

# Weekly Economics and Markets Review

- Domestic economic activity continues to soften, with recent data showing declines in business conditions, consumer sentiment and job advertisements.
- Financial markets firmed up expectations for rate cuts from the US Federal Reserve, following weaker-than-expected CPI inflation and labour market data.
- The Reserve Bank of New Zealand (RBNZ) left its cash rate on hold at 5.5 per cent, with the accompanying statement turning noticeably more dovish.

## Week in review

### Domestic

- According to the NAB Business Survey, business conditions eased further in June and are now well below their September 2022 peak. The decline was driven by weaker employment and (to a lesser extent) a decline in profitability.
- Other indicators in the NAB Business Survey also point to slower activity and inflation. Forward orders remained weak in June, while capital expenditure declined notably. NAB's measures of price pressures continued to ease, with slower growth in purchase costs, labour costs and final product prices.
- Westpac/Melbourne Institute consumer sentiment fell by 1.1 per cent in July and remains well below its long-run average. Sentiment has been below average for the past two years, marking the second most protracted period of deep consumer pessimism since the survey began in the mid-1970s (with the early 1990s recession being the most protracted).
- SEEK job advertisements point to an ongoing easing of labour market conditions. Job ads fell 1.5 per cent in June, to be 17 per cent lower over the year and 36 per cent below their May 2022 peak. The number of applicants per job ad has also continued to move higher, having increased by 62 per cent over the past year.
- Housing lending (ex-refinancing) declined 1.7 per cent in May, with ongoing growth in WA and Queensland being more than offset by declines across other states. Despite the month-on-month decline in May, housing lending has risen by 18 per cent over the past year.

### Offshore

- US Federal Reserve** Chair Powell presented a balanced message in his testimony before the Senate Banking Committee. Powell noted inflation is not the only risk to the outlook, with the Fed also needing to consider the risks to economic activity and the labour market if rates are left high for too long. These comments were made prior to the June CPI release, which should give the Fed further confidence that inflationary pressures are moderating.
- The **RBNZ** left its cash rate on hold at 5.5 per cent at its July meeting, as expected. However, the accompanying statement turned noticeably more dovish. The RBNZ noted that restrictive monetary policy has 'significantly' reduced inflation and that policy tightness 'will be tempered over time' due to the expected decline in inflation pressures.

- The **Bank of Korea** left its policy rate unchanged at 3.5 per cent, with its forward guidance also shifting to be slightly more dovish.
- US** CPI inflation was much softer than expected in June, with annual headline inflation falling three tenths to 3.0 per cent and core inflation easing to 3.3 per cent. Shorter-term measures of headline inflation showed even larger improvements, with the three-month annualized rate falling by 1.2 percentage points to 2.1 per cent.
- A key area of focus in the US CPI print was rents inflation, which has underpinned much of the strength in inflation over the past year. Rents inflation slowed noticeably in June and is around its pre-pandemic pace on a month-to-month basis.
- Recent US labour market data continue to suggest conditions are easing.
  - Non-farm payrolls growth exceeded consensus expectations by 16k in June, though this was more than offset by an 111k downward revision in the previous two months. These revisions saw the average change in payrolls in Q2 2024 ease to 177k (from 267k in Q1).
  - The unemployment rate increased to 4.1 per cent in June, with it now 0.7 percentage points above its April 2023 trough.
  - Weaker labour market conditions appear to be flowing through to wages growth, with the annual rate of average hourly earnings easing to 3.9 per cent in June (from 4.1 per cent in May).
- Key measures of economic activity and inflation across other major economies were generally soft over the past week, with UK GDP being a notable exception.
  - In **Canada**, the unemployment rate increased two-tenths to 6.4 per cent in June, while employment recorded a small decline.
  - In **Germany**, factory orders fell 1.6 per cent in May, well below consensus expectations for a 0.5 per cent increase. This follows a 0.6 per cent fall in German factory orders in April.
  - China's** inflation outcomes were soft in June. Headline CPI inflation slowed to 0.2 per cent on a year-on-year basis, while producer prices fell 0.8 per cent.
  - UK** GDP grew by 0.9 per cent on a three-month basis, which is its strongest pace since January 2022.

