



RESERVE BANK OF AUSTRALIA

Monetary Policy and Current Economic Conditions

August 2024 Statement on Monetary Policy

Education



Outline:

- Big picture view
- Current economic conditions
 - Economic growth
 - Labour market
 - Inflation
- Monetary policy



We had a once in a lifetime pandemic

Peak-to-trough Declines in GDP*

Major contractions, quarterly

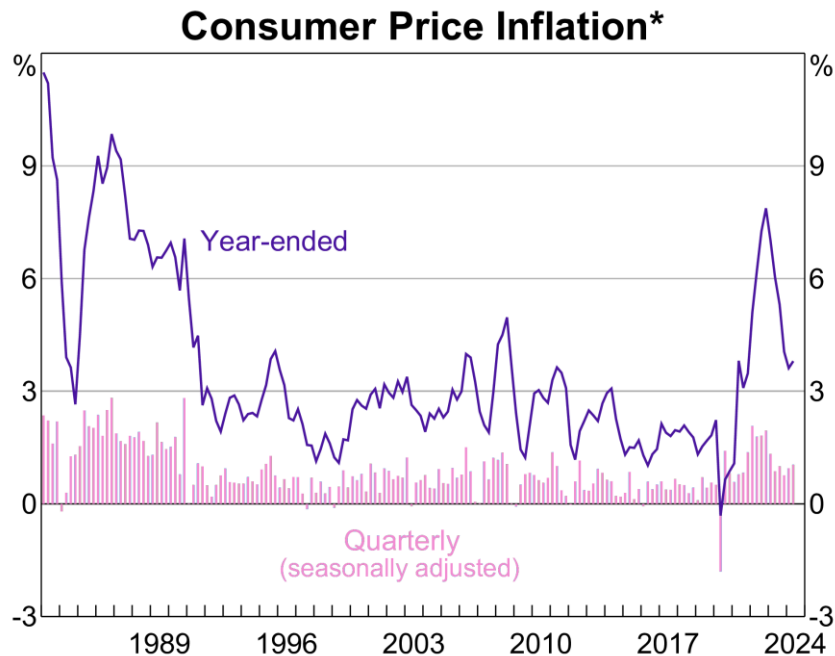


* Declines before 1960 are based on RBA estimates of quarterly data for these periods.

Sources: ABS; Butlin, Dixon and Lloyd (2014); RBA.



But now inflation is too high

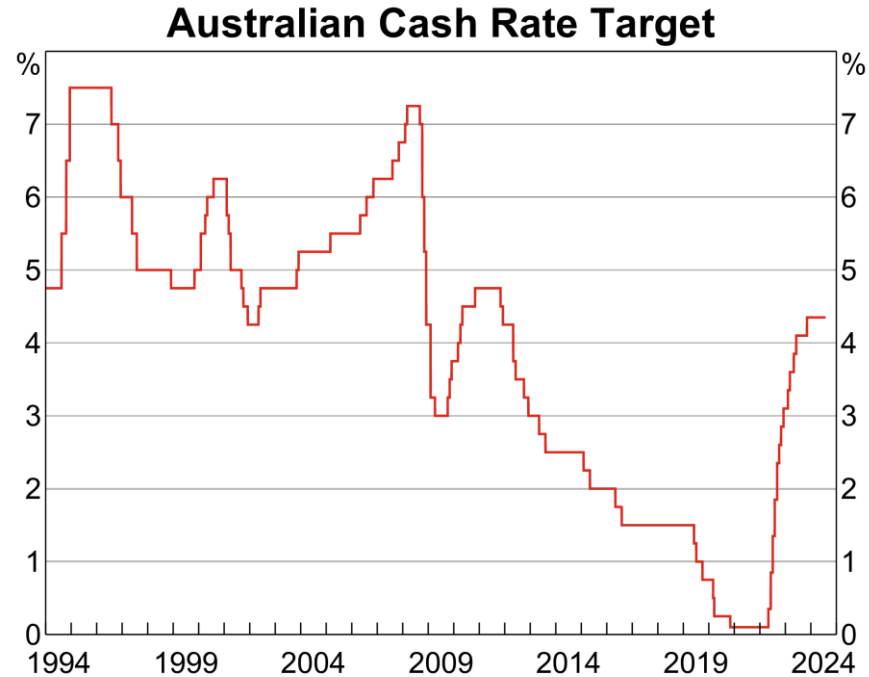


* Excludes interest charges prior to the September quarter 1998; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA.



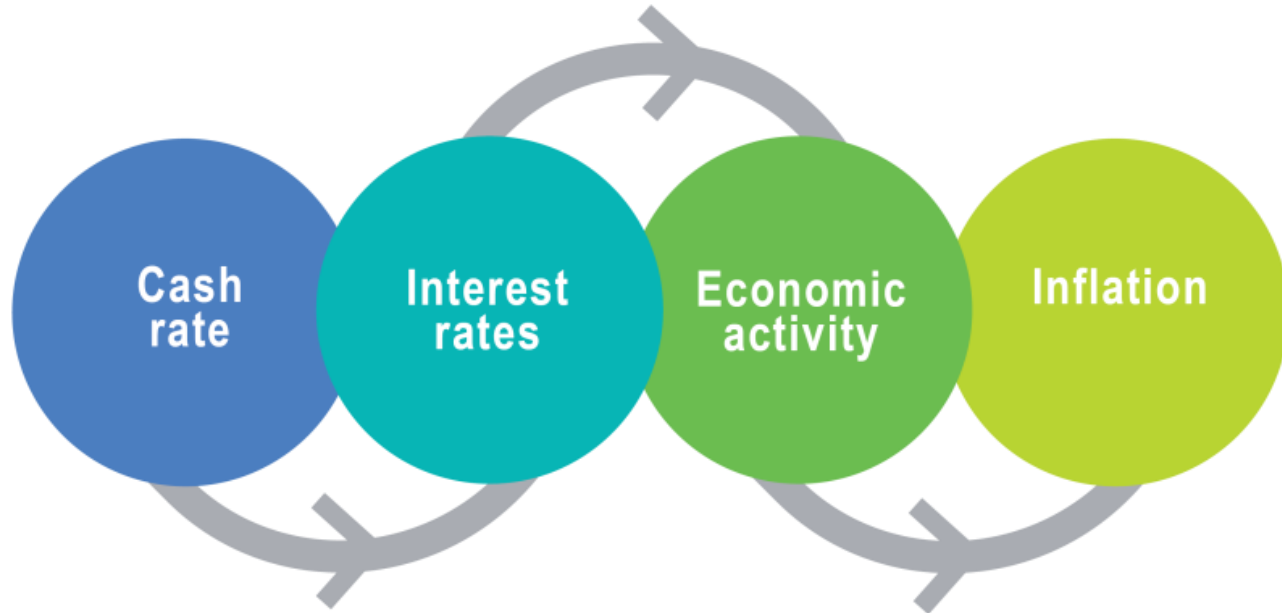
We've seen a big increase in interest rates



