

# WEEKLY ECONOMIC COMMENTARY

Week beginning 16<sup>th</sup> February 2015

## ECONOMIC DATA ROUNDUP

### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	January	+1.3%	+1.8%
ABS House Price Index	December/quarter	+1.9%	+1.5%
Westpac/MI Consumer Sentiment	February	+8.0%	+2.4%
Housing Finance	December	+4.8%	-1.2%
Employment	January	-12,200	+37,400
Unemployment	January	6.4%	6.1%

**ANZ Job advertisements** rose a further 1.3% in January to record their eighth consecutive monthly rise and are now up 10% over the year. The strength was once again driven by internet job ads, which rose 1.5% and are now up 14.8% annually, the fastest rate since April 2011. In contrast, newspaper job ads fell by 6.7% in January to be down 23.8% annually.

The **ABS House Price index** posted a gain of 1.9% in the December quarter, the ninth consecutive quarterly gain in residential property prices, to be up 6.8% annually. Sydney recorded the strongest outcome for a capital city, with prices rising 3.4% (to be up 12.2% annually). Brisbane posted the second strongest gain, with prices up 1.4%, while Darwin posted a 0.6% fall in prices over the quarter.

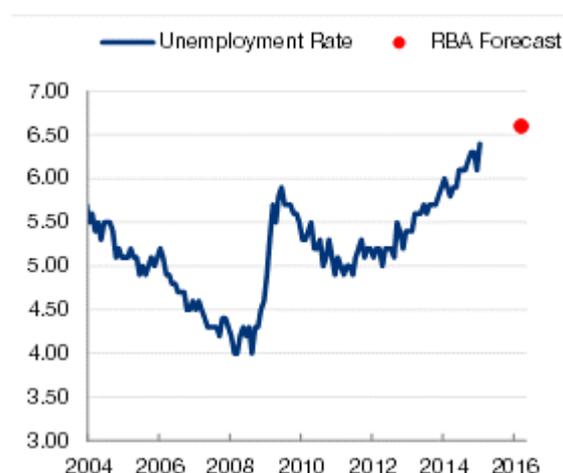
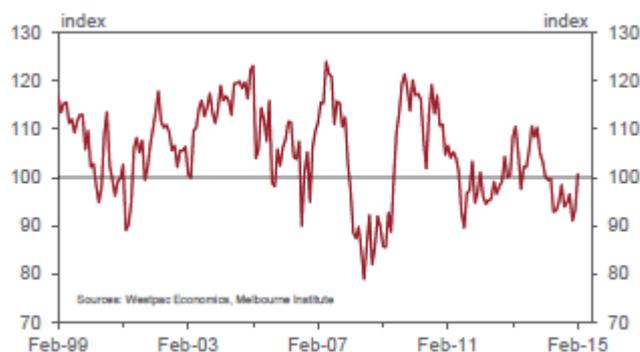
The **Westpac-Melbourne Institute consumer sentiment index** posted an 8.0% increase in February, lifting the index to a 13-month high. The survey was taken over the period 2nd to 6th of February so the bulk of the survey picked up sentiment following the RBA rate cut as well as the recent fall in petrol prices and a surging share market. The index gained 7.5 points (+8%) to 100.7 points, meaning there are slightly more optimists than pessimists for the first time since February last year.

**Housing finance** (excluding refinancing) increased by 4.8% in December to be up 11.5% over the year. The strong outcome was underpinned by a 3.6% rise in "owner-occupier" finance (to be up 4.9% annually) plus a 6.0% surge in investor financing, lifting investor finance growth to 18.8% annually.

**Employment** was below market expectations, falling by 12,200 in January with a fall in full-time employment of 28,100 partially offset by a rise in part-time employment of 15,900. This resulted in the **unemployment rate** rising to a 12-year high of 6.4%.

