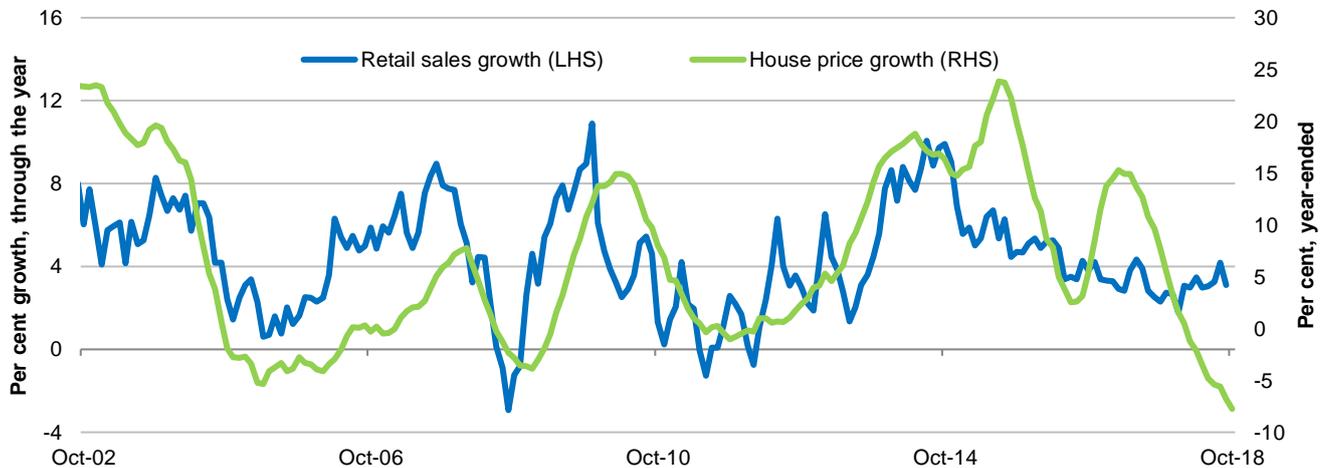


From the Chief Economist:

Chart of the week: Wealth effect has seen some disconnect



There were no major economic data releases last week, but the Reserve Bank released minutes from the most recent Board meeting, and RBA Governor Lowe delivered a speech that ventured well beyond the Bank's usual sphere of the economy and monetary policy. The speech touched on issues of "trust and prosperity". Some of the Governor's comments focussed on possible impacts on the availability of credit of the financial services Royal Commission, which is due to issue a final report in February. Credit already has tightened, particularly for housing investors, but the ultimate outcome is uncertain. The RBA's policy "guidance" in the minutes still suggests that the next move in interest rates will be up, but not any time soon. As we have known for a while, RBA officials are watching closely developments in the softening housing market, and for signs of fall out in other parts of the economy, particularly via wealth effects on households. The preliminary home auction clearance rate last weekend was back above 50% (just), although the success rate has been sub-50% for eight weeks, hinting at further house price falls to come.

There is fuller round of official economic data released next week, with the latest credit, construction and business investment data becoming available. The credit metrics will reveal the extent to which regulators' prudential tightening continues to squeeze the availability of credit, particularly for housing. Annual growth in the pool of available credit already has dwindled to below 5% over the past year, which is the weakest rate of expansion in four years. For the Q3 investment data, business conditions and profitability have been supportive of higher spending, so there probably will be further upgrades to business spending plans for the next fiscal year. Falling engineering work, however, probably again will have been a drag on the quarterly outcome, which is an important piece of the next quarter's GDP calculations. So too is the construction data, released on Wednesday - the consensus of economists expects a rise. Finally, there are a couple of speeches by RBA officials this week, but neither of them relates directly to the economy or monetary policy.

Chart A: Domestic Interest Rates

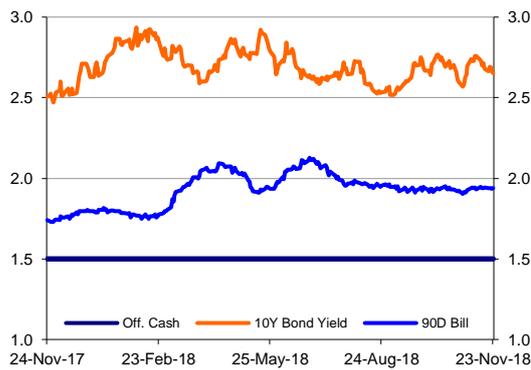


Chart B: Share Price Index

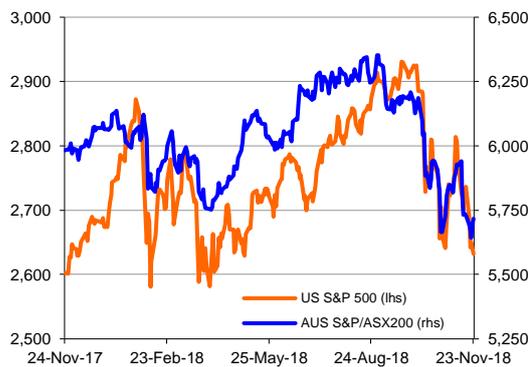


Chart C: Exchange rate

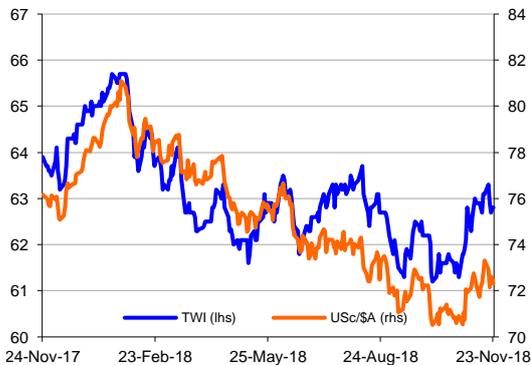
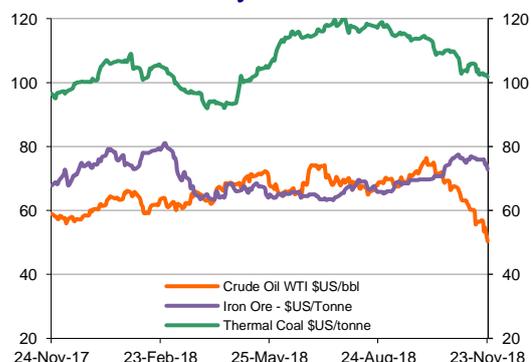


Chart D: Commodity Prices



Domestic Data Releases

ABS Overseas Arrivals and Departures data showed that the number of overseas visitors to NSW in September was 251,600, up 1.6% through the year. Nationally, the number of overseas visitors was 690,200 in the month, up 4.0 per cent through the year. The growth in US and Chinese visitors continues to slow, whilst visits from India accelerate.

ABS Detailed Labour Force data showed Regional NSW employment grew by 2.5 per cent through the year to October. The unemployment rate was 5.6 per cent in October, up from 5.3 per cent at the same time last year. The participation rate was up 1.7 percentage points from last year at 60.5 per cent in October. Greater Sydney employment grew 4.5 per cent through the year, while the unemployment rate fell to 4.4 per cent (-0.3ppts).

ANZ Stateometer expects an upward trajectory in NSW GSP growth toward 2020, despite slowing momentum in the September quarter. NSW grew at a below-trend rate and decelerated, due to a “tightening of credit market conditions together with a poorer outlook for house prices pulling back demand”. On the upside, “consumers remain resilient” and there is a “strong pipeline of residential work and office construction”. Nationally the outlook is positive, “despite this forecast of slowing momentum, growth is still sufficient to reduce spare capacity in the labour market. As such, we expect it will be accompanied by slightly stronger wages growth and a modest pick-up in inflation.”

CoreLogic Auction Data for the week ended 18 November 2018, showed that the final auction clearance rate in Sydney was 42.8 per cent compared to 42.1 per cent in the week prior. Nationally, the final auction clearance rate was 42.0 per cent, compared to 43.3 per cent in the week prior.

Markets

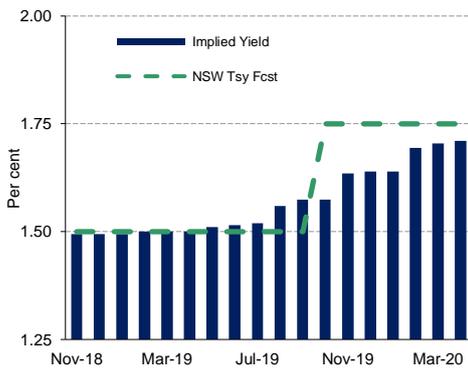
Over the week to Friday, the ASX200 fell by 0.3 per cent, the US S&P500 fell by 3.8 per cent and oil prices fell by 10.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2632.56	1.2 %	-3.8 %
ASX200	5716.21	-4.5 %	-0.3 %
Australian Dollar (USD)	0.72	-5.0 %	-1.4 %
TWI	62.80	-1.7 %	-0.5 %
Oil (USD/bbl)	50.42	-14.5 %	-10.7 %
Gold (USD/oz)	1223.65	-5.2 %	0.1 %
Thermal Coal (USD/tonnes)	101.75	5.4 %	-0.7 %
Australian 10-yr bond	2.65%	14.6 bps	-2.8 bps
US 10-yr bond	3.04%	69.7 bps	-2.4 bps
NSW 10-yr bond (bps) maturity 2028	3.09%	- bps	1.0 bps

