

NAB Monetary Policy Update 13 Nov 2025



No further easing

NAB Economics and Markets Research

Key points

- We now see the RBA on hold at 3.6% through to the end of our forecast horizon (previously we forecast a 25bp cut in May)
- Underlying inflation will print above 3% in the near term and will remain above target for at least another 12 months
- Growth has accelerated and the economy is already exhibiting signs of elevated capacity utilisation
- The acceleration in house price growth and investor lending also argues for stable policy at a minimum
- For the RBA the appropriate stance will be to remain broadly around neutral, for now

RBA to remain on hold for an extended period

We no longer expect the RBA to make a final cash rate cut in May 2026. We now see the cash rate on hold at 3.6% for an extended period.

We have also tweaked our near-term forecast profiles, slightly lowering GDP (to ~2% yoy) and seeing unemployment steady at around 4.4% (prior forecast was a decline to 4.25%).

There are three factors that have driven our reassessment.

Firstly, the shift in the inflation backdrop.

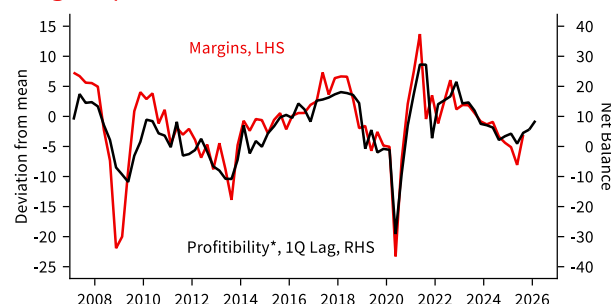
Disinflation, against a backdrop of broad stability in the labour market and a modest improvement in GDP growth, facilitated a series of rate cuts from the RBA this year.

However, recent data on prices suggests the strong likelihood that underlying inflation will print above 3% for the next couple of quarters. While some of the pick-up is expected to be transitory, underlying inflation is still forecast to remain in the top half of the target band for an extended period. This forecast trajectory will demand a period of stable monetary policy in order to allow the RBA the opportunity to fully assess and better understand underlying inflation dynamics.

Moreover, with the real cash rate falling as inflation rises in the next few quarters, the case for a downward adjustment in the nominal policy rate has little support.

We also see minimal risk of an undershoot in inflation, with the housing components likely to remain a source of upward pressure and the risk of further pass through to the prices of market services components from the earlier rise in costs. Data from our NAB Business Survey point to evidence of some unwind in margin compression, with the prospect of more to come.

Margin Expansion

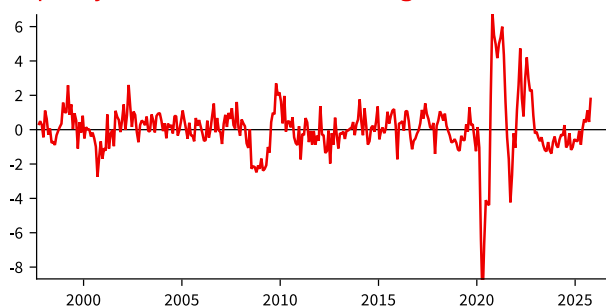


Source: National Australia Bank, National Australia Bank, Macrobond
* Final month of the quarter; October result for Q4 2025.

The second factor motivating our change in forecast is the dynamics around recent growth outcomes. In 2025 growth has picked up from its low point, with encouraging signs that growth led by the private sector is gaining momentum. Our NAB Business Survey supports the notion that activity improved through the middle of the year and has strengthened further in Q3.

Importantly, our Surveys also suggest a high level of activity as the starting point as growth accelerates. Capacity utilisation has trended higher through mid-2025 and is now around 2ppt above its long run average. There is breadth to the story too, with 5 out of 8 industries reporting capacity utilisation above their long-run averages. This means there is little to no spare capacity in the economy and highlights the risk that price pressures could re-emerge as the ongoing recovery in activity flows through to the labour market.

