Data Snapshot

Tuesday, 6 February 2024

RBA Board Meeting
Pushing Back on Near-Term Rate Cuts

- **Today marks a new era and look for the Reserve Bank (RBA) policy meeting and communication.**
- **As widely expected, the RBA sat on the sidelines and left the cash rate unchanged at 4.35% – its highest level in 12 years. The Board is in the calibration phase of the hiking cycle, leaving the cash rate unchanged on six of the past seven meetings.**
- **Since the last RBA meeting in December, the flow of economic data has surprised to the downside and the inflation outcome for the December quarter came in materially lower than what the market and, more importantly, the RBA had been expecting.**
- **The real uncertainty today was not whether the RBA would hike, but whether it would pivot away from its tightening bias. The answer was no – while the wording in the statement about future policy changes was diluted, it still noted that "a further increase in interest rates cannot be ruled out".**
- **The statement struck a cautious tone and suggested that any pivot would require the Board to be "confident that inflation is moving sustainably towards the target range".**
- **In the press conference, RBA Governor Bullock said they "haven't ruled anything out" and they "haven't ruled anything in" and characterised the risks to the economy as broadly balanced. This suggests that the RBA will likely remain on hold in the near-term and decisions dependant on the data.**
- **We're more confident that the next move in the cash rate will be down, later in 2024. The slowdown in spending growth has reduced the capacity of businesses to pass on higher costs. At the same time, we see labour costs continuing to ease as labour productivity improves. This should be conducive toward a fall in services inflation as we work through 2024 and beyond.**

Today marks a new era and look for the RBA policy meeting. The number of meetings this year has been reduced and one day meetings have become two-day meetings. A new communications strategy has also been launched. For the very first time, the RBA's updated forecasts, contained in its quarterly Statement on Monetary Policy (SoMP), were released alongside its policy statement. In addition, the RBA Governor took to the podium to face journalists in a press conference.

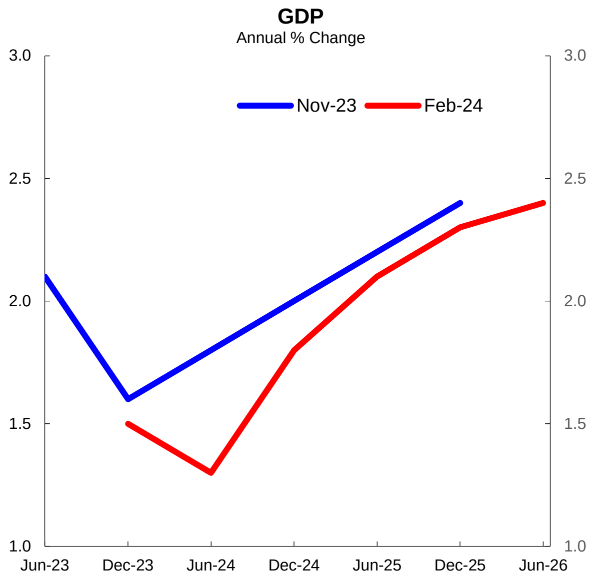
But first let's take it back a step. The RBA last met on December 5 to discuss interest-rate settings. At that meeting it left the cash rate unchanged at 4.35%. Since that meeting, economic data has painted a picture of a weakening economy and better-than-expected progress on inflation. There has also been a further deterioration in retail spending and a softening in the jobs market.

Heading into the February meeting, we expected the RBA would remain cautious and would not yet pivot to an easing bias. We toyed with the potential for the RBA to tweak its language and soften its tightening bias. In the event, the RBA struck a cautious tone and did not pivot to a cutting bias, including the guidance that "a further increase in interest rates cannot be ruled out".

