

RBA hikes 25bp

The Reserve Bank of Australia (RBA) chose to stick to the moderate pace of tightening that it adopted in October, despite the recent inflation surge. Forthcoming wage price data ought to be important to future tightening, but may not be



Governor of the Reserve Bank of Australia, Philip Lowe

2.85%

Cash rate target

Up from 2.6%

As expected

Data independent

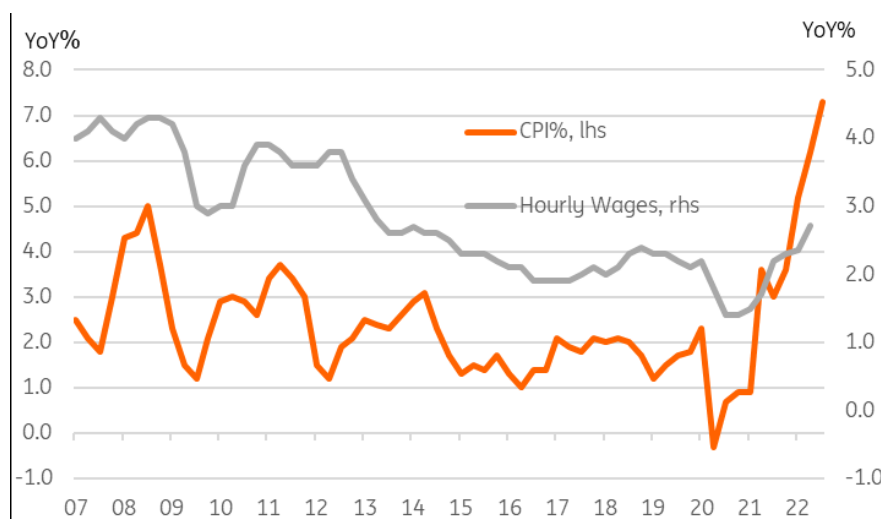
Raising the cash rate by just 25bp to 2.85%, [the RBA's accompanying statement](#), just like the one they issued in [October](#), noted that "The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market".

In the face of the surge in 3Q22 headline inflation to 7.3% from 6.1% in 2Q22, a quarter-on-quarter increase that showed no signs of a slowdown, you could be forgiven for thinking that this decision

didn't really reflect the flow of incoming data all that much. Instead, it seems like a much greater weight was given to the notion expressed in [Governor Lowe's speech](#) on 16 September that "At some point, it will be appropriate to slow the rate of increase in interest rates and the case for doing that becomes stronger as the level of interest rates increases".

That statement suggested that in fact, monetary policy was about to become more time and rates-level dependent, rather than state-dependent. And today's decision seems to confirm that. It remains to be seen if wage price data due on 16 November continue to paint only a moderate pick up in wage costs. But even if they do not, we may still be looking at only another 25bp of tightening at the December meeting given what now appear to be the driving forces for policy setting.

The two series the RBA says it is most focused on



Source: CEIC, ING

It's not all good

To be even-handed, as well as wages and prices, the RBA is also focussed on the labour market more broadly, and here, the news has recently been less impressive, with fewer than one thousand jobs created in net terms in September, though mainly due to what looked like conversion of part-time jobs to full-time, which is still a positive development.

And household spending, at least as reflected in retail sales data has continued to come in firmly with another 0.6%MoM increase in September, while private sector credit growth of 9.4%YoY, at best, looks to be peaking out rather than declining to a level consistent with lower inflation.

However, some of the apparent retail sales strength will reflect price changes, rather than increases in real consumer spending. Recent floods have been putting up prices of a large number of food items, and this not only swells the value of non-discretionary retail spending like that on groceries but for a time at least, will put upwards pressure on inflation too.

It is probably all 25bp from here until the peak

It is possible to imagine that the run of data from now on will indeed determine how the RBA responds as it takes the cash rate closer to its eventual peak. But today's decision suggests

otherwise. Instead, it looks more probable now that the RBA will simply stick to a 25bp rate increase pace until it believes it has taken rates high enough. That may be soon into the New Year when rates hit 3.35% or 3.6%, which they will do by January or February if we get further 25bp hikes at each meeting until then.

At that point, re-setting mortgages may put an additional burden on the household sector, it may be clearer to the RBA if they still have more work to do, or if they can sit tight and wait for inflation to turn down. Until then, it looks like it is 25bp all the way.

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