

Australia's central bank slows pace of interest rate rises but insists they will continue

Nick Beams
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The Reserve Bank of Australia (RBA) lifted its interest rate by another 0.25 percentage points yesterday, contrary to market expectations of a rise of 0.5 percentage points, but said “further increases are likely to be required over the period ahead.”

The rate rises—now six in consecutive months—are advanced in the name of fighting inflation, yet will do nothing to bring down prices. They are aimed at ensuring that economic growth is slowed, inducing a recession if that is considered necessary, to suppress workers’ wage claims in response to inflation, which the RBA estimates will reach almost 8 percent this year.

In announcing the decision, the statement by RBA governor Philip Lowe focused on the labour market, which was “very tight” with many firms having difficulty in finding new workers. Job vacancies and job ads were “both at very high levels”—a situation the central bank clearly wants to change by slowing the economy.

In other words, if workers press ahead with wage demands to compensate for price hikes, the RBA will inflict greater rate rises.

Even though yesterday’s rise was lower than expected by financial markets, it will have a significant impact on home buyers.

The average monthly payment on a \$500,000 mortgage will increase by \$74 a month, taking the total increase since May, when the RBA began its rate tightening, to \$687. That is equivalent to a wage cut of more than \$170 per week.

The corresponding figures for mortgages of \$750,000 are \$110 and a total of \$1,030 and for a loan of \$1 million, \$147 and \$1,347.

Lowe only mentioned the worsening world economic situation in passing, saying: “One source of uncertainty

is the outlook for the global economy, which has deteriorated recently.” He did not touch on the significance of the financial crisis that has erupted in the UK.

In justification of the slower pace of rises, Lowe said the cash rate had been increased “substantially in a short period of time” and “reflecting this” the bank had decided on the 25-basis point increase “as it assesses the outlook for inflation and economic growth in Australia.”

While it did not oppose the lower increase, an editorial in the *Australian Financial Review*, one of the main voices of finance capital, sounded a warning. It said that the RBA had “dialled back the hawkishness” but “can’t fall too far behind the US Fed.” This would risk a fall in the value of the Australian dollar, which would increase inflation.

The rate rise cycle still had some way to go, the editorial said, even if in more “business-as-usual” increments. It insisted that the Labor government had to “help” the RBA by ensuring there were no stimulatory measures in the budget to be brought down on October 25.

The turmoil in the UK over the past two weeks has become a significant factor in framing the budget, as indicated by Treasurer Jim Chalmers in media interviews.

“What’s happened there, I think is a cautionary tale about the costs and consequences of getting government policy and central bank policy out of whack, having fiscal and monetary policy working at cross purposes,” he told the Sky channel.

“So that’s not irrelevant to us, as we put together our budget to hand down this month,” he said, adding that anybody putting budgets together at this time would be looking at what happened in the UK.

Chalmers noted the deteriorating outlook for the world economy, citing the US, China, Europe and the UK, and insisting that no government could ignore it.

In the US there are indications that the Federal Reserve's interest rate rises are starting to bite. Mortgage interest rates have more than doubled in the past year, and the latest data shows that manufacturing activity grew at its slowest pace in nearly two and a half years.

Financial market conditions are tightening as the yield (interest rate) on short- and long-term Treasury bonds continues to rise, amid warnings that liquidity in the market is at its lowest level since the March 2020 financial meltdown at the start of the pandemic.

Europe is heading into a recession. Its leading economy, Germany, is most likely already in one due to the impact on its manufacturing industry from the escalation of gas and energy prices triggered by the US-NATO war against Russia in Ukraine.

The growth rate in China, on which Australian capitalism is heavily dependent, is slowing to the lowest levels in more than three decades. The World Bank is forecasting it would only reach 2.8 percent this year, well below the Chinese government's target of 5.5 percent.

Chalmers said it was necessary to rebuild "fiscal buffers against global turbulence." Treasurers, central bankers and financial commentators always use such language, aimed at obscuring the essential class content of the measures they are advocating.

What is meant by building "buffers" is that government spending on social services such as health, aged care, disability services and education must be cut to reduce the pile of government debt, now on the way toward \$1 trillion, even as military spending increases.

Most of this debt has been incurred because of the hundreds of billions of dollars handed out to the corporations throughout the COVID pandemic, which governments now demand must be paid for by the working class.

While making a vague commitment to "cost of living relief," Chalmers insisted the government was "prepared to take the right and responsible path, and not just the path of least resistance," even as inflation was expected to worsen.

Decisions already taken indicate its direction. The Labor government has reimposed the full tax levy on

fuel and scrapped the mandatory isolation periods and payments for workers infected with COVID-19, sparking widespread outrage, including among health professionals.

However, at least to this point, the proposed huge income tax cuts for the wealthiest sections of the population, legislated by the previous Morrison Liberal-National government with Labor's support, will remain. If these tax cuts are withdrawn or modified in some way, it will only be to better prepare the way politically for deeper attacks on the working class, with the claim that everyone must make a "sacrifice."



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