

# WEEKLY ECONOMIC COMMENTARY

## Week beginning 7<sup>th</sup> April 2014 ECONOMIC DATA ROUNDUP

### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Private Sector Credit	February	+0.4%	+0.4%
ABS Job Vacancies	February/Q	+2.6%	-1.7%
Building Approvals	February	-5.0%	+6.8%
Retail Sales	February	+0.2%	+1.2%
Trade Balance	February	-\$1.2bn	+\$1.433bn

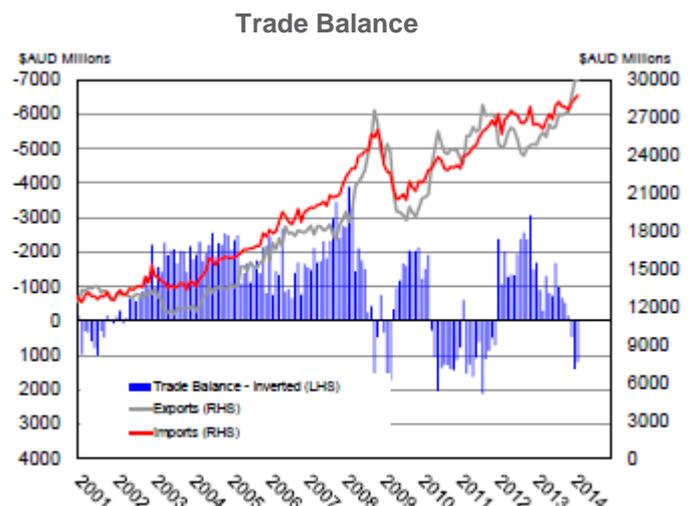
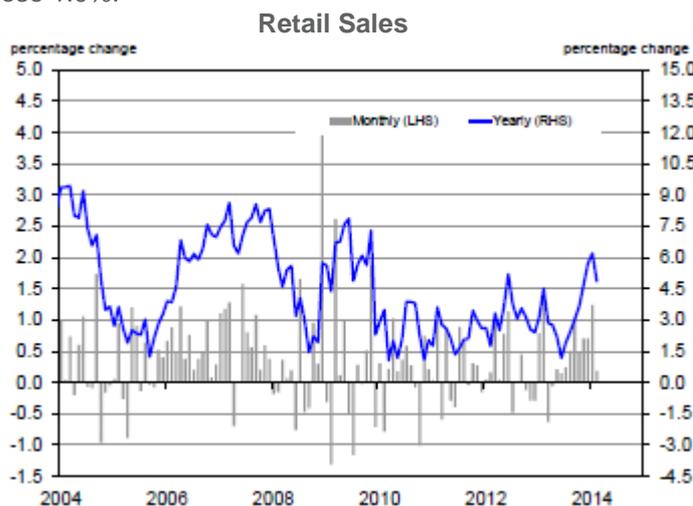
**Private Sector Credit** rose by 0.4% in February, reflecting the impact of low interest rates and improving household and business confidence, to be up 4.3% over the last year. Housing Credit was up 0.5% in the month (+5.8% annually), Business Credit rose 0.4% (+2.4% annually), while Personal Credit fell 0.2% (+0.7% annually).

The **ABS Job Vacancies Index** was up 2.6% in the three months to February representing the first increase in two years. Private sector job vacancies grew by 2.7% while roles in the public sector rose 1% after falling by 13.8% in the three months to November.

**Building Approvals** fell by 5.0% in February but remain 23.2% higher than a year ago. Approvals for private sector houses fell 2.8% in the month (+15.8% annually) while “other dwellings”, which includes apartment blocks and townhouses, posted a fall of 7.7% (+34.4% annually). The housing market is responding well to the historically low interest rates, with increased housing sales and solid gains in house prices driving strong levels of housing construction.

**Retail Sales** grew by 0.2% in February to be 4.9% higher over the year. Retail spending continues to be supported by strong demand for durable goods -- which is usually a sign of a cyclical upswing – and ‘other’ retailing. Cafes and restaurants rose modestly in February but have climbed by around 10% over the year. Spending at department stores fell sharply in February, following solid gains in January, and is now 4.2% lower over the year.

