

Weekly Economics and Markets Review

- Domestic inflation continued to ease in November, while the Black Friday Sales saw a strong increase in nominal retail sales.
- US CPI inflation was slightly firmer than expected in December and labour market conditions remain strong.
- Several US Federal Reserve officials noted that while there has been progress in returning inflation to its target, it is still too soon for the Fed to start cutting interest rates.

Week in review

Domestic

- The monthly CPI indicator suggests that inflation continued to ease in November.
 - Headline inflation was 4.3 per cent over the year to November, down from 4.9 per cent in October and well below its most recent peak of 8.4 per cent in December 2022.
 - Measures of underlying price growth also eased further, with trimmed-mean inflation slowing from 5.3 per cent in October to 4.6 per cent in November.
 - However, there were some signs of ongoing strength across the CPI components. Housing rents inflation remained strong and new dwelling cost growth has started to reaccelerate. Insurance premiums have also increased by 16.3 per cent over the past year, with higher reinsurance and natural disaster costs contributing to higher premiums.
- Nominal retail sales increased by two per cent in November, with activity bolstered by the Black Friday Sales. Despite the strong monthly outcome, annual growth of nominal retail sales remained subdued at 2.2 per cent.
- Job vacancies fell by 0.7 per cent over the three months to November 2023, marking the sixth consecutive quarterly decline. Despite these declines, job vacancies remain around 70 per cent higher than their pre-covid level.
- Residential building approvals rose by 1.6 per cent in November, following a 7.2 per cent rise in October. This increase was driven by higher-density housing approvals, with detached housing approvals falling in the month.
- Australia's goods trade surplus improved by \$3.8b to \$11.4b in November, driven by a \$3b decline in imports. Volatile items (e.g. fuel and gold) contributed to the decline in imports, though core imports were also soft in the month.

Offshore

- US CPI inflation was slightly stronger than expected in December. Headline CPI rose by 0.3 per cent in December (consensus: 0.2 per cent), with annual inflation increasing from 3.1 to 3.4 per cent. Annual core CPI inflation eased one-tenth to 3.9 per cent.

- Following the CPI release, several US Federal Reserve officials noted that it is still too soon for the Fed to start cutting interest rates. Cleveland Fed President Mester said March is probably too early to reduce interest rates, while Richmond Fed President Barkin said he wants to see more evidence that inflation is headed toward its target.
- Other US data suggest that labour market conditions remain strong, while survey measures of economic activity and sentiment were mixed.
 - Non-farm payrolls rose by a larger-than-expected 216k in December (consensus: 175k) and the unemployment rate was unchanged at 3.7 per cent. Average hourly earnings rose 0.4 per cent in December, to be 4.1 per cent higher over the year.
 - Small business confidence increased by more than expected in December, with improvements in expectations for the economy, sales, and earnings. Expectations for selling prices were stable.
 - The ISM Services index fell to 50.6 from 52.7 in December, with particularly large falls in the Employment and New Orders components.
 - The New York Fed's measure of one-year ahead consumer inflation expectations fell from 3.4 per cent in November to 3.0 per cent in December. This is its lowest level since January 2021.
- In the euro area:
 - ECB President Lagarde said that interest rates are likely at their peak, though she declined to provide guidance on when rate cuts could occur.
 - Business sentiment is continuing to improve, with economic sentiment posting its third consecutive increase to be at its highest level since May.
 - The unemployment rate fell from 6.5 to 6.4 per cent in November. The largest improvement in jobless numbers was in Italy, while unemployment was broadly unchanged in Germany and France.
 - Germany's industrial production was weaker than expected in November, falling by 0.7 per cent in the month and 4.8 per cent over the past year.

Markets

US Treasury yields fell over the past week, with investors continuing to expect the Fed will ease policy over 2024. Crude oil prices were broadly unchanged over the week, though the prospect of an escalating conflict in the Middle East has contributed to volatility.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Melbourne Institute Inflation Expectations (Dec), ANZ-Indeed Job Advertisements (Dec), CBA Household Spending (Dec) Tuesday: Westpac Consumer Confidence (Jan) Thursday: Labour Force Survey (Dec)
Offshore	US: PPI (Dec), Retail Sales (Dec), Trade Prices (Dec), Housing Starts (Dec), Initial Jobless Claims (13 Jan), Empire Manufacturing Index (Jan), Manufacturing Production (Dec), Federal Reserve Beige Book Euro area: Industrial production (Nov), Trade Balance (Nov), CPI (Dec F) UK: CPI (Dec), Monthly GDP (Nov), Jobless Claims (Dec), Employment (Nov) China: GDP (Q4), Fixed Asset Investment (Dec), Industrial Production (Dec), Retail Sales (Dec)

Economic and Financial Market Charts

CHART 1: BOTH HEADLINE AND UNDERLYING INFLATION CONTINUED TO EASE IN NOVEMBER

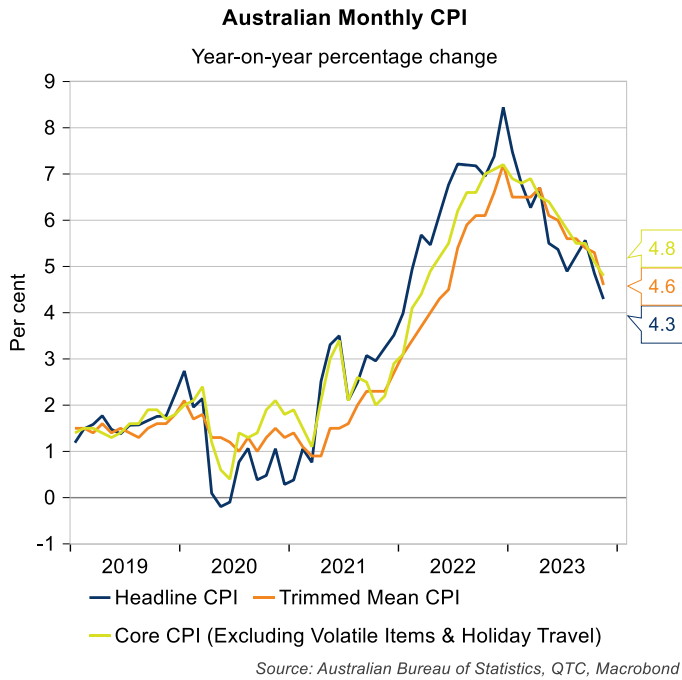


CHART 2: NOMINAL RETAIL SALES INCREASED STRONGLY IN NOVEMBER DUE TO THE BLACK FRIDAY SALES, THOUGH ANNUAL GROWTH REMAINS SUBDUED

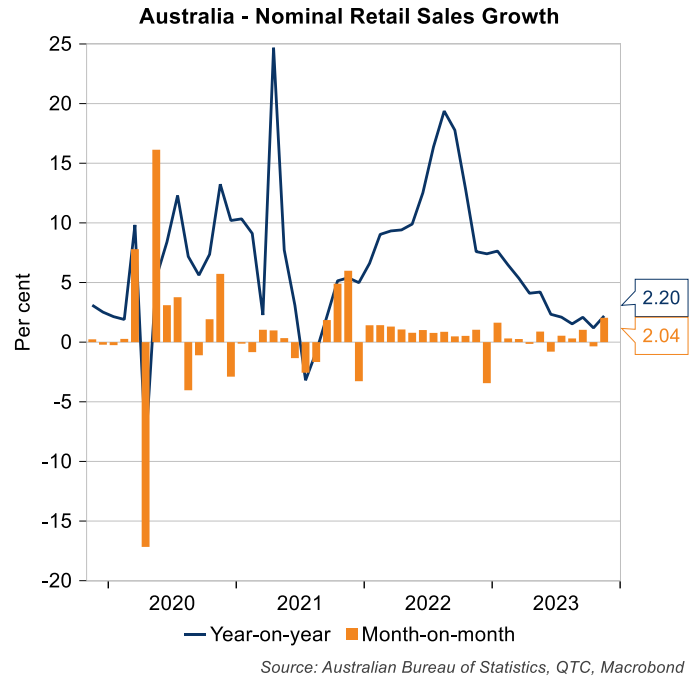


CHART 3: JOB VACANCIES REMAIN AT A HIGH LEVEL DESPITE FALLS OVER RECENT QUARTERS

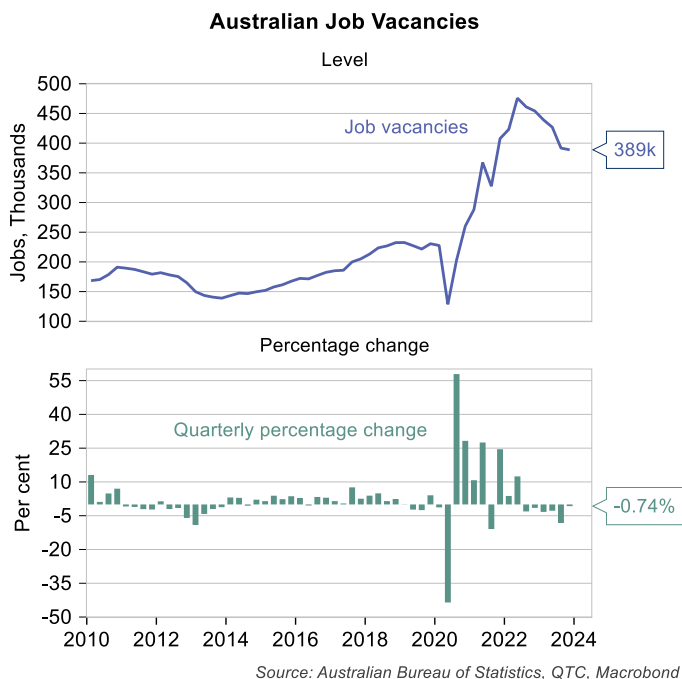


CHART 4: THE HOSPITALITY AND RETAIL SECTORS HAVE SEEN THE LARGEST DECLINES IN JOB VACANCIES OVER THE PAST YEAR



CHART 5: DWELLING APPROVALS REMAIN RELATIVELY LOW DESPITE RECENT INCREASES IN HIGHER-DENSITY HOUSING APPROVALS

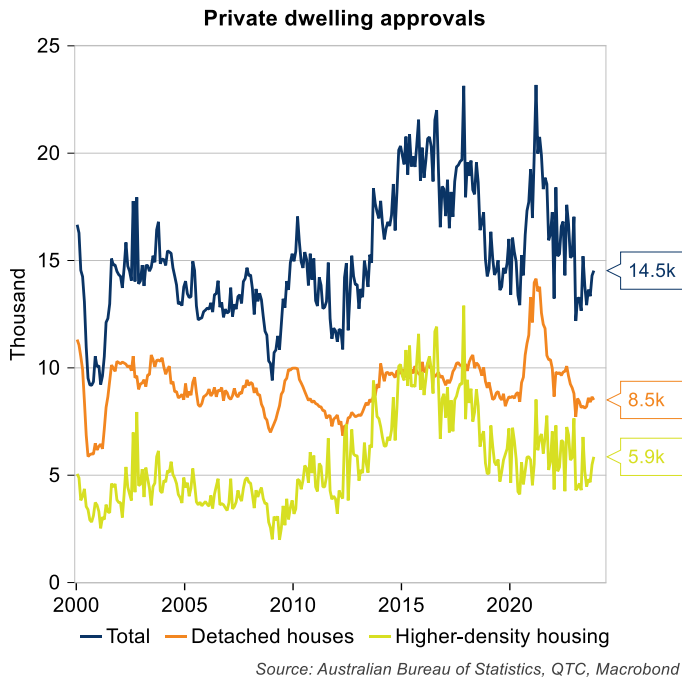


CHART 6: US GOODS DISINFLATION HAS SEEMINGLY RUN ITS COURSE WHILE SERVICES INFLATION REMAINS STUBBORNLY HIGH

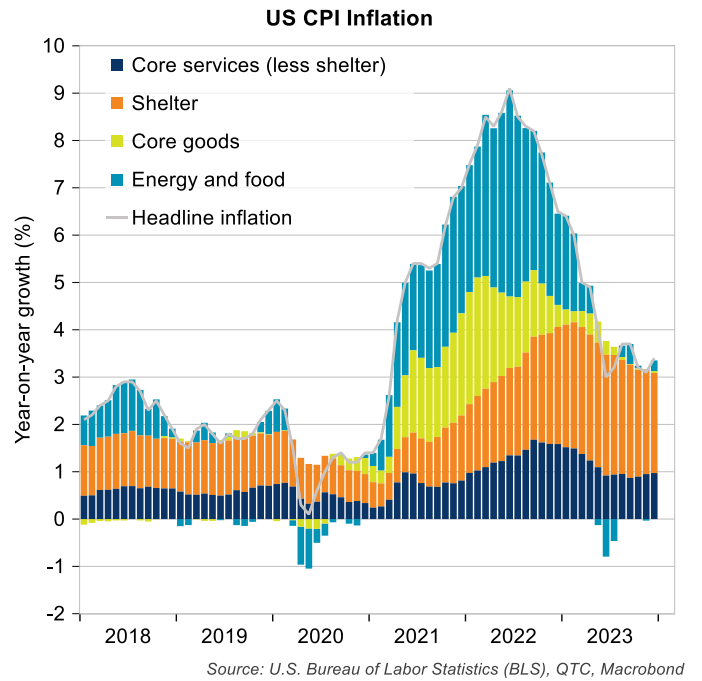
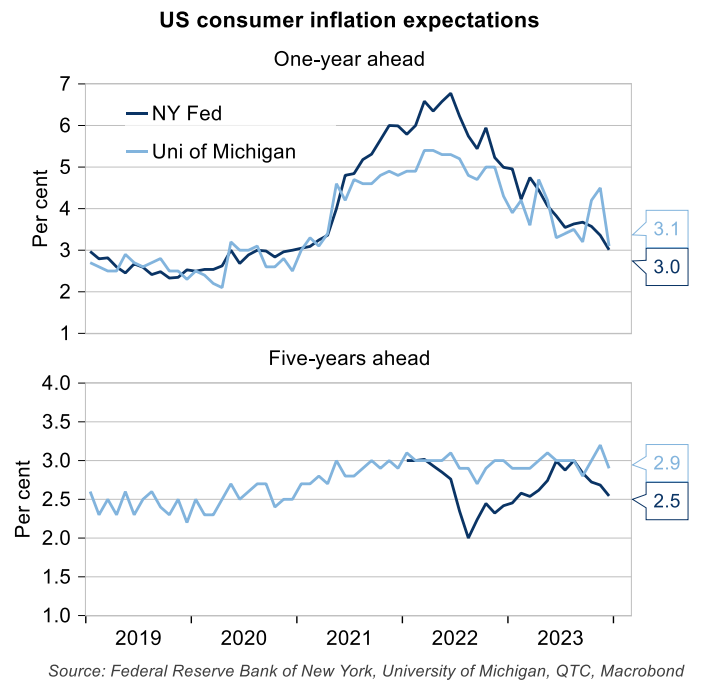


CHART 7: US LABOUR MARKET CONDITIONS REMAIN STRONG, WITH UNEMPLOYMENT STILL AT A HISTORICALLY LOW LEVEL



CHART 8: CONSUMER INFLATION EXPECTATIONS HAVE CONTINUED TO EASE OVER RECENT MONTHS



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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.01	4	-18	21
	NSWTC	4.01	4	-18	25
	TCV	4.09	4	-16	30
	WATC	3.99	4	-18	20
	Australian Government	3.74	3	-22	41
	US Government	4.00	-15	-43	19
5 Year	QTC	4.11	6	-17	17
	NSWTC	4.15	6	-16	20
	TCV	4.22	5	-15	25
	WATC	4.09	6	-17	17
	Australian Government	3.78	4	-22	33
