Data Dump to Shape July Rate Call

A flurry of economic data late this week will be a key input to the Reserve Bank's (RBA) July rate call next Tuesday.

Inflation is public enemy number one for the RBA, arguably making progress on inflation the top input into the Board's reaction function. On Wednesday the Australian Bureau of Statistics (ABS) will release the May iteration of its monthly consumer price index (CPI) measure. Remember, the RBA targets the quarterly CPI numbers, but the monthly indicator gives us a solid read on how certain components of the inflation basket are tracking.

In April, the monthly measure gave off mixed signals. Headline annual growth accelerated to 6.8% from 6.3% in March, but the series adjusted for seasonal and volatile factors slowed to 6.5% in annual terms and was especially week in monthly terms. Additionally, only a small share of the expenditure categories in the all-important services component were updated in May, making the reading even more difficult to interpret with any conviction. Despite these caveats the RBA said the indicator "had surprised on the upside in April" in last week's minutes. We expect the May reading to print at 6.1% in annual terms with the softening driven predominantly by movements in petrol prices tied to last year's temporary cut to the fuel excise.

While the RBA is focused on the trajectory of inflation, it is also keeping tabs on the developing slowdown in economic activity as it attempts to navigate its so called 'narrow path'. The RBA is trying to slow the economy – this is a necessary pre-requisite for containing inflation – but it is the possibility of the economy slowing too much that the RBA is particularly alert to. It's only fitting than, that retail spending data for May will be released on Thursday. The retail sector is one of the most sensitive to interest rates given its inherent link to consumer spending. And there is no doubt that a slowdown in retail activity is well and truly underway. Retail spending was flat in April. But when we account for inflation the volume of spending likely went backwards, as was the case in the March quarter. In May, a fall in spending (even when including higher prices) looks likely based on the bank's real-time card transaction data. We have pencilled in a 0.2% fall for the month.

The nexus between economic activity and inflation sits with the labour market. And so far, we have seen very few concrete signs of a material slowing in conditions in the jobs market. Part of this resilience reflects the huge backlog of demand for workers which was accumulated while the international borders were closed. While this persistently strong demand for workers remains, we are unlikely to see a huge turn in the labour market.

On Thursday we will receive an important update on job vacancies over the three months to May. The number of vacancies is expected to have fallen alongside strong employment growth as vacancies have been filled. The question will be to what extent (if any) the decline in vacancies has outpaced employment growth – this will be a better reading of any underlying softening in labour demand as employers' eye weaker economic conditions ahead.

Finally, private sector credit data for May will be released on Friday. Housing credit growth has stabilised recently alongside a broader improvement in housing market conditions, while appetite for business credit has been resilient as capacity utilisation remains elevated. We expect this dynamic continued in May and anticipate a 0.4% increase in total credit, in line with the average pace over the past 6 months.

There's plenty of fresh information this week that could sway the RBA in favour of another hike or a pause. Based on how we see the data evolving, we are expecting the RBA to hike again next week. However, some softer readings, especially on inflation, would open the door for a potential pause. The Board's decision to remove from the minutes its guidance that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe" is another reason to keep an open mind coming into the July meeting.

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Group Forecasts

End Period:	Close (23 Jun)	2023 Q3 (f)	2023 Q4 (f)	2024 Q1 (f)	2024 Q2 (f)	2024 Q3 (f)	2024 Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	4.10	4.60	4.60	4.60	4.35	4.10	3.85
90 Day BBSW, %	4.32	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap, %	4.26	4.30	4.15	4.00	3.80	3.60	3.50
10 Year Bond, %	3.99	3.80	3.70	3.50	3.30	3.20	3.10
US Interest Rates:							
Fed Funds Rate, %	5.125	5.375	5.375	4.875	4.375	3.875	3.375
US 10 Year Bond, %	3.73	3.60	3.50	3.30	3.10	3.00	2.90
USD Exchange Rates:							
AUD-USD	0.6680	0.69	0.69	0.71	0.72	0.73	0.74
USD-JPY	143.70	138	136	134	132	130	128
EUR-USD	1.0894	1.11	1.11	1.12	1.13	1.14	1.15
GBP-USD	1.2714	1.27	1.27	1.28	1.28	1.29	1.29
NZD-USD	0.6143	0.62	0.62	0.63	0.64	0.65	0.66
AUD Exchange Rates:							
AUD-USD	0.6680	0.69	0.69	0.71	0.72	0.73	0.74
AUD-EUR	0.6130	0.62	0.62	0.63	0.64	0.64	0.64
AUD-JPY	96.0	95.2	93.8	95.1	95.0	94.9	94.7
AUD-GBP	0.53	0.54	0.54	0.55	0.56	0.57	0.57
AUD-NZD	1.09	1.11	1.11	1.13	1.13	1.12	1.12

	2021	2022	2023 (f)	2024 (f)
GDP, %	4.6	2.6	0.6	1.0
CPI (Headline), %	3.5	7.8	4.2	3.2
CPI (Trimmed mean), %	2.7	6.9	4.1	3.2
Unemployment Rate, %	4.7	3.5	4.2	5.3
Wages Growth, %	2.3	3.4	4.1	3.3

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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