Upcoming Domestic Data Releases (26/11 – 30/11)

- **ABS** will release its Construction Work Done (Prelim) and Capital Expenditure Survey for September.
- **RBA** will release its Private Sector Credit for October.
- **CoreLogic** will release its Weekly Auction Data.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

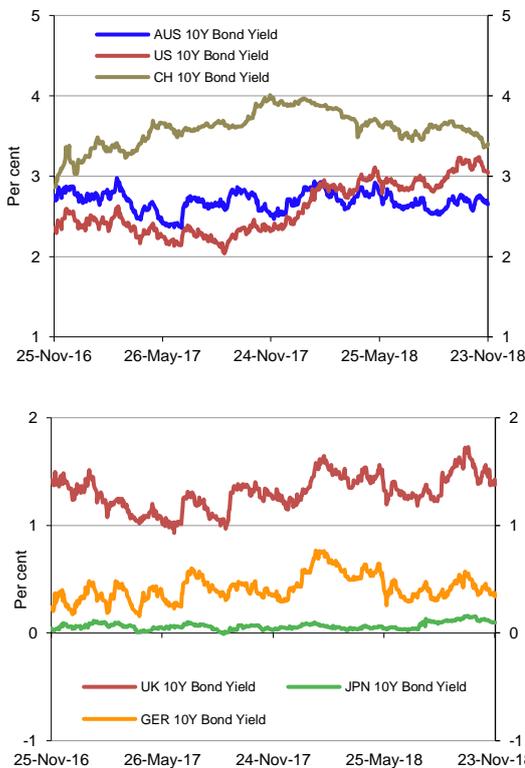
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in November 2019.

According to the ASX Target Rate Tracker, as at 22 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

A tick down in bond yields was seen across Europe and beyond after a week of underwhelming Euro Area data. The damp economic backdrop could complicate the ECB’s efforts to normalise monetary policy. US bond yields fell 2.4 bps over the week as investors looked for safety as equities and oil fell under pressure once again. China bucked the trend of other nations, with a bond yield increase of 4.7 bps.

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)	2.65	14.6	-2.8	-38.9	16.2
United States (US)	3.04	69.7	-2.4	-	-
Germany (GER)	0.34	-2.0	-2.7	-269.9	-198.2
United Kingdom (UK)	1.38	13.1	-3.1	-165.8	-109.2
Japan (JPN)	0.10	7.1	-0.4	-293.9	-231.3
China (CH)	3.40	-55.6	4.7	36.2	161.5

Key International Data Releases

US: Manufacturing PMI decreased to 55.4 in November from 55.7 in the previous month. No significant turnaround expected to solid manufacturing growth.

Euro Area: The consumer confidence index fell to -3.9 in November from -2.7 in October, the weakest result since March 2017. Manufacturing PMI decreased from 52 in October to 51.5 in November – 30-month low.

Germany: PPI rose 3.3 per cent through the year to October, compared to 3.2 per cent in September. Manufacturing PMI decreased to 51.6 in November from 52.2 in the previous month – 32-month low.

Japan: The trade balance swung to a deficit of ¥449.3b in October, from a surplus of ¥131.3b in September – continuing the volatility between surplus and deficit. The deficit was significantly more pronounced than market expectations of a ¥68.8b gap. Imports rose with energy prices and export recovery was weaker than expected. CPI rose 1.4 per cent through the year to October as per market expectations, up from 1.2 per cent in September. The Manufacturing PMI fell to 51.8 in November, down from the six-month high of 52.9 in October.

Canada: CPI rose 2.4 per cent through the year to October, compared with 2.2 per cent in September, exceeding the Bank of Canada’s target of 2 per cent and led by prices of transportation and shelter. Retail sales rose 0.2 per cent in September, compared to a flat result in August.

Upcoming Key International Data Releases (26/11 – 30/11)

- **US:** Federal Open Market Committee (FOMC) Minutes for November.
- **China:** NBS Manufacturing PMI for November.
- **Euro Area:** Unemployment rate for October and CPI for November.
- **Germany:** Retail Sales for October, IFO Business Climate, unemployment rate and CPI for November and GfK Consumer Confidence for December.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
26-Nov	27-Nov	28-Nov	29-Nov	30-Nov
		ABS Construction Work Done Prelim, Sep-18	ABS Capital Expenditure Survey, Sep Q-18 CoreLogic Weekly Auction Data	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 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	W-MI Consumer Sentiment, Dec-18 ABS Lending Finance, Oct-18	RBA Bulletin, Dec-18 CoreLogic Weekly Auction Data ABS Labour Force Re benchmarked 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, Sep Q-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, Nov-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				

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	67.5k	224.4k	Number of app 12mms	September 18 (mthly) Next: 3 December 2018
	-5.0%	3.2%	% 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.