Source: RBA.



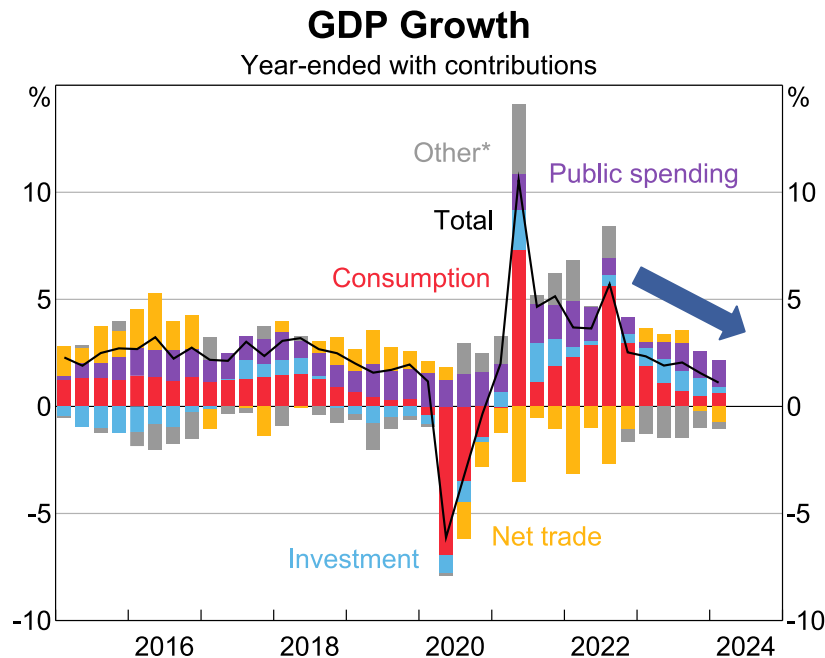
This aims to slow demand growth and bring inflation back to target





Economic growth

Australia's GDP growth has slowed



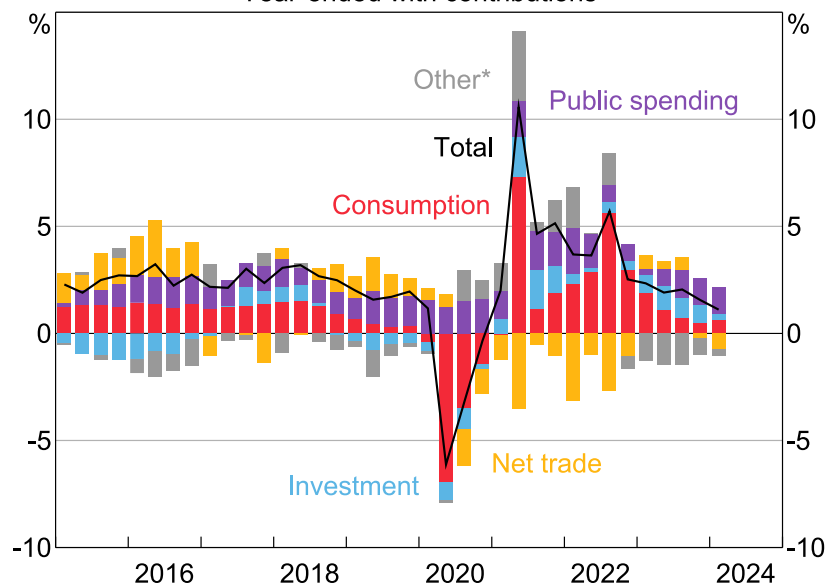
* Includes statistical discrepancy, ownership transfer costs and inventories.

Sources: ABS; RBA.

$$AD = C + I + G + X - M$$

GDP Growth

Year-ended with contributions



* Includes statistical discrepancy, ownership transfer costs and inventories.

