# MNI RBA Review – August 2025

**Meeting Date:** Tuesday, 12 August 2025

**Link To Statement:** https://www.rba.gov.au/media-releases/2025/mr-25-22.html

## Contents



## MNI POV (Point of View): Target Achieved With More Cuts

The RBA made the unanimous decision to cut rates 25bp to 3.60%, as expected, and a larger move was not discussed. However, around another 75bp of easing is assumed in the updated staff forecasts which results in underlying inflation at around the 2.5% band mid-point from H2 2025. Thus, more rate cuts are likely going forward dependent on the data developing broadly as the RBA expects and excluding any major shocks. The statement noted that easing in the forecast was "gradual" and Governor Bullock said that the Board continues to take things at a "measured pace", and so future decisions will be taken "meeting by meeting" and be highly data dependent. Also, it was right to hold in July and wait for data to confirm they were "on track". While, she didn't rule out "back-to-back cuts", the next rate reduction is likely to again coincide with the Statement on Monetary Policy, which will be on November 4, given the "measured" sentiment.

The inflation trajectory is unchanged despite a lower cash rate assumption over 2026, which the Board reiterated showed a "gradual easing path". With the extension of the forecasts to Q4 2027, trimmed mean inflation now reaches the 2.5% mid-point of the band after sitting at 2.6% from H2 2025 assuming rates trough around 2.9%. When asked in the press conference, Bullock said that inflation would have undershot 2.5% without the August rate cut. Thus, that would probably also be the case without the 25bp reduction by end-2025, 25bp in H1 2026 and 25bp in H2 2026 assumed in the August projections.

Q2 labour market indicators were close to RBA May expectations and so there were few changes in the August update but there was a change in the statement language. The Board stated that "labour market conditions remain a little tight" compared to July's "conditions remain tight". "Tight" was removed from the paragraph on the lagged impact of policy on decision making. "The labour market remains strong" was changed to "labour market conditions easing slightly" in the penultimate paragraph of the statement. The unemployment rate projections were unchanged with it reaching 4.3% and then staying there. Employment growth was revised higher in the near-term and then was little changed. Wages growth expectations were slightly lower.

Q4 2025 GDP growth was revised down 0.4pp to 1.7% driven by lower public demand expectations. Q4 2026 GDP is little changed at 2.1% after 2.2% in May with private consumption and business investment revised down but public demand up. The forecasts continue to show a gradual recovery in household expenditure and capex. There was little change to trading partner GDP projections despite the Board saying "there is a little more clarity on the scope and scale of US tariffs" suggesting that the "more extreme outcomes" should be "avoided". 2025 Australian export growth projections were revised lower.

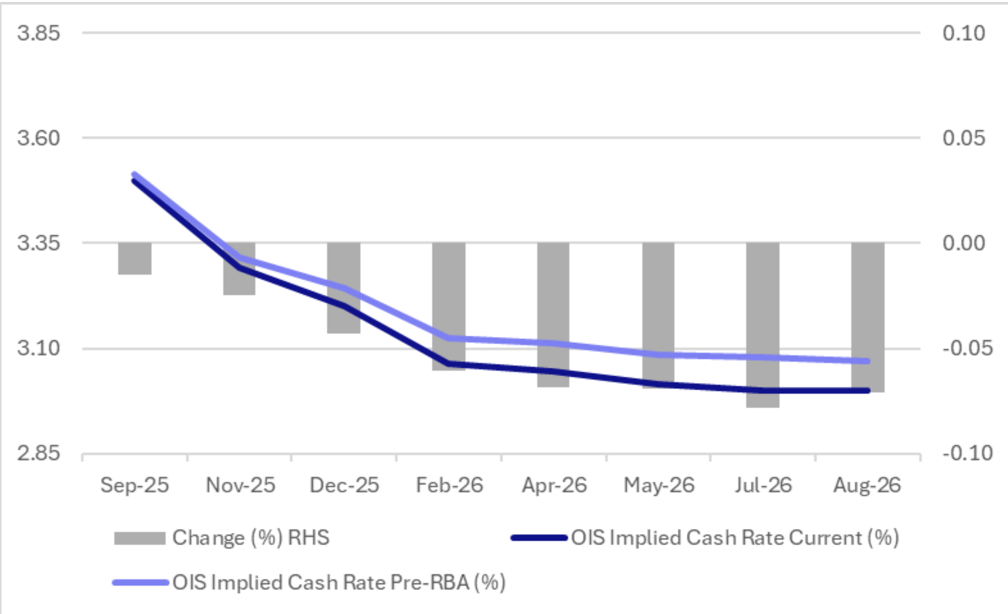
Bullock reiterated that the RBA cannot impact productivity and warned that it impacts living standards. Her presentation to the productivity round table next week will focus on how reforms that increase productivity growth will improve economic resilience. Trend productivity was revised down to 0.7% from 1% in what seems an exercise in making the growth forecasts, which have been too high, consistent with inflation and labour outcomes.

