

Weekly Economics and Markets Review

- Australian GDP growth continued to slow towards the end of 2023, underpinned by weak household spending and a decline in dwelling investment.
- Federal Reserve Chair Powell expects US interest rate cuts will start sometime this year, while ECB President Lagarde suggested rate cuts could start from June.
- China's key economic targets for 2024 were outlined at the National People's Congress, with the GDP growth target unchanged at 5 per cent.

Week in review

Domestic

- GDP increased by just 0.2 per cent in Q4, with annual growth slowing to 1.5 per cent (from 2.1 per cent in Q3). On a per capita basis, GDP has now declined by 1.0 per cent over the past year.
- The Q4 GDP release also saw weak domestic demand, while the household savings rate increased.
 - Domestic demand increased by 0.1 per cent in the quarter, weighed down by continued weakness in household consumption and a fall in dwelling investment. Public sector spending remained strong, while business investment was also robust.
 - Nominal household disposable income rose 2.3 per cent in Q4 to be 5 per cent higher over the year. Real income growth also increased in the quarter. The combination of subdued consumption and higher income growth saw the household saving rate increase to 3.2 per cent (from 1.9 per cent in Q3).
- Capital city dwelling prices rose 0.6 per cent in February, to be 8.9 per cent higher over the year. Dwelling prices are now 1.8 per cent higher than their previous peak in April 2022.
- Despite the strength in housing prices, key indicators for housing construction were weak in January. Dwelling approvals fell 1.0 per cent in the month, following a 10.1 per cent fall in December. The value of new housing lending (excluding refinancing) also fell for a second consecutive month.

Offshore

- Federal Reserve Chair Powell reiterated that US interest rates are likely to be at their peak and that he expects rate cuts will start sometime this year.
- The FOMC will discuss the pace of its balance sheet reduction at its meeting on 20 March. In the lead up to this meeting, Dallas Fed President Logan noted that a slower runoff would make the adjustment easier for banks. Fed Governor Waller said he'd like a shift in the central bank's holdings toward a larger share of short-term Treasuries.
- The ECB kept its main refinancing rate unchanged at 4.0 per cent, with ECB President Lagarde suggesting there could be enough evidence to support a rate cut by June. The ECB also revised its inflation outlook lower, with headline inflation now forecast to average 2.3 per cent in 2024 (previously 2.7 per cent) and 2.0 per cent in 2025 (previously 2.1 per cent).

- The Bank of England's Chief Economist Huw Pill warned against a 'false sense of security' due to slower inflation, noting that restrictive monetary policy is still required to 'squeeze' more persistent inflationary pressures out of the system.
- The Bank of Canada maintained its policy rate at 5 per cent and largely retained their guidance, emphasising the need for a continued reduction in core inflation.
- US data provided some early signs that labour market conditions are easing, though conditions remain tight. Other measures of economic activity were generally weaker.
 - Job openings fell by a modest 26k to 8,863k in January, but remain noticeably higher than pre-pandemic levels. ADP private sector employment rose by a smaller-than-expected 140k in February, while initial jobless claims were little changed at 217k in the past week.
 - Unit labour costs increased by a smaller-than-expected 0.4 per cent in Q4.
 - The ISM services index fell by more than expected in February, driven by falls in employment and supplier delivery times. Prices declined by 5.4pts to 58.6, partially reversing the 7.3pt increase in January.
 - The ISM manufacturing index also fell in February, with broad-based declines across new orders, production, employment and prices.
 - University of Michigan Consumer Sentiment was revised down from 79.6 to 76.9 for February.
 - Construction spending unexpectedly decreased 0.2 per cent in January.
- In the euro area, the annual rate of headline inflation fell to 2.6 per cent in February, while core inflation fell to 3.1 per cent. The easing of inflation was smaller than consensus expectations.
- The UK Government's spring 2024 budget saw near-term borrowing costs increase broadly in-line with expectations. Fiscal policy measures amounted to a net stimulus of 0.5 per cent of GDP.
- China's key economic targets for 2024 were outlined at the National People's Congress. This includes an unchanged GDP growth target of 'around 5 per cent', CPI inflation around 3 per cent and an urban unemployment rate around 5.5 per cent. The targets also included RMB 1 trillion of central government special bond issuance (compared to none over 2021-2023) and RMB 3.9 trillion of local government special bond issuance (compared to 3.8 trillion in 2023)
- China's NBS non-manufacturing PMI rose to 51.4 in February (from 50.7), suggesting there was an improvement in services and construction sector activity. The NBS manufacturing PMI was little changed in February.

