



RESERVE BANK OF AUSTRALIA

# Welcome & An Economic Update

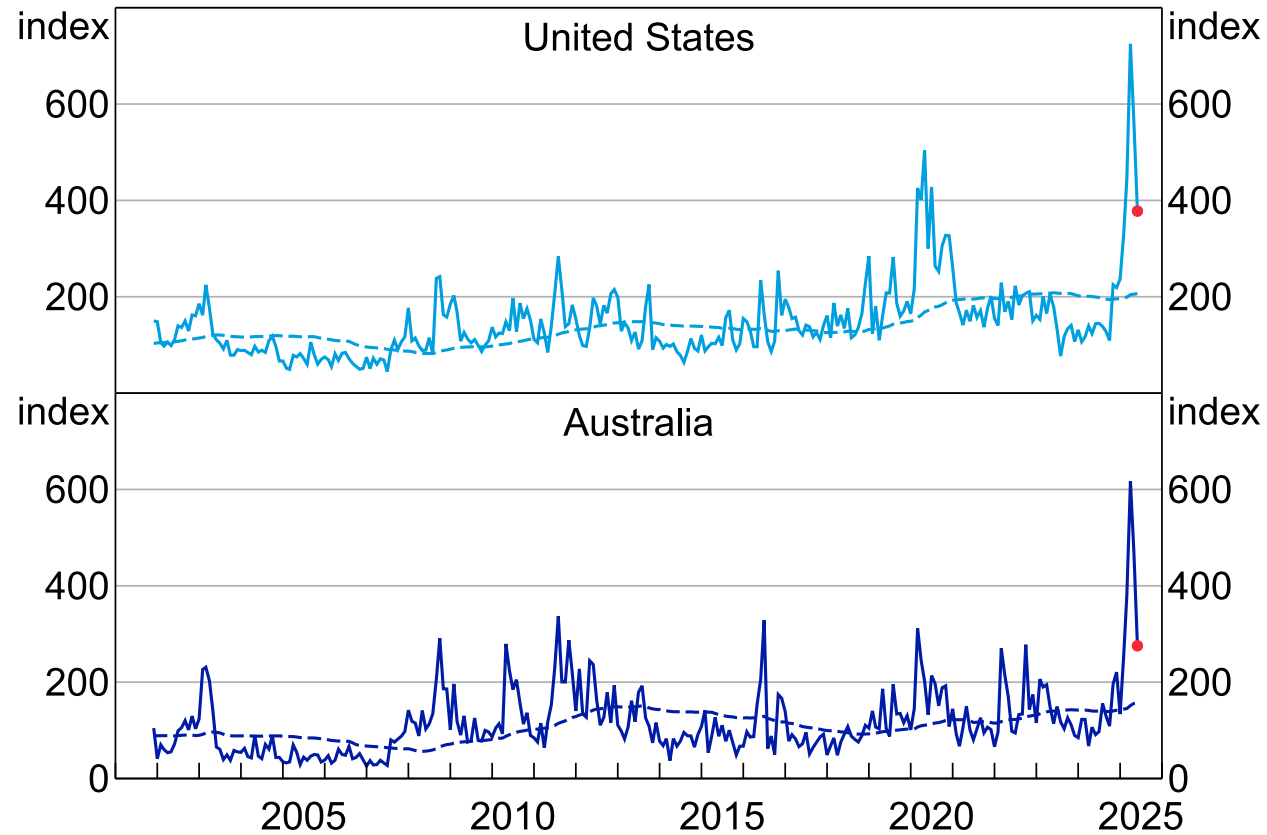
**Sarah Hunter**

Assistant Governor, Economic Group

Data as of 21 July 2025

# Globally, uncertainty has increased

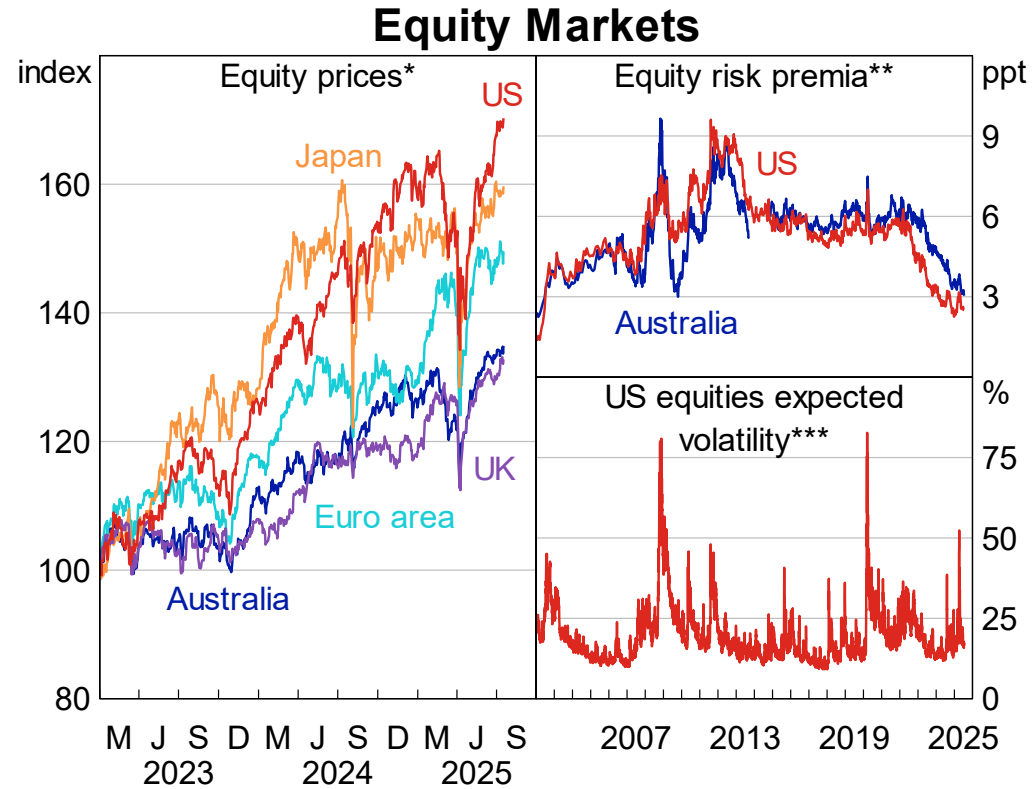
## Economic Policy Uncertainty\*



\* Dashed line shows five-year moving average; dot represents latest data as at June 2025.

Sources: Baker, Bloom and Davis (2016); RBA.

# Financial markets do not look too concerned at the moment



\* Total return basis, where 1 January 2023 = 100.

