

# Weekly Economics and Markets Review

- Domestic economic activity continues to soften, with recent data showing declines in business conditions, business confidence and consumer sentiment.
- US Federal Reserve officials continued to acknowledge the risks of a sharp slowdown in the labour market and remain supportive of interest rate cuts at upcoming meetings
- The ECB cut its interest rates by 25 basis points at its September meeting, with financial markets expecting at least one further 25 basis point cut by December.

## Week in review

### Domestic

- RBA** Assistant Governor Sarah Hunter spoke on the current state of the labour market. Hunter said that while conditions have eased since late 2022, the labour market remains too tight. Hunter's speech was consistent with other recent commentary from the RBA, which has strongly implied that cash rate cuts are unlikely to start this year.
- The **NAB Business Survey** was consistent with a gradual slowing of growth.
  - Business conditions eased further in August, following a brief uptick in July. The decline was driven by a sharp fall in the employment index, though there were also modest declines in trading conditions and profitability. Business confidence index also fell in August, while capacity utilisation and capex intentions increased.
  - Purchase costs ticked higher to 1.6 per cent (from 1.3 per cent), though there did not appear to be much pass-through to final product prices. Labour cost growth eased sharply in August, unwinding the temporary boost to growth in July due to the increase in Minimum and Award wages.
- Westpac-Melbourne Institute consumer sentiment** fell by 0.5 per cent in September and remains well below its long-run average. Sentiment has been below average for more than 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).
- New housing lending** rose 3.9 per cent in July, to be 26.5 per cent higher of the year. There was a strong increase in loans to investors (5.4 per cent) and repeat owner-occupiers (3.7 per cent), while first home buyer loans saw a more modest rise (0.8 per cent). The average size of new loans also continued to trend higher due to ongoing increases in house prices.

### Offshore

- The **ECB** cut its interest rates by 25 basis points at its September meeting, as was widely expected. The ECB reiterated that it will not commit to a particular path for interest rates, though ECB President Lagarde noted that the downward trend is 'pretty obvious'. This is the ECB's second rate cut since June, with financial markets expecting one further 25 basis point cut (with a chance of a second) by the end of the year.
- US Federal Reserve** officials acknowledged the risks of a sharp slowdown in the labour market and were supportive of interest rate cuts at upcoming meetings. Chicago Fed President Goolsbee said that the consensus at the Fed is for multiple rate cuts over the coming months, while the Fed's Waller said he would support 'front loading' rate cuts if the data deemed it appropriate.
- In **US politics**, Former President Trump and Vice President Harris faced each other on the debate stage. Harris was widely seen as having won the debate, though the implications for financial markets were minimal with no strong market moves evident during (or immediately after) the debate.
- US economic data** were mixed over the past week. Non-farm payrolls and the household survey provided conflicting signals on labour market conditions, while core CPI inflation was slightly stronger than expected.
  - Non-farm payrolls increased by 142k in August, notably lower than expectations for a 165k increase. Increases in payrolls have averaged 116k over the past three months, which is its lowest rate since 2020.
  - In contrast to payrolls, the household survey suggested that labour market conditions improved slightly in August. The US unemployment rate declined one-tenth to 4.2 per cent, while average hourly earnings growth strengthened to 0.4 per cent month-on-month (from 0.2 per cent in July). Abstracting from month
  - Monthly headline CPI inflation was 0.2 per cent in August, with annual inflation easing to a 2½ year low of 2.5 per cent. While this improvement in headline inflation was encouraging, financial markets were more focused on core CPI inflation, which increased by a stronger-than-expected 0.3 per cent. On an annual basis, core inflation remained steady at 3.2 per cent in August.
  - PPI inflation was also slightly stronger than expected in August, though the components of the PPI that feed into core PCE inflation remained muted.
- China's** CPI inflation was softer-than-expected in August, prompting a former central bank governor to call for more stimulus to support demand.
  - Annual CPI inflation was 0.6 per cent in August, edging higher from 0.5 per cent in July. Headline inflation was supported by rises in food prices amid extreme weather in the month. Annual core CPI inflation slowed to 0.3 per cent, while PPI inflation eased to 1.8 per cent.
  - Following the softer-than-expected inflation figures, former People's Bank of China (PBoC) Governor Yi Gang unexpectedly called on officials to 'focus on fighting deflationary pressure' and for 'proactive fiscal policy and accommodative monetary policy'.
  - Exports growth increased by a stronger-than-expected 8.7 per cent over the year to August, supported by continued strength in motor vehicle exports. Imports growth slowed notably to 0.5 per cent over the same period.
- The **UK's** labour market strengthened in the three months to July, with employment increasing by 138.0k and the unemployment rate edging lower to 4.1 per cent. In contrast, **Canada's** labour market was softer-than-expected, with the unemployment rate increasing two-tenths to 6.6 per cent in August.

