

Weekly Economics and Markets Review

- Australia's unemployment rate edged slightly lower in May, though the trend continues to point to a gradual easing of labour market conditions.
- FOMC participants pared back expectations for rate cuts in the US this year, though added to them in future years such that the total amount of easing over the period anticipated is unchanged. However, investors focussed more on the near-term guidance with these revisions leading to some of the downward pressure on bond yields that had come from a softer than expected core CPI outcome for May dissipating. Yields ended lower on the week however.

Week in review

Domestic

- The unemployment rate eased one-tenth to 4.0 per cent in May, in line with economists' expectations. Employment increased by 39.7k, with a sharp increase in full-time employment more than offsetting a small decline in part-time work.
- The fall in the unemployment rate and increase in employment appears to reflect volatility rather than a tightening of labour market conditions. Notably, last month's outcome overstated the level of unemployment, with an unusually large number of unemployed people having secured a role but not yet having commenced work. The fall in unemployment in May largely reflects these people starting their jobs.
- Looking through the month-to-month volatility, labour market conditions have progressively eased since late 2022. Trend employment growth has eased considerably over this period while the unemployment rate is ½ percentage point above its October 2022 trough. The underemployment rate is also noticeably weaker, having increased by 0.8 percentage points over the past 15 months.

Offshore

- The **Federal Reserve's** FOMC left the target range for the federal funds rate unchanged at 5.25-5.5 per cent at its June meeting, with the Committee acknowledging that there has been 'modest progress' towards the two per cent inflation objective in recent months. FOMC participants revised their outlook for the federal funds rate with the median now suggesting only one rate cut this year (versus three beforehand). However, an additional rate cut is now foreseen for 2025 and 2026 such that the cumulative change in the policy rate over the entire period is the same as before.
- In the post-meeting press conference, Fed Chair Powell noted that while inflation has eased in recent months, more data is needed to be confident that this will continue. Powell also noted that the labour market has moved into better balance and that the current stance of monetary policy is sufficiently restrictive.

▪ In the US:

- The headline consumer price index (CPI) was flat in May, while the core index rose by a modest 0.2 per cent. The increase in core CPI was below economists' expectations and marked the smallest monthly rise since August 2021. Annual core inflation was also below expectations, easing two-tenths to 3.4 per cent.
- The producer price index (PPI) was also weaker than expected, declining by 0.2 per cent in May. Core producer prices were unchanged in the month to be up 2.3 per cent higher over the year.
- The US economy added 272k non-farm jobs in May, surpassing economists' expectations by 92k. Average hourly earnings also exceeded economists' expectations, increasing by 0.4 per cent in May.
- In contrast to the increase in non-farm jobs and hourly earnings, the US household survey pointed to a softening of labour market conditions. The unemployment rate increased one-tenth to 4.0 per cent in May, driven by a 408k decline in household employment. The labour force participation rate also declined in the month.
- Households' perceptions of their current financial situations improved in May, according to the NY Fed's Survey of Consumer Expectations. Inflation expectations for one-year ahead declined slightly to 3.2 per cent in May (from 3.3 per cent in April), though households' expectations for inflation five years ahead increased.
- Moody's warned that **France's** snap parliamentary elections are a negative for the country's credit score, citing the risks associated with political instability in a challenging fiscal environment. This follows S&P Global's downgrade of France's credit rating earlier this month.
- In **China**, the USD value of total exports rose by a higher-than-expected 7.6 per cent over the year to May (from 1.5 per cent in April). Import growth slowed notably to a lower-than-expected 1.8 per cent.

Markets

Both US and Australian Government bond yields rose early in the week alongside similar moves in European markets as investors became concerned about an increase in risk following the snap election called by French President Macron. Weaker-than-expected outcomes for core CPI and PPI in the US helped push yields lower over the rest of the week, though this was partially offset by what were considered hawkish revisions to interest rate guidance from FOMC participants.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: ANZ-Indeed Job ads (May) Tuesday: RBA meeting
Offshore	US: Retail sales (May), Industrial production (May), University of Michigan Consumer Survey (Jun), Housing starts (May), Existing home sales (May) Euro area: CPI (May F), PMIs (Jun) UK: CPI (May), PPI (May), Retail sales (May), S&P Global PMIs (Jun) Japan: CPI (May), Core machinery orders (Apr), Trade (May), PMIs (Jun) China: Industrial production (May), FDI (May), Property investment (May), Retail sales (May), 1-year Lending facility rate (17 Jun)

