



RESERVE BANK OF AUSTRALIA

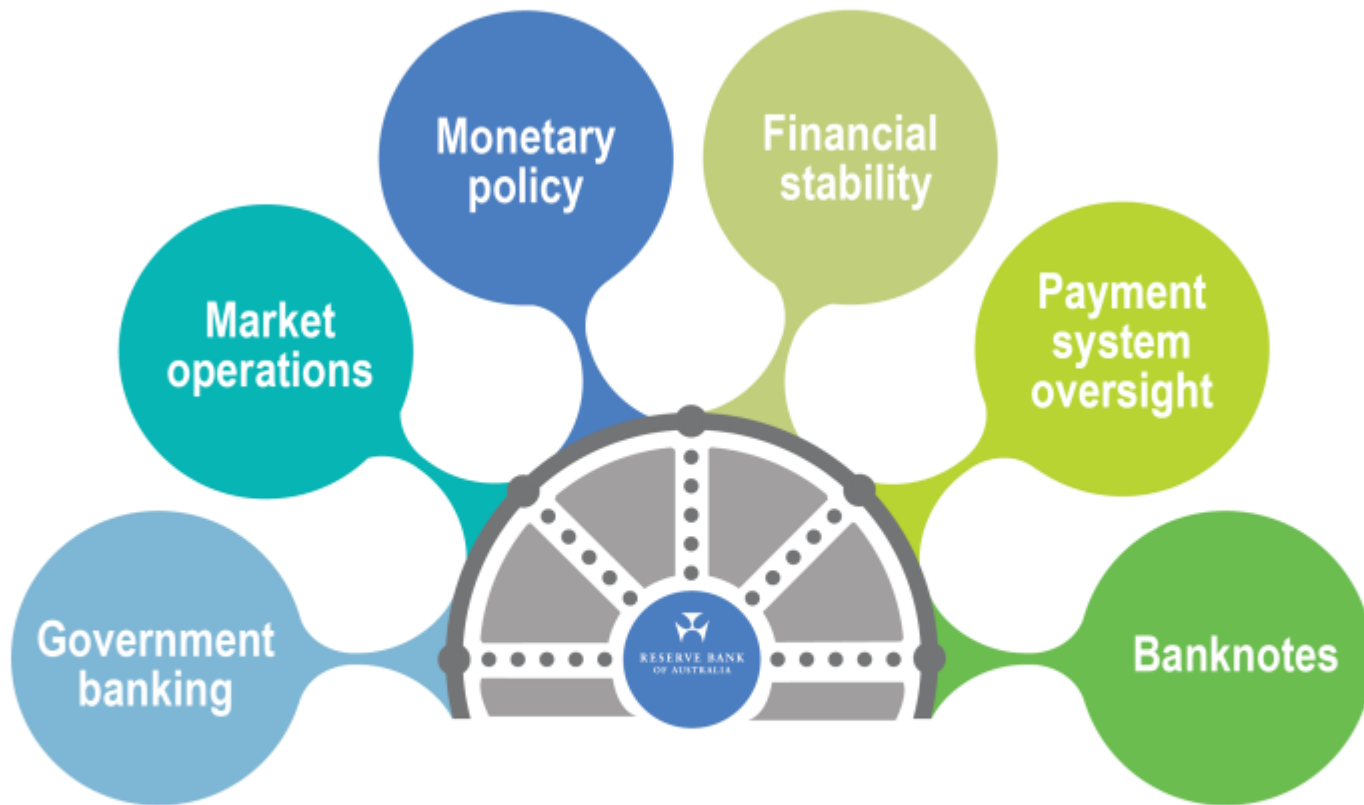
Monetary Policy and Current Economic Conditions

Student Webinar, 12 October 2020

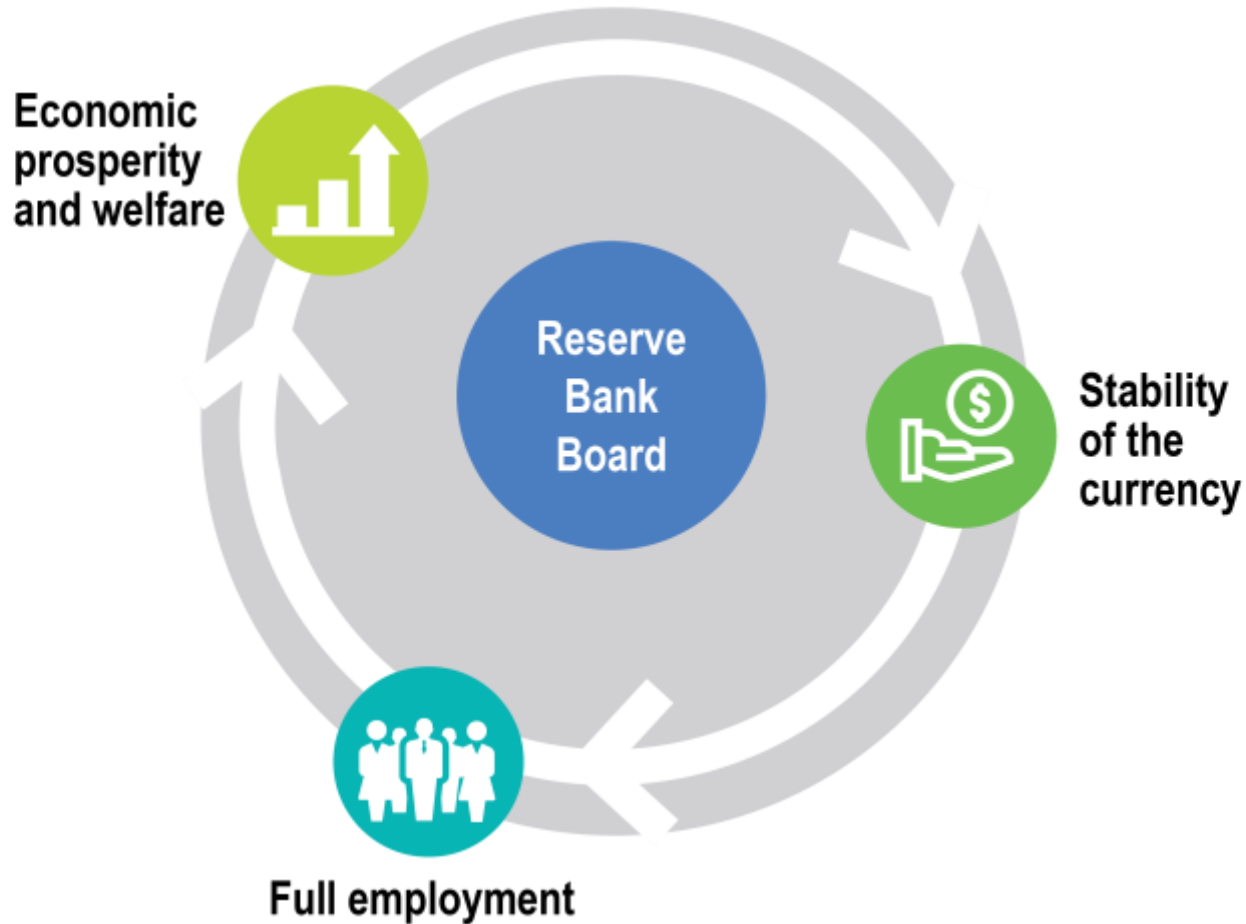
David Lancaster
Economic Analysis Department

Education

What does the RBA do?



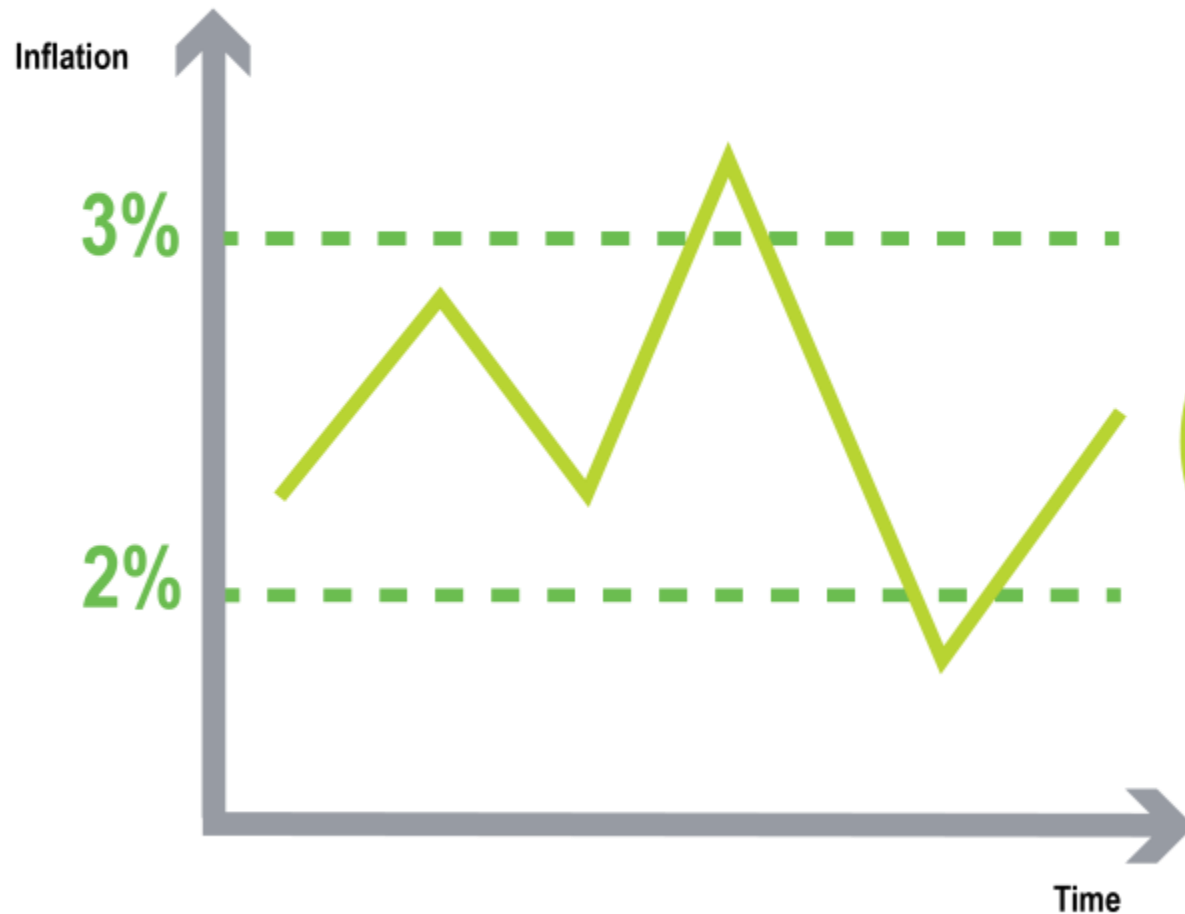
What is the role of the Reserve Bank Board?





