November Monthly Economics and Markets Review

Overview

Domestic economy

Data released in November pointed to an easing in labour market conditions, though these remain firm overall. Measures of consumer and business confidence rose strongly. Headline inflation slowed by more than expected in October following government assistance measures, though other measures point to underlying price pressures remain persistent. The RBA kept rates on hold in November but the Minutes to that meeting highlighted that a couple of good quarterly inflation reports could be enough for it to be confident that the moderation in inflation was sustainable.

International economy

In the US, Donald Trump comfortably won the Whitehouse, which combined with his party controlling both houses of Congress, points to the President-elect having both the mandate and the opportunity to implement some of the policies he campaigned on. In China, data continued to show mixed signals as to the extent of traction from earlier announced stimulus measures. Policymakers there also announced a debt swap program during the month to enhance capacity for local governments to do more to support the economy.

Interest rates

Australian Government three- and ten-year bond yields fell in November, by three and 10 basis points respectively. Yields rose to start the month in anticipation of a Trump win in the US election. This was then followed by further moves on the back of hawkish commentary from Fed Chair Powell. A softer than expected Australian monthly CPI outcome for October saw yields then fall to end the month.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.18	-3	-8
	Australian Government	3.91	-3	-10
	US Government	4.09	-6	-21
5 Year	QTC	4.37	-8	0
	Australian Government	3.97	-6	-8
	US Government	4.05	-11	-7
7 Year	QTC	4.64	-11	7
	Australian Government	4.15	-9	-6
	US Government	4.10	-12	-9
10 Year	QTC	5.04	-10	15
	Australian Government	4.33	-10	-2
	US Government	4.17	-13	-3

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6513	-1.1%	-2.3%
AUD/EUR	0.6171	1.8%	0.4%
AUD/GBP	0.5127	1.4%	-2.8%
AUD/JPY	97.8747	-2.9%	-0.5%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0555	-2.8%	-2.7%
GBP/USD	1.2703	-2.4%	0.5%
USD/JPY	150.27	1.9%	-1.9%
USD/CNY	7.2417	-1.7%	-2.2%

Prices sourced from Macrobond and QTC 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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Ask our economist

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Domestic economy

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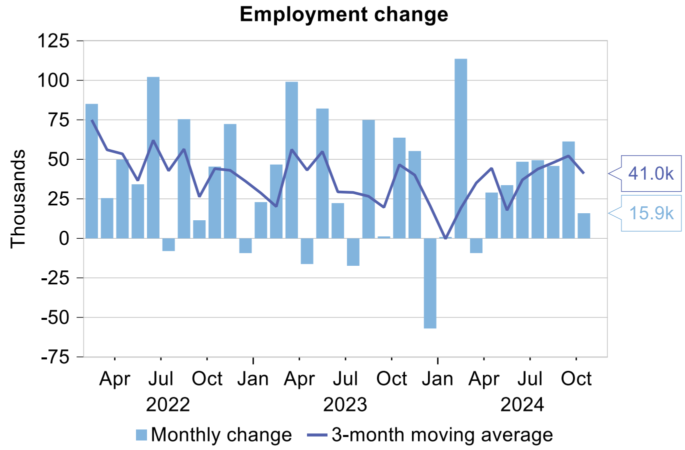
REVIEW:

- The RBA left the cash rate unchanged at 4.35 per cent as expected. On the cash rate outlook, RBA Governor Bullock noted the Board's views are broadly in line with market expectations which has the first rate cut fully priced in by May 2025, with a second expected by the end of next year.
- The Minutes to the RBA's November meeting acknowledged that cash rate cuts could be warranted if inflation declined materially faster than expected. However, even in this scenario, the Board '*would need to observe more than one good quarterly inflation outcome to be confident that such a decline in inflation was sustainable*'. It's worth noting that there will not be two quarterly inflation prints available until the RBA's May 2025 meeting.
- Australia's labour market remained robust in October, though there are signs that conditions are gradually slowing. While the unemployment rate held steady at 4.1 per cent, employment growth was softer than expected and the participation rate edged slightly lower. SEEK Job Ads decreased 3.1 per cent in October. Applications per ad fell for the first time in over two years, down 0.9 per cent in the month.
- Annual wages growth slowed noticeably to 3.5 per cent in Q3, down from 4.1 per cent in Q2, according to the Wage Price Index (WPI). This marks the slowest pace of wages growth since Q4 2022 and the largest drop in annual wages growth since the GFC. Including bonuses, annual wage growth eased from 3.9 to 3.6 per cent. The sharp slowdown in annual wage growth largely reflected the Fair Work Commission's (FWC) lower minimum and award wage decision for 2024-25 of 3.75 per cent (from 5.8 per cent in 2023-24). However, slower wage growth was not solely explained by the FWC's decision, with wage inflation also easing across EBAs and individual arrangements.
- The ABS' monthly CPI measure of headline inflation held steady at 2.1 per cent year-on-year in October, down noticeably from 3.8 per cent in June, and less than the 2.3 per cent expected. This moderation is in large part due to 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 Commonwealth Rental Assistance. New dwelling inflation also eased. Measures of underlying inflation point to price pressures remaining persistent.
- The *NAB Business Survey* suggests that firms' feel more optimistic about the outlook, with business confidence increasing to its highest level since early 2023. The survey also suggests that labour and input cost inflation is easing, with labour cost growth slowing to 1.4 per cent in quarterly terms (from 1.9 per cent) and purchase cost growth easing to 0.9 per cent.
- The *Westpac Consumer Sentiment Survey* suggests that the easing of cost-of-living pressures has supported a more optimistic outlook for the year ahead. Notably, consumers reported an easing in family finances pressures, less concern about the risk of further interest rate rises, and more confidence about the economic outlook. Consumer confidence has also continued to trend higher according to ANZ-Roy Morgan, with the four-week average of this series now at its highest since January 2023.

