

Weekly Economics and Markets Review

- The RBA kept rates on-hold in RBA Governor Lowe's final meeting as Governor.
- Domestic GDP growth in Q2 was as expected, though the annual rate continues to slow.
- Offshore, US labour market conditions were mixed in August, while business activity was stronger than expected.

Week in review

Domestic

- The RBA left the cash rate unchanged at 4.1 per cent in Governor Lowe's final Board meeting, as was expected. As for the details of the meeting:
 - The decision was again framed as providing *'further time to assess the impact of the increase in interest rates to date'*.
 - The forward guidance was little changed, noting *'some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will continue [the addition of "continue" was the only tweak to the final guidance] to depend upon the data and the evolving assessment of risks.'*
 - On the economy, the language on the labour market was marginally softer (the September statement referred to it as *'tight'*, whereas the August statement had labelled it *'very tight'*). Given recent weakness, the RBA warned of *'increased uncertainty around the outlook for the Chinese economy'*. The language on inflation also was slightly tweaked, now noting it had *'passed its peak'* but that it was *'still too high'*.
- Philip Lowe spoke for the last time as RBA Governor. While Lowe did not provide any outlook for policy, he did reflect that *'with the benefit of hindsight, my view is that we did do too much'* in terms of policy stimulus during and coming out of the pandemic that. He also recognised that the Bank had some communication issues and encouraged further action to boost productivity growth.
- As expected, GDP rose 0.4 per cent in Q2. Amid upward revisions to the prior quarters, year-ended growth eased a less than expected three-tenths to +2.1 per cent. The details of the GDP report were mixed:
 - Household consumption growth eased to +0.1 per cent in Q2, from +0.2 per cent in Q1. Weakness across household furnishings and recreation was broadly offset by gains across new vehicles and services.
 - Public demand was strong with investment up 8.2 per cent (the largest rise since 2012) on higher state and local government as well as defence spending. Consumption rose a more modest 0.4 per cent.
 - Private investment rose a robust 2.4 per cent on the quarter. While residential investment fell, business investment accelerated on a lift in machinery and equipment spending aided by a pull-forward of spending ahead of the expiration of government incentive payments.
 - Inventories dragged on growth as they were drawn down over the quarter with the ABS noting *'improved weather and reduced bottlenecks'* allowed higher port shipments. Meanwhile, net exports added to growth as services export volumes jumped notably.
 - Price measures stayed firm with the household consumption deflator up 1.3 per cent on the quarter and unit labour costs (the labour cost of producing one unit of output) up 1.6 per cent. The latter was impacted by a 2.0 per cent dip in output per hour worked (labour productivity), which in-turn was affected by a 2.5 per cent rise in hours worked.

- The value of home loan approvals fell in July driven by a dip in owner-occupier approvals with investor approvals little changed.
- The ANZ-*Indeed Job Ads Index* rose in August and, while it is 7.8 per cent below its 2022 peak, it is still 52.2 per cent above pre-COVID levels.

Offshore

- In offshore central bank news:
 - The Fed's Beige Book of regional economic conditions reported growth was *'modest'* over the past few months, that jobs growth was *'subdued'* and that most districts noted that inflation had *'slowed overall'*.
 - There were again mixed comments from Fed officials, with some arguing recent data did not show that the FOMC needed to increase rates further, while others believed it did (particularly citing on-going elevated inflation).
 - There was also a split among ECB policymakers, with some warning against doing too much while others suggested more needed to be done (also citing that inflation remained too high).
 - The Bank of Canada kept policy settings unchanged at its September meeting, as was expected, but noted concern *'over the persistence of underlying inflation'* and stated policymakers were *'prepared to increase the policy rate further if needed.'*
- The US labour market update for August was mixed:
 - Non-farm payrolls rose a stronger than expected 187,000. However, the good news was offset by downward revisions of 110,000 being made to the prior two months' outcomes.
 - The unemployment rate increased three-tenths to 3.8 per cent (expectations were for it be unchanged), as the number of jobs created on the month was not able to keep pace with a large increase in people looking for work. The latter was evident in a two-tenths increase in the participation rate to 62.8 per cent.
 - Average hourly earnings increased less than expected, with annual growth declining one-tenth to +4.3 per cent.
- In other data out of the US, business activity in August (as measured by the *ISM PMIs*) improved with manufacturing conditions moderating at a slower rate than before and service sector conditions improving at a quicker pace.
- Chinese business activity (as measured by the *Caixin PMIs*) was also mixed in August. Manufacturing conditions are now improving as opposed to moderating while those in the services sector are improving but at a slower rate than before.

