Marching Towards Liberation Day

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Insights

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Economic Update - March 2025

Markets wrestled with looming US tariffs and finally realised that falling indices may impose little discipline on Trump. However, the unpredictability of US policy, with its announcements followed by delays and more announcements, is making matters worse. US, Australia, and many other economies were set to stick soft landings and get running again but now many CEOs and CFOs are hesitant to make big calls. Is March the last bit of calm before the storm?

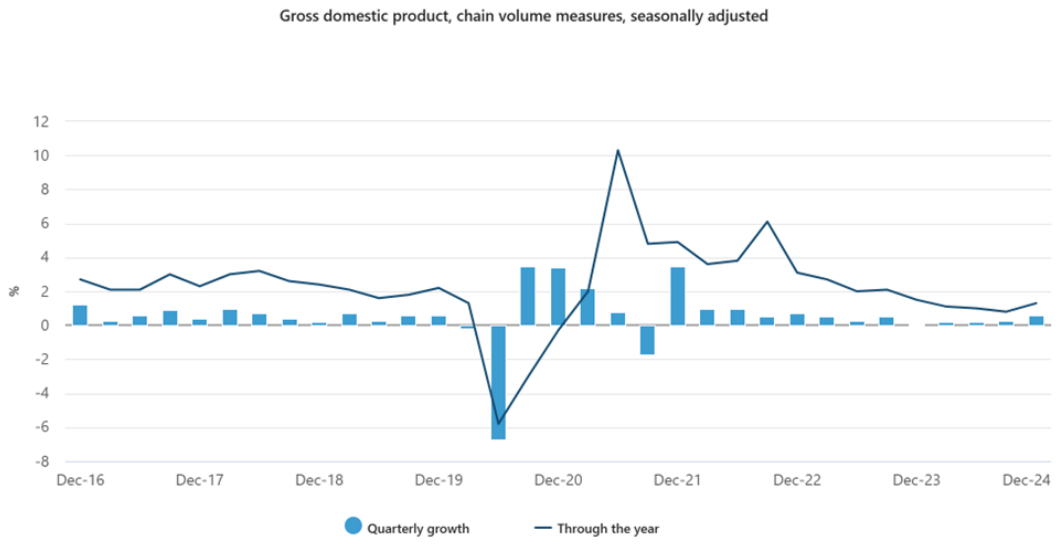
"You know, the tariffs could go up as time goes by, and they may go up and, you know, I don't know if it's predictability," Donald Trump, March 9, 2025.

What happened in Australia?

The release of December quarter GDP showed the strongest quarterly growth, 0.6%, since the September 2023 quarter. GDP increased 1.3% over the full year (see chart below).

On top of this, monthly CPI showed a slight decrease in the headline and annual trimmed mean measure to 2.4% and 2.7% respectively.

Prime Minister Albanese took advantage of the good results, and February's 25 bps interest rate cut by the RBA, to call this year's federal election early. The election could be held as late as September 27, but Albanese has called it for May 3.



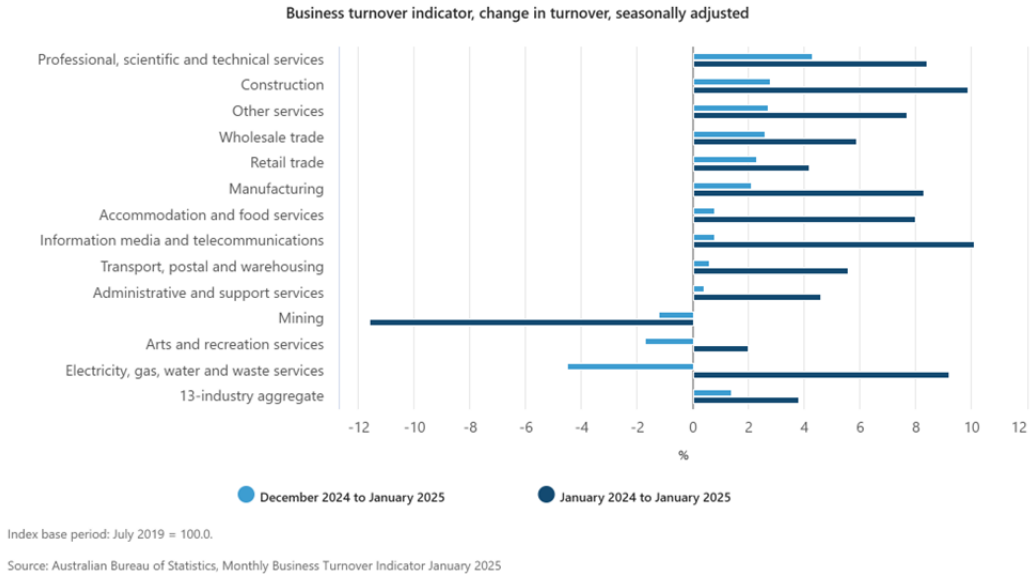
Source: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product December 2024

