

# Weekly Economics and Markets Review

- While government support measures pushed headline inflation back into the RBA's target band for the first time since Q1 2021, the rate at which measures of underlying inflation are moderating in Australia remains slow according to the ABS' Q3 CPI report.

## Week in review

### Domestic

- The Q3 CPI report was broadly in line with economists' expectations. Headline inflation eased sharply due to lower electricity prices, while measures of underlying inflation showed more modest improvements.
- Headline CPI** increased by just 0.2 per cent in Q3, with annual headline inflation easing to 2.8 per cent (from 3.8 per cent in Q2). This saw headline inflation return to the RBA's two to three per cent target band for the first time since the Q1 2020.
- Trimmed-mean CPI (the RBA's preferred measure of underlying inflation) increased by 0.8 per cent in Q3, with its annual rate remaining slightly above the RBA's target band at 3.5 per cent. The improvement in trimmed-mean inflation has clearly slowed, with its quarterly rate hovering around 0.8 to 1.0 per cent over the past year.
- There has also been very little improvement in services inflation over the past year. Annual services inflation was 4.6 per cent in Q3, slightly higher than in Q2 and around the 4.5 per cent annual rate that has persisted for the past twelve months.
- The **CPI components** also came in broadly as economists had expected. A sharp decline in electricity prices weighed heavily on headline inflation in Q3. Fuel prices also subtracted from inflation, while rents and insurance cost growth remained elevated.
- The introduction of the expanded Commonwealth Energy Bill Relief Fund rebates and various state government rebates drove a 17.3 per cent reduction in electricity prices in Q3. Excluding these rebates, electricity prices would have increased 0.7 per cent.
  - Fuel prices also weighed on headline inflation in Q3, down 6.2 per cent in the quarter due to lower global oil prices.
  - Annual housing rents inflation eased to 6.7 per cent in Q3, down from 7.3 per cent in Q2. Despite this improvement, rents inflation remains well above its historical average due to ongoing tightness in the rental market.
  - Insurance cost inflation also remains elevated, due to both the increased frequency of natural disasters in recent years and higher claims costs as a result of rising construction costs.
- Retail sales** values were weaker than expected in the month of September, increasing by only 0.1 per cent. In contrast, retail volumes increased by 0.5 per cent in Q3, which is only the second increase in retail volumes in the past two years. Consumers appear to continue to be price sensitive, with spending strongest in categories that have seen larger price declines.

### Offshore

- Bank of Canada (BoC)** Governor Macklem spoke about the recent decision to lower rates by 50-basis points, noting that *'it makes sense to take some bigger-than-normal steps when you've taken some really big steps on the way up.'*
- The **Bank of Japan (BOJ)** kept its benchmark interest rate unchanged at 0.25 per cent, while sticking to its previous guidance. BOJ Governor Ueda reinforced that if the BOJ's *'economic and price outlooks are realized, we'll respond by raising rates'*. The yen appreciated following this statement as investors interpreted Ueda as laying the groundwork for future hikes.
- Recent **US data** have pointed to economic conditions being somewhat stronger than expected, increasing the likelihood that the Fed will take a cautious approach to interest rate cuts at upcoming meetings.
  - Economic growth was solid in Q3, with GDP increasing at an annualised rate of 2.8 per cent. Consumption increased by 3.7 per cent – its fastest pace in 18 months – while business investment increased by a robust 3.3 per cent.
  - Headline PCE inflation was 2.1 per cent over the year to September, which is its slowest pace since early 2021 and just above the Fed's two per cent inflation goal. However, underlying inflation (which strips out volatile items) remains noticeably above the Fed's target, with core PCE increasing by 2.7 per cent over the past year.
  - Household spending and sentiment data was resilient, with Inflation-adjusted consumer spending accelerating to 0.4 per cent in September and Conference Board consumer confidence increasing to 108.7 in October (compared to its previous read of 99.2 and expectations for it to be 99.5).
  - There were conflicting signs on the US labour market ahead of tonight's payrolls outcome. JOLTS job openings were weaker than expected, fall to 7.44m in September, while both the quits rate and the hiring rate were consistent with a more robust September jobs print.
  - Employment cost growth moderated to 0.8 per cent in Q3, according to the BLS Employment Cost Index, supporting Fed Chair Powell's assessment that *'the labour market is not a source of elevated inflationary pressures.'*
- Euro area** GDP grew by a stronger-than-expected 0.4 per cent in Q3, with growth accelerating in France and Germany unexpectedly avoiding a recession.
- China's** economic activity showed tentative signs of improvement, with the NBS manufacturing PMI increasing by more than expected to 50.1 in October, while the non-manufacturing PMI remained mildly expansionary.

