

Monday, 16 May 2022

Wages & Jobs Doubleheader Pre Election

RBA Meeting Minutes

As we speed through 2022, the Reserve Bank's (RBA) May monetary policy meeting, which was held just two weeks ago, feels like it is already in the rear-view mirror. However, the first hike in the cash rate in more than a decade will return to the spotlight this week, alongside the release of the Board meeting minutes.

The minutes, to be released tomorrow, will provide additional colour around the Board's decision to increase the cash rate by 25 basis points, from 0.10% to 0.35%. The minutes will also add to the high-profile list of RBA releases which accompanied the May policy meeting. This included the Governor's speech shortly after the meeting and the Bank's Quarterly Statement on Monetary Policy (SoMP), which outlined a fresh set of forecasts underpinning the Board's decision.

Economists will be combing through the minutes to see if there is any new information or insights regarding the future path of monetary policy that wasn't already covered off between the policy statement, the Governor's speech and the subsequent Q&A, or the SoMP. However, given the volume of communication following the May meeting, the minutes may not provide much in the way of new insights.

Wage Price Index

A big-ticket item for this week will be the March quarter release of the wage price index (WPI) on Wednesday. In previous correspondence, the RBA highlighted the importance of wages growth in assessing the sustainability of inflationary pressures in Australia and relatedly, the path of the cash rate.

Following the April board meeting, the RBA noted that important information regarding inflation and wages would be published "over coming months." This signalled that Wednesday's WPI release would be a key release to watch before the RBA lifted the cash rate. That of course was before a much stronger-than-expected first quarter inflation print meant that the RBA couldn't wait any longer and increased the cash rate in May.

Additionally, the RBA has also been placing increasing attention on other measures of labour costs across the economy and reducing its reliance on the WPI. This is due to the slow-moving nature of the WPI, as it includes awards and enterprise bargaining agreements, which are set for multiple years and take time to adjust to emerging wages pressures.

However, the commencement of the hiking cycle does not take away from the importance of the WPI report. The RBA has already signalled a return to a more 'neutral' level of the cash rate over time and the path of wages growth will be an important factor behind how quickly we return to that level. This is because wages growth is a good signal for how inflationary pressures will evolve, notwithstanding the supply side factors stemming from the pandemic and the Ukraine war.

We expect growth in the WPI to have accelerated to 0.8% over the first quarter of 2022, from 0.7% over the December quarter of 2021. In annual terms, this would result in wages growth

picking up to 2.5%, from 2.3% previously. This would represent the fastest annual pace in wages growth since 2014. The increase in wages is likely to be driven by workers employed on individual agreements in the private sector, while public sector wages and wages set using awards and industrial agreements may rise more gradually, reflecting the lagged nature of those agreements.

We expect that the need to control inflationary pressures across the economy will prompt the RBA to increase the cash rate by 40 basis points in June. The lift in the WPI, accompanied by the RBA's contemporaneous evidence of a pick-up in broader measures of labour costs, would support such a move. A 40 basis point move would fully unwind the 65 basis points of emergency rate cuts implemented at the outset of the pandemic and accelerate the move to a neutral rate setting. However, we wouldn't rule out a 25 or 50 basis point move at the June meeting.

Labour Force

The WPI print won't be the only major data release in focus this week. The April jobs report is due out on Thursday, providing a fresh update on the state of the Australian labour market. The jobs market has been a spectacular performer throughout the pandemic recovery, and we expect that this momentum has carried over to April.

We expect employment to better the record high set in March, rising by 20k jobs in April. The participation rate is set to remain unchanged around a record high of 66.4%. The combination of higher employment and a steady participation rate is expected to push the unemployment rate down to 3.9%, its lowest level since the mid-1970s. If realised, this would be a staggering achievement for the Australian labour market following the impact of the pandemic.

The result will also be closely watched by the RBA, which estimates full employment is somewhere between the high 3's and the low 4's. With the unemployment rate at 3.9%, the economy will be at, if not, beyond full employment and wages growth will be expected to pick-up further. A falling unemployment rate and strengthening labour market is good news for the Australian economy, however, an increase in wages will also add to the inflationary pulse, strengthening the case for a faster normalisation in interest rate settings.

Other

Following a busy week, voters will head to the polls on Saturday for the Federal election to determine the members of the 47th Parliament of Australia. The election is expected to be closely contested. The cost-of-living has been a hot topic of debate during the election campaign.

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Forecasts

End Period:	2022				2023		
	Close (13 May)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.35	0.75	1.25	1.75	2.00	2.25	2.25
90 Day BBSW, %	0.98	0.95	1.45	1.95	2.20	2.45	2.45
3 Year Swap, %	3.11	3.25	3.15	3.10	3.00	2.90	2.80
10 Year Bond, %	3.36	3.30	3.15	2.90	2.65	2.50	2.40
US Interest Rates:							
Fed Funds Rate, %	0.875	1.375	2.125	2.625	2.625	2.625	2.625
US 10 Year Bond, %	2.85	2.90	2.80	2.60	2.40	2.30	2.20
USD Exchange Rates:							
AUD-USD	0.6873	0.72	0.74	0.76	0.77	0.78	0.79
USD-JPY	128.52	129	128	126	125	124	122
EUR-USD	1.0384	1.05	1.07	1.09	1.11	1.13	1.14
GBP-USD	1.2207	1.23	1.24	1.26	1.28	1.30	1.32
NZD-USD	0.6248	0.65	0.67	0.69	0.70	0.71	0.72
AUD Exchange Rates:							
AUD-USD	0.6873	0.72	0.74	0.76	0.77	0.78	0.79
AUD-EUR	0.6619	0.69	0.69	0.70	0.69	0.69	0.69
AUD-JPY	88.332	92.9	94.7	95.8	96.3	96.7	96.4
AUD-GBP	0.5630	0.59	0.60	0.60	0.60	0.60	0.60
AUD-NZD	1.1001	1.11	1.10	1.10	1.10	1.10	1.10

	2020	2021	2022 (f)	2023 (f)
GDP, %	-0.8	4.2	4.5	2.5
CPI (Headline), %	0.9	3.5	5.6	2.6
CPI (Trimmed mean), %	1.2	2.6	4.4	3.0
Unemployment Rate, %	6.8	4.7	3.2	3.4
Wages Growth, %	1.4	2.3	3.4	4.0

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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