September Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

The RBA kept policy settings unchanged at its September meeting, as was widely expected. Though despite this, the Bank again suggested that '*some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe.*'

Q2 GDP growth was as expected, while labour market and survey data were mixed.

International economy

Central banks were mixed in September, with some continuing to tighten policy (mostly those across Continental Europe), while others (such as the US Federal Reserve, Bank of England, and Bank of Japan) kept policy unchanged. This split comes amid varying inflation dynamics across the globe.

Short-term interest rates

Domestic and offshore short-term bond yields rose notably over the month as central bank commentary suggested that rates may need to be kept higher for longer.

Long-term interest rates

It was a similar story for longer-end rates, with Australian Government ten-year yield rising notably to the highest rate since 2011, while the US ten-year yield increased to the highest since 2007.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.31	24	37
	Australian Government	4.08	28	52
	US Government	4.88	33	76
5 Year	QTC	4.39	26	28
	Australian Government	4.13	30	45
	US Government	4.71	45	83
7 Year	QTC	4.62	29	38
	Australian Government	4.29	34	51
	US Government	4.72	51	96
10 Year	QTC	4.96	31	50
	Australian Government	4.47	39	59
	US Government	4.68	57	104

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6373	-1.5%	-1.9%
AUD/EUR	0.6069	1.7%	-8.3%
AUD/GBP	0.5256	2.9%	-8.8%
AUD/JPY	95.4964	1.3%	1.7%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0501	-3.2%	7.0%
GBP/USD	1.2124	-4.3%	7.5%
USD/JPY	149.85	-2.9%	-3.7%
USD/CNY	7.1842	1.0%	-1.0%

Prices sourced from Macrobond & QTC and are correct at the time of publication.

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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Domestic economy

SUMMARY:

The RBA again kept rates on hold at its September meeting to allow more time to assess the impact of previous moves. It noted that some further tightening may be required, though acknowledged the labour market was not as tight as it has been.

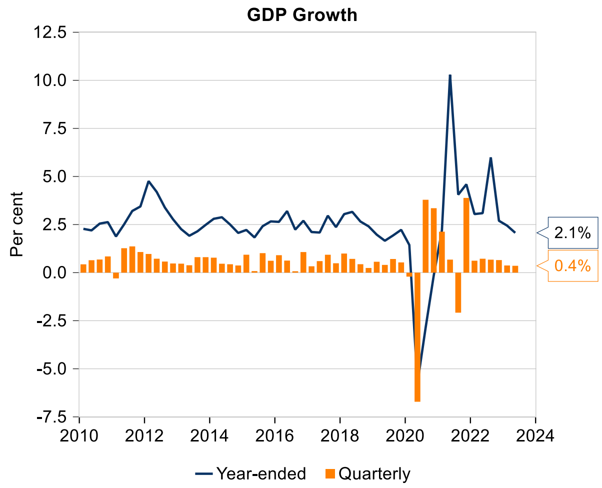
REVIEW:

- The RBA left the cash rate unchanged at 4.1 per cent in Governor Lowe's final Board meeting, as was expected. The decision was again framed as *providing 'further time to assess the impact of the increase in interest rates to date'*. The forward guidance, both in the post-meeting statement and more detailed Minutes, was little changed, noting some further tightening of monetary policy may be required to ensure inflation returns to target in a reasonable timeframe, though the Bank stated that this will '*continue to depend upon the data and the evolving assessment of risks*'. The post-meeting statement and Minutes acknowledged the labour market remains tight, albeit slightly less tight than in recent months. Inflation was acknowledged to have eased and is seen as being likely to moderate further from here. And finally, given recent weakness, the RBA warned of increased uncertainty around the outlook for the Chinese economy.
- Philip Lowe spoke for the last time as RBA Governor. While Lowe did not provide any outlook for policy, he did reflect that *'with the benefit of hindsight, my view is that we did do too much'* in terms of policy stimulus during and coming out of the pandemic. He also recognised that the Bank had some communication issues and encouraged further action to boost productivity growth.
- GDP rose 0.4 per cent in Q2, as expected. Amid upward revisions to prior outcomes, year-ended growth eased a less than expected three-tenths to +2.1 per cent. The details of the GDP report were mixed. Household consumption growth eased to +0.1 per cent in Q2 from +0.2 per cent in Q1. Weakness in spending on household furnishings and recreation was broadly offset by gains across new vehicles and services. Public demand was strong with investment up 8.2 per cent (the largest rise since 2012) on higher state and local government as well as defence spending while consumption rose a more modest 0.4 per cent. Private investment rose a robust 2.4 per cent as, while residential investment fell, business investment accelerated on a lift in machinery and equipment spending aided by a pull-forward of spending ahead of the expiration of government incentive payments. Inventories dragged on growth in the quarter as they were drawn down with the ABS noting that *'improved weather and reduced bottlenecks'* allowed higher port shipments. Meanwhile, net exports added to growth as services export volumes jumped notably. And finally, price measures stayed firm with the household consumption deflator up 1.3 per cent on the quarter and unit labour costs (the labour cost of producing one unit of output) up 1.6 per cent. The latter was impacted by a 2.0 per cent dip in output per hour worked (labour productivity), which in-turn, was affected by a 2.5 per cent rise in hours worked.
- Inflation increased +0.6 per cent in August, with the year-on-year rate accelerating to +5.2 per cent, from +4.9 per cent in July. The increase was driven by a sharp rise in fuel prices (+9.1 per cent month-on-month), as well as a lift in services and goods inflation. The core CPI (which excludes volatile items & travel) rose 0.5 per cent on the month (the same as July) to be +5.5 per cent higher year-on-year (down from +5.8 per cent).
- The August Labour Force Survey was a mixed bag:
  - Total employment rose by a much more than expected 64,900, though of that, only 2,800 were full-time jobs and 61,100 were part-time. The July dip in employment was also revised higher (-1,400 from -15,000).
  - The unemployment rate was unchanged at 3.7 per cent. Both the employment-to-population ratio and participation rate rose one-tenth to reach record highs.
  - Hours worked fell 0.5 per cent over the month but remained a solid 3.7 per cent higher year-on-year.
- The *NAB Business Survey* showed that business conditions and confidence improved in August, with broad-based strength across categories. Conditions are around long-run average, though confidence is notably below.
- The *Westpac-Melbourne Institute Consumer Sentiment Index* fell in September. The details of the report were mixed, with perceptions of family finances compared to a year ago down to a new cycle low, while perceptions of family finances and economic conditions over the next 12-months improved. Confidence remains well below average.