	US Government	3.88	-10	-34	34
7 Year	QTC	4.33	7	-15	22
	NSWTC	4.41	7	-14	27
	TCV	4.49	7	-11	31
	WATC	4.30	7	-16	19
	Australian Government	3.93	5	-22	35
	US Government	3.93	-7	-31	44
10 Year	QTC	4.65	8	-15	25
	NSWTC	4.73	8	-16	29
	TCV	4.84	8	-12	35
	WATC	4.56	7	-16	20
	Australian Government	4.10	6	-23	40
	US Government	3.97	-3	-23	53

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	-0.72	1.51	-3.92
AUD/EUR	0.61	-0.67	0.01	-5.18
AUD/GBP	0.52	-0.85	0.34	-8.13
AUD/JPY	97.20	0.17	1.75	7.97
AUD/CAD	0.89	-0.19	0.21	-3.74
AUD/NZD	1.07	-0.43	0.16	-1.57
AUD/SGD	0.89	-0.47	0.82	-3.42
AUD/HKD	5.21	-0.57	1.62	-3.78
AUD/KRW	877.79	-0.49	1.70	2.01
AUD/CNY	4.73	-0.92	0.45	1.28
AUD/INR	55.33	-0.94	1.10	-1.80

MAJOR CURRENCIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.09	-0.05	1.50	1.32
GBP/USD	1.27	0.13	1.17	4.58
USD/JPY	145.91	-0.89	-0.24	-12.38
USD/CHF	1.17	-0.62	2.37	7.92
USD/CNY	7.10	0.20	1.05	-5.42

MAJOR COMMODITIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	77.41	-0.23	5.69	-7.88
Gold	2014.30	-1.37	1.85	6.27
Copper	377.65	-1.42	-0.25	-9.78
Iron Ore	137.01	-3.69	0.43	12.28

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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