

Weekly Economics and Markets Review

- Australian retail sales and dwelling approvals improved in May, though their trends remain weak.
- Recent US data suggests that both inflation and labour market conditions have continued to gradually slow.
- UK exit polls for the general election suggest Labour has won in a landslide victory.

Week in review

Domestic

- **Retail sales** values rose by a stronger-than-expected 0.6 per cent in May, with sales increasing in most non-food related industries. Spending was supported by an early start to the end-of-financial year sales, with the ABS noting that retailers continue to rely on discounting and sales events to stimulate demand. In trend terms, retail sales growth remains subdued.
- The number of **dwelling approvals** rose 5.5 per cent in May, driven by a 16.3 per cent increase in the volatile higher-density housing sector. Detached house approvals rose by a more modest 1.3 per cent. Looking through month-to-month volatility, dwelling approvals remain weak and appear to still be tracking around the bottom of the cycle. The annual rate of dwelling approvals is 163.7k dwellings, which is its weakest run rate since early 2013.
- National **housing prices** rose 0.7 per cent in June, to be 13 per cent higher than their January 2023 trough. Melbourne's housing market remains the softest across the capital cities, with prices falling by 0.2 per cent in the month. In contrast, Perth saw the strongest increase with prices increasing by 2 per cent.
- **Private sector credit growth** slowed modestly in May, largely due to a deceleration of business credit growth. Personal credit growth also slowed in the month, while housing credit growth was little changed.
- The **RBA Board Minutes** for June reiterated that the Board's decision on the cash rate will be data dependent and that it remains vigilant to the upside risks on inflation.

Offshore

- US **Federal Reserve** Chair Jerome Powell noted that while the Fed is making progress on inflation, it requires more evidence that this improvement is sustainable before it reduces rates. He also stated that the robust economy and jobs market allows the Fed to be patient before reducing rates.
- Similar to the Fed, **ECB** President Lagarde said that she requires more evidence that inflation risks have passed, despite the June CPI data moving in the right direction. The Minutes to the June ECB also revealed that some members were uncertain about the decision to cut rates, though only one of them dissented.

- Recent **US** economic data suggest that activity has continued to slow.
 - PCE inflation was in line with economists' expectations in May, confirming that inflation moderated in the month. Annual core PCE inflation eased to 2.6 per cent, which is its slowest pace since March 2021.
 - Labour market data also suggest that conditions are gradually easing, albeit from a strong starting point. ADP employment increased by a smaller-than-expected 150,000 jobs in June, while initial jobless claims increased by 4,000 to a 10-month high of 238,000. Job openings increased to 8.1m in May, though the trend remains consistent with a gradual easing of labour market conditions. The job vacancy-to-unemployment ratio remained unchanged at 1.2 in May, which is its lowest level since 2021.
 - The ISM services index fell sharply to 48.8 in June, marking its lowest level since the onset of the pandemic. Business activity plummeted by 11.6 points, while new orders saw a sharp 6.8-point decline. The ISM manufacturing index posted a more modest decline in June.
- **Euro area** CPI inflation moderated to an annual pace of 2.5 per cent in June, according to preliminary estimates. Core inflation edged slightly higher to 2.9 per cent, while services inflation remained sticky at 4.1 per cent.
- **China's** NBS non-manufacturing PMI fell in June, with activity slowing in both the construction and services sectors. In contrast, the NBS manufacturing PMI was steady in the month.
- The People's Bank of China (PBOC) published its statement for the June quarter MPC meeting. The statement saw the PBOC maintain a pro-growth stance and its focus on enhancing monetary policy transmission. It also reaffirmed its support for China's property sector.
- In the **UK**, exit polls for the general election suggest Labour has won in a landslide victory. The poll forecasts Labour will win around 410 seats, well ahead of the 326 needed to form a majority.
- In **France**, risk sentiment improved over the past week due to the latest polls suggesting Marine Le Pen's National Rally and its allies will fall short of a majority.

