

Weekly Macro and Markets View

5 June 2023



Highlights and View

US nonfarm payrolls increase more than expected while the unemployment rate rises significantly

Mixed signals from the labour market indicate that the employment situation is less tight than many think with fewer hours worked, unemployment rising and wage growth slowing.

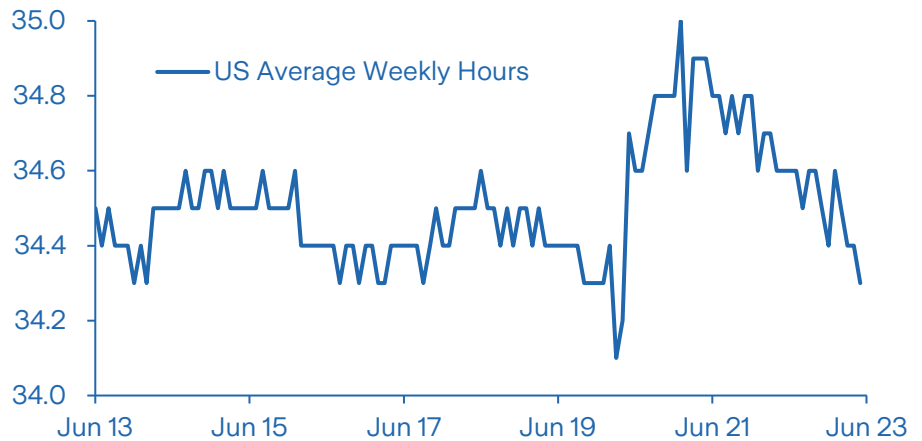
Australia's monthly inflation rises to 6.8% YoY in April, a pickup following a period of slowdown

The resurgence of inflation suggests that the RBA's tightening bias is likely to remain intact with further rate hikes possible.

The global Manufacturing PMI was unchanged at a weak level in May, led by declining new export orders and soft inventory as well as pricing dynamics

Global economic activity continues to diverge, with weakness persisting outside of the booming services sector.

More jobs, fewer hours worked



Source: Bloomberg

In a holiday-shortened week, the S&P 500 had its best weekly performance since the end of March, rising 1.8%, helped by both the Senate and the House of Representatives approving the debt ceiling deal announced earlier by President Biden and House Speaker McCarthy. Meanwhile, there were more mixed data from the economy, though investors chose to focus on the more positive ones. Payrolls rose by 339'000 in May, alleviating market participants' worries about a near-term recession. However, while more jobs have been created, the unemployment rate rose significantly from 3.4% to 3.7% and average weekly hours worked fell to the lowest value since the pandemic, which is the bottom of the range of the last decade, indicating that the labour market is less tight than many think. Accordingly, wage growth has slowed further. Similarly, while the number of job openings according to the JOLTS survey rebounded to 10.1mn in April, the quits rate ticked down to 2.4%, the lowest since February 2021, indicating further easing of wage pressure in the months ahead. While this is positive news from an inflation perspective it will weigh on consumer spending. Finally, the manufacturing sector remains in contraction with the ISM Manufacturing survey receding to 46.9 and new orders at only 42.6, signalling further headwinds.

LatAm

The agricultural sector boosts GDP growth in Brazil

Despite the high interest rates in Brazil, Q1 GDP growth accelerated, surprising to the upside and reaching 1.9% QoQ. The agricultural and service sectors were the main drivers of economic activity, growing 21.6% and 0.6% respectively. However, gross fixed investment contracted by 3.4%. The labour market remained resilient, with the unemployment rate falling from 8.8% to 8.5%. The Manufacturing PMI remained in contractionary territory but improved from 44.3 to 47.1 in May. The positive trend in the equity market remains in place, with the

Bovespa Index increasing 1.5% over the past week. We expect economic activity to decelerate as interest rates weigh on domestic demand. In Chile, the mining sector supported the monthly economic activity in April, but when excluded the picture is grim. Non-mining activity fell by 0.7%, mainly driven by commerce, which contracted by 2.4%. We expect economic activity to contract in Q2 and Q3, supporting the inflation convergence consolidation and the start of the monetary policy easing cycle in September.

