

# Weekly Economics and Markets Review

- The Federal Budget was released this week and pointed to a return to surplus this financial year, the first since 2007-08.
- Discussions over lifting the US debt limit commenced with President Biden meeting with Congressional leaders.
- US credit conditions tightened further in Q1, though not as much as some had feared. Meanwhile, other US data releases over the week were generally positive.

## Week in review

### Domestic

- The Federal Budget forecasts a surplus of \$4.2 billion for 2022-23. This is a material change from the deficits expected in the October 2022 (\$36.9 billion) and March 2022 (\$78 billion) budgets. The upwards revisions to the budget balance were driven by economic conditions seeing higher revenue and lower expenses as well as government policy decisions to raise revenue more than offsetting new policy spending initiatives.
- In its May Statement on Monetary Policy, the RBA reiterated that 'some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe', but that any tightening 'will depend upon how the economy and inflation evolve'. The forecasts featured downgrades to the near-term inflation outlook, though medium-term expectations were unchanged with inflation expected to the top of its target band by June 2025.
- Internal analysis released by the RBA in response to a FOI request highlights that for inflation to get back to the middle of the target band by the end of 2024 the cash rate would need to be lifted to 4.8 per cent by August.
- On the data front:
  - The NAB Business Survey suggested business conditions eased but to still elevated levels while confidence ticked higher though it remains soft.
  - Retail trade volumes fell in Q1 driven by a further fall in household goods, which have now declined for five consecutive quarters as mounting cost of living pressures continue to weigh on household spending.
  - Residential building approvals increased in March, though are around half the level seen in early 2021. New home loans rose in March for the first time since January 2022. While home lending is notably down from the early 2022 peak, it remains above the pre-COVID trend.
  - SEEK job ads fell in April, the 10th decline in the last 11 months with the level of ads stabilising about 21 per cent below the May 2022 highs.

### Offshore

- Fed officials suggested it was too soon to judge what action would be needed at the next meeting on 15 June and that they need to be data-dependent.
- There were mixed comments from ECB officials, with some suggesting inflation remains too high, while others believe they should slow the pace of rate hikes.
- The Bank of England (BoE) lifted rates by 25 basis points to 4.5 per cent given a firmer outlook for both economic activity and inflation as well as a desire to reduce the risks of inflation remaining uncomfortably high. Further rate hikes remain on the table, though will depend on evidence of inflation persistence.
- US President Biden and Congressional leaders from both parties met to discuss an increase to the US debt ceiling to avoid a US default. Note, the debt ceiling is the statutory limit on federal debt outstanding and was reached on 19 January. Since that time Treasury has been using 'extraordinary measures' (special accounting manoeuvres) to avoid borrowing further and breaching the ceiling. However, its ability to use these measures is limited and could be exhausted as soon as 1 June. Before this happens an agreement to raise or suspend the debt ceiling will need to be reached. Failure to do so means the US won't be able to borrow to refinance maturing debt and will thus default.
- The Fed's quarterly Senior Loan Officer Opinion Survey showed that US credit conditions have tightened, though not as much as many expected given recent shocks to the US banking sector. There was a 1.2 per cent increase among large and medium-sized firms reporting tighter credit standards, with a 2.9 per cent rise increase for small firms. Meanwhile, the NFIB Small Business Survey reported that credit was less hard to get in April.
- It was another busy week for data out of the US:
  - The labour market remained upbeat, with non-farm payrolls rising 253,000 in April, notably above the consensus expectations. The unemployment rate also declined a tenth to 3.4 per cent driven by the increase in employment. Average hourly earnings also rose above expectations over the month.
  - On the inflation front, the annual pace of both headline and core consumer and producer price inflation both continued to ease. US inflation expectations (as measured by the New York Fed) were mixed in April, with one-year expectations edging down while three-year and five-year expectations rose (though all remain within recent ranges).

## Markets

There was a relatively positive risk sentiment in markets this week, with domestic and offshore bond yields and equities closing higher.

