September Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

Economic data released in September generally painted a weaker picture of economic activity with the labour force release a notable exception.

International economy

US economic data released in September was generally firmer while the opposite was true for that in relation to China. Policymakers in both key economies eased monetary policy in the month.

Interest rates

Australian Government 10-year bond yields edged one basis points higher in September after having declined in each of the previous four months. In contrast, three-year yields dipped two basis points on the month, a third straight decline. Yields fell at the start of the month on weaker than expected US jobs numbers but began rising when the opposite outcome was observed in Australian labour markets.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.80	-4	-51
	Australian Government	3.53	-2	-55
	US Government	3.55	-20	-133
5 Year	QTC	4.03	1	-36
	Australian Government	3.61	0	-52
	US Government	3.56	-11	-115
7 Year	QTC	4.32	2	-29
	Australian Government	3.80	1	-50
	US Government	3.65	-11	-107
10 Year	QTC	4.73	2	-23
	Australian Government	3.98	1	-48
	US Government	3.79	-7	-89

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6937	2.1%	8.9%
AUD/EUR	0.6215	1.3%	2.4%
AUD/GBP	0.5171	0.2%	-1.6%
AUD/JPY	99.2834	0.6%	4.0%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1161	0.8%	6.3%
GBP/USD	1.3414	2.0%	10.6%
USD/JPY	143.13	1.5%	4.5%
USD/CNY	7.0183	1.1%	3.9%

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:

Economic data released in September generally painted a weaker picture of economic activity with the labour force release a notable exception.

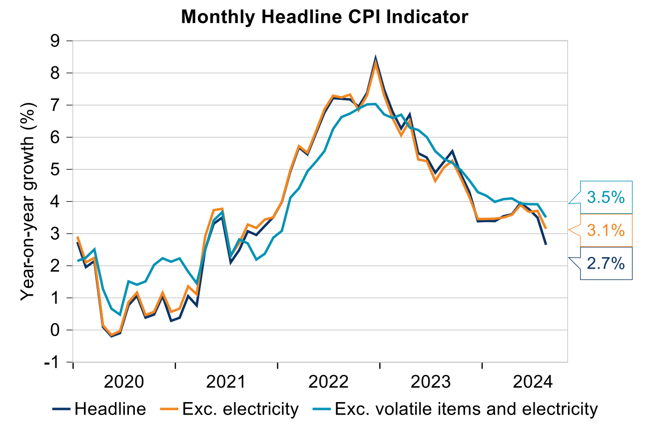
REVIEW:

- The RBA kept the cash rate unchanged at 4.35 per cent and continues to push back against market pricing for rate cuts by the end of the year with Governor Bullock stating that the Board '*does not see interest rate cuts' in the near term'*. When asked why the RBA remains on hold while most other central banks have started to cut interest rates, Governor Bullock said that domestic economic circumstances were a '*little different*'. In particular, she noted that the RBA did not raise rates as far as most central banks and that Australia has not experienced the same deterioration of labour market conditions.
- The annual rate of headline inflation fell to 2.7 per cent according to the ABS' monthly CPI release for August. This was down from 3.5 per cent in July with the continued roll out of electricity subsidies lowering inflation in the month. Measures of inflation excluding electricity experienced more modest declines (Chart 1).
- The August labour force survey confirmed that conditions remain solid with the unemployment rate steady at 4.2 per cent, the participation rate unchanged at a record high of 67.1 per cent and employment rising by 47,500 (above consensus expectations for 25,000 increase). Part-time employment drove the increase in August, rising by 50,600. This was partly offset by a 3,100 fall in full-time employment.
- Job vacancies fell by 5.2 per cent in the three months to August 2024. The recent fall is a continuation of the trend decline in vacancies, which are now 30 per cent below their May 2022 peak.
- GDP growth was steady at 0.2 per cent in Q2 while annual GDP growth slowed one-tenth to 1.0 per cent. Outside of the COVID lockdown period, this was the weakest print since the early 1990s recession (Chart 2).
- The NAB Business Survey for August was consistent with a further gradual slowing of growth (Chart 3). Business conditions eased again after a brief uptick in July. The decline was driven by a sharp fall in the employment index, though there were also modest declines in trading conditions and profitability. Business confidence index also fell in August, while capacity utilisation and capex intentions increased. On measures of price pressures, purchase costs ticked higher to 1.6 per cent (from 1.3 per cent), though there did not appear to be much pass-through to final product prices. Labour cost growth eased sharply in August, unwinding the temporary boost to growth in July due to the increase in Minimum and Award wages.
- According to the *Westpac-Melbourne Institute Consumer Sentiment Survey*, consumer confidence fell by 0.5 per cent in September and remains well below its long-run average. Sentiment has been below average for more than 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).

