Part 1: Monetary Policy
How Does the Reserve Bank Achieve Its Objectives?
What Is the Role of the Reserve Bank Board?
Monetary Policy – Inflation Target

To achieve an inflation rate of 2–3% on average, over time.
Monetary Policy – Decision Process

Current economic and financial conditions
- Monthly

Outlook for the economy
- Quarterly

Financial stability risks
- Half yearly

Policy recommendation

Board meeting
- Cash rate decision

Public communication
Monetary Policy – Decision Process
Monetary Policy – Transmission Mechanism

- Cash rate
- Interest rates
- Economic activity
- Inflation
Monetary Policy – Implementation

The Australian Cash Market

1. Price
   - RBA lending rate
   - Cash Rate Target
   - RBA deposit rate

3. Demand

4. Supply

5. Policy interest rate corridor

2. Quantity
Part 2: Current Economic Conditions
Terms of Trade
2016/17 average = 100, log scale

Sources: ABS; RBA
Australia’s Trading Partner Growth

Year-average

Sources: ABS; CEIC Data; RBA; Refinitiv
Labour Markets – Advanced Economies

Unemployment rate

- Euro area
- US

Wages growth*
Year-ended

- Japan

* Average hourly earnings for the US; compensation per employee for the euro area; smoothed full-time base wages for Japan

Sources: ECB; Eurostat; RBA; Refinitiv
China – Contributions to GDP Growth

Consumption  Investment  Net exports

2014  2010  2006  2002  2018

-5  0  5  10 ppt

-5  0  5  10 ppt

China

Contributions to GDP Growth

GDP growth (per cent)

Sources: CEIC Data; RBA
GDP Growth

Year-ended

Quarterly

Source: ABS
Sources: Bloomberg; RBA; WM/Reuters
Data from November onwards are expectations derived from interbank cash rate futures
Sources: ASX; Bloomberg
State Final Demand

Year-ended growth

Sources: ABS; RBA
Mining and Non-mining Activity
Year-ended growth, RBA estimates

* Net of mining-related imports; components are contributions to year-ended mining activity growth; contribution from changes in inventories not shown

Sources: ABS; RBA
June 2019

GDP
Consumption
Dwelling investment
Mining investment
Non-mining investment
Public demand
Exports
Imports

Contributions to GDP Growth

Year-ended

Sources: ABS; RBA
Private Dwelling Investment*
Chain volume, quarterly

* Reference year is 2016/17
Source: ABS
Housing Prices and Household Debt*

Ratio to household disposable income

<table>
<thead>
<tr>
<th>Year</th>
<th>Housing Prices Ratio</th>
<th>Household Debt Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>1991</td>
<td>1</td>
<td>0.5</td>
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</table>

* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises

Sources: ABS; CoreLogic; RBA
Household Income and Consumption*

Real, year-ended growth

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

Sources: ABS; RBA
Labour Market

* Underemployment rate*: 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
**Wage Price Index Growth**

*Total pay excluding bonuses*

Source: ABS
Consumer Price Inflation*

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

Sources: ABS; RBA
Trimmed Mean Inflation Forecast*

Year-ended

* Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA
Unemployment Rate Forecast*
Quarterly

%  %
7  7
6  6
5  5
4  4
3  3

70 per cent interval
90 per cent interval

* Confidence intervals reflect RBA forecast errors since 1993
Sources: ABS; RBA
More Information

rba.gov.au/education

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