The **trade balance** was better than expected, posting a surplus of \$1.2bn in February. Exports were flat (but still up 17.6% over the year), with growth in hard commodities (led by coal and gas) offset by falls in rural and gold, while imports rose 1.0%.



Source: ABS & Citi Research

### Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	07 April	March	n/a	+5.1%
Housing Finance	09 April	February	+1.5%	+0.0%
Westpac/MI Consumer Sentiment	09 April	April	n/a	-0.7%
Employment	10 April	March	-5,000	+47,300
Unemployment	10 April	March	6.1%	6.0%

# ECONOMIC COMMENTARY

## LAST WEEK

The Reserve Bank of Australia left the official cash rate unchanged at 2.50% as widely expected last week. The only new piece of information was the RBA noting that "the decline in the exchange rate from its highs a year ago will assist in achieving balanced growth in the economy, but less so than previously as a result of the rise over the past few months". The RBA once again concluded its commentary by noting that "the most prudent course is likely to be a period of stability in interest rates".

The European Central Bank also left monetary policy unchanged at 0.25% last week, as expected, but ECB President Mario Draghi said that if low inflation persisted, the use of "unconventional instruments" (lower interest rates or further quantitative easing) would be considered.

The generally strong economic data releases both here and offshore last week created a positive/risk-on tone to markets which pushed bond yields higher last week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.68% compared to 2.69% a week earlier. At the long end, 3 and 10 year bond yields closed at 3.04% and 4.16% from 2.98% and 4.07% a week earlier.

## CURRENCY

After the RBA's Board meeting announcement, traders were initially buoyed that the RBA Governor Glenn Stevens hadn't increased the stakes in attempting to jawbone the Australian Dollar lower, merely saying that it was high by historical standards. After spiking to a high of USD0.9304, on a second reading there was a hint that Mr Stevens might be thinking that the local currency, which has risen 3.8% in March and 7% since January, may be starting to cause some pain. From the high on Tuesday, the currency drifted lower and traded a range of USD0.9220 to USD0.9240 most of the week.

By the close on Friday, the Australian Dollar was trading at USD0.9238 compared to USD0.9264 a week earlier.

## EQUITIES

Improved risk appetite along with generally positive economic data releases saw global equity markets post gains last week. US markets responded to comments made by US Federal Reserve chair Janet Yellen that Fed policy would remain accommodative for some time yet.

By the close on Friday the S&P/ASX200 Index was trading at 5,422.8 compared to 5,366.9 a week earlier.

## THIS WEEK

The main economic data release this week will be the latest jobs data, with March ANZ job ads out on Monday and employment numbers on Thursday. Economists are expecting a small decline in the number employed after the massive 47,300 recorded last month, and an increase in the unemployment rate. There is also a range of sentiment data due out over the course of the week (notably the monthly NAB business survey and consumer sentiment), as well as the ANZ's job ads series.

Offshore, the Bank of England and the Bank of Japan hold monetary policy meetings with no changes in monetary policy settings expected from either central bank.

## INTEREST RATE VIEW

There seems very little (if any) talk of a further interest rate cut in this cycle so yields are biased to a rise from here. Current financial markets futures pricing remains fair with a 25% probability of a rate hike by December 2014 and a full 25 basis point rate hike priced in by May next year.

