Mizuho Flash: Australia

Economics & Strategy | Asia ex-Japan

2 July 2025 | Tan Boon Heng | Market Economist

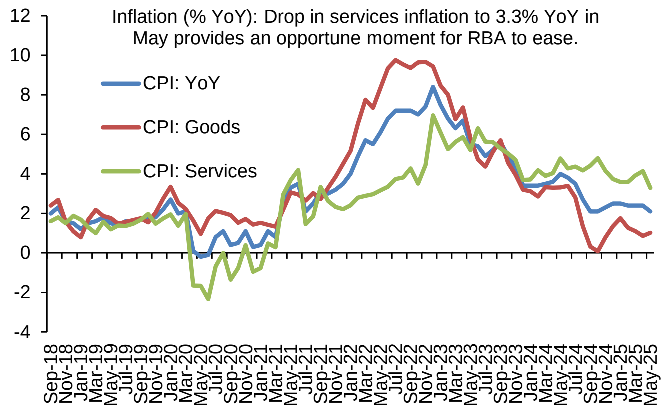
MIZUHO

RBA Preview: July and Beyond

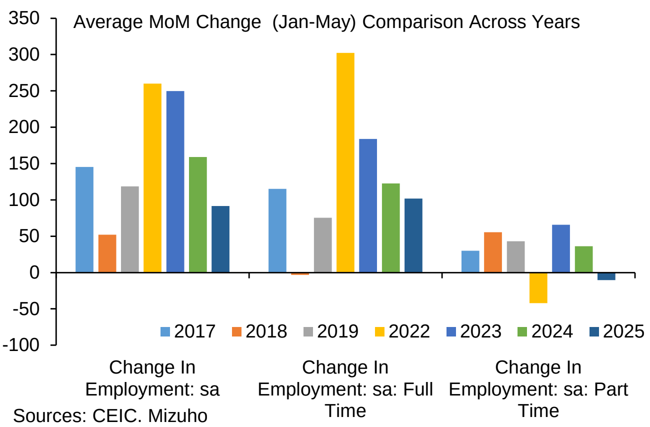
In a nutshell:

- The RBA is all but expected to cut by 25bps at their upcoming meeting (8 July) as benign inflation paves the way for the RBA to hasten nomalisation of monetary policy settings to respond to moderation in pace of employment gains.
- Admittedly, low unemployment rate and still elevated services inflation imply that the RBA Governor Bullock will continue to caution against bets for excessive easing.
- Recovery in risks sentiments which buoyed the ASX alongside lower yields also imply easier financial conditions and its associated wealth effects may continue to backstop consumption, albeit in a skewed manner. Recent resurgence of property prices also imply that the RBA will remain cognisant of the unintended consequences from policy.
- All in, beyond the upcoming July cut, our base case is for another 25bp cut at the September (skipping over August meeting), contingent on averting of sharp adverse demand shock from reciprocal tariff situation.