## Markets

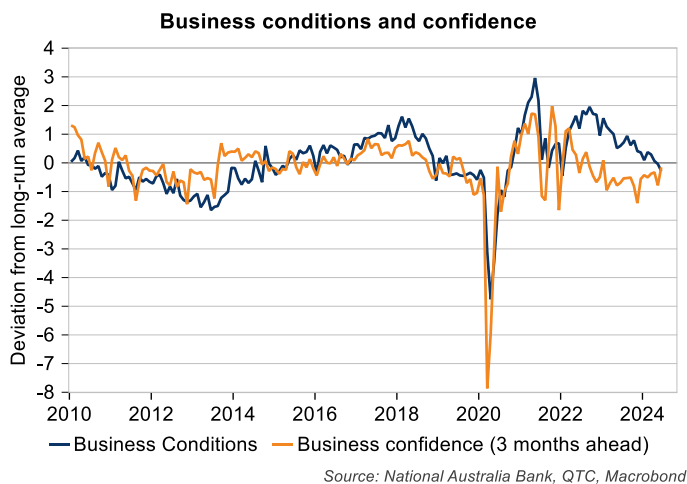
US Treasury yields fell over the past week due to softer-than-expected CPI and labour market data. Financial markets now expect a 25 basis points rate cut at the Fed's September meeting and around 60 basis points of cuts by December. There is also speculation that Japan's Ministry of Finance intervened to support the yen around the time of the US CPI release, due to a large fall in the USD/JPY exchange rate. Outside of the US, financial markets also firmed expectations for rate cuts from the RBNZ over the coming year, following a surprisingly dovish turn in its post-meeting statement.

### Economic and Market Calendar

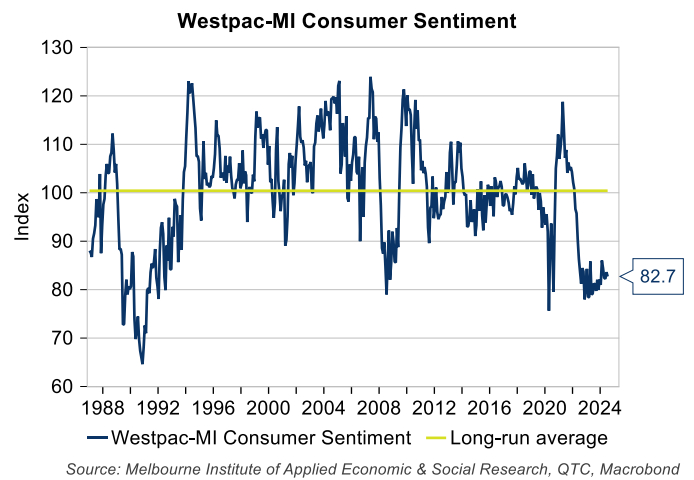
DATE	DETAILS
Domestic	<b>Thursday:</b> Labour force survey (Jun)
Offshore	<b>US:</b> Retail sales (Jun), Housing starts (Jun), Industrial production and manufacturing output (Jun), Initial jobless claims (week ending 13 July) <b>Euro area:</b> ECB meeting (18 Jul), Industrial production (May), Trade balance (May), CPI (Jun F), Construction output (May) <b>Japan:</b> National CPI (Jun) <b>China:</b> GDP (Q2), Industrial production (Jun), Retail sales (Jun), Fixed asset investment (Jun), New home prices (Jun), Medium-term lending facility rate (15 Jul)

