The Art of Being Subtle

- **The Reserve Bank (RBA) left the cash rate unchanged at 1.50% at its board meeting today, as widely expected.**
- **The accompanying media statement was not significantly different from the one published at the last board meeting on August 1. However, there were some subtle changes.**
- **These subtle changes together suggest a slightly more optimistic outlook from the RBA. The main changes to the statement were regarding business investment, the labour market and consumer spending in the domestic economy.**
- **The RBA appears more confident of the improvement in business investment, the outlook for jobs growth and perhaps less uncertain about the outlook for consumption.**
- **The Australian dollar remained in focus, although the wording remained the same.**
- **We continue to expect the RBA to leave the cash rate on hold at 1.50% this year and into next year. But consensus among economists and financial market pricing has shifted considerably in recent months with a rate hike cycle expected to commence next year.**

The Reserve Bank (RBA) left the cash rate unchanged at 1.50% at its board meeting today, as widely expected. The accompanying media statement was not significantly different from the one published at the last board meeting on August 1. However, there were some subtle changes. These subtle changes together suggest a slightly more optimistic outlook from the RBA.

The main changes to the statement were regarding business investment, the labour market and consumer spending in the domestic economy.

On business investment, the RBA notes that the "outlook for non-mining investment has improved recently and reported business conditions are at a high level". It compares to the RBA previously remarking that business conditions have improved and a pick-up in non-mining business investment is expected. The change in sentiment likely reflects the more encouraging signs from business credit and private capital expenditure data, which suggests a recovery in business investment might now be starting to take hold.

On the labour market, the RBA now uses much stronger language to describe employment growth in the period ahead. The RBA moves from expecting employment growth in the period ahead to be continue (on August 1) to being "solid" (today). The RBA continues to expect the unemployment rate to decline a little over the next couple of years.

Rather than expect wage growth to remain "low" and "continue" to be low "for a while yet". The

RBA now expects that "stronger conditions in the labour market should see some lift in wages growth over time". Wages growth currently remains low.

The RBA continues to be cautious around the outlook for consumer spending by noting that "slow growth in real wages and high levels of household debt are likely to constrain future growth in spending". However, the RBA dropped its reference to the outlook for consumption as being a source of uncertainty and noted that "retail sales have picked up recently".

On the hot topic of housing, the RBA added very little new information, although it did single out Sydney when remarking that housing conditions are easing.

The Australian dollar remained on the worry list in our view. The statement about the Australian dollar did not change, but it continues to highlight a Reserve Bank that would like to see a weaker Australian dollar.

In our view, the RBA remains on hold at 1.50% this year and into 2018. But expectations among economists and financial market participants has shifted considerably in recent months. More economists now expect the RBA will tap on the brakes before the end of next year. Financial market pricing agrees. A pick up in inflationary pressures and economic activity might be needed to ensure this consensus forecast proves correct. The RBA statement notes inflation is low but is expected to gradually pick up as the economy strengthens.

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