

Statement by Philip Lowe, Governor: Monetary Policy Decision

Number **2019-11**

Date **7 May 2019**

At its meeting today, the Board decided to leave the cash rate unchanged at 1.50 per cent.

The outlook for the global economy remains reasonable, although the risks are tilted to the downside. Growth in international trade has declined and investment intentions have softened in a number of countries. In China, the authorities have taken steps to support the economy, while addressing risks in the financial system. In most advanced economies, inflation remains subdued, unemployment rates are low and wages growth has picked up.

Global financial conditions remain accommodative. Long-term bond yields are low, consistent with the subdued outlook for inflation, and equity markets have strengthened. Risk premiums also remain low. In Australia, long-term bond yields are at historically low levels and short-term bank funding costs have declined further. Some lending rates have declined recently, although the average mortgage rate paid is unchanged. The Australian dollar is at the low end of its narrow range of recent times.

The central scenario is for the Australian economy to grow by around 2¾ per cent in 2019 and 2020. This outlook is supported by increased investment in infrastructure and a pick-up in activity in the resources sector, partly in response to an increase in the prices of Australia's exports. The main domestic uncertainty continues to be the outlook for household consumption, which is being affected by a protracted period of low income growth and declining housing prices. Some pick-up in growth in household disposable income is expected and this should support consumption.

The Australian labour market remains strong. There has been a significant increase in employment, the vacancy rate remains high and there are reports of skills shortages in some areas. Despite these positive developments, there has been little further progress in reducing unemployment over the past six months. The unemployment rate has been broadly steady at around 5 per cent over this time and is expected to remain around this level over the next year or so, before declining a little to 4¾ per cent in 2021. The strong employment growth over the past year or so has led to some pick-up in wages growth, which is a welcome development. Some further lift in wages growth is expected, although this is likely to be a gradual process.

The adjustment in established housing markets is continuing, after the earlier large run-up in prices in some cities. Conditions remain soft and rent inflation remains low. Credit conditions for some borrowers have tightened over the past year or so. At the same time, the demand for credit by investors in the housing market has slowed noticeably as the dynamics of the housing market have changed. Growth in credit extended to owner-occupiers has eased over the past year. Mortgage rates remain low and there is strong competition for borrowers of high credit quality.

The inflation data for the March quarter were noticeably lower than expected and suggest subdued inflationary pressures across much of the economy. Over the year, inflation was 1.3 per cent and, in underlying terms, was 1.6 per cent. Lower housing-related costs and a range of policy decisions affecting administered prices both contributed to this outcome. Looking forward, inflation is expected to pick up, but to do so only gradually. The central scenario is for underlying inflation to be 1¾ per cent this year, 2 per cent in 2020 and a little higher after that. In headline terms, inflation is expected to be around 2 per cent this year, boosted by the recent increase in petrol prices.

The Board judged that it was appropriate to hold the stance of policy unchanged at this meeting. In doing so, it recognised that there was still spare capacity in the economy and that a further improvement in the labour market was likely to be needed for inflation to be consistent with the target. Given this assessment, the Board will be paying close attention to developments in the labour market at its upcoming meetings.

Enquiries

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