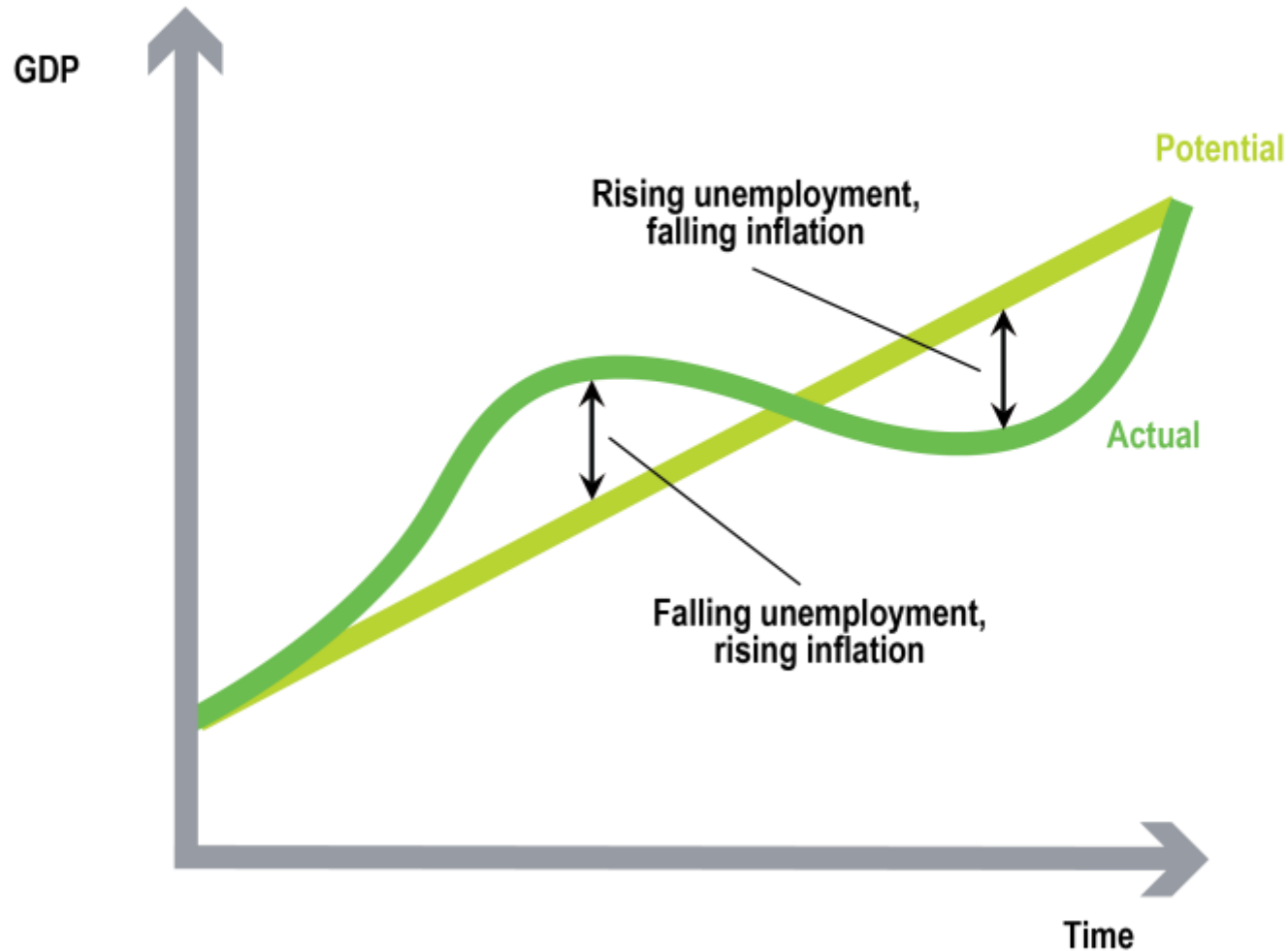
Part 1: Monetary Policy

Monetary Policy – Inflation Target

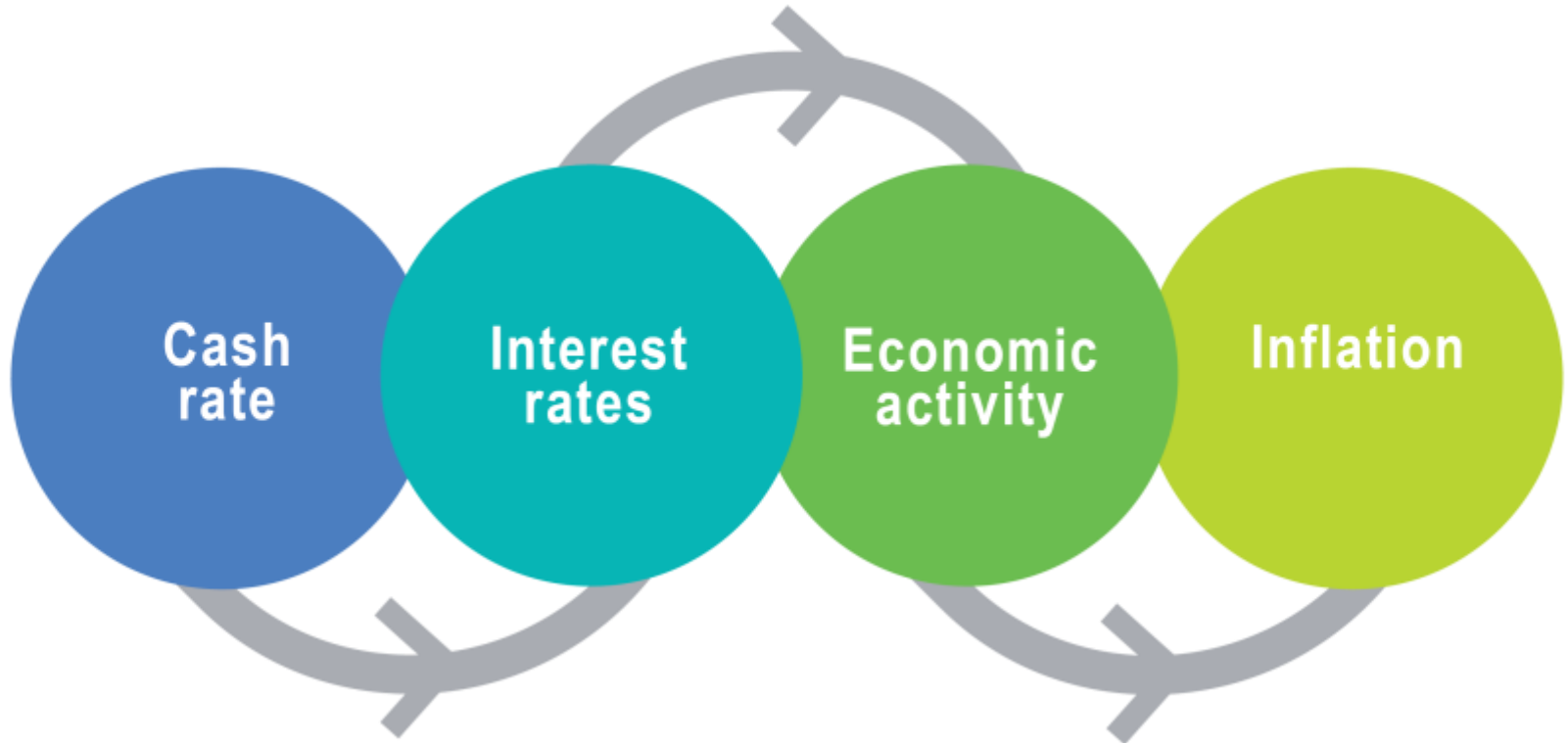


To achieve an inflation rate of **2–3%** on average, over time

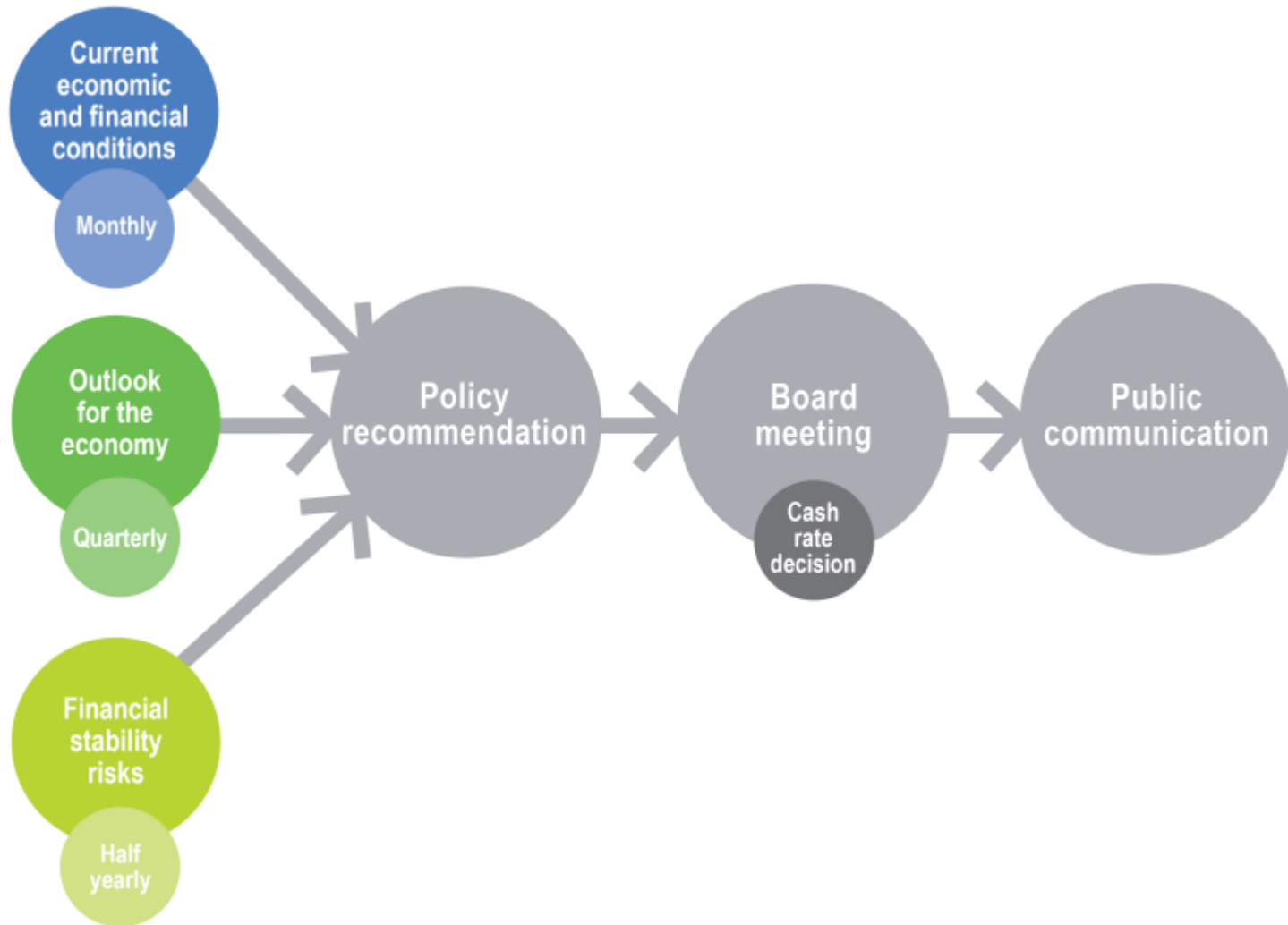
Monetary Policy – Decision Process



Monetary Policy – Transmission Mechanism



