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Tuesday, 16 July 2019

RBA Minutes of the July Meeting

Time for Reflection

- **The minutes of the RBA board meeting in July provided further detail behind the rationale for lowering official interest rates at its last two meetings. Moreover, the RBA indicated an openness for further easing.**
- **The RBA stated it "would continue to monitor developments in the labour market closely and adjust monetary policy if needed to support sustainable growth in the economy and the achievement of the inflation target over time".**
- **While the RBA is continuing to indicate an openness for further monetary easing, the language in the minutes is less explicit than a month ago and suggests less urgency in another near-term rate cut.**
- **The labour market is continuing to be key focus for the RBA. Given the soft pace of economic growth, weakening confidence and conditions among businesses and slowing job vacancies, we expect the labour market will soften. A slower pace of job growth further highlights a risk that the unemployment rate will rise. The RBA continues to note that there was still "'spare capacity in the labour market".**
- **In terms of developments in the housing market, the RBA board was relaxed. The RBA noted the stabilisation in house prices in Sydney and Melbourne and the lift in auction clearance rates. However, it pointed to low turnover, and noted that dwelling investment was likely to weaken further.**
- **Downside risks to the economy are continuing, including soft consumer spending, a deterioration in business conditions and a more uncertain global outlook. Importantly, leading indicators are pointing to a deterioration in the labour market. The RBA is therefore expected to pull the rate cut trigger once again. We continue to favour the timing of such a move in November, but cannot rule out the RBA moving earlier.**

The minutes of the RBA board meeting in July provided further detail behind the rationale for lowering official interest rates at its last two meetings. Moreover, the RBA indicated an openness for further easing.

The RBA stated it "would continue to monitor developments in the labour market closely and adjust monetary policy if needed to support sustainable growth in the economy and the achievement of the inflation target over time".

However, in this forward guidance, the RBA has toned down its rhetoric that further easing was imminent. The use of the condition "if needed" and the softer tone in the language suggests less urgency in another near-term rate cut.

By comparison, the minutes in June explicitly highlighted that there was a likelihood of further monetary policy easing “in the period ahead”.

There however, remains key downside risks which suggests that the RBA would likely need to lower official interest rates again later this year.

The labour market is continuing to be key focus for the RBA. Given the soft pace of economic growth, weakening confidence and conditions among businesses and slowing job vacancies, we expect the labour market will soften. A slower pace of job growth further highlights a risk that the unemployment rate will rise. The RBA continues to note that there was still “’spare capacity in the labour market”.

Additionally, the RBA expressed greater caution in regards to the global environment. Growth in the global economy was downgraded to “moderate” from a “reasonable” outlook previously. The RBA also noted that trade and manufacturing had slowed, and that “trade tensions had remained elevated”.

In the RBA’s considerations for monetary policy, the RBA did raise the concern of increasing the indebtedness of households by lower official interest rates. However, it stated that “a decline in interest rates was unlikely to encourage an unwelcome material pick-up in borrowing by households that would add to medium-term risks in the economy.”

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Implications for Interest Rates

The RBA is continuing to indicate an openness for further monetary easing, but appears less explicit than a month ago.

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