

September Monthly Economics and Markets Review

Overview

Domestic economy

Details of both the Q2 GDP and August CPI reports were firmer than expected. In contrast, those for the August Labour Force Survey were on the softer side. Commentary from the Board and key officials during the month acknowledged that activity and inflation data were generally stronger than anticipated.

International economy

The US Government seemed set to enter a shutdown over the failure to pass a budget. Some of President Trump's tariffs were ruled illegal, an outcome the Whitehouse will appeal. Central bank policy moves were mixed, as was economic data.

Interest rates

Three-year and 10-year Australian Government bond yields both rose in September, though the increase in the former (15 basis points to 3.53 per cent) was notably more than the latter (three basis points to 4.29 per cent). Short-end yields rose sharply on the back of the August CPI report which revealed notable inflationary pressures in services prices.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.76	16	-3
	Australian Government	3.53	15	1
	US Government	3.62	4	11
5 Year	QTC	4.07	12	5
	Australian Government	3.71	13	10
	US Government	3.74	4	23
7 Year	QTC	4.44	5	12
	Australian Government	3.98	7	18
	US Government	3.93	0	33
10 Year	QTC	4.93	-2	20
	Australian Government	4.29	3	31
	US Government	4.15	-8	42

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	0.6622	1.2%	-3.8%
AUD/EUR	0.5639	0.9%	-9.3%
AUD/GBP	0.4922	1.6%	-5.0%
AUD/JPY	97.8336	1.9%	-1.1%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1744	0.3%	6.1%
GBP/USD	1.3455	-0.4%	1.3%
USD/JPY	147.74	-0.6%	-2.8%
USD/CNY	7.1195	0.2%	-1.3%

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:

Details of both the Q2 GDP and August CPI reports were firmer than expected. In contrast, those for the August Labour Force Survey were on the softer side. Commentary from the Board and key officials during the month acknowledged that activity and inflation data were generally stronger than anticipated.

REVIEW:

- According to the ABS National Accounts for Q2:
 - GDP grew by 0.6 per cent quarter-on-quarter (qoq) in Q2, slightly exceeding expectations of a 0.5 per cent rise. Annual growth accelerated by 0.4 percentage points [or equivalently, 40 basis points (bps)] to 1.8 per cent year-on-year (yoy), marking the third consecutive quarter of recovery.
 - Consumer spending increased by 0.9 per cent qoq, with annual growth strengthening by 120 bps to 2.0 per cent yoy. The ABS attributed this to households extending their holiday break due to the close timing of Easter and ANZAC Day. Spending was particularly strong in health (+1.9 per cent qoq)—driven by a severe flu season—and food (+0.9 per cent qoq), supported by promotional activity from major supermarkets.
 - Business investment declined by 0.4 per cent qoq (excluding transfers), with widespread weakness across non-dwelling construction (-0.9 per cent qoq), engineering construction (-2.4 per cent qoq), and equipment spending (-0.1 per cent qoq). Dwelling investment growth moderated after a strong Q1 but remained positive at +0.4 per cent qoq.
 - Contributions from inventories (-10bps) and net trade (+10bps) were broadly neutral. Public spending made no contribution to growth in Q2 after having detracted from growth in the prior quarter.
- The annual rate of headline inflation in the monthly CPI edged up to 3.0 per cent in August, from 2.8 per cent the month before. Annual growth in the monthly trimmed-mean measure dipped one-tenth to 2.6 per cent, though this reflects base effects more than an easing in underlying inflationary pressures. Indeed, price growth for services – and especially those in the market sector – picked up in the month. This included firmness in housing and insurance costs after both had moderated in the first half of the year. It is captured by an acceleration in measures such as the CPI excluding electricity, travel, and volatile items which, over the past six months, is annualising at 3.5 per cent and has ticked up to three per cent over the past 12 months.
- At the RBA's meeting the following week, the RBA left the cash rate on hold as expected. On *economic activity*, the Board noted that private demand is *'...recovering a little more rapidly than expected'*. On the *labour market*, the post-meeting statement removed earlier references to there being an easing in labour market conditions with these characterised as being *'stable'* and still a *'little tight'*. On *inflation*, the Board noted that there were *'indications that inflation may be persistent in some areas'*, and that Q3 inflation may be higher than expected in the August SoMP. The Board suggested that it will be *'attentive to the data and the evolving assessment of the outlook and risks'*. In the post-meeting press conference RBA Governor declined to reiterate the view that *'two slash three'* more cuts would be needed for the RBA to get inflation to target. Instead, Bullock noted that there could be *'a couple more reductions [but there also] might not'*. Bullock highlighted that the Board would receive more information ahead of the November meeting at which it would decide *'whether it's down again or ... hold again'*. Bullock described policy as *'a little bit restrictive'* compared to *'somewhat restrictive'* in the August minutes.
- Employment dipped 5,400 in August with a steep fall in full-time employment being almost offset by a large rise in part-time work. This decline in employment didn't flow through to the unemployment rate (which was steady at 4.2 per cent) as the participation rate declined by two-tenths. Overall, this was a generally softer labour force report.

