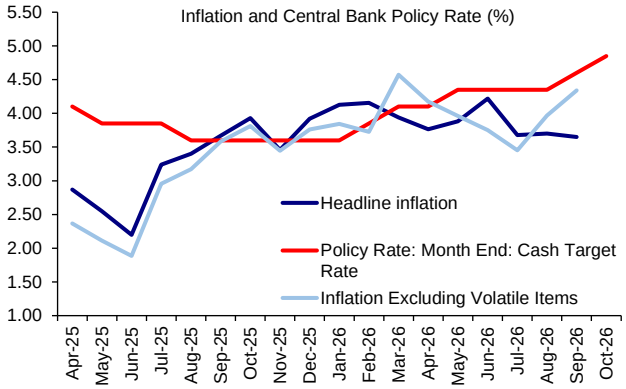
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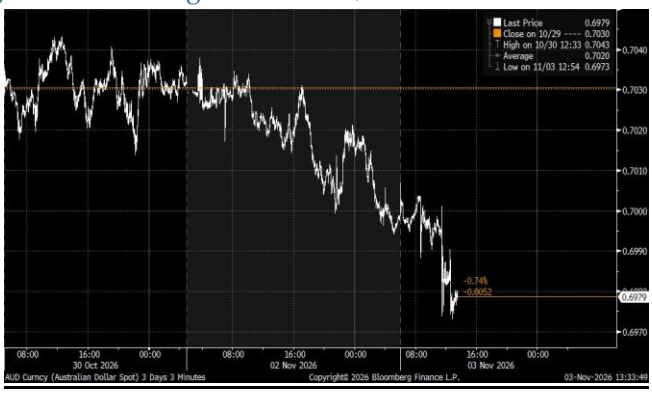
Economics & Strategy | Asia ex-Japan

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RBA: Long and Variable Lags

" Monetary actions affect economic conditions only after a lag that is both long and variable," Milton Friedman





Sources: CEIC, Mizuho

- The RBA **raised the cash rate** by 25bp to 4.85% as widely expected. Both the AUD and front-end yields declined following the decision, reflecting a statement and subsequent communications that signalled a preference to remain on hold in the near term.
- **First**, the **split-vote risks** we previously highlighted materialised, with **three Board members favouring no change** and six supporting a 25bp hike. The division underscores that the decision to tighten was far from unanimous and highlights growing caution within the Board.
- **Second**, it is notable that the statement has **dropped the allusion to "increasing the cash rate target further**, if needed" which was in the previous statement. As such, the preference is for a near term rate hold even though Governor Bullock maintained that she avoids forward guidance during her press conference.
- In fact, her remarks that "recent increase in rates are not yet in transmission" through the economy and "requires 12 months to play through" reinforces the case for a period of policy assessment.
- **Third**, while the RBA continues to project inflation only returning to the top of the target range in late 2027, Governor Bullock also pushed back against concerns of a wage-price spiral, reducing the urgency for additional tightening.
- Separately, it was revealed that Board members favouring a hold cited downside risks from the housing sector, which the RBA now characterises as undergoing a more significant easing.
- **Lastly**, the RBA also stated that **risks are becoming more balanced** relative to the August Statement as they have incorporated various risks into the central forecasts. Notably, **unemployment rate is expected to rise to 5.00%** in mid-2028 which was previously projected at 4.8%.
- Looking ahead, we expect that **the RBA will keep rates on hold**, barring a renewed acceleration in trimmed-mean inflation above 4% alongside continued labour market resilience.
- Consequently, the **AUD may remain lacklustre**, particularly if global risk sentiment remains fragile.
- All in, the November hike may prove to be less important than the message that followed.
- With policy already restrictive, labour market conditions gradually easing and housing activity softening, the focus has shifted from how much higher rates need to go towards whether sufficient restraint is already in place.
- In that respect, the RBA increasingly appears committed to **waiting for the "long and variable lags" of monetary policy to do the heavy lifting.**

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