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AUSTRALIA

RBA stays focused on inflation, signals more tightening if needed

The Reserve Bank of Australia has delivered a hawkish 25bp hike and signalled little comfort with the inflation outlook, stressing that demand continues to outstrip supply. The message was clear: policy will stay restrictive for longer, and additional tightening cannot be ruled out



RBA Governor Michele Bullock's press conference further underscored the central bank's hawkish messaging today

RBA delivers hawkish hike, keeps the door open to more

The Reserve Bank of Australia has raised the cash rate by 25bp to 4.60%, in line with both consensus and our expectations. The decision was unanimously supported by the Board and reinforced the RBA's commitment to returning inflation sustainably to target. The accompanying statement retained a distinctly hawkish tone, noting that "the Board will continue to do what it considers necessary to bring inflation sustainably back to target," and signalling little tolerance for upside inflation risks.

Governor Michele Bullock's press conference further underscored the hawkish message. She argued that labour market conditions remain too tight to be fully consistent with the inflation target, while demand pressures continue to exceed the economy's supply capacity. The renewed escalation in Middle East tensions was also highlighted as an additional source of

inflation uncertainty. At the same time, the Governor stressed that policy would be adjusted in a measured manner, acknowledging that the full impact of past rate increases may take up to 12 months to be felt across the economy.

Importantly, the RBA pushed back against suggestions that Australia is facing stagflation, noting that inflation around 3.5% and unemployment at 4.6% do not constitute a stagflationary environment. The Bank also emphasised that inflation has shown limited progress in recent months and remains above target. While wage growth has remained firm, the Governor argued that wages are not the primary source of inflationary pressure, pointing instead to weak productivity growth as a key challenge.

Our take

The RBA remains firmly focused on returning inflation to target and appears willing to tolerate some additional labour market softening to achieve that objective. The combination of a unanimous decision, hawkish messaging, and continued concern over excess demand suggests the tightening cycle may not be over yet. We now expect one final 25bp hike in 4Q26, though a sharp decline in oil prices could see the Bank stay on hold instead.

While August inflation data, due tomorrow, is likely to remain firm, the RBA appears more focused on the trajectory of subsequent readings. Governor Bullock reiterated that inflation has not yet made sufficient progress back towards target and noted that the full impact of past rate increases may take up to 12 months to flow through the economy. As such, the Bank is likely to look through any single data point and seek greater confidence that underlying inflation is on a sustained downward path before considering a pause.

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