WHAT TO WATCH:

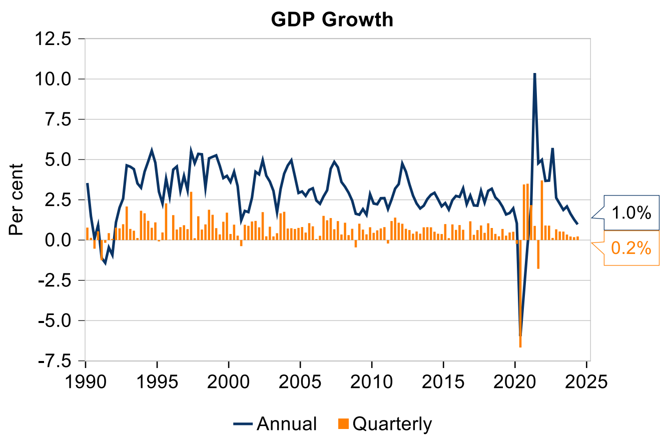
The earlier increase in interest rates continues to weigh on economic activity and assist in lowering inflation. However, the economy's rebalancing process remains ongoing and further moderation in demand will be needed for the RBA to gain confidence that core inflation will sustainably trend towards the mid-point of its target band. Markets are thinking that there could be some chance by the end of the year with a roughly three-in-four chance of a 25 basis points cut by then. It will be important to watch incoming labour market and inflation data to get a clearer sense of when the RBA might join global peers in lowering interest rates.

CHART 1: HEADLINE INFLATION EASED TO BE BACK WITHIN THE RBA'S TARGET BAND IN AUGUST, LARGELY DUE TO ELECTRICITY SUBSIDIES



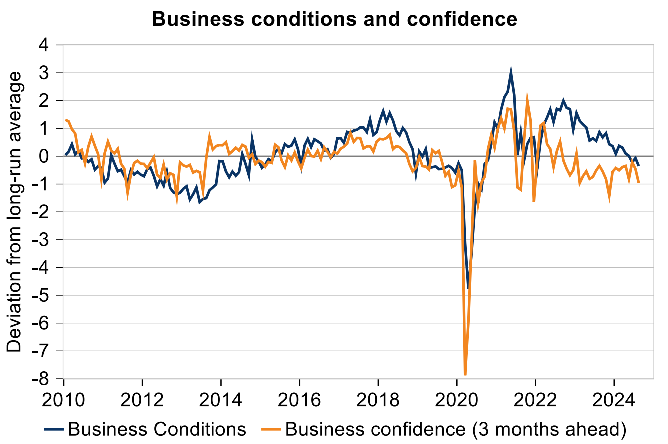
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: ANNUAL GDP GROWTH SLOWED TO 1.0%, WHICH (OUTSIDE OF THE PANDEMIC) IS ITS SLOWEST PACE SINCE THE 1990s RECESSION



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

CHART 3: BUSINESS CONDITIONS AND CONFIDENCE EASED FURTHER IN AUGUST, CONSISTENT WITH A GRADUAL EASING OF ECONOMIC GROWTH



Source: National Australia Bank, QTC, Macrobond

International economy

SUMMARY:

US economic data released in September was generally firmer while the opposite was true for that in relation to China. Policymakers in both key economies eased monetary policy in the month.

REVIEW:

- In **China**, indicators for economic activity continued to disappoint in August (Chart 4).
  - Annual industrial production growth slowed to a five-month low of 4.5 per cent (from 5.1 per cent in July).
  - Retail sales growth eased to 2.1 per cent (from 2.7 per cent), with consumer spending continuing to be weighed down by lower property prices.
  - Fixed asset investment growth also eased two-tenths to 3.4 per cent, weighed down by a 10.2 per cent decline in real estate investment.
  - The NBS manufacturing PMI declined to a six-month low of 49.1 in August
- In the **US:**
  - Retail sales rose 0.1 per cent in August, well above economists' expectations for a 0.2 per cent decline.
  - The University of Michigan consumer sentiment index rose for a second consecutive month in September.
  - Industrial production rebounded in August, with output recovering from the effects of Hurricane Beryl in July.
  - On the labour market, non-farm payrolls increased by 142,000 in August, below expectations for a 165,000 increase. In contrast to payrolls, the household survey suggested that labour market conditions improved slightly in August. The US unemployment rate declined one-tenth to 4.2 per cent (Chart 5). JOLTS job openings were well below expectations decreasing to the lowest level of job openings since January 2021.
- In **central bank** news:
  - The policymaking arm of the US Federal Reserve, the Federal Open Markets Committee (FOMC) cut interest rates by 50 basis points. Fed Chair Powell said that the '*recalibration*' of policy was made to help maintain the strength in the labour market. Powell stressed that he did not think the Fed was behind the curve on rate cuts, but that the 50-basis point cut signalled a commitment not to get behind the curve. FOMC participants expect another 50 basis points of cuts by December 2024, 100 basis points of cuts in 2025, and then a final 50 basis points in 2026. This would see the fed funds rate reach 2.875 per cent by the end of this period.
  - The ECB cut interest rates by 25 basis points, as was widely expected. The Bank declined to commit to a particular path for interest rates, though ECB President Lagarde noted that the downward trend is '*pretty obvious*'.
  - The Bank of Canada (BOC) delivered a 25 basis points cut at its September meeting, marking the third reduction since June. Governor Macklem noted that the BOC needs to '*to increasingly guard against the risk that the economy is too weak and inflation falls too much*.'
  - The People's Bank of China (PBOC) announced several policy changes, including: a 20-basis point cut to the primary policy rate, a 50-basis point cut to the reserve requirement ratio (RRR), and a 50-basis point cut on existing mortgages. The announcement was significant given the size of easing, the rare simultaneous announcement of rate cuts, and the guidance for another 25-50 basis RRR cut by the end of 2025
  - The Swiss National Bank cut the policy rate by 25 basis points to 1.0 per cent in response to weaker inflationary pressures.
  - The Bank of England left its policy rate unchanged at 5.0 per cent and in doing so continued to point to concerns around the trajectory of inflation.
  - The Bank of Japan (BOJ) kept interest rates unchanged, as anticipated. Governor Ueda reiterated that the BOJ would increase rates if its forecasts are met, but suggested there is no immediate need to act. He also said that they will continue to evaluate the effects of this year's two rate increases.

