WEEKLY ECONOMIC COMMENTARY

Week beginning 24th February 2014

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

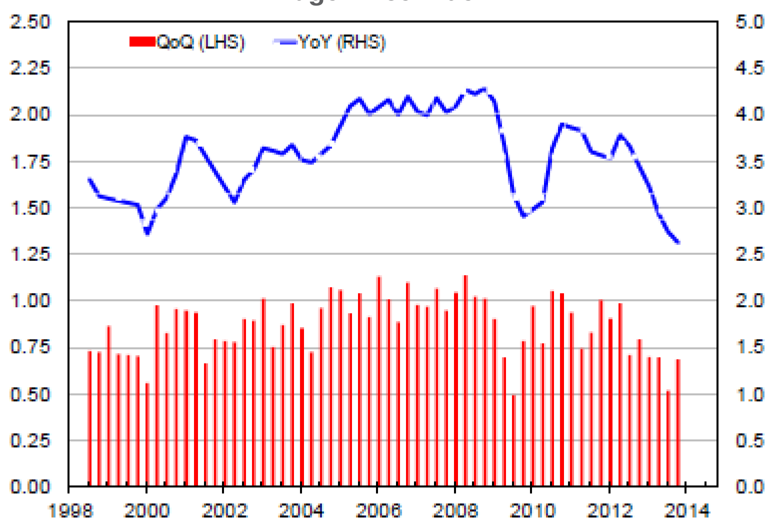
Economic Data	Period	Actual	Previous
New Motor Vehicle Sales	January	-3.5%	+1.7%
DEEWR Internet Vacancies	January	+1.4%	-0.6%
Wage Price Index	December quarter	+0.7%	+0.5%

New motor vehicle sales fell 3.5% in January to be down 3.0% over the last year. SUV and “other” commercial vehicle sales fell sharply in January (down 4.6% and 5.1% respectively), while sales of passenger vehicles also fell significantly (down 2.1%).

The DEEWR **Internet Vacancies Index** was up 1.4% in January to be down 3.2% annually, a further sign that labour demand is turning. The monthly rise was across all occupational groups, with the largest being sales workers (+2.9%) and technical and trade workers (+2.0%), while the smallest rise was seen in machinery operators and drivers (+0.5%).

The **Wage Price Index** rose 0.7% in the December quarter to be up 2.6% on an annual basis – the weakest annual pace of growth since this series commenced in 1999. The gain in this quarter was driven by the public sector which was up 0.9% and up 2.7% annually, while private sector wages rose 0.6% to be up 2.5% over the year. By sector, "information media and telecommunications” posted the strongest gain (at +1.1%), while “other services” posted a gain of just 0.1%.

Wage Price Index



Source: ABS & Citi Research

The Minutes of the latest Reserve Bank Board meeting released last week revealed no new colour to what we know already (given the Statement on Monetary Policy was released three days after the meeting) and merely confirmed that the RBA has shifted to a neutral policy stance. The Minutes affirmed the assessment made in the post-meeting statement that "if the economy evolved broadly as expected, the most prudent course would likely be a period of stability in interest rates". On the currency, the RBA noted that it had "depreciated further since the December meeting although members agreed that it remained uncomfortably high and a lower level would likely be needed to achieve balanced growth in the economy". The Minutes also focused on the higher than expected December quarter CPI number and, while discussing several possibilities for the rise in inflation, the RBA could not pinpoint the reason. The Minutes suggested there would be a heightened focus on future CPI data releases.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Construction Work Done	26 Feb	Dec/quarter	-1.0%	+2.7%
Private Capital Expenditure (CAPEX)	27 Feb	Dec/quarter	-1.7%	+3.6%
Private Sector Credit	28 Feb	January	+0.4%	+0.5%

ECONOMIC COMMENTARY

LAST WEEK

With very little in the way of significant economic data releases last week, the Reserve Bank's Minutes were the key event, with the Minutes repeating that the "most prudent course would likely be a period of stability in interest rates". The central bank indicates a likely period of stability in interest rates assuming the economy evolves as expected.

The local data this week did reveal that wage cost growth is slowing and is now at the slowest in the seventeen year history of the data at 2.6%, even weaker than what was recorded during the GFC and down more than 1% from the recent peak of 3.8% recorded in mid 2012.