Markets

Solid US economic data saw bond yields lift over the week. Oil prices rose as Saudi Arabia and Russia extended their voluntary production cuts through to the end of the year. Stronger data and higher oil prices boosted the US Dollar with this weighing on other currencies, including the Australian Dollar, which hit its lowest level of the year so far.

Economic & Market Calendar

| DATE | DETAILS |
|----------|---|
| Domestic | Tuesday: Westpac Consumer Sentiment (Sep), NAB Business Survey (Aug) Thursday: Labour Force Survey (Aug) |
| Offshore | US: Consumer Inflation (Aug), Retail Sales (Aug), Uni of Michigan Consumer Sentiment (Sep), Producer Inflation (Aug), Industrial Production (Aug) EMU: ECB Policy Meeting (Sep), Industrial Production (Jul), Labour Costs (Q2) UK: Employment (Jul), GDP (Jul), Industrial Production (Jul) CHN: Consumer Inflation (Aug), Monthly Activity Data (Aug), Producer Inflation (Aug), Yuan Loans (Aug), Medium-Term Lending Facility Rate (Sep) |

Economic and Financial Market Charts

CHART 1: THE PACE OF DOMESTIC GDP GROWTH SLOWED IN THE JUNE QUARTER...

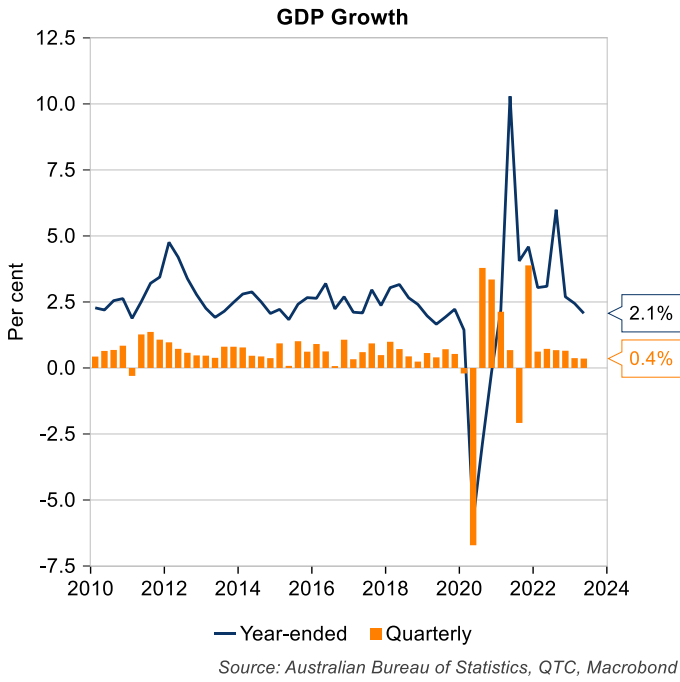


CHART 2: ... WITH INVESTMENT AND EXPORTS BEING THE MAIN DRIVERS OF GROWTH, WHILE INVENTORIES PROVED TO BE THE MAJOR DRAG...

