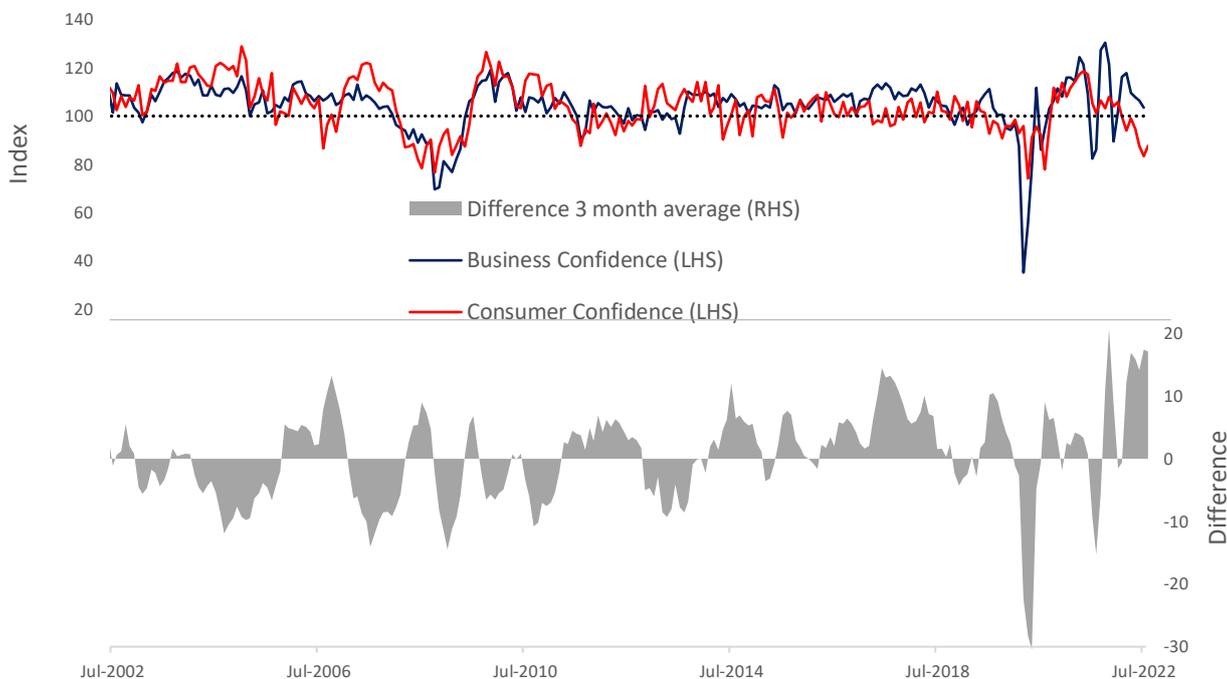


Chart of the week – Difference between consumer and business confidence are still at historically high levels (NSW)



From the MARS team:

As we noted last week, the focus domestically was on business and consumer confidence, and how the historically large gap between very weak consumer sentiment and still positive business confidence would resolve. As it turns out, last week's data did not provide any resolution just yet. At the national level, a further fall in consumer sentiment and rise in business confidence saw the gap widen even more. There were some signs in last week's data of the gap closing in NSW, with consumer sentiment rising and business confidence easing to a still positive level, but the discrepancy still remains very large as the Chart of the week shows. If the RBA is to achieve a soft landing for the economy, the recent move in NSW will need to be seen across Australia and at greater levels. For now, there is still a long way to go before there is any confidence in whether the RBA will be able to find that elusive pot of gold at the end of the rainbow.

Globally, in the US it was a story of markets versus central bankers. Markets were relieved by the better-than-expected inflation print, with softer headline and core inflation interpreted as taking some pressure off the Fed. However, the Fed did not play along with expectations, maintaining their hawkish tone and downplaying the latest print, pointing towards an ever tighter labour market and still rapid wage increases. We agree with the Fed that we are not out of the woods yet, with broader measures of underlying inflation still not showing a peak. However, with signs increasing of easing pressure on global supply chains and weaker commodity prices as interest rate rises feed through into the economy, the odds are increasing that we will see that desired turning point sooner rather than later.

