

Tuesday, 17 February 2015

Minutes of the February RBA Board Meeting

Alert but not Alarmed

- With a wide range of commentary from the RBA over the past two weeks, there were few surprises in today's minutes of the February meeting.
- The major standout was that minutes raised the possibility of delaying the decision to cut rates by a month. "Members assessed arguments for acting at this meeting or at the following meeting". That suggests that the RBA was not overly alarmed at the outlook for the economy. It could also suggest that the RBA was not expecting to follow up with a rate cut in March, at the time of the February meeting.
- The RBA still needs to see a further strengthening of non-mining investment. This highlights the importance of capex data in upcoming monetary policy decisions. This data is due on 26 February.
- We continue expect the RBA will cut rates again in May, but cannot rule out an earlier move. While capex data towards the end of the month is likely to influence the RBA decision in March, a cut in May will have the benefit of further growth and inflation data, in addition to information on housing and spending in reaction to the rate cut in February.

With a wide range of commentary from the RBA over the past two weeks, including the Statement on Monetary Policy and the Governor's testimony to Parliament, there were few surprises in today's minutes of the February meeting.

The major standout was that minutes raised the possibility of delaying the decision to cut rates by a month. "Members assessed arguments for acting at this meeting or at the following meeting". That suggests that the RBA was not overly alarmed at the outlook for the economy. Indeed, the minutes indicated that "the underlying forces driving growth remained much as they had been for some time". It also suggests that the RBA was not expecting to follow up with a rate cut in March, at the time of the February meeting.

As we already know, the RBA favoured moving in February, as it gave the benefit of preceding additional communication in the Statement on Monetary Policy. The key reasons for lowering rates were already provided in previous commentary, including the RBA's lowered forecasts due to a slower-than-expected pick up in non-mining investment.

It was highlighted in the minutes that a "strengthening in non-mining investment was a necessary element for growth to pick up to an above-trend pace". Additionally, the outlook for commodity prices and the exchange rate were singled out as key uncertainties surrounding the RBA's growth and inflation forecasts.

This means that capex data, (due 26 February), will be important in assessing the future path of monetary policy. More specifically, the RBA would like to see a more pronounced strengthening in non-mining investment in the intentions survey.

Another key consideration is the housing market, where developments would “bear careful monitoring”. However, the RBA appears to be placing its hopes on APRA’s recent measures to address risks in the housing market. A further strengthening in investment lending for housing of late could give rise to further concern.

Outlook for Monetary Policy

It appears that the RBA is alert but not alarmed about the state of the economy. This would suggest that the RBA could wait on the sidelines for at least a month or two. However, we remain uneasy about whether non-mining investment will strengthen sufficiently, and it is likely that RBA will want to provide the economy additional support.

Capex data towards the end of the month is likely to influence the RBA decision in March. However, a cut in May will have the benefit of further growth and inflation data, in addition to information on housing and spending in reaction to the rate cut in February.

We continue expect the RBA will cut rates again in May, but cannot rule out an earlier move.

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