WHAT TO WATCH:

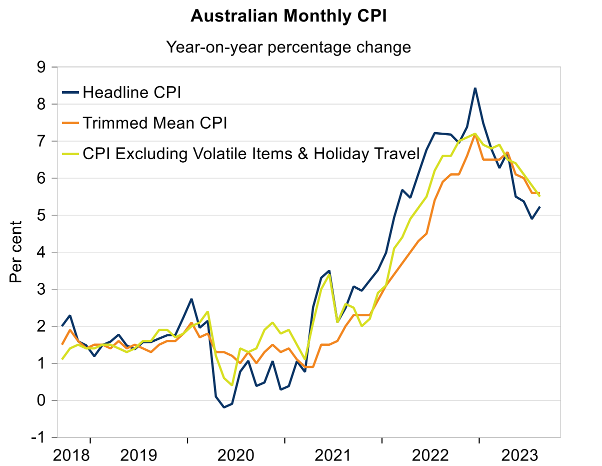
The next key data release to monitor will be the Q3 CPI report (25 October). In addition, Michele Bullock has now taken over as RBA Governor, and while this isn't expected to impact policy materially, the change in leadership along with the Bank implementing some of the findings of the RBA Review could see some shift in its communication.

CHART 1: THE PACE OF DOMESTIC GDP GROWTH SLOWED IN THE JUNE QUARTER



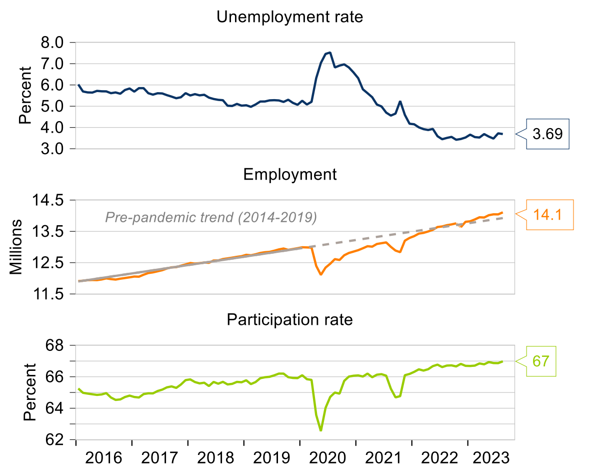
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: HEADLINE INFLATION LIFTED IN AUGUST DUE TO RISING FUEL PRICES. MEASURES EXCLUDING VOLATILE ITEMS WERE STEADY ON THE MONTH BUT MODERATED OVER THE YEAR.



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: DOMESTIC LABOUR MARKET CONDITIONS REMAIN SOLID WITH FIRM JOBS GROWTH KEEPING UNEMPLOYMENT LOW DESPITE THE PARTICIPATION RATE REACHING A NEW HIGH



Source: Australian Bureau of Statistics, QTC, Macrobond

International economy

SUMMARY:

It was another particularly busy month for central banks globally with divergent policy outcomes across nations.

