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ANZ Economist Sees RBA Favoring Gradual Rate Cuts After Bullock's Speech

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ANZ chief economist Richard Yetsenga interprets Reserve Bank of Australia (RBA) Governor Michele Bullock's recent speech as signaling "gradual and modest" interest rate cuts, reflecting caution amid persistent inflation. This article examines the RBA's stance, economic pressures, and implications for Australian households and markets.

In her July 2025 address, RBA Governor Michele Bullock emphasized a prudent approach to monetary policy, highlighting ongoing inflationary pressures despite a recent rate cut. Yetsenga, quoted by the Australian Financial Review, noted that the RBA's tone suggests a "gradual and modest" easing cycle, with no rush to slash rates further. The Consumer Price Index (CPI) remains above the RBA's 2-3% target, driven by housing costs and services inflation. Bullock, speaking at a media conference, stressed the need for sustained disinflation in wages and housing before additional cuts, warning that a tight labor market could stall progress. "We need to see more progress on underlying inflation," she said, as reported by the RBA's February 2025 transcript.

The labor market, with unemployment at 4.3% in June 2025, remains robust, complicating the RBA's efforts to balance growth and inflation. Yetsenga pointed out that strong employment and high participation rates signal economic resilience, potentially delaying rate relief. The RBA's November 2024 Statement on Monetary Policy forecasts inflation returning to the 2.5% midpoint by late 2026, assuming restrictive financial conditions persist. This cautious outlook has frustrated households grappling with high mortgage repayments, as the cash rate lingers at levels deemed restrictive. Critics argue the government's spending, including state and federal initiatives, risks fueling demand, further complicating the RBA's task.

Investors and businesses face uncertainty as the RBA navigates this "narrow path." Bullock's comments on global policy unpredictability and domestic capacity constraints, like elevated job vacancies, underscore the delicate balance. Yetsenga warned that aggressive rate cuts could reignite inflation, a risk the RBA seems keen to avoid. For now, markets anticipate a 94% chance of a cut by August, per Market Index, but Bullock's measured tone suggests relief will come slowly. Australians hoping for swift rate reductions may find their patience tested as the RBA prioritizes stability over rapid easing.