



RESERVE BANK OF AUSTRALIA

Teacher Immersion Event 2024

H.C. Coombs Centre, Kirribilli
19 July 2024

Education



RESERVE BANK OF AUSTRALIA

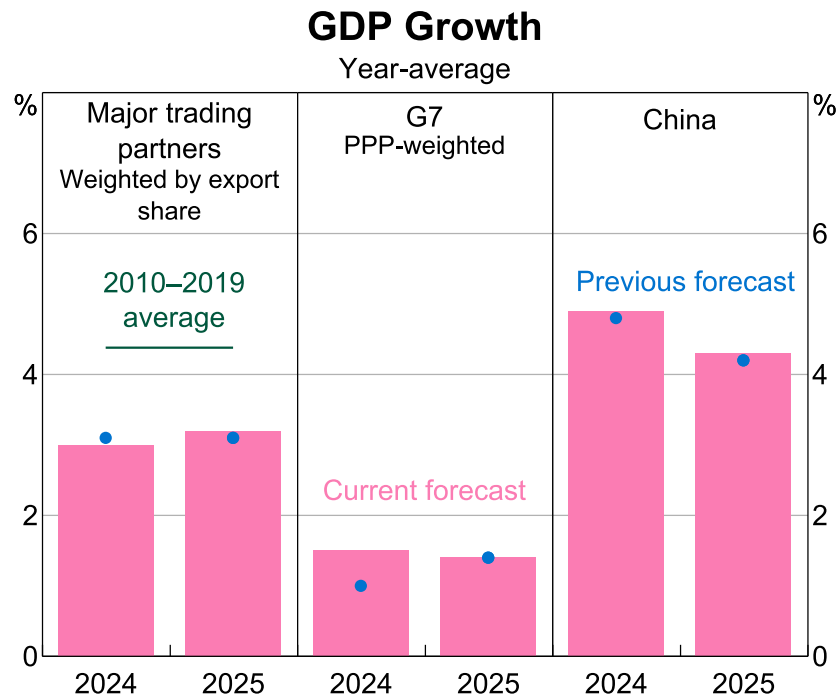
An Economic Update

Sarah Hunter

(Assistant Governor, Economic)

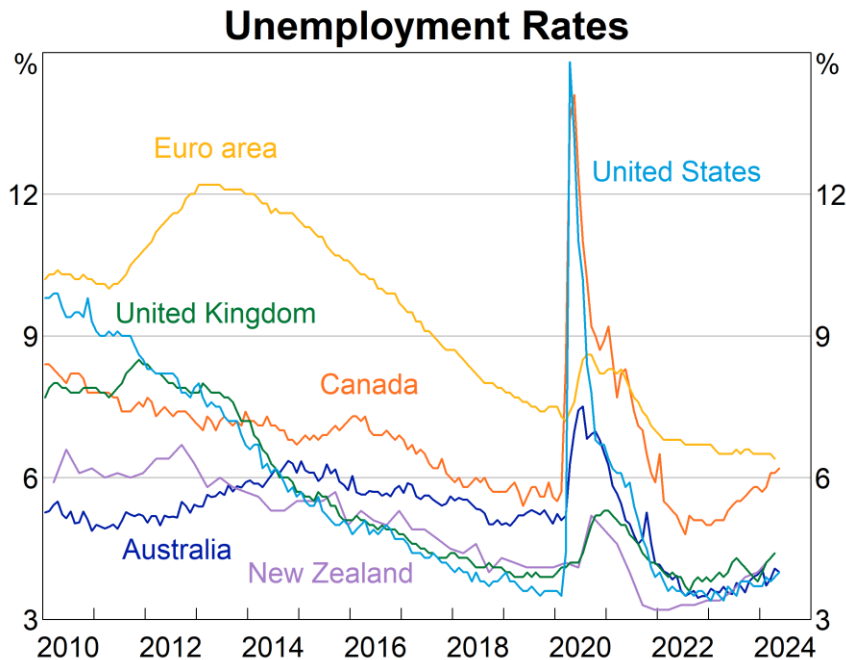
Education

The world economy has been fairly resilient to rate hikes



Sources: ABS; CEIC Data; Consensus Economics; LSEG; RBA.

