Weekly economics podcast: A Balancing Act


By Perpetual Corporate Trust
20 October 2025

The soft September labour force report, combined with the weak readings for the previous two months has tipped the scales towards an RBA rate cut either in November or December, even though likely high-side Q3 inflation (when released in the CPI report due next week) calls for rates to stay on hold. The RBA faces a very tricky balancing act with inflation and the unemployment rate both running higher than forecast back in August. The higher unemployment rate is likely to win out in the RBA interest rate setting discussion, because it points to likelihood of softer wage growth over the next 12 months or so, and that in turn provides confidence that inflation will return back inside target band late-2026 and in 2027, even if it pushes above 3% in the nearer term.

We are changing our interest rate call from on lengthy hold at 3.60% for the RBA cash rate to a 25bps cash rate cut to 3.35% either at the November or December meetings. Why not go definitely for the next meeting in November? Because the Q3 CPI out next week could be materially higher than expected, causing the RBA to wait for the October labour force and CPI (the new full-basket of goods and services' CPI) both out mid-to-late November before the December rate-setting meeting.

Returning to the September labour force report released last week, total employment growth was not too bad, up 14,800, but coming after a revised 11,800 fall (initially reported at -5,400) in August. Over the three months ending September, total employment rose by only 36,800 – averaging just under 12,300 per month. In the previous three-month period ending June 2025, total employment rose by 92,300 – averaging just over 30,700 per month.

The substantial slowing in employment growth in Q3, has lifted the unemployment rate to a 4-year high of 4.5% in September. The average monthly unemployment rate has lifted from 4.2% in Q2 to 4.4% in Q3, above the RBA's forecast unemployment rate of 4.3% for the end of 2025 and extending through 2026.

Recent readings of job vacancies are showing slippage and point to soft employment growth continuing in the near-term. There is a likelihood of the unemployment rate pushing above 4.5% in the near-term. An unemployment rate of 4.5%, or higher, will with a lag, push annual wage growth lower, and in time will reduce inflation.

The softening labour market, relative to what the RBA expected previously, would normally cause the RBA to cut the cash rate and promptly. The difficulty this time is that inflation is pushing higher for the time being. The Q3 CPI could see annual inflation push up to 3% from 2.1% in Q2, with many of the temporary factors pushing inflation higher (the various end dates of state and federal government energy rebates) and less temporary (upward pressure on insurance premiums, grocery prices and house prices) likely to take annual inflation up nearer to 4% over the next few months, before it recedes.

The uncertainty surrounding the size of the upside inflation blip may leave the RBA waiting for the October monthly CPI (out in late-November). It will also have the advantage of seeing the October labour force report – a good chance it will show the unemployment rate hovering at 4.5% - as well as seeing the Q3 wage price index (out in mid-November). Annual wage growth was a touch high at 3.4% y-o-y in Q2, but if it holds at that level in Q3, or is a touch lower, the RBA, with evidence of softer labour market conditions, can forecast with more confidence that annual wage growth will push below 3% y-o-y in 2026 taking inflation back inside 2-3% target band in 2027.

Looking beyond our changed call of a 25bps cash rate cut to 3.35% at either the November or December meeting, we see the RBA’s tricky balancing act trading too high unemployment against too high inflation persisting through the first half of next year. Line of least regret for the RBA may be to tread cautiously and very data-dependently. Maybe one more cash rate cut to 3.10%, but unlikely more, unless the unemployment rate runs much higher than 4.5% and/or the inflation blip above 3% is more muted than expected.

Issued by Perpetual CT Capital Pty Ltd (ABN 33 134 784 740, AFSL 476686). Perpetual CT Markets is a division of Perpetual Corporate Trust, which includes Perpetual CT Capital Pty Ltd (ABN 33 134 784 740, AFSL 476686), Perpetual CT Markets Pty Ltd (ABN 46 675 099 877), and Perpetual CT Advisory Pty Ltd (ABN 18 637 448 894), an authorised representative of Perpetual Corporate Trust Limited (ABN 99 000 341 533, AFSL 392673). These entities are part of the Perpetual Group (Perpetual Limited ABN 86 000 431 827, including its subsidiaries).

This publication contains general information for wholesale clients only and is not intended to provide financial advice or financial product advice. This information does not constitute an offer, invitation, solicitation, or recommendation to enter into any legal agreement or guarantee the performance of any particular feature of services offered by Perpetual CT Markets. The views expressed are those of the author and are current as at the date of publication. To the extent permitted by law, no liability is accepted by Perpetual CT Markets or the Perpetual Group for any loss or damage as a result of any reliance on this information.