August Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

The RBA lowered the cash rate in August and guided, through its forecasts and commentary, toward further rate cuts over the coming year. Inflation in July was stronger than anticipated due to large price increases for volatile items. However, annual growth ticked up even after stripping out these effects. Consumer and business confidence rose in the month with lower interest rates seemingly having a positive effect on sentiment.

International economy

The actions taken by US President Trump again dominated market attention in August with the President sacking the head of the Bureau of Labor Statistics following negative revisions to prior months' jobs outcomes and one of the members of the Federal Reserve Board of Governors for alleged mortgage fraud. Meanwhile, a shifting balance of risks with respect to the labour market was cited by Fed Chair Powell as a factor which may warrant rates being lowered.

Interest rates

Three-year and 10-year Australian Government bond yields fell five basis points in August to 3.38 per cent and 4.26 per cent respectively. The falls in US Government yields were far more significant however with three and 10-year Treasury yields declining by 31 and 14 basis points to 3.58 per cent and 4.23 per cent respectively. The much larger falls seen in the US reflected several factors. These included weaker than expected readings on the labour market, softer manufacturing and service sector conditions, and comments by Fed Chair Powell which alluded to the possibility of a rate cut by the FOMC at its September meeting.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.61	-3	-23
	Australian Government	3.38	-5	-17
	US Government	3.58	-31	-20
5 Year	QTC	3.95	-4	-6
	Australian Government	3.58	-6	-3
	US Government	3.70	-27	-1
7 Year	QTC	4.39	-5	10
	Australian Government	3.90	-6	12
	US Government	3.93	-22	13
10 Year	QTC	4.95	-3	27
	Australian Government	4.26	-5	30
	US Government	4.23	-14	33

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6543	1.3%	-3.3%
AUD/EUR	0.5590	-0.6%	-8.5%
AUD/GBP	0.4843	-0.3%	-5.9%
AUD/JPY	96.0463	-0.2%	-2.5%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1705	2.0%	5.8%
GBP/USD	1.3510	1.7%	2.8%
USD/JPY	146.79	1.5%	-0.7%
USD/CNY	7.1308	0.6%	-0.5%

Prices sourced from Macrobond and QTC are correct at the time of publication

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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Domestic economy

SUMMARY:

The RBA lowered the cash rate in August and guided, through its forecasts and commentary, toward further rate cuts over the coming year. Inflation in July was stronger than anticipated due to large price increases for volatile items. However, annual growth ticked up even after stripping out these effects. Consumer and business confidence rose in the month with lower interest rates seemingly having a positive effect on sentiment.

REVIEW:

- The RBA's Monetary Policy Board cut the cash rate by 25 basis points to 3.60 per cent as widely expected. The Board noted that inflation continued to track back towards the middle of the target band and that labour market conditions, while remaining '*a little tight*', had eased slightly. This is a softening of previous commentary which alluded to labour market conditions being '*strong*'. Key forecasts were little changed, though the RBA did mark productivity and GDP growth lower. Also, as a reminder that further rate cuts remain on the table, the RBA's forecasts are conditioned on a technical assumption that the cash rate path is based on market pricing. This implies it troughs at 2.90 per cent, which in the Bank's view, represents a '*gradual easing path*' with an additional 30 basis points of easing now factored in relative to the previous forecasts in May. Interestingly, rates this low are needed for the Bank's forecasts of trimmed mean inflation to now reach the mid-point of the target band by the end of the forecast period.
- In the post-meeting press conference, RBA Governor Bullock noted that the Bank's forecasts assumed '*two slash three*' more rate cuts with 'a *couple'* more needed to get inflation to target. The Minutes to the meeting later clarified that additional easing would be over the coming year with the pace of cuts to be guided by incoming data on a meeting-by-meeting basis.
- According to the *Westpac-Melbourne Institute Consumer Sentiment Survey*, consumer confidence rose 5.7 per cent in August to the highest level since February 2022. This follows the August rate cut and the prospect of further RBA easing. According to the July *NAB Business Survey*, business conditions gave back some of the strong gains in June and in doing so, dipped back below long-run average levels. In contrast, business confidence rose for the fourth straight month to now be back above long-run average levels.
- Employment increased by 24,500 in July, right in line with expectations. The unemployment rate fell one-tenth from 4.3 per cent to 4.2 per cent.
- The quarterly rate of wages growth was one-tenth slower than expected in Q2 at 0.8 per cent and annual growth was unchanged at 3.4 per cent. These exact outcomes for quarterly and annual rates were also seen in private-sector wages, while public-sector wages growth was stronger at 0.95 per cent in Q2. The ABS noted the firmness in public sector wages was due to regular scheduled pay increases as well backdated pay rises from recently approved enterprise bargaining agreements coming into effect.
- Annual growth in the headline CPI accelerated to 2.8 per cent in July from 1.9 per cent in June. This was above the 2.3 per cent expected and was driven by a bounce in electricity (+13.0 per cent) as well as in holiday travel & accommodation (+4.7 per cent) prices. The former was impacted by the seasonal increase in prices at the start of the new financial year as well as a delay to the payment of subsidies in some jurisdictions while the latter was on account of later school holidays as well as the impact of the British & Irish Lions rugby tour. Interestingly, price pressures were still firm even after stripping out these volatile factors with annual growth in trimmed mean inflation jumping to 2.7 per cent from 2.1 per cent and with a measure excluding volatile items, holiday and travel accommodation and electricity also ticking up on the month.

