RESERVE BANK OF AUSTRALIA

Statement on Monetary Policy

November 2025

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Some graphs in this publication were generated using Mathematica.

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Contents

Overview

Recent data suggest more inflationary pressure in the Australian economy than had been expected in the August *Statement*, and the outlook for underlying inflation has been revised slightly higher. A recovery in private demand has continued, and Australian GDP growth has evolved broadly as expected in August. The unemployment rate has picked up by a little more than expected, but leading indicators point to a broadly stable outlook and we assess that there is still some tightness in the labour market.

GDP growth in Australia is expected to pick-up a little further to around its potential growth rate and broadly remain there over the forecast period. Risks to the outlook for domestic activity and inflation are judged to be balanced.

Global economic activity has been more resilient than expected but downside risks to global growth remain. Global inflation is expected to moderate, but there are risks on both sides.

The Monetary Policy Board judged that it was appropriate to leave the cash rate target unchanged at 3.60 per cent, and remains cautious about the outlook given recent evidence of more persistent inflation in the economy. However, there are a number of uncertainties affecting the economic outlook, and the Board will be attentive to the data and the evolving risks.

Inflation in the Australian economy has picked up recently.

Headline inflation increased to 3.2 per cent in year-ended terms in the September quarter, which was significantly stronger than expected at the time of the August *Statement*. The increase was driven by higher electricity prices following the partial unwinding of household rebates, price increases in more volatile items (like fuel) and higher underlying inflation.

Underlying inflation picked up in the September quarter by more than was forecast in August, reflecting larger-than-expected price increases in several areas, including in building new homes and in the services provided by firms. The year-ended rate of underlying inflation increased to 3 per cent. While part of the increase in underlying inflation is expected to be temporary, taken together with broader indicators of capacity utilisation in the economy, the data suggest there is a little more inflationary pressure in the economy than previously thought.

The unemployment rate has increased a little, but a range of indicators suggest there is still some tightness in the labour market.

Labour market conditions eased recently by a little more than expected. In particular, the unemployment rate increased and overall employment growth slowed by a bit more than expected in the August *Statement*.

Nonetheless, a range of indicators continue to suggest that some tightness remains in the labour market. For example, the low underemployment rate, the above-average share of firms experiencing difficulty finding workers, an elevated ratio of vacancies to unemployed workers and still high growth in unit labour costs all support this assessment.

More broadly, recent data suggest there is slightly more capacity pressure in the economy than previously assessed. A pick-up in survey measures of firms' capacity utilisation, the recent strength in underlying inflation and continued evidence of some tightness in the labour market point to the possibility that there is currently a little more capacity pressure in the economy than we thought in August. Given signs that the labour market has eased a little recently, that implies that the economy was somewhat further from balance in August than we thought at the time.

The recovery in Australian GDP growth has continued broadly as expected.

GDP growth in the June quarter was broadly as expected. This was led by private demand growth, in particular household consumption, while growth in public demand was weaker than anticipated. Partial data for the September quarter point to continued growth in household consumption, tracking in line with the August forecast.

Global economic activity has been more resilient than expected.

Global economic activity over the first half of this year was more resilient to trade developments than expected. This was supported by an adjustment in global trade flows and the front-loading of some trade activity in anticipation of US tariffs. There is no evidence yet of a material impact on economic activity in Australia and bulk commodity prices have increased a little in recent months. However, downside risks to global activity remain, reflecting persistent uncertainty around the configuration and impact of trade and other economic policies. Risk premia in global markets remain very low, with equity prices rising further and corporate bond spreads remaining tight. If key risks were to materialise or be reassessed, this could prompt a sharp tightening in global financial conditions.

GDP growth in Australia's major trading partners is expected to slow into 2026 as higher tariffs weigh on global demand, but the likelihood of a severe downside scenario has diminished compared with earlier in the year. The forecasts continue to embody a slowing in quarterly growth in the United States in the near term, and relatively resilient growth in China. The impact on Australia of a slowing global economy is expected to be moderate, with global trade developments judged to be mildly disinflationary.

Some capacity pressures are expected to remain in the Australian economy over the forecast period.

The lags in the transmission of monetary policy mean the full impact on the economy of reducing the cash rate over the course of this year is yet to be seen. Reductions in the cash rate in recent months have been passed through to deposit and lending rates, and financial conditions in Australia have eased with funding readily available at favourable spreads to a wide range of household and business borrowers. Housing credit growth and housing market activity have picked up, within the range of previous phases of easing monetary policy, while some indicators point towards more restrictiveness, such as elevated mortgage repayments. As such, indicators paint a mixed picture of financial conditions, consistent with policy now being closer to neutral estimates. The Australian dollar has appreciated slightly on a trade-weighted basis since the August *Statement*.

GDP growth is forecast to stabilise around the economy's potential growth rate. The boost to growth from the easing in financial conditions is expected to offset the diminishing boost to growth from the earlier rise in real incomes and the expected moderation in public demand growth.

Assuming the cash rate follows the market path, capacity pressures are expected to remain and be slightly more pronounced over the forecast period than assessed at the time of the August forecasts. The below-trend growth and gradual easing in the labour market over the past three years has brought demand and supply in the economy closer to balance, but capacity pressures are not expected to ease much further.

Labour market conditions are also not expected to ease much from here. The unemployment rate is forecast to increase slightly in the near term and then stabilise at a marginally higher level than was expected in August.

The outlook for inflation has been revised slightly higher.

Underlying inflation is expected to be above the 2–3 per cent range until the second half of 2026, largely reflecting the strong September quarter outcome. Were the cash rate to follow the market path as is assumed in the forecasts, the central forecast of underlying inflation would be expected to settle a little above the midpoint of the range by the end of 2027. Headline inflation is expected to remain above 3 per cent for much of 2026, before returning to be a little above the midpoint of the target range.

The Monetary Policy Board decided to leave the cash rate target unchanged.

The Board is focused on its mandate to deliver price stability and full employment. At this meeting, the Board judged that it was appropriate to leave the cash rate target unchanged at 3.60 per cent, given recent data suggest that some inflationary pressure may remain in the economy and that the full effects of earlier cash rate reductions are yet to be felt. The Board remains cautious about the evolving outlook and will respond as necessary to deliver price stability and full employment.

Table: Output Growth, Unemployment and Inflation Forecasts[(a)]
Per cent

	Year-ended					
	June 2025	Dec 2025	June 2026	Dec 2026	June 2027	Dec 2027
GDP growth	1.8	2.0	1.9	1.9	2.0	2.0
(previous)	(1.6)	(1.7)	(2.0)	(2.1)	(2.0)	(2.0)
Unemployment rate[(b)]	4.2	4.4	4.4	4.4	4.4	4.4
(previous)	(4.2)	(4.3)	(4.3)	(4.3)	(4.3)	(4.3)
CPI inflation	2.1	3.3	3.7	3.2	2.7	2.6
(previous)	(2.1)	(3.0)	(3.1)	(2.9)	(2.6)	(2.5)
Trimmed mean inflation	2.7	3.2	3.2	2.7	2.6	2.6
(previous)	(2.7)	(2.6)	(2.6)	(2.6)	(2.6)	(2.5)
	Year-average					
	2024/25	2025	2025/26	2026	2026/27	2027
GDP growth	1.3	1.8	1.9	1.9	1.9	2.0
(previous)	(1.2)	(1.6)	(1.8)	(2.1)	(2.1)	(2.0)
	Assumptions[(c)]					
Cash rate (%)	4.0	3.6	3.4	3.3	3.3	3.3
Trade-weighted index (index)	59.7	61.3	61.4	61.4	61.4	61.4

(a) Forecasts finalised on 29 October. Shading indicates historical data.

(b) Average rate in the quarter.

(c) The forecasts incorporate several technical assumptions. The cash rate is assumed to move in line with expectations derived from financial market pricing as per 29 October and the daily exchange rate (TWI) is assumed to be unchanged from its level at 29 October 2025 going forward. See notes to Table 3.1: Detailed Forecast Table in Chapter 3: Outlook for other forecast assumptions.

Sources: ABS; LSEG; RBA.

Chapter 1
Financial Conditions

Summary

- **Australian financial conditions have eased further following the Board's decision to lower the cash rate in August.** Reductions in the cash rate over recent months have passed through to bank funding costs and lending rates, though scheduled mortgage payments remain elevated relative to historical averages. Growth in housing prices and housing credit has picked up further, consistent with the easing in policy this year, and the ratio of household credit to household disposable incomes has stabilised (though is still around 5 percentage points lower than it was at the start of the 2022 tightening phase). Business debt has continued to increase strongly and has returned to around pre-pandemic levels relative to GDP. These indicators paint a mixed picture of financial conditions, consistent with policy now being closer to neutral estimates – indeed, the cash rate is now below some models' central estimates of the neutral rate.
- **The market path for the cash rate has shifted significantly higher since the August *Statement*.** The market path rose due to stronger-than-expected activity data, a run of higher-than-expected monthly and quarterly inflation data, and the RBA's communications over recent months. These developments more than offset the market's response to weaker-than-expected Labour Force Survey data. Market participants now expect the cash rate to be 25 basis points lower by mid-2026, with no cuts priced for this year. By contrast, the median expectation of market economists is now for no cuts through to the end of next year.
- **Spreads between bank lending rates and the cash rate are little changed at the low levels of recent years.** Spreads on variable-rate mortgage and business loans remain around 55–65 basis points below their pre-pandemic levels, reflecting favourable bank funding conditions and strong competition between lenders.
- **Risk premia in global markets remain very low, with equity prices rising further in most advanced economies and corporate bond spreads well below their long-term average.** Australian equity prices have increased by less than those in the United States and Europe. This in part reflects mixed earnings results for Australian companies, better-than-expected earnings results in the United States, and optimism around artificial intelligence (AI), which had less effect on Australian equity pricing given the small size of the Australian IT sector. Market expectations for easier monetary policy settings have also supported risker asset prices in some advanced economies, along with expansionary fiscal settings. Overall, financial market participants appear to be placing limited weight on downside risks to economic activity and earnings, including those related to tariffs and other policies of the US administration. With some asset valuations appearing stretched, a reassessment of the risks could prompt a sharp tightening in global financial conditions.

- **Market participants expect significant monetary easing in the United States over the coming year and for policy rates to decline a little further in some other advanced economies.** While acknowledging that inflation remains elevated – including because of the effects of higher tariffs – the US Federal Reserve has shifted its assessment of the balance of risks, pointing to an increase in downside risks for the labour market.
- **Short-term Australian Government bond yields have risen since the August *Statement*, while long-term yields are little changed, leaving the yield curve flatter.** The increase in shorter term Australian Government bonds has been driven by market participants' revised expectations for the cash rate. US Government bond yields have declined notably since the start of the year as market expectations for significant monetary easing have increased. Nevertheless, term premia on long-term US Government bonds remain higher than recent years with ongoing fiscal sustainability concerns. Higher term premia are also evident in the pricing of long-dated government bonds in several other advanced economies.
- **The Australian dollar has appreciated slightly on a trade-weighted basis since the August *Statement*.** It remains within the range of estimates of its equilibrium level.

1.1 Interest rate markets

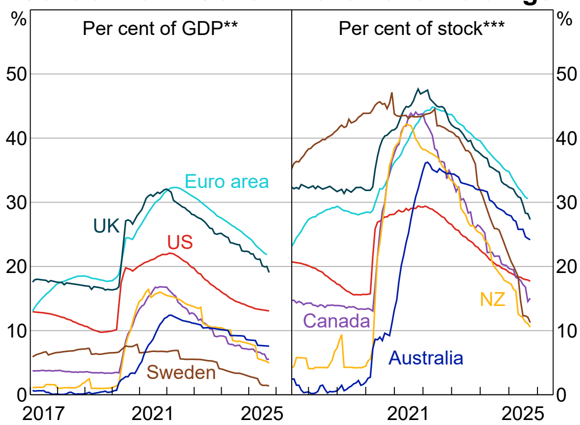
Since the August *Statement*, some central banks have responded to signs of weakening domestic economic outlooks by easing policy rates.

A number of central banks in advanced economies expect inflation to return to target by early 2026, in some cases because subdued growth outlooks and weaker labour markets will contribute to disinflationary pressures. Some have reduced policy rates further despite recent stickiness in inflation. The US Federal Reserve (Fed) reduced its policy rate by a cumulative 50 basis points across its September and October meetings, citing increased downside risks to the labour market but acknowledging that inflation remains above target with risks to the near-term inflation outlook still tilted to the upside. The Reserve Bank of New Zealand (RBNZ) reduced its policy rate by a cumulative 75 basis points across its August and October policy meetings, citing significant spare capacity in the economy, and the Bank of Canada reduced its policy rate by a cumulative 50 basis points across its September and October meetings amid weak domestic activity. Norges Bank and Sweden's Riksbank also reduced their policy rates by 25 basis points in September.

By contrast, the European Central Bank (ECB) left its policy rate unchanged, highlighting that risks to the outlook appear balanced with inflation in the euro area projected to remain around target. The ECB also noted that the policy rate is close to the centre of its estimates of the nominal neutral rate, and continued geopolitical uncertainty warranted a data-dependent approach. The Bank of England (BoE) also left its policy rate unchanged, highlighting persistent inflationary pressures despite subdued economic growth. The Bank of Japan (BoJ) left its policy rate unchanged and noted a moderation in economic activity in the near term and continued uncertainty around trade policy.

Most advanced economy central banks have continued to reduce the size of their balance sheets either actively or passively (Graph 1.1). However, the Fed has announced that it will end its balance sheet run-off in December because reserves – banks' deposits at the Fed – are approaching what it judges to be ample levels; this assessment came amid signs in repo markets that liquidity conditions are tightening gradually. In Australia, demand for funding at the RBA's open market operations and activity in private repo markets suggest that the supply of reserves still exceeds ample levels.

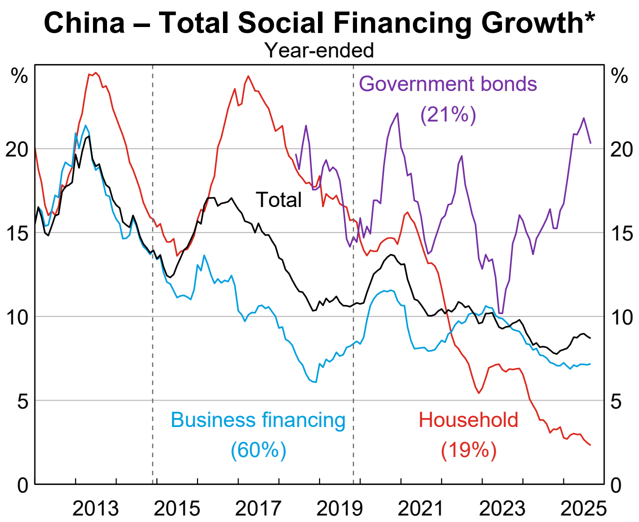
Graph 1.1
Central Bank Government Bond Holdings*



* Central government debt only, except euro area. Holdings for euro area only include asset purchase programs; holdings for UK do not include financial stability purchases; other central banks include bonds held for operational or liquidity purposes.
** Four-quarter rolling sum.
*** Per cent of eligible stock. Projections use current stock.
Sources: Central banks; debt management offices; LSEG; RBA.

The People's Bank of China (PBC) still intends to maintain a moderately accommodative policy stance. While the magnitude of policy rate cuts during the current easing phase is comparable to the past, lending to the private sector has not responded as it has in prior easing phases (Graph 1.2). This is despite a significant easing in quantity-based tools such as the reserve requirement ratio, and lending rates being at historical lows. Nevertheless, the PBC has previously noted that the current drivers of economic growth are less credit intensive than in the past, and economic growth in the September quarter was stronger than expected by market participants. Consistent with authorities' ongoing preference for using fiscal policy to support economic activity, government bond issuance has continued to drive total social financing growth amid recent weakness in investment (see Chapter 2: Economic Conditions). However, a significant share of issuance has also been used to help local governments restructure their debts and to recapitalise banks.

Graph 1.2



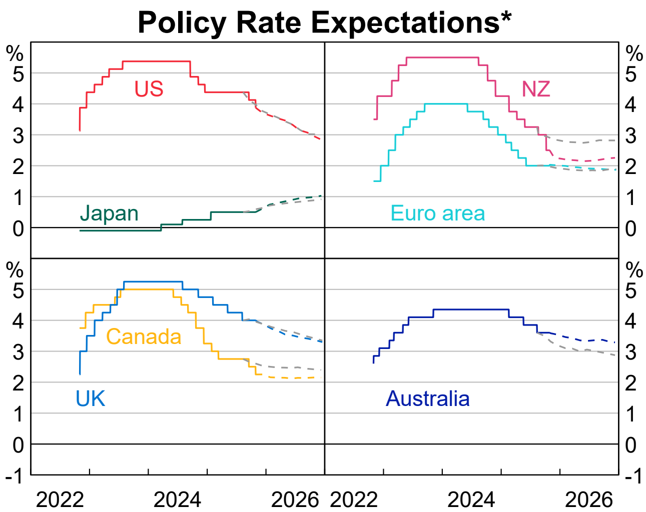
* Dashed lines represent the first cut of an easing phase. Easing phases are 24 November 2014 to 31 December 2015 and 1 November 2019 to current date.

Sources: CEIC Data; RBA.

Market participants expect significant monetary easing in the United States over the coming year but only modest further declines in policy rates in some other advanced economies.

Market participants expect the Fed to cut its policy rate by at least 75 basis points by the end of 2026, consistent with the Fed's assessment that downside risks to the US labour market have increased (Graph 1.3). The RBNZ is expected to cut its policy rates further this year, and the BoE and Norges Bank are expected to cut their policy rates further in 2026. Market participants continue to expect the BoJ to raise its policy rate to make its policy stance less accommodative.

Graph 1.3



* Darker dashed lines show expectations implied by current overnight index swap rates; grey dashed lines show the same expectations as of 6 August 2025.

Sources: Bloomberg; RBA.

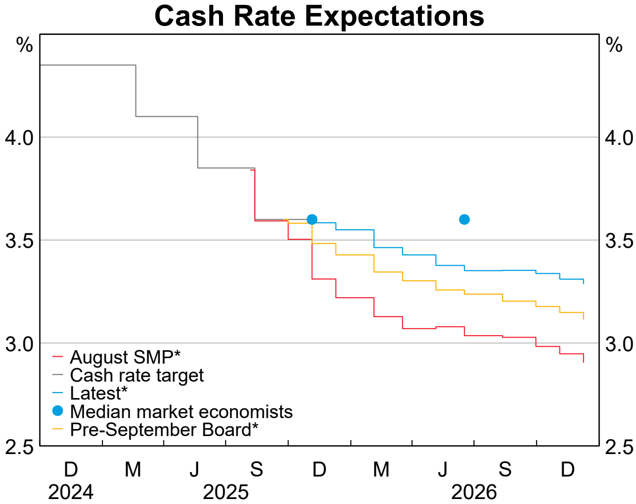
For Australia, the market path for the cash rate has shifted significantly higher since August.

Market participants' expectations for the cash rate rose in response to a run of stronger-than-expected monthly and quarterly inflation and activity data, and communication from the Board and Governor. These moves were only partially offset by the market's response to the weaker-than-expected Labour Force Survey for September. The market path is now around 30 basis points higher than at the August *Statement*, and 10 basis points higher than prior to the September Board meeting.

Market participants are now assigning only a very low probability to a rate cut this year (Graph 1.4). One cut of 25 basis points is still fully priced in by mid-2026, with only a small chance of a further cut beyond that. All market economists tracked by the staff expect that the Board will leave the cash rate target unchanged at the November Board meeting; the minority that had been previously expecting a November cut changed their calls in response to the September quarter CPI release. Indeed, a majority of these market economists now expect no further cuts through 2026, with many explicitly noting that this easing phase may be over. Most market economists retaining cuts in their profiles have indicated that they will reassess their expected path in coming weeks, or that the risks to their path are skewed to the upside.

Graph 1.4

Cash Rate Expectations



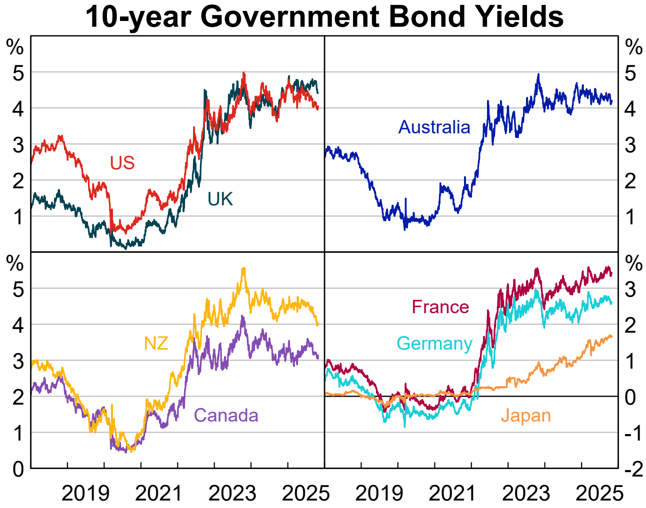
* Cash rate expectations implied by overnight index swap rates.

Sources: LSEG; RBA.

Government bond yields in advanced economies are being shaped by shifts in central bank policy rate expectations, with longer term structural forces also having an influence for some.

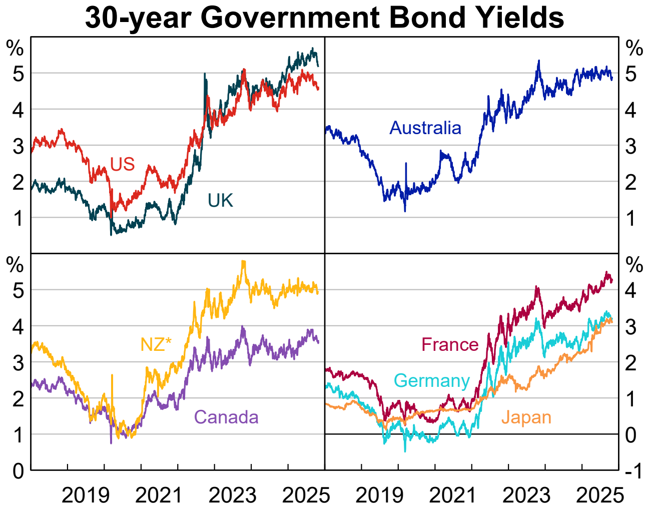
Since the August *Statement*, shorter and longer term US Government bond yields have declined and longer term yields are now lower than at the start of the year (Graph 1.5). The decline this year reflects a lowering in market participants' expectations for the policy rate, and expectations that lower rates will be sustained for an extended period. Despite the fall in longer term yields, estimated term premia for US Government bonds remain higher than in recent years (though well below their longer term averages). Concerns about government debt sustainability may have contributed to the increase in term premia since the pandemic, alongside other factors such as reduced structural demand for longer term government bonds. Concerns about sustainability also appear to have played a part in pushing 30-year government bond yields higher in the United Kingdom, France and Japan, coming on top of a structural decline in demand from pension funds and life insurers for such long-dated debt (Graph 1.6). Even so, yields on ultra long-dated bonds are not typically referenced as benchmarks for other interest rates, such as those on corporate bonds or mortgages, and so they have a smaller influence on broader financial conditions than yields on bonds of 10 years or less. Term premia estimates for Australia have declined a little of late, after rising from lows reached during the pandemic.

Graph 1.5



Source: Bloomberg.

Graph 1.6



* 20-year yields shown for NZ.
Sources: Bloomberg; LSEG.

Short-end Australian Government bond yields have risen since the August *Statement*, while long-end yields are little changed, leaving the yield curve flatter.

The increase in short-end yields has been driven by market participants' higher expectations for the cash rate. Long-run expectations for inflation implied by inflation-linked Australian Government bonds have declined from their 2023 peaks, although have risen a little in recent months. Technical factors – including reinvestment flows from a sizeable inflation-linked bond maturity in September – have contributed. Overall, therefore, market-based measures of inflation expectations are judged to have remained consistent with the 2–3 per cent inflation target range (see Chapter 2: Economic Conditions).

