FINANCIAL REVIEW

Economists push back RBA rate cut to August 2024

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Economists have again pushed back the timing of the Reserve Bank's first expected interest rate cut because of sticky inflation in the services industry and a stubbornly strong job market.

The spike in fuel prices and a faster-than-expected rebound in house prices have also been unwelcome complications for the central bank because they add to inflation pressures.

From left, Bob Cunneen (MLC); Katrina Ell (Moody's) and Ben Jarman (JPMorgan).

The Australian Financial Review's survey of 42 economists suggests the Reserve Bank will cut interest rates in August 2024, according to the median forecaster, compared with previous expectations of May. Late last year, the survey had forecast the first monetary easing in February 2024.

"Underlying inflation pressures are still too hot for comfort, and it will likely be a bumpy downtrend," said Katrina Ell at Moody's, who is expecting an easing mid-next year.

Last week, the Commonwealth Bank revised its rate cut call to May from March, and Goldman Sachs pushed it out to November from August.
"We expect inflation pressures to trend lower but the strong rebound in oil prices, depreciation in the Australian dollar, and resilience of wage-sensitive prices all suggest this will happen somewhat slower than previously," said Andrew Boak at Goldman Sachs.

Up and down

The bad news for consumers is that interest rates may have to go up before they go down. The survey showed economists are evenly split between one final move higher and no change this cycle, reinforcing the view that interest rates globally will stay elevated for months to come.

The RBA is widely expected to extend its monetary pause on Tuesday in the first policy meeting under new governor Michele Bullock.

The central bank has held the cash rate at 4.1 per cent since July as it waits for the previous 12 rate rises to take full effect on the economy. It is now in data-dependency mode and has warned it may need to tighten again depending on the trajectory of inflation.

ECONOMIST FORECASTS | Inflation (currently 5.9% YoY*)

Forecaster	Institution	Dec-23	Jun-24
Shane Oliver	AMP	3.70	2.90
Adam Boyton	ANZ	4.00	3.50
Micaela Fuchila	Bank of America	4.60	3.70
Peter Munckton	Bank of Queensland	4.20	3.80
Shreya Sodhani	Barclays	3.10	2.30
Jo Masters	Barrenjoey	4.00	3.40
David Robertson	Bendigo and Adelaide Bank	3.90	3.30
David Bassanese	Betashares	4.00	3.25
Marcel Thieliant	Capital Economics	4.10	3.30
Steve Wu	CBA	3.70	3.10
Jonathan Kearns	Challenger	–	–
Faraz Syed	Citi	–	–
Saul Eslake	Corinna Economic Advisory	4.00	3.50
David Rumbens	Deloitte Access Economics	5.20	4.00
Phil O'Donaghoe	Deutsche Bank	4.10	3.60
Craig Emerson	Emerson Economics	5.00	4.00
Christian Baylis	Fortlake	4.00	3.50
Andrew Boak	Goldman Sachs	4.30	3.60
Paul Bloxham	HSBC	4.20	3.50
Angus Coote	Jamieson Coote Bonds	–	–
Carlos Cacho	Jarden	4.20	3.60
Ben Jarman	JPMorgan	4.20	3.80
Warren Hogan	Judo Bank	4.30	3.80
Brendan Rynne	KPMG	3.80	3.20
Stephen Anthony	Macroeconomics Advisory	5.50	4.60
Bob Cunneen	MLC Asset Management	4.20	2.80
Katrina Ell	Moody's Analytics	5.00	4.00
Chris Read	Morgan Stanley	4.00	3.50
Michael Knox	Morgans	4.00	3.30
Matt Wacher	Morningstar	–	–
Alan Oster	NAB	4.30	3.80
Andrew Ticehurst	Nomura	4.50	4.00
Sean Langcake	Oxford Economics Aus	4.00	3.20
Michael Blythe	PinPoint Macro	4.50	3.20
Matthew Peter	QIC	4.00	3.50
Ben Picton	Rabobank	5.00	4.00
Su-Lin Ong	RBC	4.10	3.60
Prashant Newnaha	TD Securities	3.50	2.75
George Tharenou	UBS	4.00	3.30
Alexis Gray	Vanguard	4.50	3.50

Additional 4 rows not shown.

* Year-ended trimmed mean

Source: Financial Review

"Under her predecessor Philip Lowe, recent RBA decisions did reflect a surprisingly dovish bias and preparedness to tolerate a materially larger and longer inflation overshoot than its global peers," Mr Boak noted. "Governor Bullock is yet to provide much detail on her current thinking."

Bond traders imply just a one-in-10 chance that the RBA will raise the cash rate to 4.35 per cent this week, and ascribe a 62 per cent probability of an increase by year-end.

Data last week showed Australia's August inflation gauge ticked up [https://www.afr.com/policy/economy/inflation-jumps-for-first-time-in-four-months-20230927-p5e7vp] to an annual pace of 5.2 per cent pace as oil prices jumped globally, reinforcing the case for higher interest rates. While core inflation, the RBA's preferred measure, held at an annual rate of 5.6 per cent, it is still well above its 2 per cent to 3 per cent target.

