



WILSONS  
ADVISORY

# Australia's Inflation Genie Back Out of the Bottle?

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Our weekly view on asset allocation.

3 November 2025

# Rude Interruption

Australia's headline CPI for Q3 2025 rose by 1.3% q/q. This was significantly above the consensus estimate of 1.1%.

The headline CPI was also more than 60bps above the RBA's most recent "August Statement of Monetary Policy" estimate of 0.7% q/q.

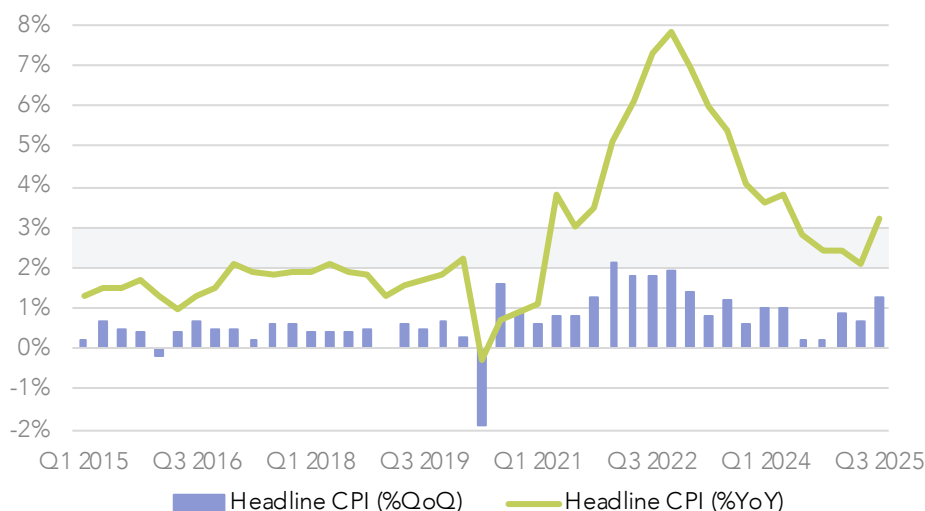
In year-on-year terms, headline CPI rose to 3.2% (from 2.1%), above market expectations of 3.0% and well above the RBA's August estimate of 2.6% y/y.

While the lapse of electricity rebates was in part behind the surge in the headline CPI, the RBA's preferred measure of underlying inflation - trimmed mean CPI, also re-accelerated sharply to 1.0% q/q. This was well above consensus (mkt: 0.8%). The print was also significantly above the RBA's forecast from August, for a miss of ~40bps.

As a result of this significant upside surprise on inflation, the interest rate market has reduced the probability of a November rate cut from 50% prior to the CPI to just 6%.

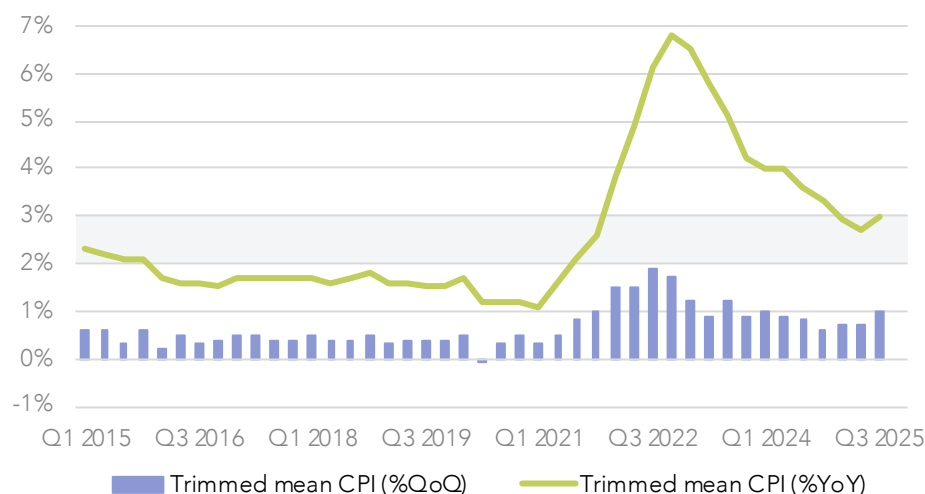
The market is not fully pricing the next cut until May 2026 with expectations for a cut by February falling from 100% to 50%. The market now expects a May cut to be the bottom for the cash rate cycle, as opposed to fully pricing two more cuts earlier in the week.

