RBA in 'Time Out' Over Summer

- At the RBA's final meeting for the year, the RBA left the cash rate unchanged at 2.0%, as widely expected.
- There was little change in today's statement, suggesting the RBA's stance remains much the same as in November, and does not seem poised to move interest rates anytime soon.
- The RBA continues to be encouraged by the improvement in business surveys and the recent strength in the labour market.
- Given the low inflation outlook, risks remain skewed to the downside. A strong GDP outcome released tomorrow should reduce this risk, but there remain questions about the transition from mining investment to non-mining sectors of the economy, particularly over the first half of next year.
- We however, remain on the view that there will be enough signs of improvement in the domestic economy for the RBA to hold off from lowering the cash rate any further. We expect the RBA will leave rates on hold until early 2017.

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A week ago, RBA Governor Stevens told us to "chill out" in regards to a possible rate cut in the new year. Today's statement was an extention of that view.

There was little change in today's statement, suggesting the RBA's stance remains much the same as in November. The board does not seem poised to move interest rates anytime soon. The RBA continued to reiterate that the "outlook for inflation may afford scope for further easing of policy, should that be appropriate to lend support to demand", but it remains relatively positive in regards to the outlook for the domestic economy.

There might be a slight reference to the weak capex data released last week, which showed the biggest quarterly decline in private capital expenditure on record. However, this appeared to be downplayed by the RBA – "the available information suggests that moderate expansion in the economy continues in the face of a large decline in capital spending in the mining sector".

Indeed, despite the large decline in capex, and an expected contraction in domestic demand, we expect a pickup in growth in the September quarter.

The RBA remains encouraged by the improvement in business surveys and the recent strength in the labour market.

On the housing market, is the RBA noted that lending had cooled to investors, and that growth had moderated in Sydney and Melbourne. The RBA however, still makes reference to the "supervisory measures" which "are helping to contain risks that may arise from the housing market."

On the Australian dollar, there was no comment in regards to its recent appreciation. In our view, the Australian dollar is not far from fair value, and the lift in recent months is more an adjustment to a more realistic view of the domestic economy.

Outlook for Monetary Policy

There was little in today's statement to signal the RBA will look to move interest rates in the near-term. Nonetheless, a lot can happen between now and February, when the RBA will next meet. There will be a raft of important data releases including GDP tomorrow and CPI in January. Major central banks including the European Central Bank and the Federal Reserve are expected to change monetary policy settings, and have the potential to create significant volatility in financial markets.

Given the low inflation outlook, risks remain skewed to the downside. If the RBA were to move rates in the near-term, the risk remains that it is likely to be lower rather than higher. A strong GDP outcome released tomorrow will reduce this risk, but there remain questions about the the transition from mining investment to non-mining sectors of the economy, particularly over the first half of next year.

We however, remain on the view that there will be enough signs of improvement in the domestic economy for the RBA to hold off from lowering the cash rate any further. We expect the RBA will leave rates on hold until early 2017.

The one page text of the Governor's Statement can be found at http://www.rba.gov.au/

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