Monetary Policy – Decision Process

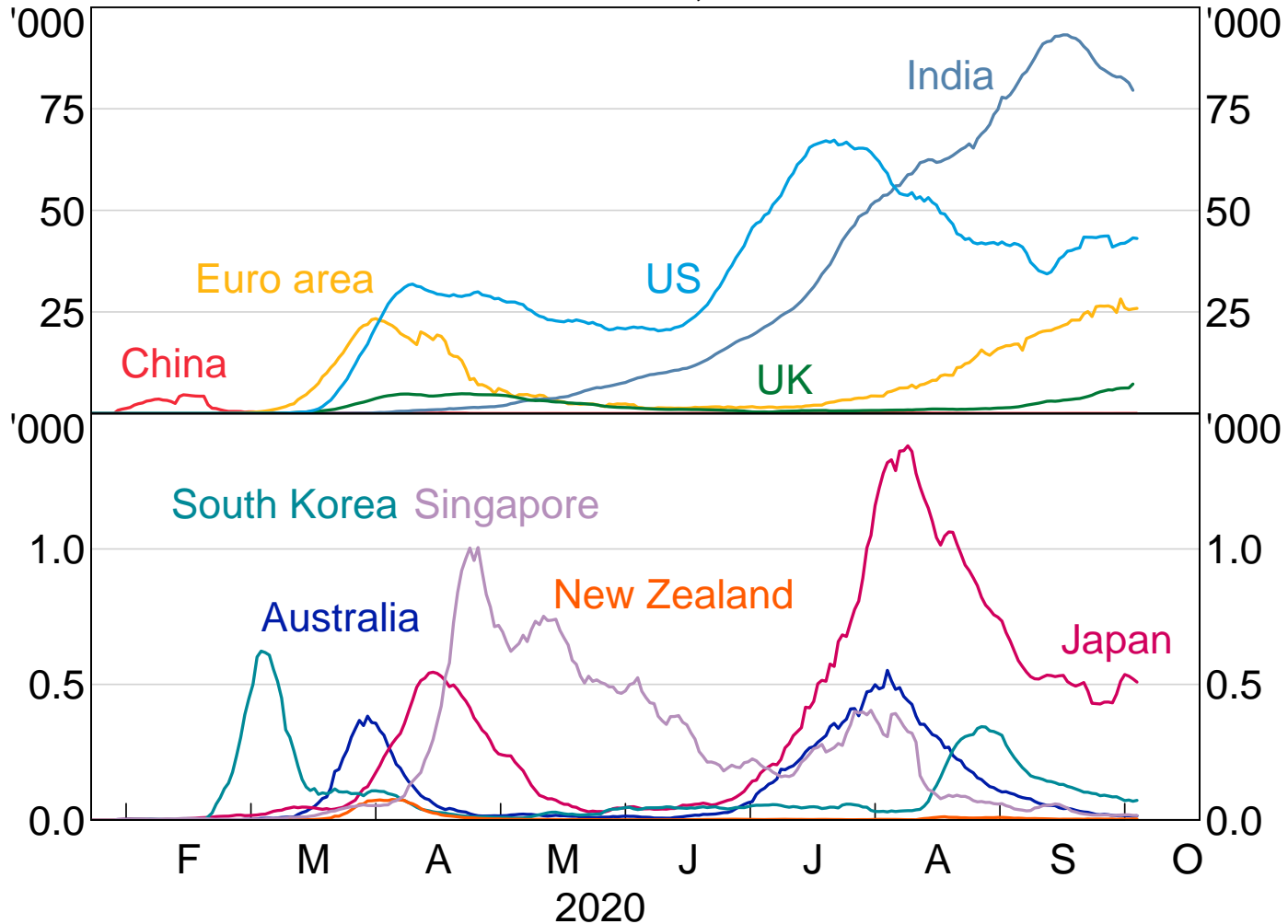




Part 2: Current Economic Conditions

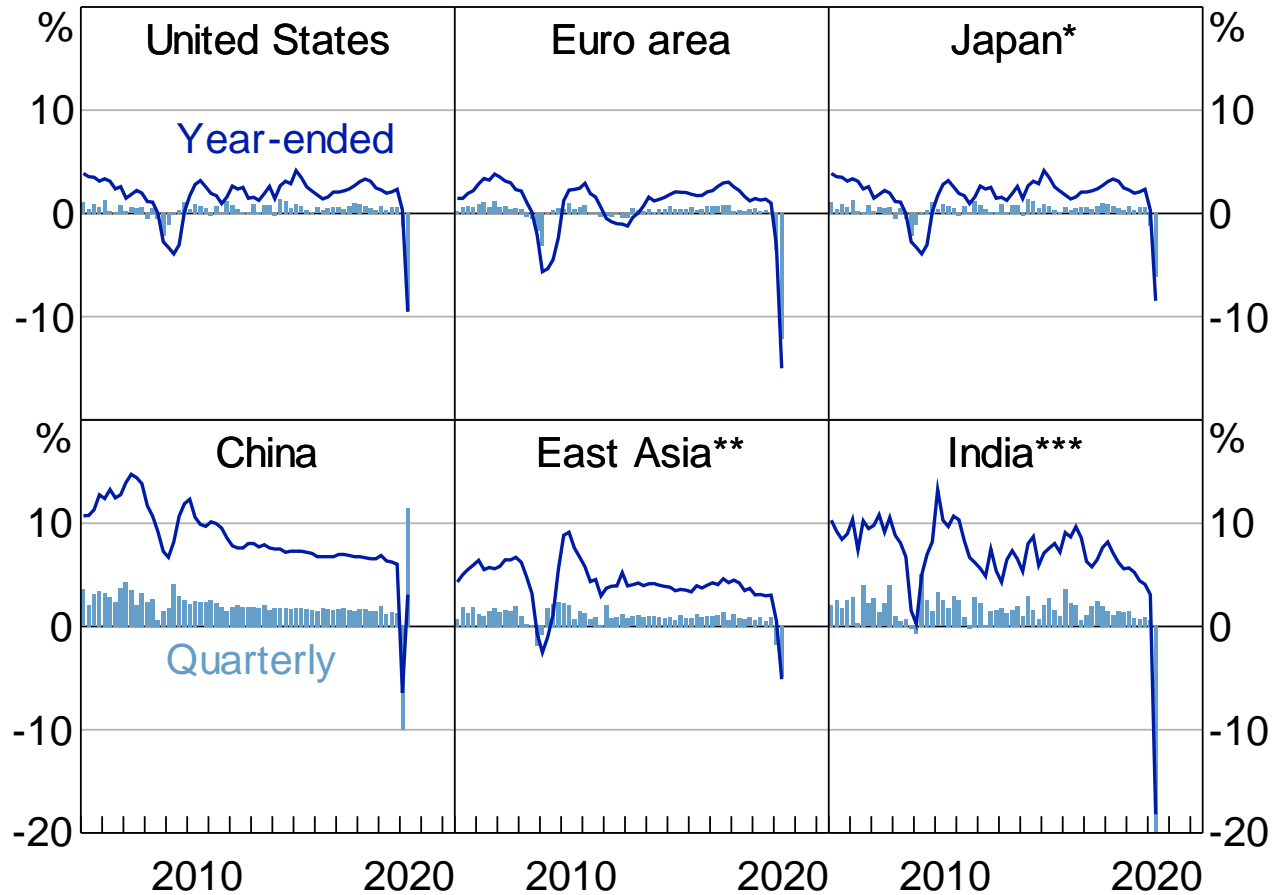
COVID-19 – New Cases*

Select Countries, smoothed



Source: WHO, Johns Hopkins CSSE

GDP Growth



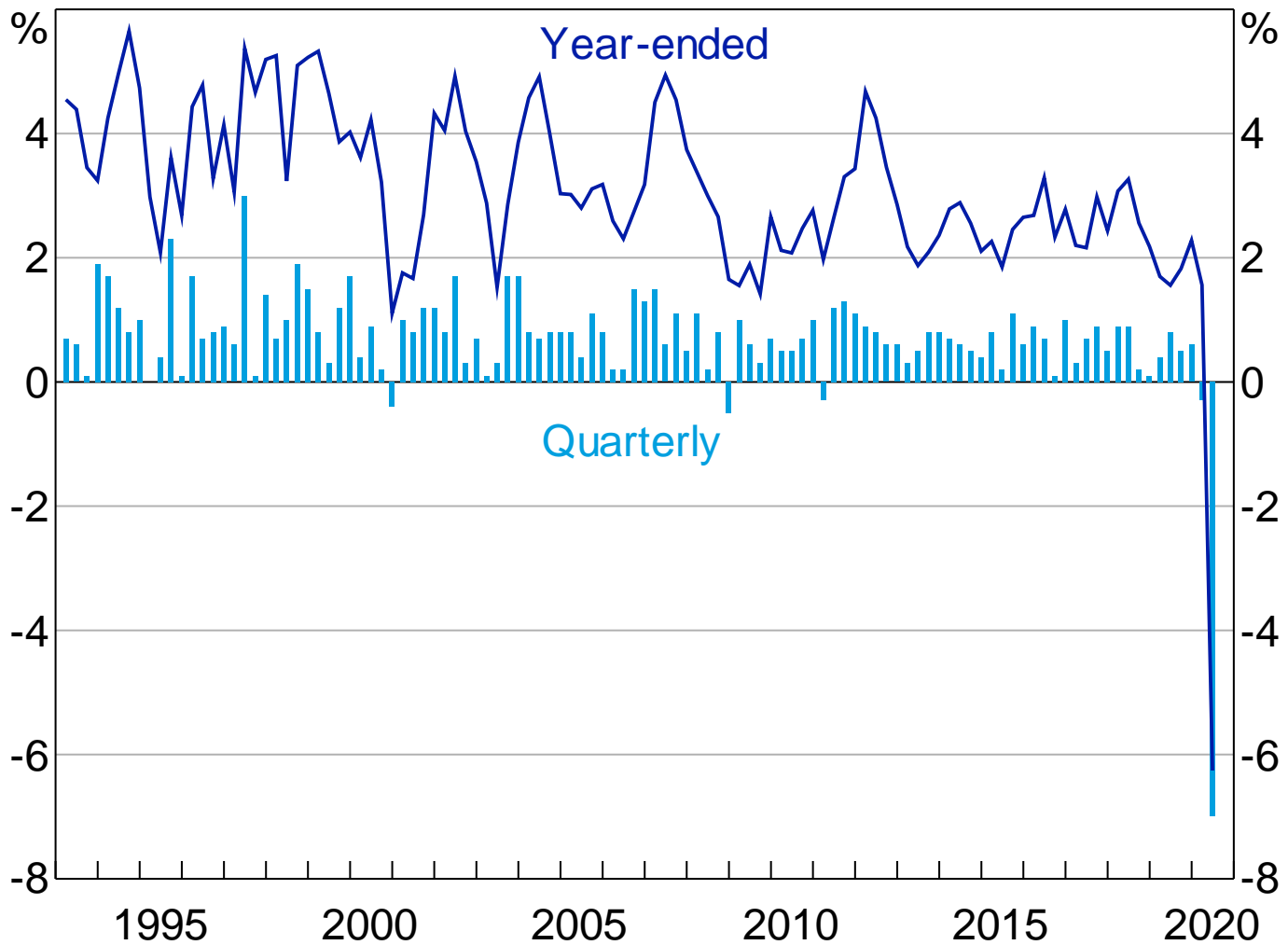
* Consensus Economics forecast for June quarter 2020