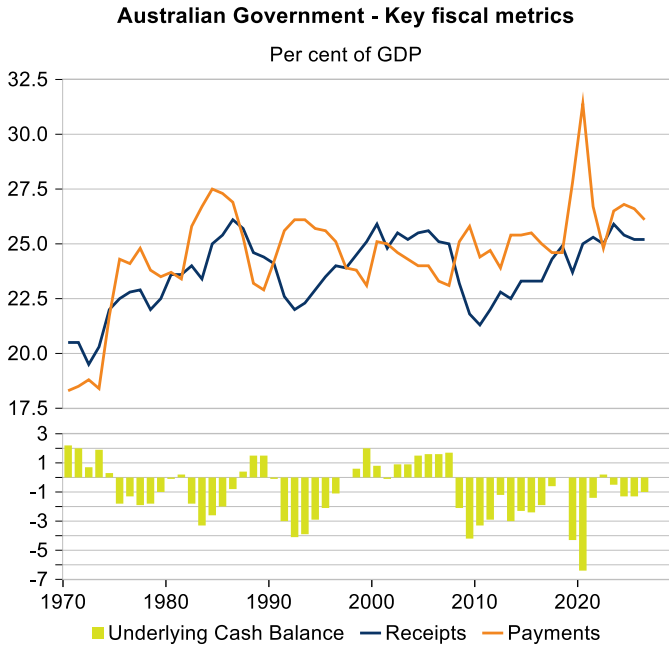
### Economic & Market Calendar

DATE	DETAILS
<b>Domestic</b>	Tuesday, 16 May: RBA Minutes (May) and Westpac Consumer Confidence (May). Wednesday, 17 May: Wage Price Index (Q1). Thursday, 18 May: Labour Force Survey (Apr).
<b>Offshore</b>	<b>US:</b> Debt ceiling discussions throughout the week, various Fed speakers, Consumer Sentiment (May), Industrial Production (April), Retail Sales (April), Housing Starts (April). <b>Euro area:</b> GDP (Q1), Industrial Production (March), Various ECB speakers. <b>UK:</b> GDP (Q1), Employment (March) <b>Japan:</b> GDP (Q1), Producer inflation (April) <b>China:</b> Monthly Activity Data (April)

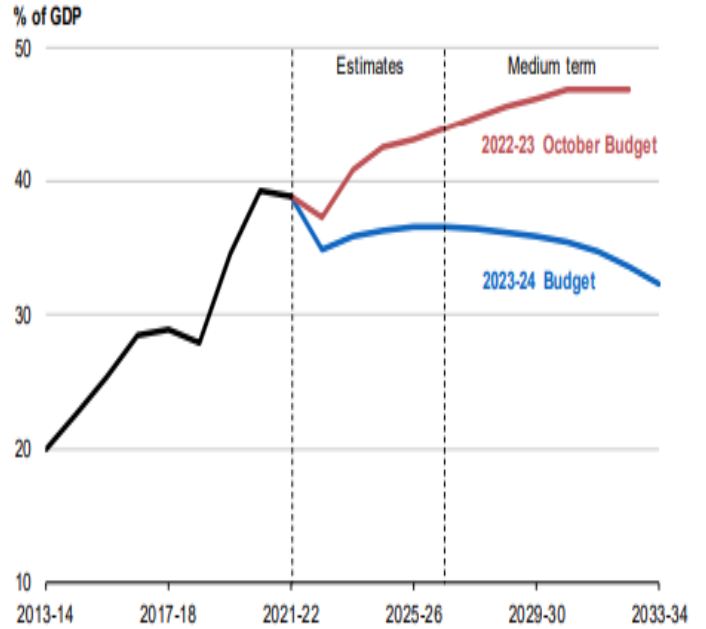
## Economic and Financial Market Charts

**CHART 1: THE FEDERAL BUDGET SHOWED A SIGNIFICANT IMPROVEMENT IN THE BUDGET POSITION, WITH THE FIRST SURPLUS SINCE 2007-08...**

