

# Weekly Economics and Markets Review

- Domestically, Westpac-Melbourne Institute’s consumer sentiment rose to its highest level in over three years in March.
- The White House introduced 25 per cent tariffs on US steel and aluminium imports, with the EU and Canada responding with retaliatory tariffs on US goods.
- US Treasury yields fell slightly over the past week in response to soft inflation data and near-term growth concerns.

## Week in review

### Domestic

- Westpac-Melbourne Institute’s consumer sentiment rose 4.0 per cent in March, reaching its highest level in over three years. The increase was driven by the *‘time to buy a major household item’* sub-index, alongside an improvement in family finances. Despite these improvements, consumers’ perceptions of news abroad have *‘become more troubling’* in recent months.
- The NAB Monthly Business Survey continued to point to below average growth in February. Business conditions rose marginally, with small lifts in both trading conditions and profitability. However, the more forward-looking business confidence index ticked lower and is now slightly below its long-run average.
- NAB’s measures of input cost pressures remain higher than output price growth, pointing to potential challenges in the business sector. Businesses’ purchase and labour cost growth were both 6.0 per cent annualised, while final product price inflation eased to 2.0 per cent (from 3.2 per cent in January).

### Offshore

- The **US trade war** escalated further this week.
  - The White House enacted no-exemption 25 per cent tariffs on steel and aluminium.
  - The EU responded to what it called *‘unjustified’* trade action from the Trump administration by imposing retaliatory measures on around US\$28 billion worth of US goods imports, including whiskey, motorbikes and a range of other goods produced in Republican held states.
  - Trump said his administration would impose a 200 per cent tariff on wine and other alcoholic beverages from the EU unless it rescinds the 50 per cent tariff imposed on US whiskey.
  - Canada also imposed further tariff increases on around US\$20 billion of US goods imports, with these being on top off the initial retaliatory increases from Canada on US\$20 billion of US goods on 4 March.
- In a Fox News interview, Trump avoided comments on whether the US could enter a recession, labelling this time as a *‘period of transition because what we’re doing is very big...’* Treasury secretary Bessent echoed Trump’s comments, saying there would be a natural adjustment period as the government moves away from public spending.

- Ukraine said it was ready to accept a US proposal for a 30-day truce, with Washington responding by agreeing to resume intelligence and security aid.
- The **Bank of Canada** cut its policy rate by 25 basis points to 2.75 per cent, as expected by economists. Commentary following the decision noted there was a need to balance the potential inflationary impacts of tariffs and trade tensions with the US against the downside risks to growth.
- On **US economic data**, measures of inflation softened in February, while labour market data were mixed.
  - Core and headline CPI inflation printed at just 0.2 per cent month-on-month, below both economists’ expectations and the previous month’s outcomes. On an annual basis, headline inflation eased to 2.8 per cent (from 3.0 per cent).
  - Producer price inflation was also softer than expected, with the level of prices remaining unchanged in February. Goods prices saw a stronger increase of 0.3 per cent in the month, driven by a 54 per cent surge in egg prices.
  - Non-farm payrolls rose 151k, broadly in line with expectations. Job growth was driven by gains in healthcare, finance, and construction, with this partly offset by declines in leisure and hospitality and federal government employment. The decline in federal government employment likely reflects various actions from the Trump administration, such as layoffs, a hiring freeze, and a deferred resignation program.
  - In contrast to non-farm payrolls, the household survey suggests that labour market conditions have started to weaken. The unemployment rate increased one-tenth to 4.0 per cent, with a 588k decline in employment partly offset by a fall in the participation rate.
- China’s** economic data remained weak in February.
  - CPI inflation was negative for the first time in over a year, with headline CPI falling by 0.7 per cent over the year to February. However, the decline in prices in February largely reflected volatility around the Lunar New Year and is expected to be reversed in coming months.
  - PPI inflation remains subdued in February, falling by 2.2 per cent over the year to February.
  - Export growth slowed notably to 2.3 per cent over the year to January-February (from 10.7 per cent in December). Imports were also weak, falling by 8.4 per cent over the past year.

## Markets

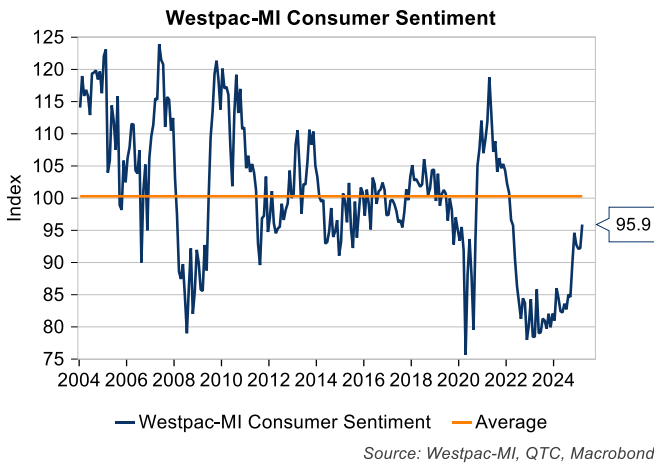
US Treasury yields fell slightly over the past week in response to soft inflation data and near-term growth concerns. European bonds remain under pressure, with next week’s vote in Germany on a constitutional change to debt brakes likely to be closely watched by markets. Domestically, financial market pricing implies there is around a 75 per cent probability of the RBA cutting the cash rate by 25 basis points at its May meeting.

