

Weekly Economics and Markets Review

- CPI inflation was stronger than expected in Q1, with both headline and underlying inflation moving higher in the quarter.
- US GDP slowed by more than expected in Q1, while PCE inflation was firmer than economists' estimates.
- US Federal Reserve officials remain cautious on the outlook given the continued resilience of the US economy.

Week in review

Domestic

- Quarterly **headline CPI** inflation increased to 1.0 per cent in Q1 2024, higher than both economists' expectations (0.8 per cent) and its previous rate (0.6 per cent). Annual inflation eased to 3.6 per cent due to base effects.
- The largest contributors to headline inflation were health and education, reflecting large seasonal price increases. Rents inflation was also strong, with rents increasing at its fastest annual pace since March 2009.
- While there were notable increases in a few price categories, a large share of the CPI basket is experiencing elevated inflation. Around half of the CPI items (and 60 per cent of the basket by weight) had annualized inflation above 3.0 per cent.
- **Trimmed-mean CPI** inflation was stronger than expected at 1.0 per cent in the quarter. Annual inflation slowed marginally to 4.0 per cent (from 4.2 per cent).
- The increase in trimmed-mean inflation is consistent with other measures of underlying or domestically driven inflation, most of which ticked up on a quarterly basis. Non-tradables inflation remains particularly high, while core market services inflation also increased (after adjusting for seasonality).

Offshore

- **US Federal Reserve** officials remain cautious on the outlook for inflation and interest rates given the continued resilience of the US economy. Richmond Fed President Barkin suggested that the combination of robust demand and still above-target inflation means that the direction for the fed funds rate is unclear. Chicago Fed President Goolsbee also said that recent inflation surprises 'can't be dismissed', noting that it makes sense to wait for more clarity before considering a change in policy.

- The **Bank of Canada's** Summary of Deliberations for its April meeting showed that it wants to see further progress on inflation before it starts to cut rates. It also noted that the eventual easing of policy is expected to be gradual.
- **US** economic data was mixed over the past week. GDP slowed by more than expected in Q1, while PCE inflation was firmer than economists' estimates.
 - US GDP growth slowed to 1.6 per cent (annualised) from 3.4 per cent in Q4. This outcome was below both economists' expectations (2.5 per cent) and the CBO's estimate of potential growth. Personal consumption spending slowed due to a fall in goods consumption, while government consumption moderated to its slowest growth rate since mid-2022. A strong increase in imports also weighed on growth in the quarter.
 - Core PCE inflation was 3.7 per cent on an annualised basis, which was higher than both its Q4 outcome (2.0 per cent) and economists' estimates (3.4 per cent). The monthly March PCE deflator data will be published later today.
 - Both the manufacturing and services PMI fell in April, with the services PMI reaching a five-month low. The services employment index also fell to its lowest level since June 2020.
 - Durable goods orders rose 2.6 per cent in March, though growth was largely driven by the volatile transportation equipment component.
- **UK** retail sales were weaker-than-expected in March, with core sales falling 0.3 per cent in the month to be just 0.4 per cent higher over the year.
- **Euro area** consumer confidence increased modestly in April, maintaining its upward trend since October. The composite PMI also increased in the month, with an increase in the services sector more than offsetting a decline in manufacturing.

Markets

Domestic and US Government bond yields increased over the past week alongside stronger-than-expected Q1 inflation outcomes. The USD/JPY reached a multi-decade high, increasing the risk that Japan's Ministry of Finance will intervene to defend the currency.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Retail sales (Mar), Private sector credit (Mar) Wednesday: Corelogic house prices (Apr) Thursday: International trade (Mar), Building approvals (Mar) Friday: Housing finance (Mar)
Offshore	US: FOMC rate decision (2 May), Non-farm payrolls (Apr), ADP employment (Apr), JOLTS Job openings (Mar), Unemployment rate (Apr), Average hourly earnings (Apr), Challenger job cuts (Apr) S&P Corelogic house prices (Feb), ISM PMI (Apr), Factory orders (Mar) Euro area: CPI (Apr), GDP (Q1), Unemployment rate (Mar), Economic confidence (Apr) Japan: Retail sales (Mar), Industrial production (Mar), Jobless rate (Mar) China: Manufacturing and non-manufacturing PMIs (Apr)

