The Evolution of Central Bank Communications

FINANCIAL REVIEW

RESERVE BANK OF AUSTRALIA

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The Australian Financial Review

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1982

EMPLOYERS QUESTION GOVT'S MONETARY POLICY

By MICHAEL STUTCHBURY

THE Federal Government's tight monetary policy might be making employers grant wage increases more quickly, the employers' spokesman told the National Wage Case hearing yesterday.

Mr Colin Polites, for the Confederation of Australian Industry, told a Full Bench of the Arbitration Commission in Melbourne that the Government's monetary policy "may have completely the opposite effect" to what was intended.

Reserve Bank figures reported yesterday showed that the M3 money supply grew by a firm 10.5 per cent in the year to February.

The Government's tight monetary policy is designed to make it more difficult for employers to grant wage increases in the face of industrial action.

However, Mr Polites yesterday pointed to the effect of high interest rates, a result of the tight monetary policy, on employers' ability to withstand industrial action.

"In the present climate, with monetary policy screwed right down and with the costs of borrowing and financing lost production, the effect may well be in order to preserve cash flows, companies may give in and give in quickly," he said.

"In current circumstances, employers when faced with claims backed by industrial action have in many cases little option but to grant wage claims or go to the wall because of the effect that cash flows has on their business."

Mr Polites said that the ACTU's claim for the introduction of automatic indexation would result in an unwanted rigidity in Government economic policy, for instance by blunting the value of devaluation.

Full quarterly indexation of wages to price rises had the potential to lock Australia into an inflation rate of 12 per cent.

He quoted from a recent address by the managing director of the International Monetary Fund, Mr Jacques de Larosiere, which depicted both formal and informal wage indexation schemes as "a many-headed evil."

Mr de Larosiere had said that countries with such schemes sometimes had had to abandon the exchange rate as a policy instrument

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Mr POLITES

The Financial Review

2 October 1996

Greenspan to Costello: inflation not a problem

Michael Stutchbury
Washington

Inflation is not an immediate risk in the United States, nor is there a need to raise interest rates, the chairman of the US Federal Reserve, Dr Alan Greenspan, said yesterday.

Speaking with the Australian Treasurer, Mr Peter Costello, he dismissed widespread speculation that the US central bank was about to raise official rates.

In an interview after his briefing with Dr Greenspan, Mr Costello said Australia's inflation was under control and would "probably" dip below the official target of 2 to 3 per cent.

He also signalled that he would be comfortable with an early decision by the Reserve Bank to cut rates.

"He [Dr Greenspan] was very optimistic," Mr Costello said after his meeting in Washington with the Federal Reserve chief.

"He indicated to me that he saw no threats to inflation down the track... I don't think there is any expectation at ... the moment that [US] rates are going to rise."

Mr Costello's reporting of Dr Greenspan's views confirms that the Federal Reserve chairman is becoming convinced that the traditional tendency for low unemployment to push up wage inflation in the US is being muted by workers' job anxiety because of the effect of rapid technological change.

THE DOCTOR'S PROGNOSIS

‘[Dr Greenspan] was very optimistic. He indicated to me that he saw no threats to inflation down the track. I don't think there is any expectation at the moment that [US] rates are going to rise.’

– Mr Costello yesterday

The US jobless rate has dropped to a seven-year low of 5.1 per cent, yet its inflation rate is still under 3 per cent.

And the Federal Reserve's monetary policy-setting committee last week left interest rates unchanged, confounding Wall Street's expectation of a 0.25 percentage point rise in the funds rate.

The Greenspan message to Mr Costello goes against Wall Street's

Continued page 12

... but local pay rises increase pressures

Mark Davis

Metal workers have negotiated a pace-setting pay deal with BTR Nylex Ltd subsidiary ACI Glass Packaging which will deliver wage rises of 16 per cent over the next three years.

The agreement comes as the Australian Chamber of Commerce and Industry warned yesterday that the economy would be killed "stone dead" if the ACTU succeeded with its claim for arbitrated increases in minimum wages for workers not covered by enterprise bargaining.

The chamber's executive director, Mr Bryan Noakes, said the ACTU "living wage" claim – which was before the Australian Industrial Relations Commission yesterday – would have a significant effect on inflation and unemployment rates.

