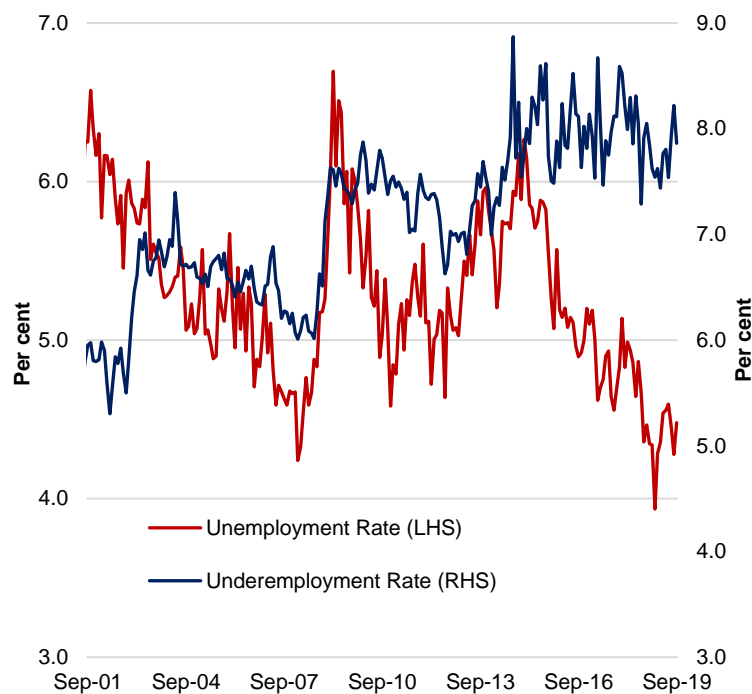


Chart of the Week: The NSW unemployment rate against the underemployment rate

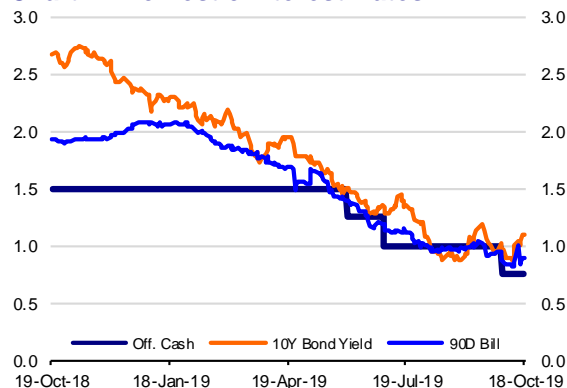


From the Chief Economist:

The main development domestically last week was the news on Thursday that the national unemployment rate had dropped unexpectedly in September, thanks mainly to a decent net jobs gain over the month. It was the opposite outcome in New South Wales, however, which saw a small rise in the jobless rate owing to a net fall in employment. NSW retains the lowest rate of all states at 4.5%, but the gap with the “pack” closed. The improvement in national labour market conditions saw surveyed private sector economists push out the expected timing of the next official rate cut – the majority now expects the next move from the Reserve Bank early next year. The official commentary from the RBA sent a similar signal, with the minutes from the previous Board meeting last Tuesday suggesting there was not additional urgency and a speech by Deputy Governor Debelle sounding constructive on housing. The main event overseas was news that the UK Parliament unexpectedly delayed a vote on the last-minute Brexit plan cobbled together late last week. It is likely that the UK bounces out of the European Union without a “deal” at the end of the month, but one lesson from previous Brexit votes is that we should expect the unexpected.

There is no mainstream economic data released domestically this week, so attention probably will be focussed overseas. There always is the chance that the latest Brexit agreement comes apart at the seams and the European Central Bank announces its interest rate decision on Thursday. Markets will be watching for slippage on the ECB’s previous announcement that the QE program will resume on 1 November. There also is important manufacturing data released later in the week. The next major economic data released in Australia will be the Q3 inflation data on 30 October. Economists’ early CPI forecasts hint at another low print, which leaves open the door for at least one more official rate cut.

Chart A: Domestic Interest Rates

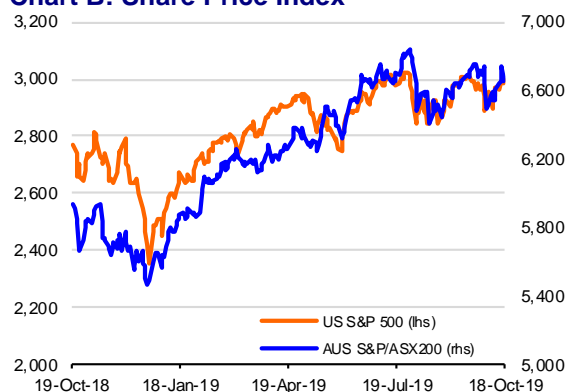


Domestic Data Releases

ABS Overseas Arrivals and Departures data for August showed a moderate result for overseas arrivals to New South Wales, with average annual growth increasing to 1.7 per cent. New South Wales continues to be the preferred destination in Australia, accounting for 3.5 million (37 per cent) of all visitors in the last 12 months. Nationally, total visitor growth to Australia remained flat in annual average terms at 2.9 per cent.

