

# Weekly Economics and Markets Review

- Headline CPI inflation held steady at 2.1 per cent over the year to October, with the introduction of cost-of-living support measures weighing heavily on inflation in recent months.
- President-elect Trump proposed introducing new tariffs on some of its largest trading partners, including a 25 per cent tariff on all imports from Mexico and Canada and an additional 10 per cent tariff on imports from China.
- US Treasury yields fell over the past week, with the core PCE outcome confirming that inflationary pressures remain under control.

## Week in review

### Domestic

- The **monthly CPI** measure of headline inflation held steady at 2.1 per cent year-on-year in October. This is the lowest reading since August 2021 and below consensus expectations for inflation to be 2.3 per cent.
- The monthly CPI indicator has slowed noticeably from the 3.8 per cent growth recorded in June, in large part due to the introduction of government electricity rebates and other cost of living support measures. Electricity prices continued to weigh on headline inflation in October, falling 12.3 per cent month-on-month.
- Dwelling rents were down 0.3 per cent in the month due to a 10 per cent increase to the Federal Government's Commonwealth Rental Assistance. New dwelling inflation also eased in the month.
- **Construction work done** rose 1.6 per cent in Q3, with private sector work done increasing 0.5 per cent.
  - Residential building work done rose 1.9 per cent, driven by an increase in both detached and higher-density housing.
  - The business investment partials were mixed, with non-residential building construction falling 2.5 per cent and engineering construction edging up 0.5 per cent.
- **Construction price deflators** suggest costs remain high, despite a slight easing of engineering and non-residential building price growth. The residential building price deflator accelerated to 1.6 per cent in the quarter, to be 6.9 per cent higher over the year.

### Offshore

- **President-elect Trump** proposed introducing new tariffs on Mexico, Canada and China in a social media post this week. This includes a 25 per cent tariff on all imports from Mexico and Canada and an additional 10 per cent tariff on imports from China. These three countries account for 43 per cent of US goods imports.

- The **US Federal Reserve's** November FOMC minutes showed broad support for a gradual approach to interest rate cuts. The Minutes also noted that the FOMC decisions will remain data dependant, with some officials stating the Fed could pause rate cuts if inflation remains elevated.
- Recent commentary from **ECB** Chief Economist Lane about the need for a 'careful, step-by-step strategy' on rate cuts was broadly supported by other ECB officials this week. However, the ECB's Villeroy argued that with inflation near its target and the growth outlook remaining sluggish, 'there won't be any reasons in my view for our monetary policy to remain restrictive'.
- The **S&P Global PMIs** were mixed in November.
  - The US composite PMI increased 1.2pts to 55.3, though growth remains uneven. The services PMI is at its highest level since March 2022, while manufacturing remains well below its level from earlier in the year.
  - In the euro area, the composite index fell 1.9pts to 48.1, reflecting declines in both services and manufacturing activity.
  - The UK composite PMI also fell, with services activity down 2pts and manufacturing down 1.3pts.
- **US** core PCE inflation was in line with consensus expectations, while consumer sentiment improved.
  - The core PCE deflator was in line with consensus at 0.3 per cent month-on-month in October. Annual core PCE inflation lifted one-tenth to 2.8 per cent. Analysts saw the outcome as supporting recent comments by Fed officials that a slower path to rate cuts may be warranted.
  - The Conference Board Consumer Confidence Index rose in November. Consumers were optimistic about labour market conditions and the stock market, with a record high 56.4 per cent of respondents expecting equity prices to increase over the year ahead. Some of the gain in consumer confidence may be due to a favourable reaction from pro-Trump respondents or post-election gains in US equities.
  - US weekly jobless claims fell to a seven-month low of 213k, though continuing claims continued to move higher.
  - Housing market data softened in October. New home sales declined 17.3 per cent in the month, while building permits were down 0.4 per cent.
- **Germany's** CPI fell 0.7 per cent month-on-month in November. This is the third negative inflation print out of the last four releases.

## Markets

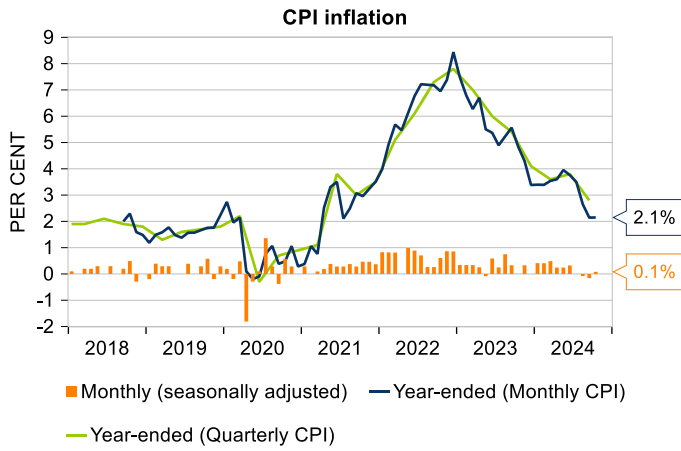
US Treasury yields fell over the past week, as the core PCE outcome confirmed that inflationary pressures remain under control. Trump's nominee for Treasury Secretary – Scott Bessent – was also seen as an orthodox choice and viewed positively by markets. Australian Government bond yields also moved lower, alongside the drop in US Treasury yields and weaker-than-expected monthly CPI data. Brent crude oil prices fell over the past week as the threat of supply disruptions in the Middle East eased.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Monday:</b> Retail sales (Oct), Building approvals (Oct), Inventories (Q3), Corelogic house prices (Nov), ANZ-Indeed Job Ads (Nov) <b>Tuesday:</b> Net exports (Q3) <b>Wednesday:</b> GDP (Q3)
Offshore	<b>US:</b> Non-farm payrolls (Nov), Unemployment rate (Nov), Average hourly earnings (Nov), University of Michigan Consumer Sentiment (Dec), ISM Manufacturing and Services (Nov); <b>Euro area:</b> CPI (Nov), Unemployment rate (Oct), Retail sales (Oct), GDP (Q3); <b>China:</b> PMIs (Nov)

