RESERVE BANK OF AUSTRALIA

Pre Exam Webinar

October 2025

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Outline

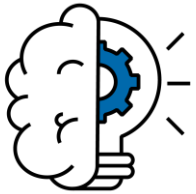
The Economy and Monetary policy in recent years

Trade, including the impacts of tariffs

1

The Economy and Monetary Policy in Recent Years

Quick questions

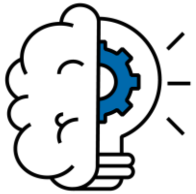


Question 1:

The RBA only considers inflation when making monetary policy decisions.

TRUE or FALSE?

Quick questions



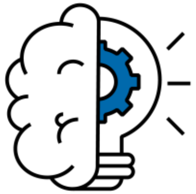
Question 1:

The RBA only considers inflation when making monetary policy decisions.

TRUE or FALSE?

Answer: FALSE.
The RBA has a dual mandate to maintain low and stable inflation and achieve full employment.

Quick questions



Question 2:

Reducing inflation means prices will fall.

TRUE or FALSE?

Quick questions

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Reducing inflation means prices will fall.

TRUE or FALSE?

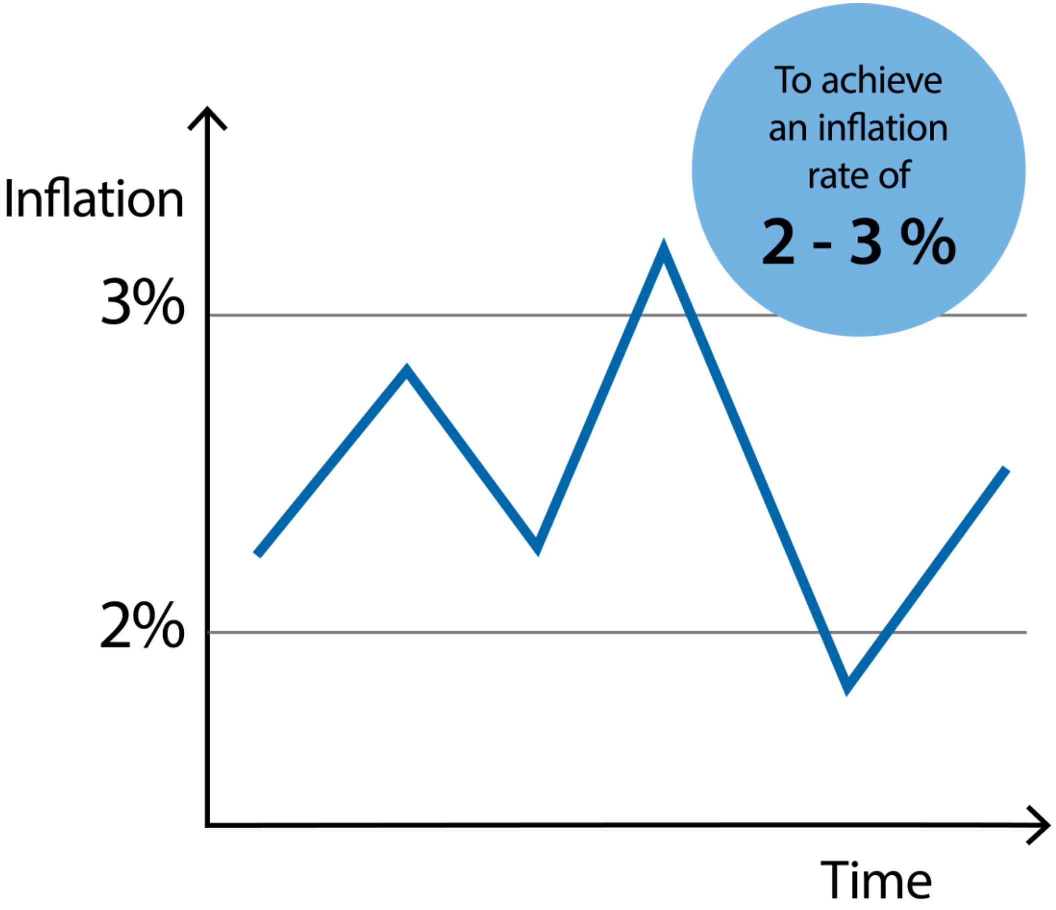
Answer: FALSE.
When inflation is reduced, it means that prices are still increasing, but at a slower rate.

Quick questions

Question 3:

Why does the RBA aim to keep inflation between 2% and 3%?

Inflation Target Band



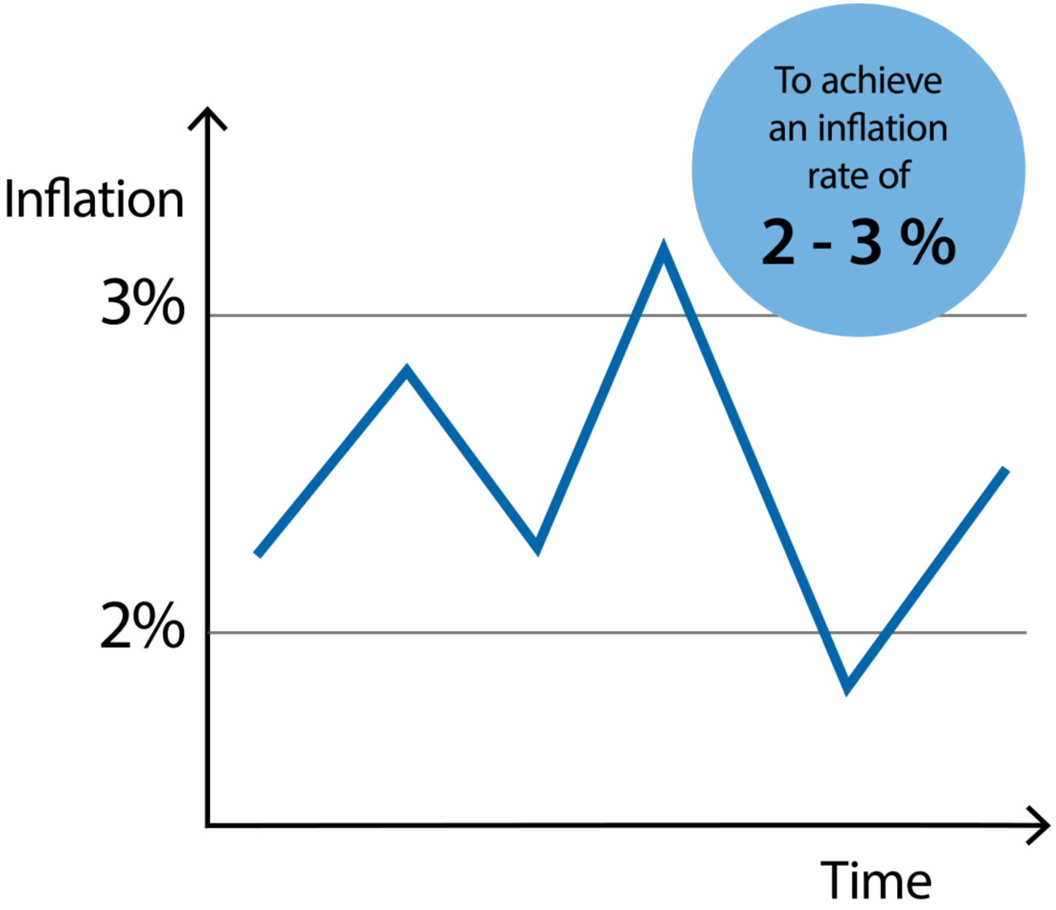
Quick questions

Question 3:

Why does the RBA aim to keep inflation between 2% and 3%?

Answer: Targeting inflation of 2-3% avoids the many costs to the economy from inflation that is too high or too low.

Inflation Target Band



What we will cover...

Timeline of key events

How did we get here?

What's happening now?

Timeline of economic trends in recent years

2020

COVID-19 pandemic

GDP fell by 7% in June quarter 2020.

Unemployment rate rose to 7.4% in June 2020.

The RBA lowered the cash rate to 0.1% in November 2020.

2021

Post-pandemic recovery

Inflation started to rise.

2022

High inflation

Inflation peaked at 7.8% in December quarter 2022.

Unemployment rate fell to 3.4% in July 2022.

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Inflation and strong labour market

Cash rate rose to 4.35% by November 2023.

2024

Slower economic growth

Inflation continued to fall and labour market conditions eased.

