

Weekly Economics and Markets Review

- In a quiet week for overseas data, a rebound in US consumer confidence gave bond yields a lift.
- This momentum higher in yield was then built on by a stronger than anticipated Australian CPI report for April. However, the signal may not be quite as strong as apparent on first inspection as price pressures were less pronounced when looking at key series after these have been adjusted for seasonal influences.

Week in review

Domestic

- The ABS' monthly CPI rose 0.7 per cent in April to be 3.6 per cent higher over the year. This was above the previous outcome (+3.5 per cent) and analyst expectations (+3.4 per cent). The widely cited measure of core inflation in the monthly report (CPI excluding volatile items and travel prices) rose 0.4 per cent to be up 4.2 per cent over the year. Interestingly, when these series are seasonally adjusted, a picture of slightly softer monthly inflation emerges with both the CPI and core CPI measures both increasing by only 0.2 per cent. For both series this was the smallest rise since December.
- The release of partial indicators of Q1 GDP gathered steam this week.
 - Construction activity fell 2.9 per cent in Q1. This well below the +0.5 per cent expected and lead to the annual rate of growth sharply easing to +1.8 per cent from +9.3 per cent. Quarterly declines were observed across all components including private dwelling construction (-1.1 per cent), private non-residential construction (-3.3 per cent), and public construction (-4.3 per cent).
 - Private capital spending ('capex') rose 1.0 per cent in Q1, slightly above the +0.7 per cent expected. The strength on the quarter was concentrated in machinery & equipment (+3.3 per cent) which more than offset a fall in buildings & structures (-0.9 per cent) investment. Firms' forward looking capital spending intentions implied double digit spending growth for both this financial year and next. The ABS noted that these were boosted by planned spending on data centres and on renewable energy infrastructure.
- The number of residential building approvals fell 0.3 per cent in April as a decline in detached approvals (-1.0 per cent) more than offset a slight rebound in higher-density approvals (+1.1 per cent). The value of approvals for residential renovations increased 0.4 per cent while in contrast, non-residential building approvals fell 4.6 per cent on the month.
- The value of retail sales edged 0.1 per cent higher in April. The ABS noted that the earlier timing of Easter and the associated school holidays may have impacted the outcome for some categories (including food for example).

Offshore

- In the US:
 - The annualised rate of GDP Growth in Q1 was revised down by 0.3 percentage points to 1.3 per cent. While this was as expected, the composition of the shift was mixed with upwards revisions to residential and non-residential investment as well as government spending but downwards revisions to household consumption.
 - After falling for three straight months, the Conference Board's measure of consumer confidence increased 4.5 points to 102.0 in May. This was well above the consensus expectation of 96.0 and stands in sharp contrast to the weakness observed in the University of Michigan measure. The improvement on the month was driven by a positive reassessment of both current conditions and expectations. The labour differential — that is, the difference between the share of people saying jobs are plentiful versus hard to get — increased.
 - The University of Michigan measure of consumer confidence was revised up in the final May reading to 69.1 from 67.4 with additional data leading to upwards revisions to both current conditions and expectations. Revisions to consumer's inflation expectations were limited and mixed depending on the forecast horizon.
 - Orders for both durable goods and capital goods (both excluding volatile items) rose by more than expected in April. Shipments of capital goods (excluding volatile items) did likewise.
- In Japan, annual core (that is, fresh food and energy) inflation slowed to 2.4 per cent in April from 2.9 per cent in March. This came as the impact of earlier increases in food (not fresh food) and accommodation costs fell out of the annual rate calculation.

Markets

There were solid increases in government bond yields this week with these rises larger in Australia at the longer end of the yield curve. These moves followed stronger than expected US consumer confidence and Australian inflation data which prompted investors to re-assess the cash rate outlook and sell bonds (price down, yield up).

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: CoreLogic dwelling prices (May), Melbourne Institute Inflation Gauge (May), ANZ-Indeed Jobs Ads (May) Tuesday: Balance of Payments, Government spending, Business indicators (all Q1) Wednesday: GDP (Q1) Thursday: Housing finance (April), International trade (April)
Offshore	US: Core PCE deflator (April), ISM Manufacturing (May), JOLTS (Apr), ISM Services (May), Non-farm payrolls (May) Japan: CPI (April), Industrial production (April), Retail sales (April) Euro area: CPI (May), Retail sales (April), PPI (Apr), ECB meeting (June)