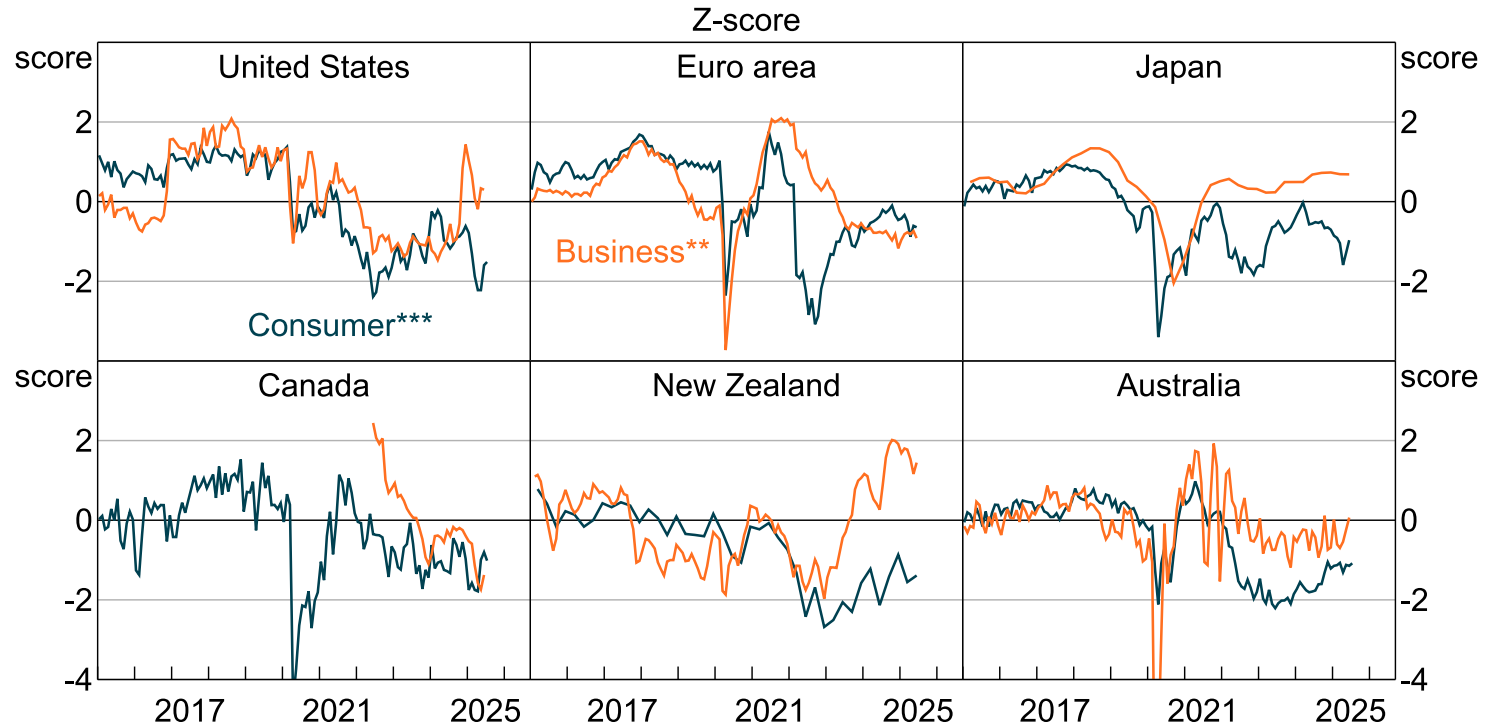
\*\* 12-month forward earnings yield less 10-year inflation-linked government bond yield. Break in series due to data limitations.

\*\*\* Implied from 30-day S&P 500 options prices, annualised.

Sources: Bloomberg; LSEG; RBA.

# But households and businesses are less confident in many countries

## Advanced Economy Sentiment\*



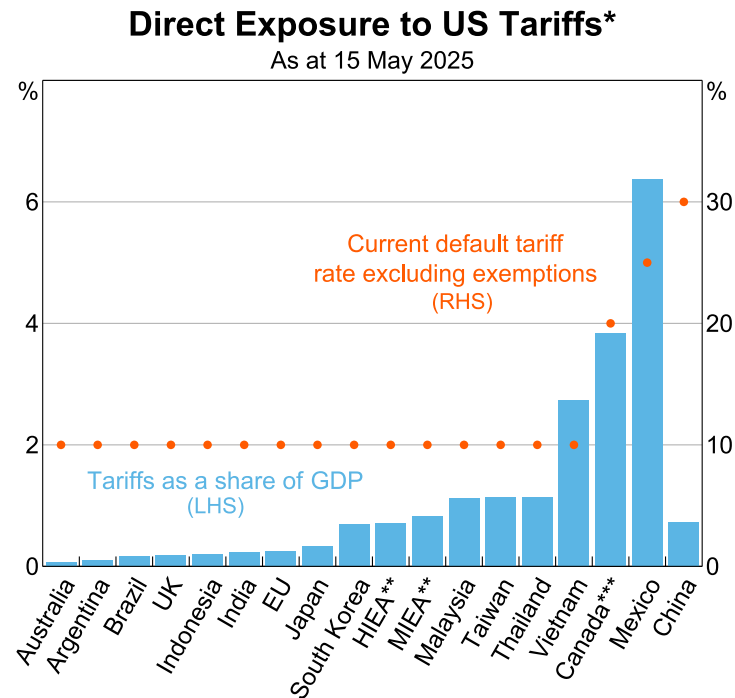
\* Outliers during the COVID-19 pandemic have been truncated.

\*\* US data are NFIB Small Business Optimism; euro area and Japan data are manufacturing sector firms only.

\*\*\* US data are University of Michigan; Australia data are the mean of Westpac–Melbourne Institute and ANZ–Roy Morgan surveys' deviations from average.

Sources: ANZ–Roy Morgan; Bank of Canada; CEIC Data; LSEG; RBA; Westpac–Melbourne Institute.

# The US is not a large market for Australia



\* Calculated as tariff rate multiplied by value of 2023 exports to the US divided by GDP in current US\$; accounts for tariff pauses but not for exemptions, trade redirection, tax incidence, or price changes.

\*\* Middle-income east Asia comprises Vietnam, Thailand, Malaysia, the Philippines and Indonesia; high-income east Asia comprises Hong Kong, Taiwan, Singapore and South Korea.