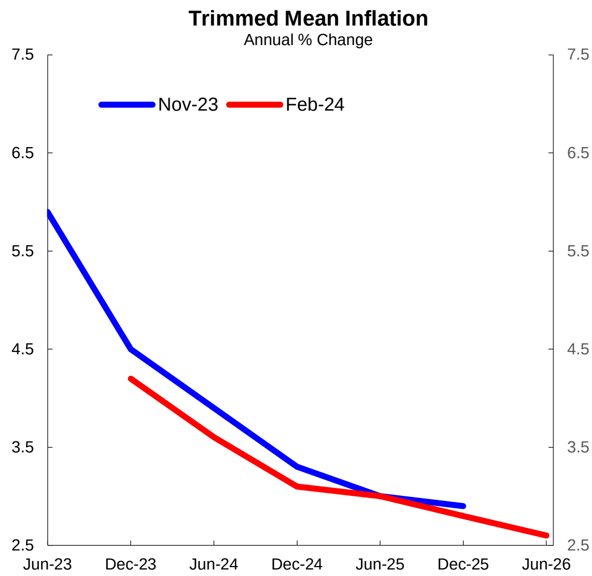
In the press conference, RBA Governor Bullock said they "haven't ruled anything out" and they "haven't ruled anything in" and characterised the risks as broadly balanced. Bullock stressed that the Board that the risks are broadly balanced and the RBA board needs to be convinced inflation is moving sustainably towards the target range and that it will remain within the range once it gets there.

February Statement of Monetary policy (SoMP)

The statement was accompanied by the quarterly SoMP and the RBA's fresh forecasts. The notable changes to the forecasts were that near-term economic growth forecasts were cut; June 2024 was cut from 1.8% to 1.3% and there were more downgrades to June 2025. The unemployment rate was revised higher across the profile with unemployment now expected to be at 4.3% at the end of this year (up from 4.2%) and 4.4% at the end of next year (up from 4.3%).



Source: RBA



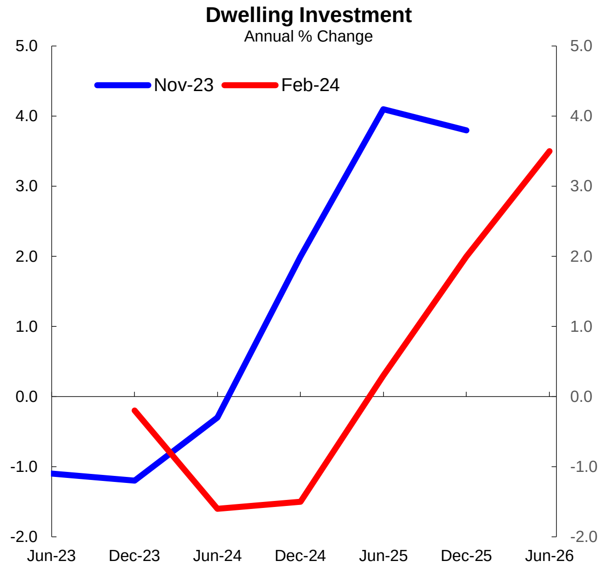
Source: RBA

But the attention is overwhelmingly on the inflation forecasts. For headline inflation, there were material downgrades to the forecasts. Headline was cut from 3.9% in June 2024 to 3.3% and in December 2024 it was cut from 3.5% to 3.2%. There were smaller cuts across the remaining profile.

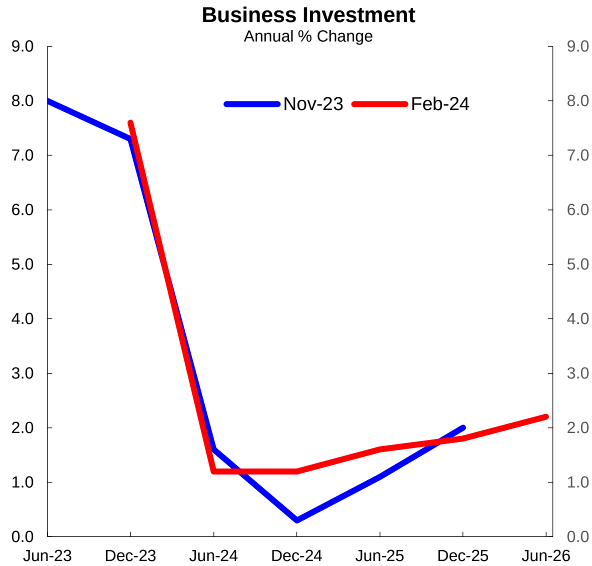
The RBA does not expect headline inflation to return to the top of the target band until December 2025. However, these forecasts are assuming 100 basis points of rate cuts occur over the forecast period (reflecting market and economists' pricing). This is broadly unchanged from the cash rate assumptions used in the last round of forecasts. Ultimately, there is some flexibility for the RBA to cut later than implied by their forecasts should they want to bring inflation down more quickly.