The ACI agreement – which resolves a protracted lockout of 77 maintenance workers at the company's Spotswood glass factory in Melbourne in a dispute over redundancies – will be used by manufacturing unions as a benchmark for the next wages round in the metal industry.

It comes as the most recent data on wages outcomes under enterprise bargaining shows that average annual wage settlements jumped by just under one percentage point to 5.6 per cent in the June quarter.

Since then, in another significant deal for the manufacturing sector, Toyota has given its car-making workers a 15.5 per cent pay rise over three years.

Under the ACI deal, maintenance workers at the Spotswood plant will receive annualised pay rises of 5.3 per cent – above the Reserve Bank's "comfort level" for wages growth – together with increases in long service leave and union training leave entitlements.

The deal will give workers the right to take 13 weeks of paid long service leave after 10 years of employment – an improvement on the existing award and legislative entitlement to 13 weeks' leave after 15 years' service.

The long service leave component of the ACI deal is likely to form a key demand in union logs of claims in the

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■ *Living wage 'death' – page 10*

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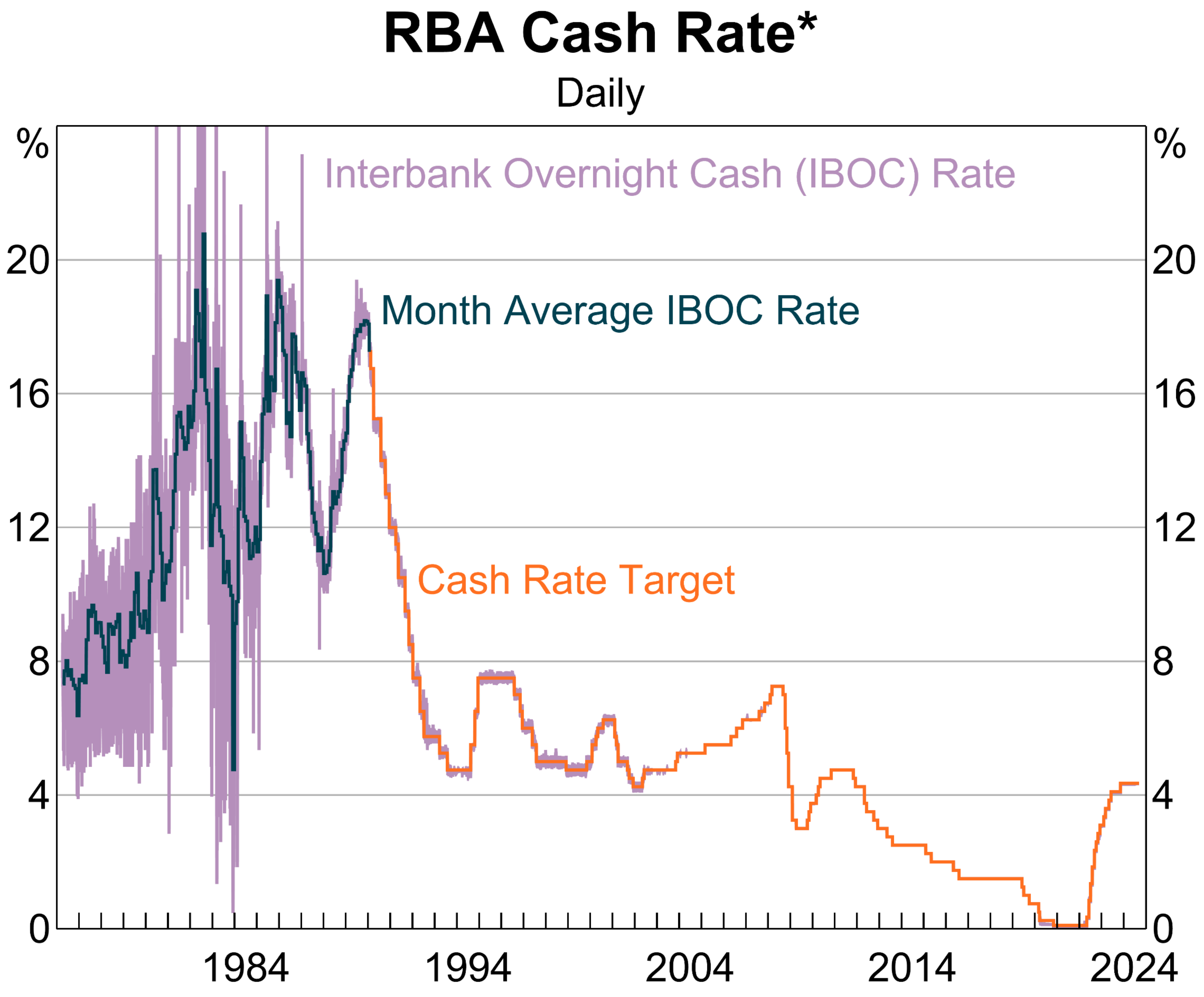
RBA Cash Rate



