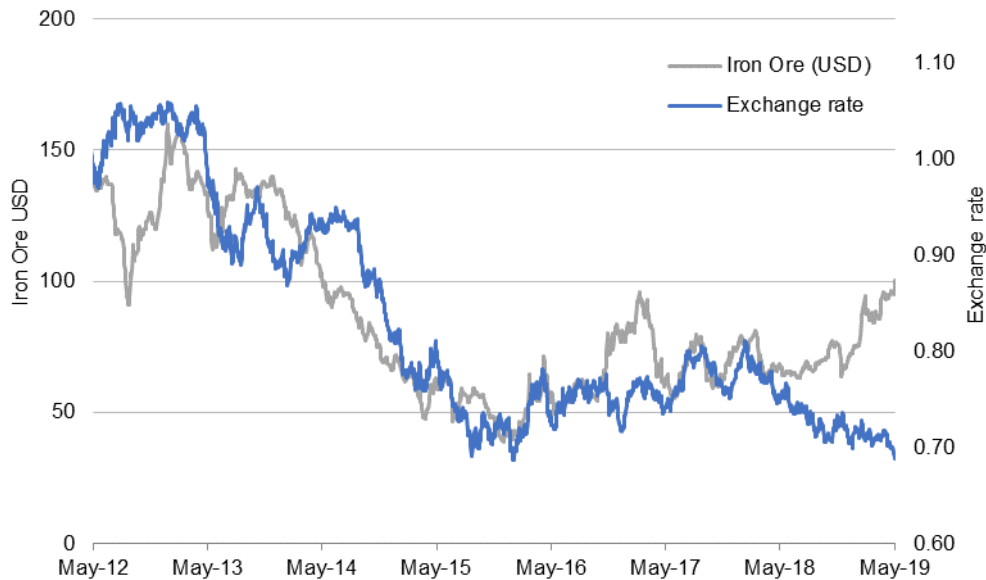


Chart of the Week: The exchange rate has been uncharacteristically indifferent to price lifts in Australia's largest export (iron ore)



From the chief economist: labour market data underwhelmed

Last week was all about the labour market, and each of the main economic data releases was underwhelming. Wages growth undershot expectations in Q1, leaving the annual pay increase only marginally better than the previous quarter at 2.3% yoy. Worse news, though, was revealed in the April Labour Force report last Thursday. There was a healthy rise in employment over the month, with virtually all of the net job gains in NSW, but rising participation meant the national jobless rate lifted to 5.2%. This was above what surveyed economists had expected, and is the highest unemployment rate since last August. NSW still boasts the lowest jobless rate of all states, albeit now at 4.5%, up from 4.3% a month earlier. The importance here is that the Reserve Bank has been hinting that even a stable jobless rate may be enough to trigger official rate cuts, given the persistent inflation undershoot. Overseas, the main events last week were the announcements that the US and China governments each had slapped the other with higher tariffs. These further lurches towards protectionism sent equity markets into a tail-spin, although they recovered later in the week.

The local data calendar for this week is unusually quiet, with just new information on Q1 construction work coming to hand. The RBA will take centre stage, then, with the minutes of the recent Board meeting being released tomorrow and, shortly afterwards, Governor Lowe delivering a speech on the economy and policy outlook in Brisbane. The key focus of the speech will be whether there is a shift in the Governor's language, particularly around labour market conditions. Recent official guidance that the labour market is "strong" has been undermined by recent events. Any shift towards a more "dovish" tone could raise expectations for near term interest rate cuts – futures market pricing already implies a better than even chance of a 25bp rate cut at the next RBA Board meeting in early June.