WHAT TO WATCH:

With the RBA flagging that further rate cuts are likely as well as a desire for a cautious and data-driven approach to delivering these, the pace of further policy adjustments will be closely watched. Whether the firmness in inflation seen in the July CPI print is repeated will have implications for this.

CHART 1: THE RBA REVISED DOWN THE TECHNICAL ASSUMPTION FOR THE CASH RATE WHICH UNDERPINS ITS FORECASTS. THIS IMPLIES 'TWO SLASH THREE' MORE CUTS

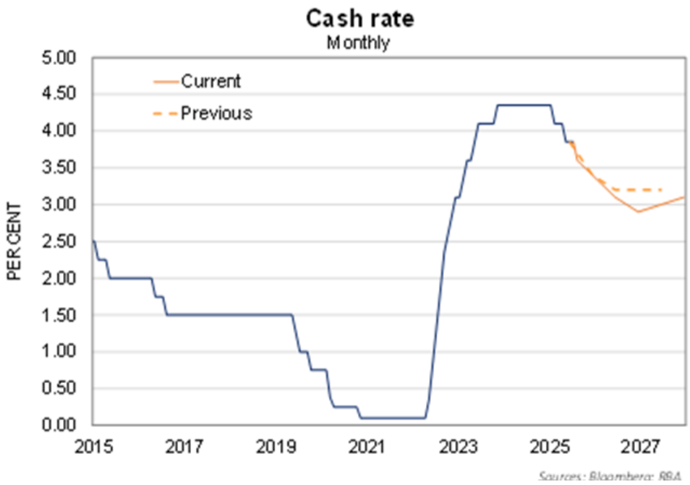
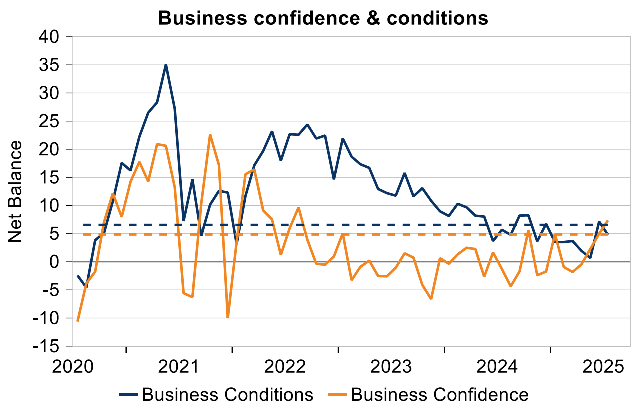
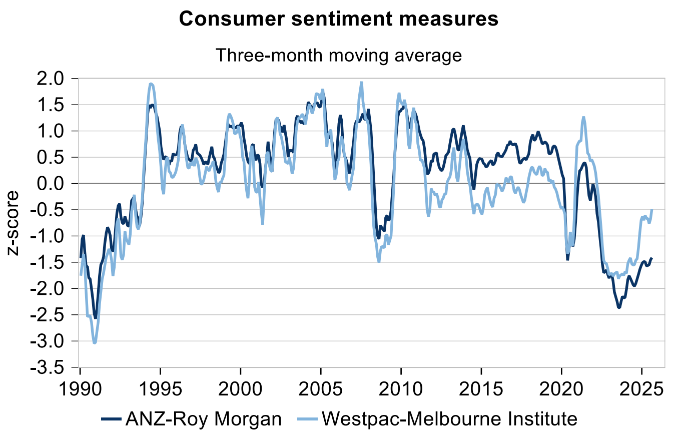


