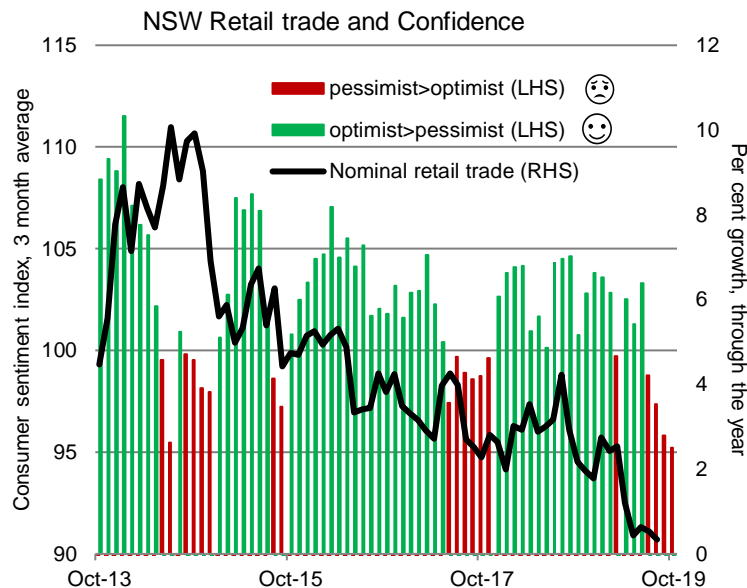


## Chart of the Week: timely indicators on the consumer continue to show weakness

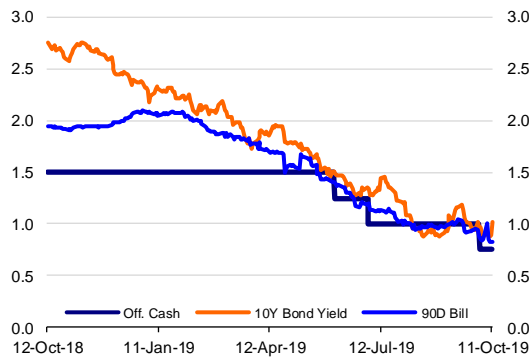


### From the Chief Economist:

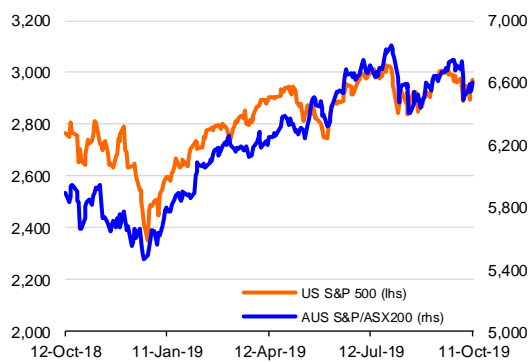
There was more sobering domestic economic news released last week, mainly in forward-looking indicators. Both consumer and business confidence slipped in the latest readings, although the more contemporary business conditions measure in New South Wales improved. The confidence measure for consumers dived 6 per cent over the month, slightly more than the national drop, and now is at its lowest level since 2014. The national business confidence measure skidded to a six-year low as evidence that domestic conditions are softening continued to accumulate. There was, however, a bounce in demand for home loans in August, following the Reserve Bank's twin interest rate cuts mid-year. The third official rate cut a couple of weeks ago probably will help to extend this trend in finance approvals, with investors (i.e. non-owner occupiers) proving to be particularly enthusiastic. Finally, the number of job advertisements nationally was unchanged in September, although this followed a steep fall in August. Overseas, the main news was the resumption of military action in Syria, which unnerved investors, but the good news was that representatives from the US and China returned to the negotiating table over the trade skirmish. Meanwhile, though, in a sign of these unusual times, the US imposed new tariffs on imports from Europe.

This week brings fresh comments from the Reserve Bank and the release of the September employment data on Thursday. The Bank's board minutes tomorrow will explain in more detail why the RBA saw fit to lower the cash rate again so soon after the back-to-back moves in June and July. The bottom line is that RBA officials want the jobless rate back down near "full employment" and inflation back up in the 2-3 per cent target zone. Their assessment is that neither was likely with the previous policy settings. Most economists are forecasting another low inflation print when the Q3 data is released later this month. The labour force data on Thursday probably will show a more modest net gain in jobs than the stellar increase reported for August, alongside a flat unemployment rate.

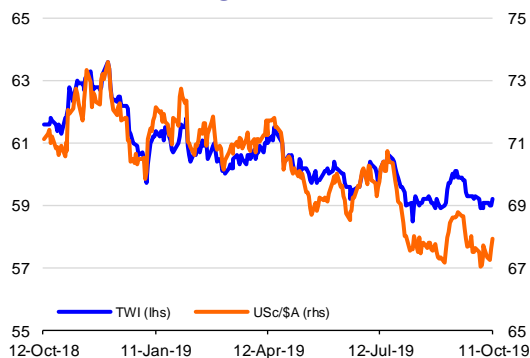
**Chart A: Domestic Interest Rates**



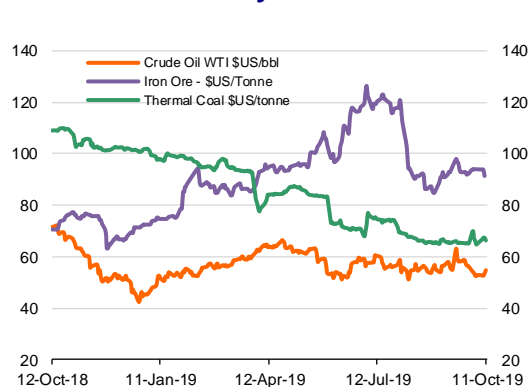
**Chart B: Share Price Index**



**Chart C: Exchange rate**



**Chart D: Commodity Prices**



**Domestic Data Releases**

**ABS Building Activity** data showed the number of dwelling completions in NSW reached a record high of 75,500 over the twelve months to the June quarter and remain the highest in the nation. The pipeline of work continues to decline with work yet to be done reaching \$15.0 billion (nominal terms) in the June quarter compared to the peak of \$17.7 billion (nominal) in the September 2017 quarter. The number of dwelling commencements continue to decline, reaching 63,343 in the June quarter compared to the peak of 77,097 in the December 2016 quarter. The value of work done in the June quarter fell 5.6 per cent (in real terms) and remains 13.8 per cent lower compared to a year ago.

**ABS Lending to Households and Businesses** data showed the number of commitments to households for owner-occupier dwellings rose 2.1 per cent in August following positive growth in the previous two months. Through the year growth moderated to a fall of 5.2 per cent in August, compared to a fall of 19.5 per cent in May. There was a monthly increase in the number of commitments to both first home buyers (up 3.8 per cent) and non-first home buyers (up 1.0 per cent) in August. The value of commitment to households for investment purpose rose 1.2 per cent in August but remains 19.4 per cent lower in through the year terms.

**NAB Monthly Business Survey** showed business confidence levels in NSW remained unchanged at +1 in September and below their decade average of +5. On the other hand, business conditions bounced to +9 in September from just +2 in the previous month. National business confidence fell to 0 in September from +1 in the previous month and business conditions fell to a six year low of 0.

**WMI Consumer Sentiment Index** in NSW fell 6.0 per cent in October reaching 90.9, the weakest levels in over five years. Nationally, sentiment fell 5.5 per cent in October to 92.8 to be the weakest result in four years.

**CoreLogic weekly auction data** showed the Sydney clearance rate was 74.7 per cent in the week ending 6 October broadly unchanged from the previous week. Nationally, the auction clearance rate was 67.6 per cent in the week ending 6 October, compared to 71.0 per cent in the previous week.

**Markets**

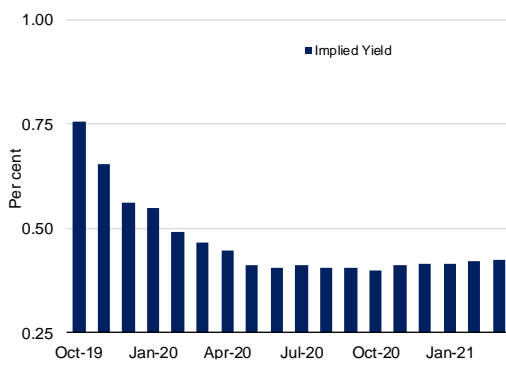
Over the week, the ASX200 rose 1.4 per cent, the S&P500 rose 0.6 per cent and oil prices rose 3.6 per cent.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	2970.27	7.3 %	0.6 %
<b>ASX200</b>	6606.81	12.1 %	1.4 %
<b>Australian Dollar (USD)</b>	0.68	-4.5 %	0.3 %
<b>TWI</b>	59.20	-3.9 %	0.2 %
<b>Oil (USD/bbl)</b>	54.70	-23.3 %	3.6 %
<b>Gold (USD/oz)</b>	1479.15	21.3 %	-1.3 %
<b>Thermal Coal (USD/tonnes)</b>	66.40	-39.2 %	1.8 %
<b>Australian 10-yr bond</b>	1.02%	-63.1 bps	12.5 bps
<b>US 10-yr bond</b>	1.73%	-45.3 bps	20.0 bps
<b>NSW 10-yr bond</b>	1.50%	-52.6 bps	12.2 bps

