Weekly Economic Update

OPTIMAL ECONOMICS

28 November 2025

Australia's cranky inflation dragon has awakened (see ANZ's chart below). That much was confirmed by the new monthly inflation report, released Wednesday. The new data is a full representation of price changes in the economy rather than the previous partial measure. It showed annual inflation lifting for a fourth straight month to 3.8% in October. That's more than economists had forecast, above the RBA's target band and up from 3.6% in the year to September.

Our inflation problem is persistent and broad-based, ranging from housing to meals in restaurants. The underlying CPI also came in hot, effectively ending the Reserve Bank's interest rate cutting cycle. The RBA next meets on 10 December and futures markets have removed any chance of rates going down – previously, there was a slim 6% probability. If inflation stays where it is or, worse, increases again, the next move in the cash rate will be up.

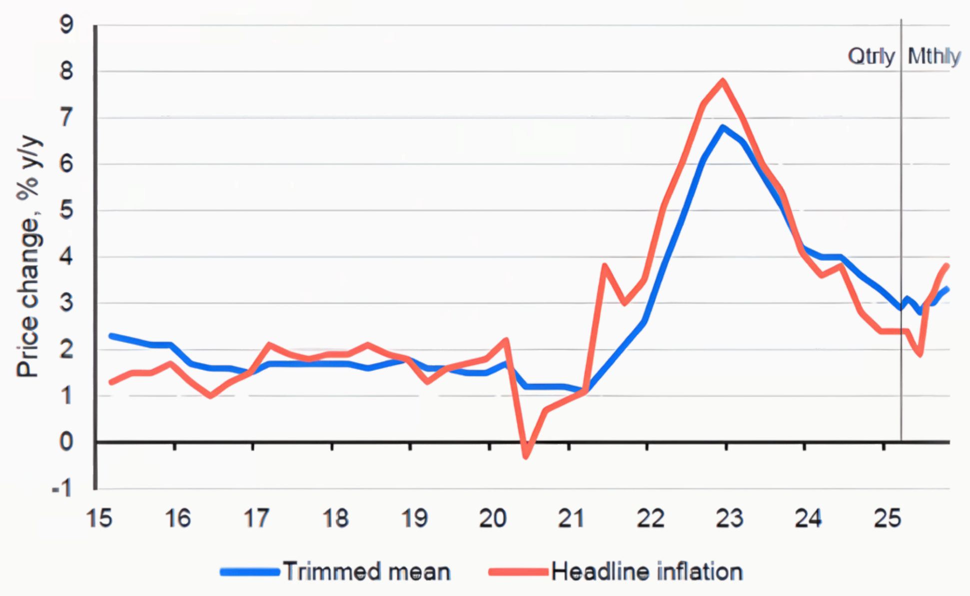
A likely explanation for the resurgence of inflation is that our improving economy already has ruptured its potential growth rate. That is, at GDP growth under 2%! What a dismal prospect. Potential growth is the speed limit on growth and is lower now thanks to our woeful productivity. As the RBA indicated, never before have we started an upswing with so few spare resources. So, even modest rates of expansion trigger shortages, leading to inflation. This is especially so when government spending is exploding at the fastest rate in decades.

At least Australia finally has a monthly CPI to cherish, four decades after the International Monetary Fund recommended we compile one. The welcome addition brings us into line with all other wealthy countries (oh, except for the Kiwis, who deliver only quarterly data).

There was better news in the quarterly investment report, released yesterday. The main input to the upcoming Q3 GDP report (December 3) was spending on equipment, plant and machinery, which bounced 11%. Respondent firms again upgraded their spending plans for the remainder of this fiscal year. That's great, although, as a share of the economy, private investment spending currently is anchored near a 30-year low.

Economists forecast that the much-anticipated National Accounts next week will show another quarter of anaemic GDP growth. The good news is that private demand (that is, spending by households, businesses and home building) will be contributing more to growth in the economy, supplanting (record) public outlays. The bad news is that growth will still be hovering close to 2%, well below our long run average but, as per above, already breaching our speed limit. ***See Graph*** *over the page*.

Inflation rate



Source: ABS, ANZ Research

Stephen Walters

Chief Economist, Optimal Economics

Call us:
+61 2 0499 976 196

Email:
stephenwalters@optimaleconomics.com.au

Website:
https://optimaleconomics.com.au/