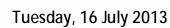
## **Data Snapshot**





## RBA Minutes of the July Meeting Raising the Bar - Slightly

- The minutes of the RBA's July meeting provided some mixed signals on the outlook for monetary policy. However, on balance, the bar for another rate cut appears to have lifted a touch due to the falling Australian dollar. The RBA however, is still leaving the door open for further rate cuts.
- The RBA discussed the Australian dollar's depreciation having a positive impact on commodity
  export earnings and adding a little to inflation. However, inflation was still expected to remain
  within the RBA's 2 to 3 percent per annum target and that the inflation outlook "could still
  provide some scope for further easing".
- On the domestic front, while "below trend growth" remained in prospect, the RBA appeared
  more pessimistic on the outlook for mining investment. The RBA is still waiting for the lag effect
  of earlier rate cuts on the broader economy, where its impact to date has been largely limited to
  housing.
- Below trend growth, subdued labour market conditions and well-contained inflation, suggest
  another rate cut cannot be ruled out, particularly if the Australian dollar does not decline
  further as the RBA expects. We continue to expect the RBA to cut rates by another 25 basis
  points when it next meets in August. The Australian dollar, domestic growth, along with
  inflation data, which will be released on 24 July, will be key factors in the near-term outlook for
  rates.

The minutes of the RBA's July meeting provided some mixed signals on the outlook for monetary policy, but on balance, the bar for another rate cut appears to have lifted a touch.

The RBA highlighted a number of influences the lower Australian dollar had on the economy. This included a boost to commodity prices, which are priced in USD terms, upward pressure on inflation, and easing financial conditions. However, even taking into account higher inflation, there was still "scope for further easing, should that be required to support demand." Therefore, the RBA is still leaving the door open for further easing, although it appears the bar for another cut may have been raised slightly due the Australian dollar's recent fall.

The commentary surrounding the domestic economy was broadly similar in comparison to earlier remarks, and continued to grow "at a below trend pace." However, the RBA's discussion on mining investment appeared to be more pessimistic. Work was now "close to, if not past, its peak", providing an acknowledgement that the peak in mining investment may have already passed and

that at some time, mining investment was expected to "decline more rapidly". This compares to an "uncertain" outlook in the RBA's earlier minutes published in June.

There was again, little mention of the decline in domestic demand in Q1 GDP, which was omitted from the accompanying Statement. This continues to suggest that the RBA is focused on the broader growth measure, which includes the traded sector. While consumption, business investment and dwelling investment were weak, exports increased, and imports declined.

The RBA is still waiting for the lag effect of earlier rate cuts on the broader economy, where its impact to date has been largely limited to housing.

On the international front, the RBA remained quite upbeat on the Chinese economy, but recognised the uncertainty regarding the impact of tighter financial conditions.

Below trend growth, subdued labour market conditions and well-contained inflation, suggest another rate cut cannot be ruled out. We continue to expect the RBA to cut rates by another 25 basis points when it next meets in August, even though a weaker Australian dollar may have raised the bar slightly. The Australian dollar, domestic growth, along with inflation data, which will be released on 24 July, will be key factors in the near-term outlook for rates.

Janu Chan, Economist Ph: 02-8253-0898

## The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.