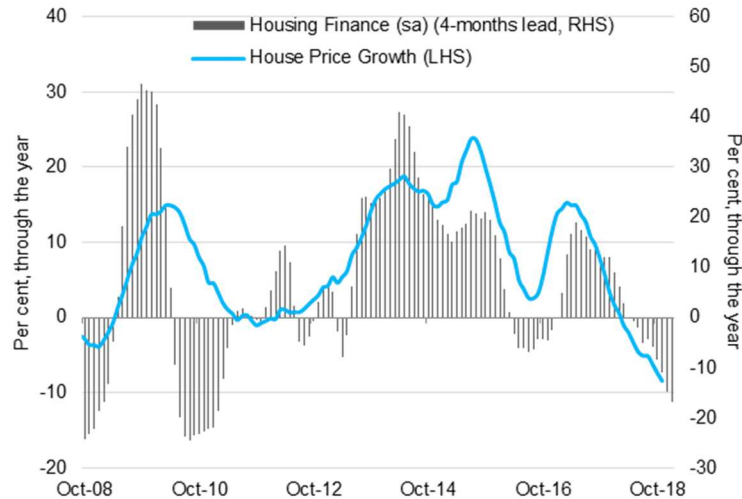


From the Chief Economist:

Chart of the week: Housing finance weakness points to further house price declines



There was generally sobering news released on the economy last week. Consumer sentiment in NSW dipped in December (as it rose nationally), albeit after a surge in November. Indeed, there are still more optimistic consumers than pessimists according to the Westpac Melbourne Institute survey. Similarly, business confidence slipped in the November survey, in line with the national result. On the housing market, there was a rise in the number home loans issued in October, but the quarterly house price data from the ABS showed a larger annual fall in Sydney than elsewhere. The latter is no surprise, though, particularly with home auction clearance rates tracking along in the low 40s. Overseas, there was a lot of attention on UK politics, with the ructions over Brexit continuing, and the Prime Minister surviving a leadership challenge. Financial markets remained unusually volatile.

This week is quiet, with the November labour force report on Thursday the highlight. The consensus of economists expects a decent net gain in Australia's employment over the month, and an unchanged jobless rate at 5.0%. The labour market in NSW has outperformed the national market since 2015. In fact, the jobless rate here in NSW is at a decade low of 4.4%, the lowest of all states and well below the national rate, thanks to stellar annual jobs growth of close to 4%. Offshore, the highlight this week will be the US Federal Reserve decision on Thursday morning (Australian time). Market pricing implies that the Fed will deliver its fourth rate hike of 2018, and the ninth since the start of this tightening cycle.