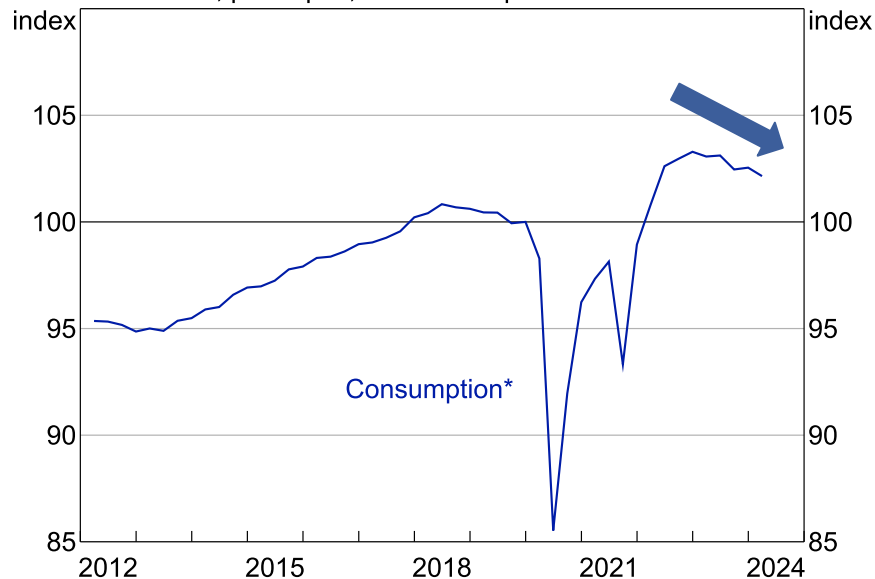
Sources: ABS; RBA.



Households are buying less...

Household Income and Consumption

Real, per capita, December quarter 2019 = 100



* Population denominator adjusted to exclude international students.

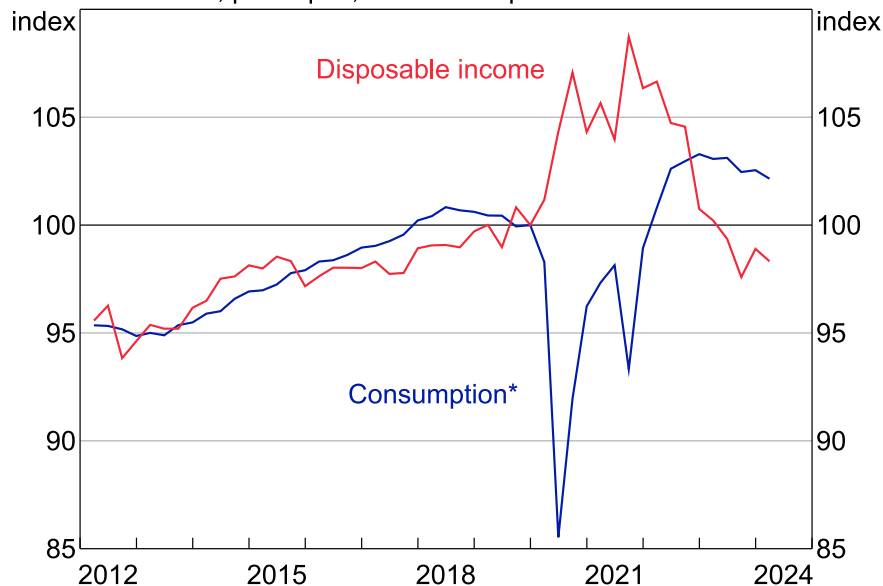
Sources: ABS; Department of Home Affairs; RBA.



... because real disposable incomes have declined

Household Income and Consumption

Real, per capita, December quarter 2019 = 100

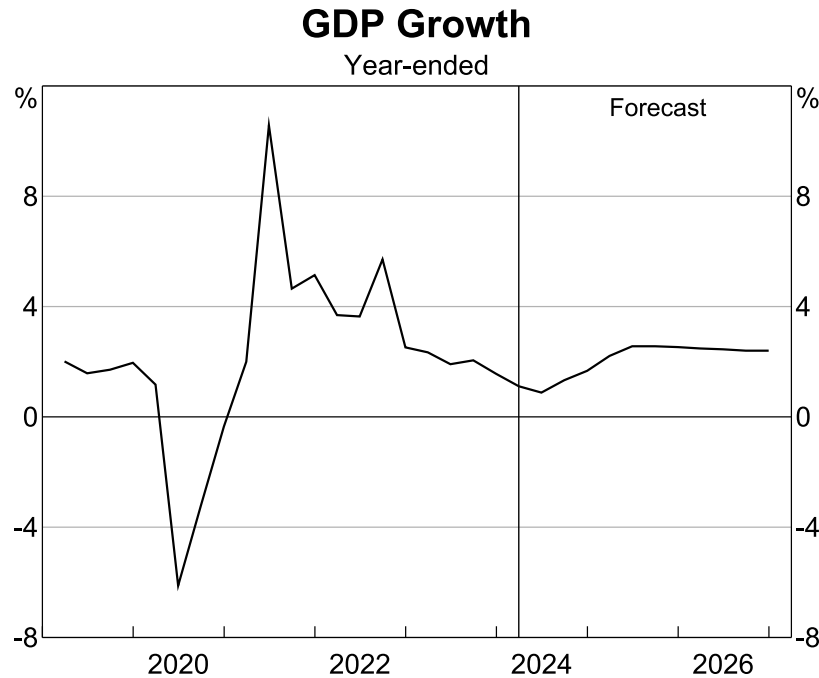


* Population denominator adjusted to exclude international students.

Sources: ABS; Department of Home Affairs; RBA.