Economic and Financial Market Charts

CHART 1: NON-SEASONALLY ADJUSTED SERIES GAVE A SENSE THAT PRICE PRESSURES WERE FIRMER IN APRIL IN AUSTRALIA THAN WHAT WAS IMPLIED BY THE SEASONALLY ADJUSTED SERIES

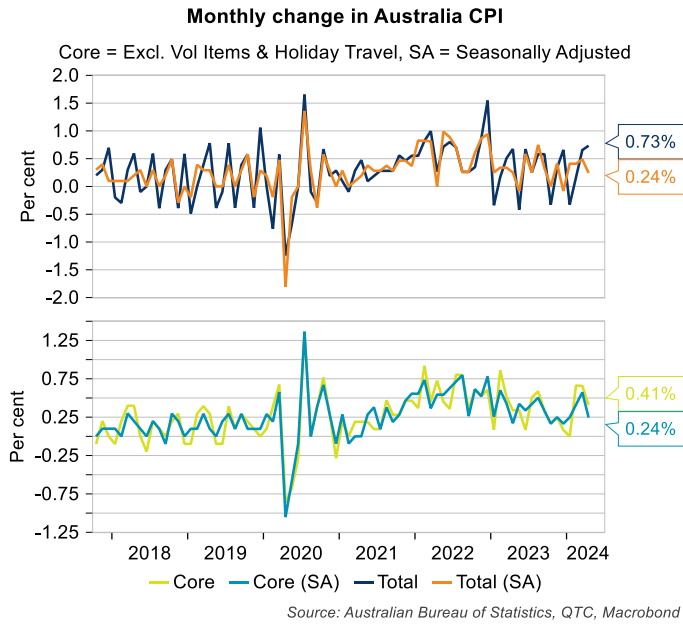


CHART 2: WHILE NOISY OR ONE-OFF FACTORS HAVE INFLUENCED AUSTRALIAN RETAIL SALES OUTCOMES IN RECENT MONTHS, IT IS CLEAR THAT SPENDING IS WEAK

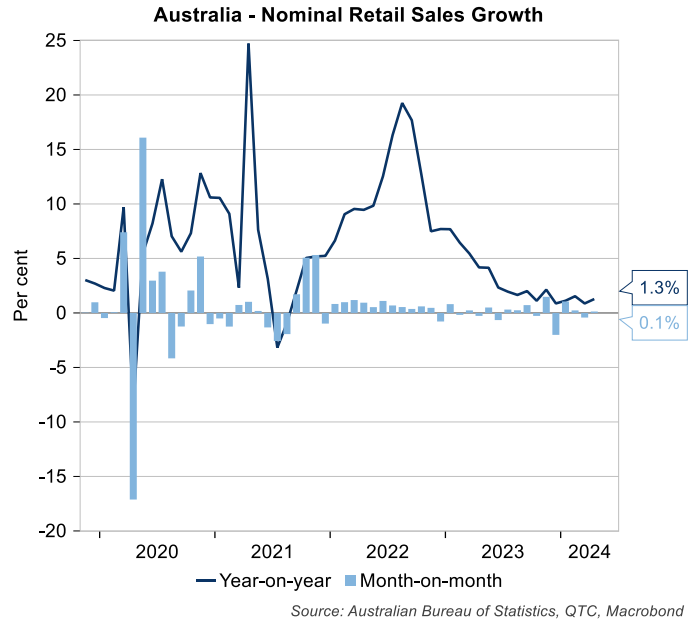


CHART 3: CORE INFLATION CONTINUES TO MOVE BACK DOWN TOWARDS THE BANK OF JAPAN'S TARGET. THE BANK IS STILL KEEN TO GET COMFORT THAT IT CAN REMAIN THERE ON A SUSTAINED BASIS.

