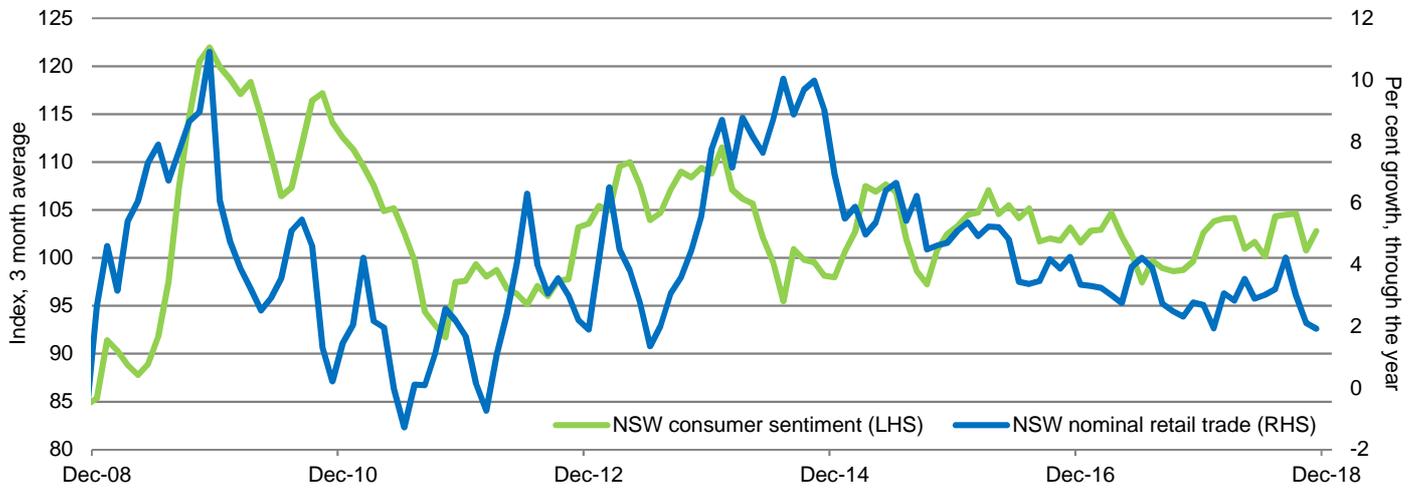


Chart of the Week: Despite a strong monthly result, through the year retail sales weaker



From the Chief Economist:

There were two main data highlights last week, one good, the other much less so. The good news was that growth in the value of retail sales in November beat economists' expectations and exceeded the reported outcome for the month of October, too. Retail spending nationally expanded 0.4% over the month, with the discretionary areas of retailing (eg. including food and clothing) leading the way. The result suggests that consumers will turn in a better final quarter of 2018 than was the case in Q3, when spending was very weak relative to income. In the month of November, NSW was the best performing state, with only the ACT beating NSW's healthy 0.8% monthly rise. The more sombre news last week was that the number of homes approved by local councils for construction dived more than 9% in NSW in the month of November, a much larger fall than had been expected. Plunging approvals for higher-density dwellings (eg. apartments, units and townhouses) led the broader decline. Economists attribute the additional weakness in the home building pipeline to a combination of factors, including a tightening supply of credit, falling house prices, an already swollen construction pipeline, and softening demand. Meanwhile, from overseas came news that the US government shutdown stretched into its third week, and became the longest in modern US history as the dispute over funding for the southern border wall continued. Adverse Brexit developments in the UK added to financial market volatility.

This week, the highlights probably will be the release of the latest information on consumer sentiment (Wednesday) and home lending (Thursday), although there also are data releases on building activity and engineering construction. Despite some obvious headwinds, including falling house prices and still-soggy growth in income, the December W-MI consumer confidence report showed that there continue to be more optimists than pessimists surveyed. To a large extent, this reflects the healthy labour market. Industry anecdotes about Christmas retail spending, though, were mixed, with significant spending apparently dragged forward into November by store promotions and discounting. The home loans data for November will help paint a picture of the extent to which bank credit has tightened. More contemporary evidence from housing market developments over the summer suggests there has been significant credit tightening already, with the house price falls in Sydney the largest in many decades. All the while, RBA officials and Board members are not scheduled to gather again to consider the level of interest rates until early February, so choose your own adventure on the likely course of monetary policy this year.

