Weekly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

- Labour market conditions appear to be easing, with recent data showing an increase in the unemployment rate and slower wages growth.
- The Federal Budget featured a further improvement in Australia's public finances in 2023-24, though the Budget is forecast to slip back into deficit thereafter.
- The April US CPI provided some relief for the Federal Reserve, with core CPI easing two-tenths to 3.6 per cent.

Week in review

Domestic

- The **unemployment** rate rose by more than expected in April, increasing to 4.1 per cent from an upwardly revised 3.9 per cent in March. The unemployment is now noticeably above its June 2023 low of 3.5 per cent, with this upward trend largely being driven by more workers entering the labour force (rather than through job losses).
- The **underemployment** rate rose a tenth to 6.6 per cent, while the underutilisation rate (which includes both unemployment and underemployment) rose to 10.7 per cent.
- **Employment** rose by a stronger-than-expected 38.5k in April, driven by a 44.6k increase in part-time workers. Growth in the working-age population kept pace with employment, with the employment-to-population ratio holding steady at 64 per cent in the month.
- The softening of labour market conditions can also be seen in **wages** growth, with most economists' expecting that we have now passed the peak in annual wage increases. The wage price index (WPI) rose 0.8 per cent in Q1, slightly below economists' expectations for a 0.9 per cent increase. Annual wages moderated from 4.2 to 4.1 per cent.
- The 2024-25 Federal Budget featured a further near-term improvement in Australia's public finances, with firmer commodity prices supporting a forecast A$9.3bn surplus (0.3 per cent of GDP) in the underlying cash balance for 2023-24. This is an improvement of $10.5 billion since the Mid-Year Economic and Fiscal Outlook (MYEFO) and is the second consecutive surplus for the Commonwealth Government.
- However, the Budget balance is forecast to slip back into deficit thereafter, with cumulative deficits of approximately $95 billion over the three years 2026-27. Relative to MYEFO, this sees the underlying cash balance lowered by a cumulative $14 billion across the forward estimates.
- These deficits largely reflect policy decisions, with some of the policies in the Budget including: the previously announced Stage 3 tax cuts, the Future Made in Australia strategy and various housing initiatives. There were also a number of policies aimed at cost-of-living, including the energy bill relief package, lower cost of PBS medicines, changes to the indexation for student debt, and wage increases in the aged-care and childcare sectors.
- The Government's economic forecasts are not dissimilar to the RBA's outlook, with an exception being that for CPI which is now expected to return to its target by the end of this year. This reflects the impact that new cost of relief measures has on measured CPI inflation.
- The **NAB Business Survey** showed that business conditions eased in April, with all three sub-components now back around their long-run average. The decline in the employment index is perhaps the most notable shift after a period of persistent out-performance.

Offshore

- The White House announced **tariff hikes** on a various goods imported from China, including electric vehicles, batteries, solar cells, chips, ship-to-shore cranes, and certain types of steel, aluminium, critical minerals and medical supplies. The tariff increases ranged from 25 to 100 per cent and will take effect in 2025 or 2026.
- Major **US** data in the past week suggested that economic conditions are gradually easing.
  - The US CPI report for April provided a small but welcome relief for the Federal Reserve. Core CPI rose 0.3 per cent in April, which saw annual inflation ease two-tenths to 3.6 per cent. The details of the report were encouraging, with primary rents reaching a 31-month low and new and used car prices declining.
  - US core retail sales were weaker than expected in April, declining by 0.3 per cent against consensus expectations for a 0.1 per cent increase. Headline spending remained unchanged, below consensus expectations for a moderate increase.
  - The NAHB Home Builders' Sentiment Index fell in May, marking the first decline since November 2023. Expectations for sales in the next 6 months also saw the largest drop since October 2022. Building permits and housing starts were also weaker-than-expected in April.
  - The producer price index (PPI) rose 0.5 per cent in April, slightly higher than economists' expectations for a 0.3 per cent increase.
- **UK** GDP increased by a stronger-than-expected 0.6 per cent in Q1. This was the strongest rate of quarterly growth since late 2021 and saw the economy exit from a technical recession.

