

Weekly Economics and Markets Review

- Australia's headline inflation was softer than expected in February, though underlying inflation measures remained sticky.
- Seek job ads continue to show that labour market conditions are easing, with the number of applicants per job ad increasing for its 18th consecutive month.
- The RBA's Financial Stability Review suggested that households have been able to absorb the large rise in interest payments, partly by increasing hours worked and drawing down on savings buffers.

Week in review

Domestic

- The **monthly CPI indicator** showed annual inflation was 3.4 per cent in February, unchanged from the previous two months. This was slightly lower than economists' predictions and suggests that headline inflation may be on track to undershoot the RBA's March quarter forecast.
- Headline CPI inflation was weighed down by a sharp fall in domestic holiday prices, with strong travel activity related to Taylor Swift's concerts having a smaller-than-expected effect on travel prices.
- Measures of underlying inflation remained more resilient, which may see the RBA remain cautious on the outlook for prices. Services inflation accelerated from 3.7 to 4.2 per cent in February, while trimmed-mean inflation edged higher to 3.9 per cent.
- **Seek job ads** continue to show that labour market conditions are easing. The number of job ads declined 2.5 per cent in February, to be 18.6 per cent lower over the year. Meanwhile, the number of applicants per job ad has increased by 73 per cent over the past year.
- **Consumer sentiment** fell 1.8 per cent in March, partly reversing last month's 6.2 per cent rise. Unemployment expectations rose 1.0 per cent, consistent with a softening in labour market conditions rather than a sharp deterioration.
- The **RBA's Financial Stability Review** provided a somewhat sanguine assessment of the financial position of Australian households and businesses.
 - The resilience of households to higher interest rates is partly explained by (1) the strong labour market and increasing hours worked, (2) households curtailing discretionary spending, and (3) households drawing down on savings buffers.
 - Currently around 5 per cent of variable-rate owner occupiers have essential expenses and mortgage costs that exceed their income, but 'about 70 per cent of these borrowers have sufficient savings in their offset and redraw accounts to finance their cash shortfalls for at least six months'.
 - The RBA also assessed banks to be 'well prepared to handle an expected increase in loan losses in the period ahead' and observed a 'high level of resilience' in the Australian financial system overall.

Offshore

- **US Federal Reserve** officials continued to take a cautious view on the outlook interest rates, with slower progress on inflation in recent months contributing to this uncertainty. Atlanta Fed President Bostic is less sure about inflation than in December and now forecasts a single 25 basis point rate reduction this year (he was previously expecting two cuts). Chicago Fed President Goolsbee is still expecting three cuts this year, though he acknowledged that the Fed is 'in a little bit of a murky period' with regards to the outlook for inflation.
- **BOE** Governor Bailey provided dovish commentary on the outlook for UK interest rates, noting the unwinding of global shocks and the lack of persistence in UK inflation to date. He also said that current market expectations for rate reduction to start this year were 'not unreasonable'.
- **US economic data** has been mixed over the past week.
 - The Conference Board Consumer Confidence index was broadly unchanged in March, with stronger present conditions offset by a deterioration of expected future conditions. Despite this weakness in expectations, consumers' perceived likelihood of a US recession over the next 12 months fell to 64 per cent, its lowest level since August 2022.
 - Goods orders remained resilient in February. Durable goods orders rose 1.4 per cent on a month-on-month basis, while core capital goods orders (excluding defence and aircraft) rose 0.7 per cent.
 - The US housing market remains soft, with house prices appearing to be broadly flat in January and new single-family home sales falling 0.3 per cent in February.
- **Japan's** top currency official said that the 'current falling of the yen is not consistent with fundamentals and is clearly driven by speculation'. He said the government was prepared to use any available options if these speculative moves persist.
- Japan's February CPI data were mixed. Core CPI inflation (excl. fresh food) accelerated to 2.8 per cent over the year to February. However, the measure that excludes both fresh food and energy eased to 3.2 per cent, marking its slowest annual pace since January 2023.