1.2 Corporate funding markets

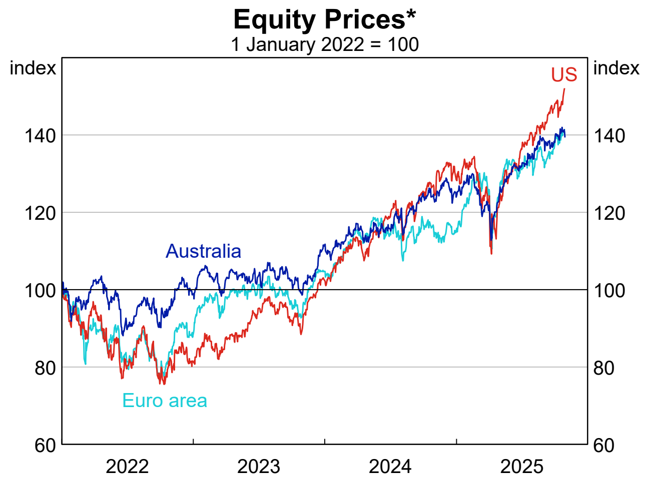
Risk premia in advanced economy corporate funding markets remain very low.

Equity prices in Australia have increased since the August *Statement*, although by less than in other advanced economies (Graph 1.7). This difference in part reflects the upward revision in market expectations for the cash rate in Australia, mixed earnings announcements for the June 2025 half year for Australian companies, and little change in their earnings forecasts. Aggregate underlying profits for ASX 200 companies for the June 2025 half year were very similar to the same period last year, and operating profit margins have been stable in aggregate as companies continued to implement cost-saving initiatives. Equity prices in other advanced economies have been supported by optimism around AI, better-than-expected earnings in the United States, and an overall decline in concerns about the potential impact of the US administration's policies on global economic activity and firms' earnings. Market expectations for monetary policy settings have also supported riskier asset prices in some advanced economies, along with expansionary fiscal settings.

Corporate bond yields in the United States have declined since the August *Statement*, largely reflecting a decline in risk-free rates, while yields in Europe and Australia are little changed (Graph 1.8). Corporate bond spreads over risk-free rates in Australia, the United States and Europe remain narrow.

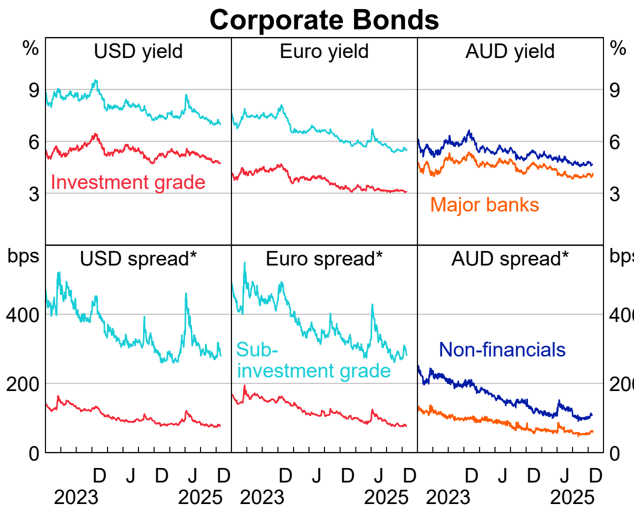
The value of funds raised by large firms has increased over recent months in Australia, the United States and Europe amid favourable funding conditions. Initial public offerings have increased in US equity markets, while corporate bond issuance has been robust across the United States, Europe and Australia (see below). Some high-profile defaults in US private credit markets have prompted market participants to re-evaluate loans and lending standards in that segment of the market. However, market pricing suggests that there are no broader concerns arising from these defaults at this point.

Graph 1.7



* Total return basis.
Sources: Bloomberg; LSEG.

Graph 1.8

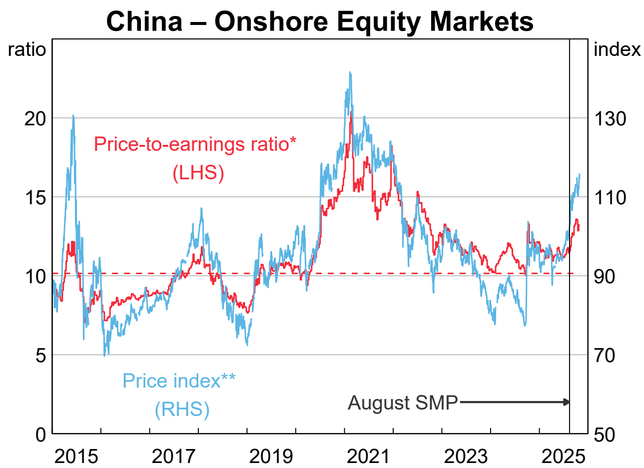


* Spread to equivalent maturity government bond yield.
Sources: Bloomberg; ICE Data used with permission; RBA.

Low risk premia suggest that market participants are not placing much weight on the potential for materially adverse outcomes for economic activity or inflation from evolving policies (e.g. policies on trade), or that they expect such risks to be offset by fiscal stimulus or monetary policy. Consequently, there is a risk that unexpected outcomes could prompt a significant tightening of financial conditions – for example, by driving a significant decline in equity prices and/or a widening in corporate bond spreads. Market participants appear sensitive to developments that challenge the current positive risk sentiment in markets. For instance, concerns about regional banks in the United States prompted a short-lived decline in equity prices in advanced economies and a widening in corporate bond spreads. Nevertheless, the equity risk premium remains around multi-decade lows in the United States and Australia and close to multi-decade lows in the euro area.

Chinese equity prices have increased significantly over recent months, despite an escalation in US–China trade tensions. Mainland equity prices have increased by 15 per cent since the August *Statement*, driven by a 43 per cent increase in the IT sector on improved sentiment around AI developments in China (Graph 1.9). While price-to-earnings ratios are above their longer term average, many commentators viewed Chinese equity markets as undervalued prior to the recent increase in equity prices. The improvement in risk appetite has led investors to increase their allocation to equities in search of higher returns, contributing to a rise in long-term Chinese Government bond yields.

Graph 1.9



* Weighted average price divided by 18-month forward earnings forecast for the CSI 300 obtained from IBES. Dotted line represents average between January 2011 and September 2025.

** CSI 300 index rebased to end December 2019.

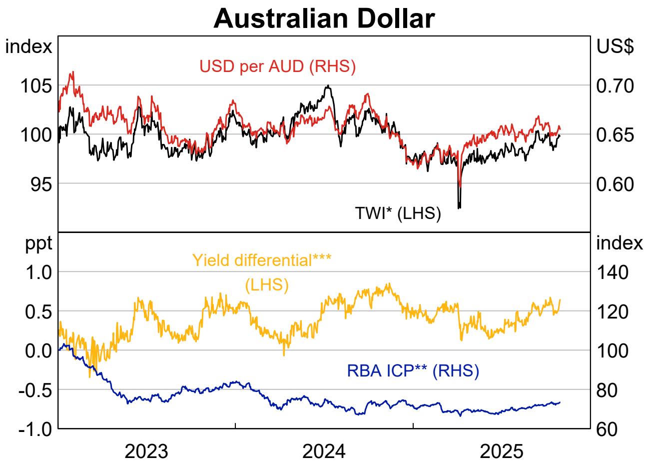
Sources: LSEG; RBA.

1.3 Foreign exchange markets

The Australian dollar trade-weighted index (TWI) remains within the range observed over recent years.

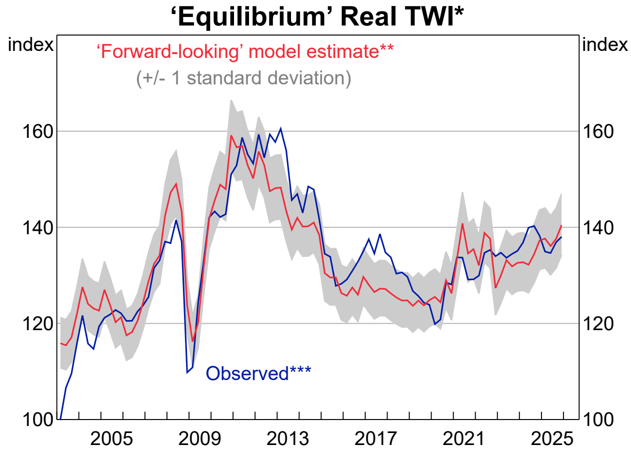
The Australian dollar has appreciated slightly on a TWI basis and against the US dollar since the August *Statement* (Graph 1.10). It has been supported by an increase in short-term interest rate differentials between Australia and other advanced economies over this period. Concerns about a renewal in trade tensions between the United States and China have at times weighed on the Australian dollar in recent months. Overall, the response of the Australian dollar to these developments suggests that the exchange rate would be likely to help buffer the Australian economy if there is a further escalation in global trade tensions. The Australian dollar TWI has appreciated a little in real terms over recent quarters, and remains close to estimates implied by the long-run historical relationship with the forecast terms of trade and real yield differentials (Graph 1.11).

Graph 1.10



* Trade-weighted index; 30 December 2022 = 100.
** Index of Commodity Prices (USD terms); 30 December 2022 = 100.
*** Three-year Australian sovereign yield less yields of the United States, Japan and Germany, weighted by GDP.
Sources: Bloomberg; RBA.

Graph 1.11



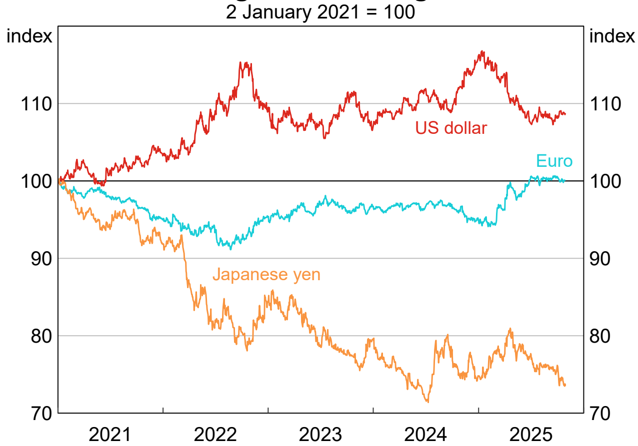
* Data up to and including 24 October 2025.
** Using terms of trade forecast and real Australian Government bond yield curve factors relative to the G3; standard deviation based on model errors.
*** Indexed to March 2003 = 100; quarterly average real TWI.
Sources: Bloomberg; RBA.

The US dollar has been little changed on a TWI basis since the August *Statement*, despite a decline in US government bond yields, after having depreciated significantly in the first half of the year from the very high levels at the start of 2025 (Graph 1.12). The fact that the US dollar has not depreciated further may suggest some easing of investor's concerns about the elevated policy uncertainties in the United States, including around trade policies and the ongoing shutdown of the US federal government. The easing of market participants' concerns is consistent with the narrowing of premia in risk assets that has occurred over this period (see above). Some commentators have suggested that the sharp increase in gold prices over 2025 reflects increased concerns about global fiscal sustainability and broader policy uncertainty (Graph 1.13). While there may be some element of these concerns underpinning higher gold prices, much of the increase reflects increasing purchases from emerging market central banks over recent years, as well as recent interest from speculative investors, amid relatively constrained global supply.

Graph 1.12

Trade-weighted Exchange Rates

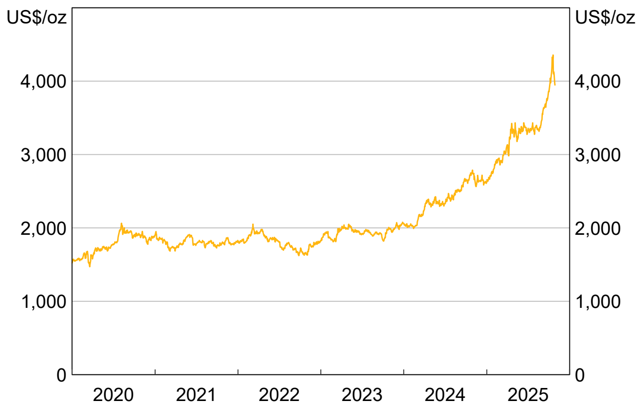
2 January 2021 = 100



Sources: BIS; Bloomberg: Board of Governors of the Federal Reserve System; RBA.

Graph 1.13

Gold Price



Source: Bloomberg.

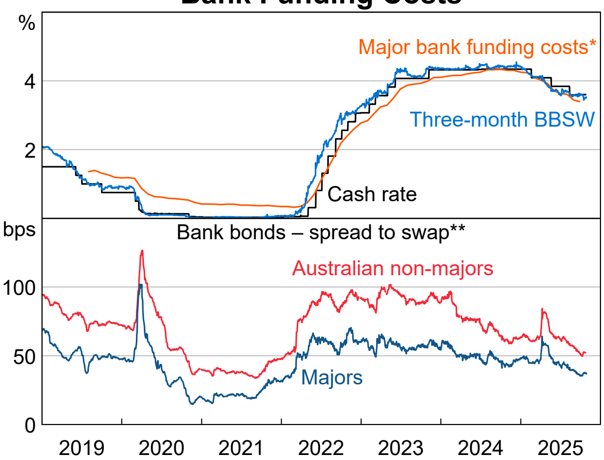
1.4 Australian banks and credit markets

Reductions in the cash rate this year have passed through to banks' funding costs and lending rates.

The RBA's estimate of major banks' funding costs has declined by around 90 basis points since late 2024 (Graph 1.14). This largely reflects reductions in deposit rates: at-call deposit rates have declined by around 50 basis points since late 2024, while new term deposit rates have declined by around 75 basis points alongside similar declines in bank bill swap rates (BBSW).[1] Pass-through to average at-call deposit rates is typically less than 100 per cent because some deposit accounts have interest rates that do not move with the cash rate. Declines in banks' hedging costs have also contributed, reflecting narrower spreads between current BBSW and the longer term swap rates used when the hedges were established. Spreads between bank bond yields and swap rates have narrowed over the year – and are around their narrowest since early 2022 – which has contributed to lower costs for banks to issue new wholesale debt. The pace of bank bond issuance is around its decade average.

Graph 1.14

Bank Funding Costs

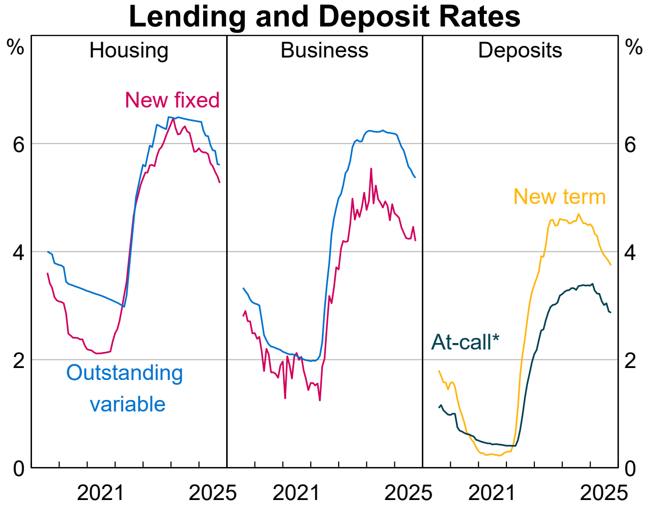


* RBA estimates of overall outstanding hedged debt and deposit costs for the major banks.
** Domestic secondary market; three-year target tenor.
Sources: APRA; ASX; Bloomberg; LSEG; major bank liaison; Private Placement Monitor; RBA.

Lending rates for households and businesses have declined in line with reductions in the cash rate and other reference rates (Graph 1.15). Average interest rates on variable-rate mortgages have declined by around 75–80 basis points since the turn of the year. There are some signs of strengthening competition in the mortgage market, including continued growth in refinancing activity and the introduction of sign-up incentives. The share of fixed-rate lending remains very low at around 4 per cent of the outstanding mortgage stock. Average interest rates on variable-rate business loans have declined by around 80 basis points since January, alongside reductions in the cash rate and BBSW.

Graph 1.15

Lending and Deposit Rates



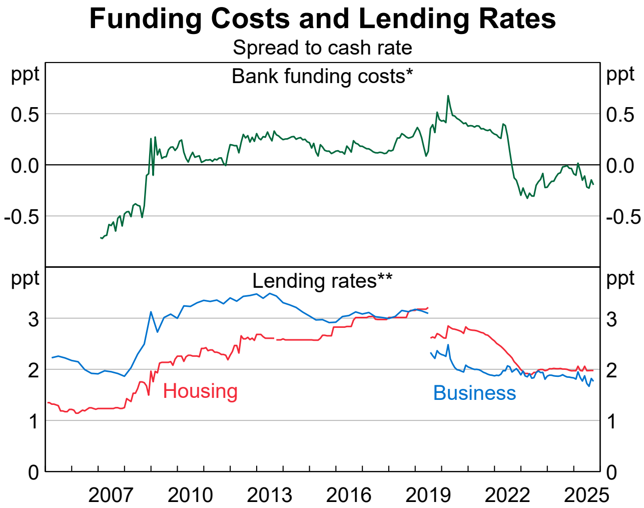
* Includes deposits in housing loan offset accounts.
Sources: APRA; RBA.

Spreads between banks' lending rates and the cash rate remain well below pre-pandemic levels.

Spreads between banks' lending rates and the cash rate narrowed through the pandemic, reflecting a decrease in funding cost spreads and strong competition between lenders (Graph 1.16). Changes in bank funding costs relative to the cash rate are influenced by factors such as banks' funding composition, risk premia, and regulation. For example, following the global financial crisis (GFC), funding cost spreads rose sharply amid an increase in risk premia and as banks shifted their funding mix towards more stable funding sources, including in response to regulatory changes. During the pandemic, banks' funding mix shifted towards a higher share of at-call deposits, which are a lower cost source of funding and generally respond less than one-for-one with changes in the cash rate.[2] This contributed to a narrowing in funding cost spreads as interest rates rose in 2022, which has persisted. This trend, as well as strong competition between lenders and resilient loan book performance, has contributed to lending rate spreads also declining over recent years. Spreads between variable mortgage rates and the cash rate are around 65 basis points below their pre-pandemic level, while spreads on variable-rate business loans are around 55 basis points below. As noted above, corporate bond spreads are also at very low levels.

Together, the earlier decline in spreads on bank loans and corporate bonds mean financial conditions are less restrictive than they were pre-pandemic for a given level of the cash rate. However, this is likely to have been captured in our estimates of the neutral rate, which have risen over recent years. Indeed, the cash rate is now below central estimates of the neutral rate from some models. These spreads are also factored into the compilation of the macroeconomic forecasts.

Graph 1.16



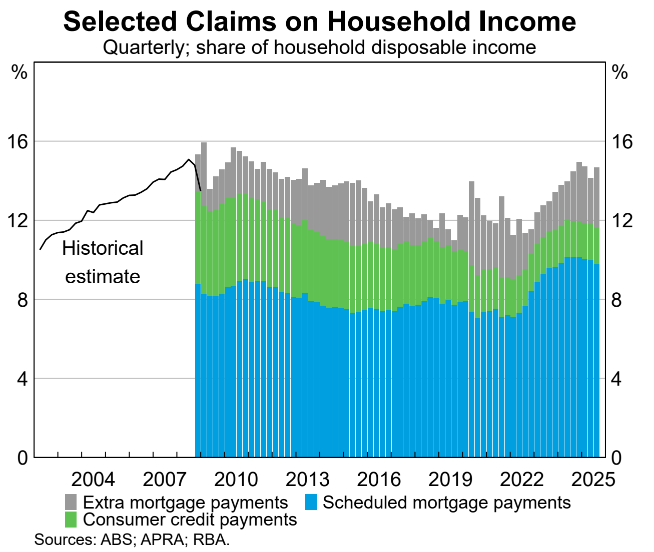
* RBA estimates of major banks' hedged debt and deposit costs.
** Break for introduction of Economic and Financial Statistics (EFS) in 2019. Housing rates are new variable; sourced from Perpetual data prior to 2013, advertised package rates to July 2019, EFS data thereafter. Business rates are outstanding variable.

Sources: ABS; AFMA; APRA; ASX; Bloomberg; LSEG; major bank liaison; major banks' websites; Perpetual; RBA; Securitisation System; Tullett Prebon; US Federal Reserve.

Scheduled mortgage payments have declined as a share of household disposable income since late 2024 but remain above their average of the past two decades.

Scheduled principal and interest payments on mortgages decreased further in the September quarter to 9.8 per cent of household disposable income (Graph 1.17). Nonetheless, they remain high as a share of household disposable income relative to historical averages and continue to put pressure on household budgets.[3] However, total scheduled household debt payments (including estimated repayments on consumer credit) are slightly below the 2010 peak as a share of household disposable income, owing to a notable decline in the use of consumer credit since the GFC.

Graph 1.17

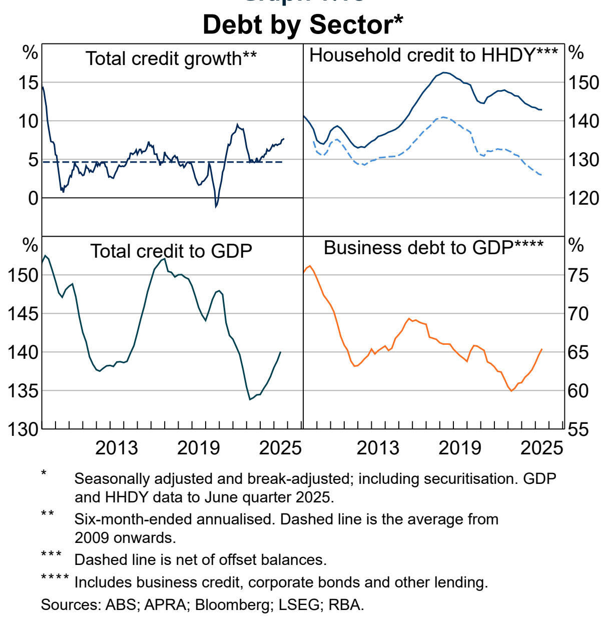


The flow of extra mortgage payments into offset and redraw accounts has remained well above average. While the decline in interest rates could be providing an incentive for households to save less, extra mortgage payments are affected by a range of factors. Some banks also keep borrowers' scheduled mortgage payments unchanged when mortgage rates decline unless borrowers request otherwise, which typically results in an accumulation of excess payments for a time.

Total credit growth increased in the September quarter and is well above its post-GFC average.

Total credit is currently growing faster than nominal GDP, underpinned by strong business credit growth (Graph 1.18). Stronger nominal credit growth has also contributed to a pick-up in broad money growth, which can provide a timely – though typically very imprecise – signal of trends in aggregate demand and inflation. The ratio of household credit to household disposable incomes (HHDY) stabilised in the June quarter, after having declined over the post-pandemic monetary policy tightening phase. However, after deducting offset balances, this ratio continued to fall in the June quarter. Offset balances effectively reduce interest payable on outstanding mortgage debt, so deducting them from credit provides a clearer picture of trends in net household indebtedness. Meanwhile, business debt has been growing faster than GDP, such that the ratio of business debt to GDP is now back to around its pre-pandemic level.

Graph 1.18



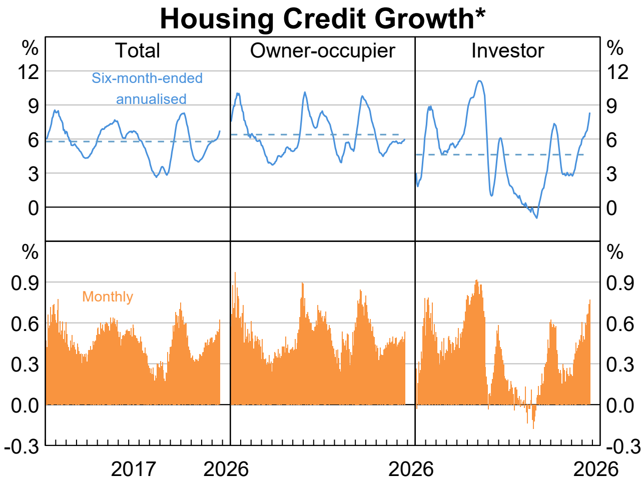
Housing credit growth picked up further in the September quarter, consistent with borrowers responding to the easing in monetary policy that began in February.

