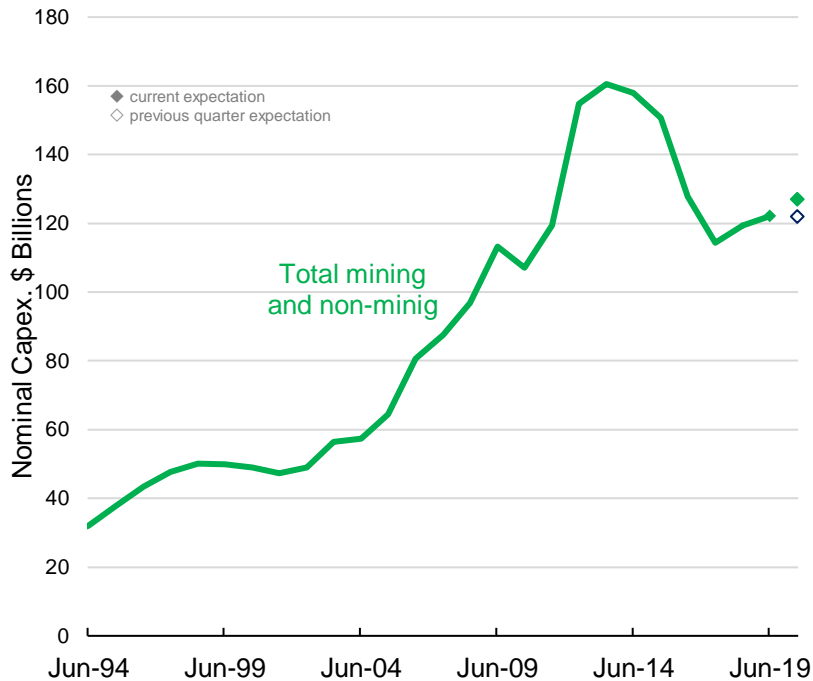


Chart of the Week: Total National Capex Spending



From the Chief Economist:

Last week's main event was a recurrence of financial market volatility, which once again was set off by an escalation of trade tensions. The authorities in China announced new tariffs on imports from the US in retaliation to earlier US actions. The US responded by raising existing tariffs on imports from China, with the President also "ordering" US businesses with activities in China to withdraw. Equity markets hated the tit-for-tat responses, and global interest rates continued to slide. Adding to the negativity was the decision by the British PM to suspend the UK Parliament after this week's sitting until just before the Brexit deadline in October. Local economic data saw some underwhelming building blocks added to the "wall" of Q2 GDP being constructed for next week. At least the forward-looking business investment expectations were in line with economists' forecasts. Speeches by the RBA deputy governor last week hinted that official interest rates could reach zero after all, although that still is not the Bank's base case, while a speech by the Federal Treasurer urged local companies to invest more by paying out fewer dividends to shareholders.

Local economic action this week will be dominated by two main events – the Reserve Bank interest rate decision tomorrow and the release of the June quarter GDP data on Wednesday. It probably is too early for the RBA to lower interest rates again, following the consecutive cuts back in June and July. Officials probably want to see the extent to which their earlier handiwork is showing up in real economy data before deciding whether to add more policy-petrol to that particular fire. They also will be watching carefully for any reaction in housing markets, where activity continues to improve. Futures market pricing implies only a small probability (13%) of a quarter-point rate cut tomorrow. The additions to the GDP arithmetic are still coming to hand but, from what we already know, it looks like the national economy grew at a disappointingly modest pace last quarter and by just over 1% over the last year. If realised, this will be the weakest rate of annual GDP growth in nearly 20 years. Local eyes also will remain focussed on offshore events, given the increasingly sour mood in financial markets.

