

Weekly Economics and Markets Review

- Employment fell sharply in February due to fewer people returning to work in the month, while the unemployment rate remained steady.
- Major central banks kept their policy rates unchanged this week, with the high level of economic uncertainty seeing central banks take a cautious approach to further rate cuts.
- US Treasury yields continued their decline over the past week in response to ongoing concerns about near-term growth.

Week in review

Domestic

- The unemployment rate remained stable at 4.1 per cent in February despite an unexpected 52.8k decline in employment. The participation rate declined to 66.8 per cent (from 67.2 per cent), offsetting the effect of lower employment on the unemployment rate.
- The ABS noted that a key contributor to the declines in employment and the participation rate was *'fewer older workers returning to work in February'* and *'higher levels of retirement'*. It is unclear whether this reflects an underlying trend towards greater retirement rates, or if it is simply statistical noise.

Offshore

- The US Federal Reserve's FOMC left the Fed Funds rate unchanged at the 4.25 to 4.5 per cent range, as widely expected. Market sentiment improved as Fed Chair Powell noted that tariff-based inflation will be *'transitory'*, dismissing the recent spike in the University of Michigan inflation expectations.
- The FOMC's Summary of Economic Projections (SEP) showed the median expectation among Fed officials is for two 25 basis point cuts in 2025 and one 25 basis point cut in 2026. Both were unchanged from the December SEP. Expectations for economic growth in 2025 was trimmed 0.4 percentage points to 1.7 per cent whilst the 2025 core PCE forecast increased 0.3 percentage points to 2.8 per cent.
- Other major central banks also kept their policy rates unchanged this week.
 - The Bank of England kept its policy rate on hold at 4.5 by an 8-1 vote margin (with one vote to cut by 25bps). Guidance was unchanged citing *'a gradual and careful approach to the further withdrawal of monetary restraint being appropriate'*.
 - The Bank of Japan left its policy rate target unchanged at 0.5 per cent in March, as widely expected.
 - Sweden's Central Bank kept its policy rate unchanged at 2.25 per cent. The central banks forecasts have its policy rate remaining steady until 2028.

- US Treasury Secretary Bessent was asked about US recession risks in a Fox Business interview. Bessent said he could not *'guarantee anything'* but saw no reasons for the US to go into a recession. However, he also added that the US could enter a *'pause'* in activity as government spending comes down.
- On **US economic data**,
 - The University of Michigan consumer sentiment index fell 6.8 points to 57.9 in March, its lowest level since November. Sentiment has now fallen for three consecutive months and is down a cumulative 22 per cent since December 2024.
 - The University of Michigan's measures of inflation expectations picked up noticeably, with consumers becoming increasingly concerned about the effect of higher tariffs on inflation. One-year ahead inflation expectations increased to 4.9 per cent in March, while 5-10 year ahead expectations increased to 3.9 per cent. This is the highest level of 5-10 year ahead inflation expectations since 1992.
 - Retail sales rose 0.2 per cent in February, following a 1.2 per cent decline in January. Core retail sales was up 1.0 per cent in February, above consensus expectations for a 0.6 per cent rise.
 - Industrial production rose 0.7 per cent in February while manufacturing production was up 0.9 per cent. The increase was led by a strong rebound in auto and auto parts production.
 - Housing starts rebounded 11.2 per cent in February following the previous months weather distortions. Building permits were down, possibly reflecting tariff-related falls in builder confidence.
- In the **euro area**, German MPs approved a significant defence and infrastructure spending plan. The package includes the establishment of a 500 billion euro infrastructure fund to be spent over 12 years and a relaxation of Germany's strict debt rules. The bill also provides \$5 billion in support for Ukraine this year.
- In **China**, policymakers unveiled planned stimulus centred around boosting consumption, household wealth and funding for AI.

