

# Weekly Economics and Markets Review

- Trimmed-mean CPI inflation eased to be within the RBA's two to three per cent target band in Q1, marking the first time it has been within its target since 2021.
- US GDP contracted for the first time since 2022 in the March quarter, as businesses increased purchases of imported goods ahead of tariff increases.
- White House officials provided further commentary on trade policy this week, with the emphasis shifting from tariff announcements to prioritising negotiations with its trading partners.

## Week in review

### Domestic

- The Q1 **CPI** report was the key domestic release this week. Both headline and trimmed-mean CPI inflation were within the RBA's two to three per cent target band in Q1, marking the first instance since Q3 2014 where both measures have simultaneously met the central bank's target.
- Headline CPI increased by 0.9 per cent in Q1, with year-ended inflation remaining unchanged at 2.4 per cent. Headline inflation was supported by the roll-off of electricity rebates, with a particularly large increase in electricity prices in Brisbane due to most households exhausting the \$1,000 State Government electricity rebate.
- Trimmed-mean CPI inflation was 0.7 per cent quarter-on-quarter in Q1, picking up from 0.5 per cent in Q4 2024. This saw the annual rate of trimmed-mean inflation ease to 2.9 per cent, marking the first time it has been within the RBA's target band since Q4 2021.

### Offshore

- White House** officials provided further commentary on US trade policy this week, with the emphasis shifting from tariff announcements to prioritising negotiations with international trading partners.
  - There were reports that US officials plan to conduct staggered trade negotiations using a new template that sets common terms for many of its trading partners. The White House is reportedly looking to negotiate with about 18 major trading partners on a rolling basis over the next two months.
  - US Treasury Secretary Bessent reported that the US has engaged in significant discussions on trade with Japan and is nearing a trade agreement with India. Bessent noted that announcing these trade deals will provide certainty to markets.
  - The EU is planning to share a paper with the US next week that will set out a package of proposals on trade, signalling a start to its negotiations.
  - President Trump said that newly elected Canadian Prime Minister Mark Carney called to discuss a trade deal this week. He also noted that Carney would be visiting the White House soon.
  - Regarding China, Bessent said that there are options for further escalation of the trade war, but that '*we're very anxious*' not to use these options. He also mentioned that any further escalation could include embargos.
- US GDP** contracted for the first time since 2022 in Q1, as businesses increased purchases of imported goods ahead of tariff increases.
- A surge in imports saw net exports subtract around five percentage points from annualised GDP growth in Q1, its largest ever drag on growth. Government spending also subtracted 0.25 ppts from growth in the quarter. Private domestic spending remained robust, though this was directly related to the surge in imports, with households and businesses bringing forward purchases of imported goods in anticipation of tariff-related price increases.
- Looking ahead, the drag on US GDP from stronger imports should be temporary, with imports likely to contribute to GDP growth in Q2 as demand for foreign goods falls. This is expected to be offset, to some extent, by a pullback in consumption and investment and a rundown of inventories.
- Other US economic data** were mostly weaker-than-expected this week, with the outcomes for Conference Board consumer sentiment, ADP employment, JOLTS job openings, and the monthly trade balance all undershooting expectations. Key exceptions to this trend were quarterly PCE inflation and the ISM manufacturing index.
  - The Conference Board Consumer Confidence Index experienced its fifth consecutive decline in April, reaching its lowest level since May 2020. Consumer inflation expectations also continued to worsen, with one-year ahead inflation expectations rising from 4.9 to 6.0 per cent in April.
  - ADP Employment suggests that private payrolls increased by only 62,000 jobs in April, well below expectations for a 115,000 gain. JOLTS Job openings were also notably weaker than expected. While these data suggest labour market conditions may be softening, we will have a more fulsome assessment of conditions with the release of the BLS Employment Report and Household Survey later tonight.
  - The goods trade deficit widened by US\$14.1bn to US\$162.0bn in March, due to a front-loading of durable goods imports ahead of tariff increases.
  - Core PCE inflation accelerated in Q1, with quarterly annualised core inflation rising from 2.6 to 3.5 per cent.
  - The ISM manufacturing fell in April, though the decline was smaller than consensus had anticipated.
- In **China**, the NBS manufacturing PMI dropped from 50.5 to 49.0 in April, with the weaker-than-expected outcome reflecting a fall in new export orders. The Caixin manufacturing PMI also fell in April.

