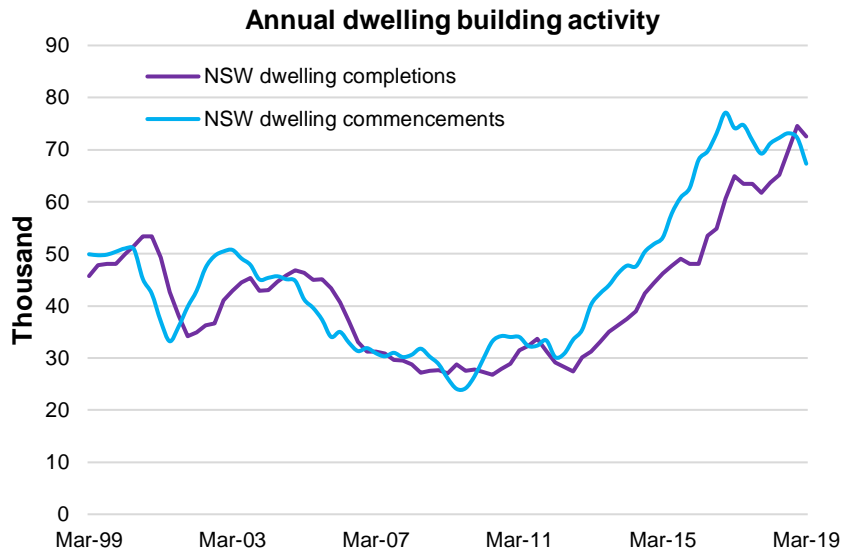


Chart of the Week: NSW residential building activity tracking downwards but still at elevated levels



From the Macroeconomic team:

Last week was a glass half empty kind of week. Pessimists overtook optimists in the Westpac-MI Consumer Sentiment Index for both the state and the nation. NSW residential building activity fell, however this should be taken in the context of still elevated levels of construction activity (see chart above). Lending to households and businesses showed widespread falls, with the exception of first home buyers, who echoed an 8.1 per cent lift in the Time to Buy a Dwelling Index (W-MI). Auction clearance rates continued to lift in Sydney, pushing past the 70 per cent threshold last week, raising hopes that the worst of the price falls is over.

This week is relatively quiet, apart from the highly anticipated Labour Force data, which along with inflation has been pivotal to the RBA's recent rate cut decisions. The market is not expecting the unemployment rate to budge from 5.2 per cent (towards the RBA target of around 4.5 per cent), despite this further rate cuts are not anticipated until late 2019. It is expected that the RBA will refrain from further moves until recent lever pulls work their way through the system – interest rate cuts, tax cuts, change in the mortgage assessment rate.

Chart A: Domestic Interest Rates

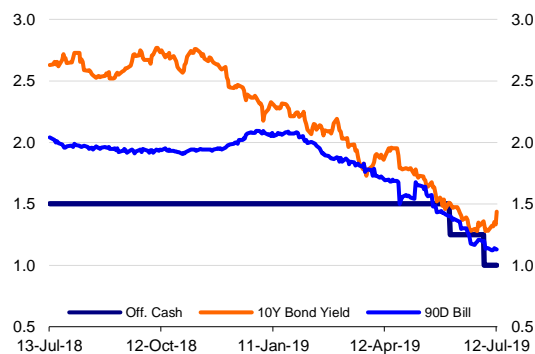


Chart B: Share Price Index

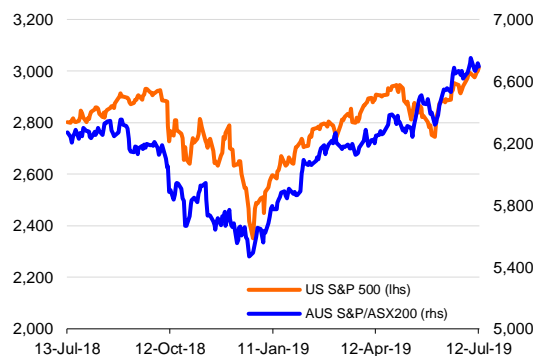


Chart C: Exchange rate

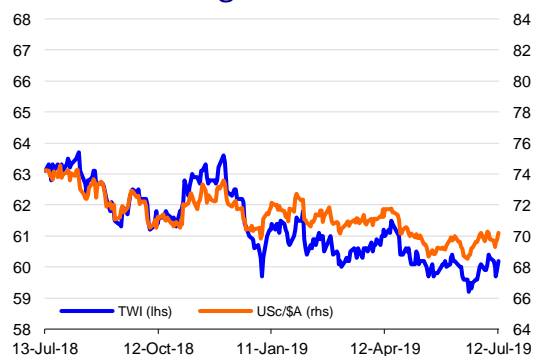
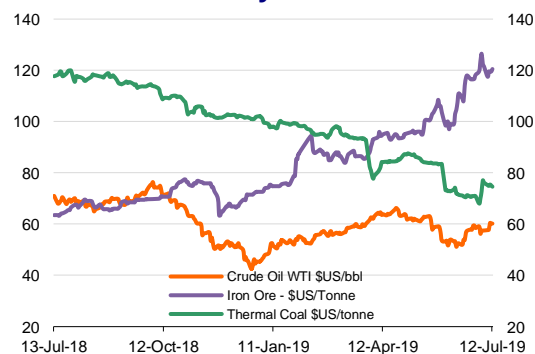


Chart D: Commodity Prices



Domestic Data Releases

ABS Building Activity data for the March quarter, showed that residential building activity in NSW continues to fall. NSW dwelling completions fell to an annual sum of 72,500. Despite the quarterly fall, levels remain elevated, up 13.8 per cent in annual average terms. Nationally, completions were at an annual sum of 219,600, up 4.4 per cent in annual average terms. NSW dwelling commencements fell to an annual sum of 67,300 in March, down 5.5 per cent in annual average terms. Nationally, commencements were at an annual sum of 209,500, down 7.4 per cent in annual average terms.

ABS Lending to Households and Businesses data was released for May. Despite widespread falls in lending, lending to first home buyers increased by 1.8 per cent in May, however remains down 9.9 per cent through the year. Lending to NSW households for owner-occupier dwellings fell 1.6 per cent in May, to be down 20.1 per cent through the year. Lending to households for investment fell 0.9 per cent (seasonally adjusted), to be down 31.3 per cent through the year. Lending to businesses for property continued to fall over the year to May.

ABS Overseas Arrivals and Departures data for May, showed that visitors to NSW were at an annual sum of 3.5 million, representing annual average growth of 1.6 per cent. Nationally, visitors were at an annual sum of 9.3 million, up 3.3 per cent over the year. The strong rise in visitors was driven by a recovery in the number of Chinese visitors, up 7.0 per cent through the year.

CoreLogic Auction Clearance Rates rose in Sydney reaching the highest rate seen this year. Sydney auction clearance rates reached 71.3 per cent last week (ending 7 July) compared to 67.9 in the previous week. Nationally, auction clearance rates were also higher, reaching 64.0 per cent last week, compared to 62.9 in the previous week.

NAB released its **Monthly Business Survey** for June. NSW business confidence fell from +5 to +4 points and conditions improved slightly from +2 to +3 points. Nationally, confidence fell sharply from +7 to +2 points and conditions improved from +1 to +3.

W-MI released its **Consumer Sentiment Survey** for July. Both NSW and Australia dropped below 100 index points, indicating that pessimists now outnumber optimists. NSW consumer sentiment index (CSI) fell 8.5 per cent to 92.7 index points in the month. Nationally, CSI fell 4.2 per cent to 96.5 index points in the month.

Markets

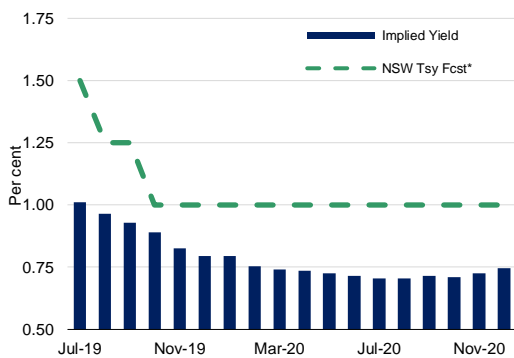
Over the week, the ASX200 fell 0.8 per cent, the S&P500 rose 0.8 per cent and oil prices were 4.7 per cent lower.

