

Weekly Economics and Markets Review

- Both labour market conditions as well as those painted by surveys of consumers and businesses were mixed according to local data released this week.
- On the offshore data front, Chinese inflation picked up while that in the US was mixed. UK data disappointed, with GDP and employment contracting.
- The European Central Bank (ECB) tightened policy and a key official from the Bank of Japan (BoJ) hinted at it could do likewise around year-end. In contrast, the People's Bank of China eased policy settings in a bit to stimulate bank lending.

Week in review

Domestic

- The August *Labour Force Survey* was a mixed bag:
 - Total employment rose by 64,900 (beating the +25,000 consensus expectation), though of that, only 2,800 were full-time jobs and 61,100 were part-time. The July decline in employment was also revised higher, falling only -1,400 from an initial estimate of -15,000.
 - The unemployment rate was unchanged at 3.7 per cent, while both the employment-to-population ratio and participation rate rose one-tenth to reach record highs.
 - Hours worked fell 0.5 per cent over the month but remained a solid 3.7 per cent higher year-on-year.
- The *NAB Business Survey* showed business conditions and confidence improved in August, with broad-based strength across categories. Conditions are around long-run average, though confidence is notably below.
- The *Westpac-Melbourne Institute Consumer Sentiment Index* fell in September. The details of the report were mixed, with perceptions of family finances compared to a year ago down to a new cycle low, while perceptions of family finances and economic conditions over the next 12-months improved. Confidence remains well below average.

Offshore

- The ECB raised interest rates by 25 basis points to four per cent in a move which was partially anticipated by both economists and investors. Following this move, the Governing Council (GC) noted that rates '*had reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to target.*' ECB President Lagarde commented in the post-meeting press conference that the GC would remain data dependent in terms of both the level of peak rates and the period of time that they would be kept at these levels.
- The European Commission downgraded its growth forecast for the European Union over 2023 and 2024. The Commission's inflation forecasts for 2023 were also revised down, while those for 2024 were increased.
- On the **US** data front:
 - Headline CPI rose an expected 0.6 per cent over August (an acceleration from the +0.2 per cent in July), to be 3.7 per cent higher over the year (up from 3.2 per cent in July). The core CPI (which excludes food and energy) rose 0.3 per cent over the month (slightly above the expected and prior increase of 0.2 per cent), with the annual rate slowing to +4.3 per cent (from +4.7 per cent in July).
 - This came as US consumer inflation expectations (as measured by the New York Fed) were mixed in August. Here, the one-year and five-year expectations rose one-tenth, while those three years ahead fell one-tenth. All remain above the Fed's two per cent inflation target.
- Producer price inflation rose 0.7 per cent in August, more than expected, to be 1.6 per cent higher over the year. Core producer price inflation (that is, excluding food and energy) rose 2.2 per cent – which was in line with expectations – to be 2.2 per cent higher over the year.
- US retail sales jumped by 0.6 per cent in August on a bounce in gasoline sales, though core sales only edged higher by 0.1 per cent. Both outcomes were better than anticipated.
- Small business optimism (as measured by the NFIB) fell more than expected in August, with business owners' views about sales growth and business conditions seen as '*discouraging*'.
- UK** data were largely disappointing:
 - GDP contracted 0.5 per cent in July, with notable declines across services and manufacturing. The Office for National Statistics did provide some explanation for the downside surprise, pointing to particularly wet weather impacting construction, accommodation, and retail, while industrial action affected the health and education sectors.
 - Employment in the three-months to July fell 207,000, the largest decline since October 2020, with the unemployment rate increasing one-tenth to 4.3 per cent.
 - In news likely not welcomed by the Bank of England, wages growth picked up, with headline earnings rising 8.5 per cent year-on-year, while wages excluding bonuses rose 7.8 per cent year-on-year.
- Chinese** consumer and producer inflation increased sequentially in August.
 - Headline consumer inflation picked up +0.1 per cent year-on-year (an increase from -0.3 per cent year-on-year in July). The details showed fuel prices and services inflation increased, while goods deflation narrowed, and food deflation was unchanged. The core CPI (excluding food and energy) was unchanged at +0.8 per cent year-on-year.
 - Producer inflation picked up to a still -3.0 per cent year-on-year (from -4.4 per cent year-on-year in July), with sequential increases in fuel and goods the key drivers.
 - Following disappointing results in July, credit growth surprised to the upside in August. Only a few days after this data were released the People's Bank of China announced a cut to banks' required reserve ratio. This means that banks need to hold less funds as liquid reserves and in principle, have more money available to make loans.
- The second estimate of **Japanese** GDP growth was revised down notably to +4.8 per cent annualised (from an initial reading of +6.0 per cent). The downgrade was driven by capital expenditure, though household consumption and exports were also revised lower.
- BoJ Governor Ueda indicated that it might be possible that the Bank might have seen enough data by the end of the year to conclude that its inflation target can be met in a sustainable manner so as to reduce the need for negative interest rates.