WHAT TO WATCH:

The Bank has indicated a desire to remain cautious and update its view of the outlook in line with incoming data. Specifically, the RBA will want to see if the softness in the August Labour Force Survey was reversed in September. It will also be paying close attention to the Q3 CPI report to see if the firmer details in the August monthly report flow through to the quarterly version.

CHART 1: AUSTRALIAN GDP GROWTH IN Q2 2025 WAS THE FASTEST SINCE Q4 2022, A RESULT DRIVEN BY THE LARGEST CONTRIBUTION FROM HOUSEHOLD SPENDING TO GROWTH SINCE THAT TIME. PUBLIC SPENDING MADE LITTLE CONTRIBUTION TO GROWTH, IN CONTRAST WITH MOST QUARTERS OVER THE PAST TWO YEARS.

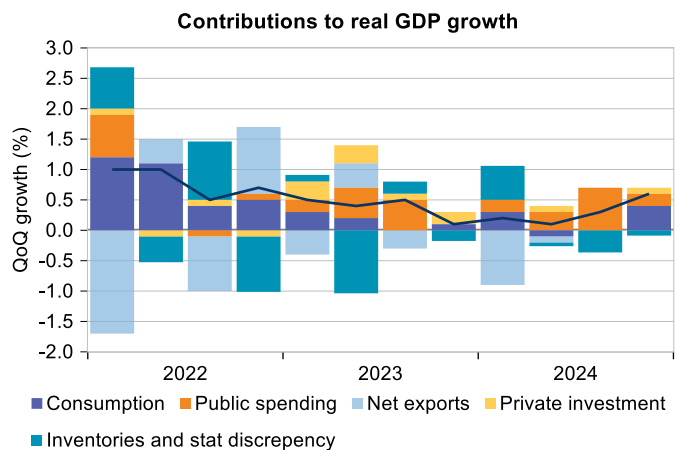


CHART 2: THE ABS' MONTHLY CPI IMPLIES A STEEP PICK-UP IN ITS QUARTERLY MEASURE

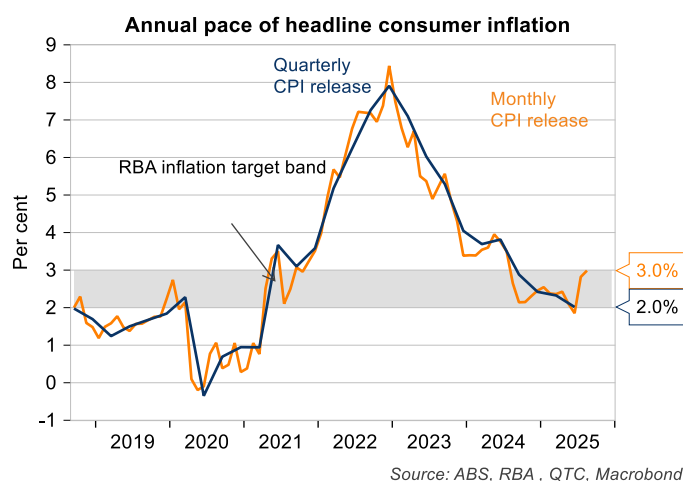
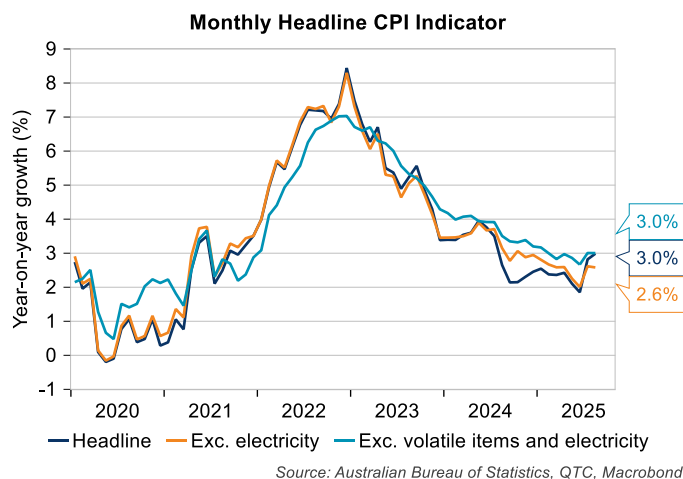


CHART 3: CORE INFLATION REMAINS FIRM AND QUARTERLY TRIMMED MEAN INFLATION LOOKS SET TO EXCEED THE RBA'S LATEST FORECAST



International economy

SUMMARY:

The US Government entered a shutdown over the failure to pass a budget. Some of President Trump's tariffs were ruled illegal, an outcome the Whitehouse will appeal. Central bank policy moves were mixed, as was economic data.

REVIEW:

■ In terms of economic data:

Manufacturing conditions deteriorated at a faster pace in the UK, went from improving to getting worse in the euro area and improved at a slower pace in the US. Service sector conditions improved at a faster pace in the euro area but at a slower pace in the US and UK.

US real GDP was revised up by half a percentage point to an annualised rate of 3.8 per cent in Q2. This reflects upwards revisions to (services consumption), business investment and government spending, more than offsetting downwards revisions to residential investment.

