

Australia Watch

3Q CPI review: Sticky inflation ends RBA easing cycle

Broad-based inflationary pressure in 3Q

Inflation was stronger than our/market estimates, and RBA expectations in 3Q. Trimmed mean rose by 1.0% q/q and 3.0% y/y in 3Q, up from 2.7% in 2Q (Exhibit 1). Headline inflation increased by 1.3% q/q and 3.2% y/y to rise above the RBA's target band, led by broad-based rises across housing, recreation and culture, and a range of services.

Upside inflation risks to keep RBA on hold

The CPI confirmed broad-based inflationary pressure that signals upside risks to the inflation outlook. Accelerating inflation was driven by the most persistent CPI components (Exhibit 2, Exhibit 3), which coupled with rising private demand momentum, signals upside risks to the inflation outlook. Underlying inflation has remained above the RBA's target midpoint since 4Q21, and we don't expect it will sustainably return to 2.5% until 2H26 at the earliest. We expect the RBA will hold the cash rate at 3.6% for an extended period and no longer see a cut in Feb 2026.

29 October 2025 Corrected

Economics
Australia

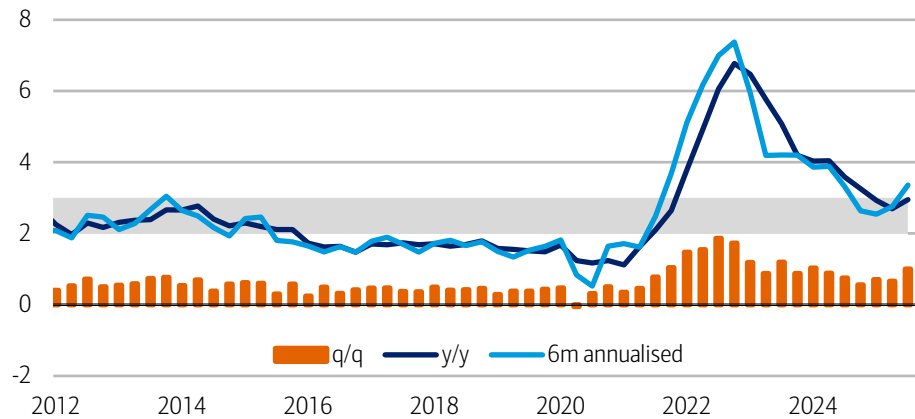
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Exhibit 1: Core inflation rose strongly in 3Q, signaling upside risks to the outlook

Trimmed mean CPI growth (%)



Source: ABS

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Rates: We recommend H6/H7 steepeners

In our view, the RBA ended its easing cycle in August and we recommend H6/H7 steepeners. The market could start pricing hikes as soon as H2 '26 if the RBA removes its easing bias at next week's meeting, which is now more likely than not, or if the next jobs report on 13 November shows a sequential improvement. In addition to recommending paying Nov '25 RBA OIS (2bps of cuts priced) and 6m1y/ 1y5y flatteners, we now also recommend buying 3-month bank bill futures contracts starting in March 2026 (H6) and selling 3-month bank bill futures contracts starting in March 2027 (H7) (i.e. H6/H7 steepeners). Entry: Obp, target: 25bp, stop -12bp. Risk to the trades: the RBA maintains its easing bias next week.

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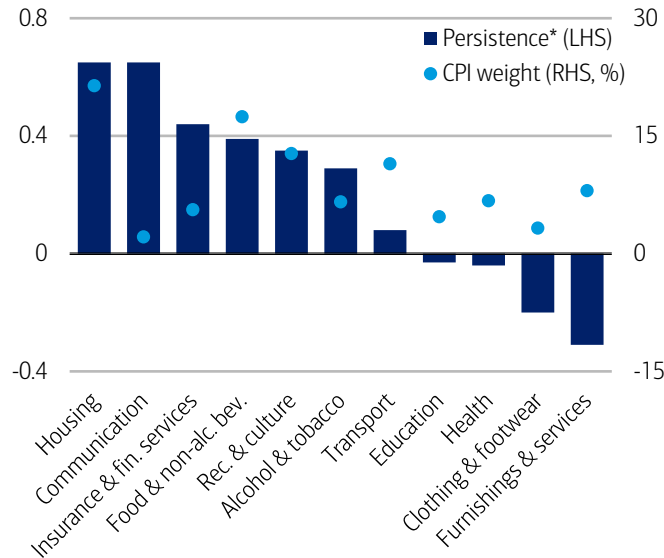
Inflation rising across both goods and services

