

## NAB now expects the RBA to increase rates in June

### Key points

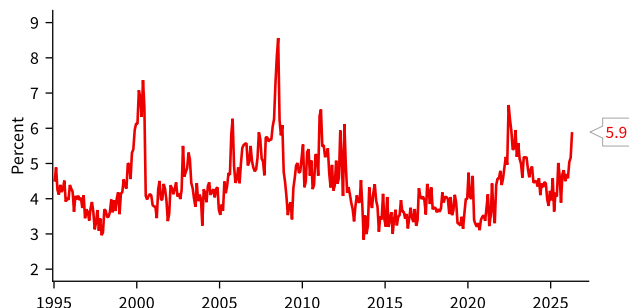
- We now expect the RBA to lift rates again in June, taking the cash rate to 4.60%.
- Today's decision by the RBA Monetary Board, while not quite unanimous, showed a clear preference to prioritise the price stability.
- The RBA continues to face the challenge of already above target inflation, with second-round pressures from higher oil prices to flow through relatively quickly.

### Detail

There is signal in today's RBA decision and SoMP forecast update. As we observed in our [RBA reaction note](#), it likely reflects growing anxiety about the future path of inflation and inflation expectations.

At present, the RBA is facing into two distinct inflation dynamics which have compounded to present policy makers with a significant challenge. Pre the conflict in the Middle East, the RBA was dealing with inflation that was too high and rising, largely the consequence of domestically generated capacity pressures. On top of that, the RBA is now facing into the first-round impact of higher oil and commodity prices, but also, the risk that second round price impacts related to the Middle East conflict are both broad and rapid in their dissemination. Moreover, both business and household inflation expectations are rising.

### W-MI Inflation expectations (30% trim measure)

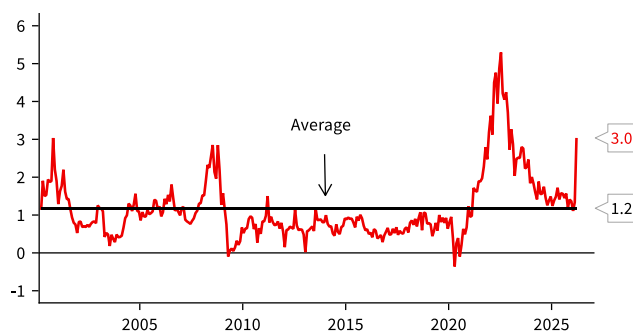


Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, Macrobond

Indeed, anecdotal evidence from many of our business customers suggests that input costs are rising and that the magnitude of the rise is leaving businesses with no alternative but to pass on the cost increase to final prices.

These anecdotes have been validated by our NAB Business Survey for March, which showed the measure of purchase costs rising by the most in one month in the near thirty-year history of the survey (see Chart).

### NAB Business Survey Purchase Cost Growth



Source: National Australia Bank, National Australia Bank, Macrobond

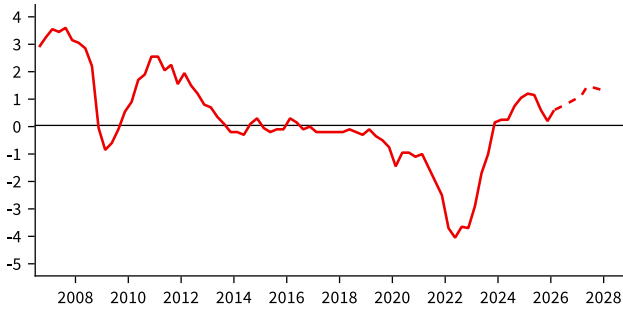
Moreover, data to hand suggests that so far, household consumption is holding in reasonably well. Our own transactions data suggests that after discretionary spending growth slowed in early March, has largely held up since then, and ABS data released earlier today suggests some upside to our 0.2% qoq forecast for real household expenditure in Q1.

Economic activity was already slowing from its too-strong pace over 2025, but this alone is unlikely to be a deterrent to further rate hikes, given slowing in activity was a necessary outcome pre-conflict.

The Governor today described a cash rate of 4.35% as "a bit restrictive". We doubt that this policy setting will be sufficient to ensure that inflation returns to the target band, given the RBA *Statement* noted that risks are tilted to the upside for both inflation and inflation expectations. Moreover, the inflation forecasts are based on an assumption of oil tracking towards \$82/bbl by year end, and that the terminal cash rate that is closer to 4.7% than 4.4%.

Based on our forecasts for core inflation (which are not materially different to the RBA forecast profile), a terminal cash rate of 4.6% would see the real cash rate around 1% by year end, and close to 1.5% by the middle of 2027. These are elevated levels for the real cash relative to historical experience and we think would reflect restrictive monetary policy.

**Real Cash Rate\***

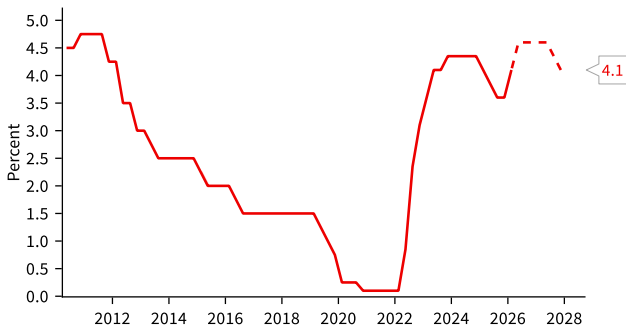


\*RBA policy rate less trimmed mean inflation  
Source: National Australia Bank, Macrobond

The timing of the next rate rise is tricky. On the one hand, the RBA have delivered 75bp of hikes in the space of three months, and have now recalibrated policy to a more appropriate level. This would ordinarily suggest the opportunity to wait a while for more information, such as the quarterly inflation print (released in late July). However, the Governor explicitly called the “wait and watch” strategy the “wrong term” in her press conference, and so it doesn’t appear that the Board thinks it has time on its side. This, together with the Board’s clear preference to prioritise the price stability aspect of its dual mandate given a broadly benign labour market forecast, suggests to us that the next rate rise will come in June.

With the cash rate now back in restrictive territory, growth expected to slow and the unemployment rate expected to drift higher, the RBA will eventually need to normalise the cash rate. Though the timing of this remains highly uncertain, with the cash rate likely yet to peak and the full impacts of the conflict in the Middle East yet to be felt, we continue to pencil in two cuts in H2 2027 as the RBA begins to normalise interest rates.

**RBA Cash Rate Forecast**



Source: National Australia Bank, Reserve Bank of Australia, Macrobond

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