



February 25, 2026

Morning Briefing

On Australia's Inflation, US Manufacturing, And S&P 500 Earnings

Check out the accompanying [chart collection](#).

Executive Summary: The Reserve Bank of Australia has been raising interest rates, with more hikes likely to come, to battle the highest rate of inflation among developed countries. William looks at the source of the problem and its global ramifications. ... Also: Melissa examines the state of US manufacturing. Can the recent pickup be sustained? Will foreign nations' pledges to manufacture in the US dry up now with the threat of country-specific tariffs off the table? ... And Joe shares historical data on estimate revisions for S&P 500 companies that bode well for analysts' earnings expectations this year.

Australian Economy: Why High Inflation Down Under Matters Globally. As 2026 unfolds, Australia has the dubious honor of being the developed nation with the highest inflation. The 15th-largest economy is [outpacing](#) Canada, France, Germany, Italy, the UK, and the US, ending last year with a [3.8% y/y](#) CPI rate. Even if Australian inflation eases a bit this year, most economists expect it to remain elevated at around 3.5% y/y.

This likely means more interest-rate hikes by the Reserve Bank of Australia (RBA). The RBA is getting used to being an outlier among major monetary authorities. On February 3, RBA Governor Michele Bullock announced a [25bpt increase](#) in the benchmark rate to 3.85%. It was a unanimous decision, coming just six months after an August rate cut.

Events in Sydney can carry more weight in Washington—[9,760 miles](#) away—than one might expect. With its open, trade-dependent, [\\$1.83 trillion economy](#), the economy Down Under often serves as an early weathervane for shifts that later shape the West's major trading powers.

Let's discuss why Australian inflation is running so hot and why this matters globally:

(1) *Fed intrigue.* Coincidence or not, the RBA's first rate hike in [two years](#) lands just as Federal Reserve officials tiptoe toward the once-taboo prospect of a US rate increase. The

minutes of the Fed's January 27-28 policy meeting [raised this specter](#) should US inflation remain stubbornly high.

Needless to say, any Fed pivot to monetary restraint would clash with President Donald Trump's demands for lower interest rates. The tension could have global implications as the dollar and US Treasury securities get caught in the crossfire.

(2) *Policy complacency.* Australia's inflation struggle also matters globally because it highlights the dangers of elected officials' neglecting their responsibilities to make economies more competitive, leaving GDP maintenance to central banks. Such complacency will sound familiar to those following monetary maneuvers from the US to Frankfurt to Tokyo.

In Australia's case, inflation is being driven by a mix of strong domestic demand, rising housing and utilities costs, tight labor markets, weak productivity that's stalled near [2017 levels](#), and US tariffs. Even before the AI data center gold rush, [electricity costs](#) between 2023 and 2025 were above the average for developed nations (38 cents per kilowatt-hour). With government electricity subsidies [ending](#), costs could rise further.

(3) *Weak productivity.* The real problem, though, is productivity—a problem that every government over the last 20 years has promised to fix. Since taking office in [May 2022](#), current Prime Minister Anthony Albanese has made increasing worker efficiency a priority as China upends global competition.

Yet tangible progress has been glacial. As Oxford Economics points out, "Australia's productivity problem is [multifaceted](#). Sustained weakness in business investment has prevented workers from getting the tools they need; at the same time, technological gains have slowed." Growth in the population to [27 million](#) has outpaced infrastructure upgrades.

(4) *Property troubles.* Australia's inflation is largely a homegrown problem. After all, prices of key global commodities like oil have been trading lower. And with the Australian dollar [up 5.7%](#) ytd versus the US currency, it's hard to argue that the economy is importing lots of inflation.

Property costs are a major challenge. Prices reached record highs in late 2025 and early 2026. Last year, median home prices rose [9.6% y/y](#). In the 12 months to September 2025, average rents jumped [4.3% y/y](#). During that same period, wages rose [3.4% y/y](#). Rents are rising at double the [2.1% y/y](#) GDP growth rate during Q3.

Government efforts to increase housing supply, restrict foreign purchases, and support first-time home buyers are too little, too late to tame things. Australia isn't alone in facing an affordability crisis, but its scale continues to increase.

(5) *Too much public money.* This is proving to be a problem for investors' inflation expectations. Australia's 10-year bond yields are around 4.7% versus 4.3% a year ago. This dynamic helps explain why the S&P/ASX 200 stock index is up just 13% over the last 12 months, lagging the rallies in many of Asia's equities markets.