Northern NSW and southern Queensland were battered by ex-tropical cyclone Alfred during the month but it turns out that Australians are regularly mauled by their 3 largest supermarket chains. Australia's consumer and competition watchdog found that they have among the highest profit margins in the world! With cost of living a key election issue, expect supermarket prices to be a favourite topic of the candidates.

The mining sector is also feeling pain at the moment even before feeling the full impact of US tariffs on China. Monthly mining turnover decreased 1.6% in January on a yearly basis. All other industries rose (see chart below).

Spending on services increased slightly in January from 4.2% in December to 5.3% in January

Like Albanese, the RBA will be happy with the data from March but like the miners will be looking keenly on the economic fallout from US tariffs on China. Australia will be hoping that China can weather the storm through exchange rate policy, stimulus, and trade diversion.



What happened around the world?

USA

The market's suspension of disbelief over Trump's tariff policies gave way to a sinking realisation that this time Trump is different. The fall in the market on February 19 sparked by Trump's call to put tariffs on cars, chips, and drugs and Zelenskys' "disinformation bubble" comment continued into March and bottomed out on March 13 - the "Trump put" had become the "Trump correction": the S&P 500 was 10% down from its mid-February peak.

Markets recovered after that due to better than expected CPI results for February (2.8% vs an expected 2.9% on an annual basis) and Jerome Powell's comments that he was looking through "transitory" inflation from tariffs. Powell's comments were despite the latest University of Michigan data which showed that 1-year inflation expectations had increased from 4.3% in February to 4.9% in March.

However, as Trump announced tariffs on imported cars and car parts on March 27, the markets slid again. April 2 beckons!

The impact of tariffs on the US economy will take longer to hit than its one-off hit to prices however it does not look good. Many commentators and investment banks have now increased their odds of a US recession in 2025; Goldman Sachs has increased it from 20% to 35%.

NASDAQ & S&P 500

China

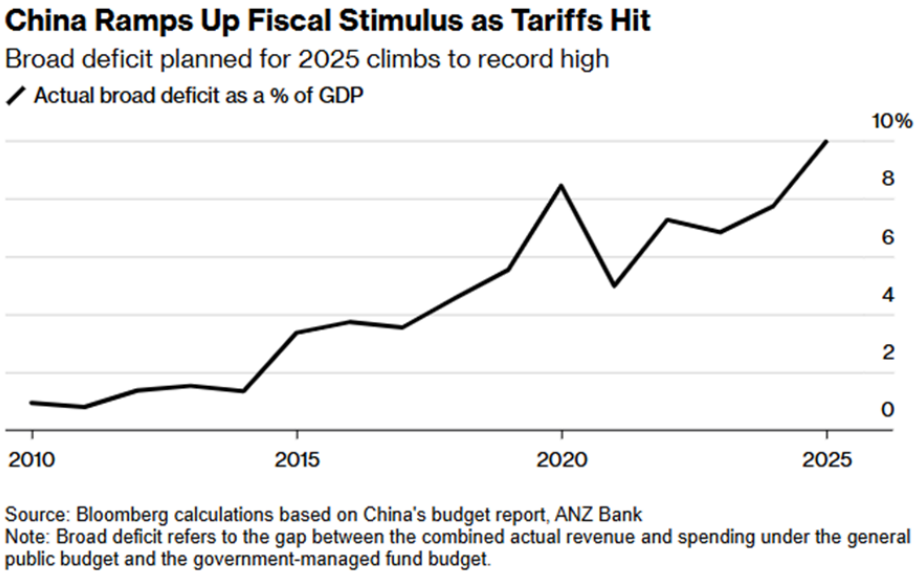
China's National People's Congress held its annual meeting from March 5 to 11. Despite concerns over the property market, a sluggish Chinese consumer, and US tariffs, the congress kept its GDP growth target at 5% for 2025. It also unveiled plans to boost incomes and consumption.

Recent data has added to Chinese resolve with retail sales increasing from 3.7% in December to 5.9% in February and the official manufacturing PMI hitting a 12-month high.