WHAT TO WATCH:

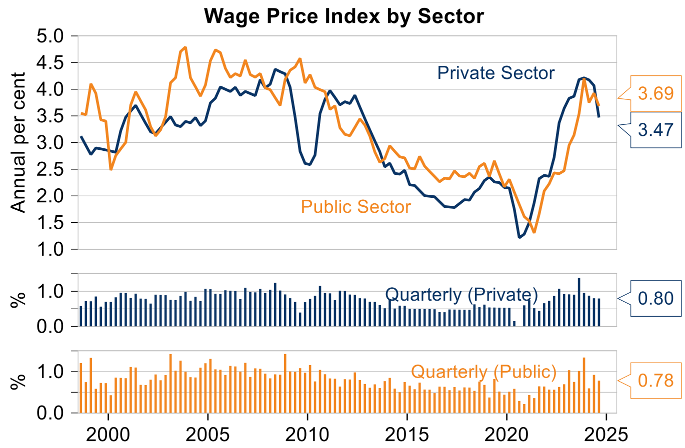
Data into the end of the year isn't widely considered likely to change the RBA's calculus on the cash rate. Instead, it will be the extent to which further moderation is observed in price and labour market data in the new year which will likely have a bigger bearing on the outlook for interest rates.

CHART 1: EMPLOYMENT GROWTH EASED IN OCTOBER, THOUGH THIS FOLLOWS SEVERAL MONTHS OF UNEXPECTEDLY STRONG INCREASES



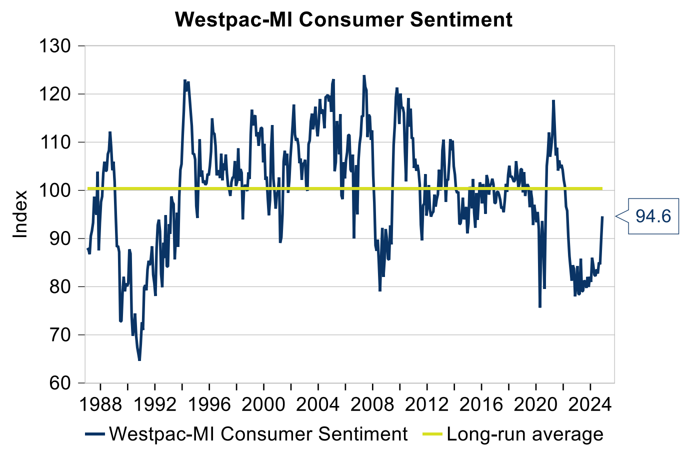
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: PRIVATE SECTOR WAGES GROWTH EASED NOTICEABLY IN Q3, LARGELY DUE TO THE FWC'S LOWER AWARD WAGE DECISION FOR FY25



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: CONSUMER SENTIMENT INCREASED AND IS NOW AT ITS HIGHEST LEVEL SINCE EARLY 2022



Source: Melbourne Institute of Applied Economic & Social Research, QTC, Macrobond

International economy

SUMMARY:

In the US, Donald Trump comfortably won the Whitehouse, which combined with his party controlling both houses of Congress, points to the President-elect having both the mandate and the opportunity to implement some of the policies he campaigned on. In China, data continued to show mixed signals as to the extent of traction from earlier announced stimulus measures. Policymakers there also announced a debt swap program during the month to enhance capacity for local governments to do more to support the economy.

