

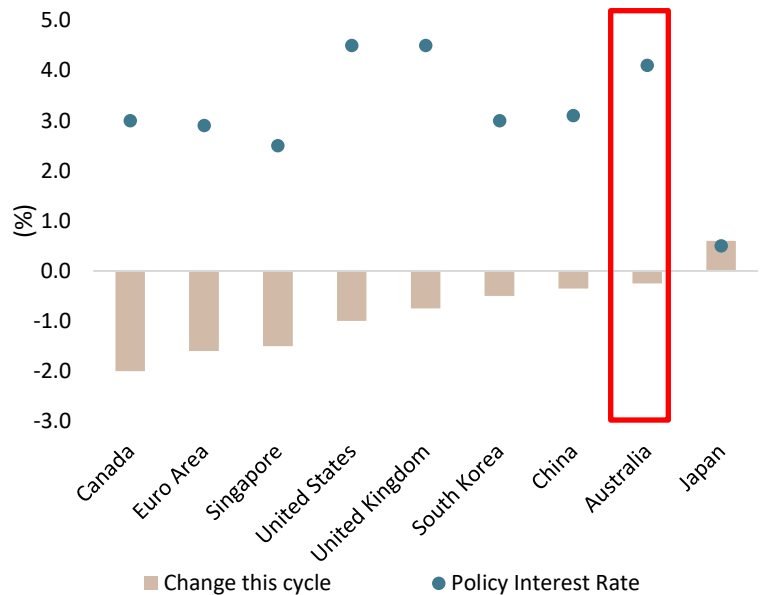
## Summary

Today's decision by the Reserve Bank of Australia (RBA) to cut the official interest rate by 25 basis points to 4.10% is a welcome boost to household sentiment and a housing market that has stalled over recent months under the weight of higher interest rates and other cost of living pressures. While it may ultimately prove a turning point for housing demand, one cut alone is not likely to fully arrest the current slowdown, particularly when a Federal Election may also keep buyers cautious in the short-term. However, financial markets are currently pricing in another two 25 basis point cuts in 2025, which should be enough to significantly lift household confidence and see the market move more clearly into recovery by late-2025. Regardless of whether these further interest rate cuts are delivered or not and how soon the next housing market cycle gets going, a supply shortfall across the country is likely to mean very little further downside risk for Australian dwelling prices and a return to growth over the medium-term.

## Australia lagging other countries

- Today's 25 basis point cut by the RBA in the cash rate was the first easing in monetary policy in Australia this cycle – a cycle that saw interest rates rise from 0.10% in May 2022 to reach the 4.35% peak by Nov- 23.
- Many other central Banks are much more advanced in cutting rates in this cycle than the RBA. For example, Canada's policy rate has been cut 200 bps, the Euro area by 160 basis points, the US by 100 bps and the UK by 75 basis points.
- There are two main reasons that explain the RBA lagging in this cycle. Firstly, interest rates did not get as high in Australia. For example, the Australian cash rate is still lower than in both the US and the UK despite their much greater cuts to date.
- Secondly, inflation has been slower to fall in Australia than other major economies. While it has fallen now (see below), initially the decline in Australian inflation lagged other major economies and made it harder for the RBA to justify cutting rates.

Figure 1: Global Policy Interest Rates as at Feb 2025 (%)

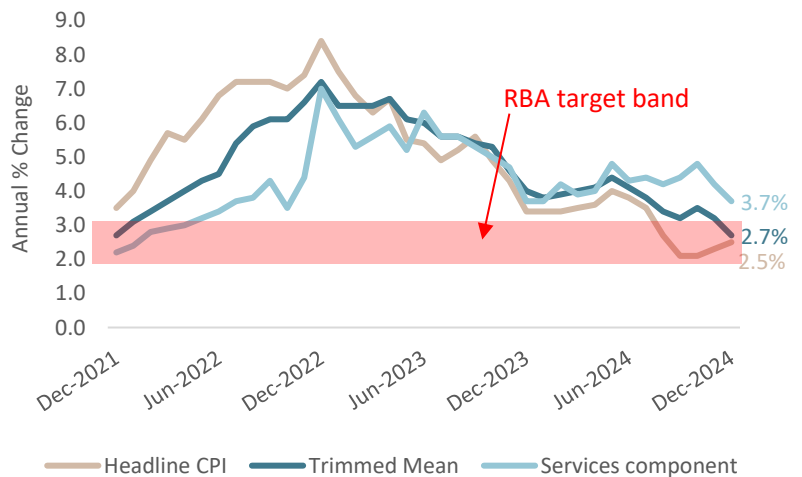


Source: Various Central Banks, Trading Economics

## Inflation is now more contained

- The primary change that has allowed the RBA to finally cut rates is a drop in inflationary pressures that has occurred in late-24 and appears set to continue in 2025.
- The RBA's mandate is to keep inflation sustainably between 2-3% through the cycle. While they have some flexibility in this, they do consider measures of 'underlying inflation' such as the trimmed-mean measure more than headline CPI that can be influenced by highly volatile items.
- Underlying inflation is now more contained. In particular, the RBA will be pleased that inflation on services and other 'non-tradeables' is now easing to a more moderate sustainable pace. This has given the RBA board much more confidence a rate cut can support demand without pushing inflation back up to more painful levels for households.