Markets

US Treasury yields were slightly lower over the past week amid little news flow. Iron ore and coking coal prices have continued to decline in response to slower activity in China.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA February Board Minutes, Corelogic dwelling prices (Mar), Melbourne Institute inflation expectations (Mar), ANZ-Indeed job ads (Mar) Thursday: Building approvals (Feb), Monthly Household Spending Indicator (Feb) Friday: International Trade in Goods (Feb)
Offshore	US: PCE deflator (Feb), Personal income and spending (Feb), Non-farm payrolls (Mar), ADP employment (Mar), Jolt job openings (Feb), Challenger job cuts (Mar), Unemployment rate (Mar), Average hourly earnings (Mar), S&P Services PMI (Mar), ISM Manufacturing and Services Indices (Mar), Trade balance (Feb) Euro area: CPI (Mar), PPI (Feb), HCOB Services PMI (Mar), ECB inflation expectations (Feb), Retail sales (Feb) Japan: Tokyo CPI (Mar), Jobless rate (Feb), Retail sales (Feb), Industrial production (Feb) China: NBS manufacturing and non-manufacturing PMIs (Mar), Caixin manufacturing and services PMIs (Mar), Current account balance (Q4)

Economic and Financial Market Charts

CHART 1: HEADLINE INFLATION WAS SOFTER THAN EXPECTED IN FEBRUARY AND IS ON TRACK TO UNDERSHOOT THE RBA'S MARCH QUARTER FORECAST...