In other data releases, the NAB business conditions survey for January was unchanged at +2 points in January (December was revised slightly lower), although forward orders rose 2 points to +1. Trading conditions fell 4 points to +5, profitability slipped 1 point to +1 and employment conditions were unchanged. Business confidence increased 1 point to +3, still substantially lower than the average of 8.0 recorded in the first half of last year

Consumer Sentiment



### Data over the next week

Economic Data	Date	Period	Forecast	Previous
Motor Vehicle Sales	16 Feb	January	n/a	+3.0%
ANZ Roy Morgan Consumer Confidence	18 Feb	Weekly	+2.2%	-1.9%

# ECONOMIC COMMENTARY

## LAST WEEK

Australian employment fell unexpectedly in January to end two months of strong gains, while the unemployment rate spiked to a 12-year high of 6.4%. This was a disappointing result and added to the pressure for another cut in interest rates. Market reaction saw rates drift lower, with the Australian Dollar falling over half a cent as the market increased bets on a March rate cut.

Offshore, the focus has been on Europe. The new government in Greece wants to ease conditions on its bailout program, but has encountered resistance from its creditors. The current bailout is due to expire at the end of the month. Eurozone finance ministers are currently meeting in an emergency session to discuss the situation. The latest stand-off pushes Greece closer to a default and has revived fears of the prospect of a forced exit by Greece from Europe's single-currency union. Financial markets however were largely unfazed after euro area finance ministers did not reach an agreement to resolve the Greek debt impasse last week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.34% compared to 2.40% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.86% and 2.51% respectively, from 1.92% and 2.46% a week earlier.

## CURRENCY

The Australian Dollar has been under some selling pressure this week, falling through USD0.77 and within sight of the six-year low of USD0.7626 reached on 3<sup>rd</sup> February after the RBA rate cut. There was nothing specific to pinpoint the negative sentiment other than to note that key commodities were slightly lower, including iron ore, gold, and oil, continued worries over the Greece position and some lower forecasts for the currency from local analysts.

By the close on Friday the Australian dollar was trading at USD0.7777 compared to USD0.7836 a week earlier.

## EQUITIES

After two weeks of continuous gains, our share market closed lower last week as investors took cash off the table amid a barrage of company news and earnings reports while resource, mining and energy stocks fell after a fresh fall in the price of oil. There was also an air of nervousness in equity markets following the poor unemployment number and as investors debated the consequences of Greece's negotiations with its international creditors and whether Greece would be allowed to exit the Eurozone.

By the close on Friday the S&P/ASX200 Index was trading at 5,877.5 compared to 5,820.2 a week earlier.

## THIS WEEK

There is very little economic news of significance out this week, with only secondary economic releases of note in addition to the release of minutes from the last Reserve Bank Board meeting. The most significant release will be Motor Vehicle sales on Monday and while there is no forecast, sales have been flat overall this past year and for the past three years. Tuesday sees the ANZ-Roy Morgan Consumer Confidence index released for the week of February 15. The previous week showed no bounce in the index even after the RBA cut so a positive figure is now expected this week.

## INTEREST RATE VIEW

Investors have narrowed the odds on another rate cut at the next Reserve Bank Board meeting in early March following the poor employment data last week. The futures market now implies a 65% probability of a rate cut in March and over 90% for April.

<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.50	2.50	2.50	2.50	2.25
90 day Bank Bill	2.64	2.64	2.78	2.74	2.34
180 day Bank Bill	2.65	2.66	2.82	2.77	2.35
1 year swap	2.65	2.59	2.77	2.56	2.15
3 year swap	3.15	2.81	2.89	2.48	2.18
5 year swap	3.70	3.21	3.22	2.67	2.43
10 year swap	4.46	3.77	3.74	2.99	2.82
AUD/USD	0.8997	0.9326	0.8684	0.8223	0.7777
S&P/ASX200 Index	5,356.3	5,566.5	5,454.3	5,331.4	5,877.5

# CHARTS OF THE WEEK

## Three Charts Suggest Abbott Can Ignore Deficit: Australia Credit

(Source: Bloomberg by Garfield Reynolds and Benjamin Purvis, 11<sup>th</sup> February 2015) -- Tony Abbott is signalling he learned lessons from last year's entitlement-stripping budget after plunging popularity almost cost him his job this week.