Chart A: Domestic Interest Rates

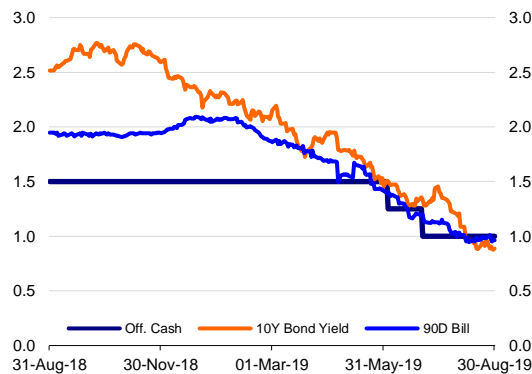


Chart B: Share Price Index

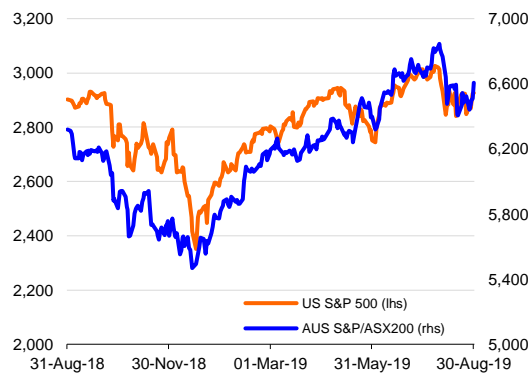


Chart C: Exchange rate

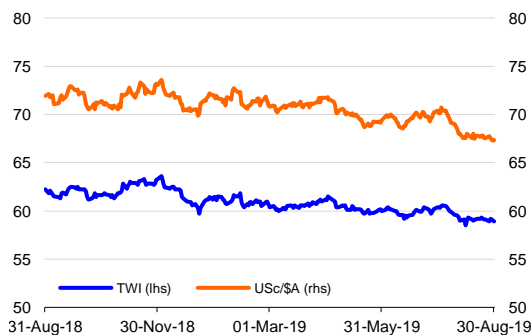
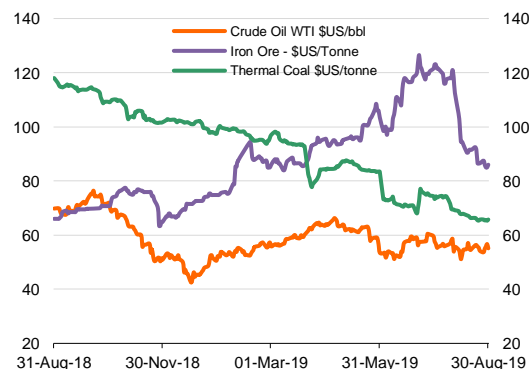


Chart D: Commodity Prices



Domestic Data Releases

ABS Construction Work Done showed that total construction work done fell 1.9 per cent in the June quarter, following a 0.6 per cent rise in the March quarter. In through the year terms activity fell 3.7 per cent. Non-residential building construction work done fell 5.6 per cent in the quarter driven by a steep decline of 11.2 per cent in public sector construction. In spite of this, through the year growth remained strong at 16.3 per cent. Engineering construction work done rose 5.6 per cent in the quarter to be down 1.4 per cent through the year.

ABS Private New Capital Expenditure showed that an overall positive result for NSW, with capex rising 4.2 per cent in the June quarter 2019 to be up 8.7 per cent in through the year terms, after falling 3.1 per cent in the previous quarter. Spending on equipment rose 3.4 per cent in the quarter (following a 0.1 per cent fall in the previous quarter) and building and structures rose 4.9 per cent (after a fall of 6.0 per cent in the previous quarter).

ABS Private New Capital Expectations showed total national capital expenditure is expected to be 4.1 per cent higher in 2019-20 compared to the 2018-19 actuals. This is an improvement from last quarter's expectation and has been largely driven by an improvement in mining investment which is expected to be 11.7 per cent higher than 2018-19 actuals.

ABS Building Approvals showed the number of NSW residential approvals fell 17.5 per cent (in seasonally adjusted terms) in July, driven by a fall of 42.6 per cent in attached and apartment approvals. This was somewhat offset by a rise of 10.3 per cent in the number of detached house approvals.

CoreLogic Weekly Auction Clearance rate was 78.1 per cent for the week ending 25 August 2019, up from 76.2 per cent in the previous week. Nationally auction clearance rates reached 74.2 per cent for the week ending 25 August 2019, up from 73.0 per cent in the previous week.

RBA Private Sector Credit showed total housing credit continues to trend downwards, with through the year growth of 3.3 per cent in July, this lowest growth on record. Owner-occupier credit growth was unchanged at 4.9 per cent in through the year terms and investor housing credit eased to 0.3 per cent, the lowest on record.

Markets

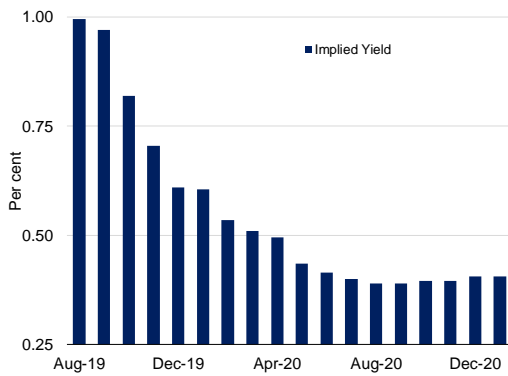
Over the week, the ASX200 rose 1.2 per cent, the S&P500 rose 2.8 per cent and oil prices rose 1.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2926.46	0.9 %	2.8 %
ASX200	6604.22	4.5 %	1.2 %
Australian Dollar (USD)	0.67	-6.3 %	-0.3 %
TWI	58.90	-5.3 %	-0.3 %
Oil (USD/bbl)	55.10	-21.1 %	1.7 %
Gold (USD/oz)	1528.40	27.1 %	1.6 %
Thermal Coal (USD/tonnes)	65.75	-44.3 %	0.0 %
Australian 10-yr bond	0.89%	-64.9 bps	-8.8 bps
US 10-yr bond	1.50%	-47.7 bps	-3.9 bps
NSW 10-yr bond	1.40%	-52.1 bps	-8.3 bps

