

Weekly Economics and Markets Review

- US non-farm payrolls rose by more than expected in May. Markets focussed on this to push yields higher and in doing, ignored downwards revisions to previous months' outcomes and softness in the Household Survey that saw the unemployment rate unchanged.
- US core inflation rose by less than anticipated in May. US consumer inflation expectations also eased, likely on the back of hopes for lower tariffs.
- Both business and consumer confidence edged higher in Australia according to data released this week. Business conditions remain subdued.

Week in review

Domestic

- According to the *Westpac-Melbourne Institute Consumer Sentiment Survey*, consumer confidence rose 0.5 per cent in June. Lower interest rates and an easing in inflationary pressures were cited as factors behind the improvement, though domestic economic softness and the more uncertain global backdrop were headwinds to further gains. Perceptions around whether now is a good time to buy a major household item rose sharply (+7.5 per cent on the month) while those around the current state of family finances lifted slightly (+0.5 per cent). In contrast, household perceptions of future family finances (-1.9 per cent) and economic conditions both fell (-0.7 per cent). In other key series within the report, unemployment expectations rose 5.0 per cent suggesting that households are less certain about their job security. On housing, perceptions around whether now is a good time to buy a dwelling jumped 3.6 per cent as views around future interest rates continue to be marked down (-6.8 per cent). House price expectations jumped sharply (+7.0 per cent).
- According to the *NAB Business Survey*, business conditions declined 4 points to 0 in May, the lowest since August 2020. In contrast, business confidence edged up 3 points to +1. Both measures remain below long-run average levels. The easing in conditions was mostly driven by weaker employment (-4 points to 0) with trading conditions (-1 point to +5) and profitability (steady at -4) little changed. In other key measures from the survey, forward orders edged higher (+1 point to -2), while capacity utilisation rebounded 0.9 percentage points to 82.3 per cent. Measures of quarterly growth in prices were softer across final product prices (-0.3 percentage points to 0.5 per cent) and input costs (-0.6 percentage points to 1.1 per cent) but firmer for labour costs (+0.2 percentage points to 1.7 per cent).

Offshore

- In the **UK**, over the three months to April employment increased by 89,000 and the unemployment rate by one-tenth to 4.6 per cent. Meanwhile, the annual rate of private sector regular pay growth slowed to 5.1 per cent (from 5.5 per cent) and whole economy regular pay growth eased to 5.2 per cent (from 5.5 per cent).
- In **Japan**, there was a significant upwards revision to estimates for Q1 real GDP growth to an annualised rate of -0.2 per cent (from -0.7 per cent) with inventory accumulation and household consumption marked higher.

Offshore

- In news related to US President Trump, this week:
 - The White House confirmed a deal had been reached with China on the enforcement of provisions of the recently agreed trade truce. Chinese rare earth exports would resume and the US would again take Chinese university students.
 - The President suggested that he would write to trading partners shortly to indicate what unilateral tariff rates would be imposed should trade agreements not be reached ahead of the end of the 90-day pause in early July. The comments came not long after US Treasury Secretary Bessent said the 90-day pause would be extended for countries negotiating in good faith.
- In the **US**:
 - The Establishment Survey reported a 139,000 rise in non-farm payrolls in May. While this was above expectations of a 126,000 gain, there were downwards revisions totalling 95,000 over the prior two months. There was also a softer tone to the Household Survey where employment dropped by 696,000. However, this was largely offset by a 625,000 decline in the size of the labour force. All up this saw the unemployment rate hold steady at 4.2 per cent.
 - Core CPI edged 0.1 per cent higher in May, less than the 0.3 per cent rise expected. Core goods and core services (excluding shelter) prices were little changed with shelter prices adding to inflation.
 - The New York Fed's *Survey of Consumer Expectations* revealed that median inflation expectations decreased by 0.4 percentage points to 3.2 per cent (one-year-ahead), by 0.2 percentage points to 3.0 per cent (three-year-ahead), and by 0.1 percentage points to 2.6 per cent (five-year-ahead) in May.
- In **China**:
 - The annual rate of consumer price inflation was steady at -0.1 per cent while that for producer price inflation eased to -3.3 per cent from -2.7 per cent.
 - The annual rate of export (+4.8 per cent from +8.1 per cent) and import (-3.4 per cent from -0.2 per cent) growth both slowed in May. Interestingly, despite the lowering of tariff rates by the US during the month, annual growth in exports there (-35.2 per cent from -20.9 per cent) and to ASEAN countries (14.8 per cent from 21.1 per cent) – a major destination for trade re-routing to the US from China – both slowed. Exports were increasingly sent to markets besides the US with a pick up in those to the EU, Canada and Australia.

Markets

Australian Government bond yields were little changed this week as softer than expected US core inflation as well as lower consumer inflation expectations pushed yields lower with these moves offsetting an earlier rise in yields on the back of a better-than-expected result for non-farm payrolls in May.

Economic and Market Calendar

DATE	DETAILS
Domestic	Thursday: Labour force (May)
Offshore	US: Retail sales, industrial production, housing data (all May), FOMC (Jun) China: Retail sales, industrial production, fixed asset investment (all May) Other: S&P Global PMIs (Jun), Bank of Japan (Jun), GDP (NZ, Q1)

Economic and Financial Market Charts

CHART 1: CONSUMER SENTIMENT HAS BEEN TRENDING HIGHER OVER THE PAST COUPLE OF YEARS WITH THE TREND CONTINUING IN JUNE

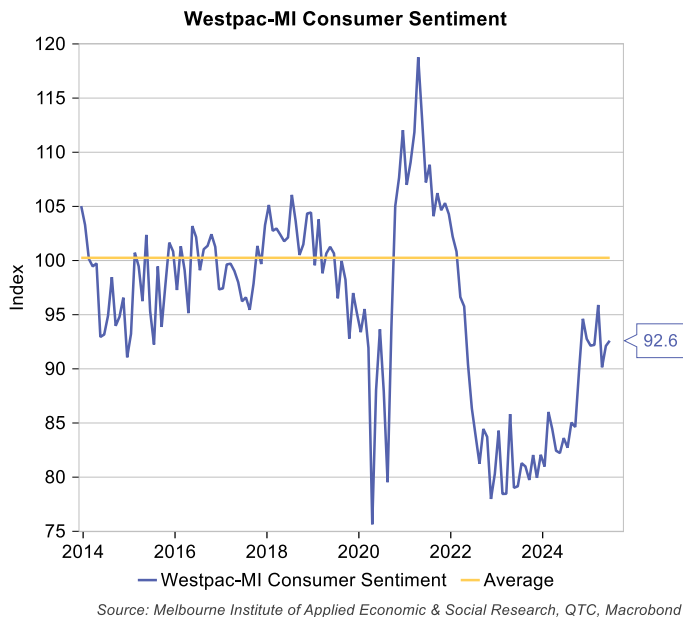


CHART 2: BUSINESS CONDITIONS TOUCHED ZERO (ON A ROUNDED BASIS) IN MAY, THE LOWEST LEVEL SINCE AUGUST 2020

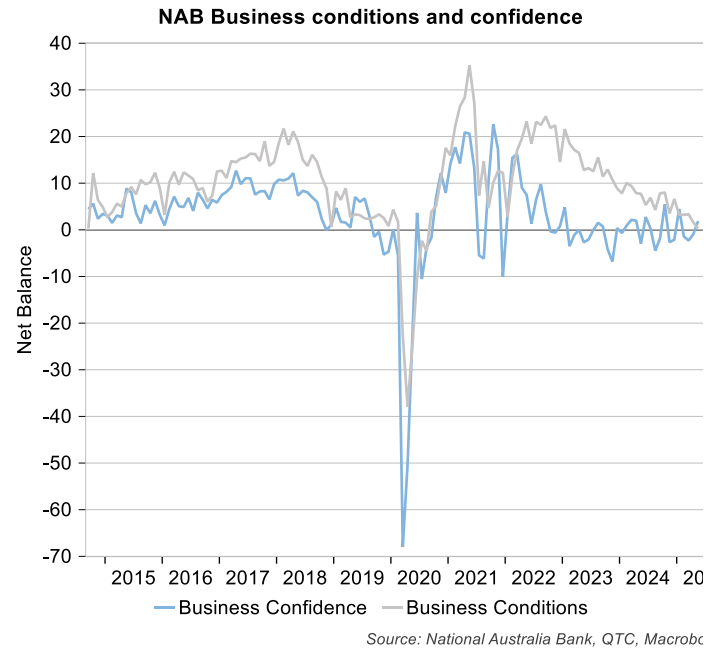


CHART 3: CORE GOODS AND SERVICES (EXCLUDING SHELTER) PRICES CONTRIBUTED LITTLE HEADLINE INFLATION IN MAY. SHELTER WAS THE MAIN DRIVER OF THE RISE IN THE PRICE LEVEL ON THE MONTH.

