

Weekly Economics and Markets Review

- The RBA kept the cash rate steady at 4.35 per cent at its May meeting, with Governor Bullock noting that interest rates are 'at the right level'
- Retail sales remain weak, with the March quarter marking seven consecutive quarterly falls in per capita retail trade volumes
- US labour market data outcomes were softer than expected, with non-farm payrolls posting their smallest increase in six months

Week in review

Domestic

- The RBA kept the cash rate steady at 4.35 per cent at its May meeting as expected, though the post-meeting commentary was less hawkish than many economists had anticipated. The RBA noted that returning inflation to target is 'unlikely to be smooth' and emphasised the desire to maintain the progress made in the labour market. In the post meeting, Governor Bullock also noted that the current level of the cash rate is appropriate, though she did not dismiss the possibility of additional tightening if necessary.
- The RBA's **inflation forecasts** were revised higher, with both headline and underlying inflation now expected to be above the 2-3 per cent target band until the second half of 2025. These forecasts imply trimmed-mean inflation will remain above the target band for at least 3½ years, which would be the longest period of above-target inflation in the inflation targeting era. Trimmed-mean inflation is still forecast to return to the mid-point of the target band by mid-2026 though, supported by the higher cash rate assumption.
- The RBA's **labour market forecasts** are also slightly stronger, with downward revisions to the unemployment rate and upward revisions to wages growth.
- In addition to the RBA's commentary and updated forecasts, we also received updates on retail sales and job ads this week.
 - **Retail trade volumes** remained weak in Q1 2024, falling by 0.4 per cent in the quarter and 1.3 per cent over the past year.
 - **ANZ-Indeed Job Ads** rose 2.8 per cent in April, following a 1.0 per cent fall in March. Job ads are still 36.5 per cent higher than pre-pandemic levels, with the pace of the decline appearing to have slowed in recent months. In contrast, **SEEK job ads** declined by 4.7 per cent in April and are now only 9 per cent below their pre-pandemic level.
 - The value of **mortgage finance approvals** (ex. refinancing) rose 3.1 per cent in March, above economists' expectations for a 1.0 per cent increase. Approvals increased for both owner-occupiers and investors in the month.

Offshore

- **US Federal Reserve** officials remain cautious on the outlook for inflation given the continued resilience of the US economy. Boston Fed President Collins said that reaching two per cent inflation may take longer than initially expected, while Minneapolis Fed President Kashkari questioned the restrictiveness of current policy given the resilience of inflation.
- The **Bank of England** left interest rates unchanged and signalled it may start to reduce rates at upcoming meetings. Governor Bailey said a June rate cut is not ruled, though this will depend on forthcoming data releases.
- **Sweden's Riksbank** cut its policy rate by 25bp to 3.75 per cent. It also signalled that given its outlook for inflation, 'the policy rate is expected to be cut two more times during the second half of the year'.
- **US labour market data** market were softer than expected over the past week.
 - Non-farm payrolls increased by 175k in April, which was 65k lower than economists' expectations and the lowest outcome in six months. Job growth remained strong in the healthcare sector but slowed in the hospitality and government sectors.
 - The household survey was weak in April. The unemployment rate rose to 3.9 per cent (from 3.8 per cent) and the underemployment rate also increased. Household employment increased by 25k, though this was outpaced by an 87k expansion in the labour force.
 - Average hourly earnings increased by 0.2 per cent in April, to be 3.9 per cent higher over the year. This is the slowest annual pace of hourly earnings since May 2021.
 - Initial jobless claims increased to 231k in the week ended May 4, which is its highest level since August 2023.
- In addition to soft labour market outcomes, the **US ISM services index** unexpectedly fell in April. This decline reflected falls in business activity, employment and new orders.
- In the **euro area**, retail sales rose 0.8 per cent (month-on-month) in March. On a quarterly basis, retail sales posted its second consecutive increase in Q1, following seven consecutive quarters of contraction.

