# Weekly Economics and Markets Review



- Unusual factors distorted the signals from the October Labour Force Survey and Q3 Wage Price Index report. Meanwhile, late last week, the RBA revised up its forecasts for inflation and GDP growth and its forecast of the unemployment rate lower.
- Overseas, both US and UK inflation came in below expectations while Chinese monthly activity data were mixed.

# Week in review

#### Domestic

- The RBA's quarterly Statement on Monetary Policy reiterated the Bank's softer tightening bias from last Tuesday's post-meeting statement following its 25basis point increase to the cash rate. The Statement noted the decision to raise rates 'was warranted to be more assured that inflation would return to target in a reasonable timeframe'. The RBA also revised many of its key forecasts:
  - Real GDP growth was revised up reflecting firmer forecasts for investment and exports (though consumption was revised marginally lower).
  - The unemployment rate is set to rise to 4.3 per cent by end-2025 (from 4.5 per cent) on employment growth that is firmer than previously thought.
  - Inflation forecasts were also revised higher with the annual rate of growth in the RBA's preferred inflation gauge, the trimmed-mean, revised up fivetenths to 4.5 per cent by end-2023, 0.25 per cent to 3.25 per cent by end-2024 and 0.25 per cent to 3.0 per cent by end-2025.
- The October Labour Force Survey was mostly stronger than expected. Total employment rose by 55,000 (consensus was for +20,000) driven by a lift in both full-time (+17,000) and part-time (+37,900) employment. The unemployment rate still rose by two-tenths to 3.7 per cent however given a similar move in the participation rate to the record high 67.0 per cent. And finally, hours worked rose 0.5 per cent over the month following two consecutive monthly declines. These changes were considered to have been influenced by the Voice Referendum, though the ABS wasn't able to determine its precise impact. These changes should reverse in the November report.
- The Wage Price Index rose 1.3 per cent over Q3 in what was the strongest quarterly outcome in the 26-year history of the series. The ABS cited the increases in minimum and award wages, a pay rise for aged care workers, the removal of state wage caps and new enterprise agreements in the public sector for the increase. The strong quarterly outcome pushed annual wages growth up four-tenths to a 14-year high of +4.0 per cent. The increase was also broad-based with 12 of 18 industries seeing an acceleration in the pace of annual wage growth, as well as increases in both the public and private sectors.
- The October NAB Business Survey showed an improvement in business conditions (which remain above their long-run average), but a fall in business confidence (which is now in negative territory for the first time since June).
- The Westpac-Melbourne Institute Consumer Sentiment Index fell in November, with much of the decline driven by respondents surveyed after the RBA's November rate rise. The key components of the survey were mixed, with family finances compared to a year ago improving slightly, but expectations for family financing over the next 12-months falling notably.

#### Offshore

• The US Congress passed a bill to extend government funding at current levels into early 2024 and therefore avoid a government shutdown. The bill now moves to President Biden for signing ahead of this weekend's deadline.

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- Credit rating agency *Moody's* lowered its rating outlook for the US Government from stable to negative due to 'entrenched political polarisation' and rising debt servicing costs. Moody's is the only major agency which rates the US AAA.
- On the US data front:
  - As per the CPI, headline consumer inflation was flat in October, with the annual pace easing to +3.2 per cent (from +3.7 per cent). Core CPI rose 0.2 per cent on the month to be +4.0 per cent higher over the year (from +4.1 per cent in September). These outcomes were one-tenth below the consensus expectation. Headline producer prices fell in October mostly due to lower energy and food prices, with core producer prices unchanged.
    - > Several Fed officials commented that while the further deceleration in US inflation was encouraging, they also suggested there is still a way to go on returning inflation sustainably to the Fed's two per cent target.
- US consumer inflation expectations were mixed, with a measure of one-year ahead expectations by the University of Michigan picking up notably, while another gauge from the New York Federal Reserve declined slightly. Longerterm measures of inflation expectations were mixed with those from the University of Michigan higher but the New York Federal Reserve lower.
- From that same *University of Michigan* survey, consumer sentiment fell in November, marking the fourth consecutive decline which sees the index at its lowest level since May.
- Headline retail sales declined 0.1 per cent in October mostly driven by a fall in gasoline sales (attributed to lower prices) and a drop in auto sales (which resulted from lower production due to union strikes at some facilities. Core sales (which excludes gas and autos) lifted 0.1 per cent over the month.
- Industrial production was also affected by the auto strikes with overall production dipping 0.6 per cent on the month, though a version of the index excluding motor vehicle manufacturing increased slightly.
- The annual rate of **Chinese** industrial production and retail sales growth increased in October, while that for fixed asset investment declined further. Readings on the property sector were soft, though new loans rose.
- In UK data:
  - Inflation surprised to the downside in October, with headline CPI easing to +4.6 per cent year-on-year (from +6.7 per cent) and the core CPI dipping to +5.7 per cent year-on-year (from +6.1 per cent). Energy prices drove the headline series lower, though service prices softened too.
- Headline wages growth was stronger than expected in the three-month to September, slowing three-months to +7.9 per cent year-on-year (consensus was for +7.3 per cent), though the upside surprise was driven by bonuses. The unemployment rate was unchanged at 4.2 per cent in October
- GDP growth was stronger than expected in September on firm services production, with Q3 GDP flat over the quarter as a result.
- Finally, Japanese GDP growth was notably weaker than expected, declining 2.1 per cent annualised, with broad-based softness across categories and sectors.