However, a lot hinges on China's response to US tariffs. The Congress reiterated that China has the fiscal and monetary space to weather the tariff storm.

"We have the courage to face squarely the risks and challenges and have the foundation to resolve the problems." Zheng Shanjie, chairman of the National Financial Regulatory Administration.

But how much space does China really have with public debt to GDP over 80% and fiscal deficits hitting record highs year after year (see chart below).



Source: Bloomberg calculations based on China's budget report, ANZ Bank
Note: Broad deficit refers to the gap between the combined actual revenue and spending under the general public budget and the government-managed fund budget.

EU

The ECB cut interest rates by a further 25 bps on March 6.

Euro area unemployment was stable at 6.2% in January while inflation decreased from 2.5% in January to 2.3% in February, which ended 6 consecutive months of increase.

EU stock markets enjoyed increased enthusiasm in March as promises of increased defence spending and a relaxation of German fiscal rules attracted interest.

The EU is of course in the crosshairs of US tariffs and has indicated that it will hit the US with retaliatory tariffs.

Japan

The BoJ kept rates steady in March and the government was finally able to get its initial budget through parliament.

December-quarter GDP was revised down from 2.8% to 2.2% on an annual basis but the revision was driven by a change in inventories rather than a change in fundamental data, namely consumption, investment, or trade.

Wages continue their positive trend with the country's largest trade union group, Rengo, increasing its wage demand to the highest level since 1993.

However, Japan is also bracing itself for the impact of US tariffs.

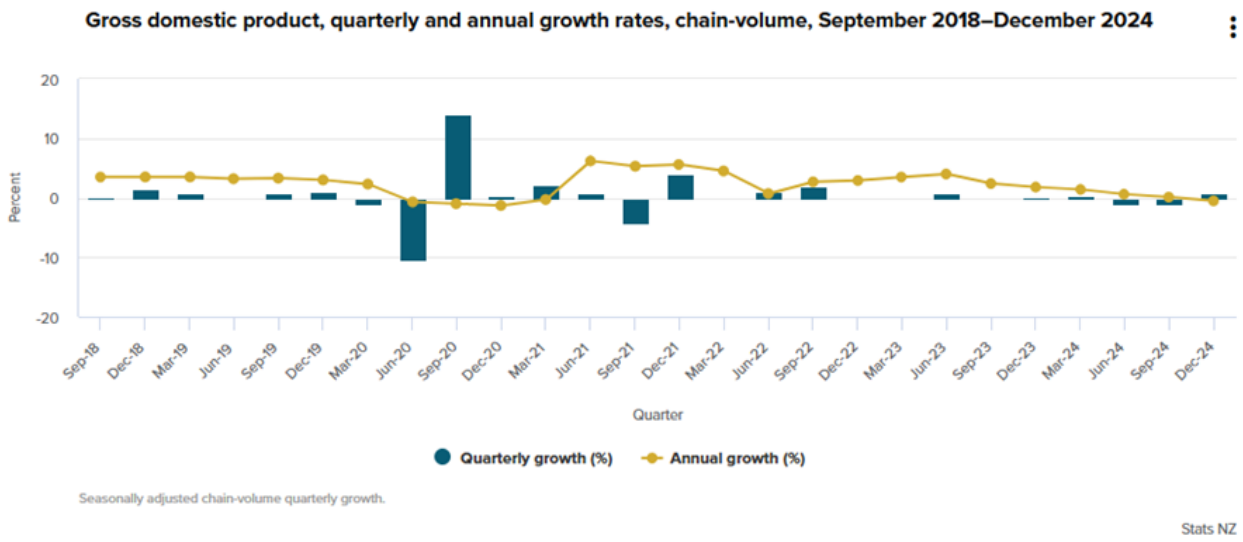
UK

The Monetary Policy Committee voted 8 to 1 to keep interest rates at 4.5%. The MPC recognised that progress has been made on inflation but that monetary policy still needs to be at a restrictive level. It is also keeping an eye on US tariffs.

CPI fell from 3% in January to 2.8% in February.

New Zealand

New Zealand grew 0.7% in the December quarter ending its brief recession. GDP was down 0.5% on an annual basis (chart below). The return to positive growth is good news as the worst economic downturn since 1991 (excepting the pandemic) was leading to an increase in migration to Australia.



What this means for Australian Private Debt

Australia remains on course for a soft landing but will be closely watching the impact of US tariffs on China. China seems confident that it has the ability to weather US tariffs. On the other side, the odds of a recession in the US are growing and many investors are pulling money out.

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