RESERVE BANK OF AUSTRALIA

Teachers Q&A Version

What's going on in the Economy?

Use the QR to watch the video, then answer the questions below.

rba.gov.au/education/resources/videos.html?id=cec-aug-2026

August 2026

Statistics

As you go through the video, keep an eye out for the following statistics:

Statistic	**Value** (as at 5 August 2026)
Headline inflation (quarterly)	3.9%
Underlying inflation (quarterly)	3.6%
Quarterly GDP	0.3%
Year-ended GDP	2.5%
Unemployment rate	4.4%
Cash rate	4.35%

Inflation

1. **What does consumer price inflation measure?**

   Consumer price inflation measures how quickly the prices of a basket of the most commonly purchased household goods and services are rising.

2. **How does underlying inflation differ from headline inflation?**

   Underlying inflation removes large, one-off price changes from headline inflation. In this way, underlying inflation gives us a clearer picture of price trends in the economy.

3. **As of August 2026, why is inflation too high in the Australian economy?**

   - Demand for goods and services in Australia continues to be stronger than the capacity of the economy to supply these items
   - The conflict in the Middle East has pushed up global oil prices, which has directly increased fuel prices and led to higher prices for many goods and services

GDP

4. **Complete the following sentences using the following words:**

prices | total spending | upward | demand | lower | supply

To bring inflation down, total spending or demand in the economy needs to slow. This will help bring demand back into balance with supply. With supply and demand closer to balance, there will be less upward pressure on prices and therefore lower inflation.

5. **Over the course of 2026, one component of GDP that has grown strongly is business investment. This sits within the 'I' of the GDP = C + I + G + (X – M) equation.**
One recent example of strong business investment has been the building of data centres.
What types of investment are involved in the building of data centres?

To build a new data centre, firms need to take the following steps:

- Invest in new buildings and structures to house the data centres
- Invest in new equipment to keep the data centres functional, including cooling systems and highly reliable power infrastructure

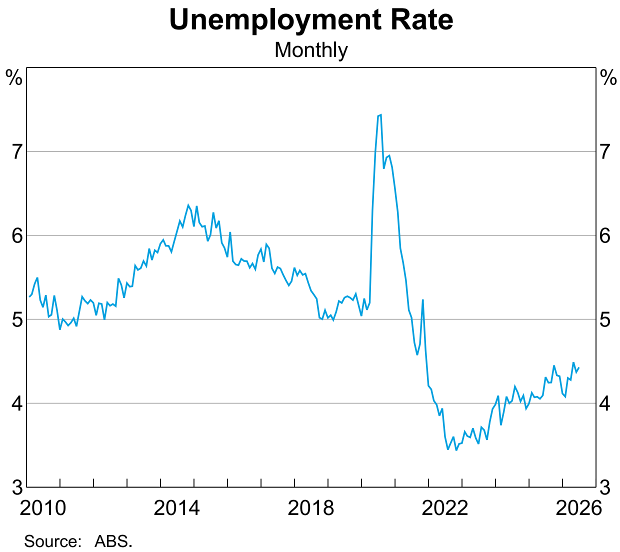
Housing Market

6. **Why does dwelling investment tend to decline when housing prices decline?**
HINT: Dwelling investment includes investment in building new housing as well as renovations to existing houses.

- If housing prices decline, and the cost of building homes stays about the same (or rises), then builders will earn lower profits on building new homes.
- This means they might decide to build less homes as they are not profitable enough.
- As a result, overall investment in building new dwellings could decline.

Employment

7. **Compared to the history shown in this chart, would you say that Australia's unemployment rate as of August 2026 is relatively high or low?**



- [ ] Relatively high
- [x] Relatively low

8. **The RBA assesses that Australia's labour market is a little tighter than full employment. What indicators point to this?**

- Unemployment rate is still relatively low
- Average hours worked are high
- Underemployment is low

Monetary policy decision

9. **What cash rate decision did the Monetary Policy Board take at its August meeting?**

Kept the cash rate on hold at 4.35 per cent

Part two: Extended responses

10. **Explain how the conflict in the Middle East results in higher prices for many goods and services for Australian consumers.**

    HINT: Consider how the Middle East conflict affects oil prices, and then how that affects the prices of goods and services for Australian consumers.

    The conflict in the Middle East has disrupted important shipping routes, pushing up the global price of oil.

    Oil is used to make fuels like petrol and diesel. So when oil prices rise, so do fuel prices.

    Many businesses use fuel to make and transport their products.

    For example, construction companies have faced higher costs for fuel and oil-based building materials, such as plastics and cabling. And when businesses face higher costs, they may need to raise their prices.

    This is known as cost-push inflation.

11. **Describe the ways the construction of a new data centre could result in higher economic activity.**

    HINT: Consider things that relate to the components of the aggregate demand equation.

    A new data centre requires a physical location and storage.

    This means businesses will need to create new facilities, such as buildings and structures. This is a form of business investment.

    In addition, new data centres will require machinery and equipment, such as cooling systems and highly reliable power supplies. This is another form of business investment.

12. **Explain the processes through which a slowing housing market and declining housing prices might lead to slower spending.**

HINT: We discussed three different processes in the video – the impact on home owners' wealth, housing-related spending and investment in new dwellings.

a) A decline in housing prices reduces home owners' wealth.

A decline in housing prices reduces the wealth of homeowners. If they believe their wealth is lower, they might feel they need to save more and spend a little less to reach their saving or retirement goals.

b) A decline in housing prices often leads to lower spending on household items.

A decline in housing prices often leads to a lower number of transactions and sales. Households typically purchase new household items when they purchase a new home, like a new fridge or washing machine. If fewer people are buying houses, then this may lead to less spending on household items.

c) A decline in housing prices may lead to slower spending on new dwellings.

If housing prices decline, and the cost of building homes stays about the same (or rises), then builders will earn lower profits on building new homes and could decide to build less which would reduce dwelling investment.