Data Snapshot

Tuesday, 15 October 2013

Bank of Melbourne

Minutes of the October RBA Board Meeting

Tentatively Positive on the Economy

- **The minutes of the RBA board meeting leave the impression that the economy is looking up. It is not a boom. It is not even solid growth but it is nonetheless positive. And sufficiently positive to leave rates on hold at its November meeting.**
- **The RBA believes its previous rate cuts have yet to fully work themselves through the economy.**
- **It expects the recent 10% decline in the AUD will boost activity in 2014.**
- **The RBA is encouraged by firmer house prices, a stronger sharemarket, growth in home lending and the rise in both consumer and business sentiment.**
- **The Australian economy is in transition with mining related construction activity declining in influence as a driver of growth and mining exports and non-mining investment endeavouring to fill the gap.**

Reading the minutes of the October RBA board meeting leaves one with the impression that the economy is looking up. Not a boom, not even solid growth but nonetheless positive.

Gone is the RBA's previous commitment to support sustainable demand and in its place the RBA is communicating that it is leaving its options open. It does not want to rule out a further rate cut nor does it want to suggest that a cut is imminent.

This suggests to us that the RBA is seeing its previous cuts beginning to work. It believes further impacts from these cuts are yet to come and it will not cut further until it sees signs of weakness.

Our concern is that these signs of weakness will emerge. The 10% decline in the dollar is insufficient to reinvigorate private investment by manufacturers and others impacted by the strong Australian dollar. The labour market is soft. Unless more jobs are created, the unemployment rate is likely to rise and undermine the recent rise in consumer sentiment.

Nothing new was said about inflation which remains well contained. The September CPI figures will be released on the 23rd October – before the next meeting of the RBA board. We expect annual inflation to fall to 1.7% with a 0.6% rise in the September quarter. Though inflation is likely to fall below the RBA's 2 to 3 percent target band, it is consistent with the RBA's general forecast range and seems unlikely to tip its hand towards a rate cut in November.

What are the positives seen by the RBA? Global conditions appear stronger, although the October meeting predates most of the current US hiatus. House prices are higher, the sharemarket is up, loan approvals are up, bulk commodity exports are strong and business sentiment has improved as well as a lift in consumer sentiment. In addition, the RBA expects further positive impacts from its previous cuts and notes that the weaker AUD has improved the outlook for some businesses. The RBA noted a few positive signs within consumer spending and business investment, with a pickup in retail sales in September and improved prospects for investment in the tourism sector.

There are, of course, negatives. It is uncertain whether higher levels of confidence can be sustained and business conditions remain below average. The AUD is firming once again and the outlook for the labour market is not robust.

The Australian economy is in transition with mining related construction activity declining in influence as a driver of growth and mining exports and non-mining investment endeavouring to fill the gap. At present that gap is not being filled rapidly enough. If it appears that the Australian economy will stall then the RBA can be expected to step in with further stimulus in the form of a rate cut. But this is looking much less likely to occur in November or December.

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The Detail