# NAB Monetary Policy Update 8 July 2025

## RBA surprises with a hold, NAB still sees cuts in August, November and now February

NAB Economics

## Key points

- The RBA surprises by holding the cash rate at 3.85%
- The RBA's interpretation of the recent data flow is similar to our own, but amid elevated uncertainty they have opted for caution: more gradualism but less predictability
- The RBA is "looking for confirmation we are still on the path" but this is a "decision on timing but not direction"
- We still see the need for the RBA to normalise rates, with consumption so far having recovered more slowly than earlier expected and amid global downside risks
- NAB continues to expect cuts in August and November and have added a cut in February.

## Bottom Line

The RBA surprised markets and the consensus view of economists by holding the cash rate at 3.85% with "*wider economic conditions evolving broadly as expected, the Board [Judging] that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis*". By August, the RBA will have June Employment (17 July) and Q2 CPI (30 July) as well as additional partial indicators of consumption.

Governor Bullock emphasised in the press conference that the decision to hold was about timing rather than direction. NAB expects further 25bps cuts in August and November and now February, taking the cash rate to a terminal rate of 3.1%. We continue to see a return to a more neutral policy stance as appropriate though the RBA looks to be moving there more cautiously than we had previously expected.

## Detail

The RBA's assessment of the dataflow has been broadly similar to our own – risk on inflation, sits on the high side of the May SoMP forecasts for Q2, but also that consumption growth may be picking up a little less quickly than thought in May. However, the Monetary Policy Board looks to be taking a more cautious approach in normalising policy given "*the heightened level of uncertainty about both aggregate demand and supply*", citing the ongoing strength in unit labour costs growth, weak productivity growth and the tight starting point for the labour market.

We are less concerned about these factors but it will likely take more time for the RBA to become comfortable that inflation will sustainably settle near 2.5%. The RBA, however, has shifted their approach from 'cautious and predictable' to 'cautious and gradual', taking the option to wait and see how the 50bps of cuts is flowing through the economy, and gather further information on the June quarter CPI, the labour force, global developments and new set of forecasts "*to confirm inflation is returning to target*". Today's decision was about "*timing not direction*", "*we are on a path to easing further*".

We continue to see the need to normalise rates in order to support domestic activity, with household spending growth early in 2025 not strengthening as robustly as earlier expected, despite the ongoing recovery in real income growth. While the unemployment rate remains low, ongoing, below trend growth poses a threat to the ongoing resilience of the labour market. Indeed, the real cash rate remains elevated at over 1% and in our view policy is still restrictive.

On the path forward from here, Governor Bullock noted, as the RBA has previously, that rates did not go as high as other advanced economies and therefore will likely not need to come down as quickly (or as far). Bullock said that "*In terms of making a decision meeting-to-meeting, thinking about where we are relative to neutral and deciding where to move relative to neutral is not really the way the Board thinks about it*" but she did say the Board still thinks 'there is a little bit of restriction in there,' and that "*we have to be a little bit careful we don't overdo it one way or the other.*" Her conclusion was "*I can't tell you where neutral specifically is. I can't tell you where terminal will be. What I can say is we think at the moment the direction is down but it is cautious*."

## Unattributed votes

The Board today also took the decision to publish an unattributed record of votes in the post-meeting statement. Today's policy decision was made by majority; 6 in favour, 3 against. Unattributed votes are obviously a new phenomenon in Australia, but to put 3 dissents in some context, the BoE MPC (which does attributed votes but like the RBA has some external members) saw 3 or more dissents in 17 of 298 decisions since 1998 (6%).

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