Chart A: Domestic Interest Rates

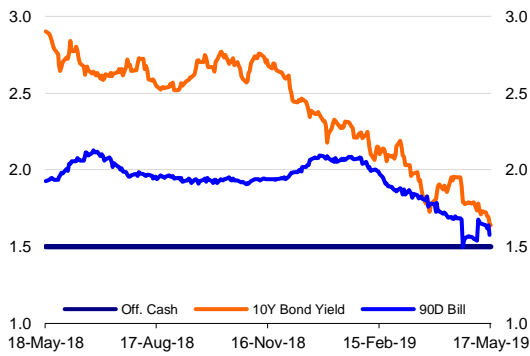


Chart B: Share Price Index

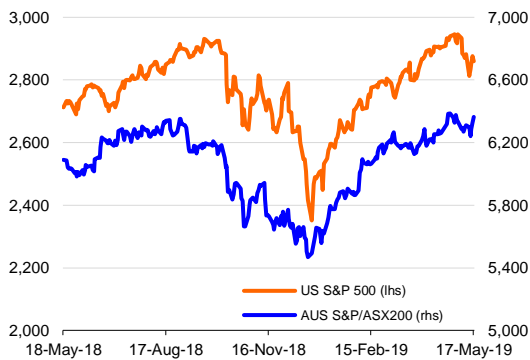


Chart C: Exchange rate

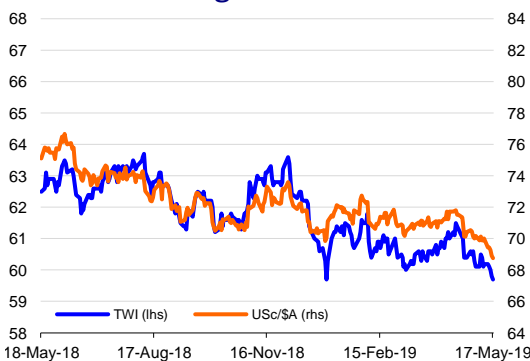
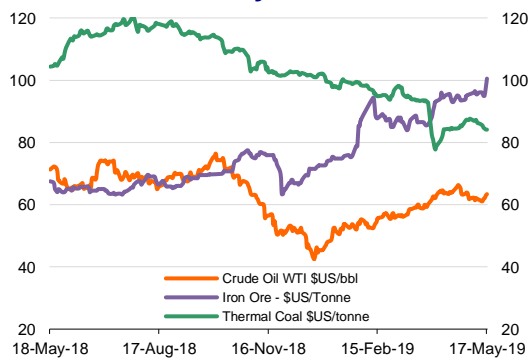


Chart D: Commodity Prices



Domestic Data Releases

ABS Labour Force data showed that the NSW unemployment rate rose to 4.5 per cent in April, from 4.3 per cent last month. Unemployment increased due to a rise in the number of people participating in the labour market, which outstripped the increase in the number of people employed. NSW employment increased by a strong 25,100 or 0.6 per cent in April. This was eclipsed by the participation rate reaching a record high of 65.6 in April, with people encouraged to look for work by strong labour market conditions. Similar dynamics occurred nationally, the unemployment rate rose to 5.2 per cent (from 5.1 per cent last month) with the participation rate at a record 65.8, and employment rose by 28,400.

ABS Lending to Households and Businesses data was released for March. Lending to NSW households for owner-occupier dwellings fell 3.7 per cent in March, to be down 17.6 per cent through the year. Lending to households for investment fell 3.5 per cent in the month, to be down 25.1 per cent through the year. Lending to businesses for property continued to fall.

ABS Overseas Arrivals and Departures data for March, showed that visitors to NSW were at an annual sum of 3.5m. Annual average growth slowed to 0.3 per cent in March from 2.3 per cent in the previous month. Nationally, visitors were at an annual sum of 9.3m, up 2.5 per cent over the year.

ABS Wage Price Index data for the March quarter showed that in NSW headline WPI rose 0.4 per cent in the quarter to be 2.3 per cent higher through the year. In Australia, headline WPI rose 0.5 per cent in the quarter to be 2.3 per cent higher through the year.

NAB released its **Monthly Business Survey** for April showing that NSW business confidence increased from -2 to +1 index points whilst conditions fell from +12 to +4 points. Nationally, confidence increased from -1 to 0 points and conditions fell from +7 to +3 points.

W-MI released its **Consumer Sentiment Survey** for May. NSW consumer sentiment index (CSI) fell 3.8 per cent to 102.3 index points in the month. Nationally, CSI rose 0.6 per cent to 101.3 index points in the month.

CoreLogic Weekly Auction Data for the week ended 12 May 2019, showed that the final auction clearance rate in Sydney was 59.0 per cent compared to 57.2 per cent in the week prior. Nationally, the final auction clearance rate was 54.0 per cent, compared to 52.5 per cent in the week prior.

Markets

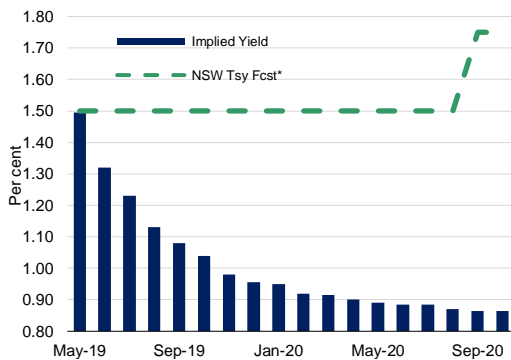
Over the week, the ASX200 rose 0.9 per cent, the US S&P500 fell 0.8 per cent and oil prices rose 2.8 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2859.53	5.4 %	-0.8 %
ASX200	6365.30	4.6 %	0.9 %
Australian Dollar (USD)	0.69	-8.5 %	-1.8 %
TWI	59.70	-4.5 %	-0.8 %
Oil (USD/bbl)	63.37	-11.1 %	2.8 %
Gold (USD/oz)	1280.80	-0.6 %	-0.5 %
Thermal Coal (USD/tonnes)	84.10	-19.4 %	-2.4 %
Australian 10-yr bond	1.64%	-43.5 bps	-8.9 bps
US 10-yr bond	2.38%	-22.0 bps	-8.3 bps
NSW 10-yr bond	2.17%	-28.2 bps	-7.0 bps

Upcoming Domestic Data Releases (20/05-24/05)

- **ABS** will release Construction Work Done for the March quarter and Detailed Labour Force for April.
- **RBA** will release the Monetary Policy Minutes for May.

