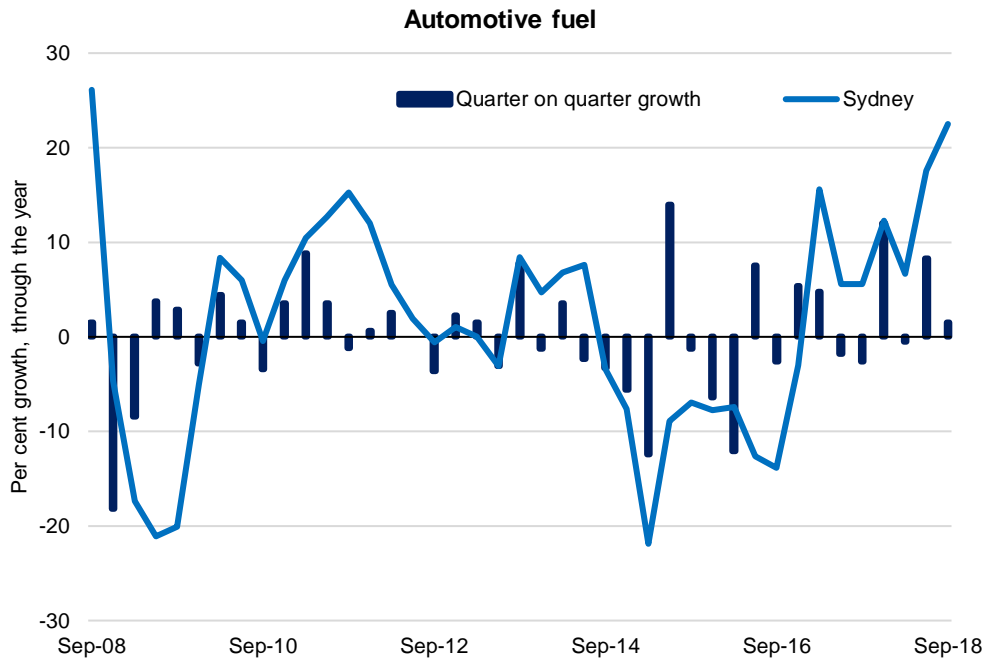


From the Chief Economist:

Chart of the week: Automotive fuel prices continue to trend upwards



The past week featured a decent flow of economic data. The highlight was the release of the Q3 inflation data last Wednesday. It revealed that inflation remained below the Reserve Bank's 2-3% target zone, helped by increased child care rebates, which significantly lowered the measured price. The low inflation result came despite the much-discussed spike in retail petrol prices, although this happened late in the quarter. The rate of inflation in NSW last quarter (0.6%) was above the national rise (0.4%), but the gain over the year in NSW was only marginally higher at a still-modest 2%. The September building approvals data showed a steep rise in approvals for detached houses in NSW, but this was swamped by a 20% plunge in high density approvals (mainly apartments and units), a sector in which the correction from previous record-high construction continues. Total approvals fell over the month. Finally the retail sales report on Friday showed another weak result, with national retail spending rising just 0.2%, half the rate expected by economists. NSW was the only state to suffer a fall in total sales in September.

This week, the main event will be the announcement of the official interest rate decision by the RBA Board on Tuesday afternoon, 30 minutes before the horses jump in "the Cup". No economist seriously expects a rise in interest rates any time soon, even though the official commentary continues to signal that the next move in interest rates will be a rise. In the wake of the low-ball CPI outcome last week, it seems that the RBA's already record-long period of inactivity on policy will continue for some time yet. The Reserve Bank on Friday releases its latest set of forecasts in the Statement on Monetary Policy (SoMP). Attention will focus on the inflation projections, which probably will be lowered to reflect the subdued results from Q3. There will be a lot of focus next week on global financial markets too, with equity markets, in particular, having been on a rollercoaster ride in recent weeks. Through all this, though, the level of AUD has been remarkably stable at just over 70 US cents.