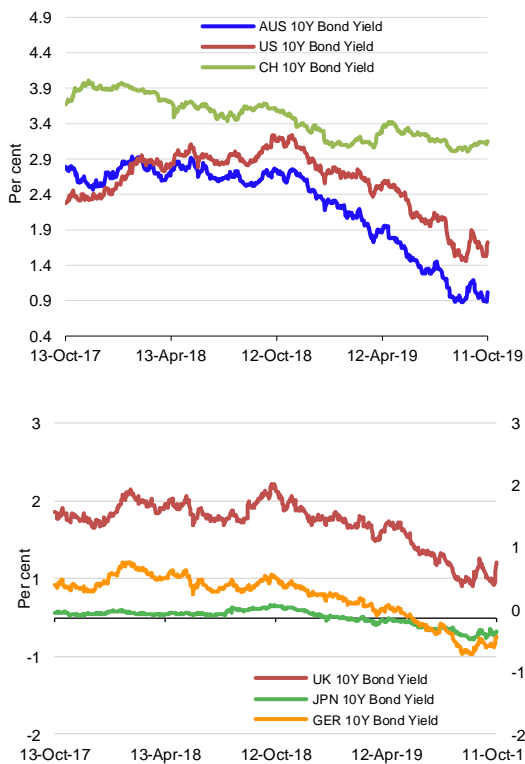
**Upcoming Domestic Data Releases (14/10-18/10)**

- **ABS** Overseas Arrivals and Departures for August and Labour Force for September.
- **IMF** World Economic Outlook for October.
- **NAB** Quarterly Business Survey for September.
- **RBA** Monetary Policy Minutes for October, RBA Deputy Governor Guy Debelle will speak on *Housing and the Economy* at the CFA Societies Australia Investment Conference, and RBA Governor Philip Lowe will speak at the 'Governor talk' event at the IMF.

**Chart E: Interest Rate Expectations**



**Chart F & G: International Bond Yields**



**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 December 2019.

According to the ASX Target Rate Tracker, as at 11 October, there is a 46 per cent expectation that the RBA will decrease the cash rate to 0.50 per cent at its next policy meeting on 5<sup>th</sup> November 2019.

**International Bond Yield Spreads**

The US ten-year bond yield climbed 20 basis points last week after declining over the previous three weeks. This was driven by progress in US and China trade negotiations held on Thursday and Friday last week. The two countries agreed on a partial trade deal which markets saw as a significant step up from a no deal. Trump also decided to hold off tariff increases that were set to take effect next week. The spread between short dated (3 month) and long dated (10 year) bond yields turned positive last week after being in the negative territory since the end of July. The German 10-year bond yield reached the highest rate since end of July.

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)	1.02	-173.5	12.5	-71.4	-41.1
United States (US)	1.73	-143.2	20.0	-	-
Germany (GER)	-0.44	-94.0	14.4	-217.1	-266.3
United Kingdom (UK)	0.71	-92.8	26.2	-102.4	-152.8
Japan (JPN)	-0.18	-32.9	3.2	-190.8	-301.1
China (CH)	3.15	-42.5	1.8	142.5	41.8

**Key International Data Releases**

**Japan:** Trade surplus rose to ¥50.9b August as imports declined faster than exports and continue to be affected by the current trade wars. PPI fell 1.1 per cent through the year to September following a 0.9 per cent decline in the previous month.

**Germany:** Industrial production rose 0.3 per cent in August (following two months of decline) to be down 4.0 per cent through the year.

**US:** CPI growth was 1.7 per cent through the year to September, unchanged from the previous month. Consumer sentiment rose to a three-month high of 96.0 in October.

**UK:** GDP fell 0.1 per cent in August following a 0.3 per cent rise in the previous month. The trade deficit reached £1546 million in August from £1681 million in July and a trade surplus of £1779 million in June.

