Tuesday, 19 September 2017

Minutes of the September RBA Board Meeting

Optimism Steps up a Notch

- **The minutes from the last Reserve Bank (RBA) Board meeting on September 5 revealed a central bank becoming slightly more positive about the domestic outlook.**
- **There was significant discussion surrounding the labour market, highlighting its importance in guiding RBA monetary policy. The Board acknowledged the improvement in recent months. Note, these minutes preceded the strong employment data released last week.**
- **There was also a discussion surrounding recent State and industry trends. A pickup in employment growth in Queensland and Western Australia was noted, as these economies recover from the drag from declining mining investment. The RBA also singled out tourism and other services industries supporting Queensland's economy. Other industries performing well included education and training, which had an "increasing contribution to growth" particularly in New South Wales and Victoria.**
- **On the domestic economy, the RBA was broadly more positive, particularly with regards non-mining investment. A pickup in non-mining investment intentions was seen as a "welcome development".**
- **Despite the more positive undertone, the notes of caution remain. Spare capacity in the labour market, concerns over the exchange rate, wages growth and household balance sheets suggest that the RBA is still far from considering a rate hike in the near term. We are maintaining our long-held view that the RBA will keep the cash rate steady into 2018.**

The minutes from the last Reserve Bank (RBA) Board meeting on September 5 revealed a central bank becoming slightly more positive about the domestic outlook.

There was significant discussion surrounding the labour market. The RBA acknowledged the substantial improvement in jobs over the past six months. Note, the minutes preceded the release of the August employment data last week which confirmed further strength in jobs growth.

In addition to noting the improvement in the labour market, there was discussion surrounding recent State and industry trends.

The pickup in employment growth in Queensland and Western Australia was noted, implying that the transition from the earlier decline in the terms of trade and contraction in mining investment was progressing. The RBA also singled out tourism and other services industries supporting Queensland's economy. Other industries performing well included education and training, which had an "increasing contribution to growth…particularly in New South Wales and Victoria". Manufacturing, however, was undergoing a trend decline.

On the domestic economy, the RBA was broadly more positive, particularly with regards non-mining investment. The latest capex data suggested a pickup in non-mining investment over the coming year, which was seen as a “welcome development”.

Despite the more positive undertone, the notes of caution remain. There was still spare capacity in the labour market, and wage growth had remained “stable at a low rate”. The RBA’s forecast was for “growth in wages to remain low for some time” although expected to pick up gradually as the labour market improves.

The other source of concern for the RBA is the Australian dollar. Its appreciation in recent months was “weighing on domestic growth and contributing to subdued inflationary pressure.”

On housing, the RBA noted the impact of recent regulatory measures by APRA, which had resulted in a shift in composition of lending towards owner occupiers. Conditions had eased in Sydney, but to a lesser extent in Melbourne. Concerns in regards to the housing market likely remain with the RBA as borrowing continues to outpace growth in incomes.

On the global economy, the RBA’s stance seemed relatively unchanged, and that conditions had “remained positive”.

Implications

A sense of optimism has stepped up from the RBA in the past month, particularly with regards to the labour market and non-mining investment. Nonetheless, spare capacity in the labour market, concerns over the exchange rate, wages growth and household balance sheets suggest that the RBA is still far from considering a rate hike in the near term. We are maintaining our long-held view that the RBA will keep the cash rate steady into 2018.

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