Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 18 June 2024

At its meeting today, the Board decided to leave the cash rate target unchanged at 4.35 per cent and the interest rate paid on Exchange Settlement balances unchanged at 4.25 per cent.

- **Inflation remains above target and is proving persistent.**

Inflation has fallen substantially since its peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance. But the pace of decline has slowed in the most recent data, with inflation still some way above the midpoint of the 2–3 per cent target range. Over the year to April, the monthly CPI indicator rose by 3.6 per cent in headline terms, and by 4.1 per cent excluding volatile items and holiday travel, which was similar to its pace in December 2023.

Broader data indicate continuing excess demand in the economy, coupled with elevated domestic cost pressures, for both labour and non-labour inputs. Conditions in the labour market eased further over the past month but remain tighter than is consistent with sustained full employment and inflation at target. Wages growth appears to have peaked but is still above the level that can be sustained given trend productivity growth. Recent data revisions suggest that consumption over the past year was stronger than previously suggested. At the same time, output growth has been subdued, and consumption per capita has been declining, as households restrain their discretionary expenditure and inflation weighs on real incomes.

- **The outlook remains highly uncertain.**

The economic outlook remains uncertain and recent data have demonstrated that the process of returning inflation to target is unlikely to be smooth.

The central forecasts published in May were for inflation to return to the target range of 2–3 per cent in the second half of 2025 and to the midpoint in 2026. Since then, there have been indications that momentum in economic activity is weak, including slow growth in GDP, a rise in the unemployment rate and slower-than-expected wages growth. At the same time, the revisions to consumption and the saving rate and the persistence of inflation suggest that risks to the upside remain. Recent budget outcomes may also have an impact on demand, although federal and state energy rebates will temporarily reduce headline inflation. The persistence of services price inflation is a key uncertainty. Also, although growth in unit labour costs has eased, it remains high. Productivity growth needs to pick up in a sustained way if inflation is to continue to decline.

There is uncertainty around consumption growth. Real disposable incomes have now stabilised and are expected to grow later in the year, assisted by lower inflation and tax cuts. There has also been an increase in wealth, driven by housing prices. Together, these factors are expected to support growth in consumption over the coming year. But there is a risk that household consumption picks up more slowly than expected, resulting in continued subdued output growth and a noticeable deterioration in the labour market.

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 slower growth in the economy at a time of excess demand, and while conditions in the labour market remain tight.

There also remains a high level of uncertainty about the overseas outlook. Output growth in most advanced economies appears to have troughed. There has been improvement in the outlook for the Chinese and US economies, and many commodity prices have picked up. Some central banks have eased policy, although they remain alert to the risk of persistent inflation. Nevertheless, geopolitical uncertainties, including those related to the conflicts in the Middle East and Ukraine, remain elevated, which may have implications for supply chains.

- **Returning inflation to target is the priority.**

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. The Board needs to be confident that inflation is moving sustainably towards the target range. To date, medium-term inflation expectations have been consistent with the inflation target and it is important that this remains the case.

Inflation is easing but has been doing so more slowly than previously expected and it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range. While recent data have been mixed, they have reinforced the need to remain vigilant to upside risks to inflation. The path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out. The Board will rely upon the data and the evolving assessment of risks. In doing so, it will continue to pay close attention to developments in the global economy, 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.