2025

Underlying inflation back in target range

RBA lowered the cash rate.

Unemployment rate at 4.2% in August 2025. Global uncertainty.

What we will cover…

Timeline of key events

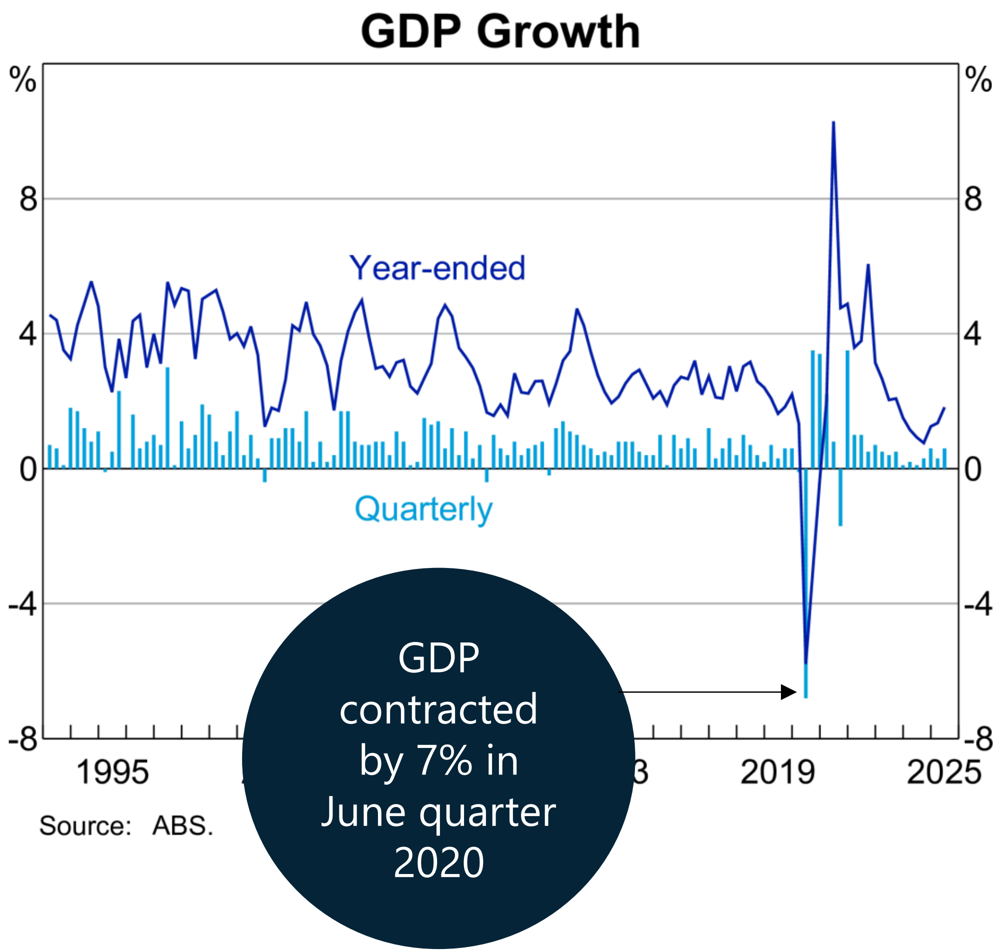
How did we get here?

What's happening now?

The COVID-19 shock

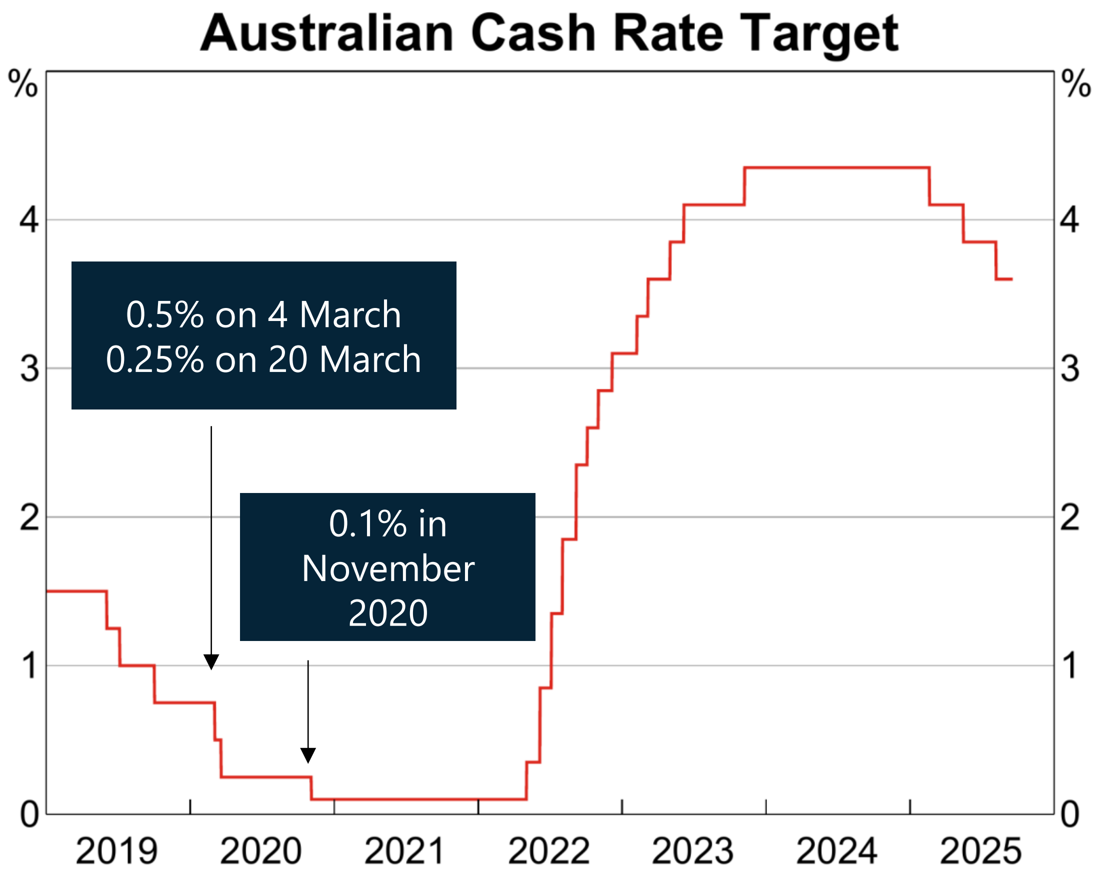
The COVID-19 shock

- The economy slowed dramatically
- Australia's **Gross Domestic Product (GDP) fell by 7%** in the June quarter of 2020
- **Unemployment rose to 7.4%** in June 2020
- Largest contraction of the Australian economy since WW2.



The COVID-19 shock

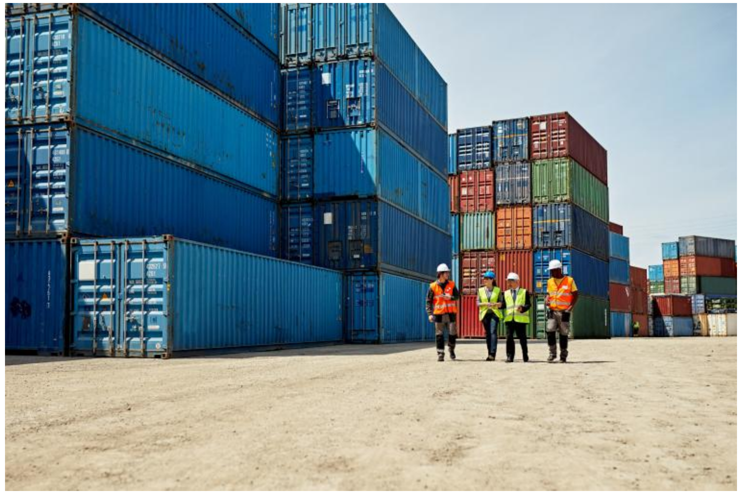
- Substantial fiscal and monetary policy support were introduced.
- The RBA **lowered the cash rate** twice in March 2020, and then to **0.1 per cent** in **November 2020**.
- New unconventional monetary policy tools used.



Source: RBA.

