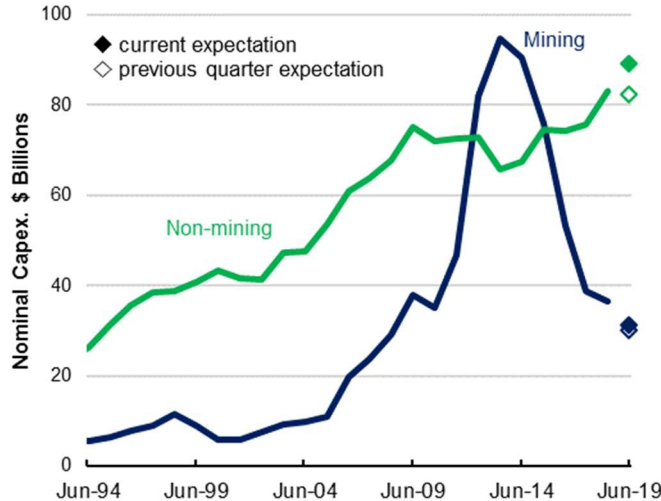


From the Chief Economist:

Chart of the week: Improved expectations for Australian capex – for both mining and non-mining



Last week was busy for economic data, with important releases on construction, business investment and credit. Construction work in NSW bounced more than 2%q/q in the September quarter, which means there should be a healthy positive contribution to growth in the economy over the quarter. Most of the other states reported a dip in construction work last quarter. It was the same story with the business investment data released last Thursday, with spending in NSW rising as it fell broadly elsewhere. Encouragingly, there was a healthy upgrade to firms' spending intentions at the national level for the year ended June 2019. This upgrade supports the expectation that private investment, alongside exports, will become an even larger positive contributor to growth in Australia's economy in the quarters ahead. The RBA credit aggregates last Friday showed that growth in housing credit for investors slipped to the slowest growth on record, another symptom of the softening housing market! There was, however, an encouraging acceleration in the rate of growth in credit to business.

If last week was busy, this week is manic. The remaining missing pieces of the Q3 GDP jigsaw puzzle will fall into place over the next few days, with the release of government finance, current account, inventory and profits data. All of these will help paint a more complete picture of growth in the economy last quarter – confirmation of the outcome will come with the release of the National Accounts on Wednesday. The consensus of economists expects real GDP growth to have been 0.6%q/q last quarter, a step down from the robust 1% average growth reported across the first half of this year, but decent enough. This should leave growth in the national economy tracking above 3%, and above trend, too. To cap off the data releases, there also will be monthly reports on building approvals, trade and retail sales. Tomorrow, the Reserve Bank will announce the last interest rate decision for the year – barring unexpected emergencies, there will not be another interest rate announcement until next February. No mainstream economist expects any change in interest rates tomorrow, nor material changes in the RBA's language or guidance, either.

