

Weekly Economics and Markets Review

- There were solid readings on the domestic economy this week, and especially with respect to household consumption. The RBA Governor acknowledged the better than expected Q2 GDP report and indicated that if the economy continues to surprise to the upside, *'then there may not be many interest rate declines left'*.
- Overseas, President Trump's tariffs were blocked by an appeals court, though the President will launch a challenge to this ruling in the Supreme Court. Meanwhile, FOMC participants speaking this week generally indicated a willingness to lower rates further this year and possibly as soon as this month's meeting.

Week in review

Domestic

- According to the **ABS National Accounts** for Q2:
 - GDP grew by 0.6 per cent quarter-on-quarter (qoq) in Q2, slightly exceeding expectations of a 0.5 per cent rise. Annual growth accelerated by 0.4 percentage points [or equivalently, 40 basis points (bps)] to 1.8 per cent year-on-year (yoy), marking the third consecutive quarter of recovery. However, per capita GDP growth remained modest, rising just 0.2 per cent qoq and 0.2 per cent yoy.
 - Consumer spending increased by 0.9 per cent qoq, with annual growth strengthening by 120 bps to 2.0 per cent yoy. The ABS attributed this to households extending their holiday break due to the close timing of Easter and ANZAC Day. Spending was particularly strong in health (+1.9 per cent qoq)—driven by a severe flu season—and food (+0.9 per cent qoq), supported by promotional activity from major supermarkets. The household savings rate fell by 100 bps to 4.2 per cent, reflecting the rebound in consumption. Meanwhile, nominal household income growth slowed to 0.6 per cent qoq, and real income growth was flat.
 - Business investment declined by 0.4 per cent qoq (excluding transfers), with widespread weakness across non-dwelling construction (-0.9 per cent qoq), engineering construction (-2.4 per cent qoq), and equipment spending (-0.1 per cent qoq). Dwelling investment growth moderated after a strong Q1 but remained positive at +0.4 per cent qoq.
 - Contributions from inventories (-10bps) and net trade (+10bps) were broadly neutral. Public spending made no contribution to growth in Q2 after having detracted from growth in the prior quarter.
 - The GDP deflator was unchanged in Q2, with the annual rate easing to 2.2 per cent yoy. In contrast, the domestic demand deflator rose by 0.7 per cent qoq, indicating underlying price pressures within the economy.
- The value of **household spending** rose 0.5 per cent mom in July per the ABS' Household Spending Indicator (HSI). The year-ended rate lifted 50 bps to 5.1 per cent — the fastest pace since November 2023. This came on the back of a lift in non-discretionary spending (+0.8 per cent mom) which grew at twice the pace on the month than discretionary spending did (+0.4 per cent mom).
- RBA Governor Bullock commented that the Q2 GDP result was *'Probably a little stronger than we thought it would be. But it is possible if it keeps going, then there may not be many interest rate declines left'*.

Offshore

- The tone of comments from **FOMC** participants pointed to a continuation of momentum towards a rate cut at the Committee's September meeting:
 - San Francisco Fed President Daly** thinks it will soon be time to adjust rates, and that the Fed can't wait for full clarity on the inflationary effects of tariffs given rising risks to the job market.
 - Fed Governor Waller** reiterated his support for a rate reduction at the September FOMC meeting, expressing a preference for multiple cuts in the coming months. He noted that inflation appears to be moving closer to the Fed's target and could reach it within 6–7 months.
 - Atlanta Fed President Bostic** reaffirmed that price stability remains the top priority, but that with signs of a slowing job market his view of one rate cut in 2025 could come as soon as September.
- In **trade** news, a US appeals court ruled that President Trump did not have the legal authority to impose *'reciprocal'* tariffs as well as to place other tariffs on Mexico, Canada and China. The Whitehouse will challenge the ruling in the Supreme Court. The administration could pursue other avenues to achieve similar outcomes if the higher court didn't find in its favour, though doing so would be a bit more unwieldy.
- In the **US**:
 - Core PCE inflation was 0.2 per cent in July, an outcome that was in line with expectations.
 - Manufacturing conditions moderated, but at a slower pace in August, according to the ISM. Meanwhile, service sector conditions improved at a faster pace. Survey respondents noted that their businesses continue to be impacted by tariff related cost increases and uncertainty.
 - According to the Job Opening and Labor Turnover Survey (JOLTS), in July the job opening rate declined 10 bps to 4.3 per cent, while the hiring (3.3 per cent), quits (2.0 per cent), and layoff (1.1 per cent) rates were unchanged from the prior month.
- In **other** data:
 - Readings on conditions in China's manufacturing and service sectors were little changed in August.
 - The annual rate of euro area core inflation was little changed with moderating services inflation offset by firmness in core goods prices.

