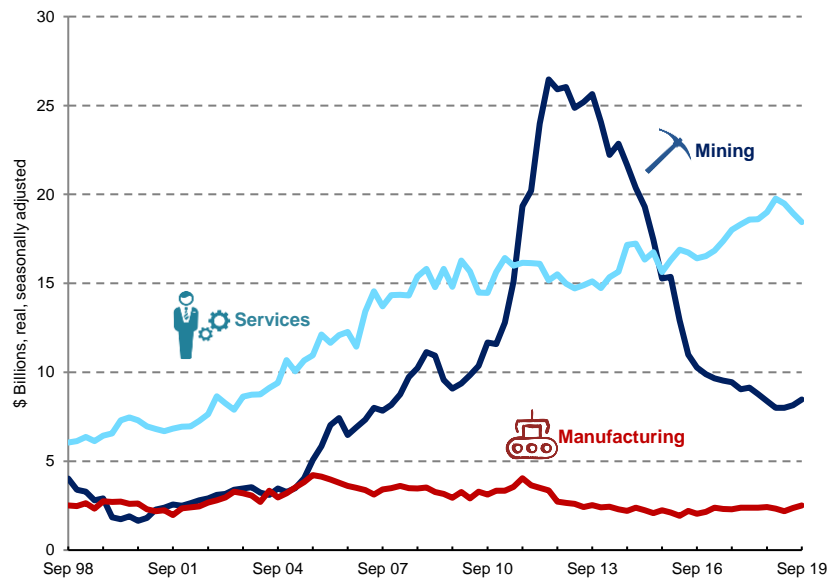


## Chart of the Week: Australian Private Capex by Industry



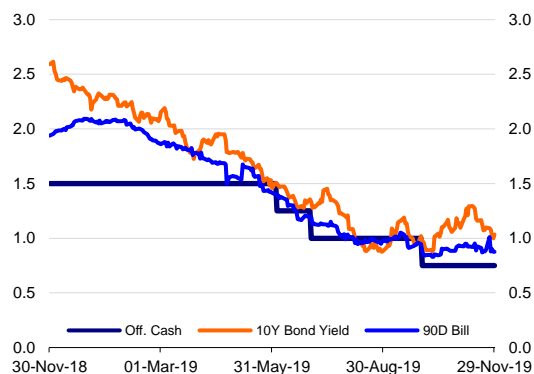
Source: ABS and NSW Treasury

### From the Chief Economist:

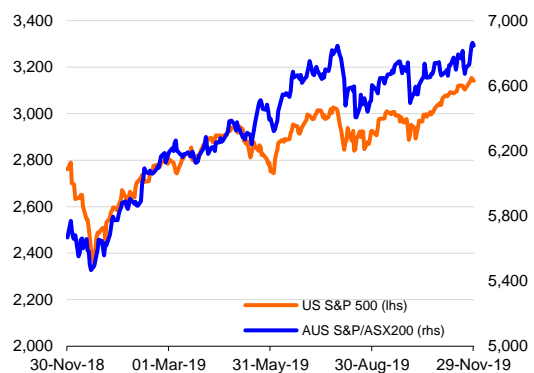
There were numerous highlights from the economic events of last week, but not all of them were positive. In particular, there was landmark speech by RBA Governor Lowe that outlined what unconventional monetary policy may look like here. But, there also was gloomy news on investment that suggested firms are pulling back on their spending plans. One takeaway from Governor Lowe's speech was that, while he still believes deployment of unconventional policies is unlikely, the most probable mechanism for quantitative easing (QE) in Australia is that the RBA will purchase government bonds in the secondary market. Another takeaway was that QE would not start, if it starts at all, until after the cash rate had dipped to 0.25%. This trigger-point was lower than most economists had expected, and prompted forecast revisions. Indeed, most private sector economists now forecast an even lower cash rate next year. The capex data last Thursday not only indicated there will be a larger subtraction from reported growth in the economy for Q3, but that firms had revised down their spending plans. The silver lining on this otherwise dark cloud was that investment by the miners seems to have bottomed-out and now is picking up (see chart).

This week is packed with economic data and there is a Reserve Bank Board decision tomorrow. Before that, though, more of the GDP building blocks will be released. Few economists expect the RBA to lower the cash rate tomorrow, but the commentary will be watched closely for clues about the policy-path ahead. Some economists downgraded their forecasts for Q3 GDP growth following the disappointing investment data last week. These forecasts may be further refined today and tomorrow as the inventory, government spending and trade data come to hand. As things stand, it looks as though the economy grew by around 0.6% in real terms last quarter. This would represent an improvement on the Q2 outcome, but would still leave growth over the year below 2%. This is below trend, which hints the economy will continue to generate spare capacity, including in the labour market.

