

Weekly Economics and Markets Review

- Consumer sentiment fell for a third consecutive month in May, remaining well below its long-run average.
- SEEK Job Ads declined further in April and are now 35 per cent below their May 2022 peak.
- China's economy is experiencing a patchy recovery, with continued weakness in household spending and the property sector being partly offset by a strong uplift in manufacturing output.

Week in review

Domestic

- The **RBA's May Board minutes** noted the Board considered two options: hiking the cash rate or leaving it unchanged. The Board ultimately decided to keep rates unchanged as the recent data 'had not been sufficient to warrant a change in the stance of monetary policy'.
- **Consumer sentiment** eased 0.3 per cent in May, with households remaining concerned about high inflation and the possibility of interest rate increases. This marks the third consecutive fall in consumer sentiment, with sentiment remaining well below its long-run average.
- Westpac noted that the consumer sentiment survey was conducted around the release of the Federal Budget, allowing for pre- and post-Budget comparisons. Westpac suggests there may have been some disappointment with the Budget outcomes, with sentiment amongst those surveyed pre-Budget being noticeably higher than those surveyed following the Budget.
- **SEEK Job Ads** fell by 4.7 per cent in April, after having tracked sideways since late 2023. Seek job ads are almost 19 per cent below their levels from a year ago and 35 per cent below their May 2022 peak. The decline in April should be viewed with some caution though, with public holidays potentially disrupting hiring activity in the month.

Offshore

- The minutes for the FOMC's May meeting signalled that the **US Federal Reserve** is still taking a cautious approach to monetary policy, with inflation concerns forestalling any immediate rate cuts. Recent speeches from Federal Reserve officials have also emphasised this cautious approach, with the FOMC being in a 'good position' to hold rates steady.
- The possibility of near-term rate cuts from the **European Central Bank (ECB)** and **Bank of England (BOE)** is stronger than that for the Fed. ECB President Lagarde recently expressed confidence that inflation is under control and suggested there is a strong likelihood of a mid-year interest rate cut. Meanwhile, BOE Governor Bailey said that he expects the next move in interest rates will be lower, with the question being how long the BOE waits until it starts to ease policy.
- The **Reserve Bank of New Zealand (RBNZ)** left its cash rate unchanged at 5.5 per cent, as expected. However, the commentary following the meeting was more hawkish than expected, with the RBNZ noting that the cash rate 'will need to remain at a restrictive level for longer than assumed in the February statement'.
- The **S&P Global PMIs** for May revealed that a pick-up in the rate of improvement in conditions across the manufacturing and services sectors in the US and euro area to the fastest rate since April 2022 and May 2023 respectively. In contrast, conditions in the UK's manufacturing sector improved at the fastest pace since June 2022 while those in the services sector eased from an 11-month high. This saw a decline in the composite measure across both sectors.
- The annual rate of growth in the ECB's indicator of negotiated wages in the euro area lifted to 4.7 per cent in Q1 from 4.5 per cent in Q4 2023. However, much of the strength was due to delayed pay deals and other one-off payments in Germany. Negotiated wage growth in other countries eased with this consistent with the signal from a wage tracker maintained by ECB economists.
- **UK headline inflation** fell to 2.3 per cent in April (from 3.2 per cent in March), reaching its lowest level in almost three years. Slower inflation was underpinned by an easing of gas and electricity prices, which in turn was due to the introduction of a lower price cap. Core inflation slowed by less-than-expected to 3.9 per cent in April (from 4.2 per cent in March).
- **China's** economy is experiencing a patchy recovery, with continued weakness in household spending and the property sector being partly offset by a strong uplift manufacturing output.
 - Retail sales growth eased to its slowest pace since December 2022 in April, while new home prices fell at their fastest annual pace in over nine years. China's fixed asset investment growth also slowed in April, largely reflecting slower infrastructure investment growth.
 - In contrast, industrial production rose 6.7 per cent over the year to April, accelerating from 4.5 per cent in March. High-end manufacturing output has been particularly strong, with large increases in the production of electric vehicles and industrial AI.
 - China's authorities announced a range of new measures aimed at supporting the property sector, though most analysts do not expect these measures will provide a lasting boost to the sector.

