

NAB Monetary Policy Update 30 Sep 2024



Shifting balance of risks sees February 2025 firm for first rate cut – but easing still likely gradual

NAB Economics

Key points

- We now expect the RBA to cut in February 2025 (previously May 2025). From there we continue to see a steady profile of one cut per quarter back to 3.10% in early-2026.
- Domestic inflation pressures are cooling, but only gradually, and we continue to expect the conditions for a cut will not be in place this year.
- The risk has been skewed to a first cut earlier in 2025, and today's change acknowledges the balance of risks has likely shifted sufficiently for the RBA to feel comfortable cutting a little sooner than we earlier expected. It remains our view that RBA cuts will be later and shallower than many peer central banks.
- The small adjustment to our cut profile does not come with material shifts to our forecasts. We expect H1 2024 will have marked the trough in growth, but we expect a more modest pickup than the RBA's own forecasts. We expect the unemployment rate to rise a little further before stabilising around 4½.
- Elevated inflation is being sustained by housing and stubborn pressures across domestic labour and non-labour costs. We expect cost drivers to fade as capacity constraints ease further, and soft demand growth to inhibit passthrough to end consumer prices. We expect underlying CPI of 2.6% over 2025.
- The risks skew to a later first cut, but also to a faster cadence of cuts than our central profile.
- The worst of the real income squeeze is behind us as inflation has moderated and tax cuts flow through. If that supports a more material pickup in activity that slows or stalls progress on disinflation, the RBA will hold for longer. Conversely, confirmation of further progress on inflation would give the RBA space to respond more aggressively if the labour market showed signs of deteriorating.

Progress on rebalancing nearing its end

Growth in Australia is slow, weighed down by private demand growth and a discretionary-consumption-led pullback by households squeezed by cost-of-living pressures. We continue to see this slow growth as a period of adjustment from the outright strength in the level of activity coming out of the pandemic rebound. Despite recent slow growth, domestic final demand is 12.6% higher than pre-pandemic and 1.9% higher than its 2015-19 trend. Household consumption has been broadly resilient in the face of the real income squeeze but is bearing the brunt of the adjustment, while overall demand has been supported by higher private investment and continued strong growth in public spending.

Indicators of capacity pressure have eased substantially from their peaks but generally remain elevated. Further easing is expected as growth remains below trend in the near term, and we expect by February the RBA will have seen enough to conclude that excess demand is receding as an inflation driver and policy can begin to adjust away from modestly restrictive settings. NAB forecasts that trimmed mean inflation will slow from 3.5% over 2024 to 2.6% over 2025.

The RBA tightening phase was more gradualist and ultimately shallower than many of their advanced economy peers. The RBA has less space to adjust the level of restriction while continuing to weigh down on activity, and so will begin to cut later than peer central banks that moved policy more deeply into restrictive territory.

	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cash Rate	4.35	4.35	4.35	4.35	4.1	3.85	3.6	3.35	3.1	3.10	3.10	3.10

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