

Weekly Economics and Markets Review

- The Minutes to the RBA's May meeting noted the decision was finely balanced, though resilient labour market conditions and the possibility of more persistent inflation were enough to tip the outcome in favour of a hike.
- US debt ceiling negotiations continued with progress seemingly being made through the week.
- US Federal Reserve officials were more hawkish suggesting the Federal Open Market Committee (FOMC) could raise rates further to combat persistent inflation.

Week in review

Domestic

- The Minutes to the RBA's May Board meeting noted the decision to raise the cash rate target by 25-basis points to 3.85 per cent was 'finely balanced'. While the Board debated keeping rates on hold given that inflation had peaked and consumption was weakening, the decision to hike was justified on account of the labour market remaining tight and there being risks of more persistent inflation. The Banks' forward guidance was unchanged, with members reiterating 'further increases in interest rates may still be required, but that this would depend on how the economy and inflation evolve'.
- Since the Minutes, data on two key labour market indicators were released:
 - The April Labour Force Survey disappointed expectations with employment declining by 4,300. The outcome may reflect that it followed strong employment growth in Q1 (averaging 39,000 a month) and could in part be the product of seasonal issues with the survey period coinciding with the Easter holiday. Soft jobs growth saw the unemployment rate increase to 3.7 per cent (from 3.5 per cent) despite a slight dip in the participation rate.
 - The Wage Price Index rose 0.8 per cent in Q1 to a decade-high of 3.7 per cent. This result was broadly in line with consensus expectations and the latest RBA forecasts. The gains seen for those experiencing a pay rise accelerated in the quarter for both private and public sector workers with the share of workers receiving higher pay lifting for public sector staff but not for those in the private sector.
- The Westpac Melbourne-Institute Consumer Sentiment Index fell in May, retracing April's increase. The fall in sentiment was broad-based and followed the RBA rate hike in May and the Federal Government's Budget.

Offshore

- There were reports from one US regional bank, Western Alliance Bancorp, that deposits had increased notably over recent weeks, further easing concerns about the condition of the regional US banking sector.

- US debt ceiling negotiations continued, with President Biden and leaders from both parties in Congress suggesting progress had been made with a deal seemingly possible by next week. Biden also announced he would cut short his trip to Asia given the talks, including dropping a planned visit to Australia.
- Several Federal Reserve officials indicated that inflation in the US remains too high and the FOMC was willing to increase rates again if necessary.
- **US data** were mixed this week:
 - The University of Michigan's Index of Consumer Sentiment fell in May, with current conditions and consumer expectations both declining. Inflation expectations within the survey were mixed, with those one-year ahead edging down a tenth to 4.5 per cent but those for five-to-ten years ahead rising two-tenths to 3.2 per cent (the highest reading since March 2011).
 - Industrial production was stronger than expected in April, driven by solid manufacturing data due to a sharp uplift in auto assemblies as supply chains blockages continue to ease.
 - Headline retail sales rose less than expected in April, though core sales (which exclude auto and gas sales) were solid.
 - Housing starts rose in April, while building permits and sales of existing homes fell. Meanwhile home builder sentiment improved for a fifth consecutive month (though the index remains below the average following 12 consecutive declines over 2022).
- **UK GDP** growth disappointed in Q1, falling 0.3 per cent as widespread labour strikes and bad weather constrained output. Labour market data were mixed, with the unemployment rate rising a tenth to 3.9 per cent despite employment growth increasing by more than expected.
- Meanwhile, **Japanese** real GDP growth was notably stronger than expected in Q1, driven by solid consumer spending and business capital expenditure.
- **Euro area** GDP rose just 0.1 per cent in Q1 weighed down by weakness in the industrial sector. This follows a 0.1 per cent decline in Q4 2022.
- **Chinese** monthly activity data for April disappointed high expectations, despite favourable year-on-year base effects due to COVID lockdowns across the country last year.

