

'THE IMPORTANCE OF LIAISON' PODCAST - TRANSCRIPT

Moderator (00:07)

Welcome to Inside 65. The Reserve Bank of Australia's podcast, where we bring you insights into monetary policy, the financial system including payments, our economy, and the impact of the world at large.

From our head office at 65 Martin Place in Sydney, we'll pull together interviews, conversations and explainers as well as include speeches given around Australia by our senior executives to tell you a little bit more about who we are and what we do. If you are interested in more about the Bank, check out our website, rba.gov.au where you can subscribe to other content, find more information, or contact us directly.

In 2001, the Reserve Bank established its liaison program, a formal program of economic intelligence gathering through which Bank staff meet frequently with businesses, industry bodies, government agencies and community organisations.

The program is systematic in how it approaches collecting and assessing information and the information obtained is a useful complement to published sources of data and economic models in informing the Bank's assessment of economic conditions.

The information gathered is available in near real time, making it useful for now casting and understanding the implications of short-term shocks to the economy today. We're going to learn more about the history of the program, why we place so much importance on talking to the community in this way and how it has supported our decision making over the last two decades.

I'm joined today by Luci Ellis who's Assistant Governor with responsibility for economics here at the Reserve Bank of Australia, Senior Manager Kate McLoughlin who is responsible for the liaison program and our Senior Representatives in Western Australia and Queensland Aaron Walker and Kate Davis. So Luci, perhaps you could start by talking about why central banks have liaison programs?

Luci (01:55)

Thanks Judy. A lot of what we do to understand the economy is based on official data and market pricing. The market pricing is available to us in near real time, but it only gives us one window on the world and the official data and other data sources and surveys that we have are very much backward looking in that they take time to be gathered, compiled, and published.

So, people have sometimes likened economic analysis in central banks to driving along the highway with only a rear-view mirror and no windscreen. One of the things that liaison program helps us do is have more of a real time sense of information. So perhaps you can think of it as people standing along the side of the road telling you what they're seeing from the side of the road.

The deeper thing that it also gives us the why, it's not just about data.

We have information about unemployment, information about inflation and output, but it's really helpful to know from businesses and industry organisations, community groups, their view of what's

happening now, why it's happening and what could be coming, what their plans are. So we hear about people's hiring plans, we hear about what people plan to award as a wage increase.

We hear about why they're making the investment decisions they're making and what they expect to come down the track. And I think that really gives us a deeper understanding of the behaviour of different economic actors in the system.

Moderator (03:23)

Do other central banks have these kind of programs or is it a bit different?

Kate McLoughlin (03:27)

I think one of the interesting things is that their heart, a lot of central bank programs and liaison are quite similar and that's not just a coincidence. Actually, the Federal Reserve modelled their program on Australia's liaison program because it's been running such a long time.

And from time to time we touch base with other central banks to hear about their new and best practices so we can make sure we're in line with global practices.

But you know, every economy is different and so there are slight differences perhaps in who we talk to or where we focus our resources.

Moderator (04:00)

So it's been 21 years. It's its 21st birthday this year. Is that right? It's quite the milestone. Can you tell us then about the history of the program, how it's developed over time?

Luci (04:09)

Sure. It's always been important, as I mentioned, to know what's going on the economy beyond what the official data and tell us and the Reserve Bank has always had at least some channels of communication for receiving and sharing that information back in the day.

We had state branches. Now, most of the work of those state branches was government, banking business and distributing cash and as the world changed and things became more electronic and we were no longer the bank, state governments, we didn't need those branches anymore but they had house small teams where the management of those branches and the small economics teams, they tended to have all provided some insights into what was happening in the rest of the economy.

And there was certainly information provided by those branches back into head office. And you can read some of the early reports in our archives, Unreserved. So that's always been the case. But as the branch network shrank, we needed something different and so mindful of that and also mindful of, I remember some of the conversations at the time, we were hearing from some of the private sector, you know, the big global banks that they noticed that they kind of got something out of just looking at all the reports from the various public publicly listed firms that they were following. Their equity analysts could kind of bring together common themes and we said, well not every firm is a listed firm. Maybe if we talked to a broader range of the economy, we would actually learn something and be able to distil these common themes.