Inflation began to rise quickly in 2021, driven by:

Strong post-pandemic demand for goods and services



Global supply chain disruptions

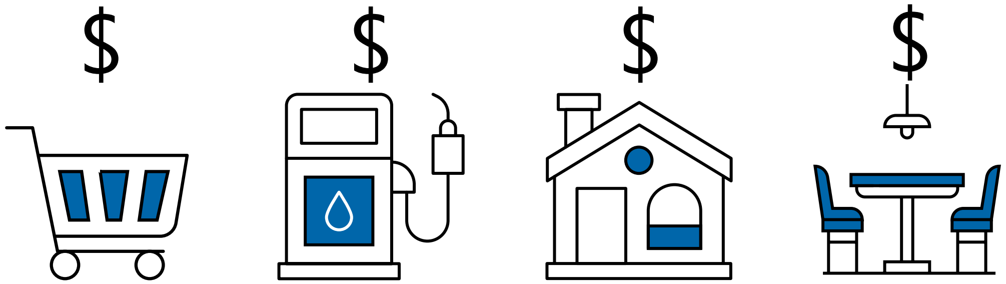
High global energy prices

Strong demand + supply disruptions → high inflation

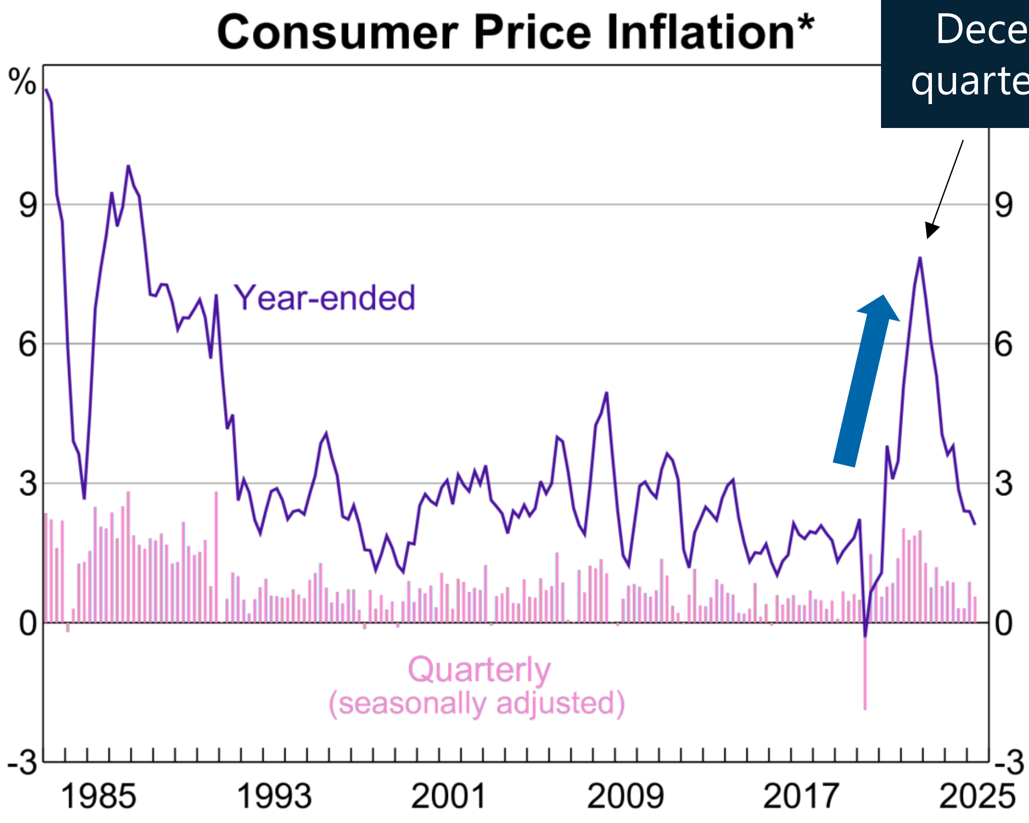
Inflation began to rise quickly in 2021

Inflation rose from 3.8% in June quarter 2021 to 7.8% in December quarter 2022, well above the target range.

Inflation was high across a wide range of **goods and services**.



Inflation peaked at 7.8% in December quarter 2022



* Excludes interest charges prior to the September quarter 1998; adjusted for the tax changes of 1999–2000.

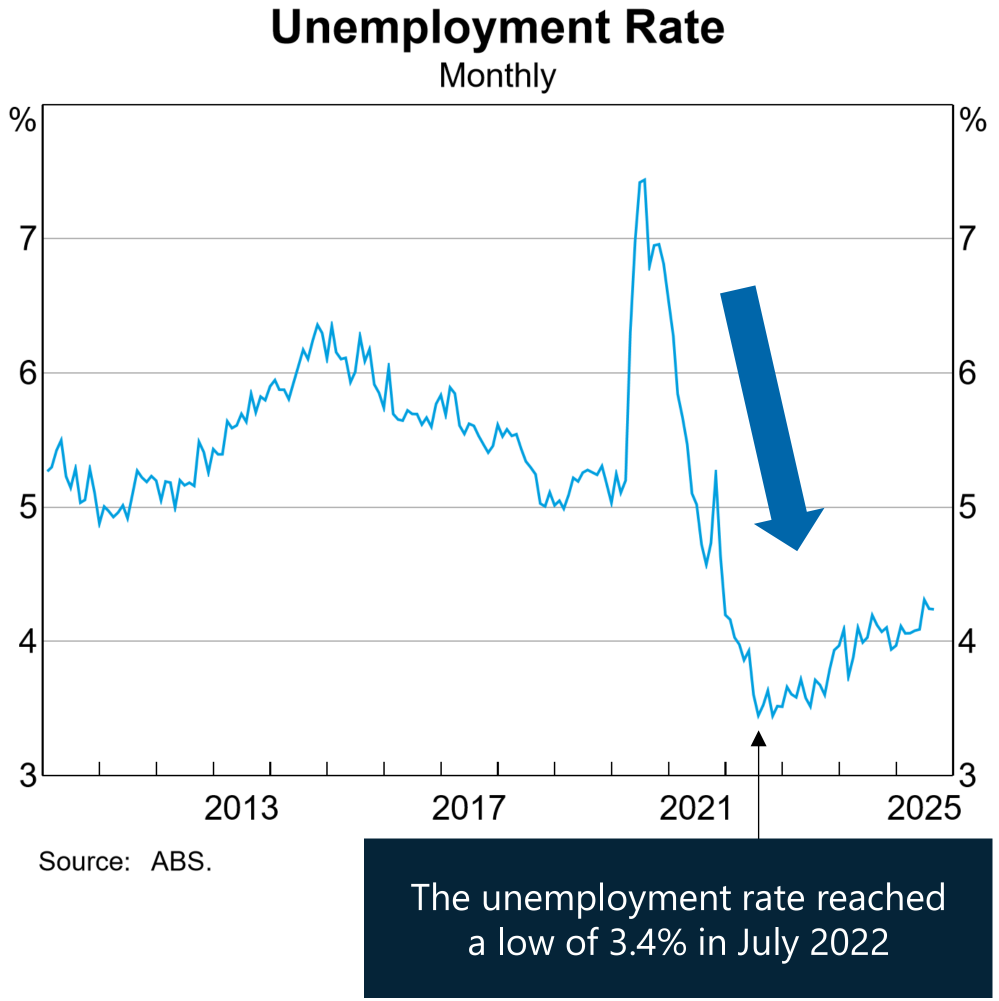
Sources: ABS; RBA.

