

# Weekly Economics and Markets Review

- Domestic retail sales were weaker than expected in October, with broad based falls across most segments of the retail sector.
- The monthly indicator for headline CPI inflation slowed sharply in October, though there was a more modest easing in underlying inflation measures.
- A continued easing of global inflation has taken pressure of central banks to increase policy rates further.

## Week in review

### Domestic

- The monthly CPI indicator slowed sharply in October, with headline inflation easing from 5.6 to 4.9 per cent on an annual basis. The slowdown in headline inflation reflected unexpectedly large falls across a few items, including holiday travel prices, fuel and rents.
- There was a more modest easing of trimmed-mean inflation in October, with it falling from 5.4 to 5.3 per cent. Similarly, core inflation (excluding volatile items and holiday travel) eased from 5.2 to 5.0 per cent in the month.
- Retail sales were weaker than expected in October, declining by 0.2 per cent on a month-on-month basis. The largest falls were in fashion retailing, department stores and household goods, while food retailing (excluding eating out) was the only segment to see sales increase in October.
- Indicators of construction activity increased, with particularly large increases in engineering construction and mining sector investments.
  - Construction work done increased by a larger-than-expected 1.3 per cent in Q3. There was a particularly large increase in engineering construction, which continues to be supported by the large pipeline of public capex.
  - Private sector capital expenditure rose by 0.6 per cent in Q3, to be 10.7 per cent higher over the year. This increase was driven by mining sector investment, with non-mining business investment falling slightly in Q3.
  - Building approvals rose 7.5 per cent in October, though this was driven by volatility in apartment approvals. There was a smaller increase in the less volatile detached house approvals. In trend terms, dwelling approvals remain around their lowest level since 2013.
- Corelogic dwelling prices continued to increase strongly in November, with nationwide prices surpassing the record high recorded in April 2022.

### Offshore

- There were mixed signals from US Federal Reserve officials over the past week. Some officials expressed scepticism about a clear return to the Fed's two per cent inflation target and noted that a further rate hike is still possible. In contrast, other officials said that they were increasingly confident of inflation returning to its target, with the Fed's Waller noting that rate cuts could be occur in three to five months' time if inflation continues to trend lower.

- BoE Governor Bailey noted that the recent easing of UK inflation is 'very good news' but interest rate cuts are unlikely for the 'foreseeable future'.
- ECB President Lagarde noted that euro area economic growth has stagnated in recent quarters and is likely to remain weak for the rest of this year. Despite this, she also noted that the ECB is firmly focused on its price stability mandate.
- The RBNZ left its policy rate unchanged at 5.50 per cent at November's meeting, though the committee discussed 'the possibility of the need for increases'.
- In the US:
  - Headline PCE inflation was flat in October, which saw the annual pace of growth ease to 3.0 per cent (previously 3.4 per cent). Core PCE inflation also eased from 3.7 to 3.5 per cent.
  - Survey based measures of economic activity were mixed for November. The S&P Manufacturing PMI declined slightly in the month, while the Services PMI edged higher. The Conference Board Consumer Confidence Index also rose by more than expected in November.
  - New home sales fell by 5.6 per cent in October to an annualised rate of 679k units. This was well below consensus expectations for sales to be 721k.
  - The FHFA house price index rose 0.6 per cent in September, slightly lower than the 0.7 per cent in the previous month.
- In the euro area, both headline and core inflation were below expectations. Headline inflation fell 0.5 per cent on a month-on-month basis in November, with the annual rate of inflation easing to 2.4 per cent (from 2.9 per cent). Core inflation fell 0.6 per cent in the month while services inflation fell 0.9 per cent. However, some of the decline in services inflation may have reflected changing seasonal patterns for travel services prices.
- In Germany, the IFO Business Climate Index improved modestly in November, marking its third consecutive increase. Expectations for the coming months also improved.
- China's industrial profits rose by 2.7 per cent in October, following strong increases in the previous two months.

