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April Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

Both inflation and labour market data released during the month (for the latter, especially that on the unemployment rate) were better than expected and a key catalyst for domestic bond yields to rise as investors' perceptions of the likely path for the RBA cash rate shifted. Updated forecasts and commentary from the RBA following its meeting on 6 & 7 May will provide important insights into how the central bank is interpreting this recent stronger than anticipated data.

International economy

Incoming inflation data generally painted a picture of ongoing firmness in price pressures. This explains why key central banks kept policy settings unchanged at meetings this month as they await more information about when and by how much inflation will ease. Momentum in the Chinese economy appeared to improve, at least outside of the property sector, while the US economy generally continues to out-perform.

Interest rates

Bond yields rose notably in April with 10-year Australian Government yields rising around 45 basis points during the month. Yields equalled year-to-date highs for 10-year bonds while those on 3-year bonds set new high marks for the year. These moves stemmed from a combination of stronger than expected labour market and inflation outcomes in both Australia and the US as well as commentary from Federal Reserve officials that rates may remain higher for longer.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.42	53	102
	Australian Government	4.03	44	104
	US Government	4.88	87	120
5 Year	QTC	4.57	58	112
	Australian Government	4.09	46	102
	US Government	4.72	87	127
7 Year	QTC	4.78	59	113
	Australian Government	4.24	46	105
	US Government	4.70	82	127
10 Year	QTC	5.13	59	116
	Australian Government	4.41	45	107
	US Government	4.68	80	126

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6496	-0.4%	-2.5%
AUD/EUR	0.6073	0.5%	0.1%
AUD/GBP	0.5186	0.5%	-3.0%
AUD/JPY	102.224	3.7%	12.5%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0697	-0.9%	-2.6%
GBP/USD	1.2527	-0.9%	0.5%
USD/JPY	157.35	-4.0%	-15.3%
USD/CNY	7.2410	-0.3%	-4.8%

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.

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Domestic economy

SUMMARY:

Both inflation and labour market data released during the month (for the latter, especially that on the unemployment rate) were better than expected and a key catalyst for domestic bond yields to rise as investors' perceptions of the likely path for the RBA cash rate shifted.

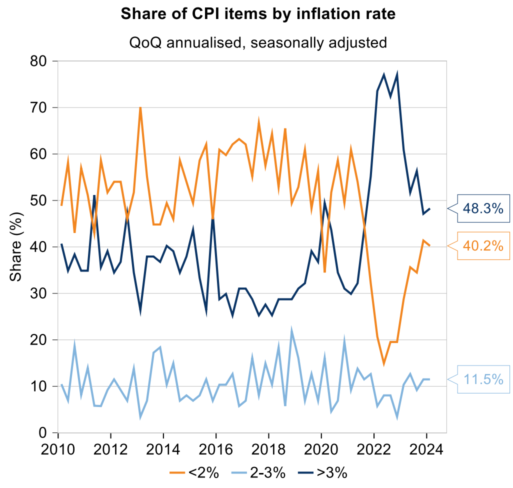
REVIEW:

- 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 were health and education prices which experienced large seasonal price rises. Rents inflation was also strong, 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).
- Surveys released during the month that take the pulse of businesses and consumers were on the softer side. According to the *NAB Business Survey*, business conditions were little changed in March and remain only slightly above their long-run average. Forward orders remained weak, while capacity utilisation continued to trend lower. According to the *Westpac/Melbourne Institute Consumer Sentiment* Survey, consumer confidence fell 2.4 per cent in April and remains around 20 per cent below its long-run average. Sentiment has been well below average for the past two years, marking the second most protracted period of deep consumer pessimism since the survey began in the mid-1970s (with the early 1990s recession being the most protracted).
- The ABS' *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 (against expectations of a rise to 3.9 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.
- Other labour market news was positive as Seek job ads increased 2.4 per cent in March (though remain 14.9 per cent lower over the year) while, unemployment expectations declined in April to remain at below average levels.
- Dwelling approvals were weaker than expected in February, declining by 1.9 per cent against expectations for a 3 per cent rise. While dwelling approvals can be volatile, the recent data have been soft. February marks their third consecutive monthly fall, with the annual rate of approvals falling to its lowest level since March 2013. In contrast, CoreLogic capital-city dwelling prices rose by 0.6 per cent in March, with increases across all capital cities except Darwin. Dwelling prices are now 11.4 per cent higher than their most recent trough in January 2023.

WHAT TO WATCH:

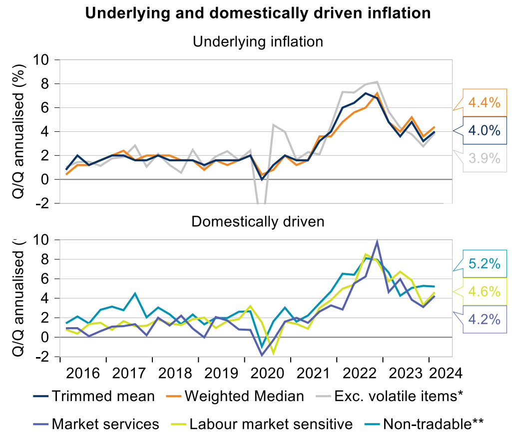
Updated forecasts and commentary from the RBA following its meeting on 6 & 7 May will provide important insights into how the central bank is interpreting the recent stronger than anticipated labour market and inflation data. The Australian Government's 2024-25 Budget released on 14 May will also be of interest, as will incoming data on wages (15 May), labour market conditions (16 May), and inflation (29 May).