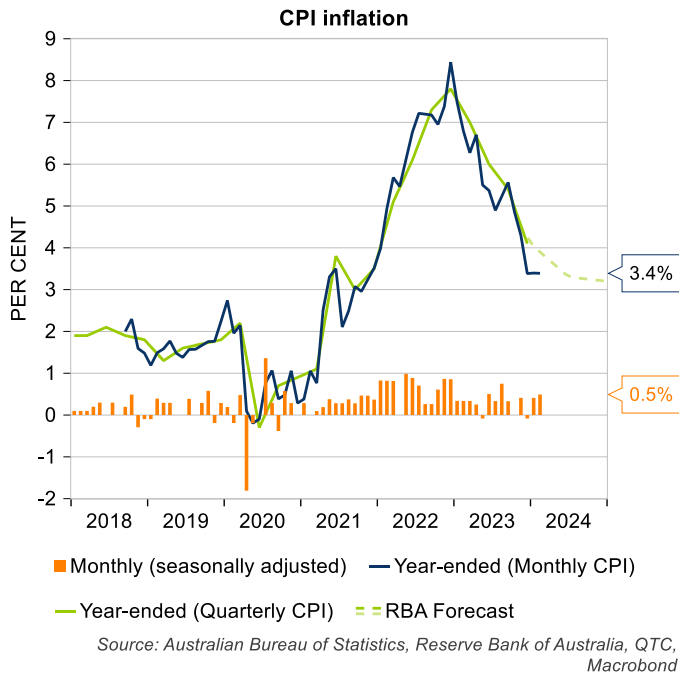


CHART 2: ... BUT CORE INFLATION (EXC. VOLATILE ITEMS AND HOLIDAY) REMAINS WELL ABOVE THE HEADLINE MEASURE

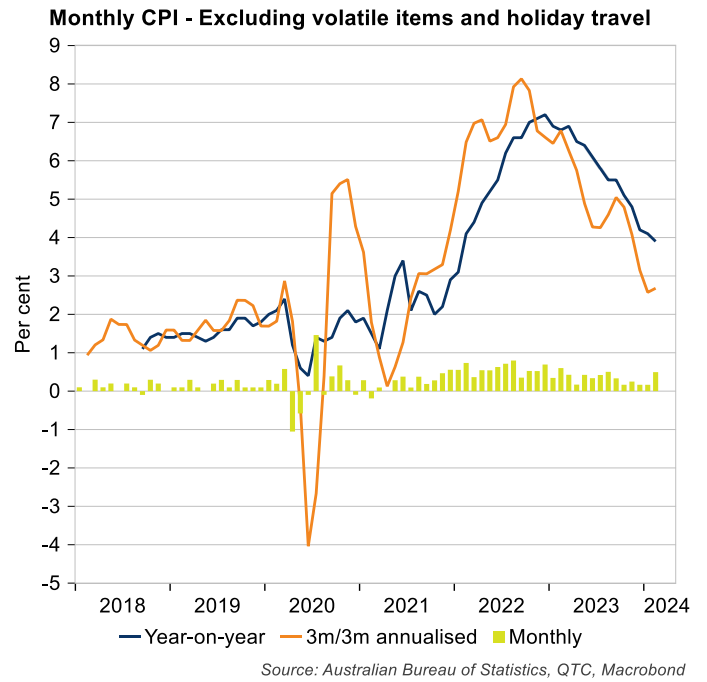


CHART 3: HOUSING INFLATION REMAINS ELEVATED AND IS LIKELY TO CONTINUE TO SUPPORT PRICE GROWTH IN THE PERIOD AHEAD

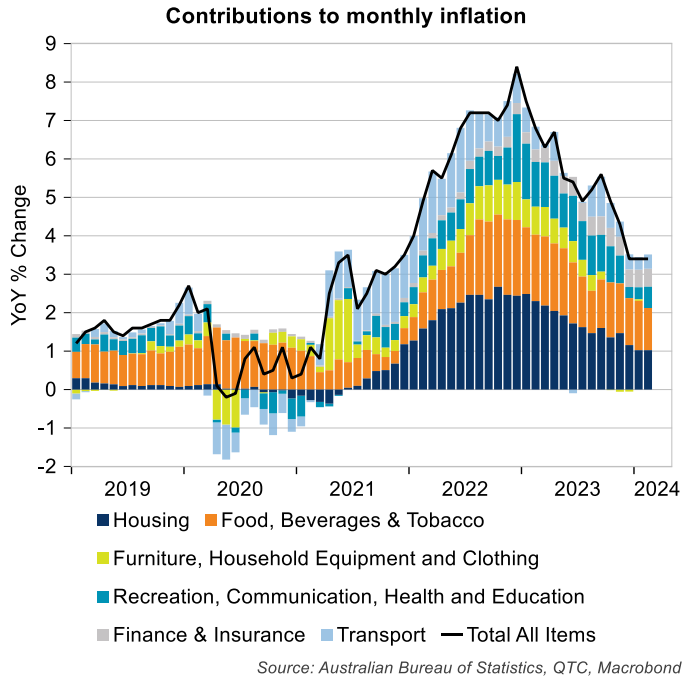


CHART 4: LABOUR MARKET CONDITIONS ARE EASING, WITH THE NUMBER OF APPLICANTS PER JOB ADVERTISEMENT INCREASING FOR ITS 18TH CONSECUTIVE MONTH IN FEBRUARY

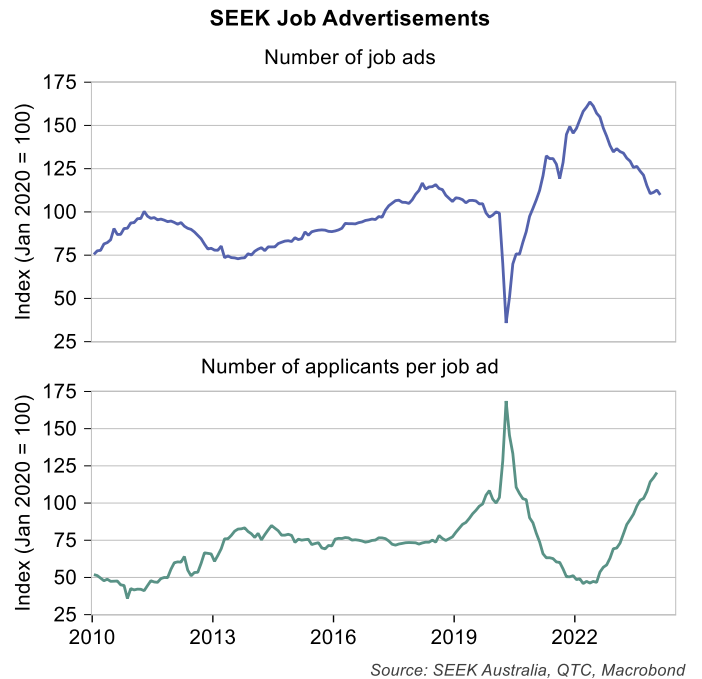


CHART 5: INFLATION REMAINS HIGH IN JAPAN, THOUGH THERE ARE SIGNS OF IMPROVEMENT WITH CORE INFLATION (EXC. FRESH FOOD AND ENERGY) EASING TO ITS SLOWEST PACE SINCE JANUARY 2023

