# WEEKLY ECONOMIC COMMENTARY

### Week beginning 4th November 2013

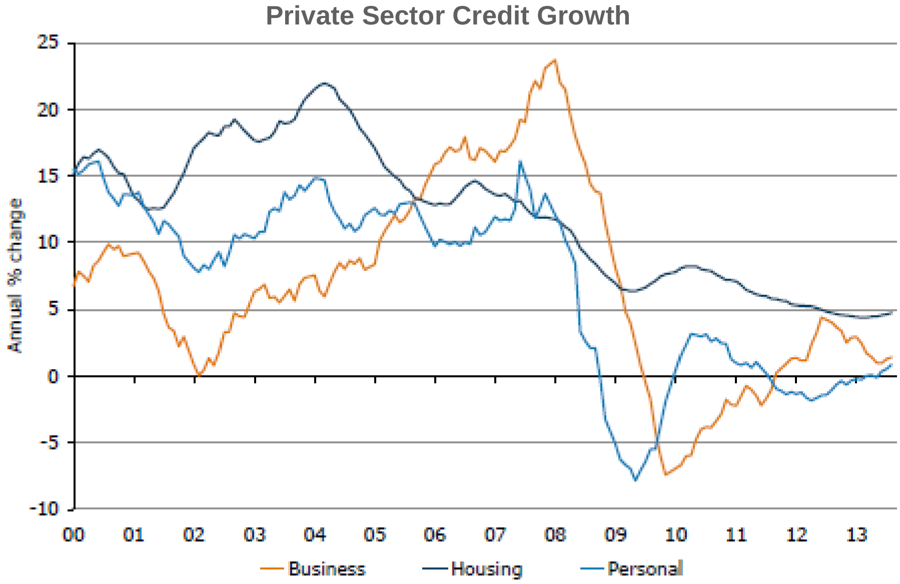
## ECONOMIC DATA ROUNDUP

### DATA RELEASED LAST WEEK

| Economic Data | Period | Actual | Previous |
|---|---|---|---|
| Building Approvals | September | +14.4% | -4.7% |
| Private Sector Credit | September | +0.3% | +0.3% |
| International Trade – Import prices | Sept quarter | +6.1% | -0.3% |
| International Trade – Export prices | Sept quarter | +4.2% | -0.3% |

**Residential Building Approvals** rose by a larger than expected 14.4% in September, to be up 18.6% over the last year. The September result was the strongest monthly growth rate in just over a year, with just over 16,000 approvals in the month, representing the second highest number in over a decade. The strong result this month was driven by a large 32% rise in the volatile "other" residential sector (units and apartments), while new home approvals were up 1.9% in the month.

**Private Sector Credit** increased by 0.3% in September to be up 3.3% annually. Housing Credit was up 0.4% in the month (+4.8% annually) reflecting the strength the housing market has displayed for some time now, Personal Credit rose 0.3% (+1.0% annually) while Business Credit fell 0.1% (+1.1% annually) with economic uncertainty continuing to weigh on business conditions, investment and borrowing.




Import prices were up 6.1% in the September quarter while export prices rose 4.2%.

In other news, the Housing Industry Association's new home sales report showed new home sales lifted by 6.4% in September, the fastest monthly growth since April last year. This increase was underpinned by a 4.5% rise in detached house sales and a 19.9% jump in multi-unit sales.

Data over the next week

| Economic Data | Date | Period | Forecast | Previous |
|---|---|---|---|---|
| Retail Sales | 4 Nov | September | +0.3% | +0.4% |
| House Price Index | 4 Nov | Sept Quarter | +1.5% | +2.4% |
| RBA Board Meeting – Rates Decision | 5 Nov | November | 2.50% | 2.50% |
| Trade Balance | 6 Nov | September | -$150m | -$815m |
| Employment | 7 Nov | October | +13,000 | +9,100 |
| Unemployment | 7 Nov | October | 5.7% | 5.6% |

# ECONOMIC COMMENTARY

## LAST WEEK

Despite some surprisingly strong building approvals data out last week suggesting that rate cuts are finally gaining some traction, the main focus for financial markets was on events offshore. Market participants reacted positively to a series of poor economic data releases in the US early last week. Yes, despite the poor data, we saw a positive rather than negative reaction (what could also be described as "irrational exuberance") because the data increased the likelihood that the US Federal Reserve will delay the tapering of its bond-buying program. This resulted in a rally in US bonds (yields fell) and Wall Street posted a new all-time high.