There were substantial job gains over this period

- The **unemployment rate fell to 3.4% in July 2022**, its lowest level in around 50 years

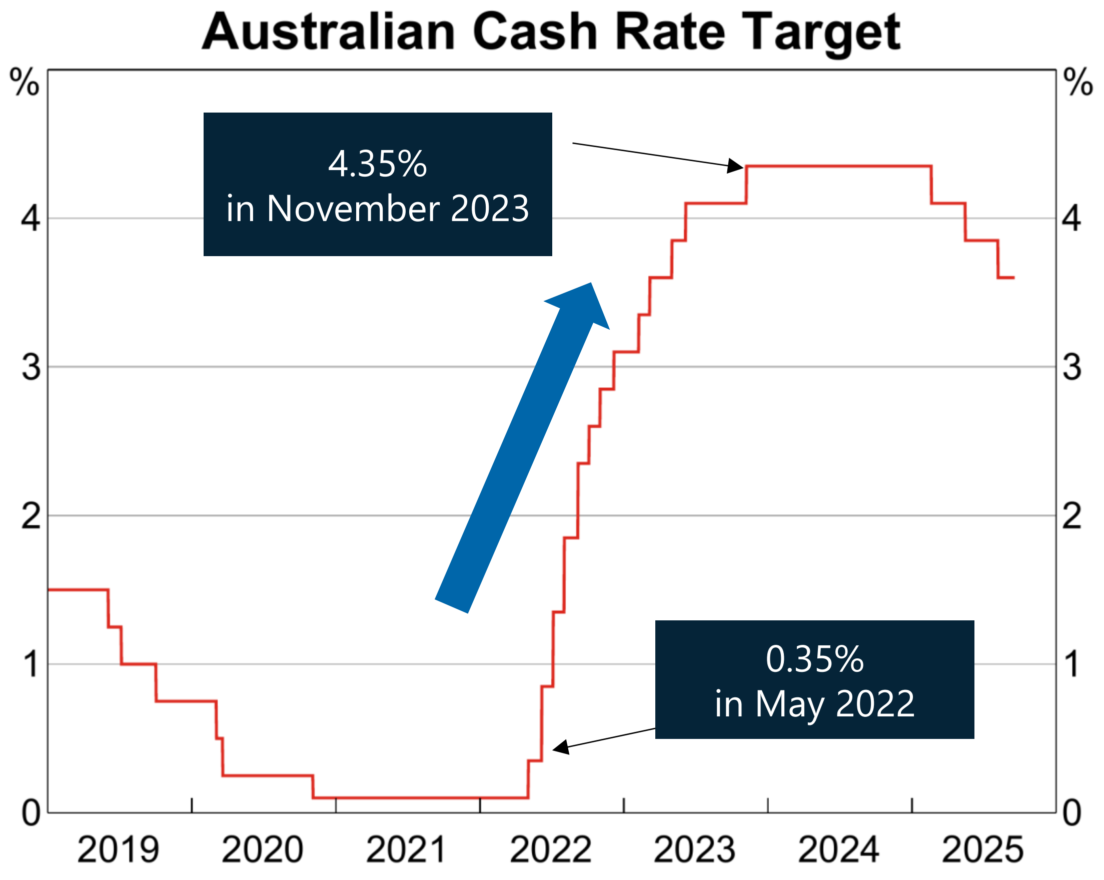
- **Employment growth was strong**, and underemployment was low

- But there were labour shortages, and some businesses were struggling to find workers



The RBA responded by raising the cash rate to lower inflation

- The RBA Board increased the **cash rate to 0.35% in May 2022**, then another **12 times** to November 2023
- The RBA raised the cash rate to **4.35% in November 2023**, then kept it at that level until February 2025
- **Goal:** Slow down demand to reduce inflation, while preserving as many of the gains in the labour market as possible



Source: RBA.

What we will cover…

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How did we get here?

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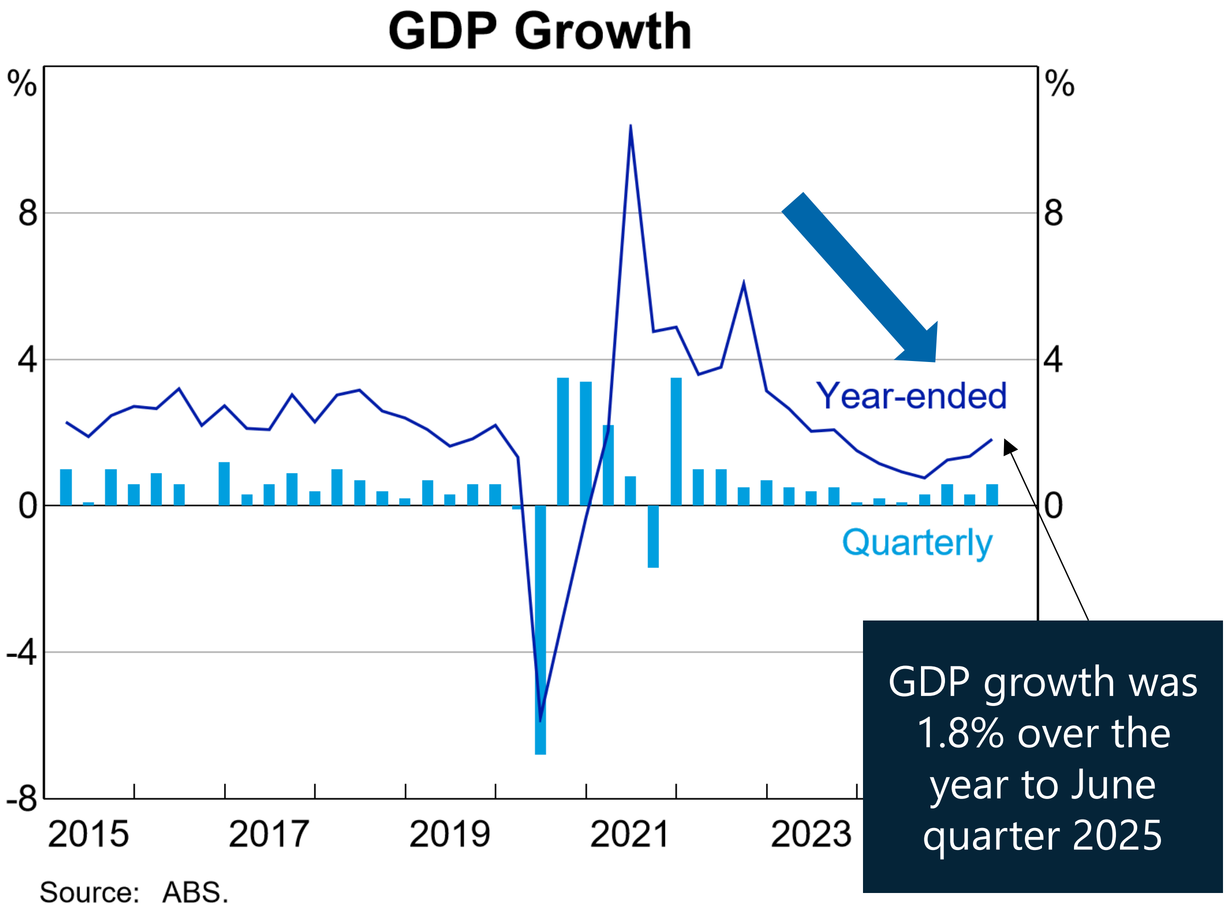
Higher interest rates have slowed demand growth

- Higher interest rates led people and businesses to cut back on spending
- **Growth in the economy has slowed** in recent years
- **GDP growth** was **1.8%** over the year to the **June quarter 2025**
- This is helping to bring demand into better balance with supply



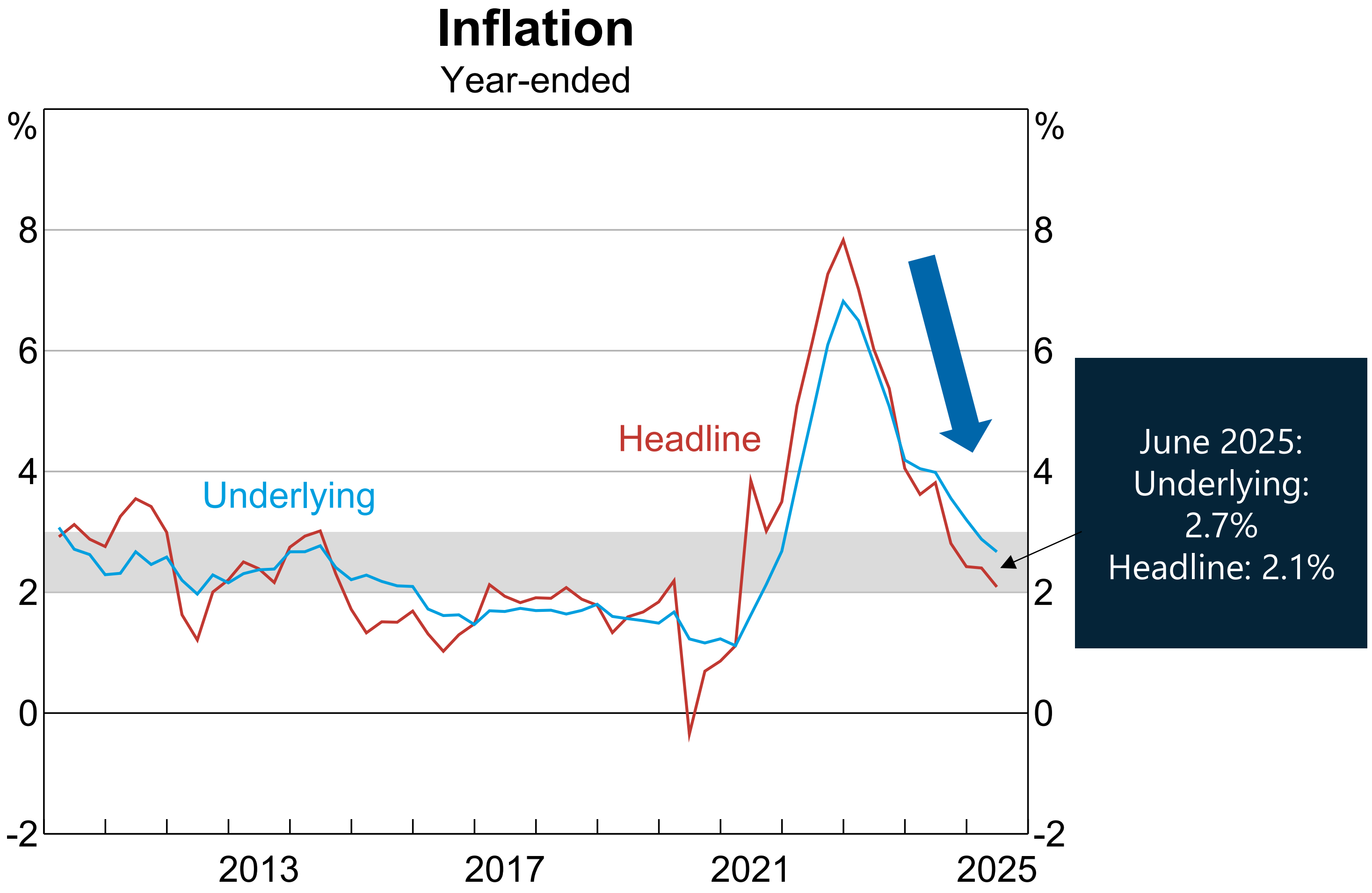
Source: ABS.