Markets

US Treasury yields fell over the past week in response to weaker-than-expected US labour market outcomes. Australian Government Bond yields also moved lower in response to RBA commentary, which was less hawkish than expected. Oil prices were little changed over the past week.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: NAB Business Survey (Apr) Tuesday: Federal Budget Wednesday: Wage Price Index (Q1) Thursday: Labour force survey (Apr)
Offshore	US: CPI (Apr), PPI (Apr), Retail sales (Apr), Housing starts (Apr) UK: Jobless claims (Apr), Unemployment rate (Mar), Average weekly earnings (Mar) Euro area: GDP (Q1), CPI (Apr), Employment (Q1), Industrial production (Mar) Japan: GDP (Q1), PPI (Apr), Industrial production (Mar) China: Industrial production (Apr), Medium-term lending facility rate (15 May)

Economic and Financial Market Charts

CHART 1: THE RBA HAS REVISED ITS INFLATION FORECASTS HIGHER FOLLOWING THE STRONGER-THAN-EXPECTED Q1 CPI OUTCOME

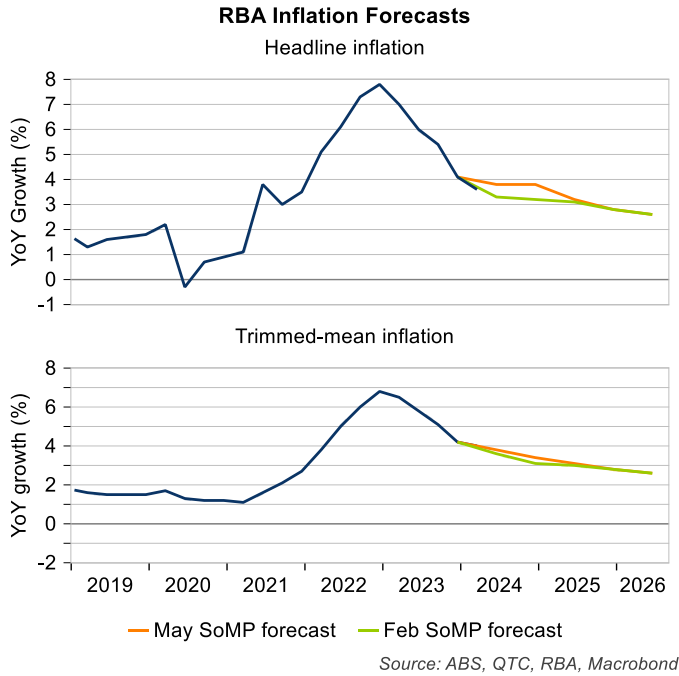


CHART 2: THE UNEMPLOYMENT RATE HAS ALSO BEEN REVISED LOWER, WITH THE RBA'S OUTLOOK AT THE BOTTOM OF THE RANGE OF CONSENSUS ESTIMATES

