

# Weekly Economics and Markets Review

- Australian employment growth accelerated in July and the participation rate reached a record high.
- US inflation continues to ease, with investors expecting the US Federal Reserve will make three rate cuts by the end of the year
- China's retail sales picked up in July, though industrial production, fixed asset investment and the property sector continued to disappoint.

## Week in review

### Domestic

- **Employment** increased by a much larger-than-expected 58.2k in July, driven by a 60.5k increase in full-time employment. This outcome was almost triple consensus expectations for a 20.0k increase and marks the fourth consecutive month of accelerating employment growth.
- The **unemployment rate** continued to trend higher in July, increasing to 4.2 per cent (from 4.1 per cent in June) due to a large increase in the participation rate.
- **Wage Price Index (WPI)** growth slowed to 0.8 per cent quarter-on-quarter in Q2, slightly slower than the 0.9 per cent increase in Q1. Annual wages growth remained stable at 4.1 per cent in Q2.
- Wage outcomes diverged noticeably between the public and the private sectors. Private sector wage growth eased two-tenths to 0.7 per cent, which is its slowest pace since late 2021. Public sector wage growth picked up strongly to 0.9 per cent in Q2, though the ABS noted that this was due to changes in the timing of Commonwealth public sector wage increases.
- The **Westpac-Melbourne Institute consumer sentiment index** rose 2.8 per cent in August, supported by tax cuts and easing concerns about further interest rate increases. There was a particularly large increase in perceptions of 'family finances' in August, which saw its largest monthly gain in nine years (outside of the COVID period). Looking through the monthly volatility, consumer sentiment appears to be gradually trending higher (albeit from a low base).
- The **NAB Business Survey** was consistent with a gradual slowing of economic activity and inflation.
  - Business conditions recorded its first improvement in five months in July, though this only partly reversed the previous month's decline.
  - Business confidence edged slightly lower, with falls across all industries except for *construction and recreational & personal services*.
  - Forward orders remained weak (despite ticking up in the month), while capacity utilisation continued to trend lower.
  - Quarterly purchase cost growth eased to 1.1 per cent, while final product price growth was unchanged. Labour cost growth rose sharply to 2.5 per cent (from 1.5 per cent) due to the increase in Award and Minimum wages.

### Offshore

- The **Reserve Bank of New Zealand (RBNZ)** lowered its cash rate by 25 basis points. The RBNZ noted that 'monetary policy will need to remain restrictive for some time' and that future rate cuts will depend on the pace at which domestic inflation continues to ease.

## Markets

US Treasury yields moved lower early in the week, with the CPI and PPI reports confirming that inflationary pressures continue to ease. However, yields moved higher late in the week following the stronger-than-expected retail sales outcome. Overall, two-year Treasury yields ended the week slightly higher, while longer dated yields declined. In contrast, Australian Government bond yields declined across the curve partly in response to the unexpected increase in the unemployment rate. In commodity markets, Brent oil prices moved higher as geopolitical tensions in the Middle East escalated.

## Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> RBA Minutes (Aug)
Offshore	<b>US:</b> University of Michigan Consumer Sentiment (Aug), FOMC Minutes (Jul), Housing starts (Jul), PMIs (Aug); <b>UK:</b> Retail sales (Jul), PMIs (Aug); <b>Japan:</b> CPI (Jul), PMIs (Aug); <b>Canada:</b> CPI (Jul)

- **US Federal Reserve** official Goolsbee said that the Fed should not wait too long to cut rates, given inflation is on track to reach its target and the jobs market is showing signs that it could be cooling too fast.
- **US** retail sales were surprisingly robust in July, while inflation and labour market conditions continued to ease.
  - Retail sales rose 1.0 per cent in July, which is the largest month-on-month gain since January 2023.
  - Both headline and core CPI inflation increased by 0.2 per cent in July month-on-month, as expected. This saw annual core inflation ease to 3.2 per cent, which is its lowest level since early 2021.
  - Producer prices were weaker than expected in July, with the headline PPI increasing by 0.1 per cent and the core measure remaining flat on a month-on-month basis. Annual core PPI inflation eased from 3.0 to 2.4 per cent.
  - Three-year ahead inflation expectations fell sharply to 2.3 per cent (from 2.9 per cent) in July, according to the New York Fed's survey of inflation expectations. One-year ahead expectations were unchanged at 3.0 per cent.
  - Initial jobless claims fell 7k to 227k last, consistent with the ongoing easing of labour market conditions.
- **UK** CPI inflation was softer-than-expected in July, with annual core inflation easing to 3.3 per cent (from 3.5 per cent previously).
- **In Japan**, GDP growth was noticeably stronger-than-expected in Q2, underpinned by an improvement in private consumption. Annualised quarterly GDP growth was 3.1 per cent in Q2, compared to economists' expectations for a 2.3 per cent increase.
- **In China**, retail sales were slightly stronger than expected in July, though industrial production, fixed asset investment and the property sector continued to disappoint.
  - Retail sales increased by 2.7 per cent in July from a year earlier (from 2.0 per cent in June), though this partly reflects base effects.
  - Annual industrial production growth eased from 5.3 to 5.1 per cent in July, while fixed asset investment growth slowed notably from 3.7 to 1.9 per cent.
  - Property sector conditions remain weak, with property investment falling 10.2 per cent over the past year and residential property sales falling by 25.9 per cent.
  - Headline CPI inflation accelerated to 0.5 per cent year-on-year in July (from 0.2 per cent), while core CPI inflation softened to 0.4 per cent. PPI inflation (which measures costs for goods at the factory gate) fell by 0.8 per cent.

## Economic and Financial Market Charts

CHART 1: EMPLOYMENT INCREASES HAVE ACCELERATED IN RECENT MONTHS...

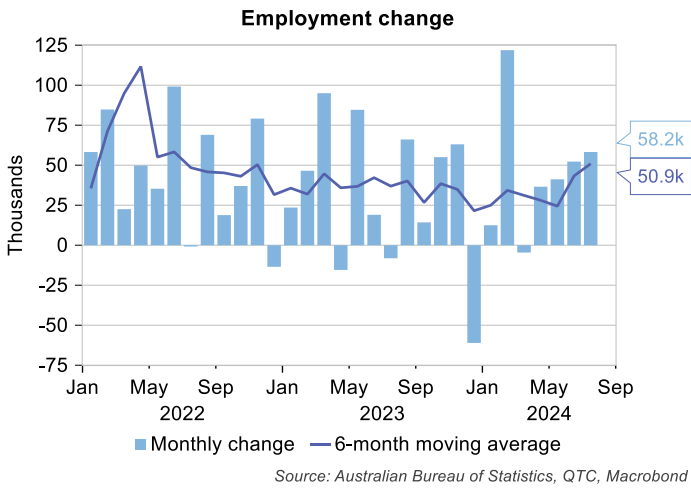


CHART 2: ... THOUGH THE UNEMPLOYMENT RATE HAS CONTINUED TO TREND HIGHER DUE TO A STRONGER PARTICIPATION RATE

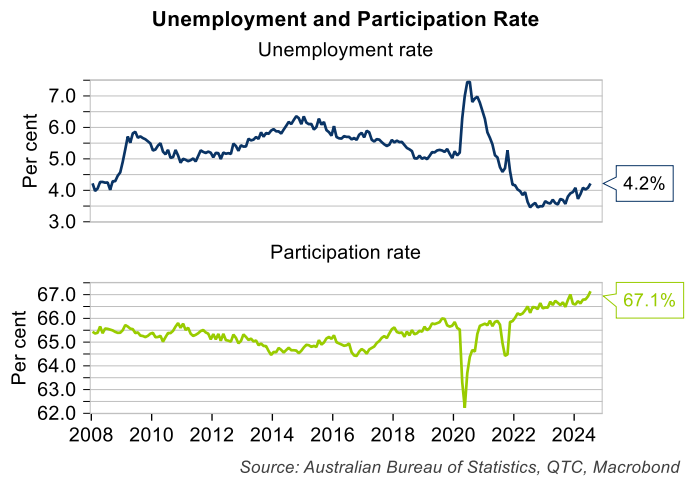


CHART 3: NOMINAL WAGE GROWTH APPEARS TO HAVE PASSED ITS PEAK...

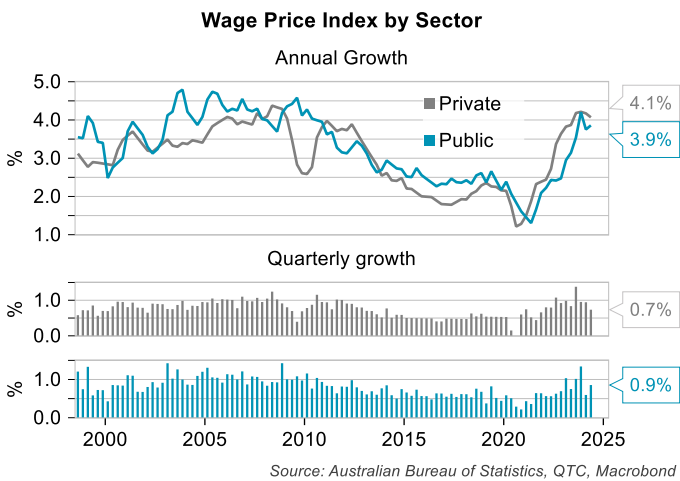


CHART 4: ... WHILE REAL WAGES REMAIN WELL BELOW PRE-COVID LEVELS



CHART 5: US INFLATION HAS EASED NOTICEABLY IN RECENT MONTHS...

