NAB CHANGE IN CASH RATE CALL JUNE 2019

NAB FINE-TUNES TIMING OF RATE CALL: RBA TO CUT IN JULY TO 1%

NAB Group Economics

- **We have fine-tuned the timing of our call on the cash rate, bringing forward our next forecast rate cut from August to July. This would take the cash rate to a new low of 1%. There is not much separating July from August given the time it takes for policy to have an effect on the economy, but we do not see a need for the Board to wait, particularly when Governor Lowe said today that, "The most recent data – including the GDP and labour market data – do not suggest we are making any inroads into the economy's spare capacity … [and] it is not unrealistic to expect a further reduction in the cash rate as the Board seeks to wind back spare capacity … and deliver inflation outcomes in line with the medium-term target."**
- **More importantly, we still see a strong case for the Reserve Bank to do even more on policy and expect another cut to 0.75% in November, with the risk of alternative monetary measures in 2020. The Governor is still making the case that lower rates are directed at reducing spare capacity in the labour market rather than responding to deterioration in the economy. We disagree, believing there is a more pressing need to deliver stimulus given the economy has lost some momentum and reflecting our weaker economic outlook. In brief, the RBA is behind the curve and needs to catch up quickly.**
- **It could take time, but we expect the Bank will be forced to change its narrative as the year progresses, downgrading its forecasts to bring them closer to our own outlook of subpar growth, modestly rising unemployment and persistently below-target inflation.**
- **The Governor has also repeated his call for support from fiscal and structural policies to assist in achieving still lower unemployment. We expect the Government will respond to the Bank's call with additional fiscal stimulus later this year, once the weaker economy overrides the political objective of achieving a budget surplus. Windfall company tax gains from unexpectedly high iron ore prices could help fund such stimulus, which could involve some mix of bringing forward planned tax cuts, cash handouts and increased near-term infrastructure spending.**

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