Figure 2: Annual CPI Growth (% p.a.)



Source: ABS Monthly CPI Series as at Dec-24, JLL Research

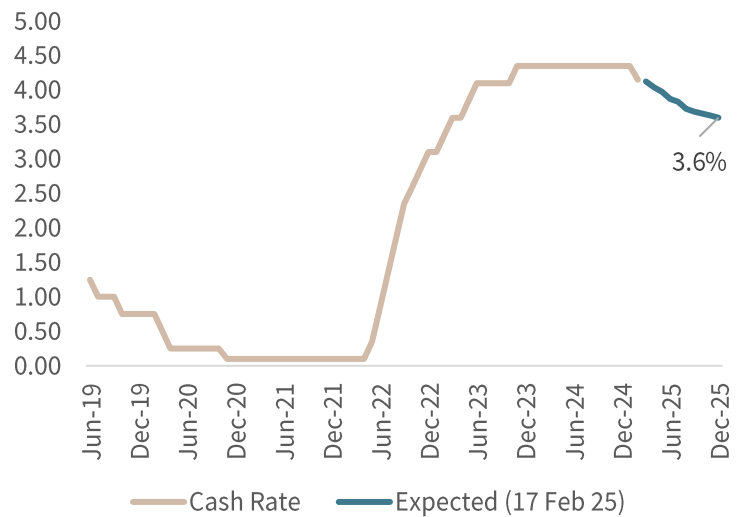
## Market expects more 2025 cuts

- Financial market pricing (before the cut announcement) has two more 25 basis point cuts factored in for 2025, taking the cash rate to around 3.60% by the end of the year. This is based on ASX 30-day cash rate futures trading.
- Economists also still generally expect more cuts in 2025, but there is variation on how many will be required. Of the Big 4 banks, currently one Bank expects only one more cut, one expects two more cuts with the remaining two banks expect three cuts. This results in an end-2025 range of 3.35% to 3.85%.
- The impact on housing demand will likely be directly correlated with the number of cuts. That is, the pace of demand is only likely to rise moderately over 2025 if February remains the only cut but is likely to be stronger by year-end if rates do reach 3.35% (100 basis points lower than the peak).

## Supply shortages limit risks

- One factor that is pouring a little cold water on today's RBA cut is some renewed global inflation fears in bond markets in recent months.
- Much of this concern has emanated from the US and based on the premise that many of President Trump's policies (including tariffs) are inflationary. However, the US has been far from alone and most major countries have seen bond yields rise.
- The implication of this is that markets fear inflation pressures could stop central banks around the world from cutting interest rates much further and the cutting cycle is shorter and smaller than previously anticipated. Australia and the RBA certainly would not be immune from these pressures.
- However, regardless of whether interest rates fall as far as expected, it does not change the fact Australia is not building enough dwellings and that this will support dwelling prices over the medium-term.

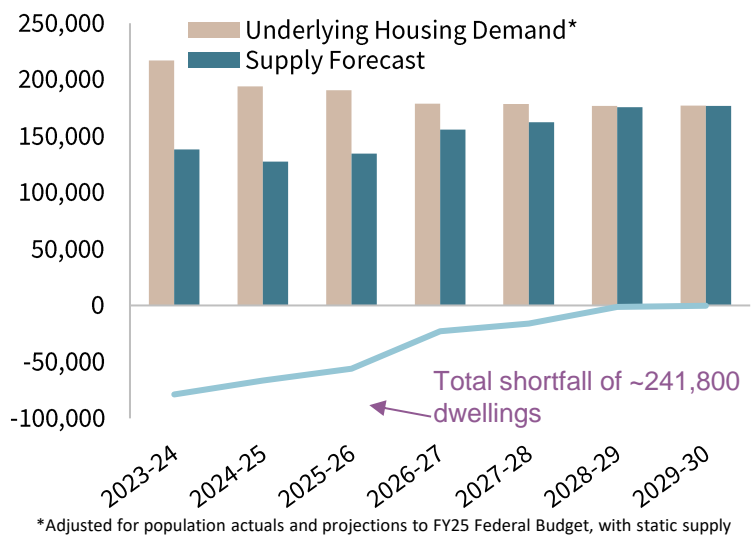
Figure3: RBA Cash Rate and Expected Rate\* (%)



\* Based on ASX 30-day futures

Sources: ASX, JLL Research

## Australian Housing Market Balance



Sources: Housing Australia (formerly NHFIC), ABS JLL Research



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