Markets

US Treasury yields fell over the past week alongside an easing of US inflation and weaker-than-expected retail sales. Australian Government Bond yields also moved lower following weaker-than-expected labour market data.

Economic and Market Calendar

DATE	DETAILS
Domestic	**Tuesday:** RBA Board Minutes (May), Westpac consumer confidence (May)
	Thursday: Melbourne Institute consumer inflation expectations (May)
Offshore	**US:** S&P Global PMIs (May), FOMC Minutes (May), Existing home sales (Apr)
	UK: CPI (Apr), PPI (Apr), Retail sales (Apr)
	Euro area: CPI (Apr F), HCOB PMIs (May), Construction output (Mar)
	Japan: CPI (Apr), Jibun Bank PMIs (May), Trade (Apr)
	China: Retail sales (Apr), Industrial production (Apr), Fixed asset investment (Apr), Residential property sales (Apr)

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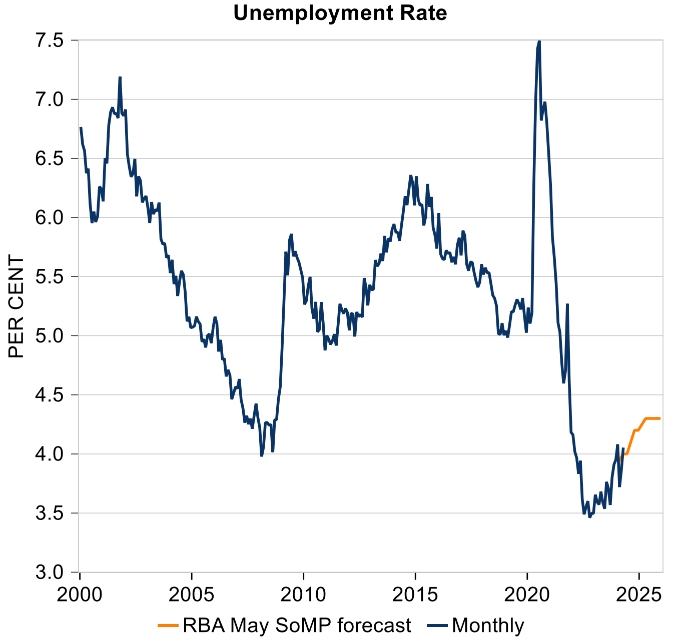
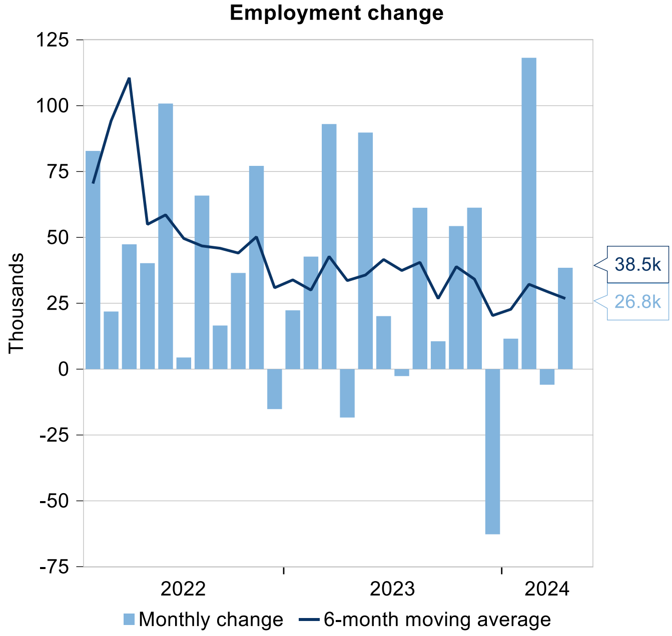
Economic and Financial Market Charts