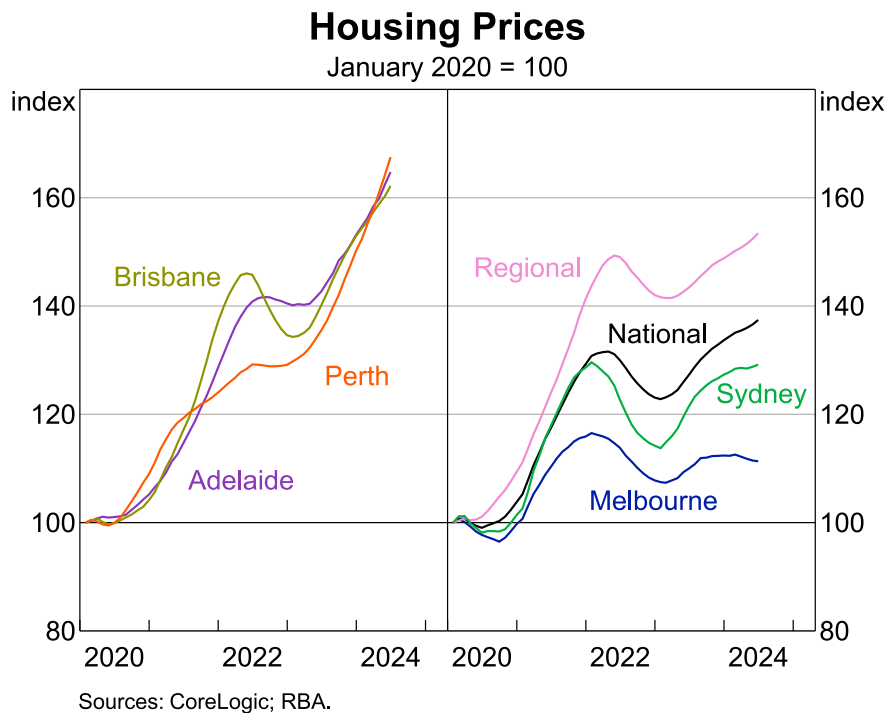


We expect demand growth to pick up over the next year

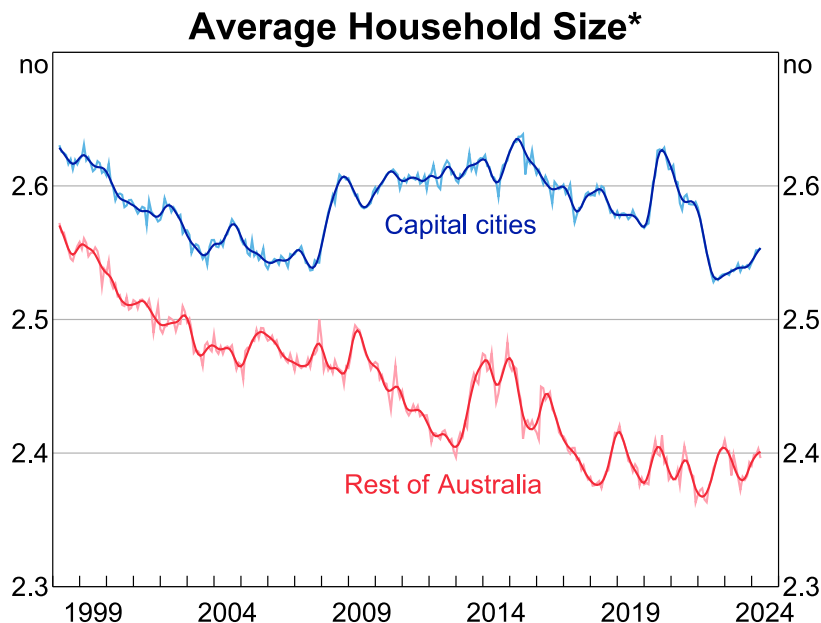


Sources: ABS; RBA.

Housing prices have risen



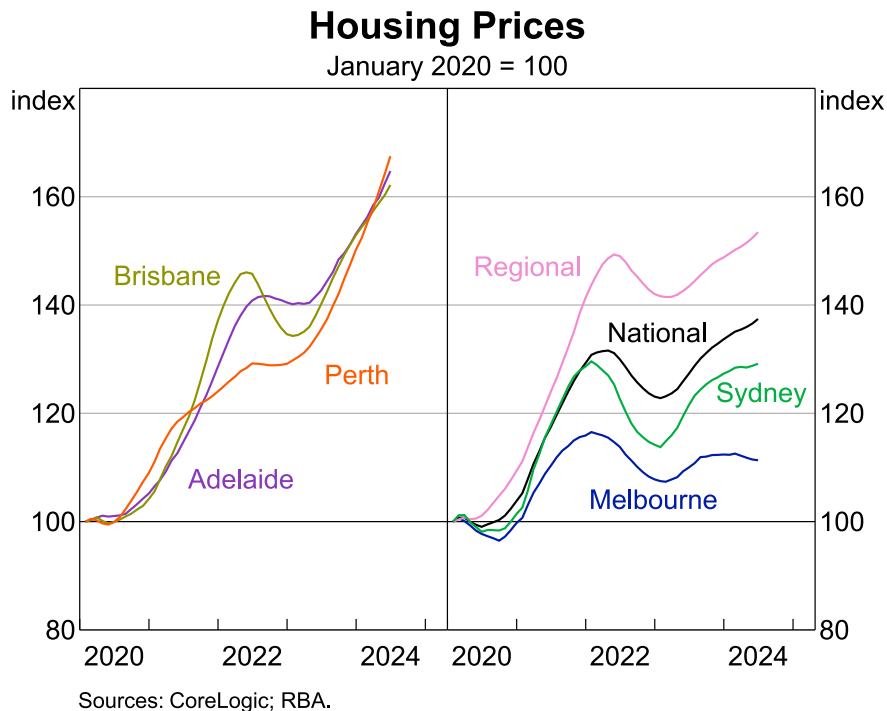
Demand for housing has been strong



* Smoothed lines are 13-period Henderson trends.
Sources: ABS; RBA.