## Markets

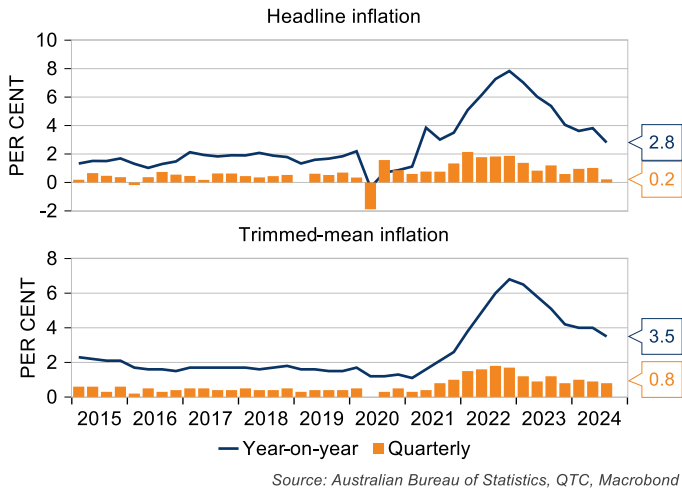
Bond yields rose this week, albeit without obvious catalysts. The Australian Dollar was weaker across the board and oil fell despite ongoing Middle East tensions.

### Economic and Market Calendar

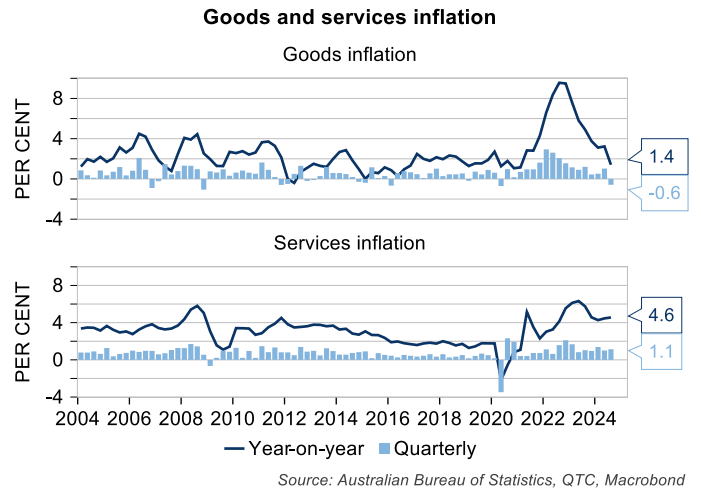
DATE	DETAILS
Domestic	RBA (Nov)
Offshore	US – FOMC (Nov), ISM (Oct) CN – Caixin PMIs (Oct), international trade (Oct)

## Economic and Financial Market Charts

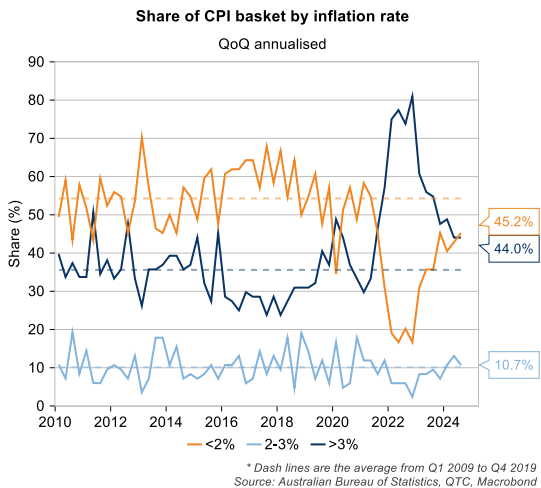
**CHART 1: HEADLINE INFLATION RETURNED TO THE RBA'S TARGET BAND ON GOVERNMENT SUBSIDIES BUT CORE INFLATION REMAINS ABOVE**



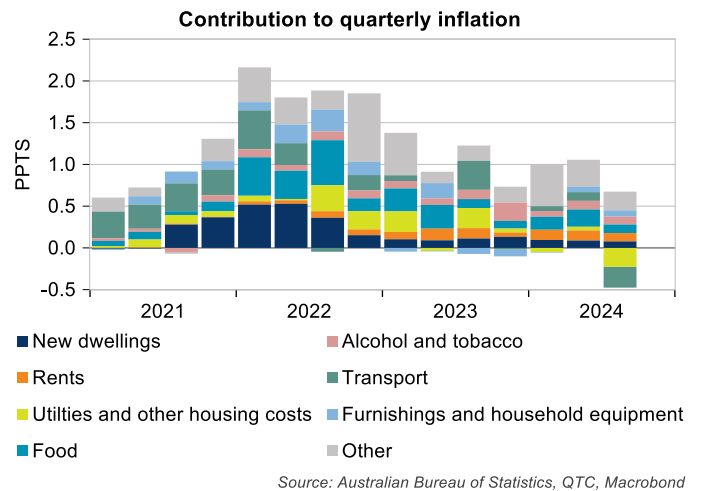
**CHART 2: GOODS PRICES FELL ON THE QUARTER, THOUGH SERVICES PRICES CONTINUED TO RISE AT A STRONG PACE**



