

Weekly Economics and Markets Review

- Retail sales were stronger-than-expected in August, with spending supported by Father's Day sales events and favourable weather.
- Dwelling price growth continues to diverge across the capital cities, while the outlook for housing construction remains subdued.
- US Treasury yields increased in the past week, with Fed Chair Powel signalling he was in no 'hurry' to cut interest rates.

Week in review

Domestic

- **Retail sales** grew 0.7 per cent month-on-month in August, the strongest monthly gain since January. The improvement was broad-based, with sales increasing across all states and categories (apart from household goods). The improvement was supported by Father's Day sales events and warmer weather (with it being the warmest August since 1910). The August outcome is consistent with economists' expectations for a gradual improvement in spending over the second half of 2024.
- **Dwelling approvals** fell by 6.1 per cent in August due to volatility in apartment approvals. The annual pace of dwelling approvals remained subdued at 166k, which is around its slowest pace since 2013. It is also well below both annual population growth of 562k and the Federal government's target for 240k dwellings to be built each year over the next five years.
- **Corelogic dwelling prices** rose 0.4 per cent month-on-month in September, to be 6.7 per cent higher over the year. Conditions continue to vary significantly across the capital cities. Prices fell slightly in Melbourne, Canberra and Hobart, while Sydney saw only a modest increase. In contrast, Brisbane, Adelaide and Perth continued to see strong rises in the month.

Offshore

- **US Federal Reserve** Chair Powell signalled he was in no 'hurry' to cut interest rates. Powell said that 'the economy is in solid shape' and that 'this is not a committee that feels like it's in a hurry to cut rates quickly'. He noted that the pace of rate cuts will ultimately depend on how economic conditions evolve over the coming months.
- **ECB** officials hinted at the possibility of a further interest rate cuts at upcoming meetings. ECB Vice President Guindos said that the euro area 'is in a low growth situation, and risks are to the downside'. Similarly, the ECB's Schnabel acknowledged that officials 'cannot ignore the headwinds to growth'.

- **Japan's** new Prime Minister Shigeru Ishiba said the economy is not ready for further interest rate hikes. Following Ishiba's comments, Bank of Japan (BOJ) Governor Kazuo Ueda said the central bank will move cautiously in deciding whether to raise interest rates, while BOJ policy board member Asahi Noguchi also stressed the need to keep financial conditions easy.
- **In the US:**
 - The ISM manufacturing index was unchanged at a low level in September, extending the current prolonged period of weak activity. Subdued orders remain a headwind to activity, while high interest rates and uncertainty around the Presidential election have seen some companies hold off on hiring and capex.
 - The ISM services index was much stronger than expected at 54.9, driven by an increase in business activity and new orders.
 - ADP employment rose 143k in September, well above consensus expectations for a 125k increase.
- **Euro area** CPI inflation was 1.8 per cent year-on-year in September, down from 2.2 per cent in August. Services prices continue to show the strongest growth, having increased by 4.0 per cent over the past year. Food, alcohol and tobacco inflation is also relatively strong (2.4 per cent), while non-energy industrial goods (0.4 per cent) and energy (-6.0 per cent) weighed on headline inflation.
- **In China,** the September PMI data pointed to ongoing weakness in economic activity, particularly in the services sector.
 - The NBS and Caixin PMIs both suggested that service sector activity slowed in September. The Caixin services PMI fell to its lowest level in a year, while the NBS non-manufacturing PMI also edged slightly lower in the month.
 - The manufacturing PMIs provided a mixed signal for activity in September, while the Caixin measure falling significantly while the NBS measure edged higher. This discrepancy possibly reflects differences in coverage, with the Caixin PMI having more exposure to export-oriented companies.

Markets

US Treasury yields increased in the past week in response to Fed commentary and stronger-than-expected reads on services sector activity and ADP employment. The Japanese Yen moved lower following comments from Prime Minister Ishiba and BOJ Governor Ueda, which suggested little prospect of a near-term tightening of monetary policy. Crude oil prices moved sharply higher in response to the escalation of the conflict in the Middle East.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Sep), Westpac-Melbourne Institute Consumer Confidence (Sep), RBA Minutes (September meeting)
Offshore	US: CPI (Sep), PPI (Sep), Real average hourly earnings (Sep), Initial jobless claims (5 Oct) Euro area: Retail sales (Aug) New Zealand: RBNZ meeting (9 Oct)

Economic and Financial Market Charts

CHART 1: RETAIL SALES GROWTH PICKED UP SLIGHTLY IN AUGUST, WITH ECONOMISTS' EXPECTING SPENDING WILL CONTINUE IMPROVE OVER COMING MONTHS

