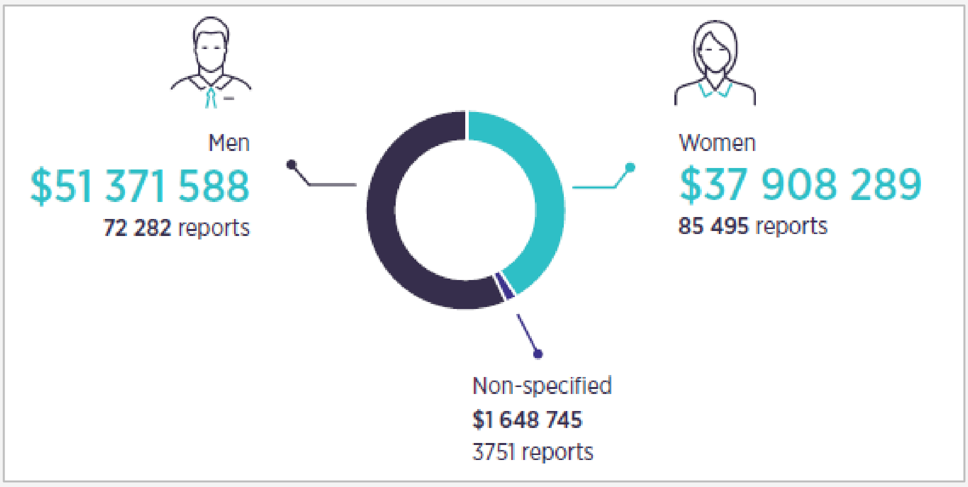
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.73	1.75	1.81	2.02	1.99
180 day Bank Bill	1.85	1.92	1.97	2.11	2.10
1 year swap	1.70	1.80	1.86	2.02	1.99
3 year swap	1.86	2.01	2.16	2.26	2.21
5 year swap	2.23	2.36	2.55	2.63	2.56
10 year swap	2.68	2.73	2.92	2.98	2.89
AUD/USD	0.7388	0.7567	0.7761	0.7522	0.7556
S&P/ASX200 Index	5,788.1	5,989.8	5,928.9	6,098.3	5,990.4

CHART OF THE WEEK

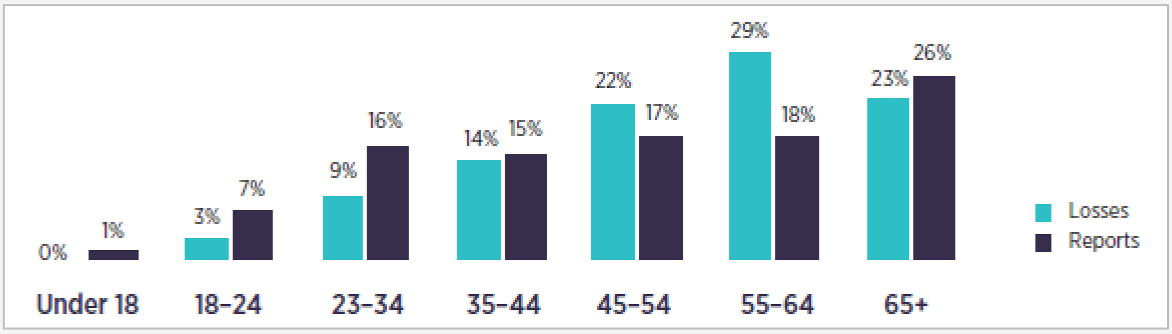
Following last week's charts on "Scam Awareness Week" I received a number of "likes" so I've continued that theme this week with some further charts from the Australian Competition & Consumer Commission publication. This report is an interesting read and highlights some remarkable statistics and trends. It's free and online or available from the ACCC.

In 2017, Scamwatch, the Australian Cybercrime Online Reporting Network (ACORN) and other federal and state-based government agencies received over 200 000 reports about scams. The combined losses reported to Scamwatch and these other agencies exceeded $340 million.

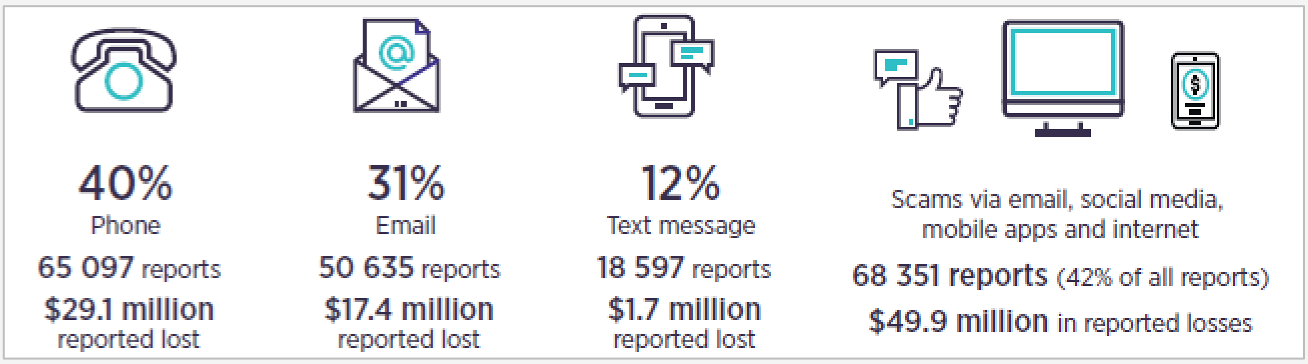
When gender information is provided, women reported more scams than men but suffered lower and fewer losses. Women reported 42% of total losses in 2017 and men reported 56%.



Age Demographic



Contact Method for scammers



Source: *Targeting scams, ACCC Report issued May 2018.*
https://www.accc.gov.au/system/files/F1240_Targeting%20scams%20report.PDF

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.

Postal Address:
PO Box 3660,
Rundle Mall, SA 5000
Telephone: 1300 660 115
Facsimile: 08 8121 0106
service@ruralbank.com.au
www.ruralbank.com.au