# Post-Meeting RBA Dated OIS Pricing

RBA-dated OIS pricing is modestly softer across meetings today following yesterday's decision by the RBA to lower the cash rate by 25bps to 3.60%.

- At the time of writing, pricing across meetings was 2-8bps softer than yesterday's pre-RBA levels.
- A 25bp rate cut in September is given a 37% probability, with a cumulative 52bps of easing priced by year-end.

**Figure 1: RBA-Dated OIS – Current Vs. Pre-RBA**




Source: Bloomberg Finance LP / MNI

# RBA August 2025 Meeting Statement

At its meeting today, the Board decided to lower the cash rate target by 25 basis points to 3.60 per cent.

**Inflation has continued to moderate.**
Inflation has fallen substantially since the peak in 2022, as higher interest rates have been working to bring aggregate demand and potential supply closer towards balance. In the June quarter, trimmed mean inflation over the year fell to 2.7 per cent, broadly as expected in May. Headline inflation, which has partly been affected by temporary cost of living relief measures, was 2.1 per cent, also as forecast. Updated staff forecasts for the August meeting suggest that underlying inflation will continue to moderate to around the midpoint of the 2–3 per cent range, with the cash rate assumed to follow a gradual easing path.

**The outlook remains uncertain.**
Uncertainty in the world economy remains elevated. There is a little more clarity on the scope and scale of US tariffs and policy responses in other countries, suggesting that more extreme outcomes are likely to be avoided. Trade policy developments are nevertheless still expected to have an adverse effect on global economic activity, and there remains a risk that households and firms delay expenditure pending still greater clarity on the outlook. As in May, the forecasts assume that both effects weigh on activity and inflation in Australia for a period.

Domestically, private demand appears to have been recovering gradually, real household incomes have picked up and some measures of financial conditions have eased.

Various indicators suggest that labour market conditions remain a little tight, although have eased further in recent months. The unemployment rate rose to 4.3 per cent in the month of June and averaged 4.2 per cent in the June quarter as a whole, in line with the May forecasts. Measures of labour underutilisation nevertheless remain at low rates and business surveys and liaison suggest that availability of labour is still a constraint for a range of employers. Looking through quarterly volatility, wages growth has eased from its peak but productivity growth has not picked up and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation stemming from both domestic and international developments. The forecasts released today are for the recovery in household consumption growth to be sustained as real incomes rise. Businesses in some sectors, however, continue to report that weakness in demand is making it difficult to pass on cost increases to final prices. There is a risk that consumption growth is a little slower than expected, which could weigh on growth in aggregate demand and lead to weaker labour market conditions. Alternatively, as real incomes and wealth continue to rise, households might choose to consume more and save less than expected. Labour market outcomes may also prove stronger than expected, given the signal from a range of leading indicators.

There are also uncertainties regarding the lags in the effect of recent monetary policy easing and how firms' pricing decisions and wages will respond to the balance between aggregate demand and potential supply for goods and services, conditions in the labour market and continued weak productivity outcomes.

**Maintaining price stability and full employment is the priority.**
With underlying inflation continuing to decline back towards the midpoint of the 2–3 per cent range and labour market conditions easing slightly, as expected, the Board judged that a further easing of monetary policy was appropriate. This takes the decline in the cash rate since the beginning of the year to 75 basis points. The Board nevertheless remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and potential supply. It noted that monetary policy is well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia.

The Board will be attentive to the data and the evolving assessment of risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labour market. The Board is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.

**Decision**
Today's policy decision was unanimous.

(*red denotes changes to policy statement from July)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# MNI RBA Watch: Bullock Points Toward Further Cuts

*By Daniel O'Leary*

MELBOURNE - Reserve Bank of Australia Governor Michele Bullock signalled further easing ahead after Tuesday's Board decision to cut the cash rate by 25 basis points to 3.6%, noting policymakers will be guided by incoming data at each meeting.

"I wouldn't say, one way or the other, that we won't be having back-to-back cuts," Bullock told reporters after the largely-anticipated move. (See MNI RBA WATCH: Board Set To Cut As CPI, Labour Ease) "What we'll be doing is looking at the data that comes out before each meeting … and judging whether or not we think that we are broadly still on track."

The reduction takes the cash rate to its lowest since 2023 and follows July's surprise pause. (See MNI RBA WATCH: Board Shocks With Hold As Trade Fears Ease) Market reaction was muted, with pricing still showing at least one more cut by year-end and a 3% rate by Q1.

