

Weekly Economics and Markets Review

- The minutes of RBA's Board Meeting showed that the RBA considered only two options at its February meeting: hiking the cash rate further or leaving it unchanged. The decision to leave the cash rate unchanged reflected greater confidence that inflation will return to its target.
- Australian wages growth was supported by strong increase in the public sector in the December quarter.
- US economic data continued to be resilient, while central banks remain cautious with the prospect of rate cuts.

Week in review

Domestic

- The minutes of RBA's February Board Meeting showed that the Board considered both the case for hiking the cash rate further or leaving it unchanged. The Board's decision to leave the cash rate unchanged was due to the data having 'evolved in a manner that gave them more confidence that inflation would return to target within a reasonable timeframe'. However, the minutes also made it clear that inflation is still too high, and it is not yet possible to rule out further hikes.
- RBA Board member Harper said that the RBA will not wait until inflation is back in its target band before it starts to cut interest rates. He noted that 'With the lags in the application of policy, if you were to wait until you literally saw the whites of the eyes [of inflation], then you could easily have overdone it'.
- The Wage Price Index rose 0.9 per cent in Q4 2024, with annual wages growth increasing to 4.2 per cent. Both the RBA and consensus have wages growth peaking around this level.
- The drivers of wages growth have started to shift, with a softening of private sector wages growth offset by stronger public sector wage increases.
 - Public sector wages increased by 1.3 per cent in Q4 (from 1.0 per cent in Q3), with annual growth now at 4.3 per cent. This increase largely reflected the implementation of new enterprise agreements, particularly for workers in health care, social assistance and education.
 - Private sector wages increased by 0.9 per cent in Q4, which is its slowest pace since Q1 2022. Annual growth eased slightly to 4.2 per cent.
 - There has been a noticeable slowing in wage growth for workers on individual agreements, which typically are more sensitive to labour market conditions. Individual agreements saw annual wage growth ease to 3.7 per cent, while enterprise agreements saw a 4.7 per cent increase.

Offshore

- The **FOMC's** January minutes implied that the Fed Funds rate is likely at its peak. However, the FOMC still requires more evidence that inflation will fall back to its target sustainably before cutting rates.
- **ECB's** Wunsch said that higher wage pressures could see policy remain tighter for longer than expected.

- **Bank of England (BOE)** Governor Bailey said that the next move in rates is most likely to be a cut and its possible rate cuts could start in 2024. He also noted that inflation does not need to be back at its target before the BOE starts to ease policy. However, the actual timing of any adjustment is still unclear and will depend on the evolution of the economic data.
- The **People's Bank of China** lowered the five-year Loan Prime Rate by 25 basis, in an attempt to support conditions in China's property market. The one-year Loan Prime Rate was unchanged at 3.45 per cent.
- **US** economic data continued to be resilient, with stronger-than-expected outcomes for producer price inflation, consumer sentiment and initial jobless claims.
 - The producer price index increased by more than expected in January, with an increase in core producer prices more than offsetting a decline in food and energy prices. Stronger-than-expected producer prices is expected to contribute to ongoing resilience in core PCE inflation.
 - The University of Michigan's index of consumer sentiment increased further in February, with sentiment now at its highest level since July 2021. One-year ahead inflation expectations increased slightly to 3.0 per cent, while 5-10 year ahead expectations were steady at 2.9 per cent.
 - Labour market data remain robust, with initial jobless claims falling by more than expected last week.
 - Home sales were stronger than expected, with four million properties changing hands in January (consensus: 3.97 million).
 - Business survey data were mixed. S&P Global manufacturing PMI improved to a 16-month high in February, while the services PMI eased. The Philadelphia Fed's non-manufacturing activity index also fell in February.
- In the **euro area**, negotiated pay increased by 4.5 per cent over the year to Q4 2024, slightly lower than the 4.7 per cent increase recorded in Q3. This is the first slowdown in negotiated pay growth since 2022.
- In the **UK**, retail sales rose 3.2 per cent in January, largely offsetting the 3.5 per cent decline in December.
- In **Canada**, headline CPI was unchanged on a month-on-month basis in January, with annual inflation now at 2.9 per cent (previously 3.4 per cent). The core median CPI measure rose 3.3 per cent over the year, which was lower than consensus expectations.