Inflation has come down to be back within the target band

- The tightening of monetary policy helped bring inflation back within the 2-3% target range

- **Underlying inflation** (excludes volatile items) declined to **2.7%** in **June quarter 2025**

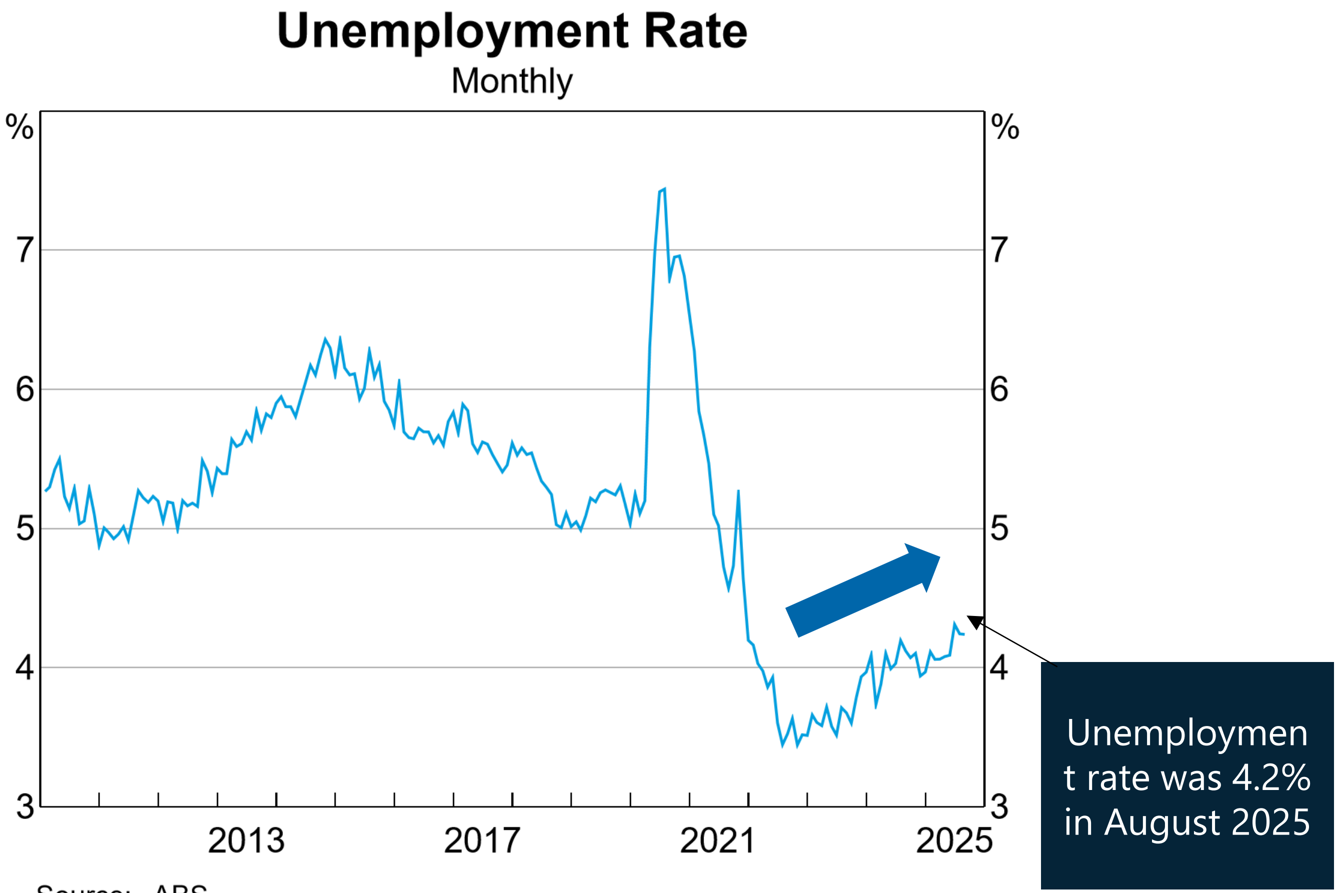
- **Headline inflation** (overall prices) fell to **2.1%** in **June quarter 2025**. It has been affected by temporary cost of living relief measures.



Sources: ABS; RBA.

The labour market has been resilient

- The **unemployment rate** has increased a little to **4.2% in August 2025** but remains low
- Employment growth remains solid
- The **participation rate was 66.8%** in **August 2025**, still around historic highs



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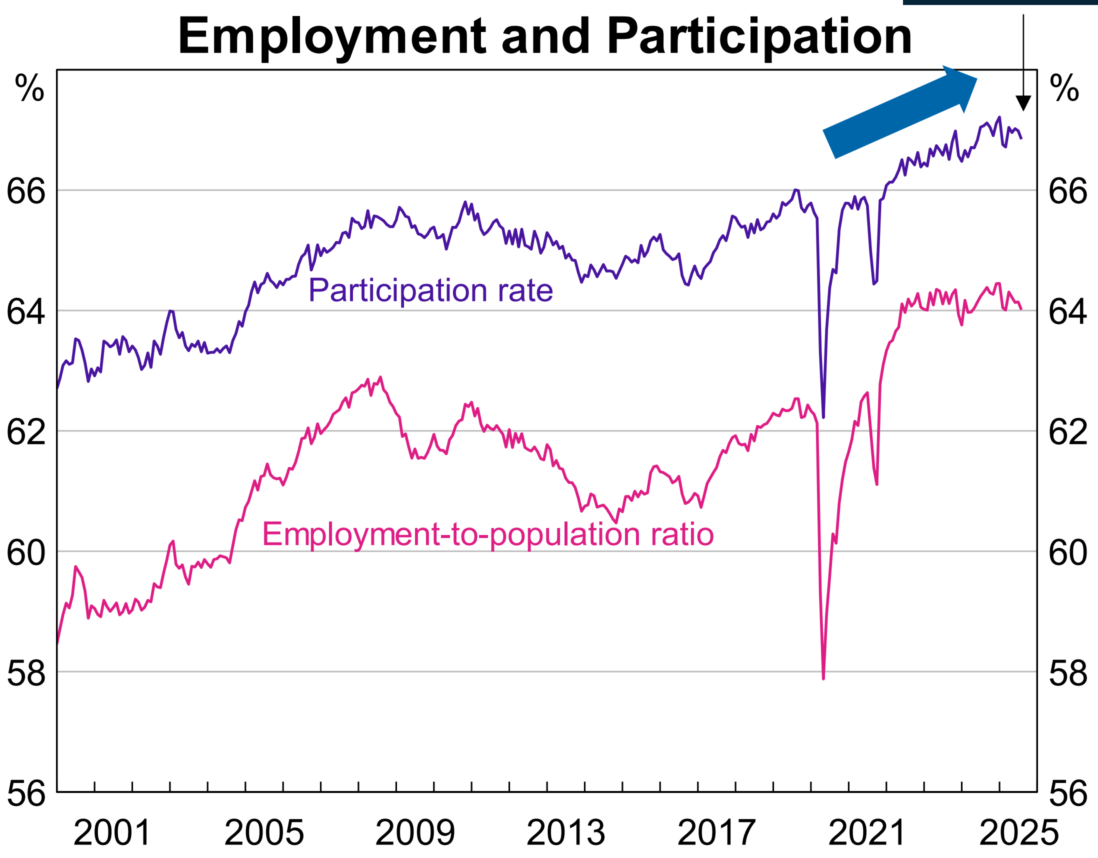


Source: ABS.

