Data Snapshot

Tuesday, 5 December 2023

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RBA Board Meeting
Cautiously On The Sidelines

- **At today's meeting the Reserve Bank (RBA) Board left the cash rate unchanged at 4.35% – its highest level in 12 years. The Board is clearly in the calibration phase of the hiking cycle, leaving the cash rate unchanged on five separate occasions over the past six meetings.**
- **Since increasing the cash rate by 25 basis points in early November, the flow of data has been limited. Retail trade was weaker than expected, recording a decline in October. The monthly inflation read surprised to the downside. The unemployment rate ticked up. And, there have been several partial activity indicators providing mixed signals on the health of the economy. Tomorrow, we will receive a comprehensive overview of economic activity over the September quarter.**
- **The strong September quarter wage price index (WPI) was also released in the inter-meeting period. Like us, the RBA attributes most of the strong outcome to the Fair Work Commission's minimum and award wage determination. Beyond that, wage pressures appear to be moderating and remain consistent with the inflation target, provided we see a recovery in productivity growth.**
- **Given the data offered little by way of material surprises, the RBA Board is buying time to assess the impact of previous rate rises on the economy. Importantly, since the Board last met there has been little new information on the evolution of services inflation, as the Governor herself noted in today's statement.**
- **The Board is alert to the risk that growth in the prices of services remains elevated, particularly if labour costs continue to grow strongly. This has been the experience of other major economies, supporting the need to proceed with caution.**
- **We are slightly more optimistic than the RBA on this front. In our view, the supply side of the economy continues to adjust which will help ease inflationary pressures. We see labour productivity stabilising, and then increasing, as the capital stock (infrastructure, equipment, new buildings) catches up to strong population growth. This will help reduce labour costs and inflationary pressures over time.**
- **But there is a risk that this takes longer than expected. If this is the case, the moderation in inflation may be slower than expected, which could risk inflation expectations become unanchored.**
- **What does this mean going forward? We continue to expect that the RBA will leave rates on hold from here. However, an upside surprise cannot be ruled out and the RBA Board has made it clear that it will not hesitate to respond to emerging upside risks.**

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