Markets

US Treasury yields have drifted slightly higher over the past week, despite an easing of US inflation and a weaker-than-expected read on the US services sector.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Jun), Westpac Consumer Confidence (Jul)
Offshore	US: CPI (Jun), PPI (Jun), Unemployment rate (Jun), Non-farm payrolls (Jun), Average weekly earnings (Jun) Euro area: Retail sales (May) Japan: PPI (Jun) UK: Monthly GDP (May), Industrial production (May) China: CPI (Jun), PPI (Jun), Trade (Jun)

Economic and Financial Market Charts

CHART 1: RETAIL SALES REMAIN WEAK, WITH CONSUMER SPENDING WEIGHED DOWN BY ONGOING COST OF LIVING PRESSURES



CHART 2: THE NEAR-TERM OUTLOOK FOR HOUSING CONSTRUCTION IS ALSO WEAK, WITH TREND APPROVALS AROUND A DECADE LOW

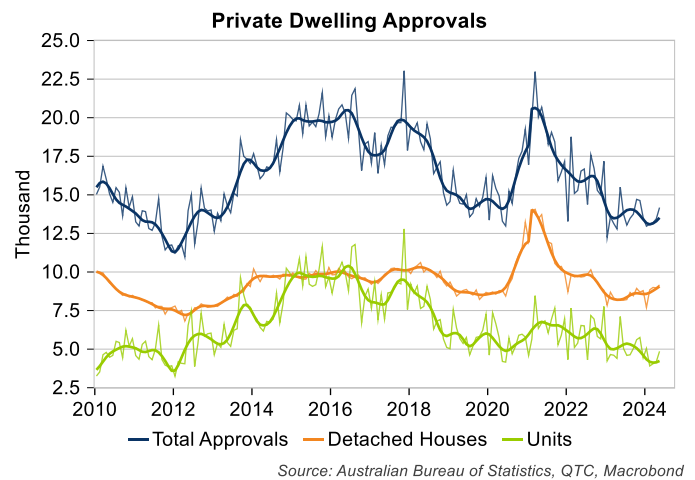


CHART 3: IN CONTRAST TO HOUSING CONSTRUCTION, DWELLING PRICES ARE AT A RECORD HIGH ACROSS MOST CAPITAL CITIES

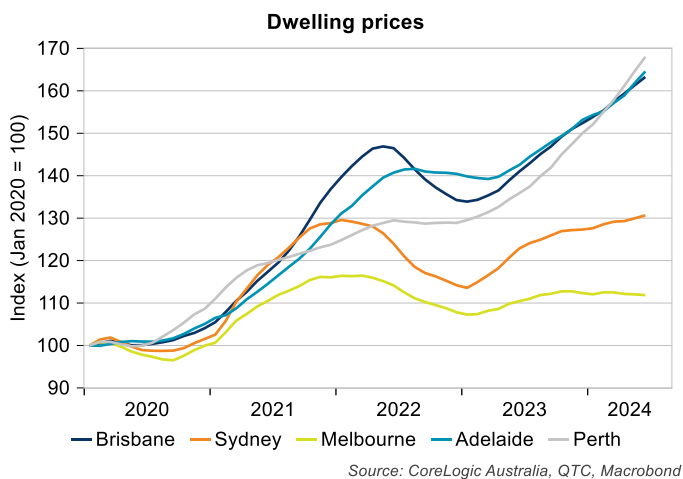


CHART 4: US INFLATION HAS CONTINUED TO EASE, THOUGH PROGRESS TOWARDS THE FEDS 2% INFLATION TARGET HAS SLOWED

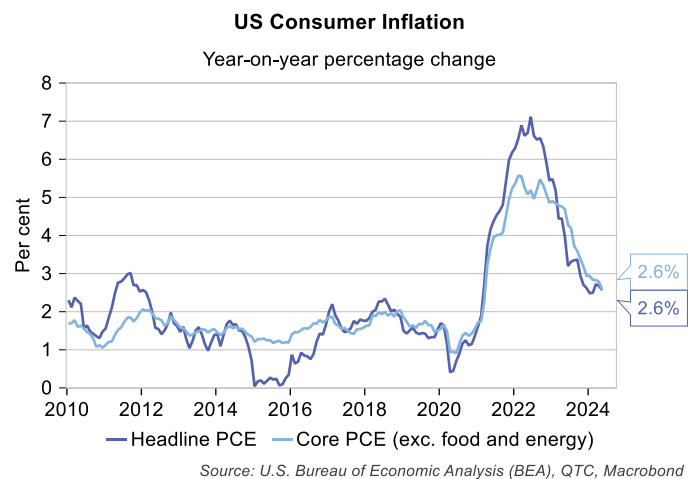
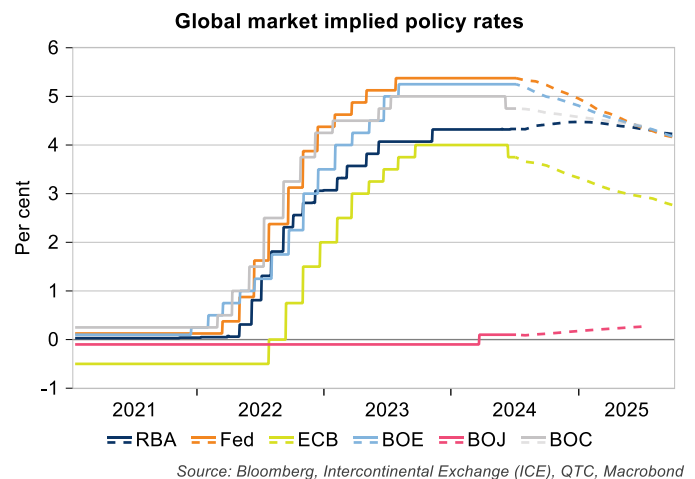


CHART 5: US LABOUR MARKET CONDITIONS HAVE ALSO GRADUALLY EASED, WITH THE JOB VACANCY-TO-UNEMPLOYMENT RATIO AT ITS LOWEST LEVEL SINCE 2021



CHART 6: MOST CENTRAL BANKS ARE EXPECTED TO START CUTTING RATES THIS YEAR IN RESPONSE TO AN EASING OF INFLATION, WITH THE RBA AND BOJ BEING NOTABLE EXCEPTIONS



