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Economic Analysis

RBA Update June 2024

The Reserve Bank of Australia (RBA) Board kept interest rates unchanged at the June meeting, with the cash rate target remaining at 4.35% and the interest rate on Exchange Settlement balances staying at 4.25%. The decision was in line with market expectations.

Post-meeting Statement

The RBA Board's post-meeting statement was reshuffled a bit from the previous month, with the major changes being:

- inflation was characterised at the beginning of the statement as 'above target' and 'proving persistent' rather than 'high', and 'falling more gradually than expected';
- recent data revisions suggest that household consumption was stronger than first estimated over the past year, though discretionary spending remains weak;
- economic momentum is soft overall, but excess demand persists in the economy;
- since the most recent RBA forecasts published in May, the unemployment rate has risen and wages growth was slower-than-expected, however labour market conditions remain tight;
- the recently announced budget measures may have an impact on demand, while energy rebates will temporarily reduce headline inflation.

The RBA continues to stress that the persistence of services price inflation is a key uncertainty to the inflation outlook. In addition, according to the central bank, productivity growth needs to pick up if inflation is to decline.

Another key risk is household consumption, though the RBA has drawn attention to the stabilising impacts of wealth effects and a rise in real disposable income amid a decline in inflation and tax cuts.

The RBA Board also assessed that output growth in the major economies, including China, has troughed.

The forward guidance was hardly changed from the previous month, with the RBA Board remaining resolute in its determination to return inflation to the target band.

However, the expression of this determination was again strengthened somewhat, by reinserting that the Board will do 'what is necessary to achieve that outcome', for the first time since February. In addition, the Board stressed that some other central banks have recently reinforced the need to remain vigilant to the upside risks to inflation, despite reducing their interest rates.

The post-meeting statement continued to underscore that the RBA Board still does not rule anything in or out. This means that, while a rate hike is unlikely, it is not completely off the table.

Press Conference

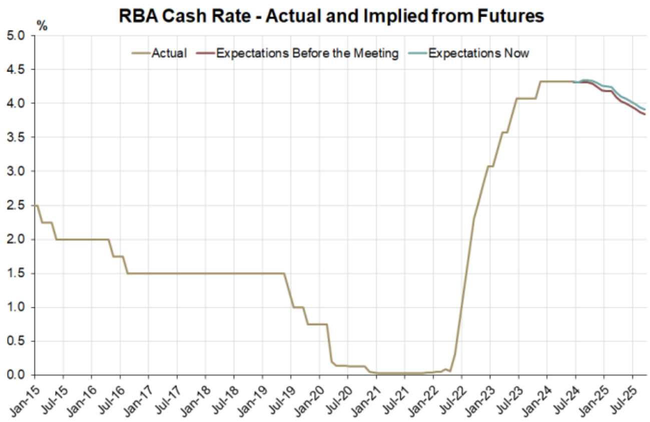
In the press conference, Governor Bullock reiterated all the above information, adding that:

- an interest rate hike was discussed at the meeting, given the upside surprise to the monthly CPI indicator and upward revision to household consumption;
- the RBA decided not to hike rates having in mind among others the weakness in the household sector;
- the Q2 CPI report and, to a lesser extent, the June employment figures, will be crucial to the August interest rate decision, with a hike not completely ruled out;
- while the RBA Board is more vigilant to the upside risks to inflation, the probability of a rate hike is unchanged;
- the case for a rate cut was not discussed at the meeting.

Market Impact

The market reaction to the RBA Board statement and press conference was quite calm:

- 3-year Commonwealth bond yields rose from 4.49% to 4.50% at the time of writing;
- 10-year yields picked up from 4.27% to 4.28%; and
- the Australian dollar appreciated from US$0.6608 to US$0.6622.



Comment

The June RBA meeting was largely a non-event, confirming the Board's ongoing hawkish bias. For the second time in a row, a rate hike was discussed at the meeting, while rate cuts were not on the table.

We continue to expect that, absent of any major shocks, the next move is going to be down, but it is looking increasingly unlikely to be this year.

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