Chart A: Domestic Interest Rates

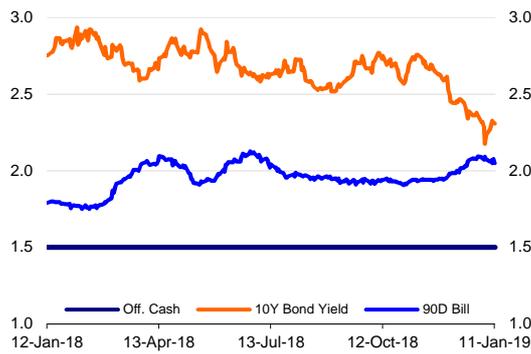


Chart B: Share Price Index

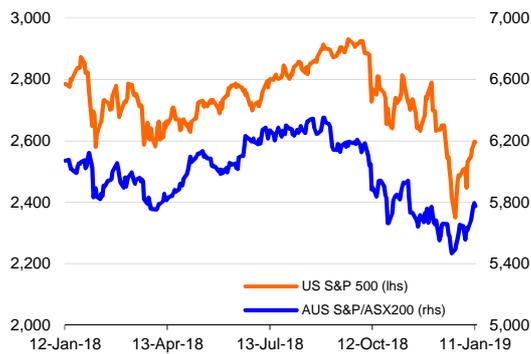
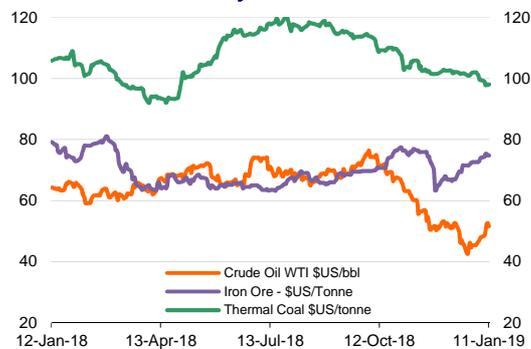


Chart C: Exchange rate



Chart D: Commodity Prices



Domestic Data Releases

ABS International Trade in Goods and Services data showed that NSW goods exports were up 5.9 per cent through the year to November, while goods imports were up 8.9 per cent over the same period. Nationally, goods exports were up 22.3 per cent, while goods imports were up 16.0 per cent.

ABS Building Approvals data for November showed that residential approvals in NSW were at an annual sum of 65,601, down 9.1 per cent through the year. Approvals for detached houses held up, 1.7 per cent higher through the year, however, apartments continue to show weakness, 15.6 per cent lower through the year. Nationally, residential approvals were at an annual sum of 215,761, down 4.2 per cent through the year.

ABS Retail Trade data showed that in NSW nominal sales rose 0.8 per cent in November, to be up 1.9 per cent through the year. The monthly result was driven by increases in food retail (0.4 percentage points) off a fall last month and household goods (0.4 percentage points) which benefitted from strong promotional activity in November, including Black Friday Sales. Nationally, sales rose 0.4 per cent in November, to be up 2.8 per cent through the year. Worth noting, is that online retail turnover contributed 6.6 per cent to sales (original terms) in November, the highest level recorded in the series.

Tourism Research Australia released its International Visitor Survey for the September quarter. The number of overseas visitors to NSW expanded 3.4 per cent through the year, with 51.3 per cent of overseas visitors to Australia spending time in NSW. The number of nights overseas visitors spent in NSW rose 0.6 per cent through the year. Nationally, the total number of visitors reached 8.4 million, up 5.7 per cent from last year. The National Visitor Survey showed that NSW had the largest increase in spend by overseas visitors of all states and territories, up 13 per cent through the year to \$20.4 billion.

World Bank released its Global Economic Prospects report for January. In summary, global growth is projected to moderate from a downwardly revised 3 per cent in 2018 to 2.9 per cent in 2019 and 2.8 per cent in 2020-21, as economic slack dissipates, monetary policy accommodation in advanced economies is removed, and global trade gradually slows.

Markets

Over the week to Friday, the ASX200 rose by 2.8 per cent, the US S&P500 rose by 2.5 per cent and oil prices rose by 7.6 per cent.

