

WEEKLY ECONOMIC COMMENTARY

Week beginning 17th November 2014

ECONOMIC DATA ROUNDUP

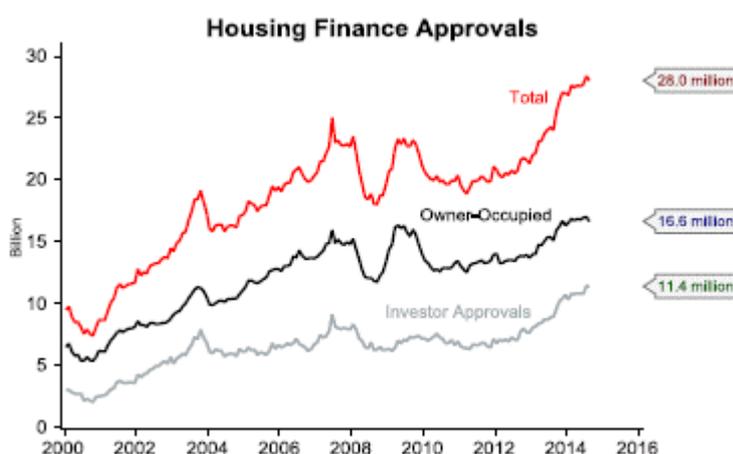


DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Housing Finance	September	+2.7%	-0.9%
House Price index	Sept/quarter	+1.5%	+1.8%
Westpac/MI Consumer Sentiment Index	November	+1.9%	+0.9%
Wage Price Index	Sept/quarter	+0.6%	+0.6%

Housing finance (excluding refinancing) rose 2.7% in September following a 0.8% fall in August and a 2.3% rise in July. Investor finance commitments rose 3.7% in September to be 25.4% higher over the year, with commitments to owner-occupiers (excluding refinancing) up 1.8% in the month to be 3.4% higher over the year.

The **ABS house price index** posted a 1.5% gain in the September quarter, to be 9.1% higher over the year. Sydney house prices continue to outperform, rising 2.7% in the quarter to be up 14.6% over the year and remaining the strongest across all eight capital cities. In second place was Melbourne, up only 6.9% annually. The weakest price performance in the quarter was Perth, with prices falling 0.1% to be 3.7% higher over the year.



Source: NAB, Macrobond

The **Westpac/MI consumer sentiment index** improved by 1.9% in November, with three of the five component indices recording gains in the month, but still remains on the pessimistic side of neutral at 96.6 points. The Index remains 12.5% below its level of a year ago. The modest increase in the Index may be attributed to more positive news on the financial markets. The Australian share index has lifted by an impressive 5% since the last survey, while the Australian dollar has stabilised following its 7% plunge in September. When asked about their spending on Christmas gifts this year compared to last year, a net balance of 26% said they would spend less this year – the worst result since the period that followed the Lehmann collapse in 2008.

The **wage price index** was up 0.6% in the September quarter and 2.6% over the year. Public sector wage growth was particularly weak in the quarter at +0.5%, the lowest quarterly rate since March 2004, with annual growth in public sector wages at +2.7%. Private sector wage growth was +0.6% in the quarter and +2.5% annually. Wages in Western Australia have risen just 2.2% over the past year, down from a peak of +5.9% in March 2008, while wages in the ACT are the weakest across the states and territories, up 1.7% annually.

In other data releases, the **NAB business conditions** index increased sharply in October to +13 (from +1 in September), the largest monthly increase in the history of the survey, placing the index at its highest level since February 2008. The increase was recorded in most categories, with the profitability, trading and employment components all gaining strongly. The **business confidence** index however was down slightly this month (to +4 from +5) driven by a large fall in transport confidence. Confidence levels vary greatly across industries, but services have consistently been the most optimistic.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Motor Vehicle Sales	17 Nov	October	-1.0%	+2.9%
Merchandise Imports	17 Nov	October	n/a	+7.0%
DEER Internet Vacancies Index	19 Nov	October	+0.4%	+0.5%

ECONOMIC COMMENTARY

LAST WEEK

The data surprise last week would have to be the massive rise in business conditions reported in the NAB business survey – representing the largest monthly increase in the history of the survey. In other news, the housing finance data continues to remain positive, once again posting solid gains although down from peaks. Conversely, wage growth data remains subdued.

