RBA Cash Rate held at 2.50%

- The RBA once again signalled a "period of stability in interest rates", suggesting that it intends to keep the cash rate on hold for quite some time.
- The modest pace of global growth was noted as was a decline in longer-term interest rates. A pick-up in US economic growth could see longer-term interest rates move higher, especially if the situation in Ukraine is settled without too much disruption to European economic activity. China continues to grow at a solid pace.
- Stronger exports, a pick-up in retail activity, a lift in housing construction and signs of emerging non-resource business investment could see economic growth in Australia exceed 3.0% in the year to March 2014. Despite this, the unemployment rate could edge higher until growth consistently exceeds 3.0%.
- The RBA's outlook for inflation is benign with inflation expected to stay broadly within the 2-3% range. A lower AUD threatens to push up import prices but weak wage growth should keep inflation for domestically produced goods and services under control.
- The RBA notes that the AUD is still high by historical standards. It also points out that the prices of several of Australia's major commodity exports have fallen. This suggests downside risk for the AUD over time.
- Monetary policy remains accommodative. We continue to expect the RBA will leave rates on hold for most of this year before looking to raise them either late this year or in the early months of 2015.

RBA Statement: At its meeting today, the Board decided to leave the cash rate unchanged at 2.5 per cent.

Growth in the global economy is continuing at a moderate pace, helped by firmer conditions in the advanced countries. China's growth appears to have slowed a little in early 2014 but remains generally in line with policymakers' objectives. Commodity prices in historical terms remain high, but some of those important to Australia have continued to decline of late.

Our view: We concur with the RBA. Global growth is moderate. The US is recovering on the back of low interest rates and cheaper energy. It has also created more jobs in the past few years than were lost during the GFC. China continues to growth at a solid pace but commodity prices have fallen at a time when export volumes are increasing. Slow, synchronised global growth is a positive for the Australian economy.

RBA Statement: Financial conditions overall remain very accommodative. Long-term interest rates have fallen further and risk spreads remain low. Emerging market economies are once again receiving capital inflows. Volatility in many financial prices is currently unusually low. Markets appear to be attaching a very low probability to any rise in global interest rates over the period ahead.

Our view: Despite the modest pick-up in global growth, longer-term interest rates have fallen. This stems from low inflation and possibly from unsettling conditions in Ukraine. Upward moves in official interest rates in the US or Europe are some way off and markets are now priced accordingly. It will require stronger growth in the US and Europe for official rates to increase. The risk remains that longer term rates could move up as US growth takes hold or if Europe picks up in 2015.

RBA Statement: In Australia, the economy grew at a below-trend pace in 2013 overall, but growth looks to have been somewhat firmer around the turn of the year. This has resulted partly from very strong increases in resource exports as new capacity has come on stream, but smaller increases in such exports are likely in coming quarters. Moderate growth has been occurring in consumer demand and a strong expansion in housing construction is now under way. At the same time, resources sector investment spending is set to decline significantly. Signs of improvement in investment intentions in some other sectors are emerging, but these plans remain tentative, as firms wait for more evidence of improved conditions before committing to significant expansion. Public spending is scheduled to be subdued.

Our view: The RBA appears more upbeat about conditions in the early months of 2014. This may be reflected in tomorrow's GDP numbers. Growth close to, or even above, 3.0% seems possible for the year to March 2014. The RBA notes the recent strong increase in exports and the prospect of a lift in non-resources business investment. The negative impact of lower public spending is again noted.

RBA Statement: There has been some improvement in indicators for the labour market in recent months, but it will probably be some time yet before unemployment declines consistently. Recent data confirm that growth in wages has declined noticeably. If these and other domestic costs remain contained, inflation should remain consistent with the target over the next one to two years, even with lower levels of the exchange rate.

Our view*: The RBA is more upbeat on the labour market this month. There have been improvements; however, growth well above 3.0% is required to get the unemployment rate heading down on a consistent basis. We believe the unemployment rate could edge a little higher as economic growth remains below trend. The higher levels of unemployment over the past 12 months have seen wage growth moderate.*

RBA Statement: Monetary policy remains accommodative. Interest rates are very low and for some borrowers have edged lower over recent months. Savers continue to look for higher returns in response to low rates on safe instruments. Credit growth has picked up a little. Dwelling prices have increased significantly over the past year, though there have been some signs of a moderation in the pace of increase recently. The earlier decline in the exchange rate is assisting in achieving balanced growth in the economy, but less so than previously as a result of the higher levels over the past few months. The exchange rate remains high by historical standards, particularly given the further decline in commodity prices.

Our view: *Low interest rates are doing what they can to support the economy. There is growing* *evidence of risk-taking by investors, rising asset prices and a pickup, albeit gradual, in credit growth. The lower AUD will help the economy over time but the AUD still appears high given recent downward moves in commodity prices. We expect the AUD to trend a little lover over the next 6-12 months.*

RBA Statement: Looking ahead, continued accommodative monetary policy should provide support to demand, and help growth to strengthen over time. Inflation is expected to be consistent with the 2–3 per cent target over the next two years.

Our view: *The RBA expects low interest rates to do their job of supporting demand. But it is a slow process. Despite a pick-up in the prices of imported goods, the RBA seems relaxed about the outlook for inflation. Working in its favour is the weak growth in domestic wage costs. Inflation may break above 3.0% temporarily, giving rise to discussion of a possible increase in official interest rates late in 2014 or early in 2015.*

RBA Statement: In the Board's judgement, monetary policy is appropriately configured to foster sustainable growth in demand and inflation outcomes consistent with the target. On present indications, the most prudent course is likely to be a period of stability in interest rates.

Our view: *This paragraph is exactly the same as last month. We continue to expect the RBA will leave rates on hold for most of this year before looking to raise them either late this year or in the early months of 2015.*

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