** Consensus Economics forecast for June quarter 2020 where official data unavailable; select countries excluding China and Japan

*** RBA forecast for June quarter 2020

Sources: Consensus Economics; RBA; Refinitiv

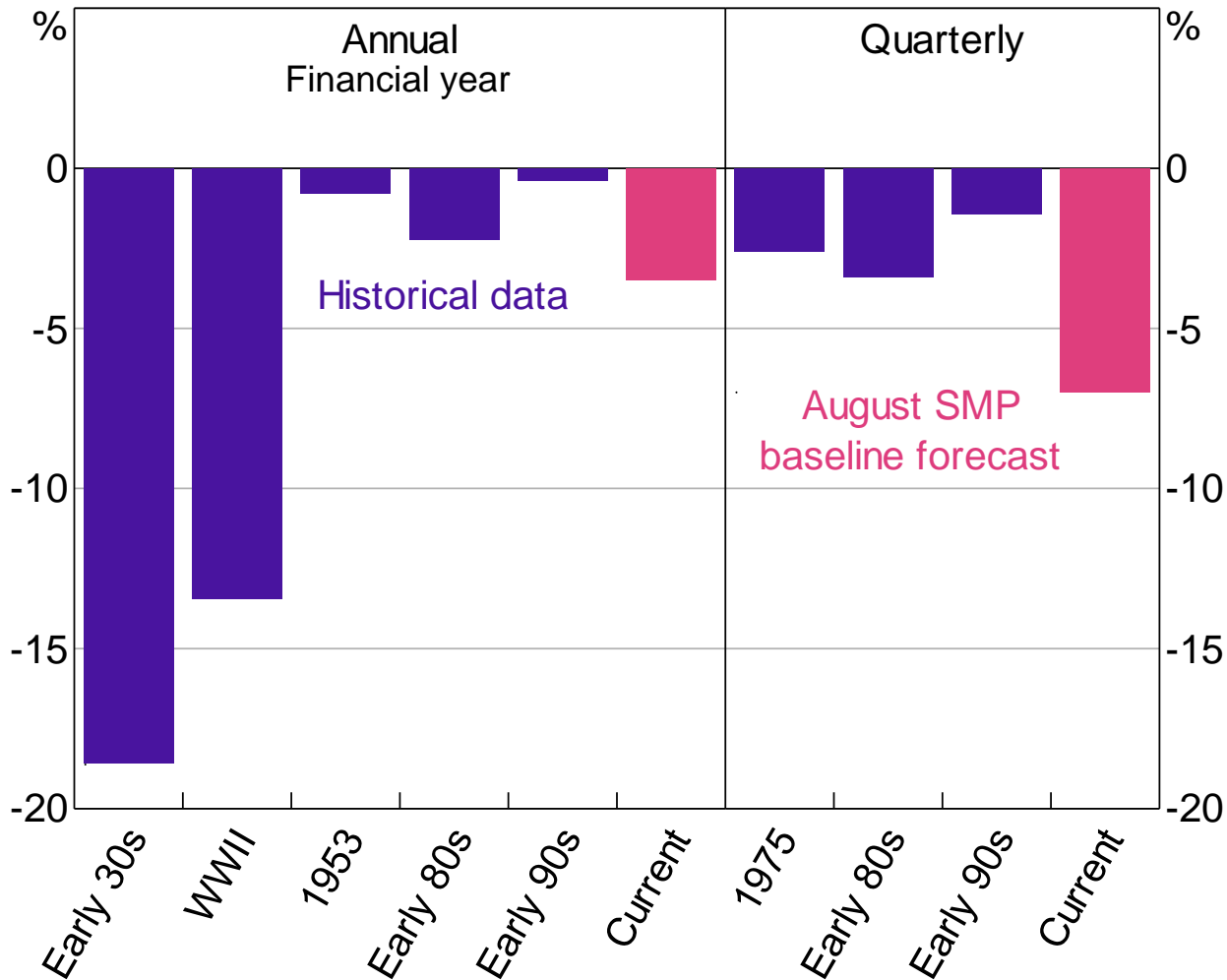
GDP Growth



Source: ABS

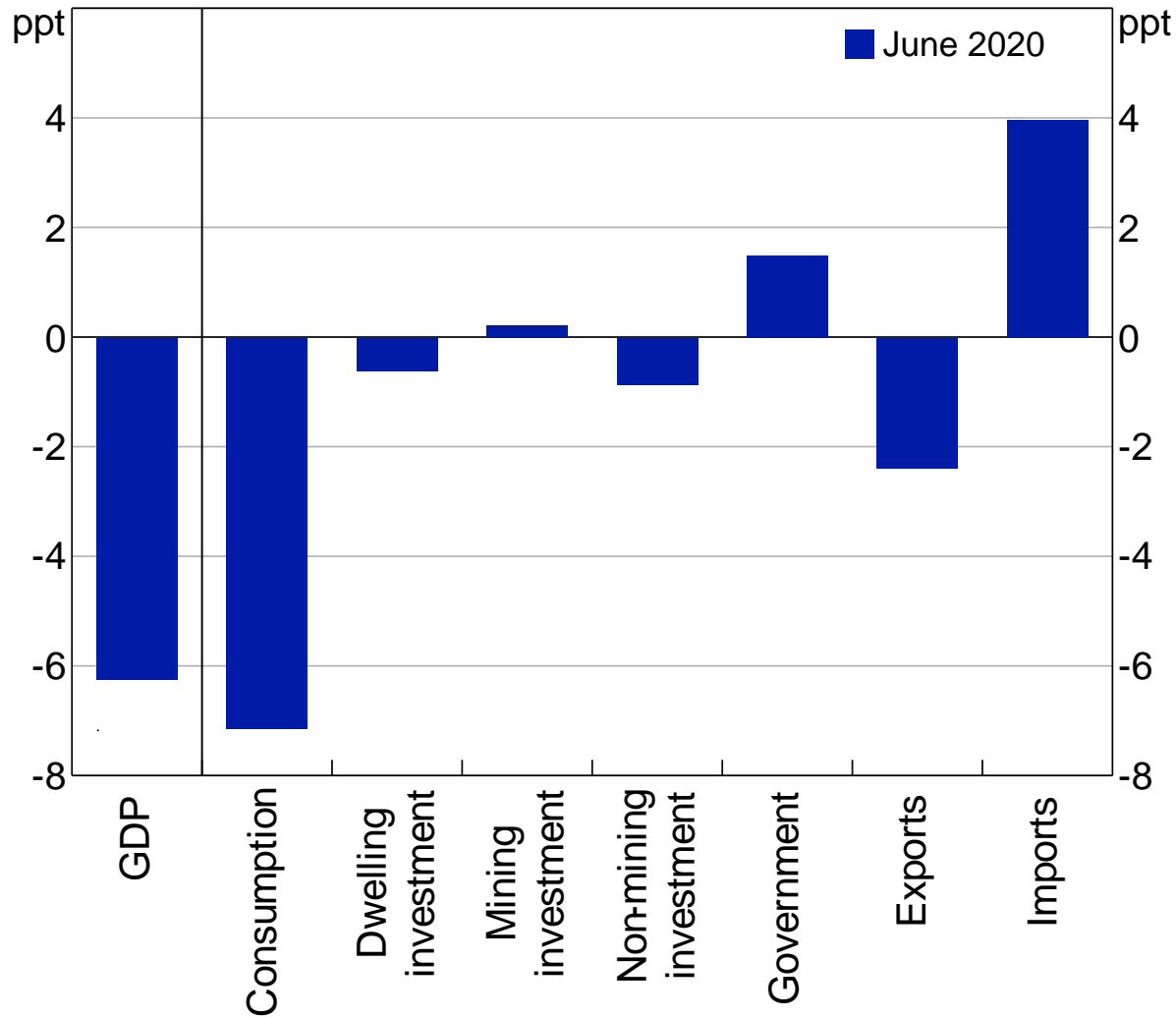
Peak-to-trough Declines in GDP

Major contractions, by frequency of data



Contributions to GDP Growth

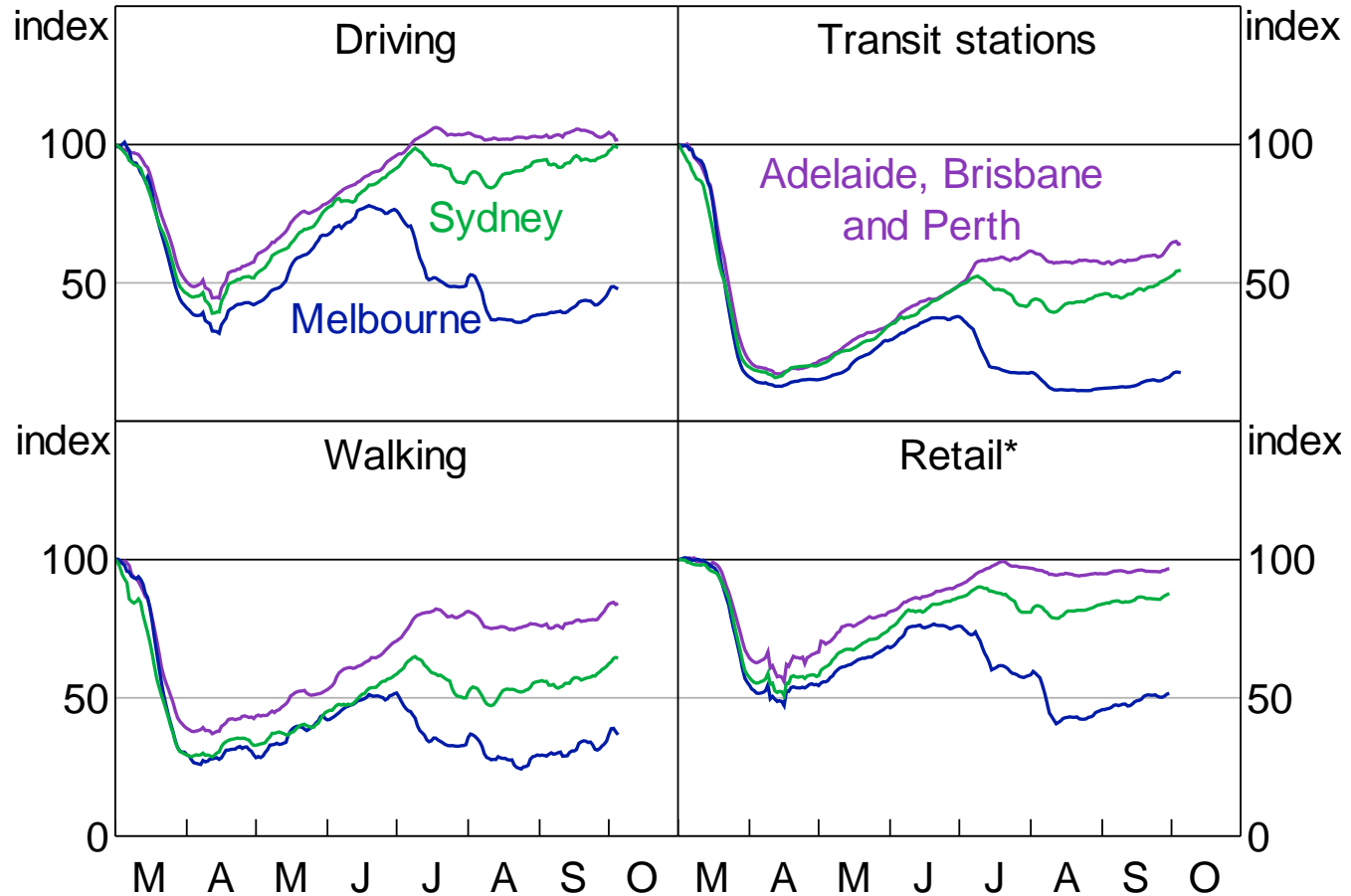
Year-ended



Sources: ABS; RBA

Mobility Indicators

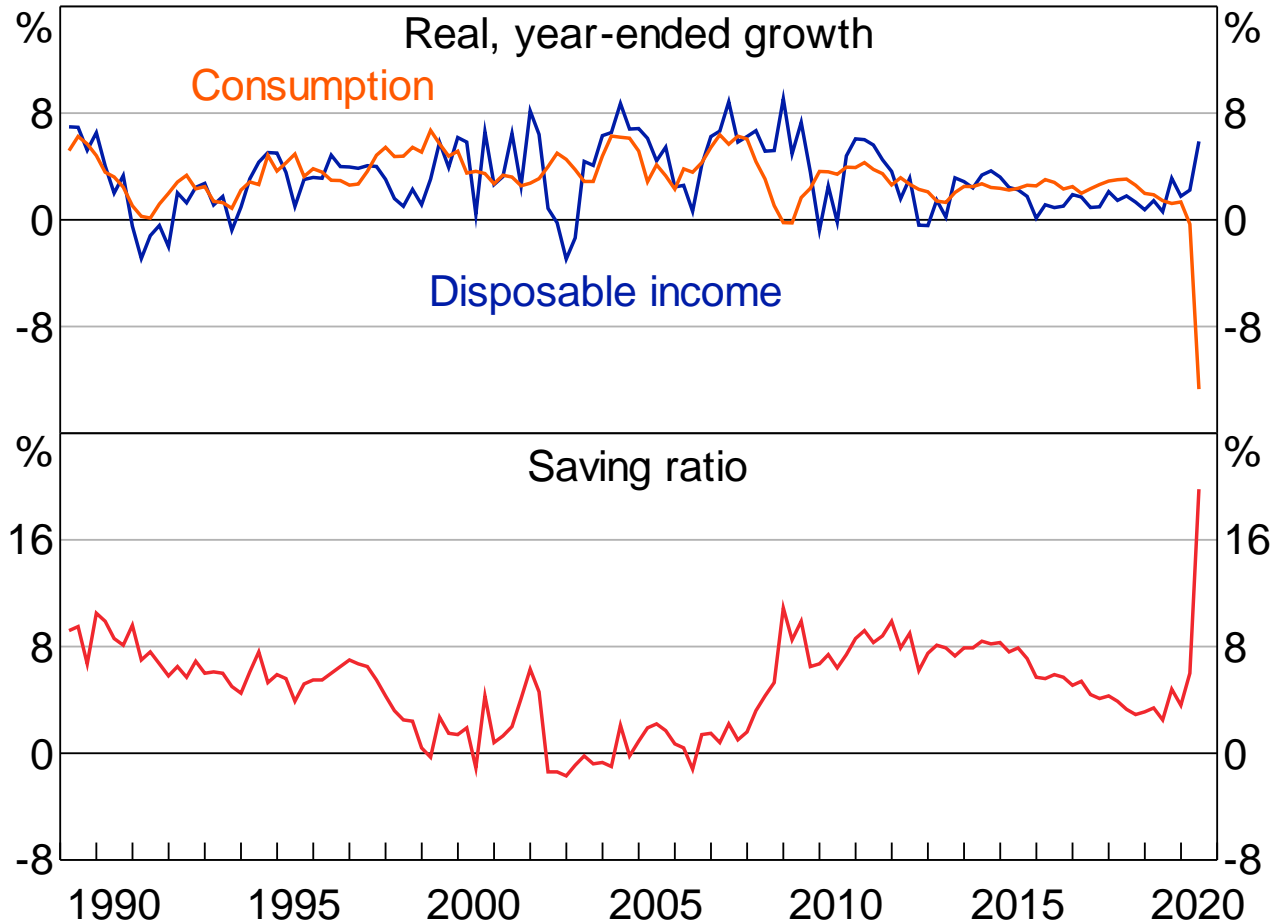
