# Weekly Economic Update

OPTIMAL ECONOMICS

**14 August 2026**

Those hoping the Reserve Bank was shimmying towards a rate cut will be disappointed by the punchy alternative message delivered by Governor Bullock on Tuesday. The plain-speaking Governor said the board discussed only two options – a rate hike and on hold – and did not consider the merits of a cut. Moreover, the Governor said the Bank would raise interest rates again if it had to. Crystal. Clear.

Some economists described Tuesday's unanimous decision as a "hawkish hold", but we prefer an "uncertain hold". Many issues cloud the outlook, including the impact of the three earlier rate hikes, ongoing geopolitical uncertainties, the softening local housing market and the impact of the recent tax increases. None of these uncertainties will clear soon, so further RBA inactivity is likely in the near term.

Unusually, most pundits expect the next move in the cash rate to be down as market pricing leans towards up. This economist still expects another rate hike given inflation is well above the RBA's target and that core inflation accelerated in the June quarter. Given this, in what parallel universe can the RBA possibly cut, unless something significant changes about the outlook?

A telling takeaway from the Governor's post-decision press conference essentially was a cry for help. She lamented Australia's woeful productivity and how it risks even more inflation. Tellingly, Governor Bullock said there's nothing the RBA can do about productivity – it's a matter for government and business. Was anyone in Canberra listening?

The official forecasts released on Tuesday included even lower productivity assumptions. This helps to explain the RBA's small downgrade to expected GDP growth (see table) and the slightly higher unemployment rate.

The central bank does not expect inflation to return to the midpoint of the target range until mid-2028! See above the chances of a rate cut.

Meanwhile, evidence of the ongoing downturn in the housing market continues to build. This week, more big banks disclosed tanking home loan applications, particularly by investors, down nearly 30% since the Budget. That revelation backs up the low auction clearance rate and poor industry sentiment. Some of the banks now forecast double digit house price declines in the big markets.

The now (very) dated budget forecasts claim house prices will keep rising. But house prices already have dipped 2% on the back of 5% declines in Sydney and Melbourne. Drops of this magnitude are not uncommon, but the falls have accelerated since the announcement of the tax changes in the budget, which added new headwinds to the earlier rate hikes.

The only economic data of note this week was the release of the NAB Business Confidence survey on Tuesday. Confidence among businesses was steady at a dismal -6, well up from recent lows, but the resumption of the War with Iran and the housing market weakness are weighing on sentiment. Contemporary business conditions were better at a net balance of +4.

Finally, there was yet more corporate welfare announced this week with the $2.5 billion bailout of the Tomago aluminium smelter, sent to the brink by soaring energy costs. Rather than cauterise the causes, we subsidise the symptoms. The government's gushing money hose is yet another dismal example of a Past Made in Australia.

**Table: Output Growth, Unemployment and Inflation Forecasts**[a]
Per cent

| | Year-ended | | | | | |
|---|---|---|---|---|---|---|
| | Dec 2025 | June 2026 | Dec 2026 | June 2027 | Dec 2027 | June 2028 |
| GDP growth | 2.6 | 1.9 | 1.3 | 1.3 | 1.4 | 1.4 |
| (previous) | (2.3) | (2.1) | (1.8) | (1.6) | (1.6) | (1.6) |
| Unemployment rate[b] | 4.3 | 4.2 | 4.3 | 4.4 | 4.6 | 4.7 |
| (previous) | (4.2) | (4.3) | (4.3) | (4.4) | (4.5) | (4.6) |
| CPI inflation | 3.6 | 4.8 | 4.0 | 2.4 | 2.4 | 2.5 |
| (previous) | (3.6) | (4.2) | (3.6) | (2.9) | (2.7) | (2.6) |
| Trimmed mean inflation | 3.4 | 3.8 | 3.5 | 3.1 | 2.6 | 2.5 |
| (previous) | (3.4) | (3.7) | (3.2) | (2.8) | (2.7) | (2.6) |

*Source: Reserve Bank of Australia.*


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