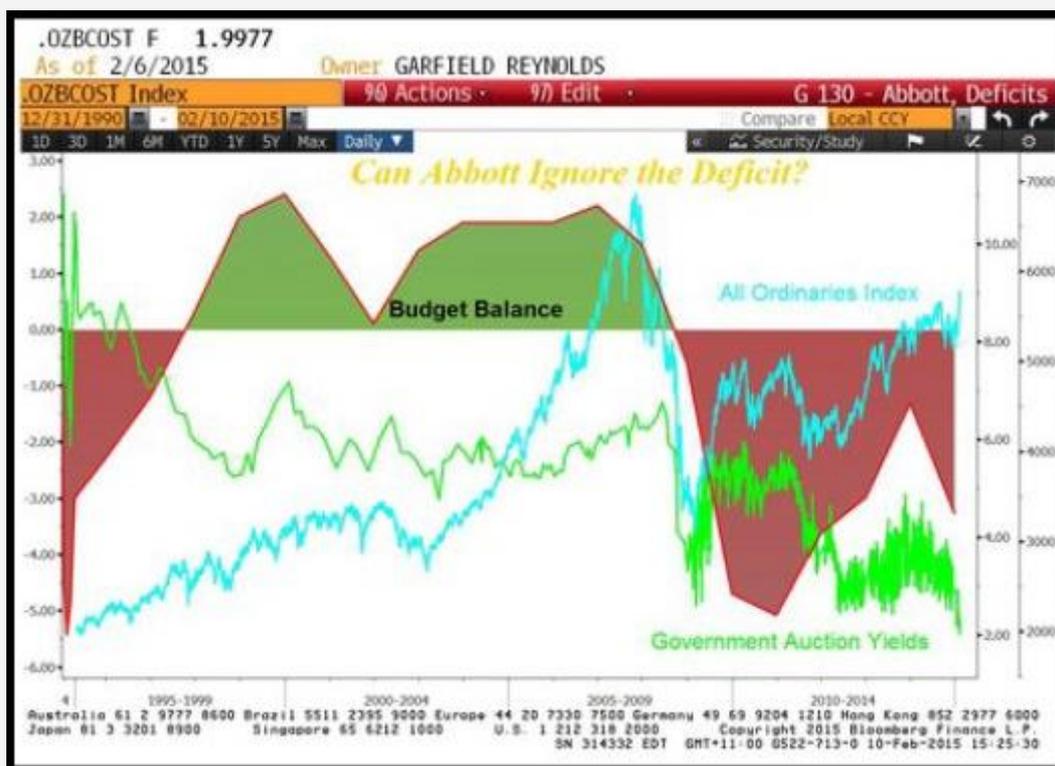
Speaking on national television February 9 after almost 40% of Liberal Party lawmakers voted to support his ouster, Abbott flagged a fiscal stance to complement the Reserve Bank of Australia's decision to cut interest rates to an all-time low. A News poll published in the Australian newspaper before the ballot showed Abbott is the most unpopular Liberal-National coalition prime minister on record.

"We are going to have a new childcare package which will be very good for people," Abbott, 57, told Australian Broadcasting Corp.'s evening current affairs program. "We are going to have a new small-business and jobs package with a small-business tax cut. And I think all of these are the sort of focus on jobs and families that the Australian public wants."

The charts below show Abbott, who called the leadership challenge a "chastening experience," can afford to craft a budget that would dial back the emphasis on returning to surplus with the economy at its weakest for 24 years. After all, the government is rated AAA and just borrowed at less than 2% for the first time in records going back to 1982.

"Fiscal policy needs to change direction, and of course, that's a quite big challenge for a government that came in and really tightened up the fiscal screws last year," Paul Bloxham, chief Australia economist at HSBC Holdings Plc, said in a television interview from Sydney. Such a change "is the main thing that we need to see to keep Australia's growth continuing," said Bloxham, a former RBA economist.

CHART 1: Australia's deteriorating budget deficit over the past year hasn't concerned equity or bond investors. The All Ordinaries Index of local shares rallied and the Feb. 6 auction of \$600 million of bonds maturing October 21, 2019, saw the weighted average yield drop to 1.9977%.







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