

# Weekly Economics and Markets Review

- Business and consumer surveys pointed to softening perceptions about the local economy. However, this was not obvious in the ABS' latest *Labour Force Survey* in which key aggregates rebounded after a soft outcome, potentially related to statistical noise, the previous month.
- The Federal Open Markets Committee ('FOMC') in the US left interest rates unchanged at its June meeting but signalled that further moves may yet be needed.
- The European Central Bank ('ECB') took a slightly different approach by raising rates at its June meeting and flagging that further moves are likely forthcoming.

## Week in review

### Domestic

- Employment increased by 75,900 in May. This follows a small decline in April. Similarly, the unemployment rate dipped to 3.6 per cent after having increased from 3.5 per cent to 3.7 per cent in the prior month. The reversal could in-part reflect issues flowing from the survey period for the ABS' April *Labour Force Survey* falling entirely during the Easter break. Abstracting from statistical noise, this month's report showed that Australian labour market conditions remain firm. Reinforcing this, both the participation rate and the employment-to-population ratio reached record highs on the month.
- Consumer confidence was marginally higher in June according to the *Westpac-Melbourne Institute Consumer Sentiment Survey*. The mixed result likely reflected the combination of key factors (the Fair Work Commission wage decision and RBA rate rise) have offsetting impacts on consumer perceptions. Unemployment expectations also rose 6.6 per cent on the month to reach its highest level since September 2020, an outcome which if sustained points to upwards pressure for the unemployment rate in the months ahead.
- Both business conditions (-7 points to +8) and confidence (-4 points to -4) fell in May. Forward orders also declined, and capacity utilisation dipped. However, bucking the trend from previous months, there was an acceleration in both labour and purchase costs as well as final product prices.

### Offshore

- The FOMC, the policymaking arm of the US Federal Reserve, kept interest rates unchanged at its June meeting. This follows 10 consecutive meetings at which rates have been hiked by a cumulative 500 basis points. There were few edits to the post-meeting statement though there were notable changes to participants' forecasts and guidance from Chair Powell in the press conference.
- Updates to participants' forecasts pointed to a more constructive near-term view for the economy with 2023 expectations for GDP growth revised higher and those for the unemployment taken lower. Meanwhile, the resilience in core inflation was acknowledged with forecasts for this marked higher. Forecasts for the out-years were more modest. On interest rates, the FOMC 'Dot Plot' revealed that the median expectation for this year was lifted to 5.625 per cent. This is 50 basis points higher than the current rate.
- In the post-meeting press conference Chair Powell highlighted that views on interest rates were upped due to slow progress in getting core inflation down. He also said slower hikes made sense with rates now closer to their likely peak.

- Across the Atlantic, the ECB lifted rates by 25 basis points to 3.5 per cent with its President, Christine Lagarde, flagging a further increase at its July meeting. The hike was accompanied by upwards revisions to core inflation forecasts, but few changes were made to the GDP outlook. The prospect of higher inflation and an economy resilient to rate hikes was interpreted by markets and economists as the ECB flagging that it can take rates even higher. So far, the ECB has lifted rates by 400 basis points in this hiking phase with the level of rates now the highest since 2001.
- In the **US**:
  - core CPI inflation rose 0.4 per cent in May, though excluding categories with idiosyncratic price moves though the COVID period, there were encouraging signs of a moderation in price pressures.
  - According to the New York Federal Reserve's *Survey of Consumer Expectations*, one-year ahead inflation expectations fell in May while those three to five-years ahead edged higher, a development that will not please the FOMC.
  - Industrial production declined in May following strength in April.
  - Core retail sales lifted in line with expectations in May, though there were downward revisions to prior months' outcomes.
- In the **UK**, the unemployment rate unexpectedly dipped lower over the three months to May while annual wages growth accelerated further. This was seen as a signal that further rate hikes by the Bank of England might be needed.
- In **China**, data on economic activity disappointed in May. This has been a consistent theme to emerge in recent months and suggests that momentum may be normalising after strength associated with the initial phase of re-opening. It is also consistent with further disappointments in the rate at which new credit is flowing to the economy. In response to the slowing of momentum the People's Bank of China lowered a key short-term interest rate.
- In **New Zealand**, GDP fell 0.1 per cent in Q1. This outcome, when combined with the 0.7 per cent drop in Q4 2022, means that the country is in a 'technical recession' (that is, two consecutive quarters of negative GDP growth). However, the decline was only small and largely driven by a drawdown in inventories. Private sector demand remained firm indicating resilience.