Total housing credit growth has picked up to above its post-GFC average, largely reflecting an increase in investor credit growth (Graph 1.19). Investor credit growth has increased to its highest rate since 2015, alongside a pick-up in housing price growth (see Chapter 2: Economic Conditions). Growth in population and nominal household disposable income is also contributing to strong growth in nominal credit. Indeed, growth in owner-occupier credit (which comprises two-thirds of outstanding housing credit) has also increased over recent months, but by much less. Differences in investor and owner-occupier credit growth are consistent with the fact that the former has historically been more responsive than the latter to interest rate cuts. Housing loan commitments (a leading indicator of housing credit) have also been strong recently.

In previous monetary policy easing phases, the timing and magnitude of the response in housing credit has been quite varied (Graph 1.20). The increase in total housing credit growth in the current cycle is well within the range of previous experiences, with the response of investor credit growth towards the stronger end of the range, while the response of owner-occupier credit growth has been around average relative to comparable points in previous easing phases. This partly reflects the fact that investor credit growth was already increasing prior to the first interest rate cut in February, while in most previous easing phases both investor and owner-occupier credit growth responded with a lag.

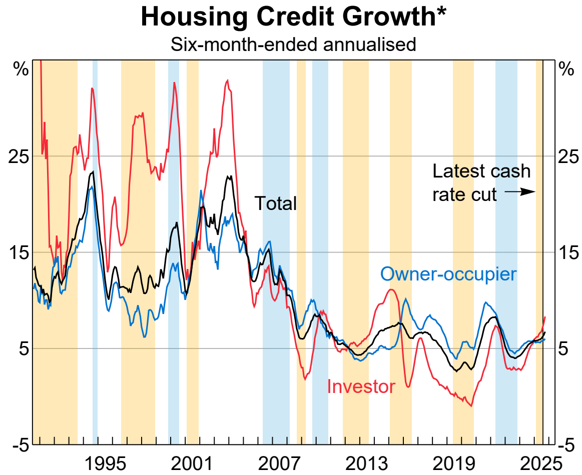
The Australian Government 5% Deposit Scheme came into effect on 1 October 2025. This scheme is an extension of the Government's previous Home Guarantee Scheme and allows first home buyers to purchase a property with a 5 per cent deposit without paying lenders' mortgage insurance (which generally costs between 1 and 5 per cent of the loan amount and is typically required for loans where the borrower has a deposit of less than 20 per cent of the property's value).

Graph 1.19



* Seasonally adjusted and break-adjusted; including securitisation. Dashed lines are the averages from 2009 onwards.
Sources: ABS; APRA; RBA.

Graph 1.20



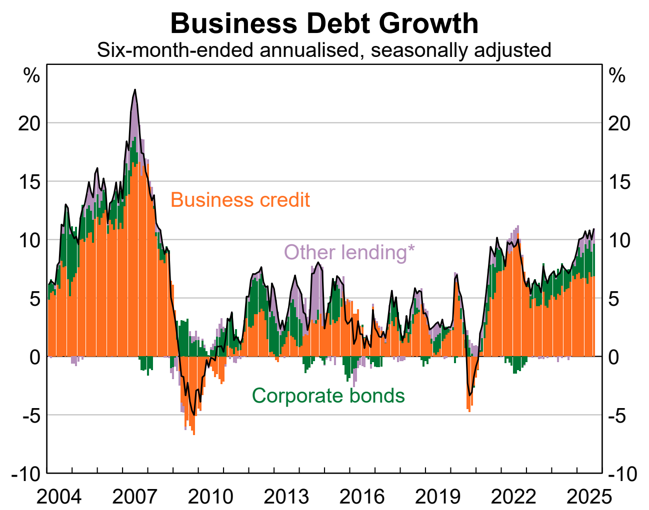
* Seasonally adjusted and break-adjusted; including securitisation. Blue shading represents tightening and yellow represents easing phases. Previous phases are defined by the peak and trough cash rate for each period.
Sources: ABS; APRA; RBA.

Owner-occupier first home buyers currently make up nearly 20 per cent of new housing commitments. The new scheme has no income caps nor limits on take-up, and maximum property price caps have been increased to $1 million or more in some capital cities and regional centres.[4] It is difficult to quantify the expected effect of the scheme on housing demand, though it is likely to put at least some further upward pressure on housing credit and price growth.

Growth in business debt remains strong.

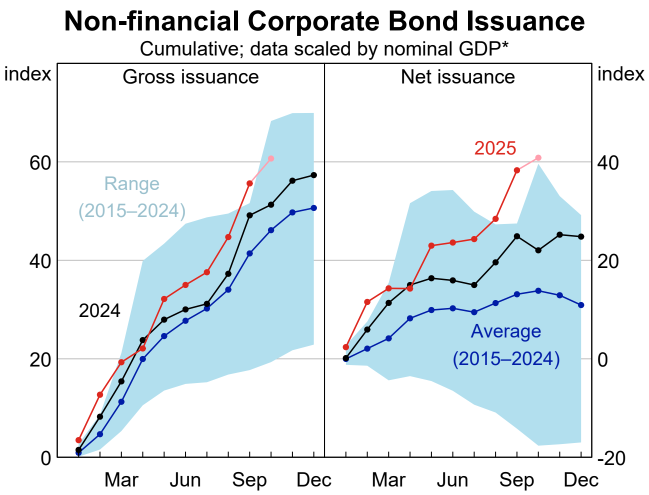
Business debt is growing at around its fastest pace since 2008 in nominal terms (Graph 1.21). The strength in business debt growth has been broadly based across industries. Business credit growth has been supported by strong competition among both bank and non-bank lenders.[5] The value of bond issuance by non-financial corporations this year has been its strongest in the past decade as a share of GDP, amid favourable conditions in wholesale funding markets (Graph 1.22). Despite the strength in business debt growth, measures of aggregate business leverage remain low.[6]

Graph 1.21



* Lending to large businesses by institutions that do not report to APRA.
Sources: APRA; Bloomberg; LSEG; RBA.

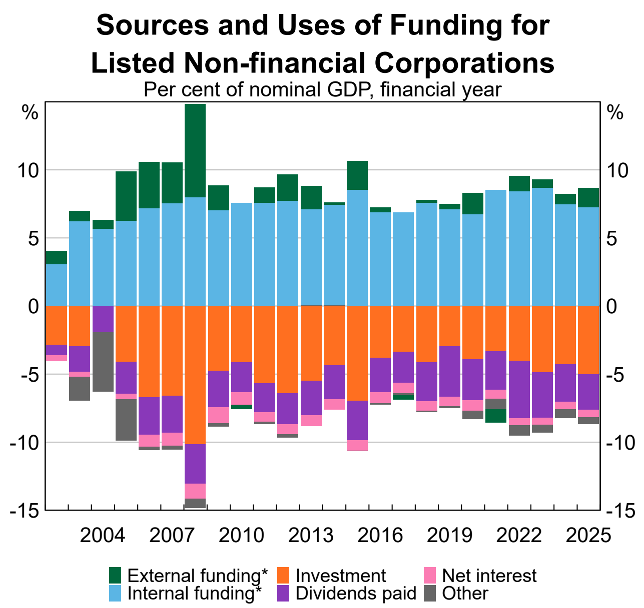
Graph 1.22



* Cumulative from the start of the year. For years before 2025, issuance is scaled by that year's nominal GDP relative to 2025; $100bn of issuance in 2025 is indexed to 100. Current year nominal GDP is the average of all available quarters in the current year. Includes hybrids. Latest observation is 30 October 2025.
Sources: Bloomberg; Private Placement Monitor; RBA.

Favourable conditions in credit and wholesale funding markets have made it easier and cheaper for many businesses to access external funding, supporting their ability to manage cashflows, grow and invest. This suggests that the availability of external funding is unlikely to have been a material constraint on business investment in recent quarters. However, business investment has historically had a weak relationship with aggregate business debt, partly because firms' investment spending is typically largely internally funded (Graph 1.23). Investment decisions are also affected by a wide range of factors such as business profitability and broader economic conditions. Some components of new business lending that have been growing strongly of late have been for purposes that have a weak relationship to business investment, such as revolving credit facilities.

Graph 1.23



* Internal funding includes operating cash flows and changes in cash balances. External funding includes net debt and equity.
Sources: ABS; Morningstar; RBA.

Endnotes

1 This rate of pass-through to at-call deposit rates is consistent with previous easing phases. Pass-through to the average at-call deposit rate is typically less than 100 per cent because some deposit accounts have interest rates that do not move with the cash rate – for example, transaction accounts that are non-interest-bearing. See De Zoysa V, J Dunphy and C Schwartz (2024), 'Bank Funding and the Recent Tightening of Monetary Policy', RBA *Bulletin*, April.

2 See n 1.

3 See RBA (2025), 'Chapter 2: Resilience of Australian Households and Businesses', *Financial Stability Review*, October.

4 Under the previous version of the scheme, there were limited places available under the scheme (e.g. 50,000 places in 2024/25) and there were income caps. Potential applicants needed to have a taxable income at or below $125,000 for individual applicants or $200,000 for joint applicants to be eligible.

5 For an overview of factors driving strong competition among lenders for business loans, see Harvey N, S Lai and J Spiller (2025), 'Small Business Economic and Financial Conditions', RBA *Bulletin*, October.

6 See RBA, n 3.

Chapter 2
Economic Conditions

Summary

- **Growth in Australia's major trading partners was stronger than expected in the first half of the year, and global trade has so far been resilient to higher tariffs.** In China, net exports contributed to stronger-than-expected GDP growth in the September quarter, though domestic economic conditions softened by more than expected across a range of indicators; authorities responded with policy measures to support infrastructure investment. There is continued uncertainty around the macroeconomic impact of higher tariffs, global trade policy and the broader policy environment. We continue to expect growth in Australia's major trading partners to slow in the second half of the year as higher tariffs and policy uncertainty weigh on demand. However, bulk commodity prices have increased a little in recent months.

- **In Australia, GDP growth has picked up to near its potential growth rate, as expected. This has been driven by a recovery in private demand as public demand growth has slowed.** Private demand growth was weak through much of 2024 following earlier declines in real household disposable income. More recently, the recovery in private demand growth – which, if anything, has been a little faster than expected – has been underpinned by a resumption in real income growth over the past two years as inflation eased and the Stage 3 tax cuts took effect. Housing prices have increased by more than expected, and credit growth has picked up, following the reductions in the cash rate since February.

- **The shift in the composition of GDP growth towards private demand may have contributed to a slowing in overall employment growth, even as GDP growth has picked up.** We anticipated that the mix of stronger private demand growth and weaker public demand growth would result in an increase in employment growth in the market sector and slower employment growth in the non-market sector (which was the dominant source of jobs growth last year). This was expected to make a modest positive contribution to labour productivity growth overall, because *measured* productivity growth in the market sector is typically higher than in the non-market sector, and to result in slower employment growth than otherwise. This shift in the drivers of employment growth has now happened, although overall employment growth has slowed by slightly more than expected.

- **Labour market conditions have eased by a little more than expected recently, but leading indicators point to a broadly stable outlook.** In recent months the employment-to-population ratio has fallen a little, the participation rate has edged down, and the unemployment rate has increased by a little more than was expected in the August *Statement*. That said, the layoffs rate has trended down and the quits rate has increased recently (usually signs of tighter conditions), and timely indicators of labour demand continue to point to a broadly stable outlook.

- **Underlying inflation was stronger than expected in the September quarter.** In the August *Statement* we had expected quarterly underlying inflation to remain steady in the September quarter – at a rate consistent with the midpoint of the 2–3 per cent range – following broad-based disinflation since 2023. Instead, trimmed mean inflation increased to 1.0 per cent in quarterly terms – notably higher than expected. While part of this increase is expected to be transitory, it also suggests there could be a little more underlying inflationary pressure than we previously thought.
- **Overall, recent data add weight to the possibility – identified as a risk in the August *Statement* – that there is slightly more capacity pressure in the economy than we previously assessed.** Notwithstanding the recent easing in the labour market, a range of indicators – including the low underemployment rate, elevated ratio of vacancies to employed workers, above-average share of firms experiencing difficulty finding workers, high unit labour cost growth, and model estimates of full employment – continue to suggest some remaining tightness in the labour market. A wider set of indicators also continue to point to some capacity and price pressures in the economy more broadly, including elevated capacity utilisation and high output price inflation. While our assessment of spare capacity is uncertain, recent data on inflation, increases in capacity utilisation and the increase in the quits rate all lend support to the possibility that there is slightly more capacity pressure in the labour market and broader economy than we thought in August.

2.1 Global economic conditions

Growth in Australia's major trading partners was stronger than expected in the June quarter. Trade patterns have adjusted rapidly to higher tariffs, and global merchandise trade has remained resilient in the September quarter. However, elevated uncertainty and high tariffs are expected to weigh on global growth in the second half of the year. In China, GDP growth in the September quarter was stronger than expected at the time of the August *Statement*, though domestic demand was weaker, particularly investment. Authorities have responded with fiscal stimulus that will support infrastructure investment over the remainder of the year and into 2026. Iron ore and coking coal prices have increased a little, supported by resilient underlying demand from Chinese steel mills and the announced stimulus. In the United States, partial indicators suggest that growth in economic activity remained steady in the September quarter, though the labour market has weakened.

Higher US tariff rates came into effect in early August, but uncertainty remains over the timing and size of the macroeconomic effects.

The average effective US tariff rate is little changed since the August *Statement*. Higher country-specific tariff rates have been in effect for most US trading partners since 7 August. Prior to this, most faced a lower baseline tariff rate of 10 per cent, which had remained in place following the pause and subsequent delay of tariff rates announced in early April. Uncertainty around the final configuration of tariffs remains, including as the legality of the new tariff regime will be tested in the US Supreme Court. Trade tensions between China and the United States, as well as between Canada and the United States, have fluctuated in recent weeks. In early October, the US administration announced additional sectoral tariffs covering, among other things, pharmaceuticals, trucks and lumber. In late October, the United States reached trade agreements with a number of its Asian trading partners, with US tariffs on those countries remaining around their prevailing rates of between 15–20 per cent.

There continues to be uncertainty around the timing and impact of recent increases in US tariff rates on macroeconomic outcomes, as well as the effect of any broader policy uncertainty. Global economic activity has been more resilient than expected through the year so far, owing in part to the front-loading of trade, manufacturing activity and inventory management ahead of the introduction of tariffs. Tariffs are expected to weigh more on activity in late 2025 and early 2026.

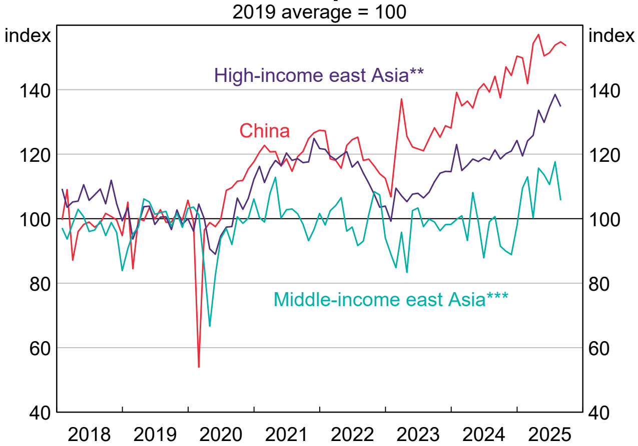
Global merchandise trade looks to have remained resilient in the September quarter, as trade patterns continue to shift in response to higher US tariffs.

Global merchandise exports remain at high levels as country trade flows have adjusted relatively quickly to higher US tariff rates and with little evidence of supply chain disruptions. Trade flows in the June quarter across Asia were particularly robust, likely owing to trade redirection and diversion, as well as the pull forward of activity ahead of further tariff increases in early August (Graph 2.1). More recently, there have been signs of slowing in the merchandise trade data for August, but exports across east Asia remain at elevated levels compared with the beginning of the year and initial exports data for Vietnam and South Korea suggest a rebound in September.

Graph 2.1

Asian Goods Export Volumes*

2019 average = 100



* Total merchandise exports to all economies.
** South Korea, Taiwan, Singapore, and Hong Kong (PPP-weighted).
*** Malaysia, Thailand, Indonesia, Philippines, and Vietnam (PPP-weighted).
Sources: CEIC Data; LSEG; RBA.

US import shares have adjusted in favour of lower tariff economies. The share of US imports from China has declined sharply since the start of the year, shifting mainly towards other countries in Asia with lower tariffs, and to a lesser extent Europe. There has been limited evidence of substantial transshipment activity from China to the United States via other economies in response to higher tariffs this year; while some Asian trading partners have seen the share of their goods imported from China increase, this is largely the continuation of a longer running trend.

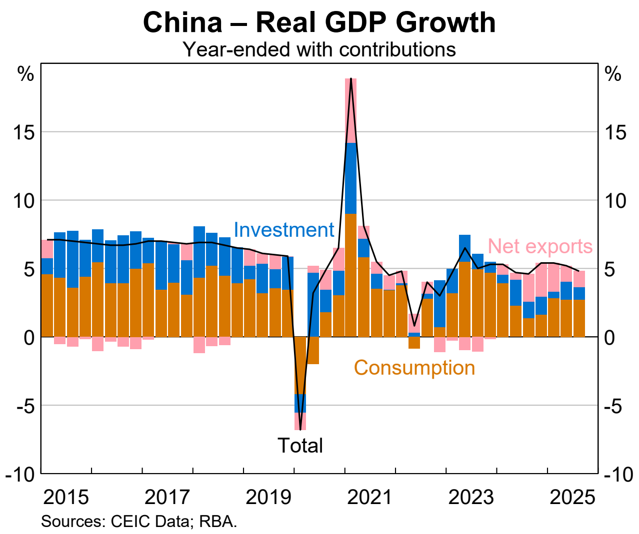
While China's exports to the United States have continued to decline, Chinese exports overall remain elevated as trade has been redirected to alternative markets. Exports to high-income east Asia, the European Union, the United Kingdom and Africa have increased since the August *Statement*. The increase has been driven by high-technology goods, consistent with China's increasing exports of these products in recent years. The effect of US tariffs has reinforced these existing trends.

Chinese export prices decreased over recent months, after showing signs of stabilising earlier in the year, contributing to a decline in world export prices. The recent outcomes for Chinese export prices suggest that the trend decline over recent years (reflecting increasing productive capacity) may have resumed, as the boost to demand earlier in the year from export front-loading fades. Moreover, the data reinforce our earlier key judgements – discussed in the May and August *Statements* – that global trade developments will be mildly disinflationary for Australia.

In China, domestic economic activity growth has softened, but net exports have continued to support GDP growth.

Domestic economic activity in China weakened in the September quarter, led by a broad-based slowdown in investment across the manufacturing, infrastructure and real estate sectors (Graph 2.2; Graph 2.3). There are several plausible sector-specific explanations, including the delayed impact from higher tariff uncertainty and the direct effect of tariffs themselves reducing the anticipated returns from new investment. A recent strengthening in the authorities' resolve to curb excess capacity and address below-cost pricing in certain sectors may also have contributed to weaker manufacturing investment. Additionally, local government financial constraints may have weighed on infrastructure investment in the quarter. Declines in real estate investment and new housing prices have accelerated in recent months, which may reflect some similar factors to those driving weakness in broader investment, such as elevated economic uncertainty.

Graph 2.2



Graph 2.3

Despite weak investment, real GDP growth was stronger than expected in the September quarter, supported by a strong net exports contribution. Consumption also made a stable contribution to growth in the September quarter, despite retail sales weakening in the quarter in part because of the diminishing support from government subsidies earlier in the year. Industrial production accelerated in the month of September, driven by sectors such as automotive production, where investment has also remained robust. However, nominal GDP has continued to grow at a slower pace than real GDP as inflation has remained well below the authorities' target, consistent with the economy having excess supply capacity.

Authorities have announced stimulus measures in response to the slowdown in investment. RMB500 billion will be made available for China's policy banks to deploy in eight areas, including artificial intelligence, digital infrastructure and more steel-intensive forms of infrastructure like transportation and industrial parks. The funding tool will provide capital for projects and is expected to mobilise further loans from other sources, with some market analysts expecting the program could drive around RMB1.5 trillion in investment, equivalent to around 1 per cent of GDP. The funds will be deployed from the December quarter 2025 onwards to support growth through the remainder of the year and into 2026 (see Chapter 1: Financial Conditions).

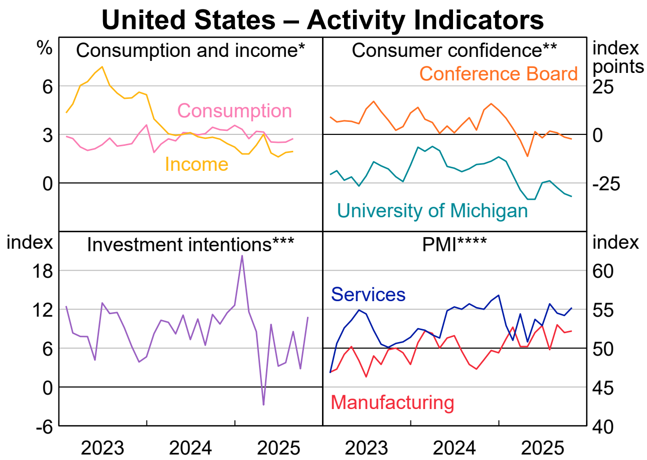
Iron ore and coking coal prices have increased a little in recent months despite weak investment in China. As in recent years, demand from Chinese steel mills has remained robust despite declining domestic demand particularly for construction steel. Steel production exceeding domestic demand has led to declining domestic steel prices and mill profit margins, and a significant increase in steel exports since the decline in property investment began in late 2021. Unlike in 2015, when steel prices and mill profitability were also weak, the central government has so far refrained from publicly announcing measures to reduce capacity. Expectations for, and the subsequent announcement of, incremental fiscal stimulus in China have also supported iron ore prices recently. Oil prices have declined since the August *Statement*, alongside increased expectations that global supply will exceed demand over the next year and signs of easing in geopolitical tensions in the Middle East. Oil prices partially retraced their decline in late October following the announcement of new US sanctions on Russian oil producers.

US growth was stronger than expected in the first half of the year; more recently, the government shutdown has disrupted the production of official data, making it harder to assess conditions.

Growth in domestic activity in the United States was stronger than expected in the first half of 2025, as tariffs were announced and uncertainty increased sharply, but was notably slower than in the second half of 2024. In the June quarter, GDP growth was revised higher, largely due to an upward revision to growth in consumer spending on services. Private business investment grew at a solid rate over the first half of the year, primarily driven by strong growth in technology and AI-related investments.

The recent US Government shutdown is expected to have only a modest effect on economic activity, though it has disrupted the publication of some official statistics, making it more difficult to assess recent economic momentum. The recent flow of partial indicators (such as monthly consumer spending, new home sales and core capital goods orders) and business surveys (such as purchasing managers' indices and regional Federal Reserve surveys of firms' capital expenditure expectations) suggest that economic activity remained resilient in the September quarter (Graph 2.4). That said, the Federal Reserve's Beige Book has pointed to some slowing in activity, and households have also become slightly more pessimistic about current economic conditions since August.

Graph 2.4

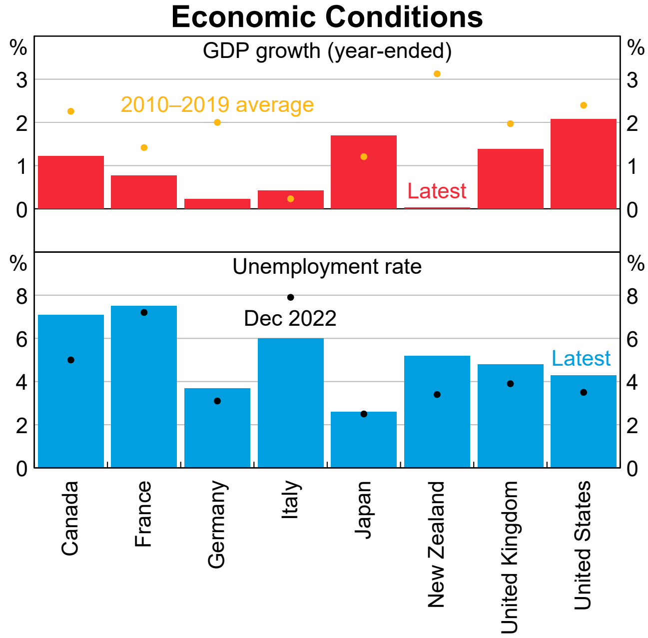


* Monthly PCE measures presented in year-ended growth terms.
** Deviation from long-run average.
*** Average of Federal Reserves' capex surveys.
**** Purchasing Managers' Index.
Sources: LSEG; RBA; S&P Global.

