

# Economic and market update

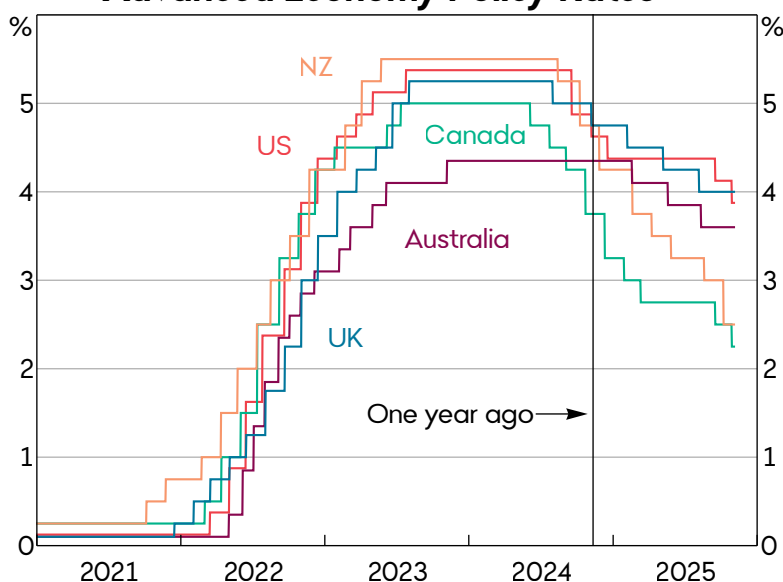
Economic Overview – as at 20th November 2025

## Global markets

Volatility on financial markets remains elevated especially for equity valuations although the drivers of uncertainty are no longer simply trade tensions and US tariffs but increasingly doubts on the market's reliance on policy support, and the reliance on technology driving growth and earnings ahead. Most central banks are approaching neutral levels so the shape of impending cash-rate 'troughs' (and when rates may then turn higher) will be a key variable ahead.

The late October record highs for US equities are now around 6% above current levels although overnight news that Nvidia (the world's largest company) beat revenue forecasts and EPS for Q3 may reinstate the bull market - maybe. Further Fed rate cuts would also add support to markets however a December cut (which had been fully priced in) now appears less likely after minutes from the October FOMC meeting revealed that 'many' Fed officials favoured a pause.

**Advanced Economy Policy Rates**



Sources: Central Banks; RBA.

The US Government shutdown is now behind us so official BLS economic data will resume, although the latest news that the October jobs report won't be published at all and November won't be available until 16 December suggests the Fed is still 'flying blind' to a degree. US labor markets are still expected to weaken further, however the next rate cut is now not expected until early 2026. Meanwhile President Trump has renewed his verbal attacks on current Fed Chair Powell, and his replacement (expected in May) may be announced within a matter of weeks. Bond markets will be vigilant in analysing the successor's credentials especially through the lens of independence, to allay fears that the US easing cycle could add to term inflation expectations.

Economic growth in the euro area decelerated to only 0.2% in Q3 (1.4% y/y) and core inflation is steady at 2.4%, leaving the ECB on hold (perhaps for all of 2026) as the region's economy stabilises helped by resilience against US tariffs. Europe's largest economy Germany is forecast to rebound modestly over the next two years, and questions on fiscal sustainability have moved from the EU to the UK ahead of their annual budget. UK core inflation is still 3.6% and the Bank of England (in a 5 to 4 decision) kept rates on hold at 4% earlier this month. A rate cut in December is still favoured but a tough budget is feared, complicating the outlook.

Japan's new Prime Minister Sanae Takaichi also faces challenging conditions with Q3 GDP contracting by 1.8%, although this was better than feared (as exports felt the full brunt of US tariffs) with resilient domestic demand providing an offset, helped by real wages growth. The Bank of Japan are favoured to increase rates in December to 0.75% with Japanese inflation edging higher especially for goods, while the new administration is rolling out its stimulus plan.

China's economic challenges remain sizeable with activity data again disappointing in October and the property downturn worsening, however export markets continue to offer some relief and the recent US-China 'deal' was comforting. Retail sales growth edged lower in October to 2.9% y/y while Industrial Production slowed sharply from 6.5% to 4.9%, and Fixed Asset Investment contracted by 1.7%. Some of this decline will have been driven by the National Day holiday period, and an unexpected fall in Chinese merchandise trade in October was also explained by some one-off factors, but the further

deterioration in property activities suggests that more policy support is necessary. Nevertheless consensus forecasts for China's GDP growth are close to 5% this year and only a dip to around 4.5% in 2026.

