WESTERN AUSTRALIAN
TREASURY CORPORATION

Economic Analysis — RBA Update September 2024

As expected, the Reserve Bank of Australia (RBA) Board kept the cash rate target unchanged at 4.35% and the interest it pays on Exchange Settlement balances at 4.25%, at the end of its two-day meeting.

Post-meeting Statement

The post-meeting statement remained hawkish:

- Headline inflation declined in July, as measured by the monthly CPI indicator, however, this is expected to be temporary due to Federal and State Government cost-of-living relief measures and underlying inflation remains too high;
- Although the outlook remains 'highly uncertain', the ongoing strength in the labour market and the persistence of inflation suggest the economy's capacity to meet demand is somewhat weaker than previously estimated;
- While Q2 GDP data confirmed that growth has been weak and that previous falls in real disposable income and higher interest rates continue to weigh on household spending, growth in aggregate consumer demand has been more resilient, supported by temporary residents such as students and tourists;
- Household consumption growth is expected to improve over the second half of the year as headwinds to income growth recede;
- Upward pressure on wages has eased but productivity growth remains weak;
- The labour market remains tight despite some easing, with the participation rate at record high levels and job vacancies remaining elevated; and
- While the RBA Board will be guided by the data and assessment of risks in determining policy, it *'remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome'*.

Press Conference

At the post-meeting press conference, RBA Governor Michele Bullock's prepared statement unsurprisingly covered the same themes in the post-meeting statement.

However, she did reveal in the Q&A that, unlike recent meetings, the Board did not explicitly discuss the case for an interest rate increase at this meeting.

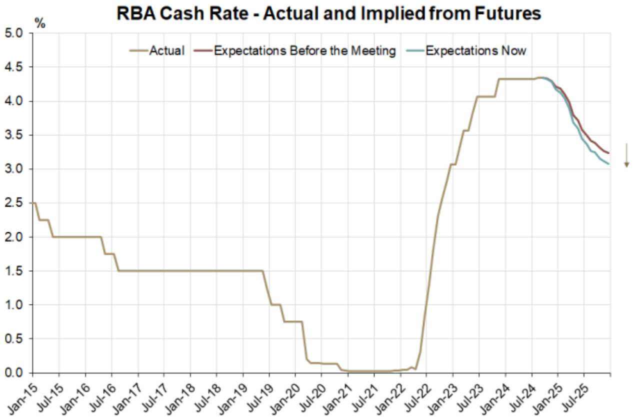
Governor Bullock highlighted that the information received since the previous Board meeting in August had not altered the outlook for monetary policy and the Board continues to consider that interest rates will have to remain restrictive for some time.

Inflation remains too high, and the RBA judges that the level of demand remains above the economy's supply capacity. The labour market remains tight; however, the RBA is alert to the risk that conditions can turn quickly.

Market Impact

Market pricing was little changed after the interest rate announcement but has shown some movement since Governor Bullock began her press conference.

- Cash rate cut expectations picked up a little, with the first cut now around 75% priced in for the December Board meeting.
- 3-year Commonwealth bond yields were relatively steady after the cash rate decision but have fallen from 3.54% as Governor Bullock began speaking to be currently 3.44%.
- The 10-year Commonwealth bond yield fell from 3.95% to 3.90%.
- the Australian dollar climbed from US$0.6851 to US$0.6869 in the hour after the RBA statement was released but has since slipped to US$0.68.20.



Comment

The RBA decision and statement gave us little new information.

The Board remains frustrated with the slow pace of disinflation and continues to highlight that underlying inflation has fallen very little over the past year.

While there appears little chance of an interest rate cut this year, the market continues to price in a strong chance of a reduction at the December Board meeting.

The falls in bond yields and the Aussie dollar during the press conference came despite Governor Bullock being at pains to communicate that the Board considers a near-term cut as highly unlikely.

With the RBA continuing to signal that returning inflation to target is its highest priority, expectations for an interest rate cut in 2024 appear to rest on the likelihood of a significant near-term deterioration in the labour market.

The apparent resilience of the Aussie labour market suggests the most likely timing for an RBA cash rate cut appears to be sometime in the first half of 2025.

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