And most countries have preserved recent job gains



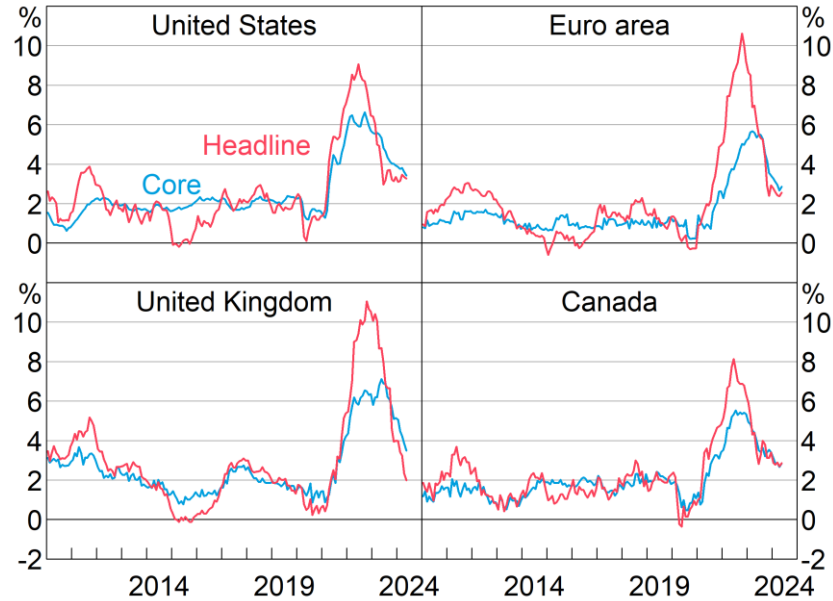
Sources: LSEG; RBA.



Inflation is still above-target in many countries

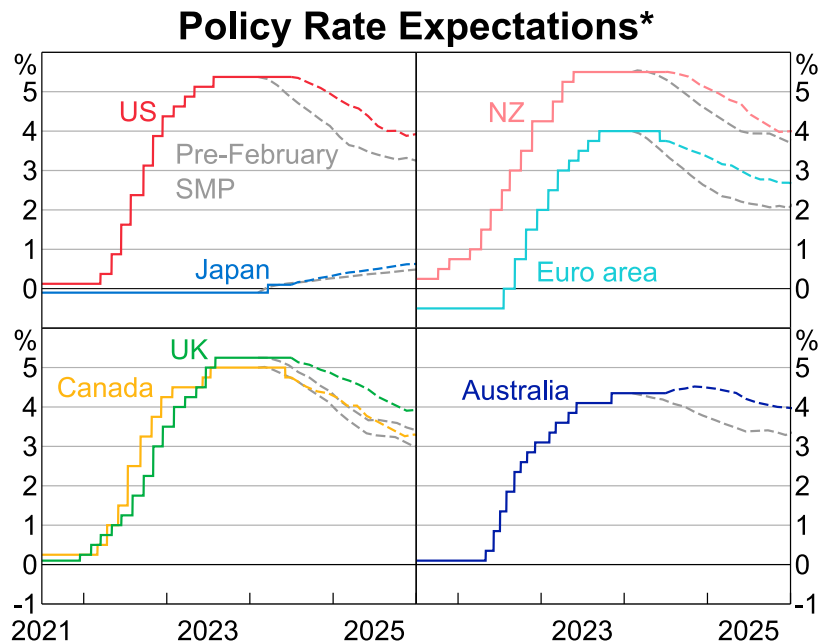
Consumer Price Inflation

Year-ended



Source: RBA; LSEG.

Markets now think rates will have to be higher for longer



* Coloured dashed lines show expectations implied by overnight index swap rates on 1 July 2024; grey dashed lines show the same expectations as at the February SMP.

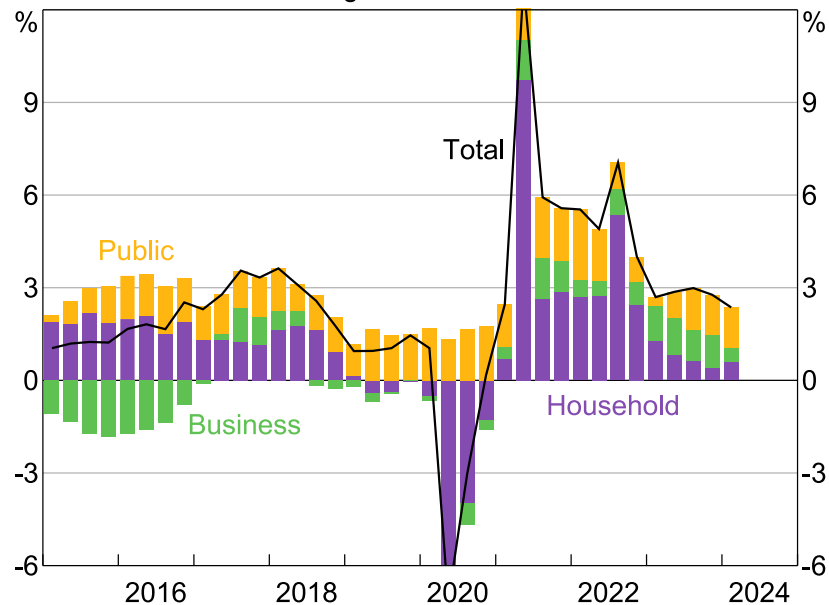
Sources: Bloomberg; RBA.