Public spending is an added worry. When Federal Treasurer Jim Chalmers says inflation is "higher than we would like," his team might want to look in the mirror. As a share of GDP, federal and state government expenditures rose to an "unsustainable" 38.2% in 2024 from 34.7% in the early 2000s, according to a study led by former Productivity Commission chair Michael Brennan.

All this largess helps explain why the RBA is the first major central bank to hike rates in 2026—and why the markets are bracing for more. It might have company before long, as Fed Chair Jerome Powell's team, a world away, can attest.

US Economy I: The Tenuous State of US Manufacturing. After nearly a year in the doldrums, the latest manufacturing survey data suggest that factory activity began 2026 on firmer footing, with January industrial production showing the largest y/y growth since early 2023 (Fig. 1). Still, questions remain about the durability of the upturn.

Let's have a look at the data:

(1) *Manufacturing rebounds.* The Institute of Supply Management's Manufacturing Purchasing Manager's Index (M-PMI) climbed back into expansion territory at 52.6 in January 2026, up from 47.9 in December 2025. Manufacturing expanded in January for the first time in 12 months and by the most since 2022. The improvement was broad-based, with all major ISM M-PMI categories up in January vs December: new orders (57.1 vs 47.4), production (55.9 vs 50.7), employment (48.1 vs 44.8), supplier deliveries (54.4 vs 50.8), inventories (47.6 vs 45.7), and price pressures (59 vs 58.5) (Fig. 2).

"Although these are positive signs for the start of the year, they are tempered by commentary citing that January is a reorder month after the holidays, and some buying appears to be [motivated by getting] ahead of expected price increases due to ongoing tariff issues," the ISM noted. Indeed, the customer inventories index plunged in January to 38.7,

suggesting that inventories of final goods were too lean after the holidays ([Fig. 3](#)). That likely marked the start of a restocking cycle, boosting new orders and production, though the durability of the rebound will hinge on underlying final demand.

Highly correlated with the ISM M-PMI is the average of the Fed's regional manufacturing surveys for New York, Philadelphia, Kansas City, Dallas, and Richmond, which showed a 2.6% uptick in February (including survey responses collected early in the month) after a prolonged soft patch ([Fig. 4](#)). New orders and production components rose across most regions (see our *Regional Business Survey's* Figures [1](#) and [2](#)).

(2) *Durable goods perk up*. The latest GDP data were encouraging for manufacturing, though they arrived with a quarterly lag and the revival could prove fleeting. Real GDP of goods rose 5.1% y/y in Q4-2025, breaking out of the narrow growth range of the past couple of years ([Fig. 5](#)).

Core capital goods orders (nondefense ex-aircraft), a proxy for business equipment spending, resumed an uptrend last quarter; that's consistent with the surge in nonresidential domestic fixed equipment investment to a record high in Q4-2025 ([Fig. 6](#) and [Fig. 7](#)).

(3) *Guarded optimism in order?* February isn't over yet, but the outlook isn't promising, according to S&P Global. While flash S&P Global data for February remained in expansion territory, the manufacturing PMI softened to 51.2 from 52.4 in January ([Fig. 8](#)). S&P Global Market Intelligence *observed*: "A combination of weakened demand, high prices and adverse weather colluded to dampen business activity in February, resulting in the slowest expansion of output for 10 months."

While adverse weather may have contributed to February's weakness in the flash report, S&P survey respondents suggest optimism remains guarded. Demand was characterized as tenuous rather than robust, with customers still "on the sidelines" despite improved new orders.

Tariff uncertainty was the dominant concern, with several firms noting that unclear trade policy is delaying customer commitments, complicating quoting, and pressuring profit margins. Some companies are adjusting supply chains, shifting production footprints to mitigate tariff exposure, while others warned that additional duties could materially affect current orders.

US Economy II: Trump's Investment Plans Break Down. Foreign direct investment (FDI)

and corporate capital commitments have become a central pillar of President Donald Trump’s “America First” manufacturing strategy. The administration and its allies have touted more than \$5 trillion in investment commitments tied to trade agreements and tariff pressure—including a pledge by Japan of \$550 billion for industrial and energy projects and one by Saudi Arabia approaching \$1 trillion (see the White House investment [tracker](#)). However, analysts at Peterson Institute for International Economics [caution](#) that many of the pledged investments are long-term, conditional, and expected to be slow to materialize into actual projects.