* Observations above 24% not shown.

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Sydney 282 2833, Editorial 282 2822, Melbourne 829 9999, (Ed.) 629 8955, Perth 481 5888, Canberra 73 1445, Adelaide 212 1212, Brisbane 221 6266 $1

Keating eases screws

Labor bets all on lower rates

By GEOFF KITNEY

The Federal Treasurer, Mr Keating, has delivered to the Labor Party its best hope for political survival – a fall in interest rates.

The reduction in cash rates announced formally by the Government and the Reserve Bank yesterday should lead to a drop in home mortgage rates before an April or May election.

The surprise timing of the move has maximised the distance between the announcement of lower interest rates and the announcement of the election date, which minimises the risk that the decision will be seen as political expediency.

But the political implications of the decision are massive.

Although Mr Keating said yesterday that he did not think a fall in home mortgage rates was essential to Labor's re-election hopes, no-one else in the Labor Party believes that.

The Labor Caucus has been sweating on lower rates and there is not one Labor MP in a marginal seat who does not believe his chances of holding the seat will be improved by an interest rate fall.

The Labor Party will now be looking to the banks to lower home lending rates as soon as possible which means the banks now become key players in the way the political climate develops in the lead-up to the election.

Mr Keating said he did not expect that adjustments of the magnitude announced yesterday would send the banks scurrying immediately to bring down home interest rates.

But he expected that ultimately there would be "some impact" on mortgage rates.

His move to publicly announce the easing of policy – in contrast to the secretive way that adjustments to monetary policy have been handled previously under Mr Keating's administration – puts great pressure on the banks. This may well be one reason for making a major media event of the easing of policy.

Mr Keating has now created an expectation of falling home mortgage rates.

The banks, already burdened by a serious public relations problem caused by the coincidence of record interest rates and record profits, will find it very difficult to explain to their customers that home rates cannot come down when other rates are falling.

These pressures should ensure that home rates will come down in time for the Prime Minister, Mr Hawke, to have the federal election in May, which has always been his personal preference. The fall may happen early enough to give him the chance to go on April 7 – the date preferred by some others in the Government because it gets the election over before the distractions of Easter holidays and the Prime Minister's visit to Turkey in April for Anzac Day commemorations.

The risk in yesterday's easing of monetary policy is that it may prove to be premature and that economic developments between now and the election will show the rate reductions to be unsustainable.

Continued page 2

RBA reduces cash rate . . . and the markets go wild

Rates slide
90-day bank bills for the past 15 trading days (%)
17.8
17.6
17.4
17.2
17
16.8

Dollar plunges
24 hrs from 6pm Monday
79.8 (US¢)
79.3
78.8
78.3
77.8

Bourse rebounds
All Ords from 4pm Monday
1675
1665
1655
1645
Rates eased

Timing surprises markets

By TIM DODD

The Federal Government and the Reserve Bank of Australia moved yesterday to protect the economy from an interest rate overkill by easing monetary policy early.

Although the decision to ease policy and lower interest rates was widely expected in response to slowing demand, the timing took the markets by surprise as the move came before the publication of next week's economic statistics.

In a statement issued just after noon, the Governor of the Reserve, Mr Bernie Fraser, confirmed market suspicions that the bank had been operating in the domestic money market in the morning "to bring about a modest reduction in interest rates".

"Although there can be no precision in such matters, the bank will be seeking in its market operations to reduce unofficial cash rates by between one half and one percentage point from their average levels of recent months," he said.

"A modest reduction of this order is judged to be appropriate having regard to the slowing in the economy which has occurred and is in prospect, and the continuing role which monetary policy must play in moderating demand and containing inflationary pressures."

