

Interest Rate Outlook

Tuesday, 7 November 2023

RBA Board Meeting RBA Tipping Sticky Inflation

- The Reserve Bank (RBA) Board raised the cash rate by 25 basis points to 4.35% - the highest rate in 12 years. It was the first increase since June and the third hike in the past eight meetings. This shows that the RBA is clearly in its calibration phase, adjusting the cash rate in line with incoming data, evolving risks, and updated forecasts.
- The higher-than-expected inflation read for the September quarter sealed the deal and contributed to an upgrade to the RBA's inflation forecasts. However, the RBA highlighted that upside risks to inflation were broader given ongoing economic resilience and the strength of the labour market.
- The RBA's statement noted that progress on inflation "looks to be slower than earlier expected". The RBA expressed concern around the increased risk of inflation remaining higher for longer. The Board opted to hike to be "assured" that inflation returns to target within a reasonable timeframe – a priority.
- Progress on inflation has been slower partly because the economy has been more resilient. While household spending has slowed and slowed quickly, other sources of domestic demand have supported activity – namely business investment and infrastructure spending.
- Last week we released our Business Snapshot report, which showed that business conditions remained resilient, in part because of the financial buffers built up during the pandemic – these buffers have allowed businesses to invest even though demand has slowed.
- Government infrastructure spending has also supported activity, with the Federal Treasurer noting on the weekend that projects may be cut or delayed to ensure that they were not adding to inflationary pressures across the economy.
- Notwithstanding today's hike, the RBA is still expecting a soft landing with conditions in the labour market remaining "tight." The RBA expects the unemployment rate to drift higher to 4¼ per cent, down from the previous expectation of 4½ per cent. A comprehensive set of updated forecasts will be released on Friday in the November Statement on Monetary Policy.
- What does this mean going forward? The RBA Board retained its tightening bias but did hint at a higher threshold to hike again. This threshold could still be tested, but we don't expect this to occur at the December meeting. The RBA will need more data to decide and a further hike cannot be ruled out in February or beyond.
- Today's outcome makes one thing crystal clear - the RBA will not sit on the sidelines, but instead will hike if evidence suggests that inflation will remain higher for longer.

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