REVIEW:

- Donald Trump won the US Presidential election with his Republican Party also securing both houses of Congress. The clear win offers a strong platform for the incoming president to implement his key policies including extending the 2017 tax cuts and reducing corporate tax rates; slowing immigration and increasing deportations; repealing clean energy subsidies; and introducing tariffs on imports. Economists expect the net impact of these policies to be slower GDP growth but higher inflation. President-elect Trump didn't waste any time, proposing 25 per cent tariffs on all imports from Mexico and Canada as well as an additional 10 per cent tariff on imports from China. These three countries account for 43 per cent of US goods imports.
- The FOMC cut rates by 25 basis points to 4.50-4.75 per cent. The Committee anticipates another four similar sized moves, though this trough in rates is now seen as being 50 basis points higher than previously estimated. The Minutes to the meeting showed broad support for a gradual approach to rate cuts, a point also made by Chair Powell who said the recent performance of the US economy has been '*remarkably good*' and that '*the economy is not sending any signals that we need to be in a hurry to lower rates*'.
- In terms of US economic data:
  - Core CPI and core PCE inflation rose 0.3 per cent in October to be up 3.3 per cent and 2.8 per cent over the year respectively.
  - Nonfarm payrolls rose by a much weaker-than-expected 12,000 in October, with the result affected by disruptions from hurricanes and strikes. The unemployment rate was steady at 4.1 per cent, as expected.
  - Consumer sentiment improved in November according to measures from the University of Michigan and the Conference Board. Core retail sales were weaker than expected, falling 0.1 per cent, though this weakness was offset by a large upward revision to the September outcome.
- In China, the National People's Congress Standing Committee announced a debt-swap program designed to relax the financial constraints facing local governments so they can allocate more resources to support the economy.
- Economic activity data for China for October were mixed with no consistent sign of a stimulus-driven improvement in economic conditions.
  - Retail sales increased 4.8 per cent over the year to October, from 3.2 per cent in September.
  - Industrial production moderated slightly to 5.3 per cent year-on-year (from 5.4 per cent). Growth was driven by manufacturing and mining.
  - Fixed Asset Investment growth was steady in September at 3.4 per cent year-on-year. Manufacturing sector investment recorded its second highest reading of the year while infrastructure investment softened.
  - Conditions in the property sector remain very weak, with property investment falling by 10.3 per cent and residential property sales falling by 22 per cent over the year to October. Average prices of new and existing homes (in 70 cities) also fell further in the month.

WHAT TO WATCH:

It will be important to monitor incoming Chinese economic data as well as announcements from US President-elect Trump around potential tariffs on the world's second largest economy, China. Both could shape the timing, nature, and magnitude of any further stimulus measures from Chinese authorities.

CHART 4: CHINA'S RETAIL SALES AND INVESTMENT GROWTH CONTINUE TO BE WELL BELOW AVERAGE…

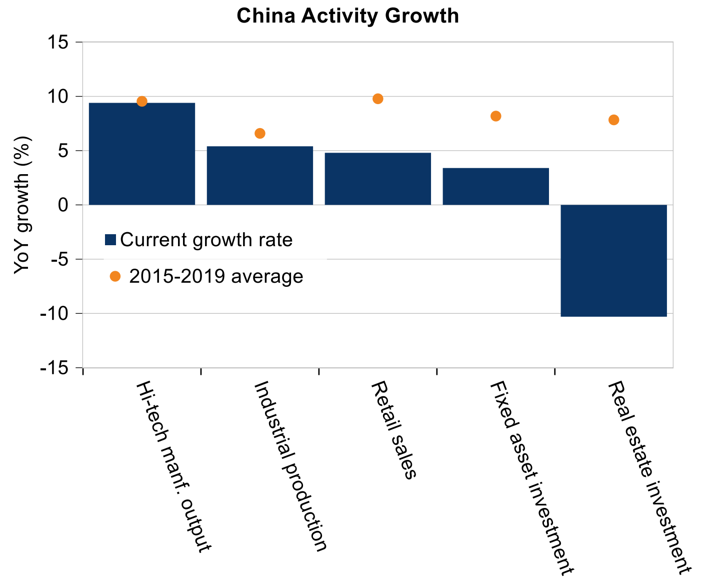
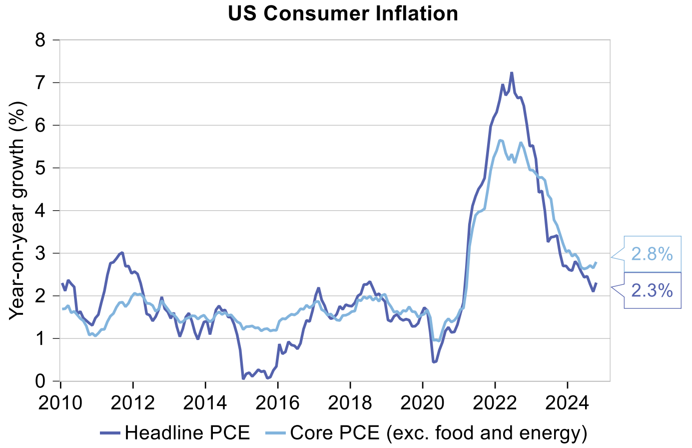


CHART 5: … WITH REAL ESTATE INVESTMENT REMAINING PARTICULARLY WEAK

Source: China National Bureau of Statistics (NBS), 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