CHART 1: THE UNEMPLOYMENT RATE HAS CONTINUED TO TREND HIGHER AND IS BROADLY IN LINE WITH THE RBA'S FORECASTS



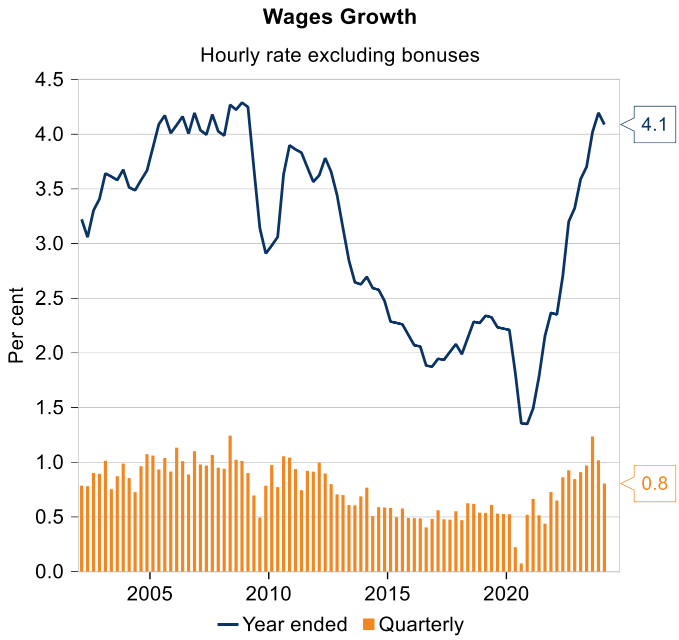
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: EMPLOYMENT GROWTH REMAINS ROBUST, WITH MUCH OF THE EASING OF LABOUR MARKET CONDITIONS REFLECTING INCREASES IN LABOUR SUPPLY



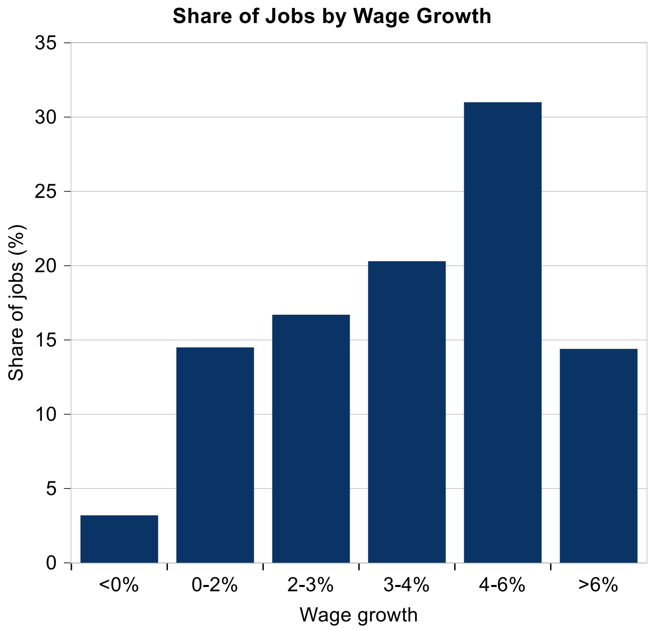
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: WAGE GROWTH EASED IN Q1, WITH MOST ECONOMISTS NOW EXPECTING WE HAVE PASSED THE PEAK FOR ANNUAL GROWTH



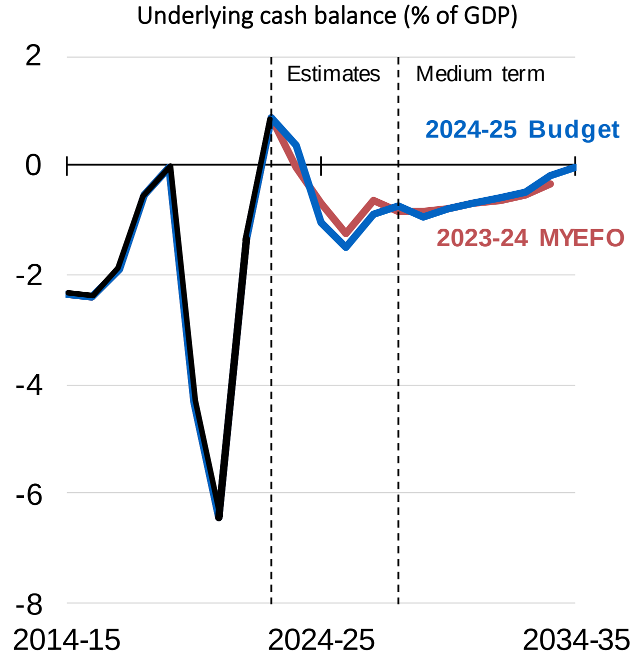
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: OVER 30% OF JOBS HAVE RECEIVED ANNUAL WAGE INCREASES BETWEEN 4-6%, WITH A FURTHER ~15% ACHIEVING GAINS GREATER THAN 6%