In summary, trade de-escalation and the resilience of export markets to US tariffs have been a feature of the last few months, and global growth is likely to land slightly above previous estimates at around 3.25% this year and 3% next. Monetary easing will be less prominent next year in most regions, so with rates at or near neutral levels and easing fiscal support in many countries, the focus moves to how resilient the private sector will be to policy uncertainty - and how quickly productivity gains from AI and other technologies will drive the next upswing.

## Domestic economy

The RBA ended its previously reliable sequence of one rate cut per quarter aligned to each Statement on Monetary Policy, and the Q4 SOMP went to great lengths (along with subsequent speeches) to explain why the pace of cuts needed to slow down. A number of market economists and analysts have interpreted this as the end of the easing cycle, although few seem to be following this claim up with the timing of the first hike (if indeed this is the turning point). The basecase in our forecasts below still have another cut to a consensus neutral nominal cash rate at around 3.25 to 3.5%, although recent CPI data pushed back our forecast for this last cut in the cycle to around May next year. The language in the November SOMP was cautious and even-handed with risks characterised as balanced and a clear message from Governor Bullock that the RBA 'don't have a bias'; but also a reference to policy as still 'a bit restrictive'. The forecasts in the SOMP assume the market curve at the time which aligns with our profile below, other than the first hike in a new cycle which we expect in H1 2027.

The Q3 inflation data did show a material uplift in price pressures as headline CPI shot up from 2.1% annual inflation at June '25 to 3.2% by the end of September, while the Trimmed Mean rose from 2.7% to 3.0%. Given the second decimal place shows the TM was actually 2.95% the RBA's core inflation target range of 2-3% is just intact, but underlying annual inflation will probably now edge above 3% in the next few quarterly observations.

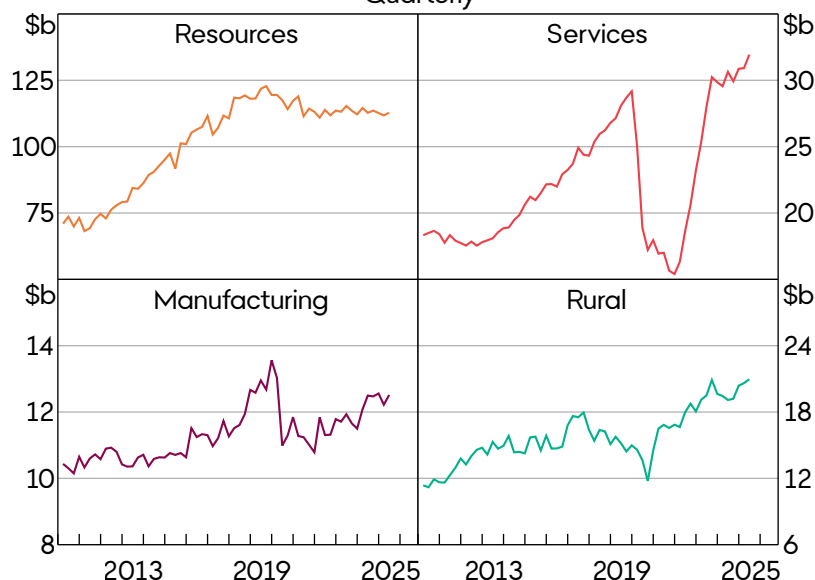
On 26 November we will get the first complete Monthly CPI (for October) replacing the previous monthly 'indicator' so this data will carry some weight, however the RBA still consider this data series as being in [transition](#). The Q3 numbers did include some well documented one-off factors such as state-based energy rebates ending, so there is a good chance that (even in core-measures) this was an outlier. However some components such as housing inflation and recreation were also higher so the RBA will want to see a number of data points before being in a position to take official rates to a more neutral level, which we still suggest is the most likely outcome.

Recent data has added to the narrative of an economy not in any need at all of an expansionary policy rate, including the fall in unemployment from 4.5% to 4.3% (although to two decimal places this was less dramatic: 4.45% down to 4.34%), and the surprise jump in [W-MI](#) consumer sentiment to its highest level since late 2021 at 103.8 (where 100 is neutral). Export markets also show the resilience of trade in our region to US tariffs, consistent with many of our [Major Trading Partners](#). The US have just removed their 10% tariff on our beef exports.