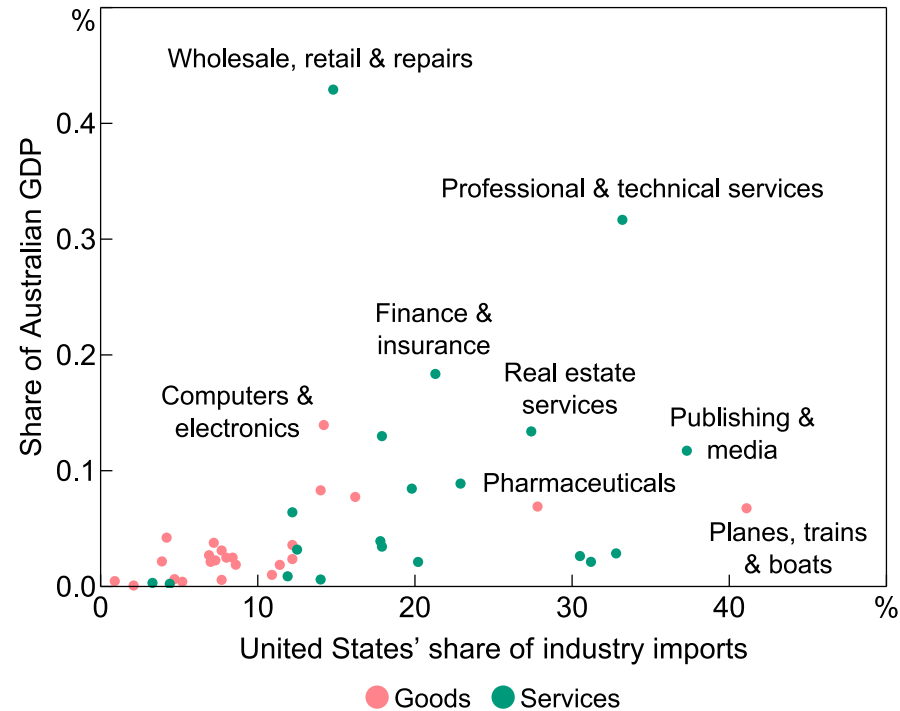
\*\*\* Reflects 10 per cent tariff on energy exports and 25 per cent tariff on all other exports.

Sources: OEC; RBA; UN Comtrade; World Bank.

# Most of our imports from the US are services, which limits supply chain disruption

## Australia's Imports from the United States\*

2019

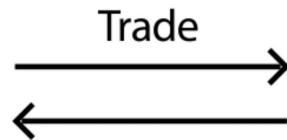


\* Value-added imports.

Sources: OECD; RBA.

# The indirect effect of US tariffs

United States



China



Australia



**30% tariff on Chinese imports**

Reduce US demand for Chinese goods



**Slow economic growth in China**

Reduce China's demand for Australian goods



**Reduce total exports from Australia**

# The potential offset from policy

United States



China



Australia



**Fiscal stimulus  
in China**

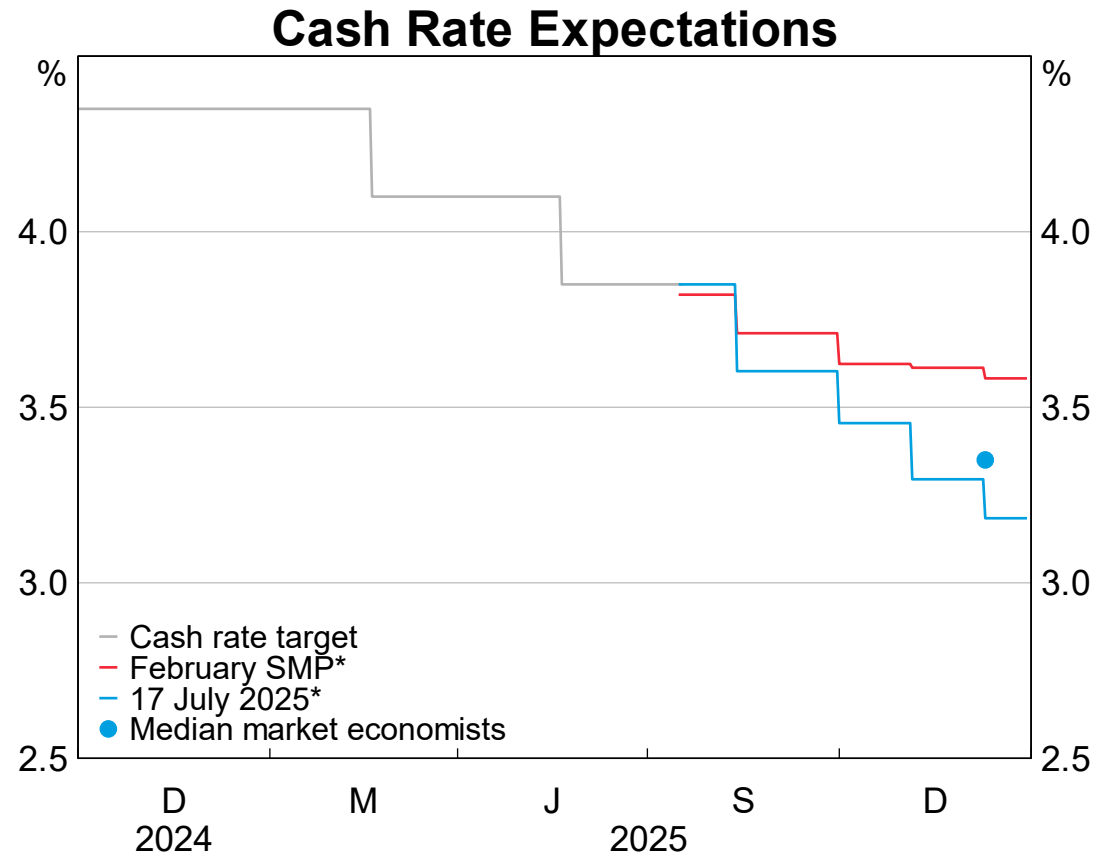
Offset negative  
effects of tariffs



**Limited impact  
on Australian  
exports**



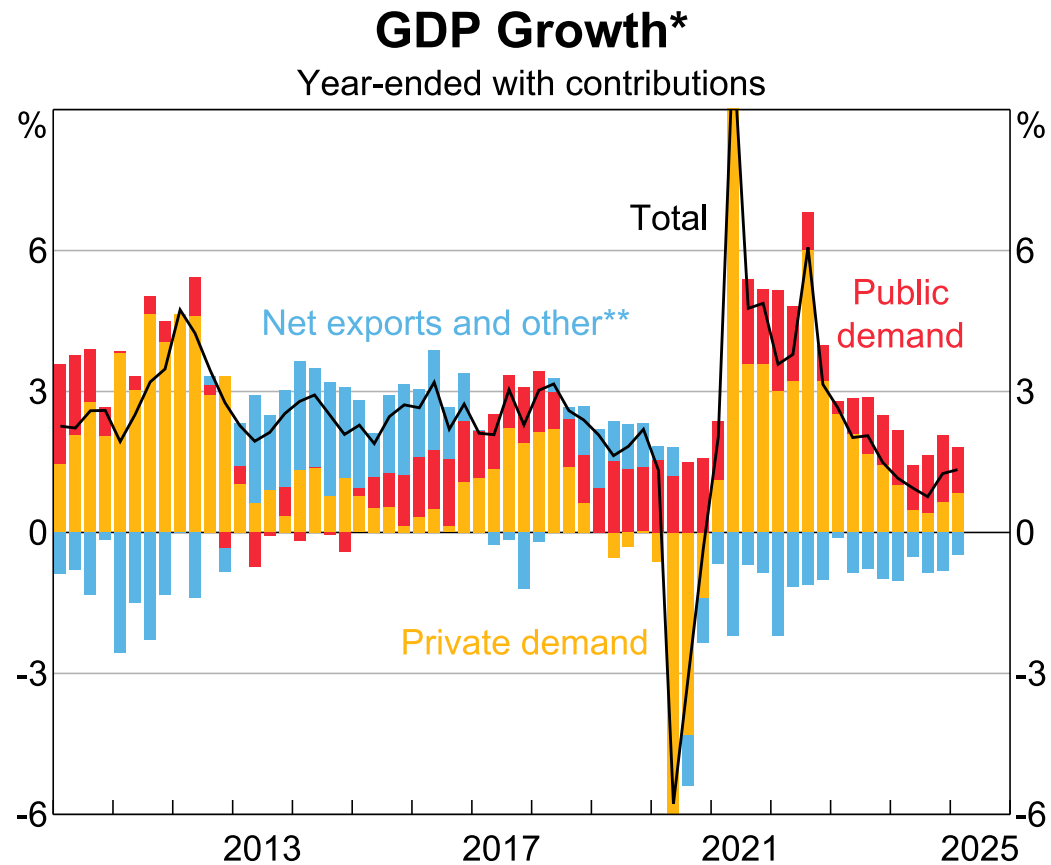
# Financial markets expect central banks to cut rates to support their economies