	Value	Change on Year	Change on Week
US S&P 500	3013.77	7.6 %	0.8 %
ASX200	6696.55	6.8 %	-0.8 %
Australian Dollar (USD)	0.70	-5.4 %	0.6 %
TWI	60.20	-4.6 %	-0.2 %
Oil (USD/bbl)	60.21	-15.2 %	4.7 %
Gold (USD/oz)	1407.60	13.4 %	1.4 %
Thermal Coal (USD/tonnes)	74.60	-36.6 %	-2.1 %
Australian 10-yr bond	1.44%	-45.3 bps	15.6 bps
US 10-yr bond	2.12%	-24.9 bps	8.8 bps
NSW 10-yr bond	1.91%	-31.1 bps	14.0 bps

Upcoming Domestic Data Releases (15/07-19/07)

- **ABS** will release Labour Force data for June.
- **RBA** will publish Monetary Policy Meeting Minutes for July.
- **NAB** will release its Quarterly Business Survey for the June quarter.

Chart E: Interest Rate Expectations



*NSW Treasury Forecast as at 2019-20 Budget

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 November 2019.

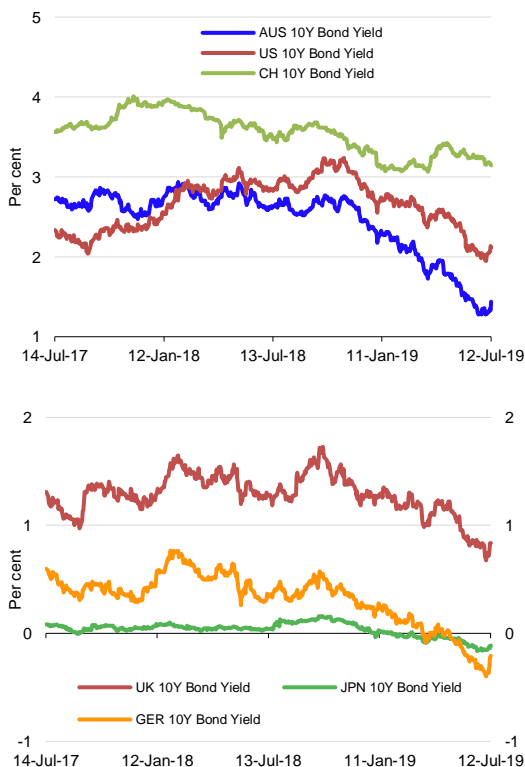
According to the ASX Target Rate Tracker, as at 12 July, there is a 17 per cent expectation that the RBA will decrease the cash rate to 0.75 per cent at its next policy meeting on 6 August 2019.

International Bond Yield Spreads

US 10-year bond yield climbed sharply this week, albeit with a few dips along the way. Yields fell in the US on Wednesday after Federal Reserve Chairman Jerome Powell commented that the inflation outlook looks muted and that the central bank will act appropriately to sustain economic expansion, raising expectations of a rate cut. On Thursday stronger than anticipated inflation results were released, lowering expectations of a rate cut and sending yields to a four-week high.

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)	1.44	-119.1	15.6	-68.4	-19.8
United States (US)	2.12	-70.5	8.8	-	-
Germany (GER)	-0.21	-55.0	15.3	-233.2	-248.7
United Kingdom (UK)	0.84	-43.8	9.7	-128.7	-155.4
Japan (JPN)	-0.11	-15.4	4.1	-223.6	-278.7
China (CH)	3.15	-32.9	-2.5	102.5	64.9

Chart F & G: International Bond Yields



Key International Data Releases

US: CPI rose 1.6 per cent through the year to June, compared with 1.8 per cent in May.

China: Trade surplus rose from \$41.7 billion in May to \$51.0 billion in June. PPI recorded zero through the year growth to June, compared to a rise of 0.6 per cent in May. CPI rose 2.7 per cent through the year to June.

Japan: PPI fell 0.1 per cent through the year to June, compared to a rise of 0.6 per cent in May.