Chart A: Domestic Interest Rates

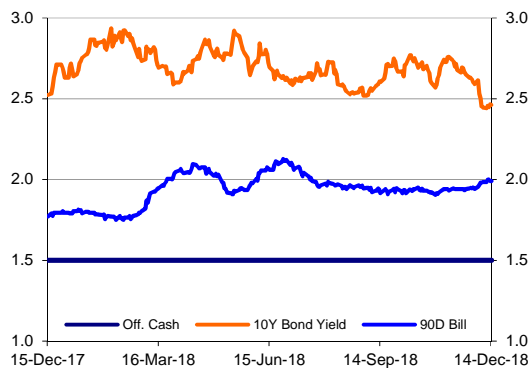


Chart B: Share Price Index

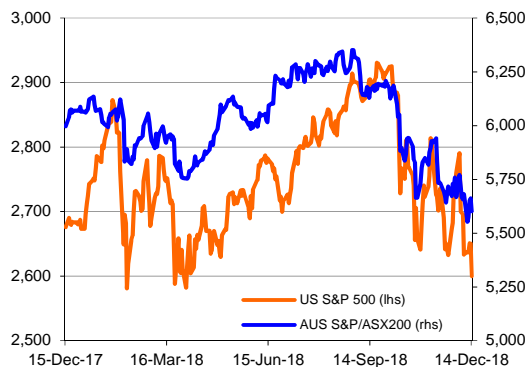


Chart C: Exchange rate

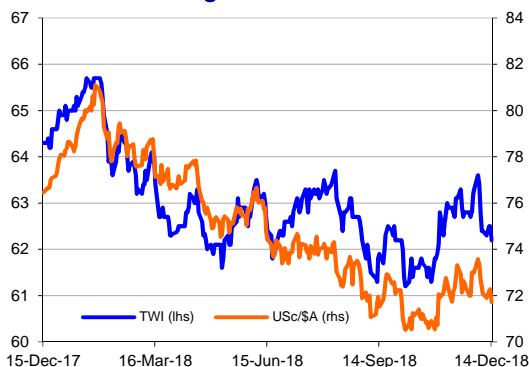
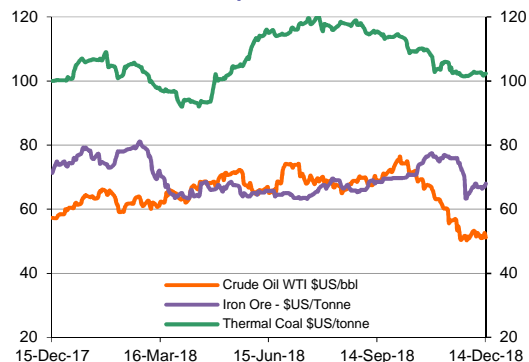


Chart D: Commodity Prices



Domestic Data Releases

ABS Housing Finance data showed that through the year to October owner-occupier housing finance commitments were down 7.8 per cent in NSW and 3.4 per cent in the rest of Australia. The share of first home buyers lifted slightly from 23.0 to 23.9 in NSW in October, however remained lower than the rest of Australia which was 28.2 per cent in October.

ABS Lending Finance data showed that NSW investor housing finance commitments were down 21.4 per cent through the year to October. In the Rest of Australia, commitments were down 7.7 per cent through the year.

ABS Residential Property Price Indexes data showed that the residential property price index in Sydney fell 1.9 per cent in the September quarter, to be down 4.4 per cent through the year. In Australia (weighted average of capital cities) the index fell 1.5 per cent in the quarter, down 1.9 per cent through the year. Nationally, business confidence and conditions also fell but remained above NSW.

NAB released its **Monthly Business Survey** for November. NSW business confidence fell from +2 to +0 points and conditions fell from +10 to +9 points. Nationally, confidence fell from +5 to +3 points and conditions fell from +13 to +11 points.

W-MI released its **Consumer Sentiment Survey** for December. NSW consumer sentiment index (CSI) fell 3.4 per cent to 104.6 index points in the month. Nationally, CSI rose 0.1 per cent to 104.4 index points in the month.

CoreLogic Weekly Auction Data for the week ended 9 December 2018, showed that the final auction clearance rate in Sydney was 41.3 per cent compared to 41.6 per cent in the week prior. Nationally, the final auction clearance rate was 41.0 per cent, compared to 41.3 per cent in the week prior.

Markets

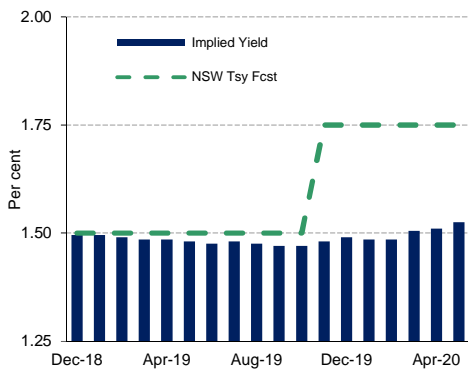
Over the week to Friday, the ASX200 fell by 1.4 per cent, the US S&P500 fell by 1.3 per cent and oil prices fell by 2.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2599.95	-2.8 %	-1.3 %
ASX200	5601.98	-6.6 %	-1.4 %
Australian Dollar (USD)	0.72	-6.2 %	-0.5 %
TWI	62.20	-3.3 %	-0.3 %
Oil (USD/bbl)	51.20	-10.6 %	-2.7 %
Gold (USD/oz)	1235.35	-1.5 %	-0.6 %
Thermal Coal (USD/tonnes)	102.30	2.3 %	-0.2 %
Australian 10-yr bond	2.46%	-6.1 bps	1.7 bps
US 10-yr bond	2.89%	53.7 bps	4.5 bps
NSW 10-yr bond (bps) maturity 2028	2.94%	- bps	2.0 bps