**CHART 2: ... THIS HAS ALLOWED FOR THE TRAJECTORY OF GROSS DEBT TO STABILISE RATHER THAN CONTINUING TO INCREASE**



Source: Australian Department of the Treasury, QTC, Macrobond



Source: Budget papers

**CHART 3: THE RBA MODERATELY REVISED DOWN ITS FORECASTS FOR INFLATION IN 2023 IN ITS MAY STATEMENT ON MONETARY POLICY**

**CHART 4: AUSTRALIAN BUSINESS CONDITIONS SOFTENED marginally IN APRIL, THOUGH REMAIN ABOVE AVERAGE**

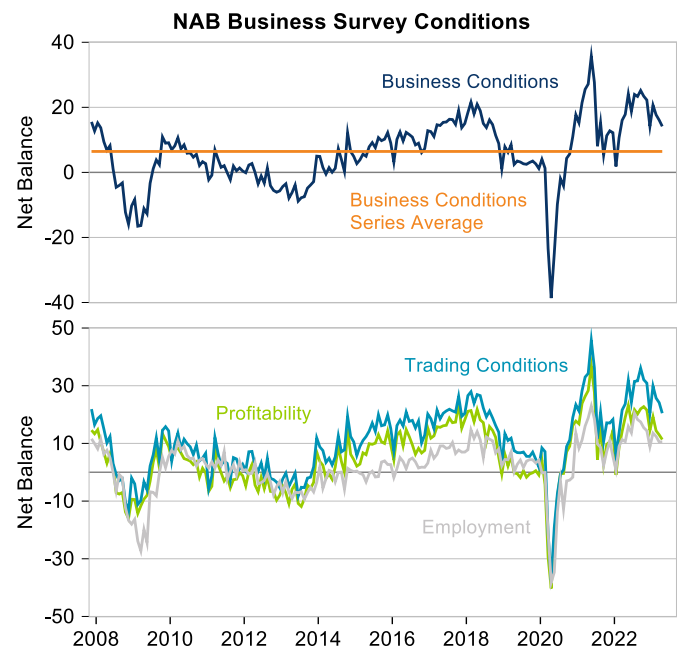
**RBA OUTPUT GROWTH AND INFLATION FORECASTS<sup>(a)</sup>**

	Year-ended					
	Dec 2022	June 2023	Dec 2023	June 2024	Dec 2024	June 2025
GDP growth %	2.7	1½	1½	1½	1½	2
(previous)	(2¾)	(2¼)	(1½)	(1½)	(1½)	(1¼)
Unemployment rate (b)	3.5	3½	4	4½	4½	4½
(previous)		(3½)	(3¾)	(4)	(4¼)	(4½)
CPI inflation %	7.8	6¼	4½	3½	3¼	3
(previous)		(6¼)	(4¾)	(3½)	(3¼)	(3)
Trimmed mean inflation %	6.9	6	4	3½	3	3
(previous)		(6¼)	(4¾)	(3¾)	(3)	(3)
	Year-average					
	2022	2022/23	2023	2023/24	2024	2024/25
GDP growth %	3.7	3¼	1½	1½	1½	1½
(previous)	(3¾)	(3¾)	(2¼)	(1½)	(1½)	(1¼)

(a) Forecasts finalised 1 May. The forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. The cash rate is assumed to peak at around 3½ per cent before declining to around 3 per cent by mid-2025. Other forecast assumptions (assumptions as of February Statement in parenthesis): TWI at 60 (62); A\$ at US\$0.66 (US\$0.69); Brent crude oil price at US\$78bbl (US\$82bbl). The rate of population growth is assumed to be in line with forecasts from the Australian Government's Centre for Population. Forecasts are rounded to the nearest quarter point. Shading indicates historical data, shown to the first decimal point.

(b) Average rate in the quarter.