US labour market conditions have weakened somewhat.

The US labour market has shown clear signs of slowing in recent months, and policymakers have emphasised downside risks. Data received prior to the US Government shutdown showed that employment growth had slowed significantly, and alternative labour market indicators suggest it continued to slow in September. Both demand and supply factors are likely to have contributed to this slowing. US population growth has slowed substantially alongside the US administration's focus on immigration. Labour demand has also eased – vacancies and the job hiring rate have both declined in recent months and employment intentions across a range of measures remain weak. The unemployment rate, which provides one indication of the overall balance of demand and supply in the labour market, ticked up only slightly in August and has otherwise tracked broadly sideways since the start of the year.

Graph 2.5



Sources: Eurostat; LSEG; RBA.

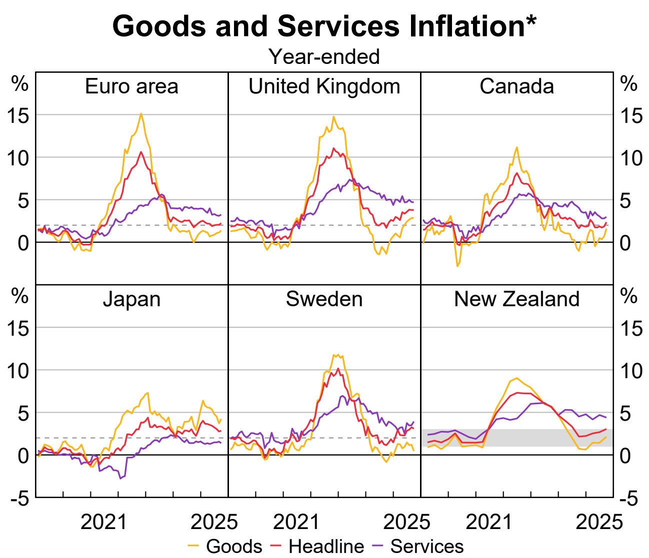
In other advanced economies, GDP growth remains subdued and labour market conditions have continued to ease.

GDP growth has remained below its pre-pandemic averages across many advanced economies, though tariff-related front-running effects and their unwinding continue to make underlying momentum in economic activity difficult to assess (Graph 2.5). GDP growth contracted in Canada, New Zealand, Germany and Italy in the June quarter. Consistent with overall subdued conditions, unemployment rates have increased (or remain elevated) in most advanced economies. A number of advanced economy central banks have recently eased monetary policy in response to economic weakness including in labour markets (see Chapter 1: Financial Conditions).

Headline inflation in many advanced economies remains at or slightly above targets.

Services inflation has remained elevated in many advanced economies (Graph 2.6). While the drivers of services inflation vary across economies, key contributors have included elevated housing inflation and only moderate easing in wages growth – despite weaker labour market conditions in a number of economies. Central banks in advanced economies with above-target inflation expect the disinflation process to continue, owing to labour market softness and weakness in domestic demand (see Chapter 1: Financial Conditions).

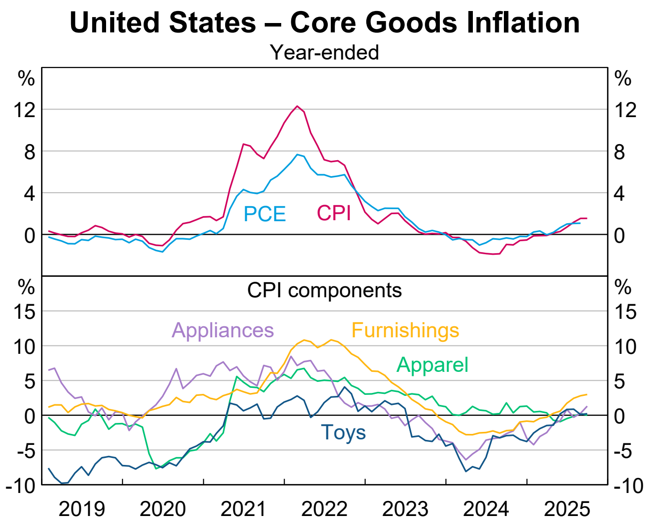
Graph 2.6



* Shading or dashed line is the central bank's target.
Sources: LSEG; RBA.

US inflation has evolved broadly as expected in recent months, with early signs of tariff-related pass-through evident and further pass-through expected over late 2025 and 2026. Higher onshore import costs have started to pass through to both CPI and Personal Consumption Expenditure (PCE) inflation, with both indicators increasing over recent months (Graph 2.7). Recent increases in trade-exposed components of goods inflation – across both consumer and producer prices – point to early signs that higher tariff rates and cost pressures from substitution toward higher cost Asian and European suppliers are beginning to affect US domestic prices. Consumer prices for toys, apparel, household furnishings and appliances have increased significantly since June. A range of survey data and Federal Reserve liaison information continue to indicate that inflation is expected to pick up over the coming months as businesses increasingly pass on tariff and substitution costs.

Graph 2.7



Sources: BLS; CEIC Data; LSEG; RBA.

2.2 Domestic economic activity

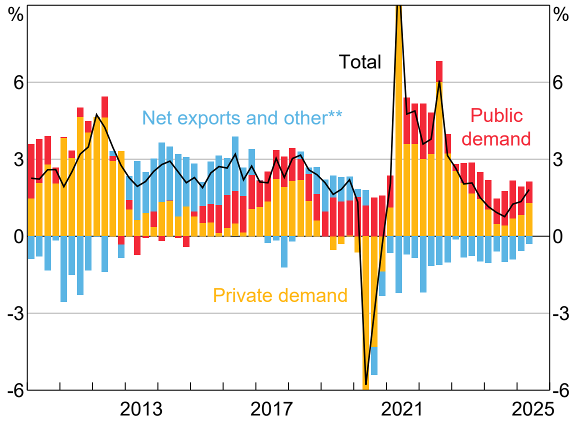
In the August *Statement*, GDP growth was expected to pick up further, led by a recovery in private demand growth. Economic activity has evolved broadly in line with those forecasts, with outcomes if anything a bit stronger than expected. Recent partial indicators suggest that year-ended GDP growth will increase in the September quarter by a little more than expected in the August *Statement*. The easing in monetary policy this year has contributed to a stronger-than-expected pick-up in housing prices, but is unlikely to have materially driven the rebound in private demand growth so far, given the usual lags in transmission. Consumer and business sentiment do not appear to have been much affected by global trade policy developments.

The recovery in Australian GDP growth has continued broadly as expected, and there is further evidence that the anticipated shift in the composition of growth from public to private demand is occurring.

GDP growth picked up to 0.6 per cent in the June quarter, which was slightly stronger than expected, led by private demand (Graph 2.8). In year-ended terms, GDP growth increased to 1.8 per cent; this is a little below our estimate of potential output growth. The pick-up in private demand growth over the year to the June quarter was stronger than expected in the August *Statement*, driven by household consumption.

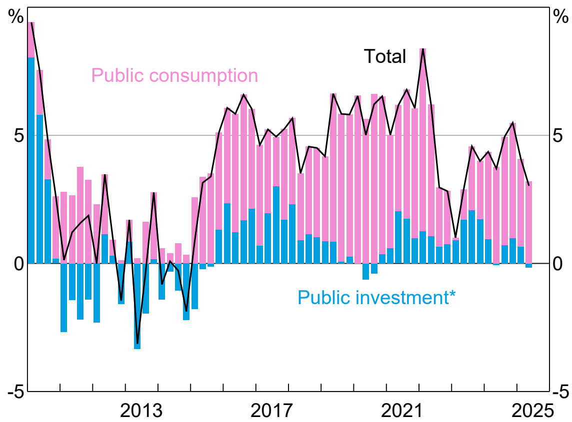
Public demand increased in the June quarter, but by less than anticipated. This was due to another unexpected decline in public investment (Graph 2.9), which was broadly based as infrastructure projects reached completion or moved into stages of reduced work. Projections in government budgets suggest that the pipeline of public infrastructure work will remain at high levels but is likely around its peak, as governments have sought to actively manage infrastructure spending. Liaison contacts have also noted that new public civil and engineering projects – including hospital, water utility and defence projects – are unlikely to be large enough to offset declining transport infrastructure spending. Public consumption grew strongly in the quarter, as expected, driven by spending on social services.

Graph 2.8
GDP Growth*
Year-ended with contributions



* Outliers during the COVID-19 pandemic have been truncated.
** Includes change in inventories and the statistical discrepancy.
Sources: ABS; RBA.

Graph 2.9
Public Demand Growth
Year-ended with contributions



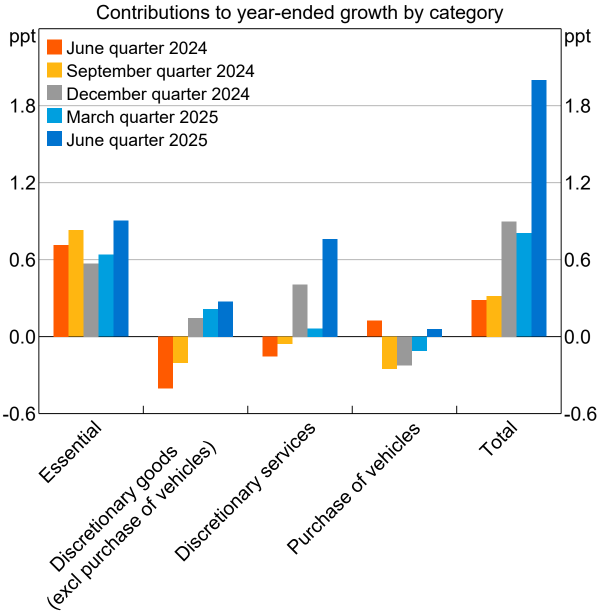
* Adjusted for second-hand asset transfers between the public and other sectors.
Sources: ABS; RBA.

Data received since the August *Statement* suggest that household consumption growth has recovered a little faster than expected.

Household consumption grew by 0.9 per cent in the June quarter, above our expectation in the August *Statement* of 0.6 per cent. Temporary factors supported growth in the quarter, as expected, including the effect on measured household consumption of unwinding electricity subsidies, end-of-financial-year promotions and a rebound from weather-related disruptions in Queensland and New South Wales in the March quarter. However, the size of the increase in the quarter and the broad-based nature of growth over the past year suggest that the recovery in household consumption has been progressing, following the earlier increase in household incomes and wealth. Year-ended growth to June reflected a continued rebound across both essential and discretionary categories, with spending on discretionary services increasing particularly strongly (Graph 2.10). In per capita terms, consumption increased by 0.3 per cent over the year, the first increase in year-ended terms since June 2023.

Graph 2.10

Household Consumption



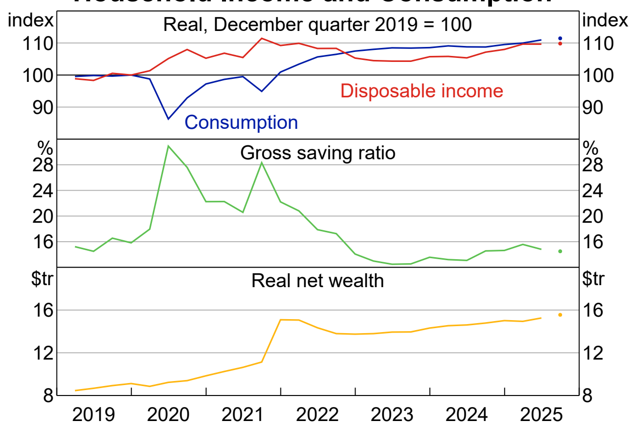
Sources: ABS; RBA.

Timely indicators for the September quarter point to continued growth in household consumption, broadly consistent with expectations in August (Graph 2.11). According to the ABS household spending indicator, nominal spending increased over the first two months of the September quarter, although at a slower pace than in the June quarter. This was mostly due to the expected pullback in spending on retail goods following end-of-year sales, as well as lower spending on recreation and culture services. Taken together with the strong June quarter result, these outcomes suggest that the level of consumption is likely to be a little higher in the September quarter than expected in the August *Statement*. The gradual pick-up in consumption growth this year is consistent with retail liaison contacts reporting a modest uplift in underlying retail demand. That said, measures of consumer sentiment remain some distance below their long-run averages.

The gross household saving ratio eased by slightly more than expected in the June quarter. Real household income was little changed in the quarter, as expected. Strength in labour income was offset by a decline in social assistance and insurance transfers following the temporary boost from weather-related payments in the March quarter.

Graph 2.11

Household Income and Consumption*



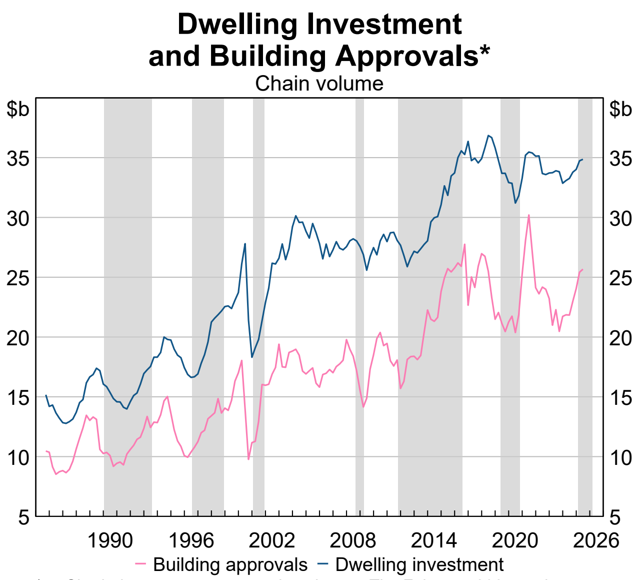
* Dots represent nowcasts for the September quarter of 2025.

Sources: ABS; RBA.

Prices in the established housing market have increased by more than expected. Dwelling investment has picked up over the past year.

In year-ended terms, dwelling investment increased by around 5 per cent in the June quarter, broadly in line with the August *Statement*. Dwelling investment growth has been driven by increased building approvals from mid-2024 and builders working through an elevated pipeline of work; capacity constraints have eased over the past year, helped by the completion of some large public infrastructure projects. In turn, the pick-up in building approvals prior to the first reduction in the cash rate in February was driven by a range of factors, including population growth and improved sentiment (as buyers believed the cash rate had peaked). Since February, there has been little further pick-up in approvals. This could reflect the usual lags between monetary policy and residential building activity evident in previous easing phases. However, it could also reflect that (unlike other easing phases) building approvals were increasing prior to the first cash rate reduction, possibly in anticipation of stable or easing monetary policy (Graph 2.12).

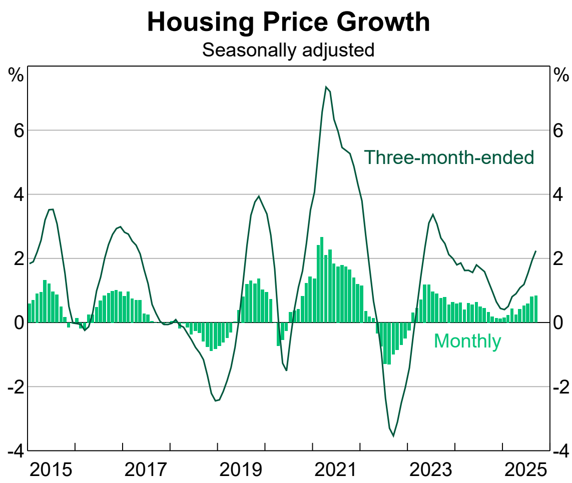
Graph 2.12



* Shaded areas represent easing phases. The February 2025 easing phase follows the market path.
Sources: ABS; RBA.

Housing price growth has picked up more quickly than expected but remains within the range seen during previous monetary policy easing phases. National housing prices grew by 2.2 per cent in the September quarter. Recent price outcomes, in combination with upwards revisions to past data and a pick-up in housing credit growth (especially to investors; see Chapter 1: Financial Conditions), have provided further evidence that the housing market is responding to the easing in monetary policy. Market conditions remain tight, with auction clearance rates rising to 18-month highs of above 70 per cent. The Australian Government's 5% Deposit Scheme is expected to put some further upward pressure on housing prices in the period ahead (see Chapter 1: Financial Conditions). Rising housing prices, alongside equity price increases, contributed to the 4.5 per cent increase in real household wealth over the year to June, which is expected to support household consumption over the forecast period (Graph 2.13).

Graph 2.13



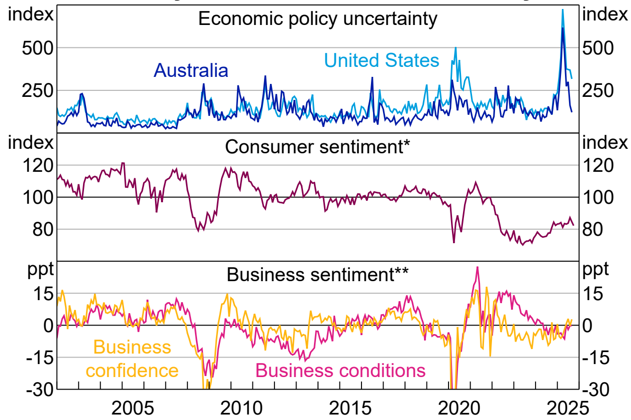
Sources: Cotality; RBA.

At this stage, tariffs and other global policy developments do not appear to have had a material impact on aggregate economic activity in Australia.

Global trade tensions appear to have had little effect on consumer sentiment in Australia. Measures of economic policy uncertainty have eased, with some measures of uncertainty now back near their long-term average. Consumer sentiment remained in a relatively narrow range during the period of greatest uncertainty, with sentiment surveys suggesting that respondents were focused more on domestic issues than international developments.

Business surveys and liaison also continue to point to domestic factors, rather than international developments, being the primary driver of investment decisions. Business conditions, confidence and forward orders have been improving for some time and are now around their long-run averages (Graph 2.14). The resilience of the forward-looking indicators as well as recent liaison and survey evidence suggest that the anticipated effect of heightened global uncertainty on business investment in 2025/26 may not materialise, or could take longer to play out than expected (see Chapter 3: Outlook). Even so, nominal capital expenditure intentions for the 2025/26 financial year suggest there will be little-to-no growth in business investment over the year, following an 18-month period where the level of real business investment had been flat. Liaison suggests that domestic factors such as high construction costs, domestic policy uncertainty (such as around the timing of government investment projects, project approvals and policies towards particular sectors like energy) and consumer demand are the most relevant factors for firms' investment decisions. Those businesses that are expecting to increase their investment are typically focused on automation, digital transformation and data centres, or renewable energy projects.

Graph 2.14
Survey Indicators and Uncertainty

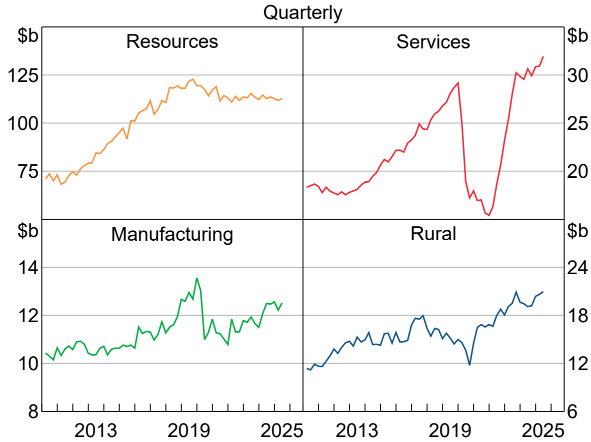


* Average since 1996 = 100; mean of Westpac–Melbourne Institute and ANZ–Roy Morgan surveys.
** Deviation from long-run average; outliers have been truncated.
Sources: ANZ–Roy Morgan; Baker, Bloom and Davis (2016); NAB; RBA; Westpac–Melbourne Institute.

Australia and the United States have agreed a common policy framework to support the supply of critical minerals used in commercial and defence industries. It will include investment commitments by both governments as well as measures to stabilise prices, and reflects a continuation of Australian Government efforts in recent years to encourage investment in critical minerals projects. The deal is expected to generate investment in the mining sector from 2027, reflecting both direct government financial investments in 'priority' projects and private spending.[1] While potentially significant for the development of Australia's critical minerals industry, the expected scale of these investments is small as a share of aggregate economic activity.

Australian exports have been largely unaffected by global trade tensions to date, supported by resilient global activity. Export volumes rose in the June quarter, driven by strength in services exports, in particular tourism exports (Graph 2.15). Resource export volumes also edged up in the quarter, as an increase in iron ore export volumes offset a continued decline in coal exports. Resource export volumes have been broadly steady for a number of years now, and have remained so recently despite the rise in global trade tensions. This in large part reflects that global activity has been stronger than expected, sustaining global demand for commodities, and the prices of commodity exports have remained well above Australia's average cost of production.[2]

Graph 2.15
Export Volumes
Quarterly



Sources: ABS; RBA.

Global developments so far appear to have had only a temporary effect on Australian imports. While the value of Australian imports from China increased sharply early in the June quarter, this subsequently unwound, suggesting Chinese firms have not reoriented trade from the United States to Australia. Global developments have so far had little effect on Australian import prices: the decline in the June quarter was driven by lower fuel prices rather than changing trade patterns, while the decline in the September quarter was driven by the slight appreciation of the Australian dollar over that period.

2.3 Labour market and wages

Labour market conditions overall have eased a little in recent months, as the unemployment rate has increased and employment growth has slowed. However, timely indicators of labour demand such as job advertisements, vacancies and employment intentions point to a broadly stable outlook, consistent with the recovery in GDP growth. Notwithstanding that labour market conditions have eased recently, we continue to assess that there is some remaining tightness (see section 2.5 Assessment of spare capacity), and growth in unit labour costs remains elevated.

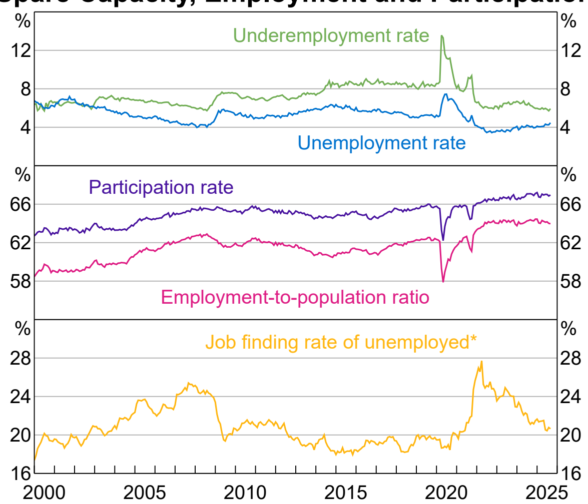
Overall, we assess that labour market conditions have eased a little in recent months, albeit with mixed signals across different indicators.

The unemployment rate increased to 4.5 per cent in the month of September (Graph 2.16). For the September quarter as a whole, the unemployment rate averaged 4.3 per cent, a little above our August *Statement* forecast. Other measures of labour utilisation have been broadly stable in recent months. The hours-based underutilisation rate – a broader measure of spare capacity – and the medium-term unemployment rate are little changed since the start of the year. The underemployment rate increased to 5.9 per cent in September, to be back around its level in the first half of the year. While other indicators have generally shown evidence of an easing in labour market conditions since 2022, the underemployment rate remains below its 2022 level.

Employment growth has slowed in recent months by a little more than expected, and the employment-to-population ratio has declined. The fall in the employment-to-population ratio – which returned to its level earlier in the year – likely reflects some easing in labour demand, though labour supply has also eased with the participation rate edging lower. The recent slowing in employment growth has not coincided with an increase in layoffs or an increase in transitions out of employment.