Markets

Both Australian and US Government bond yields moved higher over the past week. Firmer than expected PMI data played a role later in the week while there were no obvious catalysts for the modest moves earlier in the period. Both three and 10-year Australian Government bond yields remain within ranges seen since November.

Economic and Market Calendar

| DATE | DETAILS |
|----------|--|
| Domestic | Tuesday: Retail sales (Apr) Wednesday: Monthly CPI indicator (Apr), Construction work done (Q1) Thursday: Private capex (Q1), Building approvals (Apr) |
| Offshore | US: Durable goods orders (Apr); House prices (S&P CoreLogic & FHFA, Mar); Conference Board consumer sentiment (May), Core PCE inflation (Apr) Japan: CPI (Apr), Industrial production (Apr), Retail sales (Apr) Other: euro area CPI (May); UK retail sales (Apr); China NBS PMIs (May) |

Economic and Financial Market Charts

CHART 1: CONSUMER SENTIMENT REMAINS LOW WITH HOUSEHOLDS CONTINUING TO BE CONCERNED ABOUT HIGH INFLATION AND THE POSSIBILITY OF INTEREST RATE INCREASES

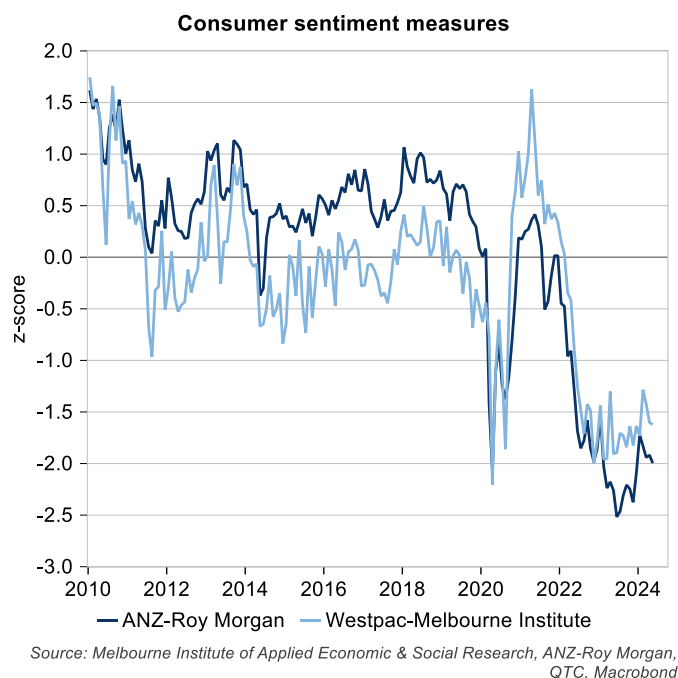


CHART 2: SEEK JOB ADS DECLINED FURTHER IN APRIL AND ARE NOW 35 PER CENT BELOW THEIR MAY 2022 PEAK

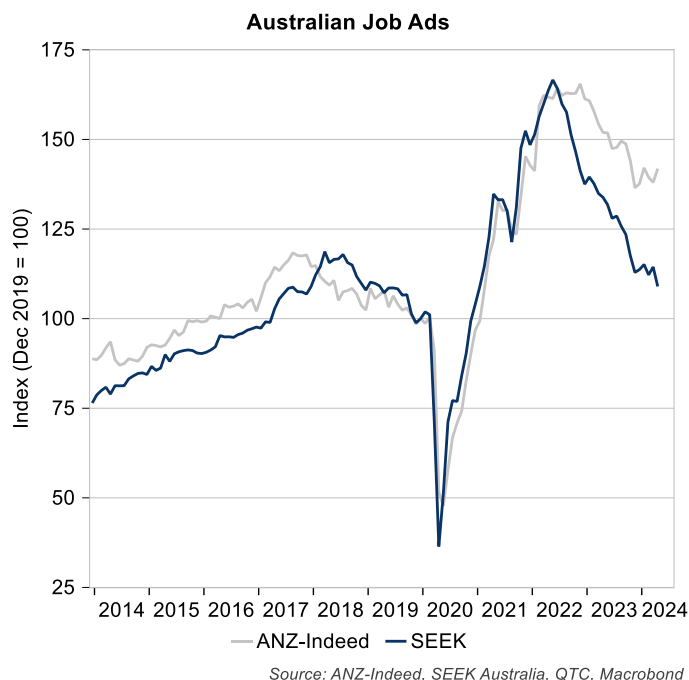


CHART 3: SEEK JOB ADS HAVE DIVERGED ACROSS STATES IN RECENT YEARS, WITH JOB ADS BEING NOTICEABLY HIGHER THAN THE NATIONAL AVERAGE IN QLD, WA AND SA

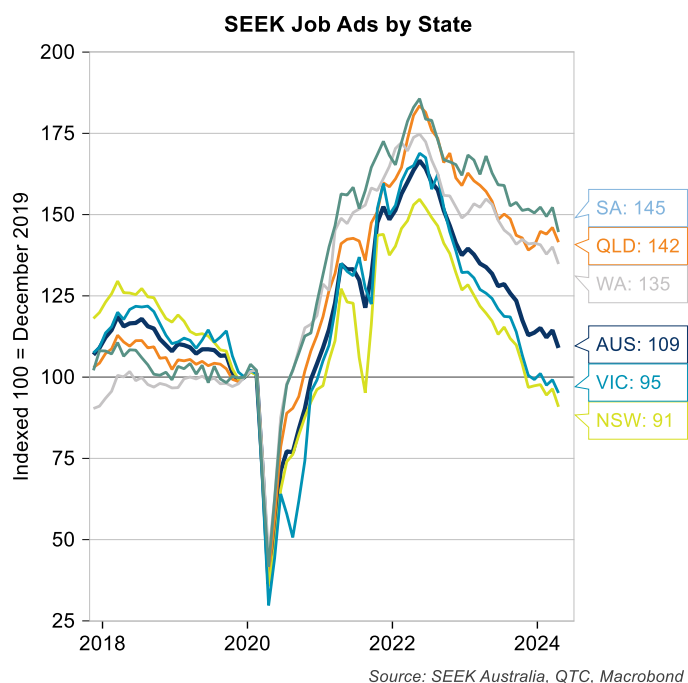
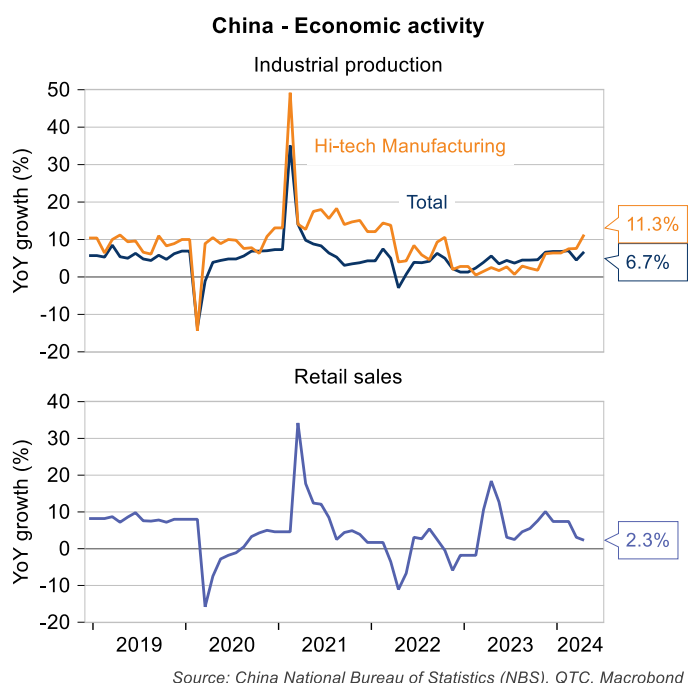