By mode of transport or location, 1 March 2020 = 100



* Retail data are state based

Sources: Apple; Google LLC (2020), 'Google COVID-19 Community Mobility Reports', available at <https://www.google.com/covid19/mobility/> viewed on 7 October 2020; RBA

Household Income and Consumption*

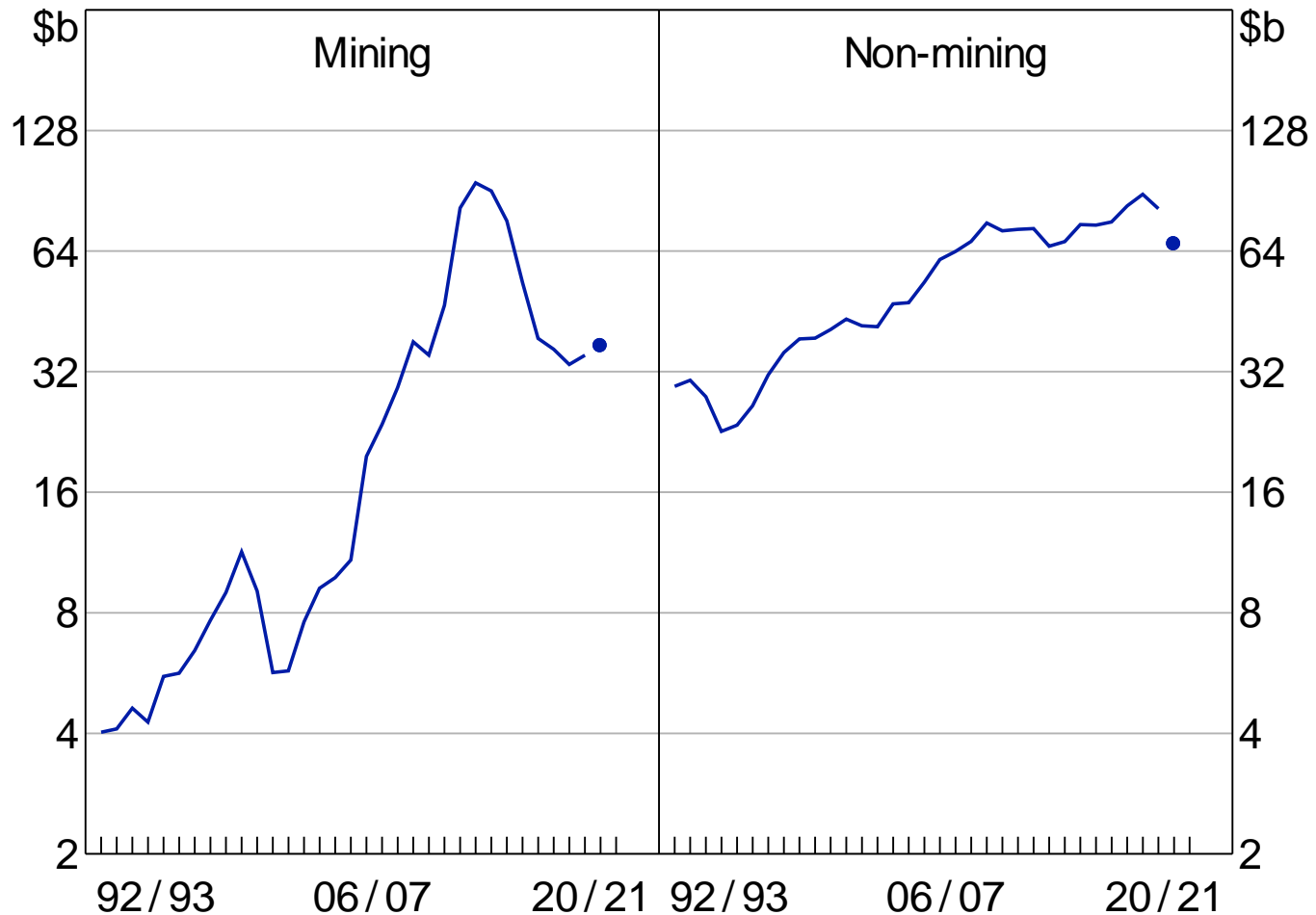


* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA

Capital Expenditure – Mining and Non-mining*

Nominal, log scale

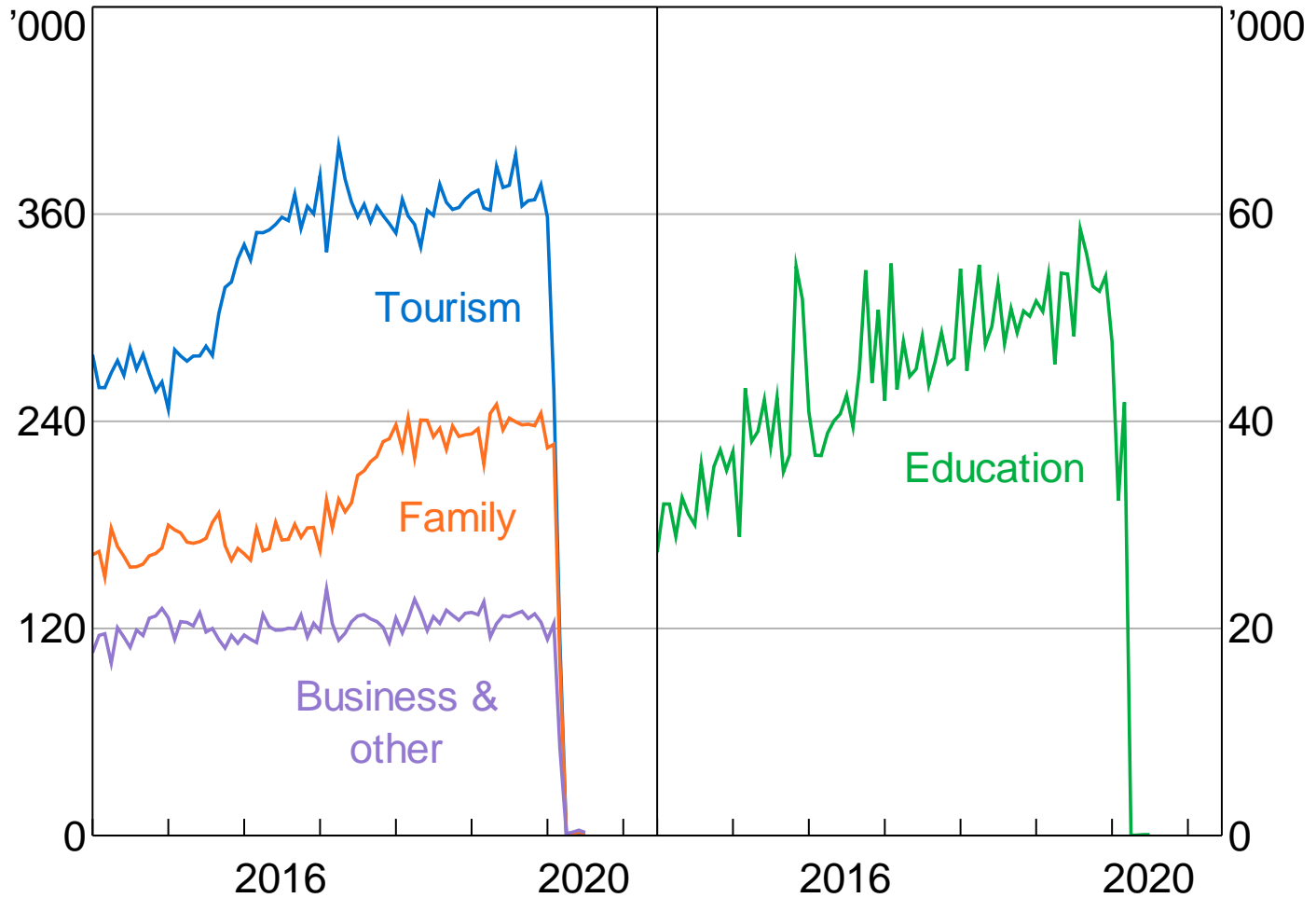


* Dots are firms' expectations for 2020/21; adjusted for historical differences between expected and realised spending