	Value	Change Year on	Change Week on
US S&P 500	2596.26	-6.8 %	2.5 %
ASX200	5774.58	-4.9 %	2.8 %
Australian Dollar (USD)	0.72	-8.9 %	1.4 %
TWI	61.40	-5.7 %	1.8 %
Oil (USD/bbl)	51.59	-19.8 %	7.6 %
Gold (USD/oz)	1288.95	-2.9 %	0.7 %
Thermal Coal (USD/tonnes)	98.05	-7.4 %	-1.5 %
Australian 10-yr bond	2.31%	-44.6 bps	7.3 bps
US 10-yr bond	2.70%	15.5 bps	3.3 bps

Upcoming Domestic Data Releases (14/1-18/1)

- **ABS Building Activity** and Engineering Construction data for the September quarter and Regional Building Approvals, Housing Finance and Overseas Arrivals and Departures data for November.
- **Westpact-Melbourne Institute** Consumer Sentiment data for January.
- **Corelogic** Weekly Auction data.

Chart E: Interest Rate Expectations

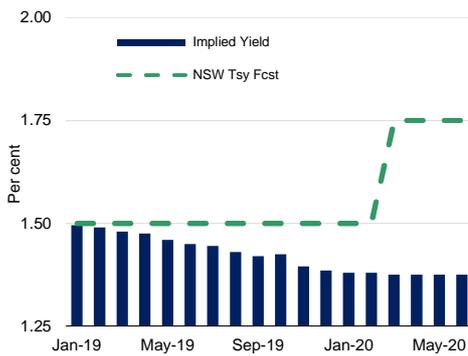
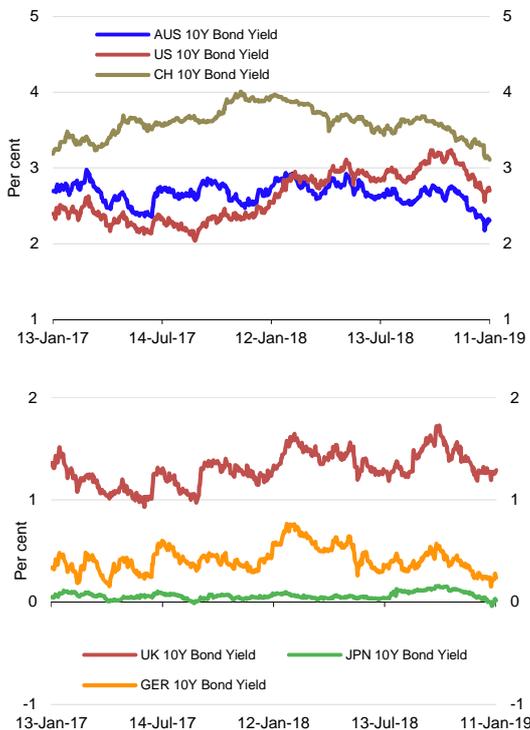


Chart F & G: International Bond Yields



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 March 2020.

According to the ASX Target Rate Tracker, as at 10 January, 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 were up 3.3 per cent over the week but fell in the latter half on the back of weaker economic data, particularly the news that consumer prices declined in December. The recent falls in the price of oil price has played an important role in containing inflation. At the same time, the Federal Reserve Chairman, Jerome Powell stated that he is concerned about the ballooning level of US debt. Bond yields rose in all other countries tracked except China.

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)	2.31	-44.6	7.3	-39.4	20.7
United States (US)	2.70	15.5	3.3	-	-
Germany (GER)	0.24	-34.2	3.1	-246.2	-196.5
United Kingdom (UK)	1.29	-4.9	1.4	-141.1	-120.7
Japan (JPN)	0.02	-6.1	5.5	-268.4	-246.8
China (CH)	3.11	-82.7	-2.1	40.7	138.9

Key International Data Releases

US: ISM non-manufacturing PMI fell to 57.6 in December, from 60.7 in November, well below market expectations and the lowest reading since July 2018. ISM's reading on the services sector comes after announcing last week the manufacturing index fell to its lowest level since November 2016. The trade balance widened to \$55.5bn in October, from \$54.6bn in September, the largest deficit since October 2008 as imports reached a new record high. CPI rose 1.9 per cent through the year to December, compared to 2.2 per cent in November with a plunge in the cost of gasoline.