## Markets

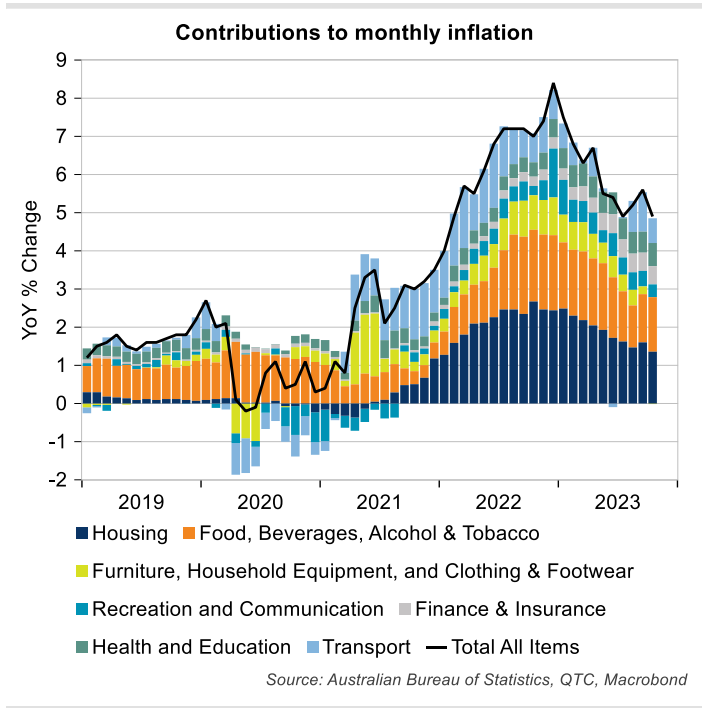
Bond yields were lower this week as inflation outcomes generally came in weaker-than-expected and investors became more comfortable with the idea that central banks may cut rates earlier than expected.

### Economic and Market Calendar

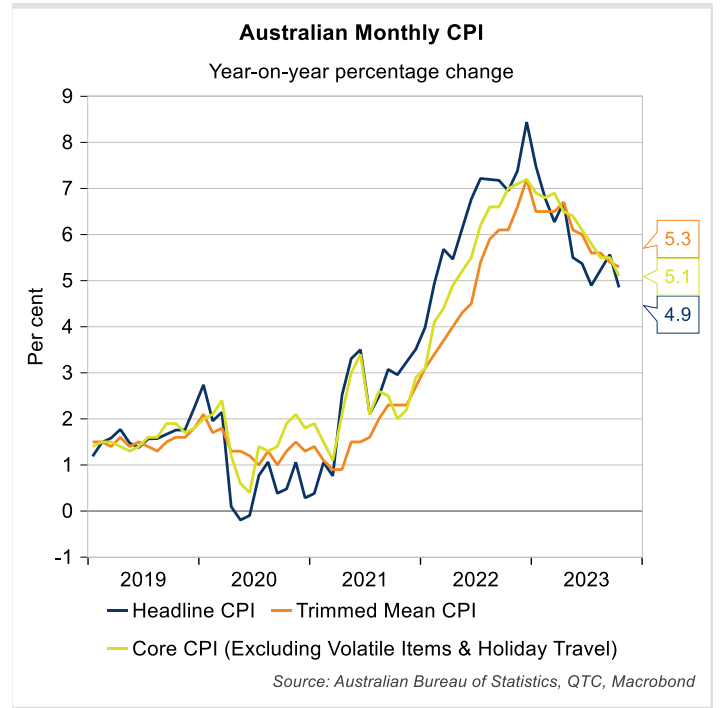
DATE	DETAILS
Domestic	<p><b>Monday:</b> Business Indicators (Q3), Housing Lending (Oct), Melbourne-Institute Inflation (Nov)</p> <p><b>Tuesday:</b> Balance of Payments (Q3), Government Finance Statistics (Q3), Monthly Household Spending Indicator (Oct)</p> <p><b>Wednesday:</b> GDP (Q3)</p> <p><b>Thursday:</b> International Trade in Goods (Oct), Payrolls Jobs (Week ending 11 Nov)</p> <p><b>Friday:</b> Labour Account (Q3)</p>
Offshore	<p><b>US:</b> ISM Manufacturing Activity (Nov), ISM Services Activity (Nov), ADP Employment (Nov), Initial jobless claims (2 Dec), Trade balance (Oct), Factory orders (Oct)</p> <p><b>Euro area:</b> GDP (Q3 F), Retail sales (Oct)</p> <p><b>Japan:</b> GDP (Q3), Tokyo CPI (Nov)</p> <p><b>China:</b> Caixin PMIs (Nov), Trade (Nov)</p>