**Figure 1: Headline inflation surprised to the upside and has broken the top of the RBA target band**



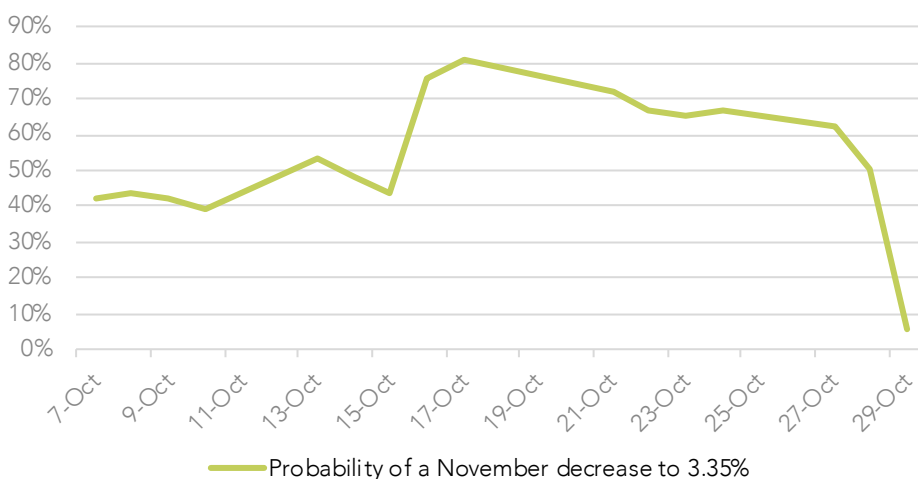
Source: Refinitiv, Wilsons Advisory.

**Figure 2: Trimmed mean inflation also surprised to the upside**



Source: Refinitiv, Wilsons Advisory.

**Figure 3: Market pricing for a November rate cut has collapsed**



Source: Refinitiv, Wilsons Advisory.

Post the CPI the bellwether 10 year bond yield has risen 15 basis points to 4.3% (as at 30 October). The ASX200 eased just over 1% and the Australian dollar continued its recent rebound.

## Broad Based Surprise

The reacceleration in CPI represents the first increase in the trimmed mean annual rate since the inflation downtrend began in Q4 2022. It was also the highest quarterly (trimmed mean) increase since Q1 2024.

A key feature of the September quarter CPI was the broad-based nature of the inflation acceleration. 70% of categories printed above the RBA's 2.5% mid-point target, as compared to just 50% in Q2.

While the pick-up was broad, some of the more noteworthy contributions to the inflation acceleration came from Housing (electricity and rents), Recreation and Culture (travel), Alcohol and Tobacco, Communications and Transport.

### Inflation back out of the bottle?

The surprisingly sharp reacceleration in inflation comes in response to a relatively modest pick-up in economic activity over the past 12 months.

It appears businesses have acted relatively quickly to raise prices, in order to ease margin pressures off the back of a modest pick-up in consumer demand. This relatively poor growth-inflation trade-off would worry the RBA, despite the apparent slowdown in the labour market.

**Figure 4: The futures market is now pricing 1 more cut by May 26**



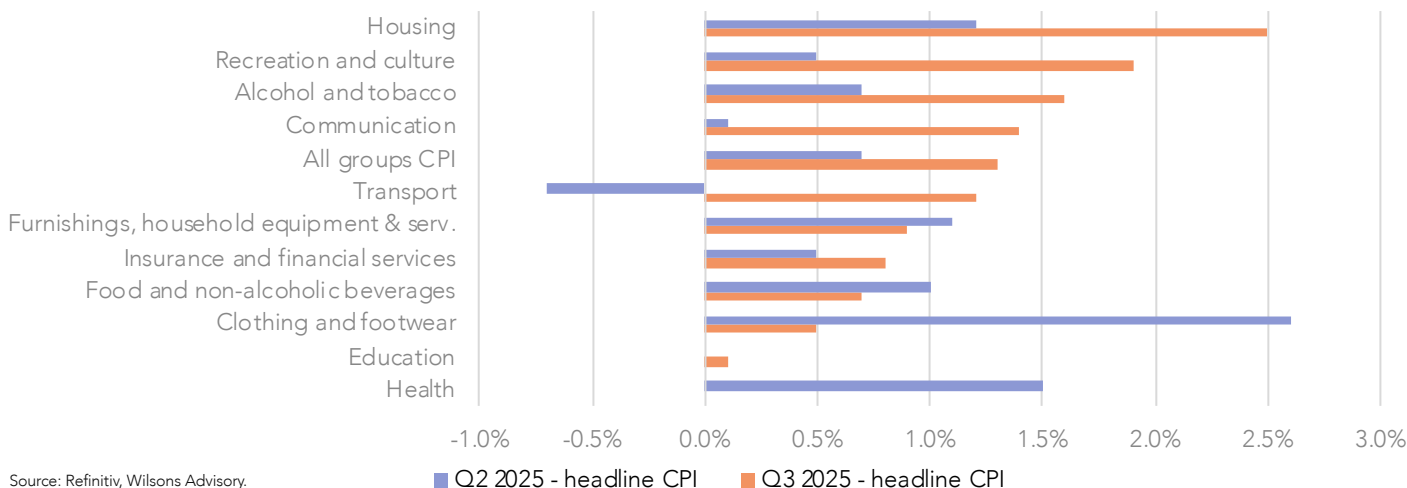
Source: Refinitiv, Wilsons Advisory.

**Figure 5: Bond yields moved higher as expectations for the terminal cash rate shifted higher**



Source: Refinitiv, Wilsons Advisory.