## Markets

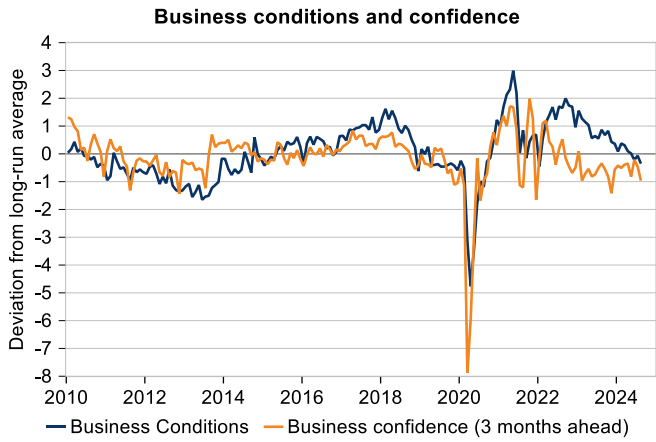
US Treasury yields eased over the past week, alongside weaker-than-expected non-farm payrolls and dovish commentary from the Federal Reserve. Australian Government bond yields also moved lower over the week.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Thursday:</b> Labour force survey (Aug)
Offshore	<b>US:</b> FOMC meeting (18 Sep), Retail sales (Aug), Housing starts (Aug); <b>Euro area:</b> CPI (Aug F); <b>UK:</b> BOE meeting (19 Sep), CPI (Aug), Retail sales (Aug) <b>Japan:</b> BOJ meeting (20 Sep), CPI (Aug); <b>China:</b> Industrial production (Aug), Retail sales (Aug), Fixed asset investment (Aug)

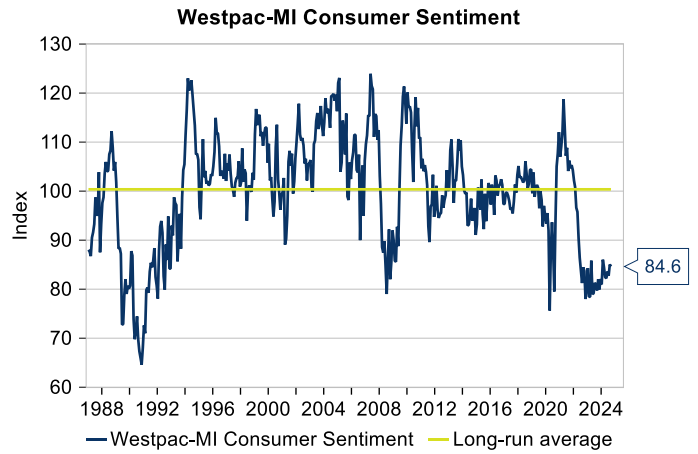
## Economic and Financial Market Charts

**CHART 1: BUSINESS CONDITIONS AND CONFIDENCE EASED FURTHER IN AUGUST, CONSISTENT WITH A GRADUAL EASING OF ECONOMIC GROWTH**