Offshore, there were no big surprises in last week's release of the US Federal Reserve's February Board meeting Minutes which suggested the Fed remains positive on the US economic outlook. The Minutes confirmed recent communication that the central bank remains optimistic on the outlook for the US economy and plans to continue to taper its asset purchases by USD10bn each month. The Fed continued to maintain its pledge to keep interest rates low for some time to come. Analysts also looked through the weather-impacted US economic data released last week which was weaker than expected but did not significantly move financial markets.

By the close of trading on Friday, the 90-day bank bill was trading at 2.63% from 2.64% a week earlier. At the long end, 3 and 10 year bond yields closed higher at 3.02% and 4.22% from 2.95% and 4.11% a week earlier.

CURRENCY

The Australian dollar fell to a one-week low of USD0.8937 last week following the release of poor Chinese manufacturing data but pushed higher to once again sit above the 90 cent level as optimism about the outlook for the US economy re-emerged and improved sentiment. This was despite the release of weak US economic data that seems to be discounted away by traders as "a result of the bad winter weather".

By the close on Friday, the AUD was virtually unchanged over the week trading at USD0.8994 compared to USD0.8997 a week earlier.

EQUITIES

Another solid week of company interim reporting has seen our share market post a solid gain last week. The index is up over 5% this year and stopped just five points shy of a five year high last Friday. Resource stocks, especially BHP's lift over $39 helped the market push higher into the close last week and a break here would certainly be welcomed by the bulls.

By the close on Friday the S&P/ASX200 Index was trading at 5,438.7, up 81 points or 1.5% compared to 5,356.3 a week earlier.

THIS WEEK

The key data release will be this Thursday's capital expenditure (capex) data for the December quarter. Economists are forecasting a partial reversal of the large one-off rise recorded in the previous quarter. Ahead of the capex data on Wednesday, we get the first of the partial indicators that feed into the upcoming December quarter GDP number – the "quarterly construction work done" release. We also get private sector credit data for January out on Friday.

INTEREST RATE VIEW

Market pricing has been steady over the last week with virtually no chance being given to any further rate cuts by the RBA, a 20% probability of a 25 basis point rate hike by the end of 2014 and a 40% probability of a 25 basis point rate hike by March 2015.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	3.00	2.50	2.50	2.50	2.50
90 day Bank Bill	2.96	2.59	2.59	2.63	2.63
180 day Bank Bill	2.96	2.61	2.63	2.64	2.67
1 year swap	2.99	2.69	2.76	2.76	2.80
3 year swap	3.27	3.26	3.38	3.30	3.33
5 year swap	3.64	3.83	3.97	3.87	3.90
10 year swap	4.20	4.64	4.78	4.66	4.68
AUD/USD	1.0312	0.8993	0.9183	0.8809	0.8994
S&P/ASX200 Index	5,018.1	5,123.4	5,335.9	5,263.0	5,438.7

CHART OF THE WEEK

Is the government right to bail out farmers?

Source: Business Spectator: 18 February 2014, Article by Harrison Polites

Rain may have drowned out Prime Minister Tony Abbott's weekend visit to the driest regions of Australia a week ago but it hasn't dampened his ambitions to bail out the country's drought stricken farmers.