Markets

Bond yields were higher over the week as progress was made in US debt ceiling negotiations and following comments from Fed officials that rate may be raised further if needed. These moves were particularly strong in the US with the Dollar also buoyed by this news.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday, 23 May: S&P Global PMIs (May) Wednesday, 24 May: RBA Head of Domestic Markets Jacobs speaks on "Australian Fixed Income Market - Recent Developments and a Look Ahead"
Offshore	Global: S&P Global PMIs (May) US: Debt ceiling discussions throughout the week, FOMC Minutes (May), Various Fed speakers, New and Pending Home Sales (April) Euro area: Various ECB Speakers and Consumer Confidence (May) Germany: GDP (Q1) and Ifo Business Climate Survey (May) UK: Inflation (April) Japan: Consumer Inflation (April) New Zealand: RBNZ Policy Meeting (May) and Retail Sales (Q1)

Economic and Financial Market Charts

CHART 1: JOBS GROWTH HAS SLOWED, WITH THE LEVEL OF EMPLOYMENT NOW AROUND THE PRE-PANDEMIC TREND

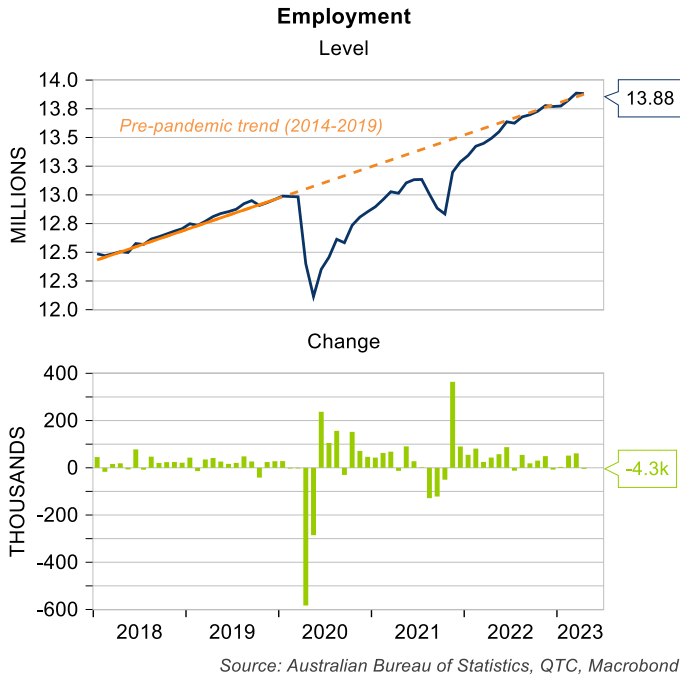


CHART 2: MEASURES OF LABOUR MARKET SLACK, WHILE INCREASING ON THE MONTH, REMAIN AT HISTORICALLY LOW LEVELS...