## Markets

Short-term yields rose this week as investors further raised expectations for cash rate increases. Long-term yields were little changed in line with limited moves seen offshore, a somewhat surprising result given data and central bank guidance both pointed to further rate hikes being likely in the US, UK and euro area.

### Economic & Market Calendar

DATE	DETAILS
<b>Domestic</b>	RBA Minutes (June)
<b>Offshore</b>	<b>US:</b> Building permits (May), Housing starts (May), Existing home sales (May), S&P Global PMI (June) <b>UK:</b> House prices (June), CPI (May), Bank of England (22 June), Retail sales (May), S&P Global PMI (June) <b>Japan:</b> CPI (May)

## Economic and Financial Market Charts

CHART 1: STATISTICAL NOISE LIKELY CONTRIBUTED TO A REBOUND IN EMPLOYMENT IN MAY

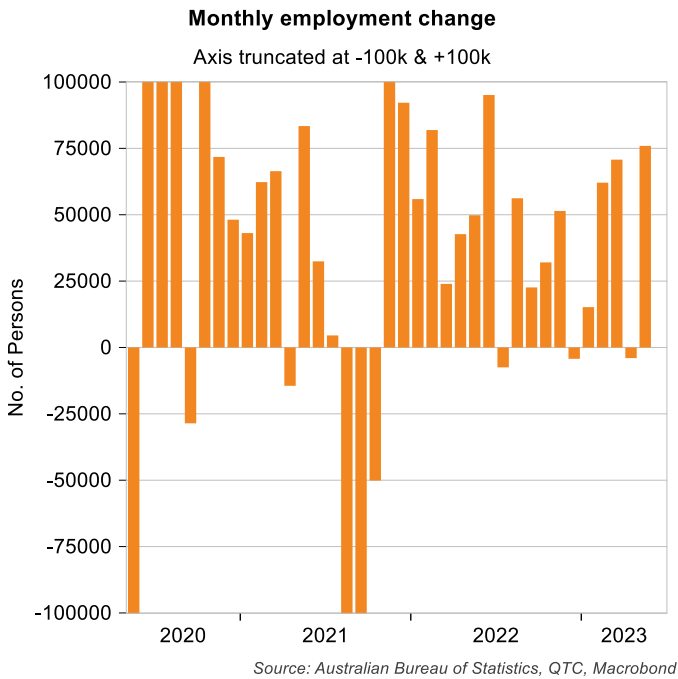


CHART 2: BOTH THE EMPLOYMENT TO POPULATION RATIO AND PARTICIPATION RATE REACHED RECORD HIGHS IN MAY

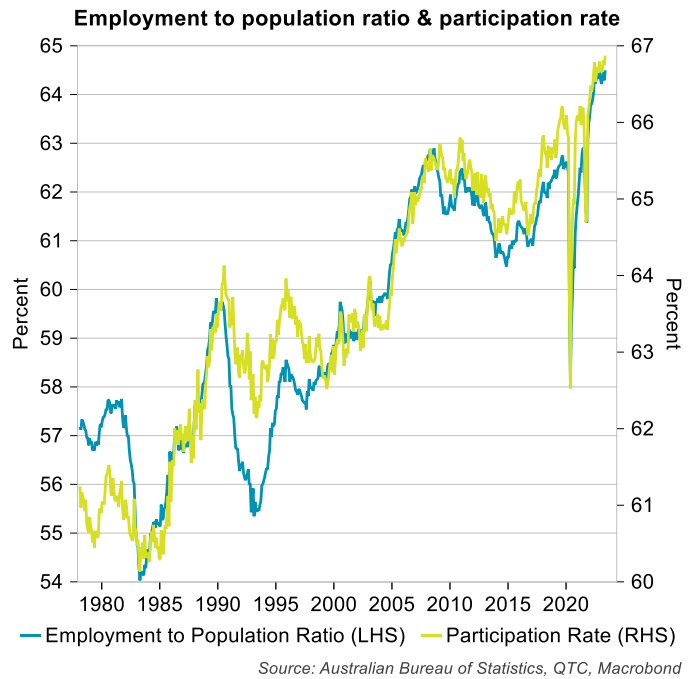


CHART 3: THE UNEMPLOYMENT RATE REMAINS NEAR 48-YEAR LOWS, THOUGH EARLY SIGNS OF AN UP-TREND MIGHT BE EMERGING...