Markets

US Treasury yields continued their decline over the past week in response to ongoing concerns about near-term growth. 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, with the next cut fully priced in by the July meeting.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: Monthly CPI indicator (Feb)
Offshore	US: PCE inflation (Feb), New home sales (Feb), S&P Global PMIs (Mar), Conference Board consumer confidence (Mar) EU: HCOB PMIs (Mar) UK: CPI (Feb), Retail sales (Feb)

Economic and Financial Market Charts

CHART 1: EMPLOYMENT FELL SHARPLY IN FEBRUARY, WITH THE ABS NOTING THAT 'FEWER OLDER WORKERS' RETURNED TO WORK IN THE MONTH

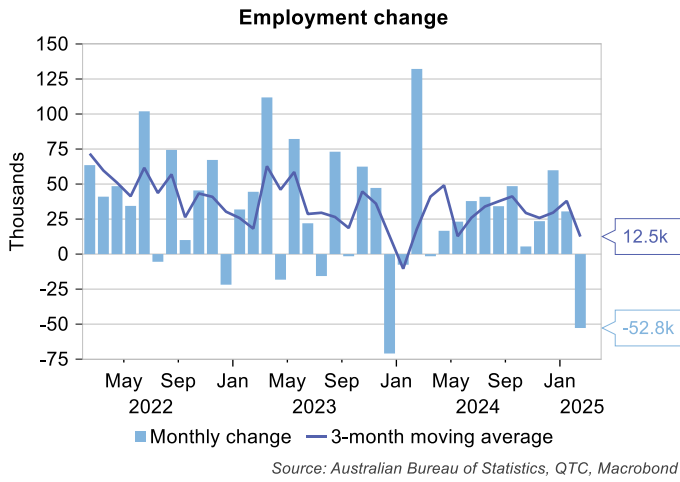


CHART 2: THE UNEMPLOYMENT RATE WAS STABLE IN FEBRUARY, WITH A LOWER PARTICIPATION RATE OFFSETTING THE EFFECT OF WEAKER EMPLOYMENT