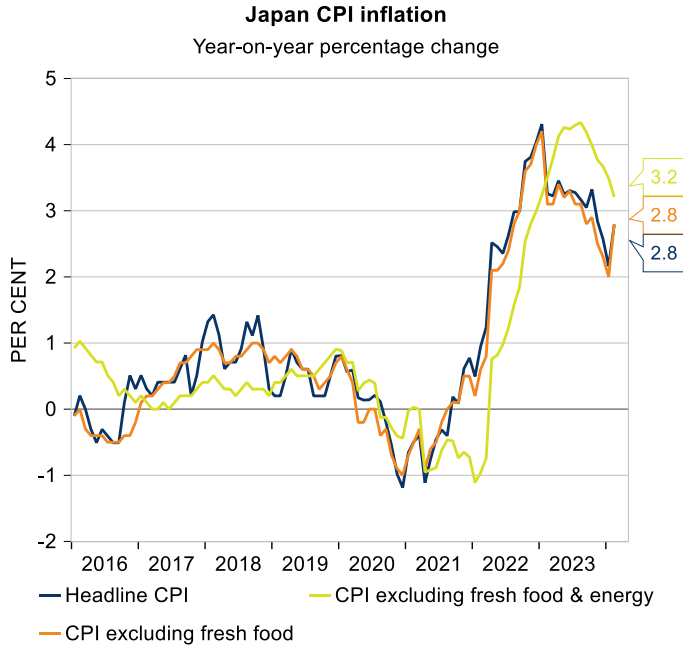


CHART 6: DESPITE POLICY TIGHTENING FROM THE BOJ, THE YEN CONTINUES TO WEAKEN AGAINST THE USD WITH THE UNWINDING OF FED RATE CUT EXPECTATIONS POSSIBLY PLAYING A ROLE

