January Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

ABS measures of labour market conditions were impacted by seasonal issues in January. Readings from other data providers painted a more constructive picture, an outcome which could be validated in the ABS' February Labour Force Survey. Consumer and business confidence rose, though business conditions softened.

International economy

Resilient labour market conditions and price pressures in the US were a feature of the international economic news in February, including because of how the market reacted to these developments by further removing pricing for interest rate cuts.

Interest rates

Stronger than expected US employment and inflation data saw Treasury yields rise strongly in January. However, Australian Government yields didn't keep pace which saw the spread between long-term bond yields for both countries narrow sharply and reach the most negative level (US yields above Australian yields) since October.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.01	-1	6
	Australian Government	3.70	-4	12
	US Government	4.44	43	-19
5 Year	QTC	4.11	-3	7
	Australian Government	3.77	-5	11
	US Government	4.26	41	-5
7 Year	QTC	4.34	-5	15
	Australian Government	3.94	-6	20
	US Government	4.28	39	5
10 Year	QTC	4.68	-4	22
	Australian Government	4.13	-7	29
	US Government	4.25	37	19

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6510	-1.1%	-3.2%
AUD/EUR	0.6016	-0.9%	-5.1%
AUD/GBP	0.5147	-0.9%	-8.5%
AUD/JPY	97.4858	0.2%	6.0%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0821	-0.2%	2.0%
GBP/USD	1.2647	-0.2%	5.8%
USD/JPY	149.75	-1.3%	-9.6%
USD/CNY	7.1883	-1.1%	-4.0%

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:

ABS measures of labour market conditions were impacted by seasonal issues in January. Readings from other data providers painted a more constructive picture, an outcome which could be validated in the ABS' February Labour Force Survey. Consumer and business confidence rose, though business conditions softened.

REVIEW:

- Employment failed to rebound in January after falling by 62,700 in December. The 500 job increase was much less than the 25,000 expected and could reflect changing seasonal patterns with a larger number of people waiting to start work in January than is typically the case. This saw around 110,000 people classified as unemployed or not in the labour force rather than as employed. With so few jobs added, a steady participation rate and firm growth in the working age population (+49,000), the unemployment rate rose to 4.1 per cent from 3.9 per cent. In the absence of the seasonal issues, the unemployment rate would likely have remained unchanged.
- In other news on the labour market, SEEK jobs ads lifted 1.3 per cent in January. This marked the first back-to-back increases since May 2022 and follows a period where ads declined in 16 of the previous 18 months. This was consistent with the 1.7 per cent increase in ANZ-Indeed Job Ads in January. Finally, according to the *Westpac-MI Consumer Sentiment Survey*, unemployment expectations declined 2.9 per cent in February to a nine-month low. This suggests that consumers are less concerned about their job security. The series is now around long-run average levels.
- The *Westpac-MI Consumer Sentiment Survey* also highlighted that consumer confidence bounced 6.2 per cent in February but remains well below the long-run average. The rebound reflected solid gains in perceptions around economic conditions, family finances and time to buy major items. This was consistent with the bounce back in retail spending in January following a sharp fall in December after Black Friday and Cyber Monday sales in November.
- The *NAB Business Survey* pointed to a softening of business conditions in January and a rise in business confidence. The trading conditions, profitability and employment components of the business conditions measure all fell. However, other news from the report were more encouraging. This included a rise in forward orders and capacity utilisation. The survey pointed to a modest rebound in labour and purchase costs as well as selling prices over the prior three months following a slowing previously.
- The ABS monthly CPI increased 0.3 per cent in January to be up 3.4 per cent over the year. Economists had expected an annual rate of inflation of 3.6 per cent. Core inflation (that is, that excluding volatile items and travel prices) rose 0.2 per cent in January to be up 2.4% over the year on a three-month average annualised basis. This is the time it has fallen below three per cent on this basis since July 2021.
- Meanwhile, the Wage Price Index rose 0.9 per cent in Q4 2024, with annual wages growth increasing to 4.2 per cent. The RBA expects wages growth to peak 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.
- On monetary policy, and as was widely expected, the RBA kept the cash rate unchanged at 4.35 per cent at its February Board meeting. The minutes to the meeting revealed that the Board considered lifting interest rates but ultimately decided to leave the cash rate on hold as incoming data had '*evolved in a manner that gave [members] 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.

