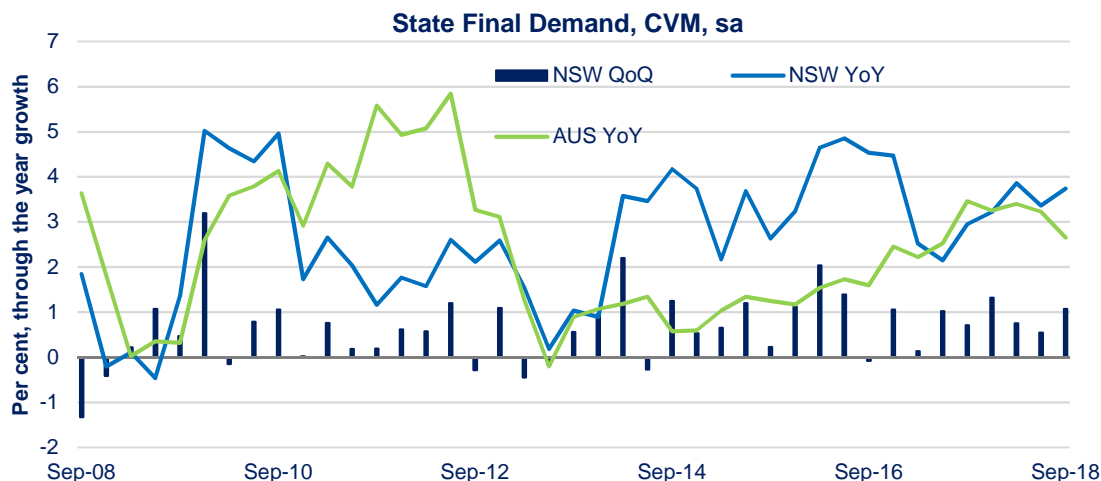


From the Chief Economist:

Chart of the week: NSW economic growth shows strong momentum in September quarter



Amid an avalanche of data last week was evidence that growth in Australia’s economy slowed sharply in the September quarter, to a well-below-trend 0.3%q/q. A disappointing consumer spending outcome was partly offset by higher public sector contribution, but the main message was that the economy lost significant momentum last quarter. Growth in the NSW state economy, however, bounced, thanks to a particularly healthy contribution from government spending. Growth in household spending, however, was even weaker at the state level than nationally. This perhaps is an early sign of negative wealth effects because of falling house prices in Sydney. The weakness of NSW consumers was confirmed in the October retail sales report, which revealed a dip in spending, as spending nationally rose. Amid the blizzard of economic data, the Reserve Bank left interest rates unchanged yet again at the final board meeting for 2018. The downside surprise on GDP growth in Q3 will challenge the RBA’s published forecast of persistent above-trend growth in Australia’s economy, but the Board does not meet again until February. A lot can happen on the economy between now and then.

This week is more quiet, with some important housing data on the agenda, alongside the twin confidence reports for businesses and consumers. This morning, the ABS released the October housing finance data, which showed that commitments for owner-occupiers are down 3.6 per cent over the year. There probably are further declines in the months ahead as conditions in the housing market continue to cool. The preliminary auction clearance rate last weekend was just 44%, a level consistent with further falls in house prices. Tomorrow sees the release of the official quarterly capital-city house price data, but the usefulness of this release has been compromised by the availability of more timely unofficial price data. The NAB business survey tomorrow probably will show a stabilisation in sentiment after recent falls, but the consumer confidence reading on Wednesday probably will be lower. Any fall, however, will come after the unexpected 10% bounce in November, which seemed too good to be true. It seems that consumers are taking longer than expected to react to lower house prices.