This week the domestic focus will be on the labour market with both wages and employment data to be released. In this case bad news would be good news with any sign of easing in the tight labour market to be welcomed by the RBA. Globally, Chinese activity data, the RBNZ's rate decision and US retail data are out.

Economic Update – major developments last week

Global economy – Fed talks down better than expected inflation print

- **US inflation** surprised to the low side of expectations for the first time in many a moon, with overall consumer prices registering no increase in the month leading to annual inflation to fall to a still elevated 8.5 per cent. The main driver was energy, which fell 4.6 per cent in July. Core inflation also was softer than expected, though annual growth was unchanged at a still historically high 5.9 per cent. Moreover, alternate measures such as the Cleveland Fed's trimmed mean and weighted median suggest there has been little change to the overall pace of underlying inflation. This, along with the previous weeks stronger labour market report and still elevated wages growth, left the Fed far from declaring victory in its fight with inflation, instead maintaining a 'hawkish' tone. Nonetheless, the markets perceived likelihood of another 75 basis point hike has fallen from an almost 75 per cent chance to a less than 50 per cent probability.
- The **UK economy** contracted modestly (0.1 per cent) in the June quarter, its first decline since the start of 2021. The level of aggregate economic activity in the UK is still 0.6 percentage points above its pre-COVID peak. The decline in the June quarter was driven by a 0.2 per cent fall in household consumption, which shows households are being squeezed between rampant inflation (household consumption prices leapt by 7.3 per cent in the quarter, the fastest growth since 1991) and higher interest rates. Further challenges lie ahead with even greater downside risks to growth from anticipated energy price spikes as the UK heads towards the winter season.

Australian economy – Continued divergence between consumer and business confidence

- Australian **consumer sentiment** fell 3.1 per cent to a reading of 81.2 in August. The continued decline in sentiment suggests that consumers are yet to fully adjust to the Reserve Bank of Australia's interest rate cycle. Notably mortgage borrowers are particularly pessimistic, with confidence falling 8.9 per cent in August, almost three times as much as the fall in the general index. Overall sentiment is at a level that is normally consistent with major economic disruptions, though it is still well above the lows during the 80s and early 90s recession. However, this pessimism has not translated everywhere, with confidence in the job market improving by 5.8 per cent ahead of the release of next week's labour force data.
- Nationally, **business confidence** rose back above its historical average to a reading +7 while **business conditions** rose further to a historically strong reading of +20. The report illustrated the problem for the RBA with the economy operating above its productive capacity, with the survey registering new record levels of capacity utilisation, labour cost growth and input price rises. Worryingly for the RBA, the strength in demand continues to allow firms to pass higher costs onto their customers, with overall retail prices growing at a very elevated quarterly rate of 3.3 per cent.

NSW economy – Consumer sentiment highest in the country, business confidence falls

- In contrast to the national figure, New South Wales **consumer sentiment** rose 5 per cent in August to 87.6. Whilst sentiment remains still well below 100, where optimists at least equal pessimists, NSW consumer sentiment experienced the strongest growth amongst all states in the month, alongside Victoria, and now has the highest consumer sentiment in the country.
- NSW **business confidence** declined 2 points in July, its fourth straight monthly decline, to a reading of +4, broadly in line with its average of the past decade. NSW was the only state to report a decrease in business confidence this month, putting NSW below the national average.
- Sydney's **Auction clearance rate** was 56.4 per cent for the week ending 7 August. Clearance rates have been consistently below 60 per cent for over three months (since the week ending 17th April), with such a level associated with declining house prices.

This week – labouring the point

- This week the focus on the domestic data front will be on Wednesday's release of the Wage Price Index for June and Thursday's Labour force data. Other releases of note are the RBA Monetary Policy Minutes on Tuesday. Globally it is a packed calendar, with China activity data for July, US retail sales, minutes from the recent FOMC meeting and the RBNZ rates decision headline all out.