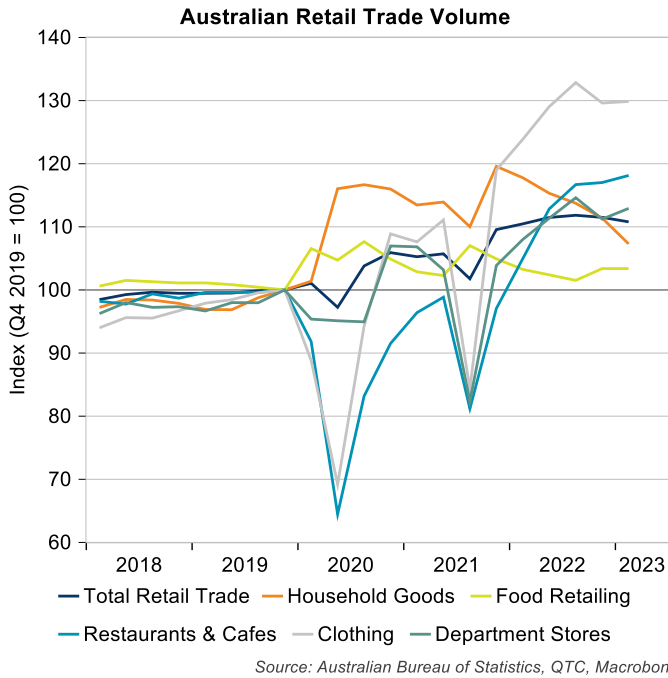
Source: RBA



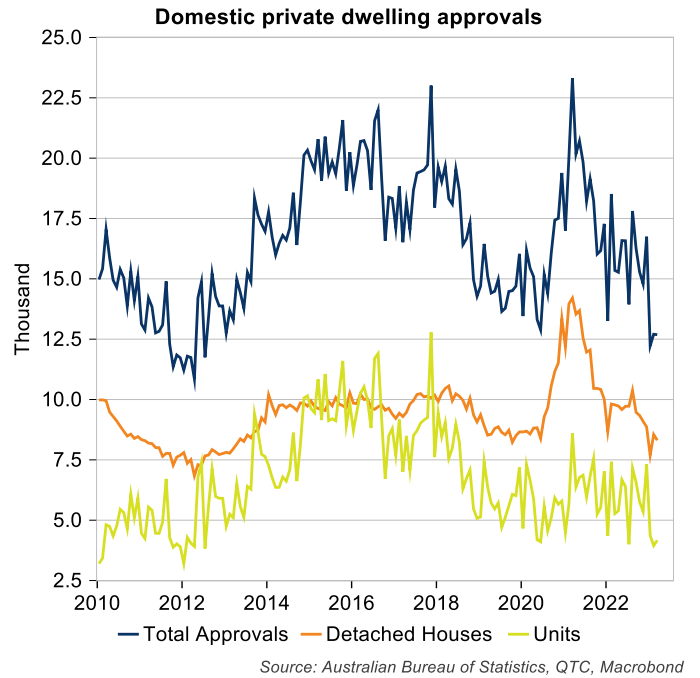
Source: National Australia Bank, QTC, Macrobond

## Economic and Financial Market Charts

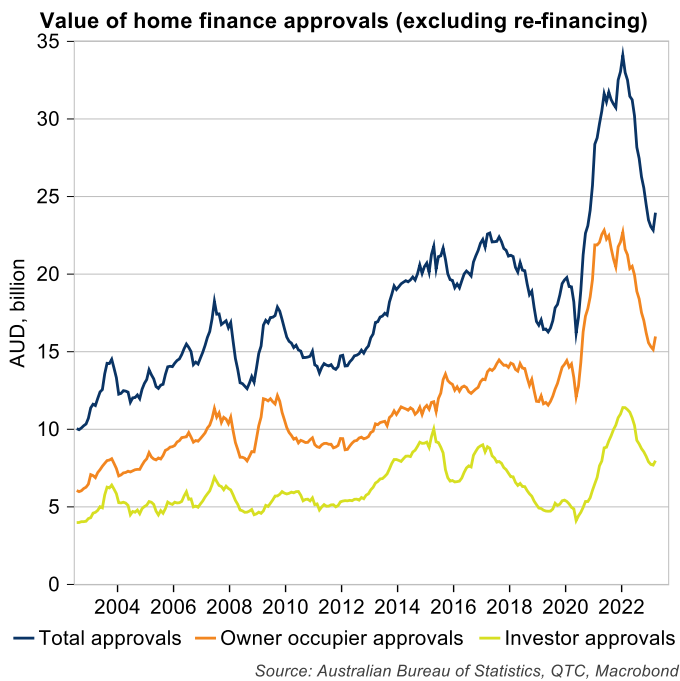
**CHART 5: RETAIL SALES VOLUMES FELL FOR A SECOND STRAIGHT QUARTER, DRIVEN BY FURTHER FALLS IN HOUSEHOLD GOODS**