The outcome of the US Fed meeting on Thursday was as expected, leaving monetary policy unchanged. However, the Fed revealed a surprisingly optimistic assessment of the US economy, much against economist's expectations that they would downgrade their economic outlook, which resulted in a reversal of the earlier gains in financial markets.

By the close of trading on Friday, the 90-day bank bill was trading at 2.58% compared to 2.60% last week. At the long end, 3 and 10 year bond yields closed higher at 3.05% and 4.07% from 3.01% and 3.97% a week earlier.

## CURRENCY

The Reserve Bank Governor Glenn Stevens flexed his muscles on the Australian Dollar in a speech last week, arguing that the current exchange rate is not supported by Australia's relative costs and productivity, and that the terms of trade would fall from here. He made it known that the RBA has a different view of the exchange rate to the market, inferring that the RBA would prefer a lower AUD than an even lower policy rate. The Governor would have been pleased with the fall in the Australian Dollar last week which took a further fall after the US Dollar strengthened against major currencies following the conclusion of the US Fed meeting.

By the close on Friday, the AUD was trading at USD0.9481 compared to USD0.9601 a week earlier.

## EQUITIES

Our share market followed the positive lead from Wall Street early last week, rallying to a new five-year high of 5,453.1 before pulling back later in the week.

Commodities took a bit of a fall late last week, especially gold, as investors squared up positions at the end of October. There's been a bit of press recently about Russia's central bank selling gold and then another press report suggesting that consumer demand for gold out of India had weakened, not to mention the ever elusive US tapering which remains in the background. Whatever the reason, gold was hit hard, falling $24 to $1,325, silver was hit even harder, down 4.5%, and base metals were lower, including copper which was down 1%. Even crude oil fell 0.5%. Despite this latest pull back, our share market was still up 4% over the month of November.

By the close on Friday the S&P/ASX200 Index was trading at 5,411.1 compared to 5,321.5 a week earlier.

## THIS WEEK

There is a mix of economic data out this week including Retail Sales, Trade Balance and the latest employment numbers. The recent pick up in consumer sentiment should be positive for retail trade. The trade deficit is forecast to narrow due to recent higher Chinese iron ore imports. After three consecutive falls in the labour force, analysts are expecting a rebound that lifts participation in the labour force by more than the gain in employment. This should see the unemployment rate creep up to 5.7%. The RBA Board meets this Tuesday and while we expect no change in the cash rate, we do expect to see a renewed focus on the currency in their accompanying commentary.

Later in the week (on Friday) the RBA will release its latest Statement on Monetary Policy in which it will update its growth and inflation forecasts from the previous August Statement. Back then, the forecast GDP growth in 2013 was 2.25% and growth to June 2014 was estimated to be 2.5%. While inflation is expected to stay in the lower end of the RBA's target range, economic growth is expected to remain below trend at 2.25% to 2.50% and is not expected to return to trend (2.50% to 3.50%) until the second half of 2014.

### INTEREST RATE VIEW

Markets are positioned for a "no change" outcome from the RBA Board Meeting on Melbourne Cup Day and for the first time since 2005, the November RBA Board meeting will not be "live". This will be the first RBA Board meeting post the September quarter CPI data and while the Reserve Bank has been known to adjust the cash rate following an update on CPI, there is no market speculation about any likely move in rates this time.

| Economic Data | 12 months ago | 6 months ago | 3 months ago | 1 month ago | Now |
|---|---|---|---|---|---|
| Official Cash Rate | 3.25 | 3.00 | 2.75 | 2.50 | 2.50 |
| 90 day Bank Bill | 3.15 | 2.88 | 2.63 | 2.56 | 2.58 |
| 180 day Bank Bill | 3.14 | 2.80 | 2.59 | 2.59 | 2.62 |
| 1 year swap | 3.07 | 2.81 | 2.59 | 2.69 | 2.76 |
| 3 year swap | 3.18 | 3.00 | 3.03 | 3.25 | 3.35 |
| 5 year swap | 3.46 | 3.32 | 3.56 | 3.79 | 3.88 |
| 10 year swap | 3.91 | 3.83 | 4.37 | 4.48 | 4.59 |
| AUD/USD | 1.0396 | 1.0254 | 0.8904 | 0.9387 | 0.9481 |
| S&P/ASX200 Index | 4,460.1 | 5,129.5 | 5,116.8 | 5,215.6 | 5,411.1 |