Eurozone

Inflation finally turning lower

Last week finally saw some good news on Eurozone inflation, which was lower than expected in May. Headline CPI fell from 7% YoY to 6.1% vs. expectations of 6.3%, helped by falling food and energy inflation. Core and services inflation also retreated, with core CPI down from a high of 5.7% in March to 5.3% currently. While encouraging, inflation is still too high for the ECB to pause and we expect a further rate hike of 25bps in next week's policy meeting. Looking forward, the EC's economic confidence index ticked lower in May, led by softer services and

industrial confidence, and the Manufacturing PMI stayed well below the boom/bust level of 50, with downbeat new orders and export components. The latest monetary data showed a further decline in lending growth as credit standards are tightening and loan demand is falling. Further weakness in economic activity is expected in the months ahead as monetary tightening continues to weigh on the economy.

North Asia

The latest dataset is disappointing despite a few bright spots

China's Caixin PMIs for May came in stronger than their NBS siblings as SMEs did better than larger SOEs located inland. Meanwhile, the property market keeps suffering. The top 100 developers' sales fell 14% MoM, the first decline since 2018, spurring speculation that new public property support measures are in the offing. In Japan, the MoF Corporate Survey revealed rising recurring profits, which were, however, only driven by services companies, while manufacturing companies reported falling profits. As we expected, the capex

trend remains firm. Meanwhile, April statistics for industrial production, retail sales and housing starts surprisingly came in below expectations, while capital goods shipments remained firm. The disappointing production statistics are in line with what we observe in South Korea, where weak industrial production for April and exports for May disappointed as well. We also note that Taiwan's PMI for May fell nearly three points to 44.3, suggesting a lacklustre corporate environment.

Australia

Monthly CPI beats expectations, posing challenges for the RBA

After three months of decline, the monthly CPI rebounded from 6.3% YoY to 6.8% in April, surpassing expectations of 6.4%. Trimmed mean CPI also rose from 6.5% to 6.7%, driven in part by strong demand for holiday travel and accommodation. This suggests that inflation is likely to exceed the RBA's 6.3% forecast for June, putting pressure on the central bank to raise its cash rate further. The Fair Work Commission announced an 8.6% increase in the minimum wage (affecting 0.7% of workers) and a 5.75% increase in industrial awards (impacting

20.5% of workers), effective as of July 1. With that, we estimate wage growth will reach around 4.1% in Q3, slightly higher than the RBA's forecast of a 4% peak in wage growth. In May, home prices rose by 1.4% MoM, marking the third consecutive monthly increase, driven by low housing stocks and resilient demand. However, with inflation on the rise, potential further rate hikes, and the upcoming mortgage cliff, the current pace of home price increases appears fragile.

Credit

The US debt ceiling agreement ends the student loan payment pause

In addition to various caps on spending, the new legislation suspending the debt ceiling also includes a provision that prevents the administration from extending the student loan payment pause. Over the course of multiple extensions, the moratorium enabled more than 27 million borrowers to suspend their federal student loan payments for more than three years. We expect delinquencies and defaults to increase from their current artificially low levels. Most student loans are owned by the Department of Education and the impact on investors will be limited. But

the redirection of billions of dollars each month to debt servicing should depress households spending. Moreover, as student loan borrowers tend to carry other types of consumer debt and usually have weak credit profiles, the financial stress due to the end of the payment relief scheme may also limit their ability to service other loans, leading to a deterioration in auto loan or credit card performance. The current strong labour market could mitigate this trend somewhat but it is still an additional headwind on top of rising rates and a weakening economy.

What to Watch

- Germany factory orders and Eurozone industrial production and retail sales data will show how the economy is holding up.
- In APAC, Japan will release the Eco Watchers Survey for May as well as the April Household Survey, April wage data and the first Q1 GDP revision. Mainland China and Taiwan will publish May export data. With inflation resurging, the Reserve Bank of Australia is likely to exercise caution in its meeting this week. Q1 GDP data will shed light on Australia's growth trajectory amid elevated inflation and rising interest rates. The Reserve Bank of India is expected to maintain its policy rates. May CPI data will be released for China, Taiwan, Indonesia, Thailand and the Philippines, along with Malaysia's April industrial production figures. Markets will be closed in Malaysia and Thailand on Monday.
- Inflation data will be published in Brazil, Chile and Mexico. Headline and core inflation are expected to continue to ease.

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