## Markets

It was a volatile week for markets, with bond yields and the US dollar falling sharply as investors factored in a steeper rate cut profile for the Federal Reserve following the softer-than-expected US CPI outcome. Movements in Australian and State Government bond yields were more muted.

# **Economic & Market Calendar**

DATE	DETAILS			
Domestic	Tuesday: RBA Meeting Minutes (Nov)			
Offshore	Global: S&P PMIs (Nov)			
	US: FOMC Meeting Minutes (Nov), Durables Goods Orders (Oct), Various Fed Activity Indexes (Oct & Nov), Existing Home Sales (Oct)			
	JPN: Consumer Inflation (Oct)			

# **Economic and Financial Market Charts**

CHART 1: THE RBA UPGRADED ITS FORECASTS FOR GDP GROWTH, THE UNEMPLOYMENT RATE AND INFLATION

# Overview of RBA's November Statement on Monetary Policy forecasts

	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
Year-on-year real GDP growth rate	2.1	1½	1¾	2	21/4	21⁄4
Prior forecast	1½	1	1¼	1¾	2	2¼
Quarterly average unemployment rate	3.6	3¾	4	4¼	4¼	4¼
Prior forecast		4	41⁄4	4½	4½	4½
Year-on-year headline inflation rate	6.0	4½	4	3½	31/4	3
Prior forecast		4¼	3½	3¼	3	2¾
Year-on-year trimmed- mean inflation rate	5.9	4½	4	31/4	3	3
Prior forecast		4	3¼	3	3	2¾

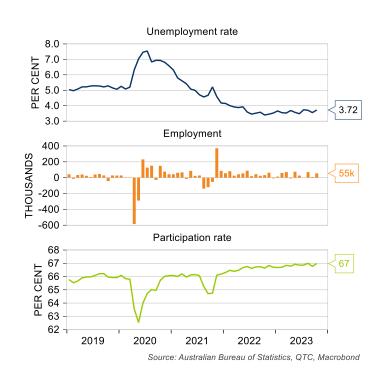
Blue shading denotes observed outcomes

Green denote upward revision, red denote downward revisions

Note, RBA forecasts were finalised on 7 November

Source: RBA & QTC

# CHART 2: HIRING RELATED TO THE VOICE REFERENDUM IMPACTED THE OCTOBER LABOUR FORCE SURVEY...



# CHART 3: ...WHILE A RANGE OF OTHER FACTORS DID LIKEWISE FOR THE Q3 WAGE PRICE INDEX REPORT



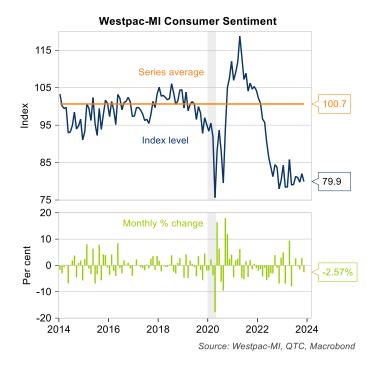
CHART 4: THE NAB BUSINESS SURVEY SHOWED A GROWING GAP BETWEEN SURVEYED BUSINESS CONDITIONS AND CONFIDENCE...



