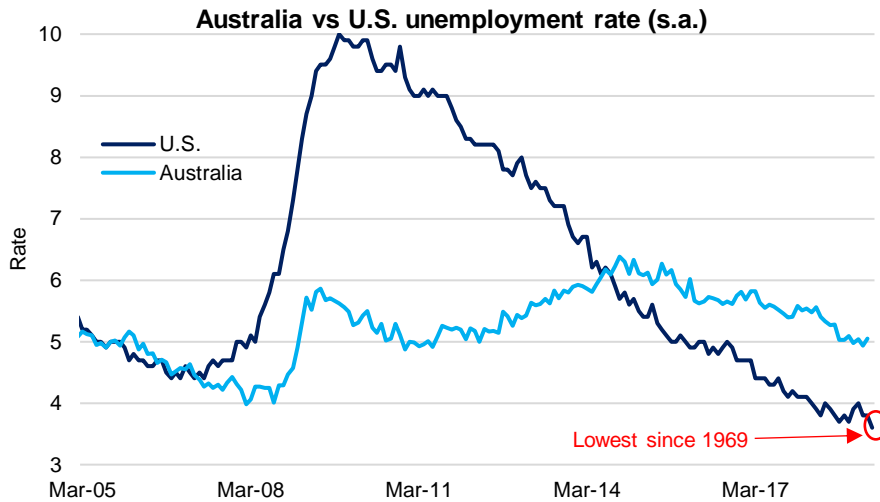


Chart of the Week: US labour market still outperforming Australia's



From the chief economist: RBA preferred the cautious route

So, last Tuesday's widely-expected interest rate cut from the RBA didn't materialise. Instead, Board members defied the forecasts of the majority of private sector economists (and this economist, too) and left the cash rate steady at the already record-low rate of 1.5%. To be fair, the Bank stuck with its previous guidance that two conditions must be satisfied before a rate cut would be delivered. The first is an inflation undershoot, which was confirmed last month. The second, however, is a deterioration in unemployment, which has not materialised, at least not yet. In the statement announcing the decision, the Bank invited all of us to watch developments in the labour market, so we will. On Friday, the RBA delivered the expected downgrades to the official forecasts for growth and inflation, but the underlying themes of trend-like economic growth and an expectation that inflation eventually will return to target stayed. Interestingly, the day after the RBA meeting, our friends across "the ditch" at the RBNZ took a bolder course, lowering the cash rate 25bp. As was the case here, most surveyed economists had forecast a rate cut, but futures market pricing had leaned towards "unchanged".

The labour market is in focus this week. Wednesday sees the release of the latest quarterly wages data and Thursday will feature the latest monthly Labour Force report. Wages growth has been edging up a snail's pace in recent quarters, and there is likely to be a small advance in the annual growth rate for the March quarter. The employment report the next day probably will show the first signs of slower jobs growth, given that key leading indicators have softened of late. Finally, of course, this coming Saturday brings the federal election. As former PM Paul Keating said back in 1996, "when the government changes, you change the country", so the outcome of the weekend's vote matters. Indeed, there will be significant policy change if there is a change of government.

Chart A: Domestic Interest Rates

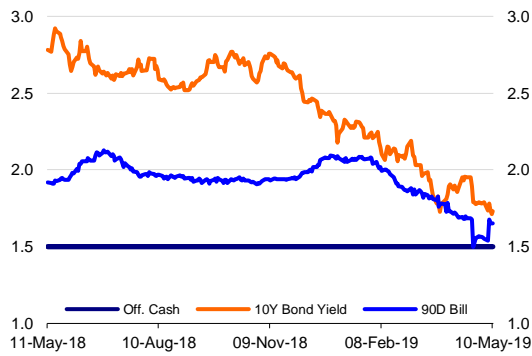


Chart B: Share Price Index

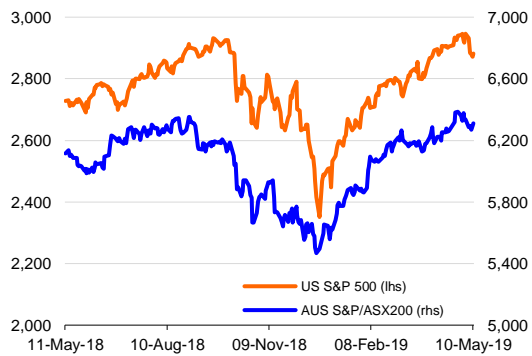


Chart C: Exchange rate

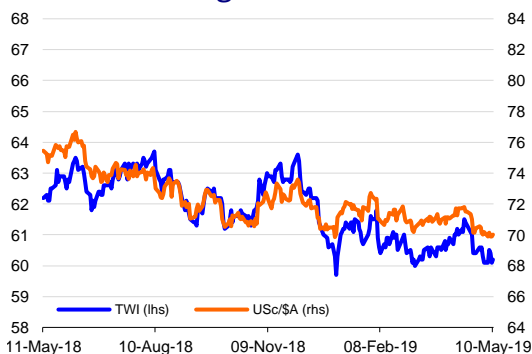
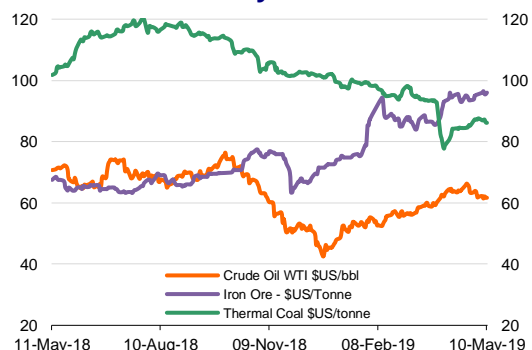