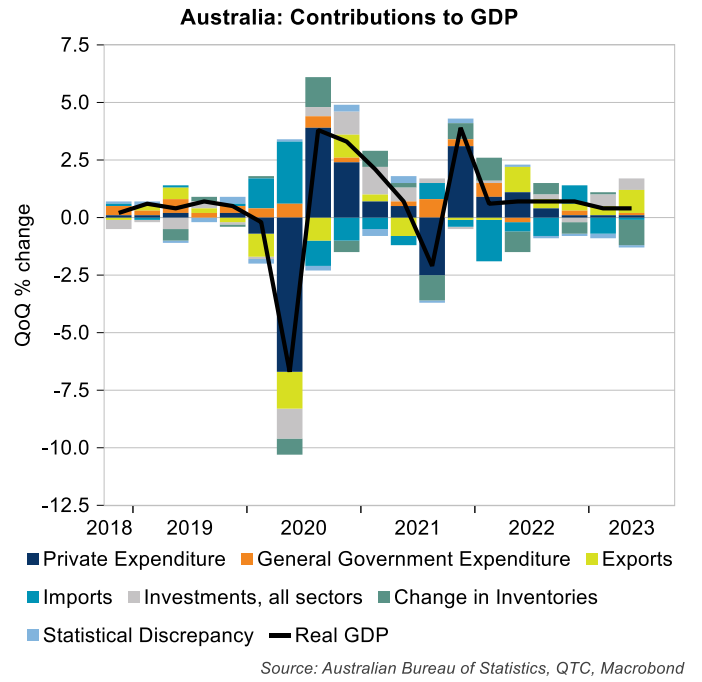


CHART 3: DOMESTIC HOUSEHOLD CONSUMPTION HAS SLOWED NOTABLY OVER THE PRIOR FEW QUARTERS

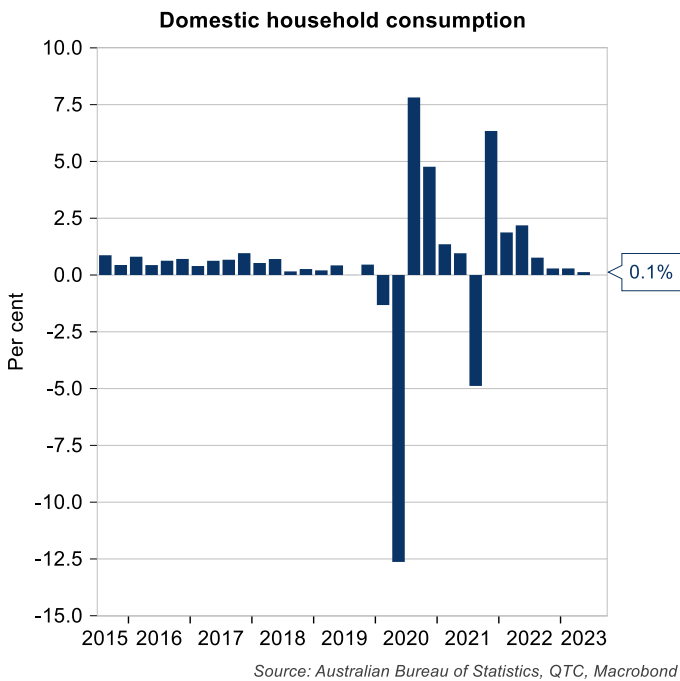
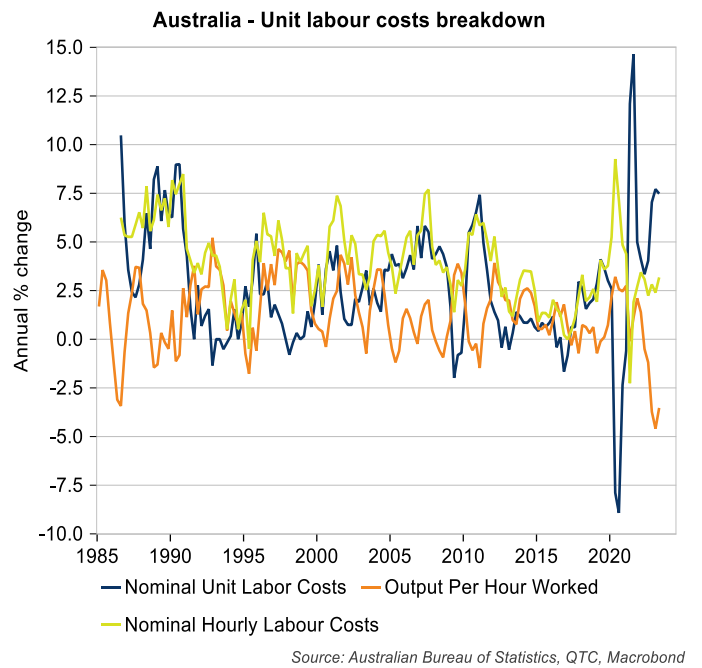