**Canada:** The unemployment rate dropped 0.2 percentage points to 5.5 per cent in September, a near four-decade low.

**Upcoming Key International Data Releases (14/10-18/10)**

- **China:** Trade Balance, CPI, PPI, Industrial Production, Retail Sales for September and GDP for the September quarter.
- **Euro Area:** Industrial Production and Trade Balance for August.
- **US:** Industrial Production and Retail Sales for September.
- **UK:** Unemployment Rate for August and CPI for September.
- **NZ:** CPI for the September quarter.
- **India:** CPI for September.

### Six Weeks At A Glance

Monday 14-Oct	Tuesday 15-Oct	Wednesday 16-Oct	Thursday 17-Oct	Friday 18-Oct
	ABS Overseas Arrivals and Departures, Aug-19 RBA Monetary Policy Minutes, Oct-19 IMF World Economic Outlook		ABS Labour Force, Sep-19 CoreLogic Weekly Auction Data NAB Quarterly Business Survey, SepQ-19	
21-Oct		23-Oct	24-Oct	25-Oct
		DoE Vacancy Report, Sep-19	ABS Regional Monthly Labour Force, Sep-19 CoreLogic Weekly Auction Data	ABS Australian System of National Accounts, 2018-19
28-Oct	29-Oct	30-Oct	31-Oct	1-Nov
Commsec State of the States, SepQ-19 Deloitte Investment Monitor, SepQ-19		ABS Consumer Price Index, SepQ-19	ABS International Trade Price Indexes, SepQ-19 ABS Building Approvals, Sep-19 CoreLogic Weekly Auction Data RBA Private Sector Credit, Sep-19	ABS Producer Price Indexes, SepQ-19 CoreLogic Monthly House Price Data, Oct-19
4-Nov	5-Nov	6-Nov	7-Nov	8-Nov
ABS Retail Trade, Sep-19	RBA Interest Rate Decision, Nov-19		ABS International Trade in Goods and Services, Sep-19 ABS Regional Building Approvals, Sep-19 CoreLogic Weekly Auction Data	ABS Lending to households and businesses, Sep-19 RBA Statement of Monetary Policy, Nov-19
11-Nov	12-Nov	13-Nov	14-Nov	15-Nov
ABS Overseas Arrivals and Departures, Sep-19	NAB Monthly Business Survey, Oct-19 ABS Labour Account, JunQ-19 (additional information)	ABS Wage Price Index, SepQ-19 W-MI Consumer Sentiment, Nov-19	ABS Labour Force, Oct-19 CoreLogic Weekly Auction Data	ABS National Accounts - State Accounts, 2018-19
18-Nov	19-Nov	20-Nov	21-Nov	22-Nov
	RBA Monetary Policy Minutes, Nov-19 ANZ Stateometer, SepQ-19	DoE Vacancy Report, Oct-19	ABS Regional Labour Force, Oct-19 CoreLogic Weekly Auction Data	

## 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	1.3%	1.0%	% through the year	June quarter 19
	0.0%	0.3%	% change on last qtr	Next: 4 December 19
BUSINESS INVESTMENT				
NAB Business Confidence	+1	0	NAB Index	September 19 (mthly) Next: 12 November 19
NAB Business Conditions	+9	+2		
HOUSING				
Dwelling Approvals	54.1k	178.8k	Number of app 12mms	August 19 (mthly) Next: 31 October 19
	-14.6%	-11.1%	% annual average	
Residential Prices (capitals)	-9.6%	-7.4%	% through the year	June quarter 19 Next: 10 December 19
LABOUR FORCE				
Employment	3.1%	2.5%	% through the year	August 19 (mthly) Next: 17 October 19
Unemployment Rate	4.3%	5.3%	Current rate	
Youth unemployment rate	9.9%	11.6%	12 monthly moving average rate	
CONSUMER				
Retail Sales	0.3%	2.6%	% through the year (nominal)	August 19 (mthly) Next: 4 November 19
Westpac MI Consumer Confidence	90.9	92.8	Westpac MI Index	October 19 (mthly) Next: 13 November 19
CPI (Capital cities)	1.7%	1.6%	% through the year	June quarter 19 Next: 30 October 19
Official cash rate	0.75%		Lowered 25 basis points in June, July and October 2019	Next: 5 November 19

ECONOMIC FORECASTS <sup>(a)</sup>	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 (%) <sup>(b)</sup>	3.2	3¼	1½	2.7	2	1¾
Unemployment rate (%) <sup>(c)</sup>	4.8	4½	4½	5.4	5	5
CPI (%) <sup>(b)</sup>	2.0	1¾	2	2.1	1½	2¼
Wage Price Index (%) <sup>(b)</sup>	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.