

# Weekly Economics and Markets Review

- The 2025-26 Federal Budget was passed down this week, with the centrepiece being a surprise income tax cut. The outlook for the budget balance was little changed, with a boost from the stronger economic outlook offsetting the cost of new policy initiatives.
- CPI inflation eased further in February, confirming that the slowing of inflation late last year has continued in recent months.
- In a further escalation of the global trade war, President Donald Trump announced plans to introduce 25 per cent tariffs on all imported cars.

## Week in review

### Domestic

- Treasurer Jim Chalmers handed down the **2025-26 Federal Budget** this week, with the centrepiece for the budget being a modest tax cut. The outlook for the budget balance was little changed, with a stronger-than-expected economic outlook offsetting the cost of new policy initiatives.
  - The 2025-26 budget deficit was largely unrevised, with Treasury expecting the underlying cash balance to be \$27.6 billion in 2024-25 (compared to \$28.3 billion in the December budget update). The deficit is expected to widen to \$42.1 billion in 2025-26, with stronger-than-expected economic conditions offsetting the cost of new policy initiatives.
  - Over the five years to 2028-29, an improvement in the budget balance due to stronger-than-expected economic conditions (i.e. 'parameter variations') has largely been offset by the cost of new policy decisions. Over this five-year period, parameter variations improved the budget balance by \$36.4 billion, while new policy measures subtracted \$34.9 billion.
  - The policy centrepiece in the Budget was a tax cut being delivered through a reduction in the first marginal tax rate from its current 16 per cent to 15 per cent in 2026-27 and then 14 per cent in 2027-28. The cost of the tax cut to the budget is estimated at \$3 billion in 2026-27, rising to \$6.7 billion by 2027-28. This tax cut will provide a proportionately larger reduction in taxes for low-income workers, while the full tax cut of \$536 per year will apply to anyone earning at least \$45,000.
  - Most other new policies had been announced leading up to the Budget, including additional funding for Medicare (\$8.5b), increased wages for aged care workers (\$2.6b), additional funding for the Clean Energy Finance Corporation (\$2b), the extension of subsidies on electricity bills (\$1.8b) and funding for states for public hospitals (\$1.7b).
  - The budget experiences structural challenges due to growing expenditure on programs such as the NDIS, aged care, and defence. Off-budget items are also higher than normal, increasing the government's funding task. These off-budget items are not counted in the underlying cash balance but are included in the headline fiscal balance and contribute to gross debt.
- **Headline CPI inflation** fell by a tenth to 2.4 per cent year-on-year in February. Excluding volatile items and holiday travel, annual CPI inflation came in at 2.7 per cent (from the 2.9 per cent in January). Housing-related inflation continued to improve, with new dwelling costs recording its third month-on-month price decline in the past four months.

### Offshore

- President Donald Trump made further **tariff announcements** this week, in an escalation of the ongoing global trade war.
  - Trump announced on Wednesday plans to introduce 25 per cent tariffs on all imported cars. These tariffs will also be applied to key imported auto parts, including engines, powertrain parts and electrical components.
  - Several major economies have spoken out against the proposed auto tariffs. The EU vowed a '*robust*' response, France's president said the move was '*incoherent*', Canada called it a '*direct attack*' and said it would introduce retaliatory tariffs, and China accused the Trump administration of violating international trade rules.
  - Trump said that reciprocal tariffs are still scheduled to be placed on '*all trading partners*' from 2 April. However, there remains a lot of uncertainty around the details of these tariffs, with comments from Trump earlier in the week suggesting that the 2 April tariff increases may not be as severe as originally thought.
- **European Central Bank (ECB)** speakers have expressed some caution about an April cut in recent commentary, with ECB member Wunsch citing the '*difficult balancing act*' between upward pressure on inflation and downward pressure on growth. However, financial markets still see a high probability that the ECB will lower rates in April, with markets currently pricing in a 75 per cent probability for a 25 basis point cut.
- The **S&P Global PMI's** were mixed this week, though the balance of outcomes were a bit stronger than expected.
  - For the US, the composite reading increased to 53.5 in March from 51.6 previously. A fall in the manufacturing PMI was more than offset by stronger services activity.
  - In the euro area, the composite PMI rose slightly to a seven-month high of 50.4. The increase was driven by stronger manufacturing, which offset weaker services. Germany's manufacturing PMI has shown a strong recovery in response to the prospect of larger defence and infrastructure spending.
- The Conference Board measure of **US consumer confidence** fell 7.2pts to 92.9 in March, placing the index 19.9pts below the post-election high. The consumer expectations components led the decline, down 9.6pts to 65.2 and approaching its lowest level since March 2013.

