# NAB MONETARY POLICY UPDATE 27 APRIL 2022

## STRONG CPI TO BRING FORWARD FIRST RATE INCREASE TO MAY

NAB Economics

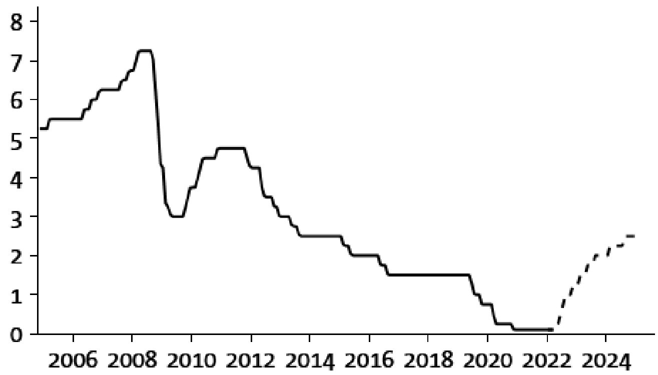
**Key points**

- On the back of today's very strong Q1 CPI data, NAB now expects the RBA will raise the cash rate target by 15bps at next week's May Board meeting. Further 25bp increases in June, July, August, and November will take the cash rate target to 1.25% by year's end.
- The headline CPI read of 2.1% q/q (5.1% y/y) and trimmed-mean of 1.4% q/q (3.7% y/y) exceeded NAB's expectations and was well above the RBA's most recent February forecasts. Temporary factors continue to play a role in stronger inflation outcomes, but underlying inflation is likely to remain elevated into Q2 alongside further falls in the unemployment rate and strengthening wages growth.
- We continue to see three further cash rate increases in 2023 and two in 2024, taking the target to around 2.50%. We expect the RBA to also confirm that it will not reinvest maturing bonds at the May meeting.

**May call prompted by CPI release**

At its April meeting, the RBA Board signalled it was no longer willing to be patient and that it would closely assess "important additional evidence" available "over the coming months" to inform policy decisions. While NAB expected the Board would wait for Q1 WPI data to become available before raising rates in June, we flagged that a very high CPI print could push the RBA to respond at its May meeting.

Chart 1: NAB's cash rate target forecast




Source: Macrobond, NAB Economics

Today's release met that threshold, with headline CPI of 2.1% q/q (NAB 1.7%) and trimmed-mean of 1.4% q/q (NAB 1.2%). Temporary factors contributed, including petrol prices, supply chain issues affecting construction and some policy factors. However, the result is well above the RBA's February forecast for trimmed-mean of around 0.8% and well above the 2-3% target band in year-ended terms. Inflationary pressures are also likely to persist into Q2 and could begin to feed into expectations.

The RBA has previously stated that it would look for evidence of a pickup in wages growth before raising rates, and it remains possible that the Board will wait for the WPI release. However, with the unemployment rate already below 4% in unrounded terms and expected to fall further, as well as anecdotal evidence of wage pressures, improvement in wages is now likely enough for the Board to begin normalising policy, as well as increasing the risks for waiting.

**Steady normalisation to continue through 2021 before slowing**

We expect the initial 15bp hike in May to be followed by 25bp hikes in June, July and August, and November, taking the target cash rate to 1.25% by year's end. This would be marginally higher than the cash rate's pre-pandemic level. The ES rate will most likely move in tandem, maintaining a floor 10pbs below the target.

We continue to expect the RBA to move gradually from there as it assesses the impact of higher rates on households and businesses, as well as progress on wage growth and any easing in supply-side pressures. We see three further increase in 2023 and two in 2024, bringing the target cash rate to around 2.50%.

As previously stated, we also expect the May meeting to see the RBA confirm it will allow bonds to roll off its balance sheet as they mature, rather than reinvesting (or actively selling).

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