CBA economists change call to November rate rise after July inflation surprise

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CommBank economists now expect the Reserve Bank of Australia (RBA) to raise the cash rate in November, following a stronger-than-expected July inflation result.

The bank's Australian Economics team has changed its previous forecast for rates to remain on hold for the rest of 2026 and now expects a 0.25 percentage point increase at the RBA's 2-3 November meeting, taking the cash rate to 4.60 per cent.

CBA Head of Australian Economics Belinda Allen said recent inflation data had increased the likelihood that the RBA would decide that further increases in the official cash rate were needed.

"While inflation showed signs of moderating over the first half of the year, it has remained too high and the RBA has increasingly signalled a low tolerance for upside surprises," Allen said.

"We judge the broad-based upside surprise in the July CPI as having crossed that threshold and materially increased the likelihood of another rate rise."

Why has the interest rate outlook changed?

CommBank had previously expected the RBA to leave rates unchanged for the rest of this year as economic growth slowed and inflation gradually eased.

That broader economic picture has not changed significantly. Growth has slowed from an above-trend pace, the housing market has weakened, and more workers have become available for employers, although the labour market still remains tight overall. There are also signs households have pulled back on spending.

But inflation has proved more persistent than expected.

Allen said the July CPI result was significant because the strength in the prices of goods and services extended beyond volatile categories like fuel and travel.

"The July CPI surprise was broader than simply a reversal of unusually weak fuel and travel outcomes in June," she said.

"The renewed strength across a range of underlying and domestically influenced prices suggests the pace of disinflation has stalled."

CommBank now expects September-quarter trimmed mean inflation is more likely to come in at 0.9 per cent or higher, compared with the RBA's implied forecast of 0.8 per cent.

Why is November the most likely timing?

Recent RBA communications have also played a role in CommBank's revised forecast.

Both the statement following the August RBA Board meeting and the meeting minutes stressed that the board remained willing to raise the cash rate again if upside inflation risks materialised.

Allen said the November meeting was the most likely timing for a 0.25 percentage point increase because it comes shortly after the September-quarter inflation figures are released on 28 October and coincides with a fresh set of RBA economic forecasts.

"Putting the evidence together, we think the case has grown for tighter monetary policy in the Australian economy," Allen said.

"We see the 2-3 November meeting as the most likely point for a rate rise."

Could the RBA move earlier?

An increase in September remains a risk, although CommBank does not currently see it as the most likely outcome.

A range of economic indicators will be released before the RBA's 28-29 September meeting, including GDP, August labour market figures and timely measures of household spending. Developments in the housing market will also be important.

"At this stage, we don't think the data available by the September meeting will be enough for the RBA to raise rates when the Board next meets, but there is uncertainty around that," Allen said.

"A rate rise is not a done deal, and there are still different views on the Board that will need to be debated."

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