

February Monthly Economics and Markets Review

Overview

Domestic economy

Data releases in February revealed that labour market conditions remain resilient and inflation largely steady. Measures of business and consumer confidence rose during the month, although business conditions softened. The RBA lowered the cash rate by 25 basis points to 4.10 per cent, after having been held at 4.35 per cent since November 2023. The accompanying commentary was notably cautious, however, about the prospect of further rate cuts.

International economy

News regarding trade policy was the focus for the market in February with US President Donald Trump imposing numerous tariffs. Economic data from the US was mostly weaker than expected due to elevated policy uncertainty. Outside the US, economic data was mostly stable.

Interest rates

Australian Government bond yields fell across the curve in February with 10-year yields down 12 basis points. Developments related to the US drove moves in the month with 10-year Treasury yields 32 basis points lower. On the data front weaker retail sales, PPI and services price data in the US more than offset better labour market data (on balance) and stronger than anticipated core inflation. Beyond the data, elevated uncertainty around US trade policy and the outcome of its efforts to end the Russia-Ukraine conflict also pushed yields lower on the month.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.99	-12	-5
	Australian Government	3.74	-11	0
	US Government	3.97	-28	-35
5 Year	QTC	4.25	-15	12
	Australian Government	3.86	-11	6
	US Government	4.02	-31	-14
7 Year	QTC	4.58	-17	21
	Australian Government	4.07	-12	10
	US Government	4.11	-32	-7
10 Year	QTC	5.03	-20	32
	Australian Government	4.29	-12	13
	US Government	4.21	-32	3

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6206	-0.4%	-5.0%
AUD/EUR	0.5966	-0.2%	-1.1%
AUD/GBP	0.4927	-1.6%	-4.6%
AUD/JPY	93.5004	-3.2%	-4.7%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0403	-0.2%	-4.0%
GBP/USD	1.2594	1.3%	-0.4%
USD/JPY	150.67	2.8%	-0.3%
USD/CNY	7.2838	-0.4%	-1.2%

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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Domestic economy

SUMMARY:

Data releases in February revealed that labour market conditions remain robust, while inflation held steady. Measures of business and consumer confidence rose during the month, although business conditions softened. The RBA lowered the cash rate by 25 basis points to 4.10 per cent, after being held at 4.35 per cent since November 2023. The accompanying commentary was notably cautious.

REVIEW:

- The RBA lowered the cash rate by 25 basis points to 4.1 per cent, as was widely expected by market consensus. The commentary accompanying the decision was notably cautious, with the RBA sending a clear signal that it expects a slow reduction in the cash rate over the coming year.
- Governor Bullock emphasised that the RBA remains alert to inflation risks and that market pricing of three further cash rate cuts by mid-2026 was 'too confident.' The post-meeting statement also noted that 'if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range.'
- According to the ABS' CPI release for January:
 - The monthly CPI indicator increased 2.5 per cent in the year to January, slightly below economists' expectations for inflation to be 2.6 per cent. Measures of underlying inflation were slightly higher but remain within the RBA's 2-3 per cent target band. Trimmed-mean inflation ticked up one-tenth to 2.8 per cent, while CPI inflation excluding volatile items edged up to 2.9 per cent.
 - Electricity prices increased by 8.9 per cent in January, with some households in Queensland experiencing higher electricity bills after exhausting the \$1,000 State government rebate.
- According to the ABS Labour Force report for January:
 - Conditions remained robust in January. Employment posted a strong 44.0k gain in the month, driven by a surge in full-time employment.
 - The unemployment rate ticked up slightly to 4.1 per cent, with the strong increase in employment being offset by firm population growth and a higher participation rate.
- Wage Price Index growth came at 0.7 per cent quarter-on-quarter in Q4 2024, which is its lowest quarterly print since Q1 2022. This outcome was below economists' and the RBA's forecasts, both of which had an increase of 0.8 per cent. Annual wage growth slowed to 3.2 per cent (from 3.5 per cent in Q3) and is now at its slowest pace since Q3 2022
- Consumer confidence edged 0.1 per cent higher according to the *Westpac Melbourne Institute Consumer Sentiment Survey*. The survey providers cited the improvement in sentiment having stalled in the past three months reflects ongoing pressures on family finances and an uncertain global backdrop are offsetting building expectations of rate cuts domestically
- Business conditions softened in January according to the NAB Business Survey on the back of weaker trading conditions and profitability. Business confidence improved for the second straight month and is now stronger than business conditions for the first time since February 2022. Price measures in the survey were mixed with growth in purchase costs easing, final product prices steady and labour costs and retail prices accelerating.