**CHART 3: FOR THE FIRST TIME IN THREE YEARS, THE SHARE OF ITEMS IN THE CPI BASKET RISING BY LESS THAN TWO PER CENT OVER THE YEAR WAS HIGHER THAN THOSE RISING BETWEEN TWO AND THREE PER CENT**



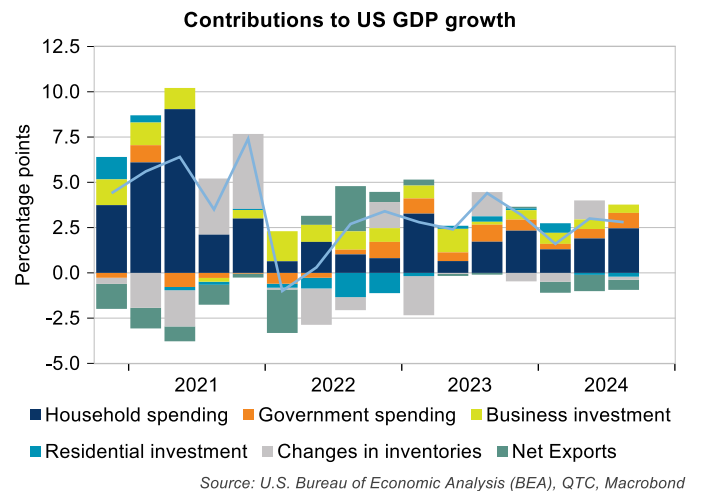
**CHART 4: GOVERNMENT SUPPORT MEASURES SAW ELECTRICITY PRICES FALL BY THE MOST IN ANY QUARTER ON RECORD IN Q3**



**CHART 5: GROWTH IN THE VOLUME OF RETAIL SPENDING IN AUSTRALIA, THAT IS AFTER ADJUSTING FOR INFLATION, IS NOW POSITIVE AGAIN**



**CHART 6: WHILE THE RATE OF US GDP GROWTH SLOWED A TUGH IN Q3, THE COMPOSITION OF ACTIVITY WAS STRONG**



## 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	4.29	9	49	-40	AUD/USD	0.66	-0.98	-4.45	2.16
	NSWTC	4.28	9	48	-44	AUD/EUR	0.60	-1.43	-2.73	-0.02
	TCV	4.33	9	48	-42	AUD/GBP	0.51	-0.21	-1.52	-3.07
	WATC	4.24	10	48	-41	AUD/JPY	99.94	-0.66	1.23	3.36
	Australian Government	4.27	9	47	-43	AUD/CAD	0.91	-0.54	-1.48	3.43
	US Government	4.34	9	46	-36	AUD/NZD	1.10	-0.19	0.61	1.00
5 Year	QTC	4.02	8	49	-38	AUD/SGD	0.87	-0.81	-1.99	-0.99
	NSWTC	4.13	11	62	-65	AUD/HKD	5.11	-0.92	-4.43	1.51
	TCV	4.51	8	48	-36	AUD/KRW	904.46	-1.23	-0.78	4.79
	WATC	4.50	7	47	-43	AUD/CNY	4.68	-0.98	-3.63	-0.50
	Australian Government	4.56	9	49	-41	AUD/INR	55.24	-1.27	-4.64	3.00
	US Government	4.46	8	48	-40	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.51	8	49	-42	EUR/USD	1.09	0.51	-1.71	2.23
	NSWTC	4.57	5	48	-36	GBP/USD	1.30	0.15	-2.08	6.37
	TCV	4.11	8	50	-41	USD/JPY	153.24	1.02	6.68	1.87
	WATC	4.16	13	65	-48	USD/CHF	0.87	-0.02	2.28	-4.33
	Australian Government	4.81	6	48	-34	USD/CNY	7.12	-0.05	1.39	-2.71
	US Government	4.80	5	46	-43	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.87	6	47	-38	Brent Crude Oil	73.16	-1.64	-0.54	-15.76
	NSWTC	4.72	5	47	-39	Gold	2,739.64	0.22	2.74	38.01
	TCV	4.81	6	49	-41	Copper	9,538.00	0.33	-4.42	17.13
	WATC	4.87	5	48	-35	Iron Ore	103.68	4.23	-3.79	-0.50
	Australian Government	4.30	7	51	-41					
	US Government	4.22	11	63	-45					

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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