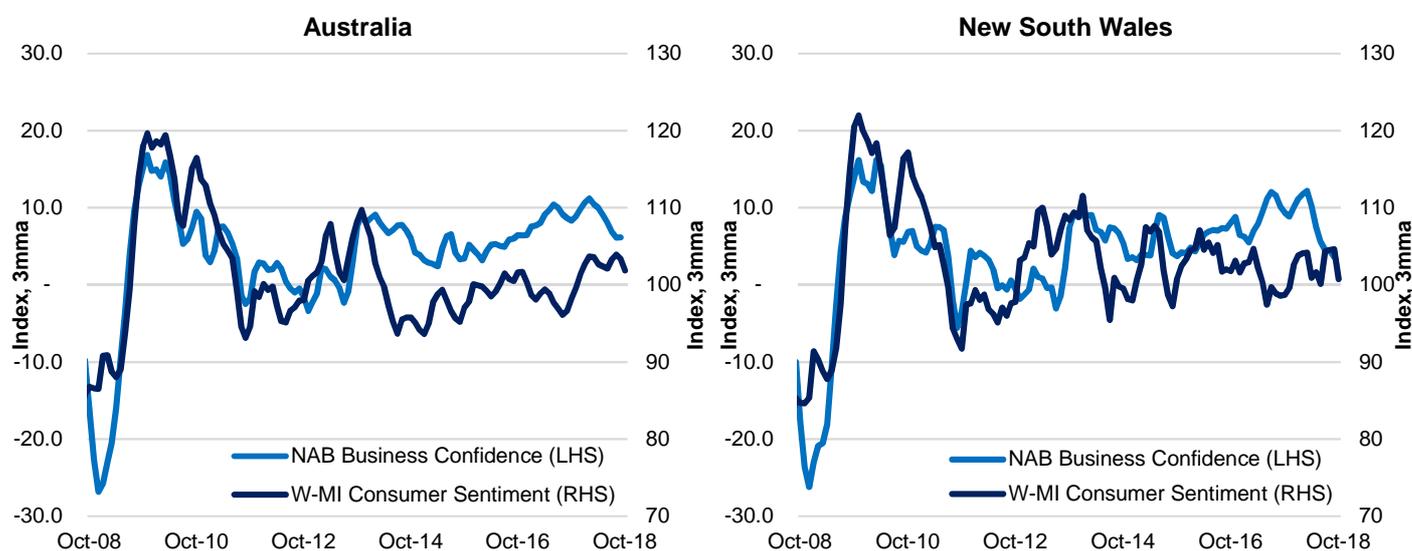


From the Chief Economist:

Chart of the week: Business operators have been more chipper than households of late



The Reserve Bank took centre-stage last week. Officials announced yet another “unchanged” interest rate decision – the 25th consecutive such announcement – and later in the week released updated forecasts in the Statement on Monetary Policy (SoMP). The decision last Tuesday to keep the cash rate steady at 1.5% surprised nobody, but there were some raised eyebrows in the SoMP. The RBA left unchanged the near term inflation forecasts, but raised the projected real GDP growth rate for 2018 to 3.5%, from 3.25%. RBA officials expect growth in the economy, then, to be above trend this year and over the forecast period, which should mean less spare capacity in the labour market and, eventually, faster growth in wages. Wages growth remains painfully low, but leading indicators point to gradual improvement. The September home loans data last Friday showed further weakness for investors, particularly in NSW, where house prices continue to fall. Indeed, a reliable leading indicator of prices – home auction clearance rates – dipped to a 10-year low in Sydney last weekend.

This week sees a steady flow of economic data, the highlight being the release of the latest employment report (for October) on Thursday. The labour market has been one area of the economy where the performance of NSW remains the best of all states, and this probably will continue for a while yet. The 4.4% jobless rate in NSW last month was the lowest since 2008. Importantly, the latest quarterly wages data is released on Wednesday – surveyed economists expect the quarterly gain in wages to have remained subdued. Tomorrow sees the release of the latest NAB business confidence results, and the latest Westpac Melbourne Institute consumer confidence data is released on Wednesday. Business operators have been more chipper than households of late, a trend that probably will be maintained this week. Households are facing up to weak wages growth and falling house prices, while many businesses have been enjoying rising profitability and buoyant trading conditions.