Chart A: Domestic Interest Rates

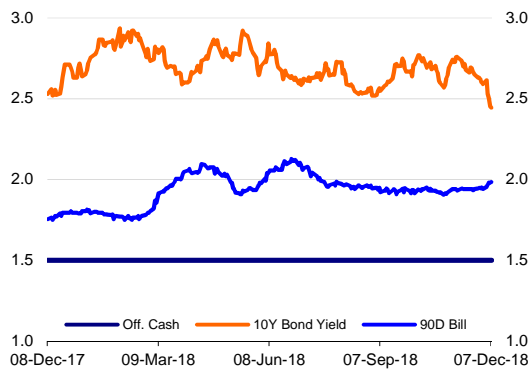


Chart B: Share Price Index

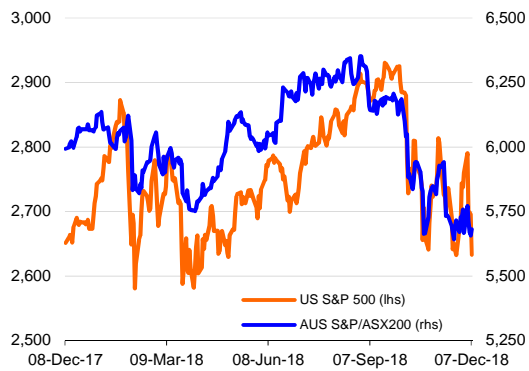


Chart C: Exchange rate

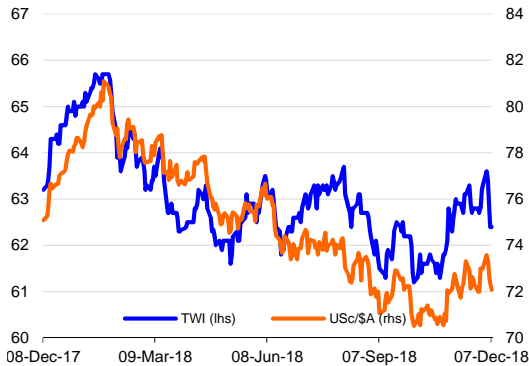
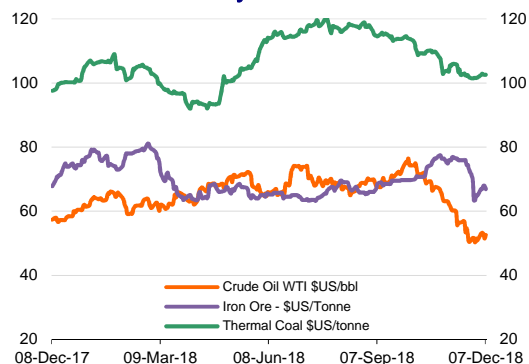


Chart D: Commodity Prices



Domestic Data Releases

ABS Retail Trade data showed NSW nominal retail sales fell 0.4 per cent in the month, to be up 2.1 per cent through the year to October. Nationally, sales rose 0.3 per cent in the month, to be up 3.6 per cent through the year.

ABS Residential Building Approvals data showed that the annual sum of building approvals in NSW was 66,800, down 6.8 per cent through the year to October. In Australia, approvals were at an annual sum of 222,700, up 0.8 per cent through the year.

ABS Balance of Payments showed that NSW exports were 7.9 per cent higher and imports were 3.5 per cent higher through the year to the September quarter. The terms of trade was up 1.0 per cent over the same period. Nationally, exports were 4.1 per cent higher and imports were 1.5 per cent higher through the year. The terms of trade was up 2.7 per cent.

ABS National Accounts data for the September quarter showed that NSW State Final Demand increased by a strong 1.1 per cent in the quarter, with through the year growth lifting to an above-average 3.7 per cent (up from 3.4 per cent in the previous quarter). The result was underpinned by much stronger than expected public demand, which contributed more than two-thirds of the growth in the quarter. In contrast, private demand disappointed, with both household consumption and private business investment coming in well below expectations—albeit the latter still recorded very solid growth in the quarter and outperformed relative to other states. GDP growth was 0.3 per cent in the quarter, to be up 2.8 per cent through the year.

CoreLogic Auction Data for the week ended 7 December 2018, showed that the final auction clearance rate in Sydney was 41.6 per cent compared to 44.8 per cent in the week prior. Nationally, the final auction clearance rate was 41.3 per cent, compared to 41.9 per cent in the week prior.

RBA released its Monetary Policy Decision for December. At its meeting, the Board decided to leave interest rate unchanged at 1.5 per cent.

