WEEKLY ECONOMIC COMMENTARY

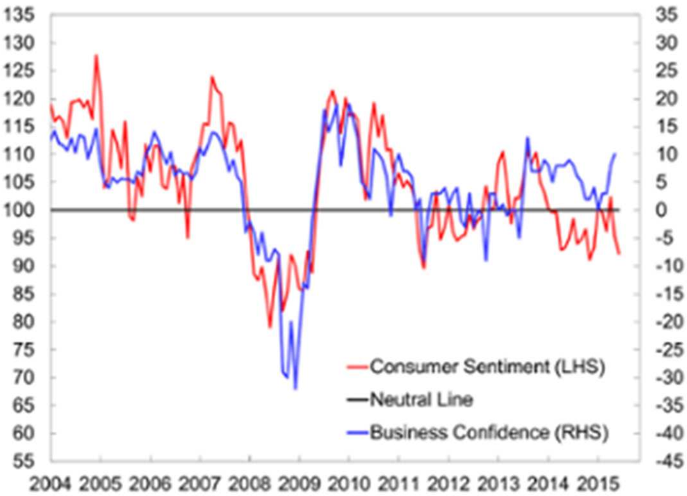
Week beginning 20th July 2015

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Conditions	June	+11	+6
NAB Business Confidence	June	+10	+8
Westpac/MI Consumer Confidence	July	-3.2%	-6.9%
New Motor Vehicle Sales	June	+3.8%	+0.4%
Merchandise Imports	June	+2.0%	-5.0%

Consumer Sentiment vs Business Confidence



Source: Bloomberg, MI-Westpac, NAB and Citi Research

The **NAB Business Confidence** Index lifted again from +8 to +10 in June, the highest level since September 2013. Confidence now positive in all industries except mining, which is currently neutral. Business confidence continues to benefit from interest rate cuts, a lower Australian dollar and a better-received Federal Budget, with little impact from the current offshore events (Greece's debt crisis and China's share market fall). **Business conditions** (a measurement of the employment, trading and profit environment) improved even more, lifting 5 index points to +11 in June - the highest level since October 14. Improvements in both business confidence and conditions over recent months are starting to suggest a more convincing turnaround in the non-mining sectors is underway.

The **Westpac-Melbourne Institute Consumer Sentiment Index** fell 3.2% in July following a 6.9% decline in June to a level of 92.2, its lowest level in seven months. Three of the five components in the Index fell in the month. The large fall recorded in 'economic conditions over the next 12 months' led the decline (-10.5%), followed by a similar fall in 'family finances versus a year ago' (-10.4%). Surprisingly however, 'family finances for the next 12 months' rose by 6.9%. Sentiment towards buying major household appliances was flat on last month. While the weak report could at least partly be a reflection of concerns over the Greek debt crisis, as well as the recent stock market volatility in China, there has been more pessimists than optimists since March 2014.

New motor vehicle sales increased by 3.8% in June to be up 4.0% over the year. All vehicle types recorded an increase this month with sales for passenger and sports utility vehicles increasing by 5.4% and 3.3% respectively, while other vehicle sales increased by 1.1%. It is likely the small business measures introduced in the 2015/16 Federal Budget boosted new vehicle sales this month.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Headline Inflation (CPI) - quarterly	22 July	March/quarter	+0.9%	+0.2%
Headline Inflation (CPI) - annual	22 July	March/quarter	+1.7%	+1.3%
Underlying Inflation (CPI) - quarterly	22 July	March/quarter	+0.6%	+0.6%
Underlying Inflation (CPI) - annual	22 July	March/quarter	+2.3%	+2.4%

ECONOMIC COMMENTARY

LAST WEEK

Recent events in China and Greece have been the primary areas of focus for financial markets over the last few weeks although other events also added to the discussion last week. Firstly, Greece's Parliament last Wednesday night finally passed an austerity package needed to secure a fresh €86bn bailout from its Eurozone and IMF creditors. Within this package, they agreed to steep spending cuts and tax increases - the package being even more draconian than what the public voted down in the referendum a week ago. In the US, Federal Reserve Chair Janet Yellen told US Congress last week that despite global uncertainty, the Fed was still on track to raise short-term interest rates this year if the economy evolves as expected. The Bank of Canada made a surprise 25 basis point cut to its official policy rate (to 0.50%), citing downgrades to its growth forecasts and therefore a larger negative output gap. Then finally, Chinese economic growth data for the year to June was better than expected, showing the world’s second largest economy grew by 7% (but still the lowest annual growth number since the onset of the GFC) with retail sales, industrial production and fixed investment all better than expected to support the 7% growth rate.

