

## Vital Signs: is the economy getting stronger? The RBA says 'time will tell'

Written by Richard Holden, Professor of Economics and PLuS Alliance Fellow, UNSW

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*Vital Signs is a regular economic wrap from UNSW economics professor Richard Holden (@profholden). Vital Signs aims to contextualise weekly economic events and cut through the noise of the data affecting global economies.*

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Together with the [speech to the Anika Foundation about demographics and monetary policy](#) by RBA governor Philip Lowe, the latest [monetary policy statement](#) give some useful clues about how Lowe and the institution he leads are thinking about the state of the Australian economy and the future path of monetary policy.

The headline after Tuesday's meeting of the Reserve Bank of Australia was, of course, that it [cut the cash rate at 1.50%](#). Again.

The RBA's [monetary policy statement](#) was striking for how much most of it resembled the [last such statement](#), and the [one before that](#), and the [one before that](#), and ... I honestly thought I might have been looking at a cached version [from 2016](#) when I read it.

But after hitting refresh on my browser a few times and triple-checking the date I realised that, sadly, it was the current statement.

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It's easy to summarise. Variable (insert your macroeconomic indicator of choice: unemployment, GDP growth, wage growth, inflation, etc.) is at a level we don't like too much, but we forecast it will get better soon. For example:

The Bank's central forecast for the Australian economy remains unchanged. GDP growth is expected to average a bit above 3 per cent in 2018 and 2019.

... The outlook for the labour market remains positive. The vacancy rate is high and other forward-looking indicators continue to point to solid growth in employment.

... A further gradual decline in the unemployment rate is expected over the next couple of years to around 5 per cent. Wages growth remains low. This is likely to continue for a while yet, although the improvement in the economy should see some lift in wages growth over time.

... Household income has been growing slowly and debt levels are high.

The problem is, of course, that the RBA has been [saying all this for some time now](#) .

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Lowe switched gears in [his speech on Wednesday](#) to talk about the long-run issue of Australia's demography and how it connects to the short-run issue of monetary policy.

He began by noting a fact that has been largely overlooked – Australia's population has been

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growing at an annual rate of about 1.5% for many years, significantly faster than almost all other advanced economies, as the following chart shows. It shows 2014 growth rates, but the same story has played out for the last decade.

[OECD Chart: Population, Total, Annual growth rate \(%\), Annual, 2014](https://data.oecd.org/chart/5fSC)

Lowe noted that the lion's share of this has been driven by immigration, and that: "People living in Australia who were born overseas are more likely than the average Australian to have a post-secondary school qualification."

Not only do immigrants tend to be more educated, they tend to be relatively young. The median age of Australians is 37, and in 2002 it was forecast by the ABS to be 45+ in 2040. The latest ABS estimate for the 2040 median age is now 40. That's a big change, and it is due to immigration.

Lowe then went into some detail about how labour force participation of those over 55 has grown rapidly over the past 20 years. In the 1990s about 10% of the labour force was over 55. That now stands at about 20%.

Putting all of these factors together with life expectancy implies that while many other advanced economies are suffering from fiscally crippling dependency ratios – with simply too few workers paying taxes to properly fund retirees – Australia is in a much stronger position.

As macroeconomics goes, this is fascinating stuff.

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**Read more:** [\*Does the economy need some 'quantitative doping'?\*](#)

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Then Lowe pivoted to the implications for monetary policy. And just like a prisoner in a foreign country holding up a copy of today's newspaper and professing in staccato that his captors were

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treating him well, Lowe trotted out all the greatest hits from the monetary policy statement of the day before.

For example:

In terms of inflation, the latest data were in line with our expectations. Over the year to June, headline inflation was 2.1 per cent and, in underlying terms, inflation was close to 2 per cent ... Over the forecast period, we expect inflation to increase further to be close to 2 1/2 per cent in 2020. In the short term, though, we would not be surprised if headline inflation dipped a little...

and

The labour market is gradually tightening and it is reasonable to expect that this will lead to a lift in both wages growth and inflation ... Over time, we expect that this will become a more general story, although this is going to take some time.

He even said: "Time will tell."

Will the Australian economy actually start growing at a robust rate per capita? Will stagnant wages finally start growing in real terms? Will we avoid a deflationary trap? Will there be enough monetary and fiscal ammunition to respond to another recession or crisis? Will Governor Lowe get away with repeatedly saying things will get better but just not right now?

Time will tell.

*Richard Holden does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.*

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