# WEEKLY ECONOMIC COMMENTARY

**Week beginning 8th June 2015**

## ECONOMIC DATA ROUNDUP

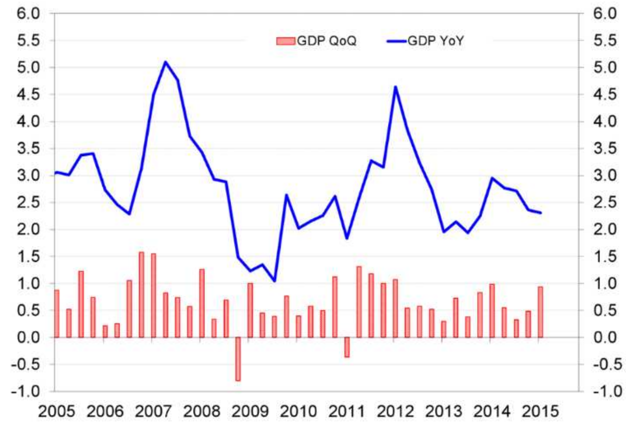
### DATA RELEASED LAST WEEK

| Economic Data | Period | Actual | Previous |
|---|---|---|---|
| Building Approvals | April | -4.4% | +2.8% |
| Balance of Payments (Current Account Deficit) | March Quarter | $10.7bn | $9.6bn |
| GDP | March Quarter | +0.9% | +0.5% |
| International Trade in Goods & Services | April | -$3.9bn | -$1.32bn |
| Retail Sales | April | +0.0% | +0.3% |

**Building approvals** fell by 4.4% in April, but are up 16.3% over the year. A pull-back in private "other dwellings" (i.e. apartments) drove the result, with this component down 15.0% in the month, but this series is still 26.8% higher over the year. Private house approvals were stronger, rising 4.7% in the month to be up 9.1% annually.

The **current account deficit** widened slightly to $10.7bn (or 2.7% of GDP) in the March quarter. Exports lifted 5.0% in the quarter while imports rose 3.1%. The terms of trade fell 2.9% in the quarter to be down 11.5% annually.

The national accounts data reported a better than expected 0.9% increase in **economic growth (GDP)** for the March quarter to be up 2.3% over the year (refer chart right). This quarter was boosted by solid contributions from both net exports (+0.5%) and inventories (+0.3%). Domestic demand was flat in the quarter, with falling business investment (-0.7%) in both mining and non-mining sectors. Flat public demand was offset by a rise in household consumption (+0.8%) and strength in housing activity (+0.4%).




**Retail sales** were flat in April to be up 4.1% annually. The flat outcome for April follows ten consecutive monthly increases in retail turnover. The weakness was broad-based with food (-0.1%), department stores (-0.7%) and "other retailing" all falling (-1.0%) while household goods were flat. On the positive side, cafes, restaurants and takeaways posted a solid increase (+0.8%) and clothing recorded a strong 1.3% monthly rise, boosted by a lower Australian Dollar.

The **trade deficit** was significantly wider than expected in April, posting a deficit of $3.9bn (the market expectation was for a deficit of $2.1bn). A large decline in bulk commodity exports, particularly the value of exports of 'metal ores and minerals' (-13.0%) and coal exports (-22.1%) accounted for 6.2% of the 5.7% decline in exports in April. This was due to severe weather conditions resulting in the temporary closure of coal exporting ports.

The Reserve Bank left the cash rate unchanged after their monthly board meeting last week. This was widely expected, as it monitors the impact of the two rate cuts delivered earlier this year. The focus this month from analysts was on whether or not the RBA would re-introduce any explicit forward guidance on their monetary policy stance. It did not – the final paragraph of the post-meeting statement suggests that the RBA has maintained its 'neutral' stance on forward guidance and no clear bias with the comment. *"At today's meeting the Board judged that, having eased monetary policy at the previous meeting, it was appropriate to hold interest rates steady* for the time being. Further easing of policy may be appropriate over the period ahead*, in order to foster sustainable growth in demand and inflation consistent with the target. The Board will further assess the case for such action at forthcoming meetings. "*

### Data over the next week

| Economic Data | Date | Period | Forecast | Previous |
|---|---|---|---|---|
| NAB Business Survey | 09 June | May | n/a | +4 |
| ANZ Job Ads | 09 June | May | +3.0% | +2.3% |
| Housing Finance | 09 June | April | +2.0% | +3.8% |
| Westpac/MI Consumer Sentiment | 10 June | April | n/a | +6.4% |
| Employment | 11 June | May | +15,000 | -2,900 |
| Unemployment | 11 June | May | 6.2% | 6.2% |

# ECONOMIC COMMENTARY

## LAST WEEK

Apart from the better than expected GDP data, other data released last week was generally weaker than expected which pushed yields higher last week. The widely expected decision to leave the official cash rate unchanged after the Reserve Bank's monthly board meeting had little impact on rates.

In offshore news, the Greek negotiations and some encouraging euro area inflation data contributed to an increase in European bond yields. The IMF cut its 2015 growth forecast for the US from 3.1% to 2.5% pushing US bond yields higher, which flowed to other global bond markets and also had an influence on our long term yields.