Foreign and domestic firms have announced a range of new or expanded manufacturing commitments—from pharmaceuticals and critical minerals to energy infrastructure and advanced materials—often framed by the administration as evidence of a manufacturing renaissance on US soil. However, actual FDI flows remain well below headline totals, and many commitments lack firm timetables or binding agreements.

Much of the dealmaking rests on tariff leverage: Invest in the US, and the US will impose fewer duties or trade restrictions. If the Supreme Court ruling that Trump’s nation-specific tariffs are unconstitutional [constrains](#) that leverage, investment pledges secured so far could be even less likely to materialize and future ones harder to attain.

Strategy: Annual Earnings Forecasts Are Rising! Ready or not, the last of the Magnificent-7 whales to report Q4 earnings, Nvidia, will do so on Wednesday, and the S&P 500 will absorb the impact into its companies’ aggregate December-quarter results. By week’s end, 90% of the index’s companies will have reported.

This has been a “less strong” earnings reporting season for the Mag-7, as their managements’ capex guidance has soared and their earnings growth slowed from torrid paces. That has doused investors’ enthusiasm for most of the group since last fall.

At a time when valuations are easing off last October’s 25-year high, investors want to know: What’s happening with earnings forecasts now? Below, Joe lends some perspective on recent consensus earnings estimate trends:

(1) *No sign of an earnings slowdown ahead.* Forward earnings—the time-weighted average of analysts’ consensus expectations for the current year and following one—have been rising to record highs since June, after pausing for two months due to uncertainty about tariffs and lingering inflation. The return to annual estimate cutting during 2023-24 was relatively minor in the grand scheme of estimate revisions history. From 2021 to 2025,

consensus annual earnings forecasts on the whole fell less than usual and sometimes even improved from initial forecasts.

Since 1978, I/B/E/S has calculated consensus bottom-up S&P 500 earnings forecasts, derived from each individual analyst's estimate for an S&P 500 company that they follow ([Fig. 9](#) and [Fig. 10](#)). Over time, investors have learned that analysts' initial forecasts are typically too high and decline steadily until the company reports results.

(2) *Annual estimates typically fall.* The annual forecast fell during 76% of time—or in 35 of the 46 years—from 1980 to 2025 ([Fig. 11](#)). Our measure tracks how much each calendar year's forecast changed in the 24 months from the initial estimate to actual reported earnings.

For perspective, the S&P 500's consensus annual earnings forecast fell an average of 10.9% (over 24 months) during the past 46 years. During the 11 years that ended with rising annual EPS, forecasts posted an average gain of 7.2%. During the 35 years with declining EPS forecasts, they tumbled an average of 16.5%.

(3) *Estimate change for 2025 a top-performer.* The S&P 500's 24-month change in the 2025 estimate ranked an impressively high 12th of the 46 years, with a 24-month decline of just 0.1%. Instead of tumbling during its final months, which occurred during 32 of the 48 years, the cumulative estimate change for 2025 improved. During the final eight months, the 2025 estimate rose from a 4.3% decline (June 2025) to -0.1%. So 2025 was a very good year, which bodes well for the 2026 forecast.

(4) *Bullish outlook for S&P 500's 2026's estimate at the halfway point.* The S&P 500's consensus annual earnings estimate for 2026 is up 2.0% so far, after 12 months—the halfway mark between initial estimates for the year and the final results we'll see a year from now. That 2.0% increase ranks as the ninth best halfway-mark reading of the past 46 years!

Of the ten years in the past 46 when similar 12-month percentage gains occurred, most (seven) saw annual forecasts improve further during the final 12 months. Those years: 1988, 1995, 2004-06, 2011, and 2018.

So the momentum clocked so far at the halfway mark bodes well for the direction of the consensus 2026 estimate over the final 12 months.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683

Joe Abbott, Chief Quantitative Strategist, 732-241-6502

Melissa Tagg, Senior Global Investment Strategist, 516-782-9967

Mali Quintana, Senior Economist, 480-664-1333

Jackie Doherty, Contributing Editor, 917-328-6848

William Pesek, Contributing Editor, 516-277-2432

Valerie de la Rue, Director of Institutional Sales, 516-277-2432

Mary Fanslau, Manager of Client Services, 480-664-1333

Sandy Cohan, Senior Editor, 570-228-9102