ABS Labour Force data for September showed the NSW unemployment rate rose 0.2 percentage points to be 4.5 per cent (sa) and continues to be the lowest of all the states. Employment fell by 23,010, the largest monthly fall since July 2018 and the largest fall in the country for September 2019. This was driven by the largest fall in part-time employment in 15 months (-35,268) but was offset by a moderate rise in full-time employment (+12,258). Nationally, employment rose by 14,722 in September and the national unemployment rate fell by 0.1 percentage points to 5.2 per cent.

Chart B: Share Price Index

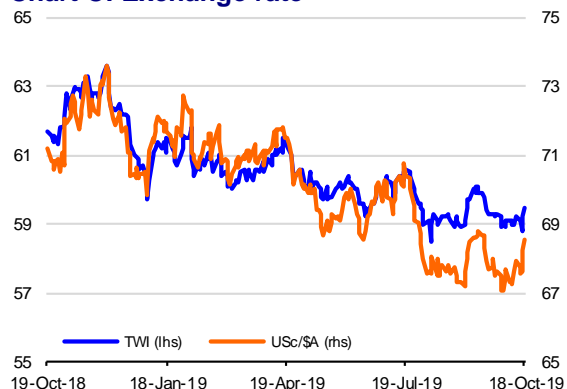


IMF World Economic Outlook (WEO) for October saw world economic growth downgraded again. Global growth is now expected to be 3.0 per cent in 2019 and 3.4 per cent in 2020. This is a downward revision of 0.2 and 0.1 percentage points respectively and follows a 0.1 percentage point downward revision in the April outlook for both years. The IMF commented that the global economy is in a synchronised slowdown and economic growth in 2019 is expected to be the weakest since the GFC.

CoreLogic weekly auction data showed the Sydney clearance rate was 76.9 per cent in the week ending 13 October, slightly higher from the previous week of 74.7 per cent. Nationally, the auction clearance rate was 73.5 per cent, compared to 67.6 per cent in the previous week.

NAB Quarterly Business Survey for the September quarter showed business conditions rose by 3 points to +4 in NSW, ending a downward trend that began in the March quarter of 2018. The increase in the quarter was driven by rises in all components but especially in profitability which rose by 8 percentage points.

Chart C: Exchange rate

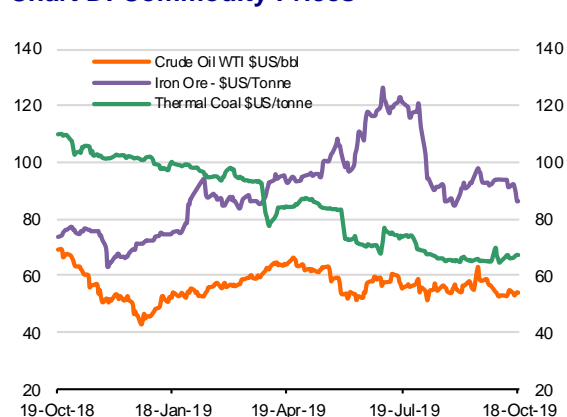


Markets

Over the week, the ASX200 rose 0.6 per cent, the S&P500 rose 0.5 per cent and oil prices fell 1.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2986.20	7.9 %	0.5 %
ASX200	6649.68	12.0 %	0.6 %
Australian Dollar (USD)	0.69	-3.7 %	0.9 %
TWI	59.50	-3.6 %	0.5 %
Oil (USD/bbl)	53.78	-22.2 %	-1.7 %
Gold (USD/oz)	1490.00	21.4 %	0.7 %
Thermal Coal (USD/tonnes)	67.50	-38.6 %	1.7 %
Australian 10-yr bond	1.10%	-58.9 bps	8.7 bps
US 10-yr bond	1.75%	-45.1 bps	2.5 bps
NSW 10-yr bond	1.32%	-57.7 bps	-4.0 bps

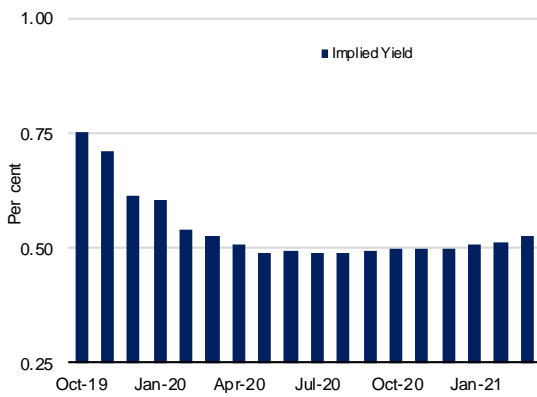
Chart D: Commodity Prices



Upcoming Domestic Data Releases (21/10-25/10)