\* Cash rate expectations implied by OIS.

Sources: Bloomberg; RBA.

# The pace of GDP growth is gradually picking up



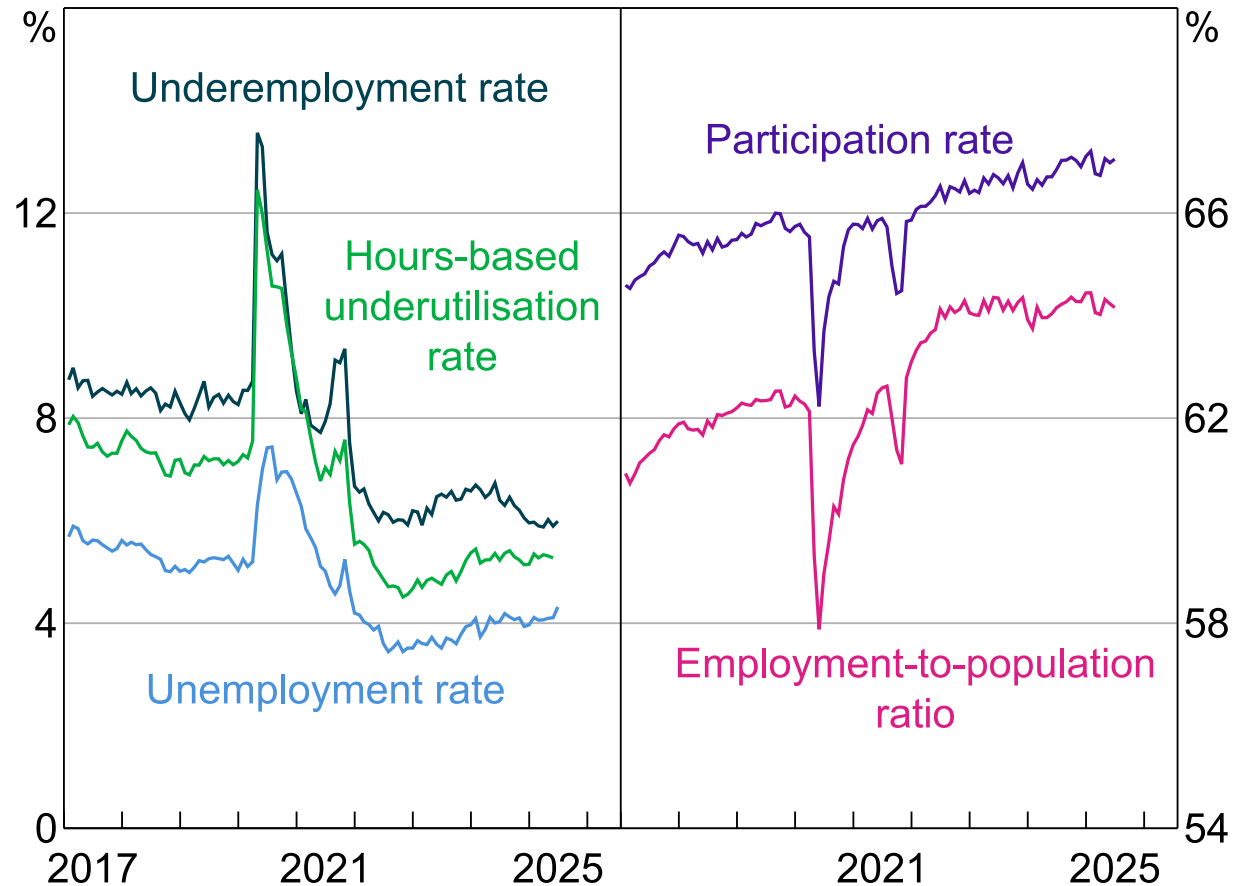
\* Outliers during the COVID-19 pandemic have been truncated.

\*\* Includes change in inventories and the statistical discrepancy.

Sources: ABS; RBA.

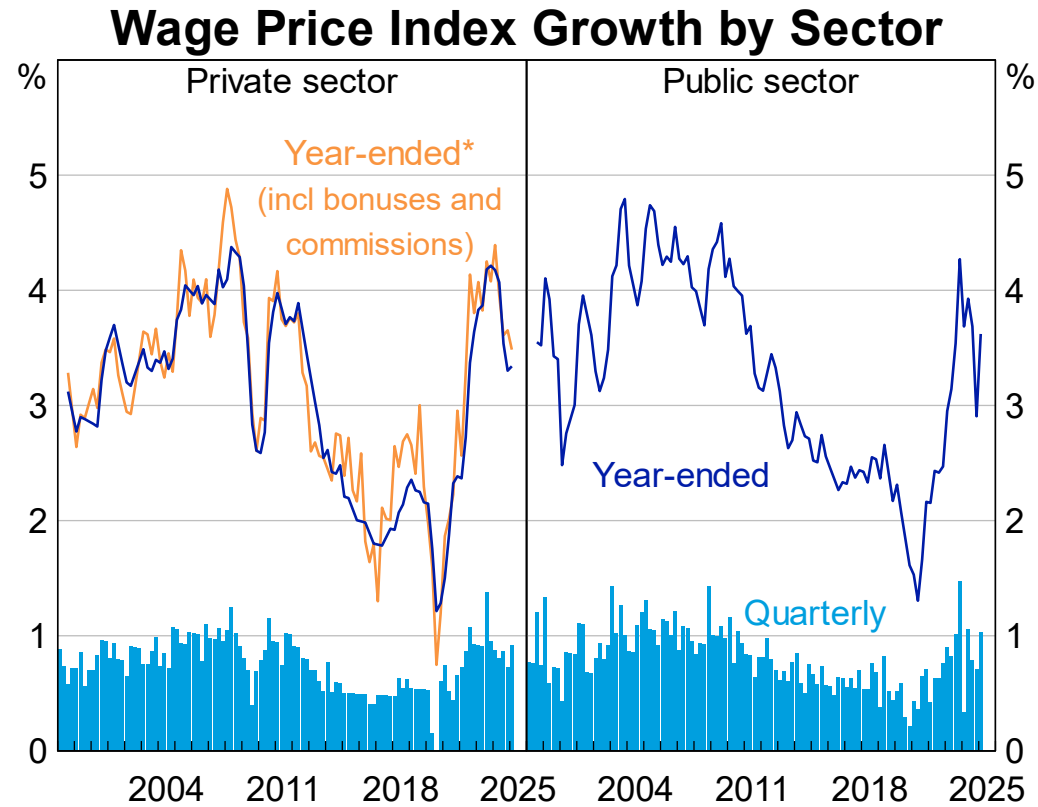
# Labour market has beaten expectations over the last year

## Spare Capacity, Employment and Participation



Sources: ABS; RBA.

