Weekly Economic Update

OPTIMAL ECONOMICS

31 July 2026

Wednesday's lower inflation result for Q2 means it now is less likely the Reserve Bank raises interest rates on August 11 – markets were pricing only a one-in-four chance before the data. That said, core inflation remains sticky above target and rose last quarter, so further rate hikes can't be ruled out, particularly as petrol prices spike again following the resumption of hostilities in the Middle East.

The main reason for the undershoot on headline inflation relative to expectations was the big fall in petrol prices as crude oil prices eased the government's fuel excise cut. Inflation in both residential rents and construction costs also eased. The reverse was true for services, however, where domestic-led inflation continues to rise.

Inflation remains front of mind for anxious households. Last week, the RBA released results of a household survey taken between February and March as the War in Iran escalated that asked about their biggest concerns. Unsurprisingly, inflation topped the list by some distance, followed by housing. Climate change and global troubles were well down the list – see chart below.

Oddly, more than half the respondents believe rising interest rates contributes to inflation, rather than being the cure. Clearly, the RBA still has work to do (as do all economists) to better explain why interest rates are rising. As we've said before here, record levels of government spending are a major contributor to inflation alongside the earlier rises in energy costs and rents.

A speech on Wednesday from RBA Governor Bullock (which this economist heard in person while watching the body language) was telling. Admittedly, it was before the inflation data dropped, but the Governor said interest rates will rise again if necessary.

That necessity has receded now but not gone away. Her messaging in the subsequent Q&A also leaned to the hawkish side.

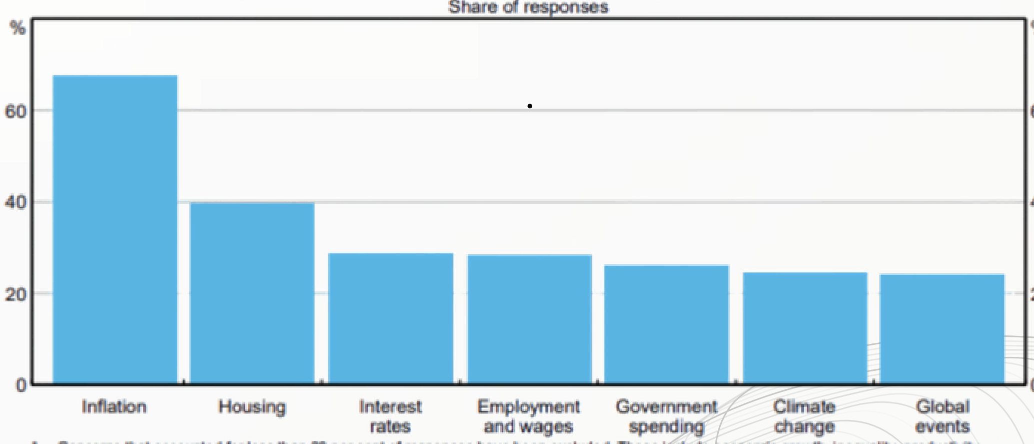
Governor Bullock seemed unconcerned about the ongoing correction in housing, which she reminded everyone was mainly in Sydney and Melbourne and comes after steep price increases over decades. People would get used to the recent tax changes, she said. But there is a negative wealth effect that deserves close attention, especially for recent buyers.

Auction clearance rates were back above 50% last weekend, but feedback from industry players with skin in the game is dire. They would say that, but the combination of the recent tax increases on investors and the impact of rising interest rates is a pungent mix. And Governor Bullock reminded us that much of the impact of the earlier rate hikes is still to come.

In the Middle East, the war is escalating again, but there also has been strategic messaging that the US has no intention of further ramping things up. This saw crude oil prices plunge, even as the Straight was closed, albeit after an earlier spike. Back to the Governor's speech, she agreed that outcomes and impacts here are "highly uncertain".

Top Economic Concerns from Survey Respondents*

Share of responses



* Concerns that accounted for less than 20 per cent of responses have been excluded. These include economic growth, inequality, productivity, consumer spending and business investment.

Sources: JWS Research; RBA.

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