CHART 4: UNIT LABOUR COSTS REMAIN HIGH IN AUSTRALIA WHICH WILL KEEP PRESSURE ON INFLATION



Economic and Financial Market Charts

CHART 5: THE PACE OF US NON-FARM PAYROLLS GROWTH HAS SLOWED NOTABLY AS SUPPLY AND DEMAND IN THE LABOUR MARKET REBALANCES

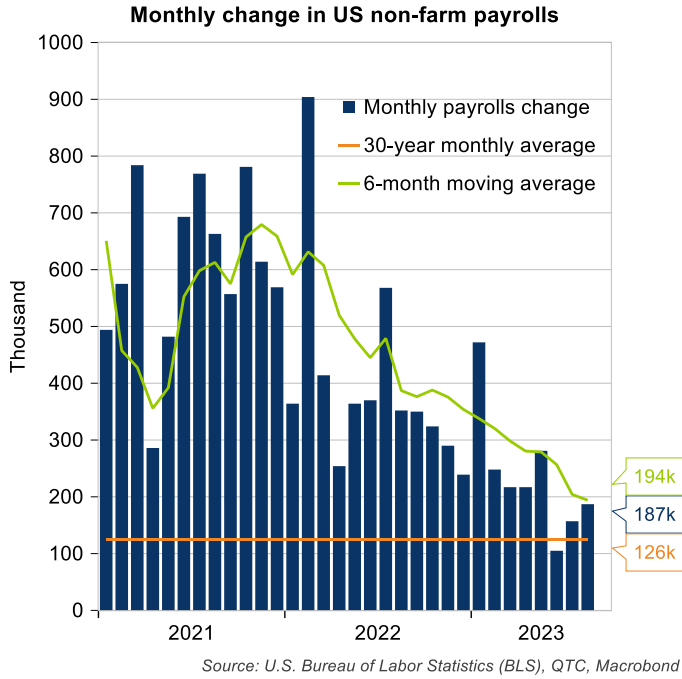


CHART 6: FIRM JOBS GROWTH WAS NOT ENOUGH TO MATCH A LARGE INCREASE IN LABOUR FORCE PARTICIPATION. THIS MEANT THAT THE US UNEMPLOYMENT RATE ROSE ON THE MONTH



CHART 7: BOTH SERVICE AND MANUFACTURING SECTOR CONDITIONS IMPROVED IN AUGUST RELATIVE TO THE PREVIOUS MONTH

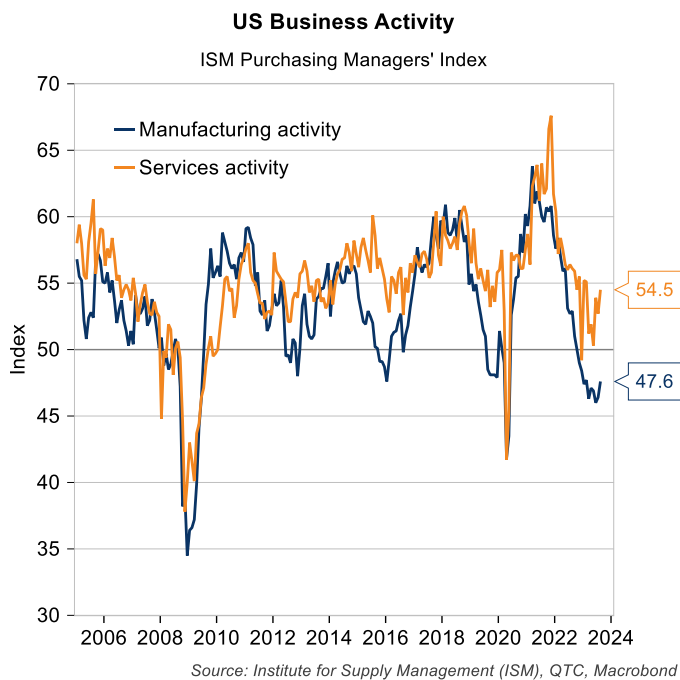
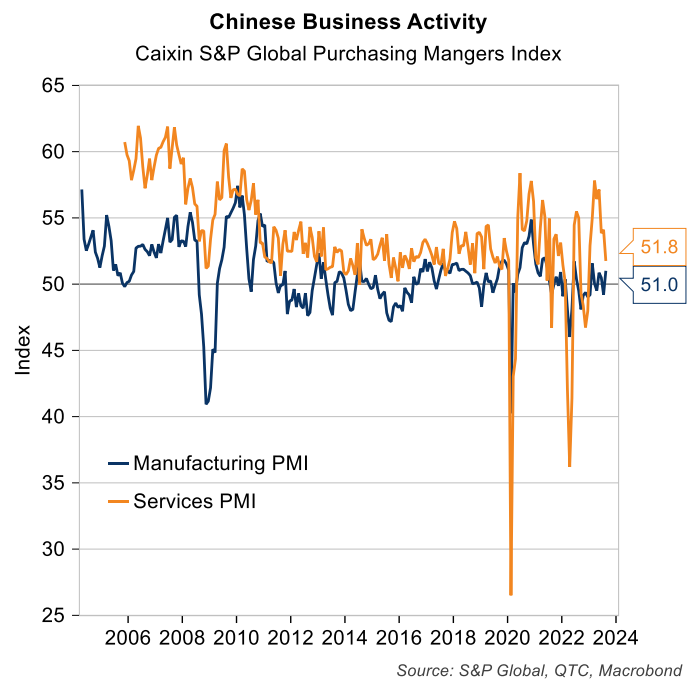