Market Update

- US share markets rose by a relatively strong 3.3 per cent last week, while the local share market was close to unchanged for the week. Meanwhile in commodities thermal coal prices rose sharply last week to return to over 400 USD/tonne. The Australian 10-year bond yield was up by 34 basis points while the AUD climbed higher by 3.0 per cent to 71 US cents after Wednesday's inflation news drove down the US dollar.

Chart A: Bond Yields

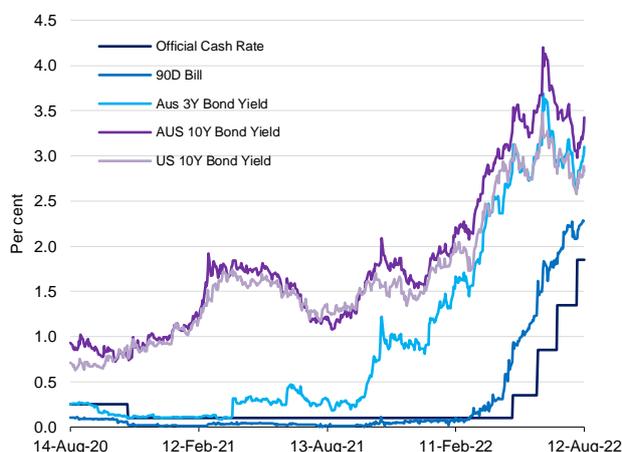


Chart B: Commodity Prices

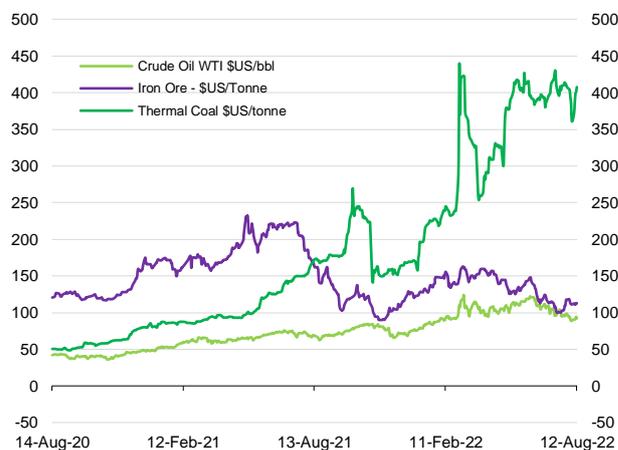


Chart C: Share Price Index

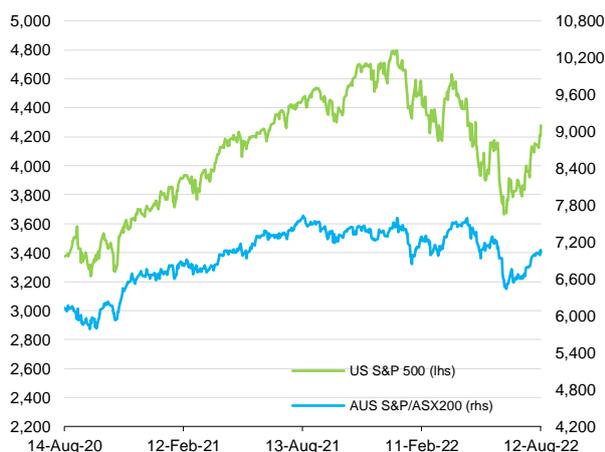
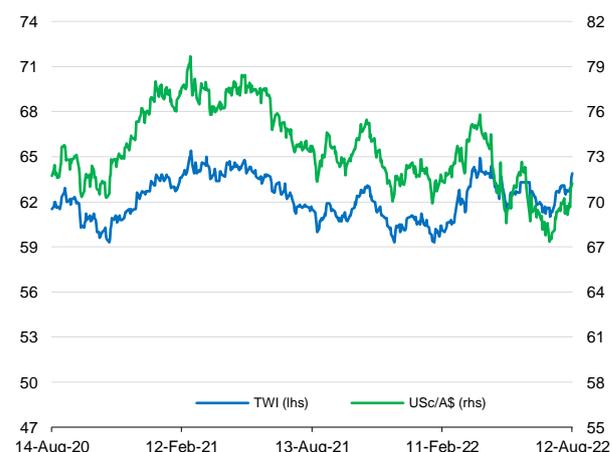


