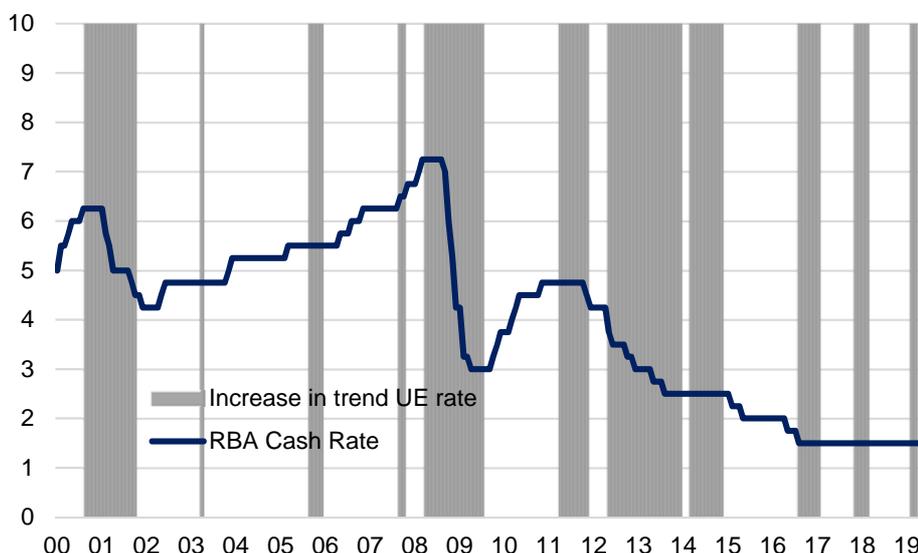


Chart of the Week: periods of rising trend unemployment rate vs the cash rate



From the chief economist:

Last week may stand as something of a landmark, with a subtle change in the Reserve Bank’s language in the latest Board minutes last Tuesday seemingly edging the Bank closer to an implied easing bias. Then, on cue, the March employment report last Thursday revealed a rise in the jobless rate to 5.0%, albeit a small one. The significance here is that the Reserve Bank had flagged in the minutes that the near-term chance of a rate hike was low – gone was the previous reference to “evenly balanced” risks around movements in the cash rate. The minutes also flagged that an upward “trend” in the jobless rate could trigger a rate cut – now we know. Calling last week’s small rise in the unemployment rate a trend is a stretch, so a rate cut on May 7 (that is, in the middle of the federal election campaign) still looks improbable.

This week, the clear highlight will be the release of the March quarter inflation data tomorrow. The consensus of surveyed economists expects a low-ball outcome for headline inflation (some economists forecast zero over the quarter) and a similarly low result for the core measures. Already, annual core inflation has tracked below the RBA’s 2-3% target range for the last 12 quarters. The RBA’s own forecasts anticipate a slip in inflation in the near term, so a low print result tomorrow should not come as a shock. But, the door is open for rate cuts if RBA Board members decide the economy needs additional support. History indicates that if the RBA does ease policy, it does so more than once – current futures market pricing aligns with this expectation. Indeed, the Board minutes last week flagged that the impact of rate cuts “could be expected to be smaller than in the past”, hinting that a single, isolated move would barely move the needle.

