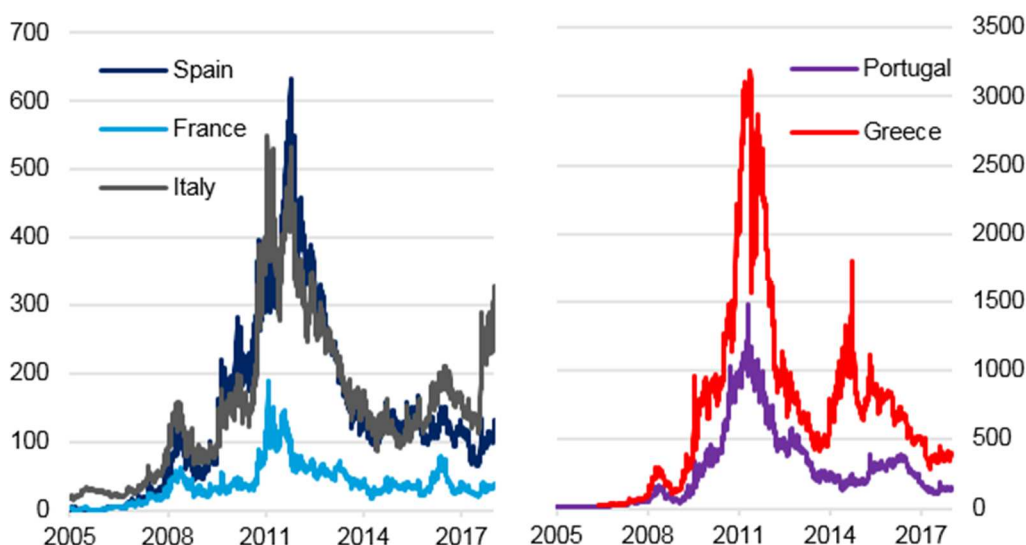


## Over the past week...

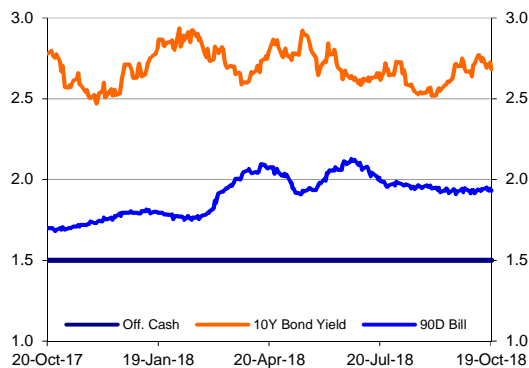
*The main event last week was the release of the latest national employment data, for the month of September. The data revealed an unexpected dive in the jobless rate to 5% - surveyed economists had expected an unchanged rate at 5.3%. The 5% rate last month is the lowest since early 2012, and below what many economists accept as the “natural rate”, the jobless rate consistent with “full employment”. That said, the fact that wages growth nationally is yet to pick up in a meaningful way hints that the observed rate at which prices and wages growth accelerate may now be below 5%. The gain in national employment last month was modest at just 5,600 (economists had anticipated a more muscular gain of 15,000), but fewer people were searching for work. The rise in jobs was led by the state of Victoria, but NSW was one of only three states to report a rise. NSW still boasts the lowest jobless rate at 4.4% - down from 4.7% in August and the best for more than a decade – but Victoria is catching up fast. Some economists discount the signal value of the latest steep fall in the jobless rate – the ABS has, after all, been fiddling with the labour force sample again – but the trend of improvement is clear. Indeed, recall that RBA Deputy Governor Guy Debelle said in his speech on the labour market last week that the jobless rate is the “most useful summary indicator” of labour market conditions. Moreover, most leading indicators point to further improvement.*

*This week, the highlight probably will be overseas, because the domestic economic calendar is all but bare. The detailed labour force data and final National Accounts results will be released, but neither of these is likely to reveal “new news”. In addition, there are some public appearances by Reserve Bank officials, with Deputy Governor Debelle speaking no fewer than three separate times. The main events overseas include central bank meetings in Europe and Canada, and more downloads on global industrial output. Finally, there will be a lot of attention on Europe, where the UK government is edging ever-so-slowly towards its official exit from the EU. Italy, meanwhile, where stresses in public finances are building rapidly, risks hurtling towards a disorderly exit of its own.*

