

## Australia: Relative Macro and Policy Resilience

### Growth Buffers

- In Australia, firm Q4 GDP growth with **recovery in household savings ratio and robust domestic labour market** provided sufficient relief for the RBA to embark on pre-emptive rate hikes in the face of upside inflation risks.
- Specifically, **average monthly employment gains at 31K in Q1 2025 is in line with the recent trend** and the ongoing data center<sup>1</sup> construction will allow firm downstream hiring in the professional and technical services roles to offset against strains from cautious services sector employment facing supply chain disruptions. To be clear, the AI led development remain capital intensive in nature rather than igniting hiring boom.
- Furthermore, there is some relief from a **recovery of the household savings ratio** would also serve to buffer against the on-going energy price shock mitigating outright deterioration in consumption growth.

### Bumpy Inflation Path

- **Highly volatile inflation is already widely expected** with sharp surge in March on the rising fuel prices while April and May headline CPI may see a slight moderation on their excise tax cuts.
- Specifically, a 20-30% increase in diesel and petrol prices for March would impose **a direct 0.7%-0.8% point addition to headline inflation in March while a 0.1-0.2% reduction over April and May is likely.**
- The subsequent **dis-inflation may be less evident on aggregate** as indirect passthrough takes hold.
- On a similar note, rising jet fuel costs and higher airfares will also have to contend with subsequent promotions in discounted airfares to boost domestic flight demand.
- The trouble is that such policy or promotion induced moderation provides inconvenient policy optics and room to mis-read disinflation. This is especially so as a broad range of farm products are likely to be affected by higher input costs with prices of feed and fertilisers soaring.

### Inconvenient Policy Implications

- Consequently, we retain our base case for two more rate hikes by the RBA in 2026 as they **contemplate the duration of delay of inflation back towards the mid-point of their target range.**
- While the pre-emptive nature of the rate hike in March ought to pare down the odds of a hike in May, the supply side disruptions and to some extent destruction (such as flight cancellations) would also imply that the case that the RBA's excess demand assessment remains well intact.
- As such, the **pre-emptive hike in March while justified provides an inconvenient hurdle in April** with the RBA requiring an assessment of whether the March CPI print was within their expectations or whether upside inflation risks have worsened.
- Beyond the April decision, rate hike following policy induced dis-inflation would require finesse in policy communications even for an optimal policy decision with a discernible inflation skew in the balance of risks.

