

Weekly economics podcast: Twists and turns

By Perpetual Corporate Trust

22 September 2025



By Stephen Roberts

Australia's labour market is running softer, according to the latest August reading released last week. Total employment fell by 5,400 in August, albeit after an upwardly revised 26,500 (initially reported at 24,500) lift in July. While this latest turn softer in the labour market is one factor that could lead the RBA to cut the cash rate again, it runs counter to several factors that indicate the economy picking up growth pace and with a little more inflation pressure than the RBA forecast in the August Monetary Policy Statement. The balance of the latest data reports points to the RBA holding the cash rate at 3.60% at the interest rate setting meeting next week waiting for more data to guide whether softer labour market conditions are persisting warranting a rate cut in November or December.

Labour market data can be volatile month-to-month, but averaging the monthly employment growth numbers over the three-month period ending August and the previous three-month period ending May shows a 7,700 average monthly lift in employment for the most recent period against a 37,000 average monthly rise for the period before. Employment growth has changed from being strong enough to hold down the unemployment rate to being slow enough to allow the unemployment rate to drift upwards.

In the three-month period ending in May, the unemployment rate averaged 4.1%, whereas in the three-month period ending August it averaged 4.23%. It is worth noting that the unemployment rate is running lower than the 4.3% rate the RBA is forecasting for the average of the three-month period ending December 2025, however, if employment growth continues to run as softly as it has on average over the three-months ending August it is possible that the unemployment rate could average 4.3%, or even a little higher, in the final quarter of this year.

It is also possible, that employment growth could reaccelerate over the remaining months of this year and lead to the unemployment rate stabilising around 4.2%, or even falling. Recent data reports relating to GDP growth, housing activity, household spending and exports are pointing to stronger growth ahead. Inflation also appears to be rising in the near-term more than the RBA forecast in the August Monetary Policy Statement.

The twists and turns in the economic data, stronger than expected for several but weaker than expected for a few too, including the important labour market data, are indicative of an economy on the cusp of changing momentum. It is just not clear whether that is a change to stronger or weaker growth ahead.

These uncertainties about growth prospects also mean that the outlook for inflation is uncertain too. Economic growth could be strong enough in late 2025 and in 2026 to limit the pull back in inflation after the near certain push above 3% over the next year. But, if less robust economic growth returns, then inflation could return to 2.5% or less in late 2026 and in 2027.

Neither the RBA, or anyone else, can tell on the recent run of economic data, which growth and inflation scenario is more likely. More data reports are needed for Q3 and the monthly reports for August and September to help provide any clarity on which scenario is more likely and that is why the RBA is unlikely to take a chance cutting the cash rate again next week.

Instead, we see the RBA leaving the cash rate at 3.60%, but also indicating the possibility of another cash rate cut if approaching data reports are consistent with its August forecast of inflation returning to the middle of 2-3% band from late 2026.

Among the key data reports for the RBA, September and October employment growth will need to be 10,000 or less with the unemployment rate lifting to 4.3%. Monthly household spending growth will need to be around 0.3% m-o-m or less and the last quarterly CPI out in late October will need to be less than 3.0% y-o-y with trimmed mean inflation at 2.6% y-o-y or less.

This data combination would provide leeway for the RBA to cut the cash rate by 25bps to 3.35% at the November interest rate setting meeting, although an understandably cautious RBA might prefer to wait for the Q3 GDP report in early December (quarter-on-quarter growth no higher than 0.4% to warrant a rate cut) before cutting the cash rate.

If the run of data detailed above comes in stronger than indicated, however, the RBA may wait much longer before deciding the next interest rate change. It is not inconceivable that a twist stronger relative to growth expectations over the next few months turns to weakness in the months beyond. Chaotic and unpredictable policy change in the US has injected considerable uncertainty into the global economic growth outlook that may end up dampening Australian growth prospects. But it is also possible that it may not.

The pattern of the RBA taking time to consider policy moves and moving cautiously suits these unusually uncertain times. If the stars align to allow a November, or December, rate cut, we do not see the RBA being quick to move again beyond. Our best estimate amid the twists and turns in the strength of the economic data informing the RBA's rate decision process is at best one more 25bps rate cut to 3.35% in November and December and then no cause to move rates again until late 2026 or early 2027 and that could turn out to be a rate hike, rather than a cut, depending upon the twists and turns in the data reports through 2026.

Issued by Perpetual CT Capital Pty Ltd (ABN 33 134 784 740, AFSL 476686). Perpetual CT Markets is a division of Perpetual Corporate Trust, which includes Perpetual CT Capital Pty Ltd (ABN 33 134 784 740, AFSL 476686), Perpetual CT Markets Pty Ltd (ABN 46 675 099 877), and Perpetual CT Advisory Pty Ltd (ABN 18 637 448 894), an authorised representative of Perpetual Corporate Trust Limited (ABN 99 000 341

533, AFSL 392673). These entities are part of the Perpetual Group (Perpetual Limited ABN 86 000 431 827, including its subsidiaries).

This publication contains general information for wholesale clients only and is not intended to provide financial advice or financial product advice. This information does not constitute an offer, invitation, solicitation, or recommendation to enter into any legal agreement or guarantee the performance of any particular feature of services offered by Perpetual CT Markets. The views expressed are those of the author and are current as at the date of publication. To the extent permitted by law, no liability is accepted by Perpetual CT Markets or the Perpetual Group for any loss or damage as a result of any reliance on this information.