Data Snapshot

Tuesday, 15 July 2014

Bank of Melbourne

Minutes of the July RBA Board Meeting

A Touch Back in Balance?

- **The RBA minutes of the July meeting suggests that the scales have tipped a bit closer towards balanced after introducing a more cautious tone in recent months. This is despite few new developments in the economy over the past month, although any changes in the RBA's commentary are very subtle.**
- **There was a slight upgrade in the outlook for growth – the RBA now expects growth to be "a little below trend over the next year", whereas this was previously "below trend". This upgrade likely reflects the strong outcome for GDP growth in the March quarter. Although we expect growth outcomes in coming quarters will not be as strong, it provides a solid starting point for the year. We expect that growth in 2014 will at least have a "3" in front, suggesting above trend growth.**
- **The RBA remained uncertain in how well the economy was transitioning from declining mining investment, particularly given fiscal consolidation and the high Australian dollar.**
- **The RBA remains clear in its communication that rates will remain on hold for some time. "A period of stability in interest rates" was reinstated in today's minutes, after being omitted in the minutes for May and June. RBA Governor Stevens has recently indicated that this phrase will be dropped before the RBA even considers moving rates.**
- **A recovery is underway in the domestic economy, supported by dwelling investment, strong export growth and household consumption. This recovery continues to suggest that low interest rates are providing support to the economy and that the next move from the RBA will be an increase in rates. Given some arising uncertainty in the pace of this recovery of late, we expect the RBA will leave rates on hold until the end of this year before raising them in early 2015.**

The RBA minutes of the July meeting suggests that the scales have tipped a bit closer towards balanced after introducing a more cautious tone in recent months. This is despite few new developments in the economy over the past month, although any changes in the RBA's commentary are very subtle.

The "period of stability in interest rates" which was absent in the May and June minutes have now been reinstated in July. Previously, this had been "the current accommodative stance of policy of policy was likely to be appropriate for some time yet". This could indicate that any shift towards easing has reverted back to a more balanced stance. Nonetheless, the message that rates are likely to remain on hold for some time remains unchanged.

In a recent speech, RBA Governor Stevens stated that the RBA would look to drop the reference to the "period of stability in interest rates" before even considering raising rates. We will be looking to see if this phrase will be dropped in coming months, particularly in the accompanying Statements.

There was a slight upgrade in the outlook for growth – the RBA now expects growth to be "a little below trend over the next year", whereas this was previously "below trend". This upgrade likely reflects the strong outcome for GDP growth in the March quarter. Although we expect growth outcomes in coming quarters will not be as strong, it provides a solid starting point for the year. We expect that growth in 2014 will at least have a "3" in front, suggesting above trend growth.

There was little new commentary surrounding the Australian dollar, although the concerns remained. The AUD was "offering less assistance than it otherwise might in achieving balanced growth in the economy." However, board members also noted similar appreciations in the Canadian and NZ dollars, and that "the most surprising development was the continued low level of the US dollar". These observations suggest that the RBA sees AUD strength as more of a US dollar weakness story.

The minutes preceded the lift in the unemployment rate edging back up to a decade-high of 6.0%. However, the slightly higher unemployment rate should continue to be consistent with the RBA's view on the labour market. The minutes pointed out that the forward-looking indicators were mixed of late and were "consistent with only moderate growth in employment".

Overall, the RBAs' assessment on the global economy remained little changed, and that available data was "consistent with Australia's major trading partners continuing to grow at around the average pace of the past decade".

The RBA remained uncertain in how well the economy was transitioning from declining mining investment, particularly given fiscal consolidation and the high Australian dollar. However, the sentence, "those uncertainties were likely to take some time to resolve", was now omitted.

A recovery is underway in the domestic economy, supported by dwelling investment, strong export growth and household consumption. This recovery continues to suggest that low interest rates are providing support to the economy and that the next move from the RBA will be an increase in rates. Given some arising uncertainty in the pace of this recovery of late, we expect the RBA will leave rates on hold until the end of this year before raising them in early 2015.

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