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Weekly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

- Australia's economic growth remained weak in Q2, with GDP growth slowing to its softest pace since the early 1990s recession (outside of the COVID period)
- Public sector spending continues to be an important driver of economic growth, with private domestic demand falling in the quarter.
- US economic data were generally weaker than expected in the past week, providing further support for a September interest rate cut.

Week in review

Domestic

- RBA Governor Bullock spoke on 'The Costs of High Inflation'. Bullock emphasized the need to return inflation to its target in a timely manner and continued to push back against the possibility of near-term interest rate cuts.
- GDP growth remained steady at 0.2 per cent in Q2, in line with expectations. Annual GDP growth slowed one-tenth to 1.0 per cent, which (outside of the COVID lockdown period) is its weakest print since the early 1990s recession.
- Public demand continues to be an important driver of economic growth, with activity in the private sector remaining weak.
  - Public demand grew by 1.4 per cent, though this partly reflected asset transfers from the private sector. Underlying public demand (exc. asset transfers) increased by 0.8 per cent in the quarter, while underlying public investment fell by 2.2 per cent. This marks the 3rd consecutive quarterly fall in underlying public investment.
  - Household consumption fell 0.2 per cent, which saw annual growth ease to just 0.5 per cent. This is the slowest annual pace of consumption growth since the GFC (outside of the COVID lockdown period).
  - Private business investment posted a sharp 1.5 per cent decline, though this largely reflected asset transfers to the public sector. On an underlying basis, business investment edged 0.1 per cent higher in Q2. Dwelling investment also posted a small 0.1 per cent increase.
  - Net exports added 0.2ppts to Q2 GDP growth, due to both an increase in exports and a decline in imports. There was a particularly large rebound in travel exports in the quarter (i.e. spending by overseas visitors).
- Nominal household disposable income rose 0.9 per cent in Q2, to be up 4.9 per cent over the year. However, after adjusting for increases in inflation, real disposable income was broadly flat in Q2 and remains 4.7 per cent below its Q3 2021 level.
- Wage and labour cost growth measures generally eased, consistent with a slowing in labour market conditions.
- The household savings ratio was unchanged at the very low level 0.6 per cent. The household savings rate is generally positive as it accounts for compulsory superannuation payments and principal repayments on mortgages. A savings rate of 0.6 per cent implies that many households are drawing down on other savings to maintain the current level of spending.

Offshore

- The Bank of Canada (BOC) delivered another 25 basis points cut at its September meeting, marking the third reduction since June. Governor Macklem noted that the BOC needs to 'to increasingly guard against the risk that the economy is too weak and inflation falls too much.'
- ECB Governing Council member Simkus was confident that the central bank would cut interest rates next week, pointing to a clear disinflationary trend in the euro area and structurally weak growth. Governing Council member Nagel was more cautious, noting the risk that strong wage growth and services inflation could impede the disinflationary trend.
- US economic data were generally weaker than expected in the past week.
  - JOLTS job openings were well below expectations, decreasing 237k to 7,673k in July. This is the lowest level of job openings since January 2021.
  - ADP employment rose 99k in August, well below expectations for a 145k increase. ADP employment has trended lower since March and is now increasing at its slowest pace since 2021. Job openings were also well below expectations, decreasing 237k to 7,673k in June.
  - In contrast to ADP employment and job openings, jobless claims showed some improvement. Initial jobless claims fell 5k to 227k in the past week, with the four-week moving average decline to its lowest rate since June.
  - The core PCE price index increased 0.2 per cent in July, with year-on-year growth remaining steady at 2.6 per cent. These outcomes were broadly in line with economists' expectations.
  - The ISM manufacturing index increased to 47.2 in August, which was slightly below consensus expectations. An increase in the inventories and employment sub-indices was partly offset by declines in new orders and production. The ISM services index edged up one-tenth to 51.5.
- In Canada, GDP rose by 2.1 per cent over the year to Q2, driven by government expenditure (6.0 per cent), business investment (2.0 per cent) and household consumption (0.6 per cent).
- In the euro area, annual core CPI inflation eased to 2.8 per cent in July (from 2.9 per cent in June).
- In China, the official NBS manufacturing PMI declined to a six-month low of 49.1 in August (from 49.4). In contrast, the Caixin PMI moved higher to 50.4 in August (from 49.8), despite output prices falling to a 14-month low of 45.8.

Markets

US Treasury yields eased over the past week, alongside weaker-than-expected labour market outcomes. In contrast, Australian Government bond yields were little changed, with Governor Bullock's speech largely echoing the RBA's previous guidance and GDP growth being consistent with market expectations.