Chart A: Domestic Interest Rates

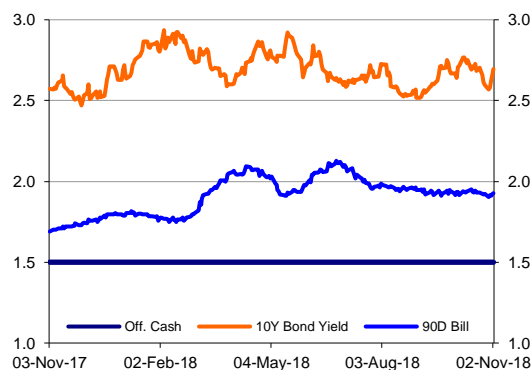


Chart B: Share Price Index

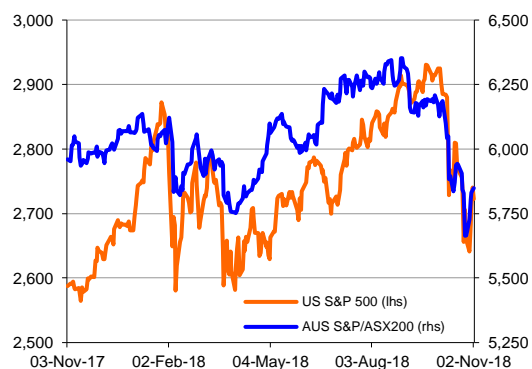


Chart C: Exchange rate

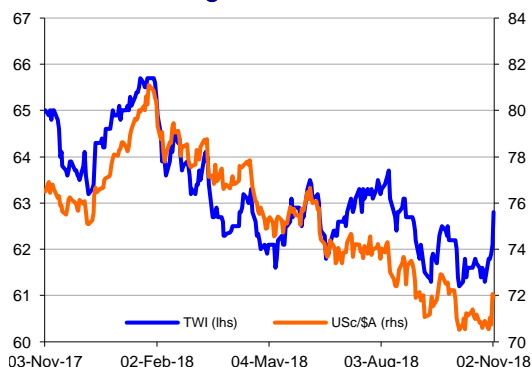
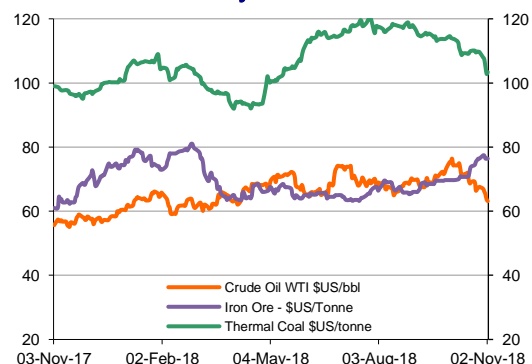


Chart D: Commodity Prices



Domestic Data Releases

The **CommSec State of the States** reports that NSW is in the second spot on the economic performance rankings and has held its relative position on most indicators. NSW is second on the overall economic performance rankings but still holds top spot for retail spending and dwelling starts. NSW is second ranked on three other indicators. NSW shows weakness in housing finance.

ABS Residential Building Approvals data showed that the annual sum of building approvals in NSW was 67,500, down 5.0 per cent through the year to September. In Australia, approvals were at an annual sum of 224,400, up 3.2 per cent through the year.

RBA released its **Private Sector Credit** for September. In Australia, total credit was up 0.4 per cent in the month, to be 4.6 per cent higher through the year. Specifically, housing credit was up 5.2 per cent, with owner-occupier credit up 7.3 per cent and investor credit up 1.4 per cent through the year.

ABS International Trade in G&S data showed that in the September quarter, NSW goods exports were up 20.3 per cent and imports were up 13.5 per cent through the year to September. Nationally, exports were up 17.0 per cent and imports were down 6.5 per cent through the year.

ABS Retail Trade monthly data showed that NSW nominal retail sales fell 0.4 per cent in September to be up 3.1 per cent through the year. Nationally, nominal retail sales rose 0.2 per cent in June to be up 3.7 per cent through the year. The quarterly data showed that NSW real retail sales rose 0.3 per cent in the September quarter to be up 2.4 per cent through the year. Nationally, real retail sales rose 0.2 per cent to be up 2.2 per cent through the year. Retail prices remained weak, with price growth of -0.4 per cent through the year.

ABS Consumer Price Index data showed that headline inflation Sydney was 0.6 per cent in the September quarter, and 2.0 per cent through the year. Nationally, headline inflation was 0.4 per cent in the September quarter, and 1.9 per cent through the year.

Markets

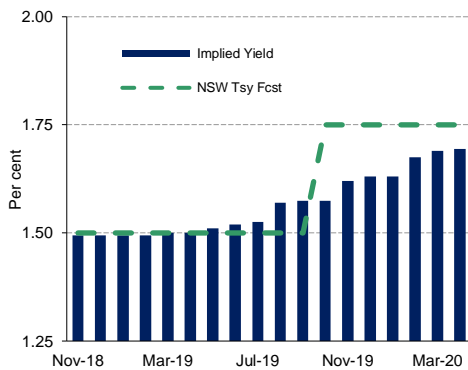
Over the week to Friday, the ASX200 rose by 3.2 per cent, the US S&P500 rose by 2.4 per cent and thermal coal prices fell by 5.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2723.06	5.2 %	2.4 %
ASX200	5849.21	-1.9 %	3.2 %
Australian Dollar (USD)	0.72	-6.0 %	1.5 %
TWI	62.80	-3.4 %	2.4 %
Oil (USD/bbl)	63.14	13.5 %	-6.6 %
Gold (USD/oz)	1232.10	-2.8 %	-0.1 %
Thermal Coal (USD/tonnes)	103.40	4.4 %	-5.7 %
Australian 10-yr bond	2.69%	12.2 bps	9.8 bps
US 10-yr bond	3.21%	88.0 bps	13.7 bps
NSW 10-yr bond (bps) maturity 2028	3.12%	- bps	9.0 bps