**CHART 6: RESIDENTIAL BUILDING APPROVALS ROSE SLIGHTLY IN MARCH BUT REMAIN NOTABLY BELOW 2021 HIGHS...**



**CHART 7: ...CONSISTENT WITH A PICK-UP IN NEW HOME LOANS ON THE MONTH, THE FIRST IN OVER A YEAR**

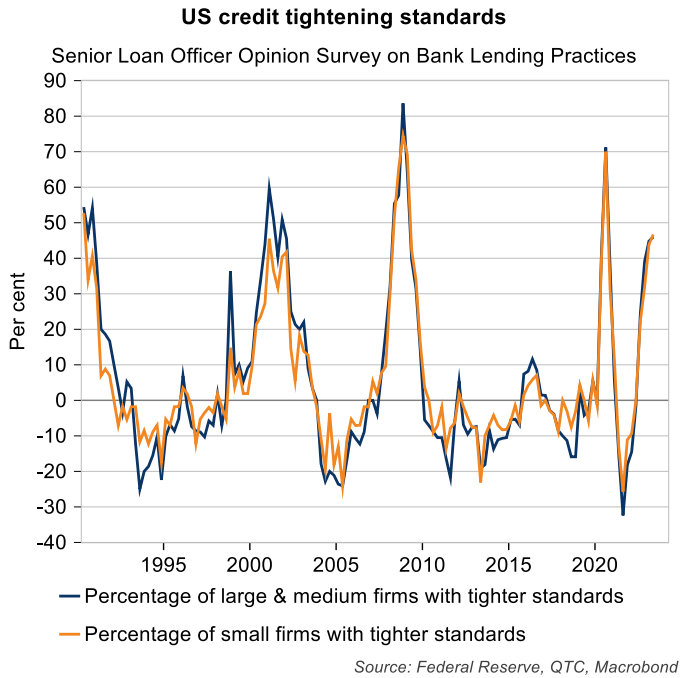


**CHART 8: DOMESTIC JOB ADS ARE AROUND 20 PER CENT BELOW THEIR MAY 2022 PEAK, BUT 33 PER CENT ABOVE PRE-PANDEMIC LEVELS**

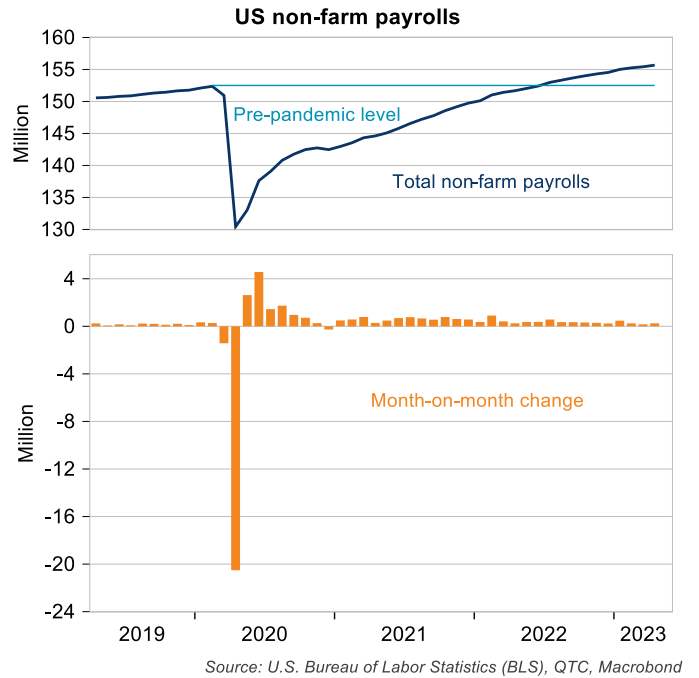


## Economic and Financial Market Charts

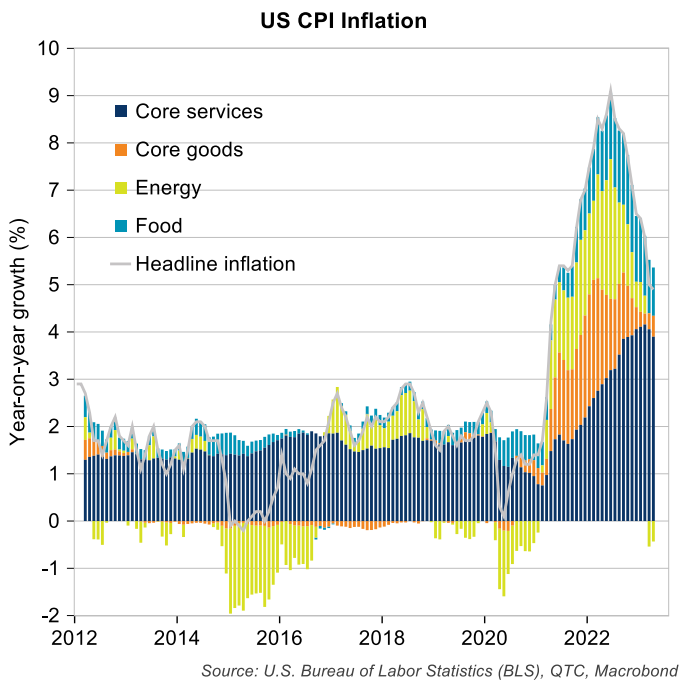
**CHART 9: US CREDIT CONDITIONS HAVE TIGHTENED, THOUGH NOT AS MUCH AS MANY HAD EXPECTED GIVEN RECENT US BANKING SHOCKS**