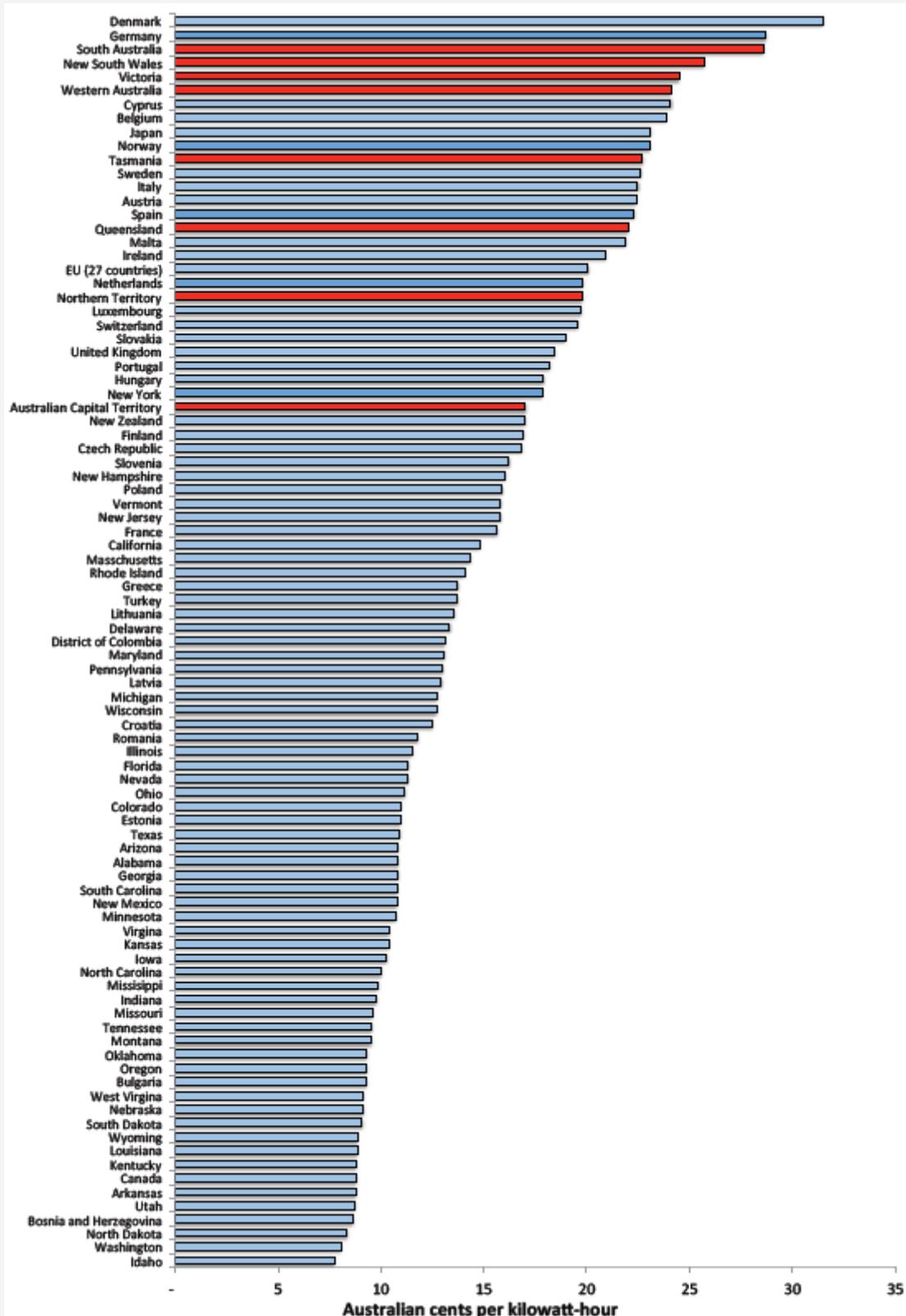
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	3.00	2.50	2.50	2.50	2.50
90 day Bank Bill	3.07	2.58	2.62	2.65	2.68
180 day Bank Bill	3.12	2.59	2.65	2.67	2.73
1 year swap	3.16	2.70	2.79	2.80	2.84
3 year swap	3.34	3.31	3.37	3.27	3.34
5 year swap	3.67	3.85	3.97	3.81	3.86
10 year swap	4.16	4.56	4.84	4.56	4.58
AUD/USD	1.0430	0.9436	0.8945	0.9017	0.9238
S&P/ASX200 Index	4,891.4	5,208.0	5,324.9	5,445.9	5,422.8

# CHART OF THE WEEK

Having discussed and compared my latest home electricity bill with the Bank's Financial Controller, he was adamant that electricity prices had increased considerably over the last year or so. I came across this report which I thought was very topical (and surprising) given the conversation I had last week.

## Electricity Prices in Australia: An International Comparison

It is commonly considered that Australia's electricity prices are low in comparison to those in other developed countries. However, household electricity prices in Australia have risen by more than 40% since 2007, and are projected to rise by another 30% by 2013/14. The chart below is a comparison of 2011 household electricity prices for the 91 countries, states and provinces in the comparison. It shows the ranking of each jurisdiction (province, state or territory) from highest to lowest prices. Australian states and territories are marked in red.