Global uncertainty and trade tensions

- In 2025, the United States placed tariffs on the rest of the world

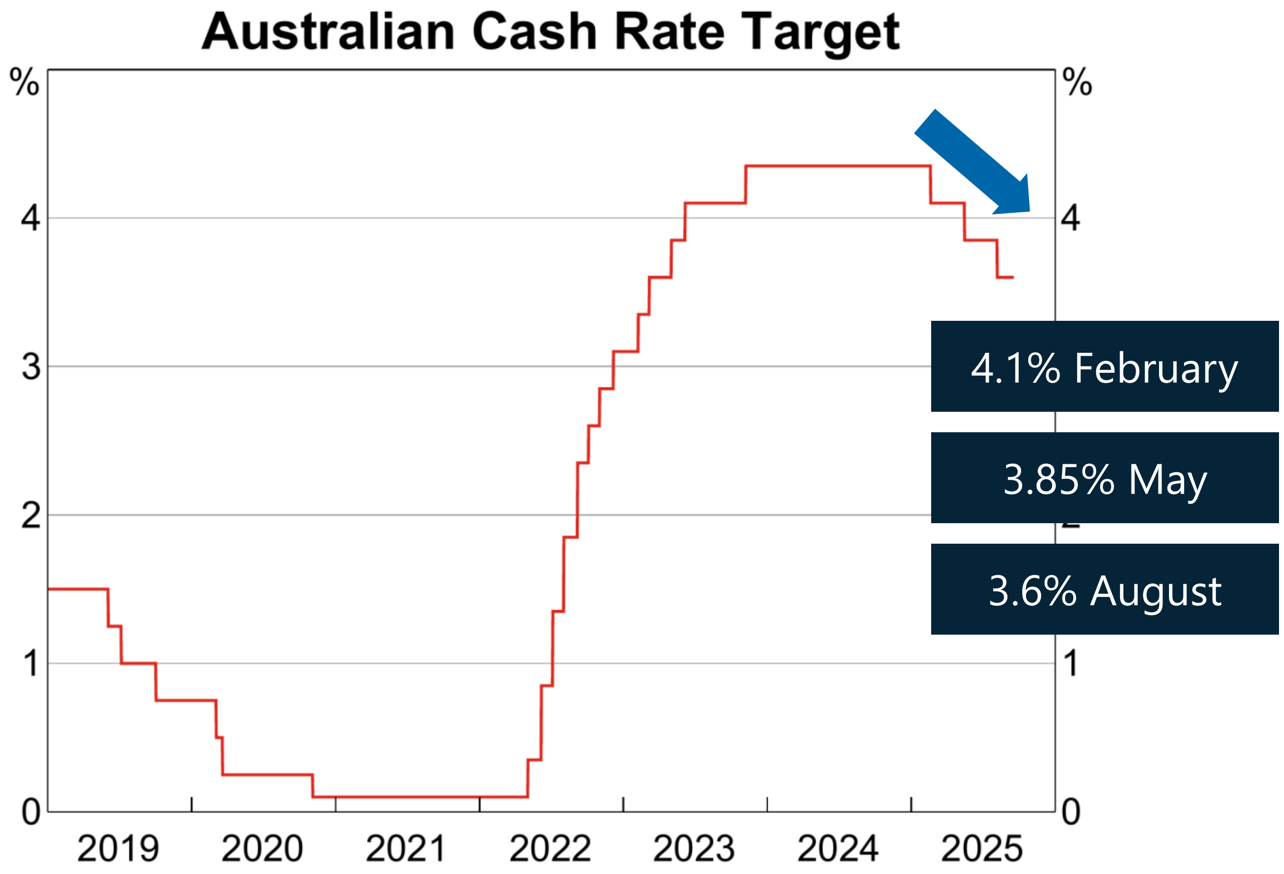
The RBA started to lower the cash rate in 2025

- In 2025, the RBA Monetary Policy Board began lowering the cash rate:
    - **4.10% in February**,
    - **3.85% in May**,
    - **3.6% in August.**

- **Inflation has continued to come down** and is within our **target range of 2–3 per cent**.

- **The unemployment rate** has increased a little but **remains low.**

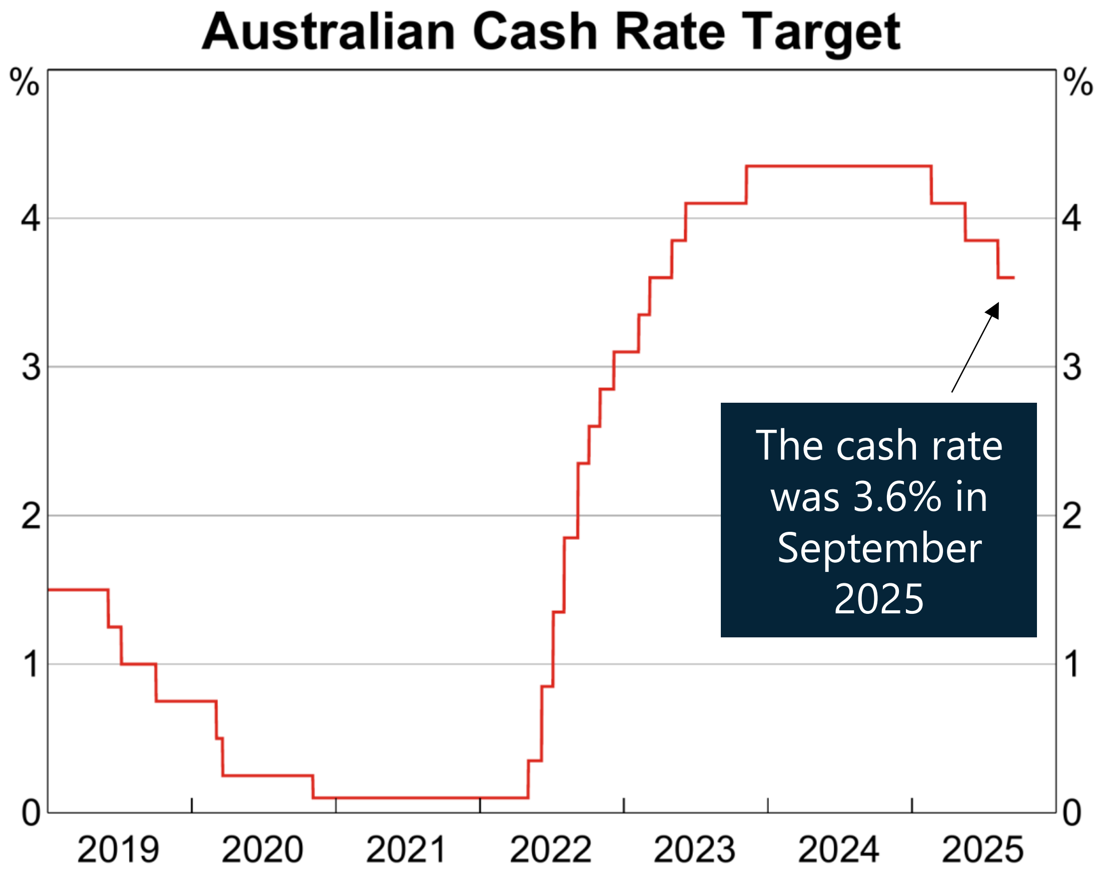
- Our forecasts suggest underlying inflation will fall a little further to around the midpoint of the 2-3% target range



Source: RBA.