Economic and Financial Market Charts

CHART 1: THE IMPROVEMENT IN CPI INFLATION HAS SLOWED NOTICEABLY, WITH QUARTERLY INFLATION MOVING HIGHER IN Q1 2024

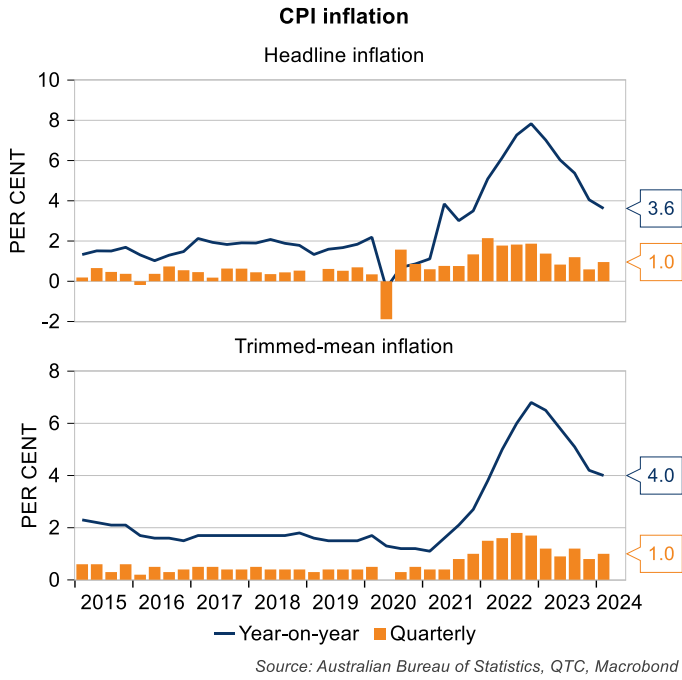


CHART 2: NON-TRADABLE INFLATION REMAINS PARTICULARLY HIGH, SUGGESTING THAT ELEVATED PRICE GROWTH REFLECTS DOMESTIC (RATHER THAN GLOBAL) FACTORS

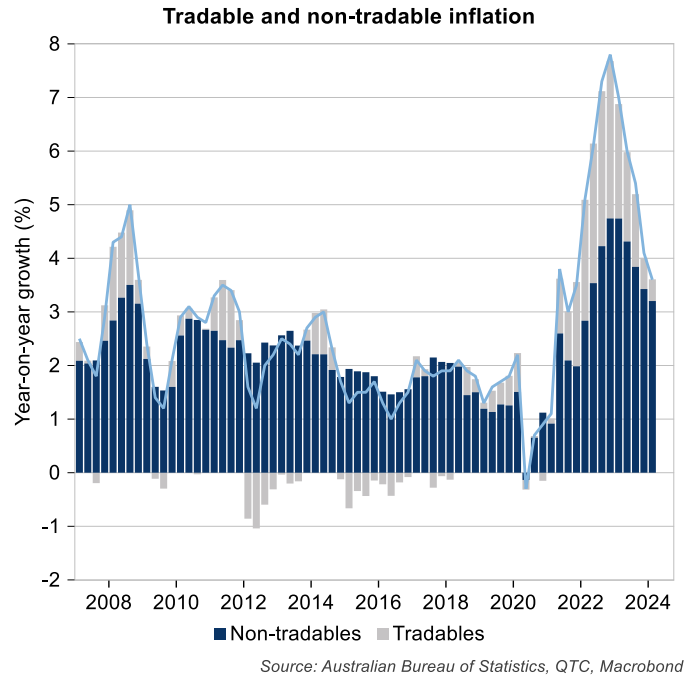


CHART 3: OTHER MEASURES OF UNDERLYING INFLATION ALSO TICKED UP IN THE QUARTER...