Mixed picture across Australia's economy

Domestic Final Demand*

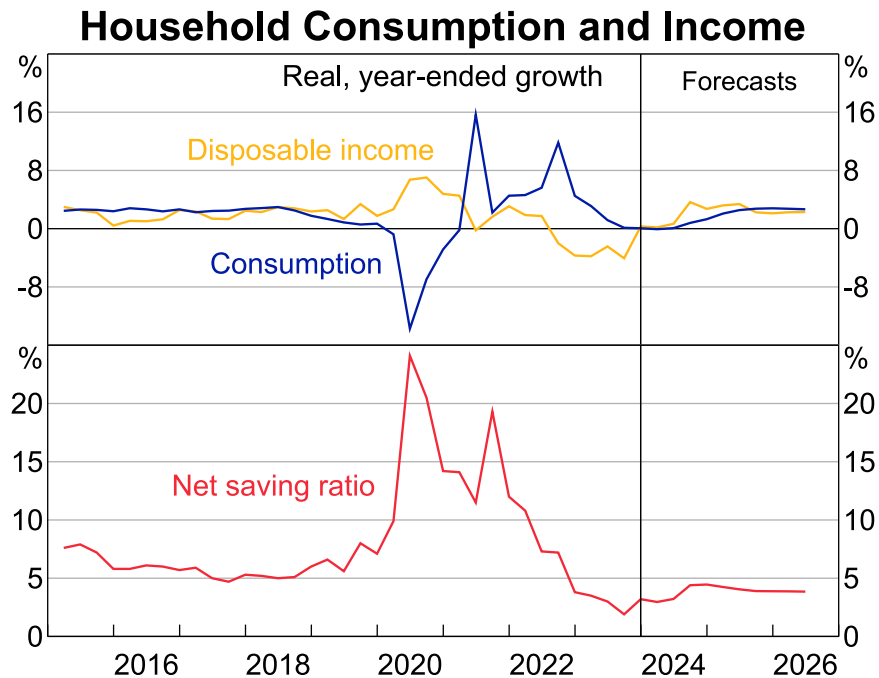
Year-ended growth with contributions



* Outliers during the COVID-19 pandemic were truncated.

Sources: ABS; RBA.

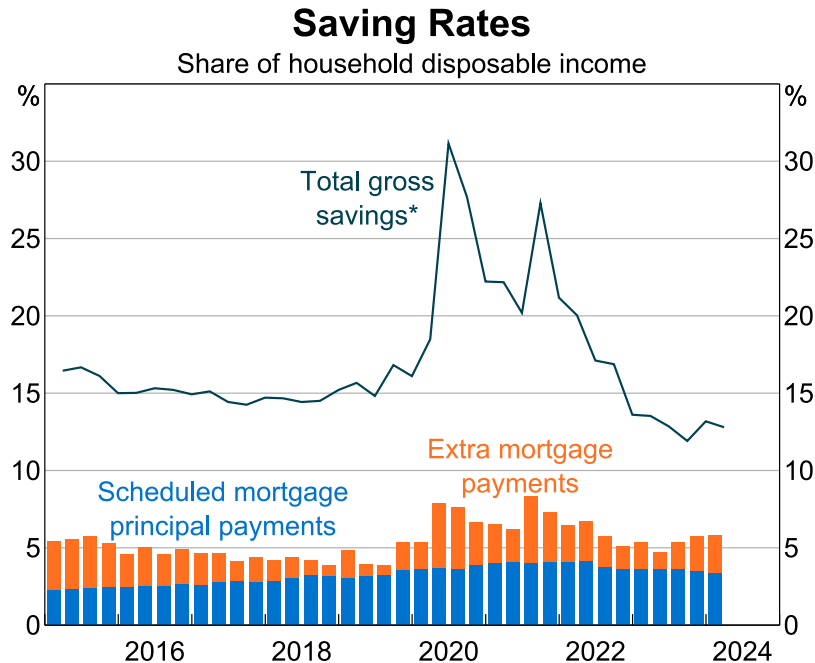
Households are primarily being squeezed by inflation



Sources: ABS; RBA.



