

Weekly Economics and Markets Review

- This week, there was a slew of domestic data, with stronger-than-expected outcomes for CPI inflation, construction work done and private capital expenditure.
- A deal appears to have been reached to lift the US debt ceiling, which (if passed by Congress) will see the US avoid a default on its debt.
- US Federal Reserve officials' comments were mixed, with some officials supporting a pause to interest rate increases and others favouring additional rate hikes.

Week in review

Domestic

- In testimony to the Senate Economics Committee, RBA Governor Lowe suggested it could be difficult to return inflation to the two to three per cent target range if wage growth remained around 3.5 to 4.0 per cent and productivity growth persisted below one per cent.
- The ABS monthly indicator for CPI inflation accelerated to 6.8 per cent in April, up from 6.3 per cent in March. The result was notably stronger than consensus expectations and has increased expectations for additional cash rate hikes. The increase was driven by a strong rebound in holiday travel & accommodation inflation, though there was also a modest acceleration across other prices.
- Retail sales were mixed in April, with total sales unchanged, household goods retailing declining for a third consecutive month and food retailing falling for the first time in 13 months.
- Construction work and private capital expenditure were both stronger-than-expected in the March quarter, though the outlook for capex is sluggish.
 - Construction work done rose by 1.8 per cent, driven by strong engineering construction activity. Non-residential building construction had a more modest increase, while residential construction fell slightly.
 - Private capital expenditure rose 2.4 per cent in the March quarter, notably stronger than the 1.0 per cent consensus expectation. Machinery and equipment expenditure increased strongly in the quarter while spending on buildings and structures rose more modestly. Despite the recent strength, capex expectations point to a sharp slowing in spending in FY2024.
- Residential building approvals fell further in April and are at their lowest level since April 2012. Approvals are now around 27 per cent below their December 2019 levels, with the decline reflecting both the increase in interest rates and high construction costs.
- Private sector credit rose by more than expected in April (0.6 per cent m/m), driven by an acceleration of business credit growth.
- Capital city dwelling prices (as measured by CoreLogic) rose 1.4 per cent in May, marking the third consecutive increase and the strongest monthly gain since October 2021.

Offshore

- US fiscal policymakers reached a tentative deal to raise the debt ceiling and avoid a US default. The deal has passed the House of Representatives and is expected to be voted on by the Senate later today or early next week before it can be signed by President Biden. This comes just days before the US Treasury is set to run out of funds to meet its existing obligations (known as the X-date and estimated to be on 5 June).
- There were mixed comments from US Federal Reserve (Fed) officials this week. Some officials suggested US policy rates had to increase further to bring down inflation, while others believe that the Fed should not increase rates at the Committee's meeting next week (15 June) and instead wait until they have more data to decide about the future of policy.
- The Fed's Beige Book (which summarises anecdotal information on economic conditions from each Federal Reserve branch district) showed conditions were little changed over April and May, with a slight slowing in employment growth and minor deterioration of growth expectations.
- On the US data front:
 - The Fed's preferred measure of inflation, the core PCE deflator, rose an above expected 0.4 per cent in April, with the annual rate lifting a tenth to 4.7 per cent (expectations were for it to remain unchanged).
 - Consumer confidence (as measured by the Conference Board) fell in May, driven by a notable decrease in consumers' assessment of their present situations and a more moderate easing in their future expectations.
 - Job openings increased in April to be back over 10 million, against expectations that they would decline for a fourth consecutive month.
- Euro area inflation eased further in May, with the headline CPI rising 6.1 per cent year-on-year (down from +7.0 per cent in April) and core inflation up 5.3 per cent (from +5.6 per cent). Meanwhile, economic confidence (as measured by the European Commission) fell in May, with confidence declining in both the services and industrial sectors.
- Business activity in China (as measured by the official NBS PMIs) slowed in April. Activity deteriorated in the manufacturing sector in the month, while the ongoing recovery in the construction and services sectors slowed.