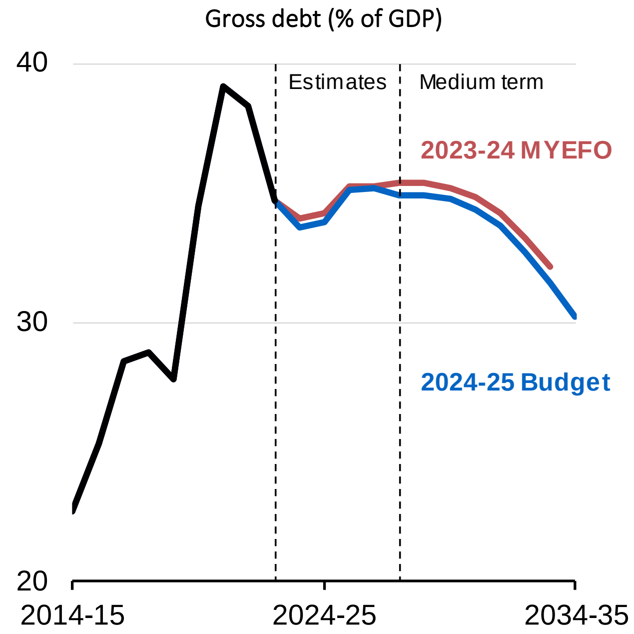
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: LOOKING BEYOND 2023-24, UNDERLYING CASH DEFICITS ARE EXPECTED TO PERSIST OVER THE NEXT DECADE



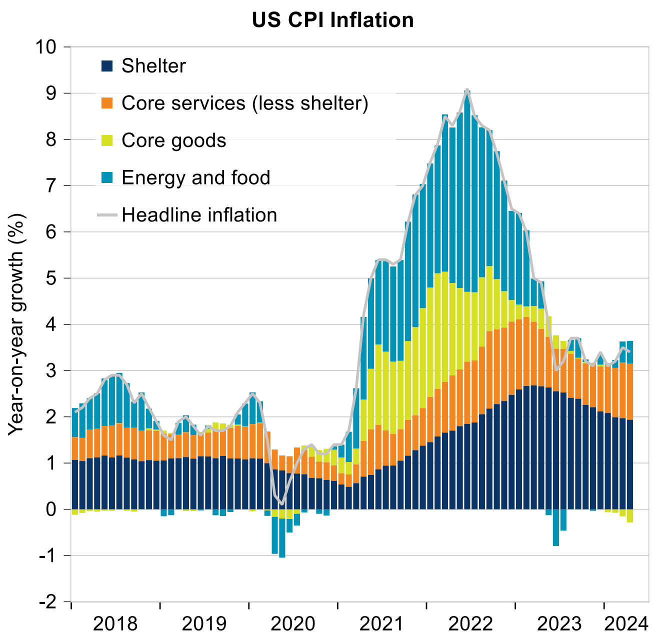
Source: Treasury

CHART 6: GROSS DEBT IS EXPECTED TO EDGE HIGHER AS A SHARE OF GDP OVER THE COMING YEARS BEFORE FALLING BACK TO BE SLIGHTLY BELOW CURRENT LEVELS



