



RESERVE BANK OF AUSTRALIA

# Monetary Policy and Current Economic Conditions

Education



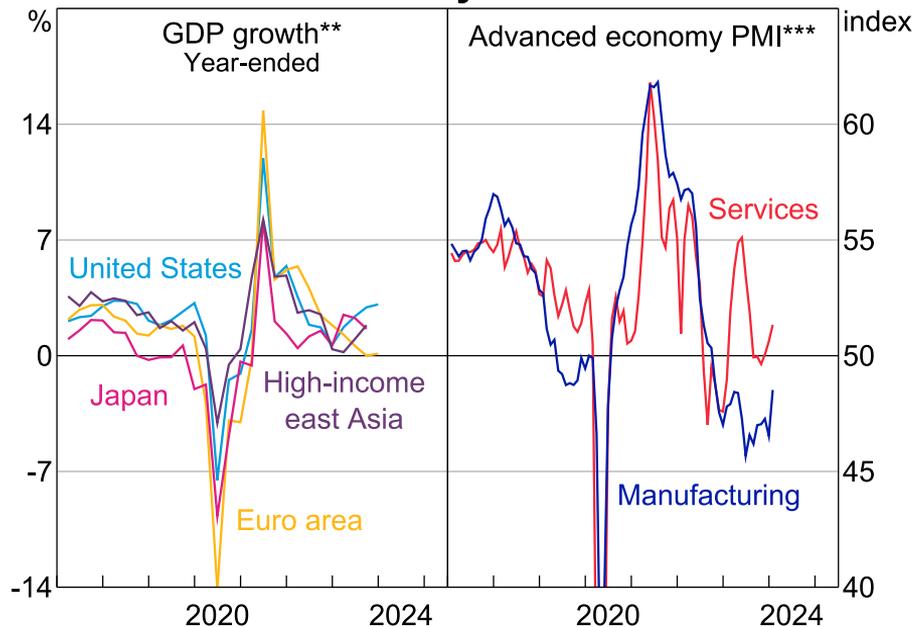
# Economic growth

## Key points:

- Economic activity in Australia and many advanced economies has softened over the second half of last year
- A common driver has been weak growth in household consumption



## Global Activity Indicators\*



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

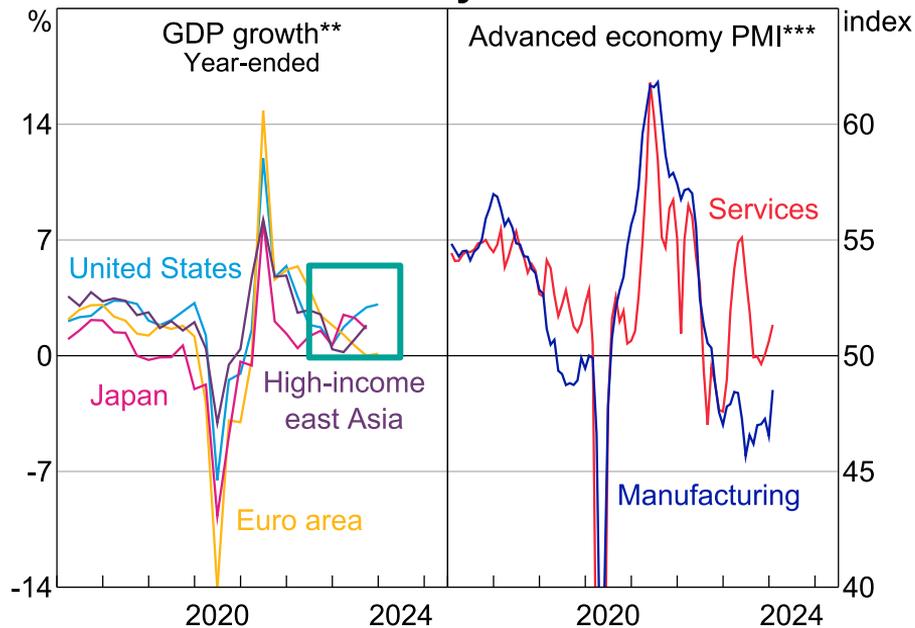
\*\* High-income east Asia is a PPP-weighted average of South Korea, Taiwan, Singapore and Hong Kong.

\*\*\* Purchasing Managers' Index; PPP-weighted average of the United States, euro area, United Kingdom and Japan.

Sources: CEIC Data; LSEG; RBA; S&P Global.



## Global Activity Indicators\*



Growth in economic activity has slowed in many, but not all, advanced economies

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

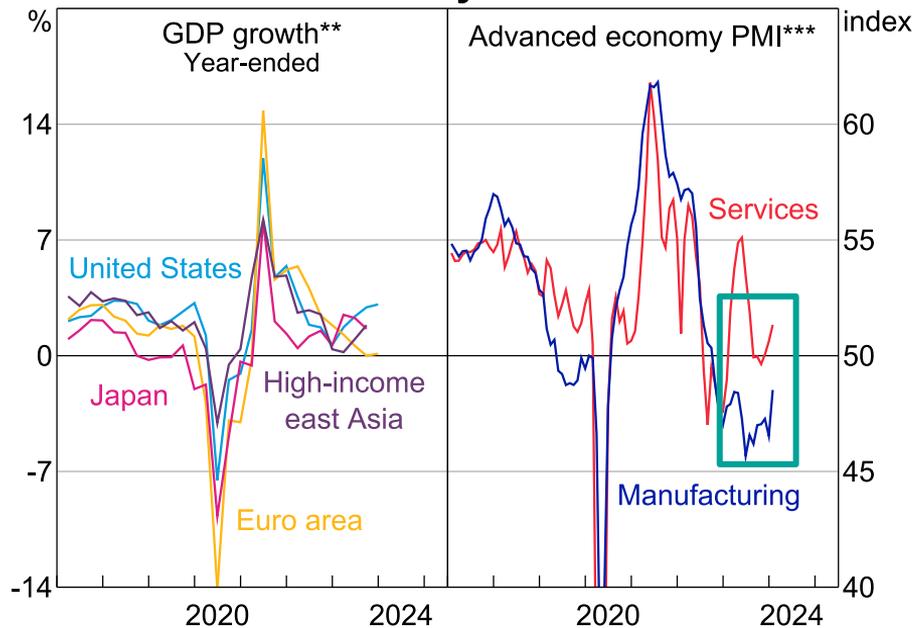
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## Global Activity Indicators\*



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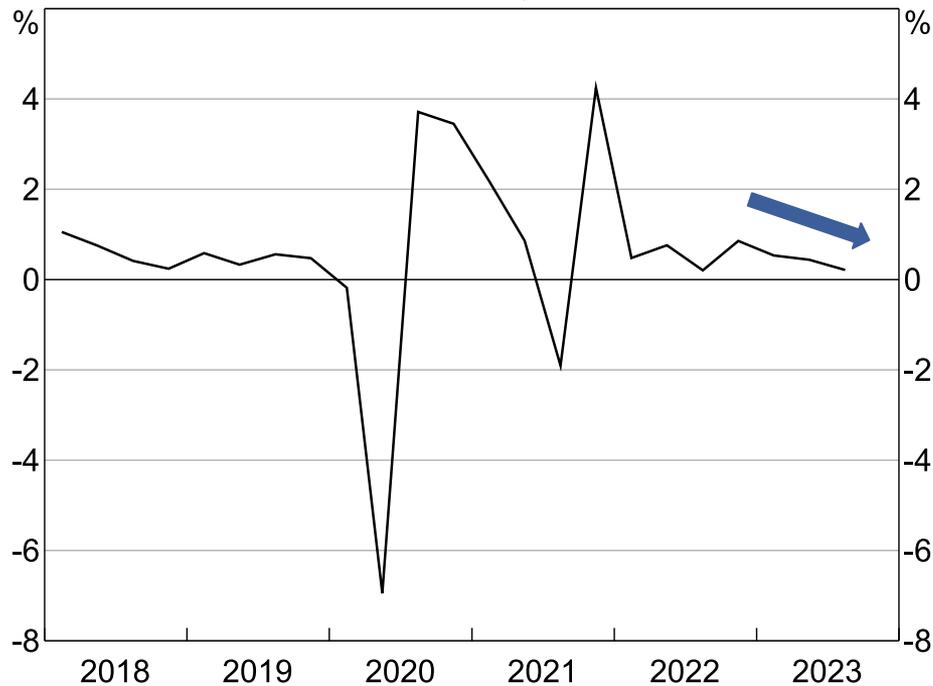
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## GDP Growth

Quarterly



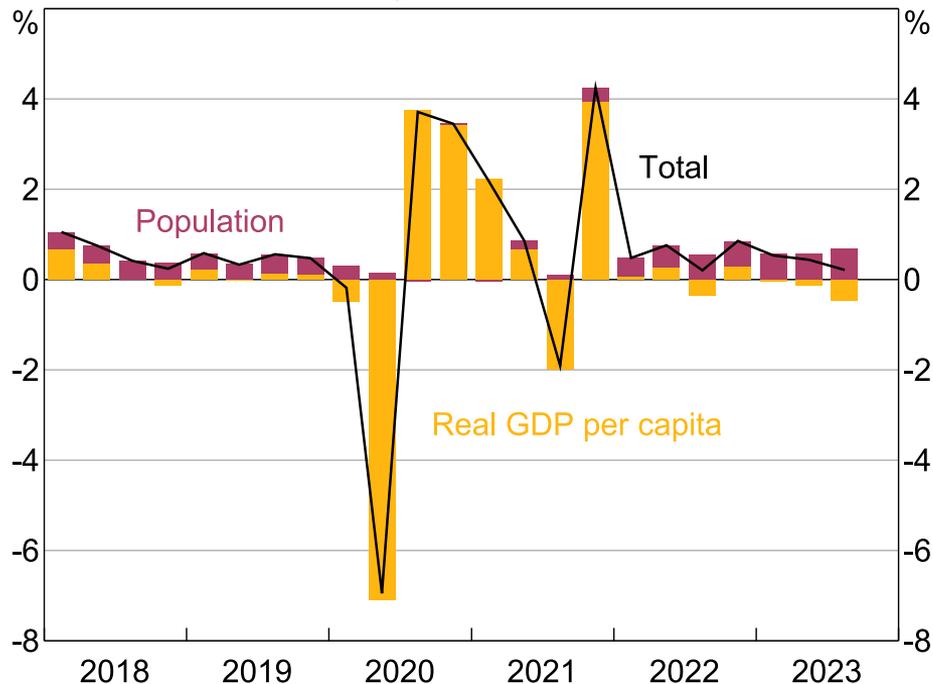
Sources: ABS; RBA.