# Wages growth is slowing, but it is out- pacing inflation



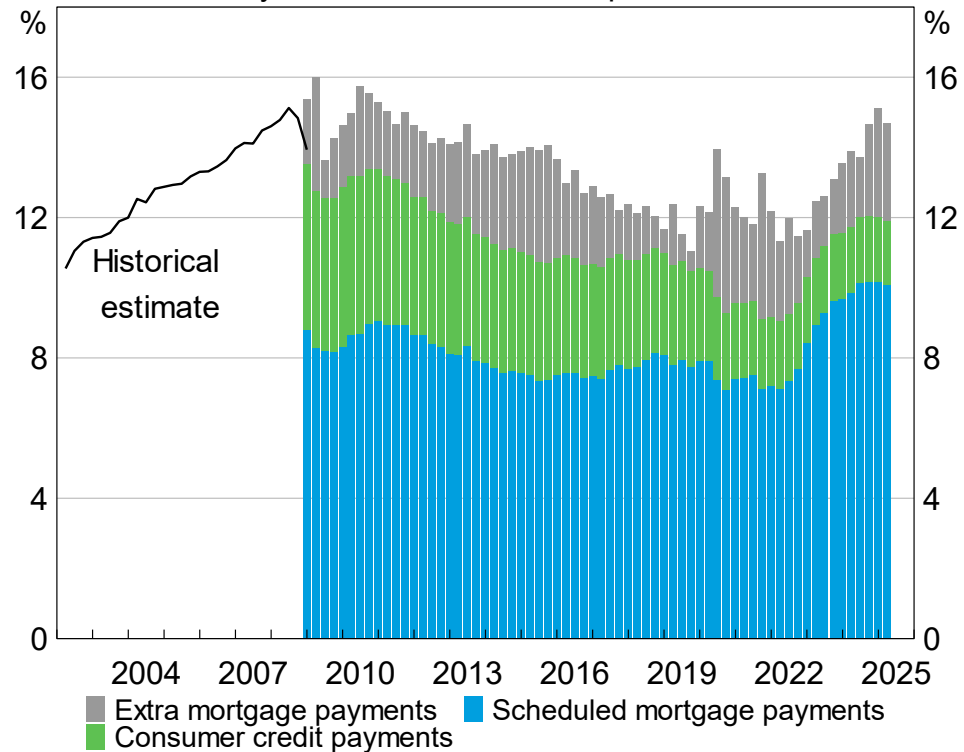
\* Non-seasonally adjusted.

Source: ABS.

# Rising employment and real wages are lifting HH income, but HHs are still a bit cautious

## Selected Claims on Household Income

Quarterly; share of household disposable income

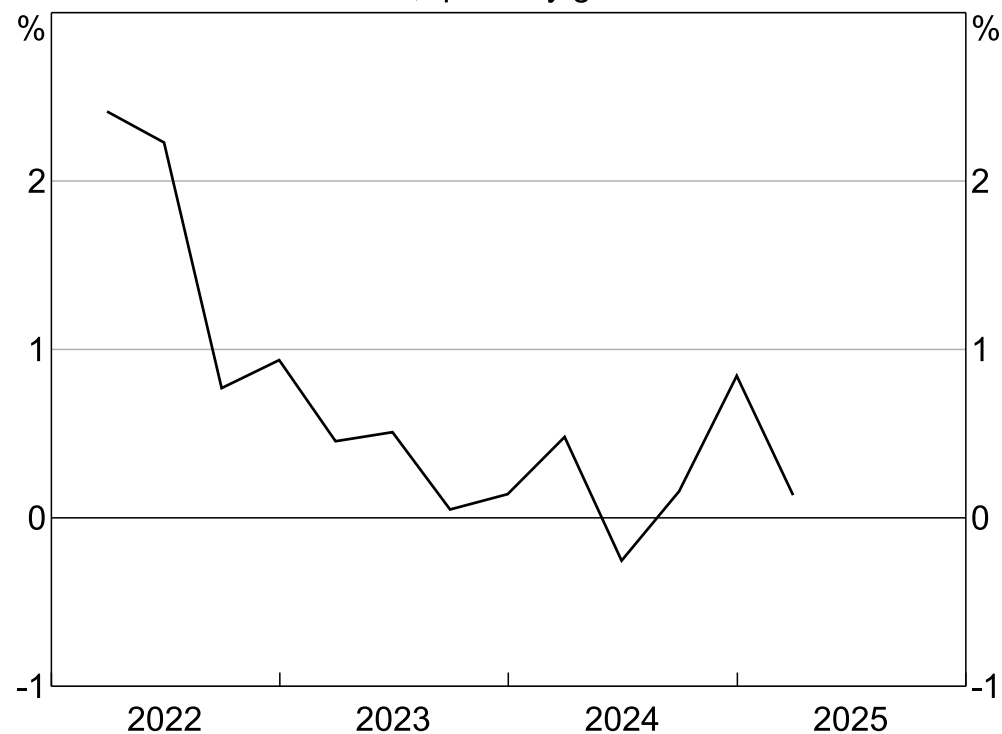


Sources: ABS; APRA; RBA.