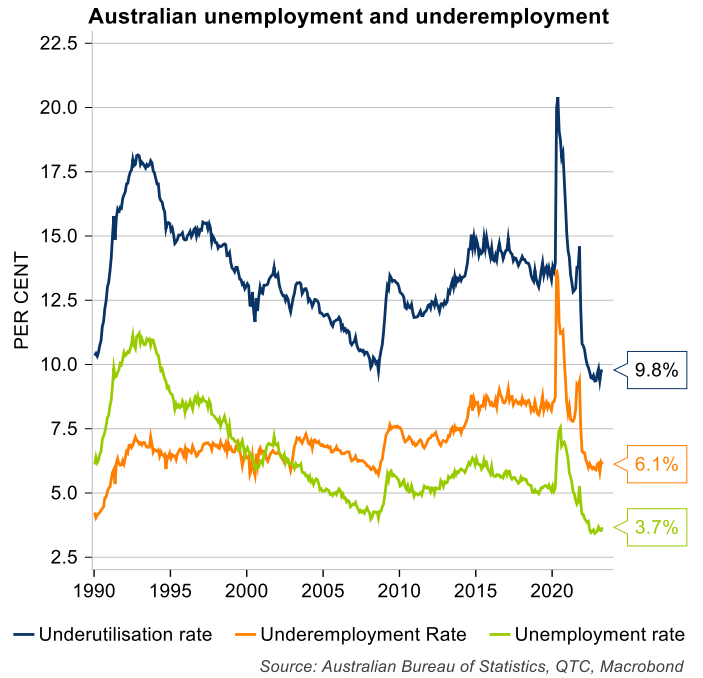


CHART 3: ...GIVEN THIS, DOMESTIC WAGES GROWTH PICKED UP TO THE FASTEST PACE SINCE 2012

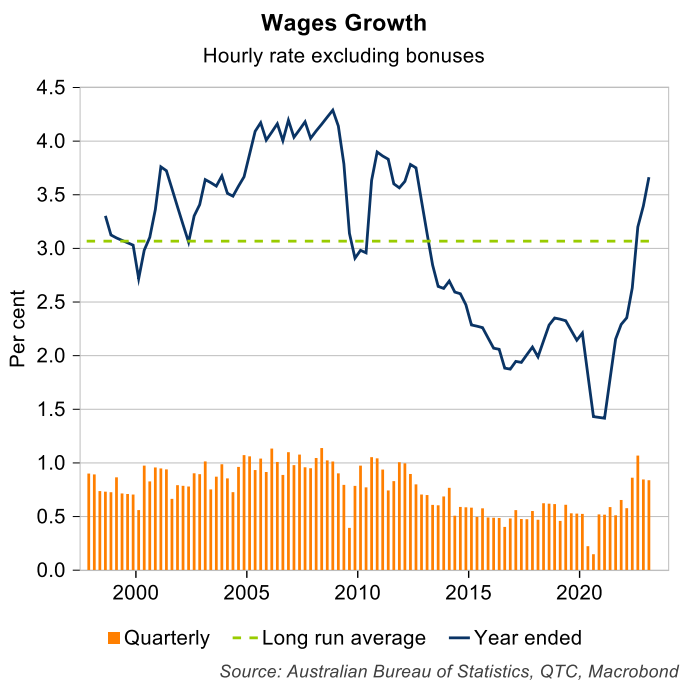
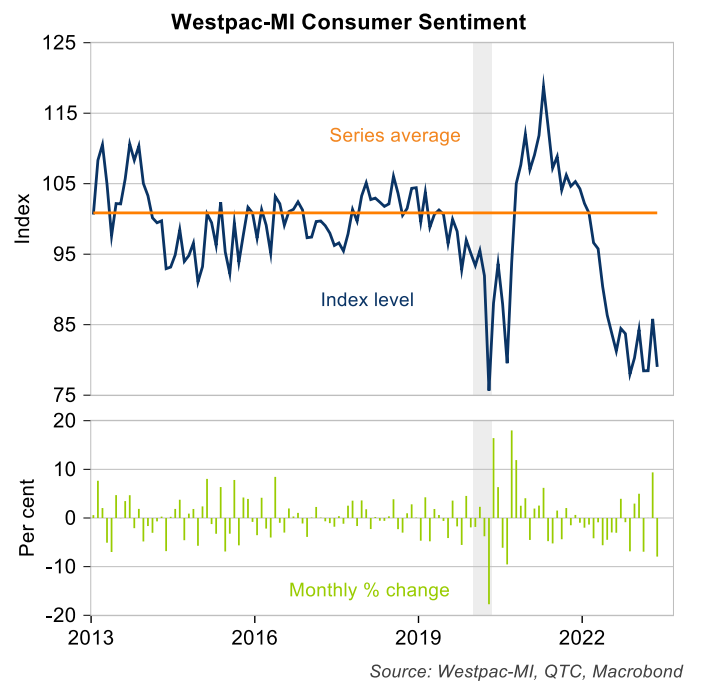


CHART 4: CONSUMER SENTIMENT FELL IN MAY BY THE MOST SINCE AUGUST 2020 (WHEN VICTORIA BROADENED ITS COVID LOCKDOWN)