Euro Area: Industrial production fell 0.5 per cent through the year to May.

Germany: Industrial production fell 3.7 per cent through the year to May.

UK: The trade deficit narrowed to £2.3 billion in May, from £3.7 billion in April. GDP grew 0.3 per cent in the month of May, compared to a fall of 0.4 per cent in the previous month.

India: CPI rose 3.18 per cent through the year to June, compared with 3.05 per cent in May.

Canada: The Bank of Canada kept interest rates on hold at 1.75 per cent.

Upcoming Key International Data Releases (15/07-19/07)

- **China:** Industrial Production for June and GDP for the June quarter.
- **US:** Industrial Production and Retail Sales for June.
- **UK:** Unemployment Rate for May and CPI and Retail Sales for June.
- **Euro Area:** Trade Balance for May.
- **Japan:** Trade Balance and CPI for June.
- **NZ:** CPI for the June quarter.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
15-Jul	16-Jul	17-Jul	18-Jul	19-Jul
	RBA Monetary Policy Minutes, Jul-19		ABS Labour Force, Jun-19 CoreLogic Weekly Auction Data NAB Quarterly Business Survey, JunQ-19	
22-Jul	23-Jul	24-Jul	25-Jul	26-Jul
		DoJ Vacancy Report, Jun-19	ABS Detailed Monthly Labour Force, Jun-19 CoreLogic Weekly Auction Data	
29-Jul	30-Jul	31-Jul	1-Aug	2-Aug
Commsec State of the States, JunQ-19 Deloitte Investment Monitor, JunQ-19	ABS Building Approvals, Jun-19	ABS Consumer Price Index, JunQ-19 RBA Private Sector Credit, Jul-19	ABS International Trade Price Indexes, JunQ-19 CoreLogic Weekly Auction Data CoreLogic Monthly House Price Data, Jul-19	ABS Producer Price Indexes, JunQ-18 ABS Retail Trade, Jun-19
5-Aug	6-Aug	7-Aug	8-Aug	9-Aug
	ABS International Trade in Goods and Services, Jun-19 ABS Regional Building Approvals, Jun-19 RBA Interest Rate Decision, Aug-19	ABS Lending to Households and Businesses, Jun-19	CoreLogic Weekly Auction Data	RBA Statement on Monetary Policy, Aug-19
12-Aug	13-Aug	14-Aug	15-Aug	16-Aug
	NAB Monthly Business Survey, Jul-19	ABS Wage Price Index, JunQ-19 W-MI Consumer Sentiment, Aug-19	ABS Overseas Arrivals and Departures, Jun-19 ABS Labour Force, Jul-19 ABS Average Weekly Earnings, May-19 CoreLogic Weekly Auction Data	
19-Aug	20-Aug	21-Aug	22-Aug	23-Aug
	RBA Monetary Policy Minutes, Aug-19 ANZ Stateometer, JunQ-19	DoJ Vacancy Report, Jul-19	ABS Detailed Monthly Labour Force, Jul-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	2.1%	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	+4	+2	NAB Index	June 19 (mthly) Next: 13 August 19
NAB Business Conditions	+3	+3		
HOUSING				
Dwelling Approvals	59.5k	192.6k	Number of app 12mms	May 19 (mthly) Next: 30 July 19
	-18.7%	-16.9%	% annual average	
Residential Prices (capitals)	-10.3%	-7.4%	% through the year	March quarter 19 Next: 17 September 19
LABOUR FORCE				
Employment	4.2%	2.9%	% through the year	May 19 (mthly) Next: 18 July 19
Unemployment Rate	4.6%	5.2%	Current rate	
Youth unemployment rate	9.9%	11.5%	12 monthly moving average rate	
CONSUMER				
Retail Sales	0.5%	2.4%	% through the year (nominal)	May 19 (mthly) Next: 2 August 19
Westpac MI Consumer Confidence	92.7	96.5	Westpac MI Index	July 19 (mthly) Next: 14 August 19
CPI (Capital cities)	1.3%	1.3%	% through the year	March quarter 19 Next: 31 July 19
Official cash rate	1.00%		Lowered 25 basis points July 19	Next: 6 August 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.