Chart E: Interest Rate Expectations



*NSW Treasury Forecast as at 2018-19 PEBU

Market Interest Rate Expectations

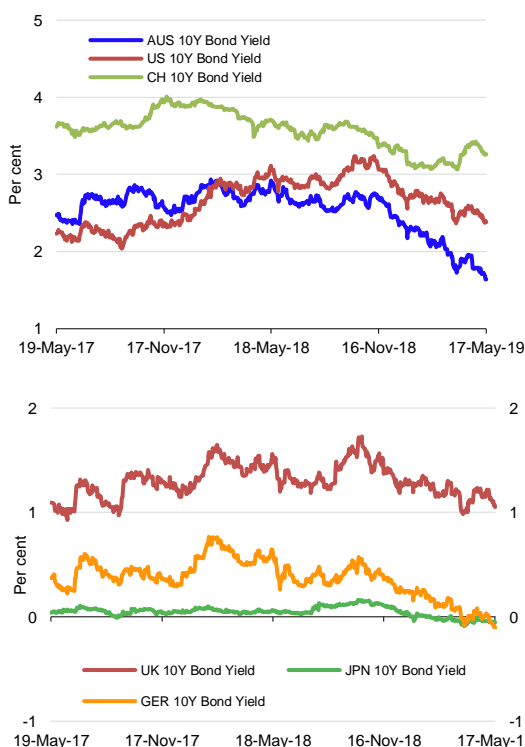
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects a rate cut in June 2019.

According to the ASX Target Rate Tracker, as at 17 May, there is an 83 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

US bond yields fell over the course of the week as China retaliated with tariff hikes in response to a similar move by the US in the prior week. Amplifying trade tensions sparked unease in investors and bond yields fell. Demand spiked for safe haven ten-year bonds, pushing their yields lower than three-month bonds and causing an inversion of the yield curve on Monday, a market signal that has often preceded a recession.

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)	1.64	-126.2	-8.9	-74.4	-15.4
United States (US)	2.38	-67.2	-8.3	-	-
Germany (GER)	-0.10	-68.2	-5.8	-248.7	-247.7
United Kingdom (UK)	1.05	-45.0	-8.5	-133.4	-155.6
Japan (JPN)	-0.05	-11.3	-0.3	-243.6	-299.5
China (CH)	3.26	-44.6	-4.7	87.4	64.8

Key International Data Releases

US: Retail sales fell by 0.2 per cent in April, down significantly from the 1.7 per cent rise in March which was likely driven by the fiscal stimulus from tax cuts to the working class. Consumer confidence improved to 102.4 in May from 97.2 in the previous month. Industrial production fell 0.5 per cent in April, compared to an increase of 0.2 per cent last month (revised).

China: Retail sales growth eased in April, rising 7.2 per cent through the year, the weakest growth since May 2003. Industrial production rose 5.4 per cent through the year to April, compared to 8.5 per cent the prior month.

Euro Area: GDP rose 1.2 per cent through the year to the March quarter, unchanged from the previous quarter. The trade surplus narrowed to €17.9 billion in March, from €20.6 billion in February. Industrial production fell 0.6 per cent through the year to March, compared to flat growth in February.

Germany: GDP rose 0.7 per cent through the year to the March quarter, compared to 0.6 per cent in the prior quarter.

UK: Unemployment rate fell to 3.8 per cent in March from 3.9 per cent in the previous month.

India: CPI rose to a six-month high of 2.92 per cent through the year to April.

Upcoming Key International Data Releases (20/05-24/05)

- **US** FOMC Meeting Minutes for May.
- **Euro Area** Consumer Confidence, Manufacturing PMI and Non-Manufacturing PMI for May.
- **Germany** Business Climate and Manufacturing PMI for May.
- **UK** CPI and Retail Sales for April.
- **Japan** Trade Balance for April and Nikkei Manufacturing PMI for May.

Six Weeks At A Glance

Monday 20-May	Tuesday 21-May	Wednesday 22-May	Thursday 23-May	Friday 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
24-Jun	25-Jun	26-Jun	27-Jun	28-Jun
		ABS Engineering Construction Activity, MarQ-19	ABS Job Vacancies, MayQ-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	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	+1	0	NAB Index	April 19 (mthly) Next: 11 June 19
NAB Business Conditions	+4	+3		
HOUSING				
Dwelling Approvals	61.6k	199.7k	Number of app 12mms	March 19 (mthly) Next: 30 May 19
	-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%	2.6%	% through the year	April 19 (mthly) Next: 13 June 19
Unemployment Rate	4.5%	5.2%	Current rate	
Youth unemployment rate	9.8%	11.4%	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	102.3	101.3	Westpac MI Index	May 19 (mthly) Next: 12 June 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.