NAB Monetary Policy Update 30 Jan 2025

The RBA to gradually ease from February

NAB Economics

Key points

- We now expect the RBA to cut the cash rate by 25bps in February.
- We still expect the cutting phase to be gradual, with the RBA taking the cash rate down to 3.1% by February 2026.
- The Q4 CPI confirms that inflation has moderated more quickly than the RBA expected and sets up a likely downward revision to the inflation profile in the Feb SMP. This now makes February the most likely starting point for a gradual easing in interest rates.
- While the labour market remains strong, we do not see current conditions as inflationary. However, the RBA's growing confidence will need to come in part from a reassessment of tightness in the labour market.

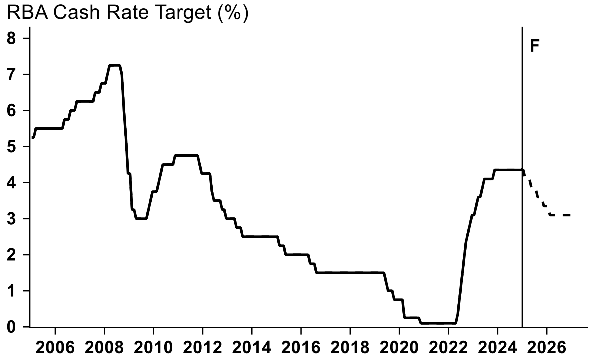
RBA to begin a gradual easing cycle.

Our view since June has been that the RBA would cut 75 or 100bp in 2025, beginning in February or May. While we have been forecasting inflation would ultimately moderate more quickly than the RBA's projections and that despite the unemployment rate remaining low, both the labour market and economy had progressed further along the rebalancing process than the RBA had assessed at the November SMP. That said, given the only modestly restrictive stance of policy, we saw some value in the RBA Board waiting for further information on the labour market, wage growth and the more comprehensive picture of household spending and saving dynamics from the national accounts – all available shortly after the February meeting – before having sufficient confidence in a reassessment of their outlook to commit to a series of rate cuts.

While we still see value in waiting, the pivot in the RBA's communication in December, confirmation of weaker than forecast CPI outcome for Q4 and a softer outlook for the housing components of inflation (compared to the November staff forecasts), alongside further encouraging progress on market services, means that we think the RBA will now make the first cut in February.

Importantly, despite pulling the call forward we still expect a gradual easing phase. While the board is likely to have gained confidence that inflation will sustainably return to target as soon as late 2025, the labour market remains resilient (and there is some risk of retightening) with growth still expected to pick-up this year.

Cash Rate Forecasts



Source: Macrobond, NAB Economics

Quarterly Profile

2025			
Q1	**Q2**	**Q3**	**Q4**
4.10	3.85	3.60	3.35
2026			
Q1	**Q2**	**Q3**	**Q4**
3.10	3.10	3.10	3.10

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