And some appear to be choosing to increase their savings

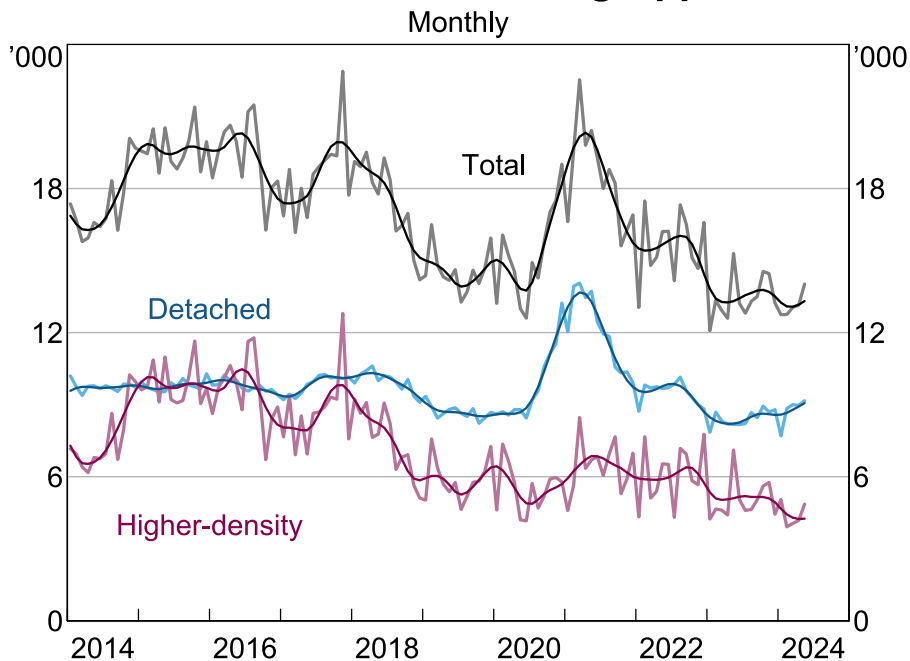


* Total gross savings for all households.

Sources: ABS; APRA; RBA.

Residential construction demand has also softened

Private Residential Building Approvals*

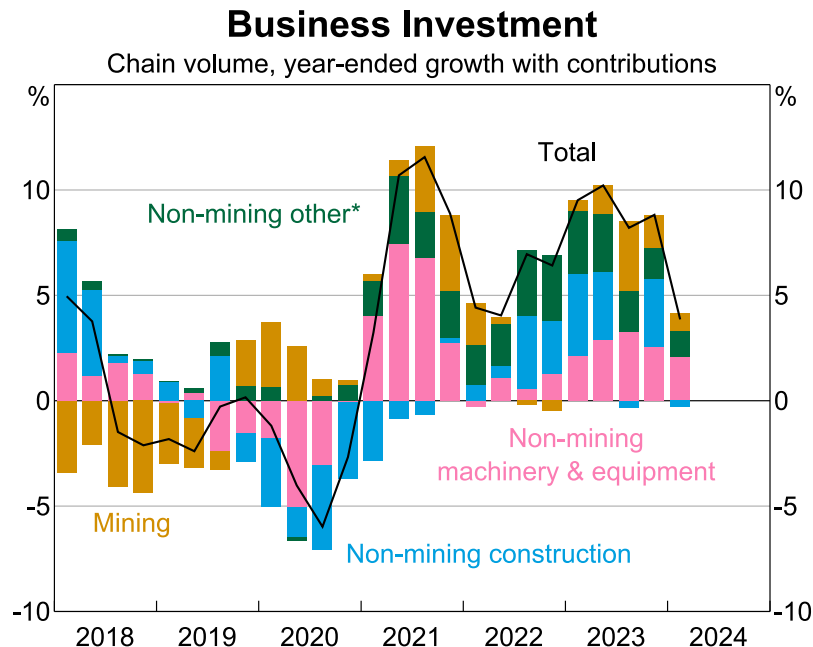


* Smoothed lines are 13-period Henderson trends.

Sources: ABS; RBA.



Other parts of domestic spending are supporting demand



* Includes biological resources, artistic originals, non-mining software and non-mining research & development.

