

Minutes of the May RBA Board Meeting

RBA Still Sidelined

- There was little change in the RBA's assessment on the outlook in the minutes of the Reserve Bank (RBA) Board meeting in May.
- The minutes noted that there was "a continuation of the broad trends over the preceding year or so". It continued to present a broadly optimistic view on the outlook for the domestic and global economies.
- A new development was concerns of a "possible further tightening in lending standards" and how this would impact households.
- There was a special mention on the South Australian economy. The RBA board noted that conditions had improved across consumption, business investment and public demand. There was a discussion on the impact of the closure of the car-building industry. Despite the disruption and hardship for those directly affected, manufacturing employment in net terms had been relatively steady in recent years.
- The RBA has again highlighted that "it was more likely that the next move in the cash rate would be up, rather than down" although adding the caveat that "there was not a strong case for a near-term adjustment in monetary policy". We continue to expect that the RBA will leave official interest rates on hold for an extended time.

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Comments on the domestic economy were positive, in particular around business conditions and non-mining investment. Non-mining business investment was described as "growing strongly" and having "increasing indications of emerging capacity constraints". However, there was little indication that the RBA's expectation on inflation had changed. Indeed, the RBA highlights that recent inflation trends were in line with the RBA's expectations. In a speech earlier today, RBA Deputy Governor Debelle similarly noted domestic and global developments have been evolving generally in line with their expectations.

There were some risks highlighted by the RBA, running in both directions.

A new development was concerns of "a possible further tightening in lending standards" and how this would impact household borrowing and spending.

Other uncertainties included the Australian dollar and the outlook for global inflation. Domestically, uncertainty surrounded the outlook for wages, inflation and the unemployment

rate.

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Implications

There was little in today's minutes to alter the outlook for the cash rate, particularly given that developments had evolved as the RBA had expected.

The RBA, however, highlighted a key downside risk reflecting the impact of possible tighter lending standards and the potential impact on households. The moderation in the housing market is likely to have further to run and could have a negative impact household spending.

Nonetheless, buoyant conditions in the business sector, an upswing in the global economy continue to point to ongoing strength in the labour market and a further reduction in spare capacity.

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