Weekly economics podcast: The fog thickens

By Perpetual Corporate Trust
13 October 2025

The global and local economic outlook have both become foggier over the past week adding to the already difficult task of adjusting monetary policy in order keep a lid on inflation while also maintaining near full employment. In the US, key economic data needed to inform economic forecasting is being delayed by the government shutdown. President Trump has also fired up again the tariff trade war with China, which if not negotiated away will be damaging to the prospects for US growth and inflation. In Australia, our biggest international trading partner, China, could be hit hard by the latest US tariff announcement with flow through to our growth prospects. There is a strong case for both the US Federal Reserve and the RBA to stay on policy hold until the fog clears.

In the US what we knew until October was that the economy had been growing better than previously thought likely – at 3.8% annualised growth pace in Q2 – with improving contribution to growth from household consumption and business investment. Early Q3 economic readings still pointed to economic growth maintaining around 3.8% annualised pace. Inflation was edging higher in Q2, but seemed to be stabilising around 2.9% y-o-y according to the monthly CPI.

Both economic growth and inflation were running a little high for the Federal Reserve, but a saving grace was evidence of softening labour market conditions. The Federal Reserve, which before September, had been sitting on a Federal Funds rate of 4.50%, well on the tight side of neutral, had cause to ease (and it did for the first time this year at the September FOMC meeting) and going forward, providing data reports continued a similar mix of steady growth and inflation together with soft labour market conditions, could continue to ease.

The spat between President Trump and Congress over government funding and the consequent shutdown of many government services, including the work of several government statistical agencies, means an uncertain length delay before key economic readings relating to inflation, growth, employment and unemployment are released. The Government shutdown could end soon, or it may not.

Also, this government shutdown does not appear to involve government workers temporarily going without pay, but could be the prelude to many losing their jobs permanently. That could dent spending and growth prospects more than temporarily.

Adding to the uncertainty caused by the government shutdown, President Trump has stepped up the tariff trade war with China dramatically – an additional 100% tariff on goods imported from China to the US starting in November. If the tariff change goes ahead, it would hit growth prospects in both the US and China, and would add significant upward pressure on consumer prices in the US. President Trump has history of using the threat of higher tariffs as a trade deal bargaining chip, but will it be the same this time? We cannot tell.

All of the usual uncertainty surrounding economic forecasting has been compounded by the US government shutdown and the latest US tariff announcement. At the very least, the Federal Reserve will need to wait for the resumption of US data releases to shine a beam through the fog obscuring how the US economy has been travelling in the recent past.

For the RBA, the heightened uncertainty about the US and a potential big hit to China's growth prospects add to the difficulty determining how the Australian economy is travelling and the economic outlook.

Household spending growth has been accelerating through much of 2025 and is still running at 5% y-o-y pace on the latest monthly data. Home buying demand, already running at a fast clip has been boosted by the Government's latest first home buyer incentive scheme. Firm growth in household consumption and housing demand would seem to underpin firmer GDP growth, even in the face of still soft business investment spending and softer export growth.

The labour market seems a little softer but the unemployment rate is barely rising and not enough to bring wage growth down to around 3% y-o-y or less needed in a low productivity economy to help make sure that inflation, after a near-certain lift above 2-3% target range over the next 12 months or so, falls back inside target range beyond.

The RBA needs a lot more data covering growth and inflation to cut through an already foggy economic outlook. Until the overseas and local growth outlook becomes clearer it is difficult to forecast with any confidence whether the current bigger-than-previously expected inflation blip will subside down the track. Until the fog clears, the RBA is obliged to keep the cash rate on hold at 3.60% in our view.