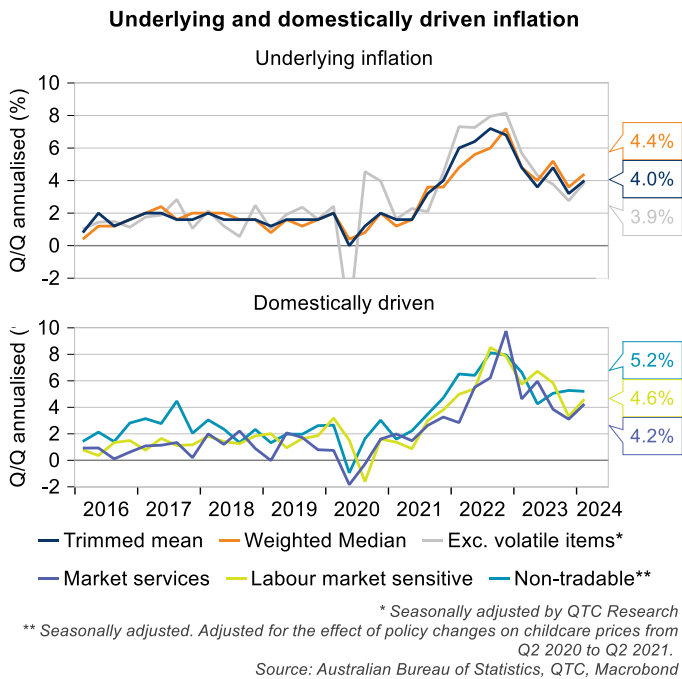


CHART 4: ... WHILE AROUND HALF OF THE CPI ITEMS ARE STILL EXPERIENCING ANNUALIZED INFLATION ABOVE 3%

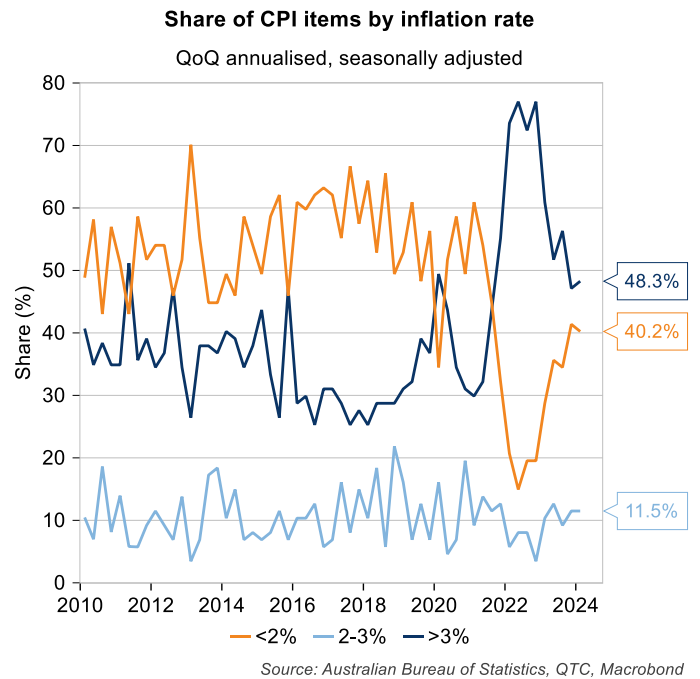
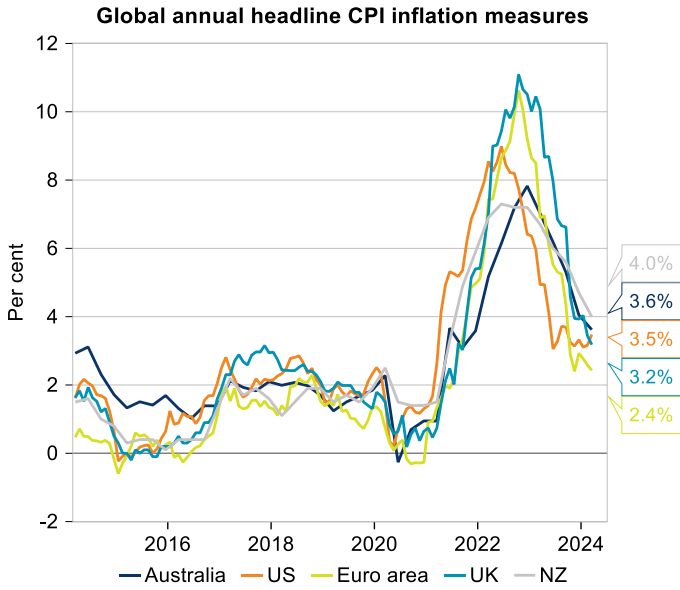
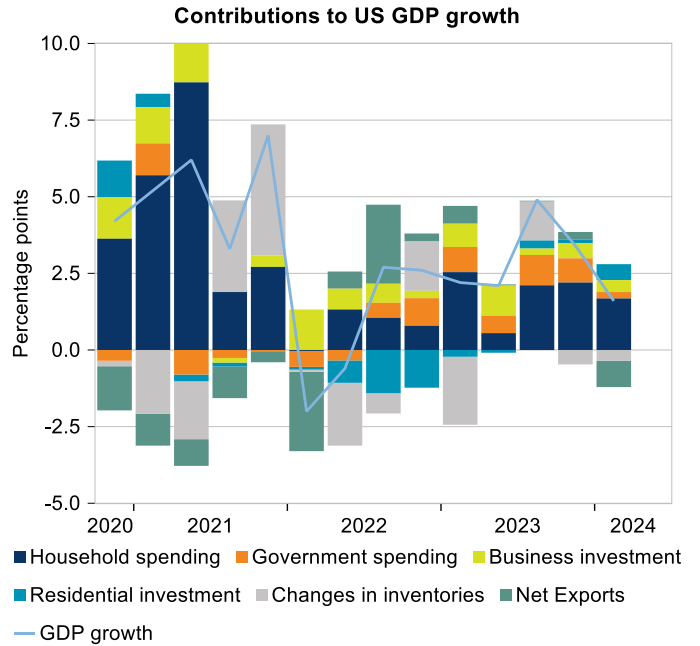