Economic and Financial Market Charts

CHART 5: US FIVE-TO-TEN YEAR INFLATION EXPECTATIONS ROSE TO A 12-YEAR HIGH IN MAY IN WHAT WILL BE CONCERNING FOR THE FED

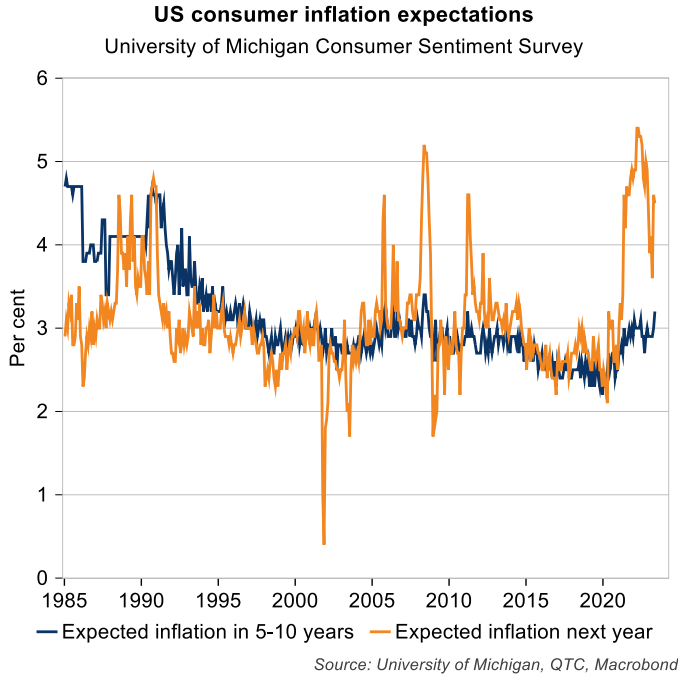


CHART 6: US HOUSING ACTIVITY HAS SLOWED FOLLOWING A STEEP INCREASE IN INTEREST RATES...