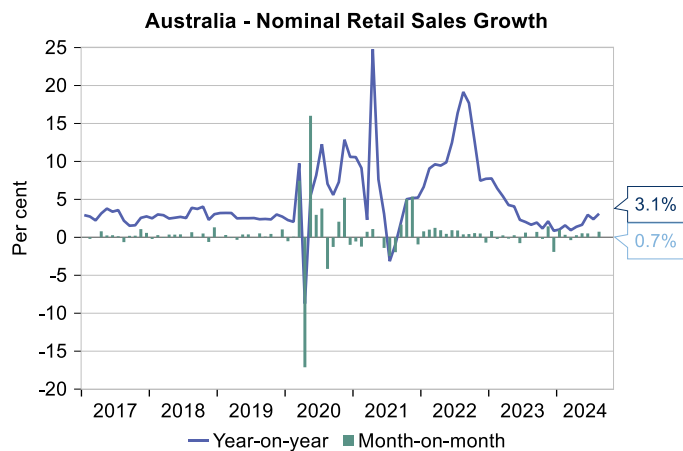


CHART 2: THE OUTLOOK FOR HOUSING CONSTRUCTION IS LESS POSITIVE, WITH DWELLING APPROVALS REMAINING AROUND A DECADE LOW IN AUGUST

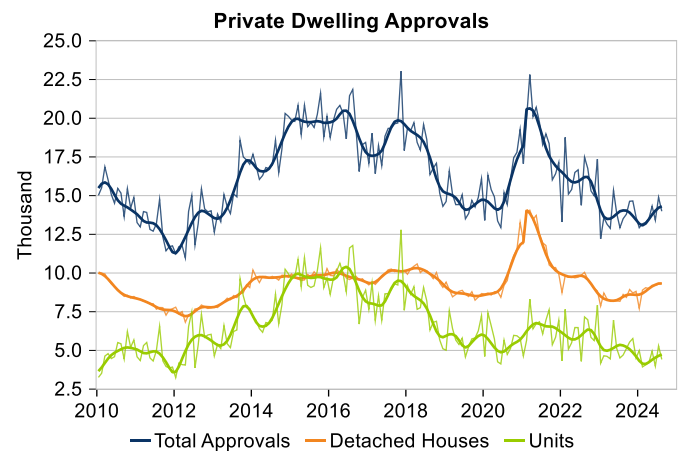


CHART 3: DWELLING PRICE GROWTH HAS DIVERGED NOTICEABLY ACROSS THE CAPITAL CITIES

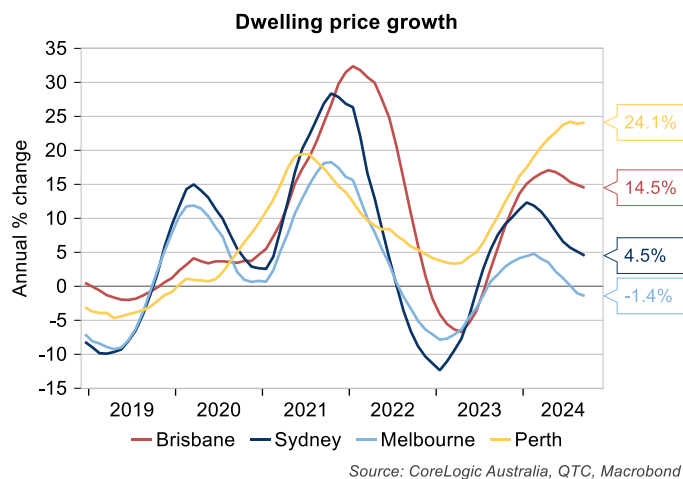


CHART 4: EURO AREA INFLATION HAS CONTINUED TO EASE AND IS NOW BELOW THE ECB'S 2% INFLATION TARGET

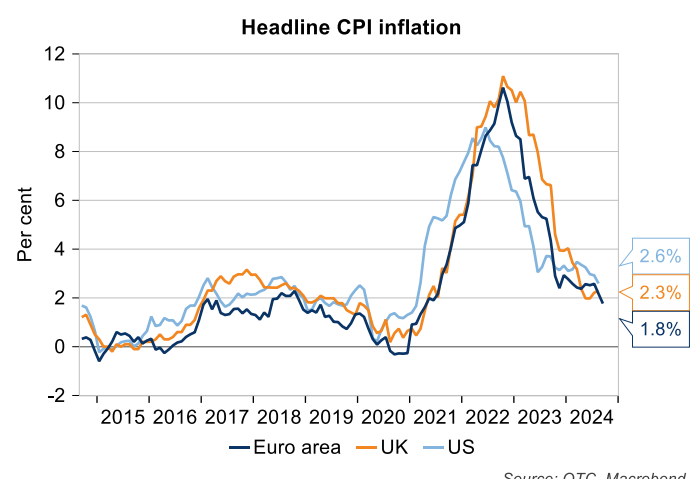


CHART 5: THE US SERVICES ISM SAW A LARGE INCREASE IN SEPTEMBER, WHILE MANUFACTURING ACTIVITY REMAINS WEAK

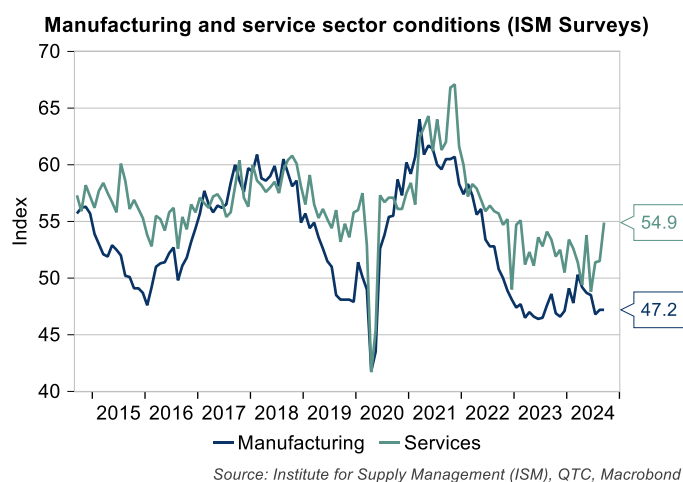
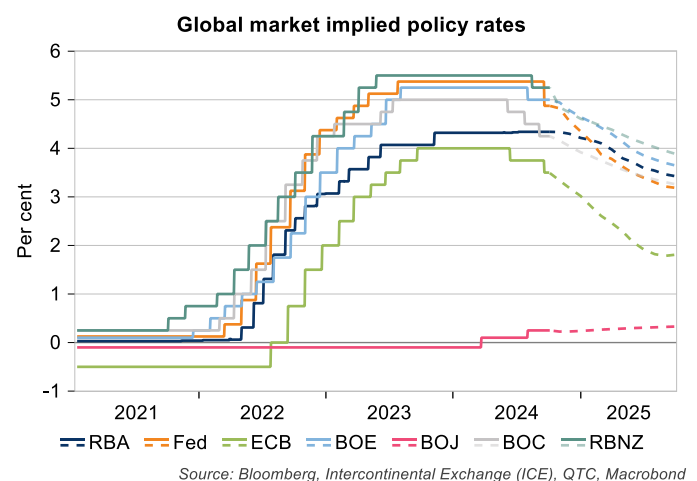


CHART 6: MOST CENTRAL BANKS HAVE STARTED EASING MONETARY POLICY, WITH THE RBA AND BOJ BEING NOTABLE EXCEPTIONS



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	3.84	8	-5	-48
	NSWTC	3.85	8	-4	-48
	TCV	3.89	8	-5	-48
	WATC	3.80	8	-6	-50
	Australian Government	3.55	6	-4	-53
	US Government	3.62	7	-11	-120
5 Year	QTC	4.05	8	-1	-35
	NSWTC	4.06	8	-1	-38
	TCV	4.11	8	-1	-35
	WATC	4.01	8	0	-37
	Australian Government	3.63	6	-2	-52
	US Government	3.63	6	-1	-106