Markets

Bond yields were lower on an easing of concerns for a US default, coupled with comments from Fed officials signalling a preference not to increase rates at the Federal Open Market Committee's next policy meeting. Equities and currencies were little changed, while commodities were mostly lower on softer China growth prospects.

Economic & Market Calendar

DATE	DETAILS
Domestic	Friday, 2 June: Home Loan Values (April) Monday 5 June: Company Profits (Q1) and Inventories (Q1) Tuesday 6 June: RBA Policy Decision (June) and Balance of Payments (Q1) Wednesday 7 June: GDP (Q1) and RBA's Lowe and Bullock Speaking Thursday 8 June: Trade Balance (Apr)
Offshore	US: Non-farm Payrolls, ISM Services (April) Euro area: Producer inflation (April) and Retail Sales (April) China: Trade Balance (May) and Inflation (May)

Economic and Financial Market Charts

CHART 1: THE APRIL MONTHLY CPI INDICATOR ROSE 6.8 PER CENT YEAR-ON-YEAR, UP FROM 6.3 PER CENT IN MARCH

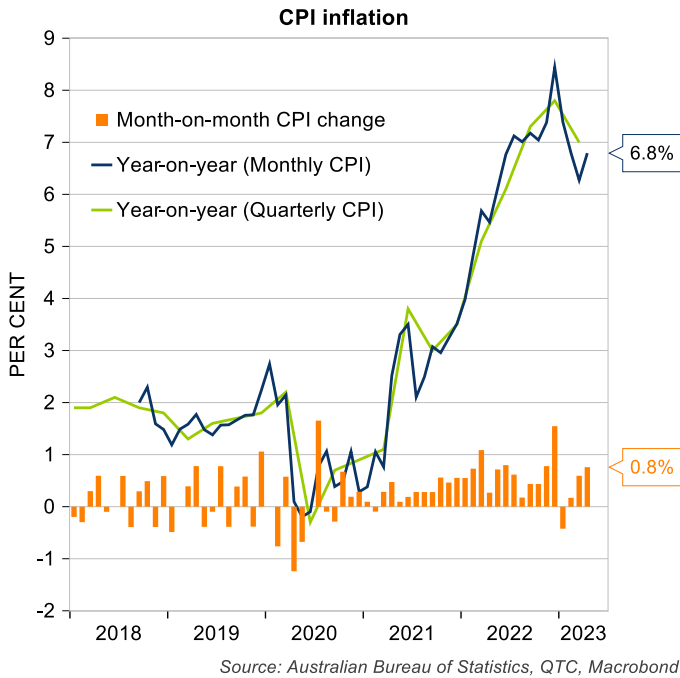


CHART 2: RETAIL SPENDING HAS BEEN BROADLY FLAT OVER THE PAST SIX MONTHS, WITH SPENDING AROUND OCTOBER 2022 LEVELS

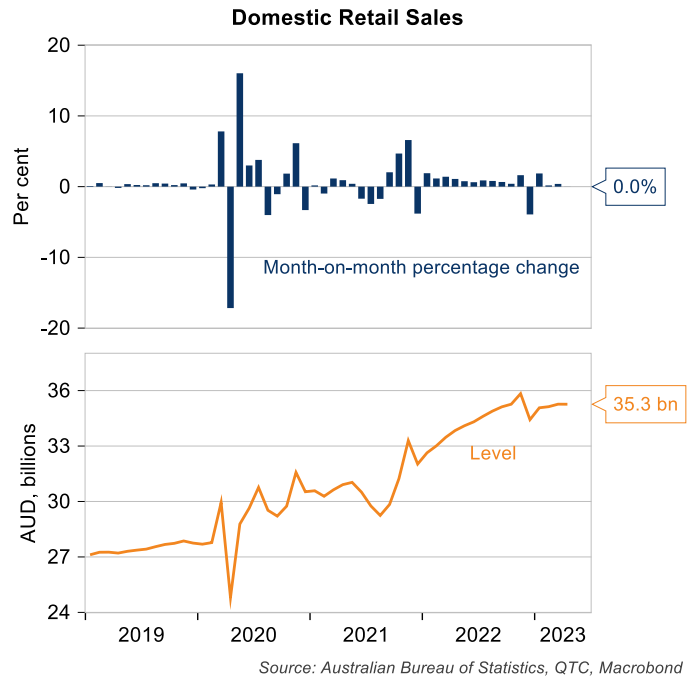


CHART 3: CONSTRUCTION WORK DONE AND PRIVATE CAPITAL EXPENDITURE INCREASED STRONGLY IN Q1 2023, WITH THE OUTCOMES FOR Q4 2022 ALSO REVISED HIGHER