Sources: ABS; RBA

Short-term Visitor Arrivals*

By purpose of visit, seasonally adjusted

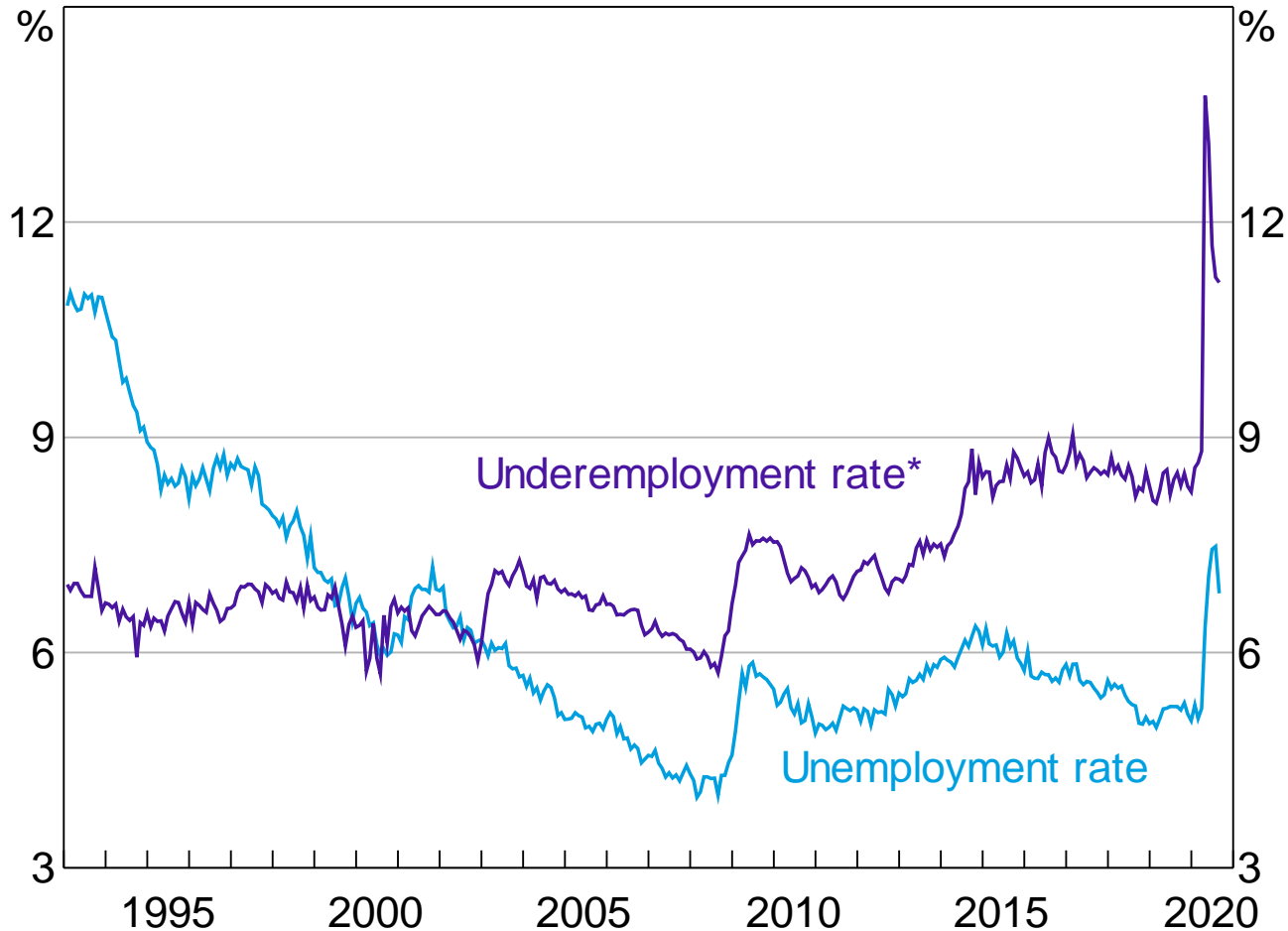


* Data available up to July 2020; data from April 2020 are in original terms

Sources: ABS; RBA

Labour Underutilisation Rates

Heads-based

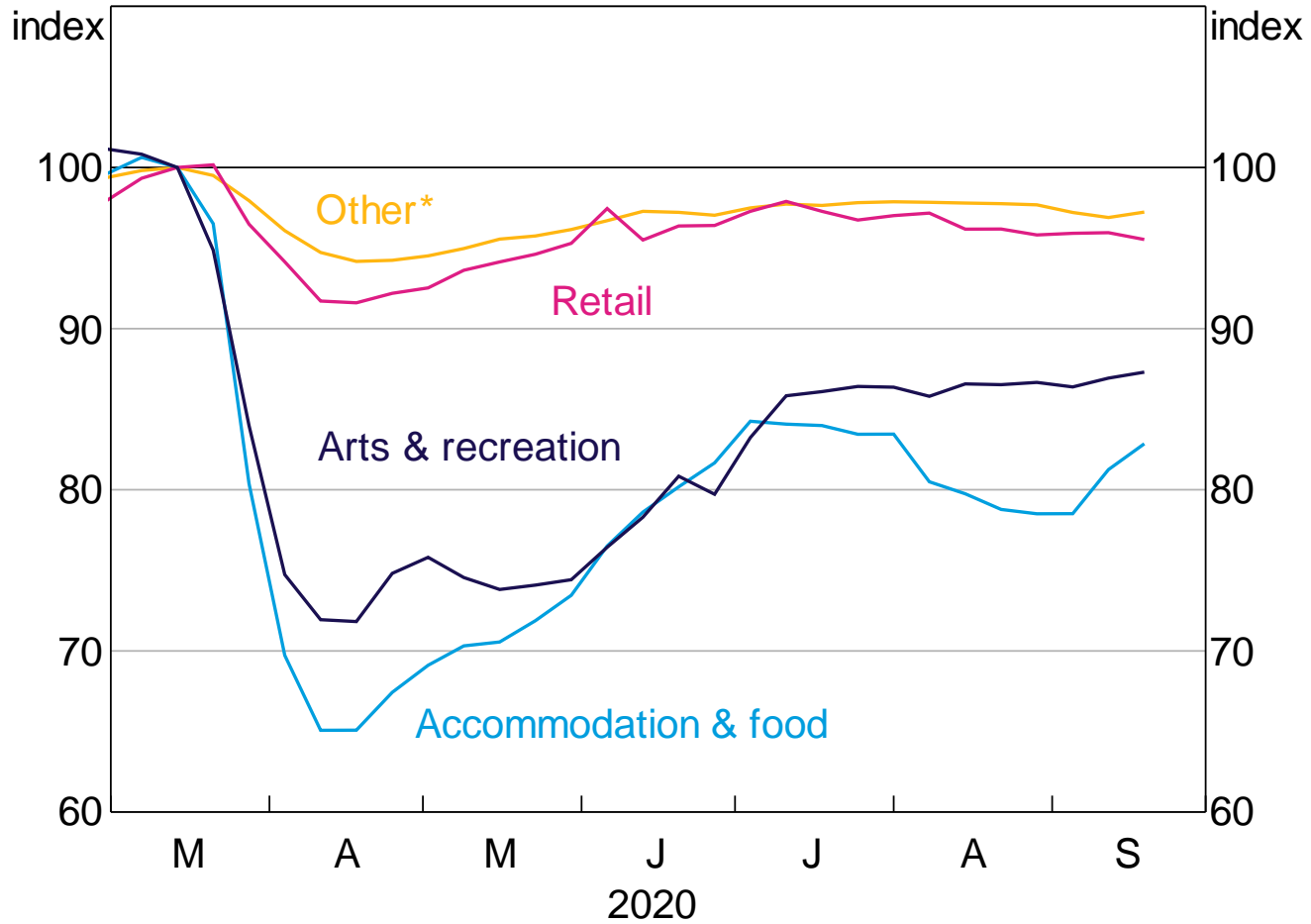


* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours

Source: ABS

Payroll Jobs by Industry

