

Weekly Economics and Markets Review

- The RBA increased the cash rate by 25-basis points, lifting the cash rate to an 11-year high of 4.1 per cent.
- This, and hawkish commentary from RBA Governor Lowe, saw sharp moves higher in local bond yields this week.
- Australia's GDP rose in Q1 at its slowest quarterly pace since the COVID affected Q3 2021 as household consumption growth edged lower.
- The OECD revised up its global economic growth forecasts for 2023 with inflation expected to remain elevated over the next few years.

Week in review

Domestic

- The Fair Work Commission announced a 5.75 per cent increase for the nations' 2.6 million workers on award wages. It also lifted the minimum wage and adjusted classifications to do with it that will result in an 8.6 per cent pay rise for 180,000 workers. These increases were firmer than widely expected.
- The RBA increased the cash rate by 25-basis points to 4.1 per cent at its June meeting, an outcome which was at odds with the expectations of most economists and market pricing. The Bank acknowledged the lift in award wages and reiterated that *'unit labour costs are also rising briskly, with productivity growth remaining subdued.'* On inflation, it removed the comment that *'medium term inflation expectations remain well anchored'*. The Bank continues to note that *'some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe'*.
- The day after the June meeting RBA Governor Lowe gave a speech with key hawkish highlights (including from the Q&A) indicating that:
 - *'the desire to preserve the gains in the labour market does not mean that the Board will tolerate higher inflation persisting'*
 - while rising rates can place significant pressure on some households, *'this unevenness is not a reason to avoid using the tool that we have'*
 - *'there is a limit to how long inflation can stay above the target band'*
 - The Board could not just *'sit idle'* given these risks to inflation and that its patience *'has a limit'*
- It was also a busy week for data:
 - GDP rose 0.2 per cent over Q1 2023 to be 2.3 per cent higher over the year. Household consumption slowed further, dwelling investment declined and net exports were a drag on growth, though business investment and government spending were solid.
 - Of concern to the RBA, the labour cost of producing a unit of output was up almost eight per cent over the year. Outside of a spike during COVID, this is the fastest growth since Q3 1990. A key factor behind this has been the collapse in productivity with growth in output per hour worked down 4.5 per cent over the year, the weakest on record (data back to 1979).
 - Job ads rose 0.1 per cent in May according to *ANZ-Indeed* while falling 0.6 per cent according to *Seek*.
 - Home loan values fell in April against the consensus expectation for an increase after lending in March rose for the first since January 2022.

- The trade surplus eased to \$11.2 billion in April (from \$14.8 billion in March) with import values rising and export values declining. On the latter, tourism exports soared which drove services exports higher. Rural export values declined following a strong gain the prior month, while coal prices and iron ore volumes drove a decline in non-rural goods export values.

Offshore

- The OECD revised up its global GDP growth forecast for 2023 by one-tenth to +2.7 per cent. Outside of the 2020 pandemic period, this is the lowest annual rate since projected since the GFC. Growth is then forecast to pick-up to +2.9 per cent in 2024. Global headline inflation is expected to ease from 7.8 per cent in 2022 to 6.1 per cent over 2023 and then 4.7 per cent in 2024. The moderation in inflation is driven by lower food and energy prices.
- The Bank of Canada lifted rates by 25-basis points to 4.75 per cent, bringing to a surprise end the Bank's *'conditional pause'* which began in January 2023. In justifying the decision, the post-meeting statement noted *'underlying inflation remains stubbornly high'* and that policy was not sufficiently restrictive to align supply and demand and return inflation sustainably to the two per cent target.
- President Biden signed an agreement to suspend the US debt ceiling through 2024 and limit federal spending for two years, averting a US debt default.
- In the **US**, the US labour market update for May was mixed, with a much stronger than expected 339,000 jobs added and payrolls outcomes from prior months revised higher. However, the separate household survey saw the unemployment rate lift three-tenths to 3.7 per cent amid a drop in household employment and a lift in participation. Average hourly earnings were solid in May, with annual wages growth easing one-tenth to a robust +4.3 per cent. Meanwhile, activity in the US services sector (as measured by the *ISM Services PMI*) moderated, with a broad-based weakening across various components.
- In the euro area:
 - GDP for Q1 was revised lower implying that the bloc was in a *'technical'* recession over the northern winter.
 - Producer inflation slowed further in April with the headline PPI down 3.2 per cent over the month and up only one per cent over the year (down from a record high of +43.4 per cent in August 2022).
 - The *ECB's Consumer Expectations Survey* reported one-year inflation expectations fell to 4.1 per cent (from 5.0 per cent), while the three-year ahead measure eased by four-tenths to +2.5 per cent.

Markets

Bond yields rose notably on the surprise interest rate increases from the RBA and Bank of Canada.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday, 13 June: NAB Business Survey (May), CBA Household Spending (May), Westpac Consumer Confidence (June) Thursday, 15 June: Labour Force Survey (May)
Offshore	US: FOMC Rate Decision (14 June), CPI (May), Retail Sales (May), Average Earnings (May), Producer Inflation (May), Consumer Sentiment (June) euro area: ECB Policy Decision (15 June) UK: Employment (Apr), GDP (Apr) Japan: Bank of Japan Policy Decision (16 June), Producer Inflation (May) China: Monthly Activity (May), New Yuan Loans (May)

Economic and Financial Market Charts

CHART 1: THE RBA'S TIGHTENING CYCLE HAS BEEN SIGNIFICANT, WITH THE BOARD HAVING DELIVERED 400-BASIS POINTS OF RATE HIKES SINCE MAY 2022, THOUGH MARKETS EXPECT THE PEAK TO COME SOON

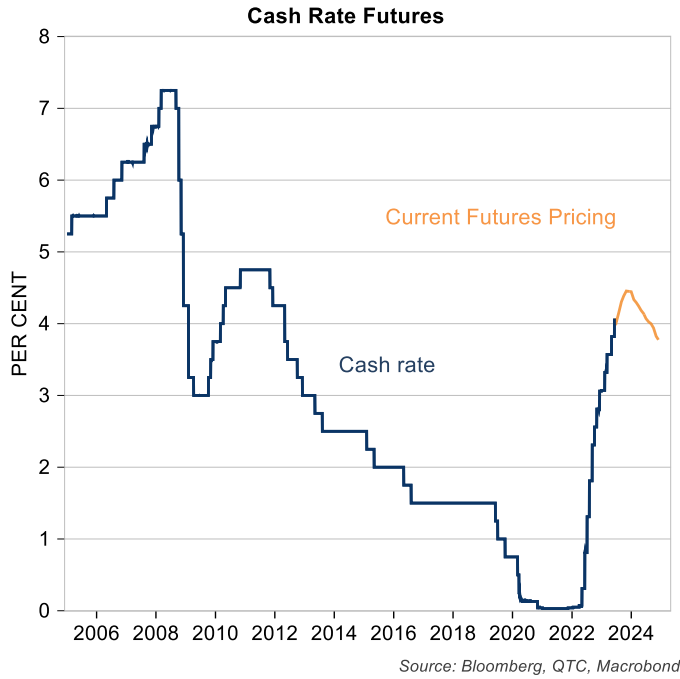


CHART 2: THIS SHARP INCREASE IN INTEREST RATES HAS SEEN DOMESTIC GDP GROWTH SLOW OVER THE PREVIOUS FEW QUARTERS

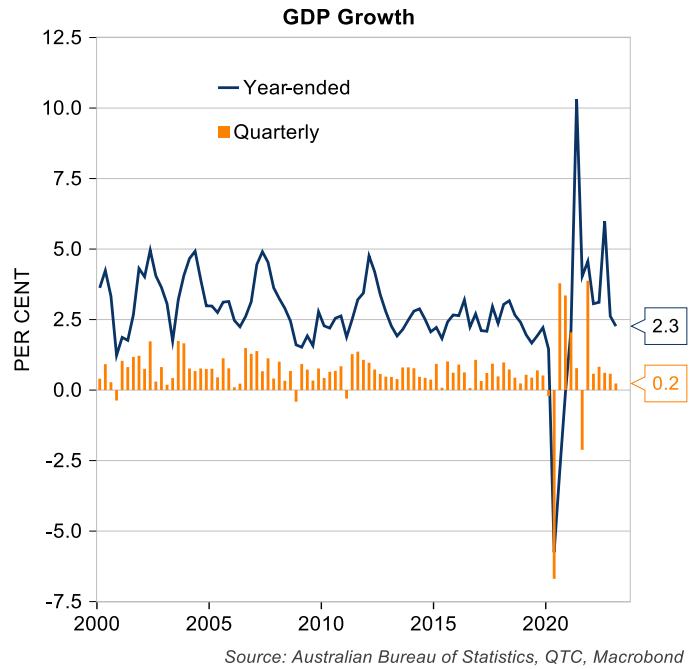


CHART 3: ... AND WITH THIS, THE LEVEL OF GDP IS NOW MARGINALLY BELOW ITS PRE-PANDEMIC TREND

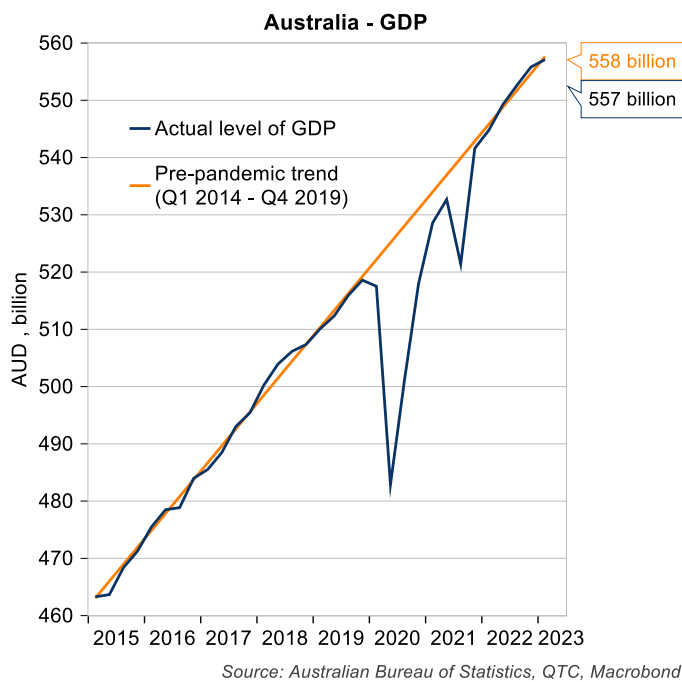
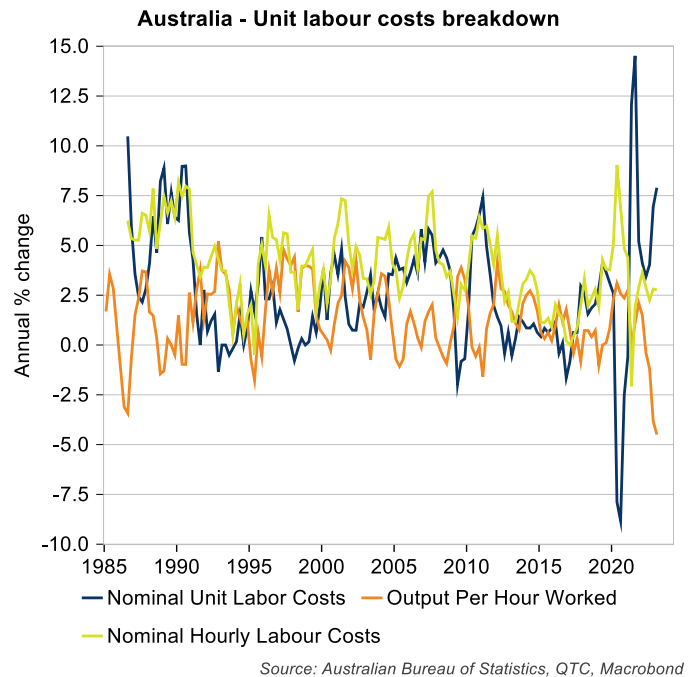


