

Minutes of the March RBA Board Meeting

RBA Still on the Sidelines

- The minutes of the RBA board meeting in March suggested little change from February to the RBA's stance on monetary policy, as indicated in the accompanying statement after the decision. The RBA remains watchful on developments, and is still keeping the door open for another rate cut, but continued to be confident that the economy was rebalancing well.
- The two key uncertainties for the RBA remained the labour market and global financial turmoil.
- Since the meeting was held, there have been a few developments the RBA will need to digest at the next April meeting. These include the lift in the AUD, rising commodity prices, the labour market and stronger-than-expected GDP.
- Given the outlook for the domestic economy, we continue to expect that the RBA will leave rates on hold for 2016, barring any adverse developments from financial markets or abroad.

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The RBA remains watchful on developments, and is still keeping the door open for another rate cut, but continued to be confident that the economy was rebalancing well. The RBA reiterated that "low inflation would provide scope to ease monetary policy further".

The domestic labour market and the volatility in financial markets remained the key uncertainties for the RBA, and its outlook for monetary policy.

However, since the meeting was held, there have been a few developments for the RBA will need to digest at their April meeting.

Firstly, GDP data for the December quarter was stronger than what the RBA had expected. While GDP is old news, it suggested that the economy grew closer to a pace a bit above trend in the second half of 2015. Moreover, a stronger pace of growth helps to reconcile the recent strength in the labour market, and thus reduces some uncertainty about the underlying strength in the economy.

Secondly, commodity prices have rebounded strongly which will limit downward pressure on incomes. Nonetheless, the RBA will treat some of these recent gains with caution as prices remain well below their peaks.

Thirdly, the Australian dollar has appreciated further since the RBA's last meeting. Any further appreciation, without a corresponding lift in commodity prices, would likely raise some concerns among the RBA board members.

An area of note from the RBA in today's minutes were the comments surrounding the latest capex survey. While the information on the outlook for capex spending was weak, the RBA did not seem too concerned. The RBA noted that the declines in mining investment were in line with its forecasts. Further, the RBA downplayed the weakness in non-mining investment noting that "half of non-mining investment was not covered by the capex survey".

There was lengthy discussion around the Chinese economy of which, board members remained cautious about long-term growth prospects. Members "observed that demographic changes and strong productivity growth had been key drivers of economic growth in China for some time, but these forces were now reversing and were likely to weigh on future growth as a result". There were also some concerns about the high levels of debt in the corporate and government sectors. These concerns will still likely linger despite the Chinese government's recent pledge to keep economic growth at 6.5% to 7.0% this year.

Outlook for Monetary Policy

The RBA is still in "wait and see" mode. We will need to gauge the RBA's view on developments over the past few weeks including the AUD, commodity prices, the labour market and GDP.

We continue to expect that the RBA will leave rates on hold for 2016, barring any adverse developments from financial markets or abroad.

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