



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 20 May 2025

At its meeting today, the Board decided to lower the cash rate target by 25 basis points to 3.85 per cent.

- **Inflation continues to moderate.**

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. Data on inflation for the March quarter provided further evidence that inflation continues to ease. At 2.9 per cent, annual trimmed mean inflation was below 3 per cent for the first time since 2021 and headline inflation, at 2.4 per cent, remained within the target band of 2–3 per cent. Staff forecasts released today project that while headline inflation is likely to rise over the coming year to around the top of the band as temporary factors unwind, underlying inflation is now expected to be around the midpoint of the 2–3 per cent range throughout much of the forecast period.

- **The outlook remains uncertain.**

Uncertainty in the world economy has increased over the past three months and volatility in financial markets rose sharply for a time. While recent announcements on tariffs have resulted in a rebound in financial market prices, there is still considerable uncertainty about the final scope of the tariffs and policy responses in other countries. Geopolitical uncertainties also remain pronounced. These developments are expected to have an adverse effect on global economic activity, particularly if households and firms delay expenditure pending greater clarity on the outlook. This has also contributed to a weaker outlook for growth, employment and inflation in Australia. That said, world trade policy is changing rapidly, thereby making the central forecasts subject to considerable uncertainty.

Setting aside overseas developments, private domestic demand appears to have been recovering, real household incomes have picked up and there has been an easing in some measures of financial stress. However, businesses in some sectors continue to report that weakness in demand makes it difficult to pass on cost increases to final prices.

At the same time, a range of indicators suggest that labour market conditions remain tight. Employment is continuing to grow, measures of labour underutilisation are at relatively low rates and business surveys and liaison suggest that availability of labour is still a constraint for a range of employers. Looking through quarterly volatility, wages growth has softened over



the past year or so but productivity growth has not picked up and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation stemming from both domestic and international developments. While the central projection is for growth in household consumption to continue to increase as real incomes rise, recent data suggest that the pick-up will be a little slower than was expected three months ago. There is a risk that any pick-up in consumption is even slower than this, resulting in continued subdued growth in aggregate demand and a sharper deterioration in the labour market than currently expected. 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 demand environment and weak productivity outcomes while conditions in the labour market remain tight.

- **Maintaining low and stable inflation is the priority.**

The Board judged that the risks to inflation have become more balanced. Inflation is in the target band and upside risks appear to have diminished as international developments are expected to weigh on the economy. With inflation expected to remain around target, the Board therefore judged that an easing in monetary policy at this meeting was appropriate. The Board assesses that this move will make monetary policy somewhat less restrictive. It nevertheless remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and supply. The Board considered a severe downside scenario and noted that monetary policy is well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia.

The Board will be attentive to 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 is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.