

# Official Cash Rate Decision — 7 November 2023

## Reserve Bank of Australia

Next decision date: 5 December 2023



### RBA increases the cash rate target by 25 basis points on 7 November 2023

The Reserve Bank of Australia (RBA) raised the official cash rate by 25 basis points to 4.35 per cent.

#### Commentary

The RBA Board increased the official cash rate target by another 25 basis points to 4.35 per cent. Interest rates have increased 4.25 percentage points from the first rise back in May 2022. The RBA Board expects that further tightening of monetary policy may be needed to ensure that inflation returns to target in a reasonable timeframe but that will depend upon the data and the evolving assessment of risks. The Board will be paying close attention to the developments in the global economy, trends in domestic demand, and the outlook for inflation and the labour market while making their decision.

The Board noted that even though inflation in Australia has passed its peak, it still remains too high and is proving more persistent than expected a few months ago. Recent data indicates that the rate of reduction in CPI inflation looks to be slower than expected. The Board expected CPI inflation to be around 3½ per cent by the end of 2024 and at the top of the target range of 2 to 3 per cent by the end of 2025. The Board responded such that inflation will return to target in a reasonable timeframe.

The Board noted that while the economy is experiencing a period of below-trend growth, it has been stronger than expected over the first half of the year. Underlying inflation was higher than expected at the time of the August forecasts, including across a broad range of services. Housing prices are continuing to rise across the country.

The Board noted that high inflation is weighing on people's real incomes and household consumption growth is weak, as is dwelling investment. Given that the economy is forecast to grow below trend, employment is expected to grow slower than the labour force and the unemployment rate is expected to rise gradually to around 4½ per cent. Wages growth has picked up over the past year but is still consistent with the inflation target, provided productivity growth picks up.

The RBA noted that there are still significant uncertainties around the outlook. Services price inflation has been surprisingly persistent overseas and the same could occur in Australia. 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 when the labour market remains tight. The outlook for household consumption also remains uncertain, with many households experiencing a painful squeeze on their finances, while some are benefiting from rising housing prices, substantial savings buffers and higher interest income. And globally, there remains a high level of uncertainty around the outlook for the Chinese economy and the implications of the conflicts abroad.

As this brief was written, no major bank announced any passing on of the rate rise to its customers. If passed on in full, an average owner occupier with a variable rate mortgage in the ACT will be worse off by \$85 a month, or \$1,016 a year for a \$500,000 mortgage.

#### Impact of the RBA cash rate decision on an average owner occupier loan – 7 November 2023

Loan size	Change in monthly payment <sup>1</sup>	Change in annual payment	Change in total payment (25 years)
\$500,000	\$85	\$1,016	\$25,391

Source: Reserve Bank of Australia; Chief Minister, Treasury and Economic Development Directorate.

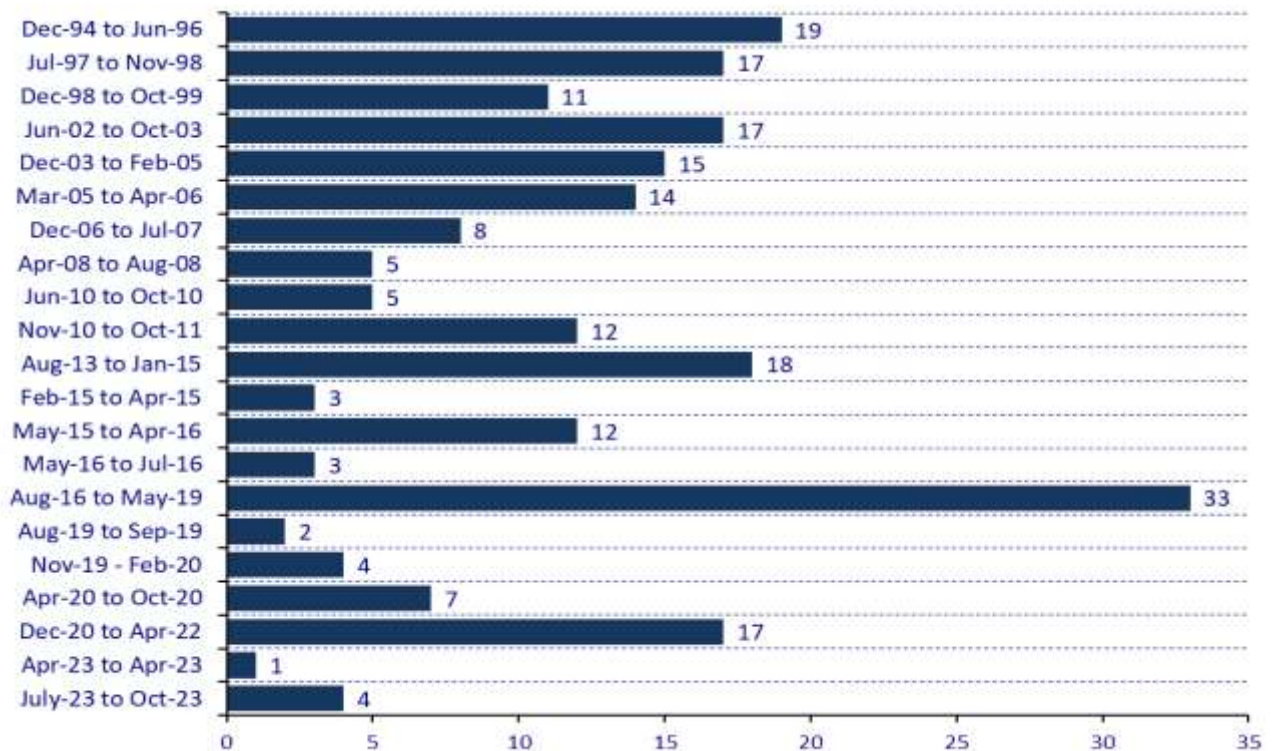
<sup>1</sup> Rounded to the nearest dollar. Based on an average standard variable interest rate of 8.77 per cent (Source: CMTEDD Estimates based on RBA data). Note this rate is post-interest rate rise and is compared to a pre-interest rate rise if it were passed on in full.

## Reserve Bank of Australia historical cash rate decisions



Source: Reserve Bank of Australia

## Duration in Months of Interest Rate Holds, 1994 to 2023



Source: Reserve Bank of Australia