Markets

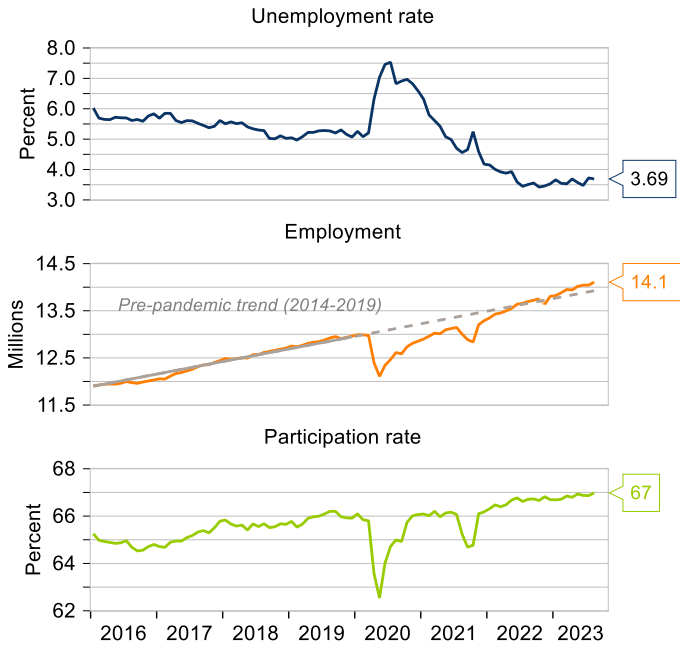
Bond yields were relatively rangebound over the week, ultimately finishing the week slightly lower. Equities and currencies were similarly little changed, while oil prices rose to a ten-month high in response to last week's announcements from Saudi Arabia and Russia that they would continue supply cuts.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA Minutes (Sep)
Offshore	Global: S&P Global PMIs (Sep) US: FOMC Policy Meeting (Sep), Housing Starts (Aug), Building Permits (Aug), Existing Home Sales (Aug) UK: Bank of England Policy Meeting (Sep), Consumer and Producer Inflation (Aug), Retail Sales (Aug) JPN: Consumer Inflation (Aug)

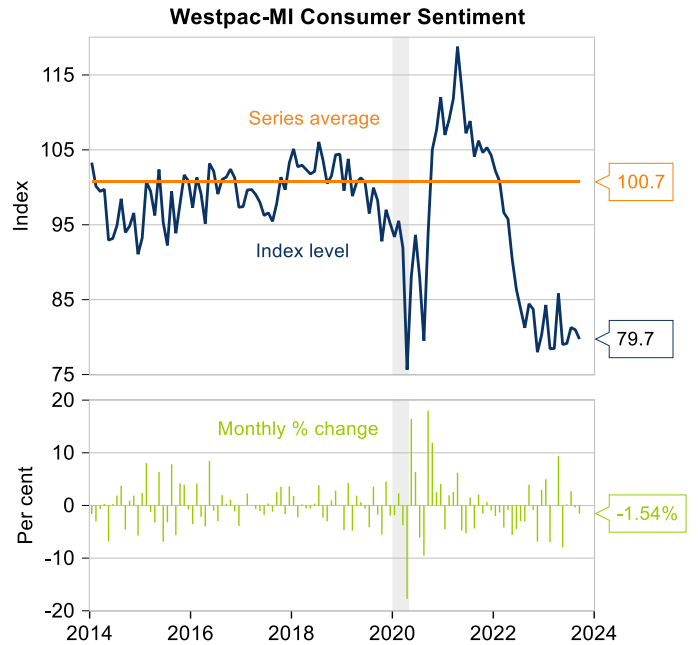
Economic and Financial Market Charts

CHART 1: THE DOMESTIC LABOUR MARKET REMAINS SOLID, WITH STRONG EMPLOYMENT GROWTH KEEPING THE UNEMPLOYMENT RATE AROUND LOW AND PUSHING THE PARTICIPATION RATE TO A NEW HIGH