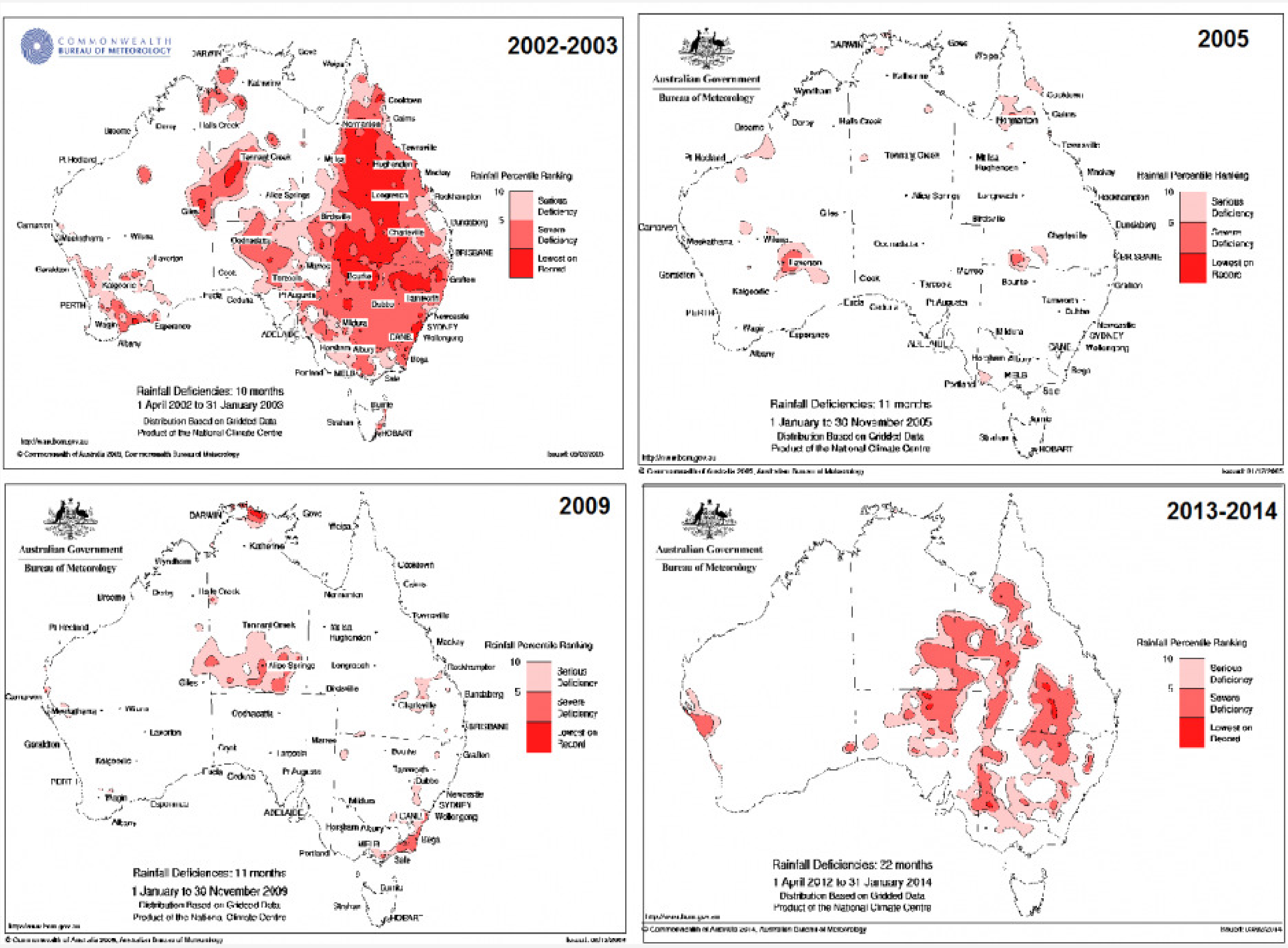
The government's new agricultural equivalent of the dole -- the farmer household assistance payment -- is set to come into effect by the June 2014, with the government flagging a possible earlier start date for the scheme. This payment was first recommended by the Productivity Commission as a result of an inquiry into drought relief in 2009. Its introduction has been on the cards for a couple of years.

But the government has now also flagged further support for the sector, eyeing its own loan scheme for farmers suffering drought. Is this one step to far?

It's fair to say the government's likely to have a fair bit of trouble selling the idea of further support to the public, given that just a fortnight ago it turned away another food producer, SPC Ardmona, without a second thought. On one hand the government is declaring the end of the "age of entitlement" and with the other it's planning to palm out funds elsewhere.

So what do you think? It's a complex debate, and we've put together a few simple facts on both sides of the argument to help you navigate it.

For more government support - Australia is in drought.