Upcoming Domestic Data Releases (2/09-6/09)

- **ABS** Retail Trade, International Trade in Goods and Services and Regional Building Approvals for July and Business Indicators, Minerals and Petroleum Exploration, Balance of Payments, Government Finance Statistics and National Accounts for the June quarter.
- **CoreLogic** weekly auction results for the week ending 1 September 2019 and Monthly House Price for August.
- **RBA** Interest Rate Decision for September

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

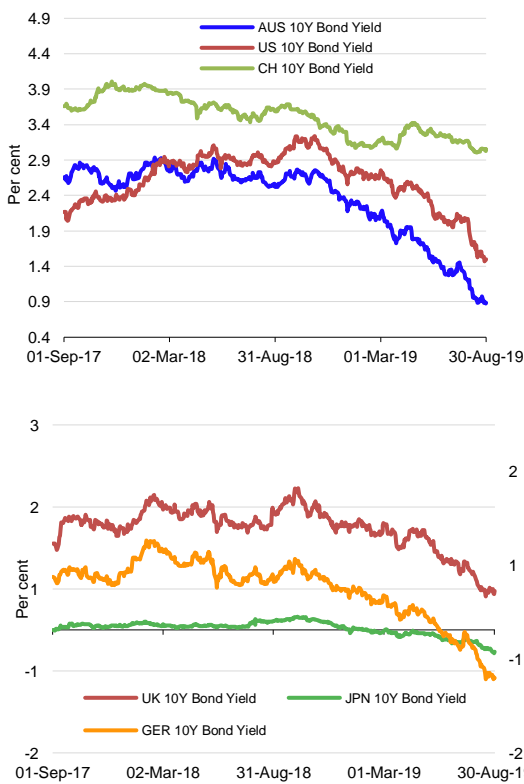
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the market expects a rate cut in October 2019.

According to the ASX Target Rate Tracker, as at 30 August, there is a 13 per cent expectation that the RBA will decrease the cash rate to 0.75 per cent at its next policy meeting on 3 September 2019.

International Bond Yield Spreads

The 10-year US bond yield fell 3.9 basis points last week and 52 basis points in the month of August, making the monthly decline the largest of the year. August has been one of the most volatile months in recent memory for the U.S bond market, with recent trade-related slowdown fears as the likely cause. In other news, Argentina's bond yields also sank on Thursday following an announcement by Standard & Poor's that it was slashing Argentina's long-term credit rating further into the area of junk debt.

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)	0.89	-163.4	-8.8	-61.1	-34.1
United States (US)	1.50	-136.4	-3.9	-	-
Germany (GER)	-0.70	-102.6	-2.5	-219.6	-253.4
United Kingdom (UK)	0.48	-94.8	-0.2	-101.7	-143.3
Japan (JPN)	-0.27	-37.6	-3.8	-176.5	-275.3
China (CH)	3.05	-53.1	-1.4	155.7	72.4

Key International Data Releases

US: GDP grew 2.0 per cent for the June quarter in annualised terms, compared to the 2.1 per cent growth recorded in the previous quarter.

China: Manufacturing PMI fell to 49.5 in August. Non-Manufacturing PMI rose to 53.8 in August.

Japan: The unemployment rate fell slightly to 2.2 per cent in July. Retail sales fell 2.0 per cent through the year to July, significantly worse than the market expectation of a 0.7 per cent fall. Industrial production rose 0.7 per cent through the year to July, an improvement on the 3.8 per cent fall in the previous month. CPI rose 0.6 per cent through the year to August, slightly lower than the 0.9 per cent right in the previous month.

Germany: Retail sales grew 4.4 per cent through the year to July, a notable improvement from the 1.6 per cent decline in the previous month. The business climate index fell slightly to 94.3 in August, slightly under market expectations of 95.1. The consumer confidence index remained steady at 9.7 for September.

Euro Area: The unemployment rate remained steady at 7.5 per cent in July.

New Zealand: The trade deficit worsened to NZD\$685 million for July, significantly worse than markets expectation of a deficit of NZD\$254 million.

Canada: GDP grew 1.5 per cent through the year to June, compared to 1.4 per cent in the previous month.