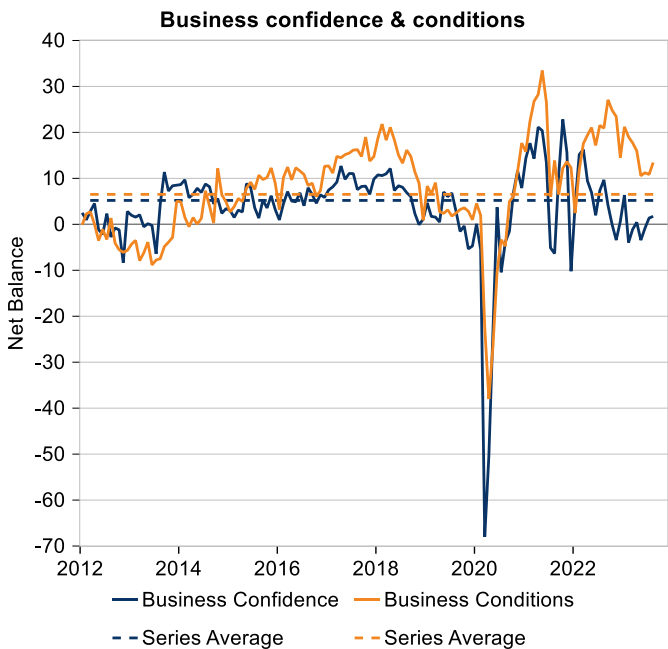
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: DOMESTIC CONSUMER SENTIMENT IS TRACKING AROUND 20 PER CENT BELOW THE LONGER-TERM AVERAGE, ALBEIT A BIT ABOVE THE CYCLE LOW IN 2020



Source: Westpac-MI, QTC, Macrobond

CHART 3: BUSINESS CONDITIONS REMAINS ABOVE THE LONG-RUN AVERAGE, WHILE BUSINESS CONFIDENCE IS BELOW



Source: National Australia Bank, QTC, Macrobond

CHART 4: CHINESE HEADLINE CONSUMER AND PRODUCER INFLATION PICKED UP IN AUGUST, THOUGH REMAIN LOW



Source: China National Bureau of Statistics (NBS), QTC, Macrobond

Economic and Financial Market Charts

CHART 5: THE UK LABOUR MARKET HAS STARTED TO SOFTEN...