One of the key assumptions in the November SOMP was that our labour markets will remain relatively tight, which was arguably validated by the recent jobs report but may be inconsistent with a number of leading indicators such as job vacancies and anecdotal evidence. The RBA also assume that real GDP will continue to steadily make ground to 2% growth and that private demand will increasingly be the driver of growth over public demand. This makes sense in the context of business investment in emerging technologies (refer appendix) and the likely transition from the current AI investment boom (albeit its bubbly appearance in equity markets) to an AI productivity and output boom. However, should this occur as is assumed in the basecase forecasts below, the impact on labour markets is most unclear beyond FY27. It would nevertheless be consistent with a tightening cycle around then, hand in hand with the implications of deglobalisation, transition to net-zero and climate related disruptions, and demographic change. The timing of the impending AI productivity and growth benefits is probably the most challenging part of this equation, as opposed to its inevitability.

## Export Volumes

Quarterly



Sources: ABS; RBA.

## Interest Rate Outlook

The RBA (three cuts into their easing cycle) remain on the path back to a more neutral Official Cash Rate, however the recent up-tick in underlying inflation has pushed back the timing of what may be the last cut in the cycle to around May next year. It is possible that the easing cycle is now over, however (while our forecasts below continue to point to rate hikes in 2027) it appears most unlikely that the RBA will need to increase rates in 2026.

### Economic Forecasts: basecase scenario

	2024				2025				2026		2027
% (actual, forecast)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2
GDP q/q	0.3	0.6	0.3	0.6	0.5	0.5	0.4	0.7	0.6	0.6	0.7
GDP y/y	0.8	1.3	1.4	1.8	2.0	1.9	2.0	2.1	2.2	2.3	2.6
Unemployment	4.1	4.0	4.1	4.3	4.4	4.6	4.7	4.9	5.0	5.1	5.2
CPI (q/q)	0.2	0.2	0.9	0.7	1.3	0.4	0.5	0.6	0.9	0.7	0.7
CPI (y/y)	2.8	2.4	2.4	2.1	3.2	3.3	2.9	2.8	2.4	2.4	3.0
CPI (core y/y)	3.6	3.3	2.9	2.7	3.0	3.1	3.0	3.0	2.9	2.9	3.0
RBA cash rate	4.35	4.35	4.10	3.85	3.6	3.6	3.6	3.35	3.35	3.35	3.6
AUD / USD	.691	.619	.625	.658	.662	.68	.70	.72	.74	.76	.75

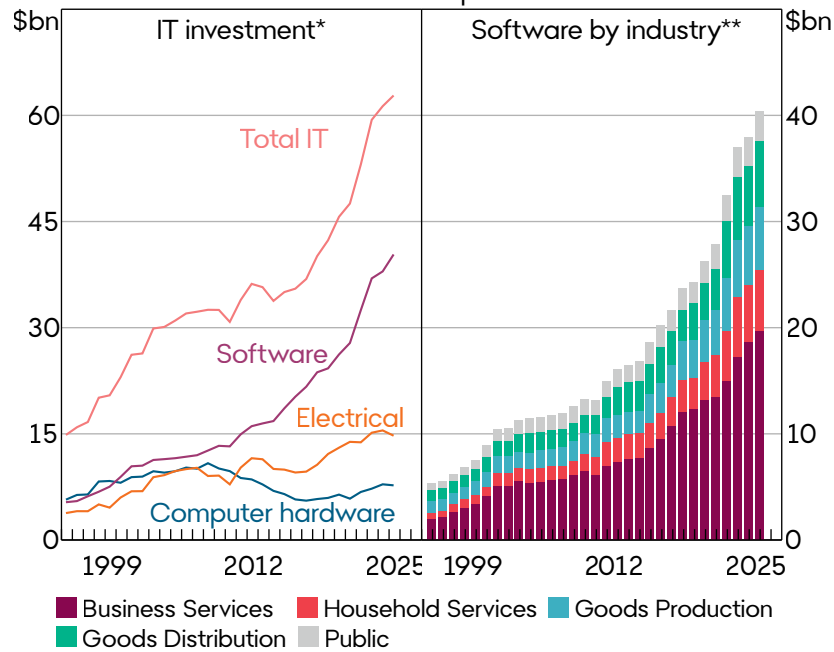
### Benchmark rates

	30 / 9 / 24	30 / 9 / 2025	31 / 10 / 2025	20 / 11 / 2025
90-day bills	4.43%	3.59%	3.64%	3.65%
3-year swap	3.56%	3.51%	3.58%	3.71%
5-year swap	3.80%	3.88%	3.95%	4.11%
AUD/USD	.6910	.6615	.6545	.6480
ASX 200	8 270	8 849	8 882	8 553
Credit Index (iTraxx- 5 yr)	62.1	65.8	65.9	69.5