The RBA left the cash rate unchanged at 3.6 per cent at the September 2025 meeting

- Recent data suggest that **inflation may be persistent in some areas**
- Labour market conditions have been broadly steady in recent months
- There's still a lot of **uncertainty**
- The RBA Board judged that it was appropriate to **remain cautious**, updating its view of the outlook as the **data evolve**.



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Summary

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2

Trade

What we will cover...

Tariffs

How tariffs impact trade and the Australian economy

- Economic activity (GDP)
- Inflation

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What is a tariff?

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Example

- Suppose Australia imposed a tariff of 10% on football boots
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If the football boots cost **$200 before the tariff**

They will cost **$220 after the tariff**

In 2025, the US imposed tariffs on the rest of the world

In 2025, the US imposed tariffs on the rest of the world

- Most countries received a tariff rate between 15% and 20%
- Australia received a tariff rate of 10%

The US and China entered a Trade War

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- Prior to the US tariff announcements in April 2025:
  - US had a 20% tariff on China
  - China had no broad-based tariffs on the US

Tariff = 20%

Tariff = 0%

The US and China entered a Trade War

- Prior to the US tariff announcements in April 2025:
  - US had a 20% tariff on China
  - China had no broad-based tariffs on the US

- US increase the tariff rate to 54%

Tariff = 54%

Tariff = 0%

The US and China entered a Trade War

- Prior to the US tariff announcements in April 2025:
  - US had a 20% tariff on China
  - China had no broad-based tariffs on the US
- US increase the tariff rate to 54%
- China respond with a tariff rate of 34%

Tariff = 54%

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- Prior to the US tariff announcements in April 2025:
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- US increase the tariff rate to 54%
- China respond with a tariff rate of 34%
- US increase the tariff rate to 104%

Tariff = 104%

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- US increase the tariff rate to 54%
- China respond with a tariff rate of 34%
- US increase the tariff rate to 104%
- China respond with a tariff rate of 84%

Tariff = 104%

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- US increase the tariff rate to 54%
- China respond with a tariff rate of 34%
- US increase the tariff rate to 104%
- China respond with a tariff rate of 84%
- US increase the tariff rate to 145%

Tariff = 145%

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- US increase the tariff rate to 145%
- China responded with a tariff of 125%

Tariff = 145%

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The US and China entered a Trade War

- The US and China have entered a tariff truce until November
- The current US tariff rate on Chinese imports is 30%
- The current China tariff rate on US imports is 10%

What we will cover…

Tariffs

How tariffs impact trade and the Australian economy

- Economic activity (GDP)
- Inflation

The impact of US Tariffs on Economic Activity in Australia?

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A quick recap on Aggregate Demand

- Aggregate Demand refers to total spending in the economy

$$AD = C + I + G + (X - M)$$

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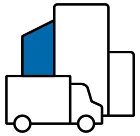

Investment

The impact of US Tariffs on Economic Activity in Australia?

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Consumption ↑

Government ↑

$$AD = C + I + G + (X - M)$$

Investment ↓

The impact of US Tariffs on Economic Activity in Australia?

A quick recap on Aggregate Demand

- Aggregate Demand refers to total spending in the economy

$$\underbrace{\text{AD}}\ = \overset{\text{Consumption}}{C} + \underset{\text{Investment}}{I} + \overset{\text{Government}}{G} + (\underset{\text{Net Exports}}{X - M})$$

The impact of US Tariffs on Economic Activity in Australia?

$$\mathbf{AD = C + I + G + (X - M)}$$

The impact of US Tariffs on Economic Activity in Australia?

- US imports are more expensive
- Increased global uncertainty

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- **US imports are more expensive**
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The impact of US Tariffs on Economic Activity in Australia?

- **US imports are more expensive = Lower demand for our exports**
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The impact of US Tariffs on Economic Activity in Australia?

- US imports are more expensive = Lower demand for our exports
- **Increased global uncertainty = Households and businesses delay spending**

$$AD = C + I + G + (X - M)$$

Summary

- The US tariffs make US imports more expensive
- The US tariffs also increase global uncertainty
- This will lower aggregate demand and reduce economic activity in Australia

The impact of US Tariffs on Inflation in Australia?

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Aggregate Demand: Refers to total spending in the economy

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- This will lower aggregate demand

Demand effect

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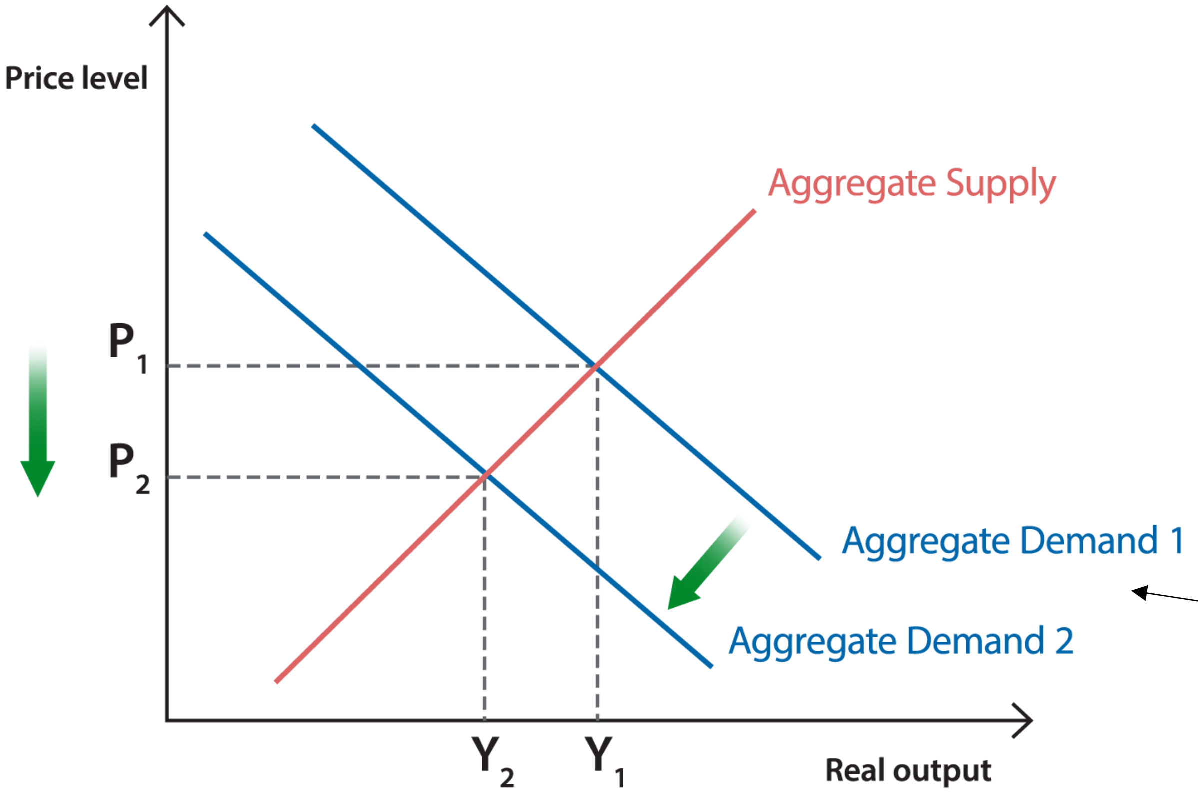