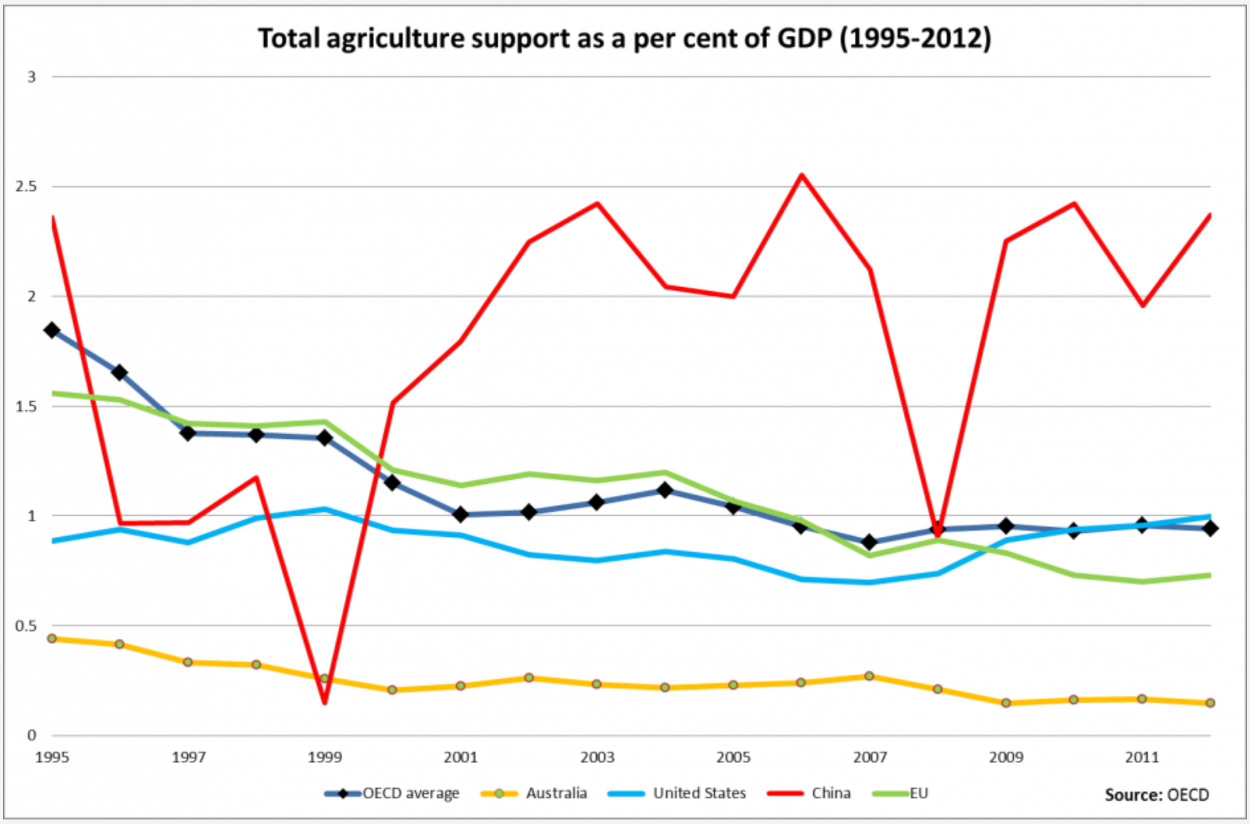
Farmers depend on Australia's rainfall patterns and, as the graph above shows, they can change quite wildly over time.

This current drought doesn't compare to conditions in 2003, but particular regions of the country are still drier than usual. It's also worth noting that when looking at the Bureau of Meteorology's alerts over time, it seems that Australia is continuously at least partly in drought.

CHART OF THE WEEK

Our OECD counterparts are much more heavily subsidised

As Malcolm Turnbull pointed out on *Q&A* last week, Australia subsidies its farmers a lot less than the rest of the OECD.



In terms of the average amount of subsidy per business, we sit somewhere in the middle and are nowhere as extravagant as the EU.