Markets

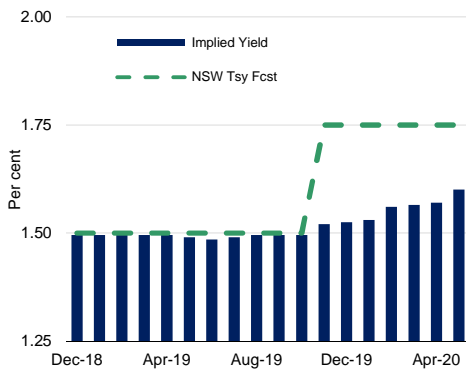
Over the week to Friday, the ASX200 rose by 0.3 per cent, the US S&P500 fell by 4.6 per cent and oil prices increased by 3.3 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2633.08	-0.7 %	-4.6 %
ASX200	5681.49	-5.2 %	0.3 %
Australian Dollar (USD)	0.72	-4.0 %	-1.3 %
TWI	62.40	-1.3 %	-1.4 %
Oil (USD/bbl)	52.61	-8.3 %	3.3 %
Gold (USD/oz)	1243.30	-0.6 %	2.1 %
Thermal Coal (USD/tonnes)	102.55	5.1 %	0.8 %
Australian 10-yr bond	2.45%	-8.4 bps	-14.5 bps
US 10-yr bond	2.85%	46.9 bps	-14.5 bps
NSW 10-yr bond (bps) maturity 2028	2.92%	- bps	-11.0 bps

Upcoming Domestic Data Releases (10/12 – 14/12)

- **ABS** will release its Residential Property Price Indexes and Labour Account data for September, Housing Finance, Lending Finance and Building Approvals data for October,
- **ABARES** will release their Agricultural Commodities for December.
- **NAB** will release their Monthly Business Survey for November.
- **W-MI** will release its Consumer Sentiment data for December.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

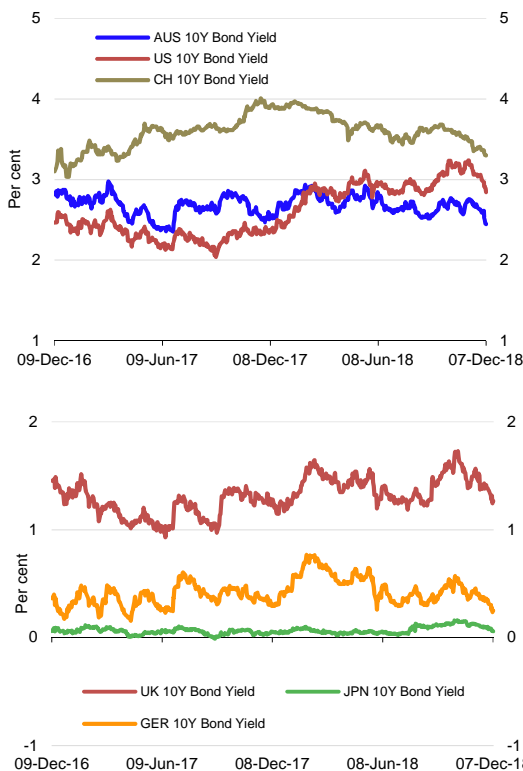
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market has no rate hike priced in between now and May 2020.

According to the ASX Target Rate Tracker, as at 7 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 bond yields fell 14.5bp over the week as expectations of Federal Reserve rate hikes were pushed out further on the horizon. The view that interest rates will stay on hold was supported by weaker than anticipated jobs growth data. The yield curve continued to flatten, with some yield spreads inverting slightly into the negative. In the past inverting yield curves have been predecessors to recessions but there are other factors that could be at work. Notably, the US started raising interest rates well before it began reducing the size of its balance sheet, which could be contributing to the narrowing spread.

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)	2.45	-8.4	-14.5	-40.0	15.3
United States (US)	2.85	46.9	-14.5	-	-
Germany (GER)	0.25	-5.8	-6.1	-259.6	-206.9
United Kingdom (UK)	1.27	-1.4	-9.5	-158.0	-109.7
Japan (JPN)	0.06	0.6	-3.1	-278.6	-232.3
China (CH)	3.30	-61.4	-7.0	45.5	153.8

Key International Data Releases

US Employment Change came in at 179,000 for November, below expectations of 195,000 and prior month results of 225,000. Change in Non-farm Payrolls were also down, at 155,000 for November, below expectations of 198,000 and prior month results of 237,000. Overall, the unemployment rate remained unchanged at 3.7 per cent in November. The trade deficit widened to \$55.5 billion in October from \$54.6 billion in the previous month. Manufacturing PMI rose to 59.3 in November from 57.7 in October. Non-manufacturing PMI rose to 60.7 in November from 60.3 in October.