7 Year	QTC	4.36	9	0	-29
	NSWTC	4.36	8	-1	-35
	TCV	4.43	9	-0	-28
	WATC	4.28	9	1	-33
	Australian Government	3.81	5	-1	-52
	US Government	3.71	5	-1	-101
10 Year	QTC	4.75	8	0	-25
	NSWTC	4.77	8	2	-31
	TCV	4.83	9	-0	-28
	WATC	4.61	9	2	-30
	Australian Government	3.99	5	-1	-52
	US Government	3.85	5	1	-87

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.68	-0.60	1.91	7.88
AUD/EUR	0.62	0.75	2.11	3.05
AUD/GBP	0.52	1.57	1.79	0.06
AUD/JPY	100.37	0.68	2.62	6.44
AUD/CAD	0.93	-0.12	1.81	6.25
AUD/NZD	1.10	0.90	1.36	3.01
AUD/SGD	0.89	0.44	1.01	2.19
AUD/HKD	5.31	-0.76	1.48	6.98
AUD/KRW	914.59	0.64	1.63	6.71
AUD/CNY	4.82	-0.10	0.82	4.12
AUD/INR	57.50	-0.12	1.96	8.88
MAJOR CURRENCIES				
EUR/USD	1.10	-1.33	-0.20	4.68
GBP/USD	1.31	-2.14	0.12	7.81
USD/JPY	146.67	-1.29	-0.70	1.33
USD/CHF	1.17	-0.65	-0.36	6.71
USD/CNY	7.05	-0.50	1.07	3.48

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	77.62	8.41	5.25	-7.67
Gold	2,656	-0.62	6.54	45.90
Copper	9,866	-2.13	10.18	24.90
Iron Ore	109.02	10.46	16.29	10.23

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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