The aggregate demand curve shifts to the left

Demand effect

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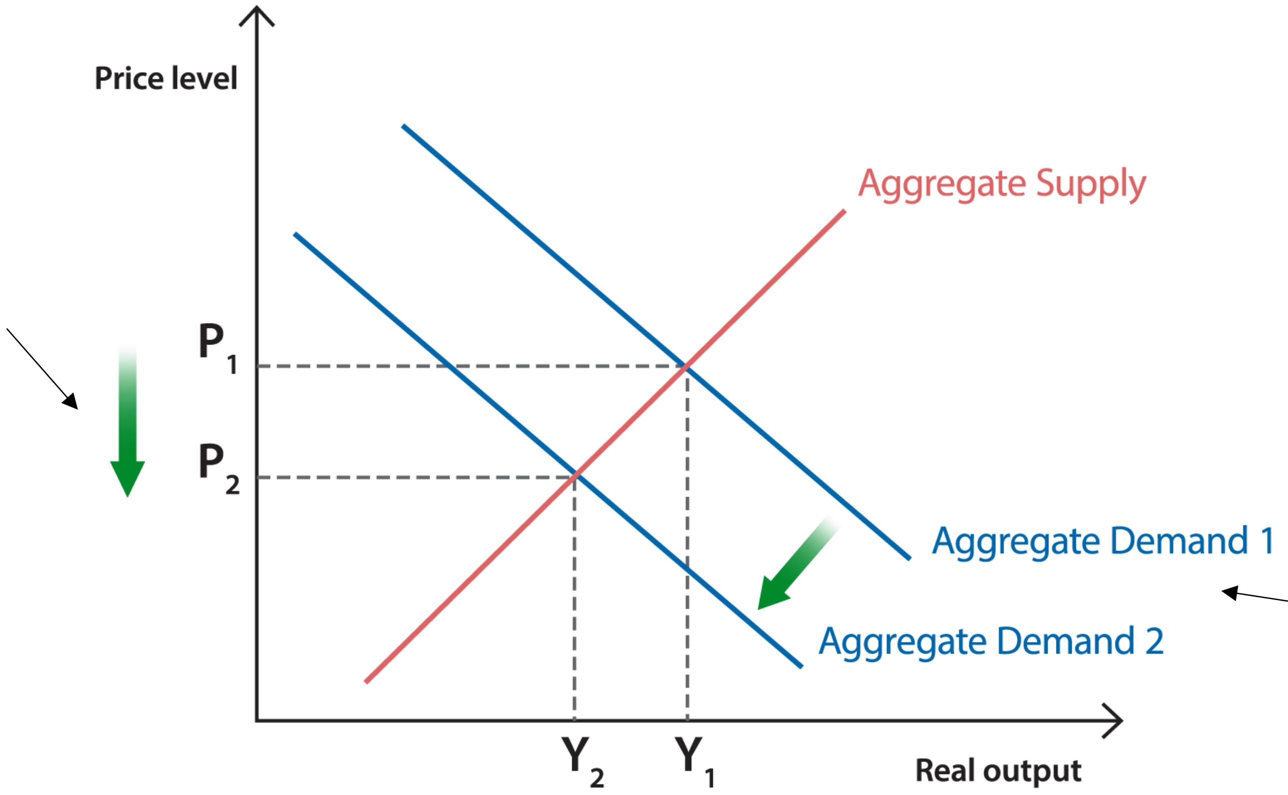
Downward pressure on prices



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- Disrupt global supply chains
- Lower productivity
- Raise costs of production
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Supply effect

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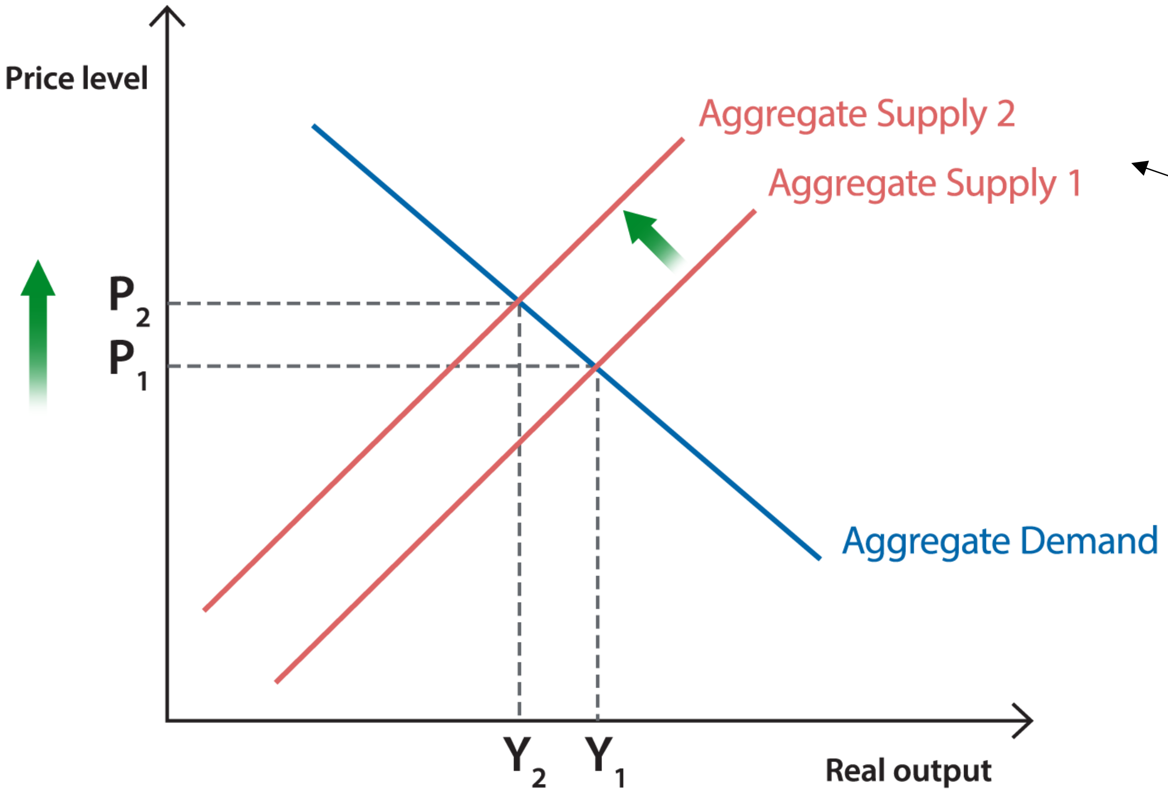

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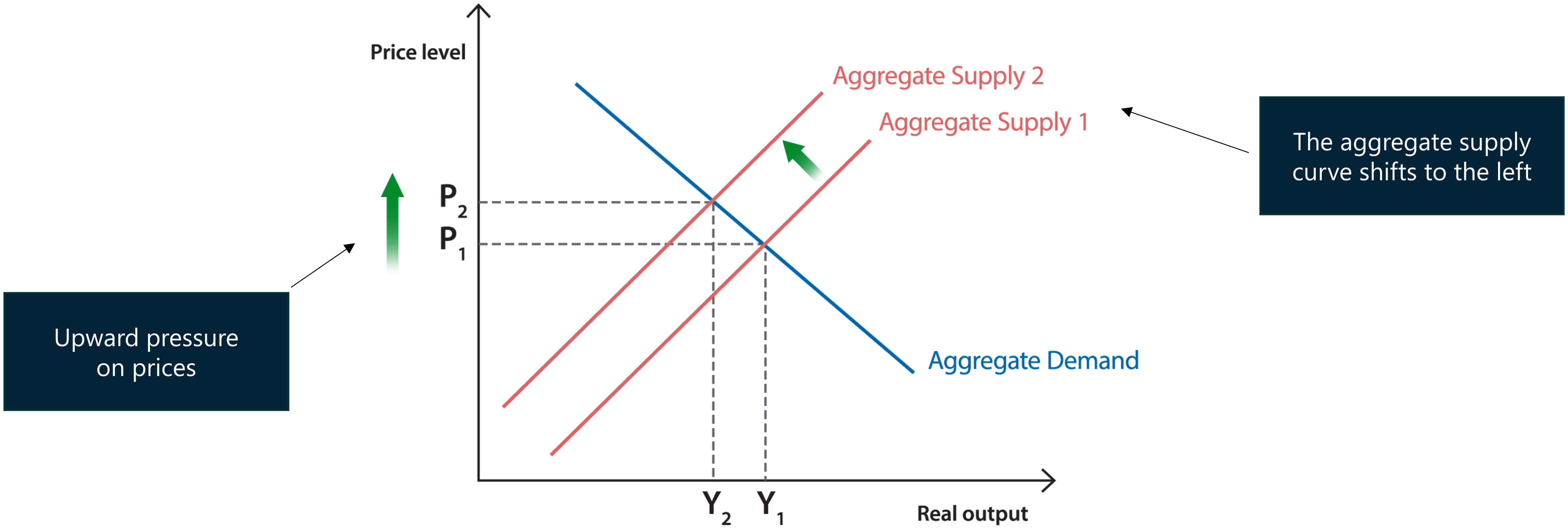

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→ **Supply effect = Upward pressure on prices**

Summary

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- Lower aggregate demand will put downward pressure on inflation
- Lower aggregate supply will put upward pressure on inflation

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- Lower aggregate supply will put upward pressure on inflation

But what is the overall effect on inflation?

Summary

- Lower aggregate demand will put downward pressure on inflation
- Lower aggregate supply will put upward pressure on inflation

But what is the overall effect on inflation?

- We think the demand effect will be stronger
- Overall, we expect these tariff related effects to put a bit of downward pressure on prices.