# Weekly Economics and Markets Review



- Comments from RBA Governor Lowe and the Minutes to the August policy meeting indicated the Bank was in a phase of assessing the impact of prior policy hikes.
- The Labour Force Survey for July was weaker than expected with the unemployment rate lifting to 3.7 per cent. Seasonal issues may have played a role in this according to the ABS. Meanwhile, wages growth for Q2 was little changed from the March quarter.
- It was a particularly busy week for data offshore, with US retail sales and industrial production solid in July, UK consumer and wages inflation remaining elevated, and Chinese activity data disappointing.

# Week in review

## **Domestic**

- In news out of the RBA this week:
  - Governor Lowe gave his final testimony before Parliament his term ends in mid-September. Lowe reiterated the RBA's tightening bias but suggested the Bank was in a 'calibration phase' as it assesses the impact of prior tightening on spending and inflation. The Governor suggested that the Bank could return inflation to its two-to-three per cent target by 2024 if it delivered an additional 100-basis points of tightening, but that it was comfortable being more patient and having inflation return to target by 2025.
  - The Minutes of the RBA's August meeting suggested the decision to hold rates at 4.1 per cent reflected signals inflation was 'heading in the right direction' and the labour market 'might be at a turning point.' The Minutes suggested policymakers again debated keeping rates unchanged or hiking by 25-basis point, ultimately concluding the argument for holding steady rates 'was the stronger one'. However, the Minutes again suggested 'it was possible that some further tightening of monetary policy might be required.'
- The ABS' Labour Force Survey in July was softer than expected.
  - Employment fell by 14,600 as a drop in full-time work (-24,600) more than offset a rise in part-time (+9,600). This is the second decline in the last four months, though the ABS suggested that seasonal volatility may have impacted as 'July includes the school holidays, and we [the ABS] continue to see some changes around when people take their leave and start or leave a job. It's important to consider this when looking at month-to-month changes, compared with the usual seasonal pattern'.
  - Lower employment saw the unemployment rate rise two-tenths to
     3.7 per cent, despite the participation rate easing one-tenth to 66.7 per cent.
  - Hours worked lifted over the month, even with the fall in employment, as hours worked per employee continued to rise.
- The Wage Price Index (excluding bonuses) rose +0.8 per cent in Q2, with the annual growth rate easing one-tenth to 3.6 per cent (against expectations it would be unchanged). The details showed private-sector wage growth increased +0.8 per cent (+3.8 per cent year-on-year), while public-sector wage growth rose +0.7 per cent (+3.1 per cent year-on-year). By industry, 11 of 18 industries saw a rise in the pace of annual wage growth. Fewer workers than normal received a pay rise this quarter, but for those that did, the size of the increase was higher than previously.

# Offshore

The Minutes from the FOMC's July meeting provided limited new insight on the outlook for policy, though they did note that two Fed officials favoured holding rates steady in July (when the Committee hiked rates by 25-basis points).

- On the **US** data front:
- The University of Michigan's gauge of consumer sentiment fell slightly in August, with an increase in current conditions more than offset by a drop in expectations.
- Two separate surveys on consumer inflation expectations (one by the University of Michigan and the other by the New York Fed) both eased in line with lower realised inflation has softened over recent months.
- The annual pace of headline producer inflation slowed further, though the core measures (which exclude the more volatile items such as food and energy) were unchanged.
- Headline and core retail sales surprised to the upside in July, with many market commentators suggesting volumes were boosted by record sales on Amazon Prime Day.
- Industrial production also rose above expectations in July as automobile assemblies increased to the highest level since December 2018.
- It was a key week for data out of the UK:
  - Monthly GDP growth was strong in June which pushed Q2 GDP above expectations. For the quarter, solid consumption (household and government) and investment was partially offset by a drag from net trade.
- Headline inflation eased to +6.8 per cent year-on-year (from +7.9 per cent) in July, while core inflation (which excludes energy, food, alcohol, and tobacco) was unchanged at 6.9 per cent. The details of the report showed the easing in headline inflation was largely driven by falling energy prices.
- Labour market data were somewhat mixed. The unemployment rate for the
  three-months to June rose two-tenths to 4.2 per cent as the level of
  employment fell for a second consecutive month. Meanwhile, wages growth
  picked up further with annual pace of regular pay (excluding bonuses)
  growth lifting three-tenths to +7.8 per cent year-on-year (the highest reading
  in the 22-year history of the current series).
- Chinese activity data for July disappointed already low expectations, with annual growth in retail sales, industrial production, fixed asset investment as well as property investment and property sales easing further. The unemployment rate rose one-tenth to 5.3 per cent. In response to these soft data, coupled with lacklustre credit growth and trade data last week, the People's Bank of China cut its one-year medium-term lending facility rate by 15-basis points to 2.50 per cent to help stimulate growth.
- Finally, Japanese real GDP growth rose a much stronger than expected
   1.5 per cent in Q2. However, the details were less positive, with much of the upside surprise driven by strong net exports with domestic consumption and capital expenditure growth slowing notably.