## Markets

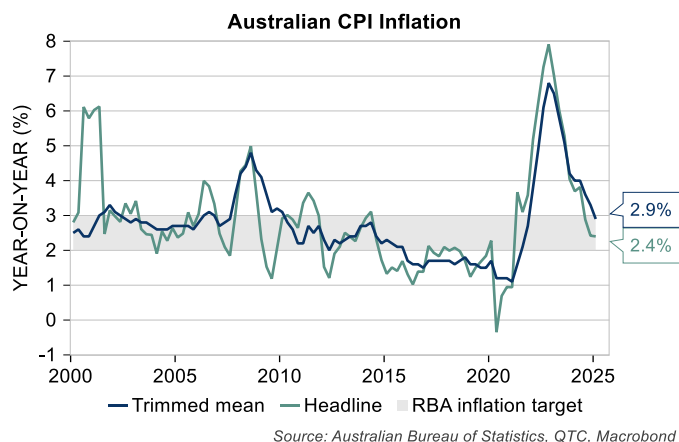
US Treasury yields fell further in response to weaker economic data, with both 2- and 10-year Treasury yields down 10 basis points over the past week. Financial market sentiment also improved in response to the White House shifting its focus towards negotiations with key trading partners. Domestically, investors viewed the Q1 CPI report as being consistent with a cash rate cut at the RBA's May meeting. Financial markets have fully priced in a 25-basis point cut in May, with four cuts fully priced in (and a 60 per cent chance of a fifth) by December.

## Economic and Market Calendar

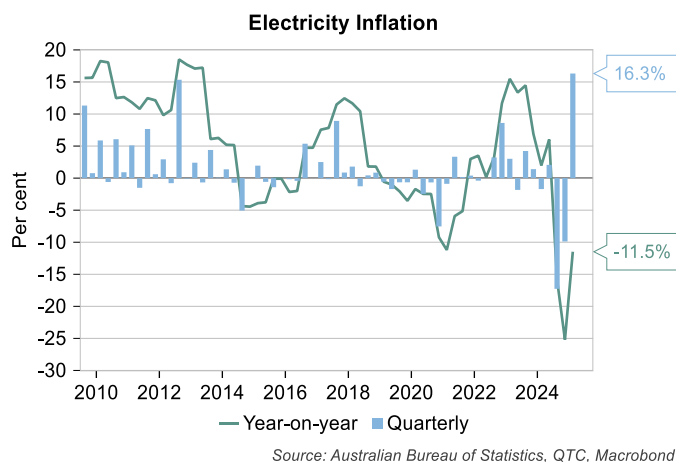
DATE	DETAILS
Domestic	<b>Tuesday:</b> Building approvals (Mar)
Offshore	<b>US:</b> FOMC meeting (8 May), Non-farm payrolls (Apr), Unemployment rate (Apr), ISM Services (Apr); <b>Euro area:</b> CPI (Apr); <b>UK:</b> BOE meeting (8 May); <b>China:</b> Goods trade (Apr); PPI (Apr); CPI (Apr)