## CHART OF THE WEEK

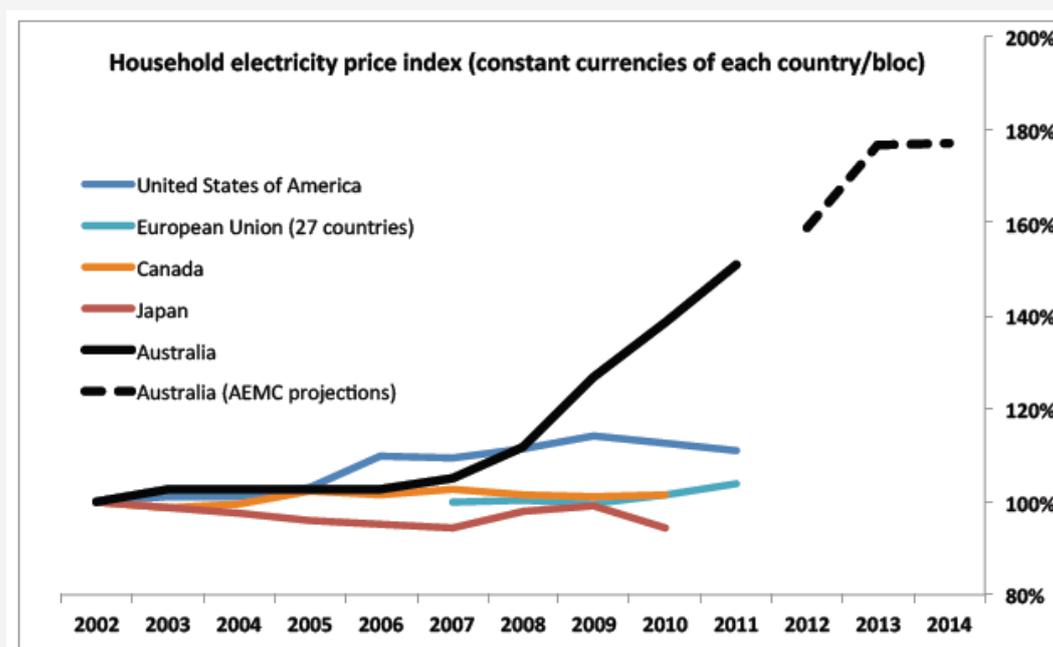
Household electricity prices in four Australian jurisdictions in 2011 were in the top six. They are South Australia (third highest), New South Wales (fourth highest), Victoria (fifth highest), and Western Australia (sixth highest). Tasmania is the eleventh highest and only Queensland (sixteenth), the Northern Territory (twenty-first) and the Australian Capital Territory (twenty-ninth) and lie outside of the top eleven.

Electricity prices in other developed economies have been stable or have risen (and in some cases declined) very gradually over the last decade. The sharp increase in Australian electricity prices combined with changes in exchange rates has meant that average electricity prices to households in Australia are now higher than those in Japan, the EU, U.S. and Canada. The gap may widen after taking account of further expected price rises in Australia by the Australian Energy Markets Commission (AEMC) as shown in the chart below.

The analysis shows that change in exchange rates between 2007 and 2011 have increased the difference between household electricity prices in Australia and those in the U.S., the EU and Canada. However exchange rate changes have been less significant than rising prices: even if 2007 rates of exchange are used, household electricity prices in Australia in 2011/12 are still higher than those in the EU, U.S., Japan and Canada.

Figure 2 is an index of household electricity prices in constant currency starting from 2002. The index shows how electricity prices have changed since 2002. The index value for each country has been calculated in real terms (constant currency) of that country. It therefore excludes the impact of inflation on prices and also is not affected by currency conversions.

Figure 2 shows that household electricity prices in the U.S., EU, Canada and Japan have been stable in the period from 2002 to 2010/11. By contrast Australian electricity prices were stable from 2002 to 2007 but since then have risen around 40% in real terms and are projected to rise a further 30% over the next two years.



Note: AEMC = Australia Energy Markets Commission

Source: Electricity Prices in Australia: An International Comparison  
A report to the Energy Users Association of Australia by Bruce Mountain, Director, CME  
March 2012  
(CME is an energy economics consultancy focused on Australia's electricity, gas and renewables markets).



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