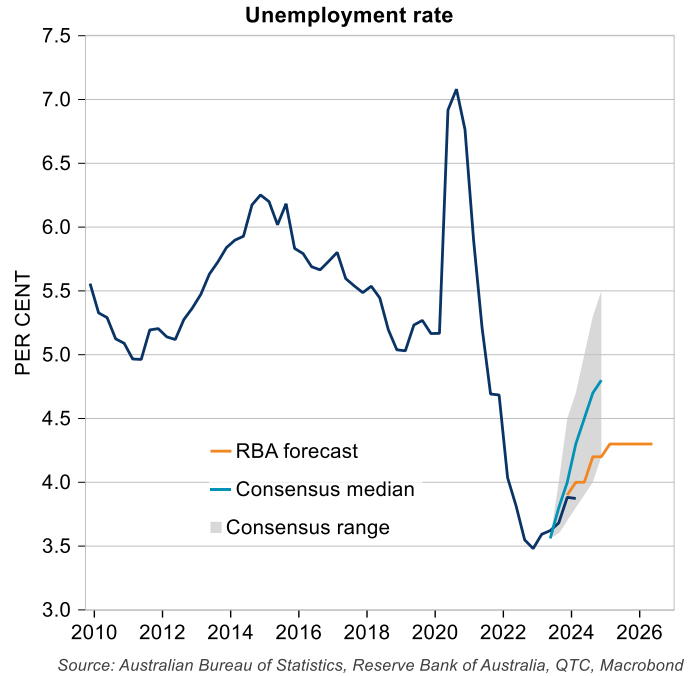


CHART 3: INFLATION IS STILL EXPECTED TO RETURN TO THE MIDDLE OF THE TARGET BAND BY MID-2026, IN PART DUE TO THE RBA'S HIGHER CASH RATE ASSUMPTION

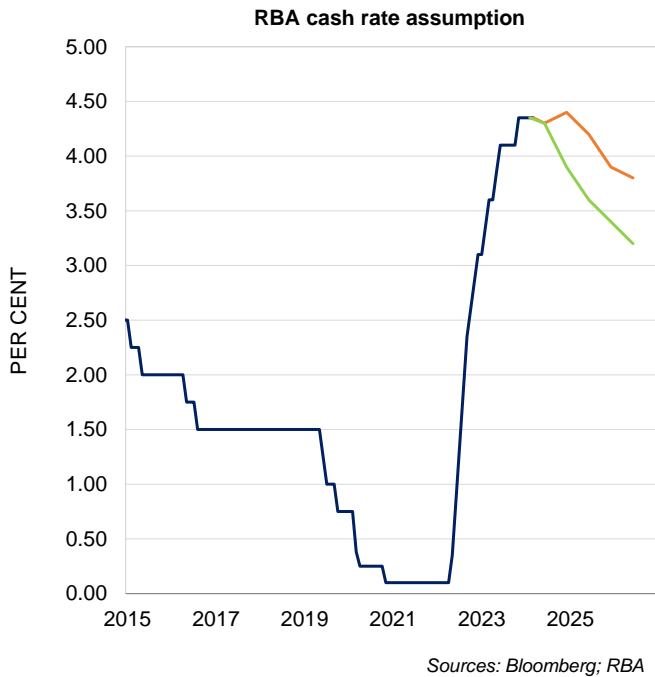


CHART 4: RETAIL SALES REMAIN WEAK, WITH THE MARCH QUARTER MARKING SEVEN CONSECUTIVE QUARTERLY FALLS IN PER CAPITA RETAIL TRADE VOLUMES

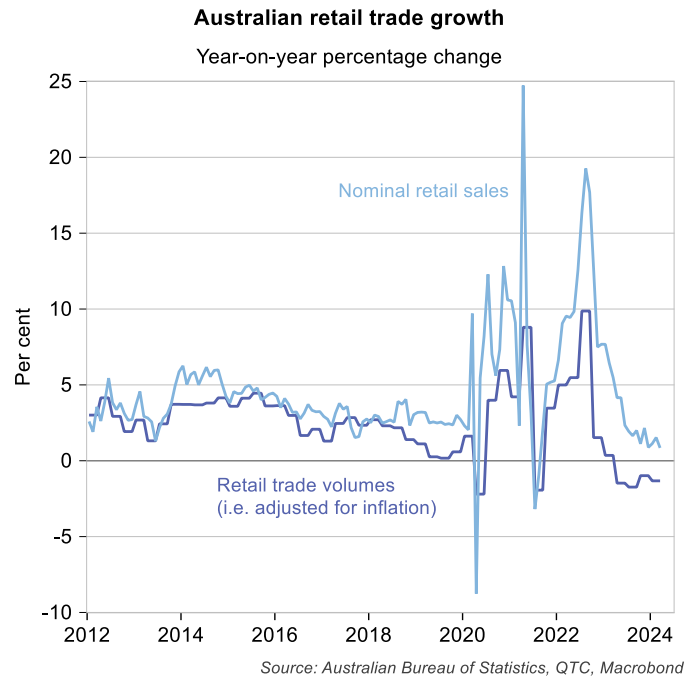


CHART 5: THERE HAS BEEN A LARGE DIVERGENCE IN DIFFERENT MEASURES OF JOB ADS, WITH THE CONTINUED STRENGTH IN ANZ-INDEED JOB ADS NOT BEING REFLECTED IN SEEK'S MEASURE

