

Weekly Economics and Markets Review

- The Monthly CPI indicator held steady at 2.5 per cent in January, with an acceleration of electricity price growth offset by slower housing inflation.
- There were further announcements on US trade policy this week, with President Trump saying he would be introducing tariffs on the EU bloc 'very soon'.
- Elevated economic uncertainty around tariffs and government spending cuts weighed on US consumer sentiment in February. The prospect of higher tariffs also saw a large spike in US consumer inflation expectations.

Week in review

Domestic

- 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.
- The CPI measure of electricity price growth accelerated as rebates began to fade, though this was offset by subdued housing-related inflation.
 - 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.
 - New dwelling inflation (exc. land) remained subdued at 2.9 per cent year-on-year, due to discounts from project home builders, as well as improvements in the supply of materials and labour. Annual rents inflation also eased to 5.8 per cent (from 6.2 per cent in December).
- Construction work done rose 0.5 per cent in Q4, to be 1.8 per cent higher over the year. Engineering work has strengthened in the past year, driven by an 8.6 per cent increase in public sector work. In contrast, non-residential construction fell by a large 3.1 per cent in Q4 and is now 9.6 per cent lower over the year.
- Private capex decreased 0.2 per cent in Q4, underpinned by 1.0 per cent decline in machinery and equipment investment. Taken together with the private construction work done data, private business investment is expected to have subtracted slightly from GDP growth in Q4.
- SEEK's job ads and advertised salary growth data suggest that labour market conditions remained robust in January. Jobs ads increased 5.1 per cent in January, marking the largest increase in ad volumes in the past three years. Advertised salary growth rose 0.3 per cent in January, which saw annual salary growth remain steady at 3.6 per cent.

Offshore

- President Trump said he would be announcing tariffs on the EU bloc 'very soon', and 'it'll be 25 per cent, generally speaking.' He also suggested that the implementation of higher tariffs on Mexico and Canada could be delayed to 2 April, before reversing this position and stating that they are still due to take effect from 4 March.

- Other key dates in terms of potential US tariff increases are 12 March (steel and aluminium tariffs) and 2 April (auto, semiconductor and pharmaceutical tariffs). The review on existing trade arrangements that will inform the implementation of reciprocal tariffs is also due in April.
- The US House of Representatives narrowly passed a budget bill that outlines a path for \$4.5 trillion in tax cuts and \$2 trillion in spending cuts over the next 10 years. It also includes a \$4 trillion increase to the debt ceiling. The bill will now head to the Senate where it is likely to face heavy editing.
- Elevated economic uncertainty around tariffs and government spending cuts weighed heavily on surveys of US economic activity for February.
 - Consumer confidence fell noticeably in February, with this decline seen in surveys conducted by both the Conference Board and University of Michigan. Consumers sentiment around both current conditions and expectations for the future worsened.
 - Inflation-related concerns weighed on sentiment in February, with the prospect of higher tariffs contributing to a noticeable spike in both short- and long-run consumer inflation expectations. Notably, 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.
 - S&P Global's Services PMI was weaker than economists' expectations, with US services firms widely blaming lower activity on uncertainty surrounding new government policies. There was a modest increase in the Manufacturing PMI, while the composite index fell 2.3 points in the month.
- Other US data were mostly weaker-than-expected, though this largely reflected poor weather. Pending home sales slumped 4.6 per cent month-on-month in January, while initial jobless claims rose by 22,000 to 242,000 in the week of February 22 (above economists' expectations for it to be 221,000).
- The outcome of the German election aligned with opinion polls, with the CDU/CSU will now commencing coalition discussions with the Social Democrats to establish the next government. Among its policy goals, the CDU/CSU aims to reduce the corporate tax rate from 30 per cent to 25 per cent, raise the threshold for the top income tax bracket, target a GDP growth rate of 2.0 per cent, and increase Europe's defence capability.
- UK PM Starmer announced his intention to step up defence spending from 2.3 to 2.5 per cent of GDP by 2027. He also noted an ambition to eventually lift spending to 3 per cent of GDP, subject to economic and fiscal conditions.

Markets

US Treasury yields declined over the past week as weaker-than-expected survey data and new tariff announcements increased concerns around the effect of economic uncertainty on the US economy. 2-year Treasury yields are down 22 basis points in the week while 10-year yields are down 25 basis points. Australian Government bond yields also moved lower alongside waning risk sentiment and a slightly weaker-than-expected outcome for the monthly CPI indicator.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Company profits and inventories (Q4) Tuesday: RBA Minutes (Feb meeting), Retail sales (Jan), Balance of payments (Q4) Wednesday: GDP (Q4) Thursday: Building approvals (Jan), International trade (Jan)
Offshore	US: Non-farm payrolls (Feb), Unemployment rate (Feb), Average hourly earnings (Feb), Manufacturing and Services ISMs (Feb) Euro area: ECB meeting (6 Mar), CPI (Feb)

