

Weekly Economics and Markets Review

- Annual CPI inflation eased in July as federal and state electricity rebates took effect in Queensland and WA.
- Engineering projects continue to drive activity in the construction sector, while construction cost growth remains elevated.
- US Federal Reserve Chair Powell confirmed in his Jackson Hole speech that ‘the time has come’ for interest rate cuts. An easing of inflation in euro area economies has also paved the way for a September cut from the ECB.

Week in review

Domestic

- The **monthly CPI indicator** fell to 3.5 per cent year-on-year in July, down from 3.8 per cent in June. The introduction of electricity subsidies weighed on inflation in the month, with measures of inflation excluding electricity remaining broadly stable.
- Electricity prices fell 6.4 per cent month-on-month in July, as federal and state rebates took effect in Queensland and WA. There will be a further fall in electricity prices in August as the federal rebates are rolled out across other states. In the absence of these rebates, electricity prices would have increased by 0.9 per cent in July.
- New housing and rents inflation remain elevated and are around the levels that have persisted since mid-2023.
 - New housing construction cost growth remained elevated at 5.0 per cent over the year to July, with the ABS noting that builders continue to pass on higher costs for labour and materials.
 - The annual rate of rents growth eased slightly to 6.9 per cent in July (from 7.1 per cent in June), alongside a step down in the monthly pace of growth.
- **Construction work done** increased by a modest 0.1 per cent in Q2, following a 2.0 per cent decline in Q1. Engineering construction continues to drive activity, with the volume of work done increasing by 0.5 per cent in the quarter and 4.8 per cent over the past year. Public sector engineering projects have experienced particularly strong growth. In contrast, residential and non-residential building construction continued to trend lower in Q2.
- The price deflators suggest that construction costs have grown over the past year. The building price deflator increased by 5.7 per cent over the year to Q2 (from 5.2 per cent in Q1), while the engineering deflator accelerated to 4.0 per cent (from 3.4 per cent).
- **Private sector capex** fell by 2.2 per cent in Q2, underpinned by a large decline in new building and structure investment (-3.8 per cent) and a more modest fall in machinery and equipment investment (-0.5 per cent). Expectations for private capex investment in 2024-25 has moderated but remains positive, which is consistent with capex expectations in the NAB Business Survey.

Offshore

- **US Federal Reserve** Chair Powell confirmed in his Jackson Hole speech that ‘the time has come’ for interest rate cuts. Powell expressed more confidence in the outlook for inflation and emphasised the downside risks in the labour market, noting that any further weakening in the labour market would be ‘unwelcome.’ San Francisco Fed President Daly echoed Powell’s Jackson Hole speech, saying ‘The time to adjust policy is upon us.’
- The **ECB** is also widely expected to cut interest rates in September, though commentary in the past week suggests there are some differing views across ECB officials. ECB’s Knot (Netherlands) said he would await more data before deciding if a September interest rate cut was necessary, while Centeno (Portugal) said the case for a cut is ‘relatively clear’ due to falling inflation.
- **US economic data** were mixed over the past week, with these recent updates unlikely to shift the Fed’s outlook on inflation and interest rates.
 - GDP grew at a slightly stronger pace in Q2 than initially estimated, due to an upward revision to consumer spending. GDP growth was revised to 3.0 per cent (annualized) in Q2, from an initial estimate of 2.8 per cent.
 - Core PCE inflation was revised slightly lower to 2.8 per cent in Q2 (from an initial estimate of 2.9 per cent).
 - Initial jobless claims were broadly unchanged in the past week and remain consistent with a trend easing of US labour market conditions.
 - Conference Board Consumer Confidence ticked up in August, though consumer confidence remains well below its pre-pandemic levels.
- In the **euro area**, weaker-than-expected inflation outcomes in Germany and Spain support the case for the ECB to cut interest rates further in September.
 - Germany’s annual CPI inflation slowed to 2.0 per cent in August, which was noticeably lower than both its previous rate (2.6 per cent) and consensus expectations (2.2 per cent). Spain’s annual headline inflation also eased sharply to 2.4 per cent in August (from 2.9 per cent in July).
 - Germany’s IFO Business Climate Index fell in August, with both the current situation assessment and expectations softening in the month.

Markets

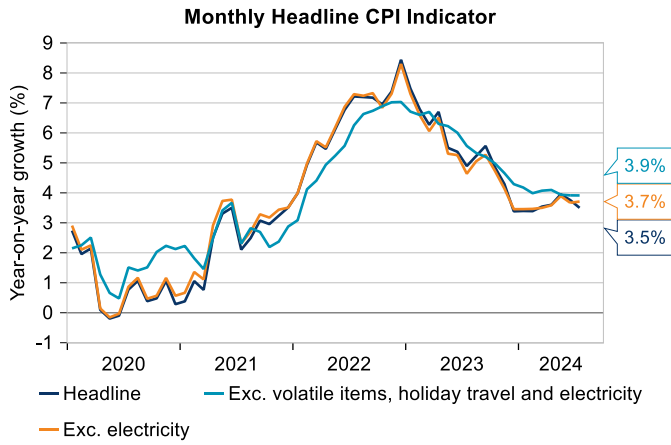
US Treasury yields moved lower over the past week in response to Fed commentary that strongly suggested the FOMC will start reducing interest rates from September. Australian government bond yields were little changed over the past week, with the monthly CPI indicator remaining broadly consistent with the outlook for inflation from consensus and the RBA. Crude oil prices rallied in response to heightened geopolitical tensions in the middle east, production disruptions in Libya and plans to lower output in Iraq.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Company profits (Q2), Inventories (Q2), Corelogic house prices (Aug), Melbourne Institute Inflation Expectations (Aug) Tuesday: Balance of payments (Q2) Wednesday: GDP (Q2) Thursday: International trade (Jul) Friday: Housing finance (Jul)
Offshore	US: PCE inflation (Jul), Real personal spending (Jul), University of Michigan Consumer Sentiment (Aug), JOLTS job openings (Jul), PMI (Aug) Euro area: CPI (Aug), PPI (Jul), Unemployment rate (Jul), Retail sales (Jul), GDP (Q2 F), PMIs (Aug) China: PMIs (Aug)

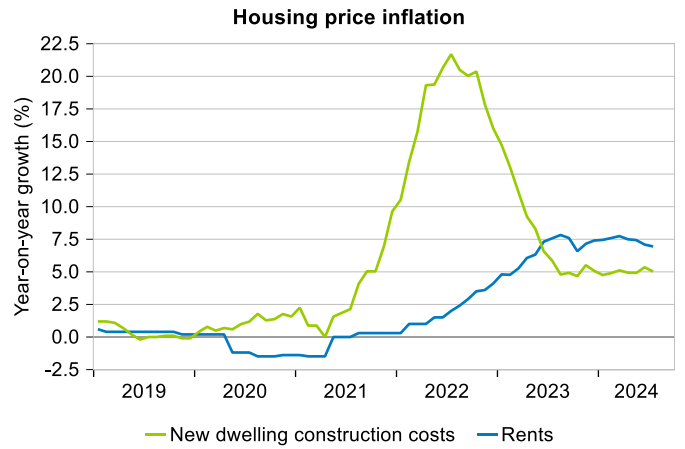
Economic and Financial Market Charts

CHART 1: ENERGY REBATES WEIGHED ON INFLATION IN JULY, WITH MEASURES THAT EXCLUDE ELECTRICITY REMAINING BROADLY STABLE



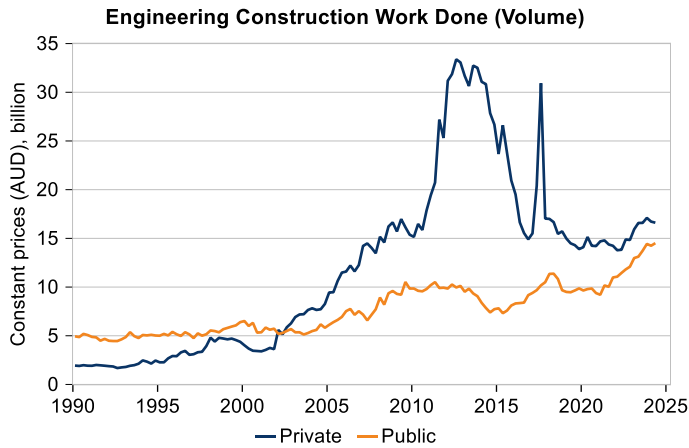
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: NEW HOUSING AND RENTS INFLATION REMAINED HIGH, WITH LITTLE IMPROVEMENT OVER THE PAST YEAR



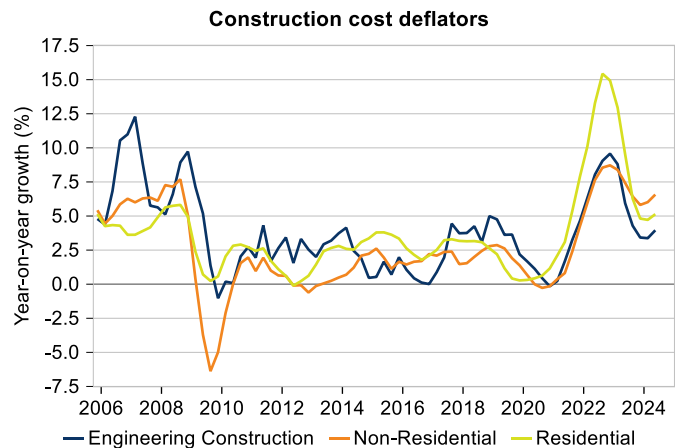
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: ENGINEERING CONSTRUCTION ACTIVITY INCREASED FURTHER IN Q2, SUPPORTED BY THE LARGE PIPELINE OF PUBLIC PROJECTS