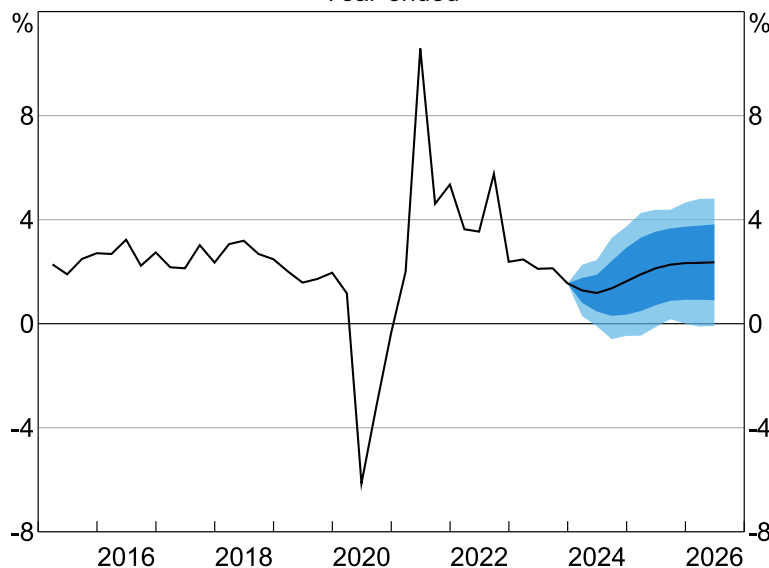
Sources: ABS; RBA.



We expect a modest pick-up in growth from here

GDP Growth Forecast*

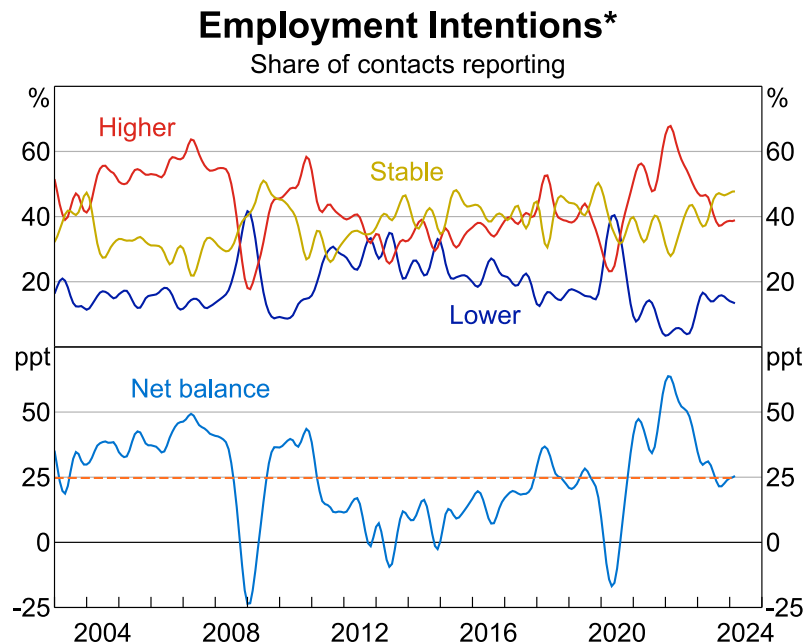
Year-ended



* 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.

Demand for workers has eased but not quite to pre-COVID levels



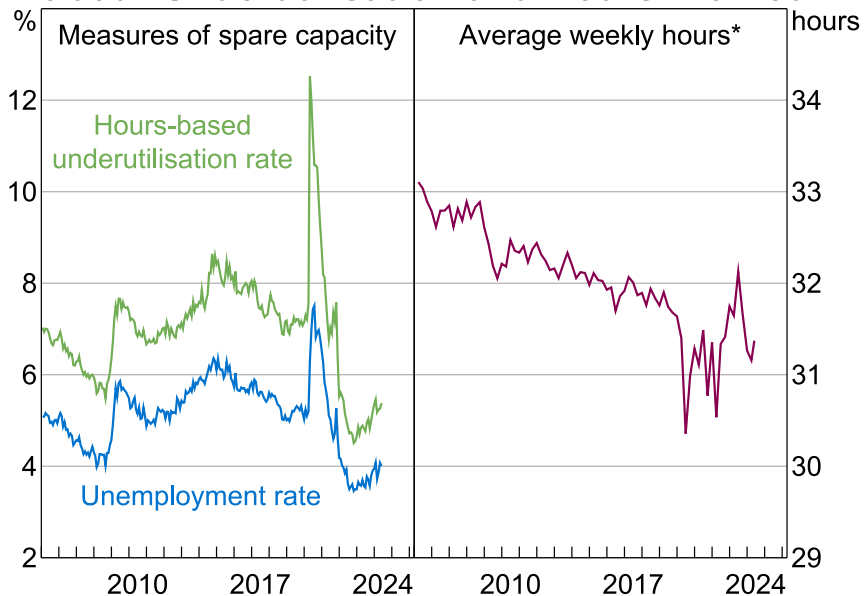
* Over the year ahead; smoothed with a 13-month Henderson trend; dashed line is monthly average of net balance line since 2003.

