

Tuesday, 20 October 2015

## Minutes of the October RBA Board Meeting

### Still Waiting and Watching

- The minutes of the RBA board meeting in October continued to suggest that the RBA is still waiting and watching developments to see how they unfold. It did not sound like an RBA poised to cut interest rates soon. However, the RBA seemed more concerned regarding the global outlook.
- Global concerns focused on the outlook for China and East Asia. Data yesterday however, provided reassurance that Chinese economic growth was not slowing significantly.
- On the domestic economy, the RBA is becoming increasingly more upbeat. The RBA appears to have greater confidence that the transition from mining towards non-mining sectors of the economy was occurring. The labour market was also better than expected.
- While risks to the global outlook have increased, we continue to expect the RBA will leave rates on hold until late 2016.

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The RBA noted the concerns regarding the outlook for China and East Asia, below average growth for the region, and weaker industrial production. There was also a reference to other emerging market economies, where there have been significant capital outflows and their currencies have declined. Indeed, the step up in concern regarding global conditions is implied in the final paragraph – the RBA is now assessing economic and financial developments, “both domestically and abroad”. Previously, the RBA did not specify the source of these developments, suggesting a focus on domestic conditions.

On the domestic economy, the RBA is becoming increasingly more upbeat. The RBA appears to have greater confidence that the transition from mining towards non-mining sectors of the economy was occurring. The lower Australian dollar and improving conditions in household and business services were encouraging for the RBA.

Another positive was the strengthening in the labour market, which the RBA noted was “somewhat better than had been expected”. The RBA referenced forward looking indicators, which had “been consistent with the unemployment rate being around its current level or possibly

slightly lower in the months ahead”. Job ads continue to suggest that the improvement in the labour market has further to run.

The release of the Financial Stability Review raised the risk property markets could pose for financial stability. However, the RBA continued to note that there was signs of easing in the growth of Sydney dwelling prices, and that measures by APRA were helping to manage risks.

### **Outlook for Monetary Policy**

Downside risks have increased for the global economy. Moreover, some tightening of conditions for lending for housing may complicate the outlook for the cash rate. However, the RBA is becoming increasingly more upbeat and confident about the transition towards non-mining sectors of the Australian economy. Economic data yesterday indicated that economic growth in China was not slowing too sharply.

While risks to the global outlook have increased, we continue to expect the RBA will leave rates on hold until late 2016.

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