Australia's GDP growth slowed over 2023



## GDP Growth

Quarterly with contributions



Sources: ABS; RBA.

Real GDP per capita = total value of real GDP divided by the population

Australia's real GDP per capita declined over 2023



# Why has GDP growth slowed?

- Consumption has been the primary driver
- But partly offset by:
  - strong growth in business investment
  - public sector spending
  - spending by international students and tourists (make up services exports)

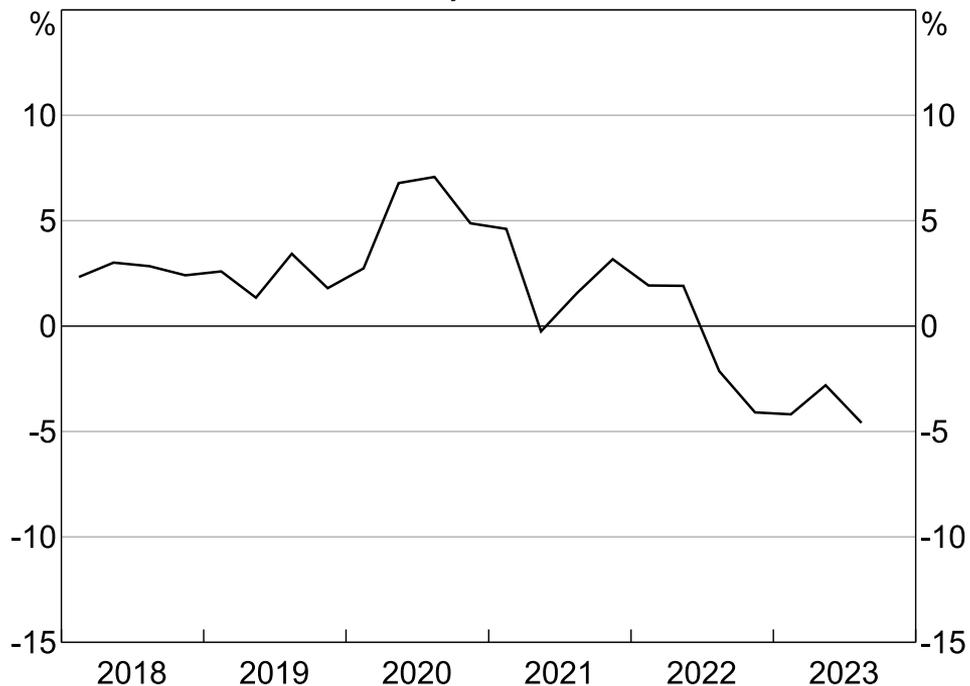
**Aggregate Demand**

$$\mathbf{C + I + G + (X-M)}$$



## Household Disposable Income Growth

Real, year-ended



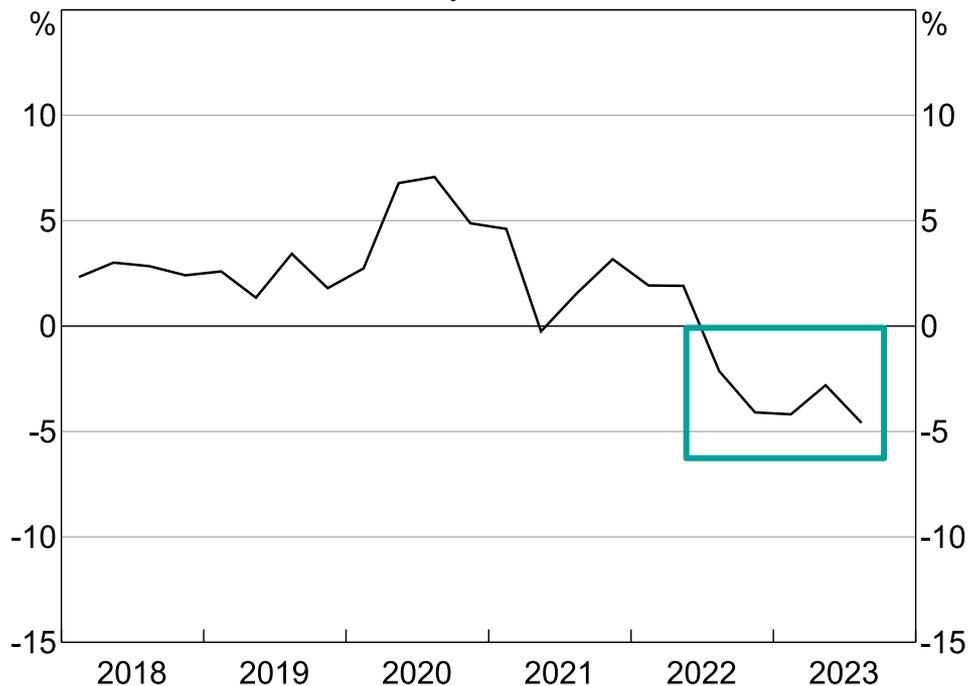
Sources: ABS; RBA.

Real household disposable income refers to income that's available for spending or saving after deducting tax and interest payments, and adjusting for inflation



## Household Disposable Income Growth

Real, year-ended



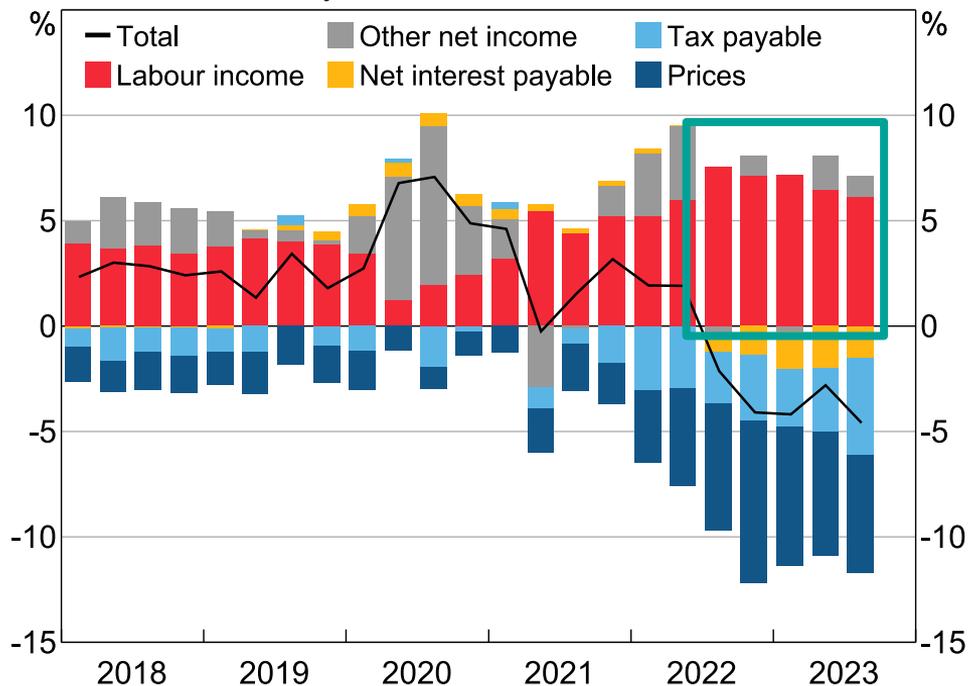
Sources: ABS; RBA.

Year-ended growth in real household disposable income has been negative



# Household Disposable Income Growth

Real, year-ended with contributions



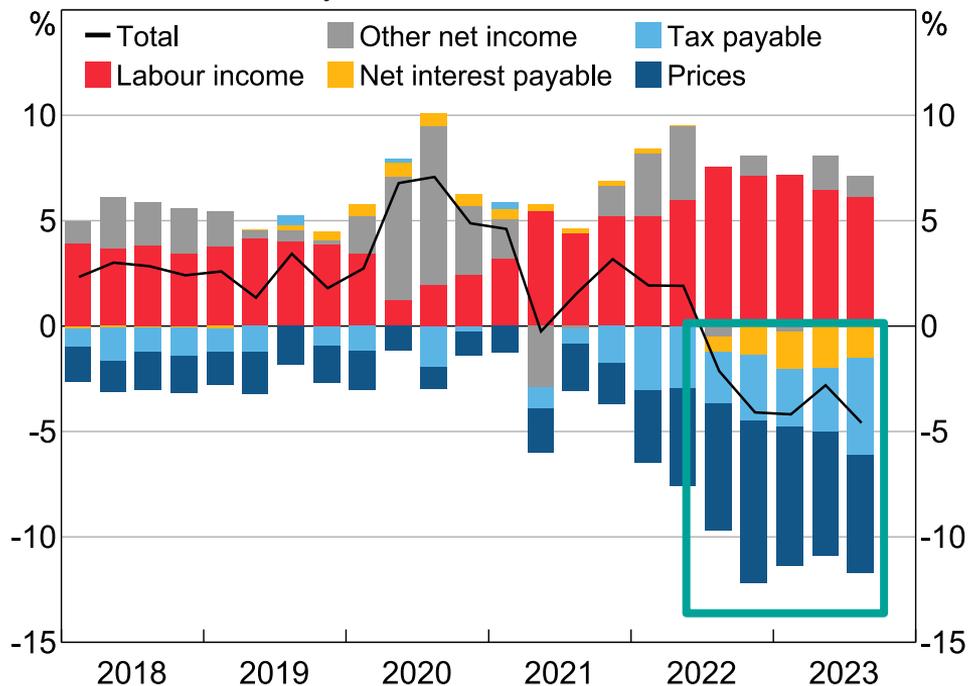
Sources: ABS; RBA.

