

# Australian Markets Weekly

## Rental growth keeps slowing

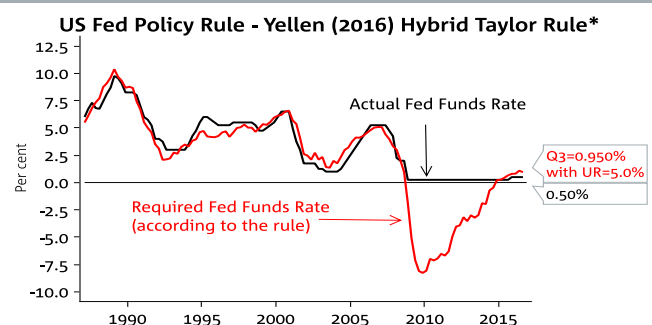
- In this Weekly, with Australia's quarterly CPI two and half weeks away we highlight some recent trends in rental growth. (Rent is a key driver of core inflation in Australia, NAB's analysis pointing to rents as explaining 25% in the trend of core inflation). Rental growth continues to slow across Australia's capitals, accentuated by continued declines in the more mining-orientated cities of Perth and Darwin. Rental growth though is also continuing to slow in other capital cities, with deceleration the greatest in areas where new dwelling supply is coming online. Slowing rental growth will continue to put downward pressure on core inflation, posing a challenge for the RBA in returning inflation to the 2-3% target band.
- In the past week, mostly better than expected US economic data, along with a spate of Fed speeches, has pushed up expectations for a December rate hike to 76% from 56% in late September. A mixed non-farm payrolls report Friday did little to shift those expectations. The unemployment rate did tick up to 5% from 4.9%, and perhaps provides some credence to those more dovish FOMC members who still see "scope for further improvement in the labour market". Feeding the labour market figures into a policy rule used by Fed Chair Yellen indicates that a December rate hike is justified, but thereafter also a very gradual tightening cycle. Or in the words of Fischer, policy has "little risk of falling behind the curve in the near future" (Chart 1).
- The other big events dominating markets in the past week have been market gyrations surrounding Deutsche Bank and the US Presidential Election. On Deutsche Bank, an AFP report early last week helped alleviate fears with suggestions that Deutsche Bank and the US Department of Justice were close to agreeing on a \$5.4bn settlement. (Recall the US Justice Department's opening gambit was a fine of \$14bn). Those talks continue. As for the US Presidential race, recent audio revelations have seen the odds of a Trump victory decline with fivethirtyeight.com putting the probability of Clinton winning at 81.3% against 18.7% for Trump. The election is on 8 November.
- It's a quiet week domestically with the main data points being the NAB Business Survey Tuesday, the W-MI Monthly Consumer Confidence Wednesday, and the RBA Financial Stability Review Friday. Internationally the key watch points will be the US FOMC September Meeting Minutes, China's International Trade Data Thursday, US Retail Sales Friday, and a speech by Fed Chair Yellen Friday.

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7609	-0.9	RBA cash	1.50	0
AUD/CNY	5.06	-1.1	3y swap	1.75	6
AUD/JPY	78.6	0.8	ASX 200	5,420	0.6
AUD/EUR	0.681	-0.6	Iron ore	55.9	0.0
AUD/NZD	1.060	0.5	WTI oil	49.8	3.3

Source: Bloomberg

Chart 1: US Fed not behind the curve; expect no urgency



\* Yellen (2016) example policy rule incorporating Laubach & Williams neutral rate of interest (R\*) and the CBO's estimate of the natural rate of unemployment (U\*)  
Source: National Australia Bank, Macrobond

