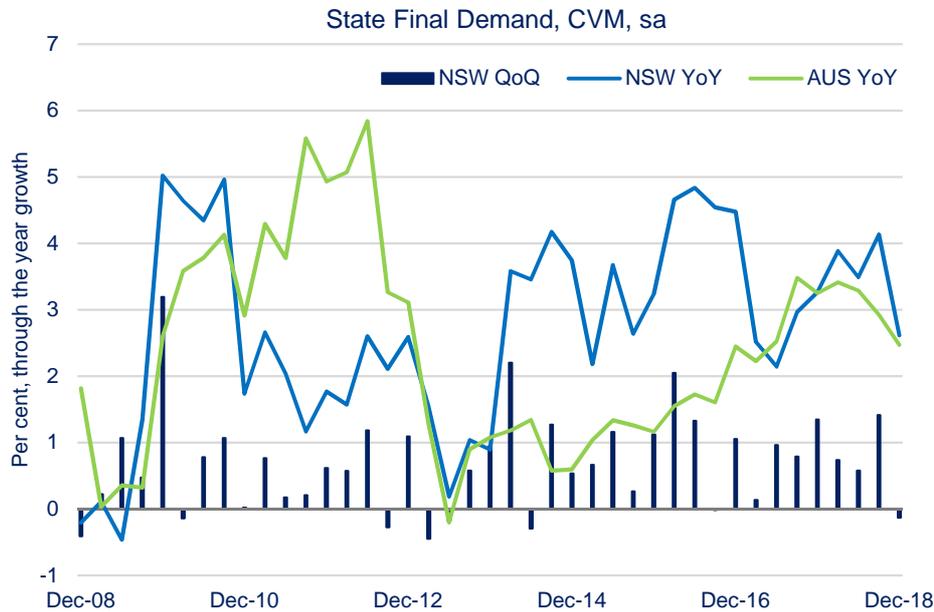


## Chart of the Week: NSW State Final Demand dropped by 0.1 per cent in the December quarter

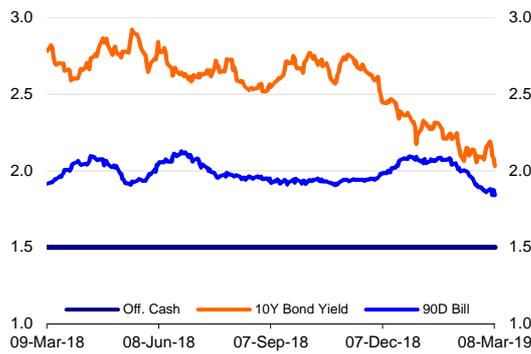


### From the chief economist:

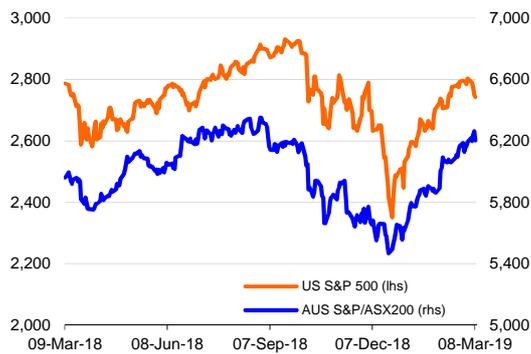
Last week was packed with top-shelf economic data, but the results were mixed. Growth in national GDP slipped again, but retail sales and building approvals improved (both for January) and there was a near-record monthly trade surplus. GDP growth nationally was an unimpressive 0.2%q/q in Q4 and just 2.3% over the year, the weakest rate of expansion since mid-2017. Activity last quarter was supported by a healthy level of public spending, as growth in household spending softened and home building actually declined. The more intrepid economists highlighted the onset of the previously-unknown concept of a per-capita recession but, when population growth is included, the economy expanded, albeit at a sluggish pace. Domestic activity in NSW contracted for the first time in two years, but growth over the year nevertheless remained above the national rate. The Reserve Bank, meanwhile, left interest rates steady yet again, although membership of the previously-small group of market economists forecasting rate cuts swelled to a more-influential ten. Overseas, China surprised markets by announcing a lower growth target of 6-6.5%.

This week, the highlight will be the business confidence and consumer sentiment releases, out tomorrow and Wednesday, respectively. The headline results of both improved in the latest readings, after earlier sharp falls. RBA Deputy Governor Guy Debelle is scheduled to deliver a speech tomorrow on climate change and the economy. Dr Debelle is sure to be asked about the Bank's position on interest rates and the broader economy, as well as the environment.

