

## Australia Economic Watch

## RBA review: Bullock locks the cash rate

## The RBA holds the cash rate steady at 4.1%

As widely expected, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 4.1% in October. Despite the change in leadership, there were minor changes to the post meeting statement. The RBA is watching the data to assess traction from high rates and the outlook for inflation. With near-term upside risk to CPI on the back of higher energy prices and downside risks to growth (particularly in the consumer sector), we think the RBA will remain on hold for the remainder of the year. The bank looks to retain its hawkish bias as it noted that despite passing the peak, inflation is still too far from target.

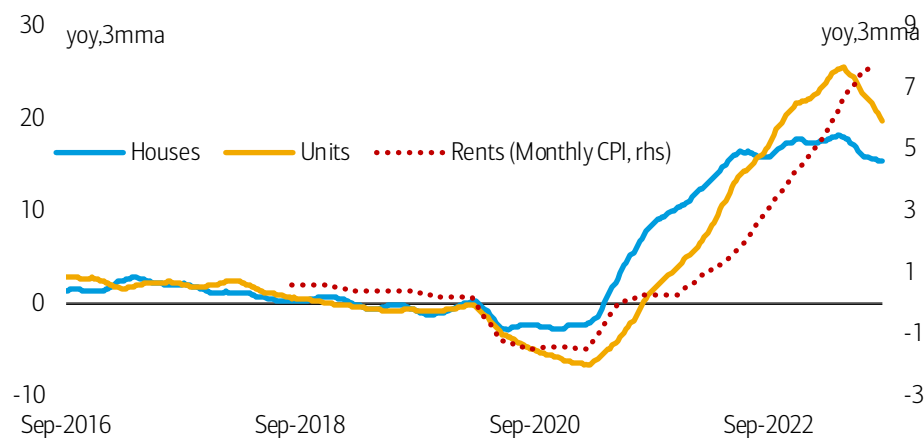
While goods inflation has eased, “services are continuing to rise briskly, and fuel prices have risen noticeably of late”. The latter will place upside pressure to 3Q CPI data due on Oct 25<sup>th</sup> as petrol prices were already over 9% in August. See: [Australia Economic Watch: RBA preview: Wake me up when Nov ends 28 September 2023](#). The RBA’s assumption is for headline inflation to slow to 4.1%yoy by the end of the year, but the return to target is set for late-2025 and it is expected to be “uneven”.

## Rent inflation is high, but it may be near its peak

Strong population growth is supporting demand, but also pushing rent inflation higher. However, leading indicators for rent prices suggest asking prices are declining from very high levels. While it is too early to say, rent assistance from Government, traction from high rates and softer economic conditions may be starting to flow through the data. The RBA will continue to watch rent prices and overall services inflation.

## Exhibit 1: Leading asking rent prices shows early signs of a peak

Rents in CPI may follow



Source: SQM Research, Macrobond. Data for capital city averages

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Economics  
Australasia

**Micaela Fuchila**  
Economist  
Merrill Lynch (Australia)  
+61 2 9226 5337  
[micaela.fuchila@bofa.com](mailto:micaela.fuchila@bofa.com)

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## Soft data challenges the hawks

The minutes from the RBA October Board meeting will be released on October 17. The discussion around the decision to hold rates steady again will provide a gauge on the RBA's assessment of the tightness of current financial conditions and traction from high rates. Over the last few meetings under Lowe's leadership, the RBA has kept both, the option to hike or hold the cash rate open. The decision has been data dependent. With domestic economic data having slowed of late, we think there is a high hurdle for further policy tightening. See: [Liquid Insight: RBA and RBNZ: a hawkish hold 29 September 2023](#).

RBA Governor Bullock will make her first public appearance as the Governor in a panel on October 18<sup>th</sup>, a day after the publication of the October minutes. While we do not expect changes to the cash rate for the remainder of the year and next year, we will watch for gradual changes to guidance that reflect the change in leadership. Major changes to the RBA's meeting schedule and post-meeting press-conferences will kick off from next year.

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