China's economic activity data broadly weakened in August. Industrial production growth declined on the back of weaker-than-expected exports, as slowing output growth in ferrous metal smelting, power generation and general equipment industries more than offset faster output growth in the non-ferrous smelting industry. Fixed asset investment growth fell further and registered a new low since March 2020, with infrastructure, property and manufacturing investment growth all declining. Year-on-year retail sales growth moderated, mainly reflecting falling online goods sales growth (especially home appliance and communication equipment).

■ In central bank news:

- The US Federal Open Market Committee delivered a widely anticipated 25 basis point rate cut. While acknowledging risks on both sides of its dual mandate, the Fed cited concerns about the labour market as a key reason for the move. The only dissent came from Governor Miran, who advocated for a deeper 50 basis point cut. The Fed's updated dot plot showed a shift in expectations, now projecting two additional cuts in 2025, followed by two more in 2026 and 2027. However, views among committee members varied significantly – ranging from no further cuts this year to as much as 150 basis points of additional easing.
- Sweden's Riksbank cut its policy rate by 25 basis points to 1.75 per cent, against expectations for a hold.
- The Bank of Canada also lowered its policy rate, moving into accommodative territory. The decision was driven by signs of a softening labour market and moderating inflation, reinforcing a more supportive monetary stance.
- The Bank of England kept the policy rate unchanged at 4.0 per cent, in line with market expectations. Governor Andrew Bailey emphasized a '*gradual and cautious*' approach to future rate cuts.
- The Bank of Japan left its policy rate unchanged at 0.75 per cent.