CHART 2: BUSINESS CONDITIONS FELL BELOW AVERAGE IN JULY WHILE CONFIDENCE WAS ABOVE FOR THE SECOND STRAIGHT MONTH



Source: National Australia Bank, QTC, Macrobond
Note: Dashed lines are series averages

CHART 3: CONSUMER CONFIDENCE IN AUSTRALIA IS REBOUNDING, ESPECIALLY THE WESTPAC-MELBOURNE INSTITUTE MEASURE…



Source: Melbourne Institute of Applied Economic & Social Research, ANZ-Roy Morgan, QTC, Macrobond

International economy

SUMMARY:

The actions taken by US President Trump again dominated market attention in August with the President sacking the head of the Bureau of Labor Statistics following negative revisions to prior months' jobs outcomes and one of the members of the Federal Reserve Board of Governors for alleged mortgage fraud. Meanwhile, a shifting balance of risks with respect to the labour market was cited by Fed Chair Powell as a factor which may warrant rates being lowered.

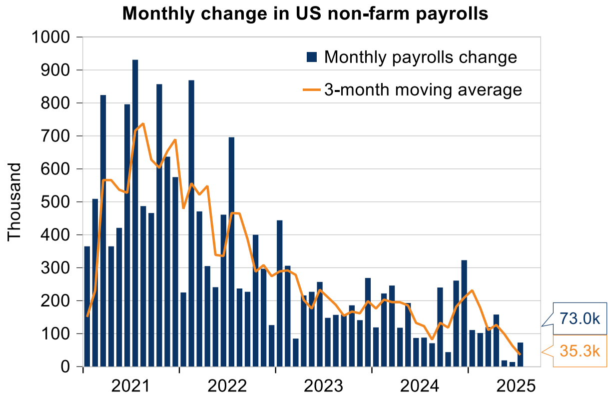
REVIEW:

- According to the Establishment Survey, non-farm payrolls rose 73,000 in July. While this was below expectations (104,000), it was downward revisions to the prior two months' outcomes which really caught markets' attention. Here, a combination of revisions to the original (non-seasonally adjusted) estimates as more data became available as well as to account for different seasonal patterns in hiring saw 258,000 jobs cut from estimates for the prior two months – with more due to the former than the latter. These changes saw the three-month average payrolls growth slumped to 35,000 from 150,000.
- Following the release of the data, President Trump fired the BLS Commissioner as the data was '*rigged*' to disadvantage him. The President nominated E.J. Antoni, the Chief Economist of the Heritage Foundation, to be the next Commissioner of the Bureau of Labor Statistics. Antoni has previously written many enthusiastic blogs about the President and joined in his criticism of Fed Chair Powell.
- In central bank news:
  - In his Jackson Hole address, Fed Chair Powell signalled the possibility of a rate cut in September, citing a shifting balance of risks that may justify policy adjustments. He noted that while the labour market remains broadly balanced, downside risks to employment are increasing. On inflation, he suggested that tariffs would likely cause a one-time rise in the price level. Although he acknowledged some risk that tariffs could trigger more persistent inflationary pressures, he emphasized that inflation expectations remain well anchored. Powell also indicated that sustained inflation driven by adverse wage-price dynamics appears unlikely, given that the labour market is '*not particularly tight*'. NEC Director Hasset, an advocate for lower rates and a candidate to replace Powell, called the speech '*sound*'.
  - President Trump sacked Federal Reserve Governor Cook from the Board of Governors '*for cause*' due to alleged mortgage fraud. Cook has launched a legal challenge to the decision claiming it was the result of a '*clerical error*'. Cook also claims that the President does not have the authority to remove her from office. If Cook is unsuccessful, this would create a second vacancy on the Board and would allow the President the opportunity to shape the composition of the Board of Governors with members who may be more sympathetic to his views that interest rates should be lower. This could include Stephen Miran, nominated to replace former Fed Governor Kugler after she resigned ahead of the expiration of her term in January 2026, being considered to take on a Fed Governor position beyond this point in time. Miran has not yet been confirmed by the Senate to replace Kugler but this is expected to occur when the Senate resumes sitting in September and right in time for the 17 September FOMC meeting.
- In other news:
  - The Whitehouse announced a further 25 per cent tariff on exports from India to the US. This is due to the country's continued purchase of Russian oil. This is in addition to the 25 per cent '*reciprocal*' tariff on India. As had been widely expected, President Trump extended the deadline for trade negotiations with China for another 90 days.
  - The Whitehouse has agreed to ease restrictions on sales of certain chips by select companies including Nvidia, the world's largest company by market capitalisation. In return, Nvidia will pay the US Government 15 per cent of the value of sales of certain chips to China. It was reported that this type of arrangement has never before been put in place by the US Government and there are doubts whether it, essentially an export tax, is legal under the Constitution.

