

Tuesday, 1 March 2022

## RBA Board Meeting Ukraine War a New Source of Uncertainty

The Reserve Bank (RBA) kept the cash rate on hold today at 0.10%, where it has been since November 2020. The decision to stay put was not surprising given just last month the RBA Governor pledged patience towards starting a rate-hike cycle.

The RBA has underscored the need for patience because of two key factors. The first, uncertainty related to inflation reflecting questions over how long global supply-chain disruptions will persist. And second, wages growth. Indeed, wages growth seems the sticking point, as the RBA holds concerns that wages growth will build up only very gradually.

In the space of just a few weeks, a new source of uncertainty has emerged. The RBA early in its statement highlights that “a major new source of uncertainty” is the war in Ukraine. Related to this uncertainty are developments in energy markets because Russia is a large exporter of energy.

In fact, Russia is the world’s largest exporter of natural gas and the world’s third largest exporter of crude oil and crude products. Russia and Ukraine are also important global suppliers of wheat. The conflict has the potential to disrupt the supply of these commodities, which will fan commodity price pressures further.

The RBA alludes to the challenges facing central bankers, made harder by the crisis in Ukraine. The conflict is occurring against a backdrop of rising inflation due to large increases in energy prices and disruptions to supply chains at a time of strong demand.

The RBA last month revised up its inflation forecasts. Its central forecast is for underlying inflation to increase in coming quarters to around 3¼ per cent, before declining to around 2¾ per cent over 2023, as the supply-side problems ease and consumption patterns normalise.

However, the RBA warns that inflation “will spike higher than this due to petrol prices resulting from global developments”. The RBA is flagging higher oil prices and, therefore, we are likely to see higher prices at the petrol. World oil prices briefly pierced US\$100 a barrel in the wake of Russia’s invasion of Ukraine. There are risks it could revisit this level and stretch to US\$120 a barrel. It depends on developments in the region, which remain highly uncertain and fluid.

The RBA has pledged patience, but it faces little room for error; unemployment on its own forecasts is expected to fall under 4% by the end of this year and stay under 4% next year. At the same time, underlying inflation is projected to move above the target band and stay elevated. The potent mix means that the RBA will eventually need to move rates higher to dampen inflation. But at the same time, the RBA wants to hold rates low for as long as possible to support the recovery from the pandemic.

The timing of the first hike will be a finely balanced decision. The risks from the war in Ukraine are of higher inflation, and possibly weaker global growth, depending on how events unfold.

RBA concerns over possible inertia in wages growth in Australia remain. Last week, data on the wage price index revealed wages growth of 2.3% over the year to the December quarter. However, the RBA in recent speeches has indicated it is focusing on a broader range of wage measures beyond just the wage price index.

Today's statement contained references to these broader measures. Indeed, most references were to "labour costs", in contrast to "wages growth" in earlier statements. These broader measures of wages should show a stronger build-up of pressures.

However, the RBA stuck to the same mantra as its statement last month that "while inflation has picked up, it is too early to conclude that it is sustainably within the target range".

The RBA remains in wait-and-see mode and its language continues to be one of patience. We remain comfortable with our view that the rate-hike cycle will kick off in August. An earlier move (June or July) can't be ruled out, but for an earlier move to materialise there would need to be very strong prints for wages (out May) and inflation (out April).

**Besa Deda, Chief Economist**  
Ph: 0404 844 817

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

**Economist**

Matthew Bunny  
matthew.bunny@banksa.com.au  
(02) 8254 0023

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@banksa.com.au  
0481 476 436

**Associate Economist**

Jameson Coombs  
jameson.coombs@banksa.com.au  
0401 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 BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA’s agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA 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 BankSA products and details are available. BankSA 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. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

---

Any unauthorized use or dissemination is prohibited. Neither BankSA- 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.

---