↑ Population
↓ Average household size

Supply of new housing has been weak



↑ Costs of building a home

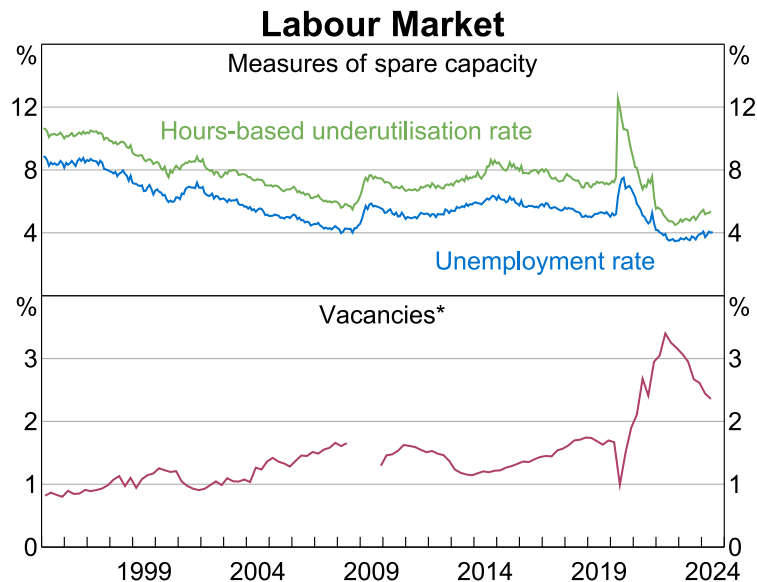
↓ Available workers



Labour Market



Labour market conditions have eased gradually...

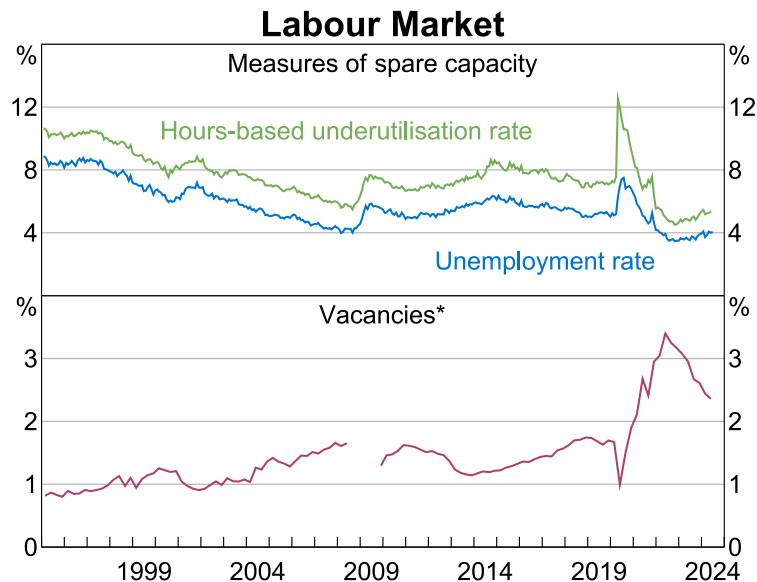


* As a share of the labour force; the ABS vacancies survey was suspended between May 2008 and November 2009.

Sources: ABS; RBA.



... but overall the labour market remains tight

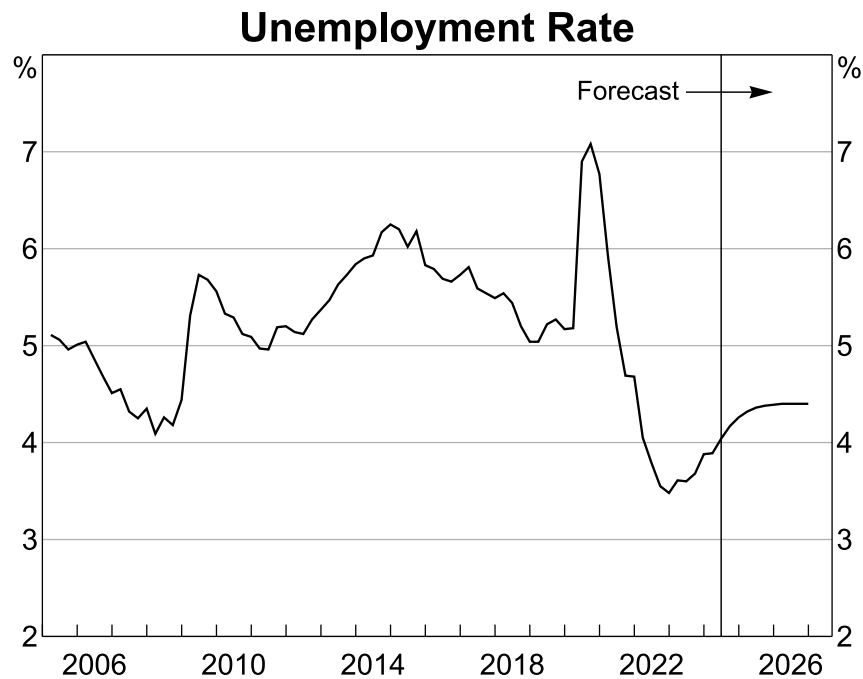


* As a share of the labour force; the ABS vacancies survey was suspended between May 2008 and November 2009.

Sources: ABS; RBA.

Full employment is the maximum level of employment that is also consistent with low and stable inflation

The RBA expects a further easing in the labour market



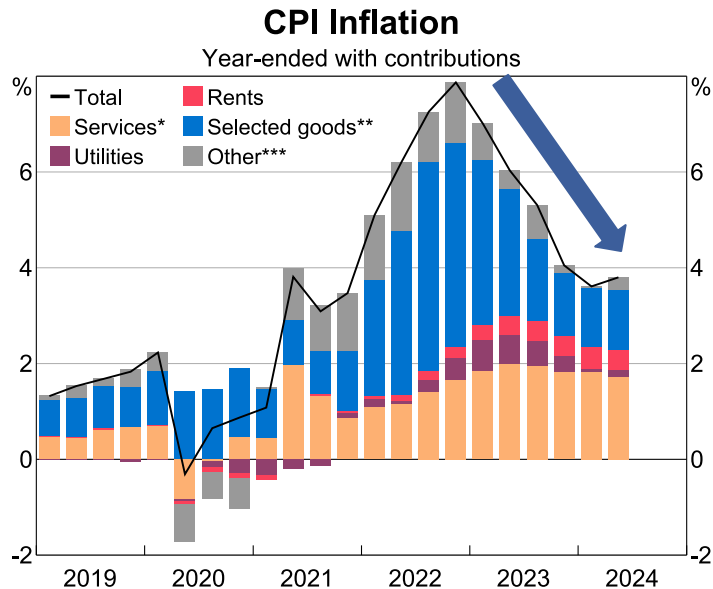
Sources: ABS; RBA.