Chart D: Exchange rate



	Value	Change on Week	Change on Year
US S&P 500	4280.15	3.3 %	-4.2 %
ASX200	7032.51	0.2 %	-7.8 %
Australian Dollar (USD)	0.71	3.0 %	-3.4 %
TWI	63.90	1.9 %	3.9 %
Oil (USD/bbl)	92.09	3.5 %	34.6 %
Iron ore (\$US/Tonne)	112.50	1.4 %	-30.6 %
Gold (USD/oz)	1792.10	1.1 %	1.0 %
Thermal Coal (USD/tonnes)	407.65	12.9 %	136.0 %
Australian 10 Year Bond Yield (%)	3.43	34.2 bps	221.1 bps
NSW T-Corp 10 Year Bond Yield (%)	4.04	35.9 bps	248.1 bps
United States 10 Year Bond Yield (%)	2.83	0.4 bps	155.5 bps

International Economic Update

Country	Indicator	Unit	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Canada	GDP	%YoY	5.1	5.6	-	-	-
	BoC Interest Rate Decision	%	1.00	1.00	1.50	2.50	-
China	GDP	%YoY	-	-	0.4	-	-
	Retail Sales	%YoY	-11.1	-6.7	3.1	-	-
	CPI	%YoY	2.1	2.1	2.5	2.7	-
	PPI	%YoY	8.0	6.4	6.1	4.2	-
	Manufacturing PMI	Index, sa	47.4	49.6	50.2	49.0	-
	Non-Manufacturing PMI	Index, sa	41.9	47.8	54.7	53.8	-
	Industrial Production	%YoY	-2.9	0.7	3.9	-	-
	Trade Balance	\$USD billion	50.7	78.4	97.9	101.3	-
Euro Area	GDP	%YoY	-	-	4.0	-	-
	ECB Interest Rate Decision	%	0.00	0.00	0.00	0.50	-
	Retail Sales	%YoY	4.2	0.4	-3.7	-	-
	Unemployment Rate	%	6.6	6.6	6.6	-	-
	Employment Change	%YoY	-	-	-	-	-
	CPI	%YoY	7.5	8.1	8.6	8.9	-
	Consumer Confidence	Index, sa	-22.1	-21.3	-23.8	-27.0	-
	Business Confidence	Index, sa	7.6	6.2	7.0	3.5	-
	Markit Manufacturing PMI	Index, sa	55.5	54.6	52.1	49.8	-
	Markit Services PMI	Index, sa	57.7	56.1	53.0	51.2	-
	Industrial Production	%YoY	-2.5	1.6	2.4	-	-
	Trade Balance	€ billion, sa	-31.8	-26.0	-	-	-
	Germany	GDP	%YoY	-	-	-	-
Retail Sales		%YoY	3.5	1.6	-9.6	-	-
CPI		%YoY	7.4	7.9	7.6	7.5	-
GfK Consumer Confidence		Index	-15.7	-26.6	-26.2	-27.7	-30.6
IFO Business Climate		Index, sa	91.9	93.1	92.2	88.6	-
Markit Manufacturing PMI		Index, sa	54.6	54.8	52.0	49.3	-
Industrial Production		%YoY	-2.5	-1.7	-0.5	-	-
India		GDP	%YoY	-	-	-	-
	CPI	%YoY	7.8	7.0	7.0	6.7	-
Japan	GDP Growth	%QoQ, sa	-	-	-	-	-
	BoJ Interest Rate Decision	%	-0.1	-0.1	-0.1	-0.1	-
	Retail Sales	%YoY	3.1	3.7	1.5	-	-
	Unemployment Rate	%	2.5	2.6	2.6	-	-
	CPI	%YoY	2.4	2.4	2.3	2.5	-
	PPI	%YoY	10.0	9.3	9.4	8.6	-
	Consumer Confidence	Index, sa	33.0	34.1	32.1	30.2	-
	Manufacturing PMI	Index, sa	53.5	53.3	52.7	52.1	-
	Industrial Production	%YoY	-4.9	-3.1	-3.1	-	-
Trade Balance	¥ billion, sa	-1560.1	-1888.6	-1928.9	-	-	
New Zealand	GDP	%YoY	-	-	-	-	-
	RBNZ Interest Rate Decision	%	1.50	2.00	2.00	2.50	-
	CPI	%YoY	-	-	7.3	-	-
	Trade Balance	\$NZD million	456.2	195.3	-701.3	-	-
UK	GDP	%YoY	-	-	2.9	-	-
	BoE Interest Rate	%	0.75	1.00	1.25	1.25	1.75
	Retail Sales	%YoY	-5.8	-4.7	-5.8	-	-
	ILO Unemployment Rate	%	3.8	3.8	-	-	-
	CPI	%YoY	9.0	9.1	9.4	-	-
	Markit Manufacturing PMI	Index, sa	55.8	54.6	52.8	52.1	-
	Trade Balance	£ million, sa	-9811.0	-9119.0	-11387.0	-	-
US	GDP	%QoQ, sa, annualis	-	-	-0.9	-	-
	Fed Interest Rate Decision	%	0.25-0.50	0.75-1.00	1.50-1.75	2.25-2.50	-
	Retail Sales	%MoM, sa	0.7	-0.1	1.0	-	-
	Unemployment Rate	%	3.6	3.6	3.6	3.5	-
	BLS Employment Change (non-farm payrolls)	'000, MoM, sa	368	386	398	528	-
	ADP Employment Change (private non-farm payrolls)	'000, MoM, sa	202	128	-	-	-
	CPI	%YoY	8.3	8.6	9.1	8.5	-
	University of Michigan Consumer Sentiment	Index	65.2	58.4	50.0	51.5	55.1
	ISM Manufacturing PMI	Index, sa	55.4	56.1	53.0	52.8	-
	ISM Services PMI	Index	57.1	55.9	55.3	56.7	-
	Industrial Production	%MoM, sa	0.8	0.1	-0.2	-	-
	Factory Orders	%MoM, sa	0.7	1.8	2.0	-	-
	Trade Balance	\$USD billion, sa	-86.7	-84.9	-79.6	-	-

