

Tuesday, 17 April 2018

## Minutes of the April RBA Board Meeting

### On the Long-Distance Train

- The minutes of the Reserve Bank (RBA) Board meeting in April again provided a cautiously optimistic view on the outlook for the domestic and global economies.
- A new development in today's minutes was that there was an explicit mention that "the next move in the cash rate would be up, rather than down". The minutes also added that the next rate hike would not occur for a while yet, stating that "there was not a strong case for a near-term adjustment in monetary policy".
- On the domestic outlook, the RBA remains encouraged of the progress in reaching its inflation and employment goals, but there continued to be an emphasis that this progress would be gradual.
- The RBA highlights that the unemployment rate, remaining close to 5.5% and the high underemployment rate pointed to spare capacity remaining in the labour market. The RBA notes that the economy was likely to "exceed potential growth", pointing to an ongoing expectation that the unemployment rate would reduce gradually.
- On the tariff announcements by the US and China, the RBA noted that they "were unlikely to have a significant direct effect on global trade" but "the possibility of an escalation in trade restrictions represented a risk to the global outlook that needed to be monitored closely".
- It was spelled out today that the next stop for the RBA would be a rate hike, although this was unlikely to occur anytime soon. The notion that a rate hike is some way off is further emphasised by ongoing spare capacity in the labour market and that wage growth has not yet picked up in a meaningful way. The developments on inflation, wages and the labour market will be watched closely in gauging the outlook for monetary policy. We reaffirm our view that the RBA will leave rates unchanged for all of 2018.

The minutes of the Reserve Bank (RBA) Board meeting in April once again provided a cautiously optimistic view on the outlook for the domestic and global economies. However, a new development in today's minutes was that there was an explicit mention by the board members that "the next move in the cash rate would be up, rather than down". The minutes also added that the next rate hike would not occur for a while yet, stating that "there was not a strong case for a near-term adjustment in monetary policy".

This sentiment echoes previous comments by RBA Governor Lowe and should therefore not come as a big surprise to markets. Market pricing (based on OIS) are currently placing the probability of an RBA rate hike at 32.5% by the end of the year.

On the domestic outlook, the RBA remains encouraged about the progress in reaching its inflation and employment goals, but there continued to be an emphasis that this progress would be

gradual.

Indeed, the RBA highlights that the unemployment rate, remaining close to 5.5% and the high underemployment rate pointed to spare capacity remaining in the labour market.

There was discussion around the GDP December quarter data, which revealed quarterly growth of 0.4% and annual growth of 2.4%. It was a touch weaker than the RBA had forecast, but the RBA notes in the minutes that the economy was likely to “exceed potential growth”, pointing to an ongoing expectation that the unemployment rate would reduce gradually.

On the housing market, the RBA noted the decline in house prices in Sydney and Melbourne, although the concerns in regards to household debt levels remained. These concerns were highlighted in an outline to the RBA’s recent Financial Stability Review.

On the international front, high debt levels and unregulated financial activity in China was also raised as a risk.

The RBA also made mention of the increase in short-term money market rates in the US, which had flowed through to short-term borrowing rates in Australia. Consequently, BBSW has risen sharply over the past month. The RBA identified a range of factors including an increase in US Treasury bill issuance earlier in the year, and a shift in demand in short-term money markets by US corporates as a result of recent tax changes.

In regards to the global economy, the outlook remained upbeat. On the tariff announcements by the US and China, the RBA noted that they “were unlikely to have a significant direct effect on global trade” but “the possibility of an escalation in trade restrictions represented a risk to the global outlook that needed to be monitored closely”.

### **Implications**

There remains optimism that there is “progress” towards the RBA’s goals, but that this progress was likely to be gradual. The RBA has explicitly stated that the next move in the cash rate will be higher, but that it was unlikely to occur anytime soon. The notion that a rate hike is some way off is further emphasised by ongoing spare capacity in the labour market and that wage growth has not yet picked up in a meaningful way. The developments on inflation, wages and the labour market will be watched closely in gauging the outlook for monetary policy. We reaffirm our view that the RBA will leave rates unchanged for all of 2018.

**Janu Chan, Senior Economist**  
Ph: 02-8253-0898

## Contact Listing

### Chief Economist

Besa Deda  
[dedab@stgeorge.com.au](mailto:dedab@stgeorge.com.au)  
(02) 8254 3251

### Senior Economist

Josephine Horton  
[hortonj@stgeorge.com.au](mailto:hortonj@stgeorge.com.au)  
(02) 8253 6696

### Senior Economist

Janu Chan  
[chanj@stgeorge.com.au](mailto:chanj@stgeorge.com.au)  
(02) 8253 0898

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