Inflation



Inflation has come down a long way since 2022



* Includes market services and administered items; excludes utilities, rents and holiday travel & accommodation.

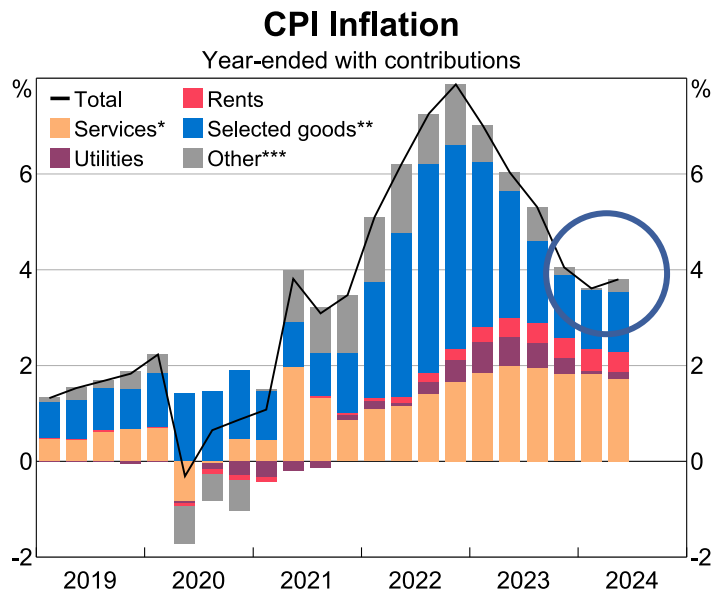
** Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

*** Primarily holiday travel & accommodation and fuel.

Sources: ABS; RBA.



But it is still too high and is coming down slower than expected



* Includes market services and administered items; excludes utilities, rents and holiday travel & accommodation.

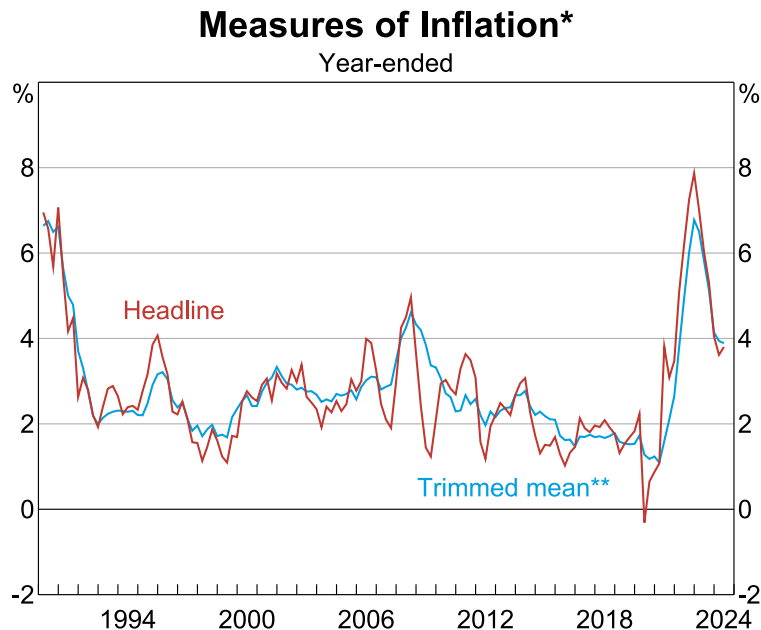
** Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

*** Primarily holiday travel & accommodation and fuel.

Sources: ABS; RBA.



Headline inflation was 3.8 per cent higher over the year



Headline inflation captures all prices in the CPI basket

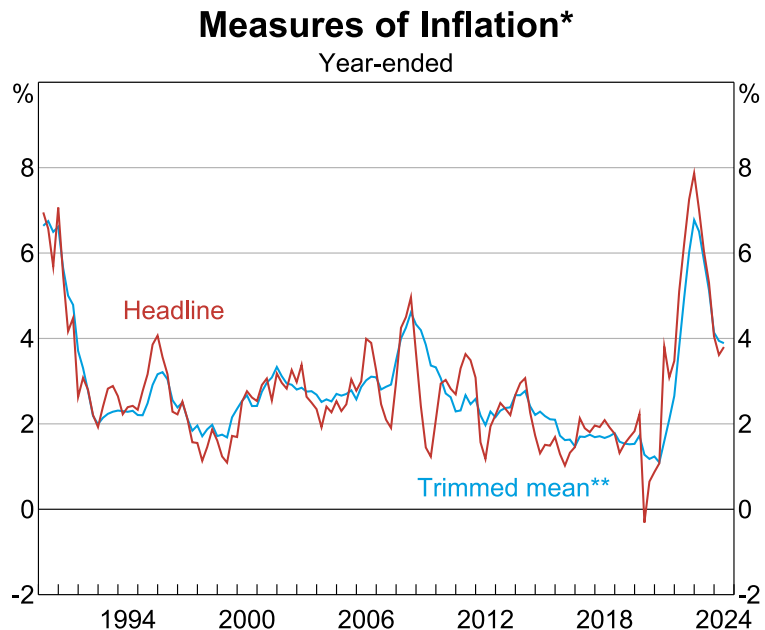
* Excludes interest charges prior to the September quarter of 1998; adjusted for the tax changes of 1999–2000.