Upcoming Domestic Data Releases (17/12-21/12)

- **ABS** will release its Australian Demographic Statistics for the June quarter, Overseas Arrivals and Departures data for October, Labour Force and Detailed Monthly Labour Force data for November and Detailed Quarterly Labour Force data for the November quarter.
- **Austrade** will release its International Visitor Survey for September.
- **DoE** will release its Skilled Vacancies data for November.
- **CoreLogic** will release its Weekly Auction Data.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

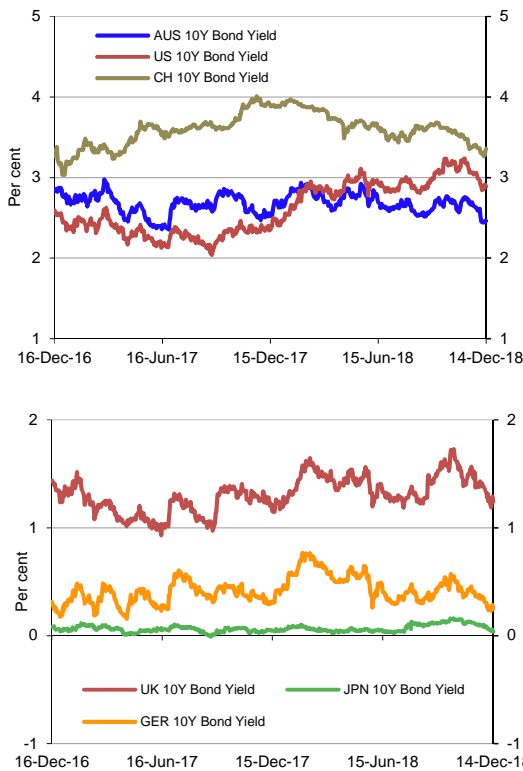
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market has no rate hike priced in between now and December 2019.

According to the ASX Target Rate Tracker, as at 14 December, 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 5 February 2019.

International Bond Yield Spreads

US government debt yields began to rally somewhat early in the week but fell in the later half in response to various developments on the global stage. On Thursday the European Central Bank said it was to formally end its vast quantitative easing program. On Friday traders digested fresh economic data out of China, with both Industrial Production and Retail Sales coming in below expectations.

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)	2.46	-6.1	1.7	-42.8	17.0
United States (US)	2.89	53.7	4.5	-	-
Germany (GER)	0.25	-4.9	0.3	-263.8	-205.2
United Kingdom (UK)	1.24	9.0	-2.5	-165.0	-120.3
Japan (JPN)	0.04	-1.1	-2.4	-285.5	-230.7
China (CH)	3.36	-52.7	5.8	46.9	153.2

Key International Data Releases

US: CPI rose 2.2 per cent through the year to November, compared with 2.5 per cent in October, slowing due to a sharp decline in the price of gasoline. Retail sales rose 0.2 per cent in November, compared to 1.1 per cent in October. However, core retail sales excluding a number of volatile components (including gasoline) surged 0.9 per cent as households bought furniture, electronics, etc. Industrial Production rose 3.9 per cent through the year to November, compared to 3.8 per cent in October.

China: Retail sales rose 8.1 per cent through the year to November, compared to 8.6 per cent in October – the weakest result since 2003. Industrial Production rose 5.4 per cent through the year to November, compared to 5.9 per cent in October – the slowest pace in almost three years.

Euro Area: The ECB decided to hold their interest rate at 0.00%. Manufacturing PMI decreased from 51.8 in November to 51.4 in December – 34-month low.

Germany: Manufacturing PMI decreased to 51.5 in December from 51.8 in the previous month – 33-month low.