India: GDP grew 5.0 per cent through the year to the June quarter.

Upcoming Key International Data Releases (2/09-6/09)

- **Canada:** Bank of Canada Rate Decision for September.
- **China:** Trade Balance for August.
- **Euro Area:** Retail Sales for July.
- **Germany:** Industrial Production for July.
- **US:** Trade Balance and Factory Orders for July and ADP Employment Change, Manufacturing and Non-Manufacturing PMI, Change in Nonfarm Payrolls and Unemployment Rate for August.
- **UK:** Manufacturing PMI for August.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
2-Sep	3-Sep	4-Sep	5-Sep	6-Sep
ABS Business Indicators, JunQ-19 ABS Mineral and Petroleum Exploration, JunQ-19 CoreLogic Monthly House Price Data, Aug-19	ABS Balance of Payments, JunQ-19 ABS Government Finance Statistics, JunQ-19 ABS Retail Trade, Jul-19 RBA Interest Rate Decision, Sep-19	ABS National Accounts, JunQ-19	ABS International Trade in Goods and Services, Jul-19 CoreLogic Weekly Auction Data	ABS Regional Building Approvals, Jul-19
9-Sep	10-Sep	11-Sep	12-Sep	13-Sep
ABS Lending to Households and Businesses, Jul-19	ABS Labour Account, JunQ-19 ABARES Crop Report, Sep-19 NAB Monthly Business Survey, Aug-19	ABS Overseas Arrivals and Departures, Jul-19 W-MI Consumer Sentiment, Sep-19	CoreLogic Weekly Auction Data	
16-Sep	17-Sep	18-Sep	19-Sep	20-Sep
	ABS Residential Property Price Indexes, Jun-19 ABARES Agricultural Commodities, SepQ-19 RBA Monetary Policy Minutes, Sep-19	DoJ Vacancy Report, Aug-19	ABS Australian Demographic Statistics, MarQ-19 ABS Labour Force, Aug-19 CoreLogic Weekly Auction Data RBA Bulletin, SepQ-19	
23-Sep	24-Sep	25-Sep	26-Sep	27-Sep
		ABS Engineering Construction Activity, JunQ-19 DoJ Vacancy Report, Sep-19	ABS Detailed Monthly Labour Force, Aug-19 CoreLogic Weekly Auction Data	
30-Sep	1-Oct	2-Oct	3-Oct	4-Oct
RBA Private Sector Credit, Sep-19	ABS Building Approvals, Aug-19 CoreLogic Monthly House Price Data, Sep-19 RBA Interest Rate Decision, Oct-19		ABS International Trade in Goods and Services, Aug-19 ABS Job Vacancies, AugQ-19 CoreLogic Weekly Auction Data	ABS Retail Trade, Aug-19
7-Oct	8-Oct	9-Oct	10-Oct	11-Oct
	IMF World Economic Outlook, April 2019 NAB Monthly Business Survey, Sep-19	ABS Regional Building Approvals, Aug-19 ABS Building Activity, JunQ-19 W-MI Consumer Sentiment, Oct-19	ABS Lending to Households and Businesses, Aug-19 CoreLogic Weekly Auction Data	RBA Financial Stability Review, Oct-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 19
State/Domestic Final Demand	2.1%	1.6%	% through the year	June quarter 19
	0.4%	0.1%	% change on last qtr	Next: 4 September 19
BUSINESS INVESTMENT				
NAB Business Confidence	+7	+4	NAB Index	July 19 (mthly) Next: 10 September 19
NAB Business Conditions	+1	+2		
HOUSING				
Dwelling Approvals	55.5k	182.3k	Number of app 12mms	July 19 (mthly) Next: 1 October 19
	-22.3%	-21.3%	% annual average	
Residential Prices (capitals)	-10.3%	-7.4%	% through the year	March quarter 19 Next: 17 September 19
LABOUR FORCE				
Employment	4.0%	2.6%	% through the year	July 19 (mthly) Next: 19 September 19
Unemployment Rate	4.4%	5.2%	Current rate	
Youth unemployment rate	10.0%	11.6%	12 monthly moving average rate	
CONSUMER				
Retail Sales	0.6%	2.5%	% through the year (nominal)	June 19 (mthly) Next: 3 September 19
Westpac MI Consumer Confidence	98.1	100.0	Westpac MI Index	August 19 (mthly) Next: 11 September 19
CPI (Capital cities)	1.7%	1.6%	% through the year	June quarter 19 Next: 30 October 19
Official cash rate	1.00%		Lowered 25 basis points in July 19	Next: 3 September 19

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2019-20 Budget)			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	2½	2½	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	2.6	2¼	2¼	2.8	2¼	2¾
Employment (%) ^(b)	3.2	3¼	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	2½	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.