### Author:

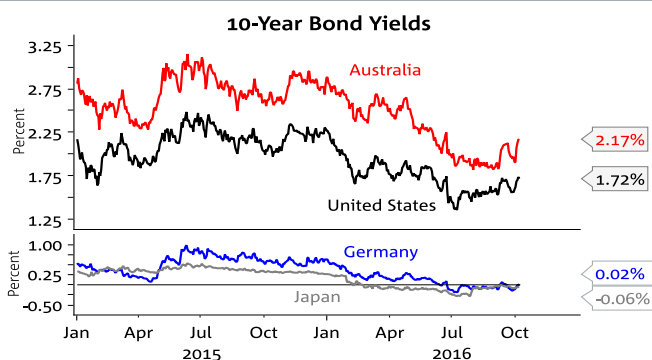
Tapas Strickland, Economist, Markets

## Market moves in the past week

The past week has been dominated by bond yields moving higher as have oil prices. Central banks are openly questioning how much further monetary stimulus (and indeed negative interest rates) can assist realistically in lifting growth. This topic was given further air in the wake of the G20 meeting in early September, which pushed the case for the use of greater fiscal policy and hence inferred placing less reliance on the use of monetary policy, repeated again during last week's IMF meetings.

Some core global bond yields have consequently been pushing higher (Chart 2). Chief among central bank policy reservations have been the Bank of Japan's tacit acknowledgment of limited policy space (and likely the basis for yield curve control) along with the ECB seemingly preparing for the time when they will need to reduce QE. And there was this frank assessment by the IMF in its Global Financial Stability Review released last week: "Some monetary policies, such as negative interest rates, are reaching the limits of their effectiveness, and the medium-term side effects of low rates are rising for banks and other financial institutions. There is an urgent need to implement fiscal and structural policies to bolster confidence and raise global growth".

Chart 2: Yields higher on theme of less future easing



Source: National Australia Bank, Bloomberg

The view has also spread to Australia with Treasurer Morrison interview in the AFR on the weekend stating that monetary policy's "ability to impact and influence is diminishing". The Treasurer's Statement to the IMF meetings on behalf of the Asia-Pacific Constituency office (Australia's representative block at the IMF also includes South Korea and New Zealand among others) also noted that "it is important that we avoid over-relying on monetary policy, given very low interest rates can contribute to financial vulnerabilities. Structural reforms and quality infrastructure investment have a key role to play in creating an environment for strong private investment."

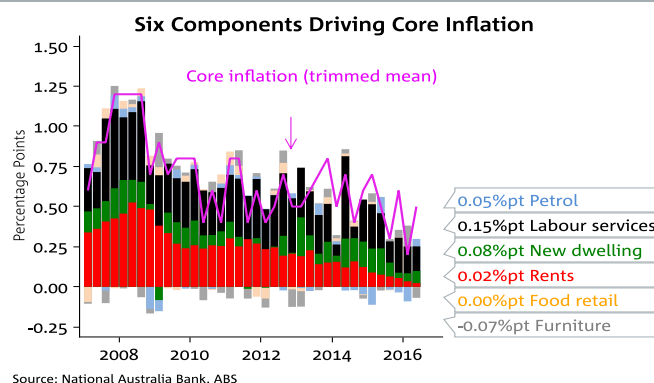
As for oil, WTI is 3.3% higher, mostly edging higher in the lead up to Hurricane Mathew hitting the US Coast. The Hurricane has now weakened and made landfall in South Carolina. With that behind us, the short term outlook for oil will be driven by speculation over the OPEC agreement which is to be formalised in November, Russia's response or participation that seems less likely, along with the response of US shale production, rig count numbers pointing to some rise in production ahead. Amongst central

bankers, there is hope that some stability in the oil price will stop the drag on inflation and stabilise inflation expectations, with most seeing the earlier fall in oil prices as a primary reason that inflation has fallen short of inflation goals. That has also seen "breakeven" implied inflation rates and inflation swaps move higher in recent days.

## Rents slowing

We wrote in our 25 July Markets Weekly on the RBA's Other Housing Problem. That 'problem' was the impact that new housing supply would have on measures of underlying inflation over the next two years. The research revealed that the significant increase in apartment supply in train is likely to weigh on rental growth further, which is a large component of the CPI basket. With likely further softness in rents, the RBA will find it difficult to return inflation to its target band in the near term (Chart 3).