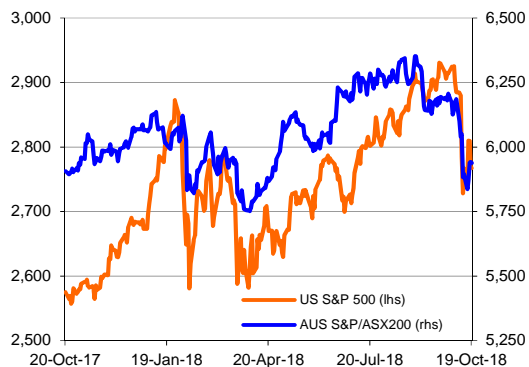
## Chart of the week: Italian 10-year bond spread hits 300bps



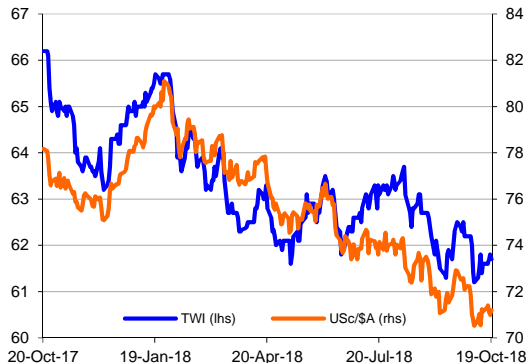
**Chart A: Domestic Interest Rates**



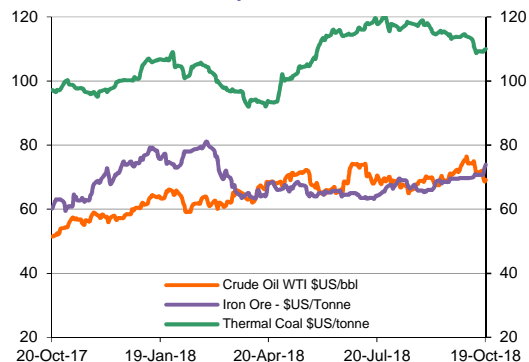
**Chart B: Share Price Index**



**Chart C: Exchange rate**



**Chart D: Commodity Prices**



**Domestic Data Releases**

**NAB** released its **Quarterly Business Survey** for the **September** quarter. NSW actual business conditions fell from +14 to +13, while expected business conditions remained steady at +23 in the quarter. Nationally, actual business conditions fell from +15 to +14, while expected business conditions also remained steady at +23 in the quarter. NAB commented *“Business conditions pulling back further from the highs seen earlier in year... though conditions remain well above average. Falling profitability and weaker trading conditions drove the decline, offset by an increase in the employment index”*

**ABS Labour Force** data for **September** showed that NSW employment rose by 2,800 in the month, to be 3.4 per cent higher through the year. The unemployment rate in NSW fell 0.3 ppts to 4.4 per cent, which is the lowest since March 2008. Much of the fall in unemployment came from a fall in the NSW participation rate, which was down 0.2 ppts to 65.0 per cent from the record high last month. Nationally, employment rose by 5,600 in September, to be 2.3 per cent higher through the year. The unemployment rate fell 0.3 ppts to 5.0 per cent and the participation rate fell 0.2 ppts to 65.4 per cent.

**ABS Overseas Arrivals and Departures** data for **August**, showed that visitors to NSW were at an annual sum of 264,200, up 2.8 per cent through the year. Nationally, visitors were at an annual sum of 741,700, up 5.5 per cent through the year.

**ABS Lending Finance** data for **August**, showed that housing finance commitments for investors in NSW were down 14.9 per cent in the year and in Australia were down 12.7 per cent in the year. In NSW, the investor share of total housing finance commitments fell to 48.6 per cent, which is the lowest since November 2015.

