March Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

The Australian Government's 2025-26 Budget surprised with an additional income tax cut. The budget, released shortly before the federal election was called, highlighted resilience in the domestic economy with stronger-than-expected economic conditions supporting fiscal outcomes, though this was ultimately more than offset by the cost of new policy initiatives.

International economy

Tariff increases by the US (and the potential for more) were again the focal point internationally on the month. Weak readings on consumer sentiment in the US continue to emerge, seemingly driven by higher prices and economic uncertainty driven by the tariff moves. This is suggestive of downside risks to growth as well as upside risks to inflation.

Interest rates

Three-year Australian Government bond yields fell five basis points in March to 3.88 per cent while 10-year yields rose nine basis points to 4.38 per cent. Yield movements were volatile amid unpredictable trade policy developments in the US. The key catalyst for higher yields at the long-end was a loosening of fiscal policy in Germany. Meanwhile, at the short-end, potential downside risks to economic growth in Australia from adverse trade policy developments globally likely played a role in pushing yields lower short-end as investors moved to price in more rate cuts from the RBA.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.90	-8	0
	Australian Government	3.69	-5	10
	US Government	3.88	-15	-63
5 Year	QTC	4.22	-3	24
	Australian Government	3.84	-2	21
	US Government	3.95	-12	-37
7 Year	QTC	4.61	3	41
	Australian Government	4.10	3	32
	US Government	4.08	-9	-24
10 Year	QTC	5.10	7	56
	Australian Government	4.38	9	42
	US Government	4.21	-5	-10

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6231	-0.4%	-4.0%
AUD/EUR	0.5769	-4.0%	-4.5%
AUD/GBP	0.4826	-2.6%	-6.6%
AUD/JPY	93.1949	-0.6%	-5.4%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0801	3.8%	0.6%
GBP/USD	1.2910	2.3%	2.8%
USD/JPY	149.57	0.2%	1.4%
USD/CNY	7.2633	0.2%	-0.4%

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:

The Australian Government's 2025-26 Budget surprised with an additional income tax cut. The budget, released shortly before the federal election was called, highlighted resilience in the domestic economy with stronger-than-expected economic conditions supporting fiscal outcomes, though this was ultimately more than offset by the cost of new policy initiatives.

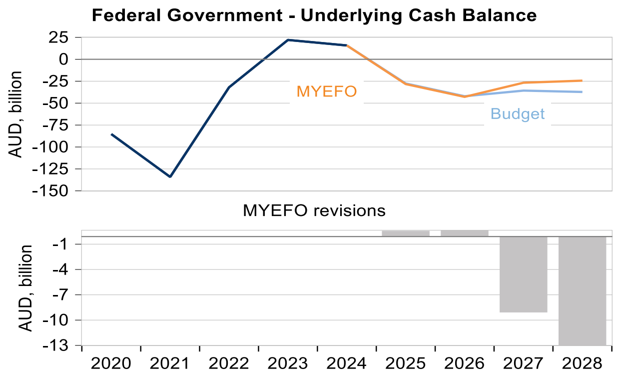
REVIEW:

- Treasurer Jim Chalmers handed down the 2025-26 Federal Budget with key points being that:
  - The Treasury is expecting the underlying cash balance to be -$27.6 billion in 2024-25 before it widens to -$42.1 billion in 2025-26. The increase in the deficit is set to occur as the cost of new policy initiatives is expected to more than offset the impact of stronger-than-expected economic conditions.
  - The centrepiece of 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 to rise to $6.7 billion by 2027-28 at which point the tax cut will be worth $536 per year for anyone earning at least $45,000 with a proportionately larger reduction in taxes for low-income workers.
- There were further signs of an ongoing moderation in inflation. According to the ABS, headline CPI fell by a tenth to 2.4 per cent in the year to February. Excluding volatile items and holiday travel, annual CPI inflation came in at 2.7 per cent (from 2.9 per cent in January). The Melbourne Institute's trimmed-mean measure edged lower by 0.1 per cent in February with the annual rate 0.3 percentage points lower at 1.8 per cent.
- Real GDP rose by 0.6 per cent in Q4, the fastest quarterly rate of growth in two years. The main driver was improvements in household spending and business investment with private demand contributing as much to GDP growth in the quarter as it had in the past three combined.
- The unemployment rate was steady at 4.1 per cent in February with a 52,800 dip in employment being offset by a decline in the participation rate. The ABS noted the main contributors to the declines in employment and the participation rate was *'fewer older workers returning to work in February'* and *'higher levels of retirement.'*
- According to the *Westpac-Melbourne Institute Consumer Sentiment Index*, consumer confidence reached its highest level in over three years after, rising 4.0 per cent in March. This came as households felt better about family finances and it being time to buy a major household item. Despite these improvements, consumers perceptions of news abroad have '*become more troubling*' in recent months.
- According to the *NAB Business Survey*, despite rising marginally in February, business conditions continued to point to below average economic growth. The more forward-looking business confidence index ticked lower and is now slightly below its long-run average. Measures of input cost pressures remain higher than output price growth, pointing to the ongoing challenges in the business sector.

WHAT TO WATCH:

With markets expecting no change at the RBA's April meeting (today), attention will instead focus on the prospect for further rate cuts as the year goes on. Over the past month investors have factored in more easing from the RBA, presumably on the back of downside risks given uncertainty around global trade arrangements.

