Cliff Notes: deciphering signal from noise in real time

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The main event in Australia this week was the July CPI report. It surprised modestly to the upside on both a headline (1.0%/3.5%yr) and trimmed mean basis (0.5%/3.6%yr). Strength in durable goods pricing was a key contributor, including for clothing and footwear, motor vehicles and household contents; however, in part this was due to regular seasonality caused by the conclusion of the EOFY sales discounting period. Of greater concern was the upside surprise for market services, even after making an allowance for the larger-than-expected awards wage increase which came into effect in July. While the risk of another RBA rate hike later in the year cannot be dismissed, it is not our base case. In the interim though, the RBA will certainly maintain a hawkish bias. The inflation print was followed up by another solid showing from the household spending indicator, up 1.1% (7.0%yr) in July. Gains were broadly based but led by discretionary spending categories – consistent with the resilience recently shown by our own card indicators. That said, some pockets of strength may have been more price than volume led. The end of the fuel excise cut will also likely temper momentum in discretionary spending in coming months, particularly if global oil prices hold up. We also received two partial indicators for investment this week ahead of Q2 GDP next Wednesday. Construction activity disappointed, a 2.1% decline in Q2 bringing annual growth down to 2.1%yr. Most of the decline was driven by the mining sector following the completion of a large mining infrastructure installation in WA earlier in the year. Lumpy completions like these tend to have a smaller impact on National Accounts estimates as GDP is reported on an accrual basis (i.e. as work is done). Activity was otherwise firm, namely in residential construction (1.7%) and non-residential building (0.5%), though public infrastructure declined again. The recent uptick in cost pressures will be closely watched hence, but the pipeline still looks broadly balanced as public works roll off and private activity picks up. Private CAPEX also surprised to the downside, falling 3.6% in Q2, although the annual pace remains at an elevated 10.7%yr. An unwind in machinery and equipment spending was the chief culprit, falling 8.9% in the quarter, largely due to a cooling in data centre-related equipment spending – an import-intensive component that will have only a negligible net impact on GDP. Excluding this specific dynamic, private capex spending rose a solid 2.6% in the quarter. Total capex plans also remain very healthy, consistent with double-digit real growth over the 2027-28 financial year.

Ahead of next Wednesday's release, our Q2 GDP preview will be published later today on Westpac IQ. Offshore, the data flow was centred on the US consumer. US GDP growth was unrevised in Q2's second estimate at 1.5% annualised. In the detail, household consumption was revised up a touch (3.2% to 3.4% annualised) but offset by marginal downward revisions to business investment and government spending, as well as a larger drag from net exports. US personal consumption growth then beat expectations in July as it rose 0.2%, aided by a 0.4% increase in incomes. That said, the deflator was also 0.1ppts stronger at 0.2%, leaving real consumption flat for the month compared to a solid average gain of 0.2% per month through the first half. While US consumers have steadily increased everyday spending at a steady clip through 2026, they are reticent to act on housing. US new home sales unexpectedly dropped by 10.5% in July to an annualised pace of just 607k – a new low for 2026. House price growth also remained weak, the FHFA house price measure and S&P Cotality Case-Shiller

20-City index averaging a monthly gain of just 0.1% through the first half. While the stronger of the two major sentiment surveys, Conference Board consumer confidence still bears witness to households' entrenched anxiety. In August, the index held near its lowest level in 18 months – a level also materially below the historic average. Cost of living pressures are critical to consumers' concern: inflation has outpaced wage growth since the pandemic and workers fear this trend will continue, with 1-year inflation expectations remaining elevated in August at 5.8%yr – a multiple of nominal income growth. Away from the data flow, this week the White House announced a new set of sanctions against Iran, ambitiously heralded by President Trump as Iran's "economic D-Day". The US' plan directly sanctions more than 70 entities related to various activities undertaken by Iran. However, the effectiveness of the new measures largely rests on whether the US is prepared to act against China, given their strong trade and financial relationship with Iran. The initial response suggests China is unlikely to acquiesce, with initial reports suggesting the unilateral sanctions will be ignored by China and Hong Kong. The piece of news on the Strait that moved markets this week was instead reports of further discussions on commercial shipping between Iran and Oman. If agreed to, this could bring a degree of confidence over supply through the Strait, particularly if the US remains focused on applying economic pressure.

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