** Excludes deposit & loan facilities prior to the September quarter of 2011.

Sources: ABS; RBA.



Trimmed mean inflation was 3.9 per cent over the year



Underlying inflation removes the effect of irregular or temporary price changes

* Excludes interest charges prior to the September quarter of 1998; adjusted for the tax changes of 1999–2000.

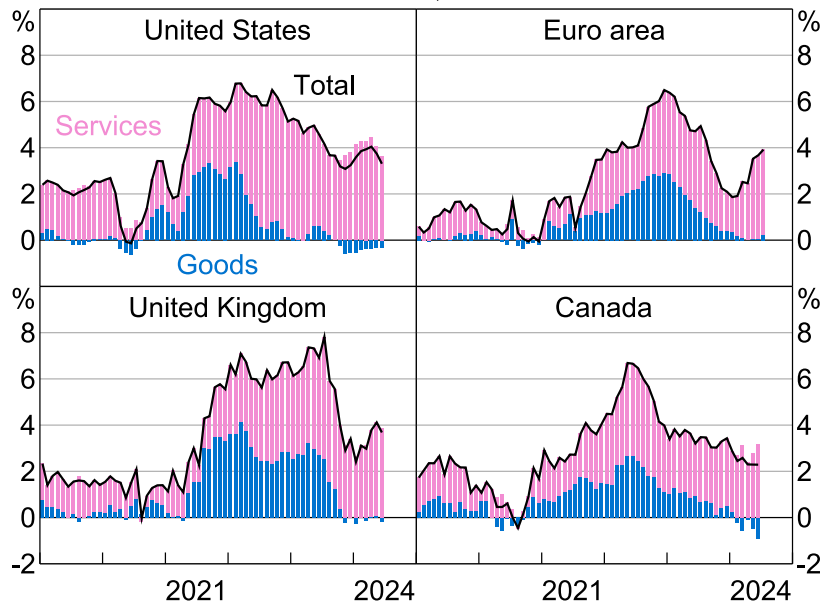
** Excludes deposit & loan facilities prior to the September quarter of 2011.

Sources: ABS; RBA.

Some other economies are also seeing slow progress in lowering inflation

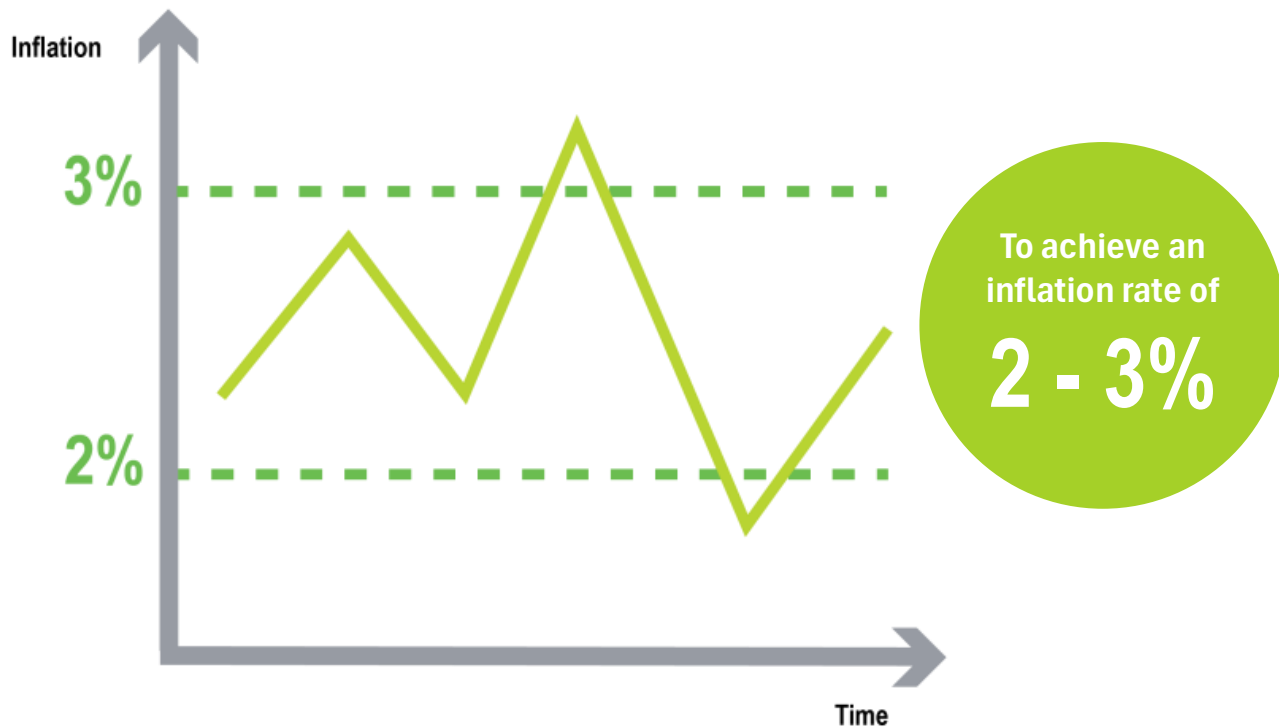
Core Consumer Price Inflation

Six-month annualised, with contributions



Sources: BLS; Eurostat; LSEG; ONS; RBA; Statistics Canada.