China Trade surplus widened slightly to \$44.8 billion in November, from \$34.8 billion in October. Exports were up 5.4 per cent and imports were up 3.0 per cent through the year to November, possibly pointing to weaker domestic demand. Although, the continued front-loading effect produced by tariffs caused the surplus with the US to hit a new record. CPI rose 2.2 per cent through the year to November, down from 2.5 per cent in October, with weaker inflation pointing to a slowing economy. PPI rose 2.7 per cent through the year to November, compared to 3.3 per cent in October, partly due to the steep fall in the price of crude oil.

Euro Area Retail sales increased by 1.7 per cent through the year to October compared to 0.3 per cent in the previous month.

Canada BOC kept its policy settings unchanged at 1.75 per cent for December.

Upcoming Key International Data Releases (10/12 – 14/12)

- **US:** CPI, Retail Sales and Industrial Production data for November.
- **China:** Retail Sales and Industrial Production data for November.
- **Euro Area:** ECB Interest Rate Decision and Manufacturing PMI data for December.
- **UK:** Trade Balance data for October.
- **Germany:** Manufacturing PMI data for December.
- **India:** CPI data for November.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
10-Dec	11-Dec	12-Dec	13-Dec	14-Dec
ABS Housing Finance, Oct-18 ABS Building Approvals, Oct-18 Speech by Christopher Kent, Assistant Governor (Financial Markets), US Monetary Policy and Australian Financial Conditions. at the Bloomberg event, Sydney	NAB Monthly Business Survey, Nov-18 ABS Residential Property Price Indexes, Sep-18 ABS Labour Account Australia, Experimental Estimates, SepQ-18 ABARES Agricultural Commodities, DecQ-18	W-MI Consumer Sentiment, Dec-18 ABS Lending Finance, Oct-18	RBA Bulletin, Dec-18 CoreLogic Weekly Auction Data ABS Labour Force Rebenchmarking Estimates, Oct-18	
17-Dec	18-Dec	19-Dec	20-Dec	21-Dec
ABS Overseas Arrivals and Departures, Oct-18	RBA Monetary Policy Minutes, Dec-18	DoE Skilled Vacancies, Nov-18 Austrade International Visitor Survey, SepQ-18	ABS Australian Demographic Statistics, Jun-18 ABS Labour Force, Nov-18 CoreLogic Weekly Auction Data	ABS Detailed Monthly Labour Force, Nov-18 ABS Detailed Quarterly Labour Force, NovQ-18
24-Dec	25-Dec	26-Dec	27-Dec	28-Dec
			CoreLogic Weekly Auction Data	
31-Dec	1-Jan	2-Jan	3-Jan	4-Jan
RBA Private Sector Credit, Nov-18			CoreLogic Weekly Auction Data	
7-Jan	8-Jan	9-Jan	10-Jan	11-Jan
	ABS International Trade in Goods and Services, Nov-18 NAB Monthly Business Survey, Dec-18	ABS Building Approvals, Nov-18 ABS Job Vacancies, NovQ-18	CoreLogic Weekly Auction Data	ABS Retail Trade, Nov-18
14-Jan	15-Jan	16-Jan	17-Jan	18-Jan
		ABS Building Activity, SepQ-18 ABS Engineering Construction Activity, SepQ-18 W-MI Consumer Sentiment, Jan-19	CoreLogic Weekly Auction Data ABS Housing Finance, Nov-18	ABS Overseas Arrivals and Departures, Nov-18

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 2019
	1.1%	0.3%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	+2	+4	NAB Index	November 18 (mthly) Next: 11 December 18
NAB Business Conditions	+9	+12		
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)	-3.9%	-0.6%	% through the year	June quarter 18 Next: 11 December 18
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 2019
Westpac MI Consumer Confidence	108.3	104.3	Westpac MI Index	November 18 (mthly) Next: 12 December 18
CPI (Capital cities)	2.0%	1.9%	% through the year	September quarter 18 Next: 30 January 2019
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 5 February 2019

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 (%)	3.8	3.3(3¾)	3	2.3	n.a.	n.a.
Gross State /Domestic Product (%)	2.9	2.6(3)	2¾	2.1	2.9(2¾)	3
Employment (%) ^(b)	1.1	3.1(3)	1¾	2.2	2.9(2¾)	1½
Unemployment rate (%) ^(c)	5.0	4.8(4¾)	4¾	5.6	5.4(5½)	5¼
CPI (%) ^(d)	2.0	2.0(2)	2¼	1.9	2.1(2)	2¼
Wage Price Index (%) ^(e)	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.