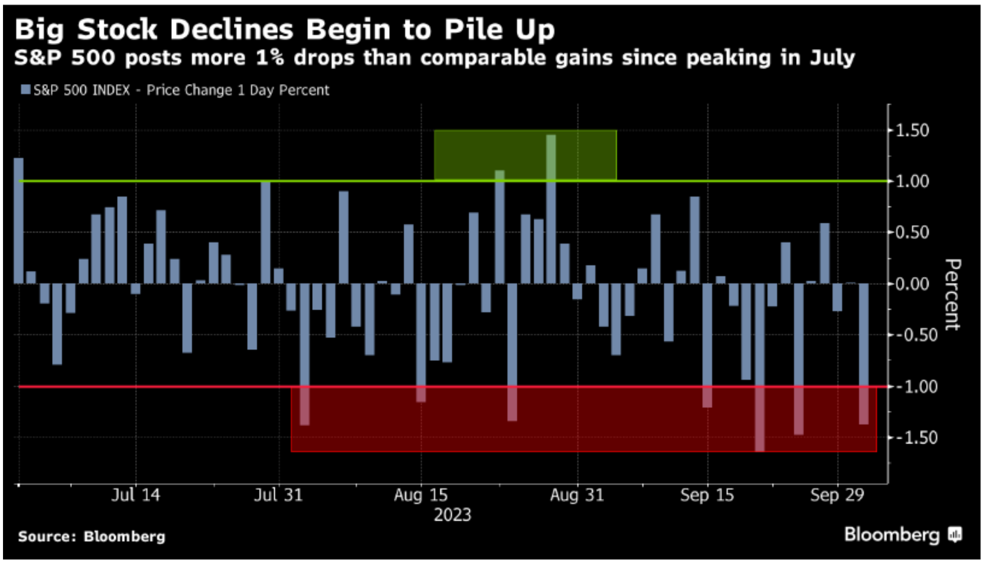
FINANCIAL MARKET CONDITIONS
September 2023

Local Government Finance Authority

Global equities witnessed its worst month of the year in September, with a growing sentiment that central banks were likely to keep interest rates higher for longer. Equity markets in developed economies fell by around 5% over the course of the month. Markets have witnessed volatility all year beginning with fears of a recession resulting in the prediction of sharp future rate cuts resulting in a soft landing, which initially buoyed equity markets, however, the narrative has now evolved into concerns about prolonged inflation and low economic growth which has seen markets now predicting that interest rates will remain elevated for longer. Despite the uncertainty in 2023, global equities are still approximately 12% higher than were they started the year.



In the United States (US), data continued to be resilient with core retail sales, industrial production and goods orders all expanding during the month. Manufacturing data was stronger than expected, and 3rd quarter gross domestic product (GDP) estimates whilst indicating a lower growth rate, are still positive. US consumer price index (CPI) rose slightly in August by 0.6%, the largest gain since June 2022 with annual rate lifting from 3.2% to 3.7%. The US job and labour report (JOLTS) surprised the market showing a significant increase in jobs openings – indicating that the US labour market remains strong, supporting the Fed's recent message that rates will remain higher for longer.

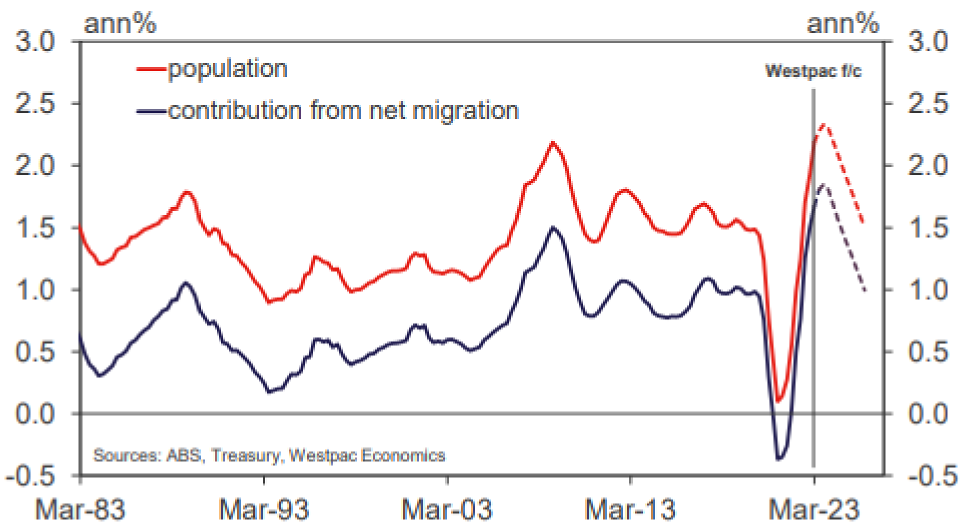
In contrast, data in Europe continued to be weak. The European Central Bank (ECB) hiked its benchmark policy rates by 25 basis points, but the ECB also signalled it was likely to be the last hike this cycle. Manufacturing data in the Eurozone remains weak, supporting the consensus that no further rate rises are needed. Eurozone inflation slowed by more than anticipated, publishing an annual rate of 4.5%. In the United Kingdom (UK) inflation also edged lower in August, to an annual rate of 6.7% vs a consensus forecast of 7%. UK GDP was also much softer than expected, slowing by -0.5%. The Bank of England (BoE) kept rates on hold in September, opting for a wait-and-see approach, taking its first pause in nearly two years.

