WEEKLY ECONOMIC COMMENTARY

Week beginning 16th September 2013

ECONOMIC DATA ROUNDUP

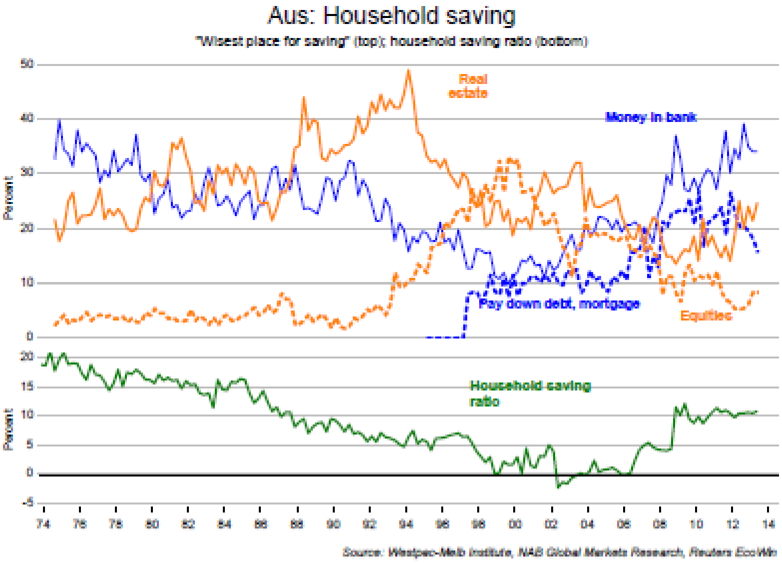
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Housing Finance	July	+1.3%	+0.7%
ANZ Job Ads	August	-2.0%	-1.1%
NAB Business Survey	August	+6	-3
Westpac/MI Consumer sentiment	September	+4.7%	+3.5%
Employment	August	-10,800	-10,200
Unemployment	August	5.8%	5.7%

The value of **Housing Finance** approvals (excluding refinancing) increased by 1.3% in July to be up 18.5% annually. The strength in July was concentrated among investor finance which rose 2.9% (+25.5% annually) while owner-occupier finance rose 0.1% (+13.4% annually). The number of owner-occupied approvals rose 2.4%, with a 5.9% increase in finance for new dwellings and a 2.7% increase in finance for established dwellings, while construction finance fell 2.1%.

The **ANZ Job Advertisements series** showed job ads fell by 2.0% in August after falling 1.1% in July, to be down 19% over the year. Newspaper job ads fell 3.2% in August while internet job ads fell 2%. As newspaper job ads make up only 5% of the overall job ads market, the 3.2% monthly fall did not impact significantly on the overall outcome for August.

The **NAB's Business Conditions Index** rose just 1 point to -6 in August, with retail recording its weakest reading in more than five years. The measure of **business confidence** however shot up to +6 in August, from -3 in July, the highest reading since May 2011 and the sixth largest monthly increase in the series' history. Confidence rose across all states and sectors, with mining firms leading the charge. Record-low interest rates and a falling Australian Dollar also played a role in improving confidence.



The **Westpac/Melbourne Institute Consumer Sentiment Index** rose by 4.7% in September to 110.6, its highest point since December 2010. The rise was the result of a combination of an end/resolution to the Federal election campaign and a change of government, a new low in the official cash rates and acceleration in house prices. All five component indices registered gains in the month, with the largest increase in the 'family finances versus a year ago' component (+8.5%). Of note also was the very strong rise in economic conditions (+8.7%) and sentiment towards purchasing a major household item (+6.9%).

Employment was a little weaker than expected, recording a fall of 10,800 in August following a revised 11,400 decline in July. Both full-time and part-time employment fell in the month, with full-time down 2,600 and part-time employment down 8,200. The participation rate fell to 65.0% from 65.1% and the **unemployment rate** rose to a four year high of 5.8%.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	17 Sept	August	+1.5%	-3.5%
RBA Board Minutes	17 Sept	September	n/a	n/a
Westpac/MI Leading Index	18 Sept	July	+1	0

ECONOMIC COMMENTARY

LAST WEEK

In offshore developments last week, positive Chinese economic data continued the general trend of more positive economic news around the globe. This was amid some investor caution over a US decision regarding a potential military strike on Syria early in the week. In Asia, markets were up as Japan was announced the winner in its bid for the 2020 Olympics and economic data showed the economy grew close to economists' expectations (at 3.8%) in a sign that President Shinzo Abe's inflationary plan is beginning to take effect. The "risk-on" tone picked up following reports that the Syrian government agreed to a Russian plan to put its chemical weapons under international control, thereby reducing the chance of a military strike.

Locally, we had a week of two halves with the first half reinforcing the sentiment from offshore with solid increases recorded in both business and consumer sentiment data boosting confidence and pushing financial markets higher. The sentiment changed last Thursday after the release of a poor employment number which saw the unemployment rate post a four-year high of 5.8% and reignited talk of another rate cut.