Labour income has grown strongly



# Household Disposable Income Growth

Real, year-ended with contributions



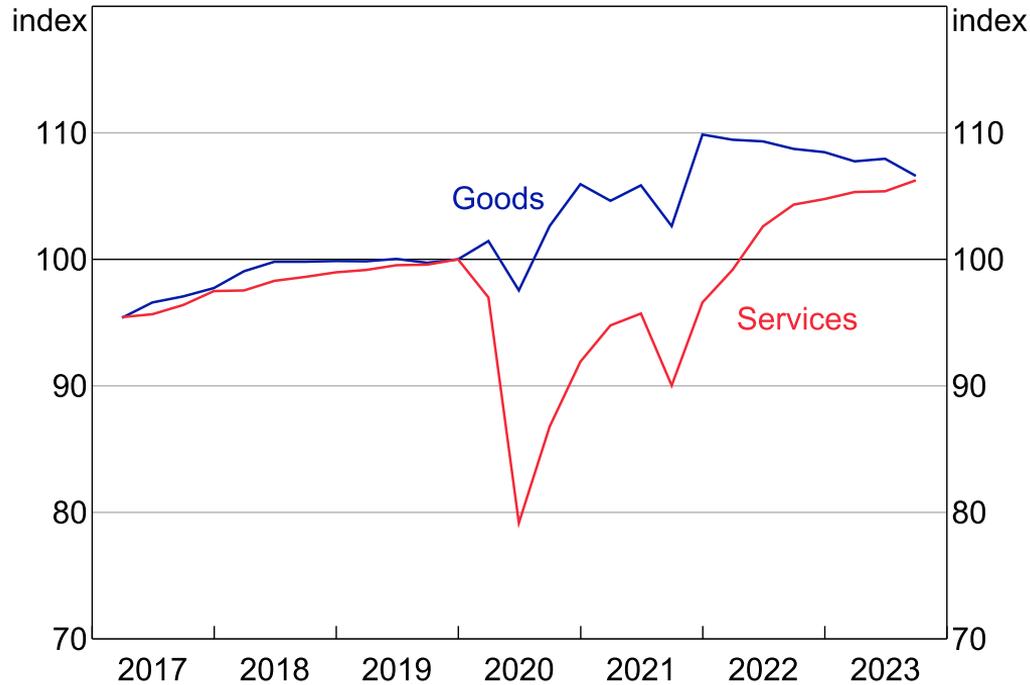
Sources: ABS; RBA.

But this has been more than offset by high inflation, strong growth in tax payments, and higher interest rates



# Household Consumption

December quarter 2019 = 100

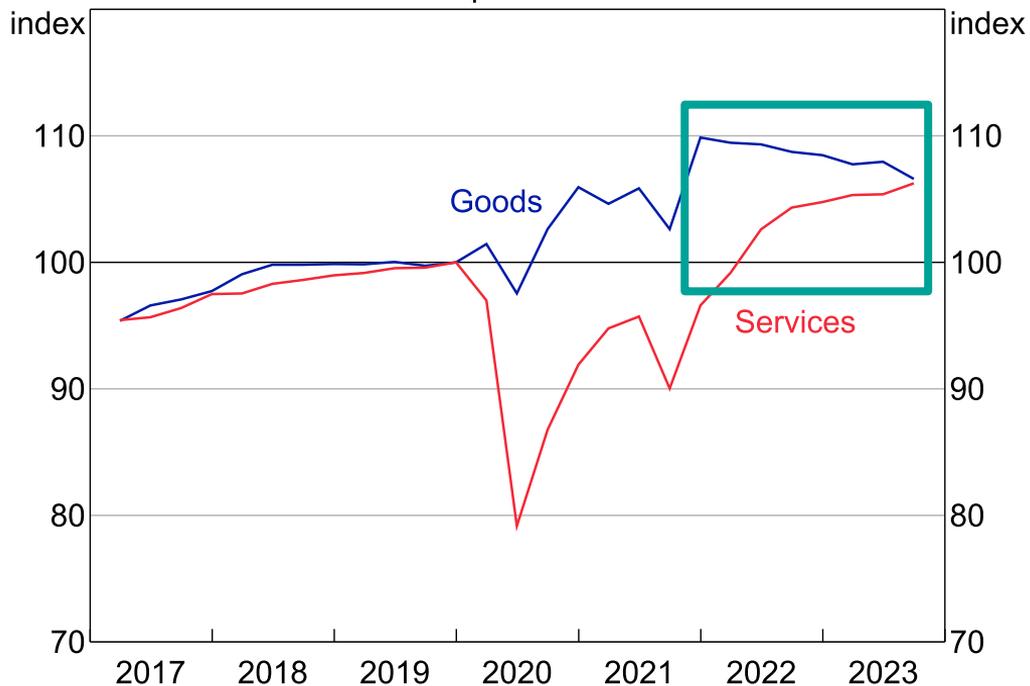


Sources: ABS; RBA.



## Household Consumption

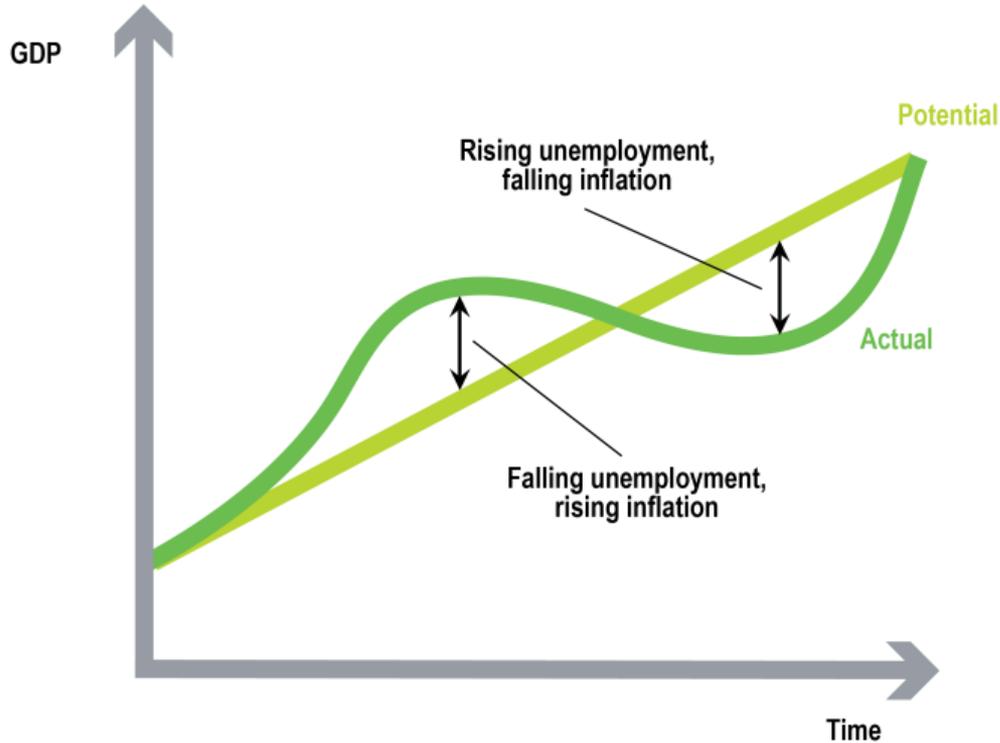
December quarter 2019 = 100



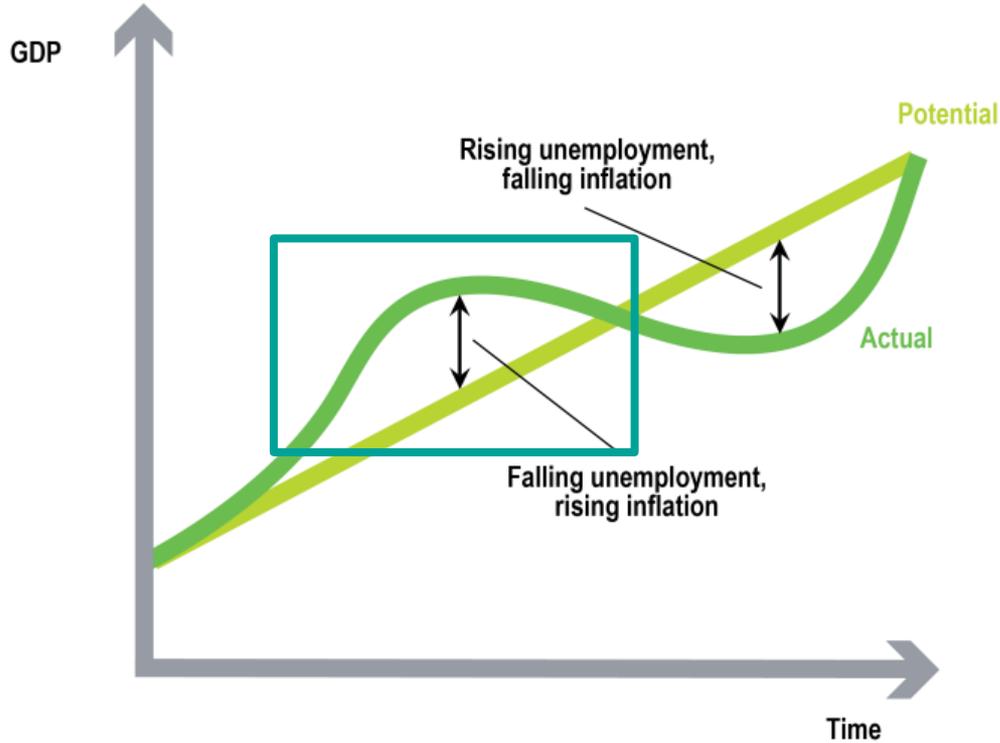
Sources: ABS; RBA.