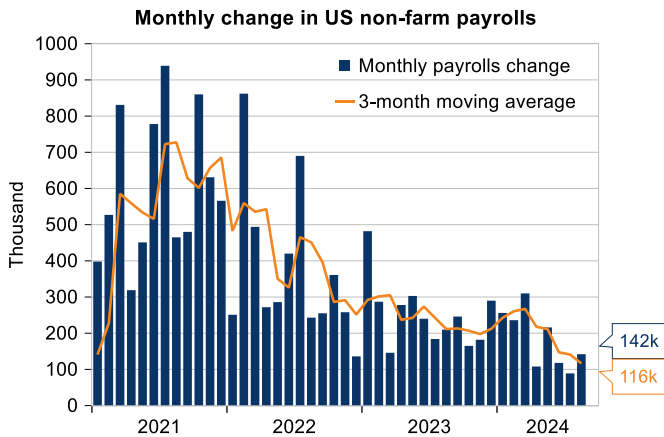
Source: National Australia Bank, QTC, Macrobond

**CHART 2: CONSUMER SENTIMENT HAS REMAINED BELOW ITS LONG-RUN AVERAGE SINCE APRIL 2022**



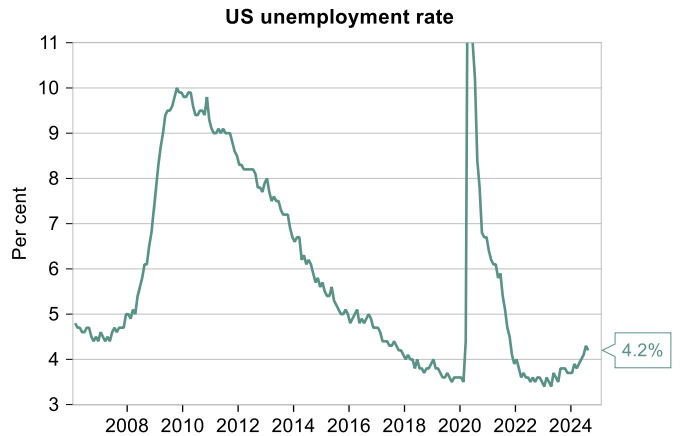
Source: Melbourne Institute of Applied Economic & Social Research, QTC, Macrobond

**CHART 3: US LABOUR MARKET CONDITIONS CONTINUE TO SLOW, WITH NON-FARM PAYROLLS GROWTH TRENDING NOTICEABLY LOWER...**



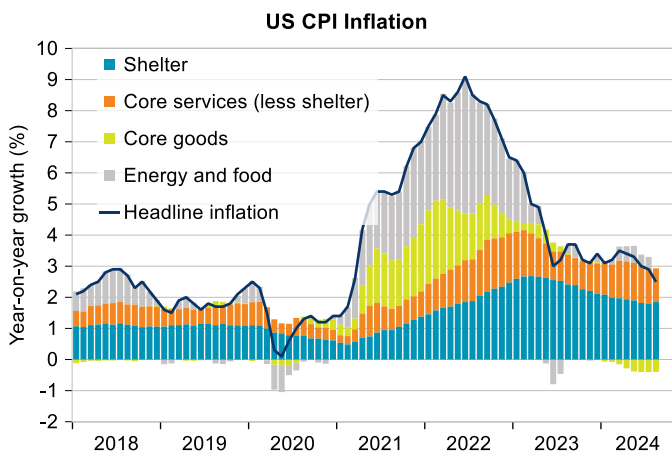
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

**CHART 4: ... AND THE UNEMPLOYMENT RATE TRENDING HIGHER (DESPITE THE SLIGHT TICK DOWN IN AUGUST)**



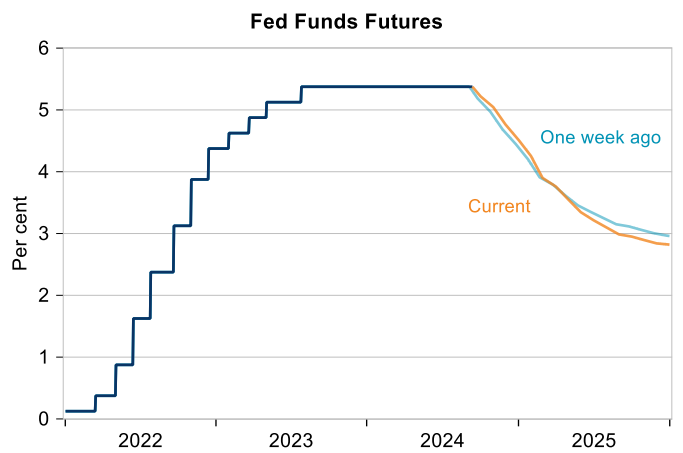
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

**CHART 5: US HEADLINE CPI INFLATION CONTINUED TO EASE IN AUGUST, THOUGH SHELTER PRICE INFLATION (PARTICULARLY RENTS) WAS SURPRISINGLY RESILIENT**



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

**CHART 6: IN RESPONSE TO SOFTER ECONOMIC CONDITIONS AND INFLATION, THE FED IS EXPECTED CUT RATES BY 25 BASIS POINTS IN SEPTEMBER AND OVER 100 BASIS POINTS BY THE END OF THE YEAR**



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	3.77	-6	-21	-33	AUD/USD	0.67	-0.28	1.33	4.38
	NSWTC	3.77	-6	-21	-35	AUD/EUR	0.61	0.07	0.60	0.35
	TCV	3.82	-6	-20	-32	AUD/GBP	0.51	0.15	-0.68	-1.30
	WATC	3.74	-6	-22	-34	AUD/JPY	95.35	-1.39	-2.12	0.39
	Australian Government	3.49	-4	-17	-35	AUD/CAD	0.91	0.31	0.40	4.94
	US Government	3.48	-13	-27	-121	AUD/NZD	1.09	0.39	-0.39	-0.18
5 Year	QTC	3.93	-6	-22	-22	AUD/SGD	0.87	-0.16	0.08	-0.36
	NSWTC	3.92	-8	-23	-28	AUD/HKD	5.25	-0.14	1.53	4.05
	TCV	3.99	-7	-21	-23	AUD/KRW	901.69	0.27	-0.49	5.62
	WATC	3.87	-7	-23	-26	AUD/CNY	4.78	0.15	0.71	2.05
	Australian Government	3.53	-5	-19	-34	AUD/INR	56.05	-0.67	1.08	5.01
	US Government	3.46	-7	-21	-95	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.20	-9	-22	-17	EUR/USD	1.10	-0.89	0.17	3.47
	NSWTC	4.21	-9	-22	-23	GBP/USD	1.30	-1.04	1.41	5.11
	TCV	4.28	-9	-21	-16	USD/JPY	142.36	-0.76	-3.05	-3.47
	WATC	4.11	-9	-24	-23	USD/CHF	0.85	0.98	-1.46	-4.85
	Australian Government	3.69	-6	-18	-32	USD/CNY	7.12	0.47	-0.49	-2.14
	US Government	3.56	-7	-17	-81	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.59	-8	-22	-10	Brent Crude Oil	71.97	-0.99	-10.81	-23.19
	NSWTC	4.60	-9	-21	-19	Gold	2,558	1.63	3.76	33.87
	TCV	4.68	-8	-19	-12	Copper	9,216	1.36	2.87	9.48
	WATC	4.44	-8	-22	-18	Iron Ore	94.76	4.11	-3.89	-10.53
	Australian Government	3.86	-7	-19	-29					
	US Government	3.67	-5	-17	-61					

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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