



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 19 March 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 continues to moderate but remains high.**

Recent information suggests that inflation continues to moderate, in line with the RBA's latest forecasts. The headline monthly CPI indicator was steady at 3.4 per cent over the year to January, with momentum easing over recent months, driven by moderating goods inflation. Services inflation remains elevated, and is moderating at a more gradual pace. The data are consistent with continuing excess demand in the economy and strong domestic cost pressures, both for labour and non-labour inputs.

Higher interest rates are working to establish a more sustainable balance between aggregate demand and supply in the economy. Accordingly, conditions in the labour market continue to ease gradually, although they remain tighter than is consistent with sustained full employment and inflation at target. Wages growth picked up a little further in the December quarter, but appears to have peaked with indications it will moderate over the year ahead. Nevertheless, this level of wages growth remains consistent with the inflation target only on the assumption that productivity growth increases to around its long-run average. Inflation is still weighing on people's real incomes and household consumption growth is weak, as is dwelling investment.

- **The outlook remains highly uncertain.**

While there are encouraging signs that inflation is moderating, the economic outlook remains uncertain. The December quarter national accounts data confirmed growth has slowed. Household consumption growth remains particularly weak amid high inflation and the rise in interest rates. After recent declines, real incomes have stabilised and are expected to grow from here, which is expected to support growth in consumption later in the year.

Meanwhile, growth in unit labour costs remains very high. It has begun to moderate slightly as measured productivity growth has picked up in the past two quarters but whether this trend will be sustained is uncertain.

The central forecasts are for inflation to return to the target range of 2–3 per cent in 2025, and to the midpoint in 2026. Services price inflation is expected to decline gradually as



demand moderates and growth in labour and non-labour costs eases. Employment is expected to continue to grow moderately, and the unemployment rate and the broader underutilisation rate are expected to increase a bit further.

While there have been favourable signs on goods price inflation abroad, services price inflation has remained persistent and the same could occur in Australia. There also remains a high level of uncertainty around the outlook for the Chinese economy and the implications of the conflicts in Ukraine and the Middle East. Domestically, 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 the labour market remains tight. The outlook for household consumption also remains uncertain.

- **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.

While recent data indicate that inflation is easing, it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range. 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. The Board 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.