Chart 3: Rents a key driver of core inflation – NAB PCA



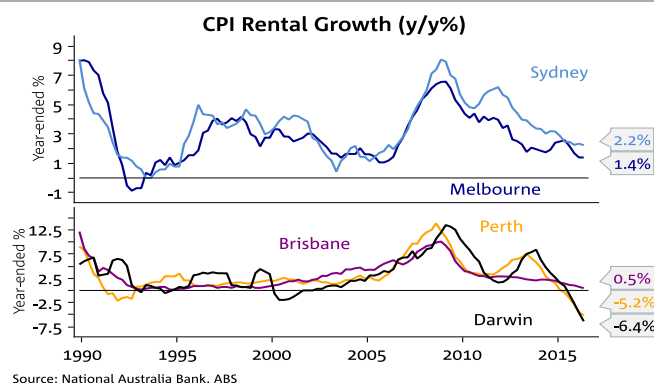
Source: National Australia Bank, ABS

This is clearly also on the RBA's policy radar. Last week's post-Board statement from the Governor again reinforced this, noted that "Considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities. Growth in rents is the slowest for some decades."

## Recent trends in rental growth

Rental growth continues to ease across Australia's state capital cities. According to the CPI measure of rents, growth slowed to an annual pace of 0.7%, with rents actually declining sharply in Perth (-5.2% y/y) and Darwin (-6.4% y/y). Rental growth in Brisbane is also very subdued, growing at just 0.5% in annual terms. In Sydney, growth was 2.2% and in Melbourne 1.4%.

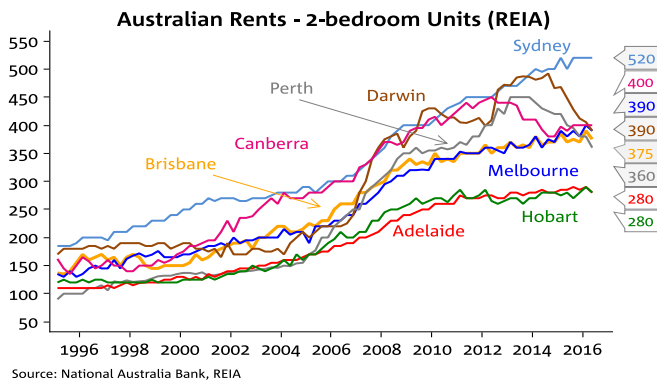
Chart 4: CPI rents slowing across the nation



Source: National Australia Bank, ABS

Data from the REIA suggests rental growth has slowed further with rents actually declining in most capital cities apart from Canberra. Rental growth in Sydney has also slowed according to this data with rents actually unchanged for the past two quarters (Chart 5).

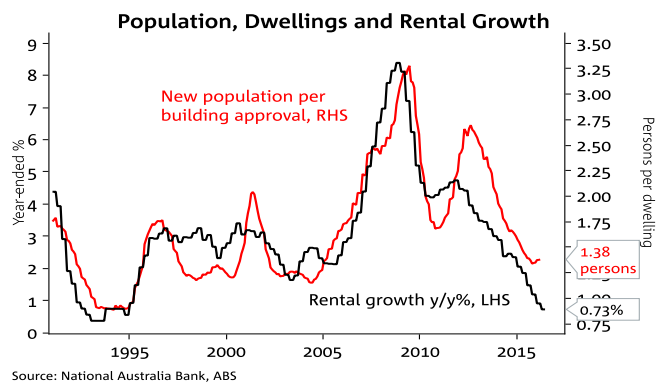
**Chart 5: Rents are falling in most capital cities**