Chart A: Domestic Interest Rates

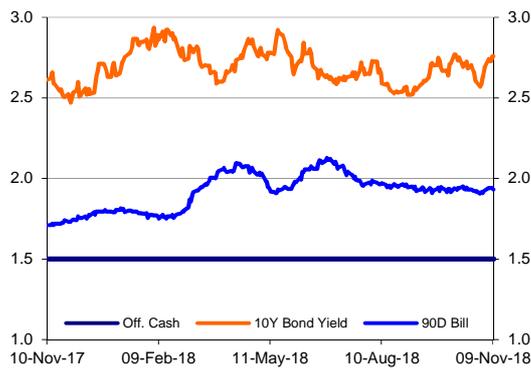


Chart B: Share Price Index

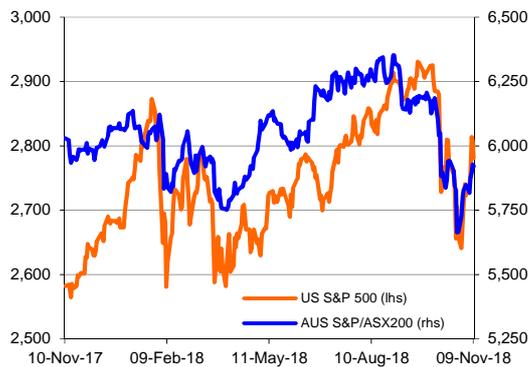


Chart C: Exchange rate

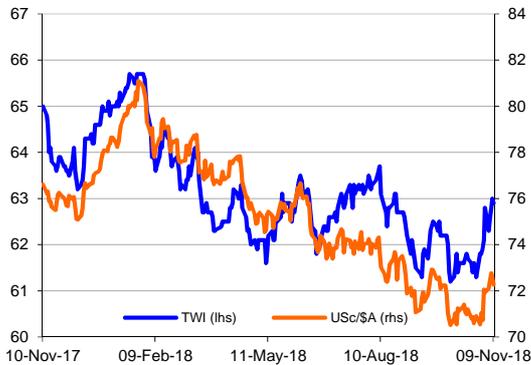
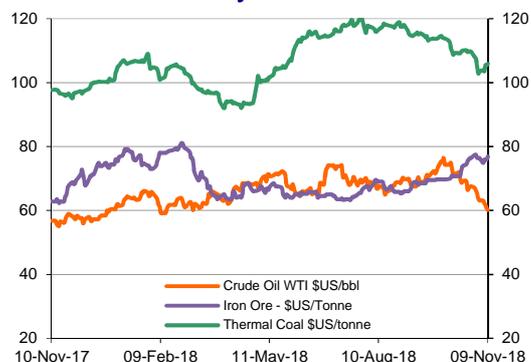


Chart D: Commodity Prices



Domestic Data Releases

RBA released its **Monetary Policy Decision** for November. At its meeting, the Board decided to leave the cash rate unchanged at 1.50 per cent.

RBA released its **Statement on Monetary Policy (SOMP)** for November. In summary, domestic economic conditions have been a bit stronger than were expected at the time of the August SOMP. The forecast for GDP growth has been revised a little higher and the unemployment rate forecast has been revised a little lower. Consistent with this, the forecasts for wages growth and inflation have also been revised slightly higher.

CoreLogic Auction Data for the week ended 4 November 2018, showed that the final auction clearance rate in Sydney was 42.6 per cent compared to 45.3 per cent in the week prior. The national average was 42.7 per cent, compared to 47.0 per cent in the week prior.

ABS Housing Finance data showed that housing finance commitments for owner-occupiers in NSW were down 10.1 per cent through the year to September. In the rest of Australia, commitments were down 9.4 per cent through the year. The proportion of first home buyers in fell slightly from 23.7 per cent to 22.8 per cent in NSW and rose slightly from 28.0 per cent to 28.7 per cent in the rest of Australia in September.

Markets

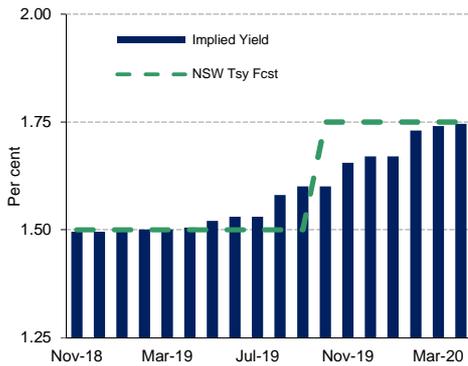
Over the week to Friday, the ASX200 rose by 1.2 per cent, the US S&P500 rose by 2.1 per cent and thermal coal prices rose by 2.4 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2781.01	7.7 %	2.1 %
ASX200	5921.85	-1.8 %	1.2 %
Australian Dollar (USD)	0.72	-5.7 %	0.5 %
TWI	62.90	-3.2 %	0.2 %
Oil (USD/bbl)	60.19	6.1 %	-4.7 %
Gold (USD/oz)	1211.40	-5.7 %	-1.7 %
Thermal Coal (USD/tonnes)	105.90	8.4 %	2.4 %
Australian 10-yr bond	2.76%	14.6 bps	6.4 bps
US 10-yr bond	3.18%	78.4 bps	-3.0 bps
NSW 10-yr bond (bps) maturity 2028	3.18%	- bps	6.0 bps

Upcoming Domestic Data Releases (12/11 – 16/11)

- **NAB** will release its Monthly Business Survey for October.
- **Westpac-Melbourne Institute** will release its Consumer Sentiment Index for November.
- **CoreLogic** will release its Weekly Auction Data for the week ended 9 November 2018.
- **ABS** will release its lending Finance data for September, Wage Price Index data for the September quarter, Labour Force data for October and State Accounts data for 2017-18.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

