

Tuesday, 19 July 2016

## Minutes of the July RBA Board Meeting

### RBA Puts Inflation in Focus

- The minutes of the RBA July board meeting again did not provide an explicit bias to lower official interest rates. Nonetheless, the RBA has set the groundwork for possible “adjustments” to monetary policy. “Information on inflationary pressures, the labour market and housing market activity” were cited as key factors in refining the outlook.
- There was extensive discussion surrounding the impact of the UK’s vote to leave the European Union. While the RBA stated that it was too early to tell the economic impact of the result, the RBA did not expect a significant impact on the global economy and noted that the “direct effect on the Australian economy was likely to be quite small”. That said, there continued to be some caution regarding the economic outlook to Australia’s trading partners.
- Overall, the RBA seemed content regarding the transition towards growth led by the non-resource sector, which was “now well advanced”. The RBA was also more upbeat regarding the outlook for non-mining business investment from its liaison surveys. It was however, less positive regarding the outlook for the labour market.
- The RBA appears to be setting the scene for a possible easing in monetary policy, but key will be how upcoming data evolve. We expect a weak inflation outcome would likely convince the RBA to lower official interest rates again and expect the RBA will lower official interest rates by 25 basis points at its August meeting.

The minutes of the RBA July board meeting continued with a similar line in recent commentary, and refrained from providing an explicit bias to lower official interest rates. Nonetheless, the RBA set the groundwork for possible “adjustments” to monetary policy, and noted that “information on inflationary pressures, the labour market and housing market activity would be available over the following month”.

If the RBA were to change monetary policy settings, it would be more likely to ease than to tighten.

Labour market data released last week would not have added significantly to the rate cut debate. In addition, housing data is unlikely to change the RBA’s view that conditions will moderate. This brings into focus the inflation data released next week on 27 July. Inflation data will be the most important piece of data, given the RBA’s mandate to keep inflation between 2 and 3% over the medium-term and the risk that inflation could continue to undershoot the RBA’s expectations and its target.

There was extensive discussion surrounding the impact of the UK’s vote to leave the European Union. Much like other policymakers around the world, the RBA stated that it was too early to tell

the economic impact of the result. However, the RBA did not expect a significant impact on the global economy and noted that the “direct effect on the Australian economy was likely to be quite small”. Moreover, financial markets had been functioning well despite increased volatility. That said, there continued to be some caution regarding the economic outlook to Australia’s trading partners.

On the domestic economy, the RBA continued to provide a cautious, but balanced view on the outlook. There was little new data for the board to assess. However, there were a few interesting observations pointed out by the RBA. These include:

- A more upbeat assessment on non-mining business investment. Liaison reports suggested that growth in non-mining business investment in “some parts of the economy”. Additionally, “the outlook for investment was relatively favourable in some commercial property sectors including retail, hotels, student accommodation and aged care”.
- The RBA is becoming more cautious regarding the health on the labour market. Indeed, we expect that a slight pickup in employment growth will be necessary to prevent the unemployment rate from rising.

Overall, the RBA seemed content regarding the transition towards growth led by the non-resource sector, which was “now well advanced”.

The RBA reiterated its concern about possible appreciation in the Australian dollar which would “complicate the necessary economic adjustments”.

### **Outlook for Monetary Policy**

The RBA is retaining an element of caution regarding the outlook. It remains confident with the transition occurring in the economy, and is more upbeat with regards to the outlook for non-mining business investment. However, there is some growing wariness with the state of the labour market. There also remain concerns with regards to the direction of the Australian dollar and risks to the global economy.

The RBA appears to be setting the scene for a possible easing in monetary policy, but key to any change will be how upcoming data evolve. We expect a weak inflation outcome would likely convince the RBA to lower official interest rates again and expect the RBA will lower official interest rates by 25 basis points at its August meeting.

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