## Markets

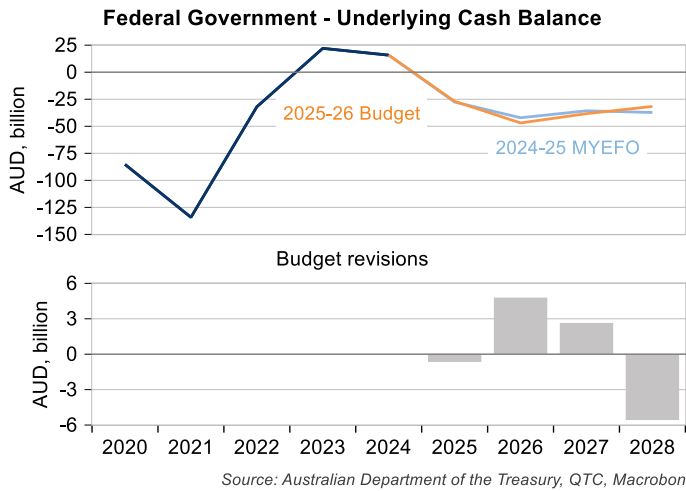
US Treasury yields increased this week, with the largest jump occurring after President Trump signalled the 2 April tariff increases may not be as wide ranging or large as initially expected. The increase in yields was also supported by a stronger-than-expected US PMI for March. Domestically, financial market pricing implies there is around a 70 per cent probability of the RBA cutting the cash rate by its May meeting, with the next cut fully priced in for the July meeting.

### Economic and Market Calendar

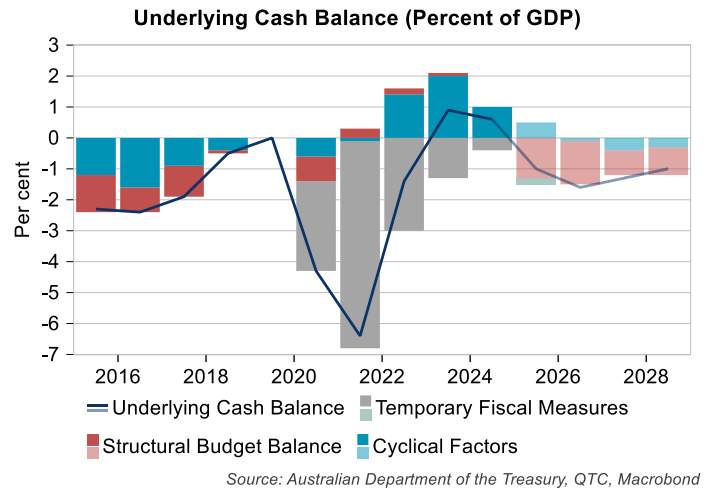
DATE	DETAILS
Domestic	<b>Tuesday:</b> RBA policy decision, Retail trade (Feb) <b>Wednesday:</b> Building approvals (Feb) <b>Thursday:</b> RBA Financial Stability Review, Trade balance (Feb) <b>Friday:</b> Household spending indicator (Feb)
Offshore	<b>US:</b> Non-farm payrolls (Mar), Unemployment rate (Mar), Avg. hourly earnings (Mar), JOLTS job openings (Feb), ISM manufacturing and services (Mar) <b>EU:</b> CPI (Mar), Unemployment rate (Feb); <b>China:</b> NBS and Caixin PMIs (Mar)