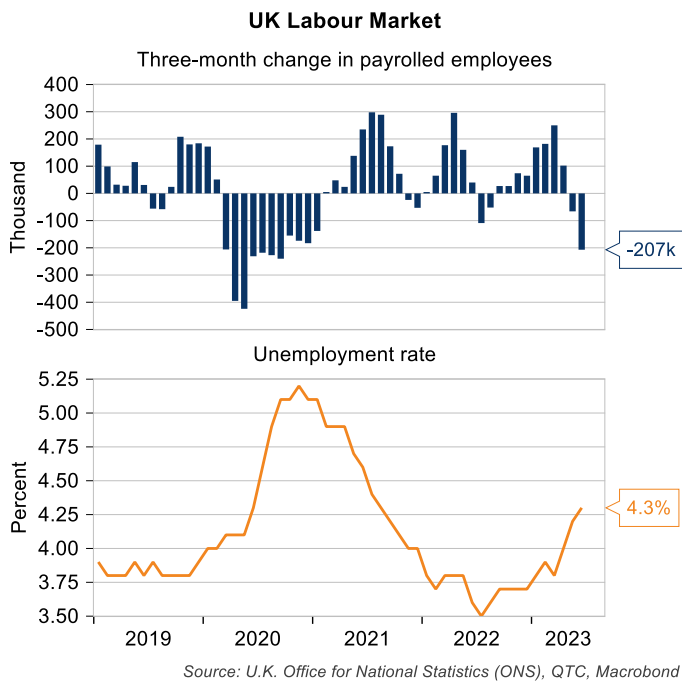


CHART 6: ... THOUGH WAGES GROWTH REMAIN HISTORICALLY HIGH



CHART 7: US CORE INFLATION LIFTED BY MORE THAN EXPECTED IN AUGUST

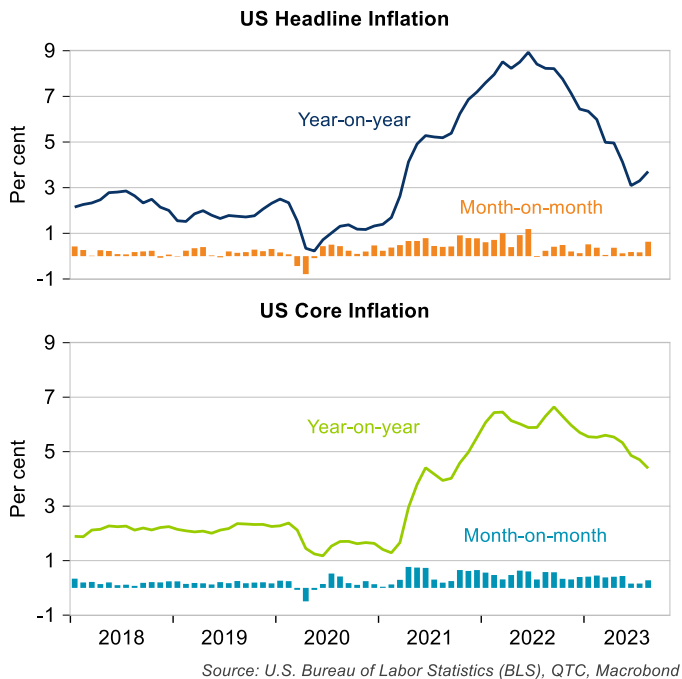
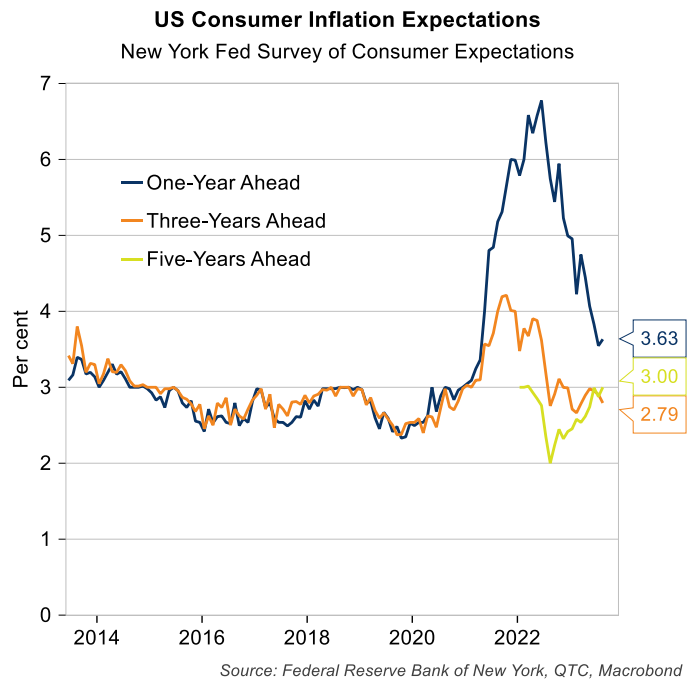


CHART 8: MEANWHILE, US INFLATION EXPECTATIONS REMAIN ABOVE THE FED'S TWO PER CENT TARGET



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	4.08	-2	-8	47	AUD/USD	0.6448	1.13	-0.32	-4.02
	NSWTC	4.10	-2	-7	51	AUD/EUR	0.6056	1.66	2.21	-9.80
	TCV	4.13	-2	-9	56	AUD/GBP	0.5194	1.63	2.16	-11.23
	WATC	4.06	-2	-8	46	AUD/JPY	94.944	1.23	0.83	-1.51
	Australian Government	3.83	-1	-7	56	AUD/CAD	0.8702	-0.31	-0.25	-1.87
	US Government	4.69	2	4	83	AUD/NZD	1.0888	0.41	0.42	-3.06
5 Year	QTC	4.14	-2	-6	40	AUD/SGD	0.8786	0.93	0.02	-7.14
	NSWTC	4.18	-3	-7	42	AUD/HKD	5.0481	1.00	-0.26	-4.26
	TCV	4.20	-2	-6	44	AUD/KRW	854.86	0.41	-1.04	-8.72
	WATC	4.12	-3	-6	39	AUD/CNY	4.6855	0.23	-0.52	-0.30
	Australian Government	3.85	-2	-8	47	AUD/INR	53.382	0.49	-0.93	-0.67
	US Government	4.42	5	5	76	MAJOR CURRENCIES	0.6448	1.13	-0.32	-4.02
7 Year	QTC	4.33	-4	-8	43	EUR/USD	0.6056	1.66	2.21	-9.80
	NSWTC	4.40	-5	-9	45	GBP/USD	0.5194	1.63	2.16	-11.23
	TCV	4.40	-3	-8	45	USD/JPY	94.944	1.23	0.83	-1.51
	WATC	4.30	-4	-8	38	USD/CHF	0.8702	-0.31	-0.25	-1.87
	Australian Government	3.97	-4	-9	47	USD/CNY	1.0888	0.41	0.42	-3.06
	US Government	4.37	5	6	79	MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
10 Year	QTC	4.66	-5	-8	51	Brent Crude Oil	1.0643	-0.50	-2.40	6.42
	NSWTC	4.75	-3	-7	53	Gold	1.2410	-0.51	-2.32	8.22
	TCV	4.76	-5	-10	54	Copper	147.44	0.10	1.28	2.72
	WATC	4.58	-4	-7	44	Iron Ore	0.8955	0.30	1.94	-6.88
	Australian Government	4.10	-4	-8	48					
	US Government	4.28	4	7	84					

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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