## Economic and Financial Market Charts

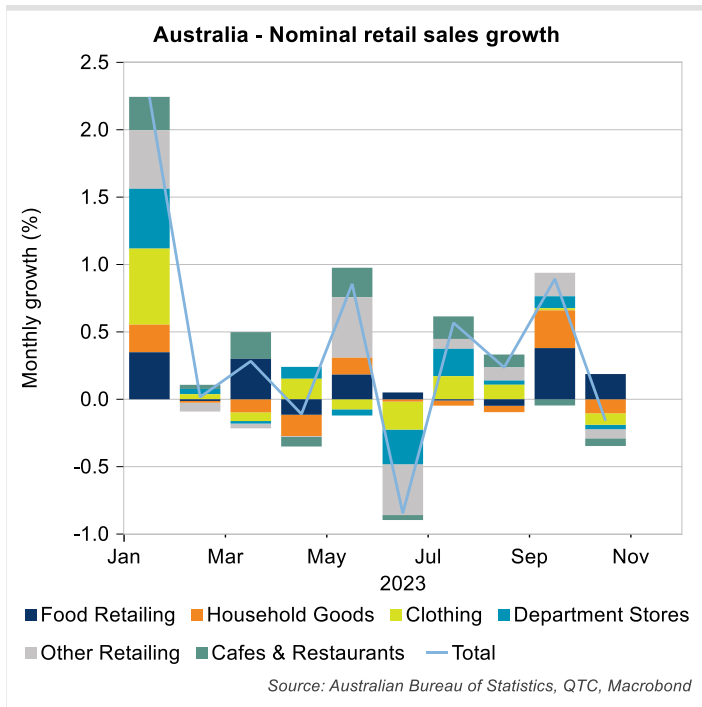
**CHART 1: THE MONTHLY CPI SLOWED SHARPLY IN OCTOBER, THOUGH THIS WEAKNESS WAS NOT BROAD BASED ACROSS COMPONENTS**