WHAT TO WATCH:

With no meeting in March, the RBA will have time to observe data releases on inflation and the labour market for February to make an informed decision at the next meeting in April, as well as to assess the outlook ahead.

CHART 1: ANNUAL MEASURES OF CORE PRICE INFLATION HAVE STABILISED IN RECENT MONTHS

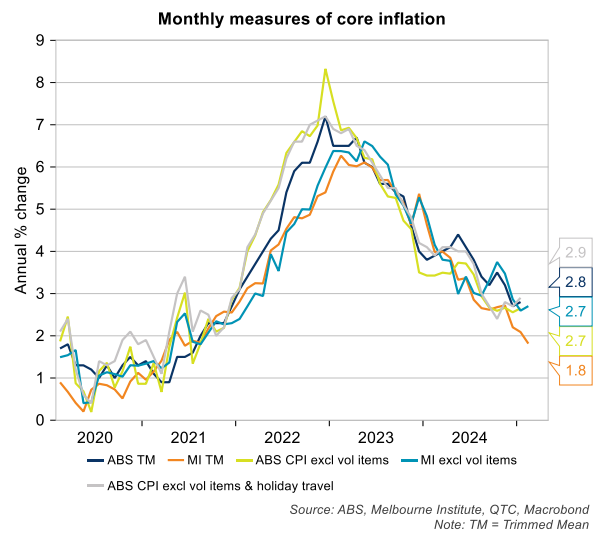


CHART 2: WHILE EMPLOYMENT GROWTH REMAINED FIRM IN JANUARY, IT HAS NOW SLOWED FOR FIVE STRAIGHT MONTHS IN TREND TERMS

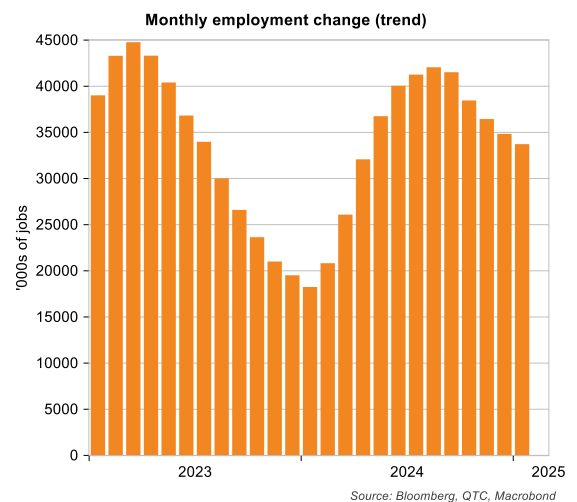
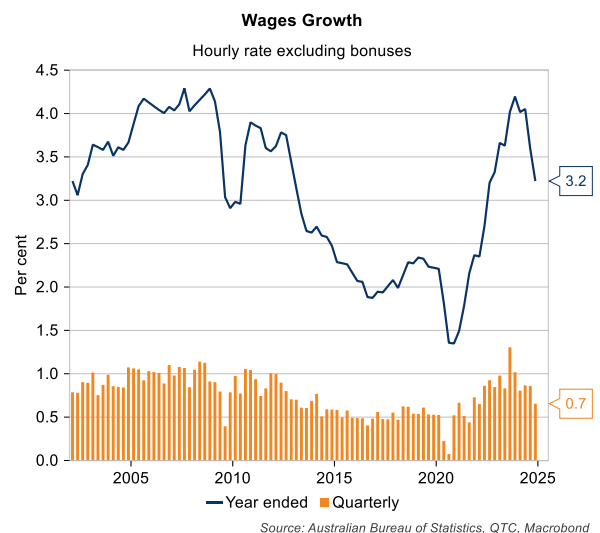


CHART 3: WAGES GROWTH EASED IN Q4



International economy

SUMMARY:

News regarding trade policy was the focus of the month, with US President Donald Trump imposing numerous tariffs, sparking potential for an all-out global trade war. Economic data from the US was mostly weaker than expected due to elevated economic uncertainty. Outside the US, economic data was stable.