Some weaker than expected employment data out in the US over the weekend saw markets open last week with yields lower, on expectations that any potential increase in US interest rates will be delayed. Market activity was lighter than normal, subdued due to the US Veteran's Day holiday. The "risk-on" sentiment did however return and equity markets rallied (the Dow posting a run of new highs) which in turn saw bond yields sell off (drift higher) – reversing the earlier rally to close the week virtually unchanged.

Over in Japan, market sentiment was boosted by speculation that Prime Minister Shinzo Abe appears to have decided to call a snap election soon, before the ruling coalition loses further support. There is also growing speculation Abe will delay a planned increase in the sales tax, seen as a quasi-stimulus – another positive.

By the close of trading on Friday, the 90-day bank bill was trading at 2.78% compared to 2.77% a week earlier. In the long term maturities, 3 and 10 year bond yields closed the week virtually unchanged at 2.60% and 3.34% respectively, from 2.59% and 3.36% a week earlier.

CURRENCY

The Australian dollar posted a solid 1 cent rise early last week but dipped late in the week after Reserve Bank Assistant Governor Christopher Kent said in a speech that the RBA hasn't ruled out intervention to weaken the currency. Concerns about the Japanese economy following the Bank of Japan's announcement that it would expand its bond buying program weakened the Yen and gave the US dollar a boost, which also hurt our currency last week.

By the close on Friday the Australian Dollar was still trading near its weekly low at USD0.8684 compared to USD0.8557 a week earlier.

EQUITIES

The local share market closed weaker last week as energy stocks and financials took a hit. After rallying in the previous four weeks, energy stocks tumbled as oil hit a fresh four-year low, while financials were shaken by an offshore foreign exchange market manipulation scandal.

Offshore, Wall Street continued to post a series of record highs early last week but closed the week off the highs. The Nikkei rallied to its highest level since June 2007 following the media reports of a possible early election.

By the close on Friday the S&P/ASX200 Index was trading at 5,454.3 compared to 5,549.1 a week earlier.

THIS WEEK

With virtually no key data scheduled for release this week (only Internet vacancies and vehicle sales), the main focus for markets will be a speech by RBA Governor Glenn Stevens this Tuesday. While there is no information to indicate the proposed topic of his speech, there may be some comments around the RBA's latest thoughts on the economy in the wake of the November Monetary Policy Statement and recent economic data. The RBA November Board minutes will be released on Tuesday, although with the most recent Monetary Policy Statement released since the Board meeting, there will be nothing new in the minutes to move markets.

INTEREST RATE VIEW

The local yield curve has come under some "flattening" pressure over the past week as data in the form of business conditions and consumer confidence rebounded, reducing the chance of any move in the official cash rate. While recent economic data has certainly reduced the chance of an RBA rate cut, the Bank maintains a view that the RBA will also not start increasing the cash rate until late next year.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.50	2.50	2.50
90 day Bank Bill	2.58	2.70	2.64	2.69	2.78
180 day Bank Bill	2.61	2.73	2.66	2.72	2.82
1 year swap	2.63	2.69	2.59	2.63	2.77
3 year swap	3.19	3.00	2.81	2.76	2.89
5 year swap	3.76	3.42	3.21	3.11	3.22
10 year swap	4.55	4.05	3.77	3.57	3.74
AUD/USD	0.9335	0.9347	0.9326	0.8769	0.8684
S&P/ASX200 Index	5,401.7	5,479.0	5,566.5	5,254.9	5,454.3

CHARTS OF THE WEEK

As harvest gets underway around the country, this latest report from our own Ag Answers team reviews what can be expected from this year's harvest.

This National Crop Update covers production and yield forecasts, current prices, as well as financial and export performance across Australia.

The key messages in the report are:

- The 2014/15 crop will be smaller than last year due to a dry spring.
- Production will be 'patchy' – with only isolated rainfall during spring, grain producing regions are a patchwork of good, average and poor crop performance.
- Local grain prices are at a premium compared with the world market.

The [Ag Answers National Crop Update](#) is live on the Rural Bank website for your reference now.

If you would like a hard copy of the National Crop Update, please contact our Ag Answers team by email ag.answers@ruralfinance.com.au





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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

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