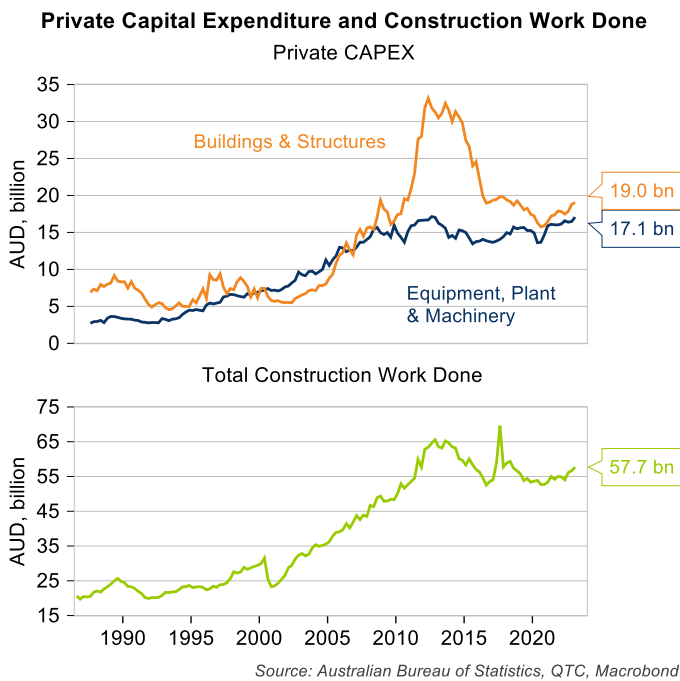
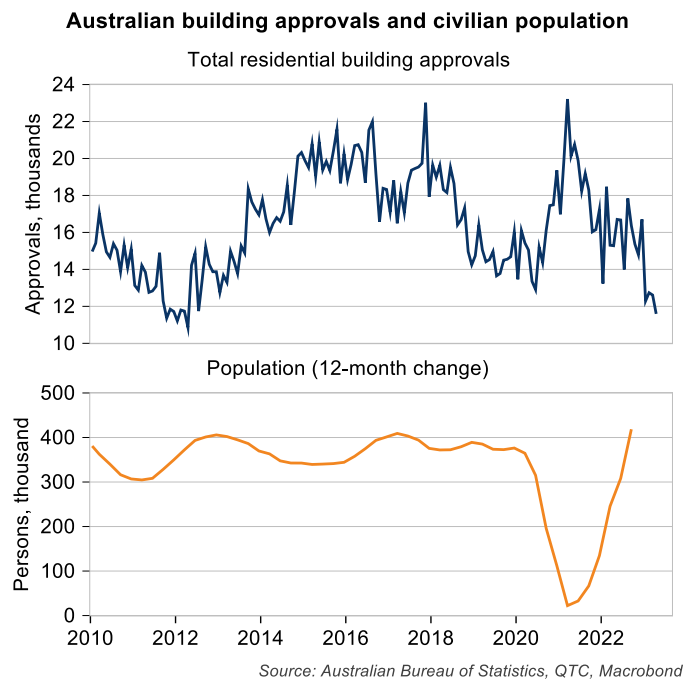


CHART 4: RESIDENTIAL BUILDING APPROVALS HAVE DECLINED SHARPLY SINCE THEIR MARCH 2021 PEAK, DESPITE A NOTABLE INCREASE IN POPULATION OVER THE SAME PERIOD