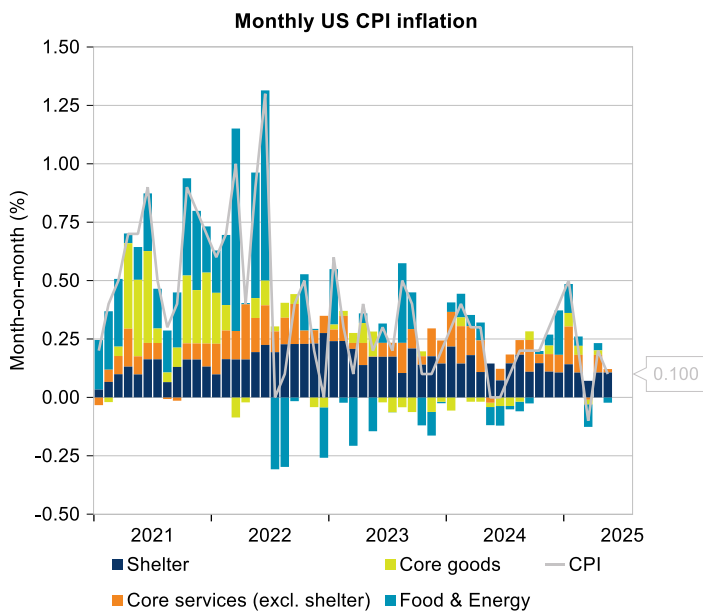
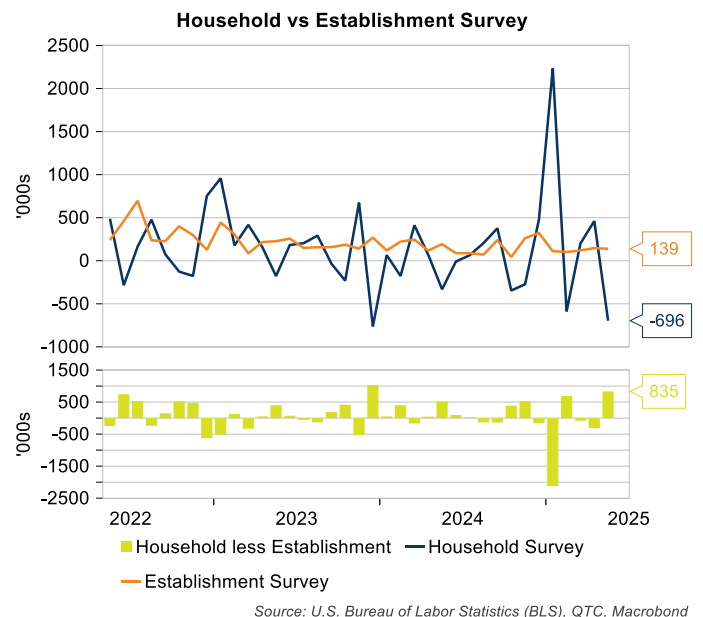


CHART 4: THERE WERE VERY DIFFERENT PICTURES OF US JOBS GROWTH IN MAY BETWEEN THE HOUSEHOLD AND ESTABLISHMENT SURVEYS. THE MARKET CHOSE TO FOCUS ON THE LATTER.



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	3.59	2	-9	-73
	NSWTC	3.58	2	-9	-71
	TCV	3.60	2	-12	-74
	WATC	3.52	2	-10	-77
	Australian Government	3.57	2	-9	-76
	US Government	3.66	2	-7	-69
5 Year	QTC	3.35	2	-12	-59
	NSWTC	3.86	-3	-13	-57
	TCV	3.96	0	-9	-52
	WATC	3.93	-0	-11	-52
	Australian Government	3.98	-1	-13	-51
	US Government	3.85	0	-11	-56
7 Year	QTC	3.91	1	-13	-58
	NSWTC	4.07	2	-7	-43
	TCV	3.55	1	-12	-44
	WATC	3.96	-3	-14	-28
	Australian Government	4.41	-1	-7	-31
	US Government	4.36	-1	-11	-36
10 Year	QTC	4.40	-2	-13	-37
	NSWTC	4.27	-1	-9	-36
	TCV	4.38	-2	-10	-35
	WATC	4.53	1	-7	-23
	Australian Government	3.87	-0	-12	-25
	US Government	4.39	-3	10	10

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	0.21	0.83	-1.54
AUD/EUR	0.56	-0.91	-2.66	-8.73
AUD/GBP	0.48	0.17	-1.38	-7.67
AUD/JPY	93.75	0.27	-1.89	-9.85
AUD/CAD	0.89	-0.22	-1.69	-2.59
AUD/NZD	1.08	-0.10	-1.26	0.09
AUD/SGD	0.84	-0.31	-0.95	-6.76
AUD/HKD	5.12	0.26	1.52	-1.06
AUD/KRW	885.46	0.27	-3.47	-2.80
AUD/CNY	4.68	0.22	0.36	-2.71
AUD/INR	55.64	-0.40	1.66	0.11
MAJOR CURRENCIES				
EUR/USD	1.16	1.13	3.59	7.84
GBP/USD	1.36	0.04	2.26	6.64
USD/JPY	143.62	0.06	-2.70	-8.43
USD/CHF	0.81	-0.84	-3.46	-9.21
USD/CNY	7.17	-0.05	-0.46	-1.10

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	69.66	6.61	4.55	-15.82
Gold	3,383.86	0.89	4.09	47.16
Copper	9,648.00	-0.94	0.51	-1.50
Iron Ore	94.54	-0.33	-3.97	-6.14

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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