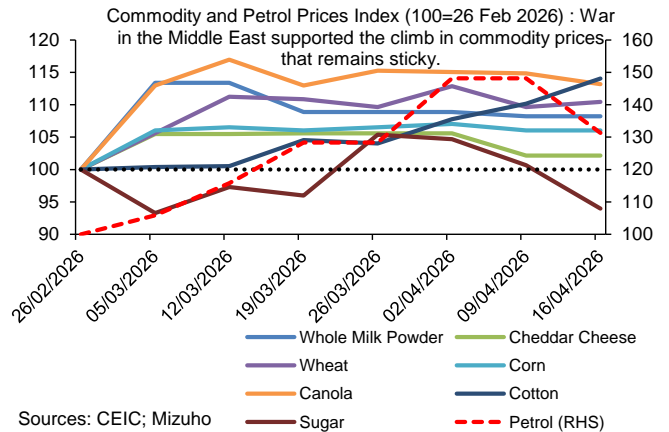
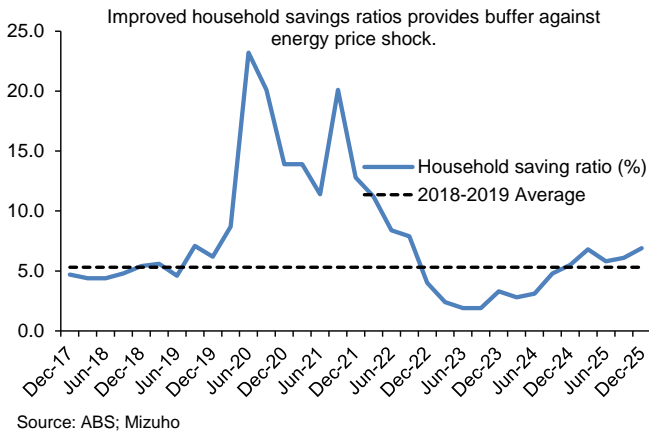
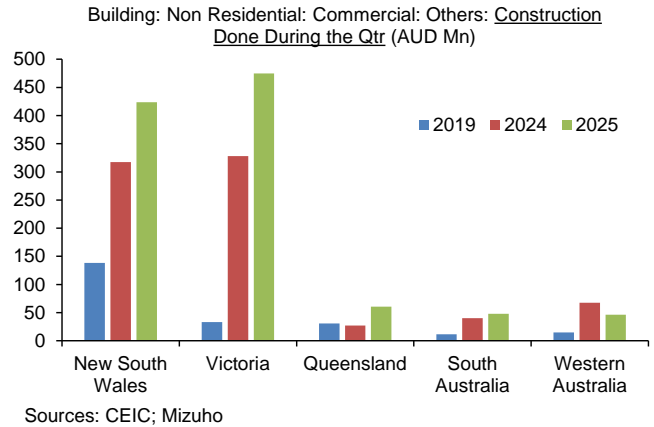
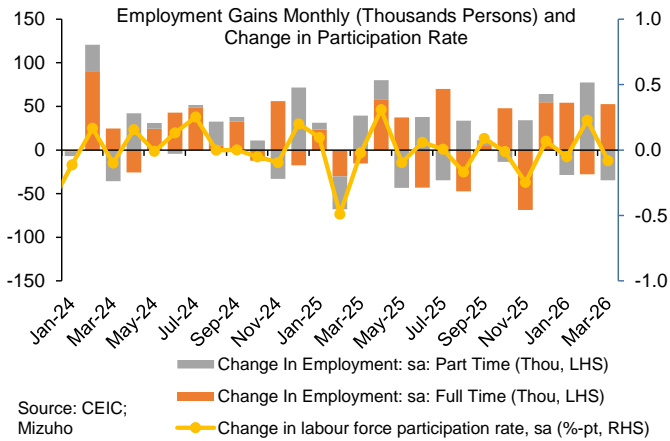
### Buoyant AUD

- Looking ahead, the expiration of these excise tax cuts in June would then induce another bout of headline inflation upside and buoy front end rates. In any case, any extension of such tax cuts on unrelenting oil prices would invite budgetary woes and **similarly bolster front end rates.**
- Nonetheless, for the AUD, the **relative fiscal position even with a wider deficit due to the excise tax cut remains in a far stronger position relative to regional peers.** (See [Mizuho Brief: EM-Asia Fiscal Fallout: Black](#)

<sup>1</sup> Data center construction is classified as building of non-residential commercial buildings: others by the ABS.

[Gold, Red Ink, 26 March](#)). AI-led and war induced commodity demand would also ensure that the current account surplus remain healthy to backstop the AUD.

- That said, the high beta nature of the AUD implies that should the risk off sentiments around the AI developments overwhelm and conspire with energy price spikes, period of outsized AUD weakness on the cards as evidence by the slump in the second half of March.
- All in, the AUD is expected to retain its outperformance on the back of diversify America tailwinds though wobbly sentiments may provide the occasional setback.



	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27
<b>GDP Forecast (% YoY)</b>	2.6	2.5	2.1	1.9	1.4	1.8	1.8
<b>Inflation (% YoY)</b>	3.6	3.9	4.5	3.7	3.5	3.4	3.0
<b>AUD/USD</b>	0.642-0.673	0.663-0.7187	0.681-0.73	0.681-0.727	0.67-0.733	0.67-0.738	0.66-0.738
	0.667	0.690	0.706	0.715	0.719	0.729	0.727
<b>RBA Policy Rate (%)</b>	3.60%	4.10%	4.35%	4.60%	4.60%	4.60%	4.60%

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

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