The announcement robbed the Australian dollar of the support of high domestic interest rates, and it lost nearly US2¢ as markets viewed the prospect of a narrowing gap between falling domestic rates and rising rates overseas.

After a morning high of 0.7958¢ the Australian dollar dropped to 0.7775 before closing at 0.7803.

The change in monetary policy will bring some quick relief to companies borrowing at commercial rates but is unlikely to flow through to the politically sensitive home-loan

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Latest Markets

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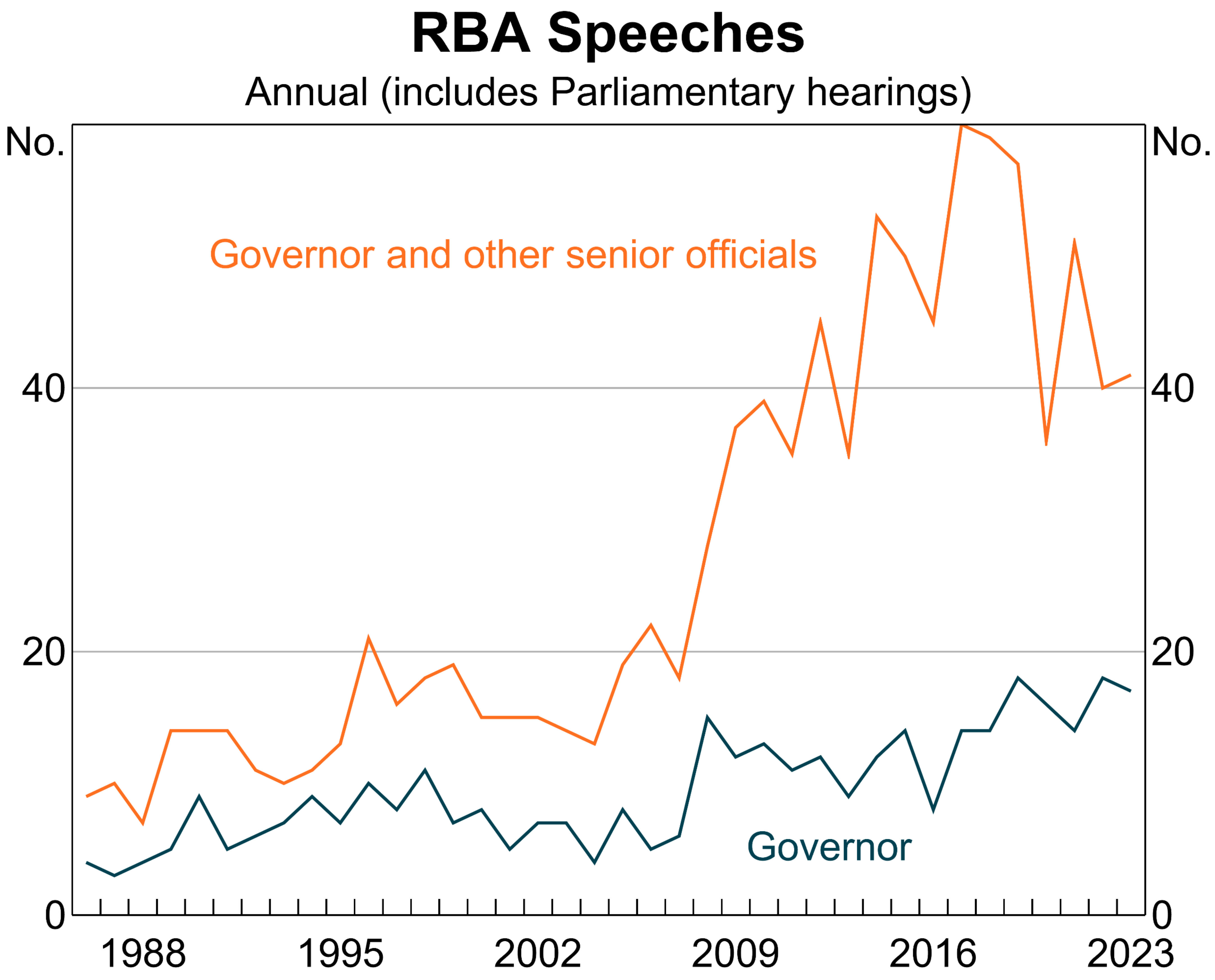
RBA Speeches



