Minutes of the December RBA Board Meeting

Caution Remains

- In the minutes of the December meeting, the Reserve Bank (RBA) continued to reiterate that "the most prudent course was likely to be a period of stability in interest rates".
- Less weight is likely to be placed on today's minutes given the range of developments that have occurred since the RBA's December board meeting. Since this meeting was held, GDP growth for the September quarter was released, which was weaker than markets had been expecting, and the Australian dollar has come under further pressure. An in-depth interview with RBA Governor Stevens has also weighed into the rate-setting debate. It did not hint at a near-term move to the cash rate.
- Today the RBA appeared relatively upbeat on the global economy, but still cautious on domestic developments. The RBA appeared more dovish on the household sector. The soft labour market was constraining income growth and therefore could weigh on consumer spending. Non-mining investment was still expected to grow modestly.
- The domestic economy remains stuck in a low gear and will continue to keep the door open for another rate cut. However, we believe that the economy will not deteriorate significantly enough for the RBA to cut rates again.

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However, less weight is likely to be placed on today's minutes given the range of developments that have occurred since the RBA's December board meeting. Since this meeting was held, GDP growth for the September quarter was released, which was weaker than markets had been expecting and the Australian dollar has come under further pressure. An in-depth interview with RBA Governor Stevens has also weighed into the rate-setting debate.

Nonetheless, the minutes still provided some important insights into the RBA's thinking.

There was a further hint that the RBA's expectations for economic growth were not materially different from the actual outcome for GDP growth in the September quarter. The minutes noted that "GDP growth was likely to be a bit below average in the September quarter". Stevens recently commented that the economy, jobs and inflation were roughly where the central bank expected them to be.

The concerns over the high Australian dollar remained noting that "further exchange rate depreciation was likely to be needed to achieve balanced growth in the economy". The RBA

highlighted that while the Australian dollar had fallen to a 4-year low against the USD, the focus was on the trade-weighted index, which was only slightly lower since the beginning of the year.

The RBA seemed less bullish on housing, in line with some slowing in dwelling price growth. The minutes also pointed out "considerable regional variation" in regards to house price growth, and only singled out Sydney where house price growth has been strong. Nonetheless, credit growth to investors was noted as being "considerably higher" than to owner occupiers.

There was also some rising concern that the soft labour market was constraining income growth and therefore could weigh on consumer spending.

On non-mining investment, the RBA seemed to be more reassured that it would "grow modestly" based on a range of indicators including the capex survey, business surveys, business credit and profit growth.

On the global economy, the RBA was relatively upbeat. It viewed the recent fall in commodity prices as "largely explained by increases in supply" but conceded that "easing demand was also a factor. It was encouraged by lower oil prices, which "were likely to spur higher growth in many economies".

The RBA noted that growth in China was "consistent with the authorities' objectives" and that recent policy measures were supporting growth. It also pointed out that there were "tentative signs that conditions in the housing market were stabilising".

There was discussion over market expectations which were implying easing of policy in 2015, and the factor that could result in such an expectation.

Outlook for Monetary Policy

The discussion in these minutes is now a little dated. Of key interest will be the discussion among the RBA board following recent developments, including the fall in the exchange rate, falls in consumer and business confidence and the weak GDP data.

The domestic economy remains stuck in low gear, which will keep the door open for another rate cut. However, we believe that the economy will not deteriorate significantly enough for the RBA to cut rates again. There remained little in today's minutes or in recent commentary by RBA Governor Stevens that the RBA is close to cutting rates any time soon, if at all.

These conditions suggest to us that the RBA will keep rates on hold for all of 2015.

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