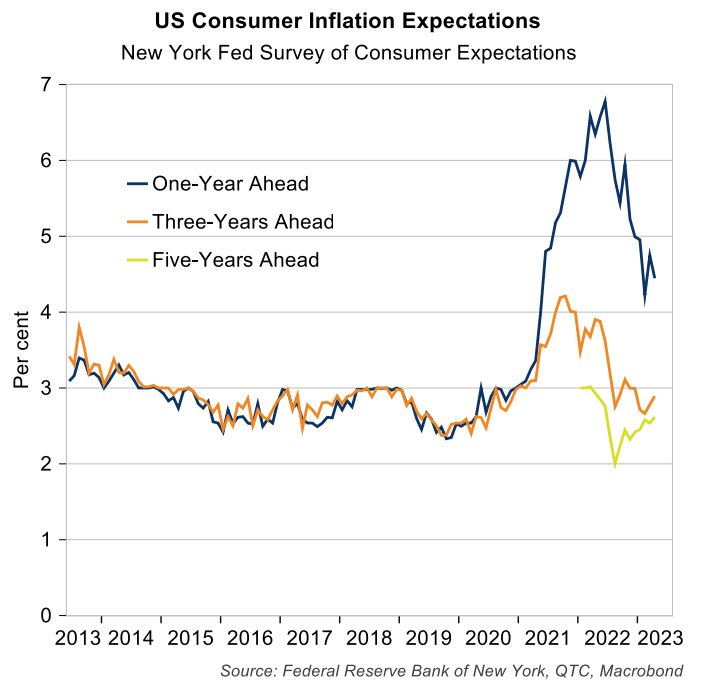
**CHART 10: US NON-FARM PAYROLLS ROSE FOR A 28<sup>TH</sup> CONSECUTIVE MONTH IN APRIL AS THE US LABOUR MARKET REMAINS TIGHT**



**CHART 11: WHILE US HEADLINE INFLATION HAS EASED OF LATE, CORE SERVICES INFLATION REMAINS ELEVATED**



**CHART 12: THE FALL IN ACTUAL INFLATION HAS COINCIDED WITH AN EASING IN US CONSUMER INFLATION EXPECTATIONS**



## Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)			EQUITIES	RATE	CHANGE (PER CENT)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.42	4	13	24	AUD/USD	0.6699	-0.01	0.78	-2.38
	NSWTC	3.41	3	12	28	AUD/EUR	0.6131	0.89	0.52	-7.44
	TCV	3.44	4	13	31	AUD/GBP	0.5354	0.64	-0.05	-4.89
	WATC	3.41	4	13	25	AUD/JPY	90.041	0.48	1.30	2.19
	Australian Government	3.06	9	19	12	AUD/CAD	0.9032	-0.43	0.77	0.94
	US Government	3.56	5	-22	81	AUD/NZD	1.0630	-0.11	-1.06	-3.31
						AUD/SGD	0.8918	0.24	0.64	-7.01
5 Year	QTC	3.46	5	12	3	AUD/HKD	5.2492	-0.17	0.61	-2.55
	NSWTC	3.50	5	12	7	AUD/KRW	888.27	0.24	1.11	0.40
	TCV	3.52	5	13	8	AUD/CNY	4.6555	0.59	1.64	-0.12
	WATC	3.45	5	11	1	AUD/INR	55.318	1.31	1.12	4.02
	Australian Government	3.11	8	16	-6	<b>MAJOR CURRENCIES</b>				
	US Government	3.36	3	-17	53	EUR/USD	1.0982	-0.28	0.63	5.80
						GBP/USD	1.2626	0.41	1.62	3.47
7 Year	QTC	3.66	5	11	2	USD/JPY	134.35	0.04	0.50	4.68
	NSWTC	3.73	5	12	8	USD/CHF	0.8898	0.45	-1.49	-11.30
	TCV	3.71	5	12	6	USD/CNY	6.9312	0.28	0.65	1.90
	WATC	3.64	4	10	0	<b>MAJOR COMMODITIES</b>				
	Australian Government	3.24	8	15	-10	Brent Crude Oil	74.98	3.42	-12.42	-30.22
	US Government	3.36	1	-11	49	Gold	2,015.72	-1.71	0.47	10.42
						Copper	8,475.00	-0.22	-4.29	-6.77
10 Year	QTC	4.00	5	14	14	Iron Ore	98.55	-0.90	-16.50	-14.36
	NSWTC	4.09	6	16	22					
	TCV	4.08	5	14	19					
	WATC	3.95	4	14	10					
	Australian Government	3.39	8	17	-8					
	US Government	3.38	1	-4	54					

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

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