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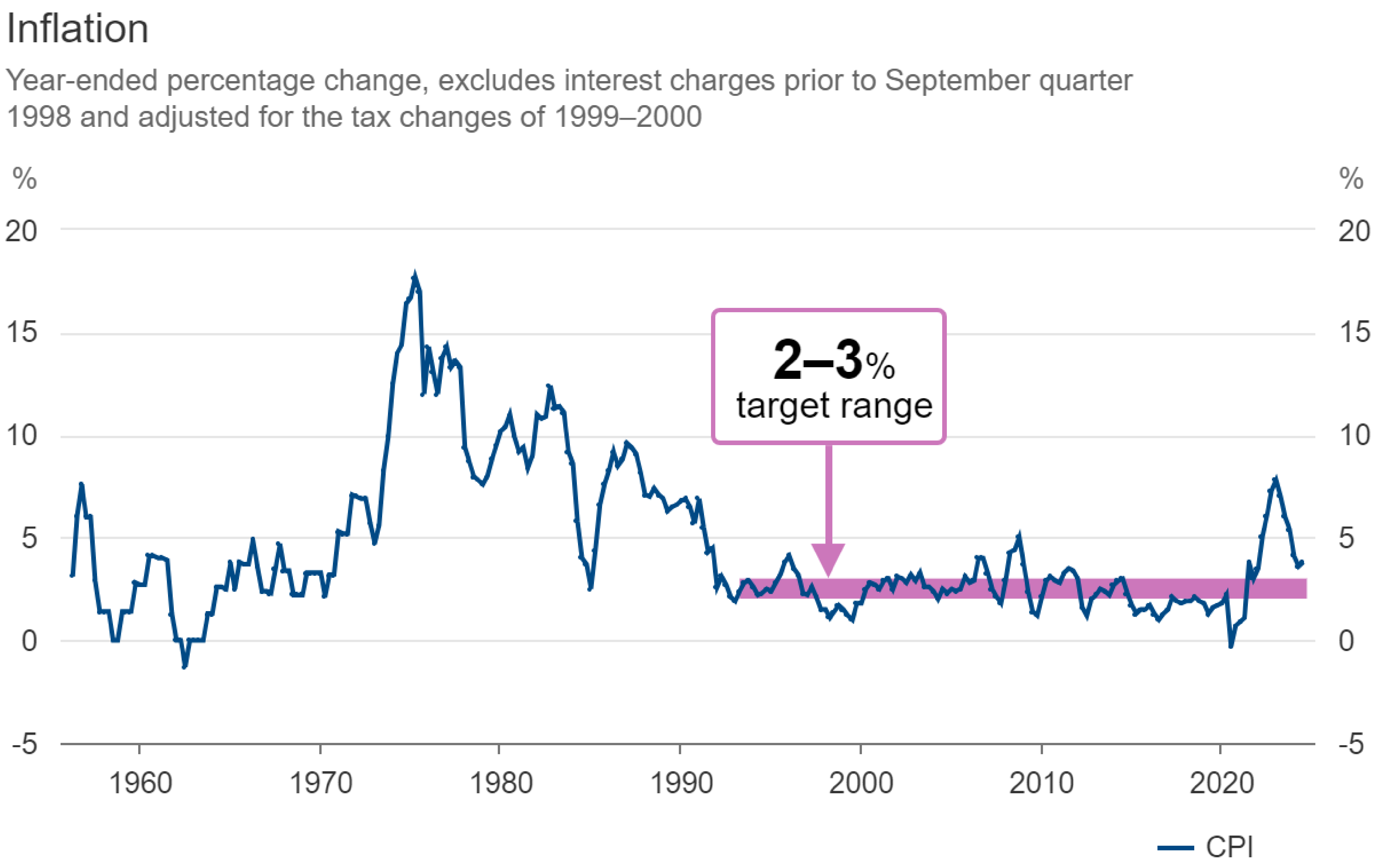
Inflation



Sources: ABS; RBA

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4 November 2020

Twilight Payment How Lloyd Williams bagged his 7th cup News p3

THE AUSTRALIAN FINANCIAL REVIEW

www.afr.com | Wednesday 4 November 2020 $4 INCLUDES GST

▶ Lowe pledges 0.1pc cash rate for three years ▶ Launches $100b of bond buying QE ▶ Borrowers to 'negotiate' with banks

RBA nails low rates to the floor

Matthew Cranston
Economics correspondent

The Reserve Bank has promised to keep its official cash rate at 0.1 per cent for at least the next three years and will buy $100 billion of bonds in the coming six months to force cheaper bank lending to boost the economy's jobs recovery.

