Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 18 February 2025

At its meeting today, the Board decided to lower the cash rate target to 4.10 per cent and the interest rate paid on Exchange Settlement balances to 4 per cent.

- **Underlying inflation is moderating.**

Inflation has fallen substantially since the peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance. In the December quarter underlying inflation was 3.2 per cent, which suggests inflationary pressures are easing a little more quickly than expected. There has also been continued subdued growth in private demand and wage pressures have eased. These factors give the Board more confidence that inflation is moving sustainably towards the midpoint of the 2–3 per cent target range.

However, upside risks remain. Some recent labour market data have been unexpectedly strong, suggesting that the labour market may be somewhat tighter than previously thought. The central forecast for underlying inflation, which is based on the cash rate path implied by financial markets, has been revised up a little over 2026. So, while today's policy decision recognises the welcome progress on inflation, the Board remains cautious on prospects for further policy easing.

- **The outlook remains uncertain.**

Growth in output has been weak, private domestic demand is recovering a little more slowly than earlier expected, and there is uncertainty around the extent to which the recovery in household spending in late 2024 will persist. Wage pressures have eased a little more than expected, housing cost inflation is abating, and businesses in some sectors continue to report that it has been hard to pass on cost increases to final prices.

At the same time, a range of indicators suggest that labour market conditions remain tight and, in fact, tightened a little further in late 2024. Measures of labour underutilisation have declined, and business surveys and liaison suggest that availability of labour is still a constraint for a range of employers. Furthermore, productivity growth has not picked up, which implies that growth in unit labour costs remains high.

There are notable uncertainties about the outlook for domestic economic activity and inflation. The central projection is for growth in household consumption to increase as income growth rises. But there is a risk that any pick-up in consumption is slower than expected, resulting in continued subdued output growth and a sharper deterioration in the labour market than currently projected. Alternatively, labour market outcomes may prove stronger than expected, given the signal from a range of leading indicators.

More broadly, there are uncertainties regarding the lags in the effect of monetary policy and how firms' pricing decisions and wages will respond to the slow growth in the economy and weak productivity outcomes while conditions in the labour market remain tight.

Uncertainty about the outlook abroad also remains significant. Geopolitical and policy uncertainties are pronounced and may themselves bear down on activity in many countries if households and firms delay expenditures pending greater clarity on the outlook. Most central banks have been easing monetary policy as they become more confident that inflation is moving sustainably back towards their respective targets. But market expectations for further easing have moderated somewhat in recent months, particularly in the United States.

- **Sustainably returning inflation to target is the priority.**

Sustainably returning inflation to target within a reasonable timeframe remains the Board's highest priority. This is consistent with the RBA's mandate for price stability and full employment. To date, longer term inflation expectations have been consistent with the inflation target and it is important that this remains the case.

The Board's assessment is that monetary policy has been restrictive and will remain so after this reduction in the cash rate. Some of the upside risks to inflation appear to have eased and there are signs that disinflation might be occurring a little more quickly than earlier expected. There are nevertheless risks on both sides.

The forecasts published today suggest that, if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range. In removing a little of the policy restrictiveness in its decision today, the Board acknowledges that progress has been made but is cautious about the outlook.

The Board will continue to rely upon the data and the evolving assessment of risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome.