Weekly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

- The Bank of Canada and European Central Bank became the latest developed market central banks to lower interest rates, though both took a cautious data-dependent approach to further easing given lingering inflationary pressures.
- These decisions drove markets this week, as did mixed data on the US economy. The biggest market mover locally was Q1 GDP which was for Q1. While this was slightly softer than expected, upward revisions to household consumption saw investors take the view that the RBA would interpret the data positively.

Week in review

Domestic

- GDP rose by just 0.1 per cent in Q1 2024 with the annual rate of growth slowing from 1.6 per cent to 1.1 per cent, the slowest rate of expansion since the early 1990s recession. With population growth again exceeding that in production, output shrank on a per capita basis. This was the fifth straight quarter that this has happened (a record).
- Household consumption rose on the quarter, but it was revisions to previous outcomes which captured attention. Here the ABS marked its estimates of household consumption higher over the past year as spending by inbounded tourists was reincorporated. While this paints a more constructive picture of consumption (the annual growth rate nearly doubled after the change), GDP was not affected as higher consumption was offset by higher imports.
- Private investment fell on declines in dwelling and non-dwelling construction more than offsetting an increase in equipment investment. Public spending rose as an increase on that to do with service delivery (that is, government consumption) more than compensated for a decline in government capital spending. Net exports were a drag on growth due to a lift in imports (as discussed above) with this almost fully offset by a build-up of inventories.
- In parliamentary testimony RBA Governor Bullock reiterated that, with risks to the outlook being two-sided, the Board was not ruling anything in or out. Interestingly, the Governor pointed out that, given the lags of monetary policy, it is possible that there are 50 basis points worth of tightening still to flow through to the economy. Bullock doesn't think that government energy rebates are likely to have a material impact on core inflation.
- The Fair Work Commission announced that award and minimum wages are to increase by 3.75 per cent in FY25. This was below the rise sought by the ACTU (around five per cent) but above that recommended by employer groups (around two per cent). In not opting for a higher increase the Commission noted support being provided to workers through tax cuts and subsidies, the increase in the superannuation guarantee as well as low productivity.

Offshore

- In the US:
  - The job openings rate fell in April, though the quits, hiring, and layoff rates were unchanged.
  - Conditions in the services sector began to improve again in May on a big lift in activity. Encouragingly, there were also increases in the series which track new orders and employment as well as a moderation in prices paid. In contrast, manufacturing conditions eased at a faster pace in May. While there was softness evident in new orders and production, employment did increase. Similar to services, there was a moderation in prices paid.
  - Core PCE inflation increased in line with expectations in April. However, beneath the surface there were encouraging signs with the version of this series which just focusses on market-based price changes easing notably on the month.
- The Bank of Canada cut interest rates by 25 basis points to 4.75 per cent in what was its first move in this easing phase of the policy cycle. It was suggested that further cuts could be forthcoming if inflationary pressures continue to ease. Governor Macklem said that that the Bank would be data dependent in making these decisions and would take things one meeting at a time.
- As expected, the European Central Bank (ECB) delivered its first rate cut in the easing phase of its policy cycle by lowering the deposit rate by 25 basis points. This reflected actual progress on lowering inflation and some additional confidence in its forecasts that this process would continue.
- However, while cutting rates, the Governing Council removed the easing bias that was introduced at the April meeting. This seemingly reflected some ongoing caution about the moderation in inflation. Instead, and as with the Bank of Canada earlier in the week, further easing would be data dependent and policymakers would take a meeting-by-meeting approach. ECB staff upgraded forecasts for GDP growth and core inflation in 2024.
- In the euro area, the annual rate of both headline and core inflation rose more than expected in May. Services prices continue to grow strongly.
- In China, according to the National Bureau of Statistics, manufacturing conditions went from improving in April to getting worse in May. Meanwhile, the pace of improvement in service sector conditions moderated slightly in May. In contrast, according to a private sector report, both manufacturing and services sector conditions improved at a slightly faster pace in May.

Markets

Bond yields fell this week due to the softer-than-expected ISM manufacturing report (with little respite from better-than-expected service sector conditions), softer details in the core PCE inflation data, lower US job openings as well as the Bank of Canada lowering interest rates. Upwards revisions to household consumption in the Q1 GDP report in Australia provided a small window of respite to the otherwise steady march of yields lower over the week.

Economic and Market Calendar

DATE	DETAILS
Domestic	**Tuesday:** NAB Business Survey **Thursday:** Labour Force (May)
Offshore	**US:** Non-farm payrolls (May), CPI & PPI (May), FOMC meeting **Other:** UK Labour market (3 months to April), UK & EZ Industrial production (Apr), China CPI (May), China Credit (May), Bank of Japan meeting

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HAVE A QUESTION?
Ask our economist

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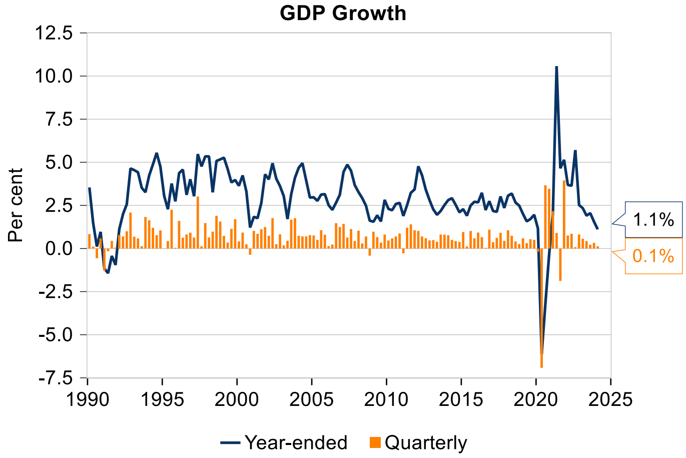
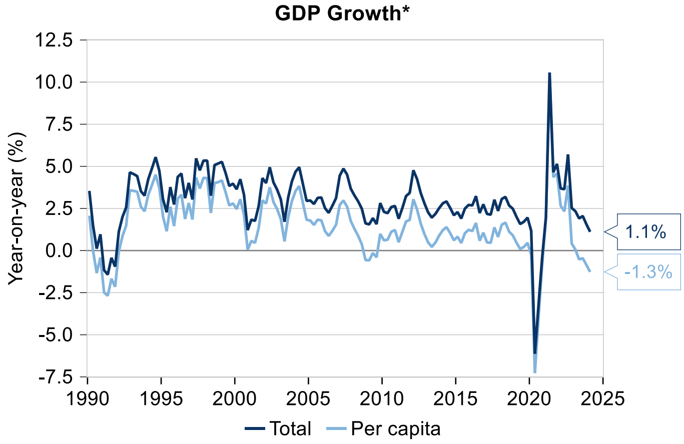
Economic and Financial Market Charts

CHART 1: THE ANNUAL RATE OF GDP GROWTH IN AUSTRALIA JUST REACHED THE SLOWEST PACE SINCE THE EARLY 1990S RECESSION



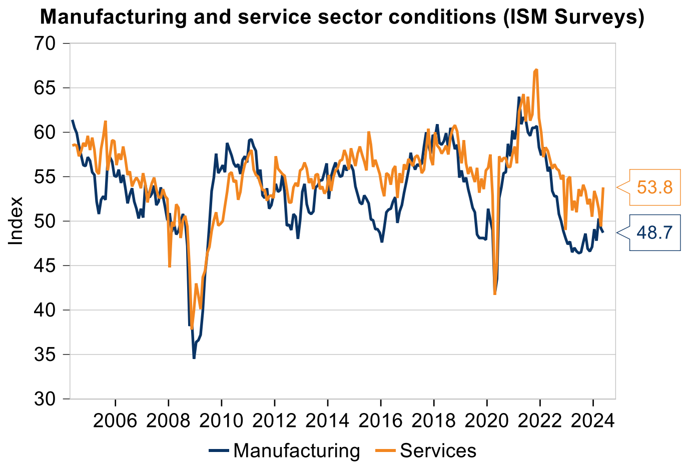
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: A LARGE GAP HAS OPENED UP BETWEEN SLOW GDP GROWTH AND NEGATIVE PER CAPITA GROWTH



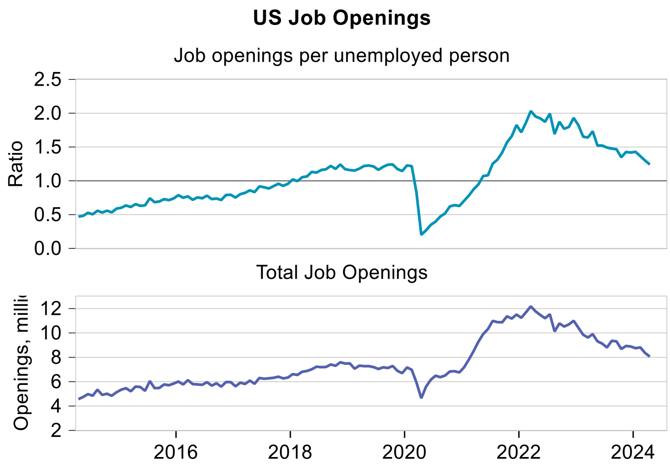
** Constant price measure*
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: THERE WERE DIVERGENT OUTCOMES FOR SERVICE AND MANUFACTURING SECTOR CONITIONS IN THE US IN MAY



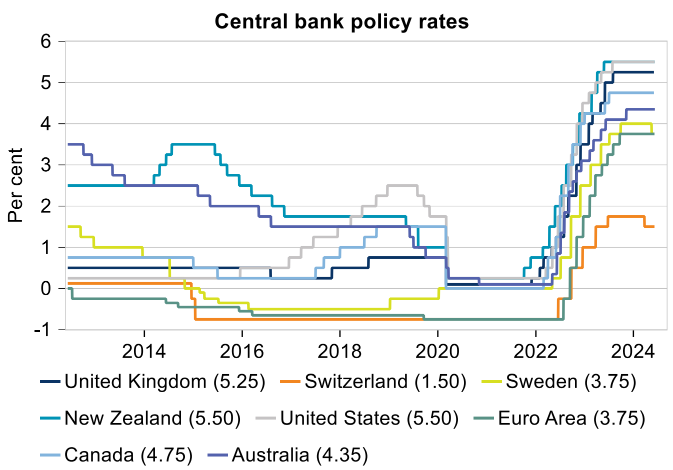
Source: Institute for Supply Management (ISM), QTC, Macrobond

CHART 4: THE US LABOUR MARKET CONTINUES TO REBALANCE WITH JOB OPENINGS AGAIN DECLINING



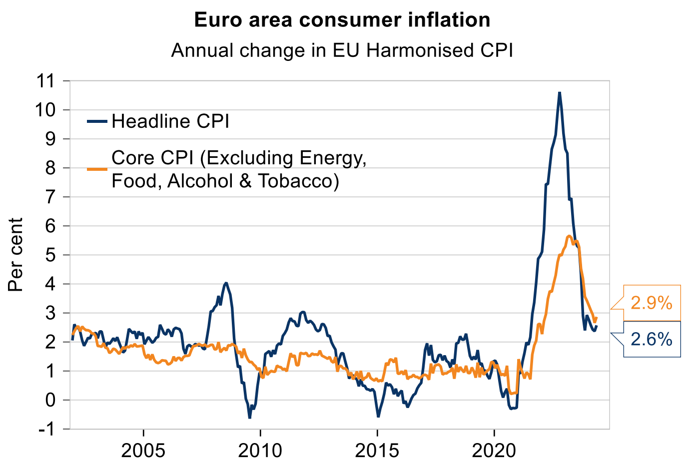
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 5: CENTRAL BANKS IN CANADA AND THE EURO AREA JOINED THOSE IN SWEDEN AND SWITZERLAND AS DEVELOPED MARKET BANKS TO HAVE CUT RATES RECENTLY



Source: QTC, Macrobond

CHART 6: AFTER HAVING MODERATED FAIRLY CONSISTENTLY IN RECENT YEARS THE ANNUAL RATE OF EURO AREA INFLATION SURPRISED TO THE UPSIDE IN APRIL



Source: Eurostat, 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	4.30	-15	-11	36
	NSWTC	4.29	-14	-11	34
	TCV	4.32	-14	-12	32
	WATC	4.26	-15	-10	33
	Australian Government	3.91	-17	-11	28
	US Government	4.50	-24	-14	34
5 Year	QTC	4.43	-16	-12	48
	NSWTC	4.43	-17	-13	43
	TCV	4.47	-16	-11	43
	WATC	4.38	-17	-12	45
	Australian Government	3.95	-18	-13	34
	US Government	4.30	-27	-18	44
7 Year	QTC	4.67	-16	-8	56
	NSWTC	4.68	-17	-10	49
	TCV	4.74	-17	-8	53
	WATC	4.60	-17	-10	50
	Australian Government	4.07	-19	-14	37
	US Government	4.29	-27	-17	49
10 Year	QTC	5.03	-16	-8	62
	NSWTC	5.03	-17	-10	50
	TCV	5.09	-17	-9	54
	WATC	4.90	-16	-9	53
	Australian Government	4.22	-20	-15	42
	US Government	4.28	-26	-17	57

		CHANGE (PER CENT)		
EQUITIES	RATE	1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	0.26	0.91	-0.80
AUD/EUR	0.61	-0.11	-0.11	-1.67
AUD/GBP	0.52	-0.03	-1.08	-2.53
AUD/JPY	103.77	-0.33	1.74	11.27
AUD/CAD	0.91	0.40	0.68	1.66
AUD/NZD	1.08	-0.84	-2.17	-2.42
AUD/SGD	0.90	0.03	0.36	-0.53
AUD/HKD	5.20	0.18	0.78	-1.12
AUD/KRW	909.86	-0.73	1.35	3.98
AUD/CNY	4.83	0.67	1.57	1.24
AUD/INR	55.52	0.77	0.82	0.63
MAJOR CURRENCIES				
EUR/USD	1.09	0.39	1.03	0.91
GBP/USD	1.28	0.30	2.01	1.78
USD/JPY	155.80	-0.57	0.83	12.15
USD/CHF	0.89	-1.37	-1.77	-0.97
USD/CNY	7.25	0.18	0.36	1.88

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	79.90	-2.39	-3.92	5.19
Gold	2,372.93	1.06	2.61	20.68
Copper	9,925.50	-2.07	-1.04	18.90
Iron Ore	108.66	-6.03	-7.59	15.84

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