CHART 5: AUSTRALIA'S HEADLINE INFLATION RATE IS BROADLY CONSISTENT WITH OTHER MAJOR ADVANCED ECONOMIES



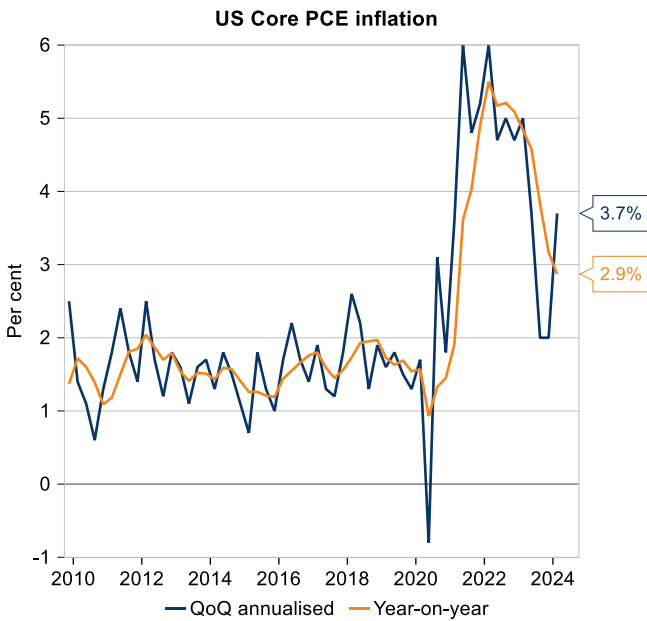
Source: Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, China National Bureau of Statistics (NBS), Statistics New Zealand, QTC, Macrobond