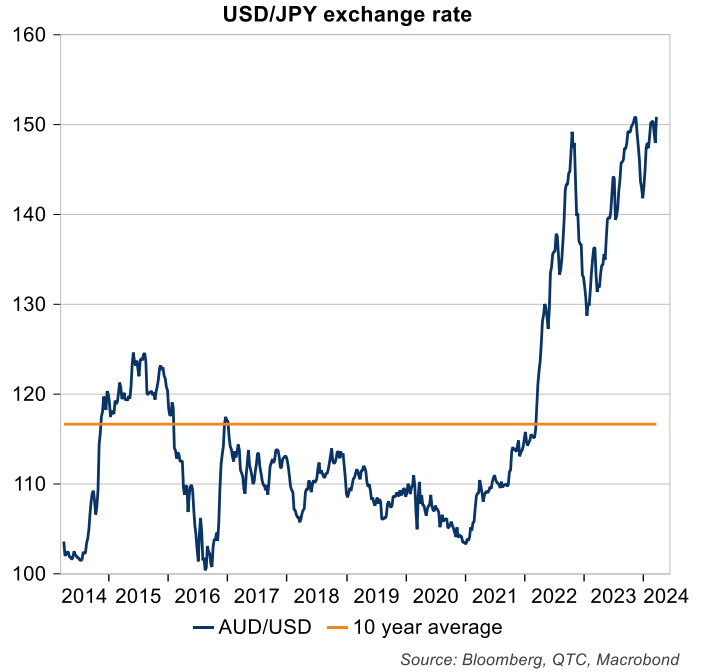


CHART 7: OUTSIDE OF THE BOJ, THE MARKET EXPECTS MAJOR CENTRAL BANKS WILL START TO EASE POLICY THIS YEAR

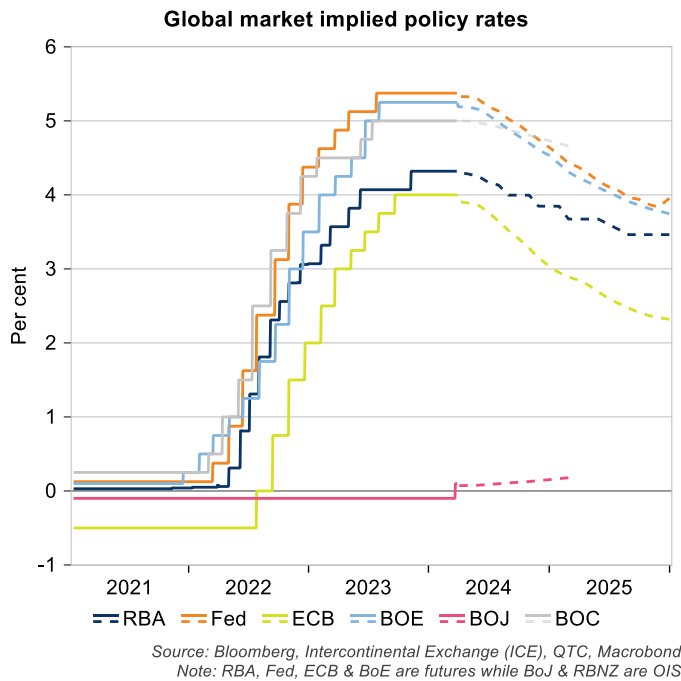
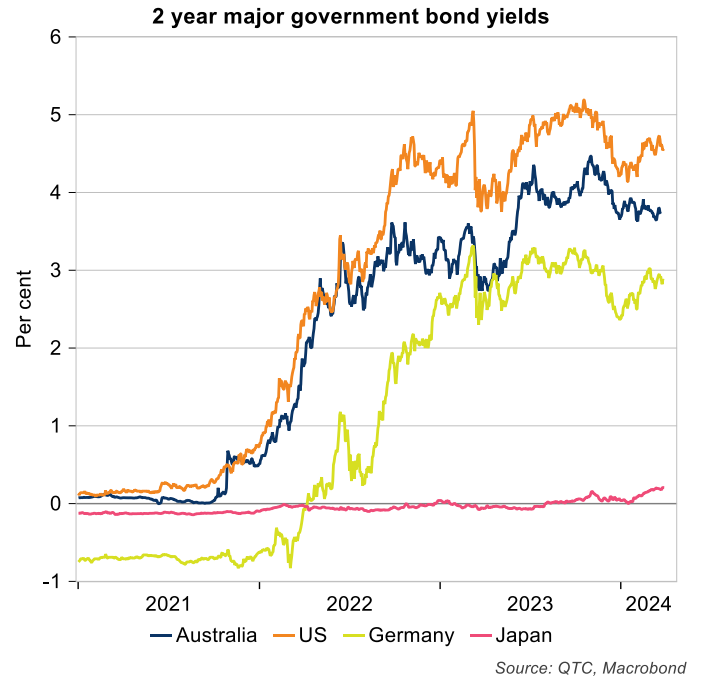


CHART 8: GOVERNMENT BOND YIELDS ARE LIKELY TO REMAIN RANGEBOUND THOUGH UNTIL THERE IS MORE CLARITY ON THE POTENTIAL TIMING OF RATE CUTS



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	3.93	-4	-9	65	AUD/USD	0.65	-0.77	-0.08	-2.23
	NSWTC	3.93	-5	-9	65	AUD/EUR	0.60	0.08	0.12	-2.08
	TCV	3.99	-5	-9	70	AUD/GBP	0.52	0.35	0.27	-4.78
	WATC	3.92	-4	-8	65	AUD/JPY	98.82	-0.81	0.26	11.27
	Australian Government	3.62	-3	-9	83	AUD/CAD	0.89	-0.24	0.36	-2.18
	US Government	4.36	-3	-13	47	AUD/NZD	1.09	0.48	2.72	1.33
5 Year	QTC	4.02	-6	-9	64	AUD/SGD	0.88	-0.20	0.14	-0.89
	NSWTC	4.04	-6	-8	63	AUD/HKD	5.11	-0.78	-0.09	-2.56
	TCV	4.10	-6	-10	69	AUD/KRW	881.66	-0.06	1.28	1.20
	WATC	4.00	-6	-9	63	AUD/CNY	4.72	-0.37	0.31	2.49
	Australian Government	3.67	-4	-10	76	AUD/INR	54.41	0.43	0.25	-1.10
	US Government	4.19	-6	-13	50	MAJOR CURRENCIES				
7 Year	QTC	4.22	-7	-10	60	EUR/USD	RATE	1 WEEK	1 MONTH	1 YEAR
	NSWTC	4.29	-7	-9	61	GBP/USD	1.08	-0.83	-0.18	-0.12
	TCV	4.35	-7	-9	69	USD/JPY	1.26	-1.24	-0.46	2.55
	WATC	4.19	-7	-9	58	USD/CHF	151.56	0.20	0.56	14.07
	Australian Government	3.82	-5	-10	77	USD/CNY	0.90	1.93	2.72	-1.58
	US Government	4.19	-8	-12	55	MAJOR COMMODITIES				
10 Year	QTC	4.58	-7	-8	63	Brent Crude Oil	86.09	0.16	4.31	9.98
	NSWTC	4.62	-7	-8	60	Gold	2,194.79	0.38	8.05	11.71
	TCV	4.70	-7	-9	68	Copper	8,862.00	-0.74	4.68	-1.56
	WATC	4.48	-7	-8	58	Iron Ore	101.28	-4.20	-11.25	-8.81
	Australian Government	4.00	-5	-10	81					
	US Government	4.19	-8	-9	63					

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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