Markets

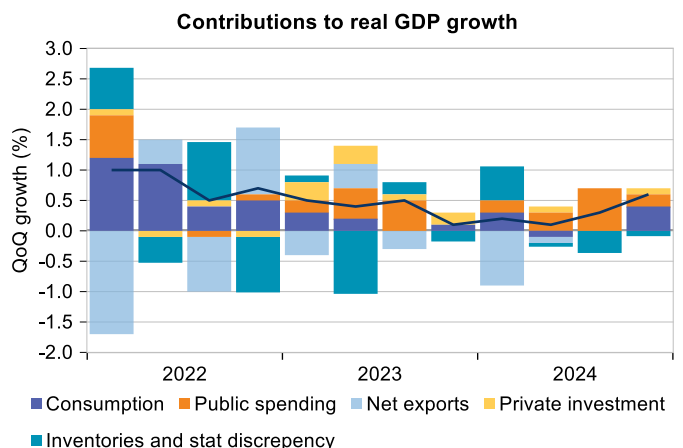
Australian Government bond yields rose this week. There was some volatility in global government bond markets. The latter came on concerns around UK and French fiscal sustainability. However, the move this prompted in ultra-long end yields was short-lived as investors ultimately looked to take profits on these trades which have been common in recent months. Softer job openings data in the US and dovish commentary from FOMC participants also helped nudge yields back down.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tues: Westpac-Melbourne Institute Consumer Sentiment Index (Sep), NAB Business Survey (Aug)
Offshore	US: Non-farm payrolls (Aug), CPI & PPI (Aug) EZ: ECB (Sep) CN: International goods trade, credit, PPI & CPI (all Aug)

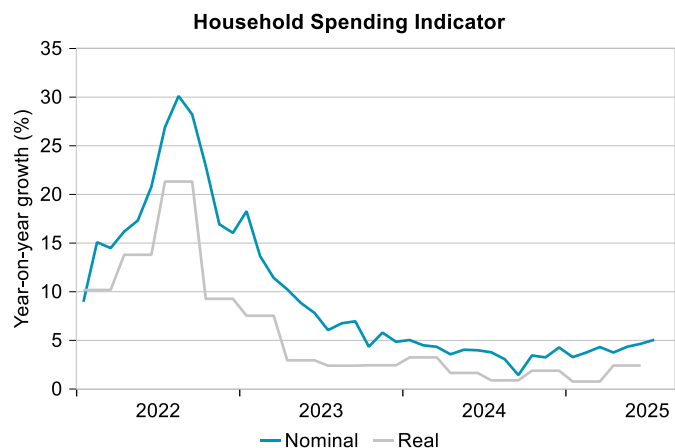
Economic and Financial Market Charts

CHART 1: AUSTRALIAN GDP GROWTH IN Q2 2025 WAS THE FASTEST SINCE Q4 2022, A RESULT DRIVEN BY THE LARGEST CONTRIBUTION FROM HOUSEHOLD SPENDING TO GROWTH SINCE THAT TIME. PUBLIC SPENDING MADE LITTLE CONTRIBUTION TO GROWTH, IN CONTRAST WITH MOST QUARTERS OVER THE PAST TWO YEARS.



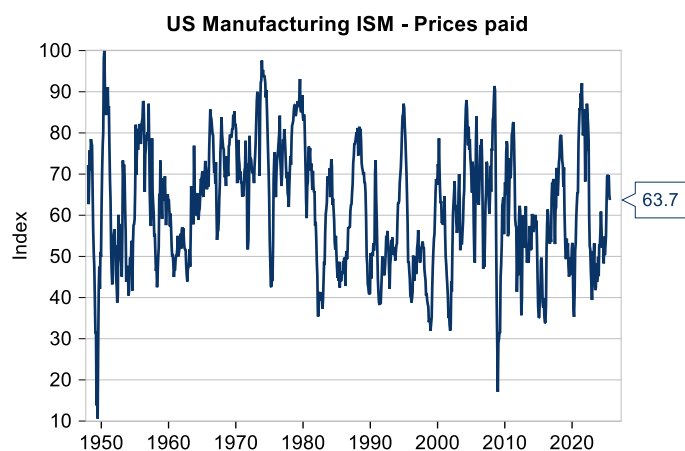
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: SOLID WAGES GROWTH, LOWER INFLATION, TAX CUTS, GOVERNMENT SUPPORT PAYMENTS AND LOWER INTEREST RATES ARE ALL SUPPORTING A GRADUAL LIFT IN CONSUMER SPENDING IN AUSTRALIA. THIS WAS EVIDENT IN THE HOUSEHOLD CONSUMPTION DATA AS PART OF THE Q2 GDP REPORT AND THE ABS' HSI FOR JULY.