CHART 4: CHINA'S SLOWDOWN HAS SEEN CONDITIONS DIVEREGE NOTICEABLY ACROSS DIFFERENT SEGMENTS OF THE ECONOMY

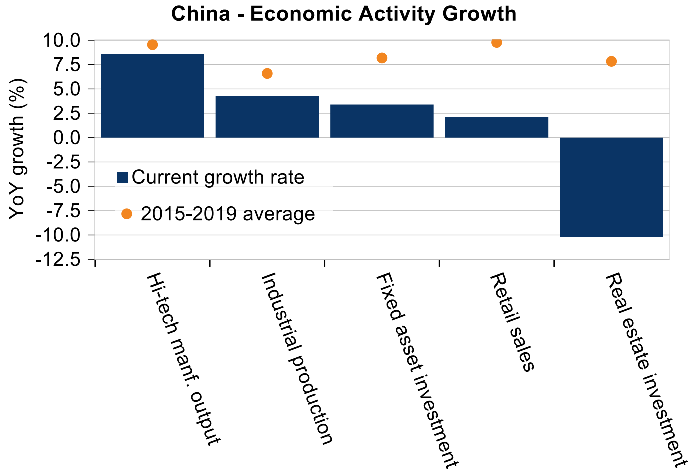
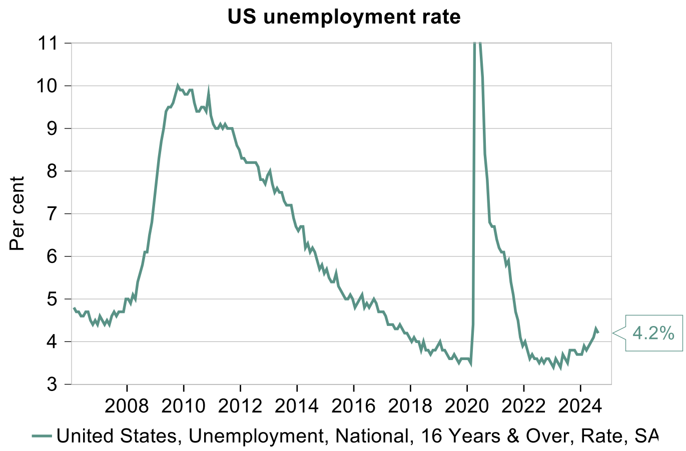
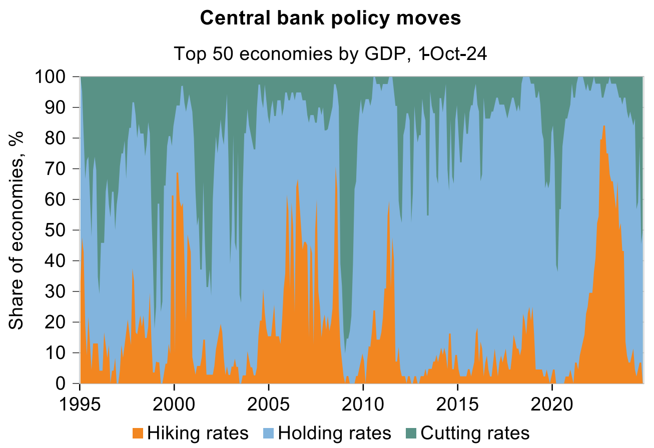


CHART 5: THERE WAS A LIKELY BRIEF RESPITE IN AUGUST FROM THE MARCH HIGHER IN THE US UNEMPLOYMENT RATE



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 6: CENTRAL BANKS IN MORE THAN HALF OF THE WORLD'S LARGEST ECONOMIES CUT INTEREST RATES IN SEPTEMBER



Source: QTC, Macrobond

WHAT TO WATCH:

It will be interesting to observe how the global monetary policy easing cycle broadens out and gathers steam over the months ahead given recent moves (Chart 6).