China: CPI rose 1.9 per cent through the year to December, compared to a rise of 2.2 per cent in November. PPI rose 0.9 per cent through the year to December, much weaker than the 2.7 per cent increase in November. While the latest inflation data is consistent with a slowing economy amidst ongoing trade war woes, much of the weakness was driven by lower energy prices.

Euro Area: Retail sales increased 1.1 per cent through the year to November, compared to 2.3 per cent in October. The business climate indicator fell to 0.82 in December, from 1.04 in November, well below market expectations and consistent with disappointing industrial data out of Germany. The unemployment rate declined to the lowest rate in more than 10 years at 7.9 per cent in November, compared to 8.0 per cent in October.

Germany: The trade surplus decreased to €20.5b in November, from €23.8b in the same month a year earlier. At the same time, industrial production unexpectedly fell 1.9 per cent, missing market expectations of a rise, to be down 4.7 per cent through the year. The data indicates the economy may be affected by trade frictions, Britain's possible departure from the EU and weaker growth in emerging markets. Retail sales rose 1.1 per cent through the year to November, compared to an increase of 5.2 per cent in October.

Upcoming Key International Data Releases (14/1-18/1)

- **China** Trade Balance data for December.
- **US** Trade balance data for November, PPI, Retail Sales and Industrial Production data for December.
- **Japan** PPI and CPI data for December.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
14-Jan	15-Jan	16-Jan	17-Jan	18-Jan
		ABS Building Activity, Sep Q-18 ABS Regional Building Approvals, Nov-18 ABS Engineering Construction Activity, Sep Q-18 W-MI Consumer Sentiment, Jan-19	CoreLogic Weekly Auction Data ABS Housing Finance, Nov-18	ABS Overseas Arrivals and Departures, Nov-18
21-Jan	22-Jan	23-Jan	24-Jan	25-Jan
ABS Lending Finance, Nov-18 IMF World Economic Outlook Update, Jan-19		DoE Vacancy Report, Dec-18	CoreLogic Weekly Auction Data ABS Labour Force, Dec-18	
28-Jan	29-Jan	30-Jan	31-Jan	1-Feb
Comm sec State of the States, Jan-19	NAB Monthly Business Survey, Dec-18	ABS Consumer Price Index, Dec Q-18	ABS Detailed Monthly Labour Force, Dec-18 ABS International Trade Price Indexes, Dec Q-18 RBA Private Sector Credit, Dec-18 CoreLogic Weekly Auction Data	ABS Producer Price Indexes, Dec Q-18
4-Feb	5-Feb	6-Feb	7-Feb	8-Feb
ABS Building Approvals, Dec-18	RBA Interest Rate Decision, Feb-19 ABS International Trade in Goods and Services, Dec-18 ABS Retail Trade, Dec-18	RBA Interest Rate Decision, Feb-19	NAB Quarterly Business Survey, Dec Q-18	RBA Statement on Monetary Policy, Feb-19
11-Feb	12-Feb	13-Feb	14-Feb	15-Feb
ABS Regional Building Approvals, Dec-18	ABS Housing Finance, Dec-18 NAB Monthly Business Survey, Jan-19	W-MI Consumer Sentiment, Feb-19	CoreLogic Weekly Auction Data ABS Lending Finance, Dec-18	
18-Feb	19-Feb	20-Feb	21-Feb	22-Feb
	RBA Monetary Policy Minutes, Feb-19 ABS Overseas Arrivals and Departures, Dec-18 ABARES Australian Crop Report, Feb-19	ANZ Staeometer, Dec Q-18 DoE Vacancy Report, Jan-19 ABS Wage Price Index, Dec Q-18 RBA Monetary Policy Minutes, Feb-19	CoreLogic Weekly Auction Data ABS Labour Force, Jan-19 ABS Average Weekly Earnings, 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 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	65.6k	215.8k	Number of app 12mms	November 18 (mthly) Next: 4 February 2019
	-3.2%	1.1%	% annual average	
Residential Prices (capitals)	-4.4%	-1.9%	% through the year	September quarter 18 Next: 19 March 19
LABOUR FORCE				
Employment	2.8%	2.3%	% through the year	November 18 (mthly) Next: 24 January 19
Unemployment Rate	4.4%	5.1%	Current rate	
Youth unemployment rate	10.2%	11.9%	12 monthly moving average rate	
CONSUMER				
Retail Sales	1.9%	2.8%	% through the year	November 18 (mthly) Next: 5 February 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 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.