



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 12 August 2025

At its meeting today, the Board decided to lower the cash rate target by 25 basis points to 3.60 per cent.

- **Inflation has continued to moderate.**

Inflation has fallen substantially since the peak in 2022, as higher interest rates have been working to bring aggregate demand and potential supply closer towards balance. In the June quarter, trimmed mean inflation over the year fell to 2.7 per cent, broadly as expected in May. Headline inflation, which has partly been affected by temporary cost of living relief measures, was 2.1 per cent, also as forecast. Updated staff forecasts for the August meeting suggest that underlying inflation will continue to moderate to around the midpoint of the 2–3 per cent range, with the cash rate assumed to follow a gradual easing path.

- **The outlook remains uncertain.**

Uncertainty in the world economy remains elevated. There is a little more clarity on the scope and scale of US tariffs and policy responses in other countries, suggesting that more extreme outcomes are likely to be avoided. Trade policy developments are nevertheless still expected to have an adverse effect on global economic activity, and there remains a risk that households and firms delay expenditure pending still greater clarity on the outlook. As in May, the forecasts assume that both effects weigh on activity and inflation in Australia for a period.

Domestically, private demand appears to have been recovering gradually, real household incomes have picked up and some measures of financial conditions have eased.

Various indicators suggest that labour market conditions remain a little tight, although have eased further in recent months. The unemployment rate rose to 4.3 per cent in the month of June and averaged 4.2 per cent in the June quarter as a whole, in line with the May forecasts. Measures of labour underutilisation nevertheless remain at low rates and business surveys and liaison suggest that availability of labour is still a constraint for a range of employers. Looking through quarterly volatility, wages growth has eased from its peak but productivity growth has not picked up and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation stemming from both domestic and international developments. The forecasts released today are for the recovery in household consumption growth to be sustained as real incomes rise.



Businesses in some sectors, however, continue to report that weakness in demand is making it difficult to pass on cost increases to final prices. There is a risk that consumption growth is a little slower than expected, which could weigh on growth in aggregate demand and lead to weaker labour market conditions. Alternatively, as real incomes and wealth continue to rise, households might choose to consume more and save less than expected. Labour market outcomes may also prove stronger than expected, given the signal from a range of leading indicators.

There are also uncertainties regarding the lags in the effect of recent monetary policy easing and how firms' pricing decisions and wages will respond to the balance between aggregate demand and potential supply for goods and services, conditions in the labour market and continued weak productivity outcomes.

- **Maintaining price stability and full employment is the priority.**

With underlying inflation continuing to decline back towards the midpoint of the 2–3 per cent range and labour market conditions easing slightly, as expected, the Board judged that a further easing of monetary policy was appropriate. This takes the decline in the cash rate since the beginning of the year to 75 basis points. The Board nevertheless remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and potential supply. It noted that monetary policy is well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia.

The Board will be attentive to the data and the evolving assessment of risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labour market. The Board is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.

- **Decision**

Today's policy decision was unanimous.