Inflationary pressures have risen across both goods and services prices (Exhibit 4, Exhibit 7). Prices for over 45% of the CPI basket are rising above 3.0% y/y (Exhibit 6).

Looking the components, housing increased 2.5% q/q, with electricity prices up 9.0% q/q driven by annual price reviews and the timing of rebates. Property rates and charges rose 6.3% q/q, the largest quarterly rise since 3Q-2014. Alcohol and tobacco rose 1.6% q/q and 5.9% y/y, with the 5% excise increase and biannual AWOTE indexation (in effect from 1 September) that led to tobacco rising 2.9% q/q.

Exhibit 2: Housing is the largest (21% of basket) and most persistent CPI group

CPI component persistence and weights

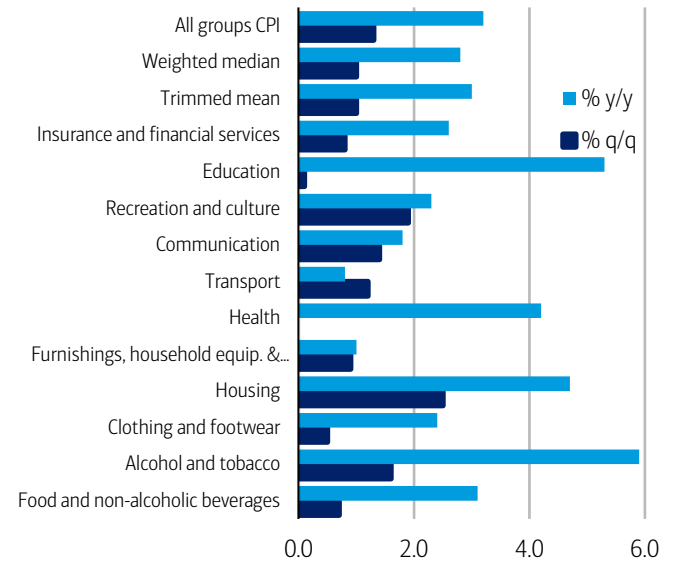


Source: ABS, BofA Global Research. Note: Persistence measured by the regression coefficient of inflation on its own lagged value.

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Exhibit 3: Broad-based inflation across CPI components in 3Q

CPI growth (% q/q and y/y)

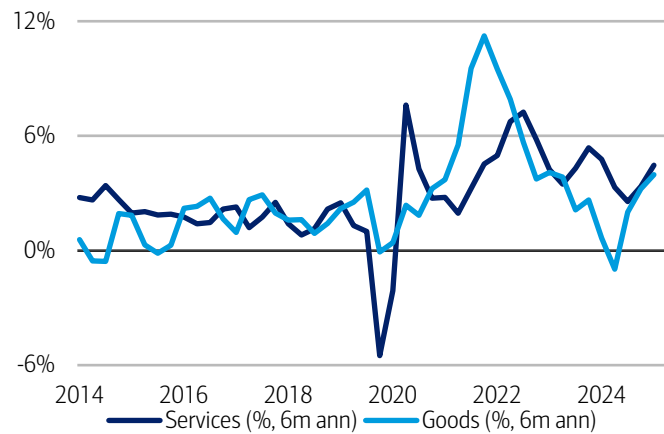


Source: ABS

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Exhibit 4: Rising inflation broad-based across goods and services

Goods and services inflation (6-month annualized)