By the close of trading on Friday, the 90-day bank bill was trading at 2.60% compared to 2.59% last week. At the long end, 3 and 10 year bond yields closed the week lower at 2.92% and 4.09% from 2.96% and 4.15% a week earlier.

CURRENCY

The Australian Dollar was a lot higher early last week due to strong economic data (industrial production and retail sales figures) out of China which boosted confidence in the world's second largest economy plus easing concerns about a possible US military strike on Syria. There were also plenty of domestic-only reasons why the currency rallied, with the strong business and consumer sentiment surveys driving optimism about the local economy which added to the currency's strength. After touching a high of USD0.9354 last Thursday, the release of poor employment numbers increased expectations that a rate cut might be back on the agenda and the currency fell over a cent late in the week.

By the close on Friday, the AUD was up one cent and trading at USD0.9242 compared to USD0.9140 a week earlier.

EQUITIES

Our share market reached a new five year high last week as positive sentiment and investor confidence was boosted by a decisive Federal election result and encouraging Chinese economic data. Stocks were also being boosted by the need for major construction projects in Japan (Australia's second largest trading partner) ahead of the 2020 Olympics, as well as the increased chance of a November rate cut after the fall in employment (and increase in unemployment) last week.

By the close on Friday, the S&P/ASX200 Index was trading at 5,219.6, having briefly touched 5,252 (a three month high) last Thursday, compared to 5,145.0 a week earlier.

THIS WEEK

After a couple of busy weeks for data releases, the economic calendar slows right down this week with the main economic event being the release of the August Reserve Bank Board Minutes on Tuesday. The Minutes should reinforce the commentary made after the last rates decision and reflect a shift by the RBA to a more "neutral" bias.

Offshore, the US Federal Reserve's meeting and potential announcement of a tapering of their bond-buying program is the most important event for financial markets this week along with the last few days of campaigning for the German election, the US budget deficit negotiations and obviously further developments regarding Syria.

INTEREST RATE VIEW

All eyes this week will be on the US Federal Reserve's meeting and the anticipated start of Fed tapering where the market now seems to be braced for the Fed to scale back its monthly bond purchases by around USD10bn. There is the potential for significant volatility in all financial markets this week should the US Fed's outcome be different from expectations. If the US Fed announces a larger than expected reduction in their bond buying program, the USD will rally which should push our currency lower and bond yields will rise. Under this scenario, another RBA rate cut may also be deferred if not ruled out all together. If however the US Fed refrains from announcing any tapering whatsoever, the USD will fall and the Australian Dollar will rally, along with bond yields – and another RBA rate cut may be sooner rather than later.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	3.50	3.00	2.75	2.50	2.50
90 day Bank Bill	3.59	3.13	2.82	2.62	2.60
180 day Bank Bill	3.51	3.13	2.82	2.60	2.61
1 year swap	3.34	3.18	2.75	2.67	2.71
3 year swap	3.36	3.50	3.03	3.17	3.38
5 year swap	3.65	3.87	3.45	3.71	3.97
10 year swap	4.07	4.38	4.09	4.49	4.72
AUD/USD	1.0569	1.0375	0.9595	0.9169	0.9242
S&P/ASX200 Index	4,390.0	5,120.2	4,791.8	5,152.4	5,219.6