Chart A: Domestic Interest Rates

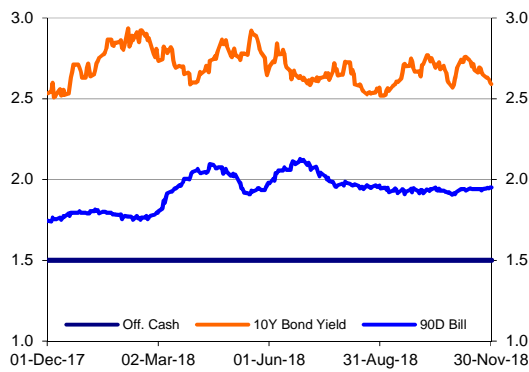


Chart B: Share Price Index

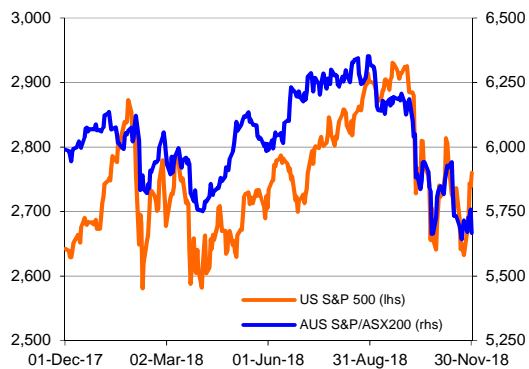


Chart C: Exchange rate

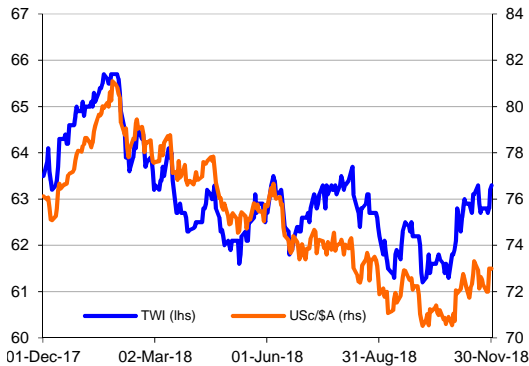
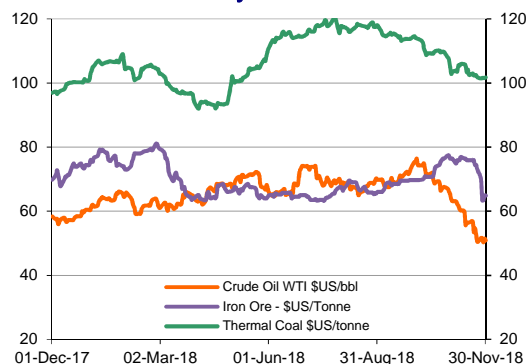


Chart D: Commodity Prices



Domestic Data Releases

ABS Construction Work Done data increased further, with growth of 2.2 per cent in the quarter, up 8.5 per cent from this time last year. Internally, components are shifting from Residential (+0.8 per cent in the quarter) to Non-residential (+3.7 per cent).

ABS Private Capital Expenditure in NSW increased by 3.1 per cent in the September quarter 2018, after increasing 2.7 per cent in the previous quarter. Through the year, the increase was 13.1 per cent, to reach \$8.3 billion in real terms. **ABS Private Capital Expenditure Expectations** realisation adjusted data showed that Private Capex in Australia is expected to grow 0.8 per cent in 2018-19 on the previous year. This is a significant improvement in expectations – with both mining and non-mining expectations for 2018-19 being revised up.

RBA Private Sector Credit showed the lowest through the year growth in investor housing credit on record, up 1.3 per cent through the year, compared to owner-occupier house credit which grew at 7.0 percent over the same period. In total, credit growth eased to 4.6 cent through the year compared to 5.2 per cent a year ago.

CoreLogic Auction Data for the week ended 25 November 2018, showed that the final auction clearance rate in Sydney was 44.8 per cent compared to 42.8 per cent in the week prior. Nationally, the final auction clearance rate was 41.9 per cent, compared to 42.0 per cent in the week prior.

Markets

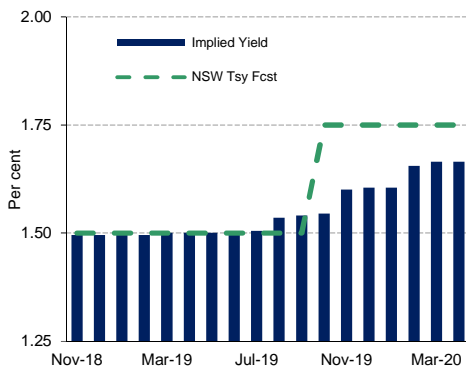
Over the week to Friday, the ASX200 fell by 0.9 per cent, the US S&P500 rose by 4.8 per cent and oil prices increased by 1.0 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2760.17	4.5 %	4.8 %
ASX200	5667.16	-5.4 %	-0.9 %
Australian Dollar (USD)	0.73	-4.1 %	0.9 %
TWI	63.30	-0.3 %	0.8 %
Oil (USD/bbl)	50.93	-12.7 %	1.0 %
Gold (USD/oz)	1217.55	-4.5 %	-0.5 %
Thermal Coal (USD/tonnes)	101.70	4.9 %	0.0 %
Australian 10-yr bond	2.59%	5.6 bps	-6.0 bps
US 10-yr bond	2.99%	62.9 bps	-4.9 bps
NSW 10-yr bond (bps) maturity 2028	3.03%	- bps	-6.0 bps

Upcoming Domestic Data Releases (3/12 – 7/12)

- **ABS** will release its Business Indicators, Mineral & Petroleum Exploration, Balance of Payments, Government Finance Statistics and National Accounts data for the September quarter, Building Approvals, International Trade in G&S and Retail Trade data for October.
- **RBA** will release its Interest Rate Decision for December.
- **CoreLogic** will release its Weekly Auction Data and the Monthly Property Market Statistics for December.
- **ABARES** will release their Crop Report 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 expects the RBA to increase the cash rate in February 2020.

