



RESERVE BANK OF AUSTRALIA

# Monetary Policy and Current Economic Conditions

Education



# Economic growth

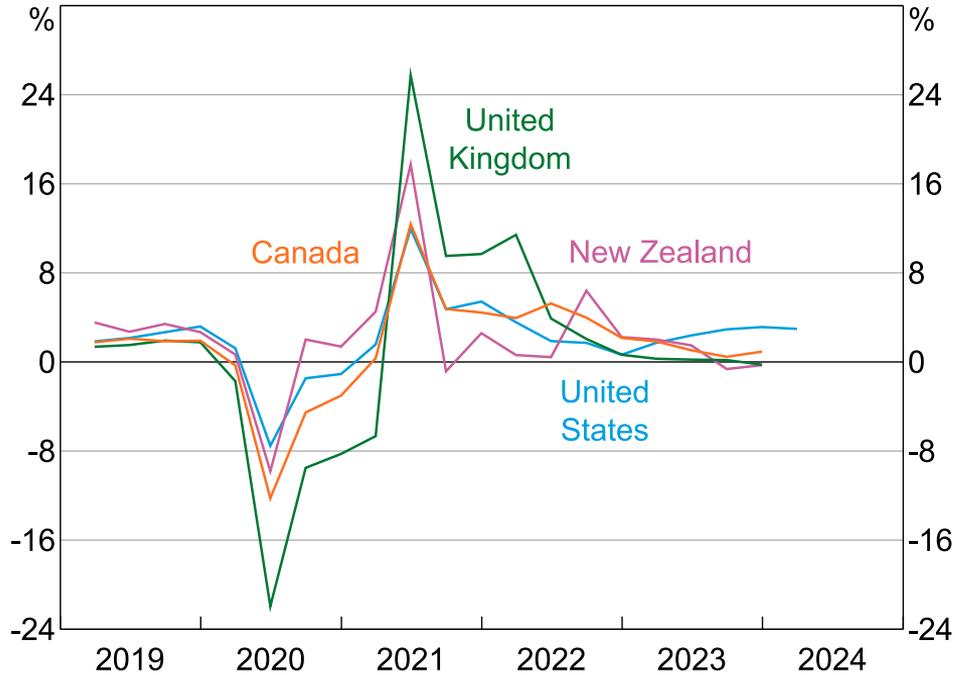
## Key points:

- Growth in the global economy and the Australian economy has remained subdued
- A common driver has been weak growth in household consumption



# GDP Growth

Year-ended

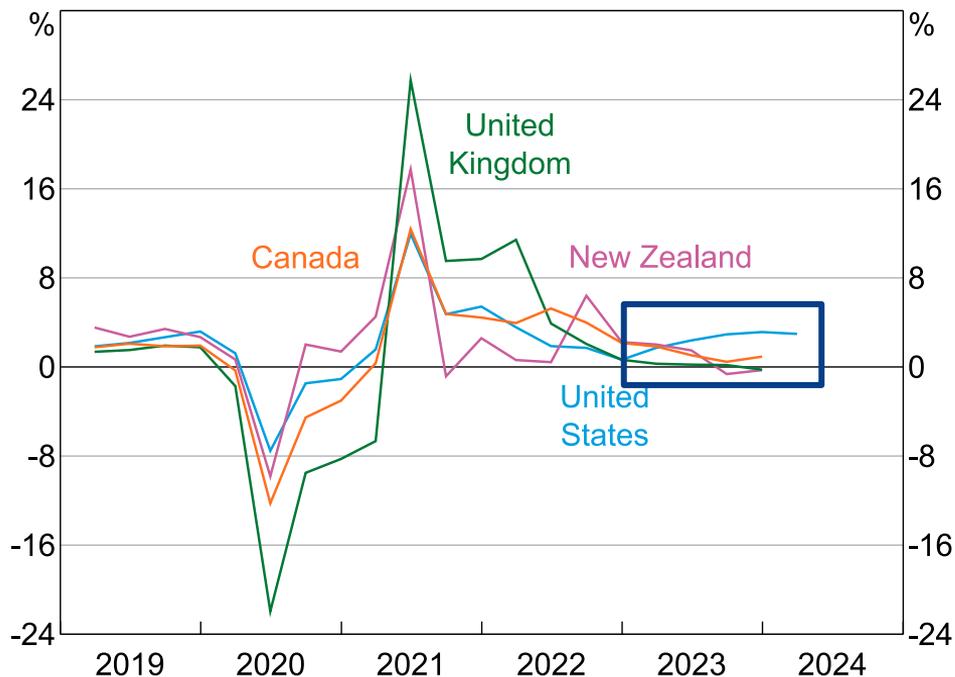


Source: LSEG.



## GDP Growth

Year-ended

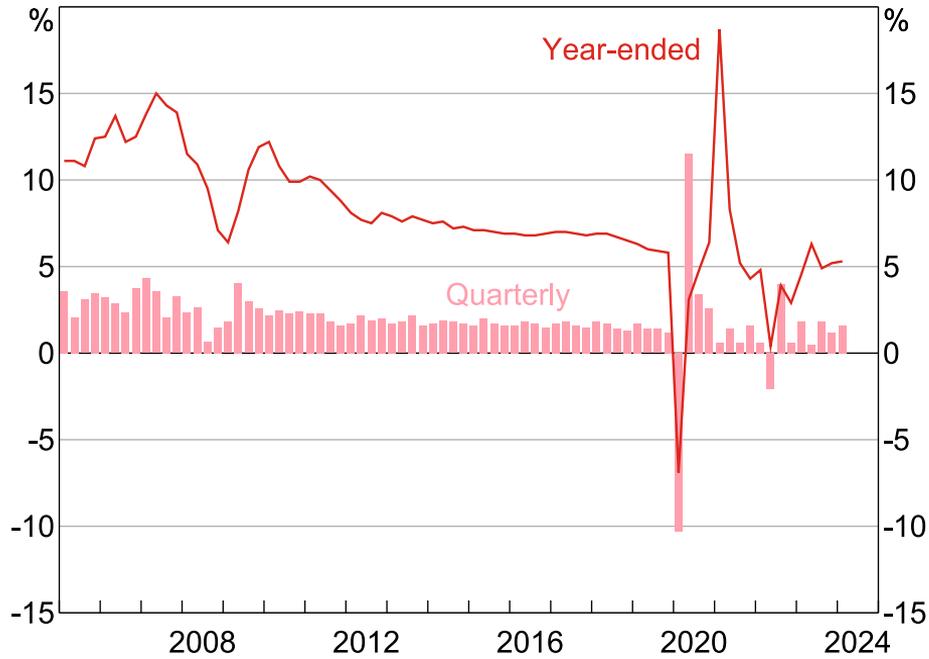


Source: LSEG.

Growth in gross domestic product (GDP) generally remains subdued in advanced economies



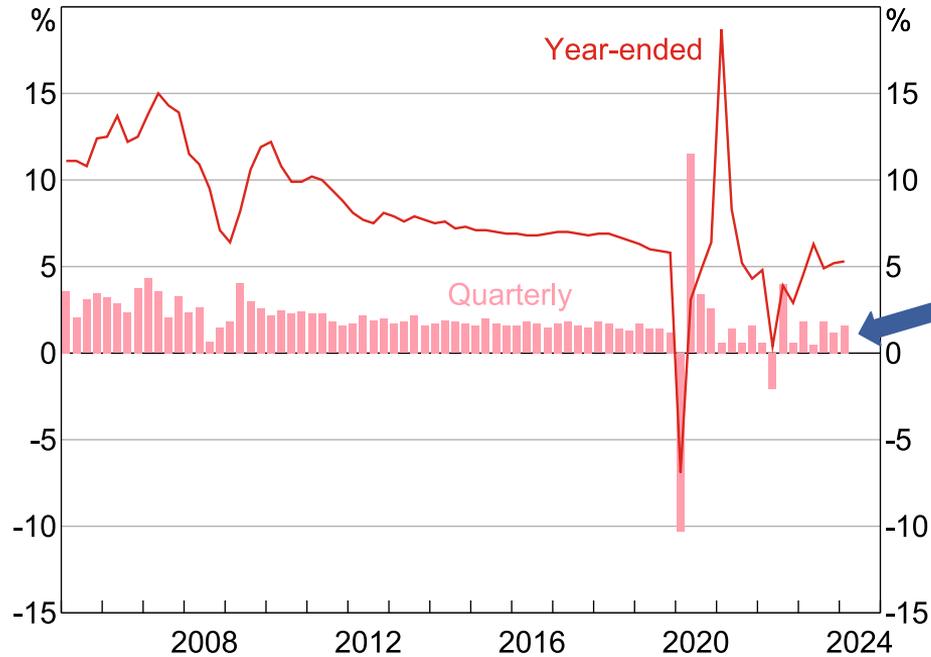
## China – GDP Growth



Sources: CEIC Data; RBA.



## China – GDP Growth



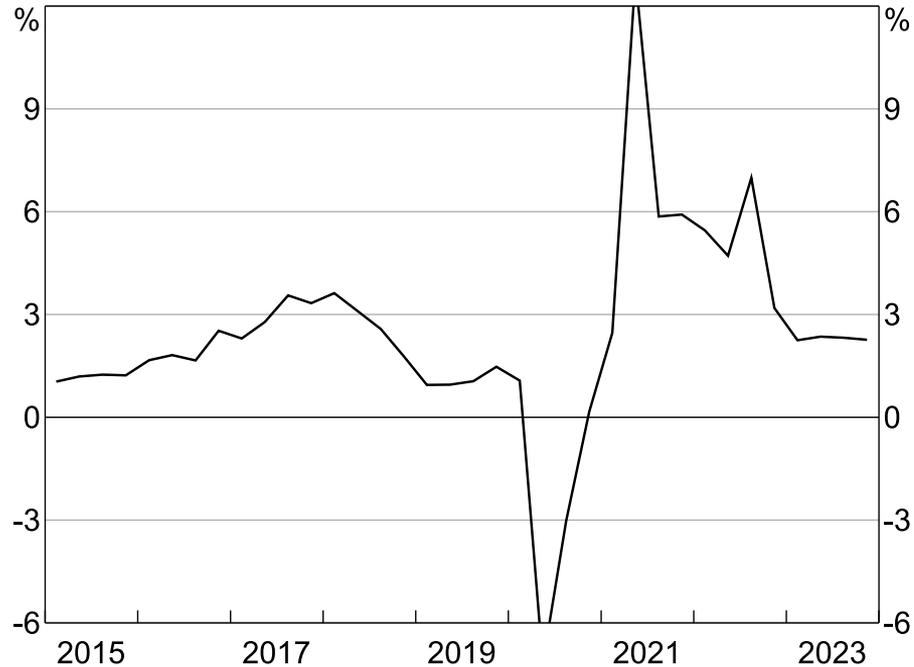
Economic activity in China has strengthened in early 2024

Sources: CEIC Data; RBA.



## Domestic Final Demand\*

Year-ended growth



Domestic final demand is the sum of activity by households (including consumption and investment in residential dwellings), business investment, and government (or public) spending

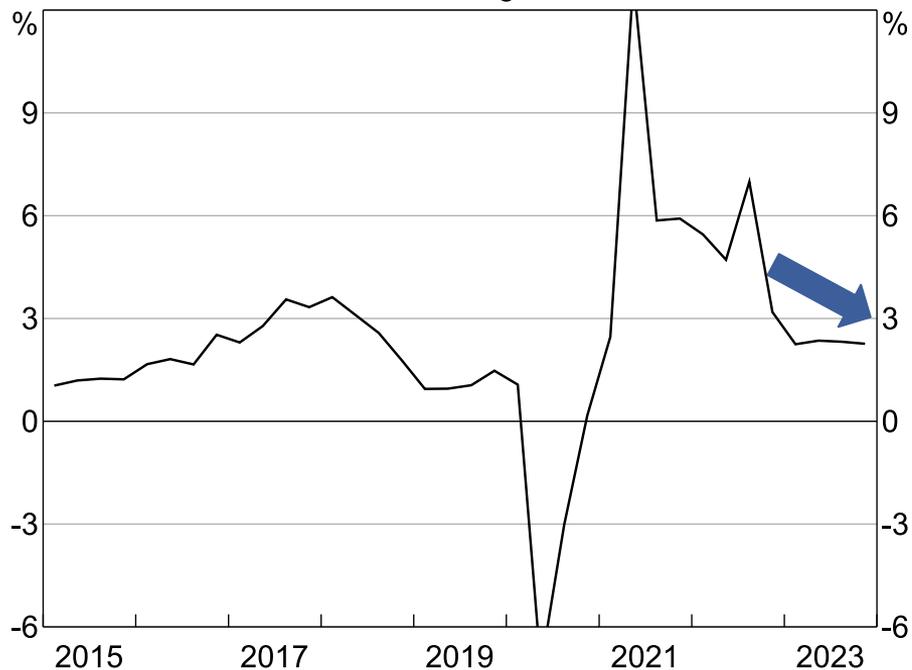
\* Outliers during the COVID-19 pandemic were truncated.

Sources: ABS; RBA.



## Domestic Final Demand\*

Year-ended growth



In Australia, economic growth has slowed considerably over 2023

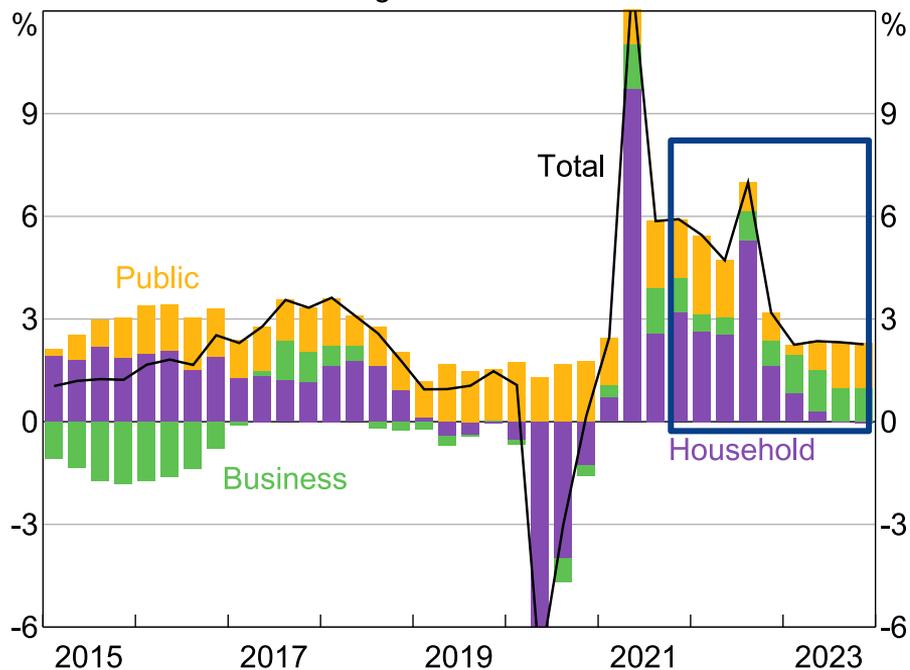
\* Outliers during the COVID-19 pandemic were truncated.

Sources: ABS; RBA.



## Domestic Final Demand\*

Year-ended growth with contributions



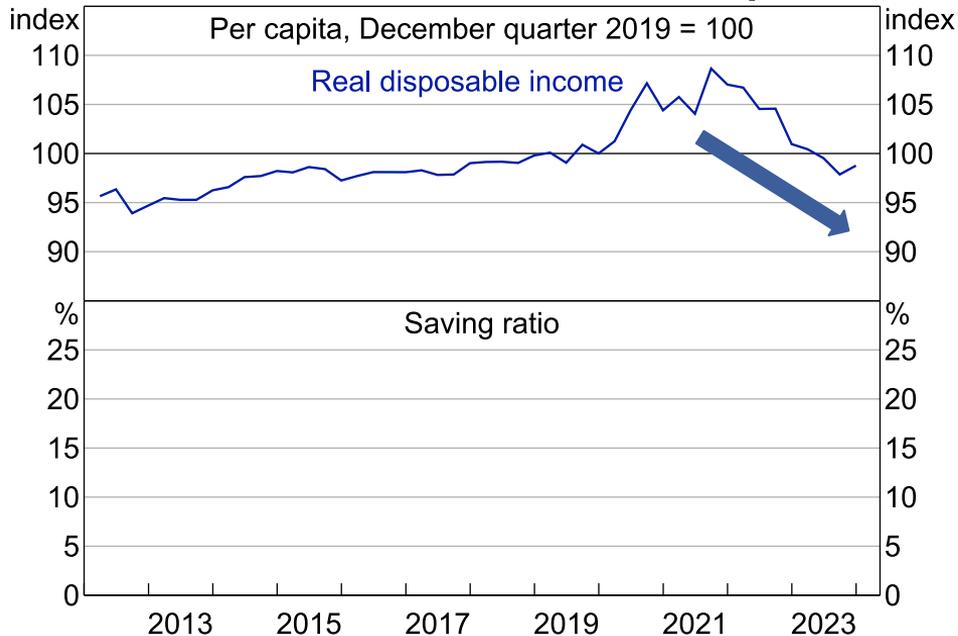
The main driver of slower demand has been weak growth in household sector activity

\* Outliers during the COVID-19 pandemic were truncated.

Sources: ABS; RBA.



## Household Income and Consumption



Sources: ABS; RBA.

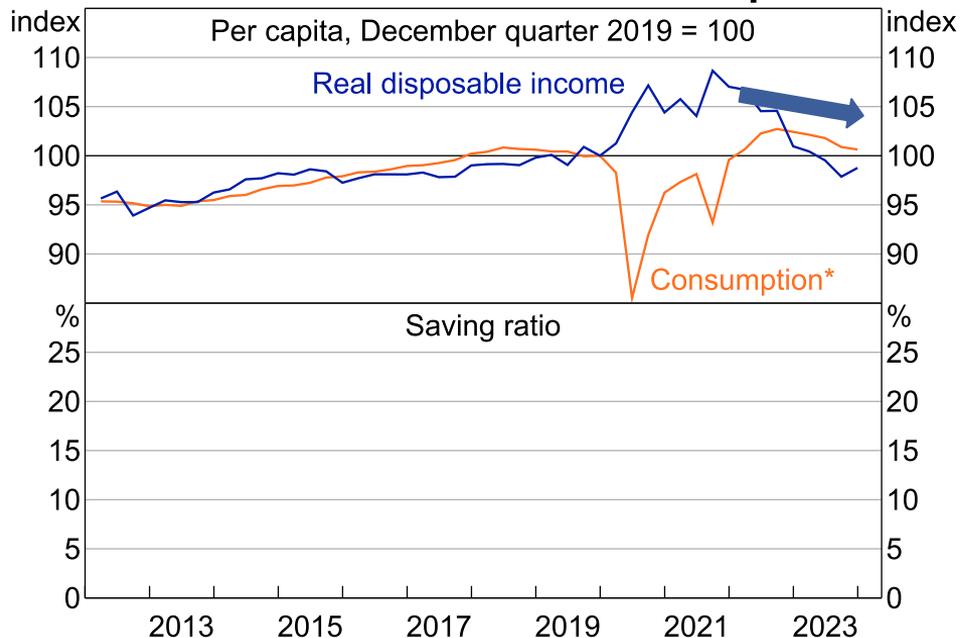
Real disposable incomes have declined sharply but have started to stabilise

Three factors have contributed:

- high inflation
- higher interest rates
- tax payments



## Household Income and Consumption



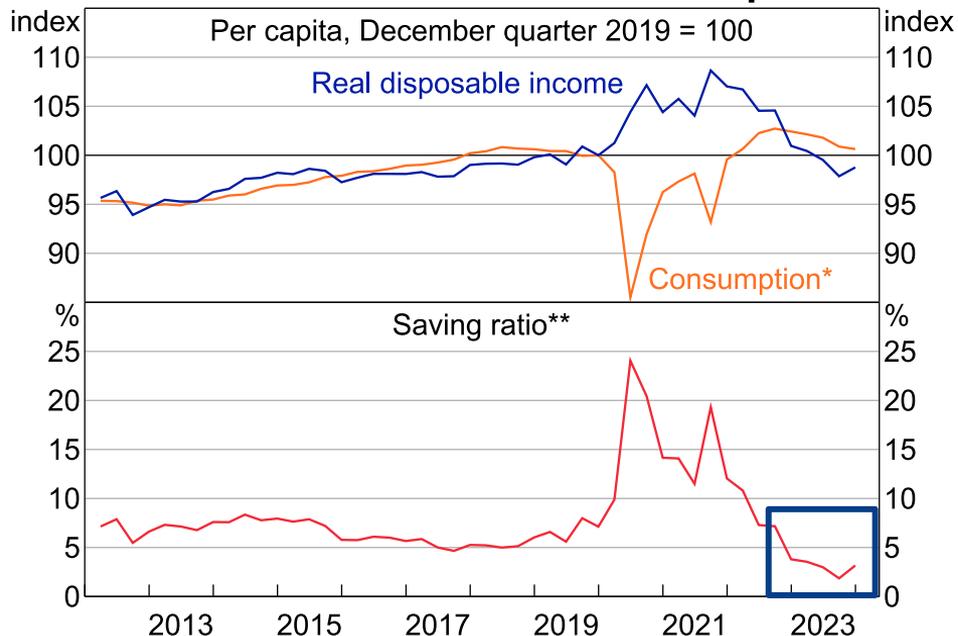
\* Population denominator excludes international students.

Sources: ABS; Department of Home Affairs; RBA.

Consumption has declined as people have cut back on their spending



## Household Income and Consumption



\* Population denominator excludes international students.

\*\* The net saving ratio equals the gross saving ratio minus depreciation of household fixed assets (mainly dwellings).

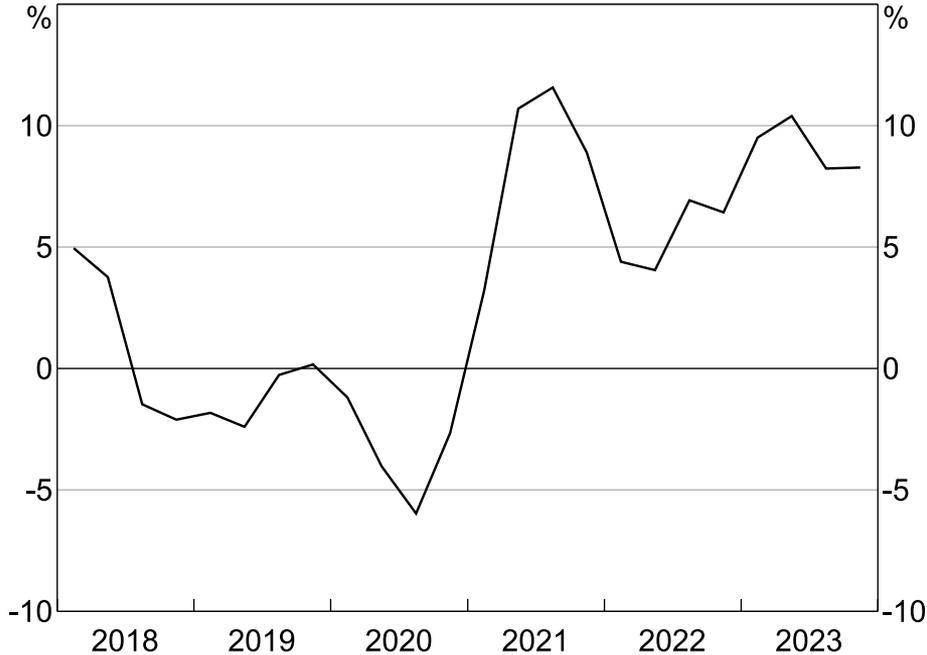
Sources: ABS; Department of Home Affairs; RBA.

Higher interest rates are providing an incentive for some households to save more



## Business Investment

Chain volume, year-ended growth



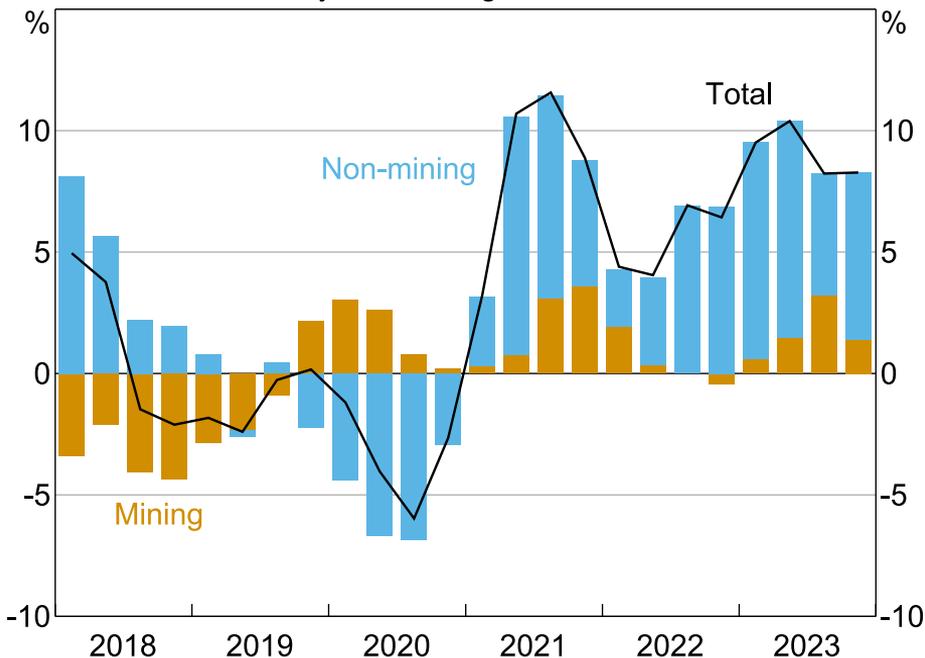
Sources: ABS; RBA.

Growth in business investment has been strong over the past 18 months



## Business Investment

Chain volume, year-ended growth with contributions



Sources: ABS; RBA.

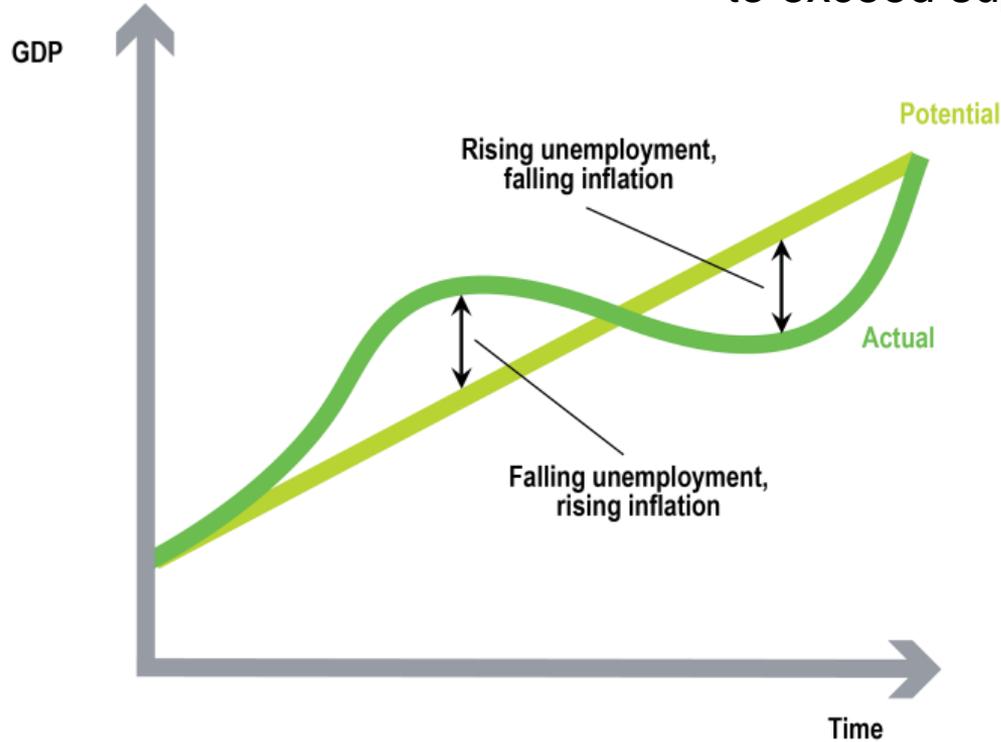
Growth in non-mining investment was strong in early 2023 but moderated somewhat in the second half of the year

A horizontal bar at the top of the slide, divided into three segments of equal length: dark blue, teal, and lime green.

In the Australian economy, we assess that the level of demand continued to exceed supply

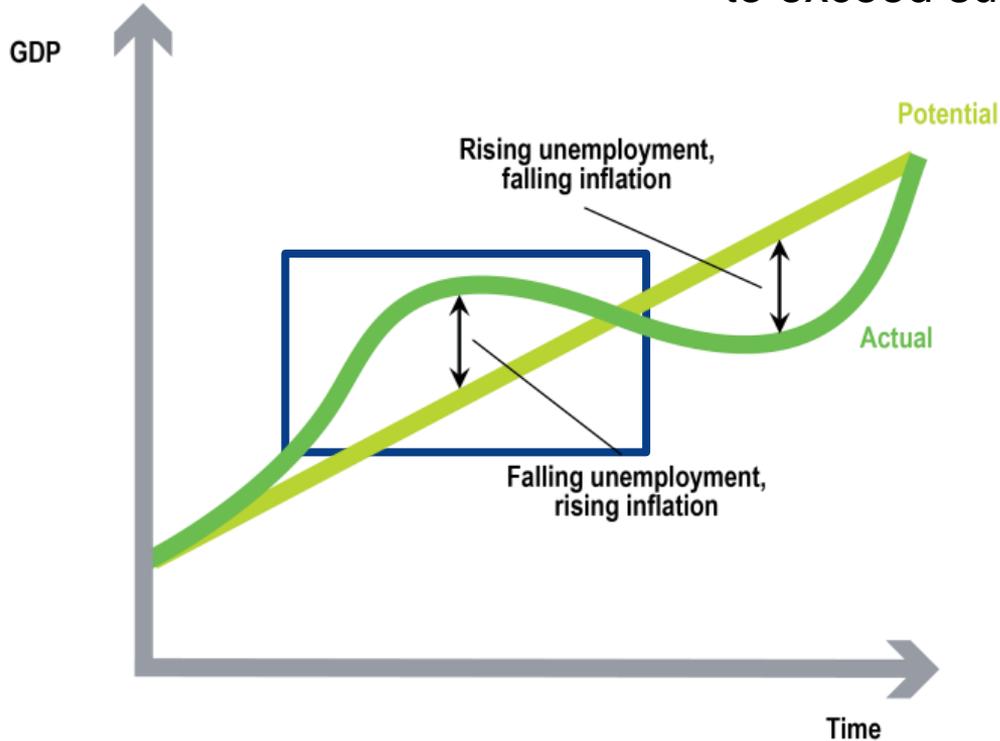


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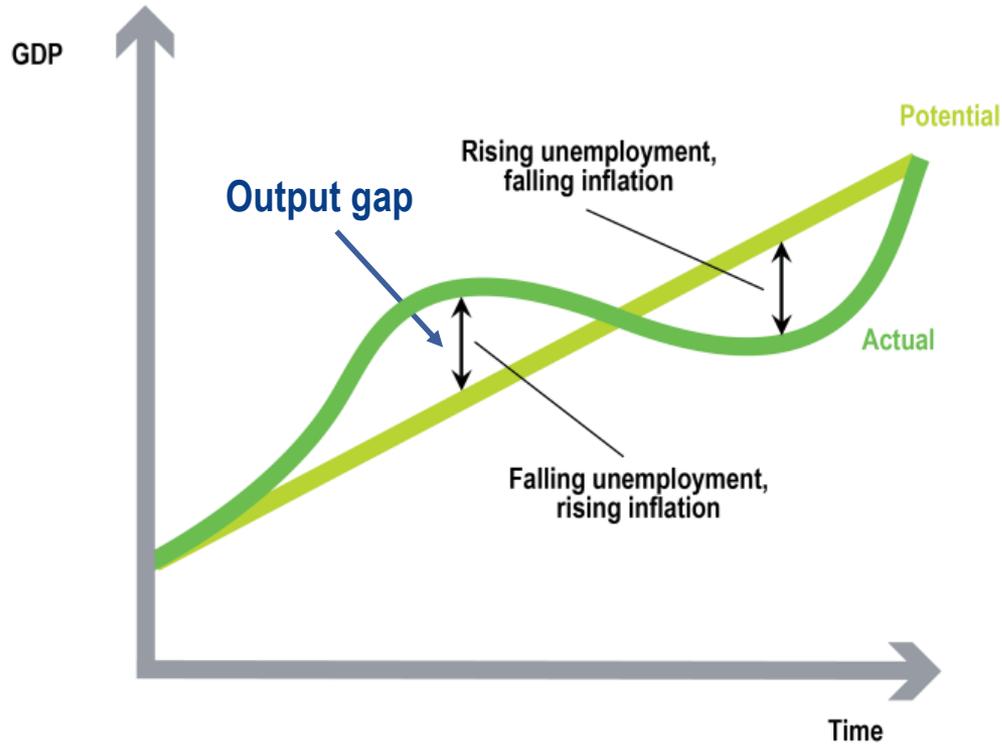




In the Australian economy, we assess that the level of demand continued to exceed supply



This excess demand puts upwards pressure on inflation

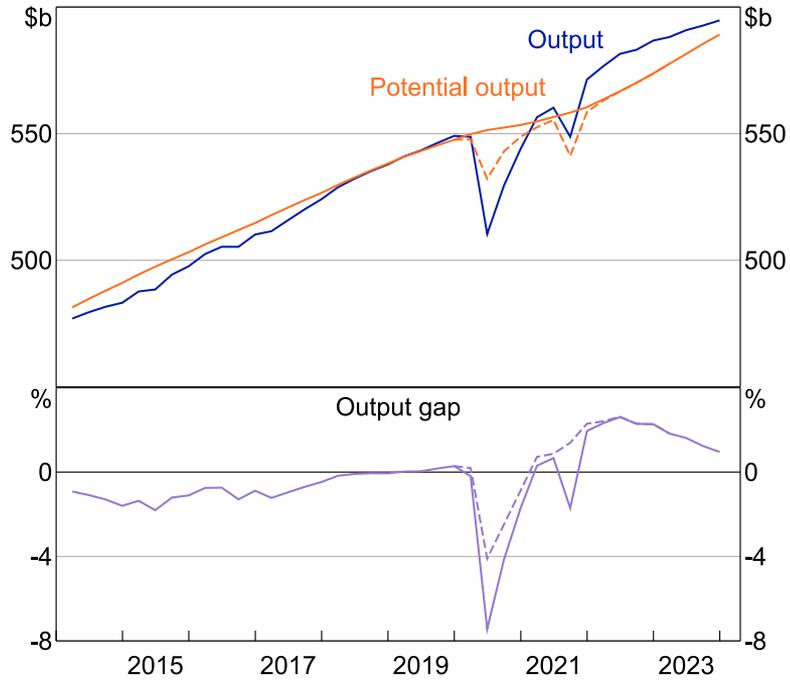


The difference between actual output and potential output is called the 'output gap'



## Aggregate Demand and Supply\*

Selected model estimates



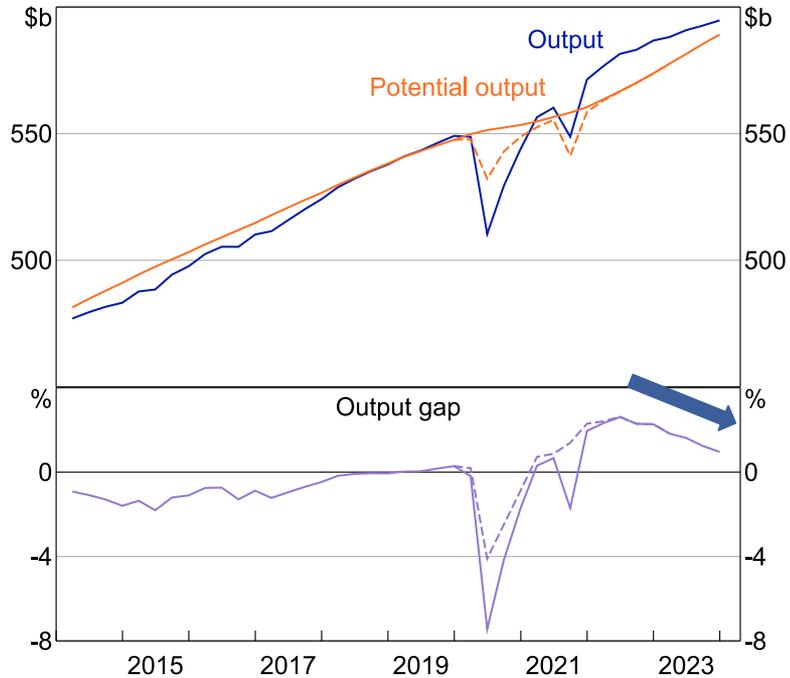
\* Estimates of potential output and output gap from one of the models in the RBA's suite; dashed lines include an illustrative adjustment for pandemic activity restrictions; levels reflect 2021/22 prices.

Sources: ABS; RBA.



## 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.

Demand has eased considerably, and this is helping to close the output gap



# Labour market

## Key points:

- Australia's labour market has continued to ease but more gradually than anticipated
- The labour market still remains tight relative to full employment
- This means that people who want a job can generally find one without having to search for too long



## Unemployment Rate and Hours Worked



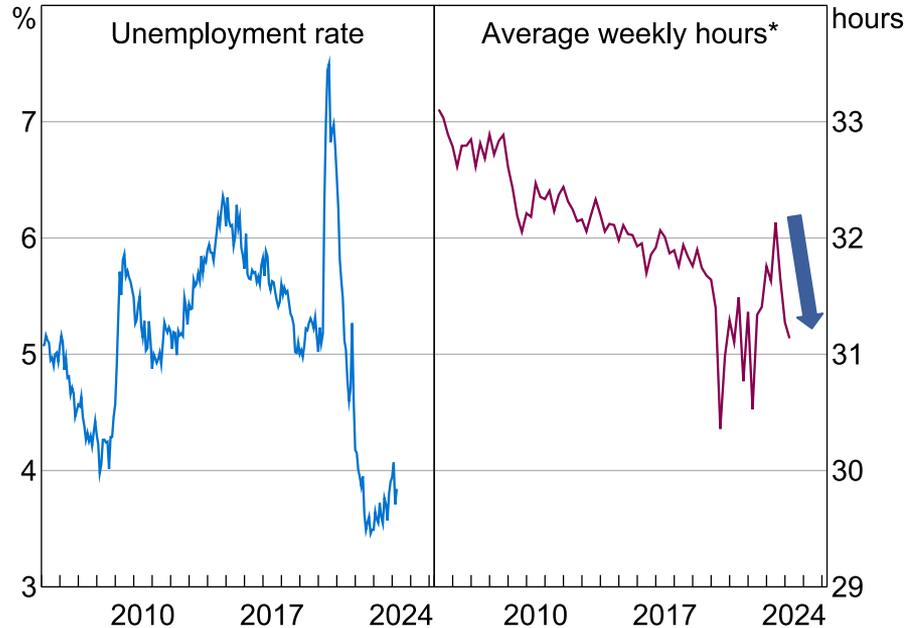
\* Quarterly average.

Sources: ABS; RBA.

The unemployment rate was 3.8 per cent in March, only slightly above its 50-year low of 3.5 per cent in late 2022



## Unemployment Rate and Hours Worked



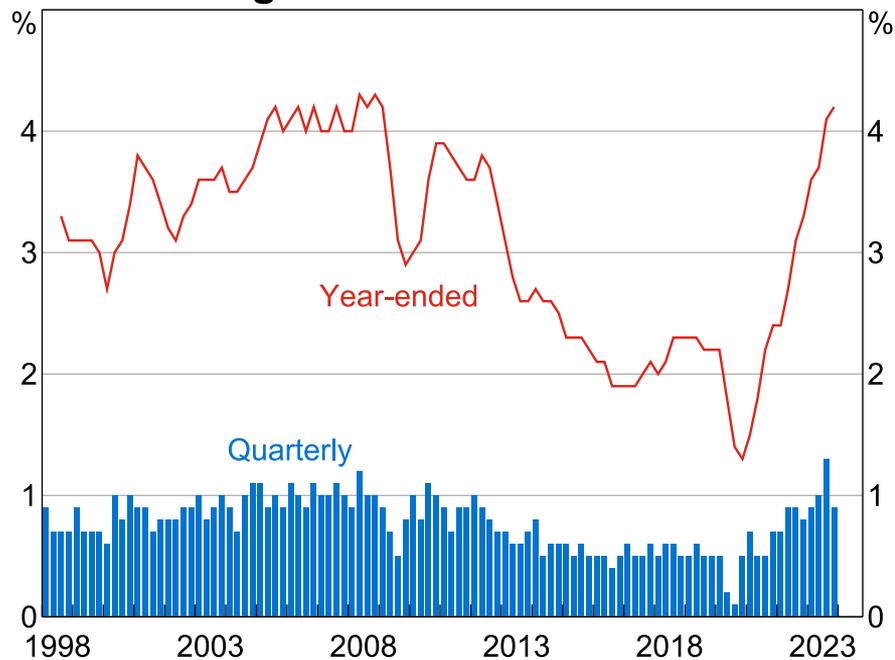
\* Quarterly average.

Sources: ABS; RBA.

People, on average, are working fewer hours



## Wage Price Index Growth\*

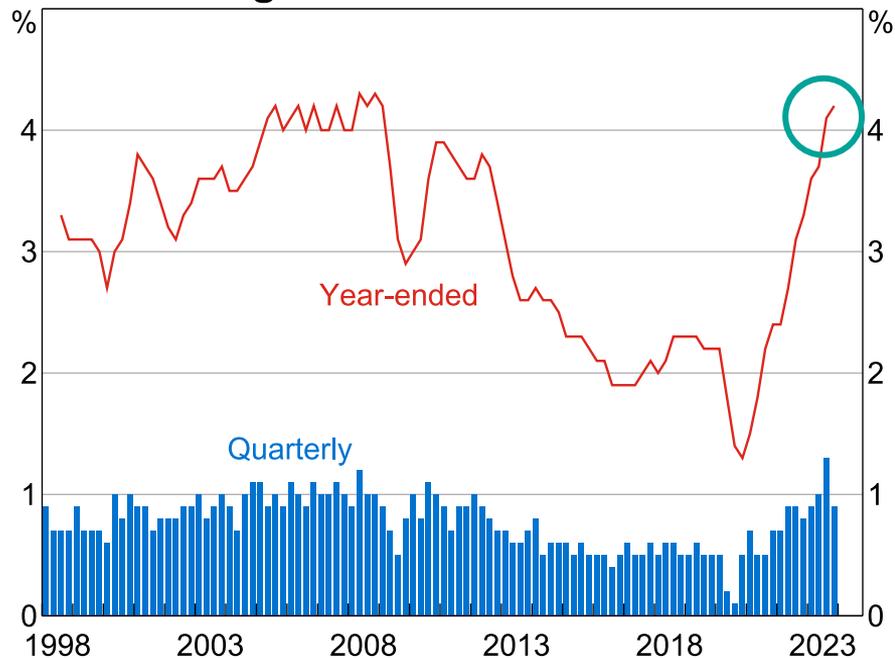


\* Total pay excluding bonuses.

Source: ABS.



## Wage Price Index Growth\*



\* Total pay excluding bonuses.

Source: ABS.

Year-ended growth in the WPI increased a little further in the December quarter of 2023 to 4.2 per cent

But wages growth appears to have peaked



# Inflation

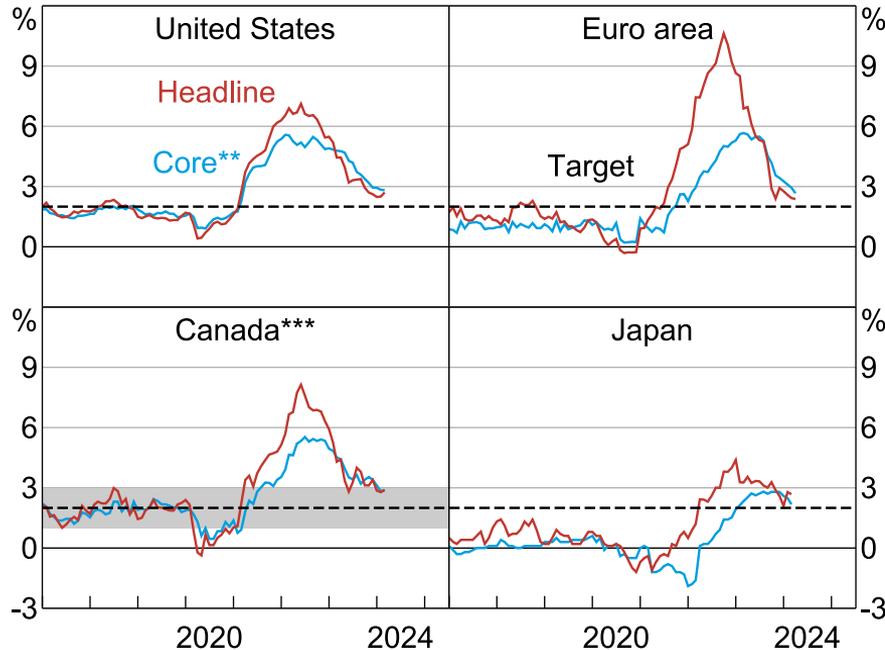
## Key points:

- Inflation has been falling but it still remains too high
- Inflation remains above target in Australia and in most advanced economies



## Inflation\*

Year-ended



Headline inflation captures all consumer prices

Core or underlying inflation removes the effect of irregular or temporary price changes

\* PCE for the United States, CPI for others.

\*\* Core is headline inflation excluding food and energy.

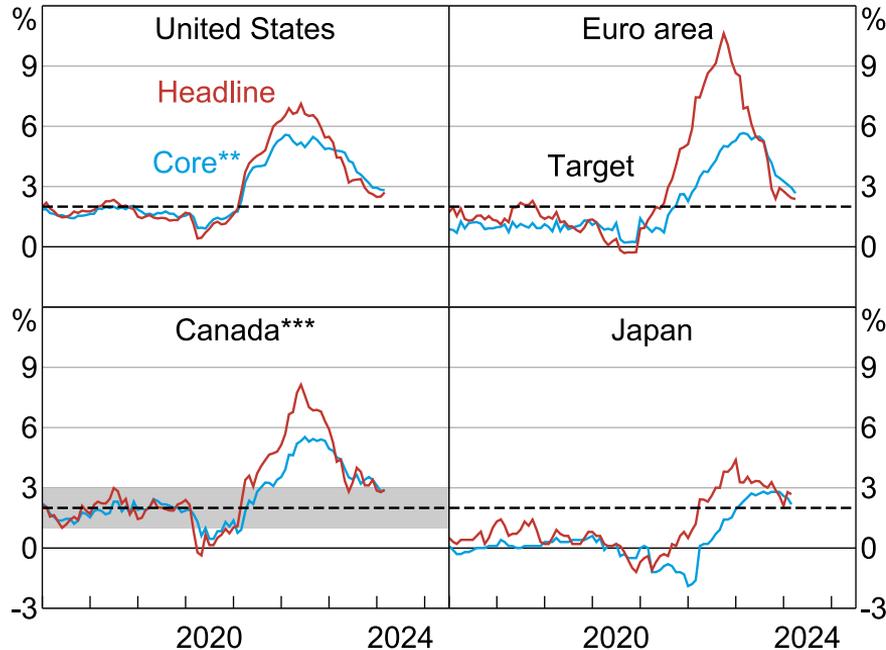
\*\*\* Shaded area represents target range for inflation.

Sources: LSEG; RBA.



## Inflation\*

Year-ended



Inflation in advanced economies remains above central bank targets and progress in lowering inflation has stalled for some

\* PCE for the United States, CPI for others.

\*\* Core is headline inflation excluding food and energy.

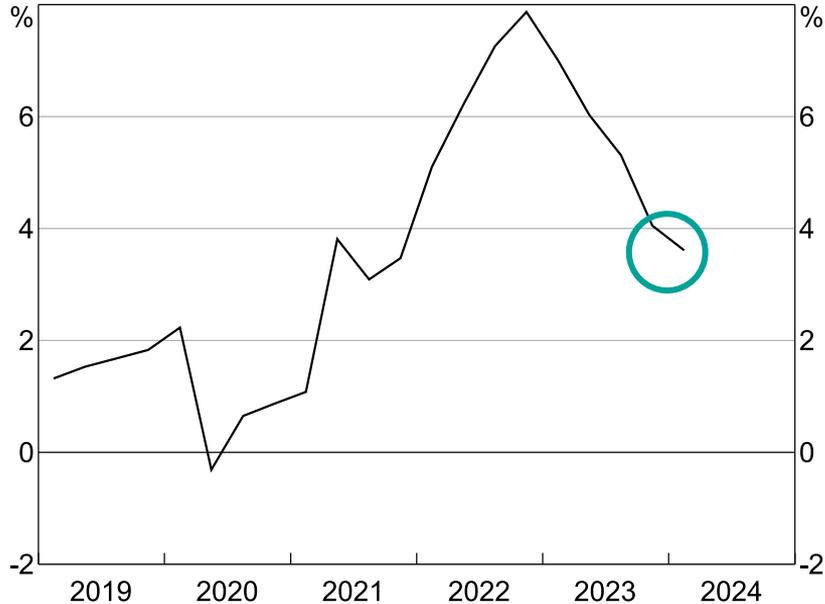
\*\*\* Shaded area represents target range for inflation.

Sources: LSEG; RBA.



## CPI Inflation

Year-ended



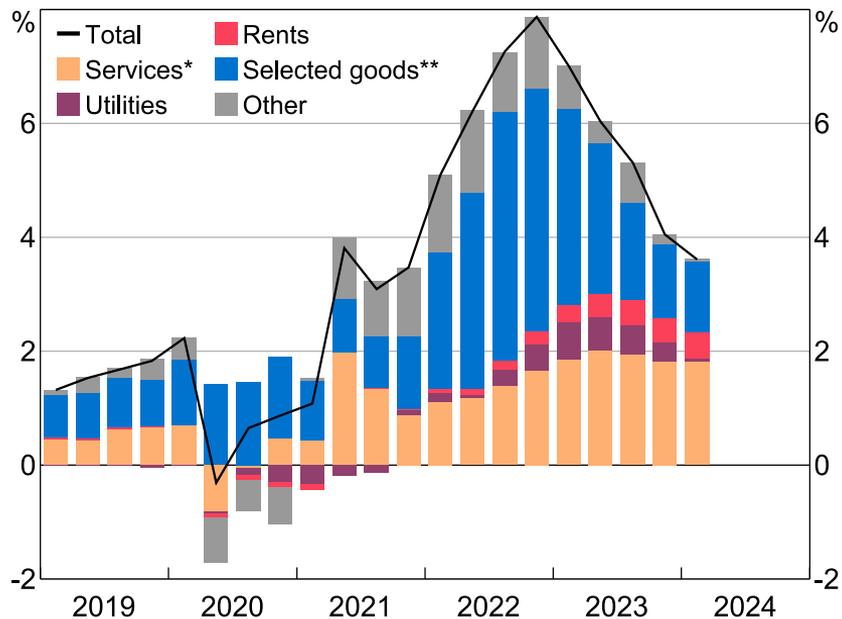
Sources: ABS; RBA.

The Consumer Price Index (CPI) increased by 0.9 per cent in the March quarter to be 3.6 per cent higher over the year



## CPI Inflation

Year-ended with contributions



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

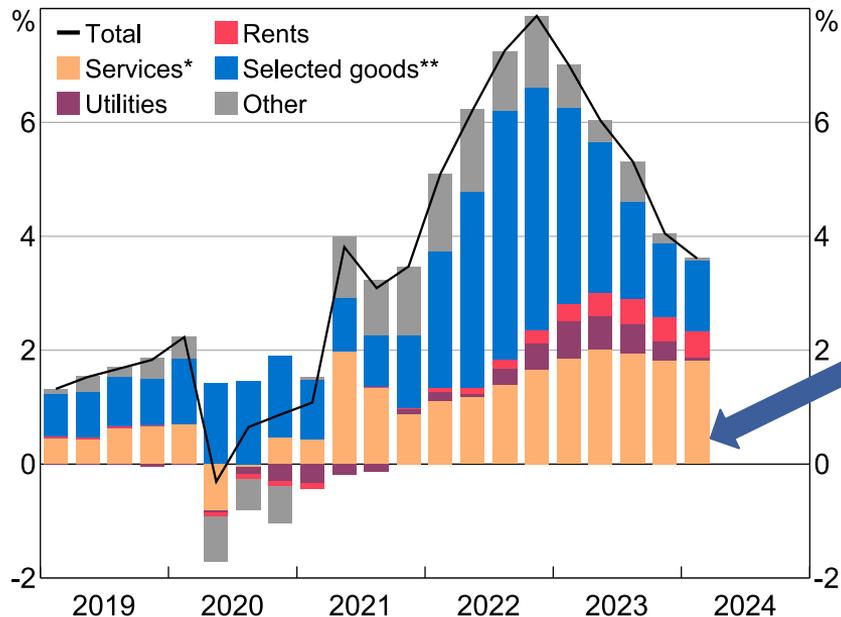
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## CPI Inflation

Year-ended with contributions



Services inflation has passed its peak but continues to make a large contribution to headline inflation

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

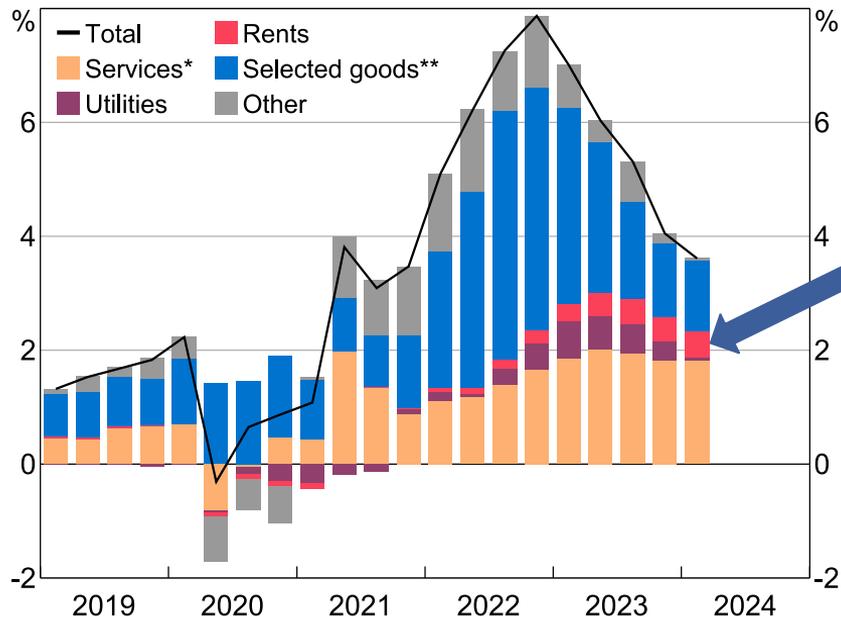
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## CPI Inflation

Year-ended with contributions



Rent inflation has made a sizeable contribution to headline inflation

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

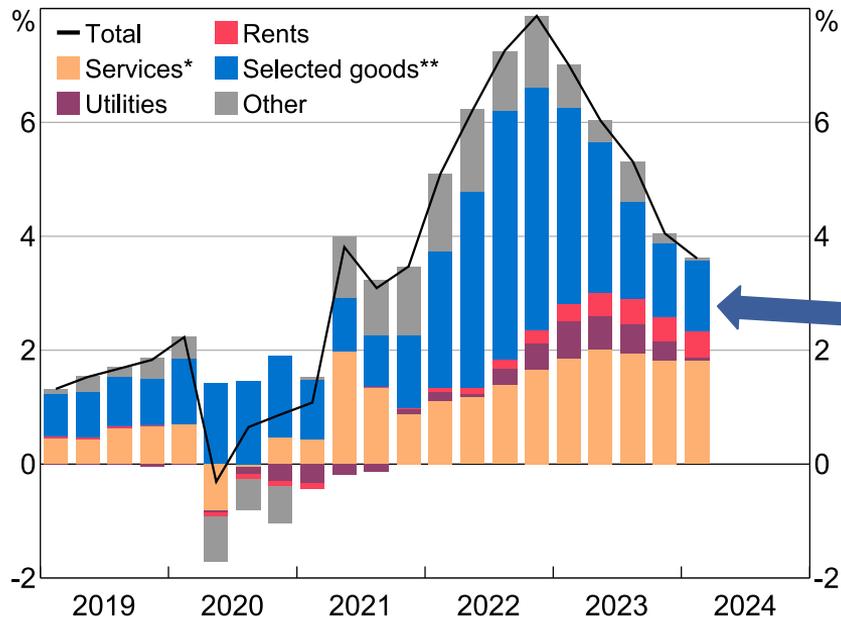
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## CPI Inflation

Year-ended with contributions



Goods price inflation has continued to ease and has made a smaller contribution to headline inflation recently

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

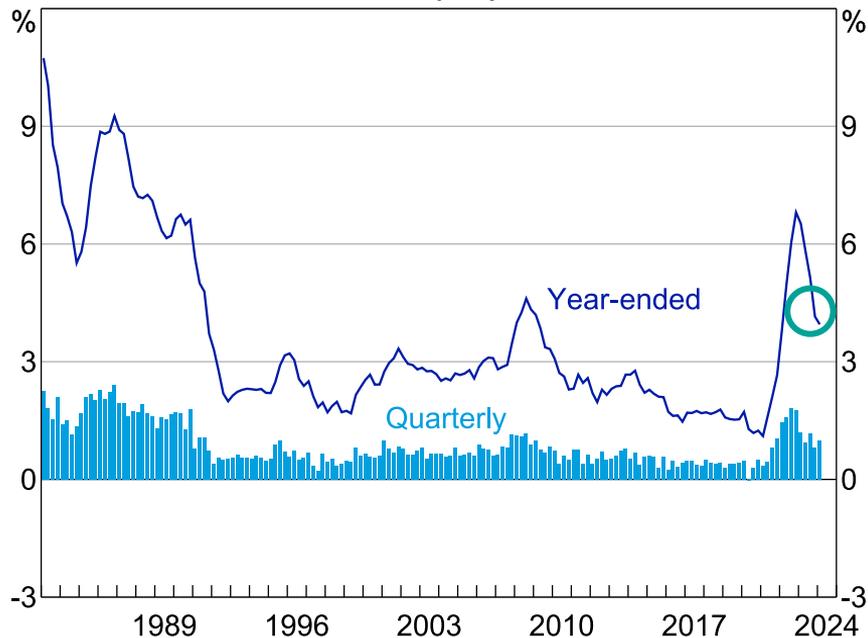
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## Trimmed Mean Inflation\*

Seasonally adjusted



\* Excludes interest charges prior to the September quarter of 1998 and deposit & loan facilities; adjusted for the tax changes of 1999–2000.

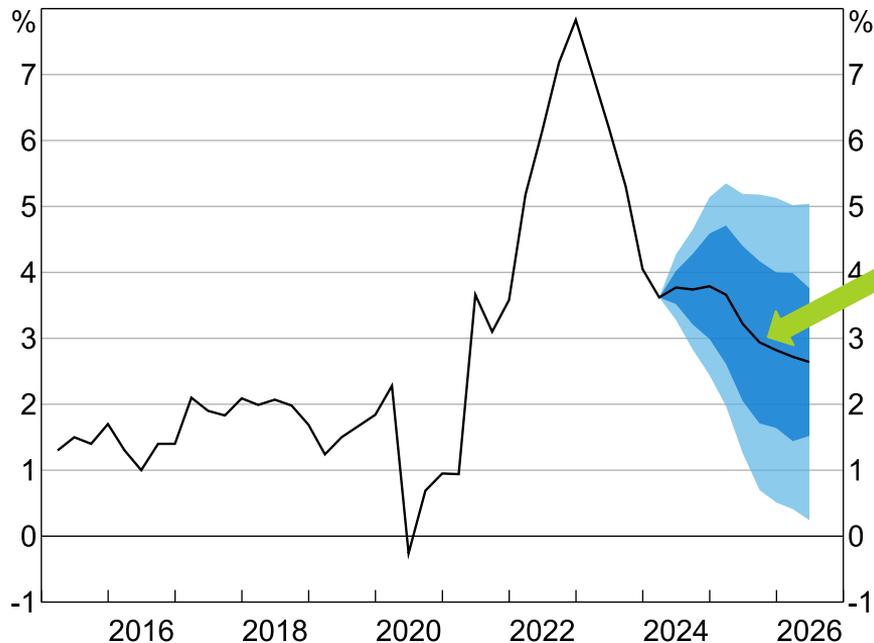
Sources: ABS; RBA.

Trimmed mean inflation was 1 per cent in the March quarter and 4 per cent in year-ended terms



## Headline Inflation Forecast\*

Year-ended



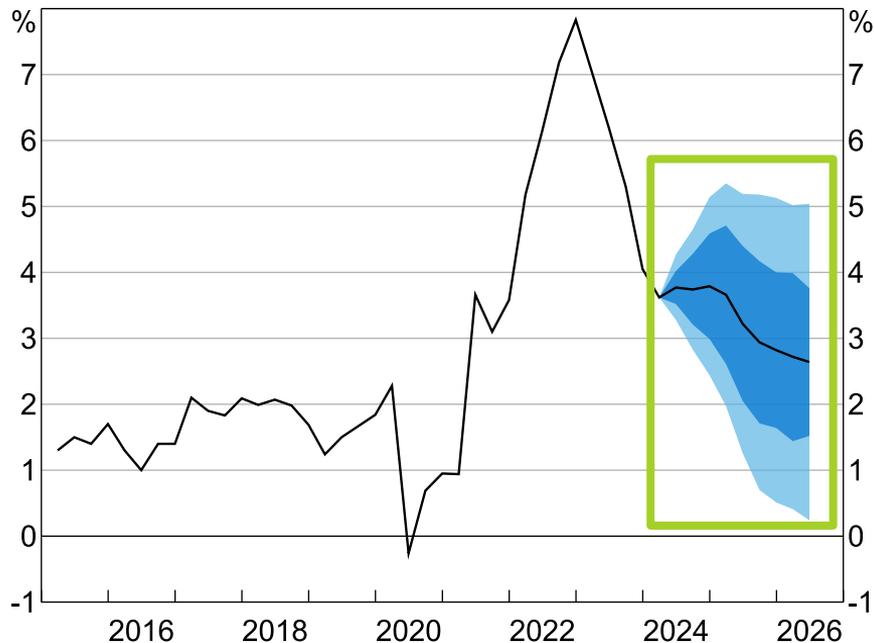
Inflation is expected to return to the target range of 2 to 3 per cent in the second half of 2025

\* Confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.



## Headline Inflation Forecast\*

Year-ended

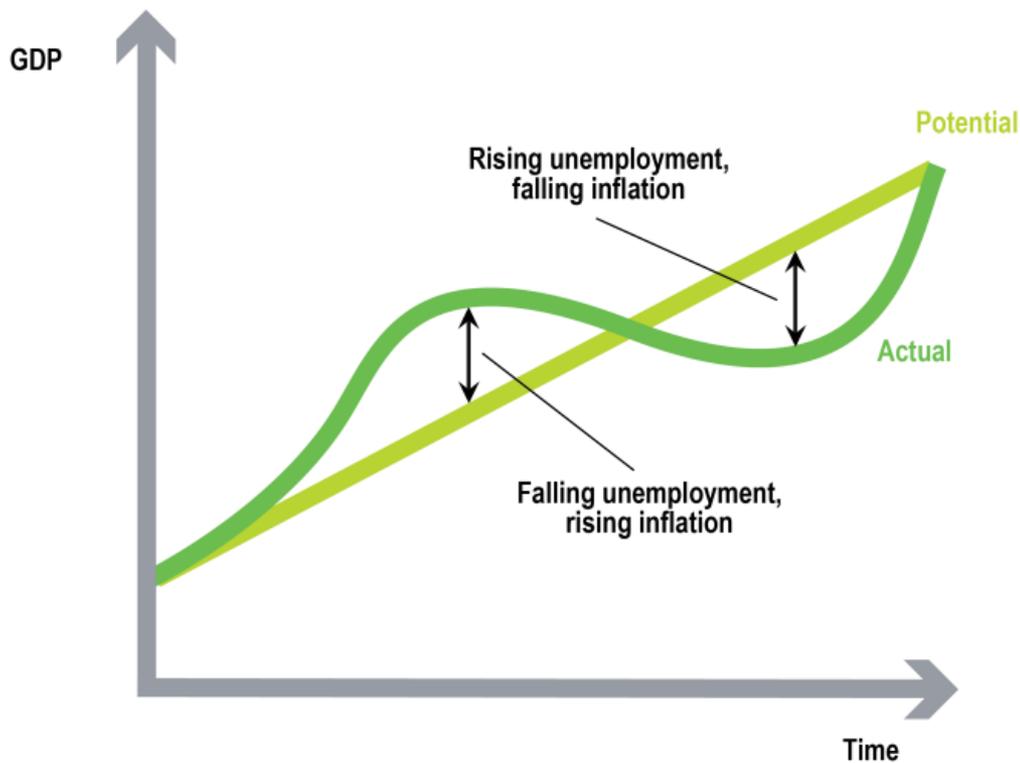


Inflation is expected to return to the target range of 2 to 3 per cent in the second half of 2025

There is substantial uncertainty around forecasts that far in the future

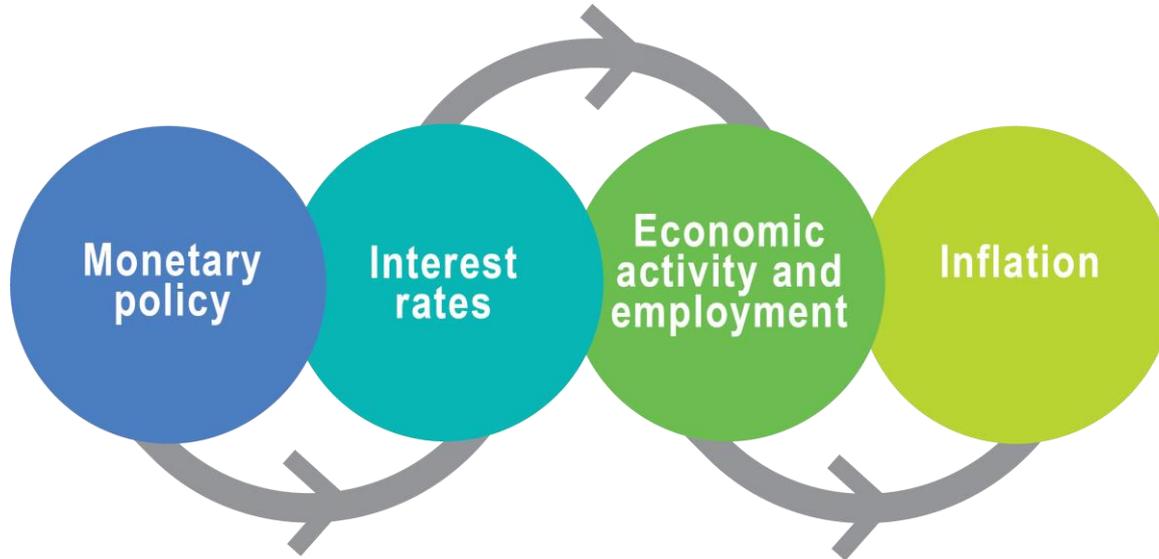
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# Monetary Policy – How has the RBA responded?



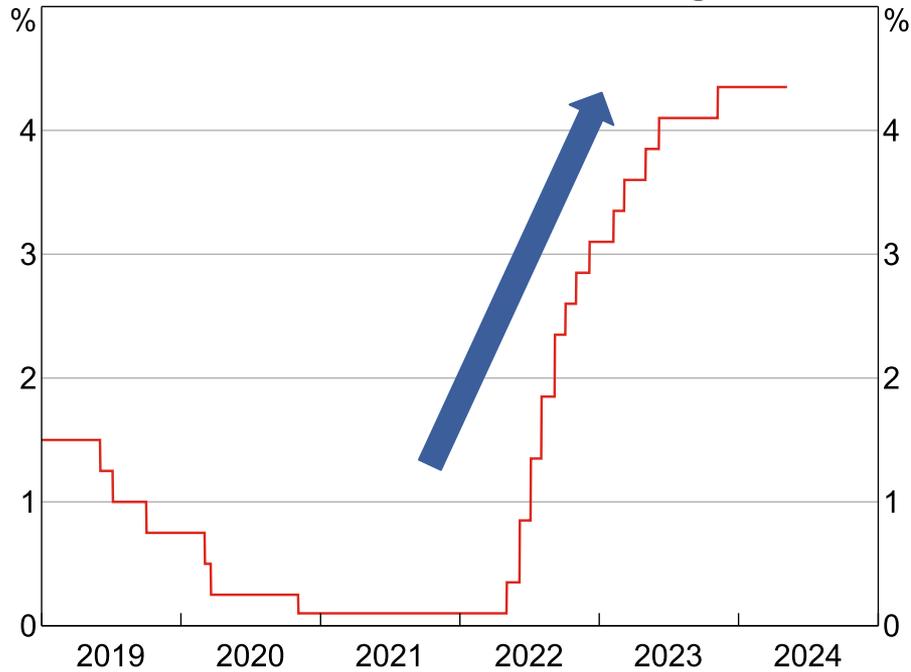


# Monetary Policy – Transmission Mechanism





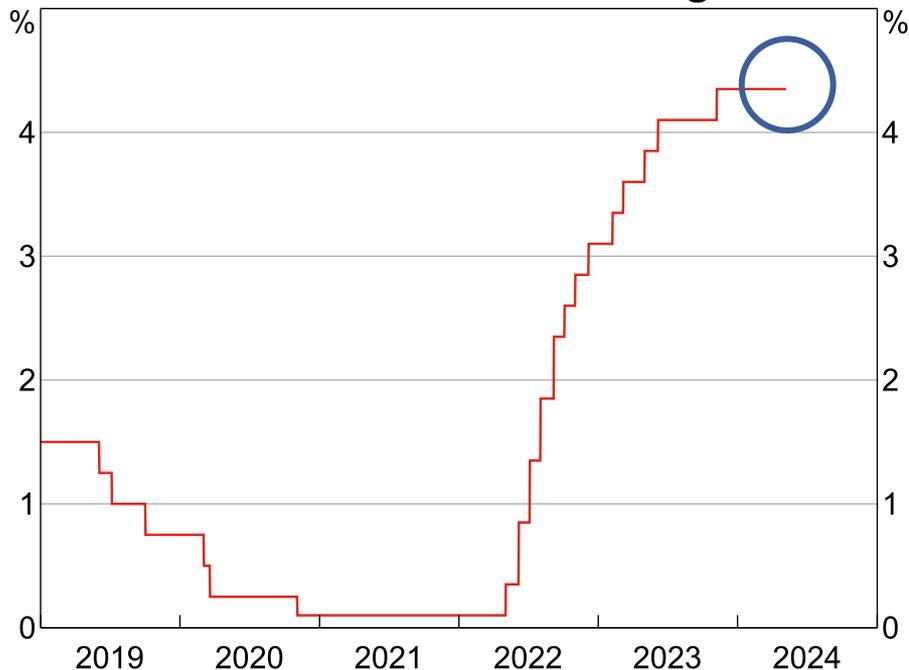
## Australian Cash Rate Target



Source: RBA.



## Australian Cash Rate Target



Source: RBA.

The Reserve Bank Board decided to leave the cash rate unchanged at 4.35 per cent in May 2024