March Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

ABS measures of labour market conditions continued to be impacted by seasonal issues. GDP growth was soft in Q4 2023, especially on a per capita basis where output has contracted over the past year. Annual consumer price inflation continued to moderate in February, though while this process continues over the year for core measures, monthly outcomes were firmer than those seen in prior readings.

International economy

Economic conditions in the US, while resilient, continued to soften. Meanwhile, weakness remains in China's property sector. Major central banks mostly kept policy settings on hold, though the Bank of Japan was an exception as it lifted interest rates for the first time since 2007.

Interest rates

While three-month bank bill rates were little changed in March (one basis point lower), those further out the curve fell by more. Australian Government three-year and 10-year bond yields were lower by 11 and 17 basis points respectively. Softer than expected conditions in the US service sector, especially the readings on price pressures therein, was the catalyst for the biggest move lower for yields on the month. Apart from this, yields were generally range-bound.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.90	-12	52
	Australian Government	3.59	-11	69
	US Government	4.41	40	62
5 Year	QTC	3.98	-13	51
	Australian Government	3.63	-14	62
	US Government	4.21	37	64
7 Year	QTC	4.19	-14	50
	Australian Government	3.79	-16	64
	US Government	4.21	33	68
10 Year	QTC	4.54	-15	52
	Australian Government	3.96	-17	68
	US Government	4.20	32	73

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6491	-0.3%	-4.3%
AUD/EUR	0.6042	0.4%	-3.0%
AUD/GBP	0.5167	0.4%	-5.5%
AUD/JPY	98.4887	1.0%	9.7%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0742	-0.7%	-1.3%
GBP/USD	1.2561	-0.7%	1.3%
USD/JPY	151.74	-1.3%	-14.7%
USD/CNY	7.2309	-0.6%	-5.1%

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.

View our recent economic reports

Weekly and monthly economic reports for QTC's clients to stay informed about the latest economic and financial market developments. Click here to view recent reports.

View our recent economic research

Hear from QTC's economists about topical issues that are important to the global and Australian economies, and financial markets. Click here to view recent updates.

FUNDING AND MARKETS DIVISION
Economics, Credit and Markets Research

Michael Anthonisz
T: 07 3842 4711
E: manthonisz@qtc.com.au

QUEENSLAND TREASURY CORPORATION
GPO Box 1096 Brisbane Queensland 4001
T: 07 3842 4600 www.qtc.com.au

Domestic economy

SUMMARY:

ABS measures of labour market conditions continued to be impacted by seasonal issues. GDP growth was soft in Q4 2023, especially on a per capita basis where output has contracted over the past year. Annual consumer price inflation continued to moderate in February, though while this process continues over the year for core measures, monthly outcomes were firmer than those seen in prior readings.

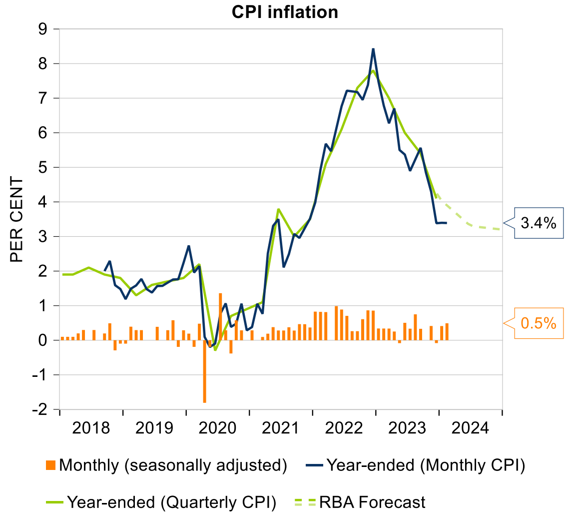
REVIEW:

- The RBA kept the cash rate unchanged at 4.35 per cent at its March Board meeting, as expected. However, the post-meeting statement indicated a shift to a neutral policy stance, with the Board now stating that it is 'not ruling *anything* in or out', in contrast to its previous statement that 'a further *increase* in interest rates cannot be ruled out'. Governor Bullock explained that this change in language was in response to recent data that increased their confidence in their current path, which likely refers to the softer-than-expected inflation and labour market readings in the lead up to the meeting. Despite this shift, Bullock emphasised that the outlook for interest rates remains uncertain and that the risks are finely balanced.
- The February ABS labour force survey report was much stronger than expected with employment increasing by 116,500 and the unemployment rate falling to 3.7 per cent (from 4.1 per cent). However, given the recent volatility in this data it is difficult to put too much weight on this and recent outcomes.
- Seek job ads continue to point to labour market conditions easing. The number of job ads declined 2.5 per cent in February to be 18.6 per cent lower over the year and the number of applicants per job ad has increased by 73 per cent over the past year.
- The ABS' 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. This 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.
- 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.
- Business conditions improved slightly in February according to the *NAB Business Survey*, driven by improved trading conditions and profitability. However, this improvement was not evident across all the measures in the survey. Forward orders were slightly weaker. Capacity utilisation and the more forward-looking business confidence index were little changed. Measures of price pressures were mixed. Labour and purchase cost growth were steady on a quarterly basis, at 2.0 and 1.8 and per cent respectively. In contrast, there was a pickup in both final product and retail price inflation.
- 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).

WHAT TO WATCH:

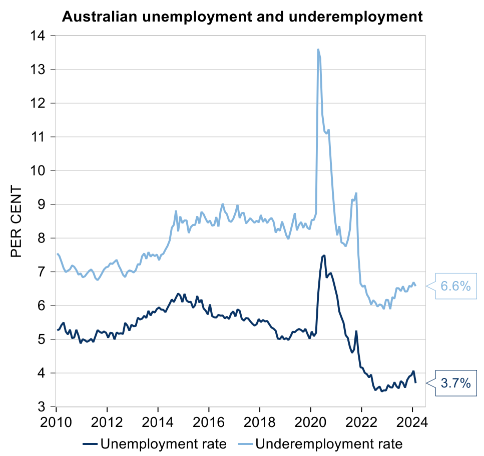
The RBA shifted to a neutral bias at its March meeting. The large decline in the unemployment rate in February was unexpected and not consistent with other readings on labour market conditions. This opens the door to a partial correction next month. The RBA will be looking to see if this occurs as, if it doesn't happen and the unemployment rate instead remains low and should the firming in services inflation observed in January persist, the Bank may again actively consider rate hikes. Therefore, the next labour force (18 April) and CPI (both quarterly and monthly, 24 April) will be critical to watch.

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



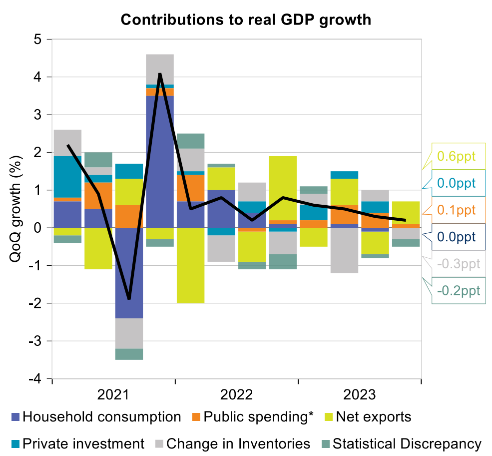
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: THERE WAS ALSO A SHARP DROP IN THE UNEMPLOYMENT RATE, WHILE UNDEREMPLOYMENT POSTED A MORE MODEST DECLINE



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: WEAK HOUSEHOLD CONSUMPTION HAS UNDERPINNED SLOWER GDP GROWTH OVER THE PAST YEAR



**Includes General Government consumption and public sector investment*
Source: Australian Bureau of Statistics, QTC, Macrobond

International economy

SUMMARY:

Economic conditions in the US, while resilient, continue to soften. Meanwhile, weakness remains in China's property sector. Major central banks mostly kept policy settings on hold, though the Bank of Japan was an exception, lifting interest rates for the first time since 2007.

REVIEW:

- In **central bank** news:
  - The US Federal Reserve's FOMC left the target range for the federal funds rate unchanged at its March meeting. In the post-meeting press conference, Chair Powell reaffirmed that rates are likely at their peak and that it will be appropriate to begin easing policy sometime this year. The median forecast from the FOMC members points to 75bp of rate cuts in 2024, with the fed funds rate expected to fall to 2.6 per cent in the long term. The updated economic projections for 2024 showed a more robust economic outlook, with upward revisions resulting in noticeably stronger GDP growth and slightly higher core inflation.
  - The Bank of Japan (BOJ) ended its negative interest rate policy, which had been in place since January 2016. It also exited from other unconventional policy measures, including yield curve control and purchases of both exchange-traded funds and real estate investment trusts, noting that these measures '*have fulfilled their roles*'. The shift in BOJ policy follows the outcome of the annual spring wage negotiations (Shunto) which, at 5.3 per cent, was the strongest wage outcome since 1991. The strength of wages growth has provided the BOJ with more confidence in achieving its inflation target, with it noting that '*the virtuous cycle between wages and prices has become more solid*'.
- In the **US**:
  - Non-farm payrolls increased by 275,000 in February. This was higher than expectations for a 200,000 increase, though January's outcome was revised down sharply from 353,000 to 229,000. The unemployment rate increased by 0.2 ppts to 3.9 per cent. Job openings fell by a modest 26k to 8,863k in January, but remain noticeably higher than pre-pandemic levels.
  - Both headline and core CPI inflation increased by 0.4 per cent in February to be up 3.8 per cent over the year, slightly lower than in January. Annual headline inflation was 3.2 per cent with around two-thirds of this reflecting rents growth. Headline PPI inflation increased 0.6 per cent in February, double consensus expectations. Core PPI inflation was also slightly stronger than expected at 0.3 per cent.
  - 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.
- In **China**:
  - Industrial production and fixed asset investment increased by more than expected over the year to January-February, underpinned by stronger manufacturing activity. There was particularly strong growth in high-tech manufacturing sectors, including new-energy vehicles and green energy. Retail sales were slightly below consensus estimates, with headline retail sales growth slowing from 7.4 to 5.5 per cent year-on-year.
  - Financing and house prices remained weak due to the ongoing crunch in China's property sector. House prices fell 0.4 per cent in February, marking their ninth consecutive monthly decline. Aggregate financing was well below consensus expectations, while new RMB loans were also weaker than expected.

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 countries do.

CHART 4: JAPAN'S SPRING WAGE NEGOTIATIONS SAW THE LARGEST INCREASE IN WAGES SINCE 1991

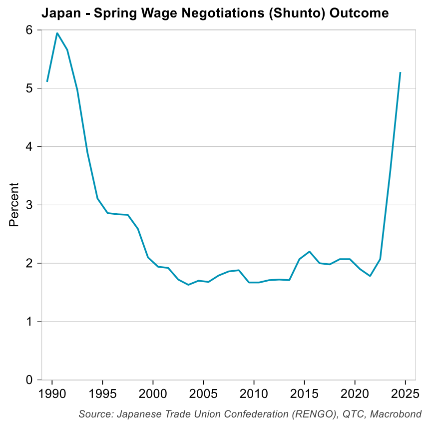


CHART 5: RENTS ACCOUNTS FOR AROUND TWO THIRDS OF US INFLATION OVER THE PAST YEAR

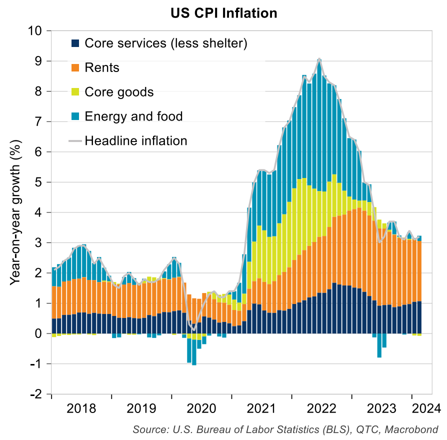


CHART 6: THE US UNEMPLOYMENT RATE HAS TRENDED HIGHER OVER THE PAST SIX MONTHS