Underlying inflation (as measured by the trimmed mean) returns to the target band, just, in June 2025 at 3.0%. The forecasts were also extended to June 2026. By this point, headline and underlying inflation are both expected to fall to 2.6% – around the mid-point of the 2-3% band.

One of the big stand outs in the more detailed forecasts are the marked downward revisions in dwelling investment. There are substantial downgrades for 2024 and 2025, suggesting residential construction activity is expected to remain in a downswing and do little to alleviate housing shortages amid a sharp expansion in population growth.



Source: RBA



Source: RBA

Household consumption is also downgraded across most of the forecast period whilst business investment was upgraded in three of the five half years to December 2025.

RBA Statement on Monetary Policy - Key Forecasts

Percentage change over year to quarter shown

	Dec-23			**Jun-24**			**Dec-24**			**Jun-25**			**Dec-25**			**Jun-26**		
	Nov-23	**Feb-24**	Diff	Nov-23	**Feb-24**	Diff	Nov-23	**Feb-24**	Diff	Nov-23	**Feb-24**	Diff	Nov-23	**Feb-24**	Diff	Nov-23	**Feb-24**	Diff
Gross domestic product	1.6	**1.5**	-0.1	1.8	**1.3**	-0.5	2.0	**1.8**	-0.2	2.2	**2.1**	-0.1	2.4	**2.3**	-0.1	n.p	**2.4**	
Household consumption	1.1	**0.4**	-0.7	1.6	**0.8**	-0.8	2.1	**1.7**	-0.4	2.5	**2.4**	-0.1	2.6	**2.6**	0.0	n.p	**2.6**	
Dwelling investment	-1.2	**-0.2**	1.0	-0.3	**-1.6**	-1.3	2.0	**-1.5**	-3.5	4.1	**0.3**	-3.8	3.8	**2.0**	-1.8	n.p	**3.5**	
Business investment	7.3	**7.6**	0.3	1.6	**1.2**	-0.4	0.3	**1.2**	0.9	1.1	**1.6**	0.5	2.0	**1.8**	-0.2	n.p	**2.2**	
Unemployment rate (qtr, %)	3.8	**3.8**	0.0	4.0	**4.2**	0.2	4.2	**4.3**	0.1	4.3	**4.4**	0.1	4.3	**4.4**	0.1	n.p	**4.4**	
Wage price index	4.0	**4.1**	0.1	4.0	**4.1**	0.1	3.7	**3.7**	0.0	3.7	**3.6**	-0.1	3.5	**3.4**	-0.1	n.p	**3.2**	
Trimmed mean inflation	4.5	**4.2**	-0.3	3.9	**3.6**	-0.3	3.3	**3.1**	-0.2	3.0	**3.0**	0.0	2.9	**2.8**	-0.1	n.p	**2.6**	
Consumer price index	4.5	**4.1**	-0.4	3.9	**3.3**	-0.6	3.5	**3.2**	-0.3	3.3	**3.1**	-0.2	2.9	**2.8**	-0.1	n.p	**2.6**	

n.p - not published

Outlook

The takeout from the forecasts and language in the statement is that the RBA will not be entertaining rate cuts in the near term whilst inflation remains high. Governor Bullock said in the press conference that she is not ruling anything in or out regarding what to do next. But the threshold for another rate hike must certainly be high given the updated forecasts. We expect as we move through 2024, a discussion on rate cuts will step up and be seriously considered by the RBA Board. Our Group forecasts have a rate-cutting cycle starting in September with a cut of 25 basis points, followed by another 25 basis points in November. Today's batch of communication does little to deter us from this position.

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 573 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789