### Economic and Market Calendar

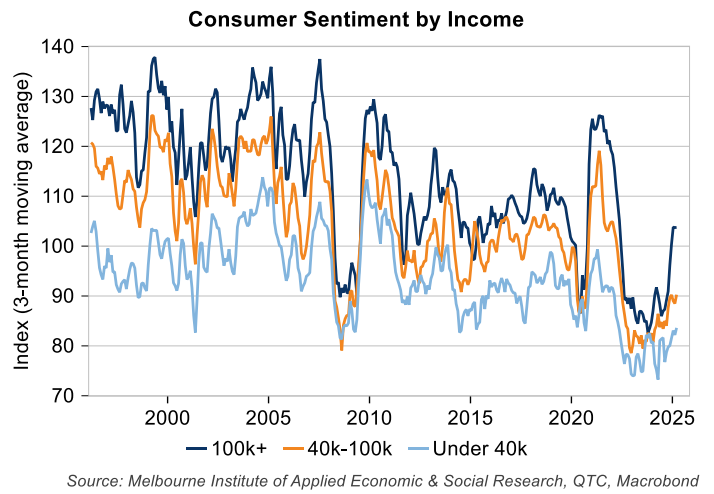
DATE	DETAILS
Domestic	Unemployment rate (Feb), Employment (Feb)
Offshore	<b>US:</b> FOMC rate decision (Mar), Retail sales (Feb); <b>EU:</b> CPI (Feb); <b>UK:</b> Bank of England rate decision (Mar); <b>JP:</b> CPI (Feb)

## Economic and Financial Market Charts

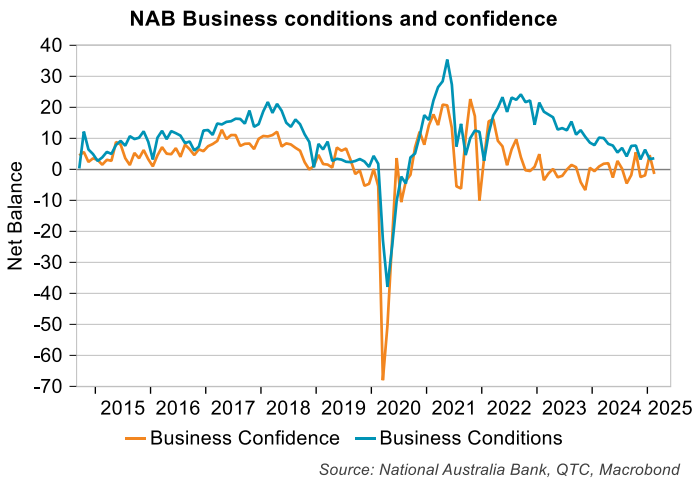
**CHART 1: CONSUMER SENTIMENT INCREASED TO ITS HIGHEST LEVEL IN OVER THREE YEARS**



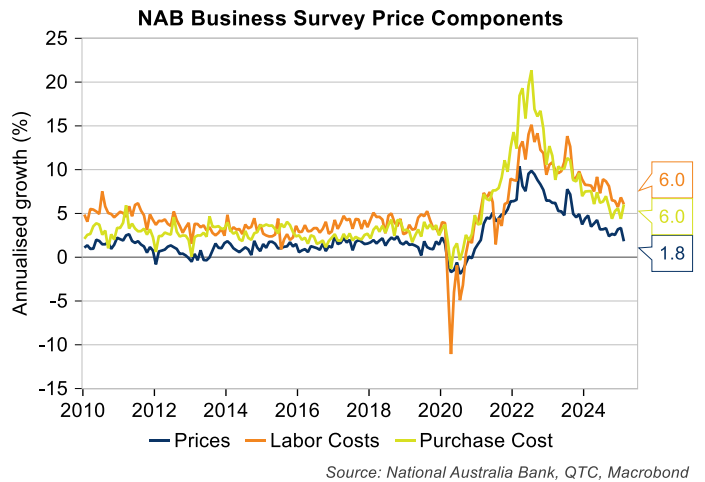
**CHART 2: THERE HAS BEEN A NOTABLE DIVERGENCE IN SENTIMENT BETWEEN HIGH- AND LOW- INCOME EARNERS OVER RECENT MONTHS**