**Chart A: Domestic Interest Rates**



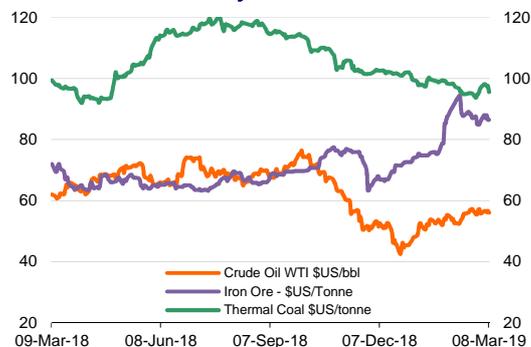
**Chart B: Share Price Index**



**Chart C: Exchange rate**



**Chart D: Commodity Prices**



**Domestic Data Releases**

**ABS Balance of Payments** showed that NSW exports were 7.8 per cent higher and imports were 1.4 per cent higher through the year to the December quarter. The terms of trade rose 1.2 per cent over the same period. Nationally, exports were 4.7 per cent higher and imports were 1.5 per cent higher through the year. The terms of trade rose 6.1 per cent.

**ABS International Trade in G&S** data showed that through the year to January, NSW goods exports were up 13.1 per cent and goods imports were up 5.7 per cent. Nationally, goods exports were up 19.0 per cent and goods imports were up 7.1 per cent through the year.

**ABS National Accounts** data showed that NSW State Final Demand fell 0.1 percent in the December quarter (the first quarterly decline in over two years) following strong growth of 1.4 per cent in the previous quarter. Through the year growth weakened to 2.6 per cent (compared to 4.1 per cent in the previous quarter) and is now below its long run average.

**ABS Residential Building Approvals** data showed NSW dwelling approvals (annual sum, original) continued to ease, down 13.1 per cent through the year. The annual sum of approvals (original) in NSW (63,200) remains above the decade average and has been for 59 consecutive months.

**ABS Retail Trade** monthly data showed that NSW nominal retail sales rose 0.7 per cent in January to be up 2.7 per cent through the year. Nationally, nominal retail sales rose 0.1 per cent in January to be up 2.7 per cent through the year.

**RBA** released its **Monetary Policy Decision** for March. At its meeting, the Board decided to leave the cash rate unchanged at 1.50 per cent.

**CoreLogic Weekly Auction Data** for the week ended 3 March 2019, showed that the final auction clearance rate in Sydney was 54.8 per cent compared to 50.2 per cent in the week prior. Nationally, the final auction clearance rate was 50.4 per cent, compared to 49.4 per cent in the week prior.

**Markets**

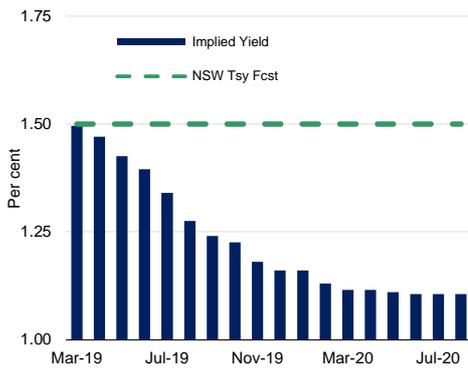
Over the week to Friday, the ASX200 rose 0.2 per cent, the US S&P500 fell 2.2 per cent and oil prices rose 0.5 per cent.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	2743.07	-1.6 %	-2.2 %
<b>ASX200</b>	6203.76	4.0 %	0.2 %
<b>Australian Dollar (USD)</b>	0.70	-10.2 %	-0.5 %
<b>TWI</b>	60.00	-5.5 %	-0.7 %
<b>Oil (USD/bbl)</b>	56.07	-9.6 %	0.5 %
<b>Gold (USD/oz)</b>	1296.75	-1.8 %	-1.2 %
<b>Thermal Coal (USD/tonnes)</b>	95.55	-3.9 %	-1.5 %
<b>Australian 10-yr bond</b>	2.03%	-75.3 bps	-12.2 bps
<b>US 10-yr bond</b>	2.63%	-26.5 bps	-12.5 bps
<b>NSW 10-yr bond (bps) maturity 2028</b>	2.51%	-42.6 bps	-13.0 bps

**Upcoming Domestic Data Releases (11/03-15/03)**

- **ABS** will release Regional Building Approvals, Lending to Households and Businesses and Overseas Arrivals and Departures for January.
- **RBA** Governor Phillip Lowe will deliver a speech on 'Climate Change and the Economy'. The research paper *A Model of the Australian Housing Market* will be released.
- **Westpac** will release its W-MI Consumer Sentiment for March.
- **NAB** will release their Monthly Business Survey for February.

