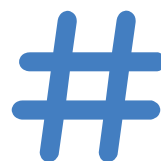
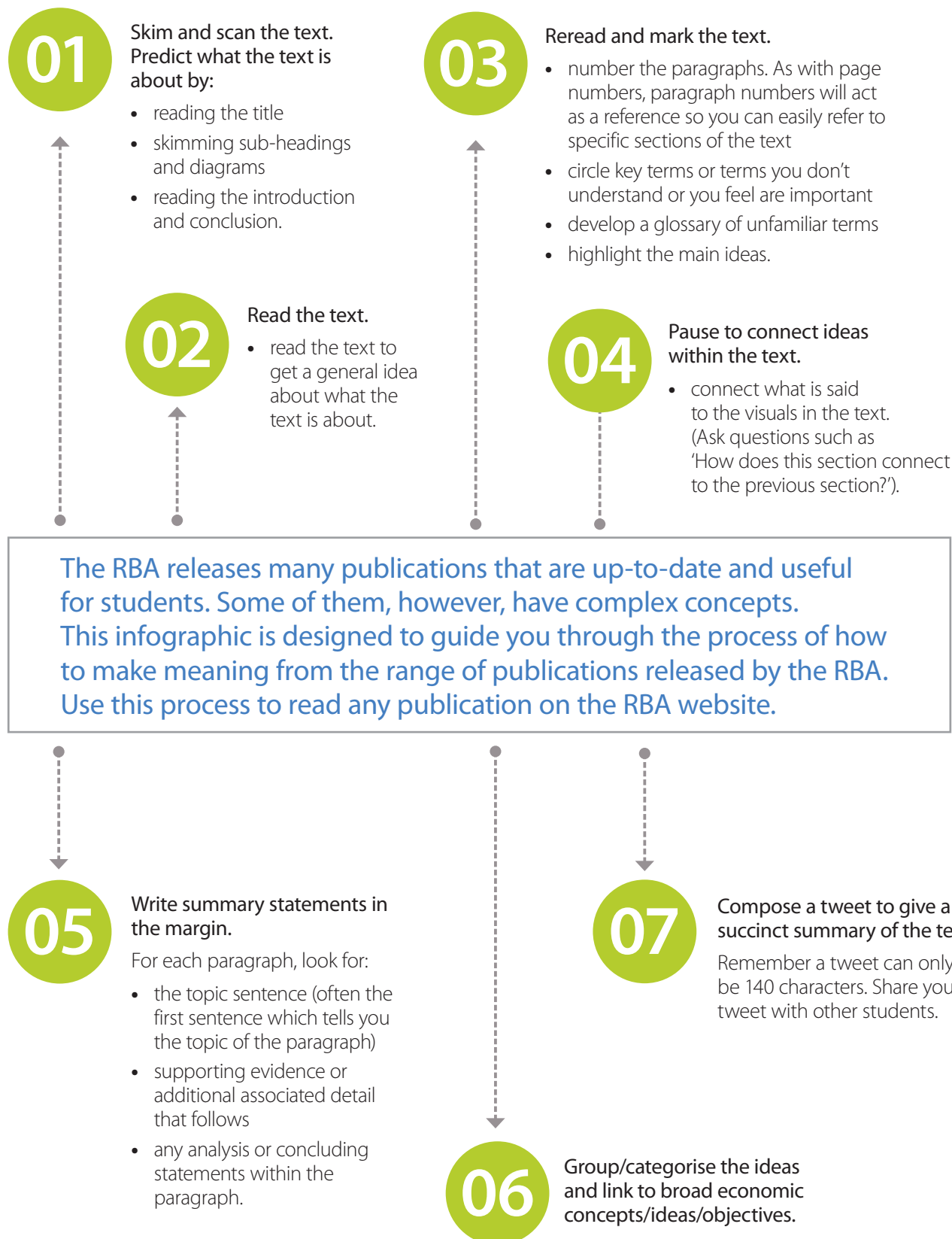


Activity

Read and Rehash



A reading strategy for RBA publications



Title - Factors the RBA takes into account when making decisions about monetary policy