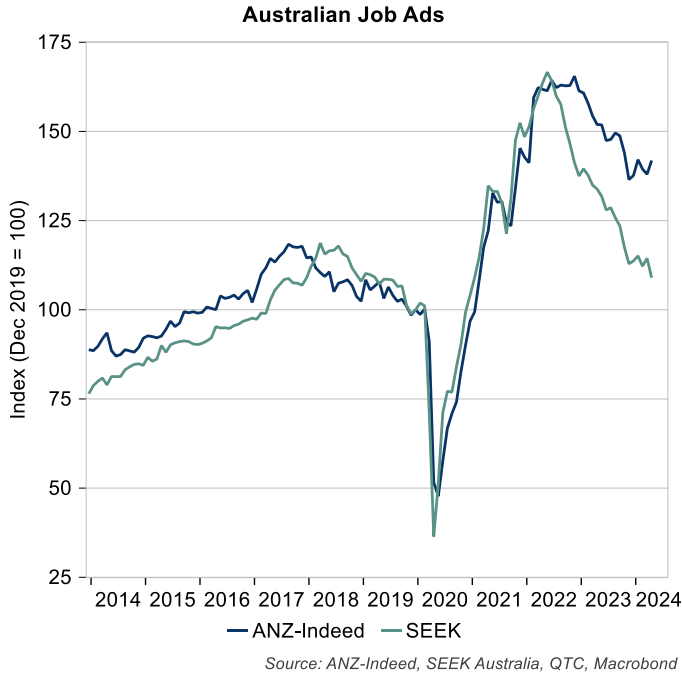


CHART 6: US NON-FARM PAYROLLS POSTED ITS SMALLEST INCREASE SINCE OCTOBER 2023

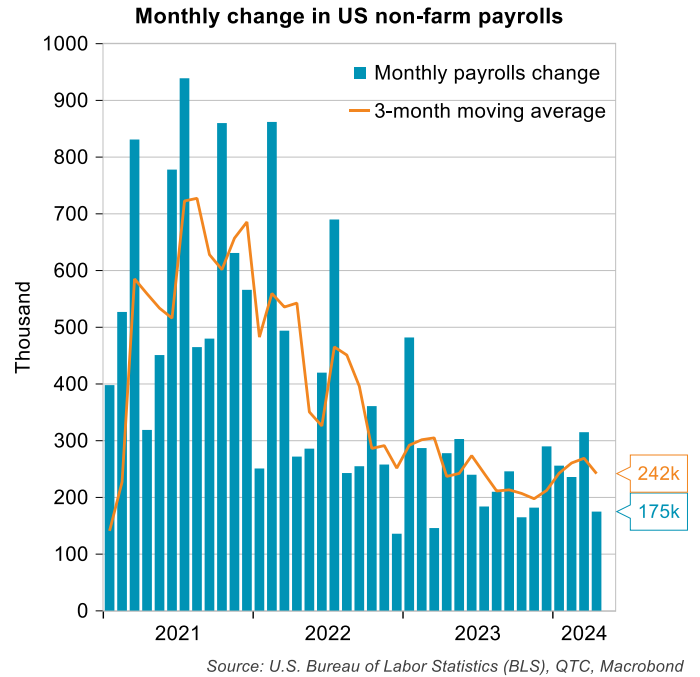
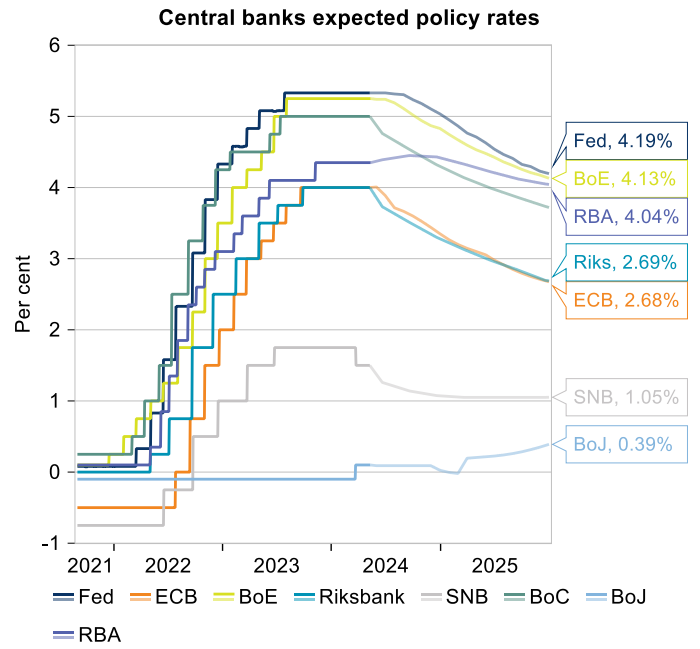