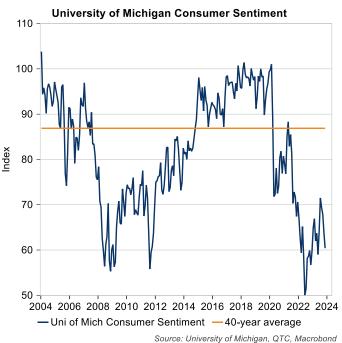
Source: National Australia Bank, QTC, Macrobond

# **Economic and Financial Market Charts**

## CHART 5: DOMESTIC CONSUMER CONFIDENCE FELL...



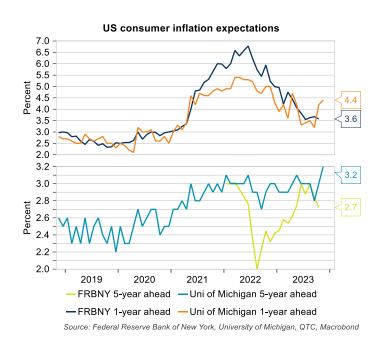
## CHART 6: ...WITH US CONSUMER SENTIMENT ALSO LOWER



#### CHART 7: US INFLATION WAS LOWER IN OCTOBER AND OVER THE PAST 12 MONTHS WITH SOFTNESS EVIDENT ACROSS MOST CATEGORIES

# **US CPI Inflation** 10 ■ Core services (less shelter) 9 Shelter Core goods Energy ■ Food Year-on-year growth (%) Headline inflation 5 4 3 2 -2 2012 2014 2018 2020 2022 Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

## CHART 8: INFLATION EPXECTATIONS WERE MIXED ACCORDING TO THE LATEST US SURVEYS



# Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

			CHAN	GE (BASIS P	DINTS)
MATURITY	' ISSUER	YIELD	1WEEK	1M0NTH	1YEAR
	QTC	4.41	-0	20	69
	NSWTC	4.43	-0	20	74
	TCV	4.47	-0	20	78
3 Year	WATC	4.38	0	20	67
	Australian Government	4.17	1	22	93
	US Government	4.59	-20	-42	37
	QTC	4.52	-0	19	62
	NSWTC	4.56	-1	18	64
	TCV	4.61	0	20	69
5 Year	WATC	4.51	-0	19	62
	Australian Government	4.23	1	17	82
	US Government	4.43	-21	-44	49
	QTC	4.74	-1	14	66
	NSWTC	4.81	-1	14	70
	TCV	4.83	-0	15	71
7 Year	WATC	4.71	-1	15	63
	Australian Government	4.38	1	13	81
	US Government	4.47	-20	-42	61
	QTC	5.07	0	10	70
	NSWTC	5.16	0	11	72
	TCV	5.22	0	12	76
10 Year	WATC	4.98	0	11	65
	Australian Government	4.53	2	10	84
	US Government	4.45	-18	-39	68

		CHANGE (PER CENT)				
AUD CROSSES	RATE	1WEEK	1M0NTH	1YEAR		
AUD/USD	0.6475	0.97	1.63	-3.08		
AUD/EUR	0.5961	-0.48	-1.01	-7.64		
AUD/GBP	0.5211	-0.32	-0.29	-7.68		
AUD/JPY	97.449	0.59	2.13	3.97		
AUD/CAD	0.8909	0.89	2.51	0.03		
AUD/NZD	1.0817	0.19	0.18	-0.98		
AUD/SGD	0.8721	0.18	0.03	-5.14		
AUD/HKD	5.0511	0.86	1.32	-3.41		
AUD/KRW	839.78	-0.02	-2.62	-6.14		
AUD/CNY	4.6915	0.68	0.86	-1.71		
AUD/INR	54.076	1.35	2.22	-1.09		
MAJOR CURRENCIES						
EUR/USD	1.0846	1.67	2.54	4.67		
GBP/USD	1.2409	1.52	1.86	4.59		
USD/JPY	150.76	-0.39	0.63	7.52		
USD/CHF	0.8891	-1.53	-1.23	-6.58		
USD/CNY	7.2433	-0.58	-0.95	1.19		

PRICE (USD)	1WEEK	1M0NTH	1YEAR
77.46	-3.19	-13.84	-13.72
1,983.42	1.09	3.08	12.68
8,265.50	1.45	3.70	1.92
130.96	4.63	13.67	46.57
	77.46 1,983.42 8,265.50	77.46 -3.19 1,983.42 1.09 8,265.50 1.45	77.46 -3.19 -13.84 1,983.42 1.09 3.08 8,265.50 1.45 3.70

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from Macrobond.

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