Economic and Financial Market Charts

CHART 5: US JOB OPENINGS ROSE IN APRIL, HIGHLIGHTING THE PERSISTENT STRENGTH IN THE US LABOUR MARKET



CHART 6: THE FED'S PREFERRED MEASURE OF INFLATION SHOWED AN UNEXPECTED INCREASE IN APRIL

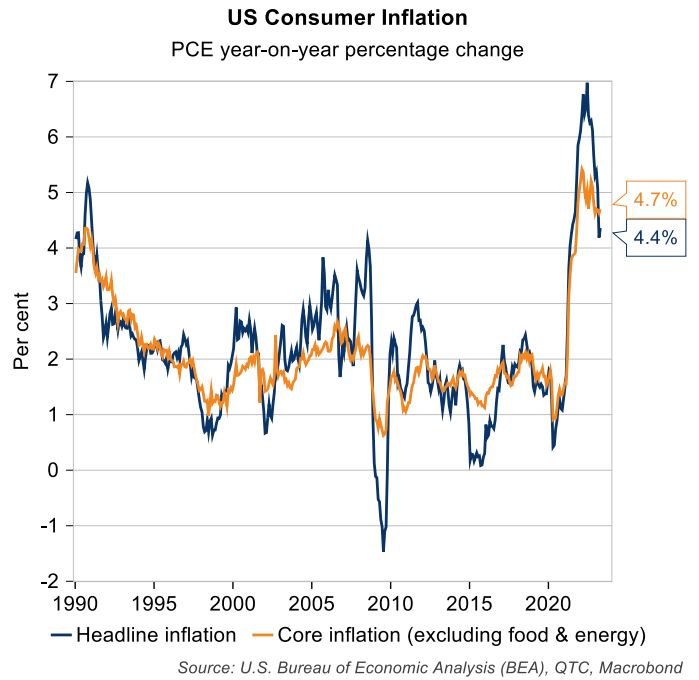


CHART 7: EURO AREA HEADLINE INFLATION HAS EASED NOTABLY FROM THE OCTOBER 2022 PEAK, LARGELY DRIVEN BY FALLING ENERGY PRICES, WHILE CORE INFLATION HAS PROVEN MORE PERSISTENT

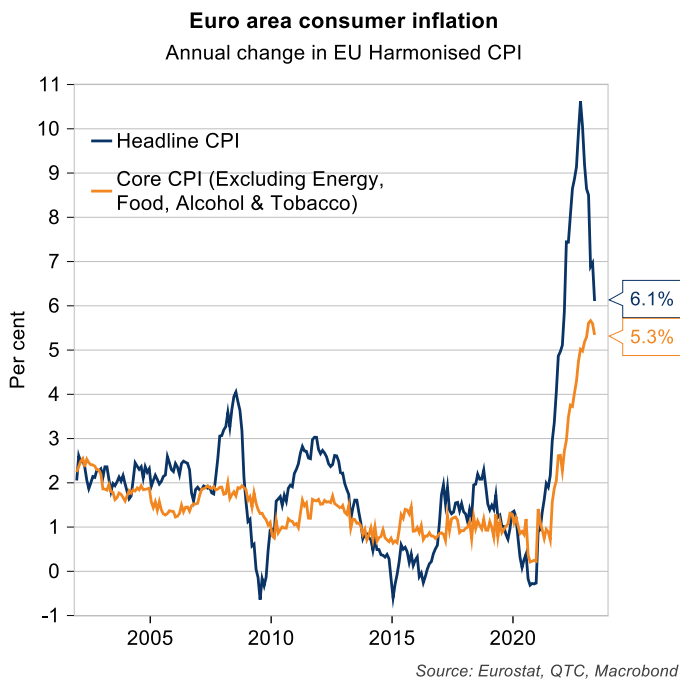
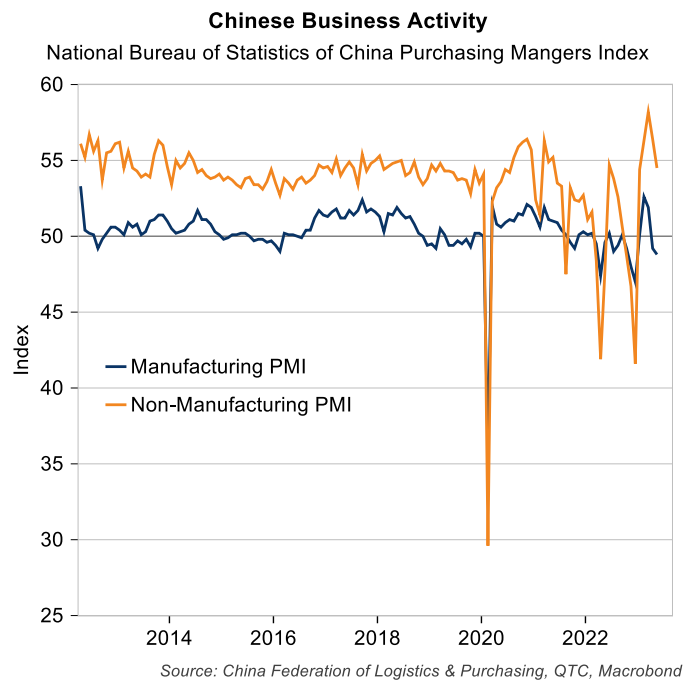