Households are spending less on goods

Consumption of services has been more resilient



The RBA's overall assessment is that the level of aggregate demand remains above the economy's capacity to supply goods and services



This excess demand puts upwards pressure on inflation



# Labour market

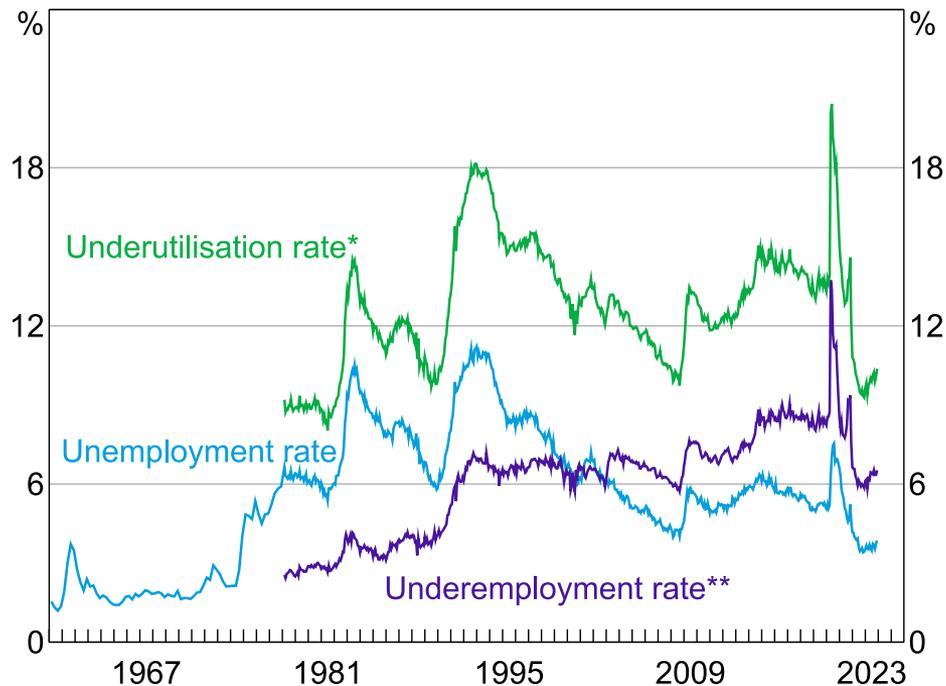
## Key points:

- Australia's labour market remains tight but conditions have continued to ease over recent months
- Growth in labour demand has slowed, while labour supply has increased
- Wages growth remains robust, although there are signs that it is slowing



# Labour Underutilisation Rates

Heads-based



\* Sum of the unemployment and underemployment rates.

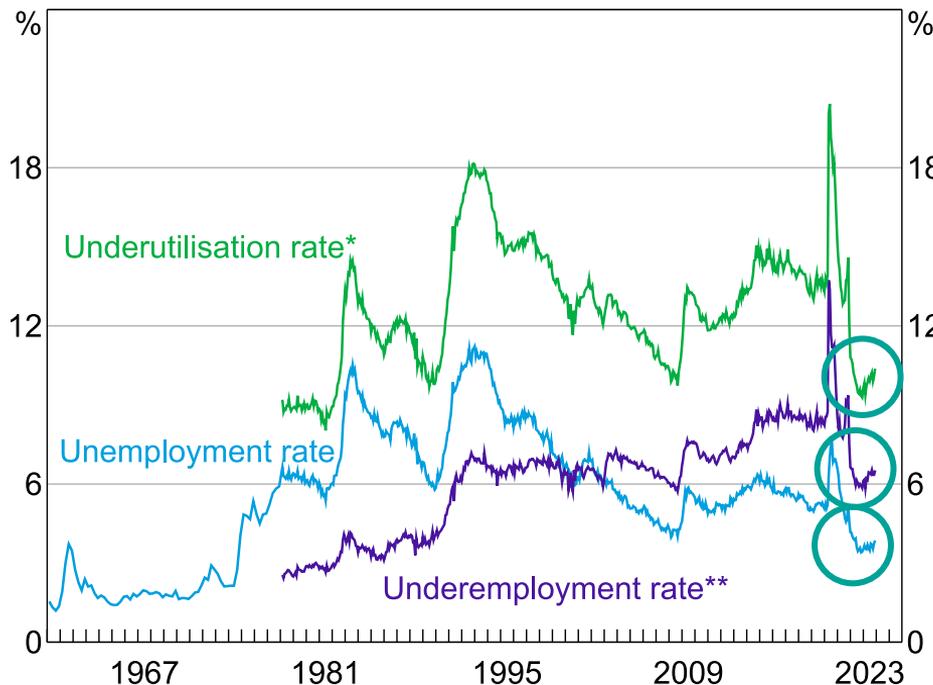
\*\* Employed people who want, and are available, to work more hours.

Source: ABS.



## Labour Underutilisation Rates

Heads-based



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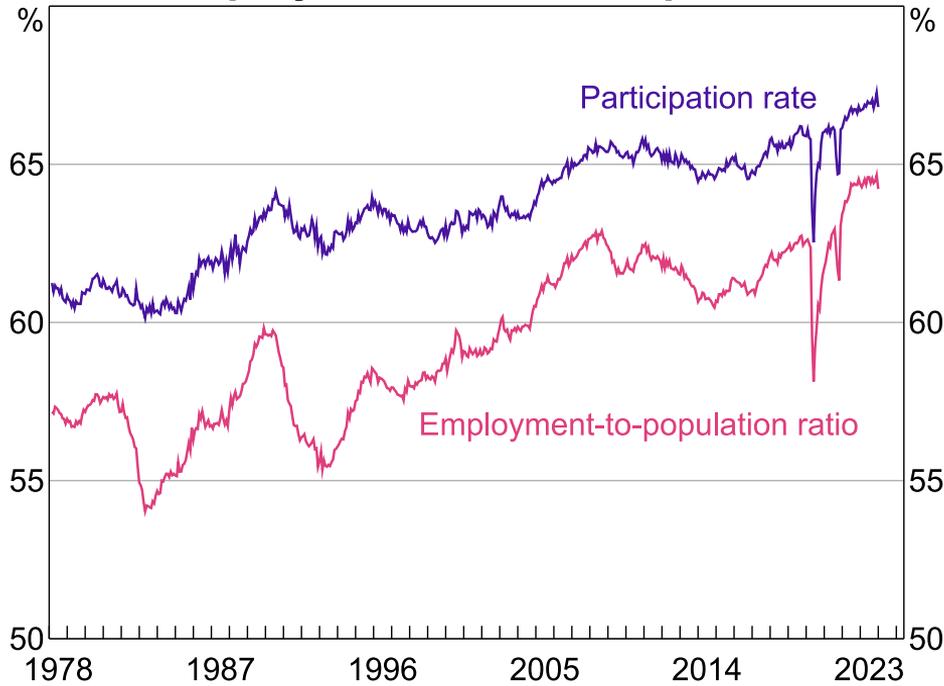
Source: ABS.

The unemployment and underemployment rates have both increased by around  $\frac{1}{2}$  percentage point from historically low levels

The underutilisation rate has also edged up further



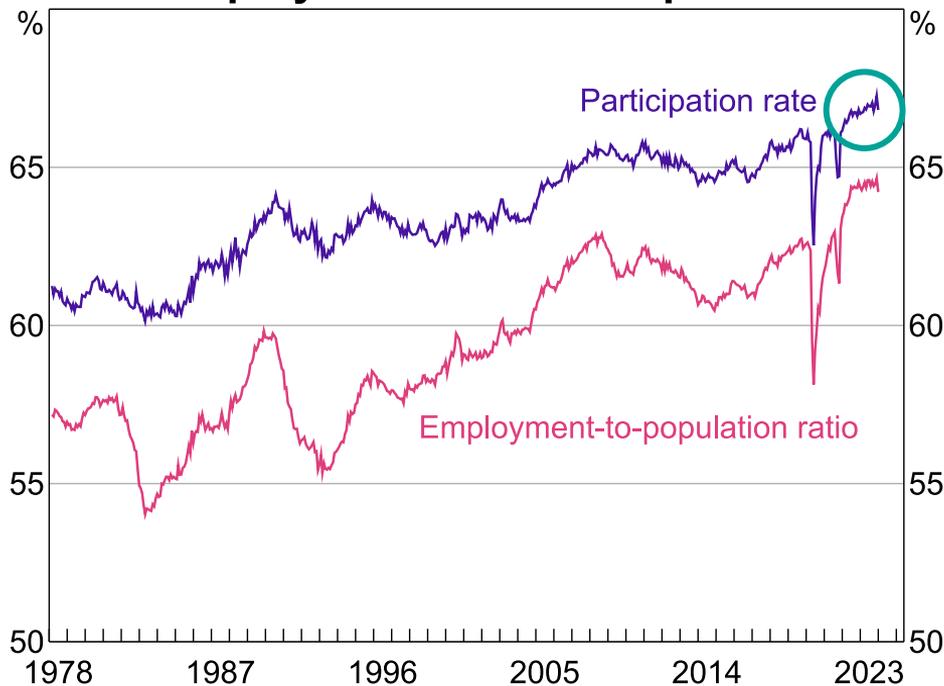
## Employment and Participation



Source: ABS.



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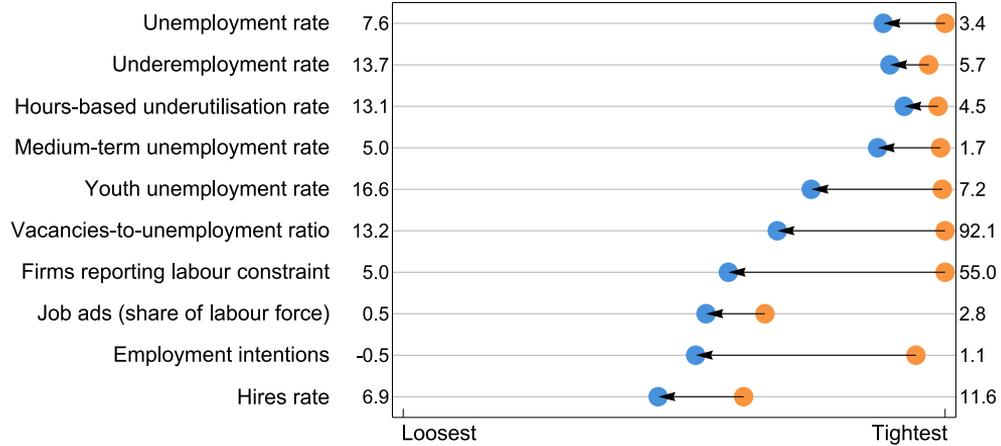
The supply of labour has increased with:

- strong population growth
- record high labour force participation



### Full Employment Indicators\*

Current conditions relative to 2000–2024 range



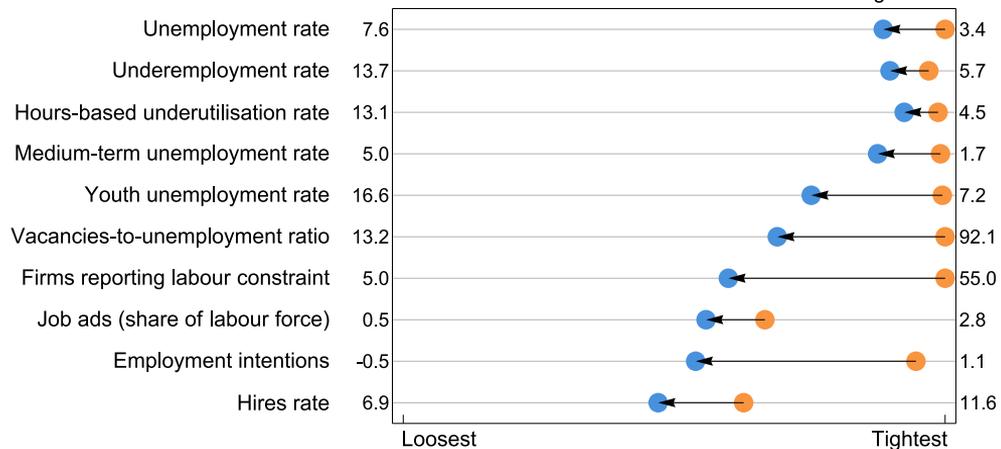
\* Blue dots represent current outcomes and orange dots show outcomes at October 2022.