# Resulting in relatively subdued growth in HH spending

## Underlying Household Consumption\*

Real, quarterly growth



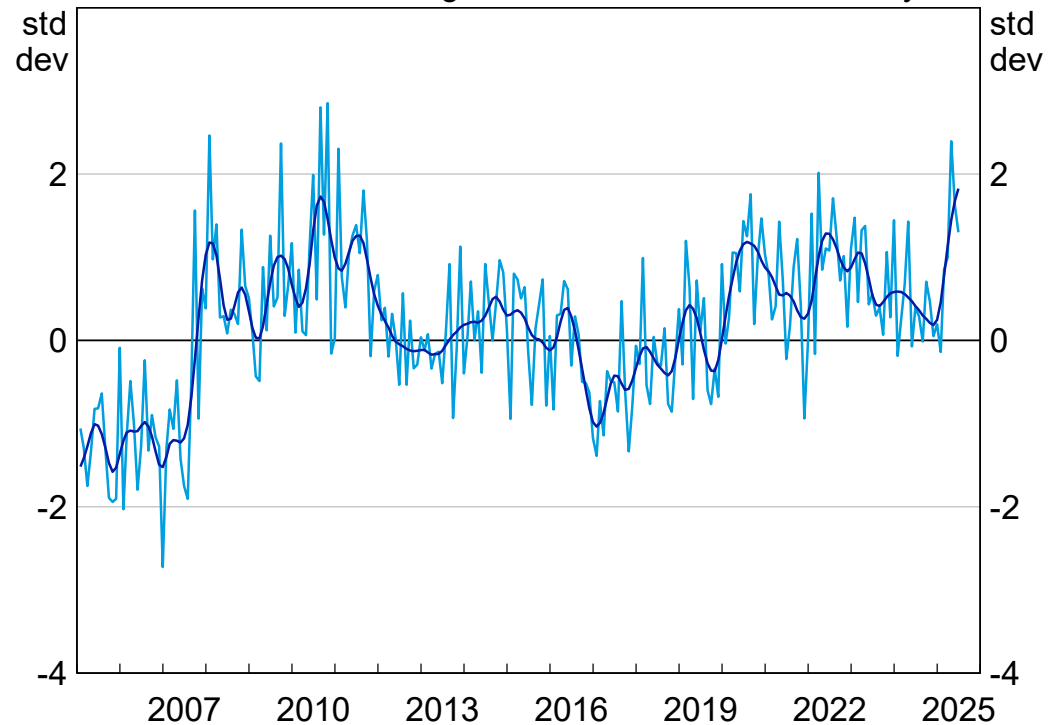
\* Excludes the estimated effect of household energy subsidies from ABS published consumption growth.

Sources: ABS; RBA.

# Uncertainty is elevated domestically, but doesn't appear to be impacting decisions (yet)

## Business Liaison Uncertainty Index\*

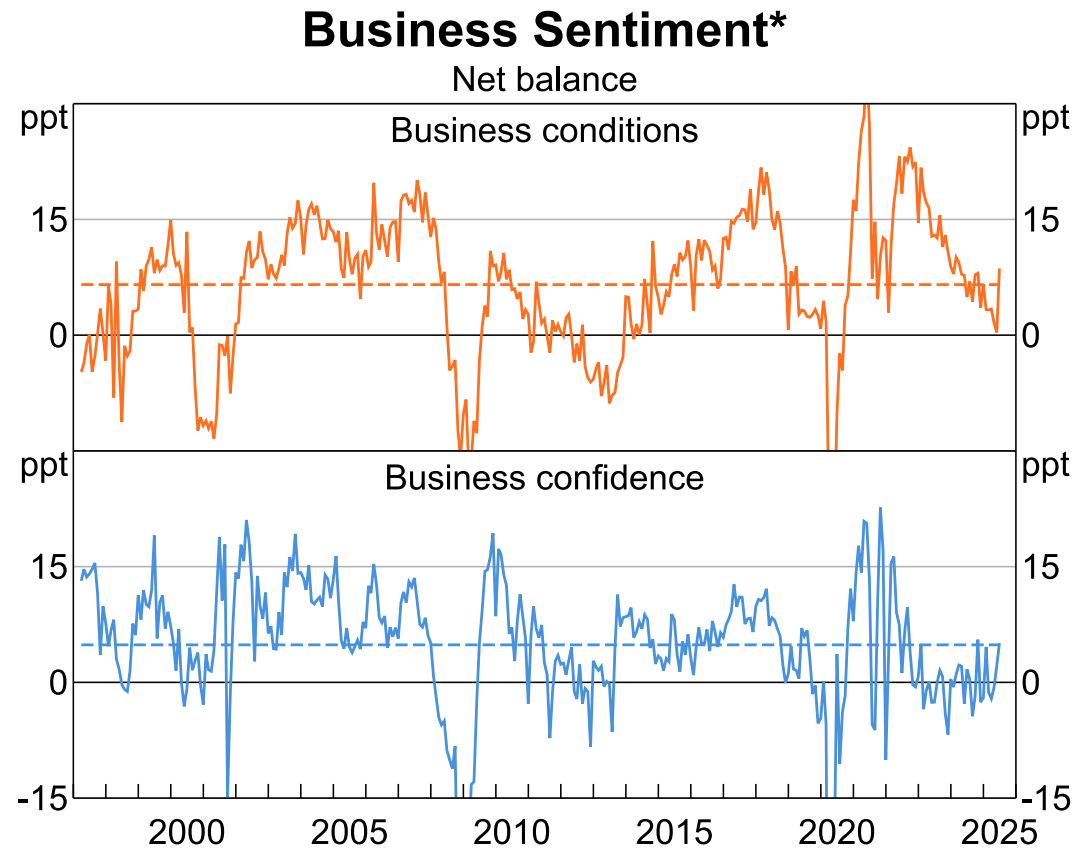
Deviation from average, standardised over full history



\* Frequency index based on an 83-word dictionary; darker line is 13-month Henderson trend.

Source: RBA.

# Business investment is expected to gradually lift



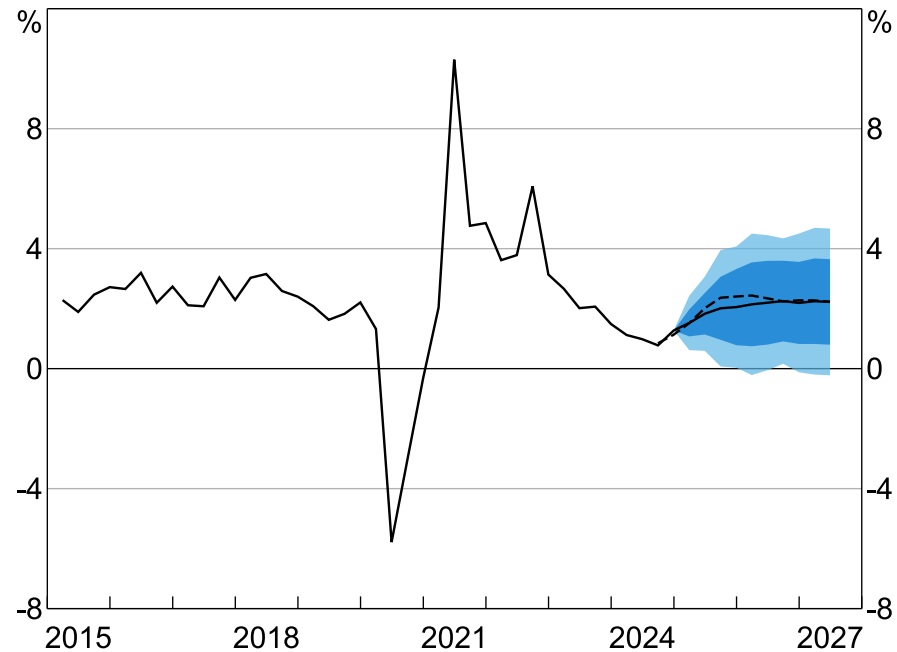
\* Dashed lines represent the long-term average of each series from 1997; outliers have been truncated.