Chart D: Commodity Prices



Domestic Data Releases

ABS Retail Trade data showed real retail sales in NSW rose 0.6 per cent in the March quarter to be up a weak 0.9 per cent through the year. In nominal terms, NSW retail sales rose 0.2 per cent in March, following a strong 0.7 per cent increase in both January and February. National real retail sales fell -0.1 per cent in the March quarter to be up 1.1 per cent through the year.

ABS International Trade in Goods and Services data showed in 3 month average nominal terms, goods exports rose 10.8 per cent through the year to March in NSW following 13.1 per cent the previous month. NSW nominal goods imports rose 5.5 per cent through the year to March, following a period of decelerating growth between October and February.

RBA held its Monetary Policy meeting for April and left interest rates unchanged at 1.5 per cent. The Bank kept their central scenario broadly unchanged and noted that the “*central scenario is for the Australian economy to grow by around 2¾ per cent in 2019 and 2020*”. They mentioned there still is “*spare capacity in the economy and that a further improvement in the labour market was likely to be needed for inflation to be consistent with the target. Given this assessment, the Board will be paying close attention to developments in the labour market at its upcoming meetings.*”

RBA released its Statement of Monetary Policy for May. Based on recent data the RBA has revised down its economic forecasts. These revisions include lower GDP and inflation in the near-term and a slightly more gradual reduction in the unemployment rate. Despite the downgrades in the near-term, the RBA still expect wage and inflation to gradually lift over the forecast period. It noted that household consumption remains a key source of uncertainty in the domestic outlook.

CoreLogic Weekly Auction Data for the week ended 5 May 2019, showed that the final auction clearance rate in Sydney was 57.2 per cent compared to 52.4 per cent in the week prior. Nationally, the final auction clearance rate was 52.5 per cent, compared to 50.4 per cent in the week prior.

Markets

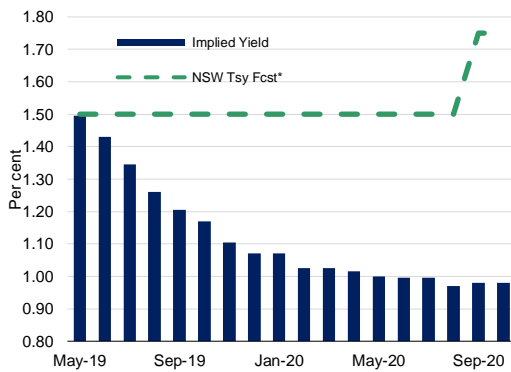
Over the week, the ASX200 fell 0.4 per cent, the US S&P500 fell 2.2 per cent and oil prices fell 0.5 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2881.40	5.6 %	-2.2 %
ASX200	6310.85	3.2 %	-0.4 %
Australian Dollar (USD)	0.70	-7.2 %	-0.2 %
TWI	60.20	-3.2 %	0.2 %
Oil (USD/bbl)	61.66	-12.8 %	-0.5 %
Gold (USD/oz)	1287.10	-2.8 %	0.7 %
Thermal Coal (USD/tonnes)	86.15	-15.3 %	-1.7 %
Australian 10-yr bond	1.73%	-37.8 bps	-6.1 bps
US 10-yr bond	2.47%	-16.9 bps	-5.8 bps
NSW 10-yr bond	2.24%	-23.5 bps	-7.0 bps

Upcoming Domestic Data Releases (13/05-17/05)

- **ABS** will release Overseas Arrival & Departures and Lending to Households & Businesses for March, Wage Price Index for the March quarter and Labour Force for April.
- **Westpac** will release the Consumer Sentiment Index for May.
- **NAB** will release the Monthly Business Survey for April.
- **RBA** Assistant Governor (Financial System) Michele Bullock will speak at the ASIC Annual Forum 2019 in Sydney.

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 July 2019.