Economic and Financial Market Charts

CHART 1: THE LABOUR MARKET REMAINS TIGHT DESPITE THE UNEMPLOYMENT RATE GRADUALLY EDGEING HIGHER SINCE MID 2023

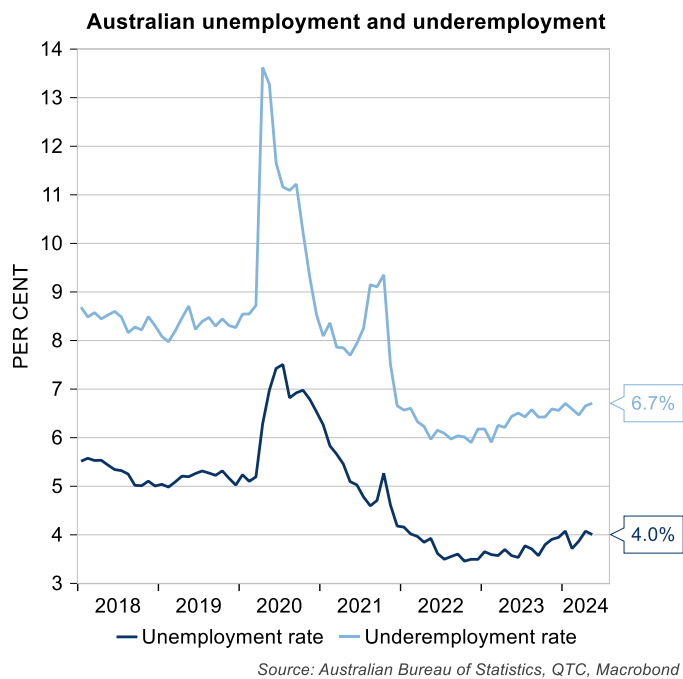


CHART 2: EMPLOYMENT GROWTH HAS ALSO GRADUALLY EASED

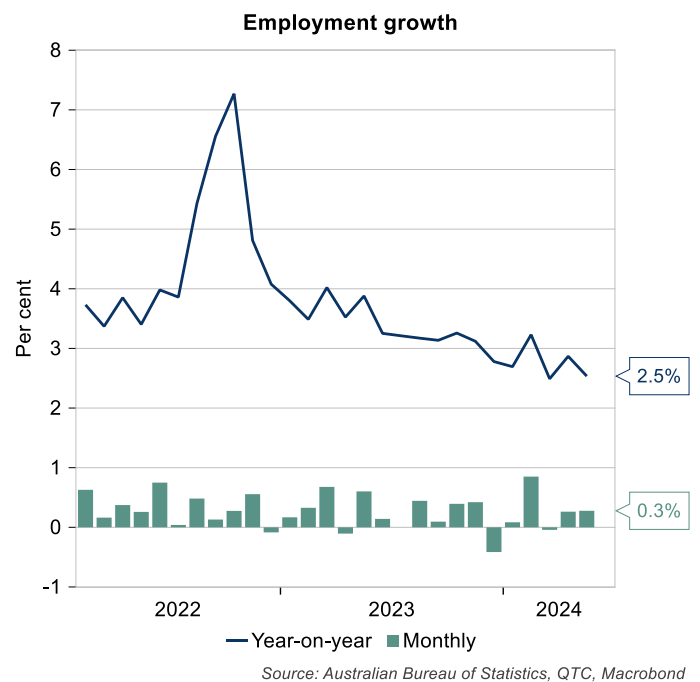


CHART 3: US HEADLINE INFLATION HAS BROADLY TRACKED SIDeways SINCE THE MIDDLE OF LAST YEAR

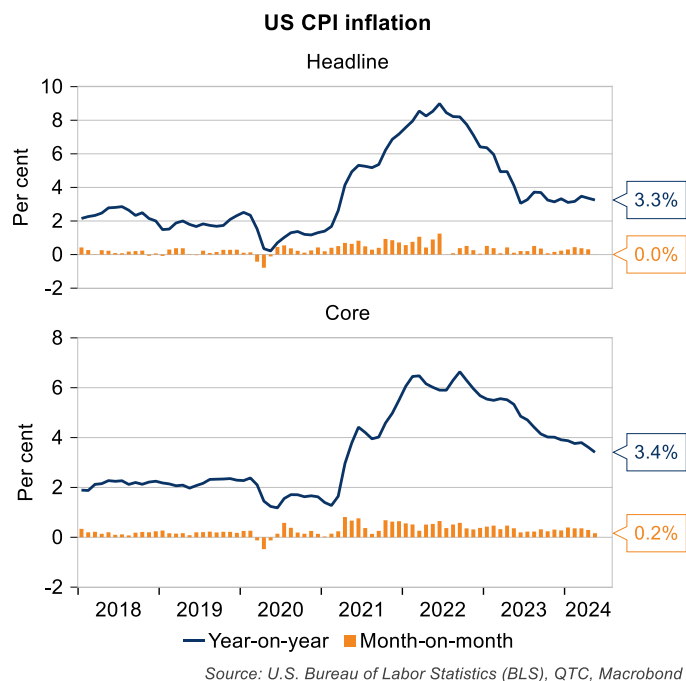
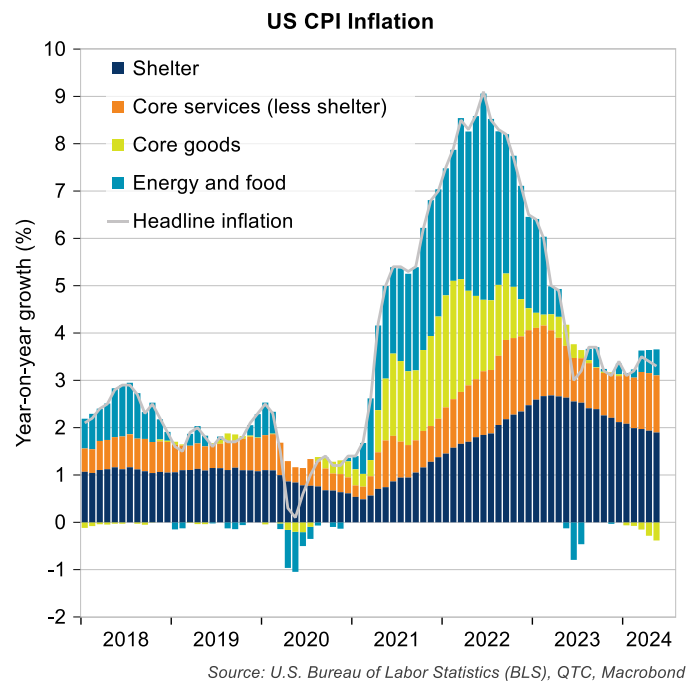


CHART 4: US INFLATION HAS RECENTLY BEEN SUPPORTED BY A PICK UP IN FOOD AND ENERGY PRICES



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	4.26	-4	-8	15
	NSWTC	4.23	-5	-8	12
	TCV	4.28	-5	-9	9
	WATC	4.23	-3	-7	13
	Australian Government	3.88	-3	-8	5
	US Government	4.43	-7	-18	19
5 Year	QTC	4.40	-3	-7	28
	NSWTC	4.38	-4	-8	22
	TCV	4.42	-4	-7	23
	WATC	4.35	-3	-6	26
	Australian Government	3.92	-3	-9	13
	US Government	4.24	-6	-21	33
7 Year	QTC	4.63	-4	-7	37
	NSWTC	4.63	-5	-8	30
	TCV	4.68	-6	-8	33
	WATC	4.55	-5	-8	31
	Australian Government	4.03	-4	-13	17