## Economic and Financial Market Charts

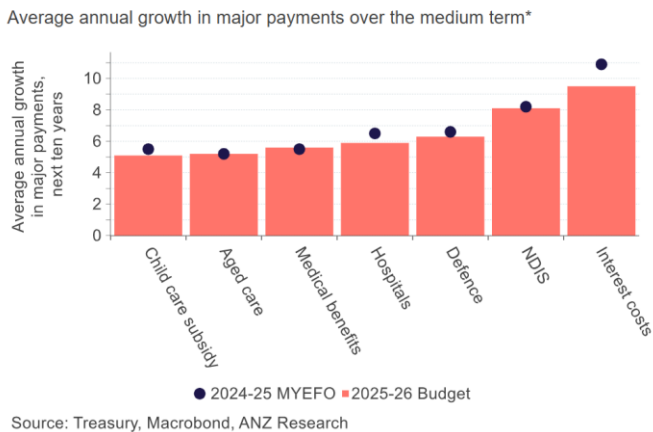
**CHART 1: THE OUTLOOK FOR THE FEDERAL BUDGET BALANCE WAS LITTLE CHANGED FROM MYEFO, WITH THE EFFECT OF A STRONGER ECONOMIC OUTLOOK OFFSETTING THE COST OF NEW POLICY INITIATIVES**



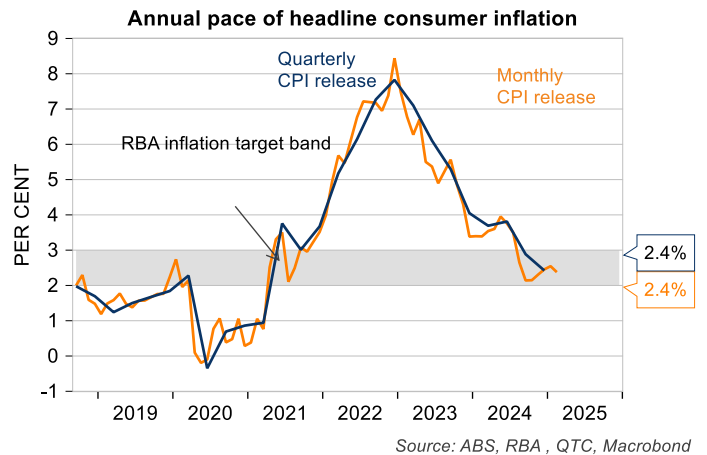
**CHART 2: THE STRUCTURAL DEFICIT IS BROADLY STABLE IN THE NEAR-TERM, BEFORE GRADUALLY IMPROVING FROM THE END OF THE FORWARD ESTIMATES**



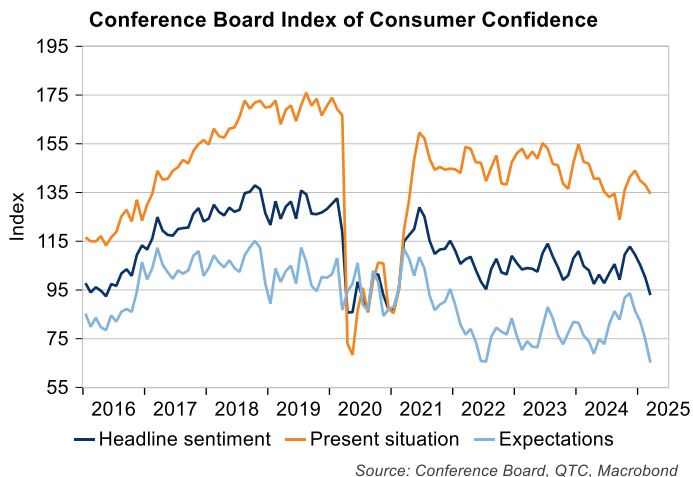
**CHART 3: THE FASTEST GROWING FEDERAL GOVERNMENT PAYMENTS OVER THE MEDIUM TERM ARE RELATED TO INTEREST ON GOVERNMENT DEBT, THE NDIS AND DEFENCE**