So there was some inspiration also from some of the things the private sector were doing in a partial way. And so we formed the regional industry analysis team and set up the teams in each of the other

cities that we have those teams in.

Uh, and since then they've just built that up over time, making sure we're being systematic. It was always set up to be systematic. We've had a long period of recording a record of those interviews so that we we've got that detail, we've got that common theme and in fact, we've got various sort of qualitative and quantitative indicators that we've distilled from all of those interviews. And I think that's really one of the strengths of the program that we have, is just how systematic it's been from the outset.

Moderator (06:31)

Which I suppose brings us to today and perhaps Kate, if you could describe a little bit how the program works today.

Kate McLoughlin (06:37)

Well, the program works by us trying to, you know, broadly match our sample of firms that were interviewing to the sort of sectors of the economy. So we try to design a program interviewing firms across a range of industries according to the sort of share of economic activity.

But also more broadly, we speak to industry associations in particular to capture small business or more sort of industries that are distributed broadly across a large number of businesses. And then how that works on a more day to day sense is really for those firms.

We look to interview them about once a year a little bit more often for more cyclical areas of the economy, like construction and retail. And you know, really important to note here is that it's all done on a voluntary basis with firms. So we'll approach firms to invite them to join the program. But it's really out of that dedication of service from the private sector.

Keep talking to the reserve bank and providing us with really useful information about how economic conditions are changing. One thing that's not captured with those 900 contacts we speak to Judy is actually our reach is quite a bit broader because we speak to a whole range of organisations that aren't just single firms.

So for example, sometimes we speak to professional services firms like accountants or recruiters, which can give us a view into the whole industry or multiple industries at a time. We speak to industry associations which remain really important contacts for giving us.

For example, a whole view of what's happening in farming and agriculture. And we also speak to community services organisations, which give us a really important perspective on how this is playing out particularly for some household groups and indeed for those people working for community service organisations.

Moderator (08:26)

I mentioned at the start of this discussion that the program is actually quite systematic in its approach. Why is that? And do you allow space for say more informal discussions and how do the two aspects of the work together to paint a complete picture?

Kate McLoughlin (08:41)

That's right. So there are two main aspects Judy. There is what we call the core questions which you know, is really asking firms to try and match things with the official economic statistics from the ABS. So for example how your sales changed over the past 12 months and how do you expect them to change over the next 12 months? Another really topical question we ask that's part of the core question is how has wage growth changed and how do you expect it to change in the future? And then there are a lot of sub questions in that that are topical. So as you can imagine this year, we've been asking firms lots of questions around labour availability and the challenges to hiring staff and also what factors might affect different things.

So in the example of wages, what share of your employees are on enterprise bargaining agreements. The way that comes together is we then analyse all that information every month and sort of feed that information into the board process and thinking about things.

But there's another important one when we get something really topical happen in the economy and things are changing really rapidly. So one example of that would be with this sort of shock to energy prices this year. And so we might do a topical focus special there we'll go and talk to firms perhaps a little more regularly than we otherwise would have.

We might reach out to new firms to try and make sure we can gather more information from firms on how the economy is changing or important structural features of their industry that might not be available in the economic data.

Luci Ellis (10:12)

Having both the core questions and the topical questions really helps us inform the board and the public about what we see going on.

It gives firms an opportunity to let us know what's on their minds as well and that could alert us to an emerging issue that might not otherwise be apparent to us as quickly.

And again, it gives us an opportunity to talk through the why the what's driving their decisions. But again, having that structure component to it ensures that we have continuity through time and that we can compare results through time.

So, we have a basis for saying, oh, at the moment, it's much harder to hire than it was before. At the moment they're seeing cost pressures that they weren't seeing before and we can compare through time, even though sometimes we're talking to different firms, we have that process for distilling that into a quantitative indicator.

