Australian central bank declines to cut interest rates, citing global uncertainty

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In a split decision, by a vote of six to three, the Reserve Bank of Australia (RBA) yesterday decided to keep its interest cash rate unchanged at the high level of 3.85 percent, thus denting the claims of the Albanese Labor government to have turned the corner in reducing inflation and the cost-of-living crisis.

The decision by the RBA's Monetary Policy Board dashed the expectations of millions of working-class households—hopes promoted by the government and financial commentators—of early relief from crushing home mortgage repayments. Payments of thousands of dollars a month are producing high levels of financial stress, particularly in the outer suburbs of major cities.

In the bank's statement and her subsequent media conference, RBA governor Michelle Bullock gave two main reasons for delaying what had been a widely-predicted rate cut: above all, a fear of serious fallout for Australia from the global trade war launched by the US Trump administration, and flowing from that, a drive to further lower real wages and boost productivity to impose the burden on workers.

During the campaign for the May 3 federal election, Treasurer Jim Chalmers had talked up the prospect of four RBA interest rate cuts this year, in an effort to stifle widespread discontent over soaring mortgage payments, rents and prices for essentials. Yesterday's RBA decision casts more doubt on that claim, even if Bullock said the RBA's trend was to cut rates over time, after two 0.25 percent reductions earlier in the year.

Responding to yesterday's decision, Chalmers feigned sympathy for people "still under pressure" and nervously noted: "It's not the result millions of Australians were hoping for or what the market was expecting."

This is a potentially explosive political situation. Recent data from S&P Global Ratings shows that outer suburban working-class areas in Melbourne and Sydney are recording the highest mortgage arrears in Australia. Craigieburn, in Melbourne's outer north, had the worst mortgage delinquency rate, with 3.1 percent of borrowers behind on payments by March. Several other suburbs had arrears exceeding 2 percent.

That is just the tip of the iceberg. A February survey, just before the RBA announced its first 0.25 percent cut, reported that almost four million households in Sydney, Melbourne, Brisbane and Adelaide were suffering mortgage or rental stress. Repayments or rents were consuming more than 30 percent of their income.

Yesterday's RBA statement provided a window into the anxiety in ruling class circles over the descent into trade war. "Uncertainty in the world economy remains elevated," it said, and "the final scope of US tariffs and policy responses in other countries remains unknown."

The RBA statement claimed its monetary policy was "well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia." This means that the central bank wanted to leave room for emergency rate cuts in the event of a crash.

At her media conference, Bullock alluded to the vulnerability of Australian capitalism to the Trump administration's aggressive economic moves against China, the country's biggest export market by far. She said Trump's impending trade war was an economic threat that could accelerate the pace of rate cuts. "If something really bad happens, we've got more room to move," she stated.

"Our fortunes are much more linked to China and so that's why a lot depends on what happens there. It's possible that financial markets will react to all of these sorts of things. So anything can happen, and we're alert to that.”

Bullock said global developments took up “a lot” of time at the bank’s board meeting over the previous two days. She added: “When I say that we’ve got room to move if we need to, it’s addressing the fact everyone knows there’s this big chunk of uncertainty out there to do with the trade situation at the moment.”

The RBA’s Monetary Policy Board members, all government-appointed, including former Australian Council of Trade Unions (ACTU) Assistant Secretary Iain Ross, represent the interests of the financial and corporate elite.

Bullock threw doubt over the government’s much-hyped claims to have dramatically lowered the inflation rate. She said the real rate was higher than the Australian Bureau of Statistics (ABS) monthly estimate of a 2.1 percent annual headline inflation rate in May. Bullock said that result was artificially lowered by government subsidies for energy bills. That figure was “actually an artifact of certain subsidies,” she said.

In fact, the most recent ABS calculation of the cost of living index for employee households rose 3.4 percent over the past year to the end of March, effectively continuing an historic cut to real wages since 2020.

Nevertheless, Bullock expressed concern that wages growth was outstripping productivity, and that the official unemployment rate remained too low at 4.1 percent. This is a warning.

Previously the RBA inflicted rapid cash rate rises, from 0.1 percent to 4.35 percent between November 2020 and November 2023. That was on the expectation of pushing the jobless rate up to 4.5 percent, throwing tens of thousands more out of work, in order to drive real wages down.

Bullock backed Labor’s “economic reform roundtable ” to be held next month, at which she will join business chiefs and the top ACTU bureaucrats, essentially to discuss how to intensify the exploitation of workers’ labour power. She said the RBA was “looking very actively at productivity” growth, saying it was at 60-year lows.

“I think it is really good the government and Treasurer latched on to productivity as an important thing we have to get on top of,” Bullock said.

In his response to the RBA decision, Chalmers declared: “Global uncertainty is really one of the defining influences on our economy at the moment. And I think it will be the main thing that shapes our choices as a government in this second term.”

This is a further warning of the Labor government’s intent, confronted by the plunge into trade war, to further cut working-class living conditions and social spending, including disability services, health and aged care, while spending billions of dollars on military expansion to prepare for a US-led war against China.

Months of frantic attempts by Prime Minister Anthony Albanese’s government at negotiation with the Trump administration have made no difference to Australia’s inclusion in Washington’s baseline 10 percent tariff rate, or the 50 percent applied to all US steel and aluminium imports. This will add to the damage, in terms of jobs and social and economic conditions, from the fallout from Washington’s measures against China.

Today, Chalmers indicated that worse could be to come. He said the government was “urgently” seeking clarification after Trump flagged a possible 200 percent tariff on pharmaceuticals and 50 percent on copper. Last year, Australia exported $2.2 billion in pharmaceutical products to the US—more than 40 percent of its total pharmaceutical export value—according to the UN’s Comtrade database.

The involvement of four ACTU chiefs in next month’s 25-member “roundtable” underscores the increasing dependence of Albanese’s government on the trade union apparatus to suppress working-class opposition to its agenda of austerity and war.