Sources: ABS; JSA; NAB; RBA.



### Full Employment Indicators\*

Current conditions relative to 2000–2024 range



Orange dots show outcomes in late 2022

Blue dots show the latest available data

Labour market conditions are less 'tight' than in late 2022

\* Blue dots represent current outcomes and orange dots show outcomes at October 2022.

Sources: ABS; JSA; NAB; RBA.

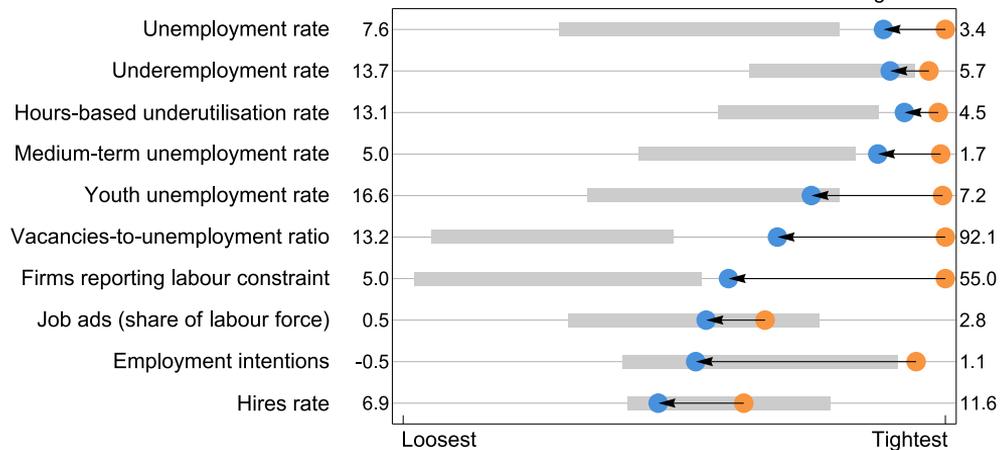


Less 'tight' (or looser)



### Full Employment Indicators\*

Current conditions relative to 2000–2024 range



But most indicators appear 'tight' relative to history

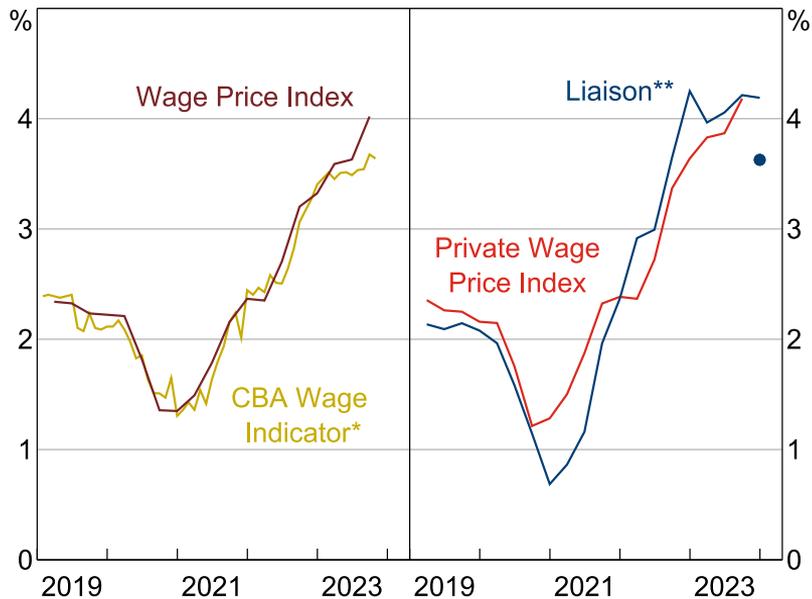
\* Blue dots represent current outcomes, orange dots show outcomes at October 2022 and light grey shaded regions cover the middle 80 per cent of observations since 2000.

Sources: ABS; JSA; NAB; RBA.



## Measures of Wages Growth

Year-ended



\* Changes in base wages based on a sample of CBA retail banking transactions.

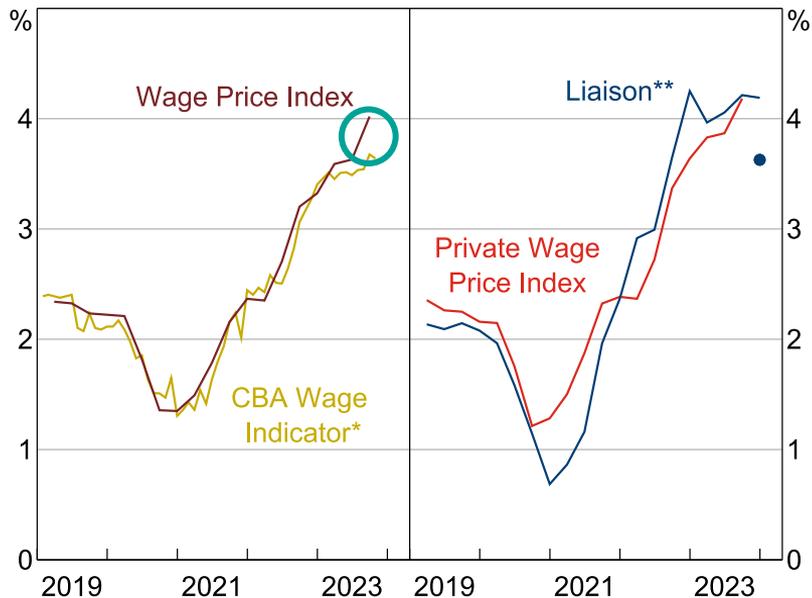
\*\* Private sector; trimmed mean; rescaled to have the same mean as the private Wage Price Index; dot represents liaison expectations over the year ahead.

Sources: ABS; CBA; RBA.



## Measures of Wages Growth

Year-ended



The Wage Price Index (WPI) recorded its largest quarterly increase since the beginning of the series in the late 1990s

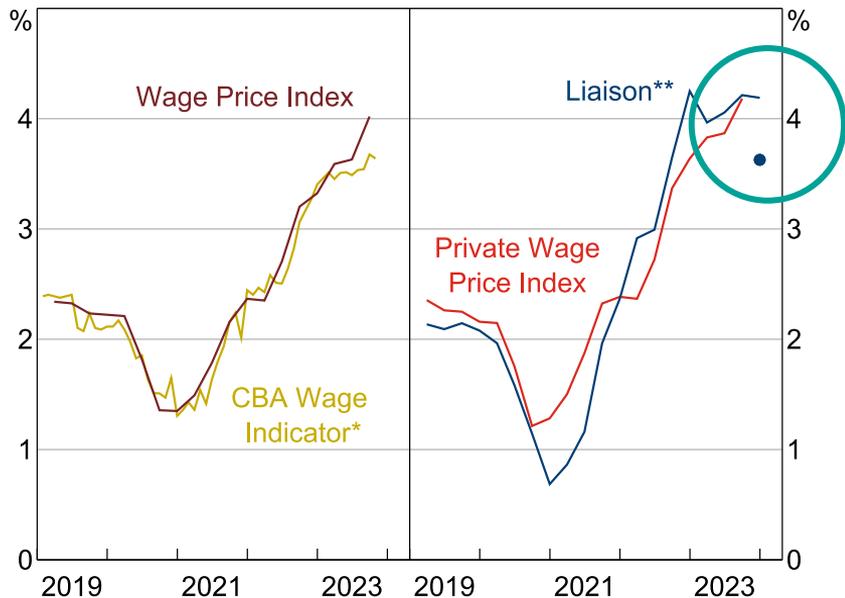
\* Changes in base wages based on a sample of CBA retail banking transactions.

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## Measures of Wages Growth

Year-ended



Some indicators suggest that wages growth is likely to ease a little over the year ahead

\* Changes in base wages based on a sample of CBA retail banking transactions.

\*\* Private sector; trimmed mean; rescaled to have the same mean as the private Wage Price Index; dot represents liaison expectations over the year ahead.