**Why is rental growth slowing?**

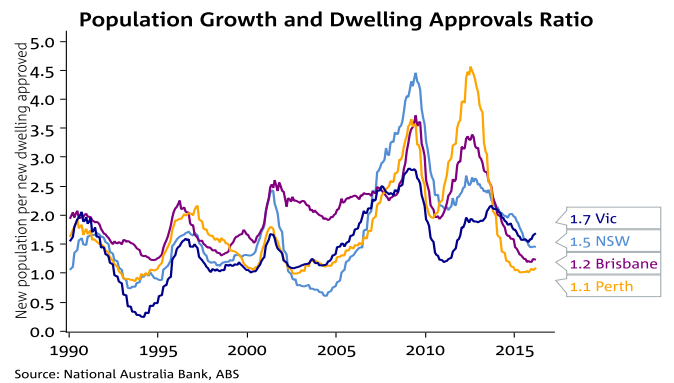
Rental growth has a close relationship to population growth and new dwelling supply. The relationship can be captured in the ratio of the new population to building approvals, and mapping this to rental growth. According to this ratio, there are now 1.4 new persons per new dwelling being approved, the lowest the ratio has been since 2005, and contributing to slower rental growth.

**Chart 6: Population and dwelling growth drives rents**



Calculating this ratio by state reveals the ratio is the highest in Vic. and NSW, and the lowest in Perth and Brisbane. For Perth, there are currently 1.1 new persons for every dwelling being approved, and is one of the lowest in the history of the series. That suggests there is little prospect for a lift in rental growth in the near future, and with building approvals still remaining strong, the risk is for rental growth remaining lower for longer.

**Chart 7: New population/approval ratio weak in WA/QLD**

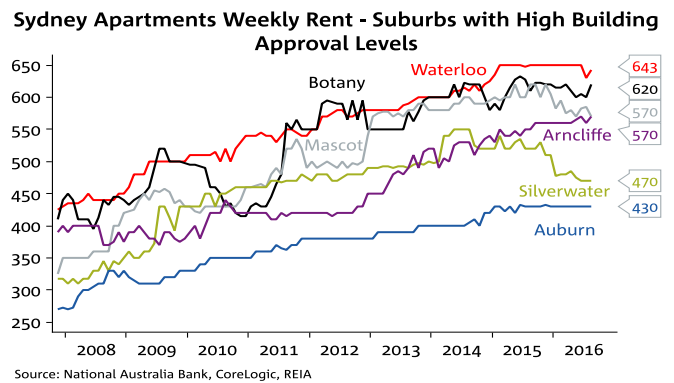


**Rental growth is slowing in Sydney and Melbourne**

While rental growth in Sydney and Melbourne has been faster than in other capitals, the tide is turning, rental growth slowing even in Sydney according to the REIA data mentioned above.

Narrowing down to the suburb view, it is clear rents are slowing in areas where a large amount of dwellings is coming online. In Sydney, rents are actually falling in Mascot, Botany, Silverwater and Waterloo – all areas where considerable dwelling supply is coming on line. Similarly in Melbourne, rental growth has flattened out, and in Brisbane rents are also starting to fall in areas of high building. After contributing a meagre 0.2% percentage points to quarterly inflation in the June quarter, early rental data points to rents contributing less than even this in the September quarter.

**Chart 8: Sydney rents starting to slow across the board**



**Chart 9: Melbourne inner city rents have flat-lined**

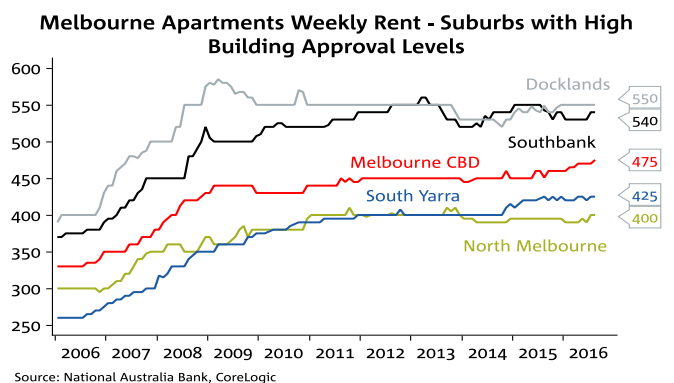
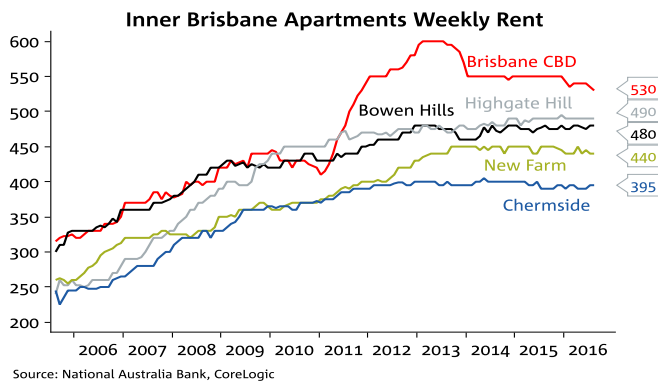