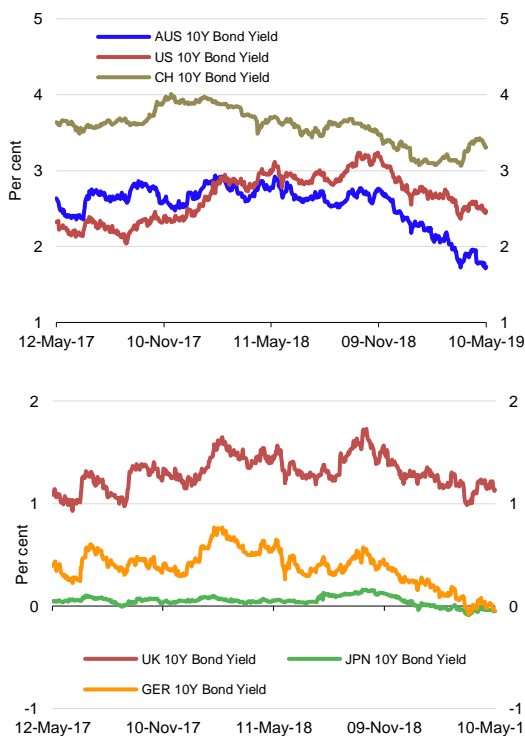
According to the ASX Target Rate Tracker, as at 10 May, there is a 32 per cent expectation that the RBA will decrease the cash rate to 1.25 per cent at its next policy meeting on 4 June 2019.

International Bond Yield Spreads

Renewed trade tensions between China and the US weighed on US bond yields last week as Trump announced more than doubling tariffs on imports from China. This has sparked fears in investors over the implications of trade wars on a potential world economic slowdown.

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)	1.73	-105.1	-6.1	-73.8	-19.0
United States (US)	2.47	-50.2	-5.8	-	-
Germany (GER)	-0.05	-60.4	-7.0	-251.2	-241.1
United Kingdom (UK)	1.14	-30.8	-8.4	-133.2	-152.7
Japan (JPN)	-0.05	-9.6	-0.9	-251.6	-292.3
China (CH)	3.31	-38.0	-9.3	83.8	71.6

Chart F & G: International Bond Yields



Key International Data Releases

US: Trade deficit widened to \$50.0 billion in March from \$49.3 billion in the previous month, although remains below the recent December high of \$59.9 billion. Imports rose 1.1 per cent, outweighing exports growth of 1.0 per cent. CPI rose to 2.0 per cent through the year to April, from 1.9 per cent in the previous month.

China: Trade surplus fell to \$13.84 billion in April compared to expectations of \$34.56 billion as exports fell 2.3 per cent and imports rose 8.5 per cent in the month. CPI increased 0.2 percentage points to reach 2.5 per cent through the year to April.

Euro Area: Retail sales rose 1.9 per cent through the year to March, above market expectations of a 1.8 per cent increase.

Germany: Trade surplus increased to €22.7 billion in March above market expectations of €20.0 billion. Industrial production fell 0.9 per cent through the year to March, better than market expectations of a 2.6 per cent fall.

UK: Trade deficit narrowed from £6.2 billion in February to £5.4 billion in March, below market expectations of £4.6 billion. GDP rose 0.5 per cent in the March quarter to be up 1.8 per cent through the year. This follows an increase of 1.4 per cent through the year in the December quarter.

Upcoming Key International Data Releases (13/05-17/05)

- **US** Retail Sales and Industrial Production for April and Consumer Sentiment for May.
- **China** Industrial Production and Retail Sales for April.
- **Euro Area** Industrial Production and Trade Balance for March and GDP for the March quarter.
- **Germany** GDP for the March quarter.
- **UK** Unemployment Rate for March
- **India** CPI for April.
- **Japan** Trade Balance for March.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
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
3-Jun	4-Jun	5-Jun	6-Jun	7-Jun
ABS Business Indicators, MarQ-19 ABS Mineral and Petroleum Exploration, MarQ-19 CoreLogic Monthly House Price Data, May-19	ABS Balance of Payments, MarQ-19 ABS Government Finance Statistics, MarQ-19 ABS Retail Trade, Apr-19 RBA Interest Rate Decision, Jun-19	ABS National Accounts, MarQ-19	ABS International Trade in Goods & Services, Apr-19 ABS Regional Building Approvals, Apr-19 CoreLogic Weekly Auction Data	ABS Lending to Households and Businesses, Apr-19
10-Jun	11-Jun	12-Jun	13-Jun	14-Jun
	ABS Labour Account, MarQ-19 NAB Monthly Business Survey, May-19	ABS Overseas Arrivals and Departures, Apr-19 W-MI Consumer Sentiment, Jun-19 ABARES Crop Report JunQ-19	ABS Labour Force, May-19 CoreLogic Weekly Auction Data	
17-Jun	18-Jun	19-Jun	20-Jun	21-Jun
	ABS Residential Property Price Indexes, MarQ-19 RBA Monetary Policy Minutes, Jun-19 ABARES Agricultural Commodities JunQ-19	ANZ Stateometer, MarQ-19	ABS Demographic Statistics, DecQ-18 CoreLogic Weekly Auction Data RBA Bulletin, Jun-19	ABS Detailed Monthly Labour Force, May-19 ABS Detailed Quarterly Labour Force, May-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	61.6k	199.7k	Number of app 12mms	March 19 (mthly) Next: 30 May 2019
	-6.2%	-1.3%	% 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	2.7%	3.5%	% through the year (nominal)	March 19 (mthly) Next: 4 June 19
Westpac MI Consumer Confidence	106.3	100.7	Westpac MI Index	April 19 (mthly) Next: 15 May 19
CPI (Capital cities)	1.3%	1.3%	% through the year	March quarter 19 Next: 31 July 19
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 4 June 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.