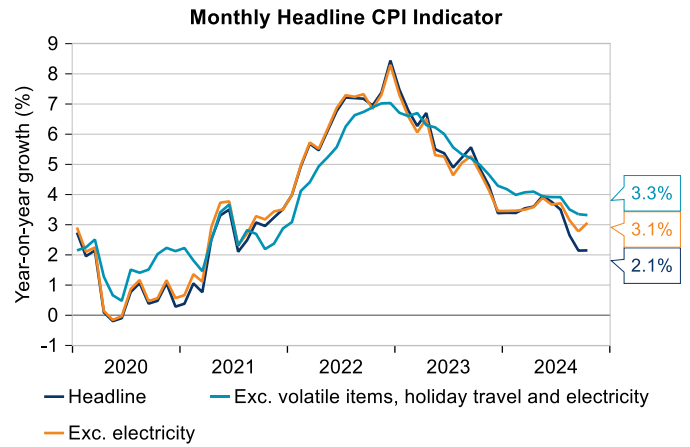
## Economic and Financial Market Charts

**CHART 1: THE MONTHLY MEASURE OF HEADLINE INFLATION REMAINS LOW, PROVIDING A PROMISING SIGNAL FOR NEAR-TERM QUARTERLY CPI OUTCOMES**



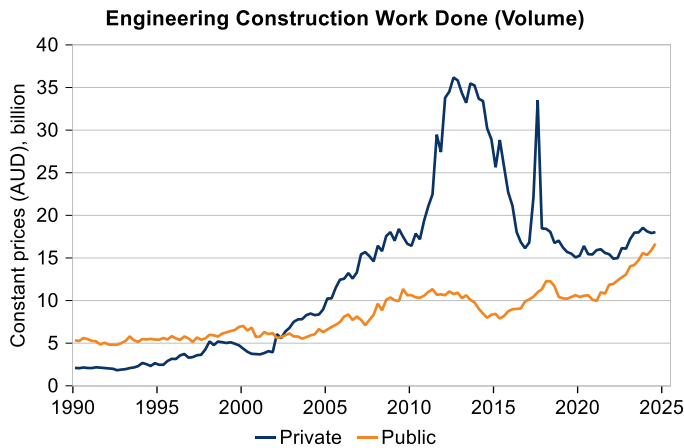
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

**CHART 2: ENERGY REBATES CONTINUED TO WEIGH ON HEADLINE INFLATION, WITH MEASURES THAT EXCLUDE ELECTRICITY PRICES REMAINING NOTICEABLY HIGHER**



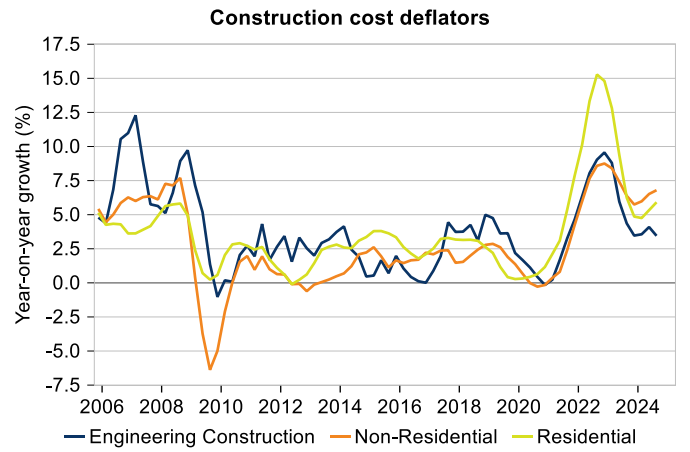
Source: Australian Bureau of Statistics, QTC, Macrobond

**CHART 3: ENGINEERING CONSTRUCTION ACTIVITY INCREASED FURTHER IN Q3, SUPPORTED BY THE LARGE PIPELINE OF PUBLIC PROJECTS**



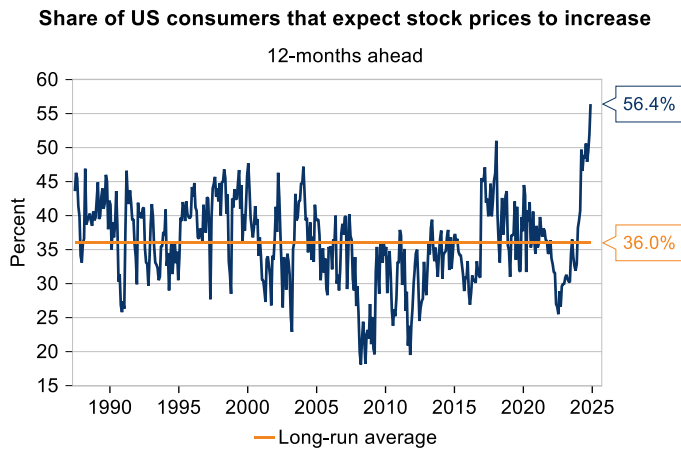
Source: Australian Bureau of Statistics, QTC, Macrobond

**CHART 4: CONSTRUCTION COST GROWTH REMAINS ELEVATED, WITH THE PREVIOUS MODERATION OF GROWTH APPEARING TO HAVE STALLED**



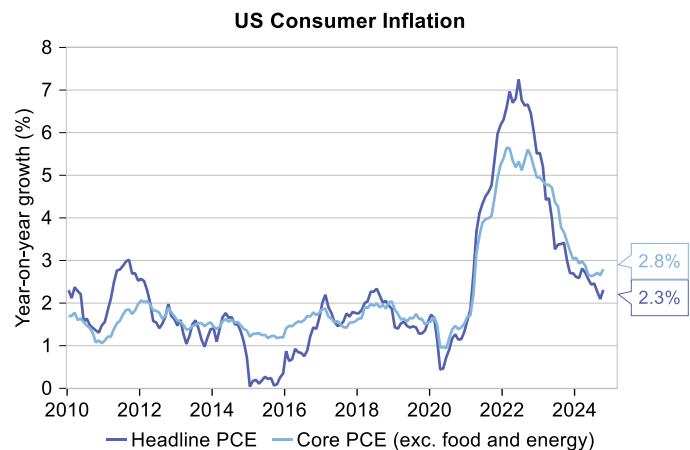
Source: Australian Bureau of Statistics, QTC, Macrobond

**CHART 5: A RECORD HIGH SHARE OF US CONSUMERS EXPECT STOCK PRICES TO INCREASE OVER THE NEXT TWELVE MONTHS**



Source: Conference Board, QTC, Macrobond

**CHART 6: US CORE PCE INFLATION TICKED HIGHER IN OCTOBER, SUPPORTING COMMENTARY BY FED OFFICIALS THAT INTEREST RATE CUTS MAY BE MORE GRADUAL IN THE PERIOD AHEAD**



Source: U.S. Bureau of Economic Analysis (BEA), 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	4.19	-14	-5	-21	AUD/USD	0.65	-0.23	-0.90	-1.89
	NSWTC	4.18	-15	-6	-24	AUD/EUR	0.62	-0.61	1.46	1.47
	TCV	4.24	-13	-4	-22	AUD/GBP	0.51	-0.71	1.64	-2.08
	WATC	4.13	-14	-5	-24	AUD/JPY	98.51	-2.07	-2.11	0.56
	Australian Government	3.91	-19	-6	-25	AUD/CAD	0.91	0.19	-0.17	1.30
	US Government	4.17	-13	12	-27	AUD/NZD	1.10	-0.60	0.41	2.92
5 Year	QTC	4.39	-17	-8	-11	AUD/SGD	0.87	-0.35	0.41	-1.33
	NSWTC	4.37	-17	-9	-17	AUD/HKD	5.06	-0.22	-0.74	-2.22
	TCV	4.45	-15	-6	-14	AUD/KRW	906.70	-0.53	0.03	5.37
	WATC	4.34	-17	-8	-15	AUD/CNY	4.71	-0.13	0.68	0.23
	Australian Government	3.98	-21	-9	-22	AUD/INR	54.90	-0.26	-0.45	-0.62
	US Government	4.14	-17	5	-13	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.67	-18	-11	-3	EUR/USD	1.06	0.38	-2.33	-3.31
	NSWTC	4.67	-18	-11	-11	GBP/USD	1.27	0.48	-2.50	0.19
	TCV	4.75	-16	-9	-6	USD/JPY	151.57	1.84	1.22	-2.50
	WATC	4.59	-18	-11	-8	USD/CHF	1.13	0.19	-1.73	-1.42
	Australian Government	4.17	-22	-10	-17	USD/CNY	7.24	-0.10	-1.60	-2.16
	US Government	4.19	-16	3	-15	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	5.07	-18	-11	5	Brent Crude Oil	73.28	-1.28	3.04	-11.53
	NSWTC	5.06	-18	-11	-4	Gold	2,638	-1.19	-4.93	29.54
	TCV	5.15	-16	-9	-1	Copper	9,020	0.13	-5.36	6.56
	WATC	4.91	-18	-12	-1	Iron Ore	103.02	1.48	-0.39	-7.85
	Australian Government	4.35	-21	-11	-13					
	US Government	4.26	-16	1	-6					

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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