



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 5 November 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.

- **Underlying inflation remains too high.**

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. Headline inflation was 2.8 per cent over the year to the September quarter, down from 3.8 per cent over the year to the June quarter. This was as expected due to declines in fuel and electricity prices in the September quarter. But part of this decline reflects temporary cost of living relief. Abstracting from these effects, underlying inflation (as represented by the trimmed mean) was 3.5 per cent over the year to the September quarter. This was as forecast but is still some way from the 2.5 per cent midpoint of the inflation target. The forecasts published in today's *Statement on Monetary Policy* (SMP) do not see inflation returning sustainably to the midpoint of the target until 2026.

- **The outlook remains highly uncertain.**

The forecasts published today are very similar to those published in August. The forecast path for underlying inflation reflects a judgement that aggregate demand remains above the economy's supply capacity, evidenced by the persistence of underlying inflation, surveys of business conditions and ongoing strength in the labour market.

Growth in output has been weak. Past declines in real disposable incomes and the ongoing effect of restrictive financial conditions continue to weigh on household consumption, particularly discretionary consumption. However, growth in aggregate consumer demand, which includes spending by temporary residents such as students and tourists, has remained more resilient.

A range of indicators suggest that labour market conditions remain tight, and while conditions have been easing gradually, some indicators have recently stabilised. Employment grew strongly over the three months to September, by an average of 0.4 per cent per month. The unemployment rate was 4.1 per cent in September, up from the trough of 3.5 per cent in late 2022. But the participation rate remains at record highs, vacancies are still elevated and



average hours worked have stabilised. At the same time, some cyclical measures of the labour market including youth unemployment and underemployment have recently declined.

Wage pressures have eased somewhat but labour productivity is still only at 2016 levels, despite the pick-up over the past year.

Taking account of recent data and the updated forecasts, the Board's assessment is that policy is currently restrictive and working broadly as anticipated. But there are uncertainties. The central projection is for growth in household consumption to increase from the second half of this year as income growth picks up – and there is tentative evidence of an increase in spending in the September quarter. But there is a risk that any pick-up is slower than expected, resulting in continued subdued output growth and a sharper 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 slow growth in the economy and weak productivity outcomes at a time of excess demand, and while conditions in the labour market remain tight.

There remains a high level of uncertainty about the outlook abroad. Most central banks have eased monetary policy as they become more confident that inflation is moving sustainably back towards their respective targets. They note, however, that they are removing only some restrictiveness and remain alert to risks on both sides, namely weaker labour markets and stronger inflation. Public authorities in China have responded to the weak outlook for economic activity by implementing more expansionary policies, although the impact (and in some cases the specific details) of these measures remains to be seen. Geopolitical uncertainties remain pronounced.

- **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.

While headline inflation has declined substantially and will remain lower for a time, underlying inflation is more indicative of inflation momentum, and it remains too high. The November SMP forecasts suggest that it will be some time yet before inflation is sustainably in the target range and approaching the midpoint. This reinforces the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out. Policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range.



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.