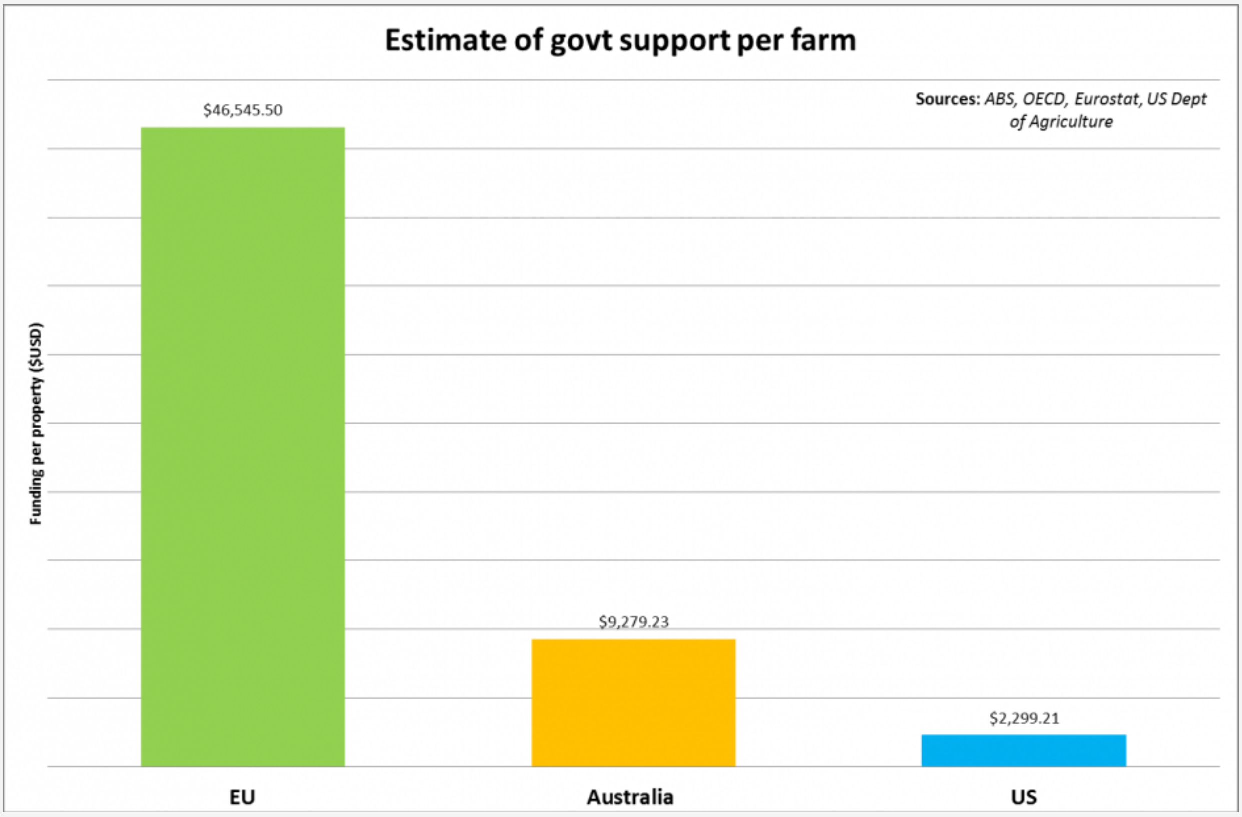
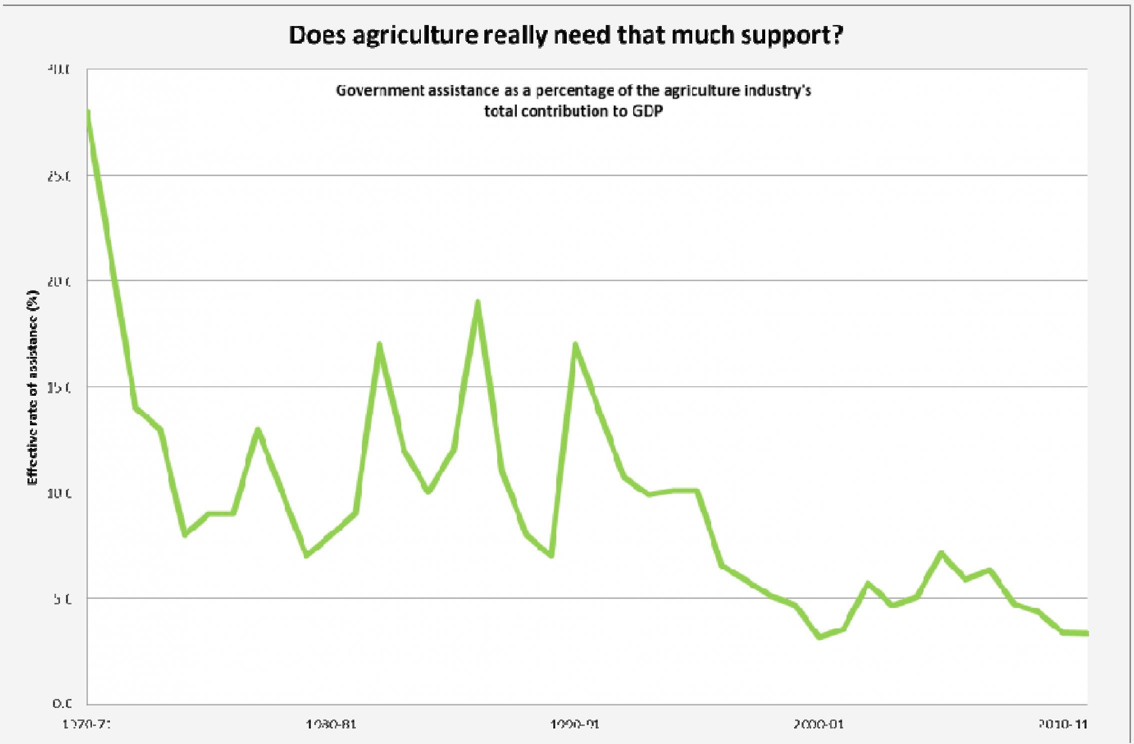