### Chart E: Interest Rate Expectations



### Market Interest Rate Expectations

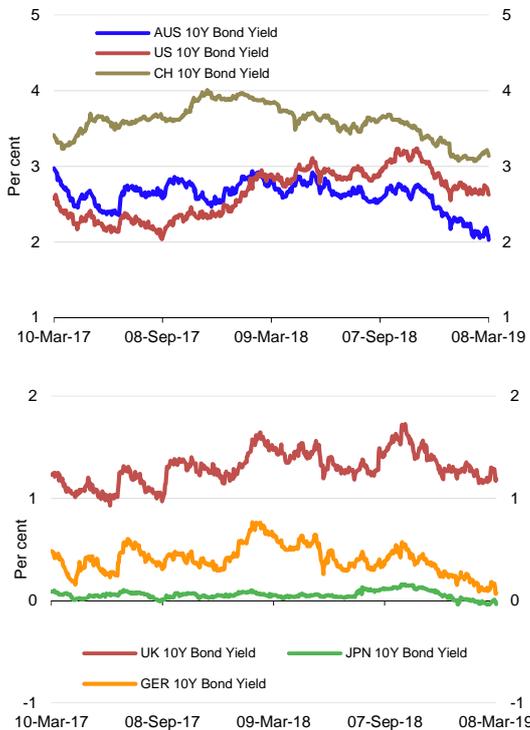
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects a rate cut in July 2019.

According to the ASX Target Rate Tracker, as at 8 March, there is a 13 per cent expectation that the RBA will decrease the cash rate to 1.25 per cent at its next policy meeting on 2 April 2019.

### International Bond Yield Spreads

US treasury yields were relatively stable at the outset of the week. On Thursday they fell along with Europe, after the European Central Bank instigated further stimulus measures, announced it was unlikely to increase rates through the end of 2019 and reduced its forecast for economic growth.

### 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)
<b>Australian (AUS)</b>		2.03	-75.3	-12.2	-59.9	-11.1
<b>United States (US)</b>		2.63	-26.5	-12.5	-	-
<b>Germany (GER)</b>		0.07	-57.9	-11.4	-256.0	-224.6
<b>United Kingdom (UK)</b>		1.19	-30.3	-10.7	-144.0	-140.2
<b>Japan (JPN)</b>		-0.03	-8.6	-2.6	-266.2	-284.1
<b>China (CH)</b>		3.14	-70.2	-5.5	51.0	94.6

### Key International Data Releases

**US:** Trade deficit widened to \$59.8 billion in December from \$50.3 billion in the previous month. ISM Non-Manufacturing PMI increased to 59.7 in February, from 56.7 in January. ADP employment change showed that US companies added 183,000 workers in February. The unemployment rate fell to 3.8 per cent in February, compared to 4.0 per cent in the previous month. Non-farm payrolls rose 20,000 in February compared to a rise of 311,000 in the previous month.

**Euro Area:** Retail sales showed substantial recovery, rising 2.2 per cent through the year to January, compared to 0.3 per cent in the previous month. The ECB made their March interest rate decision to keep the rate at 0.000%.

**China:** Trade surplus fell from \$39.16 billion in January to \$4.12 billion in February. CPI rose 1.5 per cent through the year to February compared to a 1.7 per cent increase in the previous month.

**Japan:** Nikkei Services PMI increased from 51.6 in January to 52.3 in February, signalling a modest expansion in service sector output. Moreover, the rise was the strongest since last November.

### Upcoming Key International Data Releases (11/03-15/03)

- **US** Retail Sales for January, CPI and Industrial Production for February, and Consumer Sentiment for March.
- **Euro Area** Industrial Production for January.
- **China** Industrial Production and Retail Sales for February.
- **Japan** PPI for February and BoJ interest rate decision for March.
- **Germany** Industrial Production for January.
- **India** CPI for February.
- **UK** Trade Balance and GDP for January.

## Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
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
15-Apr	16-Apr	17-Apr	18-Apr	19-Apr
	RBA Monetary Policy Minutes, Apr-19		ABS Labour Force, Mar-19 CoreLogic Weekly Auction Data NAB Quarterly Business Survey, MarQ-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	2.6%	2.5%	% through the year	December quarter 18 Next: 5 June 19
	-0.1%	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	63.2k	206.7k	Number of app 12mms	January 19 (mthly) Next: 2 April 2019
	-4.5%	0.5%	% 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	2.7%	2.7%	% through the year (nominal)	January 18 (mthly) Next: 3 April 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: 2 April 19

ECONOMIC FORECASTS <sup>(a)</sup>	NSW Forecasts (as per 2018-19 PEBU)			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	2¾	2¾	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	2.6	2½	2½	2.8	2¾	3
Employment (%) <sup>(b)</sup>	3.1	2¾	1½	2.7	1¾	1¾
Unemployment rate (%) <sup>(c)</sup>	4.8	4½	4½	5.4	5	5
CPI (%) <sup>(b)</sup>	2.0	1¾	2	2.1	2	2¼
Wage Price Index (%) <sup>(b)</sup>	2.1	2½	2¾	2.1	2½	3

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