Source: RBA.



The unemployment rate has lifted and average hours has fallen

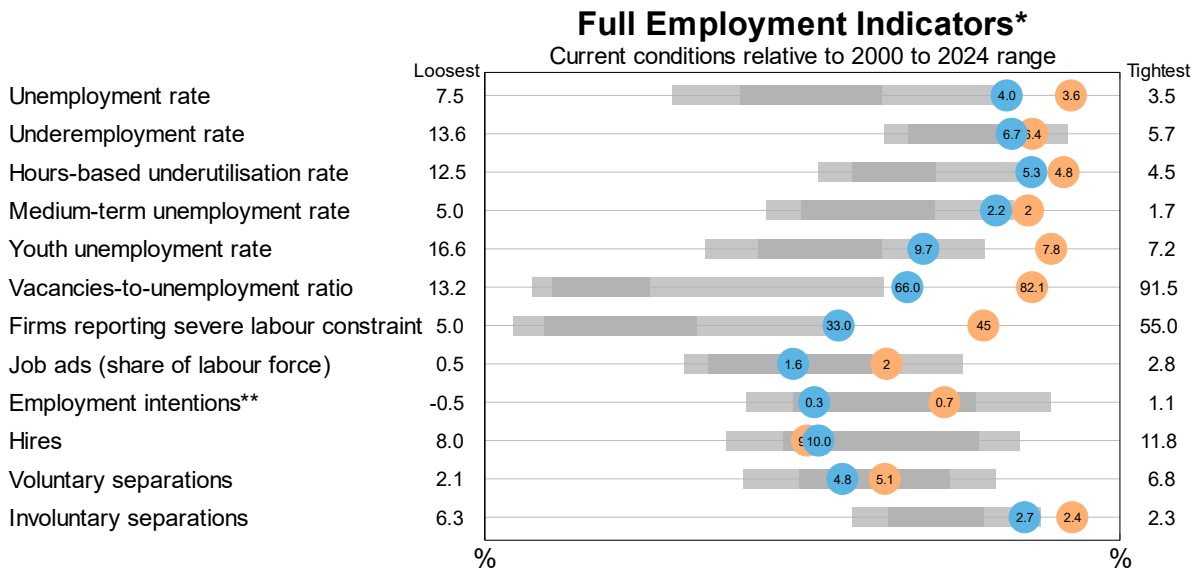
Labour Underutilisation and Hours Worked



* Quarterly average, June quarter 2024 is approximated using an average of April and May 2024 outcomes.

Sources: ABS; RBA.

And we're progressing towards full employment

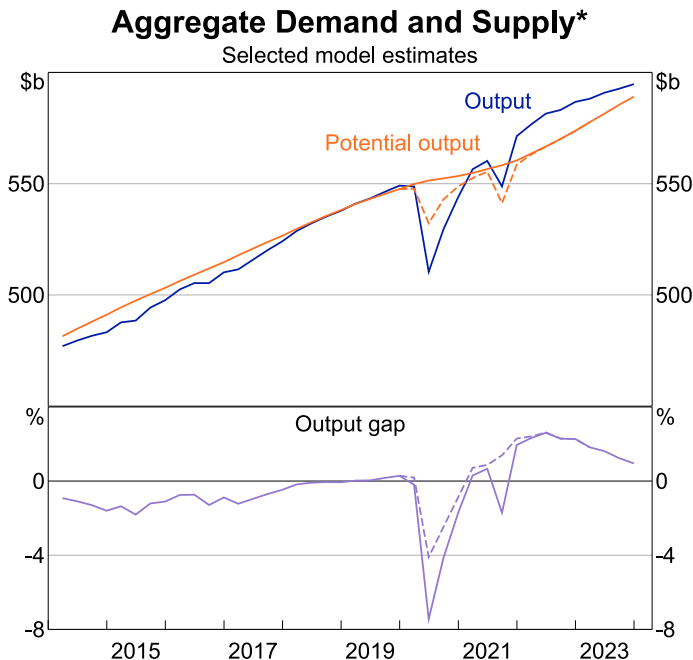


* Blue dots represent current outcomes, orange dots show outcomes a year ago, light grey shaded areas cover the middle 80 per cent of observations and the dark grey range covers the middle 50 per cent of observations.

