

Weekly Economics and Markets Review

- Markets were little moved this week despite plenty of data being released both in Australia and offshore with the incoming releases doing little to prompt investors to shift from recent views that central banks may be lifting interest rates by less and by later than earlier anticipated.

Week in review

Domestic

- The ABS monthly CPI increased 0.3 per cent in January to be up 3.4 per cent over the year. While the annual rate was steady on the month, it was lower than the 3.6 per cent expected by economists. Core inflation (that is, that excluding volatile items and travel prices) rose 0.2 per cent to be up 2.4% over the year on a three-month average annualised basis. This is the first time it has fallen below three per cent on this basis since July 2021. It is worth noting two points on this release. Firstly, it was impacted by the annual re-weighting of the CPI basket. Secondly, around half of the services price components in the CPI basket (by weight) are held constant in the first month of the quarter.
- Construction work increased by 0.7 per cent in Q4 to be 8.7 per cent higher over the year. With private-sector activity falling one per cent on the quarter, the overall result was driven by firm public-sector construction activity (+4.9 per cent). Across the different types of construction, residential fell 5.2 per cent on the quarter while non-residential rose 3.4 per cent.
- The real value of capital expenditure by the private sector increased 0.8 per cent in Q4, twice the rate expected by economists. The strength was observed across both mining and non-mining capex and was concentrated in buildings and structures investment. Forward intentions suggest that capital spending could increase by 12 per cent both this financial year and next.
- The nominal value of retail sales rebounded 1.1 per cent in January which only partly offset the 2.1 per cent decline in December. While this gain was less than expected (the consensus of economists was for a 1.5 per cent rise), the miss could in part reflect that the size of the fall in the previous month was revised lower (from -2.7 per cent). The ABS noted that spending patterns had been impacted by the Black Friday and Cyber Monday sales in November, though *'there has been no growth in retail turnover when we [the ABS] look through the volatility of the past few months'*.

Offshore

- As widely expected, the Reserve Bank of New Zealand (RBNZ) left interest rates on hold at 5.50 per cent at February's meeting. In doing so the Bank reiterated that policy rates need to remain restrictive *'for a sustained period of time'*. The post-meeting statement quantified this by pointing to rates drifting higher before peaking at 5.60 per cent in Q3. This is slightly less than the previous guidance which was closer to 5.70 per cent.
- Several officials from the European Central Bank pointed to the possibility of a rate cut in the middle of the year with a move before that seen as less likely.
- In the US:
 - The Conference Board's measure of consumer confidence fell 4.2 points to 106.7 in February. This was well below the consensus expectation of 115.0 with the miss partly explained by the downward revision to the prior months' outcome (-3.9 points to 110.9). The decrease was driven by consumers becoming more concerned about current (-7.7 points) rather than future conditions (-1.1 points).
 - The labour differential (that is, the difference between the share of consumers who believe jobs are plentiful versus those who think they are hard to get) almost fully reversed the improvement in January.
 - New orders of both durable goods (-6.1 per cent) and non-durable goods excluding transport (-0.3 per cent) both fell in January. In contrast, there were monthly increases in orders (+0.1 per cent) and shipments (+0.8 per cent) of core capital goods.
 - Data on the housing market was mixed as while new home sales increased 1.5 per cent in January, pending home sales fell 4.9 per cent in the same month. House prices rose in December.
 - Core PCE inflation was 0.42 per cent in January. This was slightly above consensus expectations and was driven by ongoing firmness in 'super-core' inflation (that is, core services excluding housing) which rose 0.60 per cent, though this was partly due to large increases in the volatile financial services and insurance and non-profits categories.
- In **Japan**, the annual rate of core inflation (excluding fresh food) was 2.0 per cent in January. This represented a slowing relative to the 2.3 per cent seen in December and reflects last year's steep rise in energy prices dropping out of the annual rate calculation. The annual rate of 'core-core' CPI (that is, excluding fresh food and energy) was +3.5 per cent in January, down from 3.7% in December. There was also a slowing in the annual rate of producer price inflation to 2.1 per cent in January from 2.4 per cent in December.