Moderator (11:08)

We've actually started publishing a section summarizing the key messages from liaison in our quarterly Statement on Monetary Policy.

What was the thinking behind providing so much more detail on a regular basis?

Luci Ellis (11:18)

From the outset of the program we wanted to avoid it being seen as a rival source of advice. We wanted this to be part of our holistic assessment of the economy. It's evidence that we use together with our other sources of information and triangulating against those other sources of information. And so we made a very deliberate decision to integrate the insights from liaison into our general work of economic group.

And so we always had just woven those insights into our documents that already existed rather than having a separate publication and I believe that remains the right call that said, there has been so much more interest in the liaison program and what we're learning from it, and it is something that the rest of the market doesn't have access to. Unless we publish it, we thought, given it had been such an important source of information for informing the board's decision to take off and start raising rates. We felt that it was important to actually bring all that together so people didn't have to pick through and, you know, do a search on liaison in the document.

Moderator (12:26)

So we've heard why we do the program and how it works at a high level, but I'd really like to get a sense of what it looks like on the ground. Kate and Aaron, can you tell me what a typical day looks like for both of you?

Kate Davis (12:37)

Well, a typical day, usually involved in Liaison meeting, we do about 900 meetings per year. So most days we're meeting with contact. We start by preparing, we see most of our contacts once a year. So it might be in a while, it's been a while since we talked to them business conditions that might have changed. They will take our standard questions but also have to think about which topical ones might be relevant for that contact.

Also review any recent press or financial announcements so that we can make the most of the one hour that we've got with them and get as much focused information as we can. After the meeting's over, then we each have responsibility for sort of collating the messages across particular industry.

So, you know, one of the ones that we do here in my team is looking at tourism. And so after the meeting's over, we would then go and look at all the meetings. Everyone else is done across the country in tourism. And try to see if there's some, you know, themes that are coming out and how maybe the stories have developed over time as conditions have changed.

And then we spend some of our day sort of summarizing those things because all our meetings with the contact, the confidential and so we need to aggregate and de-identify those messages. And then we put those together, maybe feed some of that information to some of the forecast teams. Put it into one of our notes that we're doing on a particular topic or put it into our monthly summary that we write for the board process or maybe one of the banks publications. Some of our analysis.

Aaron Walker (14:04)

Liaison is obviously the key part of our day and engagement with the community, but there are a few other things that we do out in the community, so presenting economic updates is something we

get to do for liaison contacts, perhaps a round table or a local economic forum. And on the flip side of that, we might be performing more of a listening role when we're attending local economics events, such as if it was hosted by CEDA or the Economic Society of Australia.

And like many of our state office staff, I'm actually an ambassador for the banks public Education program, which means I get to give school talks to high school economics students about the role of the RBA and current conditions in the economy. And for me that that's a pretty rewarding aspect of the role, being able to show future or budding economists, what their career could look like. And look, they always keep me on my toes with the questions, but I do sometimes suspect that they may have grabbed one or two from their parents.

Moderator (15:05)

I'd think so. So, the liaison program kind of strikes me as particularly extensive, how long have each of you been working on the program and what is it about it, besides the school kids, that you enjoy the most? Kate?

Kate Davis (15:19)

I've been in the Queensland office for just over a year. I was in the Liaison team in head office from 2010 to 2012, I loved it then and I was really keen to come back and do it again when I got the chance, especially in another state. What I love about the program is no matter what's happening in the economy, we can always find more about it and have something interesting to say based on liaison.

So if there's a puzzle, something isn't coming out the way that we would expect or maybe is economic theory would suggest liaison can get out why are topical questions are really helpful for that, you know, everyone expected house prices to fall when the borders were closed and covid hit and things were difficult, there's no population growth and we're building, we're committed to building houses at a record rate.

But through liaison we started to hear about, you know, fewer share households, maybe there's some changes in household size, the census data wasn't out to prove that yet, but we can look into other data sources because liaison suggested that and they're also telling us, yeah, there's a lot of buildings have been approved, but it's taking a lot longer to actually for those to be completed.