Domestic Economic Update

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	1.4%	1.6%	% annual average (real)	2020-21 Next: November 22
State/Domestic Final Demand	3.8%	4.8%	% through the year (real)	March quarter 22
	1.2%	1.6%	% change on last qtr.	Next: 7 September 22
BUSINESSES				
NAB Business Confidence	+4	+7	NAB Monthly Index	July 22 (mthly) 13 September 22
NAB Business Conditions	+25	+20		
HOUSING				
Dwelling Approvals	55.2k	201.3k	Number of app, annual	June 22 (mthly)
	-27.9%	-19.7%	% through the year, trend	Next: 30 August 22
Residential Prices (capitals)	1.6%	5.4%	% through the year (hedonic original)	July 22 (mthly) Next: 1 September 22
LABOUR FORCE				
Employment	+25,600	+88,400	Monthly change in employment (number)	June 22 Next: 18 August 22
Unemployment Rate	3.3%	3.5%	Current rate, seasonally adjusted	
Youth unemployment rate	9.0%	9.6%	12 month moving average rate	
CONSUMER				
Retail Sales	11.1%	12.0%	% through the year (nominal)	June 22 (mthly) Next: 29 August 22
Westpac MI Consumer Confidence	87.6	81.2	Westpac MI Index	August 22 (mthly) Next: 13 September 22
CPI (Capital cities)	5.3%	6.1%	% through the year	June quarter 22 Next: 26 October 22
Official Cash Rate	1.85%		Raised 50 basis points in July 2022	August 22 (mthly) Next: 6 September 22

