Reserve Bank of Australia

Decision to lift interest rates influenced by higher-than-forecast rent increases, RBA says

Minutes from recent meeting say surprise call was 'finely balanced' and aimed at diminishing the risks of high inflation becoming entrenched

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The strong jobs market - with an unemployment rate remaining at near half-century lows of 3.5% and most new positions being full-time roles - was one factor tilting in favour of another rate hike. Weak productivity growth was another.

“[T]he labour market remained tight and … inflationary pressures were significant,” the bank minutes said. “That information point to upside risks to the outlook for inflation.”

Given “the arguments were finely balanced” as to whether to hike interest rates or not, pundits will likely assume another rate rise in June is unlikely without some surprisingly strong economic data being released.

An indication the RBA had been intent on at least one more rate rise after April’s pause was that members noted forecasts at the meeting “were predicated on a technical assumption” that the cash rate would increase from 3.6%.

“Members also agreed that further increases in interest rates may still be required, but this would depend on how the economy and inflation evolve,” the minutes concluded.

What is the cash rate? And how is it different to interest rates? | News glossary – video

The RBA minutes preceded the federal budget released last week. Economists offered mixed assessments on the budget’s inflationary implications but investors viewed it as neutral.

May’s rate rise stunned most economists and the markets, which had noted - as did the RBA board - that consumption in the economy had been weak, especially on a per capita basis.

Many households were already "experiencing significant financial pressures", the RBA said. The rolling shift of low fixed rates to higher ones as terms expired would also increase debt repayments.

The Australian Bureau of Statistics will release wage price index for the March quarter on Wednesday and April jobs figures the following day.

The RBA said wages growth was stabilising. "[A] range of indicators suggested that wages growth was running at an annual rate of around 3.5% to 4% in the March quarter," it said, with the wage price index expected to peak later in 2023 "before easing slightly".

The budget predicted wage growth would exceed the inflation rate in 2024, bringing the first real increase in salaries for several years.

> Ahead of the release of RBA minutes for its May meeting (which resulted in a surprise rise) later today, investors were gauging risk of a June hike as a 3% chance. However, they view a rise in Aug or Sept as about a 40% chance, and have pushed back the 1st rate cut to next March. pic.twitter.com/ELf58iki2g
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> — @phannam@mastodon.green (@p_hannam) May 15, 2023

Data from RateCity released on Monday indicated that a single person on an average wage who borrowed at their capacity two years ago to buy a home will be spending as much as 71% of their after-tax pay on their mortgage once the May rate rise kicks in. That amounts to leaving the person just $57 a day for all food, energy, health and other expenses.

For a family of four who borrowed at capacity two years ago, with one parent working full time and the part-time, the post-tax, post-mortgage residual would be about $125 a day, RateCity said.

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