## Economic and Financial Market Charts

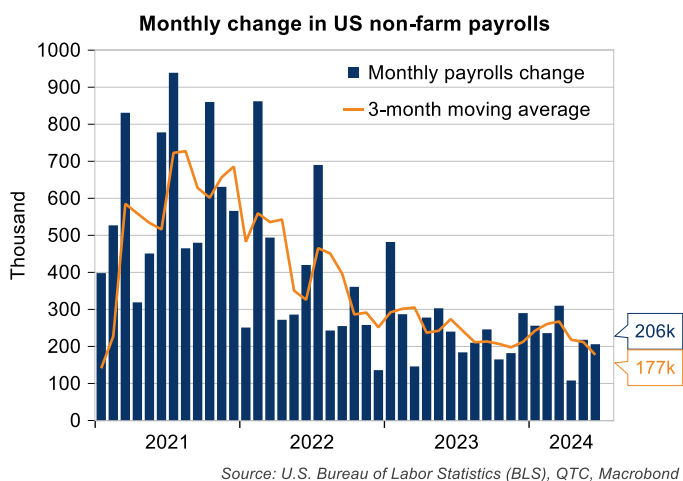
**CHART 1: BUSINESS CONDITIONS EASED FURTHER IN JUNE AND ARE NOW WELL BELOW THEIR SEPTEMBER 2022 PEAK**



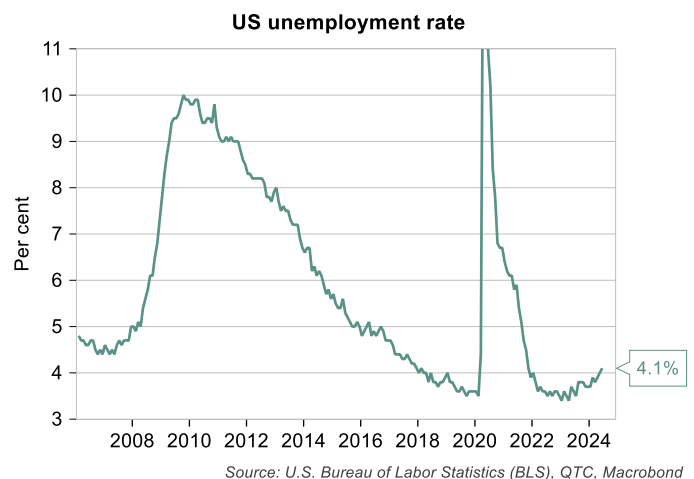
**CHART 2: CONSUMER SENTIMENT REMAINS WELL BELOW ITS AVERAGE, WEIGHED DOWN BY CONTINUED COST OF LIVING PRESSURES**



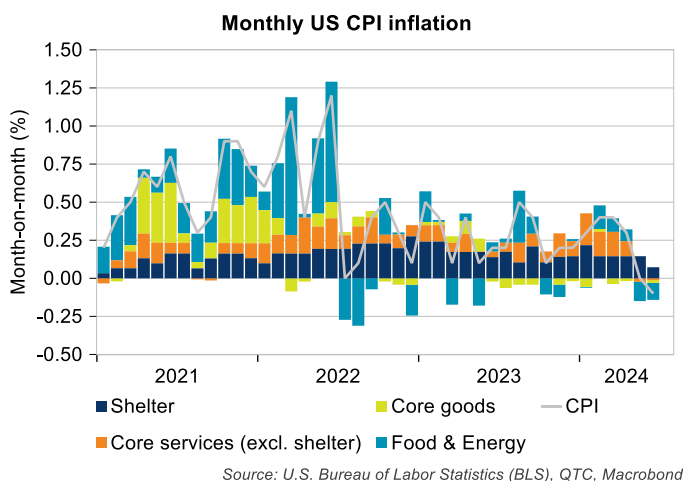
**CHART 3: US LABOUR MARKET CONDITIONS ARE GRADUALLY EASING, WITH PAYROLLS TRENDING LOWER IN RECENT MONTHS ...**