CHART 6: US GDP GROWTH SLOWED BY MORE THAN EXPECTED IN Q1, WEIGHED DOWN BY A STRONG INCREASE IN IMPORTS



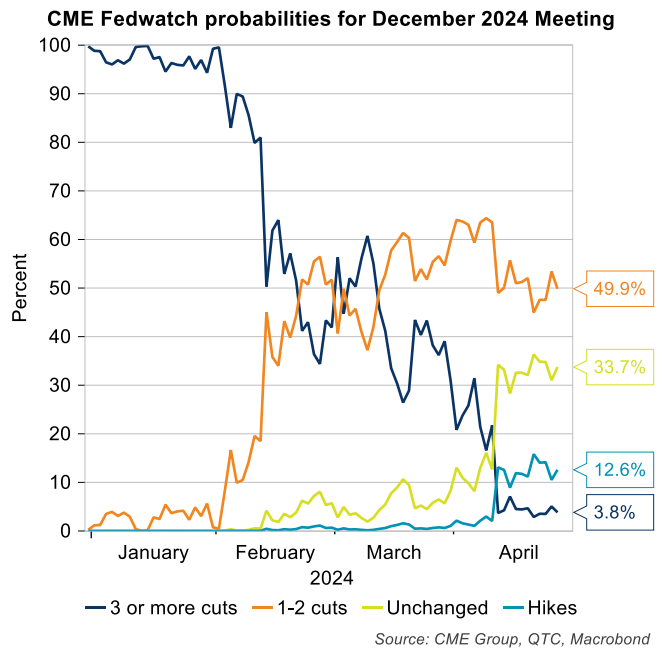
Source: U.S. Bureau of Economic Analysis (BEA), QTC, Macrobond

CHART 7: DESPITE SLOWER GDP GROWTH, THE FED'S PREFERRED MEASURE OF CORE INFLATION PICKED UP NOTICEABLY IN Q1



Source: , QTC, Macrobond

CHART 8: THE PROBABILITY THAT THE FED COULD DO THREE OR MORE 25BP CUTS BY ITS DECEMBER MEETING HAS FALLEN SHARPLY SINCE THE START OF THE YEAR



Source: CME Group, QTC, Macrobond

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	4.39	12	44	86	AUD/USD	0.65	1.51	-0.23	-1.70
	NSWTC	4.38	11	43	85	AUD/EUR	0.61	0.70	0.71	1.03
	TCV	4.43	11	42	88	AUD/GBP	0.52	0.89	0.69	-1.82
	WATC	4.35	10	42	84	AUD/JPY	101.46	2.18	2.47	14.18
	Australian Government	4.03	9	40	91	AUD/CAD	0.89	0.70	0.30	-1.22
	US Government	4.85	3	84	105	AUD/NZD	1.10	0.75	0.72	1.62
5 Year	QTC	4.53	13	49	93	AUD/SGD	0.89	1.27	0.76	0.09
	NSWTC	4.52	11	46	90	AUD/HKD	5.10	1.47	-0.17	-1.97
	TCV	4.58	11	46	95	AUD/KRW	895.87	1.59	2.37	0.97
	WATC	4.48	11	46	91	AUD/CNY	4.72	1.48	0.02	2.73
	Australian Government	4.08	7	41	89	AUD/INR	54.39	1.05	-0.33	0.56
	US Government	4.72	4	87	113	MAJOR CURRENCIES				
7 Year	QTC	4.73	12	49	95	EUR/USD	1.07	0.53	-1.22	-2.99
	NSWTC	4.76	10	45	92	GBP/USD	1.25	0.22	-1.30	-0.27
	TCV	4.83	9	46	101	USD/JPY	155.35	0.46	2.50	15.96
	WATC	4.68	10	47	92	USD/CHF	0.92	0.31	1.24	2.33
	Australian Government	4.23	6	40	91	USD/CNY	7.25	0.12	0.39	4.65
	US Government	4.73	7	85	116	MAJOR COMMODITIES				
10 Year	QTC	5.07	10	48	99	Brent Crude Oil	89.01	2.18	3.20	13.58
	NSWTC	5.07	7	44	90	Gold	2,332.46	-1.96	7.05	17.34
	TCV	5.17	7	46	102	Copper	9,865.00	1.34	11.32	14.89
	WATC	4.97	9	47	91	Iron Ore	117.84	0.86	14.05	34.31
	Australian Government	4.39	3	39	95					
	US Government	4.70	7	82	118					

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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