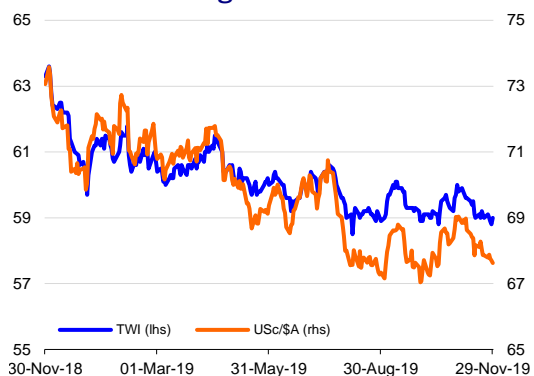
**Chart A: Domestic Interest Rates**



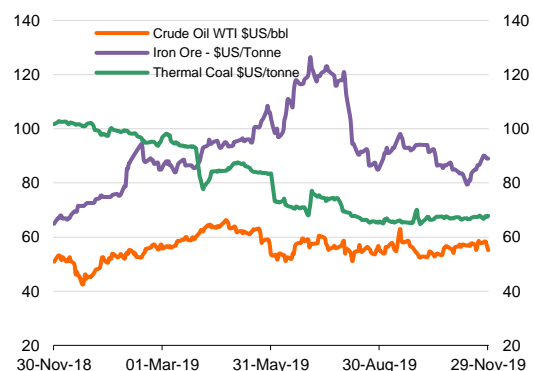
**Chart B: Share Price Index**



**Chart C: Exchange rate**



**Chart D: Commodity Prices**



**Domestic Data Releases**

**ABS Construction Work Done** data showed total construction work done fell 0.5 per cent in the September quarter. Non-residential building construction work done rose 3.3 per cent in the quarter. Residential building construction work done continued to fall, down 6.8 per cent in the quarter to be 19.7 per cent lower through the year - the largest through the year decline since 2002.

**ABS Private New Capex** data showed NSW capex fell 0.3 per cent in the September quarter 2019. NSW capex was up 2.0 per cent in through the year terms, the second fastest growth (behind Victoria) of any state. Spending on equipment fell 10.6 per cent in the quarter (following a 1.0 per cent rise in the previous quarter) and building and structures rose 9.4 per cent (after a rise of 5.3 per cent in the previous quarter).

**ABS Private New Capex Expectations** data for the September quarter showed total national capital expenditure is expected to be 1.4 per cent higher in 2019-20 compared to the 2018-19 actuals, a downgrade compared to the third estimate three months ago. The data is now suggesting a smaller, but still sizeable lift in mining investment this year and a small fall in non-mining investment – previously a small rise had been expected.

**CoreLogic Weekly Auction** data showed the clearance rate in Sydney was 76.0 per cent in the week ending 24 November 2019, compared to 71.9 per cent over the previous week. The national clearance rate was 68.5 per cent in the week ending 10 November 2019, compared to 70.1 per cent over the previous week.

**RBA Private Sector Credit** data showed national total credit eased to 2.5 per cent growth through the year to October, from 2.7 per cent growth last month. Total housing credit grew 3.0 per cent over this period, down from 3.1 per cent last month.

**RBA Speech** by Governor Philip Lowe on *Unconventional Monetary Policy: Lessons from Overseas* at the Australian Business Economists Dinner. The Governor stated: “Our current thinking is that QE becomes an option to be considered at a cash rate of 0.25 per cent, but not before that...the threshold for undertaking QE in Australia has not been reached, and I don't expect it to be reached in the near future.”