# CHART OF THE WEEK

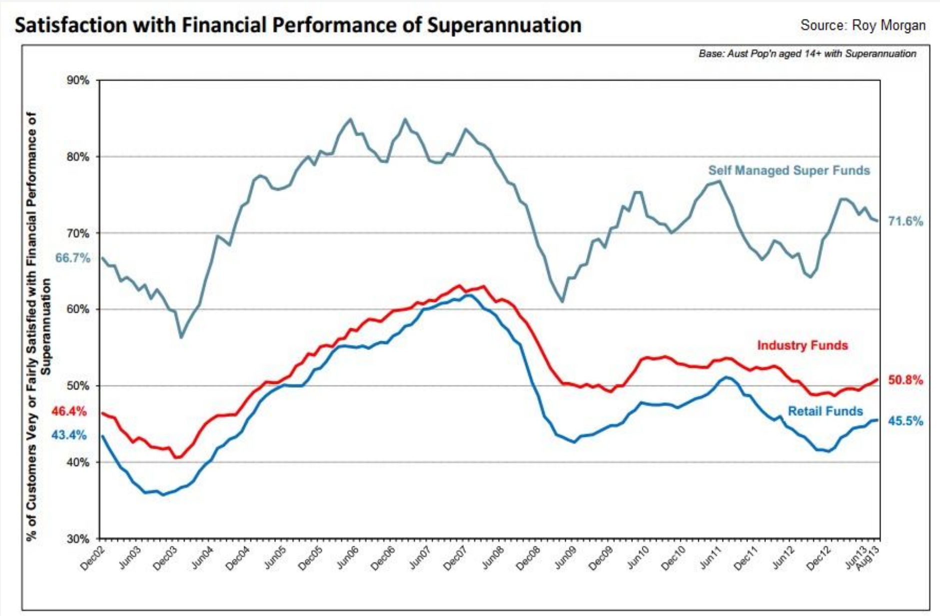
## The top 10 super funds by customer satisfaction

Industry super funds have wiped the floor with their retail rivals in a new report that awards industry funds with nine of the top 10 rankings for client satisfaction. The research from Roy Morgan draws on responses from more than 33,000 respondents and measures the satisfaction of members across the self managed, industry and retail funds.

While the self-managed super fund sector exhibits the most satisfied members by a long margin, the other key finding we can draw from this research is a long-standing outperformance of industry funds over super funds on the same metric.

The report showed members of industry funds have expressed a materially higher level of satisfaction with their funds than retail fund members since the survey began in 2002.

That level of outperformance became negligible during the global financial crisis, when the prices of all assets fell substantially. But let’s face it; few investors were happy with the performance of their fund during that time.




But what is equally interesting is the strong performance of smaller funds. Coming in at the top of the table, after recording customer satisfaction levels of 75.4%, was ESS Super. ESS Super is a relative minnow in the superannuation pool. The fund established for emergency services staff and state employees has just $16 billion under management or roughly one third the funds of Australian Super.

In second place for customer satisfaction was Catholic Super, another small fund aimed at a very specific segment of the market with just $5.2 billion under management. Catholic Super states that it operates within a Christian ethical framework and this values based approach has clearly been a bit hit with its 75,000 members who recorded a 75% customer satisfaction level.

| Rank | Name | Level of satisfaction |
|---|---|---|
| 1 | ESS Super | 75.4 |
| 2 | Catholic Super | 75.0 |
| 3 | HESTA | 54.5 |
| 4 | CARE Super | 53.5 |
| 5 | CBUS | 52.2 |
| 6 | First State Super | 51.8 |
| 7 | UniSuper | 51.7 |
| 8 | BT | 50.6 |
| 9 | Australian Super | 49.3 |
| 10 | Health Super | 48.5 |

Looking further down the list, we note the performance of BT, the only retail fund to crack the top 10, with a satisfaction rating of 50.6%. This is a vast improvement on last year, where the group ranked 13th overall.

The strong performance of the smaller industry funds can be attributed to a number of important factors.

The first is the manner in which the funds reflect the values and needs of their members which is arguably a much harder job for retail funds and the larger industry funds. The second is, without a shadow of doubt, the performance of these funds. Industry funds are well known for a laser-like focus on costs without sacrificing returns and that, after all, is the outcome we all look for.

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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.

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