Minutes of the February RBA Board Meeting

Confirming a Neutral Bias

- Today's minutes of the RBA's February meeting confirmed that the RBA had dropped its easing bias. The key message that "the most prudent course would likely be a period of stability in interest rates" was reiterated.

- An area of downside risk in the domestic economy, the soft labour market, was dismissed by the RBA as a lagging indicator. The RBA continued to seem quite comfortable with how domestic developments were unfolding, and focused on "more timely indicators" as being more positive including consumption, dwelling investment business conditions and exports.

- The minutes described inflation as "something of a puzzle". The uncertainty surrounding the recent drivers for high inflation highlights the risk that inflation could breach the RBA's 2 to 3% per annum target band.

- The minutes today leave us comfortable with our long-held view that the RBA will leaves rates for an extended time before starting to normalising policy later this year.

After the healthy amount of commentary from the RBA in recent weeks, today's minutes of the RBA's February meeting added little new information into the outlook for the cash rate. The key message that "the most prudent course would likely be a period of stability in interest rates" was reiterated, and confirmed that the RBA had dropped its easing bias.

The RBA seemed quite comfortable with how domestic developments were unfolding. An area of downside risk in the domestic economy, the soft labour market, was dismissed by the RBA as a lagging indicator. While the February meeting preceded the latest weak employment data for January where the unemployment rate rose to a decade high of 6.0%, this data was further downplayed by RBA Deputy Governor Kent last Friday. Indeed, the rise in the unemployment rate is not out of line with the RBA's forecasts, and the RBA expects "only moderate growth of employment in the months ahead".

The RBA board's focus was on the "more timely indicators" as being more positive including consumption, dwelling investment business conditions and exports.

On inflation, the minutes presented some confusion over the recent higher-than-expected reading that was highlighted in the RBA's Statement of Monetary Policy. Indeed, the minutes described inflation as "something of a puzzle". While the fall in the Australian dollar is partly to blame, high domestically-driven inflation is at odds with below-trend domestic growth and a slower pace of wage growth. For this reason, the RBA continues to expect that domestic cost pressures to be contained. However, the RBA's uncertainty surrounding the recent drivers for high inflation highlights the risk that inflation could breach the RBA's 2 to 3% per annum target band.

On the global economy, board members noted the recent jitters in the financial markets of emerging market economies. However, the outlook for growth for Australia's major trading partners was "little changed" and expected to be at around 4.5% in 2014, "a little higher than in 2013".

The minutes today leave us comfortable with our long-held view that the RBA will leaves rates for an extended time before starting to normalising policy later this year.

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The Detail