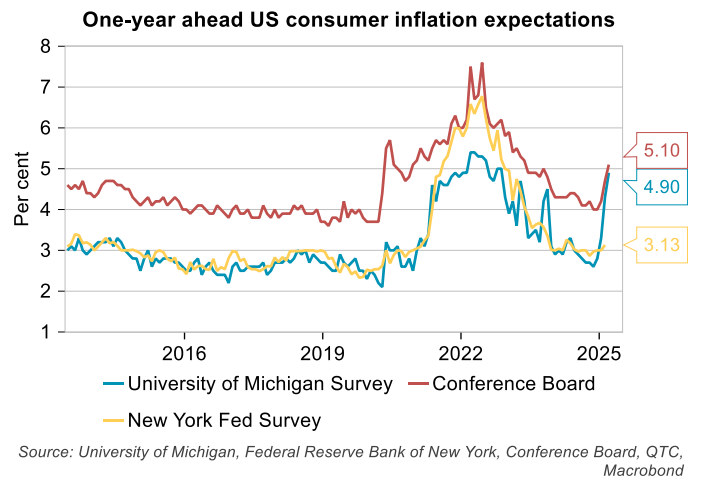
**CHART 4: HEADLINE CPI INFLATION REMAINED COMFORTABLY WITHIN THE RBA'S TARGET BAND IN FEBRUARY**



**CHART 5: US CONSUMER CONFIDENCE IS NOW WELL BELOW POST-ELECTION HIGHS FROM NOVEMBER 2024, DRIVEN BY WORSENING CONSUMER EXPECTATIONS**



**CHART 6: CONSUMERS ONE-YEAR AHEAD INFLATION EXPECTATIONS HAVE ALSO INCREASED IN RESPONSE TO RECENT INCREASES IN US TARIFFS (AND THE PROSPECT OF MORE INCREASES TO COME)**



## 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	3.99	3	-4	5	AUD/USD	0.63	0.16	-0.44	-3.31
	NSWTC	3.98	2	-3	6	AUD/EUR	0.58	0.59	-3.18	-3.31
	TCV	4.00	3	-3	1	AUD/GBP	0.49	0.18	-2.83	-5.79
	WATC	3.91	3	-4	-1	AUD/JPY	95.22	1.55	0.88	-3.54
	Australian Government	3.79	6	1	17	AUD/CAD	0.90	0.05	-0.31	2.23
	US Government	3.99	5	-10	-42	AUD/NZD	1.10	0.16	-0.96	0.62
5 Year	QTC	4.29	4	1	28	AUD/SGD	0.84	0.37	-0.33	-4.10
	NSWTC	4.30	5	4	26	AUD/HKD	4.90	0.21	-0.41	-3.94
	TCV	4.33	4	2	23	AUD/KRW	923.03	-0.15	1.69	4.89
	WATC	4.21	5	2	21	AUD/CNY	4.58	0.53	-0.31	-2.91
	Australian Government	3.95	7	4	28	AUD/INR	54.01	-0.66	-2.18	-0.70
	US Government	4.09	8	-4	-13	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.68	7	7	46	EUR/USD	1.08	-0.42	2.84	0.00
	NSWTC	4.67	8	10	39	GBP/USD	1.30	-0.01	2.46	2.63
	TCV	4.71	8	9	37	USD/JPY	150.97	-1.38	-1.32	0.24
	WATC	4.57	8	9	37	USD/CHF	1.13	0.12	1.24	2.13
	Australian Government	4.21	10	10	39	USD/CNY	7.26	-0.37	-0.13	-0.42
	US Government	4.22	9	1	1	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	5.18	10	13	61	Brent Crude Oil	74.03	2.82	1.38	-15.37
	NSWTC	5.16	10	16	53	Gold	3,057	0.41	4.88	37.11
	TCV	5.20	10	16	50	Copper	9,927	-0.10	5.59	11.95
	WATC	4.96	10	13	48	Iron Ore	103.49	2.98	-1.70	10.40
	Australian Government	4.50	13	17	50					
	US Government	4.36	12	6	16					

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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