**CHART 2: RELATIVE TO HEADLINE INFLATION, TRIMMED-MEAN AND CORE INFLATION EASED MORE MODESTLY IN OCTOBER**



**CHART 3: FOOD RETAILING WAS THE ONLY SEGMENT OF THE RETAIL SECTOR TO SEE SALES INCREASE IN OCTOBER**



**CHART 4: DWELLING PRICES CONTINUED TO INCREASE STRONGLY IN NOVEMBER**

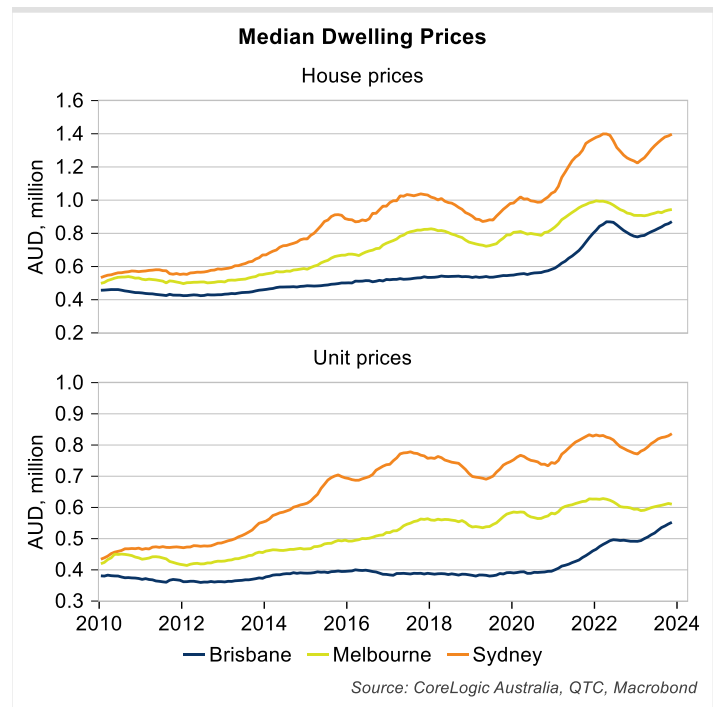


CHART 5: THE TREND IN TOTAL DWELLING APPROVALS REMAINS AROUND ITS LOWEST LEVEL SINCE 2013

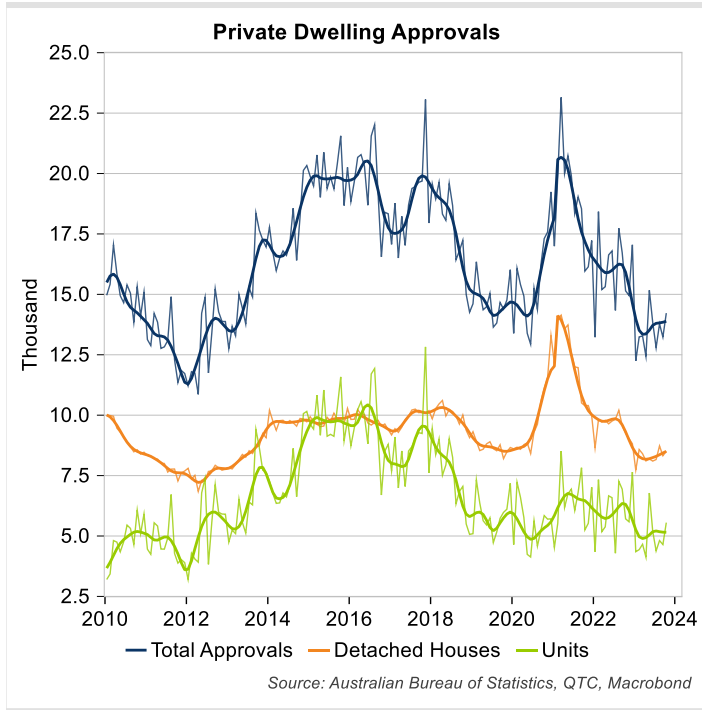


CHART 6: PRIVATE CAPEX AND CONSTRUCTION ACTIVITY INCREASED FURTHER IN Q3

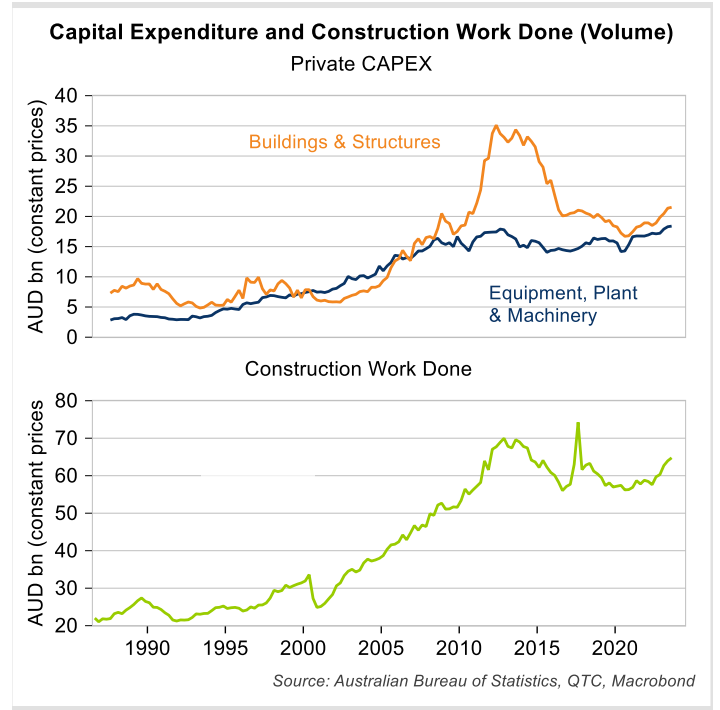


CHART 7: OUTSIDE OF AUSTRALIA, MOST MAJOR CENTRAL BANKS HELD POLICY RATES UNCHANGED IN NOVEMBER

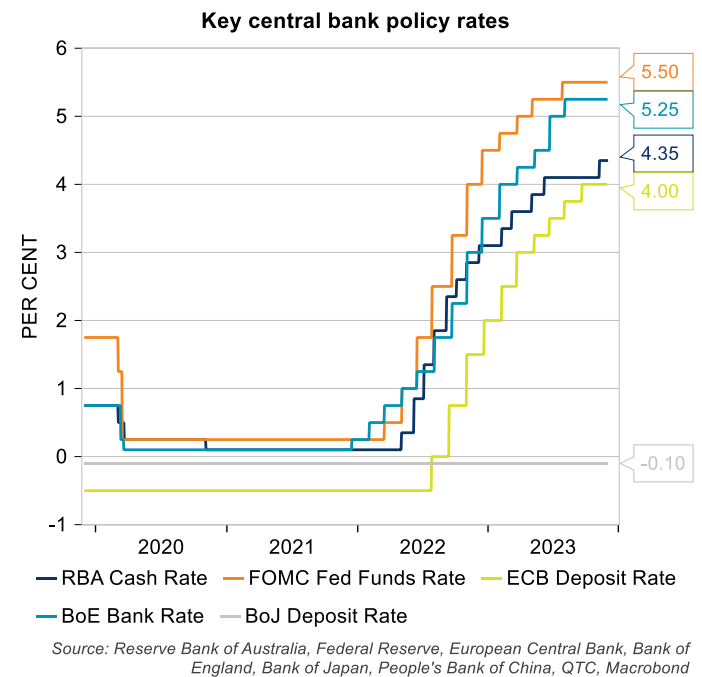
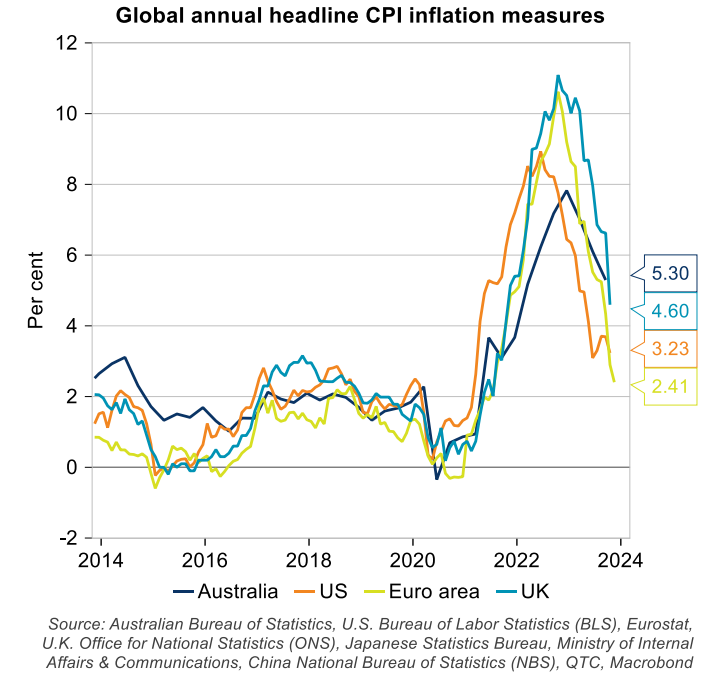


CHART 8: THE CONTINUED EASING OF INFLATION HAS TAKEN PRESSURE OF CENTRAL BANKS TO INCREASE POLICY RATES FURTHER



## 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.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)			EQUITIES	RATE	CHANGE (PER CENT)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.27	-11	-37	69	AUD/USD	0.66	0.97	4.65	-2.72
	NSWTC	4.29	-11	-39	73	AUD/EUR	0.61	0.92	1.39	-6.51
	TCV	4.33	-10	-37	77	AUD/GBP	0.52	0.01	0.36	-5.71
	WATC	4.25	-10	-36	67	AUD/JPY	97.96	-0.15	2.24	5.83
	Australian Government	4.01	-13	-35	86	AUD/CAD	0.90	0.02	2.25	-1.72
	US Government	4.44	-18	-48	48	AUD/NZD	1.07	-1.14	-1.43	0.47
5 Year	QTC	4.38	-10	-44	66	AUD/SGD	0.88	0.54	2.00	-4.18
	NSWTC	4.42	-10	-46	69	AUD/HKD	5.17	1.12	4.46	-2.33
	TCV	4.47	-10	-44	72	AUD/KRW	860.50	0.80	0.44	-3.16
	WATC	4.37	-9	-43	66	AUD/CNY	4.70	0.88	1.42	-2.05
	Australian Government	4.07	-11	-41	80	AUD/INR	55.24	1.07	4.79	-0.08
	US Government	4.27	-16	-59	60	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.61	-8	-48	72	EUR/USD	1.09	0.05	3.22	4.05
	NSWTC	4.69	-7	-49	77	GBP/USD	1.27	0.96	4.28	3.16
	TCV	4.71	-8	-48	76	USD/JPY	147.87	1.11	2.30	-8.79
	WATC	4.58	-8	-47	69	USD/CHF	1.15	1.44	4.31	7.27
	Australian Government	4.23	-9	-44	83	USD/CNY	7.09	0.09	3.09	-0.69
	US Government	4.34	-11	-59	75	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.94	-6	-52	80	Brent Crude Oil	82.83	1.73	-5.24	-4.66
	NSWTC	5.02	-6	-52	80	Gold	2,036.41	2.22	2.65	12.94
	TCV	5.09	-6	-52	84	Copper	8,415.50	0.07	3.76	0.95
	WATC	4.85	-6	-52	73	Iron Ore	129.58	-1.56	10.81	36.59
	Australian Government	4.40	-7	-45	89					
	US Government	4.33	-8	-60	82					

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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