

# Weekly Economics and Markets Review

- Labour market outcomes in Australia were better than expected, with a large increase in employment in December.
- US labour market data and core retail sales were also stronger than expected, while core CPI inflation was a touch softer than economists' estimates.
- China's economic activity data exceeded consensus expectations, with growth being supported by the various stimulus measures that were introduced in the second half of 2024.

## Week in review

### Domestic

- The *ABS Labour Force Survey* continues to suggest that the easing of labour market conditions paused over the second half of 2024.
- Employment lifted 56,300 in December as a rise in part-time employment (+80,000) more than offset a decline in full-time work (-23,700). The result was above consensus expectations (+15,000) with the miss potentially reflecting recent shifts in seasonal patterns around the summer holiday period.
- The unemployment rate increased one-tenth to 4.0 per cent, with the gain in employment being outpaced by strong labour force growth (+66,700). The strength in labour force growth reflected ongoing population growth (+42,500) and a surprise increase in the participation rate to 67.1 per cent.
- Other key indicators for the labour market were also strong. The employment-to-population ratio rose to a new record high of 64.5 per cent, while the underemployment rate fell one-tenth to 6.0 per cent.
- The *Westpac-Melbourne Institute Consumer Sentiment Index* fell for the second straight month in January, driven by a decline in perceptions of family finances. The 'time to buy a dwelling' index was up 10.2 per cent, consistent with expectations for house prices falling 5.9 per cent.

### Offshore

- **US Federal Reserve** Governor Waller provided dovish commentary this week, suggesting that the Fed could cut more this year and sooner if future inflation figures fall in-line with December's positive report. Waller also added that he would not rule out a cut in March.
- **US** labour market data and core retail sales were stronger than expected, while core CPI inflation was a touch softer than economists' estimates. Consumer sentiment eased slightly in January, while survey measures of inflation expectations were mixed.
- Non-farm payrolls increased by 256,000 in December, around 90,000 higher than the consensus expectations. The unemployment rate fell from 4.2 to 4.1 per cent, against expectations it would remain unchanged.
- Retail sales data were solid for December. Headline retail sales increased by 0.4 per cent in the month, while the core measure rose by a noticeably stronger-than-expected 0.7 per cent.
- Core CPI was slightly lower than expectations in December, though there was a rebound in shelter related components as well as volatile items such as airfares as plus new and used cars. Core producer price inflation came in below expectations in December.

- US consumer confidence dipped a touch in January according to the University of Michigan's *Survey of Consumers*. More interestingly, there were steep increases in inflation expectations for both one-year ahead (from 2.8 to 3.3 per cent) and 5-10 years ahead (from 3.0 to 3.3 per cent). These shifts appear to reflect concerns about the potential for tariffs to be imposed.
- The message around consumers' inflation expectations from the University of Michigan's *Survey of Consumers* was not corroborated in the Federal Reserve Bank's *Survey of Consumer Expectations*. In this survey, one-year ahead inflation expectations were flat at 3.0 per cent and five-year ahead expected inflation fell to 2.7 per cent (from 2.9 per cent).
- In the **UK**, the annual rate of core inflation slowed in December to 3.2 per cent from 3.5 per cent. This moderation was larger than of economists' expectations and was largely due to a notable easing in the pace of services inflation (to 4.4 per cent from 5.0 per cent).
- **China's** economic activity data were noticeably stronger-than-expected, with growth seemingly being supported by the various stimulus measures that were introduced in the second half of 2024.
- GDP increased by 5.4 per cent year over the year to Q4, noticeably higher than expectations for 5.0 per cent growth. On a year-average basis, growth was 5.0 per cent in 2024, meeting China's growth target. This pickup in growth was supported by the various stimulus measures China's policymakers introduced in the second half of 2024.
- Industrial output was noticeably stronger-than-expanded, increasing by 6.2 per cent over the year to December (compared to a consensus estimate of 5.4 per cent).
- Retail sales increased 3.7 per cent, exceeding consensus expectations by one-tenth, while fixed asset investment rose 3.2 per cent in 2024 (consensus: 3.3 per cent).
- The international goods trade surplus reached a record high in USD terms in December as growth in exports outpaced that for imports. The outsized acceleration in exports to the US suggests front-loading ahead of the expected introduction of tariffs on US imports of Chinese goods.
- Both new loans and new aggregate financing increased by more than expected in December. The increase in both categories was driven by a jump in short-term bill financing and government borrowing respectively.

## Markets

Australian Government bond yields lifted this week on the back of stronger-than-expected domestic labour market data. In contrast, US Treasury yields moved lower amid mixed economic data and dovish commentary from the Fed's Waller.