**Markets**

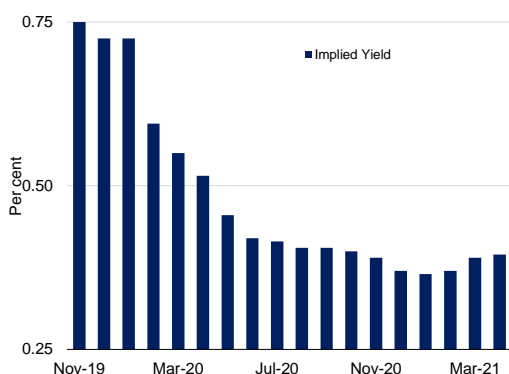
Over the week, the ASX200 rose 2.0 per cent, the S&P500 rose 1.0 per cent and oil prices fell 4.5 per cent.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	3140.98	13.8 %	1.0 %
<b>ASX200</b>	6846.00	20.8 %	2.0 %
<b>Australian Dollar (USD)</b>	0.68	-7.4 %	-0.3 %
<b>TWI</b>	59.00	-6.8 %	0.0 %
<b>Oil (USD/bbl)</b>	55.17	8.3 %	-4.5 %
<b>Gold (USD/oz)</b>	1460.15	19.9 %	-0.3 %
<b>Thermal Coal (USD/tonnes)</b>	67.85	-33.3 %	-0.1 %
<b>Australian 10-yr bond</b>	1.03%	-60.1 bps	-6.5 bps
<b>US 10-yr bond</b>	1.78%	-40.6 bps	0.5 bps
<b>NSW 10-yr bond</b>	1.48%	-51.1 bps	-7.8 bps

**Upcoming Domestic Data Releases (2/12-6/12)**

- **ABS** Balance of Payments and National Accounts for the September quarter and Building Approvals, International Trade in Goods & Services and Retail Trade for October.
- **CoreLogic** Monthly House Price data for November and weekly auction results for the week ending 1 December 2019.
- **RBA** Interest Rate Decision for December.

**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 February 2020.

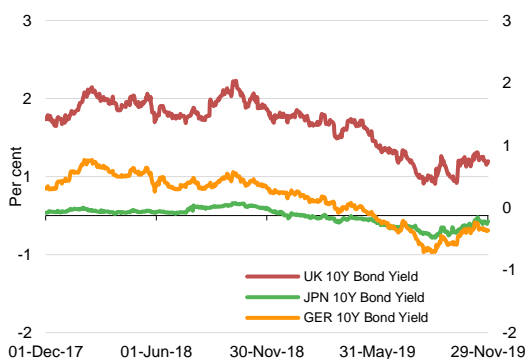
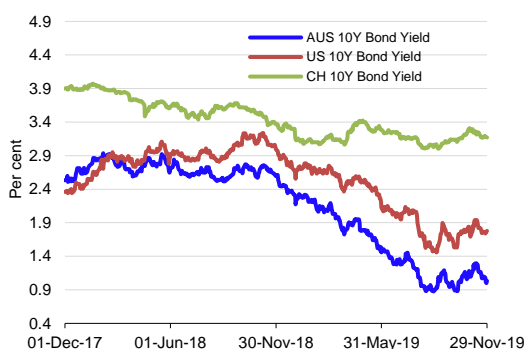
According to the ASX Target Rate Tracker, as at 29<sup>th</sup> November, there is an 11 per cent expectation that the RBA will decrease the cash rate to 0.50 per cent at its next policy meeting on 3<sup>rd</sup> December 2019.

**International Bond Yield Spreads**

US 10-year bond yields rose this week as a round of data highlighted a rebound in investment spending and third-quarter economic growth was higher than anticipated.

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)	1.03	-155.8	-6.5	-74.2	-39.6
United States (US)	1.78	-121.2	0.5	-	-
Germany (GER)	-0.36	-67.3	-0.1	-213.6	-267.5
United Kingdom (UK)	0.70	-66.7	-0.8	-107.9	-162.4
Japan (JPN)	-0.07	-16.5	0.1	-184.9	-289.6
China (CH)	3.17	-19.7	0.2	139.5	38.0

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



**Key International Data Releases**

**US:** GDP rose by an annualised 2.1 percent in the third quarter of 2019, compared to an increase of 1.9 percent in the previous three-month period.

**China:** Manufacturing PMI rose to 50.2 in November, from 49.3 in the previous month. Non-Manufacturing PMI rose to 54.4 in November, from 52.8 in the previous month.

**Euro Area:** The unemployment rate was 7.5 per cent in October, consistent with market expectations.

**Japan:** Retail sales fell 7.1 per cent through the year to October, following a 9.1 percent surge in the previous month and compared to market expectations of a 3.8 per cent drop – this was the biggest decline in retail trade since March 2015. Industrial production fell 7.4 per cent through the year to October, significantly worse than the market’s expectation of a 5.2 per cent decline. The unemployment rate remained steady at 2.4 percent in October, matching market expectations despite steep declines in industrial production and exports in October. Consumer confidence rose to 38.7 in November, the highest since June and above market expectations of 36.8. Tokyo CPI rose 0.8 per cent through the year to November, up from 0.4 per cent last month.