## **Markets**

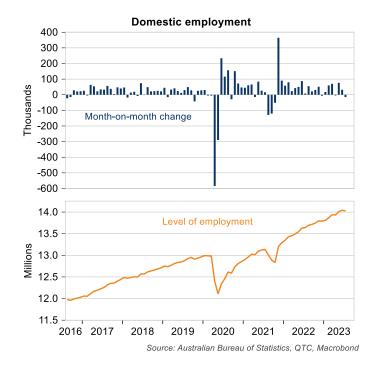
Ongoing producer price pressures pushed yields higher on Friday night with local yields also rising yesterday despite a weaker than expected Labour Force Survey for July. There is little to explain the rise in yields this week and now both Australian and US 10-year Government bond yields have now broken through the top of the range seen since June last year.

#### **Economic & Market Calendar**

DATE	DETAILS
Domestic	Wednesday: Retail Sales Excluding Inflation (Q2).
Offshore	Global: S&P PMIs (Aug).
	US: Existing and New Home Sales (Jul), Benchmark Revisions to US Employment, Durable Goods Orders (Jul).
	EMU: Consumer Confidence (Aug).

# **Economic and Financial Market Charts**

CHART 1: EMPLOYMENT IN JULY FELL THE MOST SINCE SEPTEMBER 2020, THOUGH SEASONAL ISSUES MAY HAVE DISTORTED THE RESULT



#### CHART 2: THE UNEMPLOYMENT RATE LIFTED BY TWO-TENTHS TO A STILL HISTORICALLY LOW 3.7 PER CENT

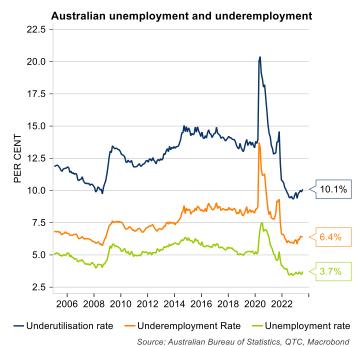
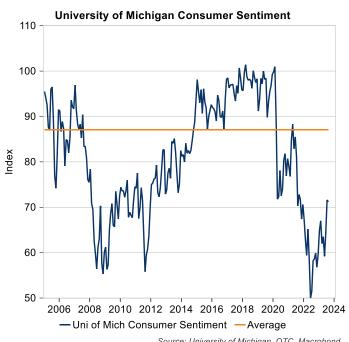


CHART 3: THE ANNUAL PACE OF WAGES GROWTH EASED A LITTLE IN Q2, **BUT REMAINS NOTABLY ABOVE AVERAGE** 



CHART 4: US CONSUMER SENTIMENT DIPPED IN AUGUST AND REMAINS AT BELOW AVERAGE LEVELS

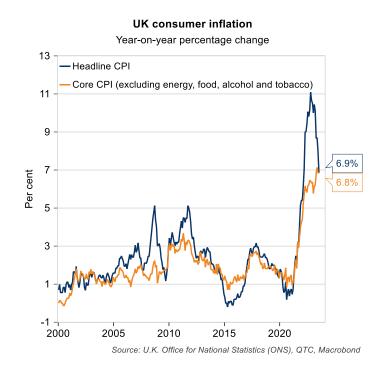


Source: University of Michigan, QTC, Macrobond

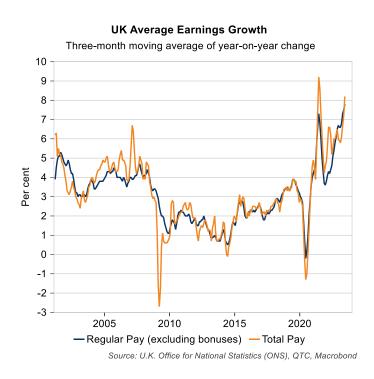
# **Economic and Financial Market Charts**

CHART 5: US CONSUMERS' NEAR-TERM INFLATION EXPECTATIONS HAVE EASED SHARPLY OF LATE IN-LINE WITH A FALL IN INFLATION

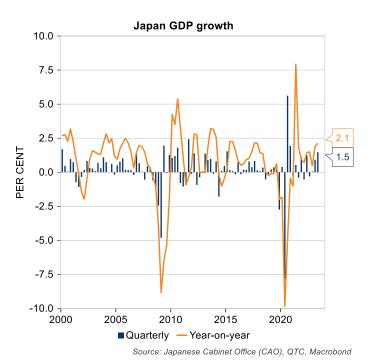
One-year ahead US consumer inflation expectations 6 5 Per cent 2 1 1985 1990 1995 2000 2005 2010 2015 2020 University of Michigan Survey
 New York Fed Survey Source: University of Michigan, Federal Reserve Bank of New York, QTC, Macrobond CHART 6: MEANWHILE, UK INFLATION WAS MIXED IN JULY, WITH HEADLINE PRICES EASING AS CORE INFLATION REMAINS STICKY...



# CHART 7: ...THIS AS THE ANNUAL PACE OF REGULAR WAGES GROWTH ACCELERATED TO A RECORD HIGH



# CHART 8: JAPANESE GDP GROWTH WAS SOLID IN Q2, THOUGH MUCH OF THIS WAS DRIVEN BY NET EXPORTS



### 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.

			CHANGE (BASIS POINTS)			
MATURITY ISSUER		YIELD	1WEEK	1M0NTH	1YEAR	
	QTC	4.21	18	-1	87	
	NSWTC	4.23	18	-0	92	
	TCV	4.27	17	-2	95	
3 Year	WATC	4.20	17	-1	86	
	Australian Government	3.97	19	5	97	
	US Government	4.65	14	30	143	
	QTC	4.29	22	8	85	
	NSWTC	4.34	23	9	87	
	TCV	4.35	22	7	89	
5 Year	WATC	4.27	22	8	83	
	Australian Government	4.02	23	16	93	
	US Government	4.41	18	40	138	
	QTC	4.52	24	17	94	
	NSWTC	4.60	24	18	98	
	TCV	4.59	23	16	96	
7 Year	WATC	4.49	23	16	90	
	Australian Government	4.17	26	25	100	
	US Government	4.36	18	46	139	
	QTC	4.86	25	24	108	
	NSWTC	4.95	25	22	109	
	TCV	4.97	25	22	113	
10 Year	WATC	4.77	25	22	101	
	Australian Government	4.30	27	33	104	
	US Government	4.27	17	49	139	

		CHANGE (PER CENT)				
EQUITIES	RATE	1WEEK	1M0NTH	1YEAR		
AUD/USD	0.642	-2.00	-5.64	-7.10		
AUD/EUR	0.5901	-0.77	-2.72	-13.83		
AUD/GBP	0.5031	-2.33	-3.61	-13.09		
AUD/JPY	93.817	-0.86	-0.88	0.08		
AUD/CAD	0.868	-1.24	-3.27	-3.10		
AUD/NZD	1.0814	-0.04	-0.26	-2.20		
AUD/SGD	0.8718	-1.22	-3.18	-8.98		
AUD/HKD	5.0267	-1.85	-5.44	-7.28		
AUD/KRW	861.16	-0.06	0.41	-5.62		
AUD/CNY	4.6605	-1.26	-4.81	-1.18		
AUD/INR	53.327	-1.68	-4.67	-3.80		
MAJOR CURRENCIES						
EUR/USD	1.0886	-1.16	-2.93	7.88		
GBP/USD	1.2733	0.13	-2.32	6.67		
USD/JPY	145.92	1.01	4.90	7.58		
USD/CHF	0.8794	0.63	2.32	-8.08		
USD/CNY	7.2988	1.11	1.57	7.41		

PRICE (USD)	1WEEK	1M0NTH	1YEAR
83.90	-2.89	5.36	-13.14
1,888.41	-1.68	-4.53	7.46
8,167.00	-2.61	-3.61	1.69
105.65	4.88	-5.34	7.14
	83.90 1,888.41 8,167.00	83.90 -2.89 1,888.41 -1.68 8,167.00 -2.61	83.90 -2.89 5.36 1,888.41 -1.68 -4.53 8,167.00 -2.61 -3.61

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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