The participation rate has declined slightly over recent months, likely reflecting both softer labour demand and softer supply due to a lessening in cost-of-living pressures. Weaker participation likely reflects it taking a bit more time and it being a little harder to find work as labour demand eases, as indicated by lower job finding rates for both the unemployed and new labour force entrants. Hires from outside of the labour force have stabilised over the past six months following elevated flows over recent years, consistent with fewer workers being drawn in to a labour market that has become less tight. The weaker participation rate may also reflect there being less incentive to enter or remain in the labour force due to a lessening in cost-of-living pressures. This possibility is consistent with a decrease in multiple job holders (from elevated levels) and the gradual decline in the underemployment rate since mid-2024. More generally, the participation rate continues to be supported by the long-run structural increase in female participation.

Graph 2.16
Spare Capacity, Employment and Participation

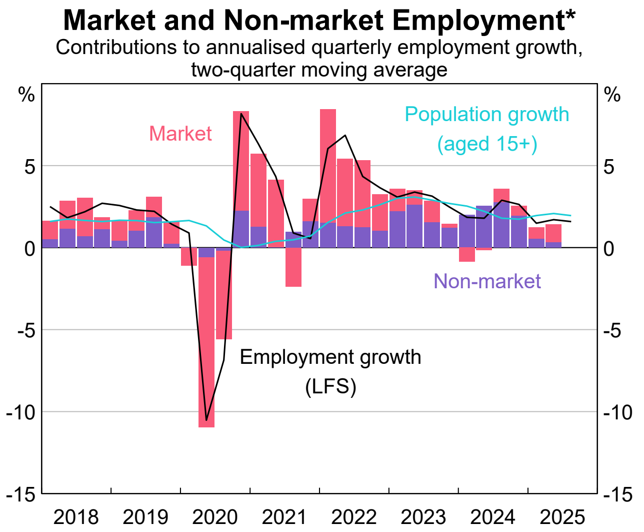


* Six-month moving average.
Sources: ABS; RBA.

In the first half of the year, the contribution of market sector employment growth to total employment growth increased, while the contribution of the non-market sector declined (Graph 2.17). Industry-level data (available to the June quarter) indicate that the level of employment in the non-market sector was little changed over the first half of 2025, which was weaker than expected, following strong growth over the previous few years.

In year-ended terms, employment growth in the market sector continued to pick up, consistent with the recovery in GDP growth and the shift from public to private demand growth.

Graph 2.17

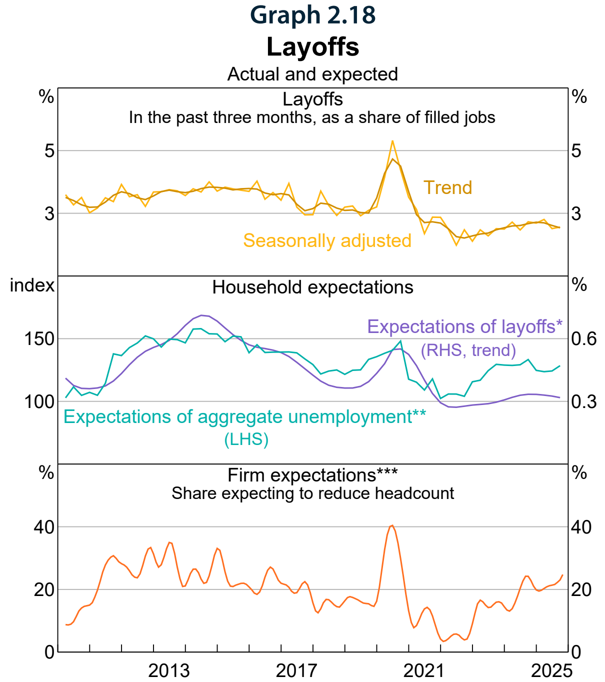


* Market and non-market employment shares are calculated using Labour Account data on main job holders by industry up to June quarter 2025.

Sources: ABS; RBA.

Some other indicators are consistent with stable or even slightly tighter labour market conditions. The rate of layoffs, which began increasing in 2022, stabilised over the past year at a relatively low level by historical standards and has drifted down a little recently – though measures of expected layoffs provide a more mixed picture (Graph 2.18). Liaison measures of current headcount and employment intentions were little changed over the September quarter. The rate of voluntary job separations – the 'quits rate' – has picked up recently after having eased more rapidly than other labour market indicators since its 2022 peak (Graph 2.19). This is also consistent with an increase in expected job mobility seen over the six months to August. These developments could suggest that inter-firm competition to attract and retain staff has increased, indicating tighter labour market conditions.

Graph 2.18



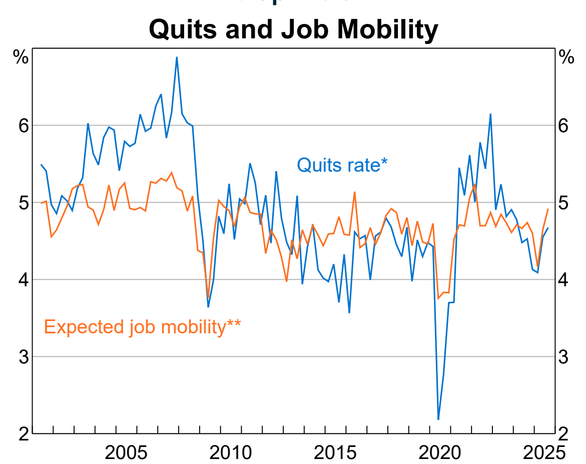
* Share of employed workers expecting to leave employment due to their employer closing down or downsizing.

** Measures expectations of a rise in aggregate unemployment over the year ahead.

*** Based on RBA liaison contacts; this series includes reduction in headcount due to natural attrition, not just layoffs.

Sources: ABS; RBA; Westpac–Melbourne Institute.

Graph 2.19



* In the past three months; as a share of filled jobs.

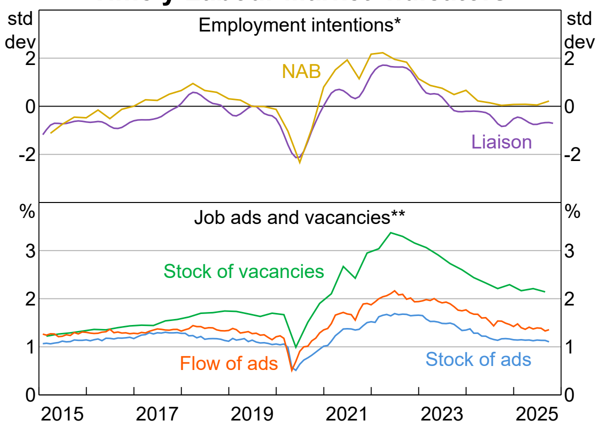
** Expected over the next 12 months; as a share of employment.

Sources: ABS; RBA.

Leading indicators continue to point to a broadly stable near-term outlook for labour market conditions. Measures of labour demand such as job advertisements and vacancies are close to or slightly below levels of a year ago, and employment intentions from business surveys and the RBA's liaison program have been relatively stable (Graph 2.20). Households' unemployment expectations have also remained broadly unchanged since the start of the year. Combined, these data point to little change in the unemployment rate in the near term (see Chapter 3: Outlook).

Graph 2.20

Timely Labour Market Indicators



* 12 months ahead; standard deviations from mean.

** Per cent of labour force.

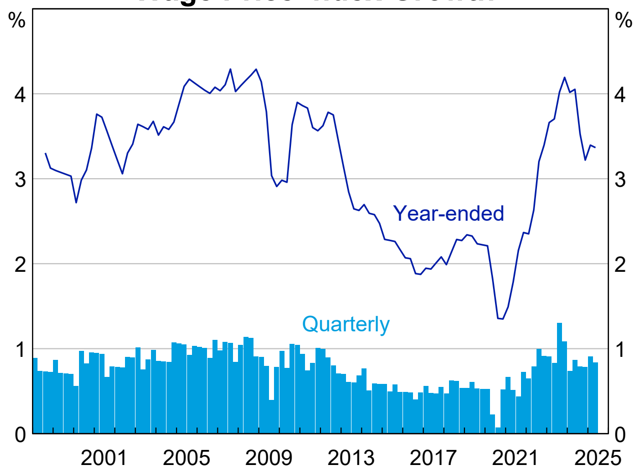
Sources: ABS; ANZ–Indeed; JSA; NAB; RBA.

Wages growth remained steady at 3.4 per cent in year-ended terms in the June quarter, while quarterly growth eased to 0.8 per cent.

Aggregate wages growth has moderated since 2023, reflecting the earlier easing in labour market conditions. Private sector wages growth was 0.8 per cent in the June quarter, in line with expectations (Graph 2.21). Looking through the effect of administered decisions – which boosted the wages of aged care and childcare workers in the March quarter – the underlying momentum in private sector wages has been broadly steady in recent quarters. Public sector wages growth eased slightly to 1.0 per cent in the June quarter. This was a little stronger than anticipated in the August *Statement*, largely owing to agreements coming into effect earlier than expected.

Graph 2.21

Wage Price Index Growth*



* Seasonally adjusted; total hourly rates of pay excluding bonuses and commissions.

Source: ABS.

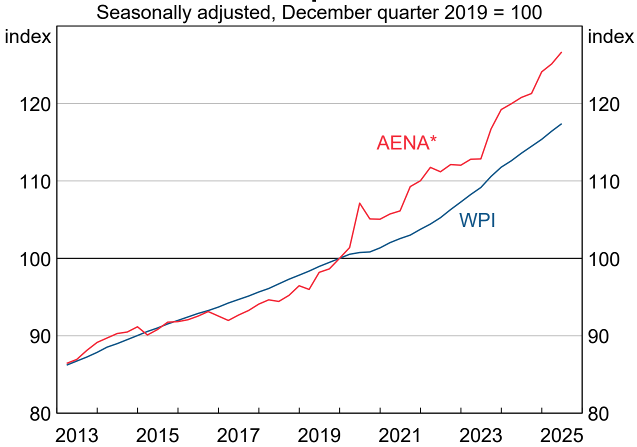
Timely indicators suggest that private sector wages growth is likely to have eased in the September quarter. Indicators of wages growth – including information from the RBA's liaison program, Treasury's single-touch-payroll indicator, and Commonwealth Bank of Australia's wage growth indicator – have moderated in recent months, consistent with a slowing in private sector wages growth in year-ended terms in the September quarter. This slowing in growth is broadly consistent with our forecasts (see Chapter 3: Outlook), although timely indicators are more volatile than the Wage Price Index (WPI).

Year-ended growth in the national accounts measure of average earnings (AENA) per hour increased to 4.9 per cent in the June quarter, stronger than expected in the August *Statement*. AENA has continued to grow more strongly than the WPI, with the gap between AENA and WPI growth above its historical average (Graph 2.22). AENA is the measure of labour earnings that flows into unit labour costs. It is a broader and more complete measure of labour earnings than the WPI as it includes changes in bonuses, overtime and other payments, as well as the impact of workers transitioning to jobs with different levels of pay – though it is also more volatile and cyclical than the WPI.

Graph 2.22

Labour Income per Hour Worked

Seasonally adjusted, December quarter 2019 = 100



* Non-farm.

Sources: ABS; RBA.

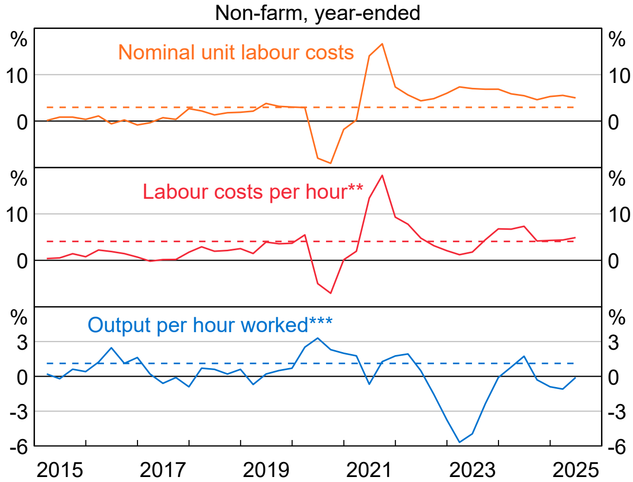
Weak productivity growth continued to contribute to elevated unit labour costs growth.

Unit labour costs (ULCs) increased by 5.0 per cent over the year to the June quarter (Graph 2.23), a little stronger than expected. While growth in the AENA measure of labour costs is modestly above its long-run average rate, labour productivity growth has been weak in recent years so that unit labour costs growth – the most comprehensive measure of overall labour cost pressures – has been well above its average rate. ULCs growth excluding the non-market sector (for which productivity is hard to measure) and the mining and agriculture industries (whose influence on consumer prices is likely limited) also remains elevated. Elevated ULCs growth is consistent with more upward pressure flowing through from labour market tightness to firms' labour costs than is signalled by the WPI alone.

Graph 2.23

Nominal Unit Labour Cost Growth*

Non-farm, year-ended



* Dashed line indicates long-run average growth.

** Compensation of employees plus payroll taxes less employment subsidies, divided by employee hours worked; differs from AENA due to the inclusion of payroll taxes less employment subsidies.

*** Includes self-employed.

Sources: ABS; RBA.

Non-farm labour productivity declined by 0.1 per cent over the year to the June quarter, which was stronger than expected in the August *Statement*. Non-farm multifactor productivity – which is the part of labour productivity growth not due to changes in the capital-to-labour ratio but rather how efficiently inputs are being used – remained very weak, declining by 0.3 per cent over the year to the June quarter. Non-market labour productivity declined by 0.1 per cent over the year, while market sector productivity increased by 0.3 per cent.[3]

2.4 Inflation

Underlying inflation picked up in quarterly terms, to be higher than expected in the August *Statement*, driven by new dwellings and market services inflation, as well as some more volatile items. This is similar to what we have seen in some advanced economies over the past year, where housing and market services inflation remain elevated. Headline inflation was also significantly stronger than expected in the August *Statement*, due to firmer underlying inflation and stronger electricity and volatiles inflation.

The quarterly rate of underlying inflation increased in the September quarter, and was higher than expected in the August *Statement*.

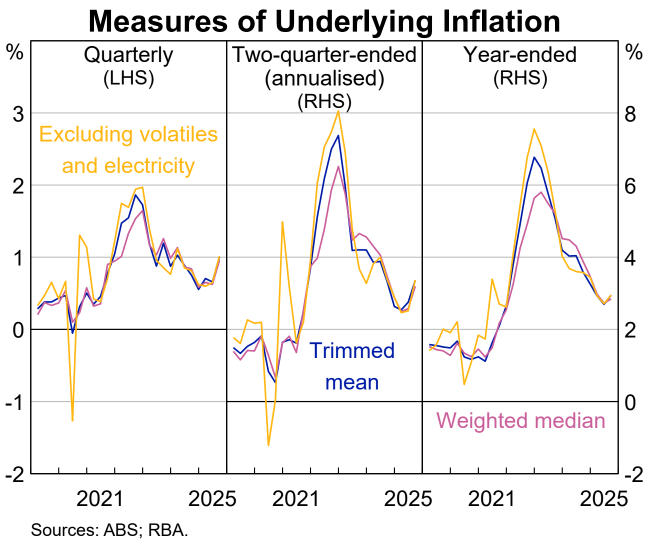
Trimmed mean inflation increased to 3.0 per cent in year-ended terms, above the 2.5 per cent expected in the August *Statement* (Graph 2.24). This reflected the strong quarterly outcome as well as upward revisions to the previous quarter. In quarterly terms, trimmed mean inflation picked up to 1.0 per cent, from 0.7 per cent in the June quarter. The August *Statement* had forecast quarterly underlying inflation to remain around its recent pace.

Inflation was stronger than expected in the September quarter across several components, including new dwellings, market services and some less persistent items such as travel. Notably, new dwelling prices increased by more than expected in September as builders reduced discounts and increased base prices alongside an increase in housing market activity more broadly. Market services inflation also picked up in quarterly terms, particularly for restaurant meals and takeaway and fast food. Consumer durables prices, which can be volatile, increased by more than expected in the August *Statement*, while groceries inflation was broadly in line with expectations.

The strong inflation outcome could in part reflect underlying capacity pressure being a little stronger than we previously assessed (see section 2.5 Assessment of spare capacity). Consistent with this, both new dwellings and market services tend to reflect domestic inflationary pressures. On the other hand, the strong inflation outcome could reflect temporary factors less closely associated with domestic capacity pressures. For example, the pick-up in food-related market services inflation may instead have been caused by temporarily high inflation for some food inputs, such as meat and coffee. Similarly, the unwinding of discounting by home builders could be a one-off – although it could also continue alongside ongoing strength in the housing market. On balance, we take some signal from recent inflation data for the inflation outlook (see Chapter 3: Outlook).

Headline inflation increased to 3.2 per cent over the year to the September quarter, which was significantly stronger than the 2.5 per cent expected in the August *Statement*. Headline inflation was above underlying inflation over the year to the September quarter, primarily reflecting large increases in electricity prices following the partial unwinding of rebates. Electricity inflation added 0.5 percentage points to headline inflation over the year. Higher inflation for volatile items such as fuel also contributed to the increase in headline inflation relative to the June quarter.

Graph 2.24

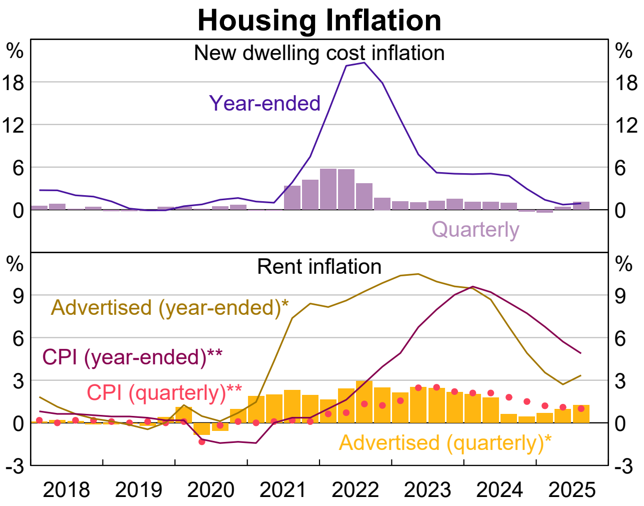


Housing inflation picked up in quarterly terms, driven by stronger-than-expected new dwelling inflation.

New dwelling construction prices increased by 1.1 per cent in the September quarter, which was stronger than in the August forecast (Graph 2.25). New dwelling inflation also picked up in year-ended terms. Information from liaison indicates that demand for building new houses has picked up in recent months alongside improved buyer sentiment. The rise in new construction prices reflects both reduced discounting and higher base prices following the pick-up in demand.

CPI rent inflation eased to 3.8 per cent over the year to the September quarter, in line with expectations, and was stable in quarterly terms. Advertised rents growth has picked up by more than expected recently in capital cities as rental market conditions have tightened, which may gradually flow through to the stock of CPI rents as leases are updated.

Graph 2.25

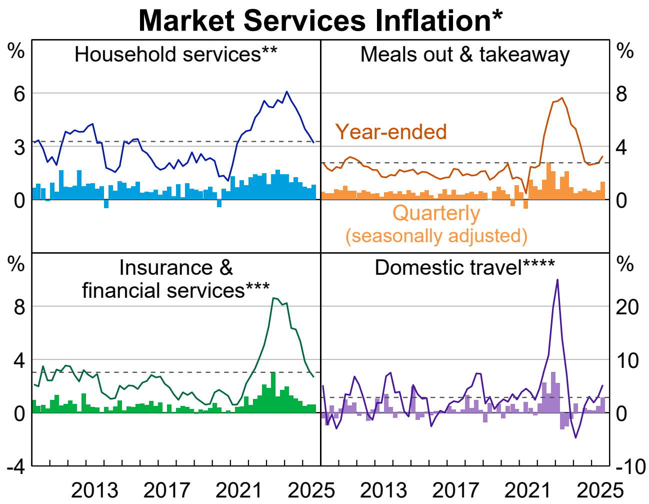


* Advertised rent inflation is for capital cities.
** Excludes effects of Commonwealth Rent Assistance from September quarter 2023 onwards.
Sources: ABS; Cotality; RBA.

Services inflation picked up in quarterly terms.

Market services inflation (excluding domestic travel and telecommunications) picked up in the September quarter, above our August forecast, although it has eased slightly in year-ended terms. The prices of these services are generally reflective of domestic inflationary pressures. The quarterly inflation rate picked up across a number of components, most notably for meals out and takeaway food – which may partly reflect difficulty finding staff, as well as rising costs for some food inputs (Graph 2.26).

Graph 2.26



* Dashed lines show historical averages of year-ended inflation (June quarter 2001 onwards for insurance & financial services and March quarter 1993 onwards for all other components).
** Includes home cleaning, vehicle repairs, hairdressing, veterinary services, sports and leisure services.
*** Excludes deposit & loans to June quarter of 2011.
**** Imputed using headline CPI in the June and September quarters of 2020 and September quarter of 2021.
Sources: ABS; RBA.

Inflation for goods and services with administered prices (excluding utilities) picked up slightly in year-ended terms. Year-ended inflation was 4.4 per cent in the September quarter, which was around its historical average. Utilities prices increased strongly in the September quarter. Delays in the timing of electricity rebate payments in some states and territories caused a temporary increase in households' out-of-pocket electricity costs. This will likely be unwound in the December quarter as households in these states receive a double rebate in October. Electricity prices excluding rebates rose by 4.8 per cent in the quarter, in line with expectations, due to the annual change in the default market offer. Gas prices also rose sharply due to annual price increases.

Goods inflation picked up in both quarterly and year-ended terms; international trade policy developments over recent months have had limited effects so far.

Retail goods inflation picked up in the September quarter to be 2.0 per cent in year-ended terms. Consumer durables prices increased by more than expected in the August *Statement*, reflecting strong increases in prices for a few items, notably accessories. Groceries inflation excluding fruit and vegetables increased a little in the September quarter, broadly as expected. While it is hard to determine what is happening to firms' margins in aggregate, liaison suggests retailers' margins are not under as much pressure as earlier in the year. Firms have reported that the earlier appreciation of the exchange rate, particularly against the US dollar, is not being widely passed through to lower prices. Information from liaison suggests that global trade tensions have not materially impacted firms' pricing decisions.

Inflation expectations remain consistent with achieving the inflation target.

Survey and financial market measures of long-term inflation expectations have declined from their mid-2022 peaks, consistent with declines in actual inflation. Financial market measures of inflation compensation declined earlier in the year but have increased a little in recent months, although this may have partially reflected market dynamics unrelated to fundamentals. Unions' long-term inflation expectations have declined to be close to the midpoint of the inflation target range. Our assessment is that long-term inflation expectations remain anchored at the target.

2.5 Assessment of spare capacity

Despite some recent gradual easing in labour market conditions, a range of information – including labour market and labour cost data, business surveys and model estimates – continues to suggest that labour market conditions are a little tight. Survey measures of firms' capacity utilisation and most model-based estimates of the output gap also indicate some ongoing economy-wide capacity pressures. Against this backdrop, strong underlying inflation outcomes, including in the housing and market services sectors, together with a recent pick-up in capacity utilisation, suggest that there could be a little more capacity pressure in the economy than we previously assessed.

Overall, we assess that there is still some tightness in the labour market, though this assessment is uncertain.

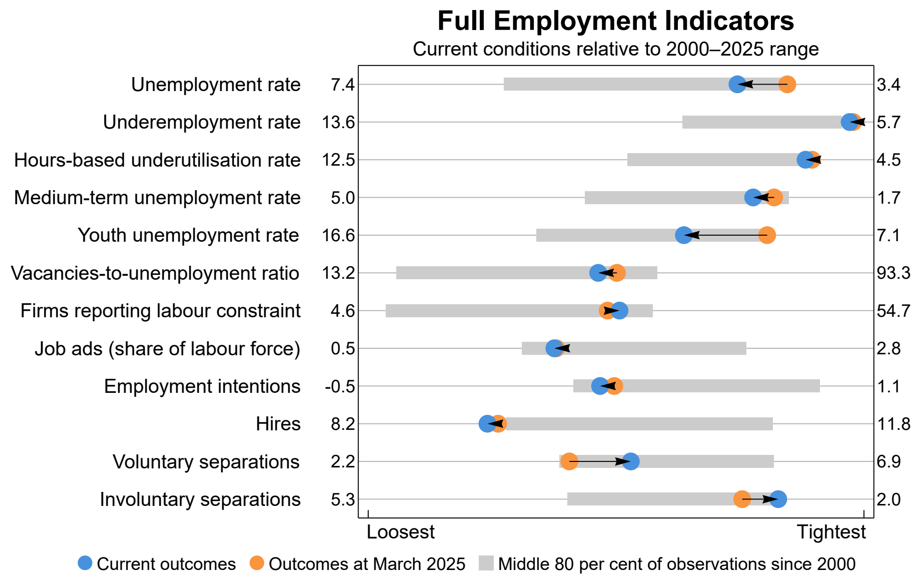
Labour market conditions have eased a little recently but a range of indicators continue to suggest that some tightness remains. The latest monthly reading for the unemployment rate, on its own, suggests that the labour market could be close to balance. However, the monthly data can be volatile and part of the September increase may turn out to be transitory. A broader set of indicators continues to point to some tightness in the labour market (Graph 2.27).