Chart A: Domestic Interest Rates

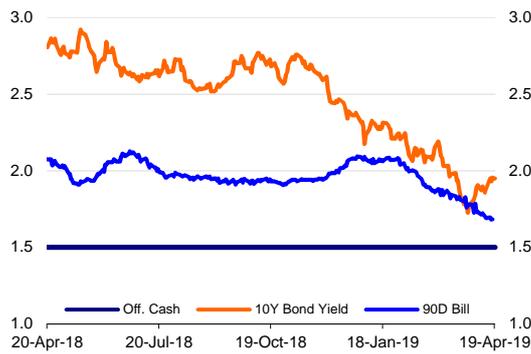


Chart B: Share Price Index

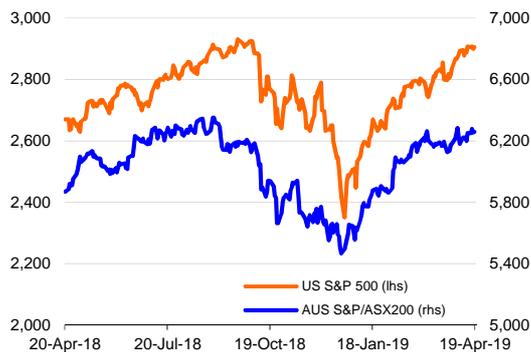


Chart C: Exchange rate

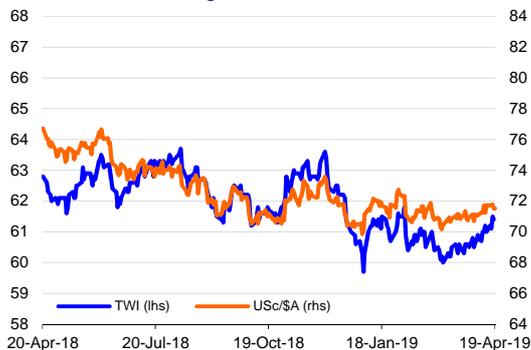
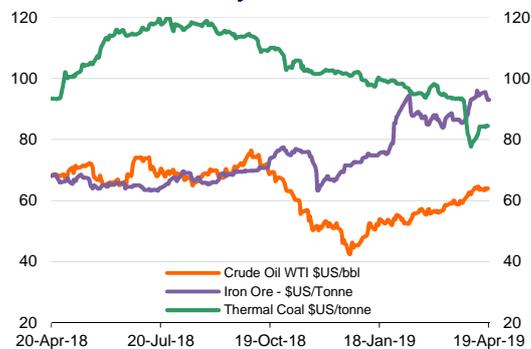


Chart D: Commodity Prices



Domestic Data Releases

ABS Labour Force data showed that in NSW employment fell by -2,600 or -0.1 per cent in March, to be up 3.3 per cent through the year. The NSW unemployment rate remained unchanged at 4.3 per cent and the participation rate fell 0.1 percentage points to 65.1 per cent in March, from a record high of 65.2 last month. Nationally, employment increased by 25,700 in March, to be up 2.4 per cent through the year. The national unemployment rate rose by 0.1 percentage points to 5.0 per cent (from a revised 4.9 per cent last month).

NAB released its **Quarterly Business Survey** for the **March** quarter. NSW business conditions fell from +11 to +7, to reach the decade average. Expected business conditions increased from +15 to +18 in the March quarter. Nationally, business conditions fell from +11 to +3, while expected business conditions rose from +14 to +16 in the quarter. NAB commented that Australian “business conditions continued to ease in Q1 suggesting the loss in momentum through 2018 has continued into 2019. Conditions are now only just above average and negative confidence and forward orders suggest the outlook remains weak.”

CoreLogic Weekly Auction data for the week ended 14 April 2019, showed that the final auction clearance rate in Sydney was 55.8 per cent compared to 54.9 per cent in the week prior. Nationally, the final auction clearance rate was 52.2 per cent, compared to 52.6 per cent in the week prior.

Markets

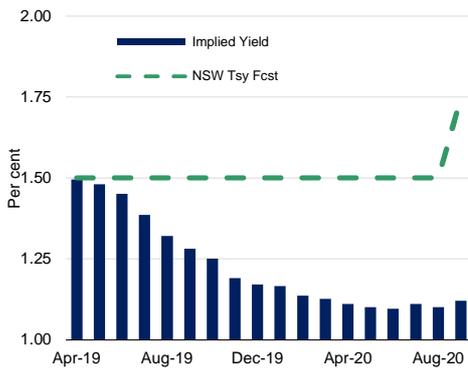
Over the week, the ASX200 rose 0.1 per cent, the US S&P500 fell 0.1 per cent and oil prices rose 0.2 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2905.03	8.8 %	-0.1 %
ASX200	6259.82	6.7 %	0.1 %
Australian Dollar (USD)	0.72	-6.8 %	-0.3 %
TWI	61.40	-2.2 %	0.7 %
Oil (USD/bbl)	64.00	-6.4 %	0.2 %
Gold (USD/oz)	1275.70	-4.6 %	-1.4 %
Thermal Coal (USD/tonnes)	84.45	-9.6 %	0.3 %
Australian 10-yr bond	1.95%	-85.7 bps	6.7 bps
US 10-yr bond	2.56%	-40.1 bps	-0.6 bps
NSW 10-yr bond (bps) maturity 2028	0.00%	-300.0 bps	-240.0 bps

