



Minutes of the May RBA Board Meeting

Caution Stepping Up a Notch

- The signs of caution from the RBA in the minutes of its June meeting appeared to be more pronounced and suggests the RBA is no closer to hiking rates. Indeed, it could suggest the RBA may be moving a touch further away from it.
- While the RBA judged that there was little change to global and domestic economic conditions the outlook for domestic growth was undoubtedly more negative than its previous minutes. The RBA is expecting GDP growth to be below trend over the rest of this year and into the next, although GDP growth in the March quarter was probably stronger than the RBA had expected.
- At the top of the RBA's concerns appeared to be the sharp decline in mining investment and the fiscal consolidation set to occur. Indeed, the minutes stated "it was difficult to judge the extent to which this (low interest rates) would offset the expected substantial decline in mining investment and the effect of planned fiscal consolidation. Those uncertainties were likely to take some time to resolve".
- Despite the growing caution in the RBA's commentary, there was little change in its stance to keep rates on hold for some time. The line "the Board judged that the current accommodative stance of policy was likely to be appropriate for some time yet" was reiterated.
- 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. However, the range of concerns from the RBA and recent indicators suggesting a loss of momentum in Q2 is suggesting that a rate hike is still some months off.

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While the RBA judged that there was little change to "global and domestic economic conditions" the outlook for domestic growth was undoubtedly more negative. At the top of the RBA's concerns appeared to be the sharp decline in mining investment and the fiscal consolidation set to occur. The RBA continued to recognize the stimulatory impact of low interest rates, but "it was difficult to judge the extent to which this would offset the expected substantial decline in mining investment and the effect of planned fiscal consolidation. Those uncertainties were likely to take some time to resolve".

The RBA is expecting GDP growth to be below trend over the rest of this year and into the next. Following the strong GDP outcome for the March quarter, which preceded the RBA's meeting, we expect that growth in 2014 will at least have a "3" in front, suggesting above trend growth. Nonetheless, recent data is suggesting that growth outcomes will not be as strong heading into Q2.

The RBA's reaction to the Federal Budget was difficult to read. The RBA noted that the "change in the budget position over the next couple of years was forecast to proceed at a similar rate to earlier episodes of fiscal consolidation." However, the following sentence, "Beyond that horizon, the budget implied a more substantial fiscal consolidation than had earlier been projected".

The RBA also noted the sharp falls in consumer sentiment in reaction to the Federal Budget but also hinted that short-term swings in sentiment were not so good at predicting consumer spending. However, the failure for consumer sentiment to recover from its May decline highlights to us a risk that consumer spending could be dented further. The longer consumers remain pessimistic, the more likely there will be a more sustained impact on household spending.

On the outlook for non-mining investment, an area which the RBA has been long hoping for a pickup, the RBA noted a modest increase in non-mining investment ahead was implied from the ABS capital expenditure. However, the RBA was still cautious given its liaison surveys where "non-mining firms continued to report a reluctance to commit to significant new investment projects until they saw a sustained improvement in demand conditions".

Overall, the RBAs' assessment on the global economy was little changed. The minutes devoted a few sentences outlining some of the developments in the Chinese property market which has showed signs of cooling in recent times, suggesting that the RBA is watching this area closely.

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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. However, the range of concerns about the outlook from the RBA and recent indicators suggesting a loss of momentum in Q2 is suggesting that a rate hike is still some months off.

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