CHART 4: CHINA'S GROWTH IS INCREASINGLY BEING DRIVEN BY THE MANUFACTURING SECTOR, WITH HOUSEHOLD SPENDING AND THE PROPERTY MARKET REMAINING SUBDUED



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) | | |
|----------|-----------------------|-------|-----------------------|---------|--------|
| | | | 1 WEEK | 1 MONTH | 1 YEAR |
| 3 Year | QTC | 4.30 | 9 | 9 | 57 |
| | NSWTC | 4.28 | 10 | 9 | 56 |
| | TCV | 4.33 | 10 | 9 | 56 |
| | WATC | 4.26 | 9 | 9 | 54 |
| | Australian Government | 3.93 | 10 | 9 | 56 |
| | US Government | 4.71 | 14 | 70 | 50 |
| 5 Year | QTC | 4.42 | 8 | 8 | 65 |
| | NSWTC | 4.41 | 9 | 7 | 62 |
| | TCV | 4.46 | 9 | 5 | 63 |
| | WATC | 4.37 | 9 | 6 | 63 |
| | Australian Government | 3.96 | 8 | 5 | 57 |
| | US Government | 4.53 | 13 | 68 | 62 |
| 7 Year | QTC | 4.64 | 8 | 7 | 68 |
| | NSWTC | 4.66 | 8 | 6 | 64 |
| | TCV | 4.71 | 8 | 4 | 70 |
| | WATC | 4.57 | 8 | 5 | 63 |
| | Australian Government | 4.09 | 7 | 2 | 57 |
| | US Government | 4.50 | 12 | 62 | 62 |
| 10 Year | QTC | 4.98 | 7 | 6 | 72 |
| | NSWTC | 5.00 | 7 | 6 | 62 |
| | TCV | 5.05 | 8 | 2 | 69 |
| | WATC | 4.86 | 7 | 3 | 63 |
| | Australian Government | 4.25 | 7 | -1 | 59 |
| | US Government | 4.48 | 10 | 60 | 66 |

| EQUITIES | RATE | CHANGE (PER CENT) | | |
|------------------|--------|-------------------|---------|--------|
| | | 1 WEEK | 1 MONTH | 1 YEAR |
| AUD/USD | 0.66 | -0.85 | 2.10 | 1.88 |
| AUD/EUR | 0.61 | -0.37 | 0.96 | 0.87 |
| AUD/GBP | 0.52 | -1.17 | -0.05 | -1.36 |
| AUD/JPY | 103.98 | 0.27 | 3.58 | 14.33 |
| AUD/CAD | 0.91 | -0.19 | 2.40 | 2.40 |
| AUD/NZD | 1.08 | -0.66 | -0.71 | 0.83 |
| AUD/SGD | 0.89 | -0.41 | 1.36 | 1.60 |
| AUD/HKD | 5.17 | -0.78 | 1.76 | 1.53 |
| AUD/KRW | 901.86 | 0.40 | 0.95 | 4.63 |
| AUD/CNY | 4.78 | -0.90 | 1.71 | 3.82 |
| AUD/INR | 55.18 | -1.07 | 2.70 | 2.15 |
| MAJOR CURRENCIES | | | | |
| EUR/USD | 1.08 | -0.29 | 1.34 | 1.21 |
| GBP/USD | 1.27 | 0.55 | 2.40 | 3.53 |
| USD/JPY | 156.50 | 0.80 | 1.09 | 11.83 |
| USD/CHF | 0.91 | 1.02 | 0.23 | 0.74 |
| USD/CNY | 7.24 | 0.27 | -0.06 | 2.29 |

| MAJOR COMMODITIES | PRICE (USD) | 1 WEEK | 1 MONTH | 1 YEAR |
|-------------------|-------------|--------|---------|--------|
| Brent Crude Oil | 81.36 | -2.29 | -7.98 | 6.69 |
| Gold | 2,340.99 | -1.72 | 0.45 | 20.44 |
| Copper | 10,419.00 | -0.05 | 7.34 | 30.85 |
| Iron Ore | 119.67 | 2.75 | 6.71 | 48.38 |

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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