CHART 7: US AVERAGE HOURLY EARNINGS GROWTH EASED TO ITS SLOWEST PACE SINCE MAY 2021



CHART 8: FINANCIAL MARKETS EXPECT MOST MAJOR CENTRAL BANKS WILL START CUTTING RATES THIS YEAR, WITH THE RBA AND BOJ BEING NOTABLE EXCEPTIONS



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)		
			1WEEK	1MONTH	1YEAR			1WEEK	1MONTH	1YEAR
3 Year	QTC	4.37	-8	35	89	AUD/USD	0.66	0.84	-0.14	-1.22
	NSWTC	4.35	-9	33	88	AUD/EUR	0.61	0.28	0.56	-0.03
	TCV	4.40	-8	31	90	AUD/GBP	0.53	0.91	1.10	-1.34
	WATC	4.33	-8	31	86	AUD/JPY	102.92	2.04	2.30	14.12
	Australian Government	3.99	-8	26	89	AUD/CAD	0.91	0.85	0.63	0.13
	US Government	4.62	-10	61	106	AUD/NZD	1.10	-0.38	0.29	3.08
						AUD/SGD	0.90	0.65	0.43	0.32
5 Year	QTC	4.50	-9	37	99	AUD/HKD	5.17	0.84	-0.34	-1.50
	NSWTC	4.51	-8	37	96	AUD/KRW	906.78	0.40	0.97	2.02
	TCV	4.54	-8	33	97	AUD/CNY	4.78	0.41	-0.21	2.65
	WATC	4.46	-8	35	97	AUD/INR	54.91	0.72	0.08	-0.74
	Australian Government	4.03	-9	25	88	MAJOR CURRENCIES				
	US Government	4.47	-10	62	111	EUR/USD	1.07	0.21	-1.00	-1.54
						GBP/USD	1.25	-0.30	-1.42	-0.10
7 Year	QTC	4.73	-7	38	101	USD/JPY	155.53	1.22	2.48	15.61
	NSWTC	4.76	-7	35	97	USD/CHF	0.91	-0.30	0.49	1.53
	TCV	4.81	-6	33	103	USD/CNY	7.23	0.17	-0.08	4.04
	WATC	4.67	-7	34	96	MAJOR COMMODITIES				
	Australian Government	4.18	-9	21	88	Brent Crude Oil	83.88	0.25	-6.20	11.87
	US Government	4.46	-12	58	110	Gold	2,346.33	1.84	-0.27	16.44
						Copper	9,904.50	1.42	5.17	21.33
10 Year	QTC	5.10	-6	37	103	Iron Ore	115.80	-1.58	8.22	37.94
	NSWTC	5.11	-7	35	95					
	TCV	5.18	-5	33	103					
	WATC	4.97	-7	35	95					
	Australian Government	4.34	-10	18	88					
	US Government	4.45	-13	57	107					

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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