

Minutes of the September RBA Board Meeting

Mixed Assessment from the RBA

- The minutes of the RBA board meeting in September provided a broadly mixed assessment of outlook, but the RBA seemed generally optimistic on the global and domestic economies.
- The level of concern regarding global developments has increased a notch, but today's commentary suggests that the RBA is more alert rather than alarmed. Developments in China remain a downside risk. However, for the moment, the RBA is waiting for a clearer read on the outlook.
- The RBA was noticeably more optimistic on the domestic economy, particularly regarding conditions within business and household services. A weaker Australian dollar is likely a major factor behind this view, which is helping to support the economy, and would provide upward pressure on inflation.
- The RBA remains comfortable with the current stance of monetary policy and doesn't seem inclined to lower rates any further over the near-term. We remain comfortable with our view that the RBA will leave the cash rate on hold until late 2016.

The minutes of the RBA board meeting in September provided a broadly mixed assessment of outlook, but the RBA seemed generally optimistic on the global and domestic economies.

A more in-depth discussion was devoted to the developments in financial markets. Some concerns were raised regarding the volatility in financial markets and the uncertainty facing the Chinese economy.

The RBA noted that "international economic developments had increased the downside risks to the outlook" but that it was too early to establish the impact on growth. Unsurprisingly, the RBA is taking a measured approach to the recent volatility and waiting to see how this could potentially impact the real economy. So far, the RBA was reassured that the declines in equity prices "had not impaired the functioning of other financial markets and funding remained readily available to creditworthy borrowers".

On the outlook for China, the RBA noted some softening in activity, but also did not show significant concern on the outlook. The RBA pointed out that recent policy measures to support growth "had not yet had their full effect". Nonetheless, the RBA pointed weaker industrial production and that it would be some time before property construction picked up. The RBA also hinted at the difficulty in gauging the performance of the Chinese economy. It noted that there

was little information on the services sector in China which was becoming an increasingly large part of the Chinese economy.

The RBA was noticeably more optimistic on the domestic outlook. The RBA had already anticipated that GDP growth for the June quarter would be weak, and was due to a temporary dip in exports. Nonetheless, focus was on household and business services where business conditions had improved and were “above average levels”. The improvement within services was helping to support stronger employment and investment.

While the pickup in the business non-mining investment remained uncertain, the RBA seemed more confident that a recovery would occur due to the weaker Australian dollar and the gradual rise in household spending.

The decline in mining investment however, continued to weigh on the outlook. Expectations on mining investment were downgraded, with the RBA noting that it would “probably lead to mining investment eventually stabilising at a lower level than had previously been expected.”

Outlook for Monetary Policy

The level of concern regarding global developments has increased a notch, but today’s commentary suggests that the RBA is more alert rather than alarmed. Developments in China remain a key downside risk, but for the moment, the RBA is waiting for a clearer read on the outlook. While growth in China will continue to slow, we expect that authorities will provide the necessary support to prevent a sharp weakening in growth.

On the domestic front, however, the RBA was more upbeat. A weaker Australian dollar is likely a major factor behind this view, which was helping to support the economy, and would provide upward pressure on inflation.

There are growing signs that non-mining sectors of the economy are improving and can take over as growth drivers of the economy from mining investment.

The RBA remains comfortable with the current stance of monetary policy and doesn’t seem inclined to lower rates any further over the near-term. We remain comfortable with our view that the RBA will leave the cash rate on hold until late 2016.

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