Upcoming Domestic Data Releases (22/04-26/04)

- **ABS** will release Detailed Monthly Labour Force data for March, CPI, PPI and International Trade Price Indexes for the March quarter.

Chart E: Interest Rate Expectations



*NSW Treasury Forecast as at 2018-19 PEBU

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.

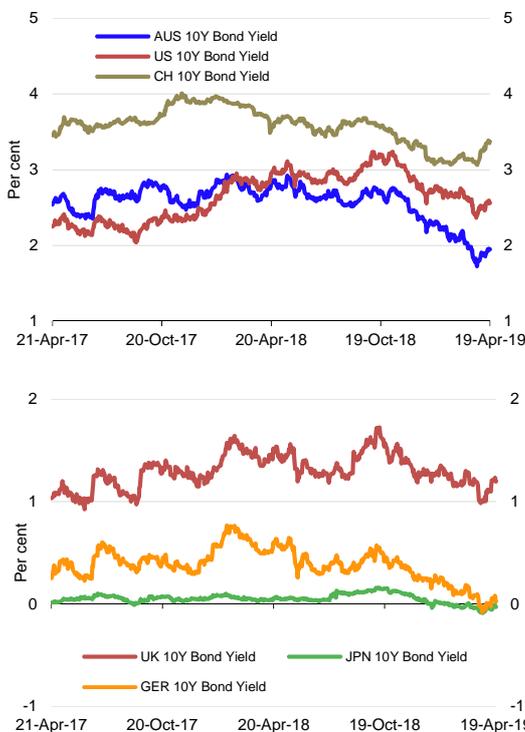
According to the ASX Target Rate Tracker, as at 18 April, there is a 10 per cent expectation that the RBA will decrease the cash rate to 1.25 per cent at its next policy meeting on 7 May 2019.

International Bond Yield Spreads

US bond yields reached four week highs on Wednesday, then slid downwards to Friday. The week began with bolstered global sentiment, pushing investors away from safe haven bond assets. China released a positive growth result and the Italian bond market stabilised slightly after Tuesday sell-offs. The slide in the later part of the week occurred amid weak global manufacturing data and softening from the Easter holiday.

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)	1.95	-85.7	6.7	-61.0	-15.3
United States (US)	2.56	-40.1	-0.5	-	-
Germany (GER)	0.03	-56.5	-3.0	-253.5	-237.0
United Kingdom (UK)	1.20	-28.2	-1.5	-136.3	-148.1
Japan (JPN)	-0.03	-9.0	2.6	-259.0	-290.0
China (CH)	3.37	-16.0	2.3	81.2	57.2

Chart F & G: International Bond Yields



Key International Data Releases

US: Trade deficit narrowed to \$49.4b in February from \$51.1b billion in the previous month. Retail sales increased by 1.6 per cent in March, following a fall of 0.2 per cent in the previous month.

UK: Unemployment rate continued at 3.9 per cent in February, as expected by the market. CPI rose 1.9 per cent through the year to March, unchanged from February. Retail sales increased by 6.7 per cent through the year to March, up significantly from 4.0 per cent in February.

Euro Area: Trade surplus widened to €19.5b in February, from €17.4b in the previous month. Manufacturing PMI increased slightly to 47.8 in April from 47.5 in the previous month. Services PMI decreased slightly to 52.5 in April from 53.3 in the previous month.

China: GDP grew 6.4 per cent through the year to the March quarter, unchanged from the previous quarter. Retail sales exceeded expectations, rising 8.7 per cent through the year to March. Industrial production rose 8.5 per cent through the year to March.

Japan: Trade surplus widened to ¥528.5b in March from ¥334.9b in the previous month.

Germany: Manufacturing PMI increased to 44.5 in April from 44.1 in the previous month. Services PMI increased to 55.6 in April from 55.4 in March.

Upcoming Key International Data Releases (22/04-26/04)

- **US** GDP growth for the March quarter.
- **Euro Area** Consumer Confidence for April.
- **Germany** Business Climate for April.
- **Japan** Unemployment Rate, Retail Sales and Industrial Production for March, Tokyo CPI and BoJ interest rate decision for April.
- **Canada** BoC interest rate decision for April.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
22-Apr	23-Apr	24-Apr	25-Apr	26-Apr
		ABS Detailed Monthly Labour Force, Mar-19 ABS Consumer Price Index, MarQ-19	CoreLogic Weekly Auction Data	ABS Producer Price Indexes, MarQ-19 ABS International Trade Price Indexes, MarQ-19
29-Apr	30-Apr	1-May	2-May	3-May
Commsec State of the States, MarQ-19	RBA Private Sector Credit, Mar-19	CoreLogic Monthly House Price Data, Apr-19	CoreLogic Weekly Auction Data	ABS Building Approvals, Mar-19
6-May	7-May	8-May	9-May	10-May
	ABS International Trade in Goods & Services, Mar-19 ABS Retail Trade, Mar-19 RBA Interest Rate Decision, May-19		CoreLogic Weekly Auction Data	ABS Regional Building Approvals, Mar-19 RBA Statement on Monetary Policy, May-19
13-May	14-May	15-May	16-May	17-May
ABS Overseas Arrivals and Departures, Mar-19 ABS Lending to Households and Businesses, Mar-19	NAB Monthly Business Survey, Apr-19	ABS Wage Price Index, MarQ-19 W-MI Consumer Sentiment, May-19	ABS Labour Force, Apr-19 CoreLogic Weekly Auction Data	
20-May	21-May	22-May	23-May	24-May
	RBA Monetary Policy Minutes, May-19	ABS Construction Work Done, Prelim, MarQ-19	ABS Detailed Monthly Labour Force, Apr-19 CoreLogic Weekly Auction Data	
27-May	28-May	29-May	30-May	31-May
			ABS Private New Capital Expenditure, MarQ-19 ABS Building Approvals, Apr-19 CoreLogic Weekly Auction Data	RBA Private Sector Credit, 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	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	-2	0	NAB Index	March 19 (mthly) Next: 14 May 19
NAB Business Conditions	+13	+7		
HOUSING				
Dwelling Approvals	62.8k	204.6k	Number of app 12mms	February 19 (mthly) Next: 3 May 2019
	-5.2%	-0.2%	% annual average	
Residential Prices (capitals)	-7.8%	-5.1%	% through the year	December quarter 18 Next: 18 June 19
LABOUR FORCE				
Employment	3.3%	2.4%	% through the year	April 19 (mthly) Next: 16 May 19
Unemployment Rate	4.3%	5.0%	Current rate	
Youth unemployment rate	10.0%	11.5%	12 monthly moving average rate	
CONSUMER				
Retail Sales	2.4%	3.2%	% through the year (nominal)	February 19 (mthly) Next: 7 May 19
Westpac MI Consumer Confidence	106.3	100.7	Westpac MI Index	March 19 (mthly) Next: 15 May 19
CPI (Capital cities)	1.7%	1.8%	% through the year	December quarter 18 Next: 24 April 19
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 7 May 19

ECONOMIC FORECASTS^(a)	NSW Forecasts (as per 2018-19 PEBU)			Australian Gov't Forecasts (as per 2019-20 Budget)		
	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	2¼	2¾
Employment (%)^(b)	3.1	2¾	1½	2.7	2	1¾
Unemployment rate (%)^(c)	4.8	4½	4½	5.4	5	5
CPI (%)^(b)	2.0	1¾	2	2.1	1½	2¼
Wage Price Index (%)^(b)	2.1	2½	2¾	2.1	2½	2¾

(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.