■ In other news:

- A US appeals court ruled that President Trump did not have the legal authority to impose '*reciprocal*' tariffs as well as to place other tariffs on Mexico, Canada and China. The Whitehouse will challenge the ruling in the Supreme Court. The administration could pursue other avenues to achieve similar outcomes if the higher court didn't find in its favour, though doing so would be a bit more unwieldy.
- Senate Republicans and Democrats each blocked proposals put forward by their opponents to extend government funding beyond this month. With no budget being passed or arrangements to extend existing funding, this increases the likelihood of a government shutdown on 1 October (US time).
- Fitch downgraded France's long-term foreign currency debt rating from AA- to A+, while revising the outlook from negative to stable. The agency cited ongoing fiscal challenges, stating that France's general government debt ratio is expected to continue rising due to persistent primary fiscal deficits.

WHAT TO WATCH:

US policy settings have been a key focus so far this year. This looks set to continue with the US Government shutdown. There will be a minor impact from this on US economic growth. However, it will also adversely impact the ability of US economic agencies to publish key data. This would prevent the Fed from having a full set of information with this seen as making it likely the Bank would take a more cautious view on policy through this period.

CHART 4: READINGS ON THE MANUFACTURING AND SERVICES SECTORS GLOBALLY WERE ON THE SOFT SIDE IN SEPTEMBER

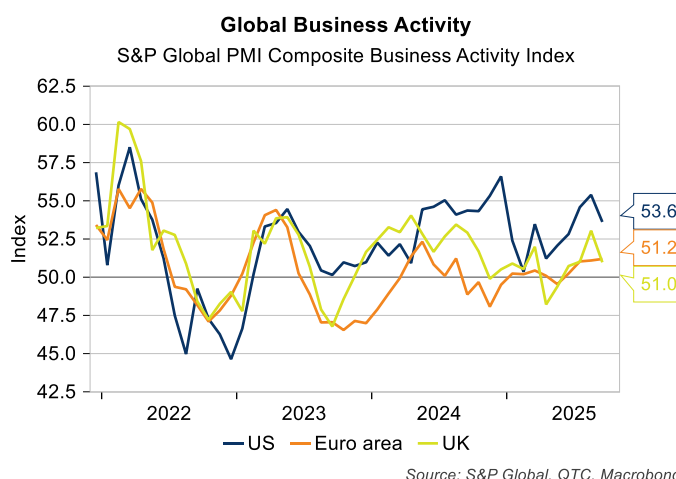


CHART 5: SHIFTS IN NET EXPORTS AND INVENTORIES DUE TO TARIFFS ARE OBSCURING THE SIGNAL BUT, EVEN ACCOUNTING FOR THAT, THERE STILL APPEARS TO BE SOME ENCOURAGING SIGNS ABOUT THE RESILIENCE OF THE US ECONOMY.

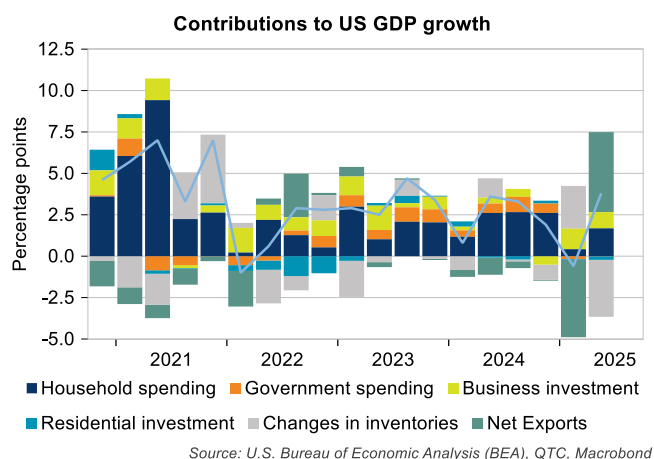


CHART 6: CHINA'S ECONOMIC DATA CONTINUED TO WEAKEN IN AUGUST AND CONDITIONS IN THE WORLD'S SECOND LARGEST ECONOMY REMAIN SUBDUED