## Appendix: AI investment trends in Australia

### IT Investment

Selected components



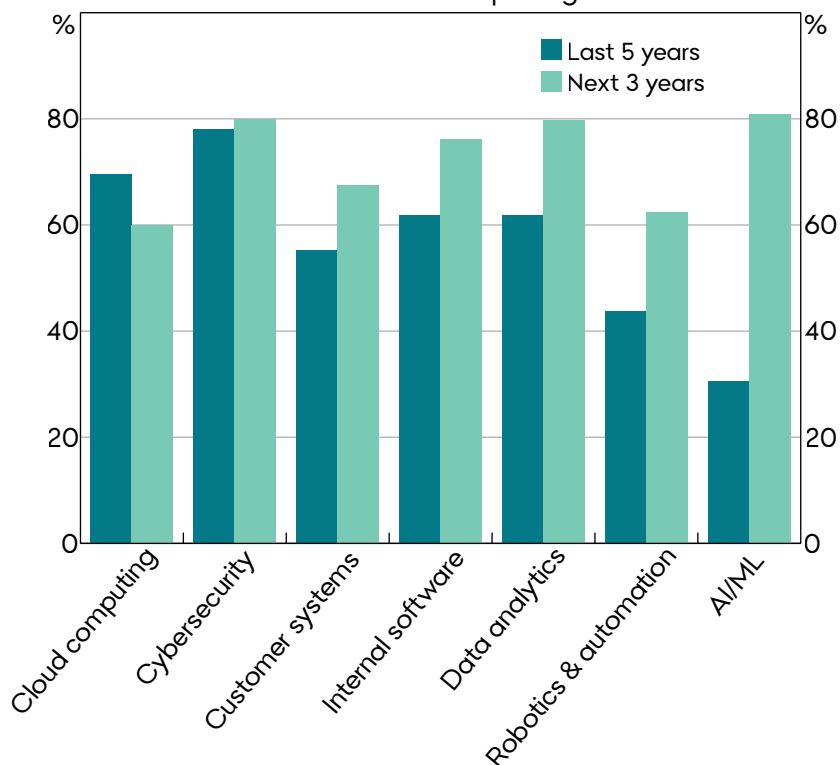
\* By type of IT investment, current prices.

\*\* Software investment by industry group, current prices.

Sources: ABS; RBA.

### Significance of Technology Investment Over Time

Share of firms reporting\*

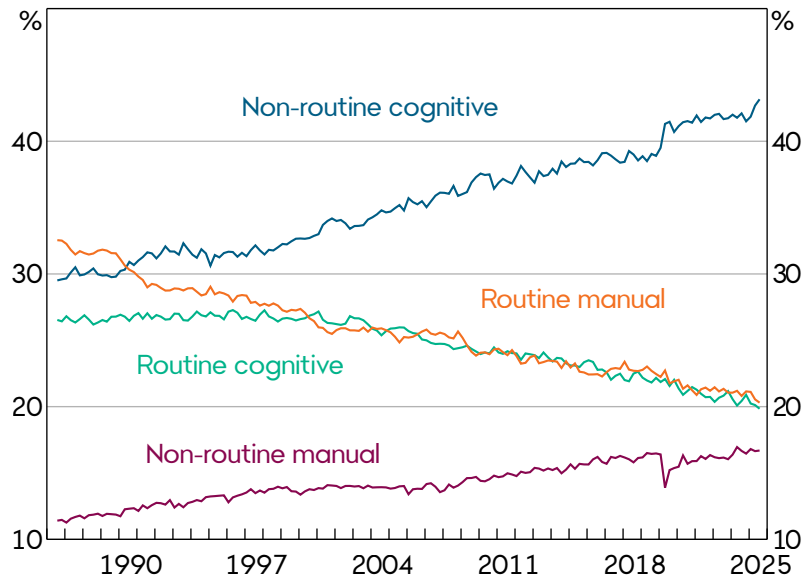


\* Firms reporting moderate or significant investment, as a share of total investment expenditure.

Source: RBA.

## Employment by Skill Type\*

Share of total



\* Mapping of ANZSCO occupations to occupation groups based on Borland and Coelli 2023.

Sources: ABS; Borland and Coelli (2023); RBA.

Any advice provided within this document is of a general nature only and does not take into account your personal needs, objectives and financial circumstances. You should consider whether it is appropriate for your situation. Please read the applicable Product Disclosure Statement(s) on our website before acquiring any product described in this document. Bendigo and Adelaide Bank Limited ABN 11 068 049 178 Australian Credit Licence 237879. (2183966-2198227) (11/25)