Chart 10: Brisbane rents also starting to moderate



### The week ahead

It's a quiet week internationally. The key watch points will be the US FOMC September Meeting Minutes on Wednesday, China's International Trade data on Thursday, and US Retail Sales on Friday. OPEC also releases their latest Oil Market Report Wednesday which may garner some interest following the tentative OPEC production cap.

At for the FOMC Minutes, it's worth remembering that at the September meeting three out of four rotating regional fed presidents dissented, and thus the Minutes will be closely watched to see how close their fellow members were to raising rates at the September meeting; Fed Governor Fischer described September "a close call". The market currently prices a 76% chance of a rate hike by the December meeting, with market pricing having moved up on the back of positive data and more hawkish commentary, including from Yellen who said the majority of the FOMC favour a December rate hike.

It's also a quiet week domestically, with the main point of interest being the NAB Business Survey on Tuesday. Other data out includes Housing Finance Tuesday, the Monthly W-MI Consumer Sentiment index Wednesday, Consumer Inflation Expectations Thursday, and the RBA's Financial Stability Review on Friday.

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# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 10 October 2016</b>								
GE	Current Account Balance	Aug		15		18.6	7.00	17.00
EC	Sentix Investor Confidence	Oct		6		5.6	9.30	19.30
NZ	REINZ House Sales YoY	Sep				-3.1	Release pending	
CH	New Yuan Loans CNY	Sep		1000		948.7	10-15 Oct release	
CH	Aggregate Financing CNY	Sep		1390		1470.0	10-15 Oct release	
<b>Tuesday, 11 October 2016</b>								
NZ	Card Spending Retail MoM/YoY	Sep	0.5	0.8		-0.4/-0.8	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 9				117.9	23.30	9.30
UK	BRC Sales Like-For-Like YoY	Sep		-0.3		-0.9	0.10	10.10
JN	BoP Current Account Adjusted	Aug		1570.3		1447.8	0.50	10.50
AU	NAB Business Conditions/Confidence	Sep				7.0/6.0	1.30	11.30
AU	Home Loans headline MoM #/Investment MoM \$	Aug	-3.6/	-1.5/		-4.2/0.5	1.30	11.30
AU/US	Fed's Evans Speaks on Economy and Policy in Sydney						2.30	12.30
JN	Eco Watchers Survey Current/Outlook	Sep		45.8		45.6/47.4	6.00	16.00
GE	ZEW Survey Current Situation/Expectations	Oct		55.5		55.1/0.5	10.00	20.00
EC	ZEW Survey Expectations	Oct				5.4	10.00	20.00
US	NFIB Small Business Optimism	Sep		95		94.4	11.00	21.00
CA	Housing Starts	Sep		190		182.7	13.15	23.15
AU	HIA House Affordability Index	3Q				78.7		
CA	Bloomberg Nanos Confidence	Oct 7				56.5	15.00	1.00
US	Labor Market Conditions Index Change	Sep				-0.7	15.00	1.00
<b>Wednesday, 12 October 2016</b>								
AU	Westpac Consumer Conf Index/MoM	Oct				101.4/0.3	0.30	10.30
