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Economic Analysis

RBA Update February 2024

The Reserve Bank of Australia (RBA) Board kept interest rates unchanged at the February meeting, with the cash rate target remaining at 4.35% and the interest rate on Exchange Settlement balances staying at 4.25%. The decision was in line with market expectations.

This was the first meeting under the revised communication strategy, which included a rejigged post-meeting statement, simultaneous release of the Statement of Monetary Policy along with projections and, most importantly, the post-meeting conference.

Post-meeting Statement

The revised post-meeting statement by RBA Governor Michele Bullock centred around the following points:

- inflation is moderating but remains high, particularly for services, though the Governor underscored that goods price inflation is easing faster-than-expected;
- uncertainties around the domestic outlook, particularly regarding consumer spending and wage formation amid still-strong strong labour market conditions,
- the highly uncertain outlook for the Chinese economy as well as implications of geopolitical tensions; and
- returning inflation to the target range remains the priority, with Michele Bullock stressing that further rises in rates 'cannot be ruled out'.

The last point implies that the RBA retains a tightening bias, with future decisions remaining data dependent.

Statement on Monetary Policy

The highlights of the updated economic projections included in the February Statement on Monetary Policy are as follows:

- inflation is forecast to return to the target range in 2025 and to the mid-point of the target by mid-2026;
- the unemployment rate is to rise only gradually to 4.4% in 2025, a slight upward revision; and
- the near-term GDP growth forecasts were revised slightly downwards, reflecting downgrades to household consumption, dwelling investment, public demand, and exports.

The Statement included a box on insights from the RBA's business liaison. One of the key takeaways being that companies are finding it more challenging to increase prices as consumers turn 'increasingly price-sensitive'.

The RBA also provided an in-depth review of its full employment objective, with the bottom-line being that labour market conditions are tight but have eased somewhat over the past year.

Press Conference

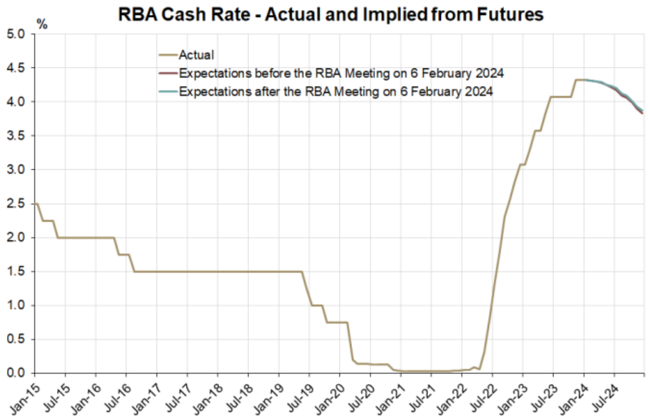
In the press conference, Governor Bullock reiterated all the above information, adding more hawkish comments:

- the RBA was not driven by market pricing which, just before the release of the post-meeting statement, suggested there would be two 25bps cuts this year;
- before considering any cuts, the RBA will likely wait for inflation to be in the target range or at least be 'convinced it is going to get there'; and
- the RBA is not entirely certain that monetary policy is restrictive enough to bring inflation down to target.

Market Impact

All communication today was perceived as a bit more hawkish than some traders had hoped. As a result, rate cut expectations were scaled back slightly, while:

- 3-year Commonwealth bond yields rose from 3.70% to 3.75% just after the decision (currently 3.72%);
- 10-year yields saw a temporary rise, from 4.15% to 4.17%, but declined to 4.14% after the conference; and
- the Australian dollar appreciated from US$0.6489 to US$0.6512 at the time of writing.



Comment

As discussed in our Q4 CPI note last week, the RBA has retained a tightening bias, since demand-driven inflation components remain too high. The downside surprise to inflation did see a slight downgrade to the projected path, but it still implies that inflation will remain above the mid-point of the target range for two more years.

We continue to expect that, absent of any major shocks, the next move is likely to be down. However, as the Governor pointed out at the press conference, given the uncertainties, the RBA is not ruling anything in or out.

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