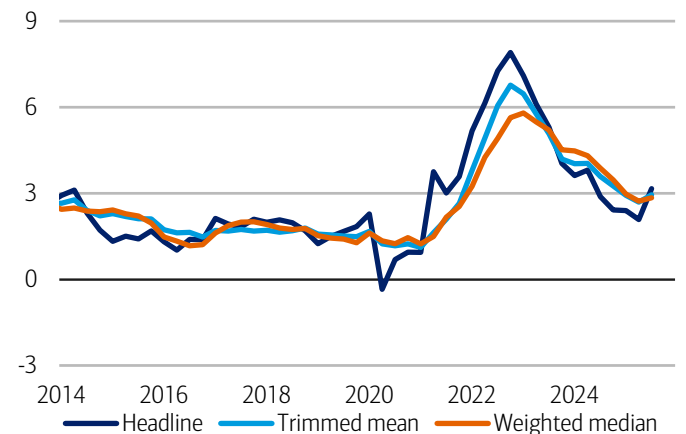


Source: ABS

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Exhibit 5: Inflation stuck around 3% across various measures

CPI headline, trimmed mean and weighted median (% y/y)



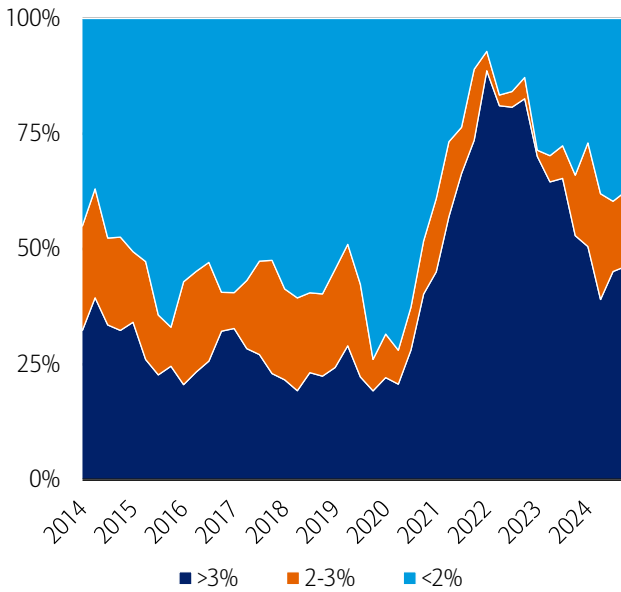
Source: ABS

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Exhibit 6: Prices for around half of the CPI basket are rising above 3%

CPI component inflation (%)

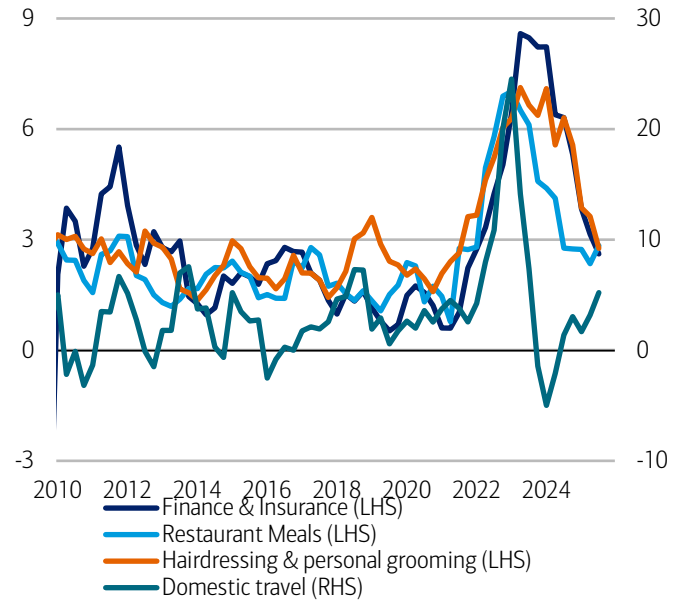


Source: ABS

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Exhibit 7: Inflation elevated across a range of services

CPI inflation components (% y/y)



Source: ABS

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