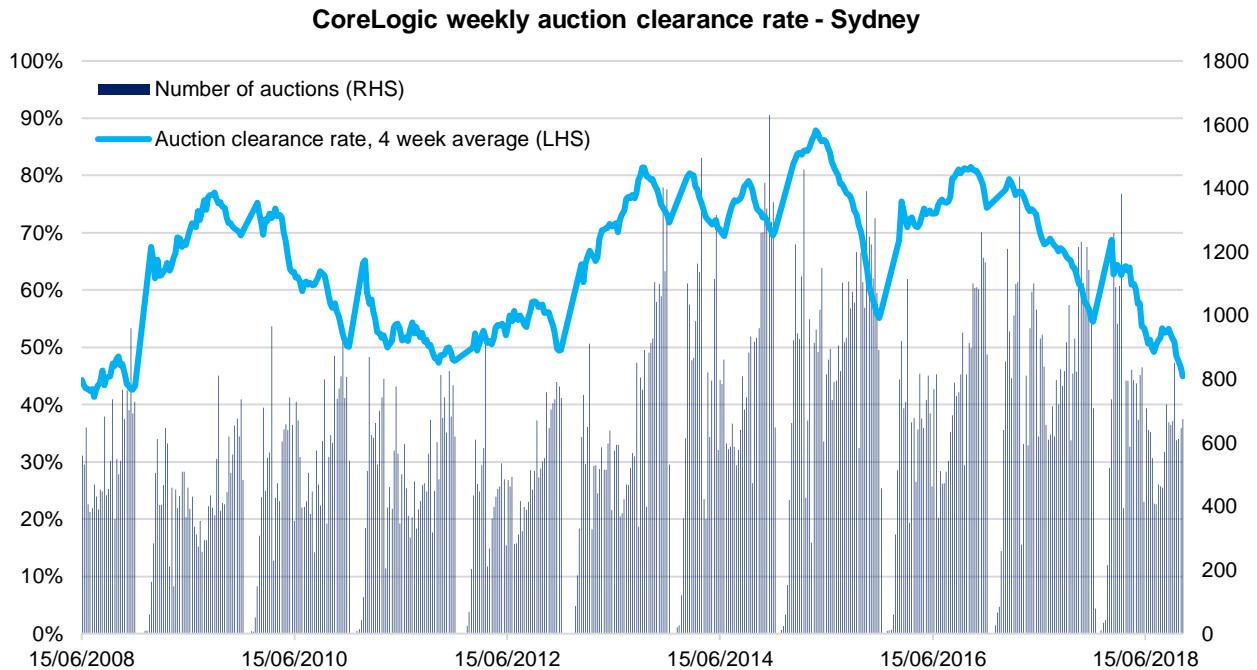


**From the Chief Economist:**

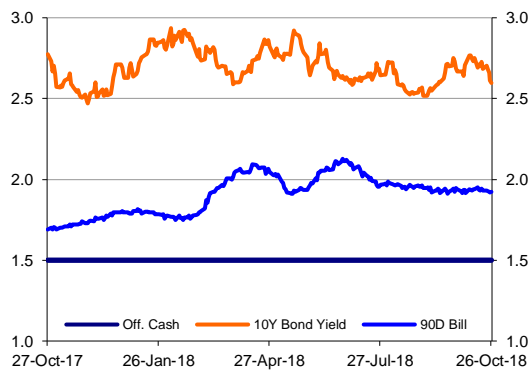
**Chart of the week: Sydney auction clearance rate showing the lowest rate since the GFC**



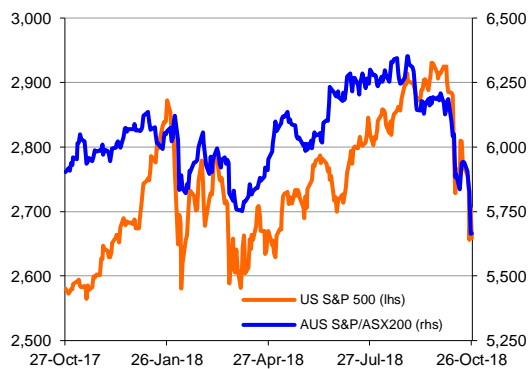
*Last week, an otherwise quiet stretch for official economic data began badly, with the Sydney home auction clearance rate dipping to the lowest level since the Global Financial Crisis. A clearance rate below 50% - yes, that means that most auctions failed – is consistent with further falls in house prices. A swelling posse of housing market commentators and economists now predicts peak-to-trough price falls of as much as 20% in Sydney. Elsewhere, the central bank in Canada lifted official interest rates for the third time this year, as was widely-expected, but there was more turmoil on global financial markets. Share markets fell sharply from mid-week owing to a combination of factors, including stretched valuations, nervousness about rosy earnings forecasts, growing trade tensions, ongoing geopolitical instability and, of course, rising interest rates. Australia’s benchmark share index now has fallen more than 10% from its most recent peak. Measures of volatility are at their most elevated since February this year, when there was a similar correction in global share markets. The good news from last week is that fears about Italy bouncing out of the EU faded, for now, but the UK’s troubled shuffle towards Brexit continued.*