CHART OF THE WEEK

Against further support for farmers - The sector is less dependent on assistance than ever before

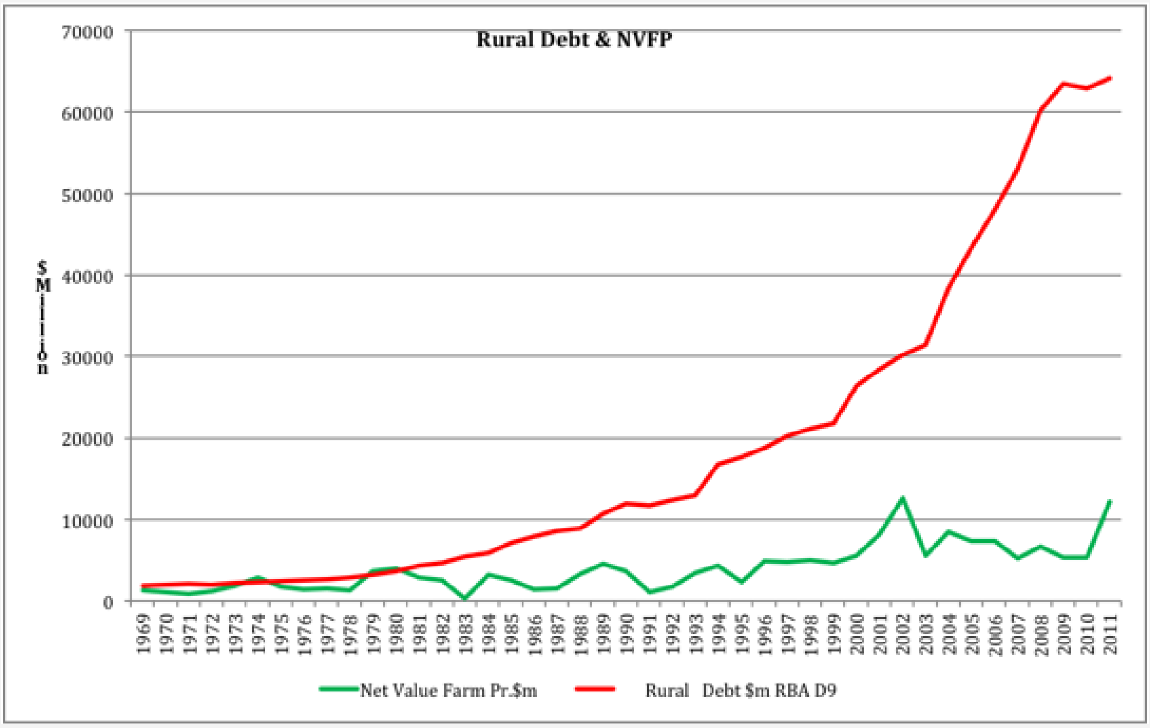
The agricultural sector may need support during a drought, but according to an earlier study by the Productivity Commission, its reliance on these handouts has diminished over time.

In the 1970s over 25 per cent of the sector's total contribution to GDP came as a direct result of government aid. This has since trended downwards, rising slightly during times of drought.



Farmers really don’t need any more debt

The government’s solution to dole out loans with favourable terms may not actually ease the problem. As this graph from the Global Farmer shows, Australian farmers are already bogged down in debt.



Rural Bank Limited is a wholly owned subsidiary of Bendigo and Adelaide Bank Limited and specialises in providing banking products and services to the Australian Agribusiness sector. Our customers are predominantly based in rural and regional Australia, although many of our deposit customers are from metropolitan areas.

Rural Bank's heartland is in rural Australia. We are fully committed to providing a leading, specialised banking service to primary producers, agribusiness participants and individuals or businesses seeking business loans. As part of the Bendigo and Adelaide Bank Group, we also offer customers the benefit of the broader capabilities offered by Bendigo and Adelaide Bank.

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 metropolitan branches in Adelaide and Perth.

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