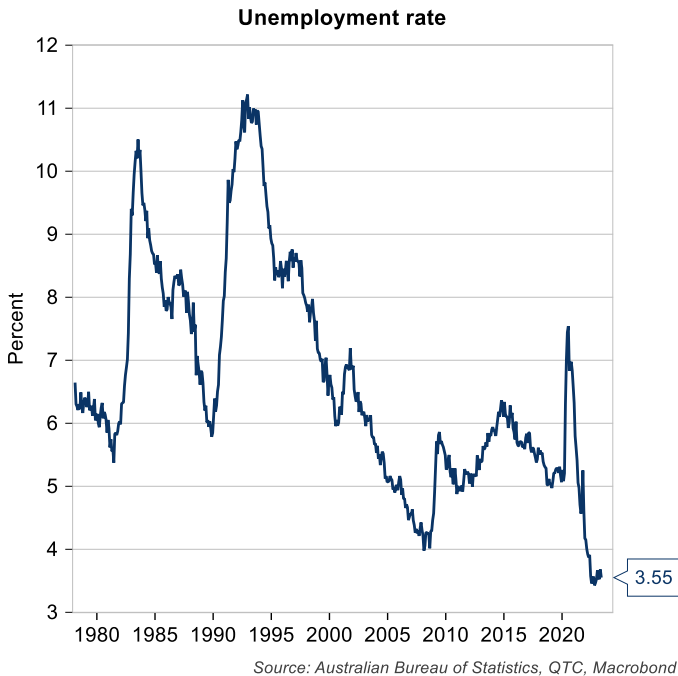
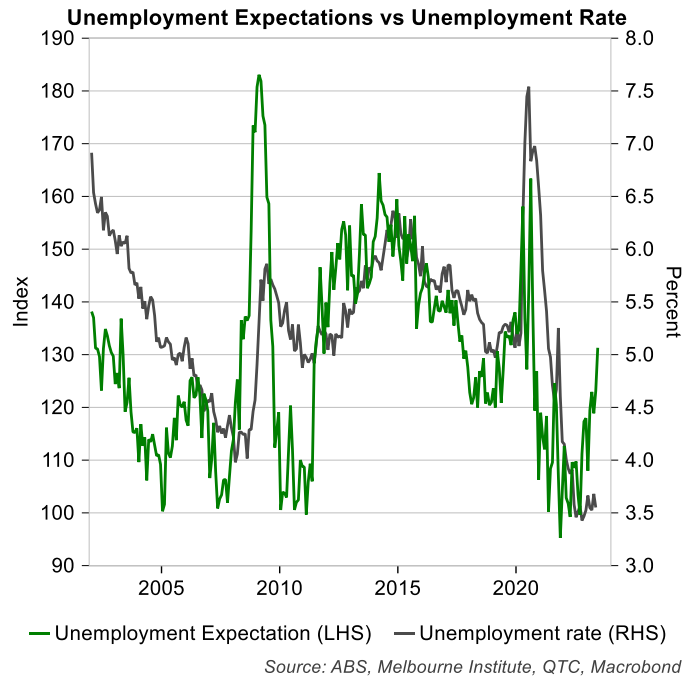


CHART 4: A SHARP RISE IN UNEMPLOYMENT EXPECTATIONS POINTS TO THE CHANCE OF A RISING UNEMPLOYMENT RATE IN THE PERIOD AHEAD