CHART 8: CHINA'S RECOVERY FROM COVID-19 LOCKDOWNS APPEARS TO BE SLOWING, WITH BOTH THE MANUFACTURING AND NON-MANUFACTURING PMI'S MOVING LOWER IN APRIL



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	3.72	-4	32	57	AUD/USD	0.6556	0.71	-1.59	-9.37
	NSWTC	3.72	-3	32	60	AUD/EUR	0.6110	0.69	0.69	-9.49
	TCV	3.79	-2	37	65	AUD/GBP	0.5236	-0.78	-2.06	-9.20
	WATC	3.72	-3	33	58	AUD/JPY	91.09	0.11	0.21	-3.02
	Australian Government	3.37	-3	37	47	AUD/CAD	0.8855	-0.18	-2.45	-2.87
	US Government	3.98	-23	31	116	AUD/NZD	1.0827	0.71	0.76	-2.18
						AUD/SGD	0.8844	0.32	-0.60	-10.93
5 Year	QTC	3.75	-4	30	35	AUD/HKD	5.1349	0.67	-1.81	-9.52
	NSWTC	3.80	-3	31	39	AUD/KRW	864.13	-0.15	-3.32	-4.13
	TCV	3.84	-2	34	40	AUD/CNY	4.6551	1.07	1.11	-3.48
	WATC	3.74	-3	30	32	AUD/INR	54.00	0.24	-0.87	-3.64
	Australian Government	3.38	-5	31	25	MAJOR CURRENCIES				
	US Government	3.70	-22	25	79	EUR/USD	1.0731	0.02	-2.26	0.13
						GBP/USD	1.2520	1.50	0.49	-0.19
7 Year	QTC	3.95	-4	29	34	USD/JPY	138.94	0.60	-1.82	-7.01
	NSWTC	4.01	-4	29	40	USD/CHF	1.1004	-0.42	-1.61	5.35
	TCV	4.03	-3	34	39	USD/CNY	7.1005	-0.35	-2.74	-6.49
	WATC	3.92	-5	29	32	MAJOR COMMODITIES				
	Australian Government	3.50	-7	29	21	Brent Crude Oil	74.28	-2.60	-1.38	-36.84
	US Government	3.65	-23	21	70	Gold	1,978.00	1.80	-1.80	5.97
						Copper	370.65	3.52	-3.68	-18.61
10 Year	QTC	4.25	-6	28	44	Iron Ore	101.75	-2.10	-3.18	-28.45
	NSWTC	4.35	-6	28	53					
	TCV	4.39	-4	34	53					
	WATC	4.21	-6	26	40					
	Australian Government	3.62	-9	26	22					
	US Government	3.60	-22	17	69					

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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