REVIEW:

- **President Trump** has imposed numerous **tariffs**. These include:
 - 25 per cent tariffs on all US imports from Mexico and Canada, although Canadian energy exports to the US would only be subject to 10 per cent tariffs. These have been paused until March 4.
 - A 10 per cent tariff on imports from China was imposed on February 4. China retaliated by imposing tariffs of 10-15 per cent on a range of products, including coal, LNG, oil, machinery, vehicles, and agriculture. China also implemented export bans on critical minerals. The US has announced an additional 10 per cent tariff to be imposed on China as of March 4.
 - 25 per cent tariff on all aluminium and steel imports into the US to take place on March 12.
 - Imports of automobiles, pharmaceuticals and semiconductors on April 2 at an initial rate of 25 per cent. These tariffs would be in addition to country-specific tariffs already announced.
- From the January meetings of global **central banks**:
 - The FOMC meeting minutes confirmed market consensus for a temporary hold on policy rate changes, with strong consumer demand and changes to trade and immigration policy posing as upside risks to inflation.
 - The Bank of England cut rates by 25 basis points to 4.50 per cent, as expected. It was surprising to BoE watchers however to see a shift in those who dissented away from calling for no rate cuts to calling for bigger moves.
 - The Reserve Bank of New Zealand (RBNZ) delivered a 50 basis point cut, as widely expected. The projections in its Monetary Policy Statement were more dovish than the previous statement, with the RBNZ now pencilling in more rate cuts this year.
- In the **US**:
 - Jobs growth moderated in January but remains solid, with non-farm payrolls increasing by 143,000. While this was less than the 175,000 gain expected, the increase follows strong rises in the prior two months. The unemployment rate also edged one-tenth lower to 4.0 per cent in January.
 - Core CPI rose by 0.45 per cent in the month of January, above expectations of a 0.3 per cent gain. Notable price rises were seen in volatile items such as used cars and airfares as well as in motor insurance and communication.
 - Core PCE inflation was 0.3 per cent, showing a slight acceleration from the 0.2 per cent gain in December, though the annual pace slowed from 2.6 per cent in December to 2.5 per cent in January
 - The University of Michigan 5-10 year ahead inflation expectations for February was revised up to 3.5 per cent, its highest level since April 1995.
 - Consumer confidence fell noticeably in February in surveys conducted by the Conference Board and University of Michigan. Consumers sentiment around both current conditions and expectations for the future worsened.
- In **China**, the annual rate of CPI inflation increased to 0.5 per cent in January from 0.1 per cent in December.
- In **Japan**, GDP increased by 2.8 per cent in Q4 2024 (quarter-on-quarter annualised), well above the expectations for a 1.1 per cent increase.

WHAT TO WATCH:

US trade policy will continue to be the most influential factor globally, particularly with a number of tariffs set to take effect in the coming weeks. The impact on economic growth and inflation could be significant depending on what is ultimately delivered and what the response of other countries is.

CHART 4: ELEVATED TRADE POLICY APPEARS TO BE AFFECTING US CONSUMER CONFIDENCE AS INFLATION EXPECTATIONS

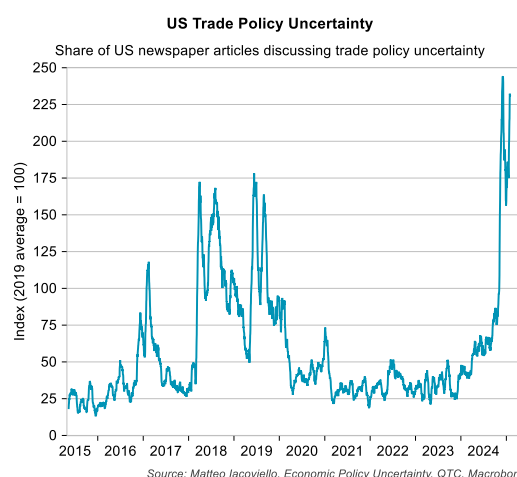


CHART 5: IN CONTRAST TO THE RBA, BUT LIKE MANY OF ITS OTHER GLOBAL PEERS, THE RBNZ HAS DELIVERED NOTABLE EASING

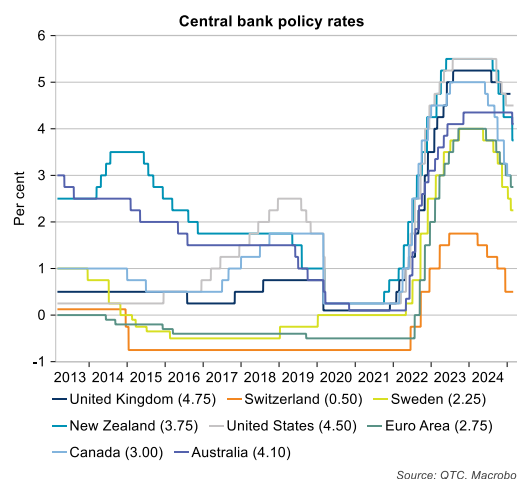


CHART 6: WHILE US PAYROLLS GROWTH WAS LESS THAN EXPECTED IN JANUARY, THIS FOLLOWED UPWARDS REVISIONS TO PRIOR MONTHS