Markets

US Treasury yields increased further this week on the back of resilient economic data and continued cautious commentary from Fed officials. Australian Government bond yields saw more modest increases over the past week.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: Monthly CPI (Jan), Construction work done (Q4) Thursday: Retail sales (Jan), Private capital expenditure (Q4), Private sector credit (Jan) Friday: Corelogic house prices (Feb)
Offshore	US: New home sales (Jan), Durable goods orders (Jan), Richmond Fed manufacturing index (Feb), Dallas Fed Services Activity (Feb), GDP (Q4 2 nd release), Personal income (Jan), Personal spending (Jan), PCE deflator (Jan), Initial jobless claims (24 Feb) Euro area: CPI (Feb P), ECB inflation expectations (Jan), Unemployment rate (Jan), Economic confidence (Feb) Japan: CPI (Jan), PPI (Jan), Retail sales (Jan), Industrial production (Jan), Jobless rate (Jan) China: Manufacturing and non-manufacturing PMI's (Feb), Caixin Manufacturing PMI (Feb)

Economic and Financial Market Charts

CHART 1: ANNUAL WAGES GROWTH REACHED ITS HIGHEST LEVEL SINCE 2009 IN THE DECEMBER QUARTER

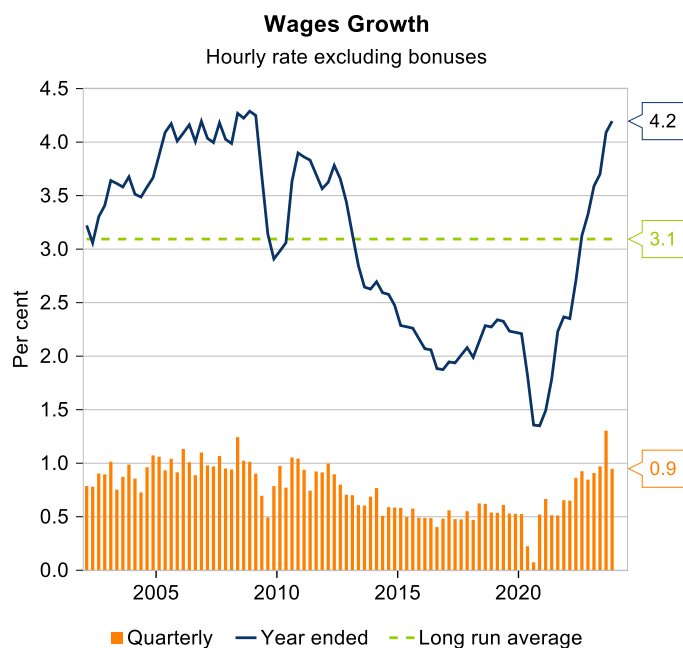


CHART 2: HIGHER WAGES WAS SUPPORTED BY STRONG INCREASES IN THE PUBLIC SECTOR



CHART 3: WAGE INCREASES HAVE BENEFITED A LARGE SHARE OF WORKERS, WITH OVER 40% OF EMPLOYEES RECEIVING INCREASES >4%

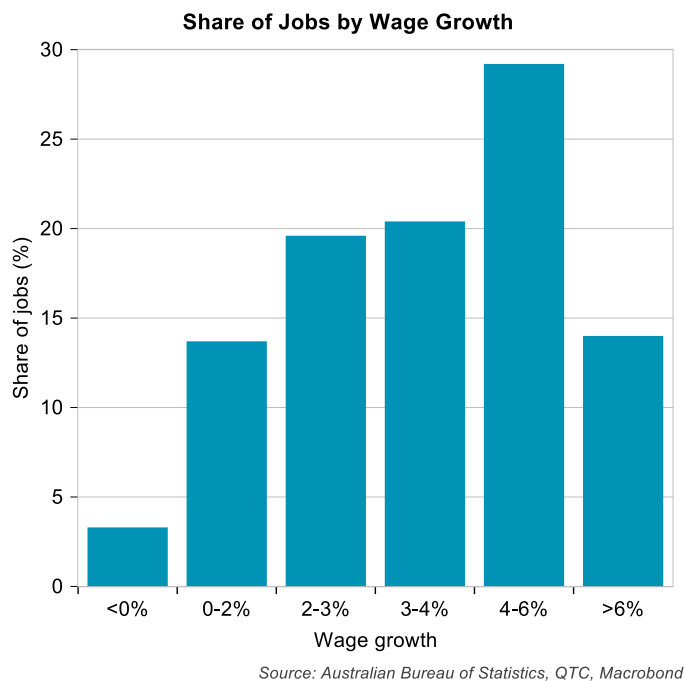


CHART 4: DESPITE RECENT IMPROVEMENTS, REAL WAGES REMAINS AROUND 5% BELOW ITS PRE-PANDEMIC LEVEL

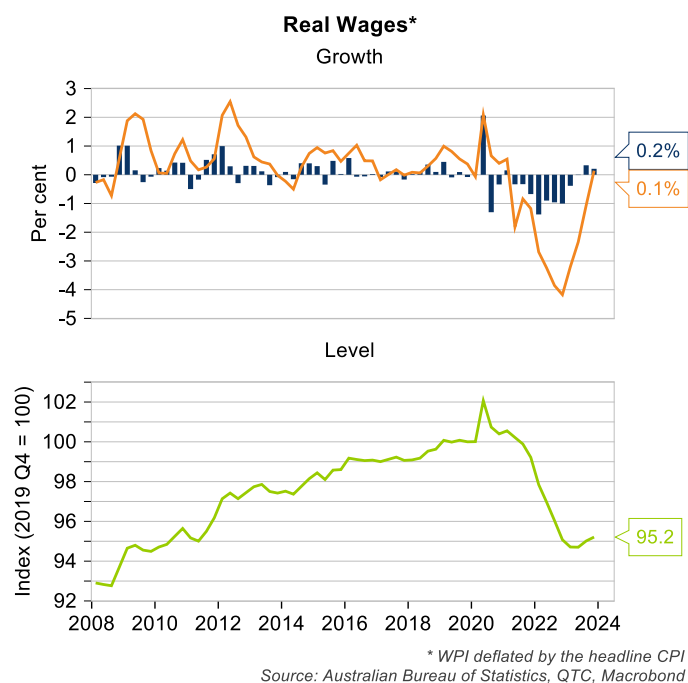
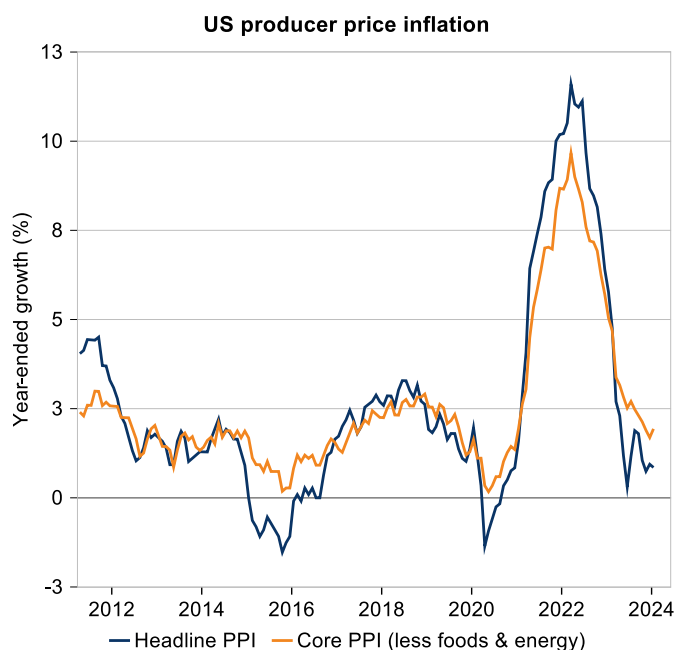
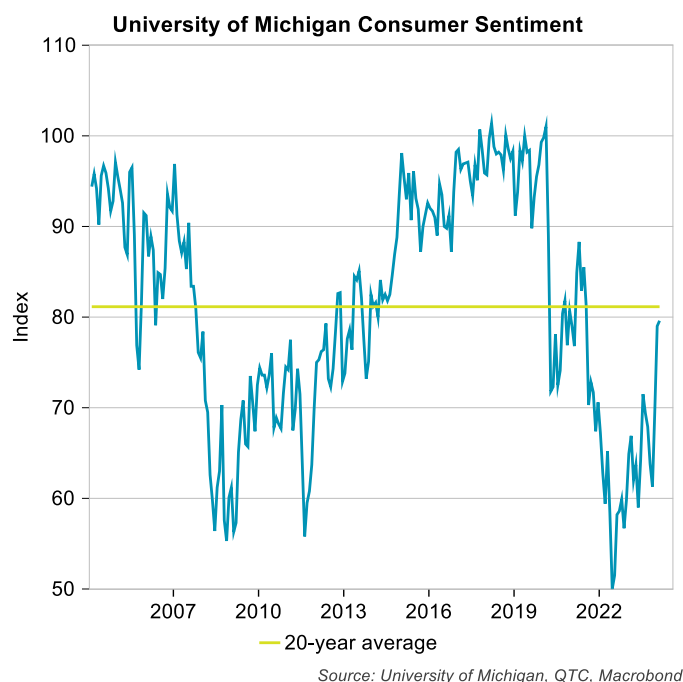
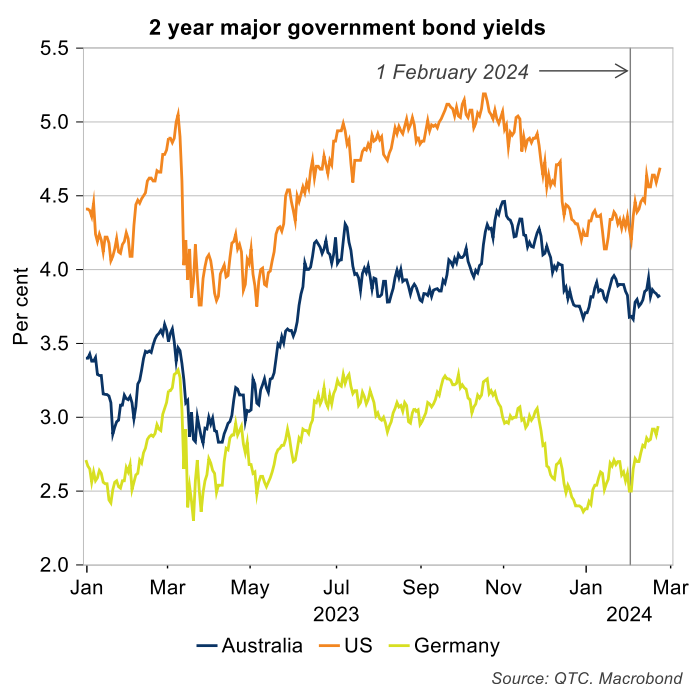