Sources: NAB; RBA.



# Overall, expect a modest pick-up in GDP growth

**Baseline GDP Growth Forecast\***  
Year-ended

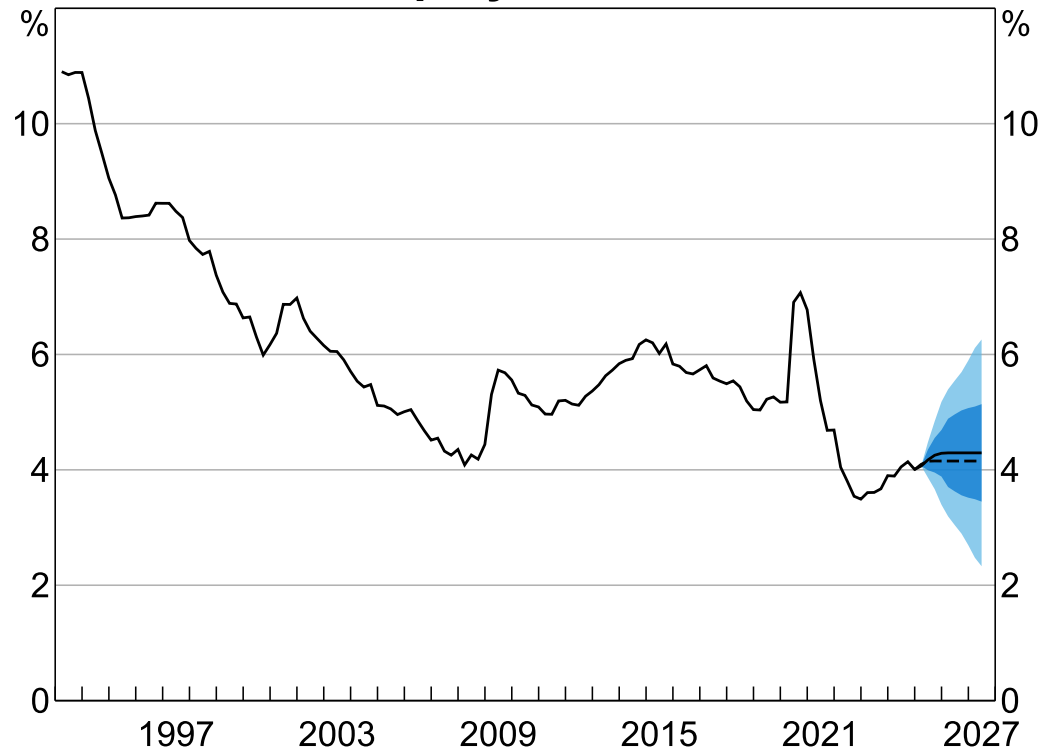


\* Dashed line shows previous SMP forecast; confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.

Sources: ABS; RBA.

# And a slight softening in the labour market

### Baseline Unemployment Rate Forecast\*

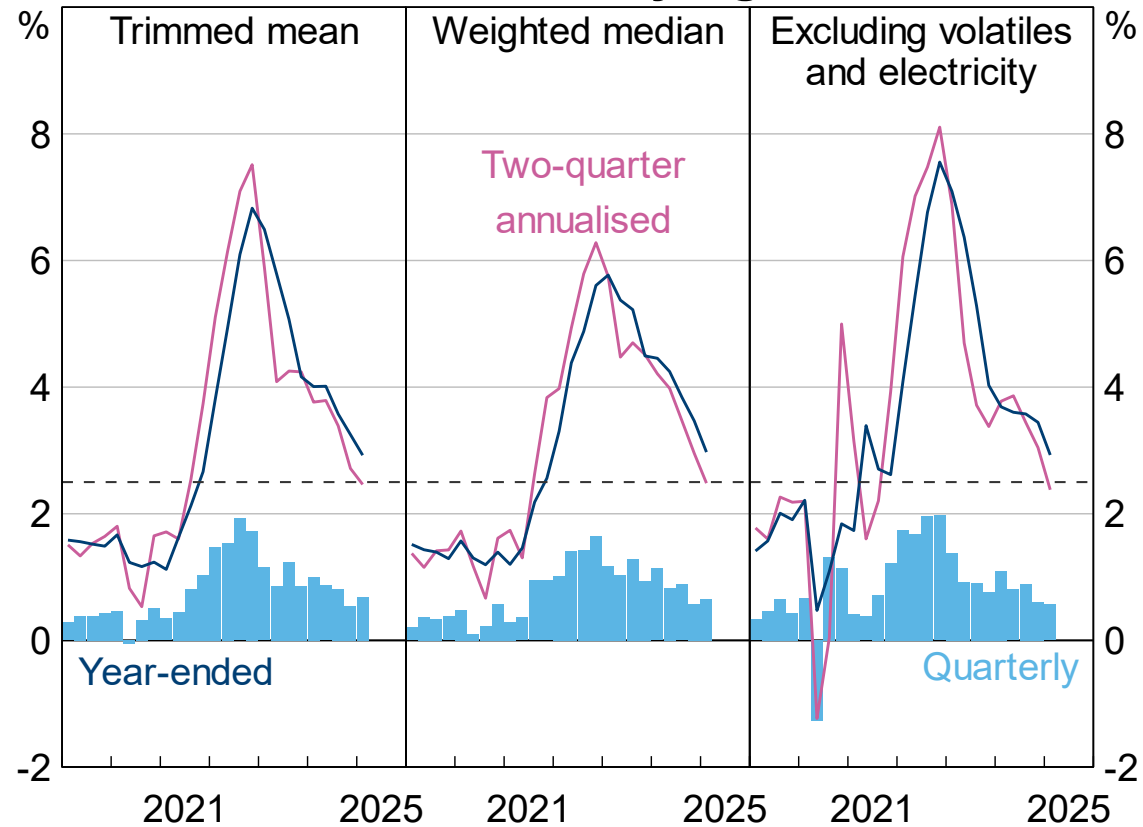


\* Dashed line shows previous SMP forecast; confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.

Sources: ABS; RBA.