*This week, the highlight probably will be the release of the September quarter inflation data on Wednesday. The consensus of economists expects another benign result, with the annual rate actually dipping and moving further below the Reserve Bank’s 2-3% target range. There are some lumpy one-offs that likely contributed to low inflation last quarter, including expanded child care subsidies (eg. a price fall) and lower energy prices but, outside these, underlying price pressures remain subdued. Later in the week, the ABS will release retail sales results for September, and the latest building approvals data also becomes available. The trade balance for September and the release of the RBA’s latest credit aggregates round out a busier week. The retail sales report probably will reveal another underwhelming result, with the drags from weak wages growth, lower house prices and subdued confidence more than offsetting the support provided by the falling jobless rate.*

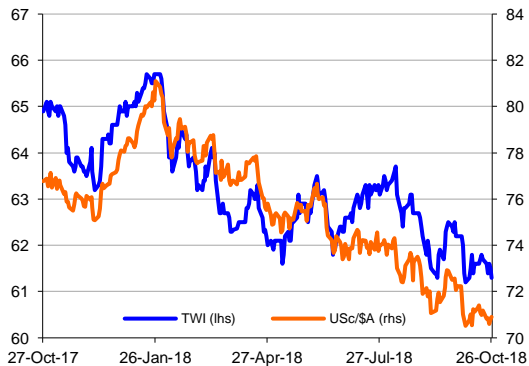
**Chart A: Domestic Interest Rates**



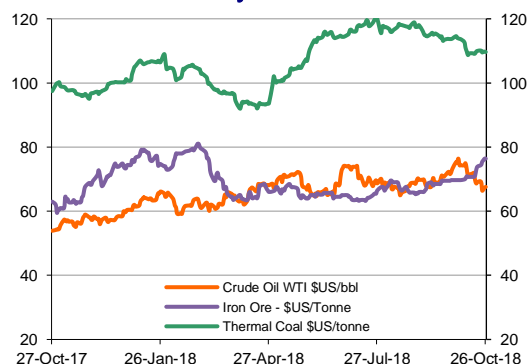
**Chart B: Share Price Index**



**Chart C: Exchange rate**



**Chart D: Commodity Prices**



**Domestic Data Releases**

The **CommSec State of the States** reports that NSW is in the second spot on the economic performance rankings and has held its relative position on most indicators. NSW is second on the overall economic performance rankings but still holds top spot for retail spending and dwelling starts. NSW is second ranked on three other indicators. NSW shows weakness in housing finance.

**Markets**

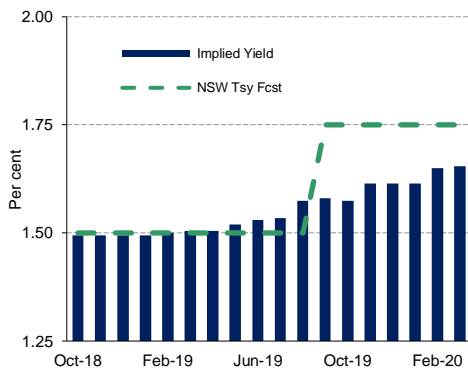
Over the week to Friday, the ASX200 fell by 4.6 per cent, the US S&P500 fell by 3.9 per cent and thermal coal prices fell by 0.3 per cent.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	2658.69	3.0 %	-3.9 %
<b>ASX200</b>	5665.16	-4.0 %	-4.6 %
<b>Australian Dollar (USD)</b>	0.71	-7.6 %	-0.4 %
<b>TWI</b>	61.30	-5.5 %	-0.6 %
<b>Oil (USD/bbl)</b>	67.59	25.4 %	-2.2 %
<b>Gold (USD/oz)</b>	1233.85	-2.6 %	0.5 %
<b>Thermal Coal (USD/tonnes)</b>	109.65	12.5 %	-0.3 %
<b>Australian 10-yr bond</b>	2.60%	-17.8 bps	-8.6 bps
<b>US 10-yr bond</b>	3.08%	66.9 bps	-11.7 bps
<b>NSW 10-yr bond (bps) maturity 2028</b>	3.03%	- bps	-9.0 bps

**Upcoming Domestic Data Releases (29/10 – 02/11)**

- **RBA** will release its Private Sector Credit data for September.
- **ABS** will release its Building Approvals, International Trade in Goods and Services, Producer Price index and Retail Trade data for September as well as Consumer Price Index data for the September quarter.
- **CommSec** will release its State of the States report for October.

