Monetary Policy and Current Economic Conditions
Part 1: Monetary Policy
How Does the Reserve Bank Achieve Its Objectives?
What Is the Role of the Reserve Bank Board?

- Economic prosperity and welfare
- Stability of the currency
- Full employment
Monetary Policy – Inflation Target

To achieve an inflation rate of 2–3% on average, over time.
Monetary Policy – Decision Process
Monetary Policy – Decision Process

- Rising unemployment, falling inflation
- Falling unemployment, rising inflation

GDP vs. Time
Potential vs. Actual
Monetary Policy – Transmission Mechanism

- Cash rate
- Interest rates
- Economic activity
- Inflation
Monetary Policy – Implementation

The Australian Cash Market

1. Price

RBA lending rate
Cash Rate Target
RBA deposit rate

3. Demand

4. Supply

5. Policy interest rate corridor

2. Quantity
Part 2: Current Economic Conditions
Terms of Trade
2016/17 average = 100, log scale

Sources: ABS; RBA
Australia’s Trading Partner Growth

Year-average

Sources: ABS; CEIC Data; RBA; Refinitiv
Labour Markets – Advanced Economies

Unemployment rate

[Graph showing unemployment rates for Euro area, US, and Japan from 2007 to 2019.]

Wages growth*

Year-ended

[Graph showing wages growth rates for the US, Euro area, and Japan from 2007 to 2019.]

* Average hourly earnings for the US; compensation per employee for the euro area; smoothed full-time base wages for Japan

Sources: ECB; Eurostat; RBA; Refinitiv
China – Contributions to GDP Growth

Sources: CEIC Data; RBA
Exports by Destination

Annual, share of total values

Source: ABS
GDP Growth

Year-ended

Quarterly

Source: ABS
Sources: Bloomberg; RBA; WM/Reuters
Data from October onwards are expectations derived from interbank cash rate futures

Sources: ASX; Bloomberg
State Final Demand
Year-ended growth

 WA
 NSW and Vic
 Rest of Australia

Sources: ABS; RBA
Mining and Non-mining Activity

Year-ended growth, RBA estimates

Net of mining-related imports; components are contributions to year-ended mining activity growth; contribution from changes in inventories not shown

Sources: ABS; RBA
Contributions to GDP Growth

Year-ended

Sources: ABS; RBA
Private Dwelling Investment*

Chain volume, quarterly

* Reference year is 2016/17
Source: ABS
Housing Prices and Household Debt*

Ratio to household disposable income

Housing prices

Household debt

* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises

Sources: ABS; CoreLogic; RBA
Household Income and Consumption*

Real, year-ended growth

Consumption

Disposable income

Saving ratio

Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA
Labour Market

*Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours

Source: ABS
Wage Price Index Growth*

* Total pay excluding bonuses

Source: ABS
Consumer Price Inflation*

* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA
Trimmed Mean Inflation Forecast*

Year-ended

Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA
Confidence intervals reflect RBA forecast errors since 1993
Sources: ABS; RBA
More Information

rba.gov.au/education

twitter.com/RBAInfo

facebook.com/ReserveBankAU/

youtube.com/user/RBAinfo