NAB Monetary Policy Update 14 Nov 2024

Tight labour market to keep RBA on the sidelines for longer

NAB Economics

Key points

- We revert to our earlier expectation for a first cut in May 2025. From there we continue to see a steady profile of one cut per quarter back to 3.10% by mid 2026.
- The labour market has been stronger than expected and the RBA remains concerned about upside risks to inflation should gradual labour market cooling stall and capacity growth remain sluggish.
- There are only two more employment prints and one quarterly CPI before the February 18 meeting. Given the data flow to date, it now looks unlikely the RBA will have enough confidence in the trajectory of inflation by then. There is a real risk that policy rates stay on hold even deeper into 2025.
- We continue to assess that the economy has moved substantially towards balance and that some modest further easing in the labour market and capacity pressures will be sufficient to bring inflation back to target.
- While we expect rates will move lower over time, because the RBA's policy stance is only modestly restrictive there is little urgency to adjust policy settings while both inflation and the unemployment rate are evolving gradually.
- RBA policy had diverged from peer central banks that moved policy deeper into restrictive settings. As other central banks have moved to cut rates, that divergence is narrowing. For Australia, the cutting phase will be later and ultimately shallower.

Slow-moving data means little urgency

On 30 September, we pulled our rate call forward to a first cut in February. We did that expecting an improving balance of risks around the inflation outlook would bring a rate cut into view sooner. While Q3 CPI data was as expected, we have been surprised by resilience in labour market indicators.

It remains our view that the unemployment rate will rise a little further before stabilising around 4½% in mid 2025, broadly in line with the RBA's November forecast track. Some further cooling in the labour market and evidence of further progress in realised inflation outcomes over the next couple of quarters will ease concerns that the labour market is a source of inflation risk and provide space to ease policy to preserve full employment.

In the near term, the RBA expects a Q4 average unemployment rate of 4.3% and a Q4 trimmed mean inflation print of 0.7% q/q and 3.8% y/y. Those revised November forecasts are broadly in line with our own expectations, although the unemployment rate is likely to be a little lower, and would be consistent with ongoing progress towards their goals, but are not likely to be enough to cut as soon as February.

Inflation data shows some persistent pressure across components sensitive to domestic demand and labour costs. Combined with the resilience evident in recent labour market data, we think the RBA would need to be concerned about sharper weakening in the labour market to decide to cut as soon as February, with May being more likely. Conversely, the RBA will be on hold for longer if we continue to be surprised by the strength in employment growth.

	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	4.35	4.1	3.85	3.6	3.35	3.10	3.10	3.10

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