July Decision: Another Step For Normalisation



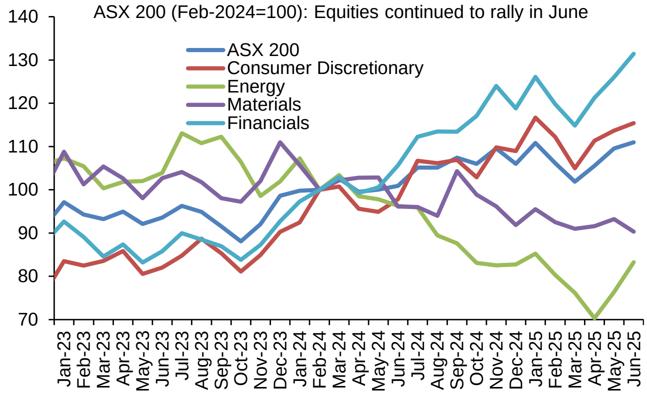
Source: CEIC; Mizuho



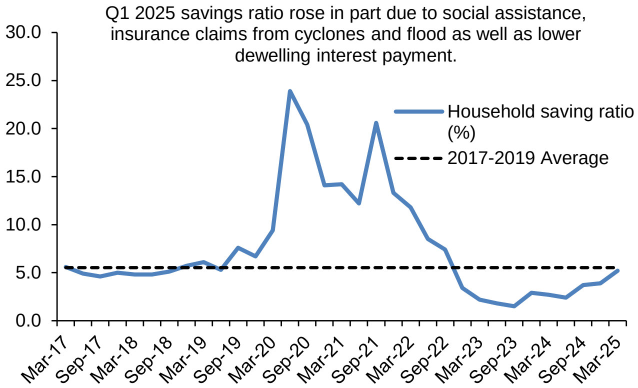
Sources: CEIC. Mizuho

- Contained inflation alongside a very much normalized pace of employment gains has set the stage for the RBA to **cut by 25bp** at by their upcoming meeting on 8 July. Crucially, this move should be seen as **another step aimed at making monetary policy less restrictive given risks from tighter external demand conditions**.
- With headline and trimmed mean **inflation** in May at 2.1% YoY and 2.4% respectively well within the RBA's 2-3% target range, the benign backdrop aided by resilient AUD dampening imported inflation pressures provide **sufficient grounds for further monetary policy normalisation**. Markets are also pricing in near certainty of such a move with about 95% odds of a 25bp rate cut.
- Within the CPI basket, services inflation continues to edge lower albeit in a bumpy manner with May's print showing a decline to 3.3% YoY while goods inflation stayed well within pre-Covid trends aided by lower energy prices. Notably, it is the bumpy nature of services inflation which forms the base case for calibrated easing.
- In support of a July cut, **labour** market **momentum** also depicts a case for normalisation with the gains employment thus far (Jan-May) **already coming off post-Covid highs** and **well within pre-Covid norms** (2017-2019). Similarly, going forward, there is also a case for cautious calibration given that the unemployment rate remains very low at around 4.1% even as the labour force participation rate stays elevated.
- As such, while the RBA may sound a celebratory note on inflation and alleviating the interest burden of households from this cut, Governor Bullock is still expected to emphasize on a step-by-step approach and push back on excessive easing bets.

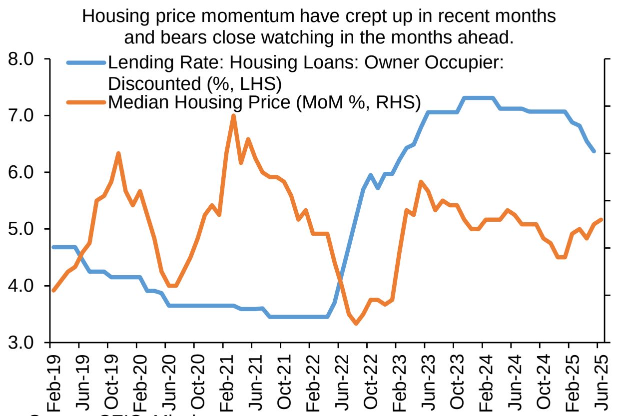
Calibration: Co-existence of Stress and Relief



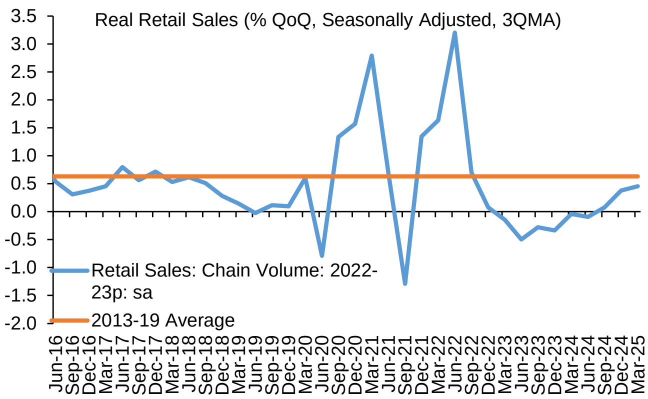
Sources:CEIC, Mizuho



Source: ABS; Mizuho



Source: CEIC; Mizuho



Sources: CEIC, Mizuho

- Aside from labour market and inflation, recent recovery in real retail sales in Q1 and easier financial conditions point to the need for cautious pace of normalisation. Admittedly, Q1 GDP growth at 0.2% QoQ which is below trend **reflect growth stresses**. Furthermore, nominal retail sales weakness in April and May at just 0.2% sequential expansion on average over Q1 as consumers cut back on clothing and department sales spending.
- Since the previous meeting, **continued recovery in risk sentiments** which aided equities in Australia and globally to rise higher. Yields also slide lower in June. The easier financial conditions may also **backstop aggregate demand through wealth effects via the balance sheet.** The transmission channels though diverge within the population as wealthier households hold 20% of other financial assets[1] while lower and middle wealth households hold just around 10% of such financial assets within their total assets.
- Meanwhile, the **RBA's cuts** have also aided the lowering of lending rates which led to lower interest rates on fixed rate mortgages. Nonetheless, it is important to note that there is less than 3% of new mortgage lending was fixed rates in March according to the latest Statement on Monetary Policy. Notably, median housing prices growth continued to accelerate reaching 0.6% MoM in June and ought to worry the RBA if such momentum persists.
- On the relief front, given the significant proportion of variable rate mortgages, **scheduled mortgage payments have declined and the lower dwelling interest payment** has also assisted a climb in household savings ratio.
- Nonetheless, the **climb in household savings ratio is likely to ebb in Q2 as effects of insurance claims and social assistance fade.** The below trend savings ratio is likely to persist until effects of a more substantial decline in interest rates filters through which may then coincide with budget tax cuts in mid-2026.
- All in, **our call is for a pause in August after July's cut and to resume with another 25bp cut in late September** which is aligned for the unemployment rate to remain around 4.1%-4.2%, without sharp employment contraction and averting adverse demand shocks.

[1] Includes accounts held in financial institutions, offset accounts, shares, public unit trusts, private trusts and own business (net of liabilities)