## Economic and Financial Market Charts

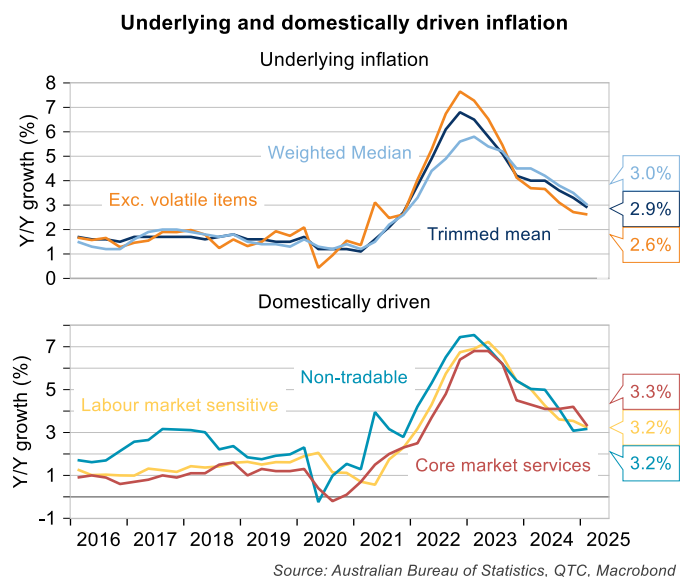
**CHART 1: ANNUAL TRIMMED-MEAN INFLATION HAS RETURNED TO THE RBA'S TARGET BAND FOR THE FIRST TIME SINCE Q4 2021**



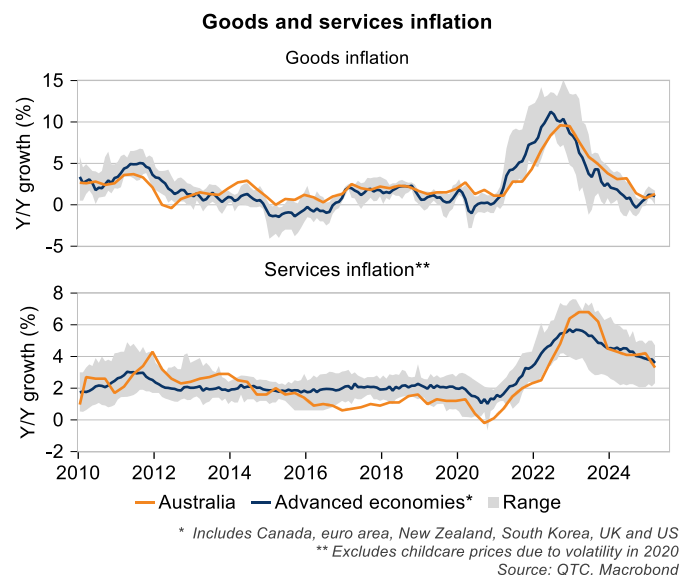
**CHART 2: HEADLINE INFLATION WAS SUPPORTED BY A 16.3 PER CENT INCREASE IN ELECTRICITY PRICES DUE TO THE ROLL-OFF OF REBATES**



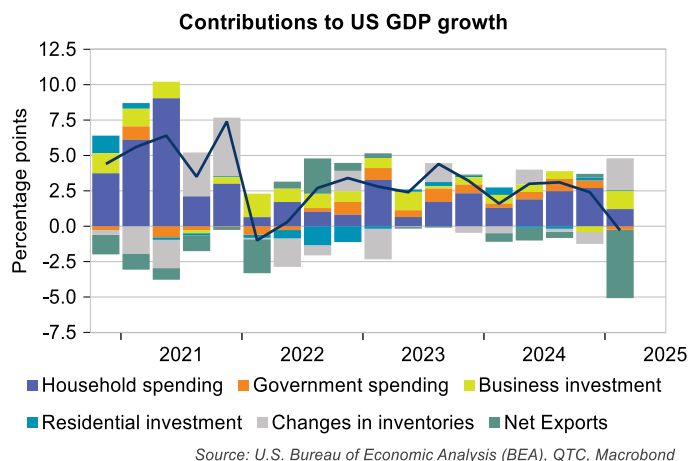
**CHART 3: MOST MEASURES OF ANNUAL UNDERLYING INFLATION ARE WITHIN (OR CLOSE TO) THE TOP OF THE RBA'S INFLATION TARGET BAND**