# Inflation

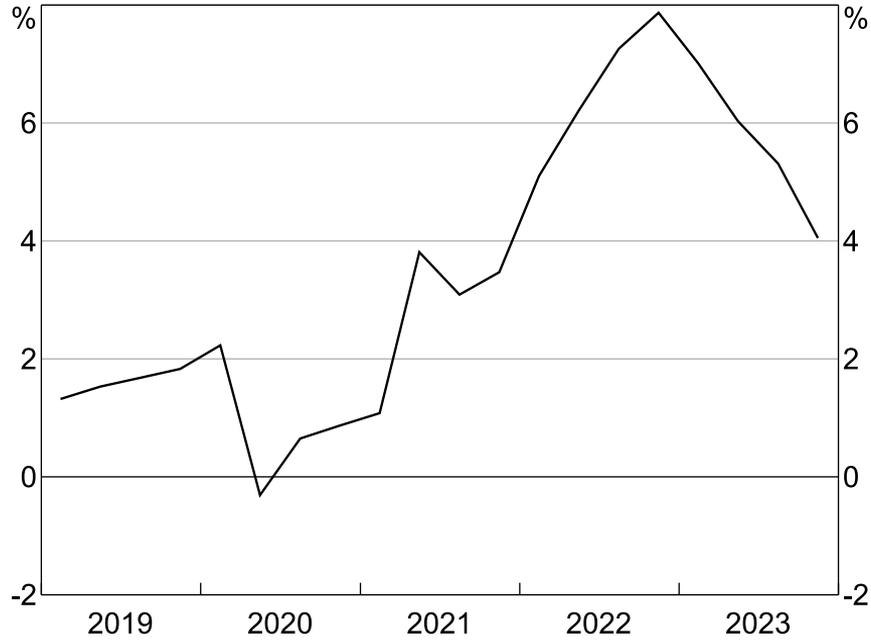
## Key points:

- Inflation remains high and above the RBA's target range of 2–3 per cent
- But inflation has been falling and at a slightly faster rate than our forecasts three months ago



## CPI Inflation

Year-ended

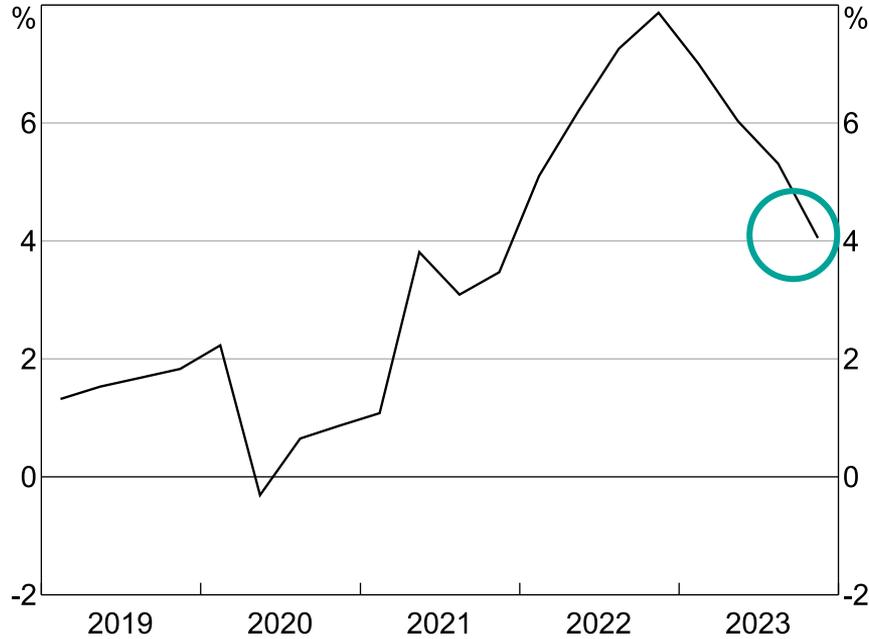


Sources: ABS; RBA.



## CPI Inflation

Year-ended



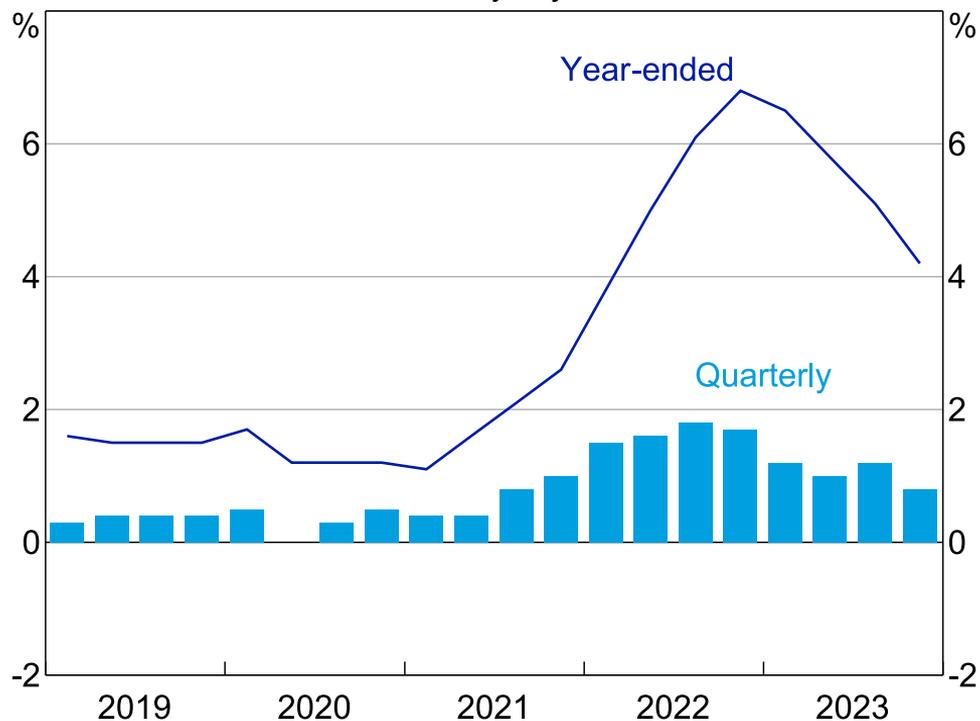
Sources: ABS; RBA.

CPI inflation in 2023 was  
4.1 per cent



## Trimmed Mean Inflation

Seasonally adjusted



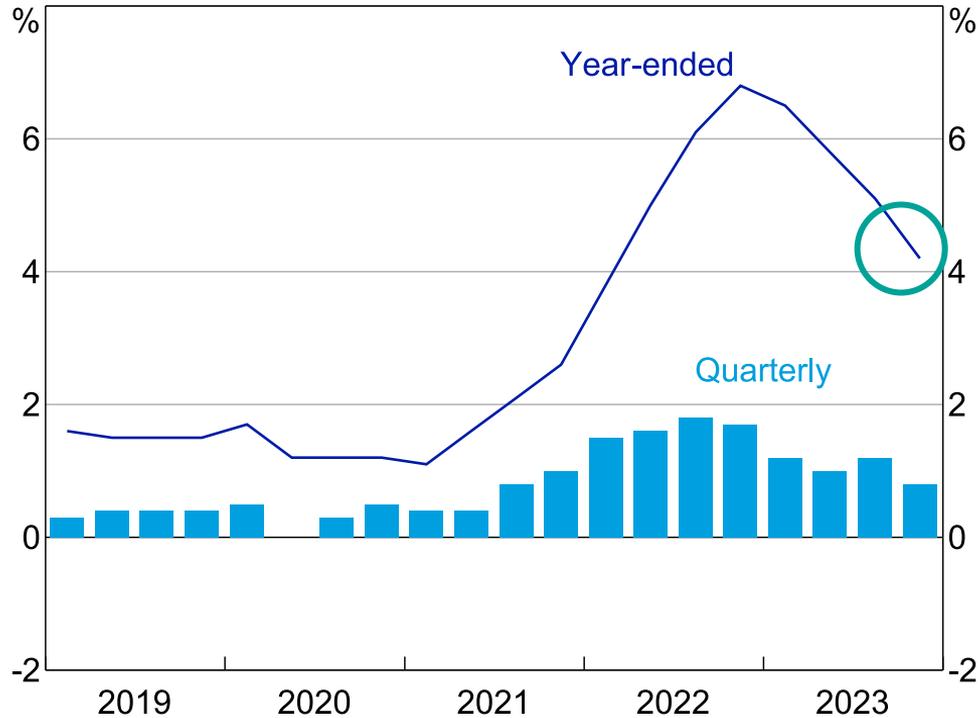
Source: ABS.

Underlying inflation removes the effect of irregular or temporary price changes



# Trimmed Mean Inflation

Seasonally adjusted



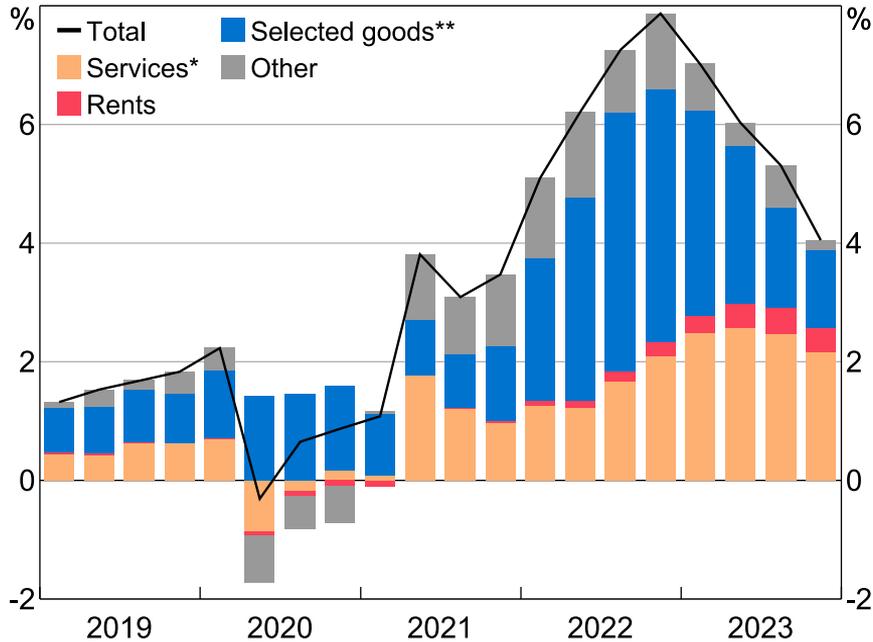
Trimmed mean inflation in 2023 was 4.2 per cent

Source: ABS.