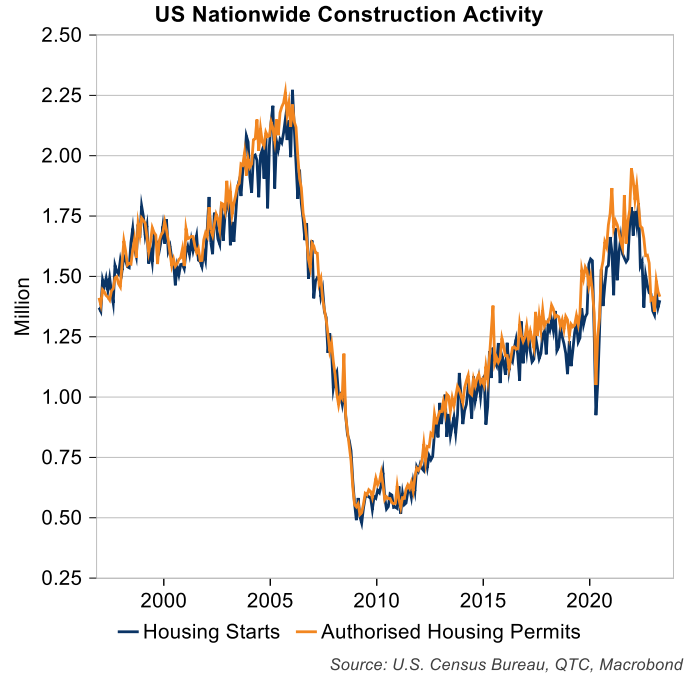


CHART 7: ... THIS AS THE HOME BUILDER SENTIMENT CONTINUED TO RECOVER FROM LOW LEVELS IN MAY

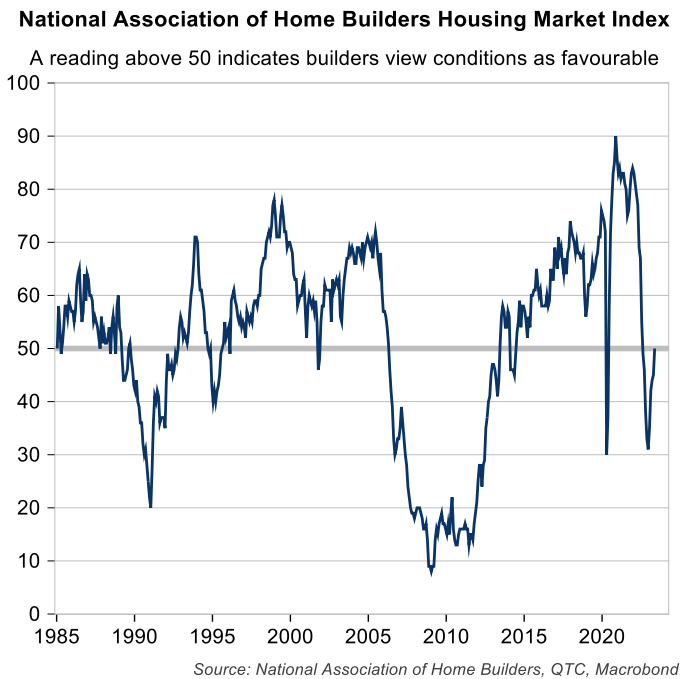
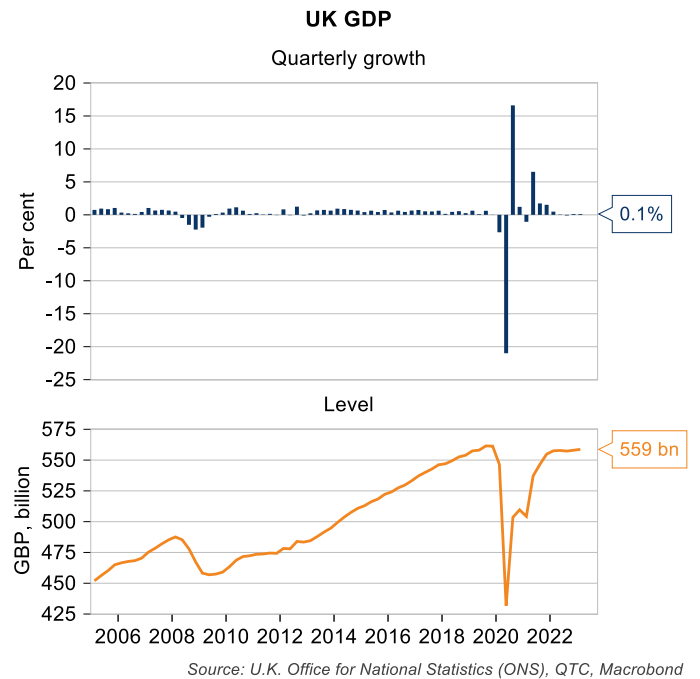


CHART 8: UK GDP GROWTH REMAINED STAGNANT IN Q1, WITH THE LEVEL OF GDP STILL BELOW WHERE IT WAS PRIOR TO THE PANDEMIC



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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	16	7	45	16
	NSWTC	15	6	48	15
	TCV	17	8	51	17
	WATC	16	7	46	16
	Australian Government	14	12	31	14
	US Government	36	1	115	36
	5 Year	QTC	14	3	22
NSWTC	14	3	25	14	
TCV	14	4	26	14	
WATC	14	3	19	14	
Australian Government	11	5	10	11	
US Government	33	1	85	33	
7 Year	QTC	13	0	19	13
	NSWTC	13	-1	25	13
	TCV	14	2	23	14
	WATC	13	-0	17	13
	Australian Government	12	3	6	12
	US Government	31	5	80	31
	10 Year	QTC	12	1	29
NSWTC	12	2	38	12	
TCV	13	3	35	13	
WATC	12	0	26	12	
Australian Government	10	2	6	10	
US Government	26	7	81	26	

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.6609	-1.34	-1.80	-6.39
AUD/EUR	0.614	0.15	0.10	-7.88
AUD/GBP	0.5332	-0.41	-1.54	-5.61
AUD/JPY	91.586	1.72	1.49	1.67
AUD/CAD	0.8935	-1.07	-0.81	-1.28
AUD/NZD	1.0646	0.15	-1.83	-3.51
AUD/SGD	0.8911	-0.08	-0.64	-8.52
AUD/HKD	5.1735	-1.44	-2.07	-6.63
AUD/KRW	881.59	-0.75	-0.66	-2.27
AUD/CNY	4.6543	-0.03	0.61	-1.77
AUD/INR	54.797	-0.94	-0.87	0.80
MAJOR CURRENCIES				
EUR/USD	1.0775	-1.29	-1.80	1.77
GBP/USD	1.2409	-0.82	-0.13	-0.47
USD/JPY	138.69	3.09	3.41	8.52
USD/CHF	0.9048	1.17	0.94	-6.93
USD/CNY	7.0350	1.29	2.30	4.69

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	75.96	1.31	-10.39	-32.20
Gold	1,955.74	-2.98	-2.57	6.11
Copper	8,302.00	1.70	-7.88	-11.83
Iron Ore	106.83	8.40	-7.46	-6.30

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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