The underemployment rate has fallen a little since mid-2024 and, despite a tick up in September, remains at a low level. The rate of layoffs has decreased recently and also remains at a low level. The ratio of vacancies to unemployed workers and the share of firms reporting labour as a significant constraint on output remain above their respective averages, though both have eased a little over the past year. Growth in unit labour costs also remains high.

The relatively low quits rate continues to suggest that labour market conditions could be less tight, though it has increased recently. A decline in the quits rate over recent years suggested that inter-firm competition to attract and retain staff had eased; that was consistent with the moderation in wages growth over the past couple of years. While the quits rate has picked up again recently, reversing part of its earlier decline, it is around its average since the global financial crisis, and continues to suggest that labour market conditions could be somewhat closer to balance than other indicators.

Model-based estimates continue to point to a tighter labour market than suggested by other indicators, though these estimates are imprecise. Model estimates suggest that the labour market has experienced a prolonged period of tightness with only a little easing over the past two years (Graph 2.28).

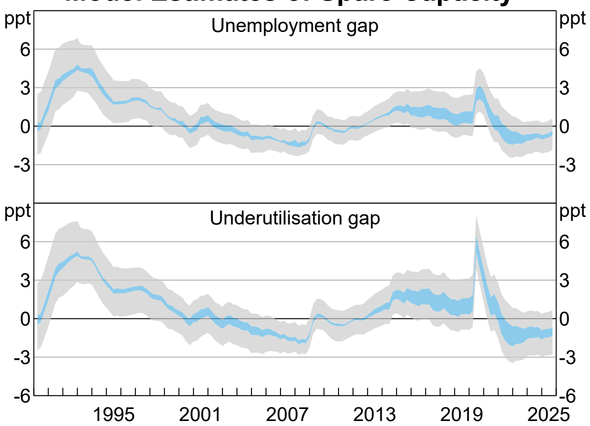
Graph 2.27



Sources: ABS; JSA; NAB; RBA.

The estimates in our model suite vary, but each implies that the labour market continues to be tighter than full employment.

Graph 2.28
Model Estimates of Spare Capacity*



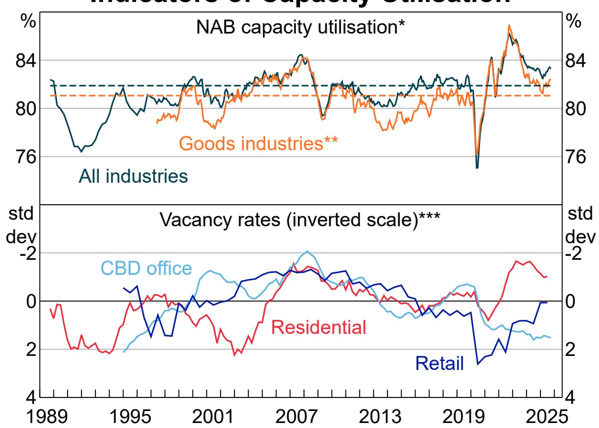
* Blue-shaded region shows illustrative range of central gap estimates from a selection of models; September quarter 2025 values are partial estimates; grey bands are the maximum and minimum two-standard-error confidence intervals from the selection of models.
Sources: ABS; RBA.

Recent indicators suggest there could be a little more overall capacity pressure in the economy than we previously assessed.

The August *Statement* highlighted the possibility that there could be more excess demand in the economy than in our central assessment. At that time a range of indicators were pointing to there being a degree of capacity pressure in the economy, with some remaining tightness in labour market conditions, high unit labour costs growth, elevated capacity utilisation and high output price inflation. Set against that, some indicators suggested that capacity pressures could be lower. For example, CPI inflation outcomes had been softer than expected through the year, in part reflecting margin compression in the housing construction industry, and the quits rate had declined suggesting a reduction in wage pressure. These latter factors motivated a forecast judgement that the economy had moved relatively close to balance. However, we recognised the possibility that there could in fact be a little more excess demand than we thought.[4]

Recent data, on balance, suggest we should put a little more weight on the possibility that there is still some excess demand in the economy. The NAB measure of capacity utilisation has picked up recently, reversing part of its previous decline. It remains above its historical average, suggesting businesses are still using their labour and capital resources at higher-than-normal rates to meet demand (Graph 2.29). The increase has been evident particularly in the construction and retail sectors. Residential vacancies data also show utilisation of the housing stock remains elevated and has stabilised recently, following earlier increases. Alongside evidence of higher capacity utilisation recently, the quits rate has picked up and unit labour cost and inflation data have been stronger than expected. While the strong trimmed mean inflation outcome in the September quarter likely in part reflects temporary factors, its drivers suggest there is a little more underlying inflationary pressure than previously assessed (see section 2.4 Inflation). Taken together, we interpret recent data as indicating that there is a little more capacity pressure in the labour market and broader economy than we had assessed in August. Given signs that the labour market has eased a little recently, this implies that the economy was somewhat further from balance in August than we thought at the time.

Graph 2.29
Indicators of Capacity Utilisation



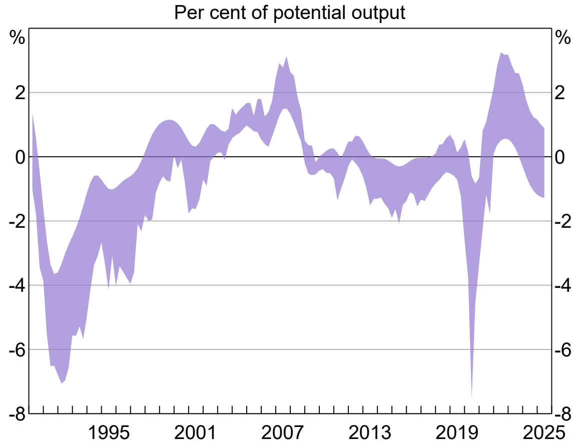
* Quarterly data prior to May 1997, three-month moving average thereafter; excludes mining; dashed lines indicate the long-term average of each series from 1997.
** Goods industries include manufacturing, construction, wholesale and retail.
*** Series are standardised to measure the number of standard deviations each series is from its mean value; retail refers to regional retail centres.
Sources: ABS; JLL Research; NAB; RBA; REIA.

Model-based estimates point to the output gap being small and positive, though there is significant uncertainty around these estimates. The level of GDP in the June quarter remained higher than most model estimates of potential output, with the median estimate from the RBA's suite of models suggesting a small positive output gap (Graph 2.30). Indeed, only one estimate from the suite is negative. The individual model estimates vary widely, but even that range understates the true level of uncertainty as each model estimate is itself uncertain. Nonetheless, these model estimates support the assessment that there is some remaining capacity pressure in the economy.

Graph 2.30

Model Estimates of Output Gap*

Per cent of potential output



* Violet-shaded region shows illustrative range of central gap estimates from a selection of models encompassing different measures and definitions of the output gap; each estimate is subject to estimation uncertainty which is not shown in the graph, as well as revision due to data and model refinements.

Sources: ABS; OECD; RBA.

Endnotes

1 For background on Australia's critical minerals sector and implications of how demand for critical minerals could evolve over time and could shape the sector, see Stinson H and I Cam (2025), 'The Global Energy Transition and Critical Minerals', RBA *Bulletin*, October.

2 See discussion in RBA (2025), 'Box A: How Might Tariffs Affect Australian Trade?', *Statement on Monetary Policy*, May.

3 For more information on productivity growth, see RBA (2025), 'Chapter 4: In Depth – Drivers and Implications of Lower Productivity Growth', *Statement on Monetary Policy*, August.

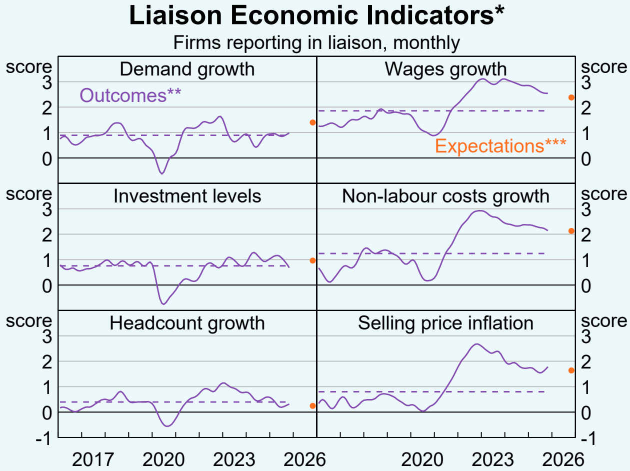
4 See Key risk #3 in RBA (2025), 'Chapter 3: Outlook', *Statement on Monetary Policy*, August.

Box A: Insights from Liaison

This Box highlights key messages collected by teams based in Adelaide, Brisbane, Melbourne, Perth and Sydney during discussions with around 250 businesses, industry bodies, government agencies and community organisations from early-August to end-October 2025.

Recent liaison discussions indicate that business conditions have gradually improved over the past year. Many firms have continued to report a slight pick-up in demand over recent months, though growth remains modest (Graph A.1). Non-labour cost growth has been little changed in recent months, with expectations for a gradual easing over the year ahead. Wages growth slowed noticeably over the past year but is expected to ease only gradually over coming months. Selling price inflation has remained above average for some time and is expected to remain around its current pace over the year ahead. Most firms plan to maintain a stable level of investment and headcount over the year ahead, with a focus on enhancing cost efficiencies, productivity and margins. Contacts referenced uncertainty less than they did earlier in the year, with most continuing to report little impact from changes in international trade policies.

Graph A.1



* A score of 0 indicates a firm has reported no change.
** Outcomes over the 12 months before each observation; solid line is smoothed with a 13-month Henderson trend; dashed line is the series average since 2001.
*** Expectations over the next 12 months from October 2025; smoothed with a 13-month Henderson trend.
Source: RBA.

Consumer spending has picked up a little, but shoppers remain value focused.

Firms report that, while consumers remain cautious and value conscious, growth in consumer spending has been a little stronger than earlier this year. Most retailers are now more optimistic about the outlook and have noted that consumer sentiment is slowly improving. That said, this has yet to translate into a material pick-up in sales outside of promotional periods. Retailers generally expect a gradual uplift in spending over coming months. Tourism and hospitality contacts report that household spending remains selective and closely linked to major events.

Demand for community services remains at a high level, with housing highlighted as a key concern for many people seeking assistance. The demand for social assistance services continues to exceed the supply capacity for most organisations. This demand extends across a broad range of areas including homelessness, emergency financial and food support, and domestic violence.

Growth in domestic student commencements in 2025 has been mixed across tertiary education providers, while commencing international student numbers are lower than a year ago. Strong competition for students and cost-of-living pressures have weighed on domestic student commencements at some institutions. International student commencements and applications are lower than a year ago due to changes in government policies and affordability constraints. Domestic student commencements are expected to increase modestly in 2026, while expectations for new international enrolments are more mixed.

Firms expect the level of business investment to be broadly stable.

Most firms plan to maintain current spending levels over the next 12 months, though the share of firms intending to increase investment has edged up slightly. Higher investment intentions are largely concentrated in upgrades to non-residential buildings (e.g. hospitals, retail stores) and digital transformation projects (i.e. IT systems, data storage, AI). A few firms continue to report elevated construction costs as one factor weighing on investment. Information from liaison also suggests that renewable energy projects are expected to increase, but delays remain a key challenge.

Contacts note that public infrastructure spending is likely to decline over the year ahead as several large transport projects reach completion. Declines in transport spending are judged unlikely to be offset by other infrastructure spending (e.g. hospitals, defence, water, utilities), although this varies across states. Infrastructure expenditure is expected to remain strong in Queensland, supported by projects for the 2032 Olympics, while New South Wales and Victoria are likely to see lower volumes of public construction.

Residential building conditions have improved slightly since January.

New detached homes sales have continued to trend higher over recent months and liaison contacts expect new home sales to rise over the year ahead. Contacts note that new home sales have been supported by recent interest rate reductions, higher established home prices and the announcement of the Australian Government's 5% Deposit Scheme. New home demand remains robust in Western Australia and Queensland, while demand in New South Wales and Victoria has trended up since January. However, homebuilders report that sales in New South Wales and Victoria have risen by less than expected over recent months due to affordability constraints.

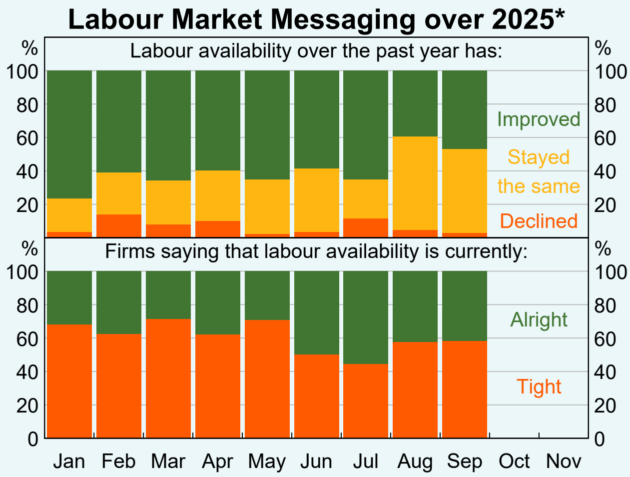
Firms report solid levels of construction for premium apartments, as these projects remain feasible due to high selling prices. By contrast, contacts continue to report subdued levels of construction for non-premium apartments as construction costs remain too high relative to selling prices. Nonetheless, contacts have generally become more optimistic about the outlook for high-density construction, with recent rezoning and planning reforms in some states expected to materially support supply of new dwellings.

Overall employment levels are growing, but still at a below-average pace.

The share of firms reporting headcount reductions has increased slightly, but overall employment outcomes are little changed. Firms that had reduced headcount indicated this was driven by a push to cut costs and find efficiencies, as well as lower-than-expected demand and revenue. Employment intentions in aggregate remain little changed for the year ahead and are still below their long-run average.

Labour availability continues to improve, though around half of the contacts who discussed labour availability indicated that the labour market is still tight (Graph A.2). Almost all firms describe labour market conditions as improving or stable compared with a year ago, though challenges persist for some contacts in sourcing candidates with the desired skills, particularly in regional areas.

Graph A.2



* Share of liaisons discussing each measure.
Source: RBA.

Non-labour cost growth remains broadly based and little changed, while wages growth has slowed; both are expected to ease gradually over the year ahead.

Around half of contacts have continued to report above-average cost growth and very few firms have reported stable or declining costs compared with the past. Firms continue to maintain tight control over their cost base, reflecting the extended period of above-average growth in unit costs. Businesses continue to report software and IT subscription services as an area of strong cost growth. Some retailers expect to benefit from the earlier appreciation of the Australian dollar via lower imported costs of goods, though the extent to which these savings are passed through to lower prices will vary across firms.

Wages growth declined noticeably over the past few months, aligning with firms' earlier expectations. Firms anticipate that wages growth will ease more gradually over the coming year given the labour market remains somewhat tight.

Growth in firms' selling prices for goods and services remains above the long-term average. Firms' selling price growth has shown little change over the past year and is expected to continue at around its current pace over the year ahead. Many firms are actively seeking to maintain or recover margins through cost efficiencies, productivity improvements and a focus on more profitable activities.

Chapter 3

Outlook

Summary

- **GDP growth in Australia has recovered over the past year and is forecast to stabilise around its potential growth rate from late 2025.** The boost to growth from the easing in monetary policy is expected to offset the diminishing boost from the earlier decline in inflation, the Stage 3 tax cuts and the expected moderation in public demand growth.
- **The level of GDP at the end of the forecast period is little changed from the August *Statement*, with an upgrade to private demand offset by a downward revision to public demand.** The forecasts are conditioned on market expectations for around 30 basis points of easing in the cash rate over the next year, which is around 30 basis points less than what was assumed at the August *Statement*. Despite a slightly higher cash rate path than previously assumed, the strong recent momentum in housing prices has led to an upward revision to the outlook for housing prices, and this is expected to provide further support to household consumption and dwelling investment over the forecast period. Public investment has unexpectedly declined in recent quarters and information from liaison suggests that the pipeline of infrastructure work is lower than previously thought.
- **The unemployment rate is forecast to increase slightly (in quarterly terms) and stabilise at close to 4½ per cent as GDP growth settles around potential growth.** Leading indicators of labour demand point to a broadly stable near-term outlook for labour market conditions; however, the unemployment rate has increased by more than expected recently and there is a risk that the labour market eases in the near term by more than we anticipate.
- **We assess that there will still be some capacity pressures in the labour market and the economy over the forecast period, assuming the cash rate follows the market path.** The below-trend growth and gradual easing in the labour market over the past year or so has brought demand and supply closer to balance in the economy, but we do not expect conditions to ease much further from here. Stronger-than-expected inflation in the September quarter, an increase in some measures of capacity utilisation, and continued elevated labour and non-labour cost growth in parts of the economy all point to a little more capacity pressures than we had previously judged. However, this assessment is very uncertain and there are risks we have misjudged the extent of excess demand there is in the economy.

- **The outlook for underlying inflation has been revised slightly higher. This follows the strong September quarter outcome and our assessment that there is slightly more capacity pressure than previously thought.** We expect quarterly inflation to decline in the December quarter – as some of the increase in the September quarter is assessed to be transitory – and then moderate only a little further thereafter. In year-ended terms, underlying inflation is now expected to be above the 2–3 per cent range until the second half of 2026, largely reflecting the strong September quarter outcome. Assuming the cash rate follows the market path, inflation is expected to settle at a little above the midpoint of the range in the latter part of the forecast period. The underlying inflation forecast is a little higher than at the August *Statement* and largely reflects our view that there is likely to be slightly more capacity pressure in the economy than previously assessed. We view the risks around the inflation outlook as balanced, and we will continue to monitor these risks closely.
- **Year-ended headline inflation is expected to remain above 3 per cent for much of 2026, before returning to be a little above the midpoint of the target range by late 2027.** Relative to the August *Statement*, the outlook for headline inflation has been revised higher alongside the upward revision to underlying inflation. Changes in the timing of electricity rebates will cause additional volatility in headline inflation over the next couple of years.
- **Some downside risks to global growth remain, reflecting persistent uncertainty around the configuration and impact of trade and other economic policies.** However, compared with earlier in the year, the likelihood of a severe downside scenario has diminished. GDP growth in Australia's major trading partners is expected to slow over the second half of 2025 and into 2026 as higher tariffs weigh on global activity. Growth is expected to pick up very modestly thereafter and remain broadly stable over the remainder of the forecast period. In China, we expect that policy support will largely offset the recent slowing in domestic demand, although there are risks in both directions as authorities prepare their medium-term plans for the economy in coming months. Inflation in most advanced economies is expected to return to be around central bank targets over the next year or so.

3.1 Key judgements

Key judgement #1 – Australian GDP growth will stabilise around estimates of potential growth from late 2025, with the easing in monetary policy supporting private demand.

The recovery in GDP growth to mid-2025 reflected ongoing growth in public demand and a recovery in private demand. The pick-up in private demand has been underpinned by the recovery in real household incomes over the past couple of years as inflation eased and the Stage 3 tax cuts reduced growth in tax payable. The support to private demand from these factors is expected to moderate in the period ahead but is expected to be offset by the support to private demand from the easing in monetary policy that began in early 2025. The forecasts imply that this transition will be relatively smooth and result in year-ended growth stabilising at around 2 per cent. The possibility of a bumpier transition, in which GDP growth is above or below potential growth for a period, is explored in Key risk #1.

Key judgement #2 – Labour market conditions are not expected to ease much further.

The unemployment rate increased to an average of 4.3 per cent in the September quarter, a little higher than expected in the August *Statement*. Our forecast is for the quarterly average unemployment rate to increase only slightly further in the near term, stabilising at close to 4½ per cent. This is consistent with leading indicators, such as job ads and vacancies, which do not point to a marked slowing in labour demand in the near term. Our forecast takes some signal from the 0.2 percentage point increase in the unemployment rate in the month of September, but also allows for a partial retracement in the December quarter. The possibility of a more pronounced easing in the unemployment rate is explored in Key risk #2.

The forecast for a broadly stable unemployment rate also reflects our judgement that the participation rate will be little changed over the next two years. This follows an upward trend in the participation rate over recent years, driven by continued labour demand and heightened cost-of-living pressures, as well as the long-run trend of increasing female participation. Our forecasts assume that structural drivers of the longer run increase in the participation rate will be broadly offset by some unwinding of cyclical factors. In particular, we expect that there will be less incentive to enter or remain in the labour force because of the moderation in cost-of-living pressures and the greater difficulty in finding work, as evidenced by the decline in the job finding rates of the unemployed and new labour force entrants. But the outlook for labour supply is highly uncertain, and if the participation rate were to increase (e.g. if we have misjudged that cyclical factors will dampen participation), and employment growth evolves as expected, the unemployment rate would continue to trend higher.

Key judgement #3 – We assess there will be slightly more capacity pressure in the economy than previously thought, so the outlook for inflation and wages growth have been revised a little higher.

The outlook for wages growth and inflation is sensitive to our assessment of spare capacity in the economy, but there is considerable uncertainty around this assessment. In addition to what our model-driven estimates of full employment and potential output suggest, many indicators continue to point to some capacity pressures in the economy. These include elevated unit labour cost growth, high output price inflation in parts of the economy, and an above-average share of firms citing labour availability as a constraint. However, until recently other data had suggested that conditions in the economy might not be as tight. For example, there had been slightly more disinflation in the economy in late 2024 and earlier in the year than we had expected (see Box B: Annual Forecast Review), there was also some evidence of margin compression such as in the housing construction industry and the easing in the quits rate suggested less pressure on wages growth. Given the conflicting signals, the central forecasts for wages growth and inflation since the February *Statement* had incorporated a little downward judgement such that inflation would return to the midpoint of the target over the forecast period.

However, some of the data we had previously cited to support some downward judgement to the inflation profile have turned higher in recent months. These include the strong September quarter inflation outcome, an increase in some measures of capacity utilisation and a partial reversal of the fall in the quits rate, which might impart greater pressure to attract and retain staff.

We will continue to refine our assessment of full employment as more data become available. It is possible that there is more labour market capacity than we are assuming, and that we have taken too much signal from the September quarter inflation outcome and other survey indicators. At the same time, our range of models continue to point to more excess demand in the economy than we are factoring in. If we have misjudged the degree of capacity pressures in the economy, this would imply a different outlook for inflation and wages growth (see Key risk #1 and Key risk #2).

3.2 The global outlook

Major trading partner (MTP) growth is expected to slow over the second half of 2025 and into 2026 as higher tariffs weigh on activity.

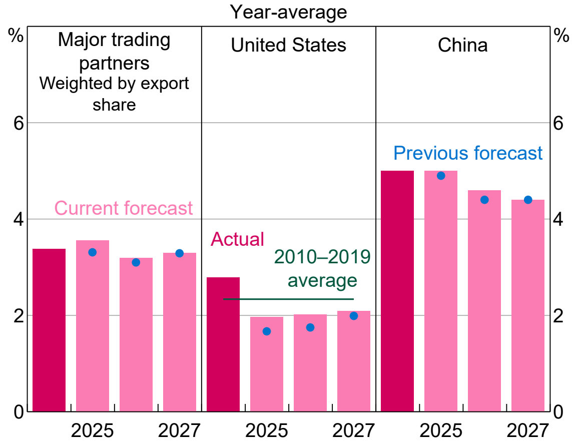
Global activity this year has generally been more resilient than expected, supporting our view that the likelihood of a severe global 'trade war' has diminished. Year-average MTP GDP growth is forecast to be 3.6 per cent in 2025; this is higher than in August and back around the forecast at the time of the November 2024 *Statement* before the escalation in trade tensions (Graph 3.1).