### Economic and Market Calendar

| DATE     | DETAILS   |
|----------|---|
| Domestic | No major data released  |
| Offshore | <b>UK:</b> Labour market (three months to Nov); <b>CA:</b> CPI (Dec), retail sales (Nov); <b>JP:</b> CPI (Dec), Bank of Japan meeting<br><b>S&amp;P Global PMIs</b> |

## Economic and Financial Market Charts

CHART 1: EMPLOYMENT GROWTH CONTINUED TO ACCELERATE IN DECEMBER...

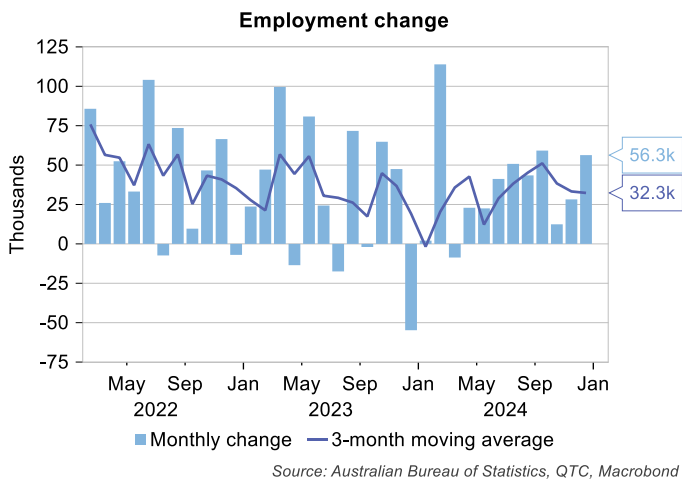


CHART 2: WHICH SAW THE EMPLOYMENT-TO-POPULATION RATIO REACH ANOTHER RECORD HIGH



CHART 3: THE PACE OF US JOBS GROWTH HAS ALSO LEFT HIGHER IN RECENT MONTHS

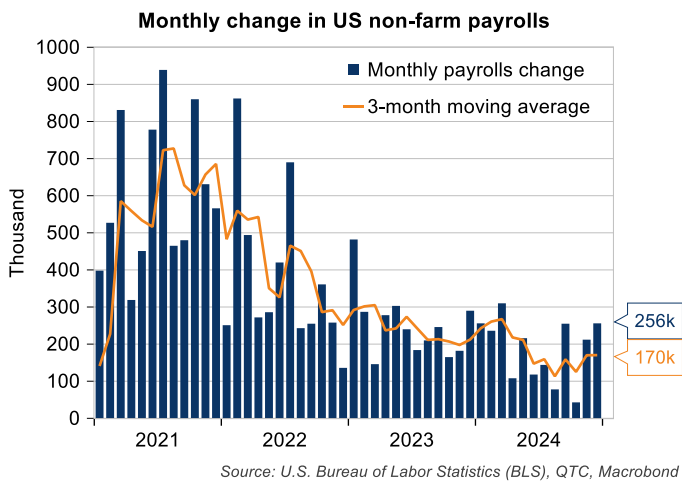


CHART 4: US CORE RETAIL SALES WAS STRONGER-THAN-EXPECTED IN DECEMBER, THOUGH RECENT VOLATILITY MAKES IT DIFFICULT TO TAKE MUCH SIGNAL FROM THESE MONTH-TO-MONTH MOVEMENTS