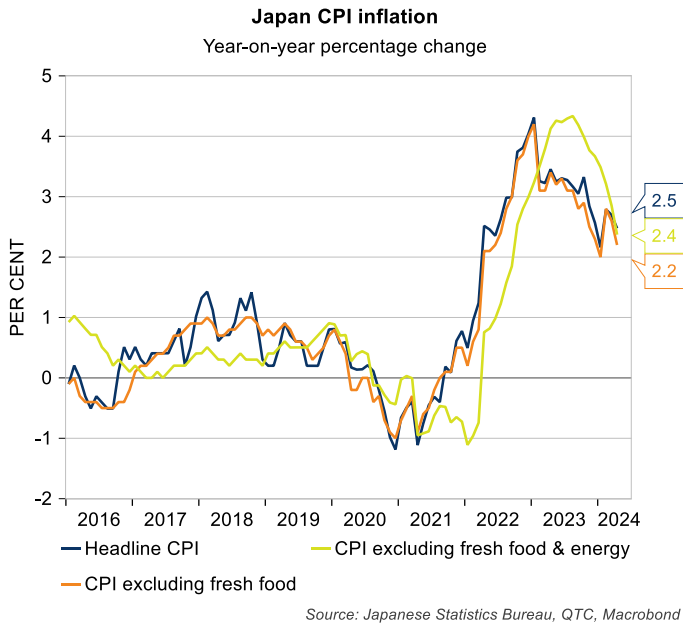
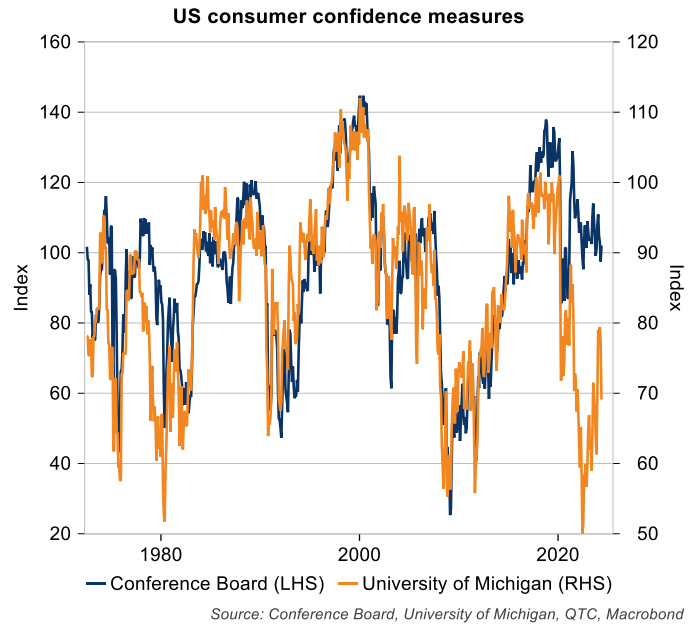


CHART 4: THE CONFERENCE BOARD'S MEASURE OF US CONSUMER CONFIDENCE ROSE IN MAY AND REMAINS WELL ABOVE THAT FROM THE UNIVERSITY OF MICHIGAN



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	4.45	15	2	69	AUD/USD	0.66	0.35	2.42	1.00
	NSWTC	4.43	15	2	67	AUD/EUR	0.61	0.16	0.87	0.26
	TCV	4.47	14	1	65	AUD/GBP	0.52	0.13	0.54	-0.65
	WATC	4.41	15	2	66	AUD/JPY	104.11	0.13	1.93	14.03
	Australian Government	4.08	14	4	65	AUD/CAD	0.91	0.03	1.75	2.69
	US Government	4.74	3	73	76	AUD/NZD	1.08	0.01	-1.31	0.02
						AUD/SGD	0.90	0.18	1.31	1.14
5 Year	QTC	4.59	17	2	80	AUD/HKD	5.19	0.46	2.37	0.81
	NSWTC	4.59	18	2	75	AUD/KRW	916.52	1.63	2.21	5.42
	TCV	4.63	17	3	75	AUD/CNY	4.80	0.44	2.27	2.91
	WATC	4.55	18	3	77	AUD/INR	55.09	-0.15	1.08	2.60
	Australian Government	4.13	17	4	69	MAJOR CURRENCIES				
	US Government	4.57	4	72	87	EUR/USD	1.08	-0.03	1.28	0.52
						GBP/USD	1.27	0.03	1.67	1.47
7 Year	QTC	4.83	20	5	85	USD/JPY	157.69	0.41	0.14	13.62
	NSWTC	4.85	19	4	80	USD/CHF	0.91	-0.14	-0.46	0.72
	TCV	4.91	20	6	84	USD/CNY	7.25	0.10	0.12	2.17
	WATC	4.76	20	5	80	MAJOR COMMODITIES				
	Australian Government	4.26	17	2	71	Brent Crude Oil	81.93	0.70	-6.75	10.30
	US Government	4.56	6	68	91	Gold	2,347.93	0.30	2.32	18.67
						Copper	10,456.50	0.37	4.66	26.85
10 Year	QTC	5.19	21	7	90	Iron Ore	115.63	-3.20	0.14	32.06
	NSWTC	5.20	21	6	80					
	TCV	5.26	21	6	83					
	WATC	5.06	21	5	82					
	Australian Government	4.42	18	1	74					
	US Government	4.55	7	67	95					

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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