Minutes of the February RBA Board Meeting

Looking on the Bright Side of Life

- **The RBA continued with its broadly upbeat commentary in the minutes of the RBA meeting in February. There were not many new developments to add after the Statement on Monetary Policy released earlier in the month. Indeed, the more positive outlook on the global and domestic economies were mostly repeated in today's minutes.**

- **The contraction in GDP in the September quarter was downplayed, and GDP growth was expected to pickup to above potential towards the end of the forecast period.**

- **There were a range of risks highlighted by the RBA. The RBA reiterated its expectation that the terms of trade would decline over the forecast period. However, given that the recent significant increase in commodity prices was greater than expected, it could pose some upside risks to domestic forecasts.**

- **China, however, was still seen as a major source of uncertainty. Domestically, a risk of a downturn in housing construction was also highlighted.**

- **The RBA's broadly upbeat tone, expectation that growth will pickup to a pace above potential and expectation that inflation will also pickup, suggests that the RBA is not in the mindset to lower official interest rates any time soon. We, however remain doubtful that the economy will evolve as the RBA expects. This would suggest that we could not rule out the possibility that the RBA is done cutting rates in this cycle.**

The RBA continued with its broadly upbeat commentary in the minutes of the RBA meeting in February. There were not many new developments to add after the Statement on Monetary Policy released earlier in the month. Indeed, the more positive outlook on the global and domestic economies was mostly repeated in today's minutes.

Nonetheless, there were a few points to note that were highlighted today.

A standout was the RBA's expectation that "labour cost pressures … would build gradually from their current low levels as spare capacity in the labour market diminished". In turn, inflation was "expected to increase gradually". However, at the same time, the RBA still notes that there is "uncertainty about the momentum in the labour market" and that "spare capacity would persist in the labour market for some time".

Another interesting development was that the RBA did not seem very perturbed by the recent pickup in investor lending for housing. It continued to note that lending standards had

strengthened.

Again, the contraction in GDP in the September quarter was downplayed, and GDP growth was expected to pickup to above potential towards the end of the forecast period.

There were a range of risks highlighted by the RBA.

Globally, developments in China were a key risk given the high levels of debt. In the US, Trump's fiscal policies were expected to provide support to economic activity, although it was noted that restrictive trade and immigration policies would pose downside risks to global growth forecasts.

Domestically, there was the recognition that housing construction could weaken and there was a "risk of more cancellations than usual if conditions in apartment markets deteriorated". In our view, this risk could see dwelling investment drag on economic growth later this year or over 2018 by more than expected. That said, there is a high level of residential construction activity in the pipeline.

The RBA reiterated its expectation that the terms of trade would decline over the forecast period. However, given that the recent significant increase in commodity prices was greater than expected, it could pose some upside risks to domestic forecasts. Another major positive was the diminishing drag on economic growth from mining investment. We will see some guidance on investment plans in the capex survey this Thursday.

Outlook for Monetary Policy

The RBA's broadly upbeat tone, expectation that growth will pickup to a pace above potential and expectation that inflation will also pickup, suggests that the RBA is not in the mindset to lower official interest rates any time soon.

We however, remain doubtful that the economy will evolve as the RBA expects. In particular, we are sceptical that the labour market will improve sufficiently, which would be necessary for a pickup in wages and inflation. This would suggest that we could not rule out the possibility that the RBA is done cutting rates in this cycle.

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