CHART 5: THE PACE OF IMPROVEMENT IN US PRODUCER PRICE INFLATION HAS SLOWED**CHART 6: US CONSUMER SENTIMENT HAS INCREASED SHARPLY AND IS NOW ONLY SLIGHTLY BELOW ITS 20-YEAR AVERAGE****CHART 7: US CONSUMER INFLATION EXPECTATIONS REMAINED LARGELY UNCHANGED AROUND 3% IN FEBRUARY****CHART 8: SHORT-END GOVERNMENT BOND YIELDS HAVE INCREASED SINCE THE START OF FEBRUARY, ALONGSIDE ROBUST US ECONOMIC DATA AND CAUTIOUS CENTRAL BANK COMMENTARY**

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	4.03	2	-6	10
	NSWTC	4.03	1	-7	11
	TCV	4.09	1	-7	16
	WATC	4.01	1	-7	9
	Australian Government	3.74	1	-9	17
	US Government	4.48	13	34	7
5 Year	QTC	4.12	2	-7	11
	NSWTC	4.15	2	-9	11
	TCV	4.22	2	-8	16
	WATC	4.11	2	-8	12
	Australian Government	3.80	1	-9	15
	US Government	4.33	11	29	22
7 Year	QTC	4.35	3	-7	16
	NSWTC	4.40	2	-9	17
	TCV	4.47	2	-9	24
	WATC	4.32	3	-7	14
	Australian Government	3.97	2	-7	21
	US Government	4.35	11	25	31
10 Year	QTC	4.69	3	-5	22
	NSWTC	4.74	3	-8	19
	TCV	4.83	3	-9	29
	WATC	4.60	4	-6	16
	Australian Government	4.15	2	-7	28
	US Government	4.32	9	19	45

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	0.48	-0.36	-3.70
AUD/EUR	0.61	0.03	-0.05	-5.70
AUD/GBP	0.52	0.01	-0.13	-8.60
AUD/JPY	98.69	0.88	1.09	7.61
AUD/CAD	0.88	0.61	-0.20	-4.16
AUD/NZD	1.06	-1.04	-1.95	-3.27
AUD/SGD	0.88	0.26	-0.24	-3.69
AUD/HKD	5.13	0.52	-0.35	-3.99
AUD/KRW	871.02	0.07	-0.71	-1.33
AUD/CNY	4.71	0.57	0.14	0.42
AUD/INR	54.54	1.11	-0.46	-3.30
MAJOR CURRENCIES				
EUR/USD	1.082	0.45	-0.30	2.13
GBP/USD	1.266	0.48	-0.22	5.37
USD/JPY	150.510	0.39	1.46	11.73
USD/CHF	0.880	0.03	1.15	-5.76
USD/CNY	7.195	0.09	0.37	4.16

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	83.53	0.81	5.00	1.61
Gold	2,024.63	1.01	-0.23	11.10
Copper	8,542.00	2.74	1.63	-4.07
Iron Ore	119.68	-7.55	-8.20	-0.71

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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