CHART 1: DEFICITS INCREASED SLIGHLY IN THE FEDERAL BUDGET ON THE BACK OF NEW POLICY DECISIONS

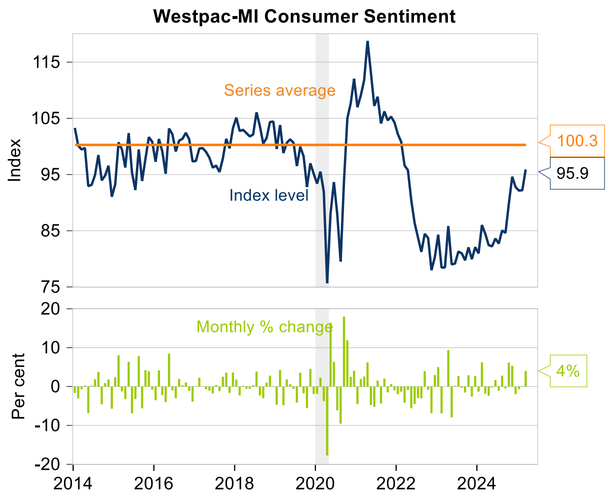


Source: Australian Department of the Treasury, QTC, Macrobond

CHART 2: REAL GDP RECORDED ITS FASTEST QUARTERLY RATE OF GROWTH IN TWO YEARS IN Q4

Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 3: CONSUMER SENTIMENT REACHED ITS HIGHEST LEVEL IN OVER THREE YEARS PER THE WESTPAC-MELBOURNE INSTITUTE MEASURE



Source: Westpac-MI, QTC, Macrobond

International economy

SUMMARY:

Tariff increases by the US (and the potential for more) were again the focal point internationally on the month. Weak readings on consumer sentiment in the US continue to emerge, seemingly driven by higher prices and economic uncertainty driven by the tariff moves. This is suggestive of downside risks to growth as well as upside risks to inflation.

REVIEW:

- Developments in **tariffs** have included:
  - The US enacted 25 per cent tariffs on all steel, aluminium and autos.
  - Reciprocal tariffs are scheduled to be placed on trading partners from 2 April.
  - 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. Canada have imposed retaliatory tariffs on around US$40 bn of US imports
- From the March meetings of global **central banks**:
  - 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. 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.
  - The ECB cut the deposit rate by 25 bps to 2.5 per cent, as expected. It also modified the language in the official post-meeting statement to suggest that monetary policy is '*becoming meaningfully less restrictive*'.
  - The Bank of Canada cut its policy rate by 25 basis points to 2.75 per cent.
- In the **US**:
  - Non-farm payrolls rose 151,000, broadly in line with expectations. The unemployment rate increased one-tenth to 4.0 per cent.
  - In February, core CPI inflation was 0.2 per cent, below both economist expectations and the previous month's outcomes, while core PCE inflation was slightly stronger than expected (0.4% vs 0.3%).
  - The University of Michigan's measures of inflation expectations picked up noticeably in March. One-year ahead inflation expectations increased to 4.9 per cent, 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.
  - The Conference Board's consumer confidence fell 7.2pts to 92.9 in March, placing the index 19.9 points below the post-election high. The University of Michigan consumer sentiment index fell for the third consecutive month by 6.8 points to 57.9 in March.
- In **China**, 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. PPI inflation remains subdued in February, falling by 2.2 per cent over the year to February.
- The parties set to form the new government in Germany have proposed an expansion in spending that would be a material shift from the normally fiscally conservative country. There are three key elements to the proposal. Firstly, to exempt on-budget defence spending in excess of one per cent of GDP from inclusion in the country's *'debt brake'* limits. Secondly, to allow states to run a small structural budget deficit as opposed to a balanced budget. Thirdly, a EUR500 billion off-balance sheet infrastructure fund to be drawn down over ten years. Officials will seek to pass legislation before the new Parliament sits for the first time later this month as parties due to take a bigger share of seats will at that time have sufficient votes to block the proposal. The shift in thinking among German policymakers, especially around defence spending, reflects a lack of confidence around the US' commitment to defend Europe.

WHAT TO WATCH:

The potential for an escalation in trade tension remains and will likely be the key focus for markets in the months ahead.

CHART 4: US TRADE POLICY UNCERTAINTY IS NOT YET BEING REFLECTED AS SIGNIFICANTLY IN MARKETS LIKE IT WAS LAST YEAR

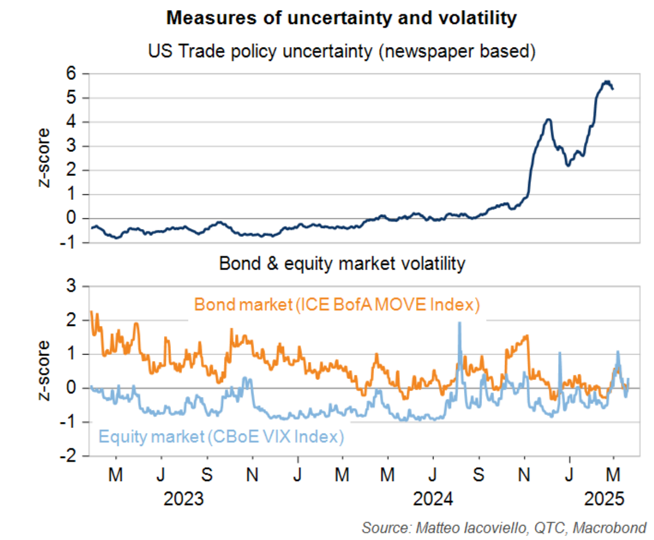


CHART 5: MEASURES OF 5-10 YR AHEAD INFLATION EXPECTATIONS ARE AT THEIR HIGHEST LEVEL SINCE 1992 ON THE BACK OF HIGHER TARIFFS

CHART 6: CHINESE CONUSMER PRICE INFLATION IS AGAIN NEGATIVE