The key driver of the upward revision to MTP growth for 2025 has been slightly stronger than expected growth in China. Year-average GDP growth in 2025 is now forecast to be 5.0 per cent, in line with Chinese authorities' growth target. Activity in China is expected to remain relatively resilient, with the GDP forecast for next year also revised higher since the August *Statement*, following stronger-than-expected recent outcomes. Nevertheless, growth is still forecast to gradually slow from the current growth rate, easing to 4.6 per cent in 2026 and 4.4 per cent in 2027.

The outlook for manufacturing and real estate investment growth in China has been revised down, but the outlook for infrastructure investment growth has been revised up. Fixed asset investment in China has been weaker than expected, with the weakness being broadly based across sectors. We assess that adverse effects of trade policy and recent efforts to curb excess capacity and address below-cost pricing will continue to weigh on manufacturing investment. Weakness in the real estate sector is expected to remain a drag on aggregate growth for longer than expected at the time of the August *Statement*. However, recent weakness in infrastructure investment is assessed to be temporary as we expect announced stimulus measures to support increased growth from the December quarter onwards.

Consensus forecasters have also revised up their 2025 growth projections for East Asia and the United States. This is possibly because the delayed introduction of higher US tariff rates to early August provided an additional impetus to activity ahead of their implementation, or there could be more underlying resilience in the global economy than previously assessed. However, Consensus forecasters still expect quarterly growth in the United States to slow over the second half of 2025, as higher tariffs flow through to consumer prices and weigh on consumer spending.

Graph 3.1
Major Trading Partner GDP Growth
Year-average



Sources: ABS; CEIC Data; Consensus Economics; LSEG; RBA.

Outside the United States and China, growth in many of Australia's trading partners is expected to moderate from the second half of the year as higher US tariffs weigh on external demand. MTP growth is expected to slow to 3.2 per cent in 2026, before picking up a little in 2027 as the effects of tariffs on growth wane. More accommodative policy settings are also expected to support activity in our trading partners; this includes a mixture of stimulatory fiscal policy (in some east Asian and European economies) and a less restrictive stance of monetary policy in some major advanced economies. We continue to judge that the risks to global activity remain tilted to the downside, including because the impacts of the large increase in trade barriers may have been underestimated by Consensus forecasters and continued fluctuations in trade tensions may add to global uncertainty (see Key risk #3).

Most Consensus forecasters still assume that the US administration will set trade policy in a way that limits acutely adverse economic outcomes for the United States. The trade assumptions underpinning the outlook have not changed since the August *Statement*: country-level effective tariff rates (outside of China) are expected to stay at around 10–15 per cent (which is below the rates announced by the US administration as part of their bilateral country deals); an average US tariff rate of around 50 per cent on Chinese imports; and an average Chinese tariff rate of 30 per cent on US imports. Significant uncertainty around the trade assumption persists. Trade settings between China and the United States remain unpredictable and trade tensions have resurfaced between the United States and Canada, but there are some signs that trade tensions between the United States and trading partners in Asia have eased.

We continue to assess that global trade developments will be mildly disinflationary for Australia. Weaker growth in global demand from higher tariffs is expected to exert a little downward pressure on global export prices and the prices of goods and services imported to Australia. This assessment is broadly unchanged since the May *Statement*, but we continue to monitor the effects of tariffs on prices closely.

3.3 The domestic outlook

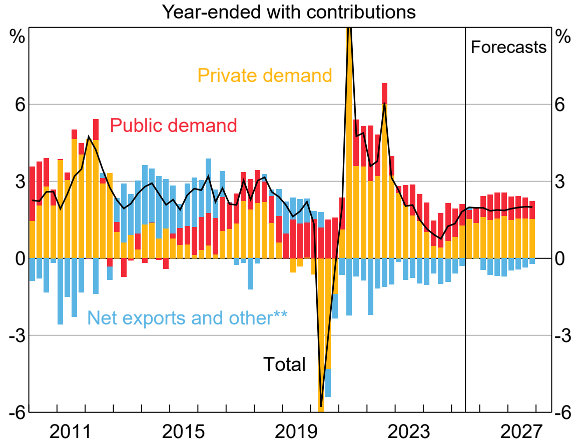
Australian GDP growth has recovered over the past year and is forecast to settle around estimates of potential growth.

GDP growth is expected to be a bit stronger over the second half of the year compared with the first half, as the recovery in private demand continues and public demand continues to support growth (Graph 3.2). Private demand has recovered over the past year, as household consumption has increased in response to a recovery in real incomes. While the central forecast is for this recovery in private demand to continue over the rest of 2025, the drivers of growth are expected to shift. In particular, the easing in monetary policy is expected to become a key driver of growth in private demand. That reflects both the three cash rate cuts from earlier in 2025 and 30 basis points of further easing embodied in the assumed market path. Public demand is expected to continue supporting growth, driven mostly by public consumption, although by less than in recent years. Growth in exports is expected to be modest over the forecast period, reflecting that mining output is not expected to increase much (given investment remains mostly sustaining in nature) and that foreign student numbers are expected to stabilise.

Graph 3.2

GDP Growth*

Year-ended with contributions



* Outliers during the COVID-19 pandemic have been truncated.
** Includes change in inventories and the statistical discrepancy.
Sources: ABS; RBA.

The level of GDP at the end of the forecast period is little changed from the August *Statement*. Private demand has been upgraded since the August *Statement*. The outlook for housing prices has been revised higher; largely reflecting that there has been more momentum in housing price growth in recent months than previously expected. Higher expected housing prices have led to upward revisions to the expected level of household consumption and dwelling investment over the forecast period. Furthermore, we no longer assume that global economic policy uncertainty will weigh a little on domestic private demand in 2025/26, given there have been few discernible signs of this to date. Partly offsetting these factors, there is around 30 basis points less easing in monetary policy embodied in the market path than was the case in August, which is expected to weigh on growth in private demand.

The higher level of private demand has been largely offset by a weaker outlook for public demand. Public investment unexpectedly declined in the first half of the year. While government budgets imply that public investment will bounce back in the near term before edging lower later in the forecast period, information from liaison contacts suggests that the level of public investment will likely decline over the next 12 months. The forecasts seek to balance these conflicting signals and assume that some of the unexpected weakness in the June quarter 2025 will persist over the forecast period. The outlook for public consumption is similar to the August forecasts.

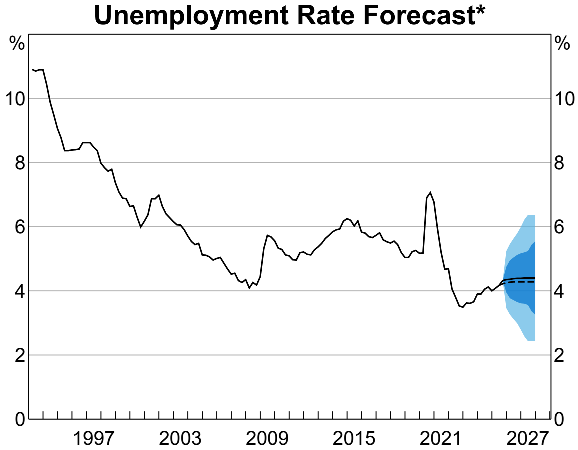
The labour market is not expected to ease much further.

The unemployment rate is forecast to be little changed, albeit starting from a higher level than expected in the August *Statement* (Graph 3.3). In quarterly terms, the unemployment rate is forecast to rise slightly and then to stabilise at close to 4½ per cent over 2026 and 2027, as GDP growth stabilises at around growth in potential output. Leading indicators such as job ads, vacancies and employment intentions are consistent with this near-term outlook for the unemployment rate to increase only slightly.

The underemployment rate is also expected to edge a little higher. Given the recent higher-than-expected increase in the unemployment rate, the risks around the labour market are explored in Key risk #2.

Graph 3.3

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.

The employment-to-population ratio and participation rate are expected to be lower than forecast at the time of the August *Statement* but remain close to record highs. Population growth is assumed to continue to ease from the very strong growth rates over recent years (Table 3.1).

The employment-to-population ratio is expected to be broadly stable from here, with employment growth matching population growth over most of the forecast period. The employment forecast assumes a pick-up in market sector employment growth as private demand growth recovers, with growth in non-market sector employment falling below the very strong rates in recent years.

The participation rate is forecast to be broadly stable. This is a change from our previous forecasts, which had assumed the participation rate would continue to increase (see Box B: Annual Forecast Review). However, while the participation rate may continue to be supported by the long-run increase in female participation, we now expect there to be less incentive to enter or remain in the labour force than in previous years. This reduced incentive reflects the lessening in cost-of-living pressures, as evidenced by the decrease in multiple job holders (from elevated levels). The lower job finding rates for both the unemployed and new labour force entrants is also expected to reduce the incentive to enter or remain in the labour force.

Demand is expected to be slightly above potential supply over the forecast period, given the market path for the cash rate, although that assessment is uncertain.

It is assessed that there will still be a little excess demand in parts of the economy and the labour market (as discussed in Key judgement #3 and Chapter 2: Economic Conditions). The staff's assumption for potential output growth over the forecast period is little changed from August; we assume potential output increases at an annual rate of around 2 per cent over most of the forecast period. Our current forecasts for GDP growth, based on the assumption the cash rate follows the market path, imply that some capacity pressures in parts of the economy are expected to remain over the forecast period. Similarly, we judge that despite the unemployment rate easing a little in the near term, there may still be a modest degree of tightness in the labour market over the forecast period.

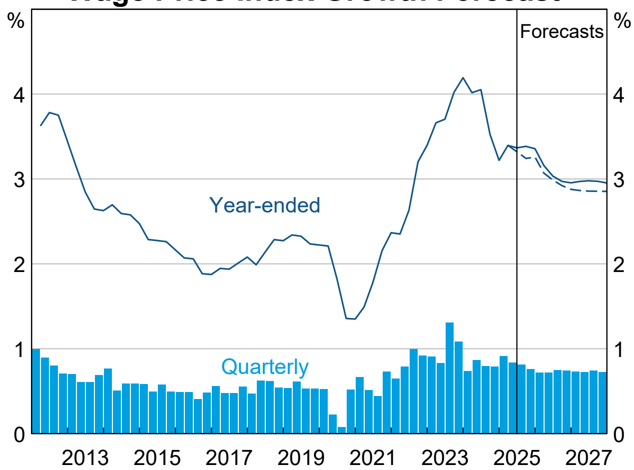
This assessment is highly uncertain. While there appears to be a little excess demand for output and labour, the degree is small and should be considered alongside the usual difficulties in assessing potential output and full employment. The possibility that we are misjudging the degree of spare capacity is covered in Key risk #2.

Quarterly growth in wages is expected to stabilise from early 2026.

Nominal wages growth is forecast to be slightly higher than expected in August. In the near term, this reflects information from recent agreements in the public sector. These agreements and announced administered decisions for several large awards may also contribute to some increased near-term volatility in quarterly wages growth. Overall, quarterly wages growth is expected to ease a little from early 2026 and then remain broadly steady over the rest of the forecast period. The outlook for wages growth is a little bit higher than forecast in the August *Statement*, given we assess there is slightly more capacity pressure in the economy and the labour market than previously thought (Graph 3.4).

Graph 3.4

Wage Price Index Growth Forecast*



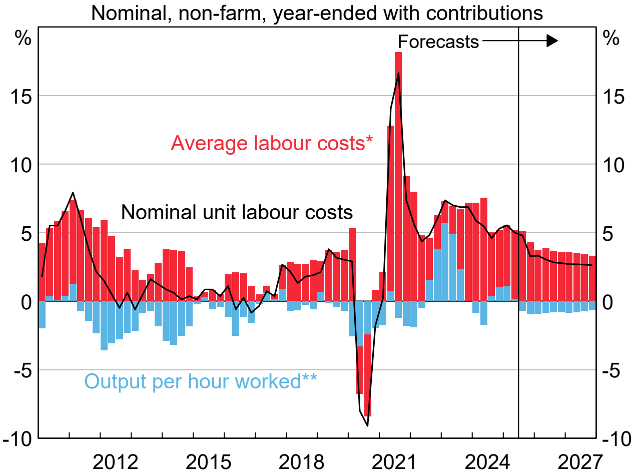
* Dashed line shows previous SMP forecast; seasonally adjusted.
Sources: ABS; RBA.

Growth in unit labour costs (ULCs) is expected to ease. Growth in nominal ULCs – the measure of labour costs most relevant for firms' cost of production and so for inflation outcomes – has been elevated in recent years, largely due to weak productivity growth. Growth in ULCs is expected to moderate over the forecast period in line with easing growth in nominal wages and a projected pick-up in productivity growth (Graph 3.5).

Graph 3.5

Unit Labour Cost Growth

Nominal, non-farm, year-ended with contributions



* Compensation of employees plus payroll taxes less employment subsidies, divided by employee hours worked.
** Inverted; includes self-employed.
Sources: ABS; RBA.

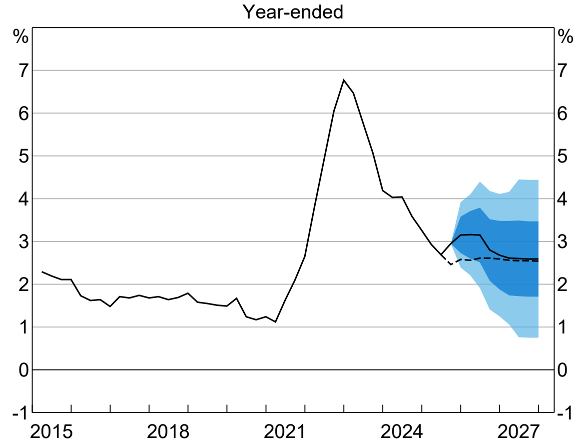
Underlying inflation is expected to be higher over the forecast period relative to the August *Statement.*

Year-ended trimmed mean inflation is expected to be above the top of the 2–3 per cent range until mid-2026, before easing to a bit above the midpoint of that range by early 2027 (Graph 3.6). In the near term, the upward revision to year-ended inflation largely reflects the stronger-than-expected inflation outcome in the September quarter. We assess that some of the quarterly increase in the September quarter is likely to be transitory and so expect quarterly inflation to decline in the December quarter.

Graph 3.6

Trimmed Mean Inflation 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.

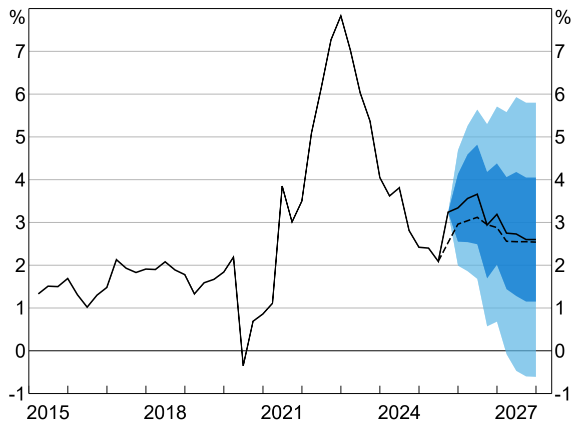
However, we do not expect much quarterly disinflation from early 2026, reflecting the return of growth to trend and some remaining capacity constraints. As noted in Key judgement #3, we have taken some signal from the strong inflation outcome in the September quarter, such as in market services and housing, alongside other labour market and survey indicators to revise higher our assessment of capacity pressures. It is possible we have taken too much or not enough signal from the September quarter inflation outcome or, more broadly, misjudged the degree of capacity pressure in the economy (see Key risk #2). Inflation expectations are assumed to remain consistent with achieving the inflation target over the long term.

Headline inflation is also expected to be higher over the forecast period relative to the August *Statement*, primarily reflecting higher underlying inflation. Year-ended headline inflation is expected to increase to 3.7 per cent by mid-2026, before easing towards a bit above the midpoint of the target range at the end of the forecast period (Graph 3.7). Changes in the timing of Energy Bill Relief Fund rebates in New South Wales, the Australian Capital Territory and Western Australia are expected to add more volatility in our forecast for headline inflation relative to the August *Statement*. Because headline inflation can be affected by large swings in the prices of individual items, we will continue to pay close attention to underlying measures as an indicator of momentum in consumer price inflation.[1]

Graph 3.7

Headline Inflation 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.

Housing inflation is expected be higher relative to the August *Statement*. The forecasts for new dwelling inflation for both detached houses and apartments – which makes up 7 per cent of the CPI – has been revised higher, reflecting the signal from the stronger-than-expected September quarter data, as well as upward revisions to the outlook for housing prices and dwelling investment. CPI rent inflation – which reflects the rents currently being paid by households and also has a weight of 7 per cent – is also expected to be a little higher over the forecast period, as near-term indicators of advertised rents suggest more strength in the rental market than previously assumed, which gradually passes through to the stock of rents as measured in the CPI.

In the near term, market services inflation is expected to be higher relative to the August *Statement*. This reflects our assessment that there will be more capacity pressure in the economy than previously thought. By contrast, the outlook for retail goods inflation is broadly unchanged from the August *Statement*.

3.4 Key risks to the outlook

Key risk #1 – Demand growth may either under- or over-shoot estimates of potential supply.

Demand could grow by less than potential supply for a range of reasons. One possibility is that the recent recovery in household consumption proves temporary and consumers revert to their cautious behaviour of recent years, choosing to save more of their higher incomes than assumed. Another is that labour demand turns out to be weaker than we have assessed, which would be expected to weigh on growth in private demand (see Key risk #2). Growth in private demand could also be weaker-than-expected if global policy uncertainty leads to some businesses delaying their investment decisions and households increasing their precautionary saving.

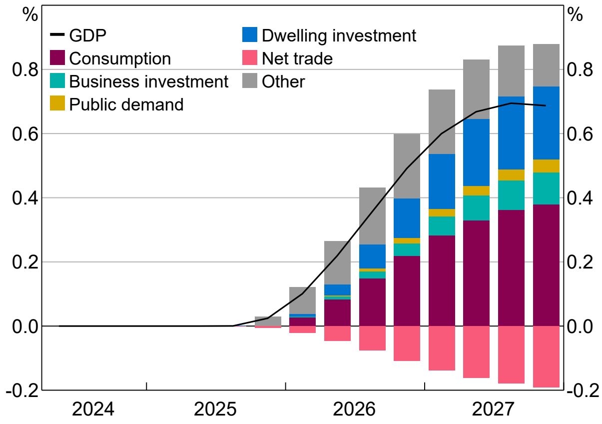
However, it is also possible that demand picks up by more than expected and exceeds growth in potential supply. While there are several sources of upside risk to the domestic activity forecast, we explore the sensitivity of activity and inflation to a stronger housing price projection. We developed a scenario in which recent housing price growth is sustained (say as a result of a bring forward in housing demand) which sees housing prices increase by an additional 10 per cent relative to the path assumed in the central forecast. Importantly, this scenario assumes no change in the cash rate relative to the market path despite the changes to aggregate demand.

An increase in housing price growth, all else being equal, would boost dwelling investment and consumption over the forecast period. The incentive to build more housing increases when the price of established housing increases relative to the cost of new housing. Furthermore, the increase in housing prices boosts household net wealth, which leads to an increase in household consumption growth (Graph 3.8).[2] Overall, we estimate that a 10 per cent increase in housing prices increases the level of GDP by 0.7 per cent relative to the central forecast by the end of the forecast period.[3] The boost to GDP growth also flows through to higher inflation; in particular, we would expect new dwelling inflation to rise sharply as capacity pressures in housing construction increase. Rental inflation would eventually respond to the increase in dwelling supply but this would not take place during the forecast period given the usual lags. Overall, we would expect that year-ended trimmed mean inflation would be ¼ percentage points higher than the central forecast.

Graph 3.8

House Price Scenario – GDP Response

Percentage change in GDP from baseline



Source: RBA.

Key risk #2 – We may have misjudged how much spare capacity there will be in the labour market and economy.

The degree of tightness in the labour market and the broader economy, and therefore the outlook for inflation, could evolve differently either because conditions in the labour market turn out to be stronger or weaker than our forecasts or because we have misjudged the current degree of excess demand.

Unemployment may rise by more than expected over the forecast period. The unemployment rate has increased by 0.4 percentage points over the past six months (half of which occurred in the month of September). While monthly labour market data can be volatile, it is possible that the labour market adjustment to the earlier period of below-trend growth could be more pronounced than we have forecast. There is also a risk that non-market employment growth continues to weaken following very strong growth in recent years. The trajectory of the unemployment rate will also depend on the labour supply response. If the participation rate resumes its upward historical trend and/or the job-finding rate for newcomers into the labour market continues to fall, the unemployment rate increase will be somewhat higher.

Alternatively, labour market conditions could also be stronger than anticipated over the forecast period. For example, market sector employment growth could rebound more quickly than in the forecasts, causing the unemployment rate to turn lower.

It is also possible we have misjudged the current degree of excess demand. It is possible we have not taken enough signal from recent inflation data, which could imply more capacity pressures in the economy than we have assessed. Model-based estimates of full employment and spare capacity continue to point to a tighter labour market than suggested by some other indicators. However, it may also be the case that the September quarter CPI outcome was driven mostly by factors that were temporary or less closely associated with domestic capacity pressures. For example, inflation may have picked up due to the removal of temporary discounts or the unwinding of margin squeezes. Similarly, the pick-up in food-related market services inflation may have been caused by high inflation for some food inputs. If the pick-up in inflation in the September quarter was entirely caused by temporary factors, this would imply we should have taken less signal for our assessment of capacity pressures in the labour market and economy.

Key risk #3 – Global growth may be weaker than forecast, though there are risks in both directions.

The resilience of the global economy to date has partly reflected the ability of tariff-facing economies, particularly China, to find alternative markets for their exports. While some of the observed trade redirection to date is consistent with structural changes across supply chains in Asia, and may therefore continue, it is an open question as to whether demand in these other markets – for example, in Africa and South America – will be sustained. If sustained, the global economy may continue to be more resilient than expected. On the other hand, trade barriers elsewhere may increase if there are concerns that domestic industries cannot compete with the low-cost imports.

While any further escalation of trade barriers would weigh on the outlook by more than we have currently factored in, downside risks to the global outlook also extend beyond trade barriers. An abrupt correction in global equity and fixed-income markets, some of which are trading at historically stretched valuations, also poses downside risks to growth.

In China, the risks to the domestic growth outlook (outside of trade) are balanced. There are multiple possible drivers of the recent weakness in domestic fixed asset investment, with some likely to be temporary and others more persistent. A key downside risk is that the weakness in investment reflects longer running structural factors and is more persistent than currently expected. However, there remains upside risk that stronger-than-expected fiscal support – as occurred in late 2024 – could lead to higher growth than currently forecast for 2026 and 2027. Authorities are expected to meet in the coming months to agree on the growth target for the year ahead and outline the next Five-Year Plan. This will inform our outlook for China, which is for growth to slow moderately before stabilising.

The risks around the outlook for inflation in most advanced economies appear broadly balanced. Outside of the United States, Consensus forecasters and central banks largely expect inflation to return to around targets over the next year or so, alongside labour market softness and weakness in domestic demand. Global trade developments may prove to be more disinflationary than currently expected, particularly if the recent declines in Chinese export prices persist, though any impact on inflation will also depend on the response of exchange rates. On the other hand, slow progress on services disinflation remains an upside risk to the outlook and several of Australia's trading partners, particularly in Asia, have also announced plans for more expansionary fiscal policy, which may add more to demand than currently factored in.

3.5 Detailed forecast information

Table 3.1 provides additional detail on forecasts of key macroeconomic variables. The forecast table from current and previous *Statements* can be viewed, and data from these tables downloaded, via the *Statement on Monetary Policy – Forecast Archive*.