Upcoming Domestic Data Releases (05/11 – 09/11)

- **RBA** will release its Interest Rate Decision and Statement of Monetary Policy for November.
- **ABS** will release its Regional Building Approvals and Housing Finance data for September.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

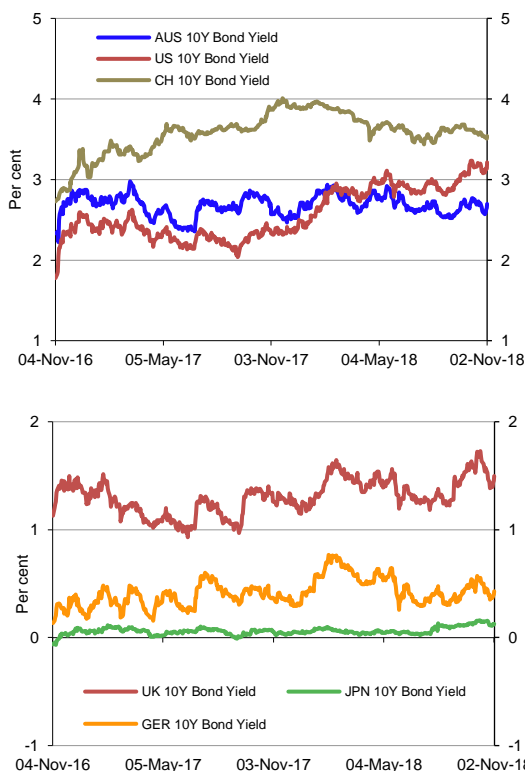
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in February 2020.

According to the ASX Target Rate Tracker, as at 01 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 6 November 2018.

International Bond Yield Spreads

US bond yields rose 13.7 basis points over the week to Friday after the US government’s monthly jobs report showed that the US economy has been adding jobs rapidly and wages growth has been at the fastest pace since April 2009. Strong wages growth could suggest that the Federal Reserve will continue on its path to increase interest rates. Bond yields rose in all other countries tracked over the week except China.

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)	2.69	12.2	9.8	-51.8	24.0
United States (US)	3.21	88.0	13.7	-	-
Germany (GER)	0.43	6.4	7.6	-278.4	-196.9
United Kingdom (UK)	1.49	23.2	11.1	-171.8	-107.1
Japan (JPN)	0.13	7.4	1.6	-308.3	-227.8
China (CH)	3.54	-33.8	-0.3	32.9	154.7

Key International Data Releases

US: Trade deficit widened to \$54.0 billion in September from \$53.3 billion in the previous month. Imports increased to \$266 billion, an all-time high with telecommunication, aircraft and computer at the highest on record. Unemployment rate remained steady at 3.7 per cent in October. Non-farm payrolls increased 250,000 in October after a gain of 118,000 in the previous month.

Euro Area: GDP rose by 0.2 per cent in the September quarter 2018 to be up 1.7 per cent through the year – the lowest growth rate in more than 4 years with Italy at 0.0 per cent. The consumer price index (CPI) rose 2.2 per cent through the year to October compared to 2.1 per cent in September. Unemployment rate decreased to 8.1 per cent in September 2018 compared to 8.9 per cent in the same month last year.

Germany: Unemployment rate remained stable at 3.4 per cent in September. Retail sales fell sharply by 2.6 per cent through the year to September compared to an increase of 1.5 per cent in the previous month. CPI increased by 2.5 per cent through the year to October compared to 2.3 per cent in the previous month.

Japan: Retail sales increased by 2.1 per cent through the year to September compared to 2.7 per cent in the previous month. Unemployment rate fell to 2.3 per cent in September compared to 2.4 per cent in the previous month. The Bank of Japan kept its policy settings unchanged at -0.100 per cent. The consumer confidence index fell to 43 from 43.4 in September.

Upcoming Key International Data Releases (05/11 – 09/11)

- **US:** Fed Rate Decision for November.
- **Germany:** Industrial Production and Trade Balance data for September.
- **UK:** Trade Balance and Manufacturing Production data for September and GDP data for the September quarter.
- **Euro Area:** PPI and Retail Sales data for September.
- **China:** CPI and PPI data for October.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
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
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	
10-Dec	11-Dec	12-Dec	13-Dec	14-Dec
ABS Housing Finance, Oct-18 ABS Regional Building Approvals, Oct-18	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	

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	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	3.4%	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	3.1%	3.7%	% through the year	September 18 (mthly) Next: 6 December 18
Westpac MI Consumer Confidence	98.5	101.5	Westpac MI Index	October 18 (mthly) Next: 14 November 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: 6 November 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	(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.