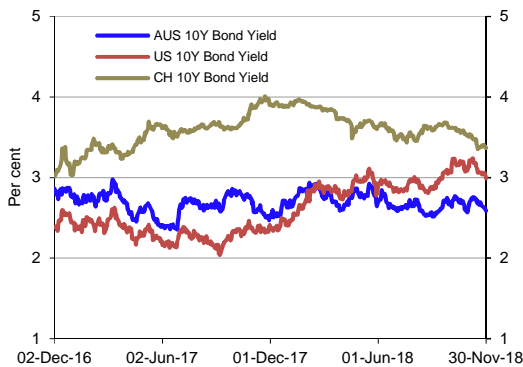
According to the ASX Target Rate Tracker, as at 29 November, there is a 0 per cent expectation that the RBA will increase the cash rate to 1.75 per cent at its next policy meeting on 4 December 2018.

International Bond Yield Spreads

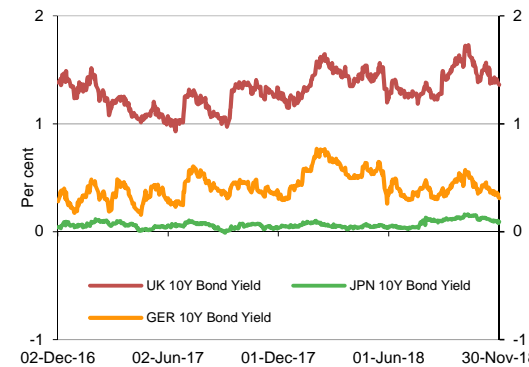
Federal Reserve Chairman Jerome Powell made comments that gave investors the impression the Federal Reserve may soften their approach to increasing interest rates. In response to the expectation of a gentler tightening cycle, bond yields fell 4.9 per cent last week and the US stock market rallied.

Euro zone government bond yields traded near three-month lows on Friday, pinned lower by a fall in core inflation, while Italian debt was steady after expectations for a budget compromise with the European Union sent them lower this 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)	2.59	5.6	-6.0	-40.0	17.3
United States (US)	2.99	62.9	-4.9	-	-
Germany (GER)	0.31	0.5	-3.0	-268.0	-205.7
United Kingdom (UK)	1.36	12.7	-2.1	-163.0	-112.9
Japan (JPN)	0.09	5.5	-1.0	-290.0	-232.7
China (CH)	3.37	-53.1	-3.1	38.0	154.0



Key International Data Releases

US: FOMC minutes indicated a strong likelihood of another ¼ point adjustment to interest rates in December. However, looking forward to 2019, comments by officials suggested that further increases may be reconsidered if current global economic conditions persist.

China: Manufacturing sPMI decreased to 50.0 in November from 50.2 in the previous month – 29-month low. The low expansion rate mirroring trade war uncertainties.

Germany: A couple of data releases indicated a slight cooling in the economy. The IFO Business Climate index took its third consecutive dip to reach 102.0 in November. The Consumer Confidence index fell to 10.4 in December from 10.6 in the previous month. On the upside, Retail Sales surged 5.0 per cent through the year to October, compared to -2.8 per cent in September.

Japan: Retail sales rose 3.5 per cent through the year to October, compared to 2.2 per cent in September. Industrial Production returned to growth – 4.2 per cent through the year to October – after a dip in September to -2.5 per cent partly due to the disruption of earthquakes in Hokkaido.

Upcoming Key International Data Releases (3/12 – 7/12)

- **US:** Trade Balance data for October, Manufacturing PMI, Non-manufacturing PMI, Unemployment Rate, Employment Change and Change in Non-farm Payrolls data for November.
- **China:** Trade Balance, CPI and PPI data for November.
- **Euro Area:** Retail Sales data for October.
- **Canada:** BOC Interest Rate Decision for December.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
3-Dec	4-Dec	5-Dec	6-Dec	7-Dec
ABS Business Indicators, SepQ-18 ABS Building Approvals, Oct-18 ABS Mineral and Petroleum Exploration, SepQ-18	RBA Interest Rate Decision, Dec-18 ABARES Crop Report, Dec-18 ABS Balance of Payments, SepQ-18 ABS Government Finance Statistics, SepQ-18	ABS National Accounts, SepQ-18	APM Auction data, Nov-18 ABS International Trade in Goods and Services, Oct-18 ABS Retail Trade, Oct-18 CoreLogic Weekly Auction Data Speech by Guy Debelle, Deputy Governor, at the Australian Business Economists Annual Dinner, Sydney	
10-Dec	11-Dec	12-Dec	13-Dec	14-Dec
ABS Housing Finance, Oct-18 ABS Regional 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 Rebenchmarked 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

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	3.5%	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	+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	3.1%	3.7%	% through the year	September 18 (mthly) Next: 6 December 18
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: 4 December 18

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.