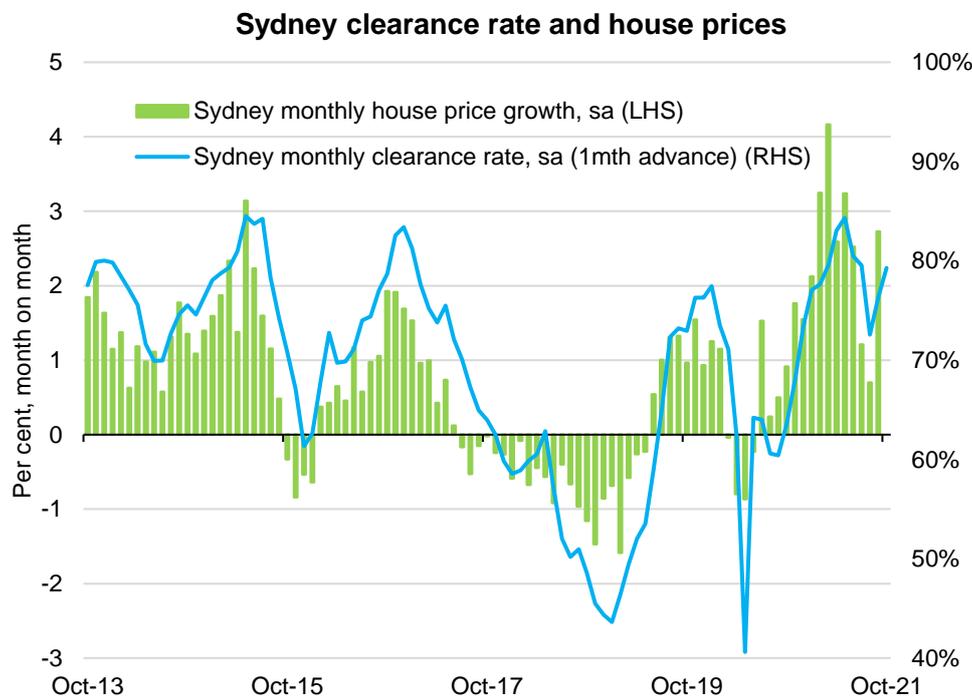


Chart of the Week: Sydney house prices continue to rise



Source: CoreLogic, NSW Treasury

From the Chief Economist:

There were a number of economic releases last week that delivered mixed news. Updates on retail spending, job vacancies, building approvals, home loans and house prices. The 1.7%*m/m* fall in national retail sales was the third straight decline, spanning this extended period of lockdown. The weakness was concentrated in NSW and Victoria. Similarly, the near-10% plunge in job vacancies was centred in the largest employment markets of Sydney and Melbourne. By contrast, national residential building approvals rose solidly in August, though this masked a further fall of 2.3%*m/m* for NSW as the number of home loans approved fell 7.5% for NSW. However, Sydney house prices rose another 2.7% in September, which takes the gain over the last year to 30.2%. Rising household debt to income ratios prompted fresh talk of more macroprudential controls being used to curb lending activity. Finally, there was unusual volatility in financial markets, with the local ASX market slipping to a four-month low. Causing the uncertainty were rising bond yields, fears of a US debt default, widespread power outages in China, rising energy prices and lingering ripples from the near demise of a huge property developer in China.

The two main highlights this week are the RBA policy announcement today and the release of the latest payrolls data on Thursday. There is no expectation of the RBA announcing anything new – policy is pretty much set until the RBA’s scheduled review of its QE tapering early next year. But, you never know, and the tone of the commentary on the economy could change. The payrolls data will cover the first 10 days or so of September, so will provide the first glimpse of how bad will be the expected fall in employment in September. The overseas highlight will be the release of the latest US employment report on Friday night, Australian time.

Economic Update – major developments this week

Global economy and financial markets – market volatility increases with uncertainty

- In September, China's official **manufacturing purchases managers' index (PMI)** fell to the lowest level since February 2020, which was the worst of the COVID pandemic in China. In fact, the reading of 49.6 for September not only was below economists' expectations, but it confirmed the sector contracted during the month. Non-manufacturing activity on this measure increased slightly to a reading of 53.2. Power outages across much of China are to blame for some of the latest weakness among manufacturers. High energy prices are said to have led to power rationing and curtailed demand.