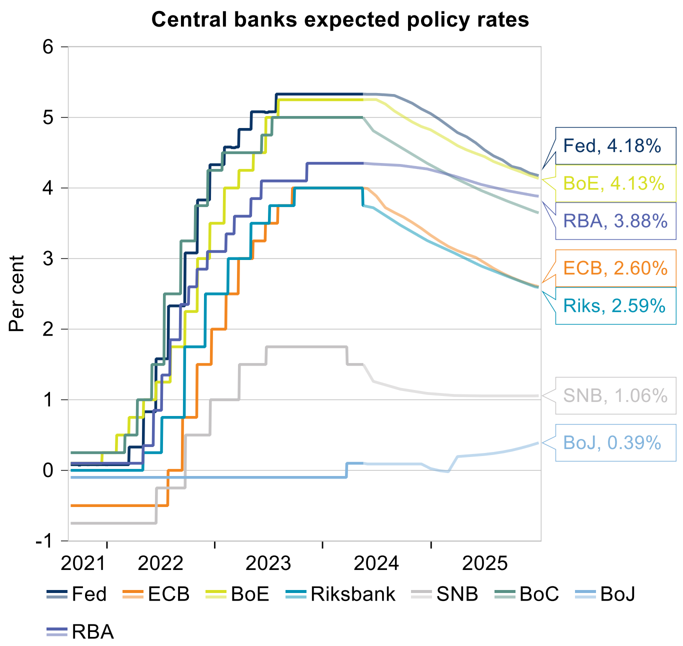
Source: AOFM, Treasury

CHART 7: THE APRIL US CPI SHOWED SIGNS OF IMPROVEMENT, WITH MUCH OF THE REMAINING STICKINESS REFLECTING THE LONG LAGS FOR OWNER-EQUIVALENT RENTS



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

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



Source: QTC, Macrobond

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	1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.21	-16	-1	74
	NSWTC	4.18	-17	-3	73
	TCV	4.24	-16	-4	74
	WATC	4.17	-16	-3	71
	Australian Government	3.84	-15	-5	74
	US Government	4.57	-5	56	65
5 Year	QTC	4.34	-17	0	83
	NSWTC	4.33	-19	-2	79
	TCV	4.36	-18	-4	81
	WATC	4.28	-18	-3	80
	Australian Government	3.88	-16	-7	74
	US Government	4.40	-7	55	72
7 Year	QTC	4.56	-18	0	86
	NSWTC	4.58	-18	-2	81
	TCV	4.62	-18	-5	88
	WATC	4.48	-18	-3	80
	Australian Government	4.02	-15	-10	76
	US Government	4.38	-8	50	72
10 Year	QTC	4.91	-18	-0	88
	NSWTC	4.92	-19	-2	80
	TCV	4.97	-20	-7	85
	WATC	4.79	-19	-2	80
	Australian Government	4.18	-16	-14	77
	US Government	4.38	-8	50	73

		CHANGE (PER CENT)		
EQUITIES	RATE	1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	0.89	4.33	0.86
AUD/EUR	0.61	0.13	1.96	-0.03
AUD/GBP	0.53	-0.27	2.32	-1.22
AUD/JPY	103.78	0.84	4.78	12.99
AUD/CAD	0.91	0.46	2.75	1.72
AUD/NZD	1.09	-0.55	0.22	2.58
AUD/SGD	0.90	0.40	2.86	0.71
AUD/HKD	5.21	0.73	3.93	0.53
AUD/KRW	898.42	-0.92	0.62	1.71
AUD/CNY	4.82	0.94	3.91	3.64
AUD/INR	55.77	1.58	4.01	1.78
MAJOR CURRENCIES				
EUR/USD	1.09	0.96	2.50	1.06
GBP/USD	1.27	1.29	2.08	2.23
USD/JPY	154.88	-0.39	0.10	11.65
USD/CHF	0.90	-0.42	-1.18	-0.33
USD/CNY	7.22	-0.07	-0.29	2.57

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	83.27	-0.73	-7.50	9.77
Gold	2,376.86	1.30	-0.25	21.42
Copper	10,424.00	5.25	10.10	27.55
Iron Ore	116.47	0.58	7.19	28.12

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.