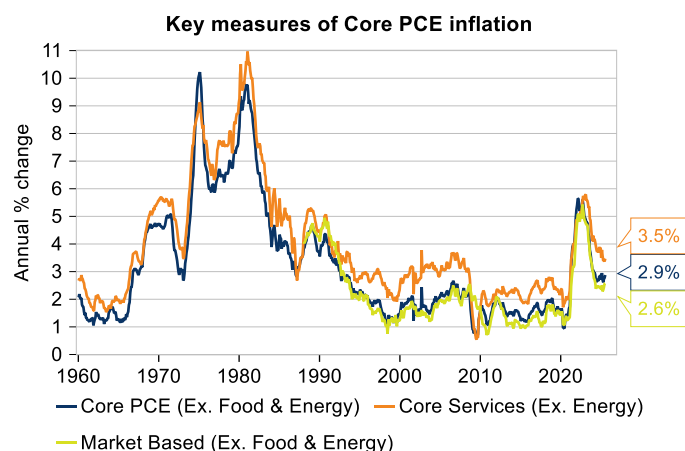
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: AUGUST SAW PRICES PAID BY US MANUFACTURING FIRMS FALL BUT REMAIN ABOVE 50. THIS MEANS THAT PRICES ARE INCREASING BUT AT A SLOWER RATE THAN BEFORE. SURVEY RESPONDENTS NOTED THAT THEIR BUSINESSES CONTINUED TO BE NEGATIVELY AFFECTED BY TARIFF-DRIVEN COST INCREASES AND ELEVATED TARIFF UNCERTAINTY.



Source: Institute for Supply Management (ISM), QTC, Macrobond

CHART 4: THE FED WON'T BE HAPPY THAT PROGRESS IN THE MODERATION OF CORE PCE INFLATION APPEARS TO BE STALLING. HOWEVER, SIGNS OF WEAKNESS IN THE ECONOMY AND THE BALANCE OF RISKS SHIFTING IN THAT DIRECTION IN THE LABOUR MARKET IN PARTICULAR, HAVE SEEN CENTRIST VOTERS BECOME COMFORTABLE WITH A SEPTEMBER CUT



Source: U.S. Bureau of Economic Analysis (BEA), 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.67	7	2	-19
	NSWTC	3.66	7	1	-20
	TCV	3.69	7	2	-23
	WATC	3.62	6	1	-21
	Australian Government	3.46	9	2	-10
	US Government	3.54	-5	-15	-7
5 Year	QTC	4.02	7	3	-1
	NSWTC	4.00	6	3	-3
	TCV	4.07	7	3	-3
	WATC	3.94	7	4	-3
	Australian Government	3.66	8	2	5
	US Government	3.64	-5	-13	11
7 Year	QTC	4.44	5	2	13
	NSWTC	4.42	5	4	9
	TCV	4.47	5	3	7
	WATC	4.34	5	3	12
	Australian Government	3.97	7	2	19
	US Government	3.87	-4	-10	24
10 Year	QTC	5.00	4	5	29
	NSWTC	4.94	4	5	22
	TCV	5.01	5	5	22
	WATC	4.81	4	9	26
	Australian Government	4.34	7	4	38
	US Government	4.16	-4	-5	44

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-0.38	0.54	-3.30
AUD/EUR	0.56	0.07	0.07	-7.77
AUD/GBP	0.49	0.37	-0.30	-5.08
AUD/JPY	96.76	0.83	1.28	0.21
AUD/CAD	0.90	0.24	0.93	-1.03
AUD/NZD	1.12	0.51	1.64	3.02
AUD/SGD	0.84	0.26	0.77	-4.07
AUD/HKD	5.08	-0.29	-0.08	-3.22
AUD/KRW	908.28	0.40	1.22	1.13
AUD/CNY	4.65	-0.17	0.11	-2.58
AUD/INR	57.46	0.54	1.36	1.83
MAJOR CURRENCIES				
EUR/USD	1.16	-0.42	0.49	4.86
GBP/USD	1.34	-0.74	0.84	1.89
USD/JPY	148.63	1.21	0.73	3.63
USD/CHF	0.81	0.77	-0.05	-4.59
USD/CNY	7.14	0.16	-0.58	0.73

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	66.85	-2.58	-1.17	-8.03
Gold	3,552.62	4.01	5.04	41.51
Copper	9,975.50	1.60	3.50	9.72
Iron Ore	104.81	0.68	2.00	16.61

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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