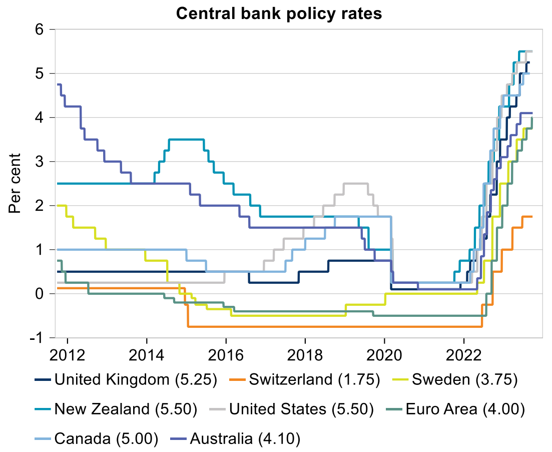
REVIEW:

- In global central bank news:
  - The US Federal Reserve kept the target range for the Federal Funds Rate unchanged at 5.25-to-5.5 per cent at its September meeting, as expected.
  - The Fed also provided an updated outlook for the Fed Funds Rate and US economy:
    - > The Fed is expecting a slower reduction of interest rates in 2024 than previously expected. The median projection for the Funds Rate is for one more 25-basis point hike by the end of the year (the same as in June). However, the median 2024 expectation is now for 50-basis points of cuts (previously 100-basis points), with a further 125-basis points of cuts in 2025 and 100-basis points in 2026.
    - > The outlook for the economy is stronger than previously expected. The projections for GDP growth in 2023 and 2024 were revised higher, while forecasts of the unemployment rate were revised lower. Inflation projections were broadly stable, with the core PCE deflator expected to reach the Fed's two per cent target by 2026.
  - The ECB raised interest rates by 25 basis points to four per cent in a move which was partially anticipated by both economists and investors. Following this, the Governing Council (GC) noted rates *'had reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to target.'* ECB President Lagarde commented that the GC would remain data dependent in terms of both the level of peak rates and the period of time that which they would keep rates at these levels.
  - The Bank of England Monetary Policy Committee kept the Bank Rate unchanged at 5.25 per cent. The Committee voted 5-4 to maintain policy settings, with the four dissenters favouring a 25-basis point rise. The Committee citied recent weakness in the labour market and a downside inflation surprise as the key motivation for the pause. The policy outlook was little changed, with the Committee reiterating the path for interest rates will be data dependent.
  - The Bank of Japan left policy settings (including negative rates, the yield curve control, and all forward guidance) unchanged at its September meeting. The Bank also kept its outlook and assessment of the economy and inflation unchanged following upward revisions at the last meeting.
  - The Bank of Canada kept policy settings unchanged at its September meeting, as was expected, but noted concern *'over the persistence of underlying inflation'* and stated policymakers were *'prepared to increase the policy rate further if needed.'*
  - In other central bank news, the central banks of Sweden and Norway both increased policy rates (as was expected), while the central bank of Switzerland surprised the market by keeping policy settings on hold.
- The *OECD* raised its 2023 global growth forecast to 3.0 per cent (from 2.7 per cent) but lowered its 2024 projection to 2.7 (from 2.9 per cent). It also expects inflation to ease further in 2023 and 2024, though remain above many central bank objectives.
- Inflation data globally were mixed, with month-to-month US headline and core CPI accelerating, while inflation rates in the euro area and UK moderated.

WHAT TO WATCH:

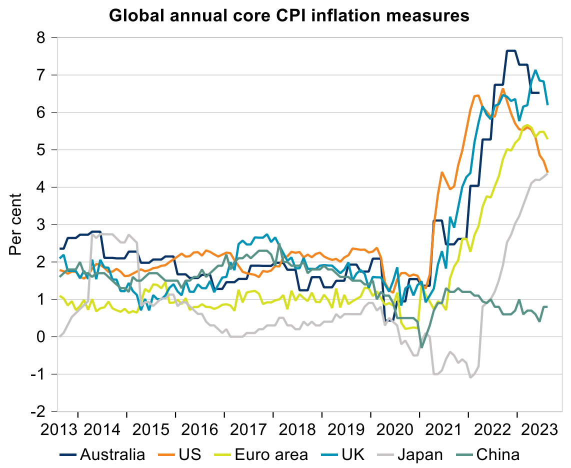
There are some signs of a moderation in global price pressures, though these are not yet uniform as to their size, composition, and geography. Greater uniformity in this will be likely needed for central banks to feel comfortable that interest rates have increased sufficiently.

CHART 4: CENTRAL BANKS ACROSS THE GLOBE HAVE TIGHTENED POLICY SIGNIFICANTLY…



Source: QTC, Macrobond

CHART 5: …THIS AS CORE INFLATION HAS REMAINED STICKY



Source: QTC, Macrobond

CHART 6: THE OECD REVISED ITS GLOBAL GROWTH OUTLOOK HIGHER FOR 2023, THOUGH THIS IS LARGELY OFFSET BY A WEAKER OUTLOOK FOR 2024

OECD Economic Outlook, Interim Report September 2023

		Estimate	Current projection		Forecast revision from June 2023	
		2022	2023	2024	2023	2024
Output	Global Growth	3.3%	3.0%	2.7%	0.3%	-0.2%
Output	G20 Growth	3.1%	3.1%	2.7%	0.3%	-0.2%
Output	Australia Growth	3.7%	1.8%	1.3%	0.0%	-0.1%
Prices	G20 Inflation	7.8%	6.0%	4.8%	-0.1%	0.1%
Prices	Australia Inflation	6.6%	5.5%	3.2%	0.1%	0.0%

Source: *OECD Economic Outlook (Interim Report September 2023) & QTC*