CHART 4: THE LABOUR COST OF PRODUCING A UNIT OF OUTPUT IN AUSTRALIA IS INCREASING DUE TO A COLLAPSE IN PRODUCTIVITY



Economic and Financial Market Charts

CHART 5: AUSTRALIA'S TRADE SURPLUS NARROWED AS EXPORTS FELL AND IMPORTS ROSE

CHART 6: HOME LOAN VALUES FELL AGAIN IN APRIL, PARTIALLY REVERSING THE MARCH INCREASE

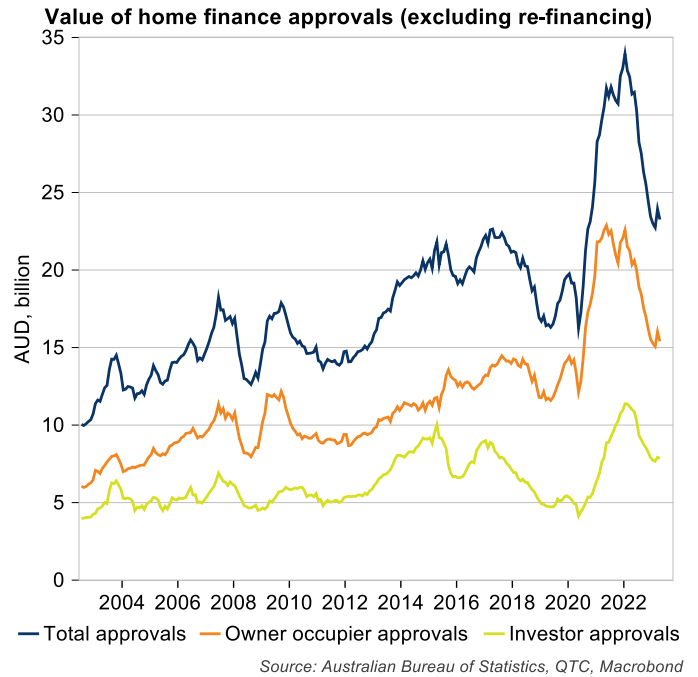
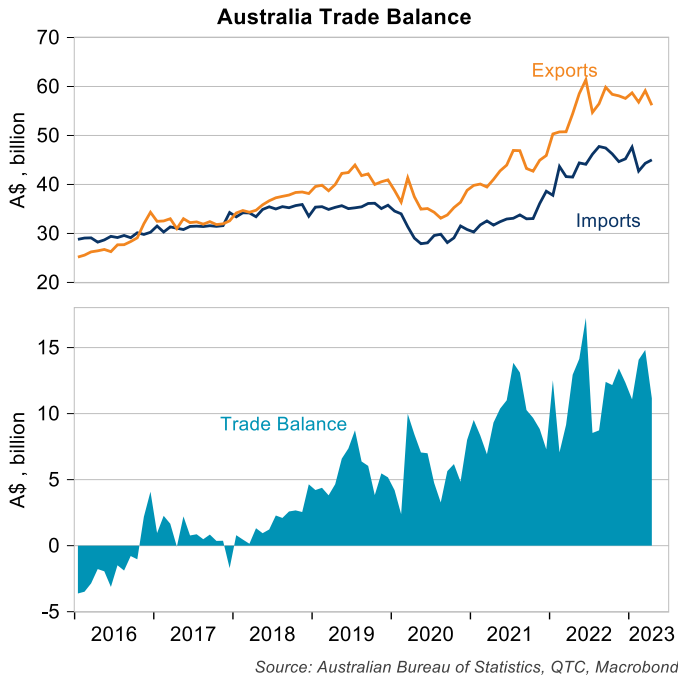
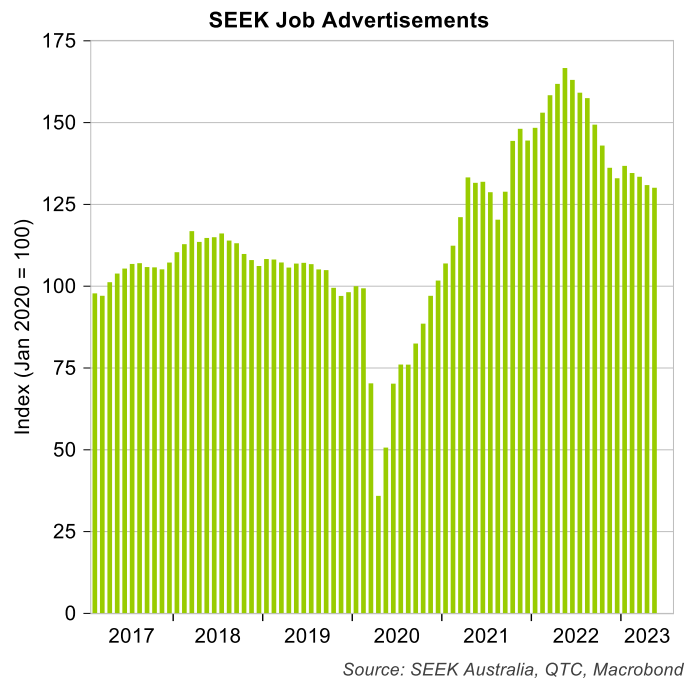
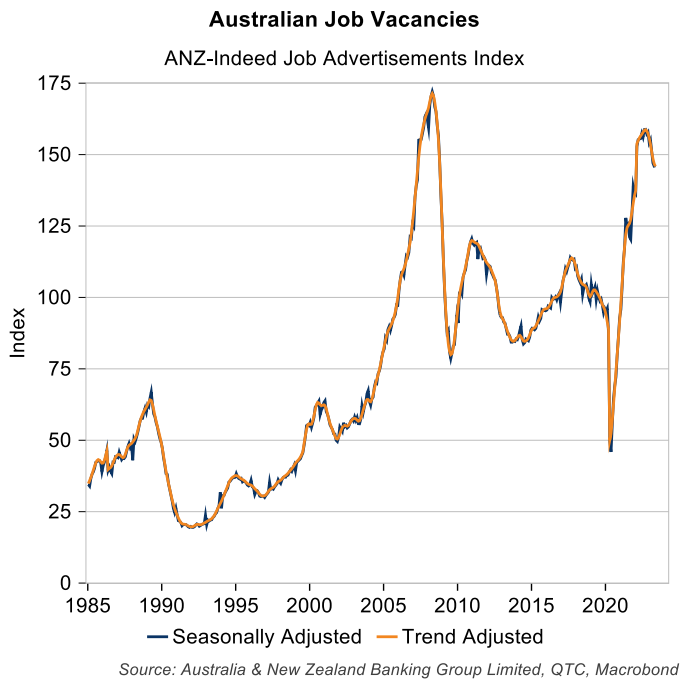


CHART 7: THOUGH DOMESTIC JOB ADS HAVE FALLEN FROM EARLIER PEAKS, THEY REMAIN HISTORICALLY VERY ELEVATED...

CHART 8: THOUGH THE CONSISTENCY OF THE FALLS - SUCH AS 11 FALLS OUT OF THE LAST 12 MONTHS IN THE SEEK SERIES - DOES POINT TO EMERGING SOFTNESS IN THE LABOUR MARKET



Economic and Financial Market Charts

CHART 9: WHILE THE US UNEMPLOYMENT RATE UNEXPECTEDLY ROSE IN MAY, IT REMAINS HISTORICALLY VERY LOW



CHART 10: US SERVICE SECTOR CONDITIONS CONTINUE TO IMPROVE BUT THE PACE AT WHICH IT DID SO MODERATED FURTHER IN APRIL

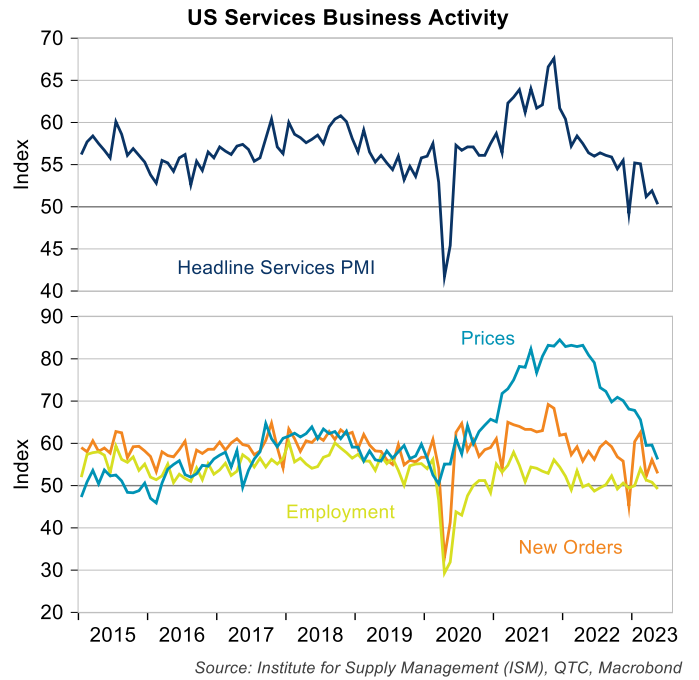


CHART 11: EURO AREA PRODUCER PRICE INFLATION EASED FURTHER...

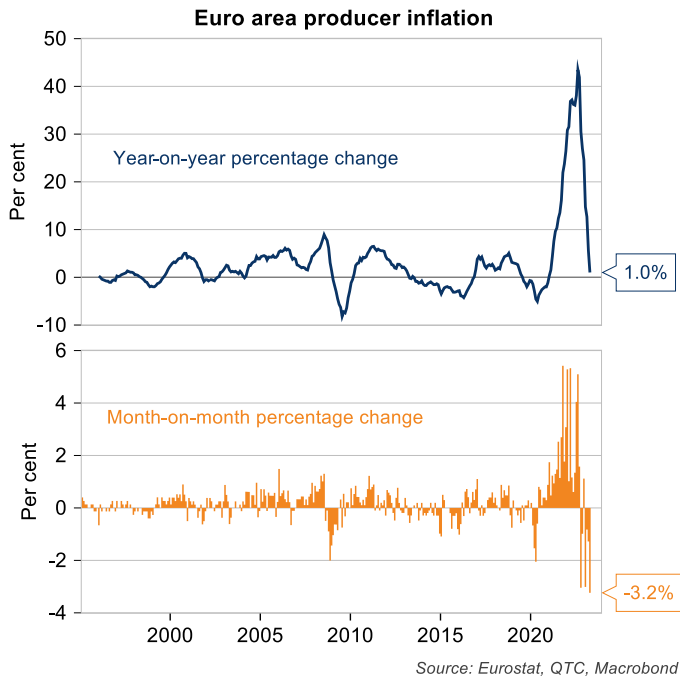
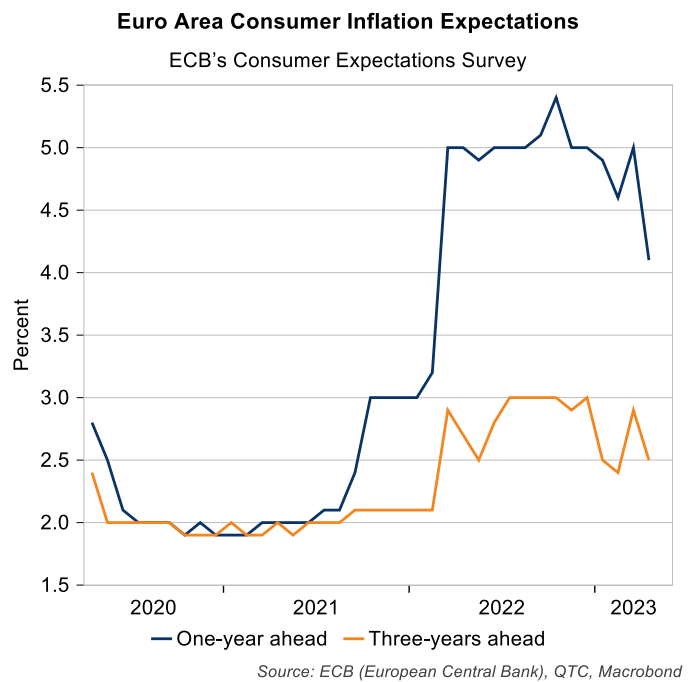


CHART 12: ...WHILE EURO AREA CONSUMER INFLATION EXPECTATIONS SLOWED, THOUGH REMAIN ABOUT THE ECB'S TWO PER CENT TARGET



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	4.15	43	70	76	AUD/USD	0.6715	2.08	-0.56	-5.70
	NSWTC	4.16	44	72	83	AUD/EUR	0.6226	1.85	0.99	-6.87
	TCV	4.22	43	75	81	AUD/GBP	0.5348	1.90	-0.12	-6.01
	WATC	4.14	42	70	76	AUD/JPY	93.262	2.14	2.10	-2.38
	Australian Government	3.87	49	81	78	AUD/CAD	0.8966	1.41	-0.86	-0.52
	US Government	4.16	18	44	116	AUD/NZD	1.1018	1.64	3.18	-0.92
						AUD/SGD	0.9016	1.71	0.52	-8.30
5 Year	QTC	4.16	40	67	52	AUD/HKD	5.262	2.13	-0.64	-5.86
	NSWTC	4.20	41	68	58	AUD/KRW	875.04	0.65	-2.13	-2.27
	TCV	4.24	40	70	57	AUD/CNY	4.7747	2.34	1.99	0.25
	WATC	4.14	40	67	49	AUD/INR	55.170	2.75	-0.58	-1.21
	Australian Government	3.84	46	72	54	MAJOR CURRENCIES				
	US Government	3.86	16	36	79	EUR/USD	1.0699	-0.59	-2.40	0.77
						GBP/USD	1.2438	-0.71	-1.44	-0.44
7 Year	QTC	4.32	37	63	50	USD/JPY	140.13	0.97	3.62	4.30
	NSWTC	4.39	38	64	57	USD/CHF	0.9101	0.51	2.20	-7.16
	TCV	4.40	37	67	55	USD/CNY	7.1362	0.58	3.09	6.57
	WATC	4.29	36	62	47	MAJOR COMMODITIES				
	Australian Government	3.92	43	67	49	Brent Crude Oil	75.96	2.26	-1.91	-38.28
	US Government	3.79	15	30	71	Gold	1,966.37	-0.61	-3.18	6.36
						Copper	8,347.50	1.26	-2.84	-13.18
10 Year	QTC	4.60	34	58	60	Iron Ore	110.29	8.04	10.25	-13.84
	NSWTC	4.72	36	60	70					
	TCV	4.74	35	63	68					
	WATC	4.53	33	55	54					
	Australian Government	4.01	39	61	49					
	US Government	3.72	12	20	68					

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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