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RBA Board Meeting Minutes

Pause Likely, Even Before Banking Turmoil

- **In March, the Reserve Bank (RBA) Board increased the cash rate by 25 basis points to 3.60%.**
- **The March Board meeting was held before recent developments in the US and Swiss banking sectors. While financial stability concerns will factor into deliberations, the policy stance before these concerns emerged is also important to how the RBA will react in April.**
- **Unlike recent meetings, the March minutes did not discuss the specific policy options considered. The narrower set of options reflected that the RBA weighted the need to combat elevated inflation more heavily than signs that the economy is beginning to turn.**
- **The minutes acknowledged that some initial progress is being made on bringing inflation down, but the elevated level of inflation and the expectation that this progress will be slow meant that further policy action was necessary.**
- **The minutes note that "monetary policy was in restrictive territory" and that "it would be appropriate at some point to hold the cash rate steady". "Members agreed to reconsider the case for a pause at the following meeting" (April).**
- **This confirms that subject to the data, the RBA was ready to pause in April, even before recent global developments in the banking sector. These global developments have led to a tightening in financial conditions and support a pause in April.**
- **Both the domestic data and developments in the global economy are likely to support a pause in April. Beyond this, there is a chance that the data may warrant further hikes. But there is also a chance that we have seen the end of the RBA's hiking cycle altogether.**

In its March policy meeting the RBA Board increased the cash rate by 25 basis points to 3.60%, a move which was widely expected. Today, the minutes from that meeting were released, providing further insight into the RBA's policy considerations and guidance for future meetings.

The March Board meeting was held before recent developments in the US and Swiss banking sectors and therefore does not feature any discussion on the matter. Of course, these developments and the subsequent market reaction are material to the interest rate outlook in Australia and have changed the expected trajectory of the cash rate.

However, this does not render the RBA's deliberations at the March meeting as insignificant. In fact, the RBA's policy stance before global banking concerns emerged is paramount to how the RBA will react to these developments at the April meeting.

Options considered by the RBA Board

Unlike recent meetings, the March minutes did not discuss the specific policy options considered by the Board, nor the potential grounds for and against the alternatives. Instead, "members agreed that a further tightening of monetary policy was warranted" and that "the appropriate adjustment of interest rates was 25 basis points".

The narrower set of options reflected that the RBA weighted the need to combat still elevated inflation more heavily than signs that the economy is beginning to turn. The minutes flag that inflation remained too high and was "forecast to remain above target for two years", while the unemployment rate was around a 50-year low and business surveys continued to show strength. However, a recent string of softer data revealed that labour market "conditions appeared to have eased somewhat" and household "consumption growth had slowed significantly", while the "monthly CPI indicator pointed to an easing in inflation in the March quarter". The Board was cautious to rely too heavily on a few single data points to conclude demand was slowing but agreed "that it was appropriate to take some signal from the consistent pattern across recent data releases".

In other words, the RBA acknowledged that some initial progress is being made on bringing inflation down, but the elevated level of inflation and the expectation that this progress will be slow meant that further policy action was likely to be necessary.

Forward guidance

While the Board did not have enough evidence of progress towards its inflation goal to pause in March, it did point out that a pause will be appropriate when this evidence comes to light. In particular, the minutes note that "monetary policy was in restrictive territory" and that "it would be appropriate at some point to hold the cash rate steady, to assess more fully the effect of interest rate increases to date".

On this evidence, the minutes singled out the labour force survey, monthly CPI indicator, retail trade and business survey releases for February. Additionally, "members agreed to reconsider the case for a pause at the following meeting" once these releases are available. So far, the labour force and business surveys have been released. While these suggested that conditions remained robust in early 2023, an underlying trend of weaking economic and labour market conditions was still evident and is expected to continue through 2023.

In addition to the upcoming data, the minutes flagged that "developments in the global economy" would also be a key consideration in determining when to pause. The unfolding concerns about the global banking system will likely occupy most of the Board's consideration of global economic developments in April. These global developments have led to a tightening in financial conditions and support a pause in April.

Monetary Policy Outlook

The minutes confirm that on the proviso that the data supports such a decision, the RBA was ready to pause in April, even before recent global developments in the banking sector. Importantly, this puts the RBA in an enviable position relative to other central banks, in that it will unlikely be facing a significant trade-off between nursing financial stability and fighting inflation as is the case for the US Federal Reserve.

Instead, the RBA is expected to be in a position where both the domestic data and developments in the global economy support a pause in April. Beyond April, there is a chance that the data, in particular the March quarter inflation report, may warrant a further adjustment higher in interest rates. But there is also a chance that we have seen the end of the RBA's hiking cycle altogether. The minutes provide some scope for this possibility noting "members observed that further tightening of monetary policy would **likely** be required to ensure that inflation returns to target".

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