

May Monthly Economics and Markets Review

Overview

Domestic economy

Domestic economic data releases were resilient in May. On monetary policy, the RBA delivered the second cut of the easing phase of its policy cycle. While the decision to lower rates was widely anticipated, the bank's dovish turn in the post-meeting statement, forecasts in the *Statement on Monetary Policy*, and Governor's press conference were not. Consumer confidence improved in response to a decisive Federal election while labour market conditions remained solid with the unemployment rate holding steady at low levels.

International economy

The US again dominated headlines in May. While there was mixed news as to the legality of some of the tariffs imposed by the administration, the White House continued to conduct trade talks with several major economies. President Trump also announced a key strategic partnership with Saudi Arabia to attract investments of up to US\$600 billion and with Qatar for up to US\$1.2 trillion. Finally, Moody's downgraded the US long-term rating to Aa1 in response to large budget deficits and high government debt.

Interest rates

Three-year and 10-year Australian Government bond yields rose two and nine basis points to 3.32 per cent and 4.22 per cent respectively in May. Yield increases in the US were even more notable at 22 basis points and 24 basis points to 3.90 per cent and 4.46 per cent for three and 10-year Treasury bonds respectively. Better than expected non-farm payrolls growth and a re-escalation of trade tensions were behind the big increase in US yields with dovishness from the RBA also likely behind the smaller increase in yields here.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.54	2	-90
	Australian Government	3.32	2	-75
	US Government	3.90	22	-71
5 Year	QTC	3.92	4	-67
	Australian Government	3.54	2	-59
	US Government	4.01	21	-39
7 Year	QTC	4.39	5	-45
	Australian Government	3.87	4	-40
	US Government	4.22	22	-17
10 Year	QTC	4.95	9	-24
	Australian Government	4.22	9	-20
	US Government	4.46	24	7

Prices sourced from Macrobond and QTC are correct at the time of publication

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	1.1432	1.3%	5.1%
AUD/EUR	1.3552	1.9%	6.1%
AUD/GBP	142.74	1.7%	8.6%
AUD/JPY	7.2043	0.9%	0.5%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1432	1.3%	5.1%
GBP/USD	1.3552	1.9%	6.1%
USD/JPY	142.74	1.7%	8.6%
USD/CNY	7.2043	0.9%	0.5%

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.

View our recent economic reports

Weekly and monthly economic reports for QTC's clients to stay informed about the latest economic and financial market developments. [Click here to view recent reports.](#)

View our recent economic research

Hear from QTC's economists about topical issues that are important to the global and Australian economies, and financial markets. [Click here to view recent updates.](#)

Domestic economy

SUMMARY:

Domestic economic data releases were resilient in May. On monetary policy, the RBA delivered the second cut of the easing phase of its policy cycle. While the decision to lower rates was widely anticipated, the bank's dovish turn in the post-meeting statement, forecasts in the *Statement on Monetary Policy*, and Governor's press conference were not. Consumer confidence improved in response to a decisive Federal election while labour market conditions remained solid with the unemployment rate holding steady at low levels.

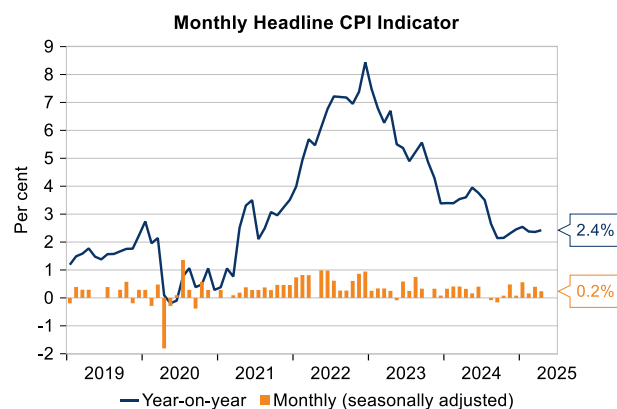
REVIEW:

- The RBA lowered the cash rate by 25 basis points to 3.85 per cent at its May meeting with communications taking on a dovish tone.
 - The post-meeting statement noted that risks to the forecasts have become 'more balanced' and that upside risks to inflation have diminished. The statement removed previous commentary that the Board wanted more confidence that inflation would return to the midpoint of the RBA's target on a sustainable basis, instead noting 'inflation is expected to remain around target.'
 - The RBA's *Statement on Monetary Policy* saw the outlook for inflation and GDP growth revised slightly lower, while the unemployment rate was revised to be slightly higher. Weaker consumption outcomes were the main driver of the lower GDP growth forecast.
 - In the post-meeting press conference, Governor Bullock noted that a 50 basis point cut was discussed but the consensus was for a 25 basis point move.
- Headline CPI increased 0.9 per cent in April, to be up 2.4 per cent over the year. This reflected a roll-off in electricity rebates as well as seasonal increases in holiday travel and accommodation and health insurance prices.
- Labour market conditions remained resilient in May:
 - The Wage Price Index (excluding bonuses) rose 0.9 per cent in Q1, taking annual wages growth to 3.4 per cent (from 3.3 per cent previously). Private sector wages growth was 3.3 per cent, while the pace of public sector wages was a bit stronger at 3.6 per cent.
 - The unemployment rate remained at 4.1 per cent in April, with a surge in employment being (+89,000) offset by a higher participation rate (67.1 from 66.8).
 - SEEK job ad volumes rose for the second time this year, up 1.8 per cent in April after two months of decline. Annual growth of SEEK's advertised salary index was broadly steady at 3.6 per cent in April.
- According to the *Westpac-Melbourne Institute Consumer Sentiment Index*, consumer confidence rose slightly in May, driven by a rebound in financial markets and a decisive Federal election outcome. Perceptions of current family finances increased 7 per cent on the month while the 'time to buy a dwelling' index was up 5.1 per cent.
- According to the *NAB Business Survey*, business conditions were largely unchanged in April, despite a slowing of economic activity and a small pick-up in prices. Capex intentions fell sharply in April while forward orders and capacity utilisation edged lower. NAB's measures of purchase costs and final product prices both picked up modestly.

WHAT TO WATCH:

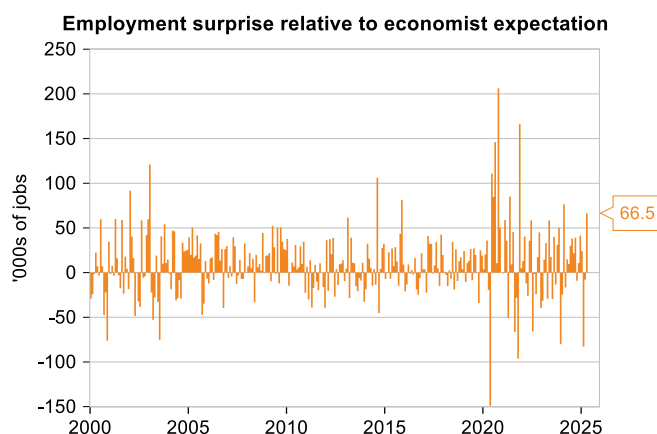
Global trade developments as well as the resilience of domestic household spending and labour market conditions will be being watched closely by the RBA in the months ahead. As will the trend in local inflation with the earlier period of moderation seemingly stalling.

CHART 1: HEADLINE CPI IS COMFORTABLY AROUND THE MIDPOINT OF THE RBA'S TWO TO THREE PER CENT TARGET RANGE



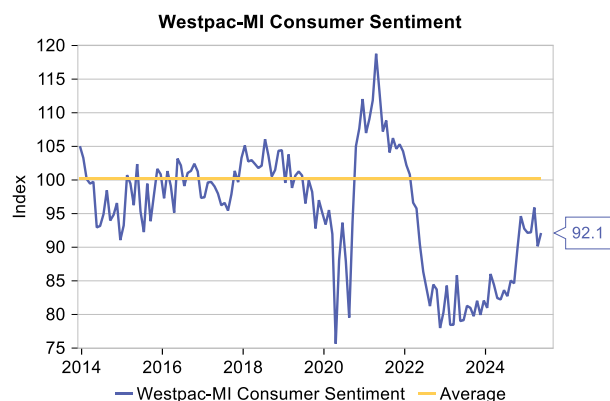
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: MUCH STRONGER THAN EXPECTED JOBS GROWTH OFFSET AN INCREASE IN THE PARTICIPATION RATE TO RESULT IN THE UNEMPLOYMENT RATE HOLDING STEADY IN APRIL



Source: Bloomberg, QTC, Macrobond

CHART 3: CONSUMER SENTIMENT EDGED UP IN MAY WITH THE CLEAR-CUT RESULT BOOSTING SENTIMENT IN THOSE SURVEYED AFTER THE POLL



Source: Melbourne Institute of Applied Economic & Social Research, QTC, Macrobond

International economy

SUMMARY:

The US again dominated headlines in May. While there was mixed news as to the legality of some of the tariffs imposed by the administration, the White House continued to conduct trade talks with several major economies. President Trump also announced a key strategic partnership with Saudi Arabia to attract investments of up to US\$600 billion and with Qatar for up to US\$1.2 trillion. Finally, Moody's downgraded the US long-term rating to Aa1 in response to large budget deficits and high government debt.