**Chart E: Interest Rate Expectations**



**Market Interest Rate Expectations**

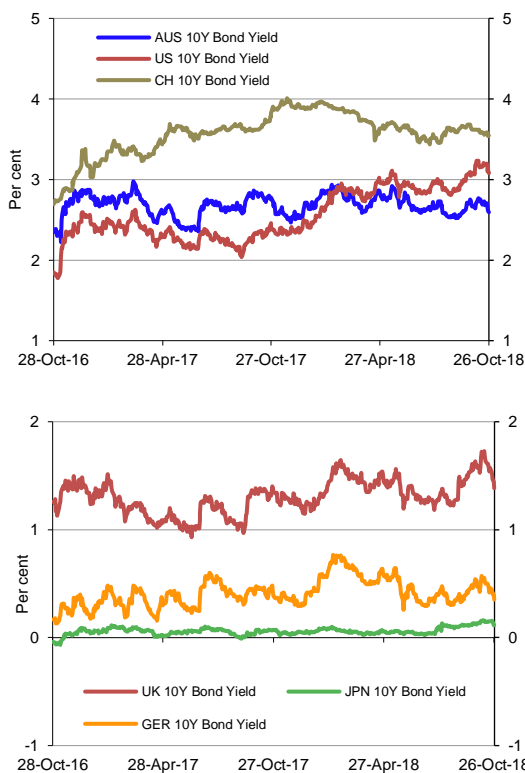
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in February 2020.

According to the ASX Target Rate Tracker, as at 23 October, there is a 0 per cent expectation that the RBA will increase the cash rate to 1.75 per cent at its next policy meeting on 6 November 2018.

**International Bond Yield Spreads**

US bond yields fell 11.7 basis points over the week to Friday as strong demand for US government bonds pushed yields to a three-week low on Friday. This reflected the renewed fears around global economic growth and a broad decline in stock markets around the world. Bond yields fell in all other countries tracked over the week.

**Chart F & G: International Bond Yields**



10-yr bond yield	Yield (%)	Change on Year (bps)	Change on Week (bps)	Spread on 10 yr US bond week end (bps)	Spread on 10-yr US bond year ago (bps)
Australian (AUS)	2.60	-17.8	-8.6	-48.0	36.8
United States (US)	3.08	66.9	-11.7	-	-
Germany (GER)	0.35	-3.1	-10.8	-272.4	-202.3
United Kingdom (UK)	1.38	3.5	-19.3	-169.3	-105.8
Japan (JPN)	0.11	4.0	-3.6	-296.3	-233.3
China (CH)	3.54	-28.4	-2.2	46.9	142.2

**Key International Data Releases**

**US:** GDP grew at an annualised rate of 3.5 per cent in the September quarter 2018 compared to a growth of 4.2 per cent in the last quarter. Manufacturing PMI increased to 55.9 in October from 55.6 in the previous month – 5-month high.

**Euro Area:** Consumer confidence improved slightly to -2.7 in October from -2.9 in the previous month. Manufacturing PMI decreased to 52.1 in October from 53.2 in the previous month – 26-month low. The European Central Bank (ECB) kept the interest rate on the main refinancing operations unchanged at 0.00 per cent.

**Germany:** The producer price index rose 3.2 per cent through the year to September, compared to 3.1 per cent in August. Manufacturing PMI decreased from 53.7 in September to 52.3 in October – 29-month low. Consumer confidence remained stable at 10.6 points in November.

**Japan:** Manufacturing PMI rose to 53.1 in October from 52.5 in September.

**Upcoming Key International Data Releases (29/10 – 02/11)**

- **US:** Manufacturing Index, Change in Private payrolls and Unemployment Rate data for October as well as Trade Balance data for September.
- **Germany:** Unemployment Rate and CPI data for October as well Retail Sales data for September.
- **Japan:** Retail Trade and Unemployment Rate data for September as well as Interest Rate Decision and Consumer Confidence data for October.
- **Euro Area:** CPI data October, Unemployment Rate data for September and GDP data for the September quarter.

## Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
29-Oct	30-Oct	31-Oct	1-Nov	2-Nov
	ABS Building Approvals, Sep-18	RBA Private Sector Credit, Sep-18 ABS Consumer Price Index, Sep-18	ABS International Trade in Goods and Services, Sep-18	ABS Producer Price Indexes, Sep-18 ABS Retail Trade, Sep-18
5-Nov	6-Nov	7-Nov	8-Nov	9-Nov
	RBA Interest Rate Decision, Nov-18 APM Auction data, Oct-18	ABS Regional Building Approvals, Sep-18		RBA Statement on Monetary Policy, Nov-18 ABS Housing Finance, Sep-18
12-Nov	13-Nov	14-Nov	15-Nov	16-Nov
	NAB Monthly Business Survey, Oct-18 ABS Lending Finance, Sep-18	W-MI Consumer Sentiment, Nov-18 ABS Wage Price Index, Sep-18	ABS Labour Force, Oct-18	ABS State Accounts, 2017-18
19-Nov	20-Nov	21-Nov	22-Nov	23-Nov
ABS Overseas Arrivals and Departures, Sep-18	RBA Monetary Policy Minutes, Nov-18	DoE Skilled Vacancies, Oct-18 ANZ Stateometer, SepQ-18	ABS Detailed Monthly Labour Force, Oct-18	
26-Nov	27-Nov	28-Nov	29-Nov	30-Nov
		ABS Construction Work Done Prelim, SepQ-18	ABS Capital Expenditure Survey, SepQ-18	RBA Private Sector Credit, Oct-18
3-Dec	4-Dec	5-Dec	6-Dec	7-Dec
ABS Building Approvals, Oct-18 ABS Mineral and Petroleum Exploration, Sep-18	RBA Interest Rate Decision, Dec-18 ABARES Crop Report, Dec-18 ABS Balance of Payments, Sep-18	ABS National Accounts, Sep-18	APM Auction data, Nov-18 ABS International Trade in Goods and Services, Oct-18 ABS Retail Trade, Oct-18	

## ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.9%	2.0%	% annual average	2016-17 Next: 16 November 18
State/Domestic Final Demand	3.5%	3.4%	% through the year	June quarter 18 Next: 5 December 18
	0.3%	0.6%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	+3	+6	NAB Index	October 18 (mthly) Next: 13 November 18
NAB Business Conditions	+15	+15		
HOUSING				
Dwelling Approvals	69.8k	227.8k	Number of app 12mms	August 18 (mthly) Next: 30 October 2018
	-3.8%	-0.9%	% annual average	
Residential Prices (capitals)	-3.9%	-0.6%	% through the year	June quarter 18 Next: 11 December 18
LABOUR FORCE				
Employment	3.4%	2.3%	% through the year	September 18 (mthly) Next: 15 November 18
Unemployment Rate	4.4%	5.0%	Current rate	
Youth unemployment rate	10.2%	12.0%	12 monthly moving average rate	
CONSUMER				
Retail Sales	4.3%	3.8%	% through the year	August 18 (mthly) Next: 2 November 18
Westpac MI Consumer Confidence	98.5	101.5	Westpac MI Index	October 18 (mthly) Next: 14 November 18
CPI (Capital cities)	2.1%	2.1%	% through the year	June quarter 18 Next: 31 October 2018
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 6 November 18

ECONOMIC FORECASTS <sup>(a)</sup>	NSW Forecasts (as per 2018-19 Budget)			Australian Gov't Forecasts (as per 2018-19 Budget)		
	2016-17 Actual	2017-18 Actual (Forecast)	2018-19 Forecast	2016-17 Actual	2017-18 Actual (Forecast)	2018-19 Forecast
State/Domestic Final Demand (%)	3.8	3.3(3¾)	3	2.3	n.a.	n.a.
Gross State /Domestic Product (%)	2.9	(3)	2¾	2.1	2.9(2¾)	3
Employment (%) <sup>(b)</sup>	1.1	3.1(3)	1¾	2.2	2.9(2¾)	1½
Unemployment rate (%) <sup>(c)</sup>	5.0	4.8(4¾)	4¾	5.6	5.4(5½)	5¼
CPI (%) <sup>(d)</sup>	2.0	2.0(2)	2¼	1.9	2.1(2)	2¼
Wage Price Index (%) <sup>(e)</sup>	2.1	2.1(2)	2½	1.9	2.1(2¼)	2¾

(a) Australia and NSW: Annual average growth unless otherwise stated (b) Australia: per cent change through the year to June (c) Australia: per cent in June (d) Australia: per cent change through the year to June quarter. 2017-18 to 2018-19 include a ¼ percentage point contribution from tobacco excise increases. (e) Australia: per cent change through the year to June quarter.