	US Government	4.24	-5	-21	42
10 Year	QTC	4.99	-5	-7	46
	NSWTC	4.98	-5	-9	33
	TCV	5.02	-7	-11	36
	WATC	4.84	-6	-10	37
	Australian Government	4.18	-3	-13	25
	US Government	4.24	-4	-20	53

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	-0.45	0.14	-3.62
AUD/EUR	0.62	0.96	0.90	-1.72
AUD/GBP	0.52	-0.24	-1.20	-3.44
AUD/JPY	104.20	0.45	0.52	7.91
AUD/CAD	0.91	0.07	0.80	0.16
AUD/NZD	1.08	0.07	-1.91	-2.55
AUD/SGD	0.90	-0.08	0.08	-2.56
AUD/HKD	5.18	-0.45	0.12	-3.73
AUD/KRW	911.70	0.13	0.49	3.44
AUD/CNY	4.81	-0.41	0.47	-1.91
AUD/INR	55.58	0.11	0.66	-0.83
MAJOR CURRENCIES				
EUR/USD	1.08	-0.74	-0.09	-1.24
GBP/USD	1.28	0.06	1.64	0.12
USD/JPY	156.72	0.71	0.19	11.71
USD/CHF	0.89	0.57	-1.35	0.29
USD/CNY	7.24	0.01	0.15	1.73

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	82.75	3.61	0.45	9.36
Gold	2,304.21	-3.02	-2.29	17.68
Copper	9,794.50	-3.49	-3.16	14.45
Iron Ore	106.40	-2.08	-6.95	8.41

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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