Markets

Despite plenty of data being released this week, none prompted markets to materially re-think the path for policy rates. As such, bond yields were little changed on the week. This was a similar story for currency markets with the Australian Dollar half a cent lower against the US Dollar over the same period.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Melbourne Institute Inflation (Feb), Inventories (Q4), Company profits (Q4); ANZ-Indeed Job Ads (Feb), Building approvals (Jan) Tuesday: Net exports (Q4), Government finances (Q4) Wednesday: GDP (Q4) Thursday: International trade (Jan), Housing Finance (Jan)
Offshore	United States: ISM Manufacturing and Services (Feb), JOLTS (Jan), ADP employment (Feb), Non-farm payrolls (Feb) Euro area: CPI (Feb), PPI (Jan), ECB (Mar) China: NBS PMIs (Feb), International trade (Feb)

Economic and Financial Market Charts

CHART 1: THE EASING IN AUSTRALIA'S ANNUAL RATE OF INFLATION STALLED IN JANUARY ACCORDING TO THE ABS' MONTHLY RELEASE

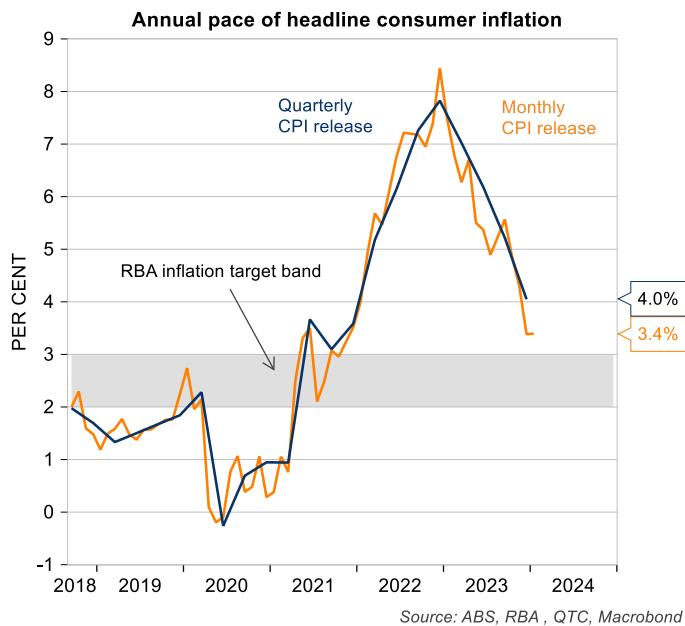


CHART 2: MONTHLY MEASURES OF CORE INFLATION IN AUSTRALIA CONTINUE TO MODERATE

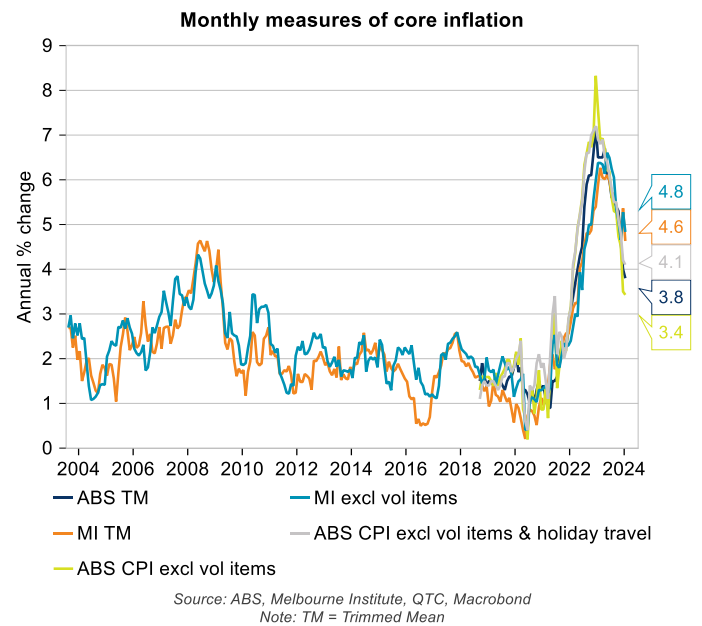


CHART 3: DIVERGENT READINGS ON US CONSUMER CONFIDENCE HAVE BEEN COMING FROM POPULAR SURVEYS, THOUGH THE GAP IS CLOSING

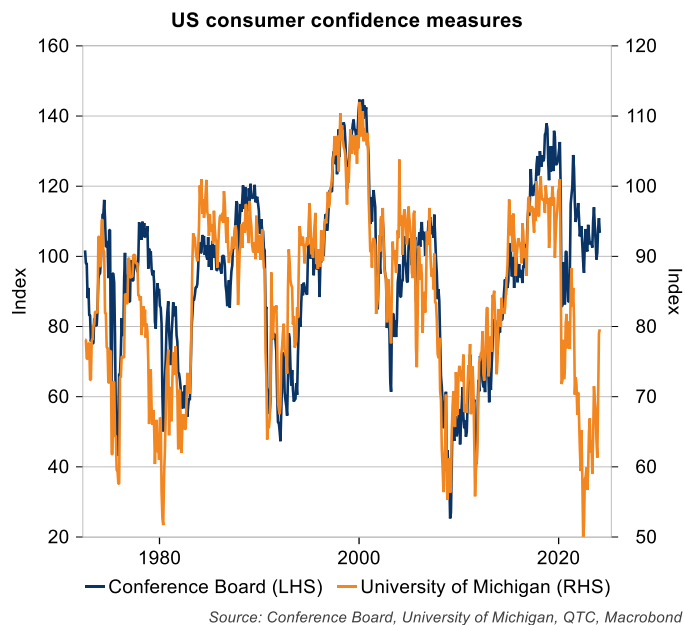
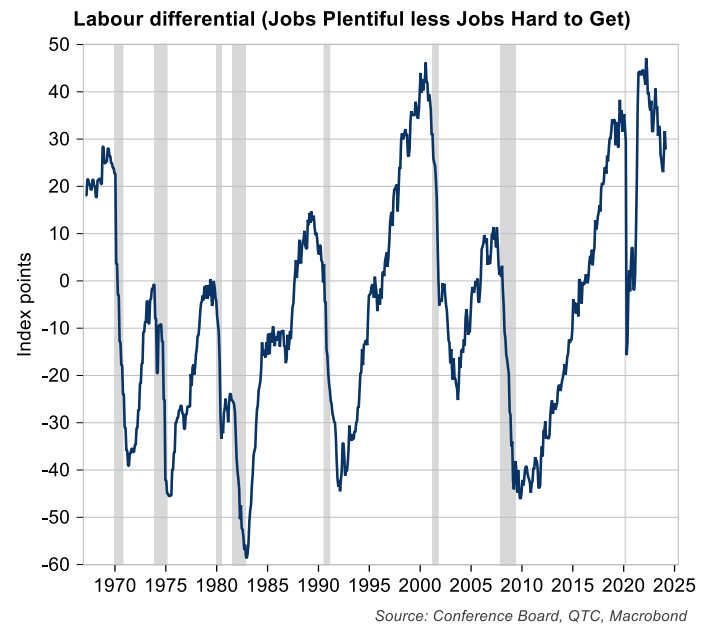


CHART 4: THE LABOUR MARKET DIFFERENTIAL USUALLY PEAKS NOT LONG BEFORE A US RECESSION, BUT NOT ON THIS OCCASION