**Markets**

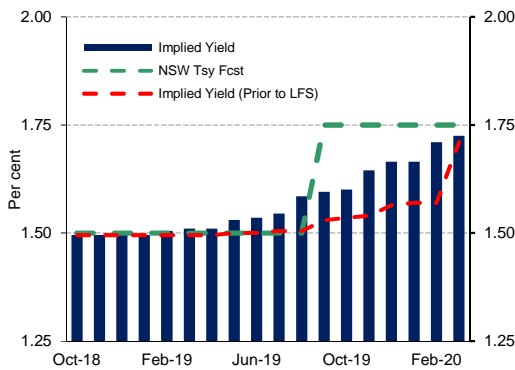
Over the week to Friday, the ASX200 rose by 0.7 per cent, the US S&P500 was steady at 0.0 per cent and thermal coal prices rose by 0.7 per cent.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	2767.78	7.5 %	0.0 %
<b>ASX200</b>	5939.49	0.6 %	0.7 %
<b>Australian Dollar (USD)</b>	0.71	-8.9 %	0.1 %
<b>TWI</b>	61.70	-6.8 %	0.2 %
<b>Oil (USD/bbl)</b>	69.12	34.3 %	-3.1 %
<b>Gold (USD/oz)</b>	1227.85	-4.2 %	0.7 %
<b>Thermal Coal (USD/tonnes)</b>	110.00	13.2 %	0.7 %
<b>Australian 10-yr bond</b>	2.68%	-9.7 bps	-6.8 bps
<b>US 10-yr bond</b>	3.19%	80.8 bps	3.1 bps
<b>NSW 10-yr bond (bps) maturity 2028</b>	3.12%	- bps	-5.0 bps

**Upcoming Domestic Data Releases (22/10 – 26/10)**

- **DoE** will release its Skilled Vacancies data for September.
- **ABS** will release Detailed Monthly Labour Force data for September and National Accounts data for 2017-18.

**Chart E: Interest Rate Expectations**



**Market Interest Rate Expectations**

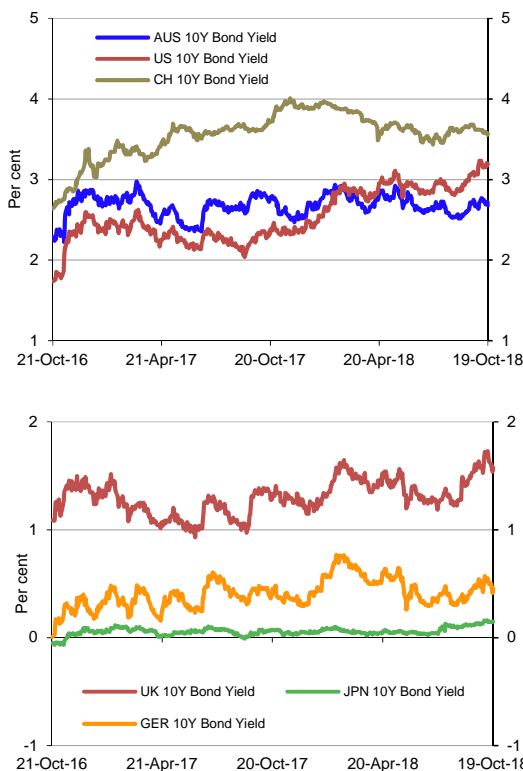
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in November 2019.

According to the ASX Target Rate Tracker, as at 19 October, 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 6 November 2018.

**International Bond Yield Spreads**

US bond yields rose 3.1 basis points over the week to Friday. The Federal Reserve released minutes from its September meeting which showed that members were confident in the current path of interest rate hikes and wary of “excesses” in financial markets. Bond yields fell in all other countries tracked over the week.

**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)	2.68	-9.7	-6.8	-51.0	39.5
United States (US)	3.19	80.8	3.1	-	-
Germany (GER)	0.46	0.8	-3.8	-273.2	-193.3
United Kingdom (UK)	1.58	24.5	-5.7	-161.6	-105.4
Japan (JPN)	0.15	7.4	-0.1	-304.3	-231.0
China (CH)	3.57	-15.9	-1.3	37.4	134.1

**Key International Data Releases**

**China:** The consumer price index rose 2.5 per cent through the year to September, compared to 2.3 per cent for August. The producer price index cooled for the third straight month in September, up 3.6 per cent through the year compared to 4.1 per cent in the previous month, amid escalating trade tensions with the US. Industrial production increased 5.8 per cent through the year to September, down 0.3 ppts from August. Retail sales rose 9.2 per cent through the year to September, compared to 9.0 per cent in the previous month. GDP growth slowed to 6.5 per cent through the year to the September quarter from 6.7 per cent in the previous quarter. This was the weakest pace in economic growth since the first quarter of 2009.

**UK:** The consumer price index rose 2.4 per cent through the year to September, compared to 2.7 per cent in August. Retail sales rose 3.0 per cent through the year to September, compared to 3.4 per cent in August, with a slowdown in food sales after strong consumer spending over summer. The number of employed was down by 5,000 in the three months to August, while the unemployment rate remained steady at 4.0 per cent.