CHART 1: AROUND HALF OF THE CPI ITEMS ARE STILL EXPERIENCING ANNUALIZED INFLATION ABOVE 3%...



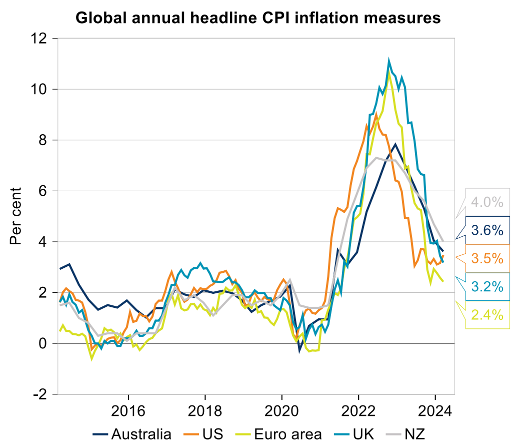
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: ...WITH THIS BROAD-BASED STRENGTH ALSO EVIDENT UNDERLYING INFLATION MEASURES WHICH TICKED UP IN Q1



* Seasonally adjusted by QTC Research
** Seasonally adjusted. Adjusted for the effect of policy changes on childcare prices from Q2 2020 to Q2 2021.
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: AUSTRALIA'S HEADLINE INFLATION RATE IS BROADLY CONSISTENT WITH OTHER MAJOR ADVANCED ECONOMIES



Source: Australian Bureau of Statistics (ABS), 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

International economy

SUMMARY:

Incoming inflation readings generally painted a picture of ongoing firmness in price pressures. This explains why key central banks kept policy settings unchanged at meetings this month as they await more information about when and by how much these will ease. Momentum in the Chinese economy appeared to improve, at least outside of the property sector, while the US economy generally continues to out-perform.

REVIEW:

- In the **US**:
  - 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.
  - Non-farm payrolls showed the US economy added 303k jobs in March 2024, well more than expected and marking an acceleration in the pace of hiring. The unemployment rate fell one-tenth to 3.8 per cent, driven by a 498,000 gain in the household survey measure of employment. Strong immigration contributed to the increase in household employment, with foreign-born employment increasing 246k.
  - 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.
- In **China**, 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.
- Readings on **inflation** that were released in the month included:
  - US CPI inflation was stronger than expected in March with annual headline CPI inflation at 3.5 per cent and core inflation at 3.8 per cent. Stronger core inflation was mostly driven by the services sector (excluding housing).
  - UK CPI inflation eased by less-than-expected in March with the annual rates of headline and core inflation dipping to 3.2 per cent and 4.2 per cent respectively. Disappointingly, services inflation slowed by only one-tenth to 6.0 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.
  - 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.
  - New Zealand's CPI suggests that domestic inflation pressures have remained sticky. While headline inflation moderated to 4 per cent, non-tradables inflation has remained strong.
- In **central bank** news, the ECB, Bank of Canada and Reserve Bank of New Zealand kept policy rates unchanged at their April meetings. 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.

WHAT TO WATCH:

Incoming inflation and labour market data will be critical to get a sense of the timing and magnitude of the global monetary policy easing cycle. This has been delayed due to resilient readings on both in recent months, especially in the US.

CHART 4: THE US ECONOMY ADDED 303K JOBS IN MARCH 2024, MARKING AN ACCELERATION IN THE PACE OF HIRING

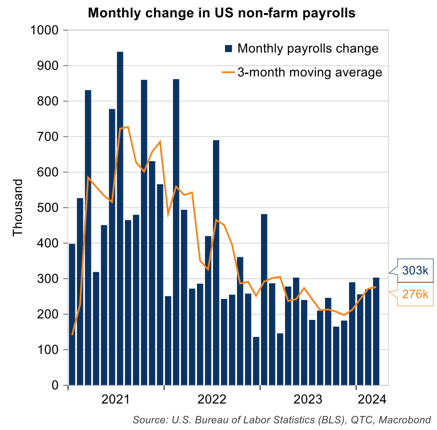


CHART 5: THE IMPROVEMENT IN US CPI INFLATION HAS STALLLED OVER THE PAST FEW MONTHS

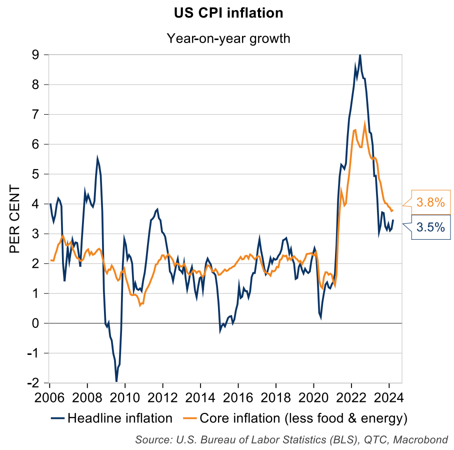


CHART 6: ECONOMIC CONDITIONS IN CHINA IMPROVED IN Q1, THOUGH REMAIN WEAK IN THE PROPERTY SECTOR