Markets

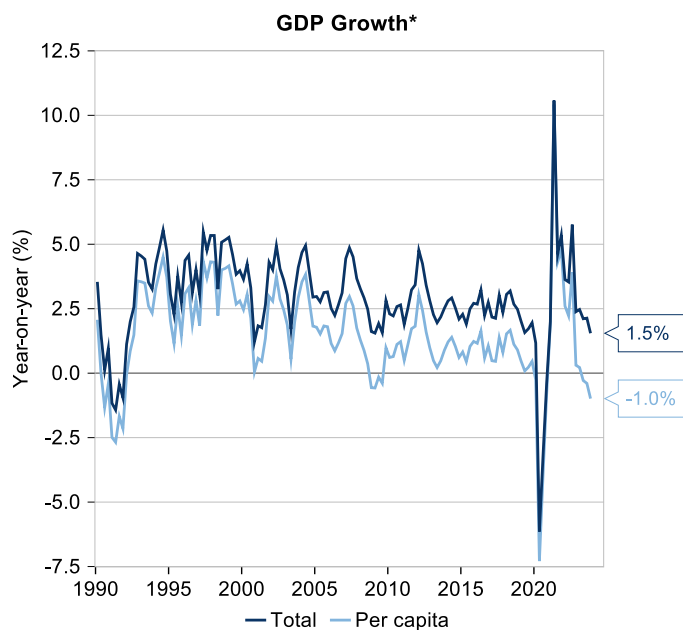
US Treasury yields fell this week on the back of weaker economic data and renewed concerns around US regional banks. Australian Government bond yields also saw a modest decline over the past week.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Feb) Wednesday: CBA Household Spending (Feb)
Offshore	US: CPI (Feb), Retail sales (Feb), NY Fed Inflation Expectations (Feb), PPI (Feb), Trade Prices (Feb), Initial Jobless Claims (9 Mar) Euro area: Industrial Production (Jan) UK: Monthly GDP (Jan), Jobless Claims (Feb), Unemployment Rate (Jan), Average Weekly Earnings (Jan), Industrial Production (Jan) Japan: GDP (Q4 Final), PPI (Feb)