**Germany:** Retail sales eased significantly through the year to October, growing 0.8 per cent compared to 3.4 per cent in the previous month. The business climate index rose slightly to 95.0 from 94.7 in the previous month. CPI rose 1.1 per cent through the year to November, below the market’s expectations of 1.2 per cent. Consumer confidence rose to 9.7 index points in December, up from 9.6 index points in the previous month.

**NZ:** The trade deficit improved slightly in October to \$NZD 1,013m, broadly in line with the market expectations for \$NZD 1,000m and a significant improvement on the \$NZD 1,319m deficit recorded in the prior month.

**Canada:** GDP grew 1.6 per cent through the year to September.

**India:** GDP grew 4.5 per cent through the year to the September quarter.

**Upcoming Key International Data Releases (2/12-6/12)**

- **US:** Trade Balance and Factory Orders for October, ISM Manufacturing and Non-Manufacturing PMI, ADP Employment Change, Change in Non-Farm Payrolls and Unemployment Rate for November and Consumer Sentiment for December.
- **Canada:** Bank of Canada Interest Rate Decision.
- **Euro Area:** Retail Sales for October.
- **Germany:** Industrial Production for October.

### Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
2-Dec ABS Business Indicators, SepQ-19 ABS Building Approvals, Oct-19 ABS Mineral and Petroleum Exploration, SepQ-19 CoreLogic Monthly House Price Data, Nov-19	3-Dec ABARES Crop Report, Dec-19 ABS Balance of Payments, SepQ-19 ABS Government Finance Statistics, SepQ-19 RBA Interest Rate Decision, Dec-19	4-Dec ABS National Accounts, SepQ-19	5-Dec ABS International Trade in Goods and Services, Oct-19 ABS Retail Trade, Oct-19 CoreLogic Weekly Auction Data	6-Dec
9-Dec ABS Regional Building Approvals, Oct-19	10-Dec ABARES Agricultural Commodities, DecQ-19 ABS Labour Account, SepQ-19 NAB Monthly Business Survey, Nov-19 ABS Residential Property Price Indexes, SepQ-19	11-Dec W-MI Consumer Sentiment, Dec-19	12-Dec ABS Overseas Arrivals and Departures, Oct-19 CoreLogic Weekly Auction Data RBA Bulletin, DecQ-19	13-Dec
16-Dec	17-Dec ABS Lending to Households and Businesses, Oct-19 RBA Monetary Policy Minutes, Dec-19	18-Dec DoE Vacancy Report, Nov-19	19-Dec ABS Australian Demographic Statistics, JunQ-19 ABS Labour Force, Nov-19 CoreLogic Weekly Auction Data	20-Dec
23-Dec ABS Regional Labour Force, Nov-19 ABS Industry Labour Force, NovQ-19	24-Dec	25-Dec	26-Dec	27-Dec
30-Dec	31-Dec RBA Private Sector Credit, Nov-19	1-Jan	2-Jan	3-Jan
6-Jan	7-Jan	8-Jan	9-Jan	10-Jan

## ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	1.9%	1.9%	% annual average (real)	2018-19 Next: November 2020
State/Domestic Final Demand	1.3%	1.0%	% through the year (real)	June quarter 19
	0.0%	0.3%	% change on last qtr	Next: 4 December 19
BUSINESS INVESTMENT				
NAB Business Confidence	+2	+2	NAB Index	October 19 (mthly) Next: 10 December 19
NAB Business Conditions	+7	+3		
HOUSING				
Dwelling Approvals	52.9k	176.2k	Number of app 12mms	September 19 (mthly)
	-22.6%	-21.9%	% annual average	Next: 2 December 19
Residential Prices (capitals)	-9.6%	-7.4%	% through the year	June quarter 19 Next: 10 December 19
LABOUR FORCE				
Employment	1.5%	2.0%	% through the year	October 19 (mthly) Next: 19 December 19
Unemployment Rate	4.8%	5.3%	Current rate	
Youth unemployment rate	10.1%	11.7%	12 monthly moving average rate	
CONSUMER				
Retail Sales	1.3%	2.5%	% through the year (nominal)	September 19 (mthly) Next: 5 December 19
Westpac MI Consumer Confidence	96.1	97.0	Westpac MI Index	November 19 (mthly) Next: 11 December 19
CPI (Capital cities)	1.6%	1.7%	% through the year	September quarter 19 Next: 29 January 20
Official cash rate	0.75%		Lowered 25 basis points in June, July and October 2019	Next: 3 December 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.