Australian economy – another fall in monthly retail spending

- The August **retail sales report** made for more bleak reading. Retail spending nationally fell by another 1.7% over the month. This was the third straight monthly decline as the lockdowns in NSW and Victoria took further toll. The fall in NSW last month was more than twice as large as the national decline, extending the cumulative fall over the last three months to 14%. This is closing in on the more than 17% plunge seen during the first lockdown last year, with the locked-down month of September to come next.
- **Demand for home loans fell** 4.3% in August nationally, but growth in the pool of credit rose 0.6% on the month. This means that total credit growth over the year was 4.7%. Owner-occupied housing credit rose at a rate four times faster than for investor credit. Still, there was more talk this week of the need for new macro prudential tools to help control emerging stresses in the financial system. It seems the matter even has been discussed by Australia's Council of Financial Regulators, which includes the Reserve Bank.
- In the **physical housing market**, there was a 7% bounce in national council approvals for new building in August – this took the annual rise above 30%ooya. NSW saw a small decline as a fall in high density dwellings more than offset a rise for detached homes. Tasmania was the only other state to report a fall.
- The **Commonwealth government** this week reported the largest ever Budget deficit at \$134.2 billion for the 2020/21 fiscal year. This result nevertheless was much better than had been forecast back in the budget in May due to higher-than-expected revenue and lower spending. The faster than expected upswing in the economy underpinned both.

NSW economy – Sydney house prices continue to rise

- **Sydney house prices** rose by 2.7% in the month of September. This is the 15 straight monthly gain, and takes the rise over the past year to a little over 30%. The rise in Sydney house prices was the largest of all states. The biggest gain last month was in housing. Low interest rates and significant pent-up demand continue to drive prices higher in an environment of constrained supply.
- The **home auction clearance rate** in Sydney last weekend was 82% - that's now five straight weekends with an auction success rate above 80%. The traditional spring selling season has started, so the volume of properties on the market should continue to rise. Elevated clearance rates, though, remain consistent with healthy gains in Sydney house prices.

Market Update

- Volatility was the main theme in financial markets this week as a confluence of factors united to trigger increased uncertainty. The ripples from last week’s financial troubles with a major property developer in China, concerns about a possible US debt default, rising energy prices and sharp increases in bond yields combined to send the **local ASX** down to a 4-month low. **Bond yields** have been rising as major central banks, including the Bank of England and US Federal Reserve, edge closer to interest rate normalisation. The **AUD** has been pushed down as a result, slipping below 72 US cents.

Chart A: Bond Yields

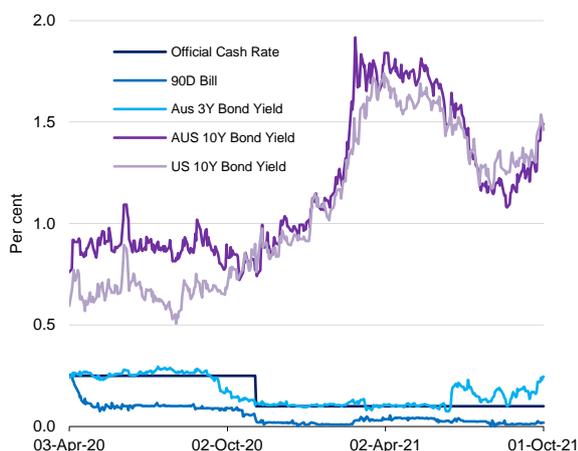


Chart B: Commodity Prices

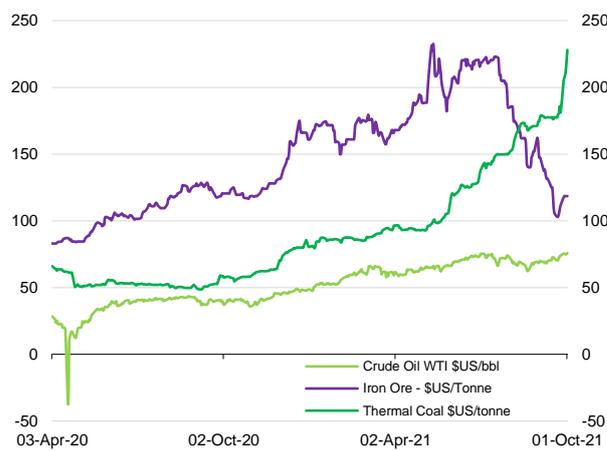


Chart C: Share Price Index

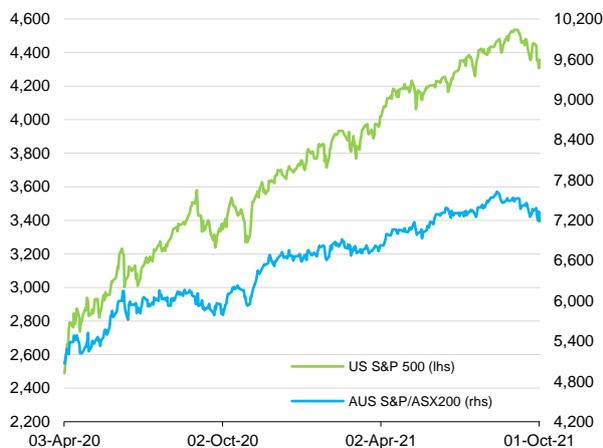
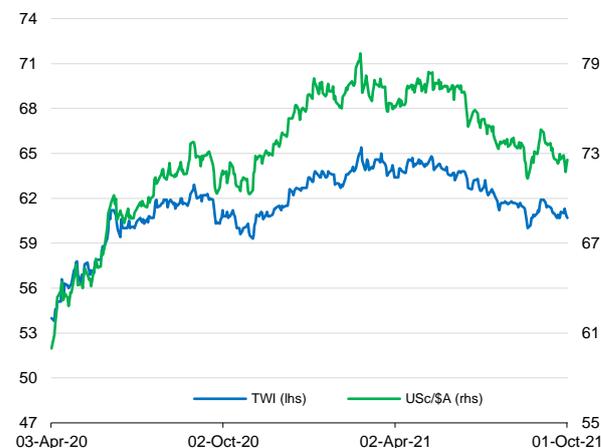


Chart D: Exchange rate



	Value	Change on Week	Change on Year
US S&P 500	4357.04	-2.2 %	30.1 %
ASX200	7185.55	-2.1 %	24.1 %
Australian Dollar (USD)	0.73	-0.1 %	1.4 %
TWI	60.70	-0.7 %	-0.2 %
Oil (USD/bbl)	75.88	2.6 %	104.8 %
Iron ore (\$US/Tonne)	118.50	5.8 %	-1.7 %
Gold (USD/oz)	1757.05	0.6 %	-7.7 %
Thermal Coal (USD/tonnes)	228.00	25.6 %	296.2 %
Australian 10 Year Bond Yield (%)	1.49	8.5 bps	65.8 bps
NSW T-Corp 10 Year Bond Yield (%)	1.83	8.2 bps	61.2 bps
United States 10 Year Bond Yield (%)	1.46	1.1 bps	76.1 bps