Economic and Market Calendar

DATE	DETAILS
Domestic	**Tuesday:** NAB business survey (Aug), Westpac consumer confidence (Sep) **Thursday:** Melbourne Institute consumer inflation expectations (Sep)
Offshore	**US:** CPI (Aug), Real average hourly earnings (Aug), PPI (Aug), NY Fed inflation expectations (Aug) **Euro area:** ECB meeting (12 Sep) **UK:** Monthly GDP (Jul), Employment (Jul), Average weekly earnings (Jul), Industrial production (Jul) **Japan:** PPI (Aug)

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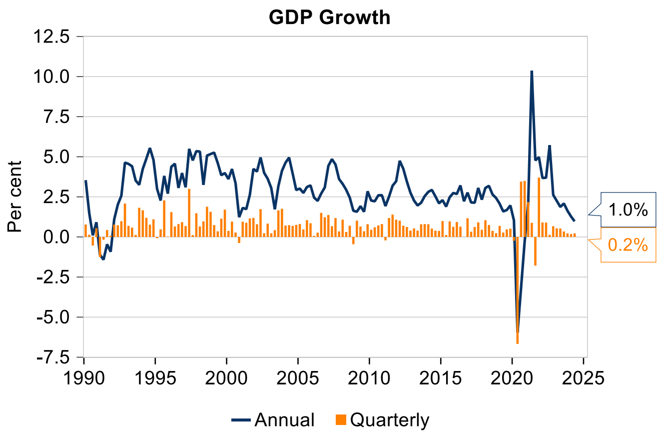
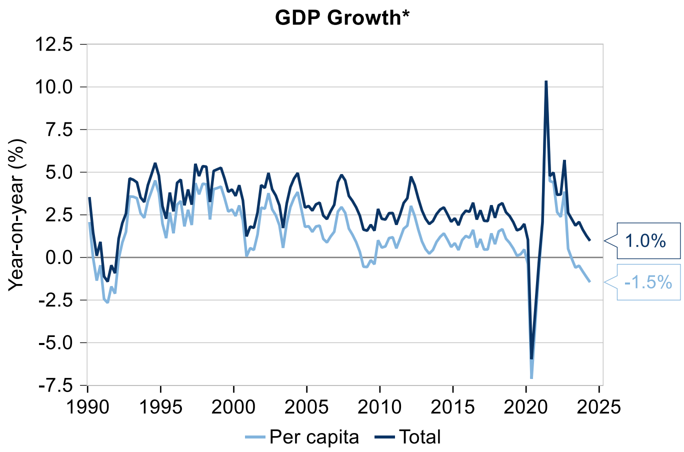
Economic and Financial Market Charts

CHART 1: ANNUAL GDP GROWTH SLOWED TO 1.0%, WHICH (OUTSIDE OF THE PANDEMIC) IS ITS SLOWEST PACE SINCE THE 1990S RECESSION



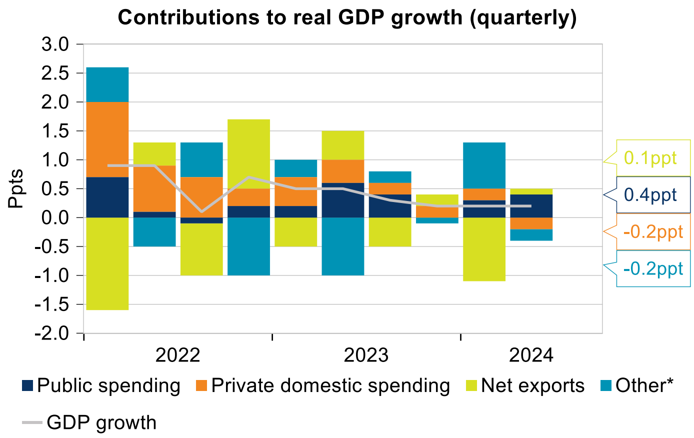
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: ON A PER CAPITA BASIS, GDP HAS NOW FALLEN FOR SIX CONSECUTIVE QUARTERS



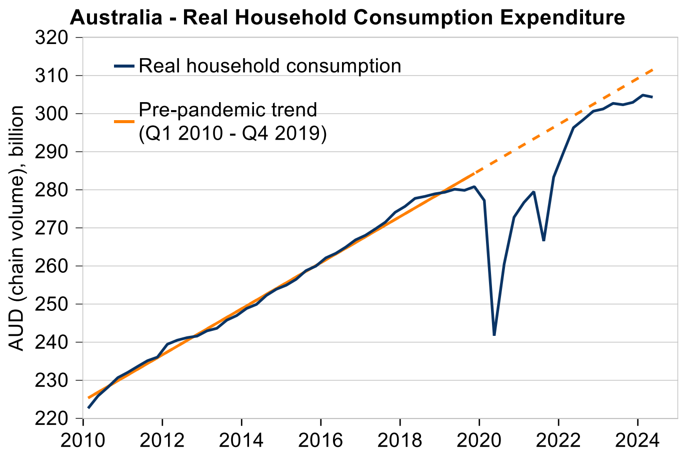
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: GROWTH WAS SUPPORTED BY STRONG PUBLIC SPENDING IN Q2, WHICH MORE THAN OFFSET A FALL IN PRIVATE DEMAND