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	4.48	2	13	20
	NSWTC	4.47	2	14	18
	TCV	4.52	1	15	17
	WATC	4.45	1	14	18
	Australian Government	4.15	-1	18	16
	US Government	4.49	-0	-6	-18
5 Year	QTC	4.60	4	11	35
	NSWTC	4.58	4	9	29
	TCV	4.64	4	11	32
	WATC	4.55	3	10	33
	Australian Government	4.16	-0	15	24
	US Government	4.32	3	-2	-2
7 Year	QTC	4.82	4	9	48
	NSWTC	4.81	4	7	41
	TCV	4.89	4	8	45
	WATC	4.74	3	8	41
	Australian Government	4.27	-0	13	31
	US Government	4.32	4	-1	12
10 Year	QTC	5.16	4	7	57
	NSWTC	5.15	5	5	46
	TCV	5.22	5	6	49
	WATC	5.01	4	5	49
	Australian Government	4.41	0	11	41
	US Government	4.36	7	3	33

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	1.19	1.16	1.51
AUD/EUR	0.62	0.18	1.78	2.25
AUD/GBP	0.53	0.25	1.25	1.36
AUD/JPY	108.47	1.50	5.32	13.64
AUD/CAD	0.92	0.57	0.71	3.39
AUD/NZD	1.10	0.61	2.16	2.17
AUD/SGD	0.91	0.72	1.55	1.39
AUD/HKD	5.25	1.19	1.10	1.35
AUD/KRW	928.61	0.81	1.49	7.71
AUD/CNY	4.89	1.19	1.54	1.81
AUD/INR	56.13	0.85	1.20	2.13
MAJOR CURRENCIES				
EUR/USD	1.08	0.77	-0.85	-0.95
GBP/USD	1.27	0.81	-0.22	0.02
USD/JPY	161.69	0.58	4.39	12.23
USD/CHF	0.90	0.31	1.27	0.69
USD/CNY	7.27	-0.01	0.35	0.32

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	87.43	1.20	12.78	14.26
Gold	2,356.69	1.24	1.28	23.33
Copper	9,882.50	3.86	-0.63	19.62
Iron Ore	113.68	7.86	6.04	18.21

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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