Minutes of the October RBA Board Meeting

'Steady as she goes and avoid the rocks'

- The RBA's assessment of the global economy had flashes of weakness but remained positive. Weakness in Europe and a softer Chinese property market were noted along with better business investment in the United States.
- Warnings about property prices were not made in qthe minutes but be assured, the RBA and APRA are watching closely.
- Historically slow wage growth and a soft labour market may sit behind the modest growth in retail spending. In the June quarter, spending rose more rapidly than income indicating that savings had declined.
- The RBA appeared to welcome the decline in the AUD but, given the decline in commodity prices, still seems to expect further weakness in the months ahead.
- The economy has a range of bright spots. Credit growth, dwelling investment and a steady rise in exports are underpinning economic activity. Consumption is growing, forward looking labour market indicators have improved and the weaker AUD will assist competitiveness.
- Still expecting a rate cut? The RBA's liaison with businesses suggested that the cost and availability of finance were not restraining business investment. Given this, a further rate cut would not be expected to spark a lift in investment.

The minutes of the RBA's October board meeting expanded upon the comments made by the Governor, Glenn Stevens on 7th October. Gone were the warnings on property prices but the minutes made it clear that the RBA is working with APRA on ensuring strong lending standards would be maintained.

The board's assessment of global economic conditions sounded a number 'warnings'. Weaker economic conditions in Europe had led to an 'unexpected' decline in the Eurozone's official interest rates. All is not well in Europe. China's softer property market was noted. This may have contributed to weaker iron ore prices and the lower AUD. In its view, the RBA believes that China has the policy tools to maintain growth at its target rate of a little above 7.0%.

The minutes sounded upbeat on the US with business investment lifting and job growth showing progress. Given very accommodative monetary policy around the globe, global growth is expected to expand on trend.

Considerations on the domestic economy were mostly positive. Exports have grown, dwelling investment is firm and consumption is growing. Wage growth is at historically low levels but while this is good for inflation, it does little to spur consumption. To this end, growth in consumption over the June quarter was assisted by a decline in the savings ratio.

Restraint in non-resources private business investment appears to be giving the RBA board a degree of frustration. They imply that a lack of 'animal spirits' lies behind the hesitancy to invest given the accommodative stance of monetary policy. It is this view that strongly suggests that the RBA has no intention of further reducing its cash rate.

Exchange rate volatility was discussed but the bottom line remains that the AUD is relatively high by historical standards. This is holding back the exchange rate's role in achieving a rebalancing of growth in Australia.

The RBA expects that the current setting of monetary policy will support demand as will the lower AUD. It notes that financial markets have priced in no change in the cash rate for the next 12 months. We believe it may come a little earlier given growth in the US economy and expected growth out of China. The travails of Europe are a shadow over global growth but in our view, steady reform and easy monetary conditions should see them rise off the floor in due course.

The RBA has presented a case for 'Steady as she goes and avoid the rocks'. Europe is likely to see more weak economic numbers and Chinese statistics will occasionally be unsettling. Markets may be volatile.

In the short term, the cash rate is most likely to remain on hold. The AUD seems set for a little more weakness (and volatility) and the economy will continue to expand modestly. In the current circumstances, this is not a bad outcome while we wait for 'animal spirits' to stir.

Hans Kunnen, Senior Economist
Ph: 02-8254-8322

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
(02) 8254 8322

Senior Economist
Josephine Horton
hortonj@stgeorge.com.au
(02) 8253 6696

Senior Economist
Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

State Manager
Hans Kunnen
kunnenh@stgeorge.com.au
(02) 8254 8322

State Manager
Mark Goldsmith
goldsmithm@banksa.com.au
(08) 8424 5597

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.