Overly optimistic

Among the more hawkish economists – those who think that interest rates will rise – is Vanguard.

"We are not convinced the rate hiking cycle is over and believe the RBA will hike one to two more times as a final nail in the coffin," said Alexis Gray, a senior economist at Vanguard. She argued that core inflation was still well above the RBA's target and also falling slowly.

The survey showed 21 out of the 42 respondents predict a rate rise, most likely in November following the release of the quarterly consumer price index report on October 25.

ECONOMIST FORECASTS | $A/$US (currently US64¢)

Forecaster	Institution	Dec-23	Jun-24
Shane Oliver	AMP	0.64	0.70
Adam Boyton	ANZ	0.65	0.72
Micaela Fuchila	Bank of America	–	0.73
Peter Munckton	Bank of Queensland	0.65	0.70
Shreya Sodhani	Barclays	0.63	0.64
Jo Masters	Barrenjoey	0.65	0.66
David Robertson	Bendigo and Adelaide Bank	0.67	0.71
David Bassanese	Betashares	0.65	0.63
Marcel Thieliant	Capital Economics	0.64	0.66
Steve Wu	CBA	0.64	0.69
Jonathan Kearns	Challenger	–	–
Faraz Syed	Citi	–	–
Saul Eslake	Corinna Economic Advisory	0.63	0.61
David Rumbens	Deloitte Access Economics	0.62	0.66
Phil O'Donaghoe	Deutsche Bank	0.73	0.75
Craig Emerson	Emerson Economics	0.62	0.62
Christian Baylis	Fortlake	0.65	0.65
Andrew Boak	Goldman Sachs	0.65	0.71
Paul Bloxham	HSBC	0.63	0.62
Angus Coote	Jamieson Coote Bonds	–	–
Carlos Cacho	Jarden	–	–
Ben Jarman	JPMorgan	0.68	0.69
Warren Hogan	Judo Bank	0.68	0.70
Brendan Rynne	KPMG	0.66	0.68
Stephen Anthony	Macroeconomics Advisory	0.61	0.57
Bob Cunneen	MLC Asset Management	0.65	0.67
Katrina Ell	Moody's Analytics	0.68	0.71
Chris Read	Morgan Stanley	0.60	0.58
Michael Knox	Morgans	0.64	0.68
Matt Wacher	Morningstar	0.65	0.68
Alan Oster	NAB	0.66	0.73
Andrew Ticehurst	Nomura	0.65	0.69
Sean Langcake	Oxford Economics Aus	0.65	0.67
Michael Blythe	PinPoint Macro	0.64	0.65
Matthew Peter	QIC	0.68	0.71
Ben Picton	Rabobank	0.62	0.68
Su-Lin Ong	RBC	0.62	0.60
Prashant Newnaha	TD Securities	0.66	0.70
George Tharenou	UBS	0.75	0.78
Alexis Gray	Vanguard	0.64	0.64

Additional 4 rows not shown.

Source: Financial Review

Macroeconomics Advisory, Deutsche Bank and Morgans Financial have penned two increases, taking the cash rate to a top of 4.6 per cent this cycle.

Phil O'Donoghue at Deustche Bank said higher rates would be needed because the job market was proving more robust than thought. The employment participation rate hit a record high in August [https://www.afr.com/policy/economy/jobless-rate-holds-steady-as-employment-jumps-20230914-p5e4lp] and the jobless rate held at 3.7 per cent in signs that decade-high interest rates have yet to loosen demand in the labour market.

The tightness in the job market is why five of the survey respondents say rate cuts won’t be on the cards until 2025 at the earliest.

Michaela Fuchila, an economist at Bank of America, argued that the case for easing would not be strong next year because the job market would weaken at a slower pace.

Matthew Peter at QIC forecasts inflation to “move comfortably within the target” only in 2025. “Australia’s goldilocks economic performance – one that is not too hot, not too cold – will give the RBA little reason to cut interest rates in the near term,” he said.

Ben Jarman at JPMorgan does not have cuts in his forecast which currently only extends to 2024. He noted that consistent wage growth and anchored inflation expectations had allowed the central bank to pursue a more gradual return of inflation to target compared with its international peers.

“This makes the policy rate more sustainable around current levels,” he noted. He expects one more rate increase.

In contrast, MLC Asset Management said the Australian economy was displaying recession conditions in retail spending and housing construction, with consumers reluctant to spend given the “painful squeeze” from high inflation and interest rates.

“The RBA has scope to take their foot off the brake by cutting interest rates early next year,” predicted MLC’s Bob Cunneen. His February rate cut projection is the earliest among respondents in the survey.

Michael Blythe at PinPoint Macro Analytics said interest rates had peaked and his historical analysis of the RBA’s cycles of the past three decades showed the cash rate stayed at the top for six months. This meant the first rate cut was slated for May 2024.

“Many of the factors that pushed inflation rates higher have either reversed or already passed the point of maximum impact such as food prices,” he noted.