

Minutes of the May RBA Board Meeting

Cautious Undertones

- There was little to faze the RBA into altering its intended course of leaving rates on hold for some time. The minutes from the RBA's May meeting noted that "the Board considered that the current accommodative stance of policy was likely to be appropriate for some time yet".
- Interest rates are doing what they can to support the economy, but there was some caution in the domestic outlook which suggests that the RBA is still far from considering rate hikes. The RBA noted the recent pickup in activity but that "overall growth in coming quarters was likely to be below trend given expected slower growth in exports, the decline in mining investment and the planned fiscal consolidation".
- The RBA Board's view on the labour market was also cautious and said that the "improvement in the labour market was expected to be relatively protracted".
- The RBA however seemed a bit more upbeat on some other areas of the economy including business investment the comments surrounding China were quite optimistic.
- We continue to expect that the current recovery has enough legs to warrant a rate hike at the end of the year. However, the possible impact on confidence and spending from the Federal Budget could mean that this recovery could be tempered. This risk and the lingering caution from the RBA to the outlook highlight a risk that the RBA could delay its first rate hike until early 2015.

There was little to faze the RBA into altering its intended course of leaving rates on hold for some time. While the "stability in interest rates" has been dropped and replaced with "the Board considered that the current accommodative stance of policy was likely to be appropriate for some time yet", there was "little change to the outlook for the global economy" and there was "little change in the updated forecasts for activity and inflation".

Interest rates are doing what they can to support the economy through an expected lift in dwelling investment and stronger consumption. However, there was some caution in the domestic outlook which suggests that the RBA is still far from considering rate hikes. The RBA noted that "there were further indications that growth had picked up a little over the past two quarters, but that "overall growth in coming quarters was likely to be below trend given expected slower growth in exports, the decline in mining investment and the planned fiscal consolidation".

The RBA Board's view on the labour market was also cautious, highlighting that "movements in the labour market data could be volatile". The RBA also said that the "improvement in the labour

market was expected to be relatively protracted”.

The RBA however seemed a bit more upbeat on some other areas of the economy, including business investment. The RBA referred to the high level of work to be done in non-residential building which suggested “that business investment in construction could pick up”.

There was little change to the outlook for the global economy, but the comments surrounding China were quite optimistic. The RBA viewed that activity was “consistent with the government’s annual target of 7.5%” and that “the recent slowing could be temporary”. The RBA believes that authorities are willing to support investment growth if needed to meet their growth target.

Overall, while the RBA is content with how interest rates are supporting the economy, the elements of caution in the RBA’s commentary suggests that rate hikes are still some way off.

We continue to expect that the current recovery has enough legs to warrant a rate hike at the end of the year. However, the possible impact on confidence and spending from the Federal Budget could mean that this recovery could be tempered. This risk and the lingering caution from the RBA to the outlook highlight a risk that the RBA could delay its first rate hike until early 2015.

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