So, you know, housing supplies are coming online to the same extent. Yeah, you know, little puzzles when things don't kind of go the way expected liaison helps us understand.

Moderator (16:34)

Fantastic and Aaron, how long have you been in the program?

Aaron Walker (16:38)

I'm an old hand in the program for about six years now.

First as the economist in the WA office and then as the senior rep and I just love the variety of tasks really from liaisons to the analysis to the presentations to the students.

Of course, I love the enthusiasm with which our contact participate in the program.

I mean, if you ask me, the best part about it is the relationships both with the RIA team across the country we're chatting to each other every day, but here in your state, your contacts, you support

your social network as well through your days. And I often joke due to the random things you learn in these meetings, I can join in any barbecue conversation no matter where anyone, because you just pick up all these little things from the people you speak to,

Moderator (17:30)

it would be interesting, Luci and Kate talked earlier about the benefits of asking both core and topical questions so we can get a read on whatever is going on in the economy at the time. I imagine that was particularly interesting in the past years and the insights you were receiving would have been quite dire at times. Can you tell me about how contacts were feeling at the time and what they might have been particularly worried about?

Aaron Walker (17:54)

I actually started during the downturn, the mining investment downturn in WA when things were fairly sombre, I would say most of the discussions over here in WA. But really nothing compared to the period of March to June 2020 the year of the pandemic.

It was just the sheer pace of the decline in demand for most firms. It was the uncertainty. I mean, what's going to change the next 10 minutes in a press conference, let alone what's going to happen over the next weeks, months, years. And so firms were telling us they were pulling back on investment costs and having really difficult conversations about having to let their staff go or actually cut salaries to try and keep staff.

So, it was a really tough time and a period I'll certainly never forget. But what really blew me away is that even despite those circumstances are contacts made the time through 20 or 30 minute chat with us. Because they understood the importance of the program that most of them participated for quite some time. So we knew what was happening in real time. We could adjust policy insights from always really valuable, I would argue there was never, they were never more valuable word during that period.

Moderator (19:11)

And so particularly timely. And what did people in Queensland think was particularly dire, Kate?

Kate Davis (19:16)

I started in the program at the end of last year. Things have changed a little bit since then. So the concerns have shifted. So by the end of last year, people were saying, well, things demands actually been a bit better than we expected. But the shift in concerns have been more towards issues of costs and labour market things so more recently. Quite often in meetings we started opening questions how's demand for goods and services gone over the past year and a lot of people like oh that's fine, but we just can't get enough people to do the work.

And so that has sort of come to the forefront and then we've been able to have additional topical questions to be able to draw out, you know, where are the labour shortages, how widespread are they. What's happening with wages in more detail than perhaps being used to like what are people doing around to try to retain staff, what's happening with wages for new hires and things like that and then although so there's been a lot more concerns recently, particularly in some industries about rising costs.

And so we've had a lot of additional questions to try to get an idea about you know what proportion of their cost base is going up and where those particular pressures are, how frequently prices are changing compared to normal and so yeah so, the concerns have shifted, they're there but they're very different to the ones them all wants to do it as having really strong demand and not being able to meet it and then on the inflation side.

Moderator (20:44)

So is that the same thing in WA or is WA such a vastly different market to Queensland. How would you compare and contrast the two, Aaron?

Aaron Walker (20:53)

Well, well it really has dependent varied over time. I think at the moment, yes, we're seeing that the conditions seem to have converged somewhat across the country. I would say now that most firms have really strong demand, higher cost pressures and can't find labour. I mean that's pretty universal across the country and housing was certainly WA and some other states, including Queensland. Now it seems to be broadened as well. Just the lack of housing for workers in particular regional areas, compounds the issue of being able to attract labour.

Moderator (21:30)

And how would it compare with Queensland? Kate, what's distinctive about that state?