WHAT TO WATCH:

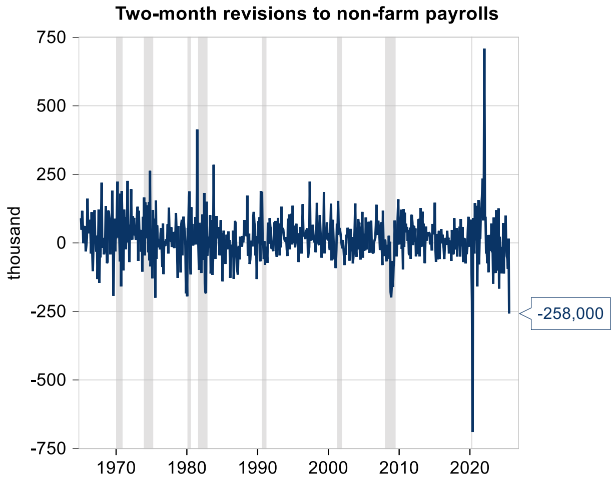
Investors have so far taken the President's sacking of key economic officials in their stride, though this could change. It will be worth monitoring whether the President makes similar changes and if the market response is similarly benign.

CHART 4: THE PACE OF JOBS GROWTH HAS SLOWED SHARPLY SINCE THE START OF THE YEAR WITH THE THREE-MONTH AVERAGE GAIN IN NON-FARM PAYROLLS NOW THE LOWEST IN THE POST-COVID PERIOD…



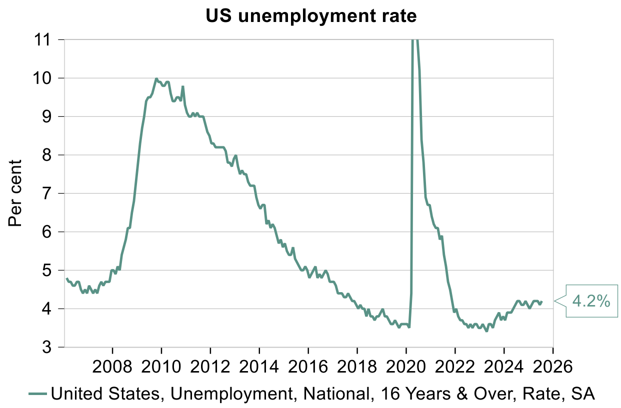
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 5: …WITH PART OF THIS DUE TO REVISIONS TO THE PRIOR TWO MONTHS' OUTCOMES WHICH WERE ONE OF THE BIGGEST ON RECORD (OUTSIDE RECESSIONS)



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond
Note: Grey shading indcates NBER defined recession

CHART 6:…THOUGH THE SUPPLY SIDE OF THE LABOUR MARKET IS EASING AT BROADLY THE SAME PACE AS THE DEMAND SIDE WHICH MEANS THAT THERE IS LITTLE UPWARDS PRESSURE ON THE UNEMPLOYMENT RATE



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