NAB Monetary Policy Update 8 August 2025

As anticipated, the RBA delivers a 25bp easing

NAB Economics

Key Points:

- The RBA cut the cash rate by 25bp as expected, encouraged by a further decline in core inflation and a slight easing in labour market conditions.
- There were no changes to the unemployment rate or inflation forecasts in the August *Statement on Monetary Policy*.
- However, the RBA have downgraded their longer-term productivity assumptions and now see Australian trend GDP growth ~2%.
- The RBA Governor delivered little in the way of forward guidance today; NAB continues to expect 25bp cuts in November and February.

Bottom line

The RBA cut the cash rate by 25bp, as expected by markets and the consensus of economists. A slight easing in labour market conditions and a further decline in core inflation were the main drivers of the policy decision.

The RBA cash rate now stands at 3.60%, 75bp below the peak cash rate of 4.35% reached in Q3 2023. In a relative sense, Australia's cash rate remains above that of Canada (2.75%), Europe (2.00%), Sweden (2.00%) and New Zealand (3.25%), but below the US (4.50%), the UK (4.00%) and Norway (4.25%).

Uncertainty around household consumption still appears to be the main risk to the Bank's forecast for a gradual acceleration in GDP growth in coming quarters. Lags associated with monetary policy, weak productivity growth, conditions in the labour market and the balance between aggregate demand and aggregate supply are also cited as sources of uncertainty. Globally, trade policy uncertainty is also expected to weigh on output and inflation "*…for a period*".

The Statement gives little away in terms of the outlook for policy, noting simply that "*The Board nevertheless remains cautious about the outlook*" and "*…will be attentive to the data and the evolving assessment of risks to guide its decisions*." This is consistent with the cautious and gradual approach to policy outlined by the Governor in the July press conference.

Detail

Generally speaking, the RBA forecast set reflects an economy reaching balance over the next 12 months. Inflation is expected to settle close to the mid-point of the target band and growth settles at trend. This outlook assumes that the cash rate reaches 3%; the RBA note in the SoMP that this path for the cash rate "*…is consistent with sustaining balance in the economy, although this assessment is uncertain*."

While the RBA continues to expect a gradual acceleration in growth in coming quarters, it has revised down both short-term and medium-term GDP forecasts. Near term growth forecasts have been revised lower due to an expectation of softer than expected public demand growth. Medium term GDP growth forecasts have been revised down due to a lower outlook for productivity growth.

Importantly, the downward revisions to productivity growth are not expected to influence the output gap nor the inflation outlook. This is because the Bank's forecasts assume a similar decline in aggregate demand, as households and firms adjust their consumption and investment behaviour in response to lower incomes growth (a consequence of lower productivity growth).

We infer from the RBA forecast set that the Bank has settled on a NAIRU ~4.25% and an estimate of the nominal neutral rate of ~3.00%. In the press conference, the RBA Governor did not attach a strong degree of confidence to these forecasts; nonetheless, they are consistent with our own forecasts for each variable, and importantly, also consistent with our view that the RBA will deliver two more 25bp easings in in November and February.

There was little in the way of forward guidance provided in the documents published today, nor in the press conference. The RBA are data dependent and further easing as per our forecast will be contingent on the data printing in line with the RBA's outlook for broad stability in the unemployment and core inflation rates in coming quarters.

Unattributed votes

The *Statement* noted that today's decision was unanimous.

For more information, please contact

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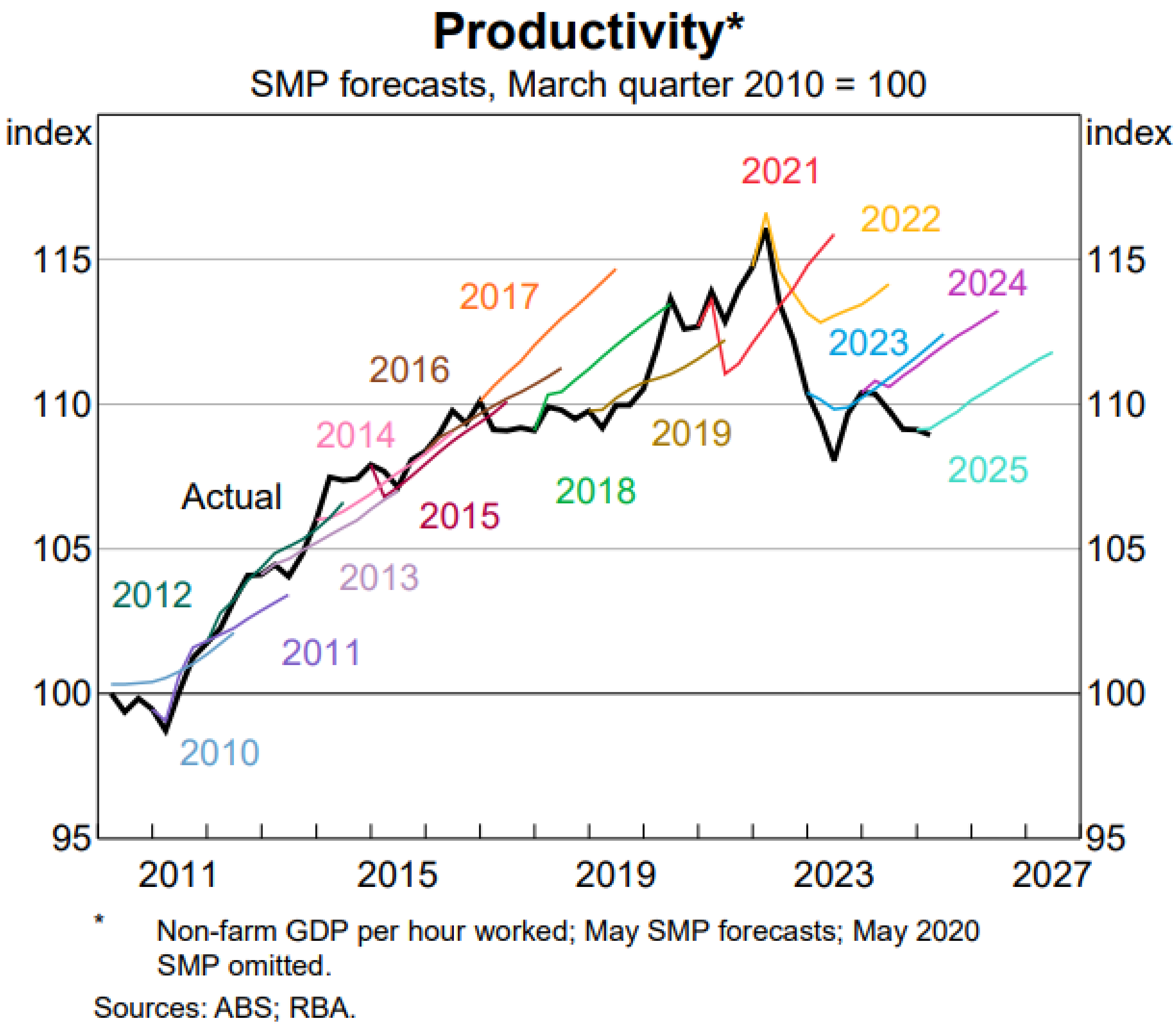
Chart 1: Productivity assumptions have undershot, with the RBA revising down its productivity growth forecasts



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