

NAB Monetary Policy Update 24 Sep 2025

The RBA to remain on hold for an extended period

NAB Economics



Key points

- We now see the RBA on hold at 3.6% until May (previously cuts in November and February)
- Today's CPI data point to a 0.9%-1.0% qoq outcome for Q3 trimmed mean, which would be a 0.3ppt upside surprise to current RBA forecasts.
- The detail shows that market services inflation is significantly hotter than we expected.
- For the RBA, this means considerably less certainty that inflation has settled near 2.5% and highlights the likelihood that it will take a period of modestly restrictive policy for inflation to settle at 2.5%.

RBA to pause

Today's inflation data suggest that the quarterly trimmed mean measure is likely to print at 0.9%-1.0% qoq for Q3. This is a meaningful upside surprise to the RBA's standing forecast of a 0.64% quarterly rise in the trimmed mean measure.

Consequently, we no longer see the RBA delivering 25bp cuts in November 2025 and February 2026. Our new profile for the cash rate sees policy on hold at 3.6% for an extended period before a cut in May 2026

While the RBA has cautioned against reading too much into monthly inflation data and exhibited a strong preference to wait for quarterly inflation prints before moving policy, we think the signal in today's data is too strong to ignore. Beyond the headline CPI indicator which was impacted by both base effects and the resumption of electricity rebates, the market services components were hotter than we had expected and this dynamic will be reflected in the quarterly inflation print.

These components typically tend to be more persistent than other components and paint a materially different picture to the benign outcomes seen in Q2. While we have not changed our underlying assessment of labour market pressures, it appears that the rebound in consumer spending has allowed businesses to pass on still elevated

cost pressures. Evidence of margin expansion has also been reflected in a rise in the NAB Survey measure of profitability over recent months.

For the RBA, the starting point for today's data was an economy where recent activity data had been "...slightly stronger" than forecast, as noted by the RBA Governor yesterday. With question marks over the economy's supply capacity and the degree of tightness in the labour market already front of mind, the RBA was always going to be sensitive to the risk that the economy could reach growth rates above trend even with a benign inflation outlook.

After today's data, the RBA will now need to reconsider implications of stronger growth momentum against a backdrop of core inflation which is now likely to annualize closer to the top of the 2-3% target band over the next 6 months.

We suspect it will take at least two, if not three, quarterly inflation prints to resolve the extent of signal in the Q3 inflation data. Elevated uncertainty about the underlying pulse of inflation, against a backdrop of modestly better activity data, argues for a long pause in the rate cycle in which the stance of policy remains modestly restrictive.

At this point, our expectation is that a period of modestly restrictive policy will be both necessary and sufficient to eventually force the trajectory of core inflation onto a path consistent with the RBA's target mandate. Accordingly, we have placed in a final easing into our rate profile for May 2026. This forecast sees a terminal cash rate of 3.35%. We see risks to that cash rate outlook as balanced.

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