UK: The trade deficit widened significantly to £3.30b in October, from £2.33b in September – significantly more pronounced than expectations of a £1.27b deficit.

Upcoming Key International Data Releases (17/12-21/12)

- **US:** Interest Rate Decision and Federal Open Market Committee (FOMC) Projections for December.
- **Euro Area:** Trade Balance for October.
- **Germany:** IFO Business Climate for December and Consumer Confidence for January.
- **UK:** CPI and Retail Sales for November, BoE Interest Rate Decision for December

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
17-Dec ABS Overseas Arrivals and Departures, Oct-18	18-Dec RBA Monetary Policy Minutes, Dec-18	19-Dec DoE Skilled Vacancies, Nov-18 Austrade International Visitor Survey, SepQ-18	20-Dec ABS Australian Demographic Statistics, Jun-18 ABS Labour Force, Nov-18 CoreLogic Weekly Auction Data	21-Dec ABS Detailed Monthly Labour Force, Nov-18 ABS Detailed Quarterly Labour Force, NovQ-18
24-Dec	25-Dec	26-Dec	27-Dec CoreLogic Weekly Auction Data	28-Dec
31-Dec RBA Private Sector Credit, Nov-18	1-Jan	2-Jan	3-Jan CoreLogic Weekly Auction Data	4-Jan
7-Jan	8-Jan ABS International Trade in Goods and Services, Nov-18	9-Jan ABS Building Approvals, Nov-18 ABS Job Vacancies, NovQ-18	10-Jan CoreLogic Weekly Auction Data	11-Jan ABS Retail Trade, Nov-18
14-Jan	15-Jan	16-Jan ABS Building Activity, SepQ-18 ABS Regional Building Approvals, Nov-18 ABS Engineering Construction Activity, SepQ-18 W-MI Consumer Sentiment, Jan-19	17-Jan CoreLogic Weekly Auction Data ABS Housing Finance, Nov-18	18-Jan ABS Overseas Arrivals and Departures, Nov-18
21-Jan ABS Lending Finance, Nov-18 IMF World Economic Outlook Update, Jan-19	22-Jan	23-Jan DoE Vacancy Report, Dec-18	24-Jan CoreLogic Weekly Auction Data ABS Labour Force, Dec-18	25-Jan

ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.6%	2.8%	% annual average	2017-18 Next: TBA
State/Domestic Final Demand	3.7%	2.7%	% through the year	September quarter 18 Next: 6 March 19
	1.1%	0.3%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	0	+3	NAB Index	November 18 (mthly) Next: 29 January 19
NAB Business Conditions	+9	+11		
HOUSING				
Dwelling Approvals	66.8k	222.7k	Number of app 12mms	October 18 (mthly) Next: 9 January 2019
	-6.8%	0.8%	% annual average	
Residential Prices (capitals)	-4.4%	-1.9%	% through the year	September quarter 18 Next: 19 March 19
LABOUR FORCE				
Employment	3.9%	2.5%	% through the year	October 18 (mthly) Next: 20 December 18
Unemployment Rate	4.4%	5.0%	Current rate	
Youth unemployment rate	10.2%	12.0%	12 monthly moving average rate	
CONSUMER				
Retail Sales	2.1%	3.6%	% through the year	October 18 (mthly) Next: 11 January 19
Westpac MI Consumer Confidence	104.6	104.4	Westpac MI Index	December 18 (mthly) Next: 16 January 19
CPI (Capital cities)	2.0%	1.9%	% through the year	September quarter 18 Next: 30 January 19
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 5 February 19

ECONOMIC FORECASTS ^(a)	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 (%)	3.4	3	3	n.a.	n.a.	n.a.
Gross State /Domestic Product (%)	2.6	2¾	2¾	2.8	2¾	3
Employment (%) ^(b)	3.1	1¾	1½	2.7	1¾	1¾
Unemployment rate (%) ^(c)	4.8	4¾	4¾	5.4	5	5
CPI (%) ^(d)	2.0	2¼	2¼	2.1	2	2¼
Wage Price Index (%) ^(e)	2.1	2½	2¾	2.1	2½	3

(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.