The passage of the controversial Greek deal as well as the better than expected Chinese GDP data was welcomed by the market that once again started buying into risk, pushing bond yields and equities higher as a result.

By the close of trading on Friday, the 90-day bank bill was trading at 2.15% compared to 2.14% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 2.01% and 2.95% respectively, from 1.97% and 2.94% a week earlier.

CURRENCY

The Australian dollar fell to a fresh six-year low of USD0.7353 mid last week following comments from US Fed Chair Janet Yellen that the US central bank remained on track to raise rates this year for the first time since the financial crisis. The case for a US rate hike was further strengthened by some stronger than expected economic data that pushed the US dollar higher against most other currencies.

By the close on Friday the Australian dollar was trading at USD0.7405 compared to USD0.7460 a week earlier.

EQUITIES

Global equity markets started the week with a solid rally after it appeared Eurozone leaders had secured a bailout deal with the Greek government. Markets continued the rally after a new bailout deal passed through Greece's Parliament last Wednesday night. Our share market posted its best weekly gain since early February taking the market back to levels reached before the Greek debt crisis and the Chinese share market plunge.

By the close on Friday the S&P/ASX200 Index had, trading at 5,670.1 compared to 5,492.0 a week earlier.

THIS WEEK

The only economic release due out this week is the June quarter inflation data. The big mover over the last quarter has been the price of petrol which has increased 14% over the quarter (the largest quarterly rise in 25 years) and with the annual rise in health insurance premiums, the headline CPI is forecast to rise by 0.9% with annual growth at 1.7%. Stripping out volatile factors like petrol, the underlying inflation is forecast to lift by 0.6% in the quarter or by 2.3% annually.

The Reserve Bank releases the minutes of the early July Board meeting this Tuesday. At this meeting, Board members elected to both leave interest rate settings unchanged as well as the monetary policy stance. The RBA has a “neutral” stance, meaning that the next move in rates could go either way. Clearly, however, if rates were to move in the next six months, it would be most likely be down (hence the easing bias currently priced into financial futures markets).

Notwithstanding, if the economy continues to stabilise, the longer that rates stay unchanged, the greater the chance that the next move in rates is up - but this will not be for some time, probably well into next year.