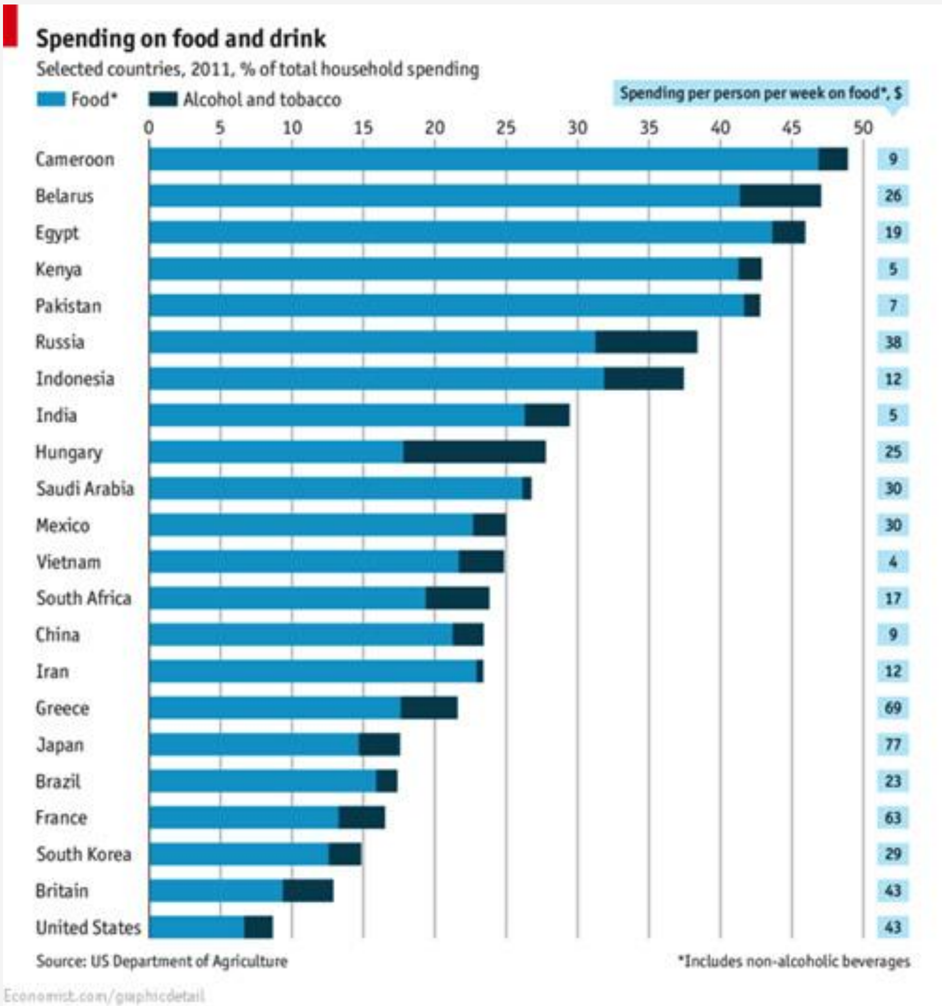
CHART OF THE WEEK

Spending on Food

Spending on food as a share of total income has declined markedly, but at the expense, some say, of quality. This is a nice kind of problem to have: people in poor countries are forced to devote a far higher share of income to buying food.

As the chart (right) shows, in general, as countries develop, people spend proportionally less on food.
South Koreans spent one-third of their income on food in 1975; now the figure is just 12%.

That leaves more money for the more enjoyable things in life. Hungarians lead the way in these matters: they devote around 10% of their household spending to alcohol and tobacco.

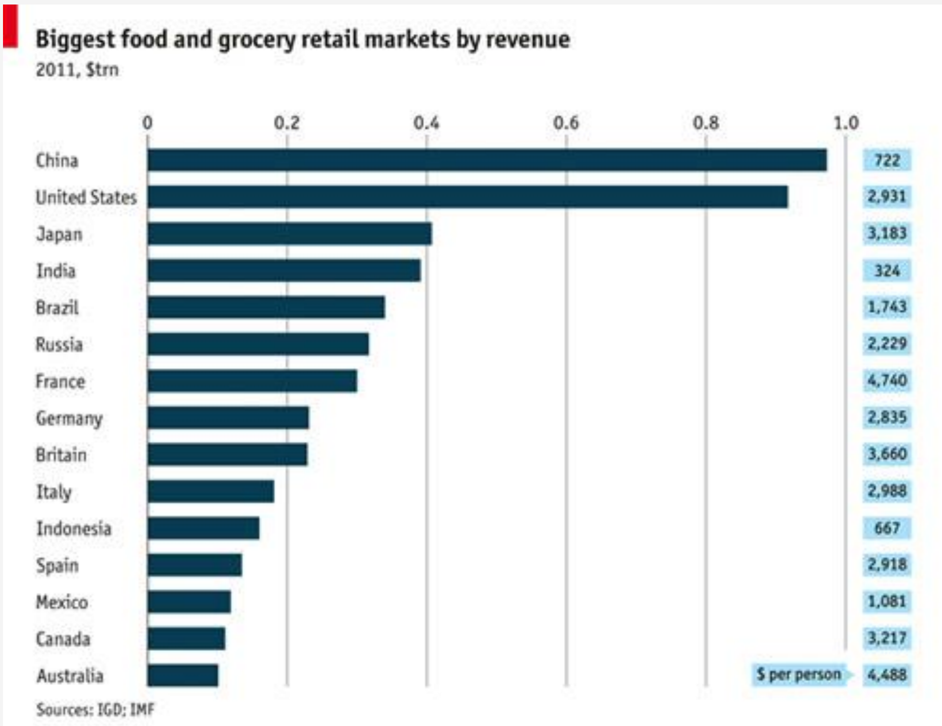


Last year the Chinese spent a whopping 14% of GDP on groceries, so it is no big surprise that rapidly growing China became the world's biggest grocery market, overtaking America (refer chart right).

The French live up to their gastronomic reputation as one of the highest spenders on food, forking out nearly $5,000 a year per person (excluding eating out), which as a share of income (11% of GDP) is the highest for any developed country in our chart.

Indians are the lowest spenders on this list, handing over less than $1 a day each on groceries.

By 2015, the BRIC's (Brazil, Russia, India and China) will have pushed Japan out of the top five slots, leaving America as the only remaining rich country in the top five.



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Our products and services are available at over 400 regional locations nationally including Bendigo Bank branches, Elders Rural Services branches, selected Ray White Rural agencies and our own two metropolitan branches in Adelaide and Perth.

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