# Weekly economics podcast: Less cautious

**By Perpetual Corporate Trust**
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*By Stephen Roberts*

The RBA cut the cash rate by 25bps to 3.60% as widely expected. The statement accompanying the rate cut as well as the update of the RBA's economic forecasts in the August Monetary Policy Statement implies that the RBA has become less cautious about cutting the cash rate further than we expected. Ahead of the RBA announcements last week, our view was that after the August rate cut, the RBA might go one more time taking the cash rate down to 3.35% late this year.

The RBA's Monetary Policy Statement points to two or three more rate cuts over the next year taking the cash rate down to 2.85% by the end of 2026. The RBA's less cautious approach to cutting the cash rate than we expected comes down to their view that the Australia's growth recovery will be slow meaning that inflation, after an upward blip in headline CPI inflation over the next year, will fall back sustainably to the middle of the 2-3% target band in 2027.

To be fair, the RBA has not changed its inflation forecasts from the set produced in the May Monetary Policy Statement. What has changed over the last three months is that it has become more confident about its 2026 and 2027 inflation forecasts. That confidence stems partly from the way inflation has been tracking. The RBA scored a bull's eye with its June 2025 inflation forecasts with Q2 CPI inflation coming in as it expected at 2.1% y-o-y and underlying (trimmed mean) inflation coming in at 2.7%.

That inflation forecast accuracy for June 2025 meant that it had some cause to not change its May inflation forecasts showing a base effect rise in CPI inflation to 3.1% in June 2026 ahead of a slide to 2.6% by June 2027 and 2.5% in December 2027. Crucially, trimmed mean inflation, much less impacted by government cost-of-living initiatives edges down in the RBA's May and August forecasts to 2.6% by December 2025 and then flatlines close to that level through 2026 and 2027.

The main reason, however, why the RBA became more confident about its inflation forecasts between May and August was that it had reason to downgrade its May economic growth forecasts. The RBA has pulled back its GDP growth forecasts in the August Monetary Policy Statement and now forecasts that growth will lift to only 1.7% y-o-y in December 2025 and then progress to 2.1% in December 2026 before flatlining at 2.0% in 2027.

This revised RBA forecast of persistently soft, sub-trend economic growth over the next two years underpins other forecasts, such as the unemployment rate and wage growth, that influence the course of inflation. The soft growth trend as forecast by the RBA would tend to hold the unemployment rate around 4.3% over the next two years which in turn would cause wage growth to moderate to 2.9% in June 2026 through to December 2027.

Our view is that while it is possible that the RBA's soft growth forecasts could happen there is already a case that growth could be firmer than the RBA is forecasting and that everything that hangs off the growth forecasts including the tightness of the labour market, wages and inflation could be firmer too. While poor productivity, the main reason for the RBA's growth

pessimism, restrains how fast the economy grows over time, its impact can be trumped for a period by short-term stimulus factors such a sharp rise in real household disposable income such as has happened over the past year.

The RBA scored a bull's eye for its June 2025 inflation forecasts, but other key immediate-term forecasts are tracking a touch firmer than forecast. The June 2025 3.3% y-o-y RBA wage price index forecast is below the 3.4% result released last week. The July unemployment rate at 4.2% will need to edge up over coming months to reach the RBA's forecast 4.3%.

More importantly, annual GDP growth in Q2 (report out in early September) seems to be shaping up more strongly than the RBA's 1.6% y-o-y forecast for June 2025. A quarter-on-quarter GDP growth rate of 0.5% would lift annual growth from 1.3% y-o-y in Q1 to the RBA's forecast 1.6%. Two factors are pointing to a stronger than 0.5% q-o-q outcome, booming housing expenditure,
up at least 1.0% q-o-q in real terms in Q2 and household consumption, up at least 0.7% q-o-q based on the June household spending report.

If the data reports over the next month or two indicate that the RBA's growth forecasts are too soft that is likely to make the RBA return to being cautious about its inflation forecasts. That does not prevent the RBA from delivering another rate cut, probably in November, but it does limit the possibility of further rate cuts beyond.

If we are wrong about the economy taking a firmer growth trajectory than the RBA is forecasting, it will still need more growth and inflation readings to confirm. As the RBA implies in the May Monetary Policy Statement rate cuts will come slowly. Even a less cautious RBA will take its time, delivering rate cuts at intervals of three months or more.

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