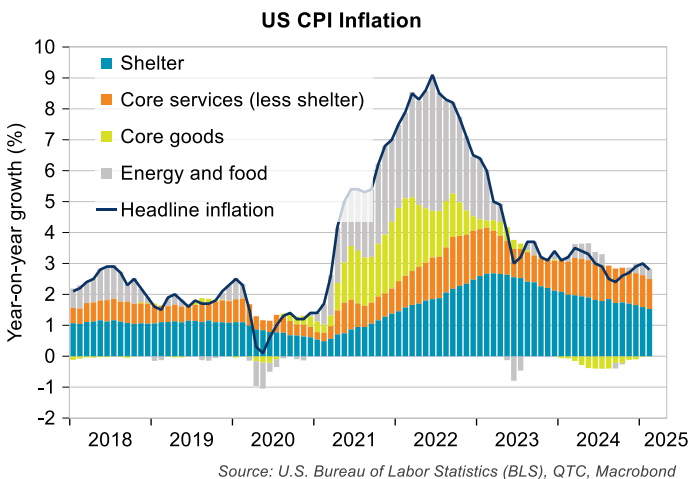
**CHART 3: NAB BUSINESS CONFIDENCE TICKED LOWER IN FEBRUARY AND IS NOW SLIGHTLY BELOW ITS LONG-RUN AVERAGE**



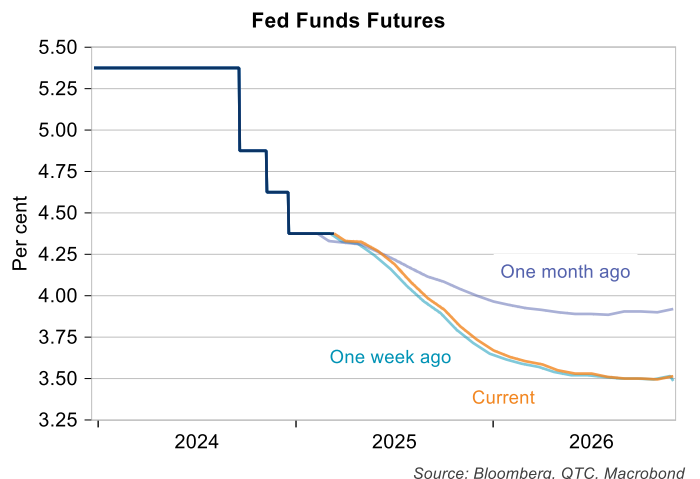
**CHART 4: NAB'S MEASURES OF INPUT COST PRESSURES REMAIN HIGHER THAN OUTPUT PRICE GROWTH, POINTING TO ONGOING CHALLENGES IN THE BUSINESS SECTOR**



**CHART 5: WHILE US CPI INFLATION EASED IN FEBRUARY, TARIFF INCREASES WILL LIKELY PUT UPWARD PRESSURE ON PRICES IN THE COMING MONTHS**



**CHART 6: MARKET PRICING FOR THE FED HAS SHIFTED NOTABLY LOWER OVER THE PAST MONTH IN RESPONSE TO GROWING CONCERNS ABOUT THE EFFECTS OF PRESIDENT TRUMP'S POLICY CHANGES**



## 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.99	-7	-14	1
	NSWTC	3.98	-7	-12	2
	TCV	4.01	-7	-11	-4
	WATC	3.92	-7	-13	-5
	Australian Government	3.76	-7	-9	12
	US Government	3.94	-3	-37	-52
5 Year	QTC	4.28	-7	-14	20
	NSWTC	4.27	-6	-10	17
	TCV	4.30	-7	-12	12
	WATC	4.19	-6	-12	13
	Australian Government	3.91	-7	-9	20
	US Government	4.03	-3	-34	-26
7 Year	QTC	4.65	-7	-12	36
	NSWTC	4.62	-6	-9	28
	TCV	4.66	-5	-10	25
	WATC	4.51	-6	-11	26
	Australian Government	4.15	-7	-8	31
	US Government	4.15	-2	-30	-15
10 Year	QTC	5.12	-8	-9	51
	NSWTC	5.08	-6	-6	43
	TCV	5.12	-6	-7	35
	WATC	4.89	-7	-8	37
	Australian Government	4.41	-6	-5	40
	US Government	4.27	-1	-27	-2

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.63	-1.05	-0.01	-4.47
AUD/EUR	0.58	-1.33	-4.75	-4.20
AUD/GBP	0.49	-1.36	-4.09	-5.87
AUD/JPY	92.89	-1.35	-3.12	-4.77
AUD/CAD	0.91	-0.06	0.64	1.76
AUD/NZD	1.10	-0.30	-0.99	2.62
AUD/SGD	0.84	-0.70	-1.38	-4.48
AUD/HKD	4.89	-1.03	-0.26	-5.08
AUD/KRW	915.42	-0.37	0.16	5.10
AUD/CNY	4.55	-1.23	-0.94	-3.89
AUD/INR	54.67	-1.15	0.17	0.15

MAJOR CURRENCIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.09	0.28	4.97	-0.28
GBP/USD	1.29	0.31	4.26	1.49
USD/JPY	147.73	0.30	3.11	0.32
USD/CHF	1.13	0.09	3.08	-0.17
USD/CNY	7.24	0.18	0.92	-0.61

MAJOR COMMODITIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	69.88	0.60	-9.25	-18.19
Gold	2,989	2.66	3.15	38.25
Copper	9,784	0.51	4.55	10.08
Iron Ore	102.22	1.85	-2.65	8.42

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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