International Economic Update

Country	Indicator	Unit	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Canada	GDP	%YoY	13.6	8.0	-	-	-
	BoC Interest Rate Decision	%	0.25	0.25	0.25	-	0.25
China	GDP	%YoY	-	7.9	-	-	-
	Retail Sales	%YoY	12.4	12.1	8.5	2.5	-
	CPI	%YoY	1.3	1.1	1.0	0.8	-
	PPI	%YoY	9.0	8.8	9.0	9.5	-
	Manufacturing PMI	Index, sa	51.0	50.9	50.4	50.1	-
	Non-Manufacturing PMI	Index, sa	55.2	53.5	53.3	47.5	-
	Industrial Production	%YoY	8.8	8.3	6.4	5.3	-
	Trade Balance	\$USD billion	44.8	51.3	56.4	58.3	-
Euro Area	GDP	%YoY	-	14.3	-	-	-
	ECB Interest Rate Decision	%	0.00	0.00	0.00	0.00	0.00
	Retail Sales	%YoY	8.6	5.4	3.1	-	-
	Unemployment Rate	%	8.0	7.8	7.6	-	-
	Employment Change	%YoY	-	1.8	-	-	-
	CPI	%YoY	2.0	1.9	2.2	3.0	-
	Consumer Confidence	Index, sa	-5.1	-3.3	-4.4	-5.3	-4.0
	Business Confidence	Index, sa	11.5	12.8	14.5	13.7	-
	Markit Manufacturing PMI	Index, sa	63.1	63.4	62.8	61.4	58.7
	Markit Services PMI	Index, sa	55.2	58.3	59.8	59.0	56.3
	Industrial Production	%YoY	20.6	10.1	7.7	-	-
	Trade Balance	€ billion, sa	13.6	11.9	13.4	-	-
Germany	GDP	%YoY	-	9.4	-	-	-
	Retail Sales	%YoY	-1.5	7.0	0.4	-	-
	CPI	%YoY	2.5	2.3	3.8	3.9	-
	GfK Consumer Confidence	Index	-8.6	-6.9	-0.3	-0.4	-1.2
	IFO Business Climate	Index, sa	99.4	101.9	100.8	99.6	98.8
	Markit Manufacturing PMI	Index, sa	64.4	65.1	65.9	62.6	58.5
	Industrial Production	%YoY	16.6	5.4	5.7	-	-
India	GDP	%YoY	-	20.1	-	-	-
	CPI	%YoY	6.3	6.3	5.6	5.3	-
Japan	GDP Growth	%QoQ, sa	-	0.5	-	-	-
	BoJ Interest Rate Decision	%	-0.1	-0.1	-0.1	-0.1	-0.1
	Retail Sales	%YoY	8.3	0.1	2.4	-	-
	Unemployment Rate	%	3.0	2.9	2.8	-	-
	CPI	%YoY	-0.9	-0.5	-0.4	-0.4	-
	PPI	%YoY	4.9	5.0	5.6	5.5	-
	Consumer Confidence	Index, sa	34.1	37.4	37.5	36.7	-
	Manufacturing PMI	Index, sa	53.0	52.4	53.0	52.7	51.2
Industrial Production	%YoY	21.1	23.0	11.6	-	-	
Trade Balance	¥ billion, sa	19.6	-62.7	-5.9	-271.8	-	
New Zealand	GDP	%YoY	-	17.4	-	-	-
	RBNZ Interest Rate Decision	%	0.25	-	0.25	0.25	-
	CPI	%YoY	-	3.3	-	-	-
	Trade Balance	\$NZD million	497.1	245.0	-397.0	-2144.0	-
UK	GDP	%YoY	-	22.2	-	-	-
	BoE Interest Rate	%	0.1	0.1	0.1	0.1	0.1
	Retail Sales	%YoY	24.5	9.1	1.9	0.0	-
	ILO Unemployment Rate	%	4.8	4.7	4.6	-	-
	CPI	%YoY	2.1	2.5	2.0	3.2	-
	Markit Manufacturing PMI	Index, sa	65.6	63.9	60.4	60.3	56.3
	Trade Balance	£ million, sa	-163.0	-2514.0	-3117.0	-	-
US	GDP	%QoQ, sa, annualis	-	6.6	-	-	-
	Fed Interest Rate Decision	%	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25
	Retail Sales	%MoM, sa	-1.4	0.9	-1.8	0.7	-
	Unemployment Rate	%	5.8	5.9	5.4	5.2	-
	BLS Employment Change (non-farm payrolls)	'000, MoM, sa	614	962	1053	235	-
	ADP Employment Change (private non-farm payroll)	'000, MoM, sa	882	741	326	374	-
	CPI	%YoY	5.0	5.4	5.4	5.3	-
	University of Michigan Consumer Sentiment	Index	82.9	85.5	81.2	70.3	71.0
	ISM Manufacturing PMI	Index, sa	61.2	60.6	59.5	59.9	-
	ISM Services PMI	Index	64.0	60.1	64.1	61.7	-
	Industrial Production	%MoM, sa	0.6	0.5	0.8	0.4	-
	Factory Orders	%MoM, sa	2.3	1.5	0.4	-	-
	Trade Balance	\$USD billion, sa	-68.5	-73.2	-70.1	-	-

Domestic Economic Update

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	-0.7%	-0.2%	% annual average (real)	2019-20 Next: November 21
State/Domestic Final Demand	14.6%	12.2%	% through the year (real)	June quarter 21
	2.2%	1.7%	% change on last qtr	Next: 1 December 21
BUSINESSES				
NAB Business Confidence	-12	-5	NAB Monthly Index	August 21 (mthly) Next: 12 October 21
NAB Business Conditions	+13	+14		
HOUSING				
Dwelling Approvals	62.2k	229k	Number of app 12mms	August 21 (mthly)
	29.1%	30.9%	% annual average	Next: 3 November 21
Residential Prices (capitals)	19.3%	16.8%	% through the year	June quarter 21 Next: 7 December 21
LABOUR FORCE				
Employment	-2.1%	3.1%	% through the year	August 21 (mthly) Next: 14 October 21
Unemployment Rate	4.9%	4.5%	Current rate	
Youth unemployment rate	12.1%	12.5%	12 month moving average rate	
CONSUMER				
Retail Sales	-11.8%	-0.7%	% through the year (nominal)	August 21 (mthly) Next: 29 October 21
Westpac MI Consumer Confidence	106.4	106.2	Westpac MI Index	September 21 (mthly) Next: 13 October 21
CPI (Capital cities)	4.1%	3.8%	% through the year	June quarter 21 Next: 27 October 21
Official cash rate	0.10%		Lowered 15 basis points in November 2020	September 21 (mthly) Next: 5 October 21

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2021-22 Budget)			Australian Gov't Forecasts (as per 2021-22 Budget)		
	2019-20 Actual	2020-21 Forecast	2021-22 Forecast	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
State/Domestic Final Demand (%)	-1.9	2 ¼	3 ½	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	-0.7	¾	3 ¼	-0.2	1 ¼	4 ¼
Employment (%)	0.0	¼	1 ¼	-4.2	6 ½	1
Unemployment rate (%)^(b)	6 ½	5 ¾	5 ¼	6.9	5 ½	5
CPI (%)	1.0	1 ½	1 ¾	-0.3	3 ½	1 ¾
Wage Price Index (%)	2.0	1 ½	2	1.8	1 ¼	1 ½

(a) Per cent change, annual average, unless otherwise indicated. (b) June quarter, per cent.