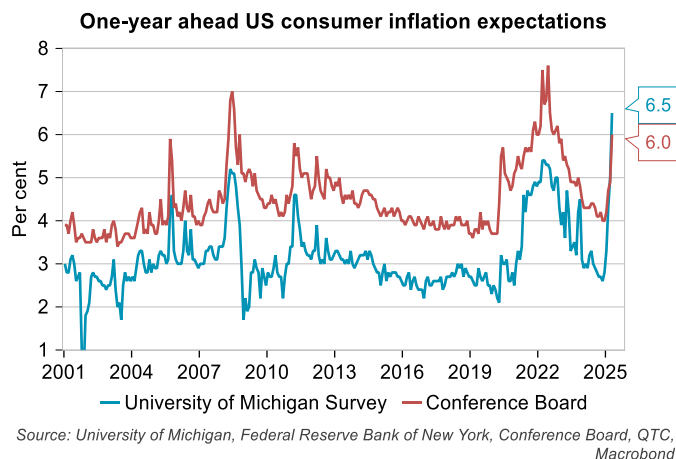
**CHART 4: RECENT IMPROVEMENTS HAVE SEEN DOMESTIC GOODS INFLATION MOVE TO BE IN LINE WITH OTHER ADVANCED ECONOMIES**



**CHART 5: A PRE-TARIFF SURGE IN US IMPORTS SAW NET EXPORTS SUBTRACT AROUND 5 PERCENTAGE POINTS FROM GDP GROWTH IN THE MARCH QUARTER**



**CHART 6: US CONSUMER INFLATION EXPECTATIONS CONTINUE TO INCREASE, WITH CONSUMERS CITING CONCERNS AROUND THE EFFECT OF HIGHER TARIFFS ON PRICES**



## 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	3.51	-4	-38	-99	AUD/USD	0.64	-0.22	1.75	-2.25
	NSWTC	3.51	-5	-37	-98	AUD/EUR	0.57	0.50	-2.53	-7.42
	TCV	3.57	-5	-34	-96	AUD/GBP	0.48	-0.10	-1.10	-8.22
	WATC	3.44	-4	-38	-101	AUD/JPY	92.79	1.65	-1.09	-7.82
	Australian Government	3.29	-3	-39	-82	AUD/CAD	0.88	-0.52	-1.66	-1.38
	US Government	3.68	-11	-18	-103	AUD/NZD	1.08	1.05	-1.89	-2.01
5 Year	QTC	3.88	-4	-31	-76	AUD/SGD	0.84	-0.23	-0.64	-5.67
	NSWTC	3.90	-5	-30	-75	AUD/HKD	4.95	-0.25	1.44	-3.00
	TCV	3.96	-5	-28	-72	AUD/KRW	916.57	-0.10	-0.78	2.13
	WATC	3.80	-4	-32	-80	AUD/CNY	4.64	-0.44	1.94	-1.81
	Australian Government	3.51	-4	-32	-66	AUD/INR	54.09	-0.99	0.64	-0.84
	US Government	3.80	-13	-12	-77	MAJOR CURRENCIES				
7 Year	QTC	4.34	-4	-24	-52	EUR/USD	1.13	-0.72	4.39	5.57
	NSWTC	4.33	-4	-23	-56	GBP/USD	1.33	-0.12	2.89	6.50
	TCV	4.40	-5	-21	-52	USD/JPY	145.26	-1.88	2.79	5.69
	WATC	4.23	-4	-23	-56	USD/CHF	1.20	-0.60	5.72	8.93
	Australian Government	3.83	-3	-26	-49	USD/CNY	7.27	0.21	-0.19	-0.45
	US Government	4.00	-11	-4	-57	MAJOR COMMODITIES				
10 Year	QTC	4.90	-3	-18	-31	Brent Crude Oil	62.13	-6.64	-16.59	-25.74
	NSWTC	4.86	-4	-17	-37	Gold	3,239	-3.29	4.04	40.60
	TCV	4.95	-4	-15	-33	Copper	9,206	-1.99	-5.02	-5.73
	WATC	4.67	-4	-19	-43	Iron Ore	95.07	-3.48	-6.66	-12.99
	Australian Government	4.15	-4	-22	-34					
	US Government	4.22	-10	5	-36					

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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