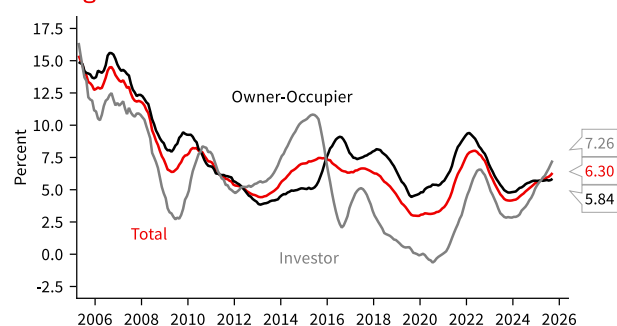
Capacity Utilisation*, 6-month Change



Finally, there is growing evidence to support the RBA's recent admission that it now is less certain that a cash rate of 3.6% is "...a little on the restrictive side." House price growth is accelerating and the most recent data on lending shows a sharp rise in both the value of new investor loans and the number of new investor loan approvals. The *number* of investor loans was up 14% in the three months to September, while the *value* of these loans is up 18% over the same period. Historically growth rates of these magnitudes would demand a policy response, macro-prudential or otherwise.

It would be natural to ask why, given the three factors above, the RBA weren't giving greater consideration to the case for higher rates. Our view is that while the labour market outlook continues to be consistent with broadly stable wages growth and a modest rise in productivity growth, the RBA has time on its side. Some of the tail winds to real income growth, including tax cuts and three rate cuts this year will likely fade a little over coming quarters. The RBA will also remain alert to labour market risks, though today's data points to ongoing resilience with the unemployment rate falling back to 4.3% and only minimal further easing through 2025 to date.

Housing Credit Growth



The downside to the soft landing

While we assess the long-run neutral cash rate as in the range of 3% to 3.25%, it is possible that policy above those longer run levels remains appropriate given the combination of already elevated capacity utilisation, healthy consumer balance sheets and a tight labour market.

This difficulty reflects one of the challenges of the soft landing. If an acceleration in growth starts from an elevated level of capacity utilisation and a labour market with close to full employment, there can be little or no tolerance for above trend growth. Against this backdrop, the RBA will have an enhanced sensitivity to upside surprises in growth and / or inflation.

Looking ahead, we expect the RBA to remain on hold while it continues to assess both underlying inflation dynamics and the balance (or otherwise) between aggregate demand and supply. But should data continue to suggest an acceleration in growth, evidence of a tighter labour market and / or further margin expansion, then the outlook for Australian monetary policy could shift in a less benign direction. Of course, risks to the outlook are two-sided. An earlier-than-expected resumption of disinflation, together with evidence of a weakening labour market, would bring the prospect of further easing back into play.

Authors

Sally Auld

Group Chief Economist
+(61 0) 422 224 752

Gareth Spence

Head of Australian Economics
+(61 0) 422 081 046

Taylor Nugent

Senior Economist
+(61 0) 452 671 752

Contacts

Economics

Sally Auld

Group Chief Economist

+61 422 224 752

sally.auld@nab.com.au

Gareth Spence

Head of Australian Economics

+61 436 606 175

gareth.spence@nab.com.au

Taylor Nugent

Senior Economist

+61 452 671 752

taylor.nugent@nab.com.au

Jessie Cameron

Senior Associate Economist

+61 491 380 013

jessie.cameron@nab.com.au

Tony Kelly

Head of International Economics

+61 477 746 237

antony.kelly@nab.com.au

Michael Hayes

Associate Economist

+61 411 186 777

michael.hayes@nab.com.au

Markets Research

Skye Masters

Head of Research

+61 2 9295 1196

skye.masters@nab.com.au

Foreign Exchange

Ray Attrill

Head of FX Strategy

+61 2 9293 7170

ray.attrill@nab.com.au

Rodrigo Catril

Senior FX Strategist

+61 2 9293 7109

rodrigo.h.catril@nab.com.au

London/Europe

Gavin Friend

Senior Markets Strategist

+44 207 710 1588

gavin.friend@eu.nabgroup.com

Fixed Income

Kenneth Crompton

Senior Interest Rate Strategist

+61 2 9293 7132

Kenneth.crompton@nab.com.au

Gregorius Steven

Senior Associate, Interest Rate Strategy

Michael Bush

Head of Credit Research

+61 3 8641 0575

michael.d.bush@nab.com.au

Evy Noble

Analyst, Credit Research

+61 2 7226 7336

evy.noble@nab.com.a

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