** From firms in the RBA's liaison program; over the year ahead; expressed as a Likert score.

Sources: ABS; JSA; NAB; RBA.

But we still think that demand is running stronger than supply

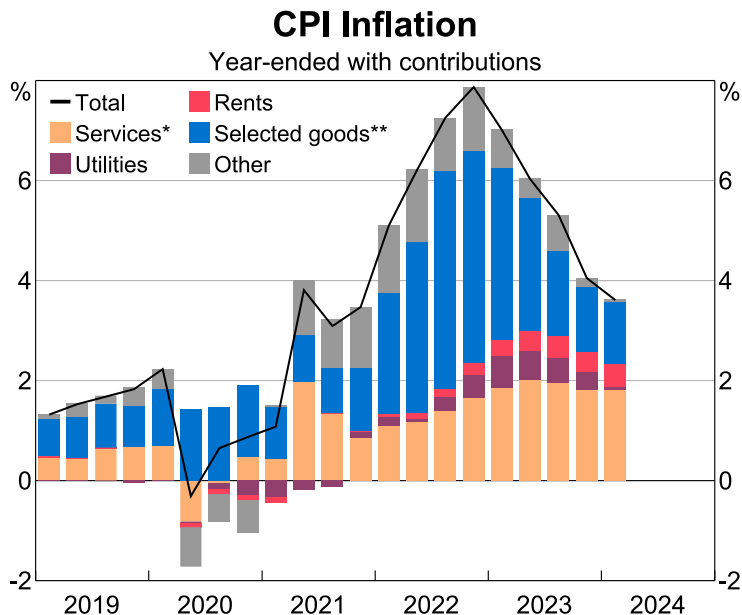


* Estimates of potential output and output gap from one of the models in the RBA's suite; dashed lines include an illustrative adjustment for pandemic activity restrictions; levels reflect 2021/22 prices.

Sources: ABS; RBA.



Inflation is above-target, and progress has slowed of late

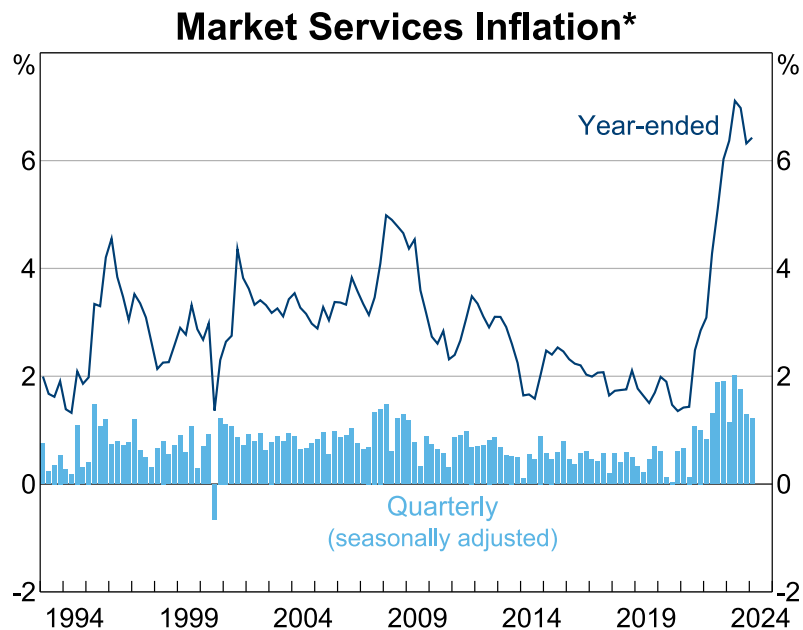


* Includes market services and administered items; excludes utilities, rents and holiday travel & accommodation.

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

Sources: ABS; RBA.