## Economic and Financial Market Charts

CHART 5: CONSUMER CONFIDENCE WAS LITTLE CHANGED IN JUNE AND REMAINS WELL BELOW AVERAGE LEVELS

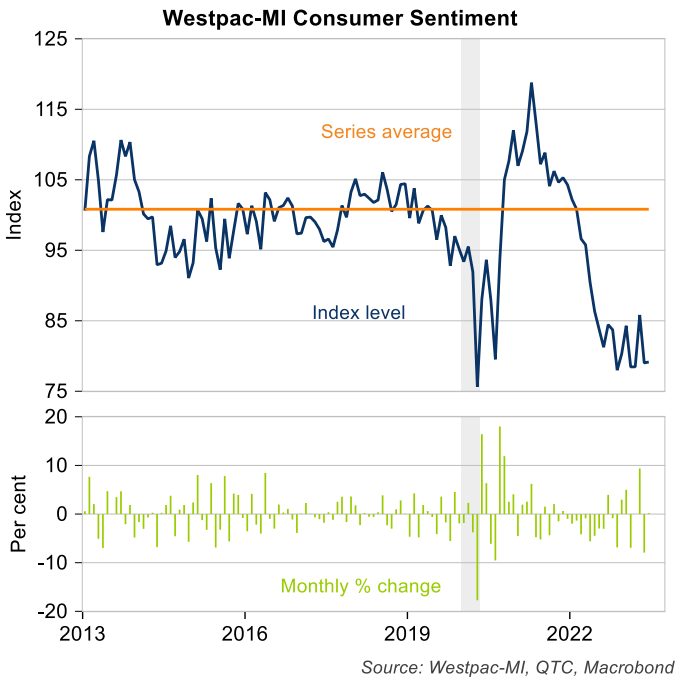


CHART 6: INTEREST RATE HIKES APPEAR TO BE BITING WITH A CLEAR DOWNTREND EMERGING IN BUSINESS CONDITIONS AND CONFIDENCE

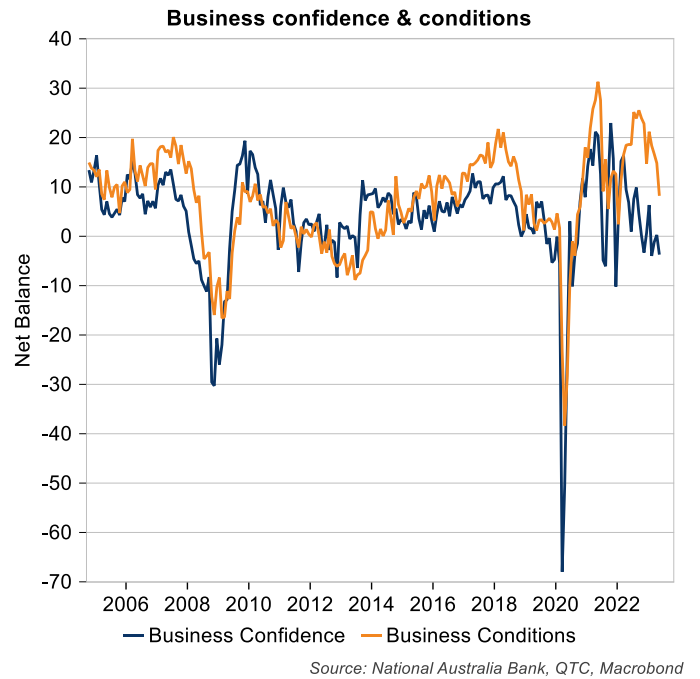


CHART 7: MAY SAW A SURPRISING UPTICK IN BUSINESS COST AND PRICE PRESSURES, THOUGH THE DOWNTREND REMAINS IN PLACE

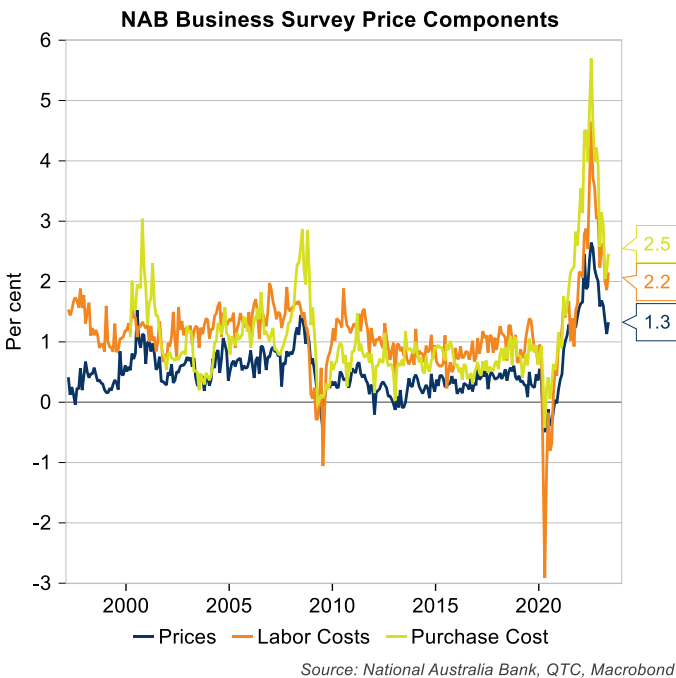
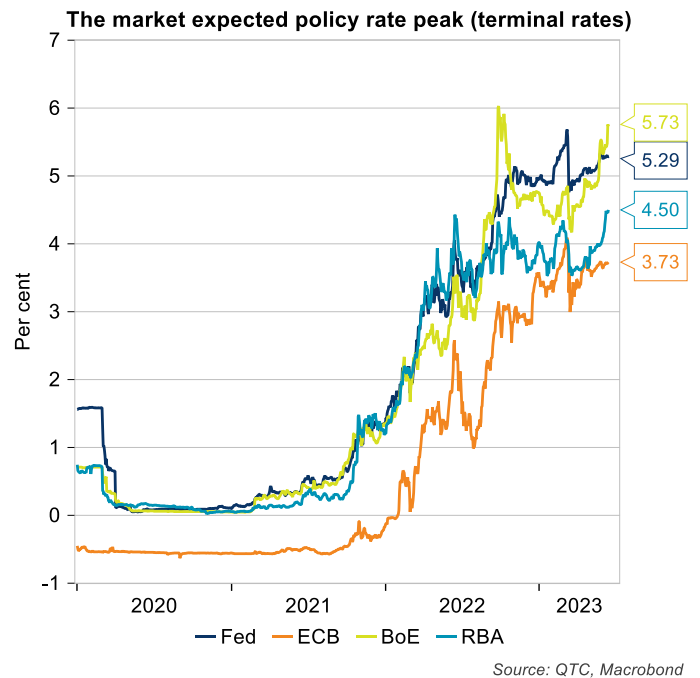


CHART 8: CENTRAL BANKS CONTINUE TO GUIDE, INCLUDING THIS WEEK, TOWARDS HIGHER RATES. THE MARKET IS PAYING ATTENTION.



## 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	4.28	13	81	26	AUD/USD	0.6873	2.35	3.24	-2.37
	NSWTC	4.29	13	82	32	AUD/EUR	0.628	0.87	2.53	-5.80
	TCV	4.36	14	85	35	AUD/GBP	0.5381	0.60	0.92	-5.37
	WATC	4.27	13	81	26	AUD/JPY	96.443	3.41	6.07	3.93
	Australian Government	4.00	13	89	30	AUD/CAD	0.9095	1.44	1.50	0.12
	US Government	4.25	8	50	96	AUD/NZD	1.1031	0.12	3.21	-0.15
						AUD/SGD	0.9187	1.90	3.00	-5.67