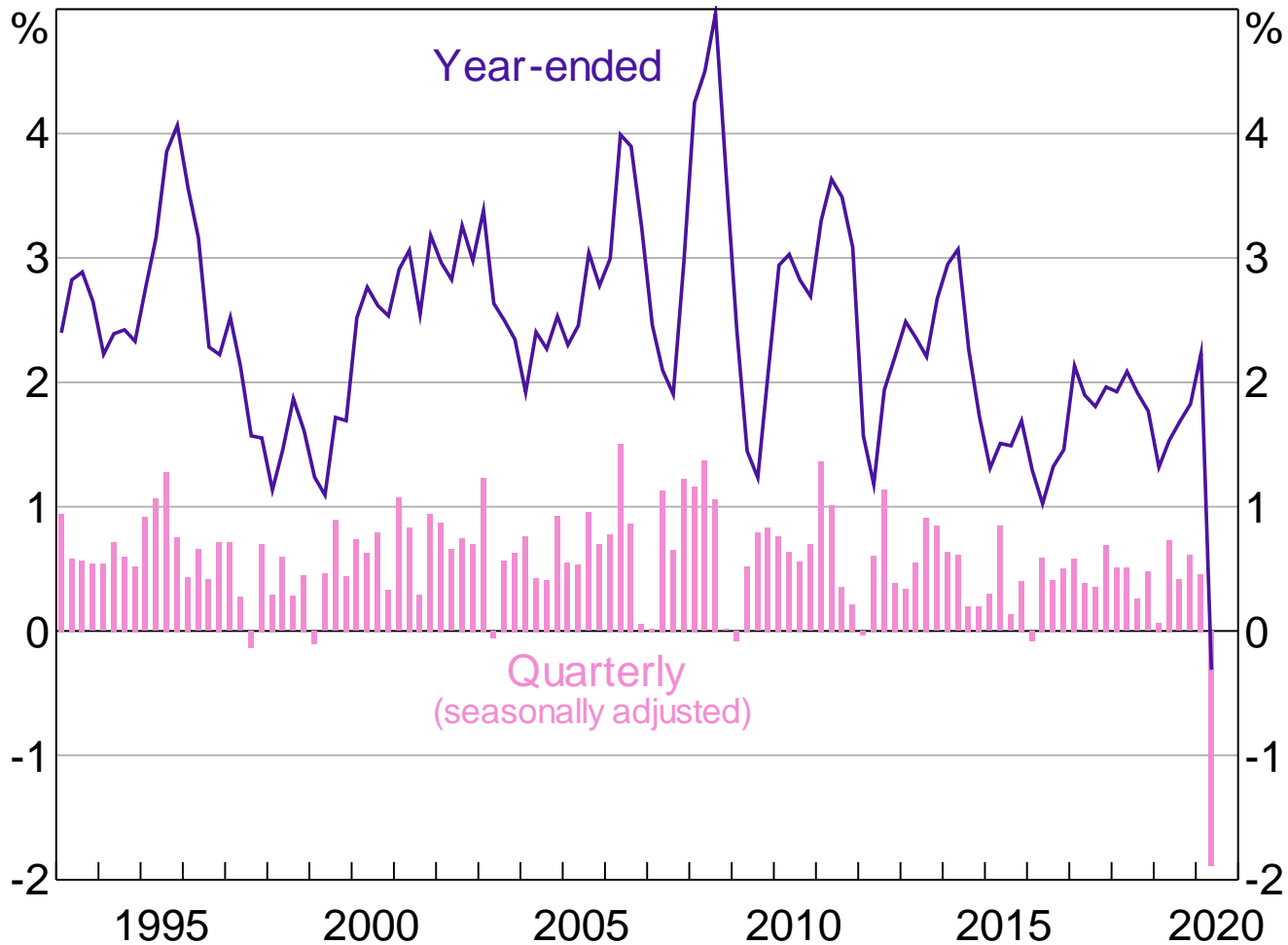
Change since 14 March 2020



* Other industries account for around 80 per cent of total employment in March 2020

Sources: ABS; RBA

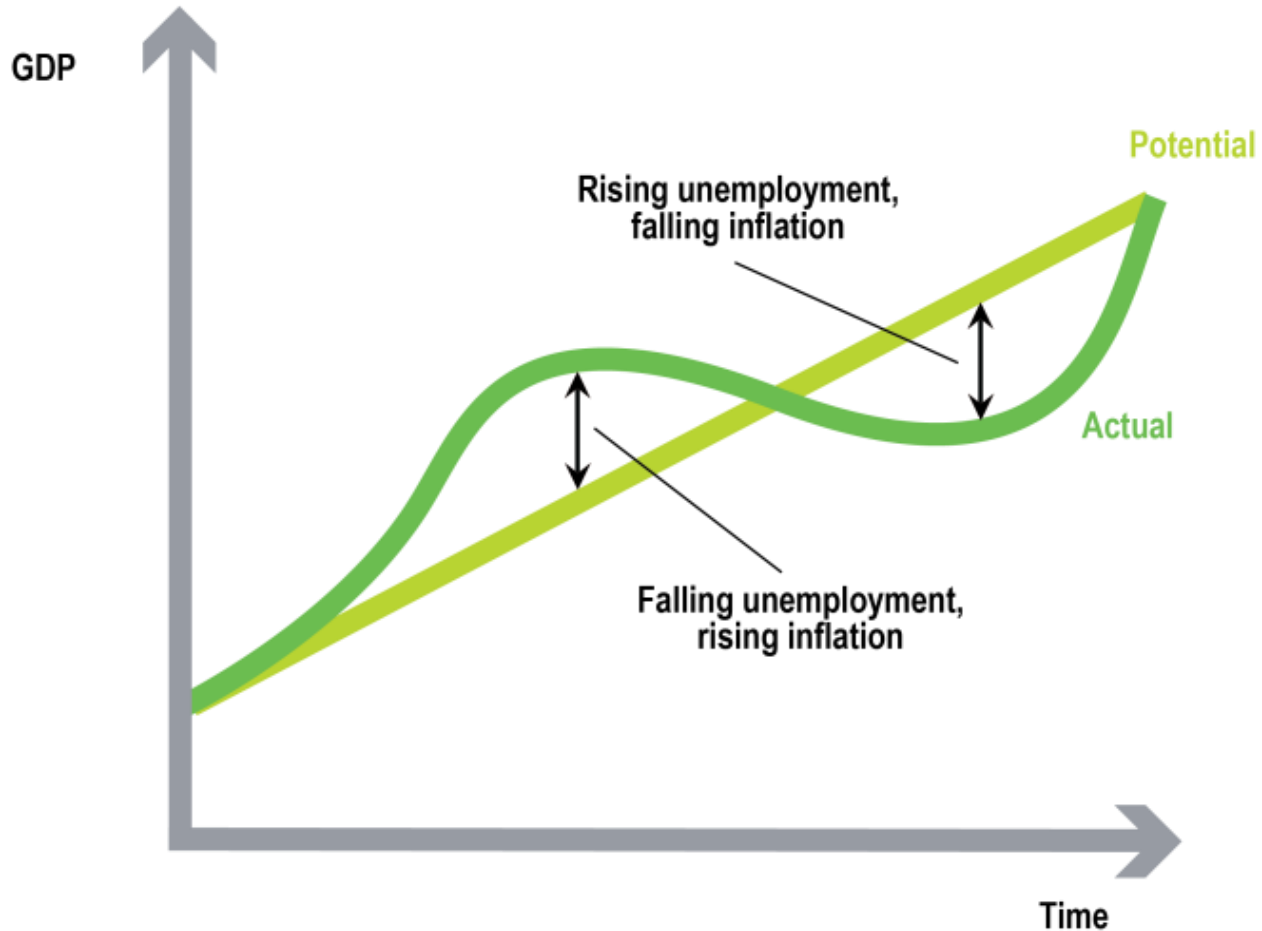
Consumer Price Inflation*



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

Sources: ABS; RBA

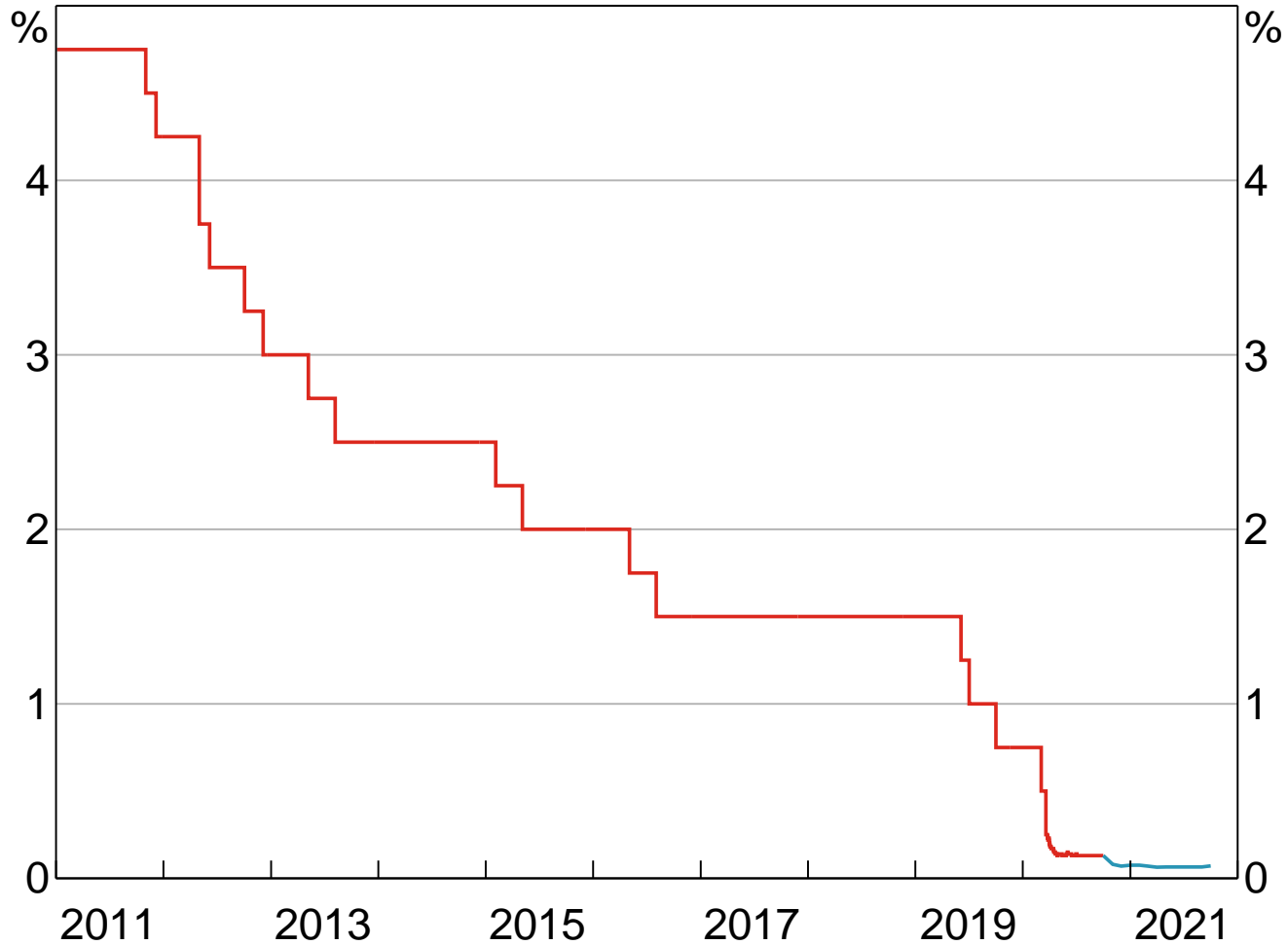
Part 3: How did monetary policy respond?



Part 3: How did the RBA respond?

