



## Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 7 May 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 high and is falling more gradually than expected.**

Recent information indicates that inflation continues to moderate, but is declining more slowly than expected. The CPI grew by 3.6 per cent over the year to the March quarter, down from 4.1 per cent over the year to December. Underlying inflation was higher than headline inflation and declined by less. This was due in large part to services inflation, which remains high and is moderating only gradually.

Higher interest rates have been working to bring aggregate demand and supply somewhat closer towards balance. But the data indicate continuing excess demand in the economy, coupled with strong domestic cost pressures, both for labour and non-labour inputs. Conditions in the labour market have eased over the past year, 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. Meanwhile, inflation is still weighing on people's real incomes and output growth has been subdued, reflecting weak household consumption growth.

- **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, based on the assumption that the cash rate follows market expectations, are 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. In the near term, inflation is forecast to be higher because of the recent rise in domestic petrol prices, and higher than expected services price inflation, which is now forecast to decline more slowly over the rest of the year. Inflation is, however, expected to decline over 2025 and 2026.

The persistence of services inflation is a key uncertainty. It is expected to ease more slowly than previously forecast, reflecting stronger labour market conditions including a more gradual increase in the unemployment rate and the broader underutilisation rate. Growth in



unit labour costs also remains very high. It has begun to moderate slightly as measured productivity growth picked up in the second half of last year. This trend needs to be sustained over time if inflation is to continue to decline.

At the same time, household consumption growth has been particularly weak as high inflation and the earlier rises in interest rates have affected real disposable income. In response, households have been curbing discretionary spending and maintaining their saving. Real incomes have now stabilised and are expected to grow later in the year, supporting growth in consumption. 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 the labour market remains tight.

There also remains a high level of uncertainty about the overseas outlook. While there has been improvement in the outlook for the Chinese and US economies, and many global commodity prices have picked up, geopolitical uncertainties, including those related to the conflicts in the Middle East and Ukraine, remain elevated.

- **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.

Recent data indicate that, while inflation is easing, it is 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 and will remain vigilant to upside risks. 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.