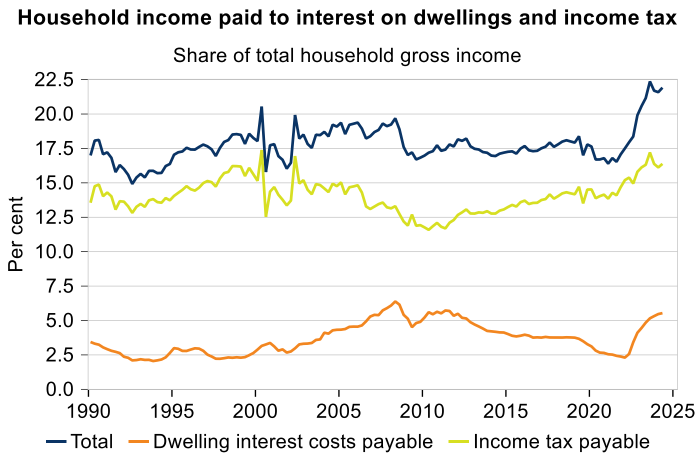
** Includes inventories and the statistical descrepency*
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: HOUSEHOLD CONSUMPTION WAS PARTICULARLY WEAK, WITH ITS LEVEL REMAINING WELL BELOW THE PRE-COVID TREND



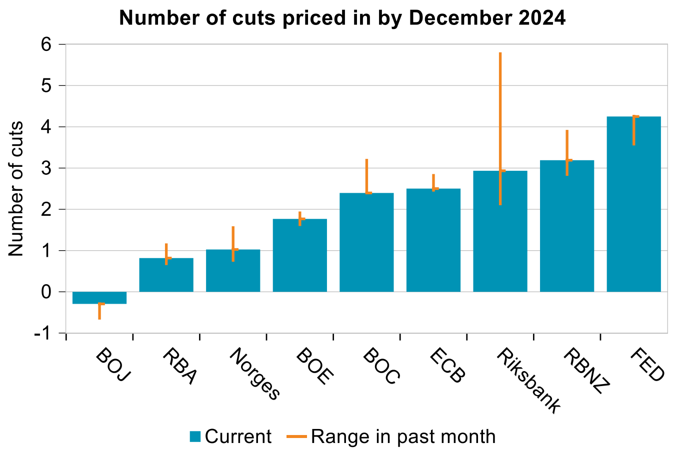
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: THE SHARE OF HOUSEHOLD INCOME GOING TO MORTGAGE PAYMENTS AND INCOME TAX REMAINS HIGH, THOUGH THE LATTER SHOULD FALL IN Q3 DUE TO THE STAGE 3 TAX CUTS



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 6: MOST GLOBAL CENTRAL BANKS HAVE EITHER STARTED TO CUT RATES OR ARE EXPECTED TO DO SO SOON, WITH THE RBA AND BOJ BEING NOTABLE EXCEPTIONS



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.

			CHANGE (BASIS POINTS)		
MATURITY	ISSUER	YIELD	1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.83	-0	-15	-24
	NSWTC	3.83	-1	-15	-26
	TCV	3.89	-0	-15	-23
	WATC	3.80	-2	-16	-26
	Australian Government	3.53	-2	-14	-28
	US Government	3.61	-14	-21	-106
5 Year	QTC	3.99	-1	-16	-15
	NSWTC	4.00	-2	-14	-19
	TCV	4.06	-2	-13	-14
	WATC	3.95	-2	-15	-17
	Australian Government	3.58	-3	-13	-26
	US Government	3.54	-13	-19	-84
7 Year	QTC	4.29	-0	-13	-7
	NSWTC	4.30	-1	-12	-13
	TCV	4.37	-1	-11	-5
	WATC	4.20	-1	-14	-13
	Australian Government	3.76	-2	-12	-23
	US Government	3.62	-13	-16	-70
10 Year	QTC	4.68	-1	-12	-0
	NSWTC	4.68	-0	-11	-9
	TCV	4.76	-0	-10	-2
	WATC	4.52	-1	-12	-8
	Australian Government	3.93	-3	-12	-19
	US Government	3.73	-13	-17	-52

		CHANGE (PER CENT)		
EQUITIES	RATE	1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	-1.00	3.29	5.47
AUD/EUR	0.61	-1.14	1.85	1.79
AUD/GBP	0.51	-1.04	-0.22	-0.04
AUD/JPY	96.74	-1.99	2.69	3.12
AUD/CAD	0.91	-0.74	1.15	4.28
AUD/NZD	1.08	-0.24	-1.06	-0.08
AUD/SGD	0.88	-1.14	1.44	0.59
AUD/HKD	5.24	-1.03	3.32	4.88
AUD/KRW	898.51	-0.82	0.18	5.46
AUD/CNY	4.77	-1.08	2.49	2.07
AUD/INR	56.47	-0.87	3.37	6.51
MAJOR CURRENCIES				
EUR/USD	1.11	0.14	1.41	3.61
GBP/USD	1.32	0.04	3.51	5.51
USD/JPY	143.89	1.00	0.58	2.23
USD/CHF	1.18	0.06	0.56	5.07
USD/CNY	7.09	0.08	0.78	3.23

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	72.69	-9.07	-4.96	-19.16
Gold	2,517	-0.18	5.27	31.10
Copper	9,092	-1.64	1.83	9.27
Iron Ore	91.02	-10.62	-11.01	-10.46

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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