Economic and Financial Market Charts

CHART 1: THE MONTHLY CPI INDICATOR HELD STEADY AT THE MIDPOINT OF THE RBA'S TARGET BAND IN JANUARY

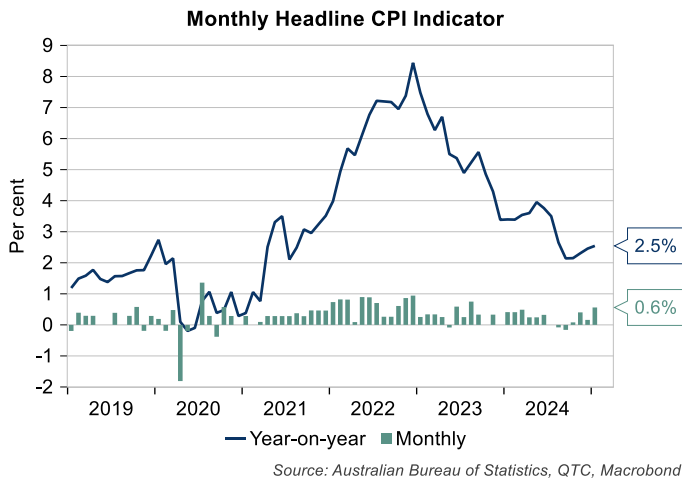


CHART 2: MEASURES OF UNDERLYING INFLATION TICKED UP SLIGHTLY, BUT ALSO REMAIN WITHIN THE RBA'S 2-3% TARGET BAND

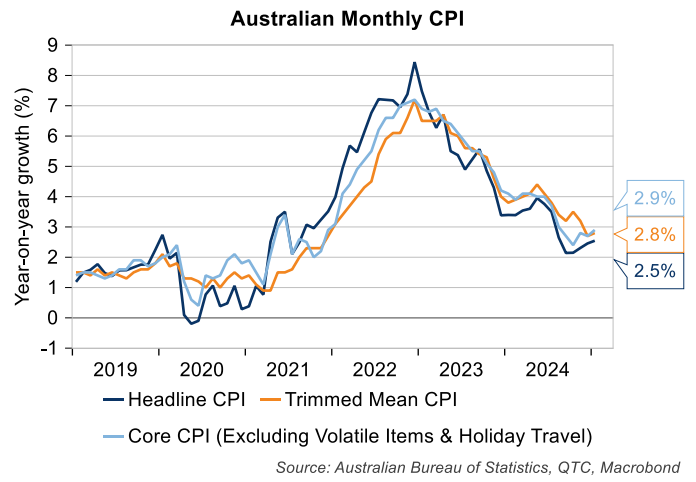


CHART 3: ELECTRICITY INFLATION ACCELERATED IN JANUARY AS THE EFFECTS OF REBATES BEGAN TO FADE

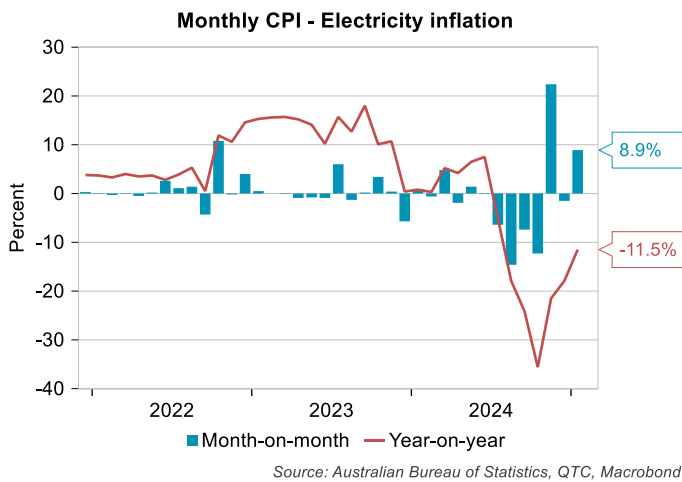


CHART 4: US TRADE POLICY UNCERTAINTY HAS INCREASED TO A RECORD HIGH IN THE WAKE OF TRUMP'S TARIFF ANNOUNCEMENTS

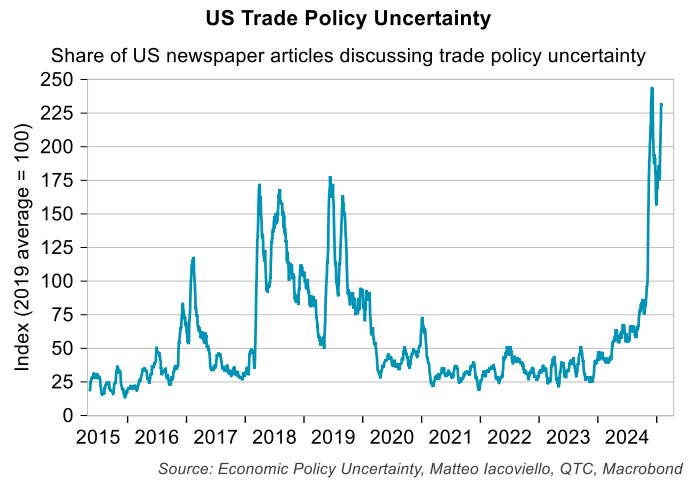


CHART 5: ELEVATED UNCERTAINTY AROUND US TARIFFS HAS SEEN A LARGE SPIKE IN CONSUMER INFLATION EXPECTATIONS

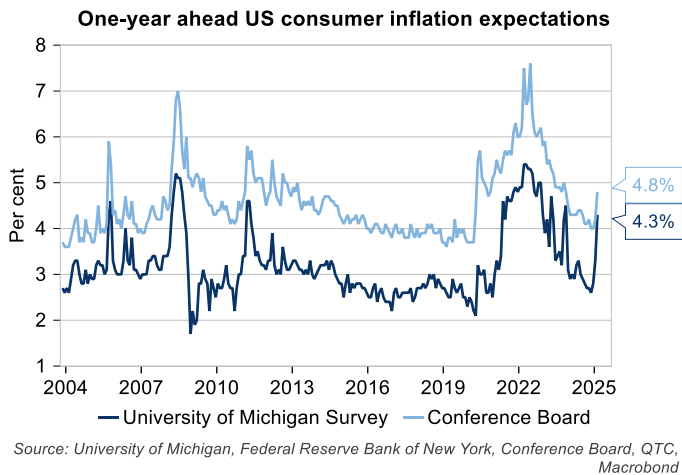
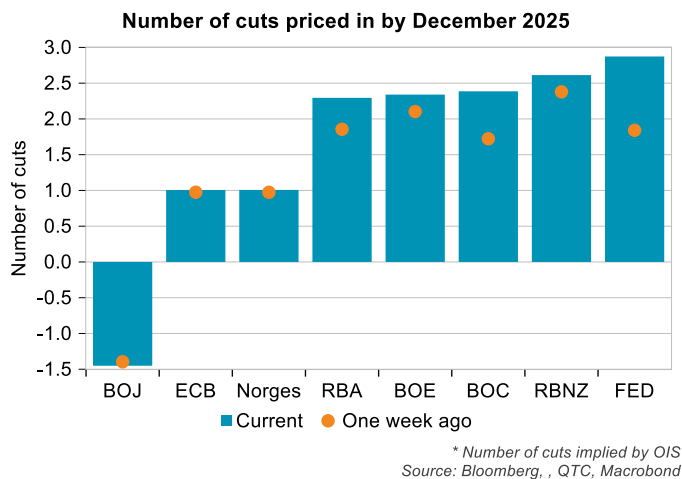


CHART 6: FINANCIAL MARKETS ARE PRICING IN MORE RATE CUTS FROM THE FED FIN RESPONSE TO WEAKER-THAN-EXPECTED ECONOMIC DATA, NEW TARIFF ANNOUNCEMENTS AND HEIGHTENED UNCERTAINTY



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	4.02	-17	-9	0
	NSWTC	4.01	-16	-7	-0
	TCV	4.03	-17	-8	-5
	WATC	3.96	-16	-8	-4
	Australian Government	3.79	-15	-6	7
	US Government	4.03	-25	-21	-39
5 Year	QTC	4.29	-17	-11	18
	NSWTC	4.25	-17	-8	13
	TCV	4.31	-16	-8	11
	WATC	4.19	-17	-11	10