While "volatility" was the buzz word in most markets last week, some stability returned following news last Friday that Greece has decided to bundle its obligations due to the IMF this month (€1.6bn) and make one lump payment on 30 June.

By the close of trading on Friday, the 90-day bank bill was trading at 2.15%, unchanged from a week earlier. In the long term maturities, 3 and 10 year bond yields closed significantly higher at 2.08% and 3.04% respectively, from 1.89% and 2.73% a week earlier.

## CURRENCY

As a result of broad based strength in the US Dollar last week the Australian Dollar fell to a seven week low just, below USD0.76 early last week. The currency then spiked higher following the release of better than expected GDP data trading just above USD0.78 on Wednesday. Also helping the currency was the RBA, which kept interest rates unchanged last week with only a slight easing bias in place. They kept the commentary on the Australian Dollar unchanged, noting its fall as "likely and necessary". The rally ran out of steam as weaker than expected data late in the week (retail sales and trade data) and the flight to safety buying of US dollars from the Greek debt crisis saw our currency weaken by the end of the week.

By the close on Friday the Australian dollar was trading at USD0.7692 compared to USD0.7659 a week earlier.

## EQUITIES

Our share market opened the week on a negative note giving back some of the gains made on the previous Friday, which was the best single-day gain in a month. The financial sector as well as energy and mining stocks wore the brunt of the sell off which continued over the week following the "no move" by the RBA and the release of a raft of mostly downbeat economic data. Continuing uncertainty over the Greek debt negotiations also weighed on equity markets. Our share market posted losses every day last week to be down 279 points or 4.8% over the week.

By the close on Friday the S&P/ASX200 Index was trading at 5,498.5 compared to 5,777.2 a week earlier.

## THIS WEEK

The highlight in the holiday-shortened week ahead will be another round of monthly employment data. Employment is forecast to increase by 15,000 after last month's weak result, but will not be enough to move the unemployment rate. This week also sees the release of important business and consumer sentiment surveys with the latter expected to rebound after the strong 6.4% rise last month (after the Federal Budget).

### INTEREST RATE VIEW

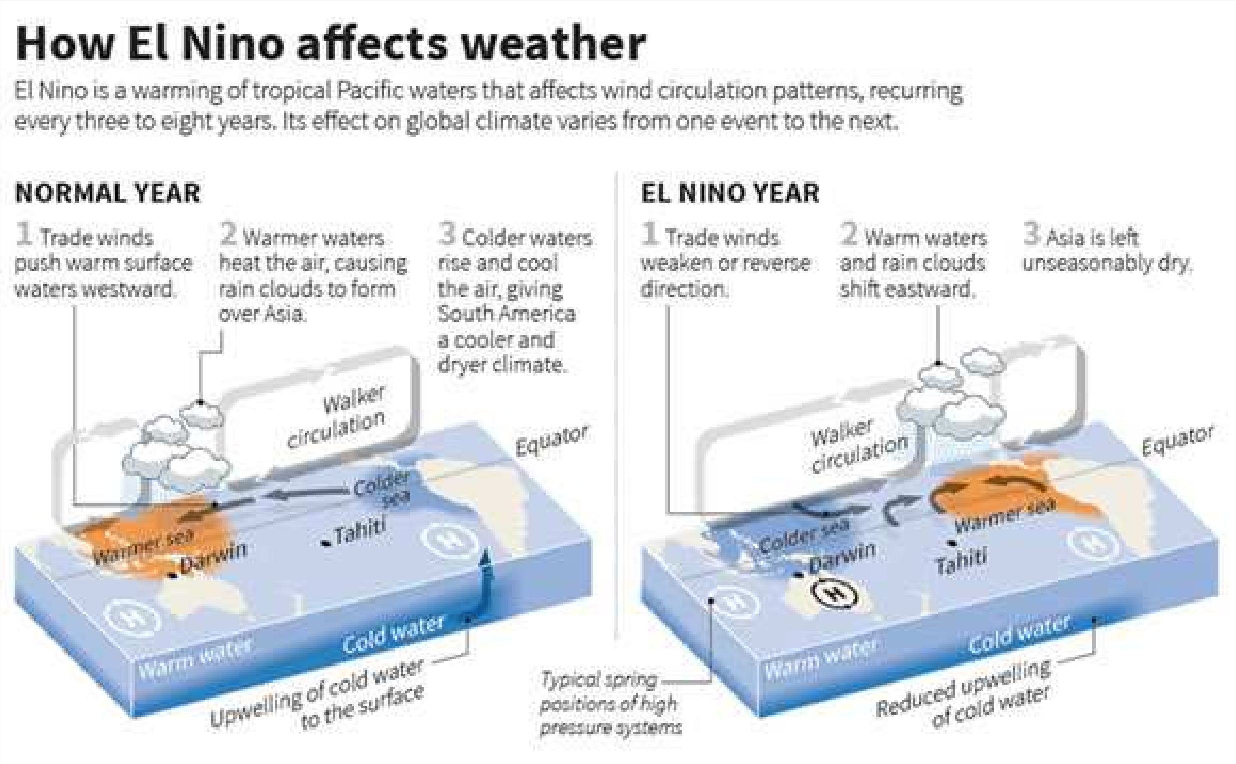
After the monthly board meeting the RBA confirmed it had a moderate easing bias and while the March quarter GDP data was stronger than expected. The key areas of consumer spending and investment remain weak. The market is likely to continue to price in the risk of a rate cut over the months ahead (swinging between zero and 25 basis points of cuts) and this should limit the upside in rates and keep the yield curve trading in a tight range.

