

RESERVE BANK TURNS UP THE HEAT ON AUSTRALIAN WORKERS

By Gary Morgan, Luke Griffiths, Julian McCrann (Editors, Morgan Poll)

On Melbourne Cup Day 2007, the Reserve Bank of Australia (RBA) confirmed its strong-minded approach to managing economic conditions in Australia with another increase in the official cash rate to a decade high of 6.75%, not seen since August 1996¹.

The Government has wrongly made the RBA too reliant on CPI and unemployment movements. Everyone knows the official [ABS unemployment estimate is inaccurate and a very misleading measure](#).²

[Roy Morgan's unemployment estimate for the September Quarter](#) showed the unemployment rate bouncing upwards by 0.2% to 5.8%³, compared to the [Official October ABS Unemployment Rate](#) which has also risen to 4.3%⁴. The significant number of underemployed workers throughout the Australian economy is frightening, as detailed in July 2006 by [Henry Thornton](#)⁵.

The number of underemployed Australians helps to explain the lack of wage inflation in Australia. Labor market deregulation started by the Hawke/Keating Government and Howard's Work Choices are also highly relevant.

Despite the misleadingly low official ABS unemployment rate, two other forces explain why inflation is still relatively low.

The first is the strengthening Australian dollar – powered by the commodities boom; and the second is the encouraging signs of drought breaking rain which will reduce future pressures on food and input prices.

These forces with underemployment make the decision by the Reserve Bank a clear case of rear-view economic management.

The triple effects of these forces mean that at this time the Australian economy is not facing any significant longer term inflationary pressures. To add experience direct from the “coal face”,

¹ Official Australian Interest Rate Movements (July 1994 – Nov 2007)
http://www.globalfinance.com.au/interest_rates_australia.htm

² Gary Morgan letter to the AFR (23/08/03)
<http://www.rovmorgan.com/news/papers/2003/20030801/>

³ Roy Morgan September Quarter Unemployment Estimate
<http://www.rovmorgan.com/news/polls/2007/4224/>

⁴ ABS Unemployment Rate for the September Quarter 2007
<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6202.0Main%20Features1Sep%202007>

⁵ Australia's Missing Workers; Henry Thornton; August 2006
http://www.henrythornton.com/article.asp?article_id=4184

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If the weight of these arguments weren't the deciding factors for the RBA in lifting the official cash rate, then one only needs to look across the Pacific Ocean to the turbulent state of the US credit market and US stockmarkets to find ample reason for the RBA to tread cautiously on raising Australian interest rates at the present time.

The fragile nature of the US economy, with subprime housing credit woes multiplying throughout the economy is evidenced by large Wall St. banks reporting huge write-downs on CDOs.⁶ Citigroup with \$US11b on the weekend and Merrill Lynch \$US7.9b only last week have blown large holes in their respective balance sheets. These huge write-downs point to the growing danger of a 2008 US recession – a situation which would affect everyone.

For the RBA to be raising interest rates despite these pressures, and in the face of rising unemployment, points to an institution that has lost its way due to the Howard Government's poor direction. Given everyone's concerns for the 2008 global economy, the RBA risks losing credibility with decisions which are too hasty – there was no reason to raise interest rates this week – irrespective of whether during an election campaign or not!



⁶ CDOs = Collateralised Debt Obligations