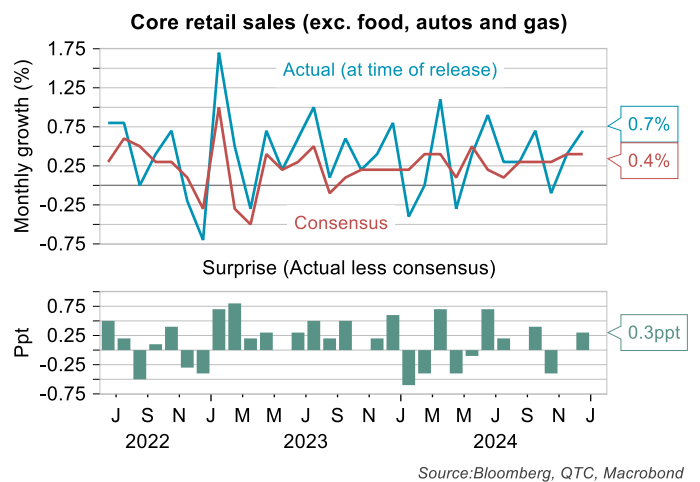


CHART 5: CHINA'S GDP GROWTH PICKED UP IN Q4, WHICH SAW THE ECONOMY REACH ITS GROWTH TARGET FOR THE YEAR

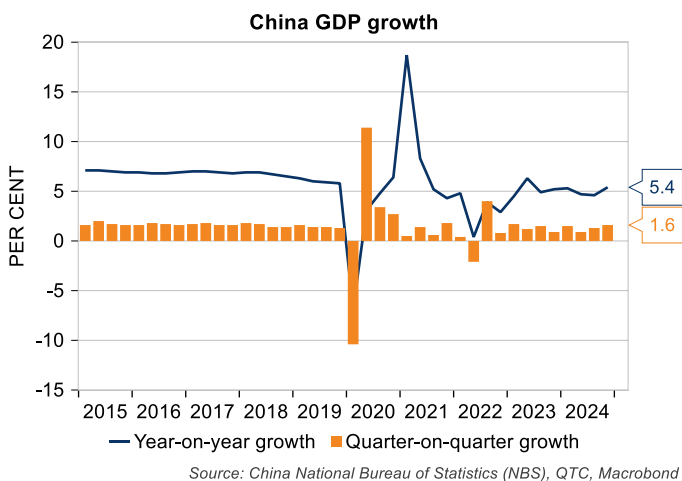


CHART 6: CHINA'S EXPORTS GROWTH IN DECEMBER APPEARS TO HAVE BEEN SUPPORTED BY FRONT-LOADING AHEAD OF THE POSSIBLE INTRODUCTION OF TARIFFS BY THE US



## 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                   | 4.16  | 4                     | 5       | 16     | AUD/USD                  | 0.62   | 0.54              | -1.80   | -5.02  |
|          | NSWTC                 | 4.16  | 3                     | 5       | 15     | AUD/EUR                  | 0.60   | 0.43              | 0.05    | 0.01   |
|          | TCV                   | 4.18  | 3                     | 2       | 10     | AUD/GBP                  | 0.51   | 1.01              | 1.97    | -1.65  |
|          | WATC                  | 4.10  | 2                     | 3       | 12     | AUD/JPY                  | 96.67  | -1.17             | -0.63   | -0.47  |
|          | Australian Government | 3.94  | 4                     | 7       | 21     | AUD/CAD                  | 0.90   | 0.43              | -1.29   | 1.08   |
|          | US Government         | 4.29  | -4                    | 7       | 15     | AUD/NZD                  | 1.11   | 0.02              | 0.64    | 3.12   |
| 5 Year   | QTC                   | 4.43  | 4                     | 12      | 32     | AUD/SGD                  | 0.85   | 0.26              | -0.67   | -3.60  |
|          | NSWTC                 | 4.42  | 2                     | 11      | 27     | AUD/HKD                  | 4.85   | 0.61              | -1.60   | -5.43  |
|          | TCV                   | 4.48  | 2                     | 10      | 27     | AUD/KRW                  | 906.59 | 0.25              | -0.45   | 3.21   |
|          | WATC                  | 4.38  | 3                     | 11      | 28     | AUD/CNY                  | 4.56   | 0.55              | -1.15   | -2.27  |
|          | Australian Government | 4.07  | 4                     | 12      | 28     | AUD/INR                  | 53.91  | 1.37              | 0.14    | -1.11  |
|          | US Government         | 4.40  | -6                    | 13      | 35     | <b>MAJOR CURRENCIES</b>  |        |                   |         |        |
| 7 Year   | QTC                   | 4.75  | 1                     | 15      | 40     | EUR/USD                  | 1.03   | 0.10              | -1.84   | -5.03  |
|          | NSWTC                 | 4.75  | 1                     | 14      | 32     | GBP/USD                  | 1.22   | -0.47             | -3.70   | -3.43  |
|          | TCV                   | 4.83  | 1                     | 14      | 34     | USD/JPY                  | 155.30 | 1.69              | -1.19   | -4.79  |
|          | WATC                  | 4.67  | 2                     | 14      | 34     | USD/CHF                  | 1.10   | 0.12              | -1.90   | -4.87  |
|          | Australian Government | 4.27  | 2                     | 14      | 31     | USD/CNY                  | 7.33   | -0.01             | -0.66   | -2.89  |
|          | US Government         | 4.50  | -7                    | 18      | 40     | <b>MAJOR COMMODITIES</b> |        |                   |         |        |
| 10 Year  | QTC                   | 5.22  | 2                     | 21      | 54     | Brent Crude Oil          | 81.29  | 5.68              | 11.07   | 2.77   |
|          | NSWTC                 | 5.19  | -0                    | 18      | 42     | Gold                     | 2,714  | 1.76              | 2.55    | 34.15  |
|          | TCV                   | 5.26  | 1                     | 18      | 40     | Copper                   | 9,168  | 0.98              | 1.98    | 10.32  |
|          | WATC                  | 5.04  | 2                     | 20      | 44     | Iron Ore                 | 102.68 | 5.79              | -1.21   | -7.77  |
|          | Australian Government | 4.49  | 1                     | 18      | 34     |                          |        |                   |         |        |
|          | US Government         | 4.61  | -8                    | 21      | 47     |                          |        |                   |         |        |

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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