# CPI Inflation

Year-ended with contributions



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

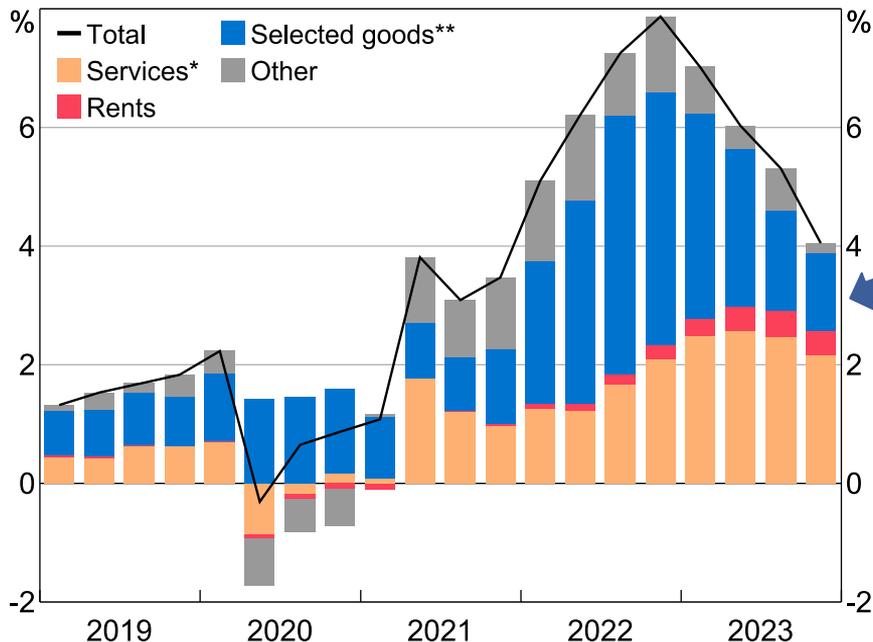
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## CPI Inflation

Year-ended with contributions



Goods price inflation is contributing less to overall inflation than a year ago

This is because earlier problems in global supply chains have eased, and the demand for goods has moderated

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

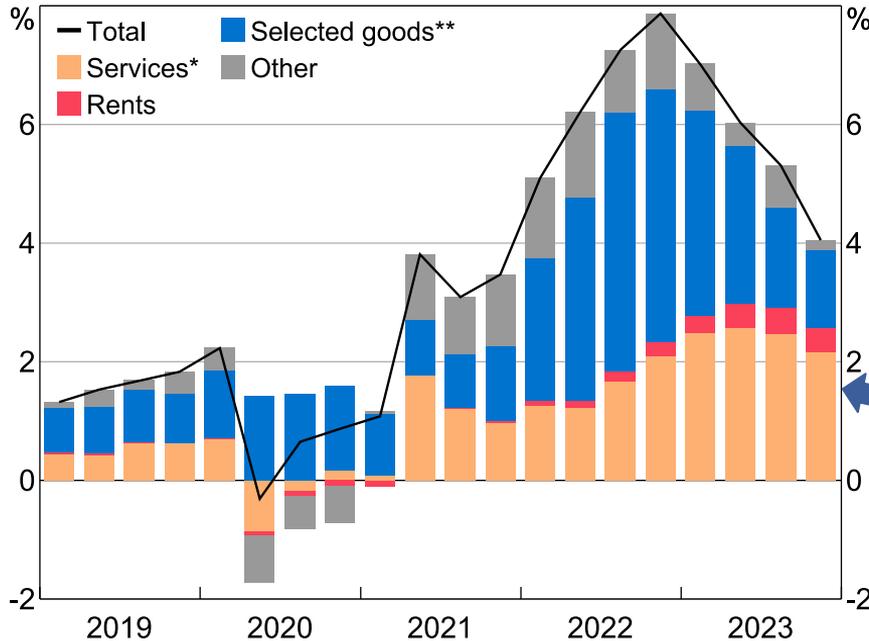
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



# CPI Inflation

Year-ended with contributions



Services price inflation has moderated in recent quarters but remains high

This is due to the robust level of demand and strong domestic cost pressures

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

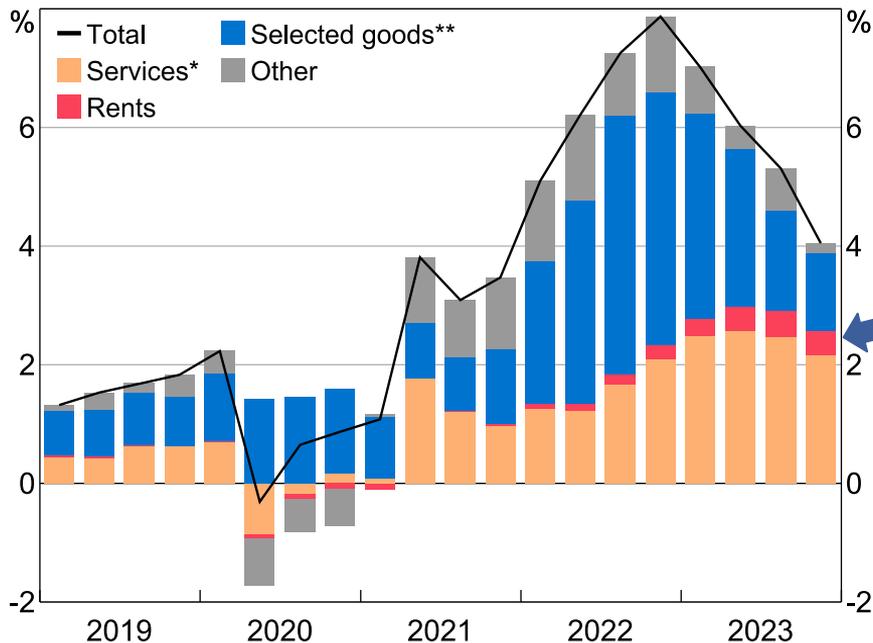
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



# CPI Inflation

Year-ended with contributions



Rent inflation is expected to persist

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

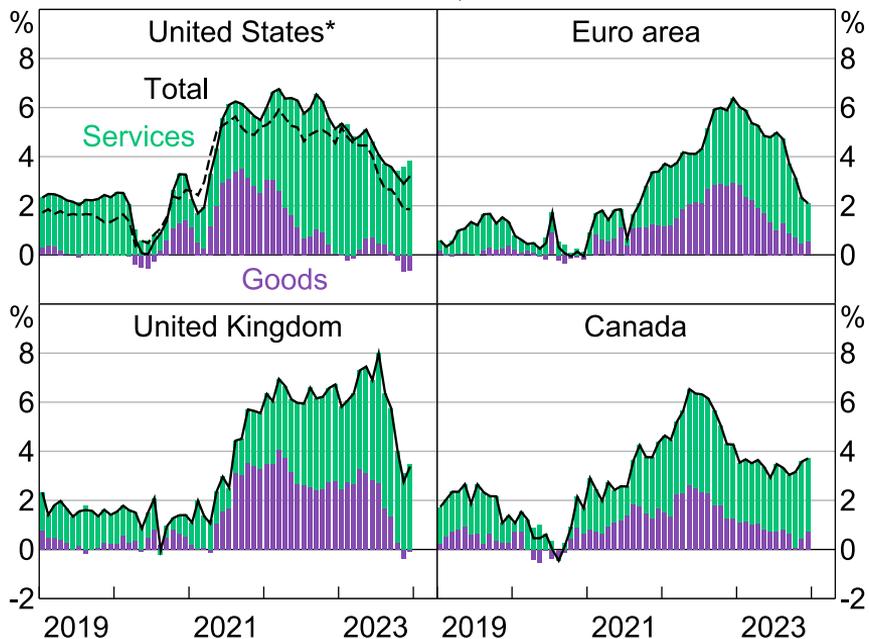
\*\* Includes groceries, alcohol & tobacco, consumer durables and new dwellings.

Sources: ABS; RBA.



## Core Consumer Price Inflation

Six-month annualised, with contributions



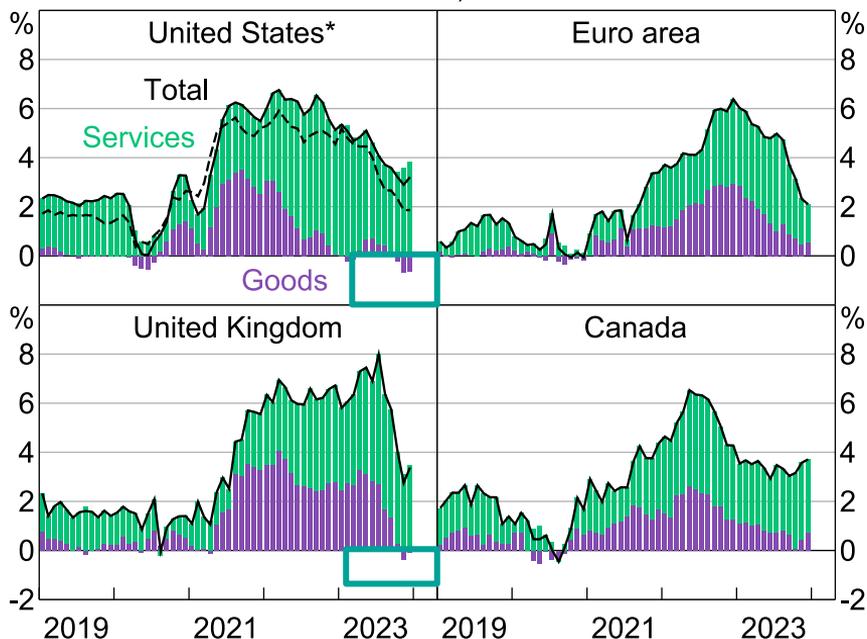
\* Dashed line shows core PCE inflation.

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



## Core Consumer Price Inflation

Six-month annualised, with contributions



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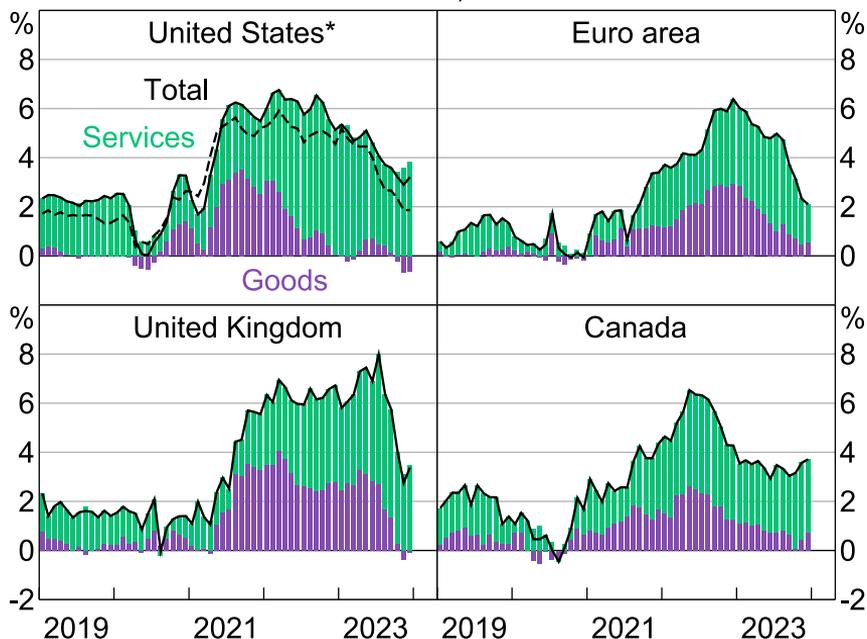
Sources: BEA; BLS; Eurostat; LSEG; ONS; RBA; Statistics Canada.