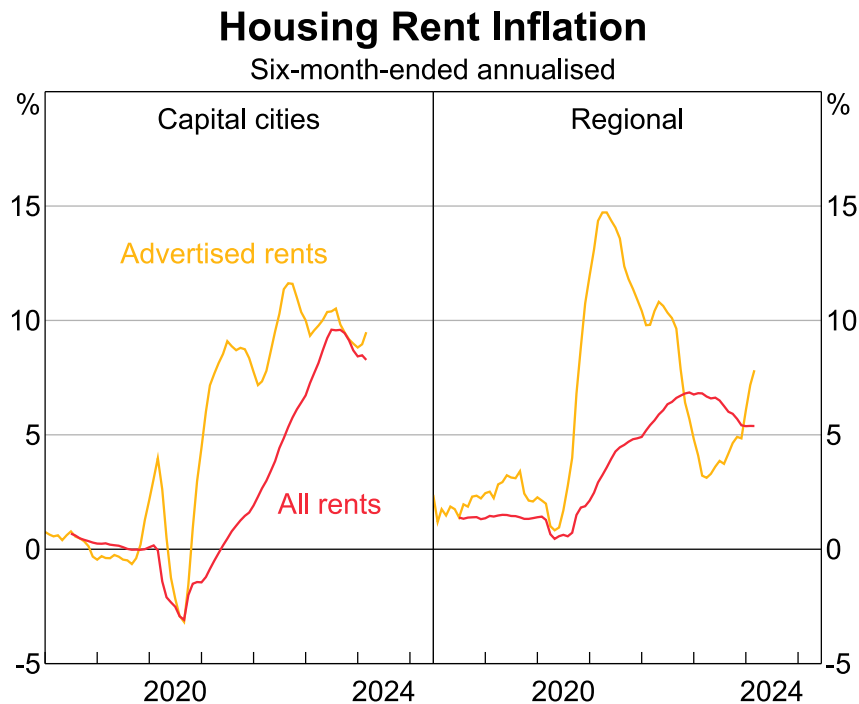
Not unusual for services inflation to be persistent, but it does need to fall



* Excludes domestic holiday travel & accommodation and telecommunications; adjusted for the tax changes of 1999–2000.

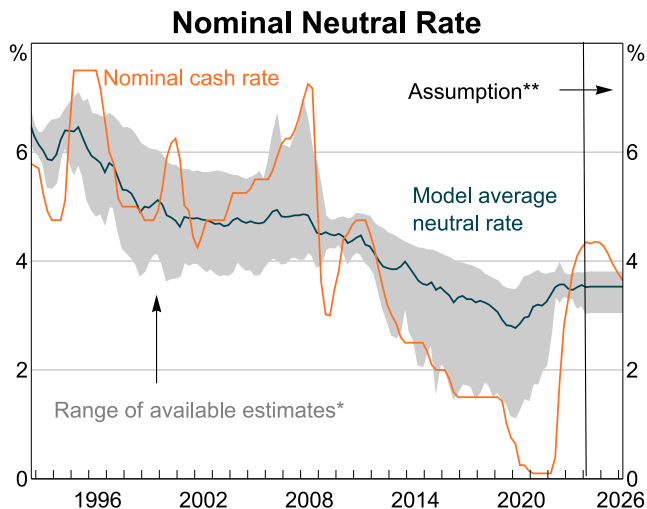
Sources: ABS; RBA.

Housing inflation is also elevated



Sources: ABS; CoreLogic; RBA.

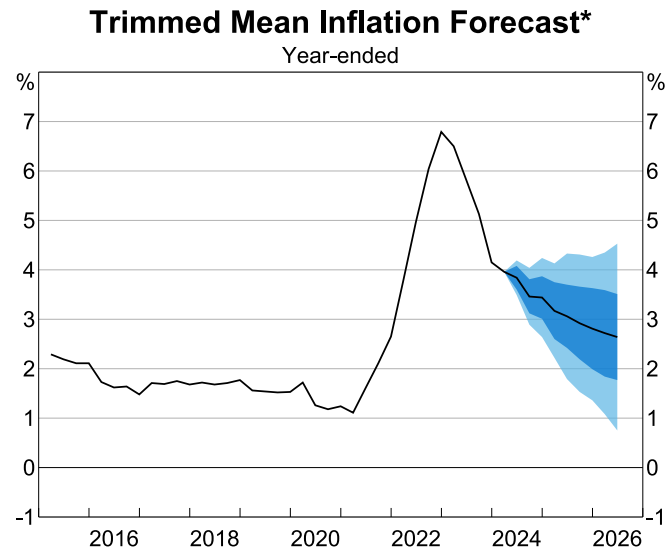
The cash rate is restricting demand, and underlying inflation is expected to slowly return to target



* Range of central estimates corresponding to available models. Nominal neutral rates are defined using trend inflation expectation.

** The nominal cash rate assumption is based on market pricing for overnight indexed swaps (OIS) on June 24, 2024.

Sources: LSEG; RBA.



* 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.