

Minutes of the February RBA Board Meeting

Still in “Wait and See” Mode

- The minutes of the RBA board meeting in February revealed an RBA still in “wait and see” mode in regards to interest rates settings, but continued to leave the door open for further monetary easing “should that be appropriate”.
- The RBA has highlighted two key uncertainties that could alter this stance, which include the labour market and global financial turmoil. We will be watching these developments closely in coming months.
- The RBA did not seem too perturbed by conditions in the real global economy. Nonetheless, there were concerns surrounding the outlook for China and that “financial market turbulence presaged weaker global and domestic demand”.
- The other key uncertainty was the labour market. While the unemployment rate was revised lower, the RBA continued to have trouble reconciling below-trend growth and the recent strength in the labour market. However, the RBA continued to be generally upbeat on the domestic economy and the rebalancing that was occurring in the economy from mining investment to other parts of the economy.
- 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.

The minutes of the RBA board meeting in February revealed an RBA still in “wait and see” mode in regards to interest rates settings. The line that the “outlook for continued low inflation may provide scope for easier monetary policy” was reiterated, leaving the door open for another rate cut. However, this depended on two key factors – the domestic labour market and the recent turmoil in financial markets.

The RBA did not seem too perturbed by conditions in the real global economy – “growth in Australia’s major trading partners was likely to be sustained around its current pace”. Nonetheless, uncertainty around the outlook for China was highlighted as a key risk. Moreover, there was a concern that “financial market turbulence presaged weaker global and domestic demand”.

The other key uncertainty for the RBA was in regards to the domestic labour market. The RBA continued to express some doubt about whether the recent strength in the labour market could be sustained, and that the RBA continued to have trouble reconciling job growth with the below-

trend economic growth in the economy. The RBA however, hinted that the unemployment rate was revised lower and that the starting point for forecasts was “around ½ percentage point lower.”

The RBA was also mostly upbeat on the outlook for the domestic economy. There was “further evidence of activity rebalancing away from the resources sector towards non-resource sectors”. Indeed, recent economic data would have done little for the RBA to diverge from this view.

It was also noted that the terms of trade was revised downwards due to lower commodity prices.

Outlook for Monetary Policy

The RBA is standing firm on its view of “wait and see”, although the RBA is keeping the possibility open for further monetary easing. Spare capacity within the domestic economy, low inflation and low wage growth continue to keep this possibility alive.

However, the RBA has highlighted two key uncertainties that could alter this stance, which include the labour market and global financial turmoil. We will be watching these developments closely in coming months.

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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