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2022-23 Budget)			Australian Gov't Forecasts (as per Ministerial Economic Statement)		
	2020-21 Actual	2021-22 Forecast	2022-23 Forecast	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
State/Domestic Final Demand (%)	3.0	2 ¾	5 ½	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	1.4	1 ½	4 ¼	1.6	3 ¾	3
Employment (%)	0.4	1	3	6.5	3.2	1 ½
Unemployment rate (%) (b)	5.2	3 ¾	3 ½	5.2	3.8	3 ¾
CPI (%)	1.5	4	5 ½	3.8	6.1	5 ½
Wage Price Index (%)	1.5	2 ¼	3 ½	1.7	2 ¾	3 ¾

(a) Per cent change, annual average, unless otherwise indicated. (b) June quarter, per cent.

Economic Calendar

Date	Domestic Calendar	International Calendar
Mon 15-Aug		Japan GDP, Preliminary, JunQ-22 China Industrial Production, Jul-22 China Retail Sales, Jul-22
Tue 16-Aug	RBA Monetary Policy Minutes, Aug-22 ABS Overseas Arrivals and Departures, Jun-22	UK Unemployment Rate, Jun-22 US Industrial Production, Jul-22
Wed 17-Aug	ABS Wage Price Index, JunQ-22	New Zealand Interest Rate Decision, Aug-22 UK CPI, Jul-22 Euro Area Employment Change, Preliminary, JunQ-22 Euro Area GDP, Preliminary, JunQ-22 US Retail Sales, Advance, Jul-22
Thu 18-Aug	ABS Weekly Payroll Jobs and Wages in Australia, Jul-22 CoreLogic Weekly Auction Data	US FOMC Minutes Meeting, Jul-22
Fri 19-Aug		UK Retail Sales, Jul-22
Sat 20-Aug		
Sun 21-Aug		
Mon 22-Aug		
Tue 23-Aug		Japan Manufacturing PMI, Preliminary, Aug-22 Germany Manufacturing PMI, Preliminary, Aug-22 Euro Area Manufacturing PMI, Preliminary, Aug-22 Euro Area Services PMI, Preliminary, Aug-22 UK Manufacturing PMI, Preliminary, Aug-22
Wed 24-Aug		
Thu 25-Aug	CoreLogic Weekly Auction Data ABS Labour Force, July-22 ABS Average Weekly Earnings, May-22	Germany Business Climate, Aug-22 US GDP Annualised, JunQ-22
Fri 26-Aug		
Sat 27-Aug		
Sun 28-Aug		
Mon 29-Aug	ABS Retail Trade, Jul-22 ABS Mineral and Petroleum Exploration, JunQ-22	Germany Retail Sales, Jul-22
Tue 30-Aug	ABS Building Approvals, Jul-22	Japan Unemployment Rate, Jul-22 Euro Area Business Confidence, Aug-22 Germany CPI, Preliminary, Aug-22
Wed 31-Aug	RBA Private Sector Credit, Jul-22 ABS Construction Work Done, JunQ-22	
Thu 1-Sep	ANZ Stateometer, Jun-22 CoreLogic Weekly Auction Data ABS Labour Force (regional), Jul-22	Euro Area Unemployment Rate, Jul-22
Fri 2-Sep		US Manufacturing PMI, Aug-22 US Change in Non-farm Payrolls, Aug-22 US Unemployment Rate, Aug-22
Sat 3-Sep		US Factory Orders, Jul-22
Sun 4-Sep		
Mon 5-Sep	ABS Business Indicators, JunQ-22	Euro Area Retail Sales, Jul-22
Tue 6-Sep	ABARES Crop Report, SepQ-22 ABARES Agricultural Commodities, SepQ-22 RBA Interest Rate Decision, Sep-22 ABS Government Finance Statistics, JunQ-22 ABS Balance of Payments, JunQ-22 ABS Monthly Household Spending Indicator, Jul-22 ABS Regional Building Approvals, Jul-22	
Wed 7-Sep	ABS National Accounts, JunQ-22	US Services PMI, Aug-22 Germany Industrial Production, Jul-22 US Trade Balance, Jul-22 China Trade Balance, Aug-22