**Figure 6: Most categories accelerated in Q3 relative to Q2**



Source: Refinitiv, Wilsons Advisory.

Our base case ahead of the Q3 print was leaning toward a February 2026 cut. However, we now see a May easing as the more likely point where the RBA would be prepared to ease again.

Given the apparent magnitude of the inflation acceleration - based off only a modest pick-up in domestic demand, the risk of no more cuts this cycle is not insignificant.

Our central case view is the RBA still cuts one, or possibly two times, in 2026. This is based on the modest nature of the recovery and the apparent slow down in the labour market, which could extend into 2026. However, at a minimum, the timing of another cut has almost certainly been delayed.

## Could It Be Just Another Data Head-Fake?

There is perhaps some risk in taking a strongly hawkish interpretation off the back of a single data print. There is recent experience of a September quarter CPI surprising on the upside (2023), only for the December quarter result to reverse much of the surprise. However, the broad-based nature of inflation re-acceleration suggests that there is some information content in this recent pick-up.

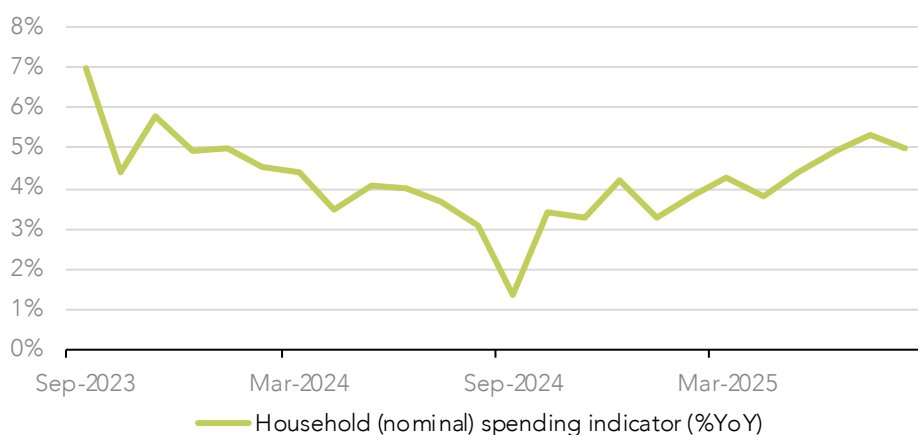
A new, more comprehensive Monthly Consumer Price Index (CPI) survey will officially begin on 26 November 2025, using October 2025 as the reference month. This marks the transition from the quarterly CPI to a full monthly CPI as Australia's primary measure of headline inflation. Consequently, the October monthly data released later this month will take on additional importance.

## Higher Structural Inflation?

In summary, an upside inflation surprise closely following only a modest growth recovery is disappointing and a negative at the margin for both stocks and bonds. It is, however, a positive for the Australian dollar.

While a slower and shallower easing cycle reduces the appeal of fixed interest at the margin, we still see 10-year yields marginally lower over the next six to 12 months off the back of our central case of at least one more rate cut.

**Figure 7: Three rate cuts this year have helped boost consumer spending but businesses have responded by raising prices**



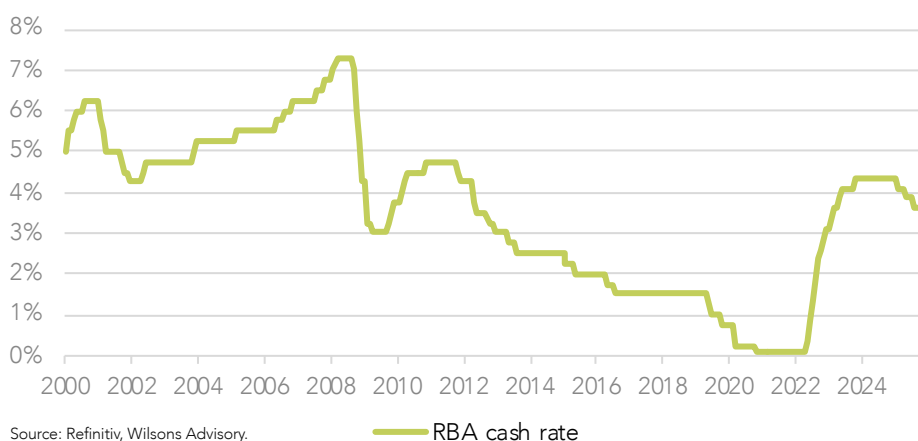
Source: Refinitiv, Wilsons Advisory.

**Figure 8: The labour market appears to be cooling but not collapsing**



Source: Refinitiv, Wilsons Advisory.

**Figure 9: The current easing cycle still looks modest compared to history**



Source: Refinitiv, Wilsons Advisory.

The inflation pick-up also adds some weight to a neutral to slightly cautious view on domestic equities, with a fair amount of optimism around FY26 earnings still priced in.

The potential for a higher terminal cash rate supports our view that the Australian dollar has upside to 70-72c over the coming year, based in part on support from positive interest rate differentials, with the Fed cutting harder than the RBA.

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