RBA governor Philip Lowe announced a $5 billion per week buying program – worth about 5 per cent of GDP in total – along with a suite of lower rates for bank funding, while also upgrading forecasts for economic growth from 4 per cent to 6 per cent by June next year.

The Australian dollar fell to as low as US70.40¢, while bond yields were also driven lower in expectation of the ramp up in purchases by the bank.

However, the governor said that a slower jobs recovery as well as upward pressure on the Australian dollar from trillions of dollars in bond purchases from other central banks meant the trigger now had to be pulled on the country's first formal quantitative easing program.

"The lower interest rates and our plan to buy $100 billion of government bonds over the next six months will help people get jobs and support the recovery of the Australian economy," Dr Lowe said.

"A sharp bounce-back in jobs is unlikely and it will take time to return to where we were before the pandemic. Even if Victoria had not gone into lockdown we still would have made this decision because the outlook for the labour market required further action."

In addition to the official cash rate cut, the central bank lowered the interest rate it charges commercial banks on loans through its $200 billion Term Funding Facility (TFF) from 0.25 per cent to 0.10 per cent. It also lowered its target on yields for the 3-year bond – a benchmark borrowing rate for banks and business – from 0.25 per cent to 0.1 per cent.

The major banks may not slash their standard variable rates to follow the RBA's cash rate cut from 0.25 per cent to 0.1 per cent but they are considering reducing their fixed-rate home loan offers.

Dr Lowe said he expected the banks to pass on the cheaper funding benefits but that such reductions were more likely to come through negotiating and switching loans rather than general reductions.

Continued p4

Asset inflation

The historic move by the RBA to quantitative easing will light a fire under asset prices and force savers to take more risks to find yield. **Chanticleer p40**

It has 'arisen from its monetary slumber and its long, fruitless search for the inflation dragon'. **Paul Keating p7**

Firepower

Philip Lowe, RBA governor

$100 billion is the magic number for QE

Analysis

John Kehoe

By launching a historic and larger-than-expected $100 billion, initial six-month government bond buying program the Reserve Bank is crossing the Rubicon.

Yet governor Philip Lowe is dismissing the growing perception the central bank's creation of money out of thin air (money printing) is now financing the ballooning budget deficits of federal and state governments.

Lowe also clarified that the RBA does not believe the recession is over and warned there is a "long and bumpy" road ahead for the hundreds of thousands of unemployed Australians hit by the COVID-19 recession.

That's despite the RBA upgrading its economic growth forecast to 6 per cent, from 4 per cent, in the year to June 2021 and the unemployment rate now expected to peak at 8 per cent, not the 10 per cent previously forecast.

Lowe is determined to do whatever the bank reasonably can to support the government in the COVID-19 economic recovery that is better than glacially muddling our way out of the deepest recession in 100 years.

The nominated $100 billion figure over six months in Commonwealth and state government bond purchases was chosen by the RBA not just

Continued p5

Trump makes late surge as race tightens in must-win states

Barricades surround the White House in Washington yesterday. PHOTO: AP

Jacob Greber
AFR correspondent

Washington | A late campaign surge has kept Donald Trump's hopes of winning a shock against-the-odds second term alive, with both sides slugging it out over the pandemic, tax cuts, energy policy and fitness for office.

Closing his campaign with 10 rallies over two days – during which he spoke before large, enthusiastic and sometimes hastily organised crowds for more than 10 hours – Mr Trump entered the dying hours of the 2020 race in the fight of his political life to close a persistent gap to Joe Biden. Although still behind, Mr Trump was quickly narrowing the gap as campaigning ended.

The closely watched RealClearPolitics poll of polls on Monday (Tuesday AEDT) had the President down 6.7 percentage points, compared with 10.2 points three weeks ago.