1. Reduced the cash rate to 0.25% and forward guidance
2. Target yield on 3-year Government bonds of 0.25%
3. Term Funding Facility
4. Adjustments to RBA's market operations

Cash Rate*



* Data from November onwards are expectations derived from interbank cash rate futures

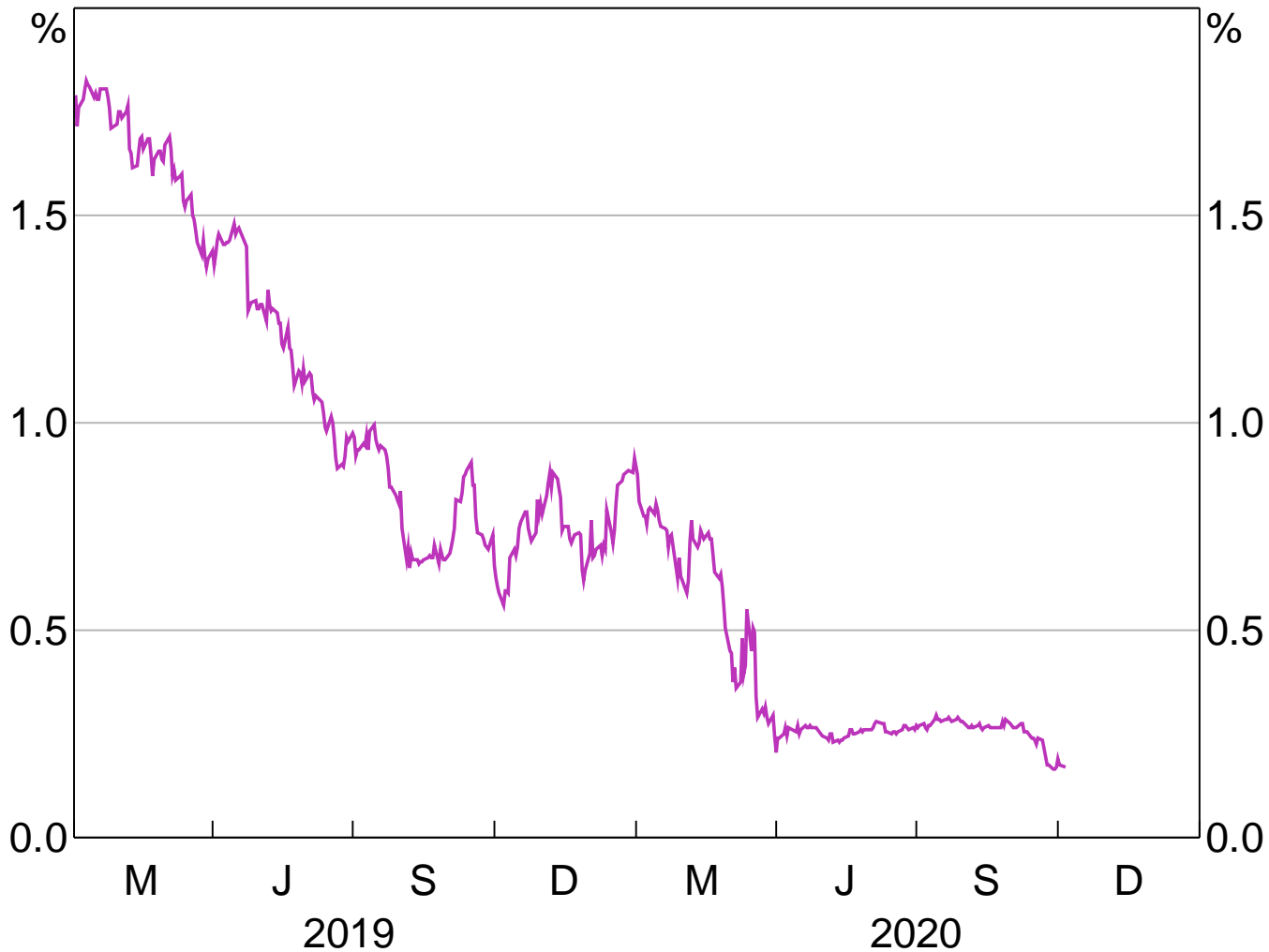
Sources: Bloomberg; RBA

Part 3: How did the RBA respond?

1. Reduced the cash rate to 0.25% and forward guidance
2. Target yield on 3-year Government bonds of 0.25%
3. Term Funding Facility
4. Adjustments to RBA's market operations

Australian Government Bond Yields

3-year



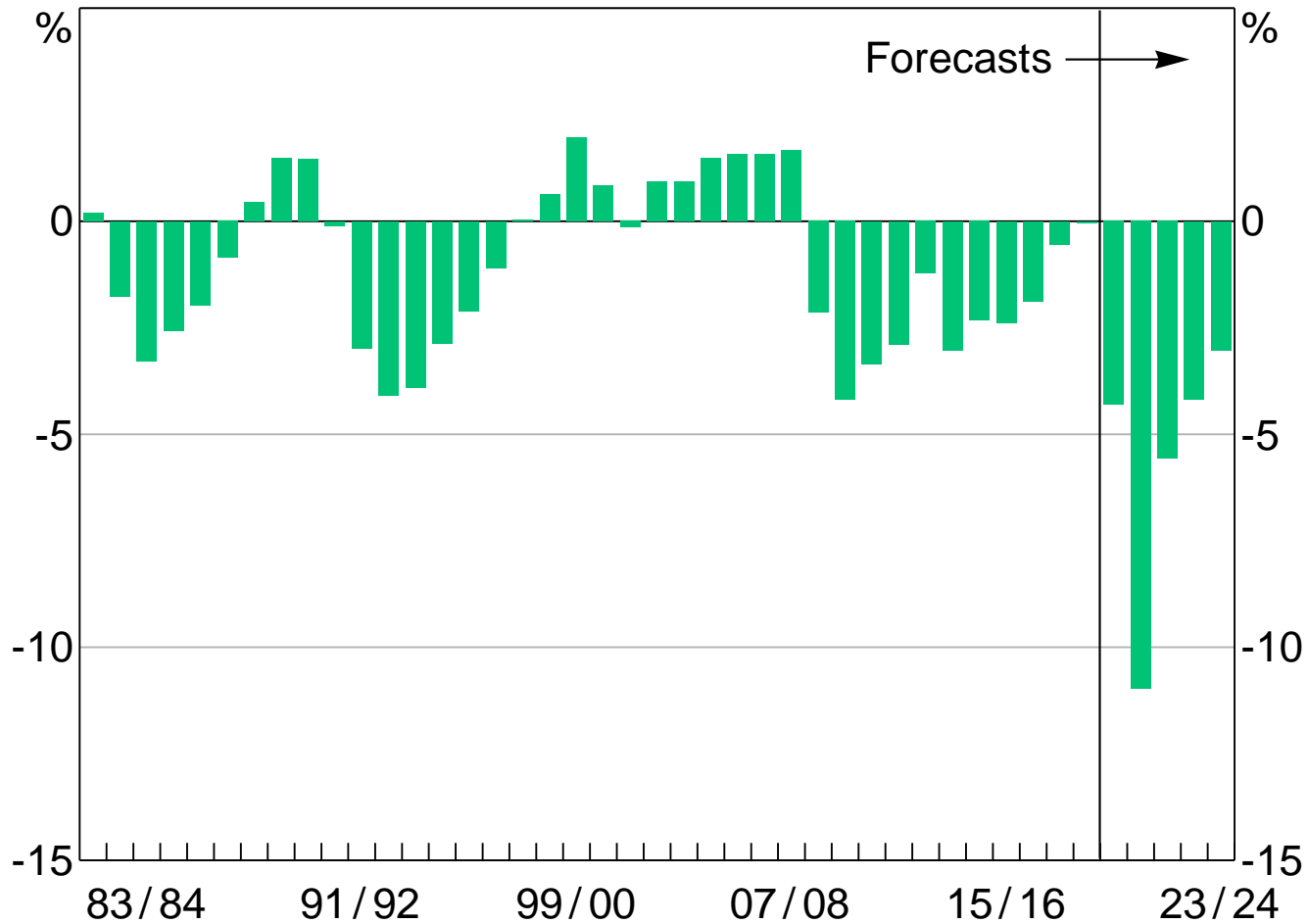
Source: RBA

Part 3: How did the RBA respond?

1. Reduced the cash rate to 0.25% and forward guidance
2. Target yield on 3-year Government bonds of 0.25%
3. Term Funding Facility
4. Adjustments to RBA's market operations

Australian Government Budget Balance*

Per cent of nominal GDP

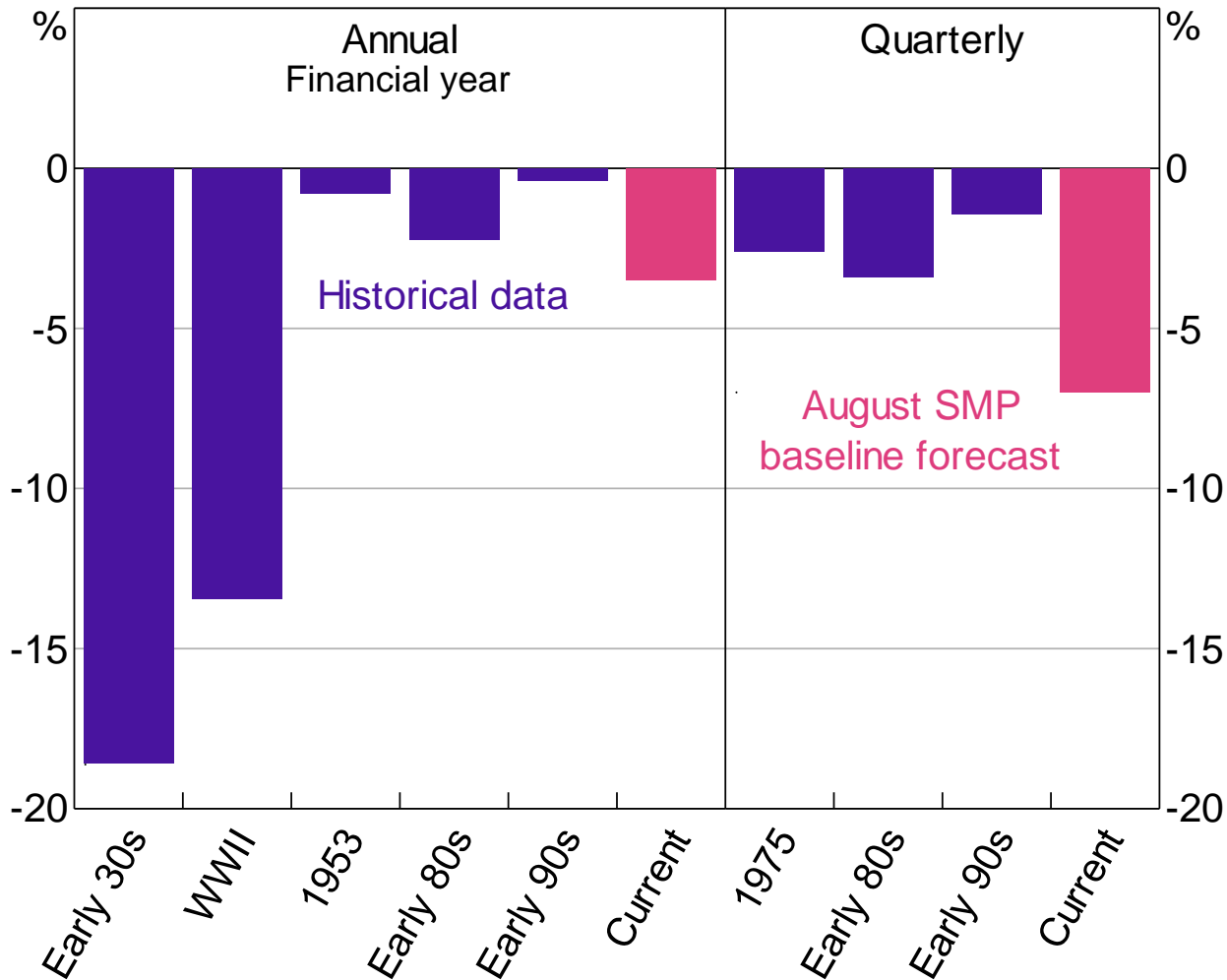


* Underlying cash balance; 2020/21 Budget

Source: Australian Treasury

Peak-to-trough Declines in GDP

Major contractions, by frequency of data



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

More Information



www.rba.gov.au/education



twitter.com/RBAinfo



facebook.com/ReserveBankAU



www.youtube.com/user/RBAinfo