WHAT TO WATCH:

The RBA will be watching incoming monthly inflation and labour market data closely to determine if it needs to lift rates further. However, given the lack of services prices in the former and the potential unwind of noisy seasonal issues in the latter, the next reading on each is likely to be of little use to the Bank. Also, now that the RBA Board meets every six (rather than four) weeks, it will receive the Q4 GDP release ahead of its next meeting. However, as this report refers to economic conditions between three and six months ago, it too will be of little use to the Bank. That the RBA won't have a full suite of clean and timely data upon which base a decision to change rates is perhaps why financial markets don't ascribe much chance of a move at the Bank's March meeting. Indeed, markets are not convinced that, if interest rates change, they will go up. Instead, investors are of the view that the most likely next move in rates is down.

CHART 1: AFTER A STEEP FALL IN DECEMBER EMPLOYMENT WAS FLAT IN JANUARY, THOUGH SEASONAL ISSUES MAY HAVE PLAYED A ROLE

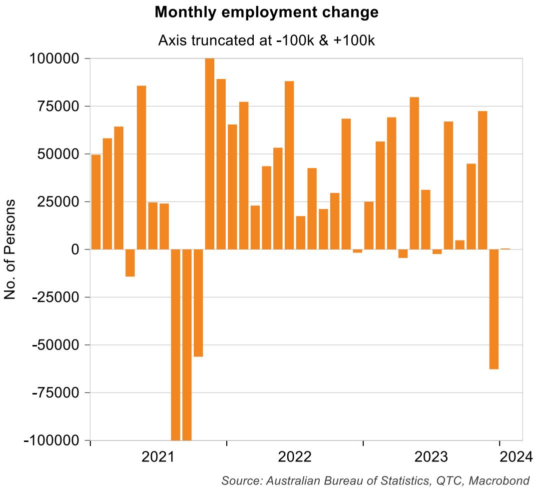


CHART 2: AUSTRALIAN CONSUMER SENTIMENT JUMPED IN FEBRUARY BUT REMAINS WELL BELOW AVERAGE

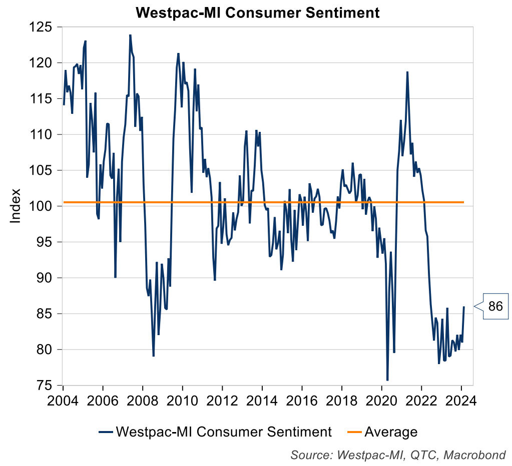
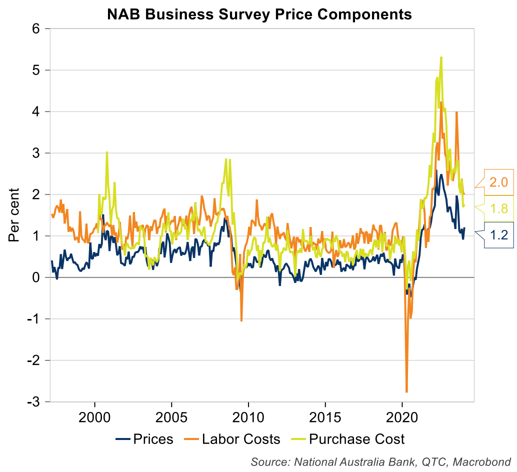


CHART 3: NAB BUSINESS SURVEY PRICE MEASURES TICKED UP IN JANUARY AFTER A PRIOR FALL. THE TREND REMAINS DOWN.



International economy

SUMMARY:

Resilient labour market conditions and price pressures in the US were a feature of the international economic news in February, including because of how the market reacted to these developments by further removing pricing for interest rate cuts.