More importantly, the race was tightening in the crucial battleground states, where the election could be won or lost. RealClearPolitics had Mr Biden's lead across Florida, North Carolina, Pennsylvania, Michigan, Wisconsin and Arizona

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America votes 2020

US presidential election

A guide to how the day will unfold as millions of votes are counted, and what to watch out for. **Features p36**

Go to **afr.com** for our live coverage

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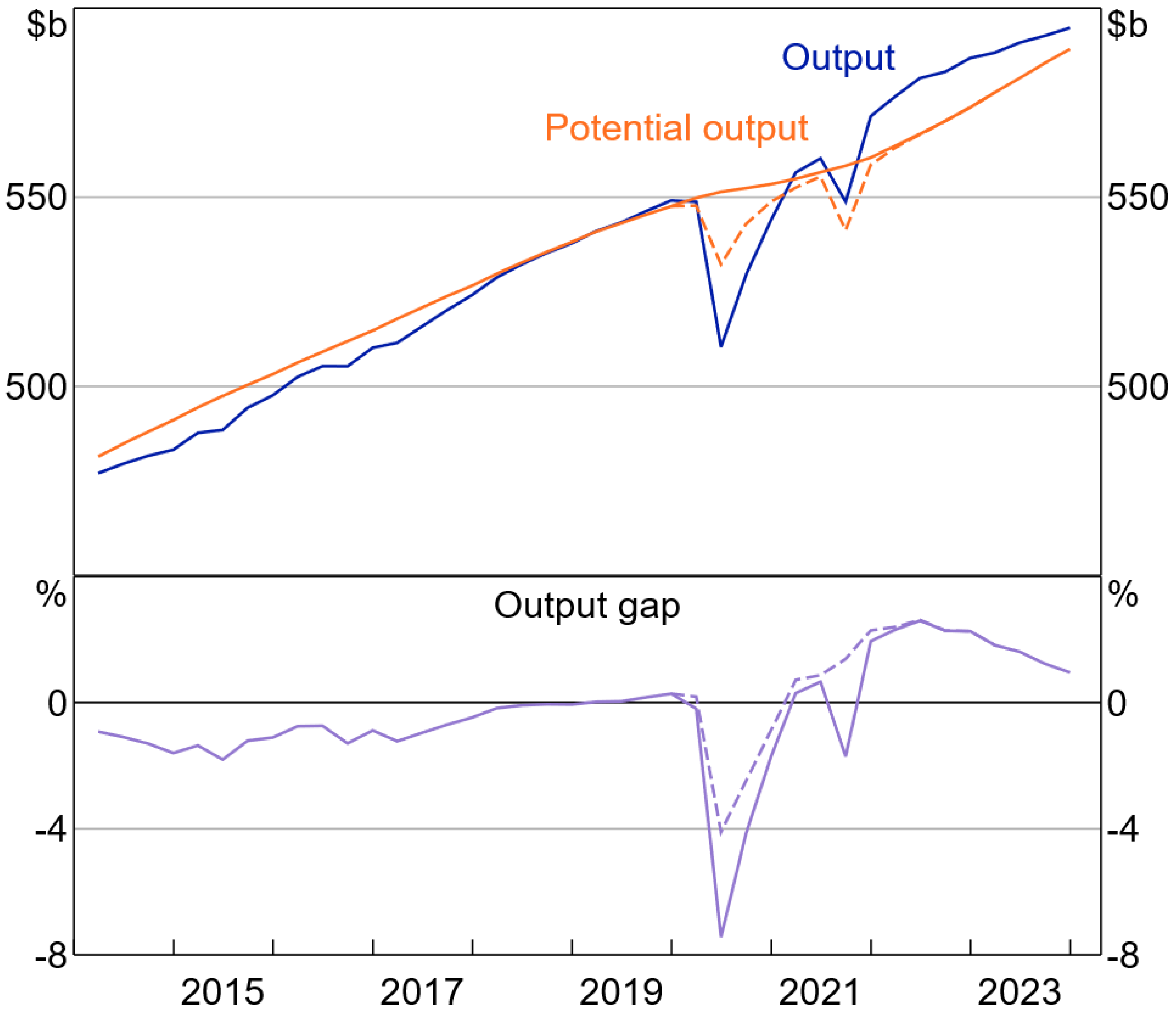
RBA Statement on Monetary Policy

