

Inflation maybe hotter than expected but don't bank on a rate rise

Westpac / Westpac IQ · 2026-08-26 · English original

The July CPI did come in hotter than expected and while the risk of a November rate hike has increased, we still expect the RBA to remain on hold this year. In summary, the CPI increased by 1.0% in July with the core Trimmed Mean measure up 0.5%, both surpassing expectations, sparking speculation about a possible rate hike despite a slight annual inflation slowdown. However, housing cost inflation was more stable with new dwelling costs and rents coming in broadly as expected, with housing market downturn limiting developers' pricing power despite higher trade material costs. There was an upside surprise in durable goods like motor vehicles and household items, along with household services including restaurants and domestic travel, contributed significantly to inflation, with some anomalies linked to timing of sales and rising chip prices. Nevertheless, we think the RBA will remain cautious on raising rates, despite its commentary on inflation risk. Market services inflation is above target but a softer than expected labour market and wage outcomes reduce the likelihood of a November rate hike. We believe the RBA is likely to remain on hold for the remainder of this year.

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