	Australian Government	3.91	-17	-6	14
	US Government	4.07	-27	-26	-17
7 Year	QTC	4.61	-18	-13	29
	NSWTC	4.57	-17	-11	20
	TCV	4.62	-17	-12	18
	WATC	4.48	-18	-13	19
	Australian Government	4.12	-18	-7	19
	US Government	4.17	-26	-26	-10
10 Year	QTC	5.06	-17	-17	40
	NSWTC	5.00	-17	-14	30
	TCV	5.05	-16	-16	26
	WATC	4.83	-17	-17	27
	Australian Government	4.33	-18	-8	24
	US Government	4.26	-25	-27	1

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.63	-2.20	0.11	-3.95
AUD/EUR	0.60	-1.61	0.29	-0.14
AUD/GBP	0.50	-2.04	-1.34	-3.75
AUD/JPY	93.73	-1.97	-3.64	-3.85
AUD/CAD	0.90	-0.56	0.40	2.18
AUD/NZD	1.11	-0.23	0.42	3.67
AUD/SGD	0.84	-1.31	-0.24	-3.76
AUD/HKD	4.86	-2.20	-0.09	-4.59
AUD/KRW	905.92	-1.32	0.23	4.25
AUD/CNY	4.55	-2.30	0.46	-2.77
AUD/INR	54.61	-1.37	1.02	1.19

MAJOR CURRENCIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.04	-0.60	-0.18	-3.81
GBP/USD	1.26	-0.16	1.48	-0.20
USD/JPY	149.90	-0.24	3.75	-0.10
USD/CHF	1.11	0.06	0.70	-2.05
USD/CNY	7.28	0.11	-0.35	-1.22

MAJOR COMMODITIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	73.80	-3.50	-4.76	-11.74
Gold	2,878	-2.09	4.13	40.76
Copper	9,460	-1.08	5.26	11.38
Iron Ore	104.34	-3.31	1.35	5.03

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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