In the United States and the United Kingdom, core goods prices have recorded outright declines in recent months



## Core Consumer Price Inflation

Six-month annualised, with contributions



\* Dashed line shows core PCE inflation.

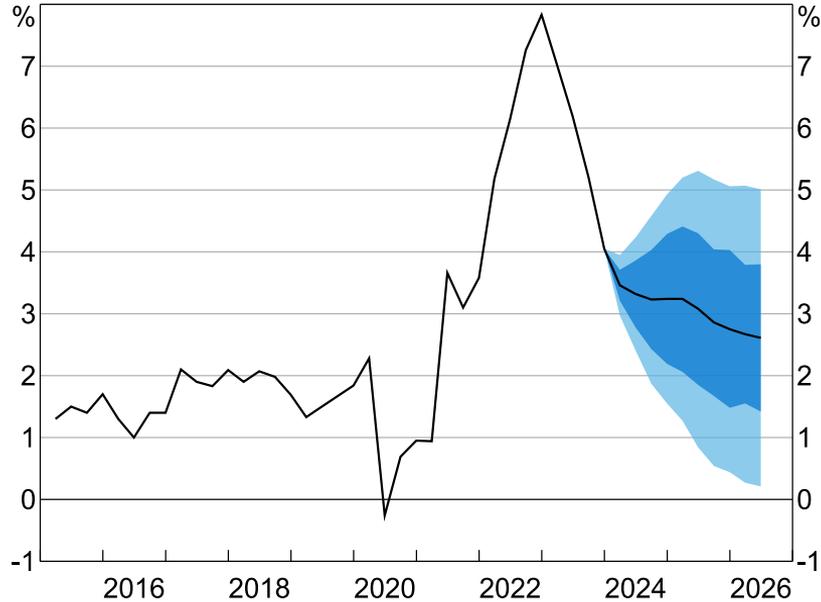
Sources: BEA; BLS; Eurostat; LSEG; ONS; RBA; Statistics Canada.

But core services price inflation has continued to ease more gradually across most advanced economies



## Headline Inflation Forecast\*

Year-ended

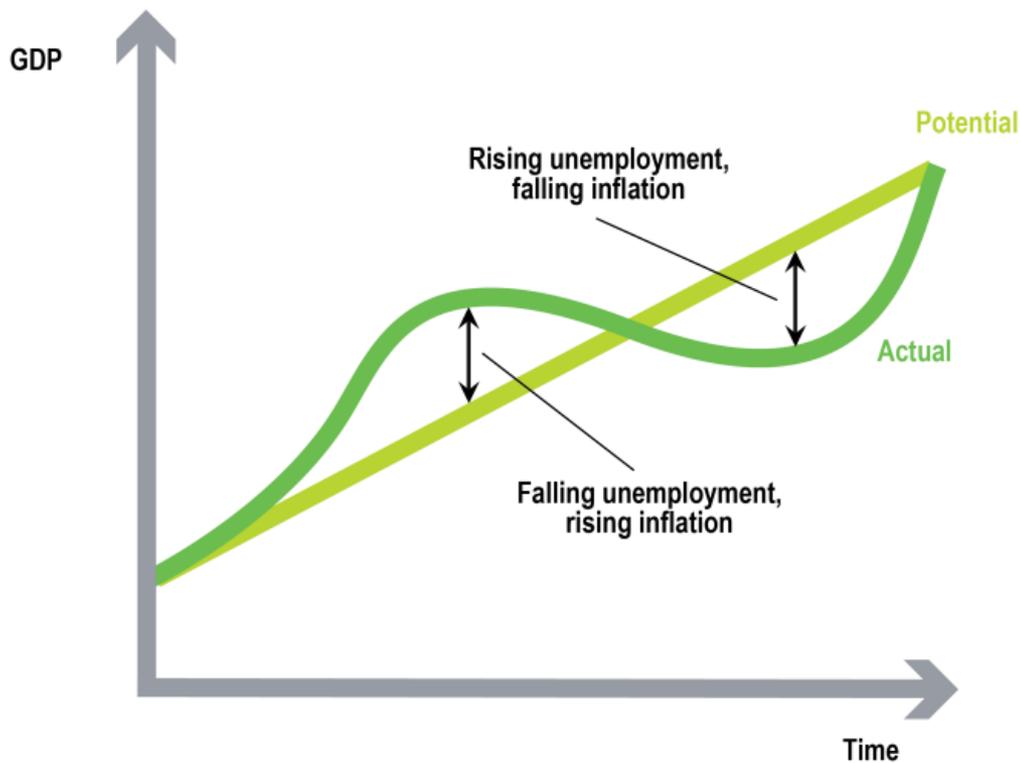


\* Confidence intervals reflect RBA forecast errors since 1993, with the 70 per cent interval shown in dark blue and the 90 per cent interval shown in light blue.

Sources: ABS; RBA.

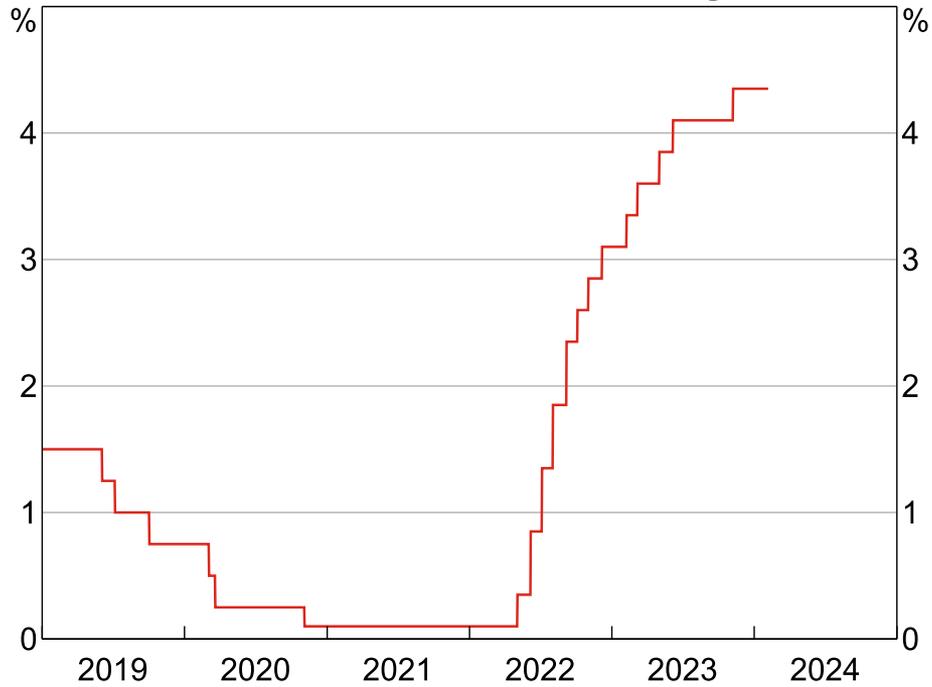
The RBA's central forecasts are for inflation in Australia to return to the target range of 2–3 per cent in 2025, and to the midpoint in 2026

# Monetary Policy – How has the RBA responded?





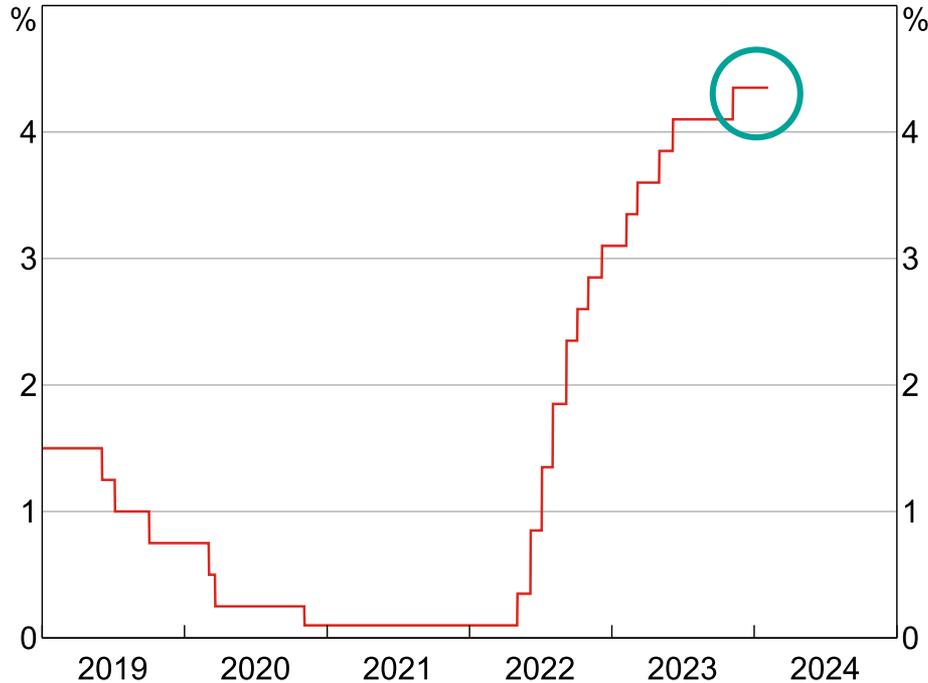
## Australian Cash Rate Target



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 February 2024

The Board's decision balances the objectives of bringing inflation down while also preserving the gains in employment