Measures of inflation and monetary policy

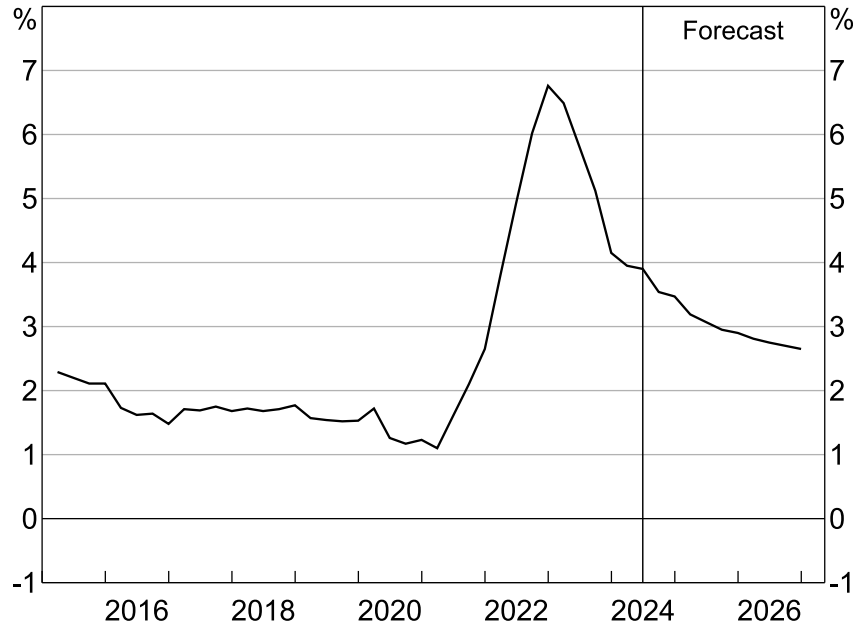




We now expect inflation to take slightly longer to fall within the target range

Trimmed Mean Inflation

Year-ended

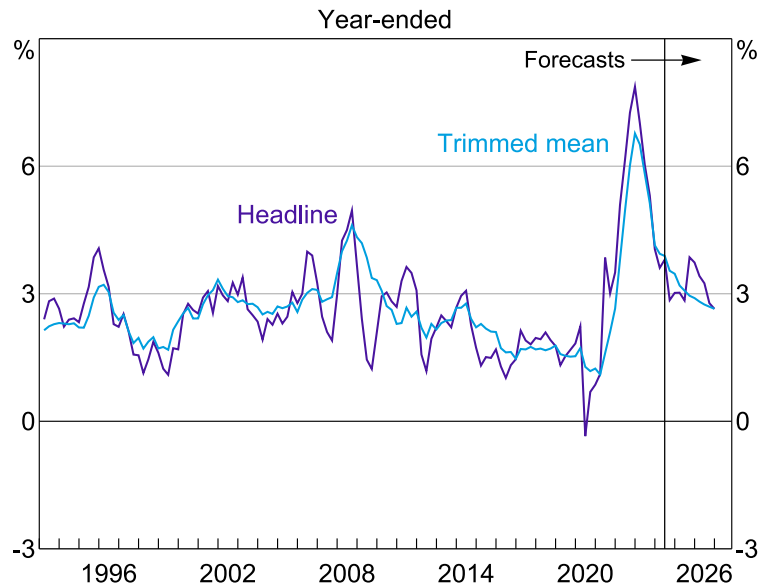


Sources: ABS; RBA.



Headline and underlying inflation are forecast to follow different paths over the next couple of years

Headline and Trimmed Mean Inflation*



* Excludes interest charges prior to the September quarter of 1998; adjusted for tax changes of 1999–2000.

Sources: ABS; RBA.

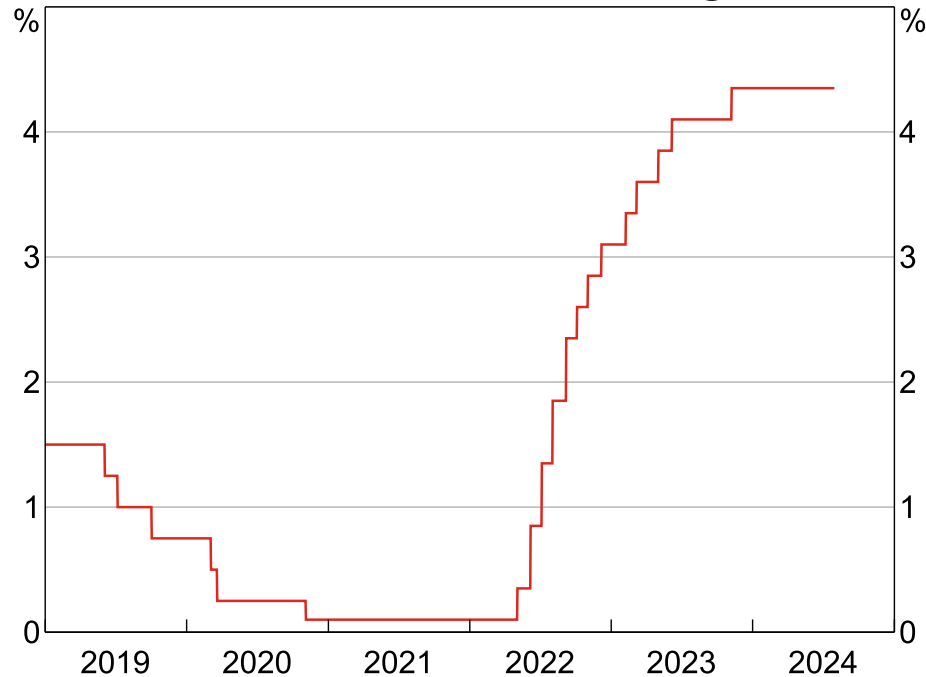


Monetary policy



The Reserve Bank Board left the cash rate target unchanged at 4.35 per cent in August

Australian Cash Rate Target



Source: RBA.

Balances the risk that inflation could be higher for longer with the possibility that labour market conditions could ease more quickly