**Japan:** The consumer price index rose 1.2 per cent through the year to September, compared to 1.3 per cent in August. The trade balance was a surplus of ¥139.6b in September, compared to a deficit of ¥438.4b in the previous month. Overall exports fell 1.2 per cent, the first fall since 2016 as shipments to the US and China declined, and imports rose 7.0 per cent through the year to September.

**Upcoming Key International Data Releases (22/10 – 26/10)**

- **US:** GDP Growth Rate for the September quarter and Markit Manufacturing PMI for October.
- **Euro:** Consumer Confidence, Markit Manufacturing PMI and ECB Main Refinancing Rate for October.
- **Germany:** PPI for September, Markit Manufacturing PMI for October and Gfk Consumer Confidence for November.

## Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
22-Oct	23-Oct	24-Oct	25-Oct	26-Oct
		DoE Skilled Vacancies, Sep-18	ABS Detailed Monthly Labour Force, Sep-18	ABS National Accounts, 2017-18
29-Oct	30-Oct	31-Oct	1-Nov	2-Nov
	ABS Building Approvals, Sep-18	RBA Private Sector Credit, Sep-18 ABS Consumer Price Index, Sep-18	ABS International Trade in Goods and Services, Sep-18	ABS Producer Price Indexes, Sep-18 ABS Retail Trade, Sep-18
5-Nov	6-Nov	7-Nov	8-Nov	9-Nov
	RBA Interest Rate Decision, Nov-18 APM Auction data, Oct-18	ABS Regional Building Approvals, Sep-18		RBA Statement on Monetary Policy, Nov-18 ABS Housing Finance, Sep-18
12-Nov	13-Nov	14-Nov	15-Nov	16-Nov
	NAB Monthly Business Survey, Oct-18 ABS Lending Finance, Sep-18	W-MI Consumer Sentiment, Nov-18 ABS Wage Price Index, Sep-18	ABS Labour Force, Oct-18	ABS State Accounts, 2017-18
19-Nov	20-Nov	21-Nov	22-Nov	23-Nov
ABS Overseas Arrivals and Departures, Sep-18	RBA Monetary Policy Minutes, Nov-18	DoE Skilled Vacancies, Oct-18 ANZ Stateometer, SepQ-18	ABS Detailed Monthly Labour Force, Oct-18	
26-Nov	27-Nov	28-Nov	29-Nov	30-Nov
		ABS Construction Work Done Prelim, SepQ-18	ABS Capital Expenditure Survey, SepQ-18	RBA Private Sector Credit, Oct-18

## ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.9%	2.0%	% annual average	2016-17 Next: 16 November 18
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	+3	+6	NAB Index	October 18 (mthly) Next: 13 November 18
NAB Business Conditions	+15	+15		
HOUSING				
Dwelling Approvals	69.8k	227.8k	Number of app 12mms	August 18 (mthly) Next: 30 October 2018
	-3.8%	-0.9%	% annual average	
Residential Prices (capitals)	-3.9%	-0.6%	% through the year	June quarter 18 Next: 11 December 18
LABOUR FORCE				
Employment	3.4%	2.3%	% through the year	September 18 (mthly) Next: 15 November 18
Unemployment Rate	4.4%	5.0%	Current rate	
Youth unemployment rate	10.2%	12.0%	12 monthly moving average rate	
CONSUMER				
Retail Sales	4.3%	3.8%	% through the year	August 18 (mthly) Next: 2 November 18
Westpac MI Consumer Confidence	98.5	101.5	Westpac MI Index	October 18 (mthly) Next: 14 November 18
CPI (Capital cities)	2.1%	2.1%	% through the year	June quarter 18 Next: 31 October 2018
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 6 November 18

ECONOMIC FORECASTS <sup>(a)</sup>	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	(3)	2¾	2.1	2.9(2¾)	3
Employment (%) <sup>(b)</sup>	1.1	3.1(3)	1¾	2.2	2.9(2¾)	1½
Unemployment rate (%) <sup>(c)</sup>	5.0	4.8(4¾)	4¾	5.6	5.4(5½)	5¼
CPI (%) <sup>(d)</sup>	2.0	2.0(2)	2¼	1.9	2.1(2)	2¼
Wage Price Index (%) <sup>(e)</sup>	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.