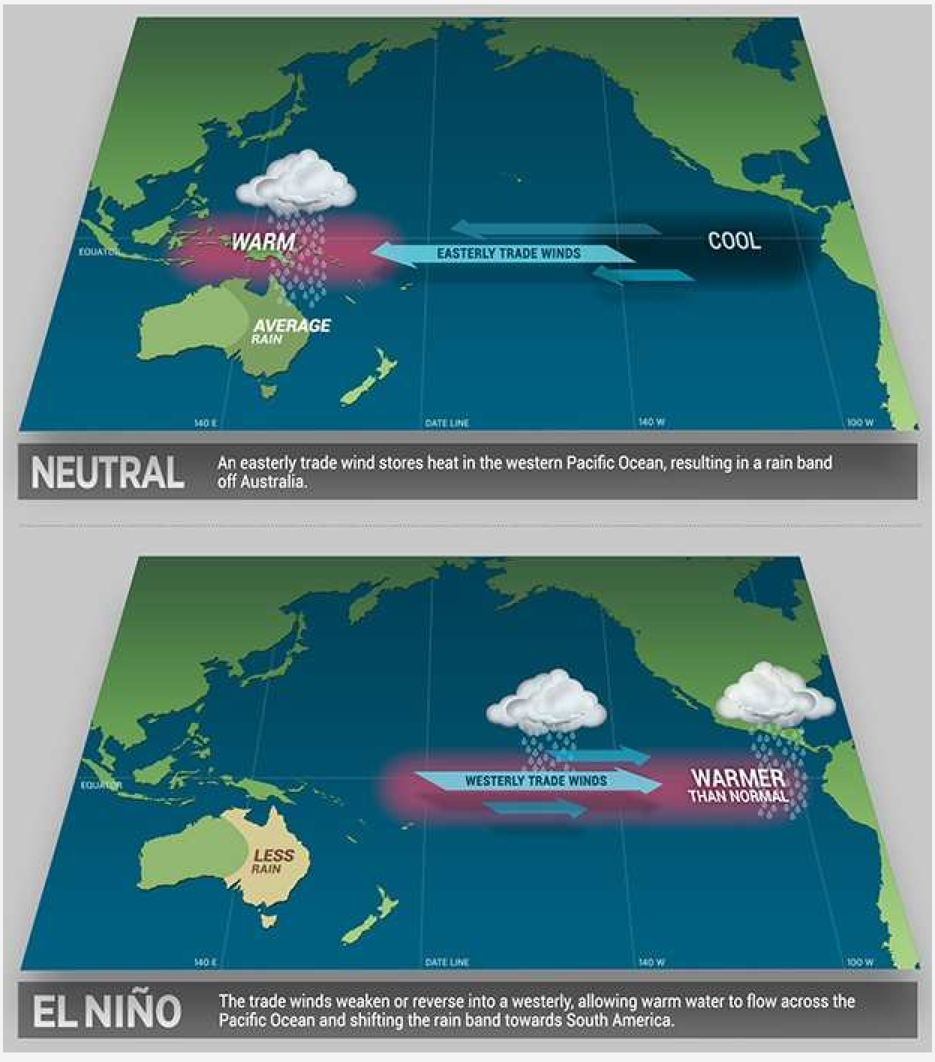
| Economic Data | 12 months ago | 6 months ago | 3 months ago | 1 month ago | Now |
|---|---|---|---|---|---|
| Official Cash Rate | 2.50 | 2.50 | 2.25 | 2.00 | 2.00 |
| 90 day Bank Bill | 2.69 | 2.71 | 2.34 | 2.16 | 2.15 |
| 180 day Bank Bill | 2.72 | 2.74 | 2.39 | 2.24 | 2.25 |
| 1 year swap | 2.69 | 2.53 | 2.13 | 2.14 | 2.10 |
| 3 year swap | 3.00 | 2.57 | 2.20 | 2.38 | 2.34 |
| 5 year swap | 3.44 | 2.90 | 2.51 | 2.78 | 2.76 |
| 10 year swap | 4.11 | 3.47 | 2.96 | 3.29 | 3.34 |
| AUD/USD | 0.9336 | 0.8376 | 0.7795 | 0.7975 | 0.7692 |
| S&P/ASX200 Index | 5,464.0 | 5,335.3 | 5,898.9 | 5,645.7 | 5,498.5 |

# CHART OF THE WEEK

In a briefing to a meeting of Australian and New Zealand agriculture ministers in Sydney, the Bureau of Meteorology director, Rob Vertessy stated that the expected El Nino in Australia, Japan and the US, will be stronger than initially predicted.

This week's chart shows how El Nino affects weather.



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