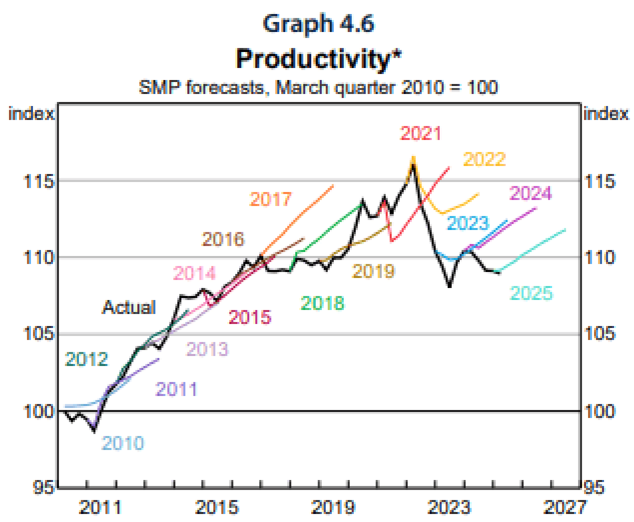
**RATES LOWER**

Pushing back on criticism that the Board erred in July by holding steady at 3.85%, Bullock repeated that the Reserve's economic outlook, published alongside Tuesday's decision, was predicated on further cuts. "If we held the interest rate where it is and didn't cut any more, then … we would expect to downgrade employment and inflation – lower inflation, higher unemployment," she said.

Bullock declined to give a firm view on the neutral rate, saying the RBA's broad 1-4% estimate was "too wide to be useful." Instead, the Bank will focus on actual outcomes for inflation and employment to judge the stance of policy, combining backward-looking labour and price data with forward-looking surveys and business liaison, she said, while noting the volatility of monthly figures.

**PRODUCTIVITY RE-EVALUATION**

Questions at the press conference were dominated by Australia's weak productivity growth, the subject of an upcoming federal government roundtable and the focus of a downgrade in the RBA's August Statement on Monetary Policy. The Bank, which has been criticised for its overly optimistic view, cut its productivity forecast by 60bp to a 0.3% gain by December. (See chart)




* Non-farm GDP per hour worked; May SMP forecasts; May 2020 SMP omitted.
Sources: ABS; RBA.

Bullock acknowledged the RBA had been too optimistic, saying forecasts were based on assumptions rather than model-driven estimates. “One of the reasons we've come to this position is that our forecasts were such that we were hitting our employment and our inflation forecasts, but we were overestimating our GDP and our consumption forecasts,” she said, adding that unit labour costs remain a key indicator for inflation.

Despite the productivity downgrade, forecasts for inflation and a 4.3% peak in unemployment were little changed from May. Bullock said the Board still sees the labour market as “a bit tight,” though internal and external views differ as to whether it is at full employment.

“There's some disagreement… The Board's assessment is it's still a bit tight. Whether or not it's at full employment… I think we might be getting close to that,” she said.

# Sell-Side Analyst Views

**Westpac:** “RBA cuts cash rate 0.25ppts to 3.6%, with more cuts assumed to be needed to keep inflation at target. Worst-case outcomes on global trade have been avoided, but RBA is now more pessimistic about near-term growth in output and productivity.”

- “The updated inflation forecasts are largely unchanged but show a 2.5% at the end of the (extended) forecast horizon to December 2027.” Governor Bullock “also noted that holding rates constant from here would result in inflation falling below the target midpoint.”
- The RBA’s forecasts are predicated on further cuts to the cash rate as expressed by market pricing last week. The trough rate implied by this assumption is now sub-3%, consistent with our own view. In the press conference, the Governor did not rule out back-to-back cuts and emphasised that the MPB would take things meeting by meeting. The every-other-meeting pace implied by our own recent forecasts still seems a reasonable base case, though.
- The RBA has downgraded its near-term view of trend productivity growth, and hence GDP growth. Importantly, this does not imply a downgrade to the long-run trend. In addition, the RBA has moved away from its view of a year ago that slow productivity growth presented an upside risk to inflation.”
- “The unemployment forecast is unchanged, implying no further increases in the unemployment rate from here. At these levels, the RBA assesses that ‘some tightness remains’ in the labour market.”
- “The flat-as-a-pancake 2.6% rate remains the forecast for the whole period covered by the May forecasts. Within the total, housing-related inflation is expected to be a little higher than previously forecast, while traded goods inflation could be a little lower, given slower global growth amid trade disputation.”
- “Lower interest rates and some positive real income growth will both support consumption growth, as also implied by our own forecasts.”
- “A key judgement in the forecasts – which we share – is that the Chinese authorities will continue to use policy stimulus to ameliorate the impact from trade restrictions and ongoing US policy uncertainty.”