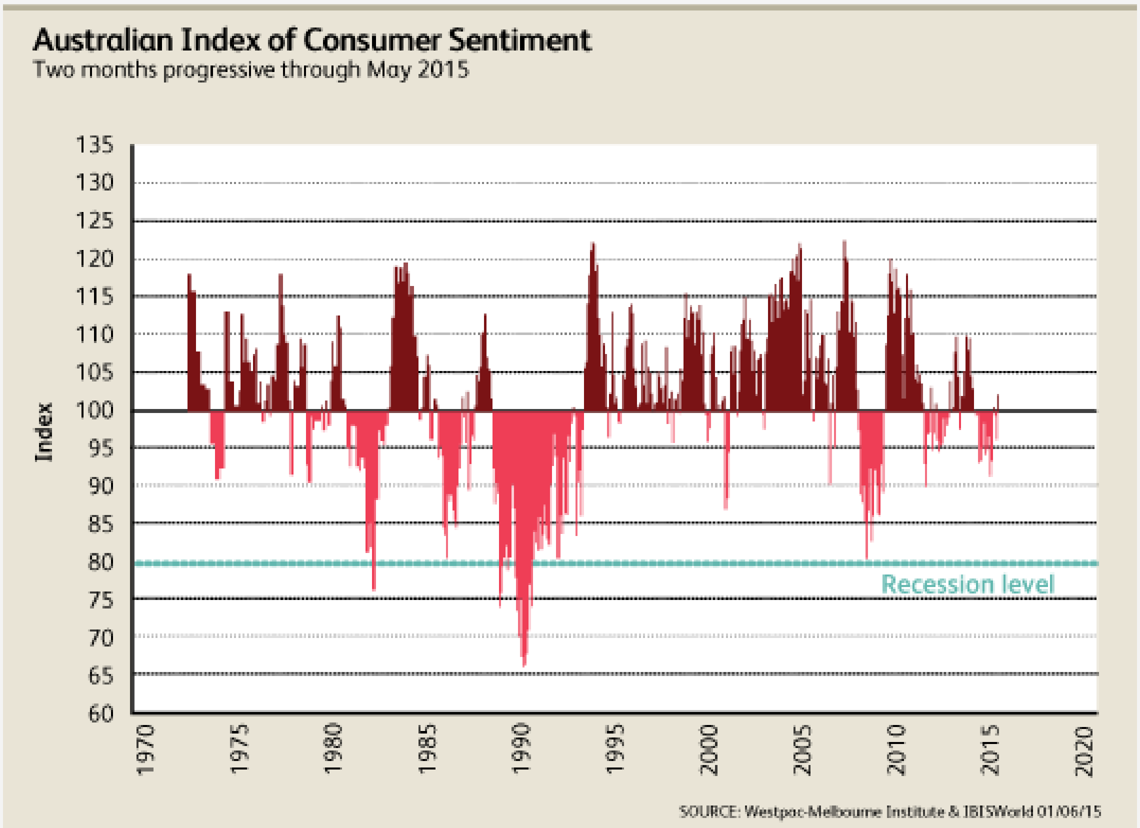
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.25	2.00	2.00
90 day Bank Bill	2.64	2.73	2.26	2.14	2.15
180 day Bank Bill	2.64	2.79	2.29	2.25	2.25
1 year swap	2.55	2.55	2.07	2.06	2.09
3 year swap	2.76	2.45	2.09	2.20	2.25
5 year swap	3.16	2.64	2.35	2.65	2.68
10 year swap	3.77	2.97	2.71	3.27	3.29
AUD/USD	0.9385	0.8224	0.7788	0.7761	0.7405
S&P/ASX200 Index	5,531.7	5,309.1	5,877.9	5,597.0	5,670.1

CHARTS OF THE WEEK

The world is made up of 230 nations, principalities and protectorates, with a global population of 7.3 billion. Some of these nations are happy nearly all of the time, some are miserable most of the time, and some are up and down like a yoyo. Do these differences matter, and do they reflect the underlying state of these economies?

Most developed nations adopted an index some five decades ago, in the early 1970s, to gauge the happiness or sentiment of the population looking out over the year ahead: the consumer sentiment index (CSI), measured monthly by pollsters.

A nation needs to get over 100 points for the majority to be confident. Australia's sentiment is shown in the first chart: a yoyo pattern. At 100 points on this index, the population is 50/50 in terms of believing the year ahead will be either better or worse than the current one. Sentiment is more volatile than actual economic growth, which is very rarely negative.