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	-2	-1	6
	NSWTC	4.01	-1	-2	7
	TCV	4.08	-1	-2	13
	WATC	4.00	-0	-0	6
	Australian Government	3.70	-3	-4	12
	US Government	4.44	-5	43	-19
5 Year	QTC	4.11	-1	-3	7
	NSWTC	4.13	-1	-4	8
	TCV	4.20	-1	-2	13
	WATC	4.10	-1	-2	8
	Australian Government	3.77	-3	-5	11
	US Government	4.26	-7	41	-5
7 Year	QTC	4.34	-1	-5	15
	NSWTC	4.39	-1	-7	17
	TCV	4.46	-1	-6	23
	WATC	4.31	-1	-5	13
	Australian Government	3.94	-2	-6	20
	US Government	4.28	-7	39	5
10 Year	QTC	4.68	-1	-4	22
	NSWTC	4.74	-1	-7	18
	TCV	4.83	-0	-7	29
	WATC	4.59	-1	-5	16
	Australian Government	4.13	-2	-7	29
	US Government	4.25	-7	37	19

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-0.87	-1.49	-3.25
AUD/EUR	0.60	-0.69	-1.13	-5.23
AUD/GBP	0.51	-0.56	-0.99	-8.49
AUD/JPY	97.41	-1.27	-0.03	5.97
AUD/CAD	0.88	-0.24	-0.27	-3.58
AUD/NZD	1.07	0.96	-0.82	-1.31
AUD/SGD	0.87	-0.64	-1.02	-3.46
AUD/HKD	5.08	-0.79	-1.34	-3.50
AUD/KRW	864.74	-0.65	-1.33	-2.03
AUD/CNY	4.67	-0.90	-1.32	0.48
AUD/INR	53.92	-1.14	-1.78	-3.07
MAJOR CURRENCIES				
EUR/USD	1.0804	-0.18	-0.38	1.94
GBP/USD	1.2615	-0.36	-0.67	5.60
USD/JPY	149.94	-0.39	1.59	9.62
USD/CHF	0.8846	0.49	2.65	-6.13
USD/CNY	7.1876	-0.10	0.13	3.95

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	83.62	-0.06	0.91	-1.33
Gold	2,045.74	1.12	0.57	11.56
Copper	8,448.50	-1.58	-1.93	-5.69
Iron Ore	116.49	-2.67	-12.31	-0.95

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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