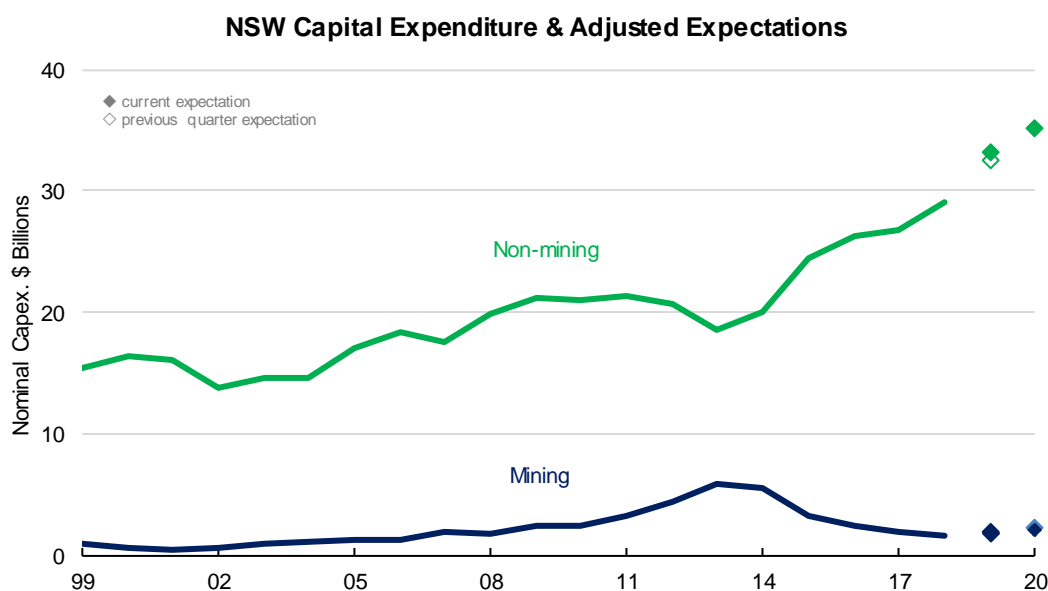


Chart of the Week: mining and non-mining expectations revised up for 2018-19



From the chief economist:

Last week's economic highlight was the release of an unexpectedly upbeat private business investment survey for the December quarter. The constructive capex signals ran contrary to the more downbeat messages from recent business sentiment surveys, which had implied corporate caution. Not only did private spending on investment increase at double the rate expected in Q4 (up 2 per cent QoQ nationally), but firms upgraded their spending plans for the current fiscal year. The first glimpse at firms' spending expectations for the year ended June 2020 was reasonable, too. The other major data releases last week were less upbeat. The RBA's credit aggregates for January, in fact, showed the weakest growth in credit to housing since 1976 (when the series began), and there was a plunge in the value of engineering construction last quarter.

The clear highlight this week will be the release on Wednesday of the Q4 National Accounts, which will reveal the rate of growth in the national economy, among other details. Surveyed economists expect a soft result, although there are a few key pieces of the GDP jigsaw puzzle still to be released ahead of the GDP release, including details on profits, public spending and trade. Domestic demand growth probably will have been sluggish in Q4 owing to subdued consumer spending, but booming exports should mean that growth in the economy is decent enough. There is a good flow of more contemporary monthly data this week, too, including the latest building approvals, retail sales and international trade data. The icing on the cake is an RBA interest rate decision tomorrow – a swelling group of market economists now forecasts RBA rate cuts later this year.

Chart A: Domestic Interest Rates

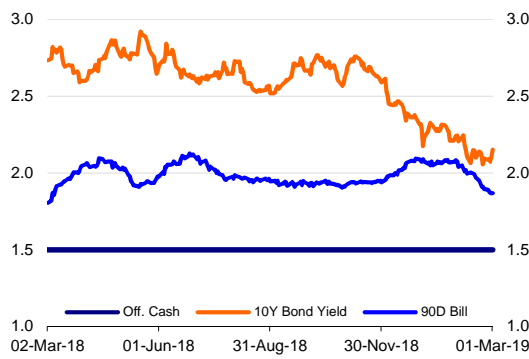


Chart B: Share Price Index

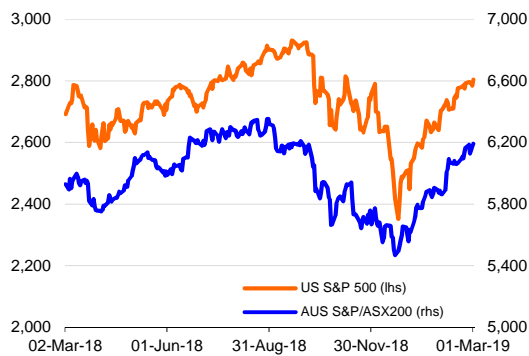


Chart C: Exchange rate

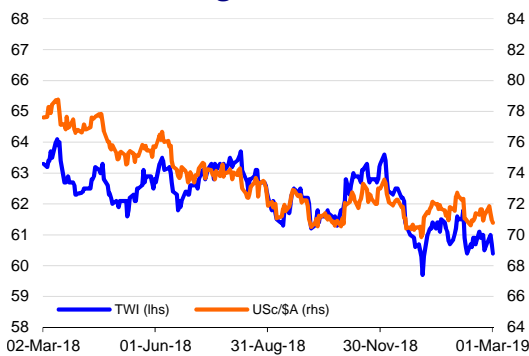
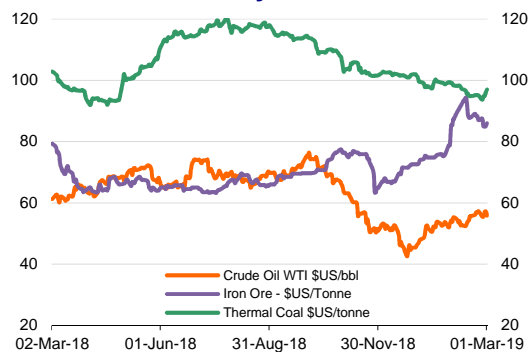


Chart D: Commodity Prices



Domestic Data Releases

ABS Construction Work Done in NSW fell for the first time since September quarter 2016, falling 4.1 per cent in December quarter, to be 2.1 per cent higher through the year. The shift in momentum was mainly due to a fall in Engineering Construction Work Done (down 9.7 per cent in the quarter) and Residential Building Work Done (down 4.1 per cent in the quarter). Non-residential building work continues to grow, up 6.5 per cent in the quarter.

ABS Private New Capital Expenditure in NSW increased by 3.5 per cent in the December quarter 2018 after rising 3.8 per cent in the previous quarter. A total of \$8.6 billion real expenditure occurred in the quarter. **ABS Private Capital Expenditure Expectations** realisation adjusted data showed that Private Capex in NSW is expected to grow 13.5 per cent in 2018-19 and 2.3 per cent in 2019-20.

RBA Private Sector Credit data showed total credit in Australia to the private sector rose 4.3 per cent in the year to January. Housing credit growth eased to 4.4 per cent through the year to January with investor housing credit easing to 1.0 (this is the weakest growth rate recorded since the series began in September 1976) and owner occupier housing credit also slowed to 6.2 per cent over the same period. Business credit was 5.2 per cent higher through the year to January which is the highest rate of growth since December 2016.

Corelogic house prices in Sydney fell 1.3 per cent in February, to be down 10.6 per cent compared to a year ago. Unit prices in Sydney fell 2.3 per cent in February, to be down 10.6 per cent compared to a year ago.

Markets

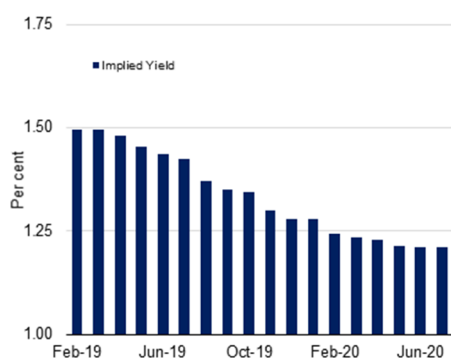
Over the week to Friday, the ASX200 rose 4.5 per cent, the US S&P500 rose 4.2 per cent and oil prices fell 8.9 per cent.

	Value	Change on Year	Change on Wee
US S&P 500	2803.69	4.2 %	0.4 %
ASX200	6192.73	4.5 %	0.4 %
Australian Dollar (USD)	0.71	-8.8 %	-0.7 %
TWI	60.40	-4.6 %	-0.2 %
Oil (USD/bbl)	55.80	-8.9 %	-2.5 %
Gold (USD/oz)	1311.95	-0.8 %	-1.3 %
Thermal Coal (USD/tonnes)	97.00	-5.7 %	2.1 %
Australian 10-yr bond	2.15%	-58.2 bps	5.6 bps
US 10-yr bond	2.75%	-11.1 bps	10.1 bps
NSW 10-yr bond (bps) maturity 2028	2.64%	-27.6 bps	5.0 bps

Upcoming Domestic Data Releases (04/03-08/03)

- **ABS** will release Business Indicators, Mineral and Petroleum Exploration, Balance of Payments, Government Finance Statistics and National Accounts for the December quarter, Building Approvals, International Trade in Goods and Services and Retail Trade for January.
- **RBA** will announce its decision on the official cash rate for March. RBA Governor Phillip Lowe will deliver a speech on 'The Housing Market and the Economy'. RBA Head of Economic Research Development, John Simon, will deliver a speech – the title of the speech is unknown.
- **ANZ** will release its Stateometer for the December quarter.
- **ABARES** will release its Agricultural Commodities report for the March quarter.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

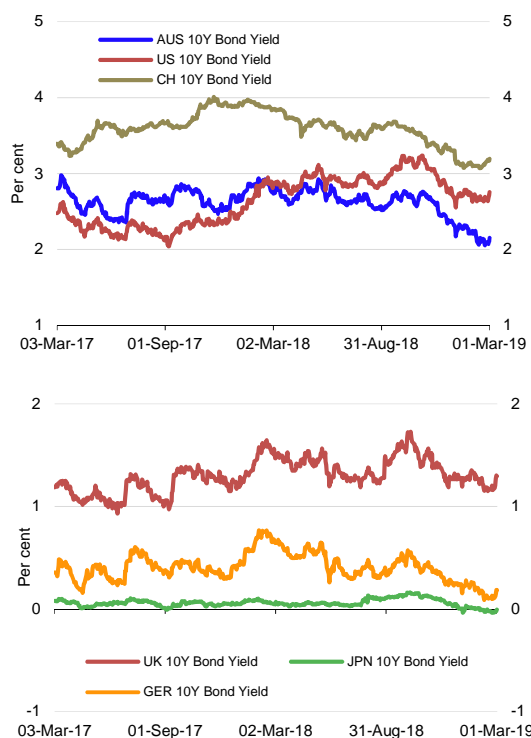
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects a rate cut in August 2019.

According to the ASX Target Rate Tracker, as at 28 February, there is a 2 per cent expectation that the RBA will decrease the cash rate to 1.25 per cent at its next policy meeting on 5 March 2019.

International Bond Yield Spreads

The US 10-year Treasury yields ended reached their highest levels in more than a month and recorded the largest weekly gain since November last year following better than expected US economic data.

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)	2.15	-58.2	5.6	-60.1	-13.0
United States (US)	2.75	-11.1	10.1	-	-
Germany (GER)	0.18	-46.8	8.7	-257.0	-221.3
United Kingdom (UK)	1.30	-17.8	13.8	-145.7	-139.0
Japan (JPN)	-0.01	-7.5	3.0	-276.0	-279.6
China (CH)	3.19	-65.5	5.4	44.0	98.4

Key International Data Releases

US: Factory Orders rose 0.1 per cent in December following a fall of 0.5 per cent in November. Annualised GDP rose 2.6 per cent in the December quarter (above an expected rise of 2.2 per cent on Bloomberg), following a rise of 3.4 per cent in the previous quarter. US ISM Manufacturing PMI decreased to 54.2 in February 2019, from 56.6 in January.

Germany: Consumer Confidence remained unchanged at a level of 10.8 in March. CPI rose 0.5 per cent in February to be up 1.6 per cent through the year to February.

Euro Area: Business Confidence remained unchanged at 0.69 in February. CPI rose 1.5 per cent in the year to February. Unemployment rate fell to 7.8 per cent in January, following 7.8 per cent in December.

Japan: Retail sales fell 2.3 per cent in January to be up 0.6 per cent through the year. The unemployment rate rose to 2.5 per cent in January, compared to 2.4 per cent in the previous month. Tokyo CPI was up 0.6 per cent in the year to February. Consumer confidence fell from 41.9 in January to 41.5 in February.

China: Manufacturing PMI decreased from 49.5 in January to 49.2 in February, reaching the lowest levels since February 2016. Non-Manufacturing PMI also decreased from 54.7 in January to 54.3 in February.

Upcoming Key International Data Releases (04/03-08/03)

- **US** ADP Employment, ISM Non-Manufacturing PMI, Private Non-Farm Payrolls and Unemployment Rate for February, and the Trade Balance for December.
- **Euro Area** Retail Sales for January and the ECB meets for its March interest rate decision.
- **China** Trade Balance and CPI for February.
- **Japan** Nikkei Services PMI for February.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
4-Mar	5-Mar	6-Mar	7-Mar	8-Mar
ABS Building Approvals, Jan-19 ABS Business Indicators, DecQ-18 ABS Mineral and Petroleum Exploration, DecQ-18	RBA Interest Rate Decision, Mar-19 ABS Balance of Payments, DecQ-18 ABS Government Finance Statistics, DecQ-18 ANZ Stateometer, DecQ-18 ABARES Agricultural Commodities, MarQ-19	ABS National Accounts, DecQ-18 RBA Speech by Philip Lowe, Governor - The Housing Market and Economy - at the Australian Financial Review's 2019 Business Summit, Sydney	CoreLogic Weekly Auction Data ABS International Trade in Goods and Services, Jan-19 ABS Retail Trade, Jan-19 RBA Speech by John Simon, Head of Economic Research Department, at the Economic Society of Australia (QLD) and Griffith University Symposium, Southbank, QLD	
11-Mar	12-Mar	13-Mar	14-Mar	15-Mar
	ABS Regional Building Approvals, Jan-19 NAB Monthly Business Survey, Feb-19 ABS Lending to Households and Businesses, Jan-19 RBA Speech by Guy Debelle, Deputy Governor - Climate Change and the Economy - at a Public Forum hosted by the Centre for Policy Development, Sydney	W-MI Consumer Sentiment, Mar-19	CoreLogic Weekly Auction Data	ABS Overseas Arrivals and Departures, Jan-19
18-Mar	19-Mar	20-Mar	21-Mar	22-Mar
	RBA Monetary Policy Minutes, Mar-19 ABS Residential Property Price Indexes, DecQ-18 RBA Speech by Christopher Kent, Assistant Governor (Financial Markets) - Bonds and Benchmarks - at the KangaNews DCM Summit, Sydney	DoE Vacancy Report, Feb-19	CoreLogic Weekly Auction Data RBA Bulletin, Mar-19 ABS Labour Force, Feb-19 ABS Demographic Statistics, SepQ-18	
25-Mar	26-Mar	27-Mar	28-Mar	29-Mar
	RBA Speech by Luci Ellis, Assistant Governor (Economic), at the HIA March Industry Outlook Breakfast, Sydney	ABS Engineering Construction Activity, DecQ-18	CoreLogic Weekly Auction Data ABS Detailed Monthly Labour Force, Feb-19 ABS Detailed Quarterly Labour Force, FebQ-19 ABS Job Vacancies, Feb-19	RBA Private Sector Credit, Feb-19
1-Apr	2-Apr	3-Apr	4-Apr	5-Apr
NAB Monthly Business Survey, Mar-19	ABS Building Approvals, Feb-19 RBA Interest Rate Decision, Apr-19	ABS International Trade in Goods & Services, Feb-19 ABS Retail Trade, Feb-19	CoreLogic Weekly Auction Data	
8-Apr	9-Apr	10-Apr	11-Apr	12-Apr
	ABS Lending to Households and Businesses, Feb-19 ABS Regional Building Approvals, Feb-19	ABS Building Activity, DecQ-18 W-MI Consumer Sentiment, April-19	ABS Overseas Arrivals and Departures, Feb-19 CoreLogic Weekly Auction Data	RBA Financial Stability Review, Apr-19

ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.6%	2.8%	% annual average	2017-18 Next: November 2019
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	+5	+4	NAB Index	January 19 (mthly) Next: 12 March 19
NAB Business Conditions	+6	+7		
HOUSING				
Dwelling Approvals	64.6k	211.8k	Number of app 12mms	December 18 (mthly) Next: 4 March 2019
	-3.6%	1.1%	% annual average	
Residential Prices (capitals)	-4.4%	-1.9%	% through the year	September quarter 18 Next: 19 March 19
LABOUR FORCE				
Employment	4.1%	2.2%	% through the year	January 19 (mthly) Next: 21 March 19
Unemployment Rate	3.9%	5.0%	Current rate	
Youth unemployment rate	0.2%	11.7%	12 monthly moving average rate	
CONSUMER				
Retail Sales	1.7%	2.8%	% through the year (nominal)	December 18 (mthly) Next: 7 March 19
Westpac MI Consumer Confidence	106.0	103.8	Westpac MI Index	February 19 (mthly) Next: 13 March 19
CPI (Capital cities)	1.7%	1.8%	% through the year	December quarter 18 Next: 24 March 19
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 5 March 19

ECONOMIC FORECASTS^(a)	NSW Forecasts (as per 2018-19 HYR)			Australian Gov't Forecasts (as per 2018-19 MYEFO)		
	2017-18 Actual	2018-19 Forecast	2019-20 Forecast	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
State/Domestic Final Demand (%)	3.4	3	2¾	n.a.	n.a.	n.a.
Gross State /Domestic Product (%)	2.6	2¾	2½	2.8	2¾	3
Employment (%)^(b)	3.1	3	1½	2.7	1¾	1¾
Unemployment rate (%)^(c)	4.8	4½	4½	5.4	5	5
CPI (%)^(b)	2.0	2	2¼	2.1	2	2¼
Wage Price Index (%)^(b)	2.1	2½	2¾	2.1	2½	3

(a) Per cent change, annual average, unless otherwise indicated. (b) Australia: per cent change through the year to June (c) Australia: Per cent in June, NSW: Per cent, annual average.