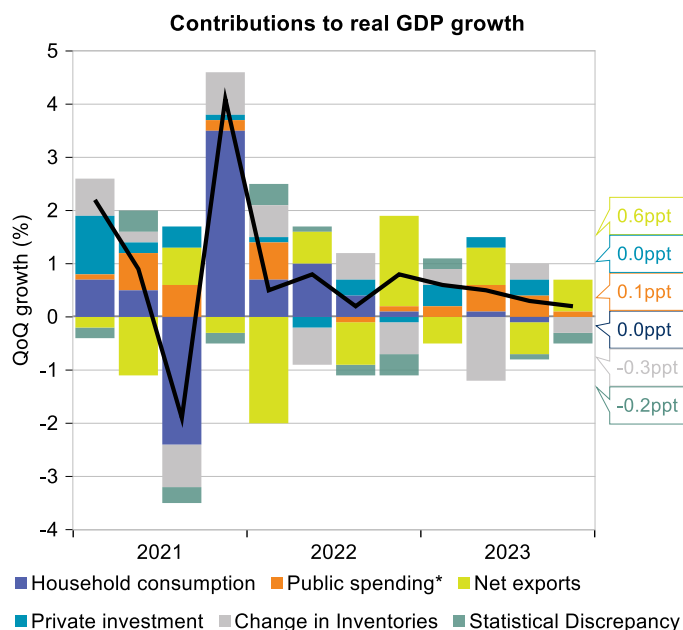
Economic and Financial Market Charts

CHART 1: GDP GROWTH HAS SLOWED NOTICEABLY TOWARDS THE END OF 2023, WITH GDP PER CAPITA NOW 1% LOWER ON AN ANNUAL BASIS



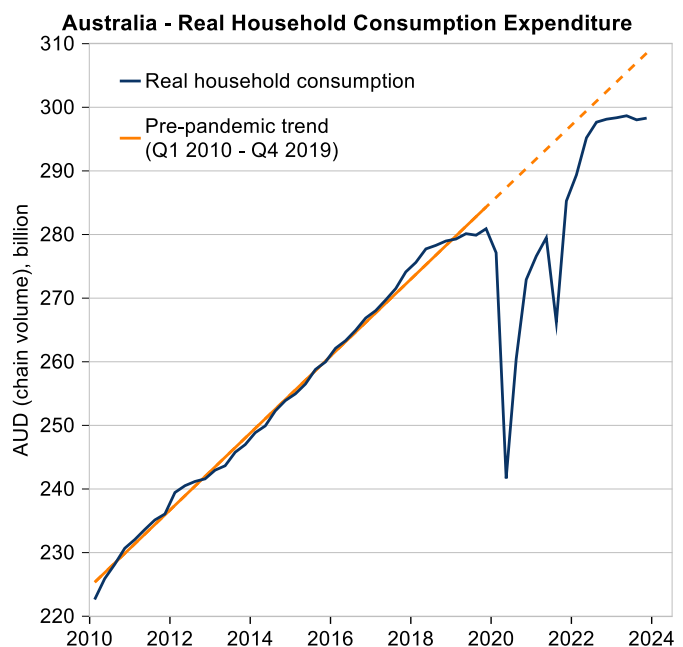
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: WEAK HOUSEHOLD CONSUMPTION HAS UNDERPINNED SLOWER GDP GROWTH OVER THE PAST YEAR



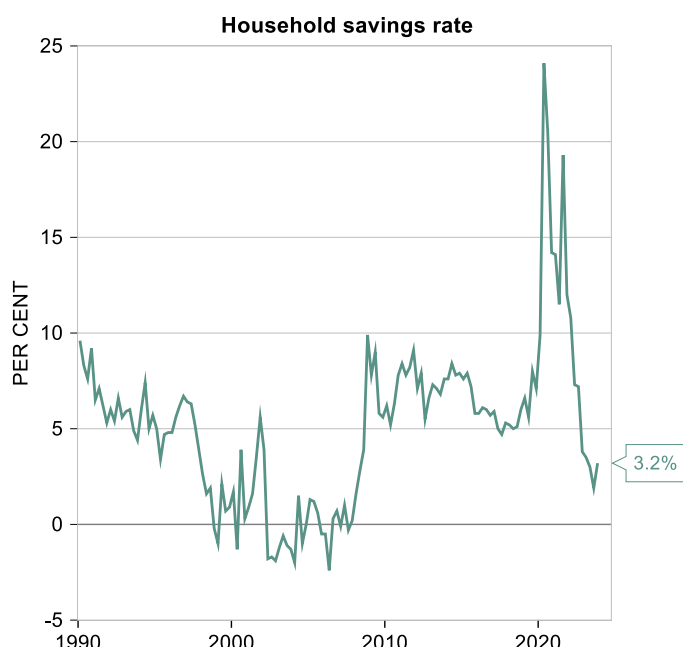
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: WEAK HOUSEHOLD SPENDING SAW THE LEVEL OF CONSUMPTION REMAIN BROADLY FLAT OVER 2023

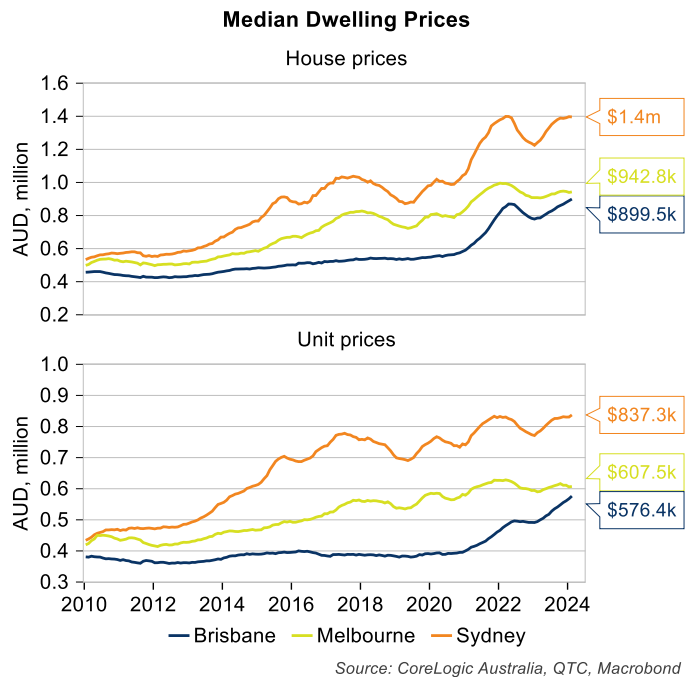
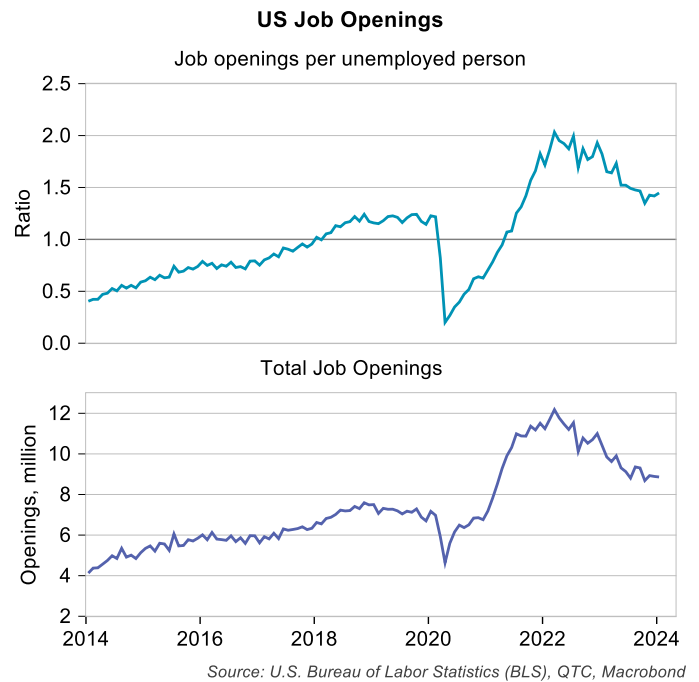
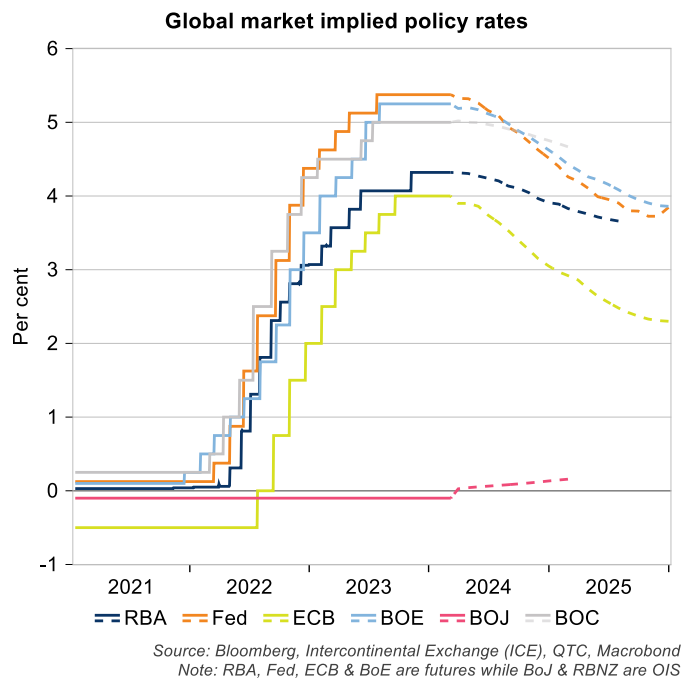
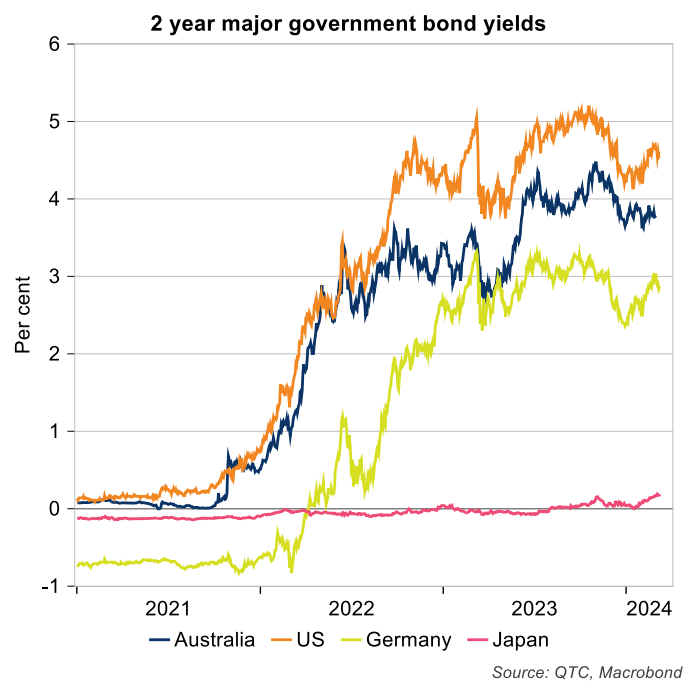


Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: WHILE SLOWER CONSUMPTION GROWTH HAS WEIGHED ON GDP, IT HAS ALSO ALLOWED HOUSEHOLDS TO CONTINUE TO SAVE



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: HOUSING PRICES HAVE CONTINUED TO INCREASE, WITH NATIONWIDE HOME PRICES NOW 1.8% ABOVE THEIR PREVIOUS PEAK**CHART 6: THE US LABOUR MARKET REMAINS RESILIENT, WITH JOB OPENINGS STILL WELL ABOVE PRE-PANDEMIC LEVELS****CHART 7: CENTRAL BANKS ARE WIDELY EXPECTED TO START DECREASING INTEREST RATES THIS YEAR****CHART 8: US TREASURY YIELDS EDGED LOWER THIS WEEK ON THE BACK OF WEAKER ECONOMIC DATA AND RENEWED CONCERNS AROUND US REGIONAL BANKS**

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	3.97	-4	4	23	AUD/USD	0.66	1.89	1.49	0.46
	NSWTC	3.97	-4	4	24	AUD/EUR	0.60	0.57	-0.30	-2.91
	TCV	4.04	-4	4	30	AUD/GBP	0.52	0.42	-0.19	-6.47
	WATC	3.97	-4	5	23	AUD/JPY	98.01	0.57	1.55	9.24
	Australian Government	3.64	-7	-1	27	AUD/CAD	0.89	0.99	1.23	-2.23
	US Government	4.28	-14	8	-28	AUD/NZD	1.07	0.44	0.21	-0.75
5 Year	QTC	4.05	-5	4	24	AUD/SGD	0.88	0.94	0.65	-1.04
	NSWTC	4.08	-5	3	24	AUD/HKD	5.18	1.77	1.46	0.08
	TCV	4.16	-4	4	31	AUD/KRW	880.98	1.82	1.75	1.09
	WATC	4.04	-6	4	24	AUD/CNY	4.76	1.91	1.55	3.51
	Australian Government	3.69	-8	-2	25	AUD/INR	54.61	1.29	1.26	0.79
	US Government	4.07	-17	3	-12	MAJOR CURRENCIES				
7 Year	QTC	4.26	-8	1	26	EUR/USD	1.09	0.87	1.34	3.00
	NSWTC	4.32	-8	0	26	GBP/USD	1.27	0.85	1.06	6.77
	TCV	4.40	-7	2	35	USD/JPY	149.39	-0.39	0.97	9.72
	WATC	4.23	-7	1	24	USD/CHF	0.88	-0.28	1.41	-5.41
	Australian Government	3.83	-11	-5	28	USD/CNY	7.20	0.16	0.17	3.35
	US Government	4.08	-19	0	2	MAJOR COMMODITIES				
10 Year	QTC	4.60	-9	0	29	Brent Crude Oil	83.53	-0.11	6.29	2.38
	NSWTC	4.65	-8	-1	26	Gold	2,159.98	5.66	6.08	17.97
	TCV	4.75	-8	-0	36	Copper	8,577.00	0.98	2.08	-3.12
	WATC	4.51	-9	1	24	Iron Ore	116.72	1.43	-5.57	-0.36
	Australian Government	4.01	-12	-7	33					
	US Government	4.08	-17	-2	18					

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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