RBA Update February 2025

The Reserve Bank of Australia (RBA) Monetary Policy Board increased the cash rate target by 25 basis points to 3.85% at its meeting today. The decision was in line with market expectations and was unanimous.

Post-meeting Statement

The post-meeting statement by the RBA Monetary Policy Board was kept sharp and short, highlighting that:

- inflation picked up ‘materially’ in the second half of 2025 and is likely to remain above the target ‘for some time’;
- even though the rise in inflation was partly due to temporary factors, some of the increase came from larger capacity pressures amid greater momentum in demand (particularly private); and
- labour market conditions are ‘a little tight’ (an upgrade from December, when the labour market ‘appeared’ a little tight), while broader measures of wages and unit labour costs are strong.

Despite the decision to increase the cash rate today, the RBA kept its forward guidance unchanged, with decisions remaining data dependent. This means that the central bank is keeping the door open for further hikes but also might keep rates steady.

Statement on Monetary Policy

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

- headline and trimmed mean inflation are now expected not to return to the 2-3% target range until mid-2027, and to around the mid-point of that range in mid-2028;
- the near-term unemployment rate has been revised down 0.1ppts to 4.3%, but is expected to climb steadily from 2027 to reach a still-low level of 4.6% at the end of the projection horizon; and
- GDP growth is expected to slow steadily, from an estimated 2.3% in late 2025 to 1.6% in 2027 and 2028.

The above forecasts were prepared under the assumption of the cash rate evolving as expected by the market on the cut-off day (28 January 2026). They envisage at least one more cash rate hike, in the second half of this year.

The RBA said that one of the major risks to the central inflation projection path was underestimating the degree of capacity pressures in the economy. However, they see upside and downside risks as balanced.

The Statement on Monetary Policy contained two boxes, one of which was the insights from their business liaison. Those results suggested, among others, above-average selling price growth and elevated non-labour cost growth but also subdued hiring intentions.

Press Conference

In the press conference, RBA Governor Michele Bullock reiterated all the above information, adding that:

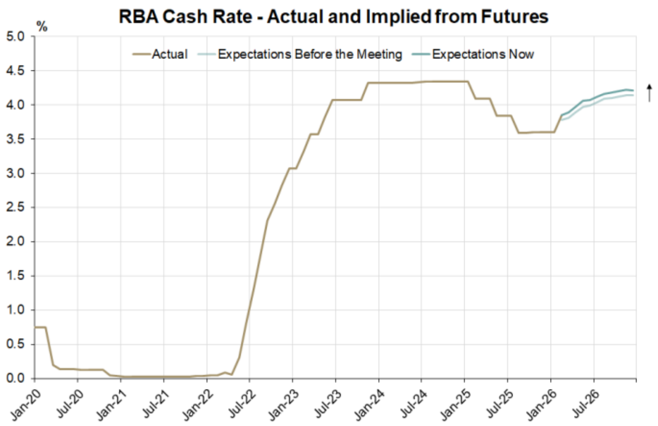
- the RBA reckons that monetary conditions could have been slightly loose, which allowed for a quicker build-up of excess demand;
- the return of inflation to the target range forecast for mid-2027 hangs on the assumption that the recently faster price growth was temporary; and
- the decision to adjust the cash rate was to make sure that the rise in inflation does not become ‘entrenched’.

Governor Bullock denied giving specific guidance on future rate decisions, saying that the RBA does not ‘rule anything in or out’.

Market Impact

The above communication led to a slight intensification in cash rate hike expectations, translating into:

- a rise in 3-year Commonwealth bond yields from 4.28% to 4.38% (currently 4.33%);
- a temporary increase in 10-year yields from 4.84% to 4.88% (now 4.85%); and
- appreciation of the AUD, from US$0.6965 to US$0.7010 at the time of writing.



Comment

As widely expected, the RBA made an adjustment to the level of interest rates today. This came as inflation and the economy overall turned out to be slightly stronger than thought at the time of the last rate cut in August.

Future decisions will depend on the upcoming data, particularly on whether the rise in inflation turns out to be temporary and whether demand growth eases a little. The markets continue to expect one more adjustment from the RBA later this year. However – as suggested by the RBA themselves – we will follow the data cautiously to determine if such an adjustment is necessary.

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