Economic Calendar

Date	Domestic Calendar	International Calendar
Mon 4-Oct		
Tue 5-Oct	RBA Interest Rate Decision, Oct-21 ABS International Trade, Aug-21 ABS Retail Trade (additional information), Aug-21	US Factory Orders, Aug-21 Japan CPI, Preliminary, Sep-21 US Trade Balance, Aug-21
Wed 6-Oct		US Services PMI, Preliminary, Sep-21 New Zealand Interest Rate Decision, Oct-21 Euro Area Retail Sales, Aug-21 US ADP Employment Change, Preliminary, Sep-21
Thu 7-Oct	CoreLogic Weekly Auction Data, 3-Oct-21 ABS Weekly Payroll Jobs and Wages, 11-	Germany Industrial Production, Aug-21
Fri 8-Oct	RBA Financial Stability Review, Oct-21	US Change in Non-farm Payrolls, Preliminary, Sep-21 US Unemployment Rate, Preliminary, Sep-21
Sat 9-Oct		
Sun 10-Oct		
Mon 11-Oct		UK Trade Balance, Aug-21
Tue 12-Oct	NAB Monthly Business Survey, Sep-21	Japan PPI, Preliminary, Sep-21 UK Unemployment Rate, Aug-21 India CPI, Preliminary, Sep-21
Wed 13-Oct	W-MI Consumer Sentiment, Oct-21 ABS Overseas Arrivals and Departures, Aug-21	Euro Area Industrial Production, Aug-21 US CPI, Preliminary, Sep-21 China Trade Balance, Preliminary, Sep-21
Thu 14-Oct	CoreLogic Weekly Auction Data, 10-Oct-21 ABS Labour Force, Sep-21	US FOMC Minutes, Sep-21 China CPI, Preliminary, Sep-21 China PPI, Preliminary, Sep-21
Fri 15-Oct		Euro Area Trade Balance, Aug-21 US Retail Sales, Advance, Preliminary, Sep-21 US Consumer Sentiment, Preliminary, Oct-21
Sat 16-Oct		
Sun 17-Oct		
Mon 18-Oct		New Zealand CPI, SepQ-21 China GDP, SepQ-21 China Retail Sales, Preliminary, Sep-21 China Industrial Production, Preliminary, Sep-21
Tue 19-Oct	RBA Monetary Policy Minutes, Oct-21	US Industrial Production, Preliminary, Sep-21
Wed 20-Oct		Japan Trade Balance, Preliminary, Sep-21 UK CPI, Preliminary, Sep-21
Thu 21-Oct	NAB Quarterly Business Survey, SepQ-21 CoreLogic Weekly Auction Data, 17-Oct-21 ABS Regional Labour Force, Sep-21	
Fri 22-Oct		Euro Area Consumer Confidence, Advance, Oct-21 Japan Manufacturing PMI, Preliminary, Oct-21 UK Retail Sales, Preliminary, Sep-21 Germany Manufacturing PMI, Preliminary, Oct-21 Euro Area Manufacturing PMI, Preliminary, Oct-21 Euro Area Services PMI, Preliminary, Oct-21 UK Manufacturing PMI, Preliminary, Oct-21
Sat 23-Oct		
Sun 24-Oct		
Mon 25-Oct	Commsec State of the States, OctQ-21	Germany Business Climate, Oct-21
Tue 26-Oct		
Wed 27-Oct	ABS Consumer Price Index, SepQ-21	New Zealand Trade Balance, Preliminary, Sep-21 Germany Consumer Confidence, Nov-21 Germany Retail Sales, Preliminary, Sep-21
Thu 28-Oct	ABS International Trade Price Indexes, SepQ-21 CoreLogic Weekly Auction Data, 24-Oct-21	Canada Interest Rate Decision, Oct-21 Japan Retail Sales, Preliminary, Sep-21 Euro Area Business Confidence, Oct-21 Euro Area Interest Rate Decision, Oct-21 Germany CPI, Preliminary, Oct-21 US GDP Annualised, Advance, SepQ-21 Japan Interest Rate Decision, Oct-21