JN	Machine Orders MoM/YoY	Aug		-4.6		4.9/5.2	0.50	10.50
JN	Machine Tool Orders YoY	Sep P				-8.4	7.00	17.00
EC	Industrial Production SA MoM/YoY	Aug		1.5		-1.1/-0.5	10.00	20.00
US	Monthly Budget Statement	Sep		29.3		-107.1	12-15 Oct release	
US	JOLTS Job Openings	Aug		5800		5871.0	15.00	1.00
US	U.S. Fed Releases Minutes from Sept. 20-21 FOMC Meeting						19.00	5.00
<b>Thursday, 13 October 2016</b>								
NZ	ANZ Job Advertisements MoM	Sep				3.1	22.00	8.00
NZ	BusinessNZ Manufacturing PMI	Sep				55.1	22.30	8.30
NZ	Food Prices MoM	Sep	0.6			1.3	22.45	8.45
UK	RICS House Price Balance	Sep		14		12.0	0.10	10.10
AU	Consumer Inflation Expectation	Oct				3.3	1.00	11.00
NZ	Crown Financial Statements	FY 2016					1.00	11.00
NZ	ANZ Consumer Confidence Index/MoM	Oct				121.0/2.8	1.00	11.00
CH	Trade Balance	Sep		53		52.1	2.30	12.30
CH	Exports/Imports YoY	Sep		-3.3/0.7		-2.8/1.5	2.30	12.30
CH	Trade Balance CNY	Sep		364.5			2.30	12.30
CH	Exports/Imports YoY	Sep		2.5/5.5		5.9/10.8	2.30	12.30
JN	Tertiary Industry Index MoM	Aug		-0.2		0.3	5.30	15.30
GE	CPI MoM/YoY	Sep F		0.1		0.1/0.7	7.00	17.00
GE	CPI EU Harmonized MoM/YoY	Sep F		0		0.0/0.5	7.00	17.00
US	Import Price Index MoM/YoY	Sep		0.1/-1.1		-0.2/-2.2	13.30	23.30
CA	New Housing Price Index MoM/oY	Aug		0.2		0.4/2.8	13.30	23.30
CA	Teranet/National Bank HPI MoM/YoY	Sep				1.5/11.4	13.30	23.30
US	Initial Jobless Claims	Oct 8		253		249.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 9				41.4	14.45	0.45
US	Fed's Harker Speaks on Economic Outlook in Philadelphia						17.15	3.15
<b>Friday, 14 October 2016</b>								
JN	PPI MoM/YoY	Sep		-0.1		-0.3/-3.6	0.50	10.50
AU	RBA Financial Stability Review						1.00	11.00
CH	CPI/PPI YoY	Sep		1.6		1.3/-0.8	1.30	11.30
UK	BoE Credit Conditions and Bank Liabilities Surveys						9.30	19.30
UK	Construction Output SA MoM/YoY	Aug		0		0.0/-1.5	9.30	19.30
EC	Trade Balance SA	Aug		20.4		20.0	10.00	20.00
US	Fed's Rosengren Gives Opening Remarks at Boston Fed Conference						13.30	23.30
US	Retail Sales Advance/ex autos and gas MoM	Sep		0.6/0.3		-0.3/-0.1	13.30	23.30
US	PPI Final Demand MoM/YoY	Sep		0.2/0.6		0.0/0.0	13.30	23.30
US	Business Inventories	Aug		0.1		0.0	15.00	1.00
US	U. of Mich. Sentiment/5-10Yr Inflation expectations	Oct P		92		91.2/2.6	15.00	1.00
US	Fed Chair Yellen Speaks at Boston Fed Conference						17.00	3.00
EC	ECB Survey of Professional Forecasters						25-26 Oct release	
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Europe ECB		20-Oct				0.00%		
Canada, BoC		20-Oct				0.50%		
Australia, RBA		1-Nov	1.50%	1.50%		1.50%		
Japan, BoJ		1-Nov				-0.1% to +0.1%		
US Federal Reserve		3-Nov				0.25-0.50%		
UK BOE		3-Nov				0.25%		
New Zealand, RBNZ		10-Nov	1.75%	1.75%		2.00%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Savings Time



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