Table 3.1: Detailed Forecast Table[a]

Percentage change through the four quarters to quarter shown, unless otherwise specified[b]

	Jun 2025	Dec 2025	Jun 2026	Dec 2026	Jun 2027	Dec 2027
Activity						
Gross domestic product	1.8	2.0	1.9	1.9	2.0	2.0
Household consumption	2.0	2.1	2.1	2.3	2.1	2.1
Dwelling investment	4.8	4.8	3.7	3.1	2.7	2.5
Business investment	0.2	0.1	1.0	2.0	2.5	2.6
Public demand	3.0	2.1	3.6	3.2	3.1	2.4
Gross national expenditure	2.1	2.1	2.5	2.7	2.5	2.3
Major trading partner (export-weighted) GDP	3.9	3.2	3.0	3.3	3.3	3.3
Trade						
Imports	1.9	3.1	4.0	4.5	3.8	2.9
Exports	1.5	2.1	1.4	1.4	1.9	1.8
Terms of trade	−2.4	1.5	1.6	−1	−0.3	0.0
Labour market						
Employment	2.2	1.3	1.1	1.3	1.4	1.4
Unemployment rate (quarterly, %)	4.2	4.4	4.4	4.4	4.4	4.4
Hours-based underutilisation rate (quarterly, %)	5.1	5.4	5.4	5.4	5.4	5.5
Income						
Wage Price Index	3.4	3.4	3.0	3.0	3.0	3.0
Nominal average earnings per hour (non-farm)	4.9	4.3	3.9	3.6	3.5	3.3
Real household disposable income	4.1	2.2	2.0	2.5	2.3	2.2
Inflation						
Consumer Price Index	2.1	3.3	3.7	3.2	2.7	2.6
Trimmed mean inflation	2.7	3.2	3.2	2.7	2.6	2.6
Assumptions						
Cash rate (%)[c]	4.0	3.6	3.4	3.3	3.3	3.3
Trade-weighted index (index)[d]	59.7	61.3	61.4	61.4	61.4	61.4
Brent crude oil price (US$/bbl)[e]	66.8	63.8	63.4	63.4	63.4	63.4
Estimated resident population[f]	1.6	1.6	1.4	1.3	1.2	1.2
Memo items						
Labour productivity[g]	−0.1	0.9	0.9	0.8	0.8	0.7
Household savings rate (%)[h]	4.2	4.1	4.3	4.5	4.6	4.5
Real Wage Price Index[i]	1.3	0.0	−0.5	−0.2	0.2	0.3
Real average earnings per hour (non-farm)[i]	2.7	0.9	0.4	0.4	0.8	0.7

(a) Forecasts finalised on 29 October.

(b) Forecasts are rounded to the first decimal point. Shading indicates historical data.

(c) The cash rate is assumed to move in line with expectations derived from financial market pricing. Prior to the May 2024 *Statement*, the cash rate assumption also reflected information derived from surveys of professional economists. For more information, see A Change to the Cash Rate Assumption Method for the Forecasts.

(d) The daily exchange rate (TWI) is assumed to be unchanged at its current level.

(e) Oil prices are assumed to remain constant at the current price over the current quarter. For the rest of the forecast period oil prices are expected to remain around the price implied by the six-month-forward rate.

(f) The population assumption draws on a range of sources, including partial indicators from the Australian Bureau of Statistics, migration policies, and estimates of the Australian Government.

(g) GDP per hour worked (non-farm).

(h) Household savings ratio refers to the ratio of household saving (disposable income minus consumption) to household disposable income, net of depreciation.

(i) Real Wage Price Index and non-farm average earnings per hour worked are both deflated by Consumer Price Index.

Sources: ABS; Bloomberg; CEIC Data; Consensus Economics; LSEG; RBA.

Endnotes

1 See RBA (2024), 'Box C: Headline and Underlying Inflation', *Statement on Monetary Policy*, August.

2 May D, G Nodari and D Rees (2019), 'Wealth and Consumption', RBA *Bulletin*, March.

3 While not assumed, under this scenario the path for the cash rate could shift up relative to the baseline. Under this outcome, the increase in demand for housing assets would be unwound (likely beyond the forecast period), so the effect on the level of GDP, real house prices and inflation is only temporary.

Box B: Annual Forecast Review

A review of the RBA economic forecasts is undertaken each year by staff to assess what we have learned about the economy and the forecasting approach during the year, with a view to continuous improvement.

In this year's review, we compare actual outcomes with the forecasts from the November 2024 *Statement* and look at how the forecasts evolved through the year. We also assess how the judgements that underpin the forecasts have fared and how the risks around the outlook have evolved. The key takeaways are:

- In the November 2024 *Statement*, we forecast that by late 2025 GDP growth would gradually recover to around potential and the labour market would continue to ease at a gradual pace. We judged that the economy and the labour market would return to balance by late 2025, such that underlying inflation would continue easing to just below 3 per cent by late 2025.
- This has played out largely as expected. GDP growth has recovered to be close to potential, although the pick-up was less pronounced than we had anticipated. The increase in the unemployment rate over the year was very close to expectations, though both the participation rate and employment-to-population ratio did not continue to increase as expected. Underlying inflation was also very close to expectations, while headline inflation was a bit lower than expected, mostly reflecting the unanticipated extension of government electricity rebates to households. The forecast misses for GDP growth, the unemployment rate and underlying inflation were small – around the 10th percentile of absolute forecast errors since 1990 and less than the 20th percentile compared with the period between 2010–2019.
- We currently assess that there is slightly more capacity pressure in the economy than we had anticipated in the November 2024 *Statement*. This points to slightly higher inflationary pressure in the period ahead than we had expected (see Chapter 3: Outlook).
- Surprises in the key forecast conditioning assumptions (e.g. the cash rate and population growth) over the year were small; a decomposition of the forecast errors in the RBA's macroeconomic model MARTIN suggests that these surprises explain little of the forecast misses on activity and inflation.

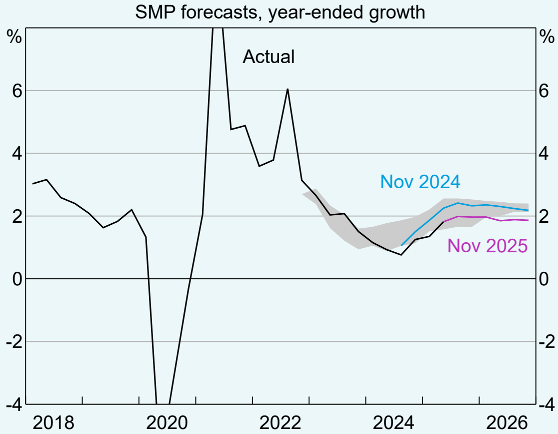
GDP growth was weaker than expected.

The pick-up in GDP growth over the year was less pronounced than we had expected. In November 2024, growth in GDP was expected to pick up to 2.3 per cent over the year to the June quarter 2025 as private demand recovered, with growth in public demand continuing to support activity (Graph B.1). However, growth over the year was 1.8 per cent. This downside forecast miss was relatively modest compared with the RBA's historical forecast errors for growth one-year ahead (the median absolute error from 1990–2025 was 0.8 percentage points) but larger than that of the median of market economists' expectations in November 2024.

Graph B.1

GDP Forecasts*

SMP forecasts, year-ended growth



* Outliers during the COVID-19 pandemic have been truncated. Shaded area represents range of SMP forecasts between February 2023 and August 2025.

Sources: ABS; RBA.

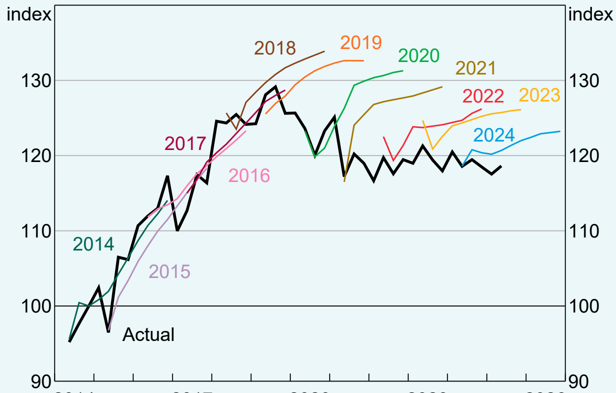
Weaker-than-expected GDP growth reflected downside forecast misses on public demand and exports, partially offset by stronger-than-anticipated growth in private demand. The RBA's forecasts for public demand are typically based on federal and state government projections. However, actual outcomes can be different from these projections because policy priorities may change and changing economic conditions can affect spending volumes and timing. Over the past year, public demand did not grow as quickly as expected, largely reflecting a downside surprise on public investment. While the public investment data can be volatile and subject to revision, our latest forecasts have taken some signal from the public investment forecast misses over the first half of 2025 (see Chapter 3: Outlook).

Growth in exports has been weaker than expected over the past two years. Education exports were weaker than forecast as the number of overseas students studying in Australia did not increase in line with expectations. Resource exports (which make up over half of total exports) have also been weaker than forecast over recent years, with much of the miss concentrated in coal exports (Graph B.2). This likely reflects an overestimation of supply capacity, but we are also exploring whether overseas demand has been weaker than anticipated.

Graph B.2

Resource Export Forecasts*

SMP forecasts, December quarter 2014 = 100



* November SMP forecasts.

Sources: ABS; RBA.

The terms of trade have evolved broadly as expected and trading partner growth has been more resilient than anticipated, despite volatility in the global geopolitical environment. Following the announcement of higher tariffs in some economies and associated elevated policy uncertainty from early 2025, the global economy has been more resilient than expected, though the full effects of the higher tariffs on activity and inflation are yet to be seen.

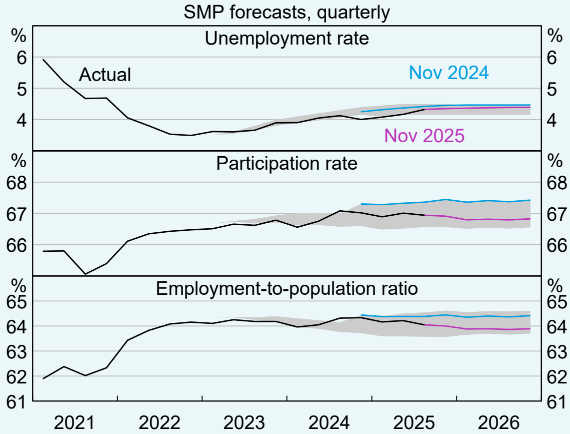
The increase in the unemployment rate was very close to expectations, though we assess there is slightly more capacity pressure in the broader economy than we had anticipated.

The unemployment rate increased by 0.2 percentage points to 4.3 per cent over the year to the September quarter, which was very close to expectations. In November 2024, we forecast that the unemployment rate would increase gradually to 4.4 per cent in the September quarter 2025 and then peak soon after at 4.5 per cent, consistent with the signal from leading indicators such as the vacancy rate and hiring intentions, as well as below-trend GDP growth (Graph B.3).

Graph B.3

Labour Market Forecasts*

SMP forecasts, quarterly



* Shaded area represents range of SMP forecasts between February 2023 and August 2025.

Sources: ABS; RBA.

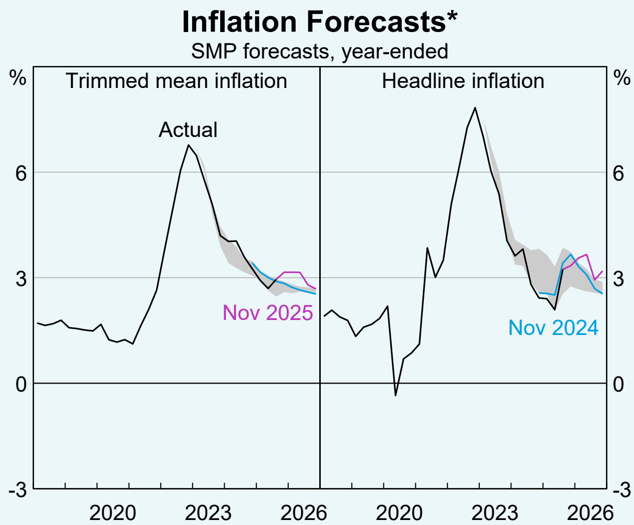
The easing in the labour market also occurred through margins of adjustment other than the unemployment rate. In November 2024, we forecast the participation rate to increase further, reflecting solid employment opportunities in the non-market sector, cost-of-living pressures, and continued structural increases in participation of female and older workers (Graph B.3). However, the participation rate has trended slightly lower. This may have reflected an easing in both labour demand (it being somewhat harder to become employed when the labour market is less tight) and labour supply (as some easing in cost-of-living pressures reduced the incentive to enter or remain in the labour force) (see Chapter 2: Economic Conditions). We are looking to deepen our understanding of the relative importance of labour supply and labour demand on current labour market conditions. Employment growth was forecast to ease as population growth slowed from very strong growth rates over the previous couple of years and as growth in non-market sector employment slowed. However, employment growth slowed by a bit more than expected over the year; this likely reflected non-market employment growth slowing by more than anticipated, although we do not have complete sectoral data for the whole year as yet.

More generally, we assess that there is slightly more capacity pressure in the economy than we had expected in November 2024. Capacity pressure is an important determinant of inflation. In November 2024, we had forecast that the gradual easing in labour market conditions would ease a little further and that supply and demand in the labour market and the economy would be in balance by the end of 2025. Our current assessment is that conditions in the labour market, and the economy more broadly, are a little tighter at this point than we had expected (see Chapter 2: Economic Conditions). This points to slightly higher inflationary pressure in the period ahead than we had expected one year ago. There is considerable uncertainty around this assessment, and staff have adjusted their assessment of capacity pressure throughout the year (see judgements section below).

Inflation was largely as expected.

Headline inflation was a bit lower than expected over the year, largely reflecting the extension of government electricity rebates to households. Headline inflation – which is the measure that the RBA targets – was 3.2 per cent over the year to the September quarter, compared with expectations of 3.4 per cent in the November 2024 *Statement* (Graph B.4). This downside miss was smaller than the RBA's average forecast error for headline inflation over the year ahead (the median absolute error from 1990–2025 was 0.9 percentage points). At the time of the November 2024 *Statement*, government energy rebates were scheduled to be removed in the second half of 2025, which would have increased energy costs for households and pushed overall inflation materially higher. However, in March this year the Australian Government announced that the federal electricity rebates would be extended until the end of 2025. The cessation of electricity rebates is now scheduled for later this year (see Chapter 3: Outlook).

Graph B.4



* Shaded area represents range of SMP forecasts between February 2023 and August 2025.
Sources: ABS; RBA.

Underlying inflation was very close to expectations. The trimmed mean measure was 3.0 per cent over the year to the September quarter, compared with expectations of 2.9 per cent in the November 2024 *Statement* (Graph B.4). The staff construct the forecast for underlying inflation using a suite of inflation models and then overlay it with informed judgement. A key input that feeds into the forecasts is the assessment of capacity pressures in the economy and the labour market, and how that will evolve over the forecast period. As noted above, the staff assess there is currently slightly more capacity pressure in the economy than we had forecast a year ago. However, our judgement around the degree of spare capacity has evolved throughout the year and is discussed below.

The staff's judgements have generally aligned with outcomes.

All economic forecasts reflect a substantial amount of expert judgement. This includes decisions about which models to use, how much weight to assign to each, how to incorporate information that models cannot capture and how much signal to take from recent data. Since May 2024, we have explicitly identified the key judgements and their contribution to the forecasts in the Outlook chapter of the *Statement*. This ensures clarity and accountability in how our forecasts are formed.

In November 2024, we judged that consumption would recover largely in line with income growth over the year ahead; this followed a period in which the response of consumption to developments in incomes had been weaker than expected, and there was significant uncertainty about whether this would persist. This judgement largely panned out over the year, with consumption growth evolving broadly as expected. However, this was due in large part to a very strong consumption outcome in the June quarter 2025, with growth tracking below expectations in the prior three quarters. Understanding the momentum in consumption has been made more challenging due to one-off factors such as the household electricity rebates and weather events, changes in households' response to sales periods and large revisions to historical data. As a result, we are cautious in taking too much signal from the accuracy of our November forecast prediction (particularly given the longer run upward biases in our consumption forecasts) and are continuing to invest resources in improving both our nowcasts for consumption as well as the consumption models.

In the February, May and August forecasts, we applied some modest downward judgement to the inflation profile to reflect the possibility that there was a bit more capacity in the labour market and the economy than previously assessed. The downward judgement was initially motivated by weaker-than-expected wage and inflation data for the December quarter 2024 as well as some other data that suggested the economy might not be as tight as previously thought. However, the signal from data in recent months, including the strong inflation outcome in the September quarter and increase in capacity utilisation measures, has led us to remove this downward judgement (see Chapter 3: Outlook for further detail on this judgement).

An alternative explanation for the lower-than-expected inflation from December quarter 2024 was that margins in the market sector may have been temporarily compressed in response to weak demand. Input cost growth remained elevated over the year (in particular, unit labour cost growth), and our inflation forecasts in November 2024 assumed that these would be partly passed through to final prices. However, many firms in the market sector faced subdued growth in demand over the past year, which may have limited the extent to which higher input costs could be passed through to final prices. Starting in December quarter 2024, there were signs that margins in some parts of the economy were coming under pressure. We saw clear evidence of this in the housing construction sector. Between late 2024 and the first half of this year, developers offered discounts and incentives in response to weak housing demand, which saw new dwelling cost inflation – which is around 7 per cent of the CPI basket – ease sharply. The pick-up in new dwelling inflation in the September quarter reflected an unwinding of these discounts and an increase in base prices as housing demand has started to pick up. Some liaison contacts in other parts of the economy, such as retail, also reported pressure on margins earlier in the year though it is difficult to find conclusive evidence of changes in margins in the data. Nevertheless, given the possibility that firms may look to further unwind any margin compression that did occur now that private demand growth has picked up, this will be a key analytical priority in the period ahead.

Over the year, we adjusted our judgement around potential growth as well as the inflationary impact from weak productivity. The RBA's GDP growth forecasts were upwardly biased over the past decade. This was partly because of an implicit assumption that productivity growth was temporarily weak and would gradually return to its higher historical growth rates, but this has not eventuated. As a result, our assessment of the sustainable rate of growth that the economy would return to when in balance was too high. This was one of the factors informing the decision to lower the assumption for medium-term trend labour productivity growth earlier this year.[1] We will continue to monitor our judgement that lower productivity growth may be less inflationary than previously assumed as households and businesses have already adjusted to the persistence.

The risks to the global outlook have evolved substantially over the year.

In each forecast round, staff consider plausible ways in which the economy could evolve differently from the central forecast. This analysis is often augmented with quantitative scenarios using the RBA's macroeconomic models to explore the likely transmission to domestic inflation and employment if these alternative scenarios came to pass. Over the past year, the scenarios have explored the global economic outlook, the strength and persistence of the recovery in private demand, and the two-sided risks around our judgement about spare capacity. These risks remain relevant for the current set of forecasts.

The onset of higher US tariffs and greater policy uncertainty has shifted the risks around the global environment. In November 2024, we assessed that there were two-sided risks to the global economy given both the potential boost to global activity from fiscal policy and the effects of a possible intensification of regional conflicts on global trade. However, the risks to the global economic outlook became much more skewed to the downside following the announcement of materially higher US tariffs earlier this year. In the May *Statement*, we presented alternative scenarios that were tied to different tariff configurations and explored the possible transmission to economic activity from the heightened levels of policy uncertainty. We also considered the risks of inflationary pressures from a protracted 'trade war' given the potential for large supply chain disruptions. While the risk of a 'trade war' scenario has since diminished, it remains too early to know the full effects of the higher tariffs on activity and inflation. This is because the effects of tariff policy changes on the global economy are expected to be most pronounced in the second half of this year, noting that the implementation of higher tariffs was delayed from April to August.

Endnote

1 See RBA (2025), 'Chapter 4: In Depth – Drivers and Implications of Lower Productivity Growth', *Statement on Monetary Policy*, August.

Box C: The Transition to a Complete Monthly CPI

This Box discusses the complete monthly Consumer Price Index (CPI), which the Australian Bureau of Statistics (ABS) will publish from November 2025, and how the RBA will use this information to assess price pressures in the economy.

The ABS will start publishing a complete monthly CPI in late November, with the first release of data for October 2025. The ABS collects prices for thousands of goods and services consumed by households and, in April 2024, began collecting data for many of these prices on a monthly basis. The introduction of the complete monthly CPI is a significant milestone, which brings Australia in line with international best practice. Over time, it will support the RBA in making well-informed and timely monetary policy decisions.

To help provide continuity while the properties of the monthly data become clear, the ABS will continue to publish some data from the seasonally adjusted quarterly CPI series (based on the pre-October 2025 collection frequency) for at least 18 months. The RBA will continue to monitor the quarterly data alongside the monthly series throughout this period. With the complete monthly CPI about to commence, the ABS has discontinued the monthly CPI Indicator.

Headline inflation from the complete monthly CPI will be the new target for monetary policy.

Headline consumer price inflation measures the change in the price of the entire 'basket' of goods and services purchased by households, as captured in the CPI. The RBA's flexible inflation target is for headline consumer price inflation to be between 2 and 3 per cent, and monetary policy is set in a forward-looking way so that inflation is expected to return to the midpoint of this range.

In recent history, the RBA's target has been specified as year-ended headline inflation from the quarterly CPI.

The monthly CPI will replace the quarterly CPI as Australia's primary measure of year-ended headline inflation and the benchmark for the RBA's inflation target. While it may be volatile on a month-to-month basis, it will also provide more timely and complete information on consumer price inflation.

The RBA currently uses the quarterly trimmed mean measure to assess underlying price pressures in the economy.

The RBA monitors measures of underlying inflation to help look through volatility in prices, including one-off or temporary price changes that do not reflect underlying price pressures in the economy. The RBA has considered a number of measures of underlying inflation constructed from the quarterly CPI data, although we have placed particular emphasis on quarterly trimmed mean inflation, calculated using data that has been adjusted for seasonal patterns.[1] This focus on quarterly trimmed mean inflation reflects that it has useful properties, including that it helps to predict near-term headline inflation.

It will take time for the RBA to learn about the properties of the monthly CPI data.

Inflation data in the monthly CPI – particularly measures of underlying inflation – may have different properties to those from the quarterly CPI. The RBA will need to learn about these to use the data effectively to assess underlying inflationary pressures. As more data become available, the seasonal properties of the data will become clearer. For example, due to the short time series, initially the ABS will not be able to apply standard seasonal adjustment techniques to all items; however, standard techniques will be applied to all items by mid-2027. In addition, a longer time series will help the RBA to understand the best way to distinguish temporary noise in the monthly data from genuine information about underlying price pressures in the economy.

When the ABS starts publishing the complete monthly CPI, the RBA will initially continue to focus on measures of underlying inflation from the quarterly CPI (based on the pre-October 2025 collection frequency), such as the quarterly trimmed mean series. These quarterly data, which have well-understood properties and established seasonal patterns, will provide an important source of continuity while the properties of the new monthly series become clear. In conjunction, the RBA will begin to consider underlying inflation measures constructed using the monthly CPI.

As we learn more about the data, the RBA may choose to focus on a measure of trimmed mean inflation that is calculated from the complete monthly CPI. Alternatively, we may choose instead to focus on a different measure of underlying inflation or emphasise a suite of complementary measures if we assess that this will provide more information about underlying price pressures in the economy.

The RBA will continue to produce and publish quarterly (rather than monthly) forecasts for inflation.

Some of the key variables that the RBA uses to forecast the economic outlook, such as GDP and labour costs, are published on a quarterly basis only. For headline CPI inflation, we will forecast year-ended headline inflation based on the quarter-average of the monthly CPI. This is consistent with the approach taken by many other central banks that have access to monthly inflation data. For underlying inflation, initially we will continue to forecast quarterly trimmed mean inflation from the quarterly CPI, although our forecast will be informed by the monthly CPI data. Over time, we will transition to forecasting underlying measure/s constructed solely from the monthly CPI.

For more detail, please refer to Technical Note: The Transition to a Complete Monthly CPI.

Endnote

1 Trimmed mean inflation is the average rate of inflation after 'trimming' away the items with the largest price changes (positive or negative) in seasonally adjusted terms. That is, after ranking each item in the basket by the size of seasonally adjusted price changes, trimmed mean inflation is calculated by the weighted mean of the middle 70 per cent of the quarterly distribution of price changes. Relatedly, weighted median inflation is the inflation rate of the item at the middle of the price changes in the CPI basket (the 50th percentile of the quarterly distribution by weight).