5 Year	QTC	4.26	10	75	1	AUD/HKD	5.3759	2.16	3.03	-2.70
	NSWTC	4.30	10	76	6	AUD/KRW	880.02	0.57	-1.25	-2.84
	TCV	4.34	10	78	5	AUD/CNY	4.9078	2.79	5.64	4.79
	WATC	4.24	10	74	-2	AUD/INR	56.045	1.59	1.91	2.93
	Australian Government	3.93	9	78	2	<b>MAJOR CURRENCIES</b>				
	US Government	3.91	6	39	63	EUR/USD	1.0946	1.52	0.76	3.75
						GBP/USD	1.2784	1.78	2.37	3.50
7 Year	QTC	4.35	4	64	-8	USD/JPY	140.28	0.98	2.85	6.10
	NSWTC	4.42	3	64	-1	USD/CHF	0.8916	-0.83	-0.55	-7.76
	TCV	4.45	4	68	-2	USD/CNY	7.1203	0.14	2.02	6.55
	WATC	4.34	5	65	-9	<b>MAJOR COMMODITIES</b>				
	Australian Government	3.96	3	68	-12	Brent Crude Oil	75.62	-0.45	0.95	-36.88
	US Government	3.82	2	29	54	Gold	1,959.58	-0.35	-1.41	5.90
						Copper	8,509.00	1.93	4.77	-6.23
10 Year	QTC	4.61	1	56	-2	Iron Ore	113.37	2.79	10.67	-1.87
	NSWTC	4.72	0	58	8					
	TCV	4.74	0	61	6					
	WATC	4.54	1	54	-7					
	Australian Government	4.00	-1	57	-17					
	US Government	3.72	0	18	52					

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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