May 2024

Aggregate Demand and Supply*

Selected model estimates

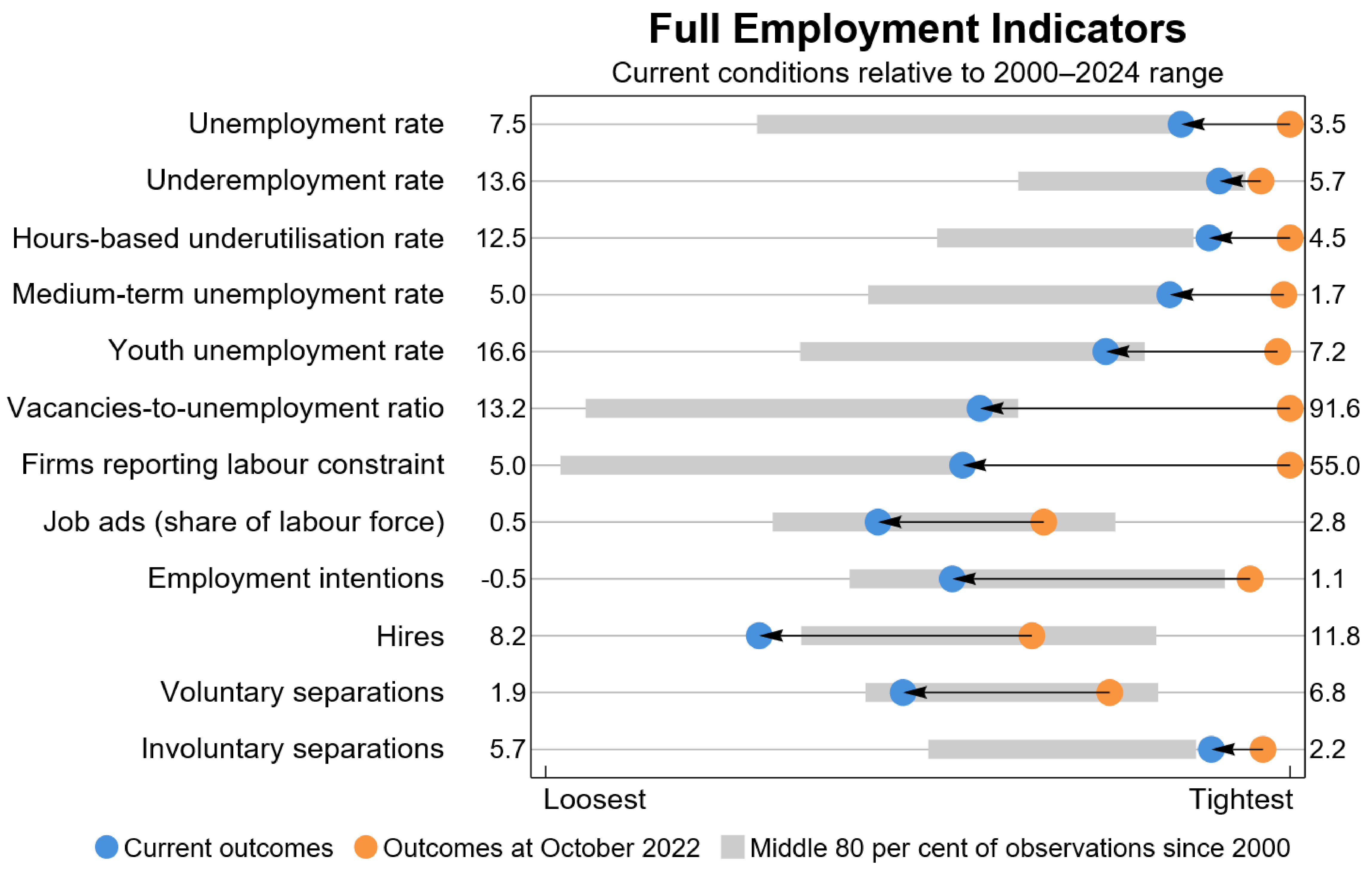


* Estimates of potential output and output gap from one of the models in the RBA's suite; dashed lines include an illustrative adjustment for pandemic activity restrictions; levels reflect 2021/22 prices.

Sources: ABS; RBA.

RBA Statement on Monetary Policy

August 2024



Sources: ABS; JSA; NAB; RBA.

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