

Economy back in 'growth mode': Morrison

Colin Brinsden, AAP Economics and Business Correspondent

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Scott Morrison says the economy is back in "growth mode" as the RBA reveals its quarterly statement. Credit: AAP

The Reserve Bank of Australia believes the economic recovery is already back on track after the disruption caused by the Delta-variant lockdowns, but insists a hike in the cash rate is still some way off.

Prime Minister Scott Morrison, in his first public appearance since returning from the Glasgow UN climate change talks, was also upbeat about the outlook.

"We're in economic recovery mode. In fact, beyond that, we're in growth mode," Mr Morrison told reporters in Sydney.

The RBA, in its quarterly statement on monetary policy released on Friday said the economy is expected to have contracted by around 2.5 per cent in the September quarter due to lockdowns in Australia's major states.

"Now that vaccination rates are rising quickly to very high levels, and restrictions on activity have been eased significantly, the economy is recovering rapidly," the RBA said.

"The speed of this recovery is consistent with the strong underlying momentum in the economy prior to the outbreak."

Growth is now expected to be a brisk 5.5 per cent in 2022.

The RBA also said while the labour market was materially affected by the recent lockdowns, the effects are already receding and unemployment is expected to steadily decline to four per cent by the end of 2023.

Despite such strength, the RBA's central case is that the cash rate will not rise until 2024 and just after wages growth reaches around three per cent and underlying inflation in the middle of the two to three per cent target band at the end of 2023.

"Depending on the trajectory of the economy at that time, the board judges that this outcome could be consistent with the first increase in the cash rate being in 2024," the statement said.

But it says if wages growth and inflation prove to be higher, an increase in the cash rate in 2023 could be warranted.

"However, in the board's view, the latest data and forecasts do not warrant an increase in the cash rate in 2022," it said.

Economists still believe there is scope for an earlier rate increase, particularly with the RBA upgrading its underlying inflation forecasts to 2.25 per cent for the next 18 months and within the target band.

"We think there is a very good chance that inflation will surprise the RBA to the high side over the next few quarters, with an outcome of around 2.5 per cent possible in the first half of 2022," ANZ head of economics David Plank said.

ANZ currently expect inflation and wages outcomes will combine to trigger an RBA rate hike in the first half of 2023.

"A move in the later part of 2022 is not out of the question, but would require a sharp acceleration in wages growth in the first half of 2022. We think this is too soon," he said.

Meanwhile, Australia's services sector has yet to receive the full benefit of the end of COVID-19 restrictions.

The Australian Industry Group performance of services index rose just 1.9 points in October to 47.6, remaining below the key 50 point mark that separates contraction from expansion in the sector.

It was the third month in a row the industry has been in contraction.

"Service sector businesses will be hoping that the further unwinding of COVID restrictions and a burst of sales as the holiday season approaches, will lift the sector and see it enter 2022 from a position of strength," Ai Group chief executive Innes Willox said.

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