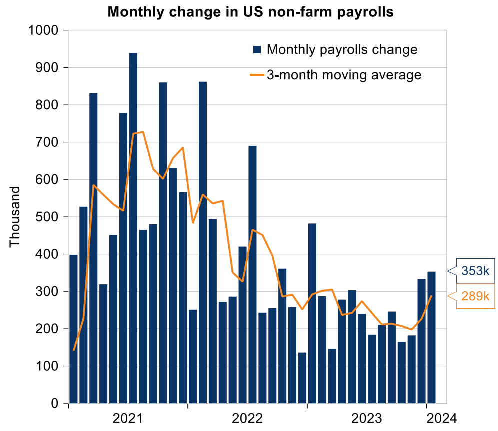
REVIEW:

- In the **US**:
  - Non-farm payrolls rose 353k in January, almost twice the consensus expectation. The unemployment rate was steady at 3.7 per cent and employment increased by 239k in December. Average hourly earnings increased by 4.5 per cent over the year to January, a stronger-than-expected result.
  - Monthly core CPI inflation was slightly higher (+0.4 per cent) than expected (+0.3 per cent), though resilience in sticky services inflation categories were interpreted by investors as a sign the Federal Reserve may not need to cut interest rates as early or by as much as previously anticipated. At least part of the strength appears to reflect challenges with seasonal adjustment in the post-COVID period and could be reversed in the months ahead.
  - 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
  - US Federal Reserve officials continued to push back on the possibility of near-term rate cuts, noting that they require further evidence that inflation is easing sustainably towards its two per cent target.
- In the **UK**:
  - The unemployment rate (3.8 per cent vs consensus of 4.0 per cent) and annual growth in wages (for example, 6.2 per cent vs 6.0 per cent for average weekly earnings for regular pay) both offered better than expected results over the three months to December.
  - GDP declined 0.3 per cent in Q4 with the UK entering a 'technical recession' for the first time in 2.5 years.
  - Inflation was softer than expected in January with the headline index declining 0.6 per cent, twice the decline anticipated. UK economist estimates suggest that the monthly rates of services and core inflation softened from the prior month. This helped the annual rates of inflation for these to be lower than expected at 6.5 per cent for services and 5.0 per cent for core inflation.
- In **China**:
  - Aggregate financing rose by more than expected on a bigger than anticipated jump in new loans. This could be a tentative sign that credit is belatedly starting to flow to the economy following recent easing measures.
  - The People's Bank of China lowered the five-year Loan Prime Rate by 25 basis points to support conditions in China's property market. The one-year Loan Prime Rate was unchanged at 3.45 per cent.
- In **Japan**, according to the first release, GDP dipped 0.4% in Q4 (annualised). This was a surprise to expectations of a 1.1 per cent increase and reflected declines in major categories of domestic demand. That output fell for the second straight quarter (-3.3 per cent annualised in Q3) suggests that Japan is in a 'technical recession'.

WHAT TO WATCH:

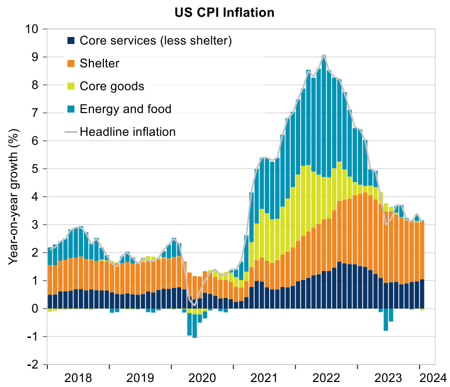
It is possible that the impact of seasonal issues on US data starts to unwind in the months ahead. If this occurs, it could see a reappraisal of the path for policy normalisation with some of the recently removed pricing for rate cuts restored. Therefore, and given the US has led the tightening phase of the policy cycle, what data does there and how the central bank responds to it will have some impact on what policymakers in other country do.

CHART 4: US NON-FARM PAYROLLS HAVE BEEN SURPRISINGLY ROBUST IN RECENT MONTHS



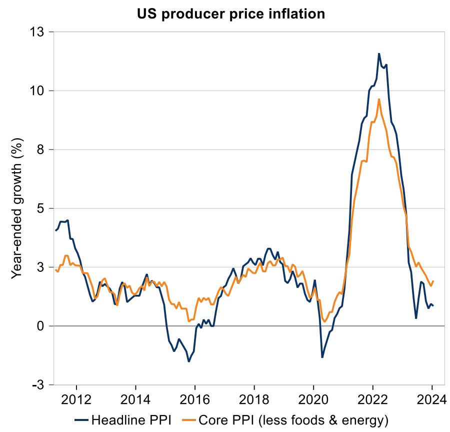
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 5: STICKY SERVICES INFLATION (SHELTER & OTHER) ARE DRIVING US INFLATION AT PRESENT



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 6: THE PACE OF IMPROVEMENT IN US PRODUCER PRICE INFLATION HAS SLOWED



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond