

Weekly Economics and Markets Review

- Australia's labour market remained tight in March, despite a small uptick in the unemployment rate and decline in employment.
- Inflation outcomes across the UK, New Zealand and Canada were mixed, though generally pointed to services inflation remaining stickier than expected.
- China's economy outperformed economists' expectations in the March quarter, though the property sector remains decidedly weak.

Week in review

Domestic

- The **labour force survey** suggested that conditions remained tight in March, with only a modest loosening of the labour market since mid-2023.
 - The unemployment rate rose from 3.7 to 3.8 per cent, maintaining most of the improvement seen in February.
 - Employment was slightly weaker than expected, posting a small 6.6k decline. However, this follows a 118k increase in employment in February, which was the largest monthly increase in Australian employment outside of the pandemic period.
 - The participation rate dipped by 0.1ppt to 66.6 per cent in March, bringing it back to its January level.
- The **NAB Quarterly Business Survey** suggested that business conditions stabilised at an above-average level in the March quarter and capacity utilisation levels remained high. Business confidence and forward orders also picked up slightly, though both measures remain weak.
- Labour cost growth remains elevated despite slowing slightly in the March quarter. Wage costs and labour availability continued to be key concerns for businesses, while materials shortages appear to have abated.

Offshore

- The IMF revised its expectations for **global growth** this year from 3.1 to 3.2 per cent, citing the unexpected strength in the US economy. Despite the upgrade, the IMF warned high borrowing costs and the withdrawal of fiscal support will weigh on growth in the short term.
- President Biden said the US will increase **tariffs** on imports of Chinese steel to 25 per cent, which is three times the current rate. However, the impact is likely to be small, with Chinese steel only accounting for around 0.6 per cent of US steel consumption.
- **US Federal Reserve** Chair Powell said that given the lack of progress on inflation in recent months, the Fed may need to keep rates higher for longer than it previously expected. Other Fed officials also suggested that there is no urgency to cut rates given the current flow of economic data. In contrast, **ECB** officials strongly suggested that its first interest rate cut could occur in June.

- **US** retail sales were stronger than expected, while other second-tier data were mixed.
 - Retail sales rose by a stronger-than-expected 0.7 per cent in March 2024, with retail spending continuing to benefit from resilient job growth and rising real wages. Core retail sales (exc. autos) also rose by a strong 1.1 per cent.
 - Housing starts fell sharply in March, with the annualized rate of 1.321 million well below consensus expectations for 1.485m new housing starts.
 - The University of Michigan consumer sentiment index ticked down in April, while inflation expectations edged higher. The share of consumers blaming high prices for eroding their living standards also rose to 39 per cent in April (from 33 per cent in March).
 - Manufacturing production rose by 0.5 per cent in March, supported by strong production of motor vehicles and parts.
- **UK** CPI inflation eased by less-than-expected in March. Headline inflation eased to 3.2 per cent on a year-on-year basis, while core CPI inflation fell to 4.2 per cent. Services prices were particularly disappointing, with services inflation easing by only one-tenth to 6.0 per cent.
- **New Zealand's** CPI also suggests that domestic inflation pressures have remained sticky. While headline inflation moderated to 4 per cent, non-tradables inflation has remained strong, with an annual rate of 5.8 per cent.
- **Canada's** headline CPI inflation rate edged higher to 2.9 per cent in March, while services inflation accelerated to 4.5 per cent. However, the Bank of Canada's preferred measures of underlying inflation both eased by more than expected in the month, increasing the possibility of a June rate cut.
- **Japan's** CPI excluding fresh food eased from 2.8 to 2.6 per cent in March, slightly weaker than the consensus estimate of 2.7 per cent. Core inflation (excluding fresh food and energy prices) eased to 2.9 per cent, marking the first time it has been below 3 per cent since November 2022.
- **China's** GDP grew by 5.3 per cent over the year to the March quarter, outperforming economists' expectations. This improvement was largely explained by a surge in exports, though fixed asset investment growth also improved.
- Despite the improvement in GDP, China's property sector remained weak in the March quarter. Property investment fell by 11.3 per cent over the year, while the volume of new home sales has fallen by 21.1 per cent. Growth of funds for property development also remains deeply negative, having fallen by almost 30 per cent over the past year.

Markets

US Treasury yields increased slightly over the past week, supported by strong retail sales and commentary from the Federal Reserve suggesting rates may have to remain higher for longer. Higher yields and less dovish Fed commentary also saw the USD strengthen, with the AUD/USD falling to 0.64.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: CPI (Q1) Friday: PPI (Q1), Trade prices (Q1)
Offshore	US: GDP (Q1), PCE deflator (Mar), Personal income and spending (Mar), S&P Global PMIs (Apr), Goods orders (Mar), New home sales (Mar) Euro area: HCOB Eurozone manufacturing PMI (Apr), Consumer confidence (Apr), ECB consumer inflation expectations (Mar) UK: Retail sales (Mar), S&P Global PMIs (Apr) Japan: BOJ meeting (26 Apr), Department store sales (Mar), Tokyo CPI (Apr) China: 1- and 5-year Prime Loan Rate (22 Apr)

Economic and Financial Market Charts

CHART 1: AFTER HAVING EASED OVER 2023, THE QUARTERLY RATE OF EMPLOYMENT INCREASES PICKED UP NOTICEABLY IN Q1 2024

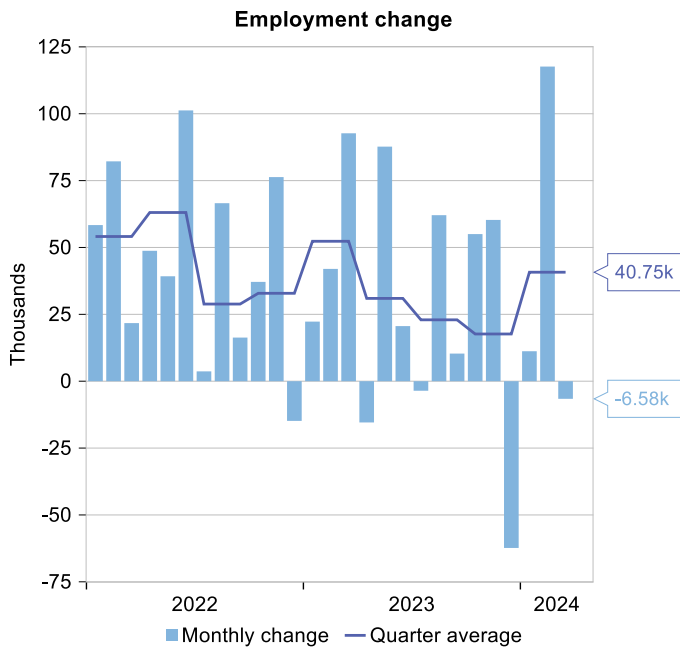


CHART 2: BOTH UNEMPLOYMENT AND UNDEREMPLOYMENT REMAIN LOW, WITH THE PACE OF INCREASES SEEMING TO HAVE SLOWED

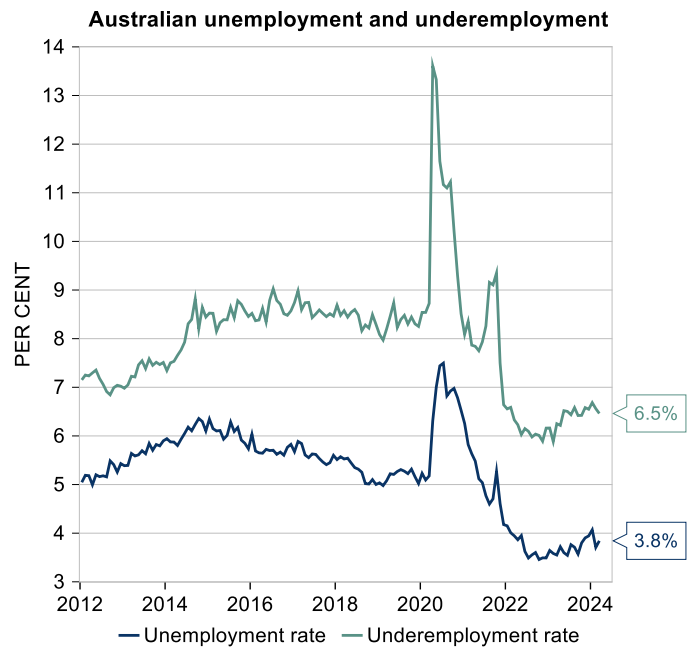


CHART 3: THE UNEMPLOYMENT RATE IS TRACKING BELOW THE RBA'S FORECASTS, SUGGESTING IT MAY HAVE TO REVISE ITS OUTLOOK LOWER IN THE MAY STATEMENT ON MONETARY POLICY

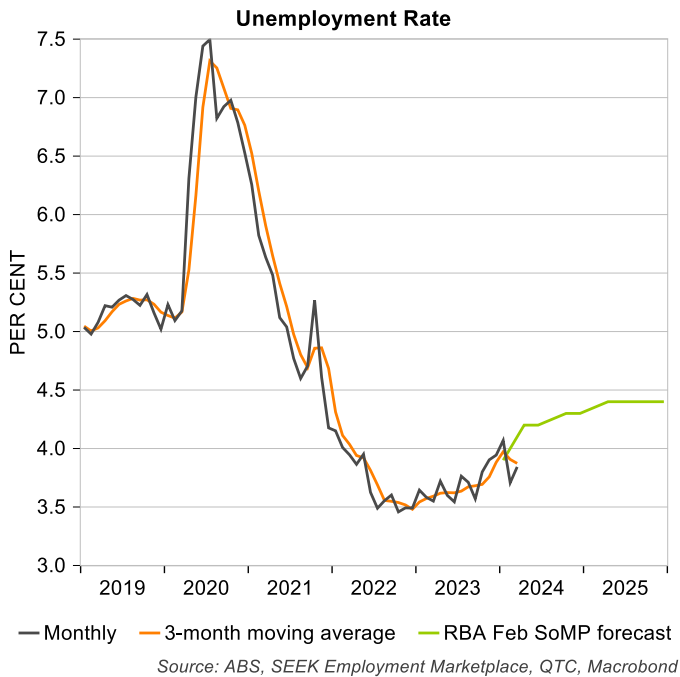


CHART 4: WAGE COSTS REMAINED THE TOP ISSUE AFFECTING BUSINESS CONFIDENCE IN Q1, FOLLOWED BY PRESSURE ON MARGINS AND LABOUR AVAILABILITY

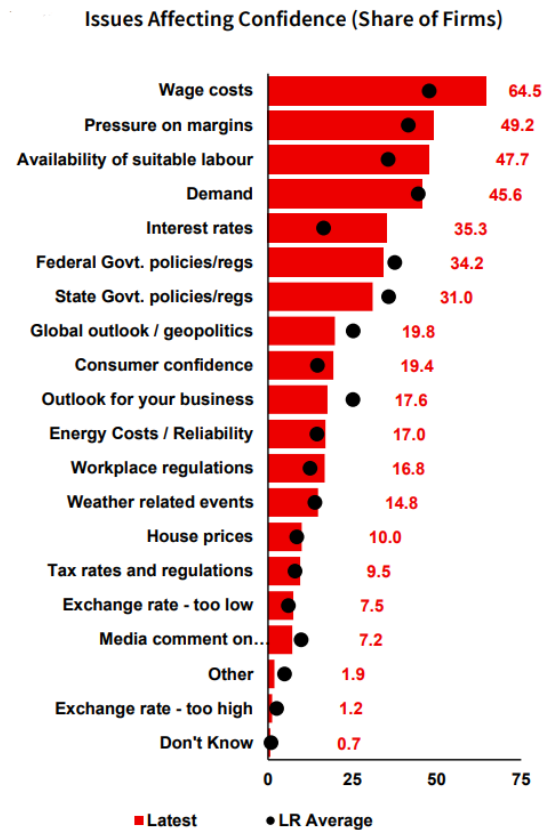


CHART 5: IMPROVEMENTS IN INFLATION HAVE SLOWED ACROSS ADVANCED ECONOMIES OVER RECENT MONTHS...

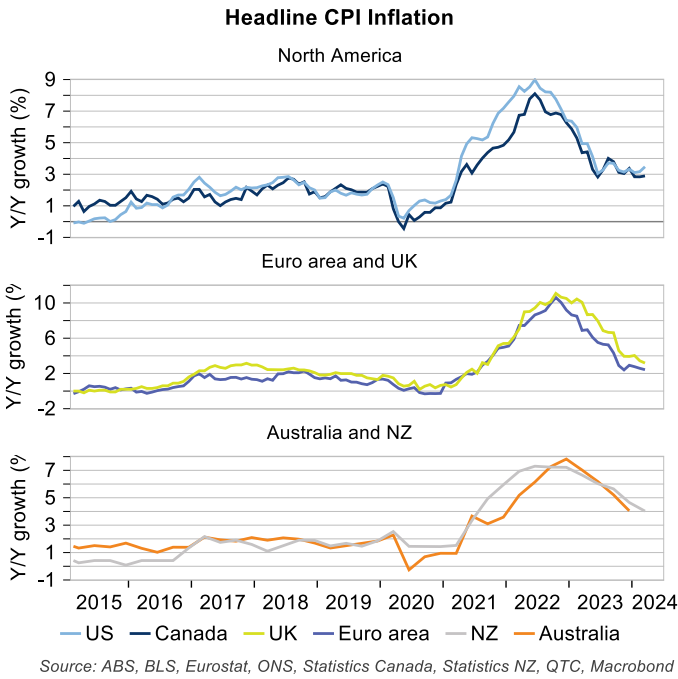


CHART 6: ... WITH INFLATION LARGELY BEING HELD UP BY STICKY SERVICES PRICES

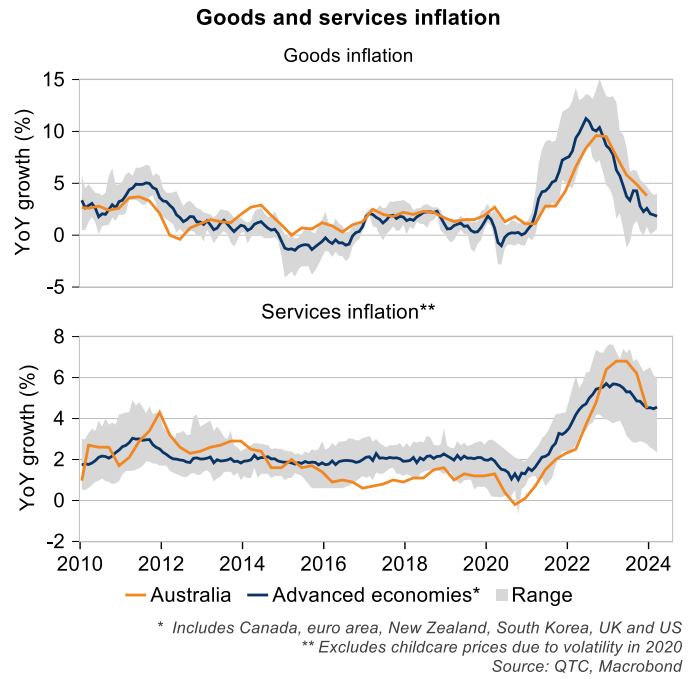


CHART 7: STRONGER-THAN-EXPECTED INFLATION HAS SEEN FINANCIAL MARKETS WIND BACK EXPECTATIONS FOR FED RATE CUTS OVER RECENT MONTHS

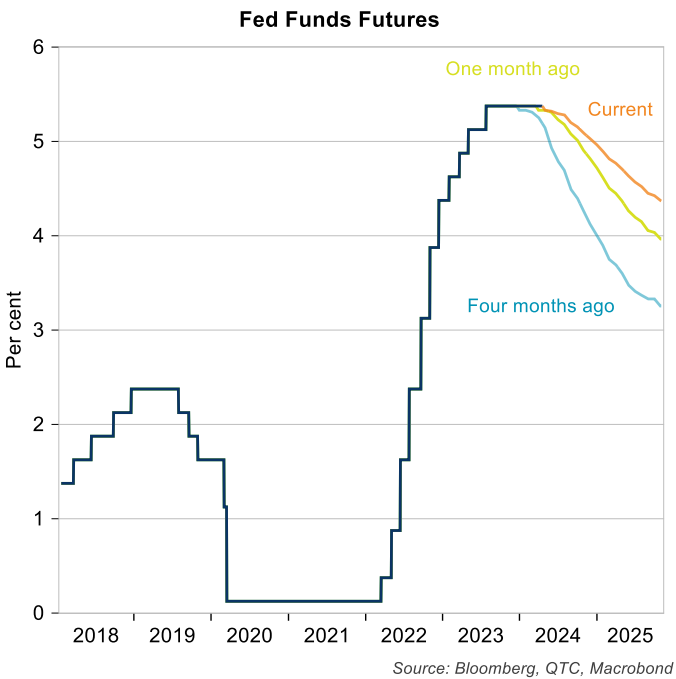


CHART 8: CHINA'S ECONOMY OUTPERFORMED ECONOMISTS' EXPECTATIONS IN Q1, THOUGH THE PROPERTY SECTOR REMAINS UNAMBIGUOUSLY WEAK



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	4.20	6	15	70	AUD/USD	0.64	-1.79	-1.70	-4.78
	NSWTC	4.20	6	14	70	AUD/EUR	0.60	-1.02	0.35	-1.84
	TCV	4.25	5	13	72	AUD/GBP	0.52	-0.86	0.56	-4.70
	WATC	4.18	5	14	68	AUD/JPY	99.30	-0.91	0.78	9.72
	Australian Government	3.87	3	13	78	AUD/CAD	0.88	-1.22	-0.25	-2.70
	US Government	4.82	2	35	96	AUD/NZD	1.09	-0.22	0.78	-0.37
5 Year	QTC	4.33	9	16	75	AUD/SGD	0.87	-1.12	-0.21	-2.62
	NSWTC	4.33	7	14	72	AUD/HKD	5.03	-1.86	-1.59	-4.97
	TCV	4.40	8	15	78	AUD/KRW	881.89	-1.12	0.76	-1.15
	WATC	4.30	7	15	74	AUD/CNY	4.65	-1.80	-1.16	0.26
	Australian Government	3.93	4	13	75	AUD/INR	53.83	-2.34	-0.38	-2.48
	US Government	4.68	5	38	105	MAJOR CURRENCIES				
7 Year	QTC	4.54	7	17	74	EUR/USD	1.07	-0.49	-1.78	-2.72
	NSWTC	4.58	6	15	71	GBP/USD	1.25	-0.80	-2.10	0.08
	TCV	4.65	7	16	82	USD/JPY	154.39	0.73	2.35	15.01
	WATC	4.50	7	16	72	USD/CHF	0.91	0.08	2.56	2.07
	Australian Government	4.09	3	14	76	USD/CNY	7.24	-0.02	0.51	5.27
	US Government	4.66	4	35	108	MAJOR COMMODITIES				
10 Year	QTC	4.89	6	18	78	Brent Crude Oil	87.11	-2.93	-0.31	7.41
	NSWTC	4.91	6	16	72	Gold	2,379.04	0.27	10.26	18.67
	TCV	5.01	6	18	83	Copper	9,734.50	4.20	8.44	9.61
	WATC	4.79	6	17	72	Iron Ore	116.84	7.97	10.52	20.62
	Australian Government	4.27	2	16	79					
	US Government	4.63	5	34	110					

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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