CHART 8: CHINESE MANUFACTURING AND SERVICE SECTOR CONDITIONS WERE MIXED OVER AUGUST



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 | 4.09 | 8 | -4 | 45 | AUD/USD | 0.6376 | -1.45 | -2.21 | -5.32 |
| | NSWTC | 4.12 | 8 | -3 | 50 | AUD/EUR | 0.5957 | -0.20 | 0.02 | -11.83 |
| | TCV | 4.15 | 8 | -5 | 53 | AUD/GBP | 0.5111 | 0.02 | -0.19 | -12.86 |
| | WATC | 4.08 | 8 | -4 | 44 | AUD/JPY | 93.789 | -0.38 | 0.37 | -3.37 |
| | Australian Government | 3.84 | 10 | -4 | 55 | AUD/CAD | 0.8729 | -0.40 | -0.42 | -1.17 |
| | US Government | 4.66 | 11 | 25 | 110 | AUD/NZD | 1.0844 | -0.28 | 0.60 | -2.76 |
| 5 Year | QTC | 4.16 | 8 | -3 | 38 | AUD/SGD | 0.8705 | -0.49 | -0.99 | -8.09 |
| | NSWTC | 4.21 | 9 | -2 | 40 | AUD/HKD | 4.9981 | -1.51 | -1.91 | -5.45 |
| | TCV | 4.22 | 7 | -2 | 41 | AUD/KRW | 851.40 | -0.53 | -0.82 | -8.48 |
| | WATC | 4.14 | 9 | -2 | 36 | AUD/CNY | 4.6749 | -0.54 | -0.95 | -0.45 |
| | Australian Government | 3.87 | 10 | -2 | 46 | AUD/INR | 53.120 | -0.77 | -1.54 | -0.94 |
| | US Government | 4.37 | 12 | 26 | 95 | MAJOR CURRENCIES | | | | |
| 7 Year | QTC | 4.37 | 10 | -4 | 40 | EUR/USD | 1.0727 | -1.07 | -2.10 | 7.29 |
| | NSWTC | 4.45 | 10 | -4 | 43 | GBP/USD | 1.2508 | -1.31 | -1.88 | 8.72 |
| | TCV | 4.44 | 9 | -4 | 42 | USD/JPY | 147.66 | 1.46 | 2.99 | 2.46 |
| | WATC | 4.34 | 10 | -4 | 34 | USD/CHF | 0.8911 | 0.87 | 1.76 | -8.20 |
| | Australian Government | 4.01 | 12 | -3 | 46 | USD/CNY | 7.3202 | 0.89 | 1.37 | 5.22 |
| | US Government | 4.33 | 12 | 26 | 93 | MAJOR COMMODITIES | | | | |
| 10 Year | QTC | 4.70 | 11 | -4 | 48 | Brent Crude Oil | 89.92 | 3.52 | 4.35 | 0.86 |
| | NSWTC | 4.79 | 10 | -5 | 49 | Gold | 1,918.09 | -1.22 | -0.38 | 12.42 |
| | TCV | 4.80 | 10 | -7 | 51 | Copper | 8,371.50 | -0.61 | 0.29 | 7.18 |
| | WATC | 4.62 | 10 | -4 | 41 | Iron Ore | 114.23 | 0.06 | 15.80 | 21.73 |
| | Australian Government | 4.14 | 13 | -3 | 46 | | | | | |
| | US Government | 4.24 | 14 | 22 | 93 | | | | | |

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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