REVIEW:

- Developments in **tariffs** have included:
 - The US Court of International Trade ruled that “reciprocal” tariffs and those imposed on the grounds of fentanyl/border concerns were unconstitutional. A federal appeals court however halted the implementation of this decision with both the plaintiffs and the government now having additional time to make their case.
 - President Trump agreed to extend the deadline to impose a 50 per cent tariff on imports from the EU until 9 July to allow for negotiations.
 - Trade tensions with China were de-escalated with a 90-day suspension of tariffs followed by a reduction in tariffs on Chinese imports to 30 per cent (from 145 per cent) and US imports to just above 10 per cent (from 125 per cent).
 - US Treasury Secretary Scott Bessent stated that countries that do not negotiate in good faith would be informed that their tariff rate would be as per the April 2 “Liberation Day” announcements.
- President Trump announced up to US\$600 billion in investments by Saudi Arabia in US products and services, encompassing sectors such as defence, infrastructure, energy, healthcare, and technology. An agreement was also made with Qatar that lays the groundwork for a broader US\$1.2 trillion economic partnership.
- **Moody's** downgraded the US long-term rating from Aaa to Aa1 (stable outlook) citing the persistent increase over in government debt *‘to levels that are significantly higher than similarly rated sovereigns’*. Moody's said it expects federal deficits to widen to around 9 per cent of GDP by 2035, up from 6.4 per cent last year.
- The **FOMC** maintained the policy rate target at 4.25-4.5 per cent in May. The post-meeting statement noted increasing risks to its dual mandate of inflation and employment despite recently *‘solid’* economic data. Fed Chair Powell emphasised the *‘wait and see’* approach to further clarity on the outlook before policy setting adjustments could occur.
- In terms of **US** economic data:
 - Core CPI inflation was steady at 2.8 per cent over the year, with the monthly reading slightly weaker than expected at 0.2 per cent.
 - Non-farm payrolls rose 177,000 in April, well above expectations. The unemployment rate held steady at 4.2 per cent.
 - GDP contracted for the first time since 2022 in Q1, as businesses increased purchases of imported goods ahead of tariff increases.
 - The University of Michigan Consumer Sentiment index fell again in May and is now down 30 per cent since December.

WHAT TO WATCH:

The 90-day period following the imposition of the “reciprocal” tariffs on “Liberation Day” will elapse in July. Expect the volume around trade negotiations to be turned up ahead of this as the Trump Administration seeks to close deals. This could be a source of volatility for markets.

CHART 4: FOR THE SECOND STRAIGHT MONTH US JOBS GROWTH WAS WELL ABOVE EXPECTATIONS

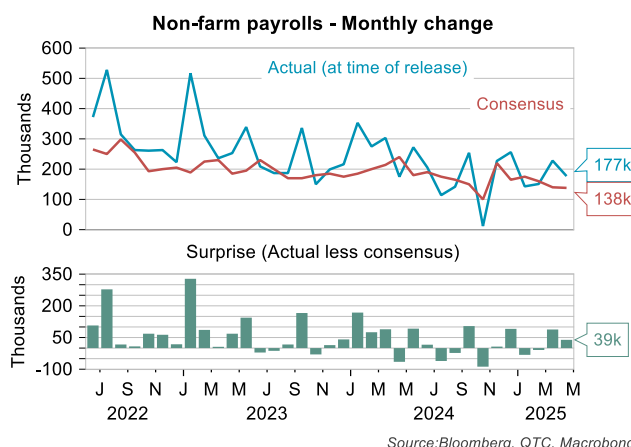


CHART 5: US GDP CONTRACTED FOR THE FIRST TIME IN THREE YEARS IN Q1 AS A BRING FORWARD IN IMPORTS AHEAD OF THE IMPOSITION OF TARIFFS SAW A LARGE DRAG ON GROWTH FROM NET EXPORTS

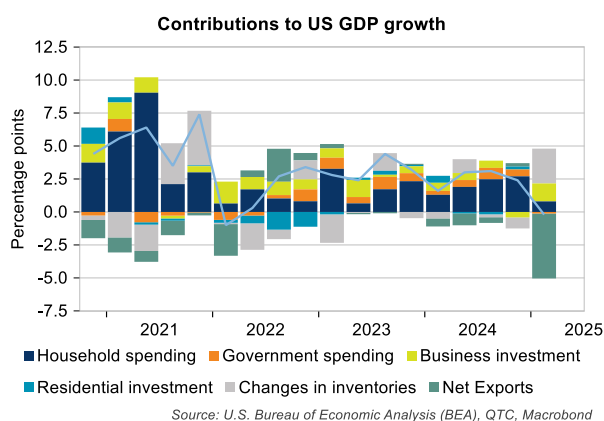


CHART 6: US CONSUMER CONFIDENCE IS DOWN 30 PER CENT SINCE DECEMBER WITH UNCERTAINTY AROUND THE OUTLOOK DUE TO TRADE POLICY SHIFTS THE LIKELY CATALYST

