

Tuesday, 2 May 2017

A Hint of More Optimism?

- **The Reserve Bank (RBA) left the cash rate unchanged at 1.50% at its board meeting today. The decision was widely expected by markets.**
- **We had some insight into the RBA's updated forecasts, due to be published Friday. The RBA notes that forecasts for the Australian economy "are little changed". Moreover, inflation was "in line with the Bank's expectations". However, the commentary surrounding the outlook on economic growth, inflation and employment could be interpreted as being a touch more upbeat than at its meeting in April.**
- **Key to the more optimistic undertone was most likely the surge in jobs in March of 60.9k. With the gain predominantly in the full-time category, the RBA's earlier concerns over the high level of underemployment (those part-time workers wanting to work more hours), would have been alleviated.**
- **Despite the greater sense of optimism, there were still some notes of caution. Labour market indicators were still "mixed". Moreover, the RBA remains frustrated with the pace of non-mining investment, which "remains low as a share of GDP and a stronger pick-up would be welcome".**
- **We will gain more insight into the RBA's thinking when it releases its Statement on Monetary Policy on Friday. RBA Governor Lowe also speaks publicly on Thursday.**
- **The RBA does not appear as though it will be moving official interest rates anywhere in a hurry. The more relaxed view on the labour market has further reaffirmed the RBA's on hold stance.**

The Reserve Bank (RBA) left the cash rate unchanged at 1.50% at its board meeting today. The decision was widely expected by markets.

Given that this meeting is held just ahead of the Statement on Monetary Policy due on Friday, the board would have been updated on the RBA's updated growth and inflation forecasts. Indeed, there was some insight into the RBA's thinking.

The RBA notes that forecasts for the Australian economy "are little changed". Moreover, inflation was "in line with the Bank's expectations".

However, the commentary surrounding the outlook could be interpreted as being a touch more upbeat than at its meeting in April.

Firstly, the RBA notes that the end is near in regards to the downturn in mining investment and that growth was expected to "increase gradually over the next couple of years to a little above 3 per cent".

The comments on inflation were also more confident this month, stating that "a gradual further increase in underlying inflation is expected as the economy strengthens". Compare this statement with the comments in April - "the rise in underlying inflation is expected to be a bit more gradual

with growth in labour costs remaining subdued”.

Key to the more optimistic undertone was most likely the surge in jobs in March of 60.9k. With the gain predominantly in the full-time category, the concerns over the high level of underemployment (those part-time workers wanting to work more hours), would have been alleviated. There was a chance that the RBA may have been a little more cautious in reading into the one month’s data, but the comments today suggest the RBA is more comfortable with developments in the labour market. It notes that “employment growth has been a little stronger” and states that “the unemployment rate is expected to decline gradually over time”.

Despite the greater sense of optimism, there were still some notes of caution. Labour market indicators were still “mixed”. Moreover, the RBA remains frustrated with the pace of non-mining investment, which “remains low as a share of GDP and a stronger pick-up would be welcome”.

On international developments, the RBA was still upbeat noting upgrades to forecasts for global growth, higher commodity prices providing a boost to incomes, but the RBA has also acknowledged the recent fall in commodity prices.

Summary

The RBA’s concerns regarding the labour market have been alleviated somewhat, and the sense of optimism that was present earlier in the year and late last year appears to have been reinstated.

We will gain more insight into the RBA’s thinking when it releases its Statement on Monetary Policy on Friday. RBA Governor Lowe also speaks publicly on Thursday on “Household Debt, Housing Prices and Resilience”.

On 13 April, we had insisted on some caution in placing too much weight on a single data release as labour market is volatile month-to-month. While we believe that the strong rebound in jobs over March reflected payback from weakness earlier in the year, we would like to see a few more months of data to gauge a clearer picture of the labour market.

That said, the RBA does not appear likely to be moving official interest rates anywhere in a hurry. The more relaxed view on the labour market has further reaffirmed the RBA’s on hold stance.

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

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

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

Senior Economist

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

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