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Edited by Kevin Chinnery: kchinnery@afjr.com

Bigger lessons from overdue interest rate rise

THE AFR VIEW

The Reserve Bank of Australia board has finally started to catch up with the global inflation curve and the tightening cycle already set in play by other central banks. It should have started normalising its emergency-level pandemic support mode six months to a year ago, when employment had recovered to well above its pre-pandemic level. By sticking too long to its ultra-dovish forward guidance experiment, the Reserve Bank failed to understand how disrupted global supply chains would push up prices and left itself exposed to the inflationary shock of the war in Ukraine.

Now, as governor Philip Lowe conceded yesterday, inflation psychology has shifted and he finds himself having to reassure Australians that he will take the steps needed to get the country's inflation outbreak back down to his 2-3 per cent target. To his and the bank's credit, they have not been intimidated by the politics of a mid-election campaign rate increase and have acted in the national interest.

The RBA has not been intimidated by a mid-election campaign rate increase.

winding back its buying of government debt designed to suppress money market interest rates.

Most of the headlines will be about higher borrowing costs for families; more than a million mortgage holders have never experienced a rate rise before. But re-anchoring inflationary expectations for consumers and businesses is preferable to unchecked price growth and the medicine that would require. Dr Lowe does not expect inflation to fall back from the latest 5.1 per cent into the 2-3 per cent target band until perhaps mid-2024. That, he now accepts, will require a string of cash rate increases to perhaps 2.5 per cent by the end of 2023.

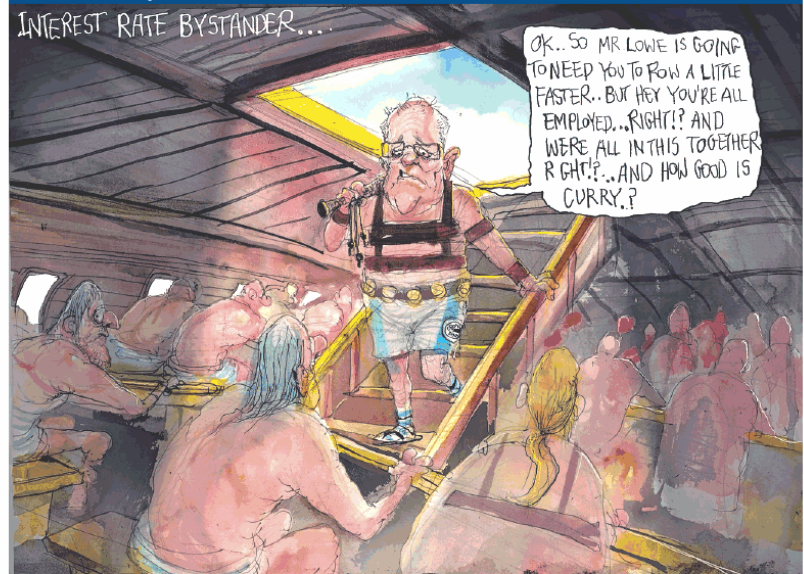
An opportunistic Labor is cynically trying to make an interest rate rise some sort of blight on the Coalition's economic credentials. That poorly serves the nation it seeks to lead. As Dr Lowe says, yesterday's rate rise is "good news" because it reflects the underlying resilience of the Australian economy in the face of one of the biggest negative shocks of the past century. This has allowed the bank to belatedly start withdrawing the extraordinary supports put in place during the depths of the pandemic. Interest rates close to zero cannot be sustained without building financial instability into the economy. Yet Labor consistently opposed the winding back of what, in hindsight, was an excessive budget support. It still politically scaremongers any attempts to rein in out-of-control public spending.

Amid the policy vacuum, the Reserve Bank painted itself into a corner with its over-ambitious forward guidance, which Dr Lowe yesterday depicted as an embarrassing exercise inspired by the dire first year of the pandemic. Back then, Dr Lowe improbably suggested that the 0.1 per cent cash rate struck in late 2020 would probably remain until 2024. That became part of a mission to lock in the post-pandemic jobs miracle into a new era of high employment and high wages. Although he revealed yesterday that the Reserve Bank board would review this forward guidance policy, the simple lesson is that the future is too uncertain for a central bank to lock itself into such an extreme policy straitjacket.

The bigger lesson, however, needs to become a dominant part of the rest of the election campaign until polling day. Ultra-cheap money will not sustainably lift real wages. To the extent that an overdue normalisation of Australia's most accommodative monetary settings amounts to a government "cost of living" failure, it is that neither side of politics has any agenda that will sustainably lift real wages, reverse the economy's productivity slowdown and lift its growth potential. Neither side has even a modest version of the policy reforms of the 1980s and '90s that did just that. By putting such an agenda out of bounds, both are being dishonest with the public. No wonder their primary votes are so low.

Ten years and six months after Australia's last official interest rate rise, the bank has purposely lifted its cash rate from the record low 0.1 per cent to 0.35 per cent, representing a "standard adjustment" of a 0.25 percentage point rise. The RBA has also begun "quantitative tightening" by

From the Gallery



David Rowe

Inner Brissie could have gone teal

Changing colours
With no high-profile Climate 200 candidates, the Greens may now win seats from the Liberals and Labor in wealthy, professional electorates in Brisbane.



John Black

This is a tale of two polls published this week.

The first, Newspoll, showed a two-party-preferred (2PP) vote of 53 per cent for Labor and 47 per cent for the Coalition – a lead for Labor which has remained steady since the start of the campaign.

The second poll, from Resolve Strategic, inferred a similar 2PP result for Labor of about 53 per cent to 54 per cent.

So, the same result? Pop the figures in the election calculator, apply a national swing to Labor of about 5 per cent and read off the results: a big win for Labor. Well, not quite.

For the past two years, Newspoll, now conducted by YouGov, has proved a far more credible predictor of recent state elections than the polls that overestimated Labor's federal vote in 2019, by interviewing too many people from the chattering classes who are cheap to sample and vote Labor.

Newspoll now takes more care to chase up time-poor demographics, such as working families with children – the group which our 2019 swing profile shows put Scott Morrison back in office in 2019 across ALP marginal seats.

And every three months over the past two years, Newspoll has provided detailed demographic breakdowns. They are generally consistent with our database and which show the Liberal primary vote shedding middle-aged, high-income professional women, a group which our 2019 booth profiles show drove the election of independents in Mayo, Warringah and Indi.

However, these fundamental

demographic shifts are buried under a national 2PP vote which assumes only Coalition or Labor candidates can get elected, and this is no longer the case.

The problem for the two main parties is they have ignored their traditionally strong supporters for so long, the national base primary vote has been eroded down to 33.3 per cent for Labor and 28 per cent for the Liberals (before we add in the Queensland LNP and the Nationals in NSW and Victoria). Labor has lost miners and tradies, and the Liberals have lost the huge and fast-growing occupation group of professional women.

Not only has the base primary vote of the parties been eroded by neglect, but both have aggravated the problem by choosing leaders who annoy the very groups they have been losing.

With Prime Minister Scott Morrison, his net satisfaction scores have been a given well before the election campaign got underway. But Opposition Leader Anthony Albanese's fall from grace has

With the collapse of the major parties' primary votes, predicting the outcome in individual seats has become much more complicated.

come after the start of the campaign, when his leadership qualities were put on full display and found wanting.

Which takes us to poll number two, Resolve Strategic, which focuses exclusively on primary votes. Resolve also considers whether "teal" candidates are running in the seats being polled. There are quite a few independent candidates across Melbourne, Sydney, Adelaide and Perth, many sponsored by Climate 200.

But Climate 200, a Melbourne-based outfit, seems to have overlooked south-east Queensland. Many Melburnians moved there after the city's extended COVID-19 lockdowns, and our modelling of 2019 booth votes showed the three "goat cheese circle" seats of Ryan, Brisbane and Griffith could have been

easy wins for high-profile female teal candidates. As a result, many Brisbane respondents in the Resolve poll learned they had no teal candidate to vote for. This was in the same week endearing LNP senator Matt Canavan, whose mother apparently likes to fill out his citizenship paperwork, said Russia's invasion of Ukraine meant the Coalition's net zero carbon emissions policy was "dead".

The prime minister soon indicated that the policy was not dead after all. However, a few of Canavan's Liberal colleagues in south-east Queensland are on life support after the primary vote in the Resolve poll's admittedly small sample showed Labor's primary vote had tanked from 31 per cent to 27 per cent. Most voters switched straight to the Greens, presumably to send a message on net zero to both Anthony Albanese and to Canavan.

With no teal candidates, the unequipped independent vote slumped by eight points statewide, boosting the UAP in the bush and the Greens in south-east Queensland.

The Pauline Hanson voters loved Canavan's pronouncement and jumped on board with pro-mining LNP candidates outside Brisbane, lifting the Coalition's state vote by seven points to 41 per cent.

It is fair to say not a lot of Hanson votes would have gone to LNP members in the wealthy seats of Brisbane and Ryan.

The Greens were left with a rise in state primary vote of five points, taking them to 18 per cent of the primary across the state and up to 30 per cent in Brisbane, Griffith and Ryan, seats where they average 22 per cent in 2019. On those figures, the Greens would be elected on Labor preferences in the Liberal seats of Ryan and Brisbane and also in Labor-held Griffith. In NSW and Victoria the Resolve poll infers that when denied a teal candidate, the teal demographic switched to Labor and the Greens, strengthening Labor's chances of winning close contests against the Coalition, but not losing to the Greens.

So, two polls, but with the collapse of the major parties' primary votes, predicting the outcome in individual seats has become much more complicated.

John Black is a former Labor senator for Queensland. He is executive chair man of demographic and political profiling company Australian Development Strategies. ADS 2022 election profiles can be found at <https://www.elaborate.net.au/category/election-profiles/>