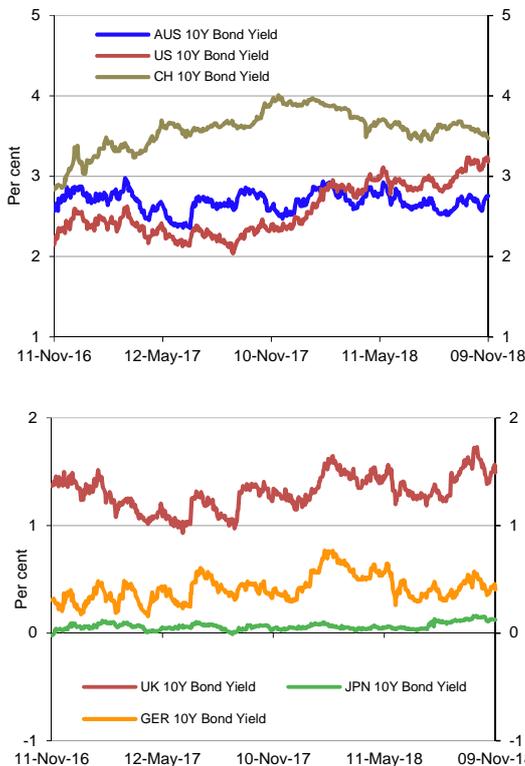
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in November 2019.

According to the ASX Target Rate Tracker, as at 9 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 4 December 2018.

International Bond Yield Spreads

US bond yields fell 3.0 basis points over the week to Friday following the Federal Reserve’s decision to stand by its plans for further rate hikes and signs of inflation among producers. Investors also sought safe-haven US government debt due to losses in equities worldwide amidst concerns about economic growth in China. Bond yields fell in all other countries tracked over the week except Australia.

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)	2.76	14.6	6.4	-42.4	21.4
United States (US)	3.18	78.4	-3.0	-	-
Germany (GER)	0.41	-0.3	-2.1	-277.5	-198.8
United Kingdom (UK)	1.49	14.9	-0.3	-169.1	-105.6
Japan (JPN)	0.12	8.0	-0.6	-305.9	-235.5
China (CH)	3.47	-44.5	-7.0	28.9	151.8

Key International Data Releases

China: The trade surplus narrowed slightly to \$34.0 billion in October, from \$37.1 billion in September. Exports rose 15.6 per cent through the year to October, compared to 14.5 per cent in September. Imports rose 21.4 per cent through the year, compared to 14.3 per cent in the previous month. CPI rose 2.5 per cent through the year to October, unchanged from September. PPI rose 3.3 per cent through the year to October, compared to 3.6 per cent in September.

US: PPI rose 0.6 per cent in the month, to be 2.9 higher through the year to October, compared to 2.6 per cent in September. This was the biggest month on month rise in around six years and was driven by price growth in trade services (+0.7 per cent). The Federal Reserve left the benchmark funds rate unchanged in a target range of 2.0 to 2.25 per cent. The Fed stated that “economic activity has been rising at a strong rate” and job gains “have been strong”, acknowledging a drop in the unemployment rate, while repeating its outlook for “further gradual” rate hikes.

Euro Area: PPI rose 4.5 per cent through the year to September, compared to 4.3 per cent in August. Retail sales rose 0.8 per cent through the year to September, compared to 2.2 per cent in August.

UK: The trade deficit decreased to £0.03 billion in September, from £2.1 billion in August. GDP growth was 1.5 per cent through the year to the September quarter, compared to 1.2 per cent in the previous quarter. This was spurred by a surge in consumer spending over the summer. Business investment fell 1.2 per cent in the quarter, indicating signs of caution among businesses ahead of the departure from the European Union in March.

Upcoming Key International Data Releases (12/11 – 16/11)

- **US:** CPI and Industrial Production data for October.
- **China:** Industrial production and Retail Sales data for October.
- **Euro Area:** Industrial Production and Trade Balance data for September and GDP growth for the September quarter.
- **Japan:** GDP growth for the September quarter and PPI data for October.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
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 CoreLogic Weekly Auction Data	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, Sep Q-18	ABS Detailed Monthly Labour Force, Oct-18 CoreLogic Weekly Auction Data	
26-Nov	27-Nov	28-Nov	29-Nov	30-Nov
		ABS Construction Work Done Prelim, Sep Q-18	ABS Capital Expenditure Survey, Sep Q-18 CoreLogic Weekly Auction Data	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 ABA RES 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 CoreLogic Weekly Auction Data	
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 CoreLogic Weekly Auction Data	
17-Dec	18-Dec	19-Dec	20-Dec	21-Dec
ABS Overseas Arrivals and Departures, Oct-18	RBA Monetary Policy Minutes, Dec-18	DoE Skilled Vacancies, Nov-18	ABS Australian Demographic Statistics, Jun-18 ABS Labour Force, Nov-18 CoreLogic Weekly Auction Data	ABS Detailed Monthly Labour Force, Nov-18 ABS Detailed Quarterly Labour Force, Nov-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.