Kate Davis (21:35)

There's a few things, again, we've probably got more similarities and differences in the moment, but Queensland also had really strong interstate migration. So that's adding a lot to tightness in the housing market here. We've also had um lot more severe weather on the East coast than what's been the case in WA.

And so businesses have told us more about how that's affecting your ability to get construction work done, slide repair work. We did a lot of liaison immediately after the floods to get an idea of the impact, but we're still hearing now about how some of that was going on. Another thing that's different between the East coast and the West coast is pressures around higher gas and electricity prices. A big thing, we're hearing from firms over here on the East Coast, that's not such an issue on the West Coast.

Moderator (22:21)

Indeed, every day in the newspaper. Look, it's obviously important to have both of you embedded in the local community. Are there any particular reasons that's the case?

Aaron Walker (22:30)

Well, I think it's always very important for the bank presence in the community to both gain but also share insights. So, I mean, this engagement is basically why the liaison team exists. Um, remember 2018, 19, we all got together to refresh our mission statement and the first words that we engage the Australian community to gain and share insights on the economy and that's what we do. And you just get richer, deeper understanding of what's going on.

When you've got staff on the ground going out to the region's talking to firms, you know, face to face. We've done a lot of virtual as well and it's mixed, but it is both richer and gaining insights and

seeing what's happening around the place, but also sharing these, so we can go out to the regions, we can go to the local forums, et cetera.

So it's just more opportunities for engagement alongside the Bank's communication channels of course. But as we discussed earlier, there are differences across the country, WA is always mining driven, for example. So whatever is happening there is the weather for the rest of the state and the other states can be very different. And the bank's objectives are the welfare and prosperity of all Australians. We need to know what's happening across the entire nation.

Moderator (23:45)

And Kate anything to add?

Kate Davis (23:48)

Yeah, just as Aaron said, like I think being local helped us to build better relationships with our contacts and it also means understanding local conditions is easier. So, in a big event, like a flood kind of have an idea of who to talk to on the ground. And also we can attend local business events and meet new contacts and add who we need to add to the program, probably in a way that it's easy to do when you're embedded in that business community maybe be a little harder from, from a distance. So it helps us to keep their program up to date and relevant as the economy changes and businesses change.

Moderator (24:21)

And you don't have to keep traveling from Sydney to Brisbane and Brisbane to Sydney, is that right?

Kate Davis (24:26)

We've got big enough states to travel around anyway.

Moderator (24:29)

That's true, not so convenient. That's true, that's true. So perhaps one final question for Luci to really get to the nitty gritty of why this program is so important to our mandate is how are the findings of the program actually factored into policy decision, what's the process that happens there?

Luci Ellis (24:45)

Well, as I mentioned, we've always had those insights from liaison integrated within our discussion of economic conditions in the board papers, in the board presentation. Sometimes I will show a graph to the board that actually is derived from the quantitative indicators we get from liaison will often show those graphs also in the papers.

And of course in the board discussion, I'll also often mention, well, this is what we're hearing from liaison partners, and this is what we think is going on, particularly when there's uncertainty about what the future might hold or what's currently going on. So it's always been integrated.

The other area where I think it's quite important is to help our forecasters develop their starting point for their forecasts. So it is actually one of the sources of information that goes into the judgment that you put on your statistical models.

A statistical model is never going to be a perfect representation of the economy and a purely statistical forecast is never going to be the whole answer to developing a set of forecasts. And what the forecasting teams do is talk to the liaison team, use the information that liaison team are writing in their own reports to then say, well, you know, how should we shape our forecast? What sort of tilt do we need to put on a purely model based starting point in order to develop our final forecast. The early phase of the forecast is very, very much shaped by the understanding of the current situation derives from liaison.

Moderator (26:22)

It's clear the Liaison program has been a key element in our economic analysis of monetary policy decision making processes over the past 21 years. It's one of the ways we listened to the people directly affected by what is happening in the economy.

The program provides us with real world insights into the issues and decisions, driving the trends we see in the data to help keep us fully informed about the whole economy.

Thank you for listening.