- **ABS** Regional Labour Force for September and the Annual National Accounts for 2018-19.
- **DoE** Job Vacancy report for September.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

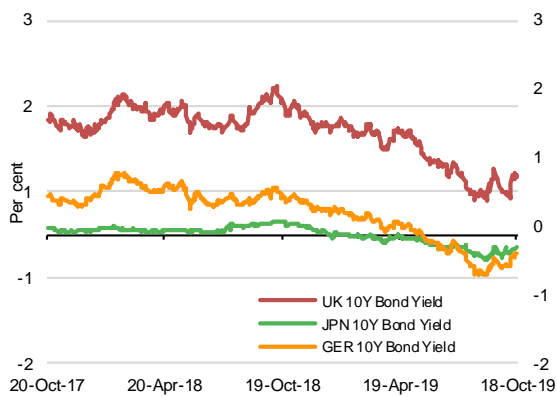
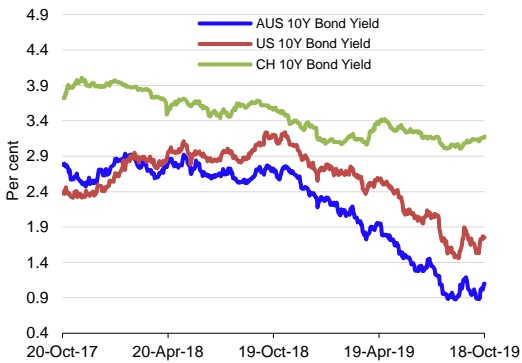
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the market expects a rate cut in December 2019.

According to the ASX Target Rate Tracker, as at 18 October, there is a 19 per cent expectation that the RBA will decrease the cash rate to 0.50 per cent at its next policy meeting on 5th November 2019.

International Bond Yield Spreads

US 10-year bonds yields rose slightly in the week, as the US confirmed on Friday that China and the US agreed to the first phase of a broader trade deal between the two nations. For this, China will increase US agricultural purchases and take steps to address intellectual-property theft. In return, the US would halt a tariff hike slated for this week. Similarly, the 10-year UK Treasury yield also was mostly unchanged in the week, as optimism started to disappear around a tentative agreement to leave the EU, amid questions of how it would get approved in the divided British Parliament on Saturday.

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)	1.10	-158.0	8.7	-65.2	-51.0
United States (US)	1.75	-143.9	2.5	-	-
Germany (GER)	-0.38	-84.2	6.0	-213.6	-273.2
United Kingdom (UK)	0.71	-86.7	0.4	-104.5	-161.6
Japan (JPN)	-0.13	-28.0	4.8	-188.5	-304.3
China (CH)	3.18	-38.4	2.8	142.8	37.4

Key International Data Releases

China: The trade surplus improved slightly to \$39.65 billion in September, from a revised \$34.78 billion in the previous month. CPI rose 3.0 per cent through the year to September, above the 2.8 per cent in the month prior. PPI fell 1.2 per cent through the year to September, continuing the falls of prior months. Industrial production rose 5.8 per cent through the year to September, significantly better than market's expectation of a 4.9 per cent increase. Retail sales rose an impressive 7.8 per cent through the year to September, in line with market expectations. GDP growth eased to 6.0 per cent through the year to the September quarter, the lowest growth in almost three decades.

Euro Area: Industrial production fell 2.8 per cent through the year to August, slightly worse than markets expectation of a 2.5 per cent fall. The trade surplus improved to €20.3 billion from a revised €17.5 billion in the previous month.

US: Industrial production fell 0.4 per cent in September, compared to the 0.8 per cent rise in the previous month. Retail sales fell 0.3 per cent in September, compared to a rise of 0.6 per cent in the prior month.

UK: The unemployment rate rose 0.1 percentage points in August to 3.9 per cent. CPI rose 1.7 per cent through the year to September, unchanged from the previous month.

NZ: CPI rose 1.5 per cent through the year to the September quarter, slightly above market expectations of a 0.4 per cent rise.

India: CPI rose to 3.99 per cent through the year to September, well above the 3.28 per cent recorded in the previous month.

Upcoming Key International Data Releases (21/10-25/10)

- **Japan:** Trade Balance for September.
- **New Zealand:** Trade Balance for September.
- **Euro Area:** Consumer Confidence and Manufacturing PMI and Services PMI for October.
- **Germany:** Manufacturing PMI and IFO Business Climate for October and Consumer Confidence for November.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
21-Oct	22-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	
25-Nov	26-Nov	27-Nov	28-Nov	29-Nov
		ABS Construction Work Done (Prelim), SepQ-19	ABS Private New Capital Expenditure, SepQ-19 CoreLogic Weekly Auction Data	RBA Private Sector Credit, 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	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	2.4%	2.5%	% through the year	September 19 (mthly) Next: 14 November 19
Unemployment Rate	4.5%	5.2%	Current rate	
Youth unemployment rate	10.0%	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 ^(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.