China's economic backdrop improved over the month with both retail sales and industrial production growth reaccelerating – and were better than expected. The fear of deflation proved to be short lived, with headline inflation back in positive territory, creeping back to 0.1% y/y from -0.3% the previous month. The Chinese government continues to make minor support measures to stimulate the economy. China's manufacturing index broke into positive territory, and output prices rose for the first time in seven months. Despite some improvement, there are still concerns with the Chinese economy and real estate distress remains a notable concern. US credit rating agency Fitch noted China's slowdown was "casting a shadow over global growth prospects" and downgraded its global growth forecast for 2024.

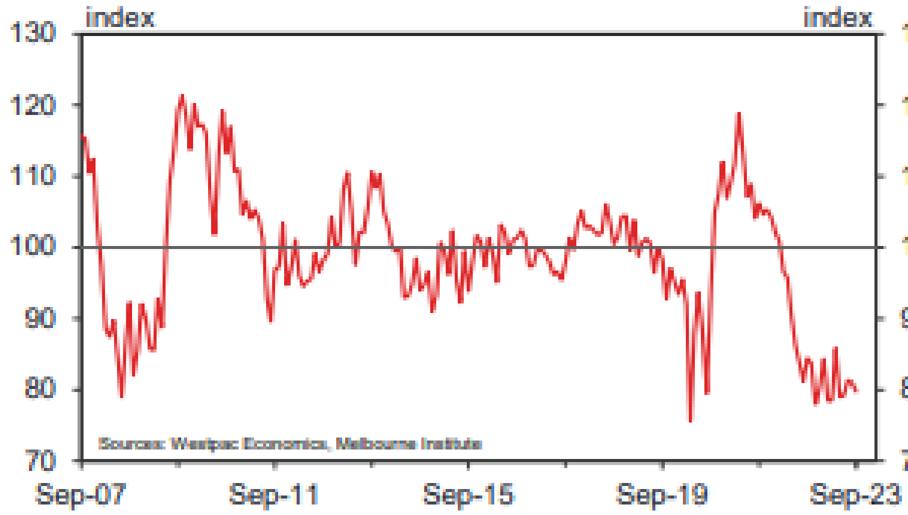
In Australia, economic data was varied over the month, however, remains resilient. Job vacancies fell by 9%, however the level of job vacancies remains 69% above pre-pandemic levels. Retail sales rose by a subdued pace of 0.2%. Housing data in Australia still illustrates that prices continue to rise and lending data also rose, however momentum may have weakened in recent months.

Consumer confidence remains exceptionally weak (at near GFC and pandemic era lows), however business conditions remain strong. The unemployment rate remained at 3.7%, illustrating a robust labour market, despite the significant increase in new migration over recent months.

Population growth



Consumer Sentiment Index



The Reserve Bank (RBA) left the official cash rate unchanged at 4.10% in October, with the new RBA Governor Michele Bullock commenting that the tightening since May last year are "working to establish a more sustainable balance between supply and demand in the economy and will continue to do so." In a world of uncertainties, this extensive tightening allows the RBA the opportunity to continue to assess the impact on the economy and the inflation outlook in coming months.