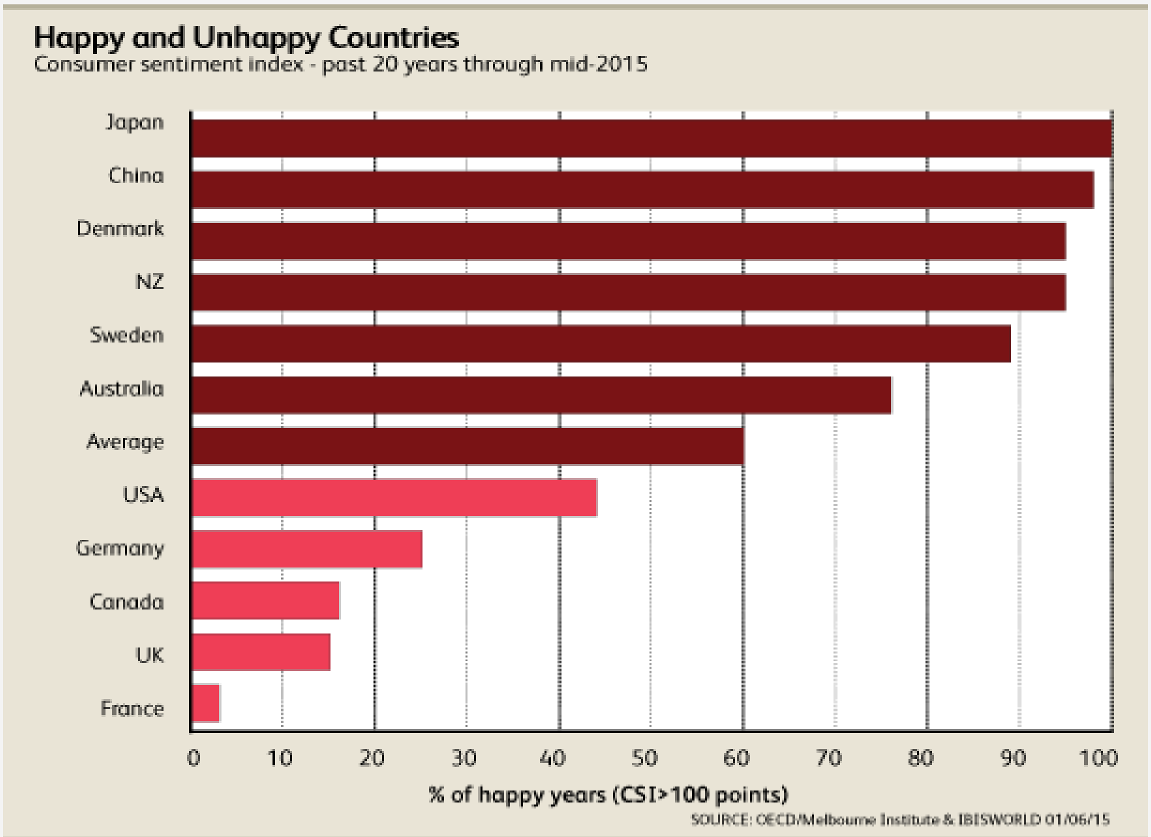


Over half Australia's population has been confident for nearly 60% of the time over the past 40 years. We were confident for only 42% of the tumultuous years between 1975 and 1995, but confident for nearly three-quarters of the time since. We have had only two recessions over the past 40 years, and none since 1992.

The line of dashes shows how unhappy we actually need to be to incur a recession: below 80 points, a rare occurrence in our nation since the New Age began in the mid-1960s

A summary of happiness over the past 20 years is shown below for 11 nations, including Australia. All nations shown are developed nations, except China. The data shows the percentage of years that each country has scored over 100 points on the CSI, with over half the population confident about each year ahead.

CHARTS OF THE WEEK



One nation, Japan, appears permanently happy with its lot in life, and each year ahead, despite economic growth of a lowly 1.1% per annum over the past 20 years. Is this politeness, resignation, or true composure and happiness? China is close behind in happiness, but with astonishing economic growth averaging 8.8% per annum over the same period. Two very happy nations with vastly different economic growth; although Japan has an advanced and full-employment economy to make it content, and China is witnessing a rapid rise in its standard of living off a very low base.

Australia sits in the middle, ahead of the average.

Five nations are generally unhappy, being confident for less than half the time.

France, with a population of some 60 million, seems permanently despondent, with the United Kingdom close behind. How do you make a Pom happy? Rumour has it they are actually happy being miserable!

Most nations had only one year of recession over the past 20 years, four had none, and the United Kingdom had three years of recession.

The extraordinary thing is that the economic growth of these nations has been all positive over the past 20 years, mostly in the same ballpark of growth of around 2.9%, except Japan (low) and China (very high). And largely recession free. So why the huge diversity of sentiment, confidence or happiness?

It comes down to the culture and psyche of nations, ignored by businesses at their peril. There are idiosyncrasies in all societies, but history and traditions - being long-held customs from even longer held habits - are embedded, and slow to change.

Source: IBISWorld Pty Ltd 4th June 2015
Article by Phil Ruthven, Chairman of IBISWorld

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Our products and services are available at over 400 regional locations nationally including Bendigo Bank branches, Elders Rural Services branches and our Investment Centre in Adelaide.

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