

## The RBA's Spotlight Brighter Than Usual

Starting today, the Reserve Bank (RBA) Board will meet for its first two-day meeting of 2024. The RBA finished 2023 attentive to upside inflation risks. Recall the RBA hiked in November after two consecutive pauses to address some of these upside risks. And, in the final meeting of 2023, the RBA remained concerned about these risks going forward.

Since then, the flow of economic data has largely come in below the RBA's expectations, giving rise to some of the downside risks which the RBA has called out, but has not been as fixated on. Critically, inflation in the December quarter came in well below expectations. Over the year to the December quarter, the consumer price index (CPI) rose 4.1%, well below the RBA's forecast (from November) of 4.5%. This is also the case for trimmed mean inflation, which provides a better gauge on underlying inflation pressures. The trimmed mean CPI rose 4.2% in annual terms, compared to the RBA's expectations of a 4.5% increase.

We, along with most other economists, expect the RBA Board will leave rates on hold when it announces its decision tomorrow. The more important question will be how the RBA tweaks its messaging to account for the recent string of weaker data. This will be critical for considering the future path of monetary policy.

This week's meeting will also be the first incorporating some of the recommended changes from the RBA review. There will only be eight RBA meetings this year, compared to the traditional eleven meetings. The lower frequency is to allow time for longer meetings, two half days instead of one, providing more time for the Board to deliberate on the state of the economy and their policy decision.

The meeting will be the first to feature a regular post-meeting press conference from the RBA Governor. The press conference will be an opportunity for the Governor to elaborate on the Board's considerations and decision. We previously had to hold off until the meeting minutes were released two weeks post the meeting. Finally, the quarterly Statement on Monetary Policy (SoMP) will now be released alongside the coinciding policy statement, rather than on the Friday following the meeting. The release of the SoMP is normally scheduled for February, meaning we will be getting an updated SoMP tomorrow as well. The SoMP includes the RBA's revised forecasts and detailed commentary on the domestic and global economy. Safe to say we will be getting a fair dose of RBA content tomorrow.

Despite the changes, the structure and operation of the Board are largely the same and we do not expect the changes to have any bearing on the policy decision made. The RBA is taking a staggered approach to implementing the recommendations from the review. Hence, some of the more significant changes, including updates to the bank's governance structure, including the disclosure of de-identified votes and the establishment of a separate policy board, are not yet taking effect.

Finally, on Friday Governor Michelle Bullock will be put on the stand again but this time the

questions will be coming from politicians, rather than the media. The Governor is due to attend the House of Representatives Standing Committee on Economics, where parliament will have the opportunity to ask questions. Given the huge RBA calendar this week, the appearance is unlikely to draw any new information.

### **Domestic Data**

There is not much by way of major data this week. Of interest will be the local retail sales report for the December quarter. The report includes both the volume and value of retail spending in the quarter, allowing us to compare how much of the result is being driven by inflation (i.e. prices) and how much is being driven by households buying more, or less. We already know that the value of retail spending (i.e. nominal spending) rose a weak 0.5% in the quarter. We expect retail sales volumes to be flat after accounting for inflation.

**Jameson Coombs, Economist**

Ph: +61 401 102 789

## Group Forecasts

End Period:	2024					2025	
	Close (02 Feb)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW, %	4.32	4.55	4.47	4.22	3.97	3.72	3.47
3 Year Swap, %	3.84	4.15	4.10	4.05	4.00	3.90	3.70
10 Year Bond, %	3.98	4.35	4.30	4.20	4.15	4.10	4.05
<b>US Interest Rates:</b>							
Fed Funds Rate, %	5.375	5.125	4.875	4.625	4.375	4.125	3.875
US 10 Year Bond, %	4.02	4.25	4.20	4.15	4.10	4.05	4.05
<b>USD Exchange Rates:</b>							
AUD-USD	0.6512	0.67	0.68	0.69	0.70	0.71	0.72
USD-JPY	148.38	145	144	141	138	135	132
EUR-USD	1.0788	1.09	1.11	1.13	1.14	1.15	1.16
GBP-USD	1.2631	1.26	1.27	1.28	1.29	1.30	1.30
NZD-USD	0.6065	0.62	0.62	0.62	0.63	0.63	0.63
<b>AUD Exchange Rates:</b>							
AUD-USD	0.6512	0.67	0.68	0.69	0.70	0.71	0.72
AUD-EUR	0.6037	0.61	0.61	0.61	0.61	0.62	0.62
AUD-JPY	96.62	97.2	97.9	97.3	96.6	95.9	95.0
AUD-GBP	0.5155	0.53	0.54	0.54	0.54	0.55	0.55
AUD-NZD	1.0739	1.08	1.11	1.11	1.11	1.13	1.14

	2021	2022	2023 (f)	2024 (f)
GDP, %	5.4	2.3	1.4	1.6
CPI (Headline), %	3.5	7.8	4.3	3.2
CPI (Trimmed mean), %	2.6	6.8	4.4	3.2
Unemployment Rate, %	4.7	3.5	3.8	4.5
Wages Growth, %	2.4	3.3	4.1	3.2

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

## Contact Listing

### Chief Economist

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

### Senior Economist

Pat Bustamante  
pat.bustamante@stgeorge.com.au  
+61 468 571 786

### Senior Economist

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

### Economist

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

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

---

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---