# Inflation has trended down

## Measures of Underlying Inflation\*

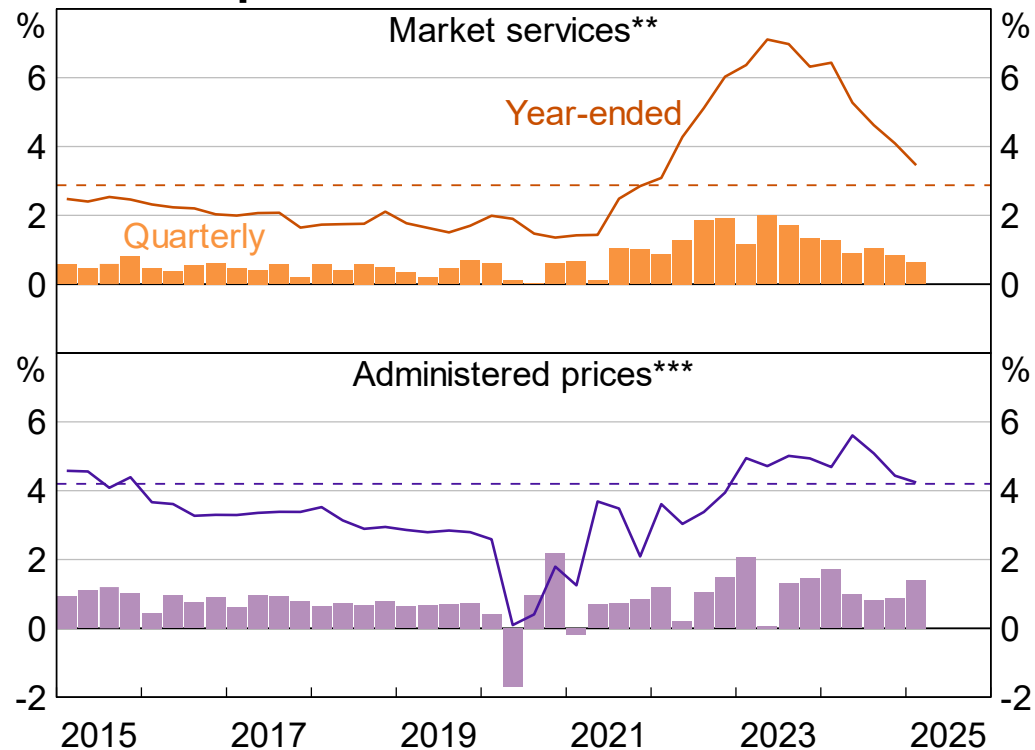


\* Dashed line indicates midpoint of the inflation target.

Sources: ABS; RBA.

# Particularly pleased that domestic price pressures have eased

## Components of Services Inflation\*



\* Dashed line is the 1993–2019 average of year-ended inflation.

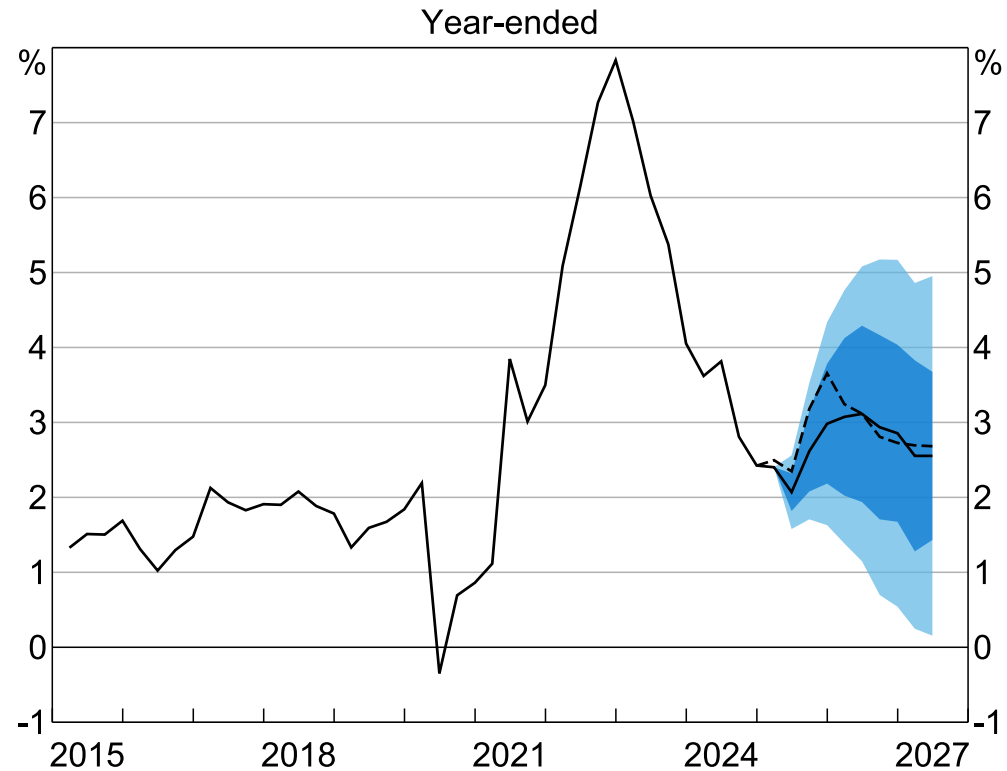
\*\* Excludes domestic travel and telecommunications.

\*\*\* Excludes utilities and child care.

Sources: ABS; RBA.

# Headline inflation will be impacted by the end of energy rebates

## Baseline Headline Inflation Forecast\*

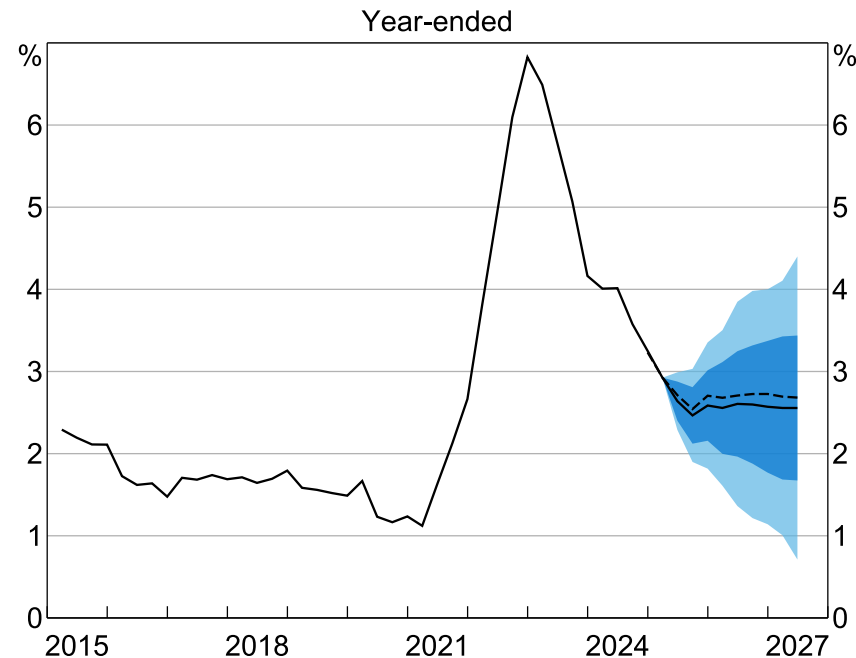


\* Dashed line shows previous SMP forecast; confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.

Sources: ABS; RBA.

But we are forecasting underlying inflation to hold around the mid-point of the 2-3% target band

### Baseline Trimmed Mean Inflation Forecast\*



\* Dashed line shows previous SMP forecast; confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.

Sources: ABS; RBA.