Data snapshot

Friday, 7 May 2021

RBA Statement on Monetary Policy

Bigger and Better

The Reserve Bank (RBA) released its quarterly Statement on Monetary Policy earlier today. It provided insights on the RBA's thoughts around the outlook, including an updated set of forecasts. As flagged in the RBA's board meeting statement earlier this week, the RBA has upgraded its key forecasts for the economy.

Indeed, it now expects economic growth this year to be bigger and better, reflecting the faster economic recovery. The RBA highlighted in its opening pages that recent activity data have been "significantly better than expected". GDP growth has been revised up to 4.75% for 2021, up from 3.5% previously. The forecast for GDP growth in 2022 remains unchanged at 3.50%. The forecast profile has been extended to beyond 2022 to June 2023. Growth is set to slow a little further, to 3.0% for June 2023, but this pace of growth is still above trend.

In the calendar years, GDP growth of 5.25% is slated for 2021 (up from 4.0%), 4.0% for 2022 (up from 3.25%) and 3.25% for June 2023. All three of these forecasts are well above the twenty-year average of 2.6%, which speaks volumes about Australia's recovery from the pandemic.

Output Growth and Inflation Forecasts[a]

Per cent

	Year-ended					
	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
GDP growth	−1.1	9¼	4¾	4	3½	3
(previous)	(−2)	(7¾)	(3½)	(3¼)	(3½)	(3)
Unemployment rate[b]	6.8	5¼	5	4¾	4½	4½
(previous)	(6.8)	(6½)	(6)	(5½)	(5½)	(5¼)
CPI inflation	0.9	3¼	1¾	1¼	1½	2
(previous)	(0.9)	(3)	(1½)	(1½)	(1½)	(1¾)
Trimmed mean inflation	1.2	1½	1½	1½	1¾	2
(previous)	(1.2)	(1¼)	(1¼)	(1½)	(1½)	(1¾)
	Year-average					
	2020	**2020/21**	**2021**	**2021/22**	**2022**	**2022/23**
GDP growth	−2.4	1	5¼	5	4	3¼
(previous)	(−2¾)	(¾)	(4)	(3¾)	(3¼)	(3¼)

(a) Forecasts finalised on 5 May. Forecast assumptions (February Statement in parenthesis): TWI at 64 (63), A$ at US$0.77 (US$0.76), Brent crude oil price at US$68bbl (US$56bbl), population growth of 0.2 per cent over 2021 (0.2 per cent) and 0.4 per cent over 2022 (0.4 per cent); cash rate in line with market pricing out to 2022 (and held constant thereafter); and other elements of the Bank's monetary stimulus are in line with the announcement made following the February 2021 Board meeting. Forecasts are rounded to the nearest quarter point. Shading indicates historical data, shown to the first decimal point.

(b) Average rate in the quarter

Sources: ABS; RBA

The stronger growth forecasts mean there are revisions to jobs growth also. The RBA now expects the unemployment rate to end this year at 5.0%, down from 6.0% previously and the current rate of 5.6%. For December 2022, the RBA expects the momentum in jobs growth to continue with an unemployment rate of 4.5% forecast, down from 5.25% previously. Until recently, a 4.5% rate of unemployment was considered to consistent with full employment in the economy, that is, a rate that would be enough to generate wage and inflation pressures. However, earlier this year the RBA suggested it believes the unemployment rate consistent with full employment to be in the high 3s to low 4s.

The RBA expects the unemployment rate to have some stickiness to it as the pace of growth tempers. The jobless rate is expected to stay at 4.5% in June 2023, the same rate as December 2022.

The SoMP said that that whilst JobKeeper and various social assistance measures has largely expired, strong growth in employment has broadly cushioned the effect of the winding down of these programs on household income.

Not surprisingly, with both growth and the labour market stronger, inflation forecasts have also been revised higher, but the uplift in inflation and wages is expected to be only modest.

For December 2021, underlying inflation is now expected to be 1.5%, up from 1.25% previously and for December 2022, it is 1.75% instead of 1.50% previously. As we outlined in our RBA note earlier this week, for June 2023, underlying inflation is expected to be 2%, which is the bottom of the RBA's inflation target band. The RBA has said it wants to see actual inflation sustained in its target band before hiking the cash rate and does not expect this to eventuate before 2024. But with a '2' in front of underlying annual inflation as soon as June 2023 and with activity since the pandemic surprising to the upside, we cannot fully rule out an RBA moving before 2024. Indeed, if forecasts surprise to the upside, the RBA puts the forecast for underlying inflation at 2% even earlier in December 2022 (in its "upside scenario"). Much will depend on how the data evolves.

For wages, growth in the wage price index is expected to pick up to a little under 2% over 2021, before gradually increasing to around 2.25% by mid 2023. For wages to exert more significant upward pressure on inflation, wages growth needs to have at least a '3' in front of it.

A major source of uncertainty around growth, jobs and inflation is how far households might draw on their strengthened balance sheets to support their spending. Household consumption is a significant influence on overall economic activity and inflation. Household wealth has increased strongly of late, mostly because housing prices have risen, but also because households accumulated an unusually large amount of additional savings out of income over 2020. The RBA suggests that if the spending response to increased wealth is stronger than usual, a stronger economic path than the one envisaged in the baseline forecasts would eventuate.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist
Besa Deda
besa.deda@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 1316