Australian central bank signals no let-up on interest rates

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The Reserve Bank of Australia has signalled it is ready to lift interest rates further, the spearhead of its so-called fight against inflation via an austerity drive. This is even as it acknowledges that rises over the past two years have significantly reduced household income and consumption spending.

The RBA kept its interest rate at the present level of 4.35 percent at its meeting yesterday. While a rate cut was not discussed, the central bank indicated it was prepared to lift rates at subsequent meetings.

At her press conference, RBA governor Michele Bullock said the present policy was "restrictive" and the bank did not think it would "necessarily" have to lift the rate again.

"But we can't rule it out. If we have to we will. If we really think that inflation is going to be persistently and significantly above our forecasts, we will tighten again."

She said the RBA board discussed the option of raising rates at its meeting but decided to the leave them where they were. Future rises are on the table in conditions where the RBA has said it expects inflation to accelerate, upgrading its forecast for the annual Consumer Price Index from 3.3 percent to 3.8 percent.

The statement from the central bank outlining the decision made clear wages are the target, even though they have nothing to do with price hikes. Wage rises over the past period have been sub-inflationary.

Responding to a question at her press conference, Bullock said the phenomenon of "de-anchoring"—that is a situation where workers seek to push for wage rises to at least keep pace with present and future inflation—had not occurred.

She did not acknowledge the central role played by the trade union bureaucracy in imposing real wage cuts. That would be regarded as an impermissible exposure of how the policies of finance capital are actually carried out.

The RBA's focus on wages was set out in a number of passages in its statement.

"Wages growth appears to have peaked but is still above the level that can be sustained given trend productivity growth," it commented.

The persistence of services inflation was a "key uncertainty" and the growth of unit labour costs in this area "remains high."

The overall message was that while pay rises over the past period have been meagre, falling well short of what is needed to compensate for the escalation of prices, especially in basic necessities such as food and petrol, wages are too high and further downward pressure is needed.

The statement acknowledged the impact of previous interest rate increases, saying "household consumption has been particularly weak, as high inflation and earlier rises in interest rates have affected real disposable income."

The main effect of the rate rises on workers comes via the rise in mortgage payments which have risen by between $1,000 and $1,500 a month on average, since the rate rises began two years ago.

The RBA said financial conditions in Australia were "restrictive, most notably for households" and "scheduled principal and interest payments for mortgages are at a historically high share of household disposable income."

What this means is that more and more working-class families are becoming debt slaves to the banks.

They increasingly struggle to make ends meet, taking on additional jobs, doing more overtime where available, cutting back on medical and health spending because they cannot afford it, sacrificing spending on

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holidays for their children. All of this is so that the flow of billions of dollars into the coffers of the banks and finance capital is maintained.

In her press conference Bullock noted consumption was “very low.” This was because some families were trying to save while others “are cutting back simply because they just don’t have the money.”

She claimed the RBA was trying to bring down inflation without tipping the economy into recession because unemployment made it harder for people to meet mortgage payments and pay for their groceries. But notwithstanding the danger of recession and its social consequences, the RBA will proceed with interest rate increases if it deems it necessary.

“I hope we don’t have to raise rates again. Having said that, if we think we have to, we will,” she said.

Moreover, if rate rises do take place, the economy will further slow. The estimate for GDP growth has been downgraded from the already anaemic level of 1.3 percent to 1.2 percent for the year to the end of June and from 1.8 to 1.6 cent for the calendar year of 2024.

The response in the financial press in response to the RBA decision was that government policy had to be brought in line with the central bank through reductions in spending to lessen demand and slow the economy even further.

In an editorial the *Australian Financial Review* made no bones about where RBA policy should go. It warned any concern about ensuring that employment continued to grow “risks taking the focus off what it can actually sustainably control: the level of prices.”

An editorial in the Murdoch-owned *Australian* said Bullock had “put Jim Chalmers on notice that the interest outlook is deteriorating and his budget spending options are therefore restrained.”

It said the RBA’s “blunt message” was made worse by the expectation that inflation would accelerate in the near term and that productivity growth was worse than expected coming in at 1.8 percent for the year to June, down from 3 percent.

It drew attention to the OECD report last week which called for the federal government to address the structural budget position—a demand that recurring outlays on major items be reduced. In particular, it called for “tangible measures” to reduce the cost of the National Disability Insurance Scheme.

The editorial declared that the budgetary position of the state of Victoria was a “template for what happens if things get out of control.” It noted that state debt is projected to reach $156.2 billion by June next year, rising to $187.8 billion by June 2028 with an interest bill at that time of $9.4 billion, or $25.8 million a day.

It might be said that nothing happened at the RBA meeting because interest rates were kept on hold.

In fact, a great deal happened. The central bank laid out the next stage in what is an ongoing war against the working class: continuing reductions in disposable income due to higher mortgages, further downward pressure on wages and even deeper cuts in social spending than so far carried out.

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