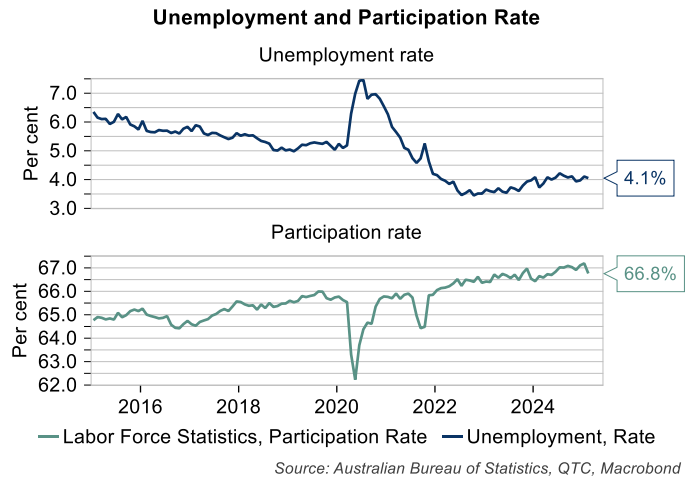


CHART 3: TARIFF INCREASES AND POLICY UNCERTAINTY HAS STARTED TO WEIGH ON US CONSUMER SENTIMENT

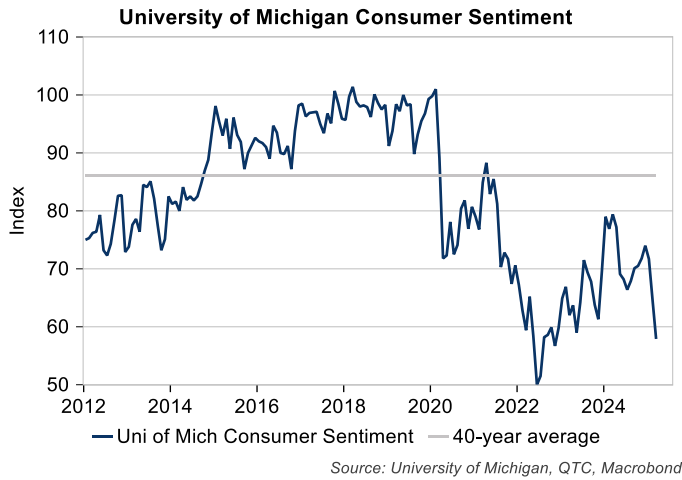


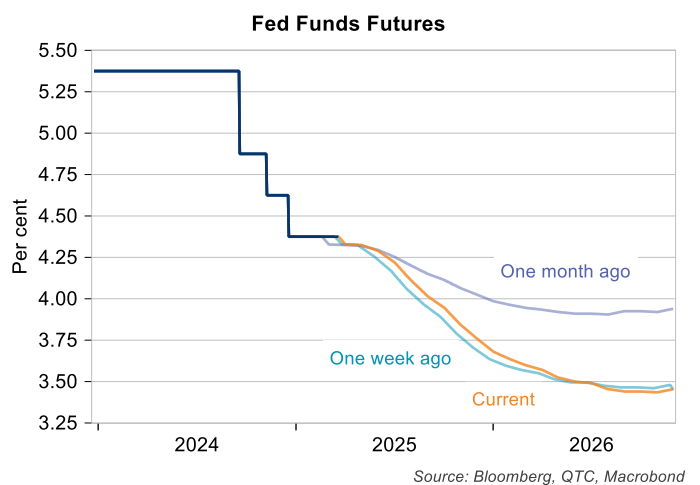
CHART 4: US CONSUMER INFLATION EXPECTATIONS ALSO SOARED IN FEBRUARY IN RESPONSE TO HIGHER TARIFFS



CHART 5: EXPECTATIONS FOR GERMAN ECONOMIC ACTIVITY ROSE IN FEBRUARY, IN RESPONSE TO PLANNED INCREASES IN DEFENCE AND INFRASTRUCTURE SPENDING



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	3.96	-3	-24	-2
	NSWTC	3.96	-2	-22	-2
	TCV	3.97	-3	-22	-7
	WATC	3.89	-4	-23	-8
	Australian Government	3.74	-3	-20	8
	US Government	3.94	-1	-39	-47
5 Year	QTC	4.26	-2	-20	18
	NSWTC	4.25	-2	-17	15
	TCV	4.29	-1	-18	13
	WATC	4.17	-3	-19	10
	Australian Government	3.87	-3	-20	17
	US Government	4.01	-2	-39	-24
7 Year	QTC	4.61	-3	-18	32
	NSWTC	4.59	-3	-15	23
	TCV	4.64	-2	-15	22
	WATC	4.48	-3	-17	22
	Australian Government	4.12	-3	-18	25
	US Government	4.12	-3	-35	-15
10 Year	QTC	5.08	-4	-15	44
	NSWTC	5.05	-3	-11	36
	TCV	5.10	-1	-10	33
	WATC	4.87	-3	-13	32
	Australian Government	4.37	-4	-15	32
	US Government	4.24	-3	-31	-3

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.63	0.14	-0.88	-4.18
AUD/EUR	0.58	0.26	-4.33	-3.99
AUD/GBP	0.49	-0.08	-3.59	-6.35
AUD/JPY	93.77	0.94	-2.70	-5.88
AUD/CAD	0.90	-0.37	0.08	1.44
AUD/NZD	1.10	-0.55	-1.64	0.84
AUD/SGD	0.84	0.13	-1.32	-4.74
AUD/HKD	4.89	0.14	-0.91	-4.78
AUD/KRW	924.38	0.98	1.03	5.40
AUD/CNY	4.55	0.04	-1.20	-3.76
AUD/INR	54.37	-0.55	-1.50	-0.57
MAJOR CURRENCIES				
EUR/USD	1.08	-0.12	3.60	-0.20
GBP/USD	1.30	0.22	2.81	2.32
USD/JPY	148.92	-0.80	1.83	1.77
USD/CHF	1.13	0.21	2.05	1.77
USD/CNY	7.23	0.10	0.32	-0.43

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	72.26	3.41	-4.72	-15.76
Gold	3,045	1.86	3.71	39.59
Copper	9,988	2.09	5.44	11.59
Iron Ore	100.50	-1.68	-5.05	0.12

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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