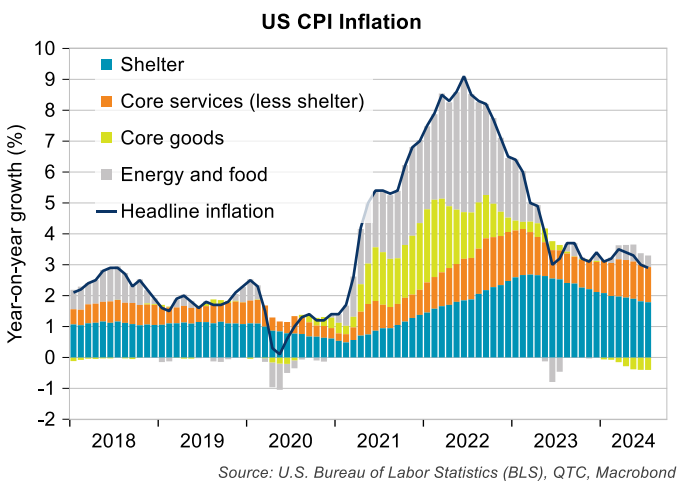
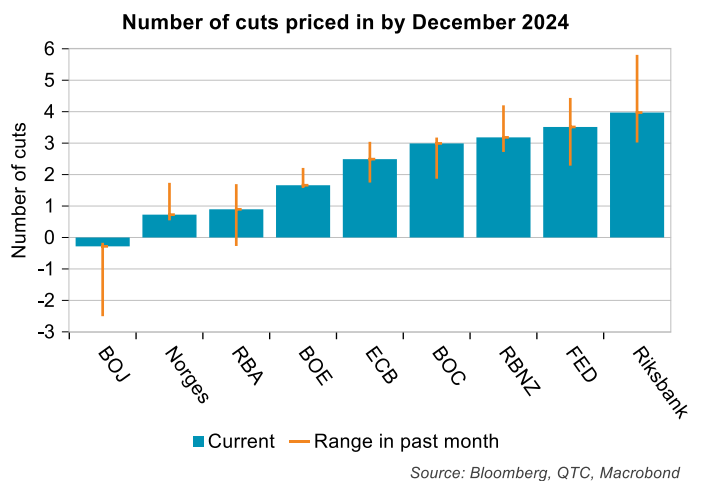


CHART 6: ... WITH THE FED NOW EXPECTED TO DO THREE 25 BASIS POINT CUTS BY DECEMBER (WITH A CHANCE OF A FOURTH CUT)



## 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	3.82	-15	-55	-39	AUD/USD	0.66	0.29	-1.81	3.25
	NSWTC	3.82	-15	-54	-41	AUD/EUR	0.60	-0.22	-2.48	2.29
	TCV	3.87	-14	-54	-39	AUD/GBP	0.51	-0.55	-0.91	2.36
	WATC	3.79	-15	-55	-40	AUD/JPY	98.70	1.65	-7.43	5.69
	Australian Government	3.49	-15	-54	-47	AUD/CAD	0.91	0.25	-1.42	4.63
	US Government	3.90	2	-30	-75	AUD/NZD	1.10	0.77	-0.75	2.23
5 Year	QTC	4.01	-14	-50	-24	AUD/SGD	0.87	0.02	-3.42	0.49
	NSWTC	4.00	-15	-49	-30	AUD/HKD	5.15	0.30	-1.97	2.80
	TCV	4.06	-14	-50	-26	AUD/KRW	903.09	-0.51	-3.20	5.12
	WATC	3.95	-16	-51	-27	AUD/CNY	4.75	0.33	-3.02	1.84
	Australian Government	3.55	-16	-51	-44	AUD/INR	55.70	1.30	-1.24	4.46
	US Government	3.79	-4	-29	-62	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.28	-16	-46	-19	EUR/USD	1.10	0.86	1.05	1.30
	NSWTC	4.28	-16	-46	-26	GBP/USD	1.28	0.64	-1.12	0.64
	TCV	4.34	-16	-47	-20	USD/JPY	147.34	0.07	-6.95	1.03
	WATC	4.20	-16	-47	-24	USD/CHF	0.87	-0.16	-3.18	-1.50
	Australian Government	3.71	-17	-46	-41	USD/CNY	7.14	-0.50	-1.73	-1.86
	US Government	3.82	-6	-27	-54	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.67	-17	-43	-12	Brent Crude Oil	81.04	2.37	-3.21	-3.66
	NSWTC	4.65	-17	-44	-23	Gold	2,456.79	1.21	-0.50	30.03
	TCV	4.73	-16	-44	-18	Copper	9,148.50	4.03	-5.33	11.09
	WATC	4.50	-18	-44	-20	Iron Ore	93.37	-6.12	-12.84	0.97
	Australian Government	3.88	-19	-44	-36					
	US Government	3.91	-7	-24	-36					

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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