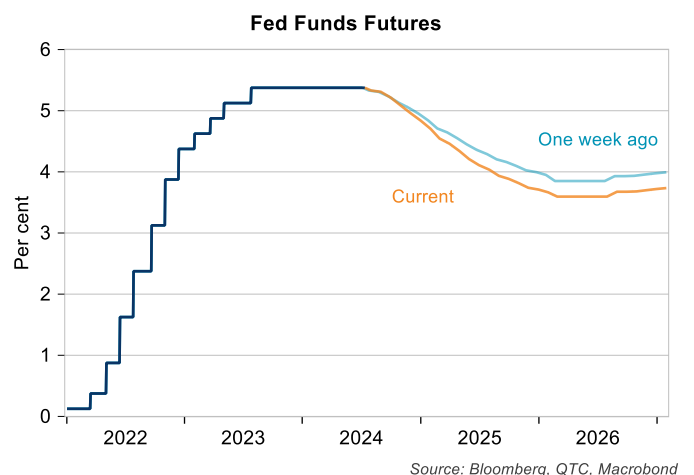
**CHART 4: ... AND THE US UNEMPLOYMENT RATE AT ITS HIGHEST LEVEL SINCE NOVEMBER 2021**



**CHART 5: US CPI INFLATION WAS MUCH SOFTER THAN EXPECTED IN JUNE, WITH GROWTH SLOWING NOTABLY ACROSS A RANGE OF PRICE CATEGORIES**



**CHART 6: WEAKER-THAN-EXPECTED INFLATION AND LABOUR MARKET OUTCOMES HAVE SEEN FINANCIAL MARKETS FIRM UP EXPECTATIONS FOR FED RATE CUTS OVER THE COMING YEAR**



## 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)		
			1WEEK	1MONTH	1YEAR
3 Year	QTC	4.43	-5	7	0
	NSWTC	4.41	-5	7	-2
	TCV	4.46	-6	8	-3
	WATC	4.39	-6	7	-2
	Australian Government	4.10	-5	13	-2
	US Government	4.28	-21	-31	4
5 Year	QTC	4.56	-5	5	12
	NSWTC	4.54	-4	4	7
	TCV	4.60	-4	7	10
	WATC	4.51	-4	5	10
	Australian Government	4.12	-5	10	4
	US Government	4.14	-18	-28	20
7 Year	QTC	4.78	-4	2	22
	NSWTC	4.78	-3	2	17
	TCV	4.85	-4	3	21
	WATC	4.71	-4	3	17
	Australian Government	4.23	-4	7	10
	US Government	4.16	-17	-25	30
10 Year	QTC	5.12	-4	-0	30
	NSWTC	5.12	-3	-0	20
	TCV	5.19	-3	2	24
	WATC	4.97	-4	-2	23
	Australian Government	4.37	-4	5	20
	US Government	4.21	-15	-19	45

EQUITIES	RATE	CHANGE (PER CENT)		
		1WEEK	1MONTH	1YEAR
AUD/USD	0.68	0.49	2.32	-1.89
AUD/EUR	0.62	0.14	1.15	1.39
AUD/GBP	0.52	-0.71	0.94	-0.19
AUD/JPY	107.38	-1.01	3.45	12.90
AUD/CAD	0.92	0.62	1.39	2.04
AUD/NZD	1.11	0.85	3.12	2.90
AUD/SGD	0.91	-0.19	1.54	-0.34
AUD/HKD	5.28	0.48	2.26	-2.05
AUD/KRW	927.74	-0.09	1.91	5.68
AUD/CNY	4.91	0.36	2.33	-0.40
AUD/INR	56.47	0.62	2.46	0.43
MAJOR CURRENCIES				
EUR/USD	1.08	0.16	0.83	-3.53
GBP/USD	1.28	0.70	0.86	-2.18
USD/JPY	161.69	0.25	2.90	17.12
USD/CHF	0.90	-0.07	0.21	4.75
USD/CNY	7.28	0.11	0.30	1.76

MAJOR COMMODITIES	PRICE (USD)	1WEEK	1MONTH	1YEAR
Brent Crude Oil	85.40	-2.32	4.25	4.97
Gold	2,415.48	2.49	4.25	23.21
Copper	9,786.50	-0.97	0.28	12.57
Iron Ore	107.99	-5.01	4.43	13.05

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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