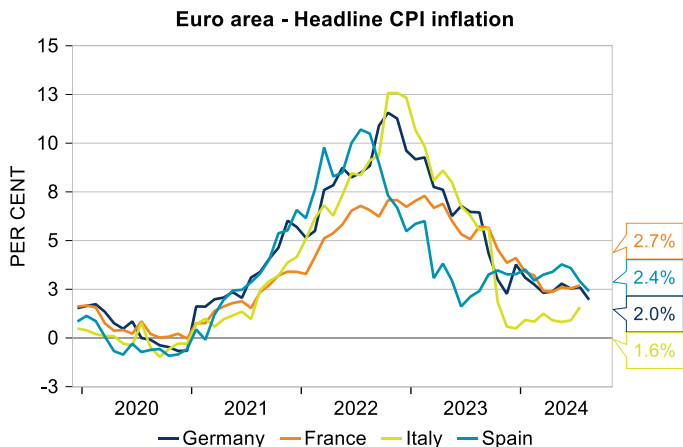
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: CONSTRUCTION COST GROWTH REMAINS ELEVATED, WITH THE PREVIOUS MODERATION OF GROWTH APPEARING TO HAVE STALLED



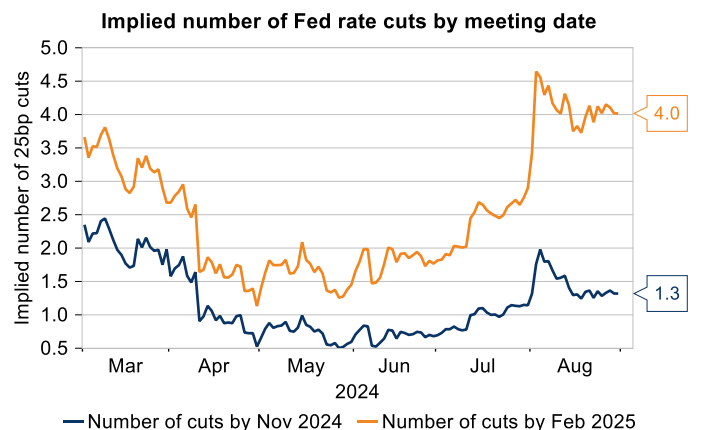
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: INFLATION HAS EASED NOTICEABLY ACROSS EURO AREA ECONOMIES, PAVING THE WAY FOR A FURTHER ECB INTEREST RATE CUT IN SEPTEMBER



Source: QTC, Macrobond

CHART 6: LOWER INTEREST RATES ARE ALSO EXPECTED IN THE US, WITH INVESTORS EXPECTING FOUR RATE CUTS FROM THE FED BY FEBRUARY NEXT YEAR



* Assumes each cut is 25bp. Calculated using IB futures.
Source: Bloomberg, 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.

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	3.83	1	-45	-27	AUD/USD	0.68	1.20	3.89	4.93
	NSWTC	3.84	2	-43	-29	AUD/EUR	0.61	1.60	1.43	2.84
	TCV	3.89	2	-43	-27	AUD/GBP	0.52	0.76	1.33	1.04
	WATC	3.81	2	-44	-27	AUD/JPY	98.71	0.54	-2.04	4.72
	Australian Government	3.55	4	-41	-28	AUD/CAD	0.92	0.27	1.11	4.54
	US Government	3.75	-6	-42	-80	AUD/NZD	1.09	-0.63	-2.06	-0.19
5 Year	QTC	4.01	1	-42	-15	AUD/SGD	0.89	0.70	0.77	1.27
	NSWTC	4.02	2	-39	-18	AUD/HKD	5.30	1.20	3.69	4.33
	TCV	4.08	3	-39	-15	AUD/KRW	905.94	0.59	0.07	5.62
	WATC	3.97	2	-40	-17	AUD/CNY	4.82	0.54	1.68	2.61
	Australian Government	3.61	5	-37	-24	AUD/INR	56.97	1.11	4.09	6.44
	US Government	3.67	-5	-37	-59	MAJOR CURRENCIES				
7 Year	QTC	4.29	0	-38	-6	EUR/USD	1.11	-0.40	2.42	2.04
	NSWTC	4.31	3	-36	-11	GBP/USD	1.32	0.43	2.53	3.85
	TCV	4.37	4	-36	-5	USD/JPY	145.34	0.65	5.71	0.20
	WATC	4.21	2	-38	-11	USD/CHF	1.18	0.46	4.13	3.97
	Australian Government	3.78	6	-34	-19	USD/CNY	7.10	0.65	2.12	2.22
	US Government	3.76	-1	-31	-45	MAJOR COMMODITIES				
10 Year	QTC	4.68	2	-35	1	Brent Crude Oil	79.94	3.52	1.67	-7.97
	NSWTC	4.69	3	-33	-7	Gold	2,521	1.47	4.59	29.96
	TCV	4.77	5	-33	-1	Copper	9,261	1.42	3.22	9.95
	WATC	4.53	3	-34	-5	Iron Ore	101.73	4.76	2.66	-1.03
	Australian Government	3.96	7	-31	-13					
	US Government	3.86	1	-28	-25					

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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