RBA June Statement Track Changes on May

Media Release¶
Statement by the Reserve Bank Board: Monetary Policy Decision¶
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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.¶

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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 on~~above target and is proving persistent.¶
Inflation has fallen substantially since its peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance. But the pace of decline has slowed in the most recent data, with inflation still some way above the midpoint of the 2–3 per cent target range. Over the year to April, the monthly CPI indicator rose by 3.6 per cent in headline terms, and by 4.1 per cent excluding volatile items and holiday ~~g~~tra~~dually.¶~~

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~~Higher interest rates have been working to bring aggregate demand and supply somewhat closer towards balance. But the~~vel, which was similar to its pace in December 2023.¶

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Broader data indicate continuing excess demand in the economy, coupled with ~~strong~~elevated domestic cost pressures, for both ~~for~~ labour and non-labour inputs. Conditions in the labour market ~~have~~ eased further over the past ~~year,~~month 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~~Recent data revisions suggest that consumption over the past year was stronger than previously suggested. At the same time, output growth has been subdued, and consumption per capita has been declining, as households restrain their discretionary expenditure and inflation weighs on real incomes.¶

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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.¶

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The central forecasts~~, based on the assumption that the cash rate follows market expectations, a~~ published in May were 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.~~Since then, there have been indications that momentum in economic activity is weak, including slow growth in GDP, a rise in the unemployment rate and ~~high~~slower 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.¶~~

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~~T~~wages growth. At the same time, the revisions to consumption and the saving rate and 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~~suggest that risks to the upside remain. Recent budget outcomes may also have an impact on demand.

although federal and state energy rebates will temporarily reduce headline inflation. The persistence of services price inflation is a key un~~d~~cer~~utilisation rate. G~~tainty. Also, although 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~~has eased, it remains high. Productivity growth needs to pick up in a sustained ~~over time~~way if inflation is to continue to decline.¶

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~~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.~~There is uncertainty around consumption growth. Real disposable incomes have now stabilised and are expected to grow later in the year, assisted by lower inflation and tax cuts. There has also been an increase in wealth, driven by housing prices. Together, these factors are expected to support~~ing~~ growth in consumption over the coming year. 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.¶

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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 conditions in the labour market remain~~s~~ tight.¶

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There also remains a high level of uncertainty about the overseas outlook. ~~While t~~Output growth in most advanced economies appears to have troughed. There has been improvement in the outlook for the Chinese and US economies, and many ~~global~~ commodity prices have picked up. Some central banks have eased policy, although they remain alert to the risk of persistent inflation. Nevertheless, geopolitical uncertainties, including those related to the conflicts in the Middle East and Ukraine, remain elevated, which may have implications for supply chains.¶

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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.¶

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~~Recent data indicate that, while i~~Inflation is easing~~, it is~~ but has been 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~~. While recent data have been mixed, they have reinforced the need to remain vigilant to upside risks to inflation. 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 and will do what is necessary to achieve that outcome.