Main ideas

Considerations for Monetary Policy

Evidence/Details

1 In considering the stance of monetary policy, members noted that **the outlook for the global economy remained positive**. The broad-based nature of the data supporting this outlook provided some confidence that the expansion could become self-reinforcing. At the same time, the improved conditions and ongoing accommodative stance of monetary policy globally had **not, to date, led to a sustained increase in inflation**. Members noted that various policy, financial and **geopolitical risks** to the ongoing expansion in the global economy were **still present**. The improvement in global economic conditions had helped to support **commodity prices**, although recent commodity price movements had also been affected by commodity-specific supply factors, such as disruptions to Australian coking coal exports following Cyclone Debbie.

Outlook for global economy is good

Broad-based growth
No sustained increase in inflation

Risks still present
Commodity prices supported by demand and supply factors

2 **Domestically, inflation outcomes had been as expected in the March quarter**. The central forecast for **headline inflation** was that it would be above 2 per cent over the forecast period; underlying inflation was expected to increase gradually from its current rate of 1¾ per cent. Subdued growth in labour costs and strong competition in the retail sector had continued to have a dampening effect on **aggregate inflation**. Working in the other direction, rises in utilities prices and the cost of new dwelling construction had increased inflationary pressures.

Inflation outcomes are as expected

Subdued growth in labour costs and retail competition weighing on inflation

3 Members noted that, although **it seemed unlikely that wage growth would slow much further**, wage pressures were expected to rise only gradually as the effects of **structural adjustment** following the **mining investment and terms of trade boom**, which had weighed on aggregate wage growth, continued to wane. Data on the labour market had been somewhat mixed, but forward-looking indicators continued to suggest that employment growth **would maintain** its recent pace and spare capacity in the labour market would decline gradually.

Little pressure on wages growth

Rises in utilities prices and housing construction boosting inflation

4 Recent data suggested that the **Australian economy had grown at a moderate pace at the beginning of 2017**. The outlook was little changed from three months earlier and continued to be supported by the increase in the **terms of trade** and the low level of interest rates, although lenders had announced increases in mortgage rates, particularly those paid by investors and on interest-only loans. The pick-up in non-mining business investment had been modest and forward-looking indicators of investment remained mixed. The drag from the fall in mining investment (and the **spillover** effects of this on non-mining investment and activity) had continued to ease. Recent data had provided further signs that the downswings in the Western Australian and Queensland economies were **coming to an end**. The depreciation of the exchange rate since 2013 had assisted the economy through this transition; an appreciation of the exchange rate would complicate this adjustment process.

Economic growth moderate

Unemployment expected to go down

Increase in ToT
Low level of interest rates
Drag from ending of mining boom easing
Lower AUD helping

5 **Conditions in the housing market continued to vary considerably across the country**. Conditions in established housing markets in Sydney and Melbourne remained robust, but housing prices had been falling in Perth. The additional supply of apartments scheduled to be completed over the next couple of years in the eastern capital cities was expected to put some downward pressure on growth in apartment prices and on rents, particularly in Brisbane.

Housing market conditions vary between cities

6 **Growth in housing credit had continued to outpace growth in household incomes**, which suggested that the risks associated with **household balance sheets** had been rising. Recently announced **supervisory measures** were designed to help mitigate these risks by reinforcing prudent lending standards and ensuring that **loan serviceability** was appropriate for current financial and housing market conditions. However, it would take some time to assess the full effects of recent increases in mortgage rates and the additional supervisory focus.

Housing credit growth outstripping growth in household income

Supervisory measures should help mitigate risks in household balance sheets

7 The Board continued to judge that **developments in the labour and housing markets warranted careful monitoring**. Taking into account all the available information and the updated forecasts, the Board's assessment was that **maintaining the current accommodative stance of monetary policy** would be consistent with achieving **sustainable growth** and the inflation target over time.

Evidence supports decision to maintain monetary stance

Excerpt from *Minutes of the Monetary Policy Meeting of the Reserve Bank Board, Sydney - 2 May 2017*