Data Snapshot

Tuesday, 16 June 2015

Bank of Melbourne

Minutes of the June RBA Board Meeting

Searching for Green Shoots

- **In the minutes of the RBA board meeting in June, the RBA continued to provide an underwhelming assessment of the domestic economy. There was still the hint that the RBA was open to easing monetary policy further, but that "it was appropriate to leave the cash rate unchanged and to assess information on economic and financial conditions as it became available".**
- **Despite a mixed assessment to the outlook, there were a few more positive aspects to the commentary. Of note was a slightly more upbeat assessment for non-mining investment and the labour market.**
- **The RBA maintained its view that growth "would remain a little below trend" and referred to "spare capacity in labour and product markets" existing within the economy. While the minutes preceded recent strong labour market data and GDP, we suspect that this view is unlikely to change significantly.**
- **The minutes today revealed a central bank searching for green shoots in an otherwise subdued outlook for the domestic economy. It continues to point to a period of waiting to assess developments, which suggests the RBA will sit on the sidelines over the near-term. We expect the RBA to leave rates on hold for the remainder of 2015.**

In the minutes of the RBA board meeting in June, the RBA continued to provide an underwhelming assessment of the domestic economy. There was still the hint that the RBA was open to easing monetary policy further, however they noted that "it was appropriate to leave the cash rate unchanged and to assess information on economic and financial conditions as it became available". This would suggest that rates would likely remain on hold over the near-term.

Despite a mixed assessment to the outlook, there were a few more positive aspects to the commentary, especially in comparison to the previous month.

Most notable was a slightly more upbeat assessment of the outlook for non-mining investment, despite weak data as implied by the ABS capex survey. The RBA is possibly obtaining a more positive picture from its own liaison surveys or is hoping that spending intentions will improve over time. The RBA noted that the capex survey "implied a fall in non-mining investment" but referred to "diverging trends within the non-mining sector". The RBA singled out a pickup in investment in real estate and retail trade and that a weaker exchange rate would benefit the tourism sector, although manufacturing investment continued to decline.

The labour market was also seen in a more positive light, noting the improvement in conditions over the past six months.

That said, the RBA maintained its view that growth "would remain a little below trend" and referred to "spare capacity in labour and product markets" existing within the economy. While the minutes preceded recent strong labour market data and GDP, we suspect that this view is unlikely to change significantly.

The RBA cited possible reasons for very soft wage growth including "a more flexible labour market, the relatively long-period of rising unemployment over recent years and below-average levels of inflation expectations generally".

On the housing market, the RBA noted "very strong" conditions in Sydney and parts of Melbourne, but these minutes omitted the discussion of risks of imbalances within the housing market. It is unclear why – the RBA might continue to be relying on APRA to contain these risks, or it was omitted because the RBA was not considering a further reduction to the cash rate. Comments on home lending suggest the RBA has a close eye on housing, but has not raised further concerns since housing lending growth has not accelerated.

The depreciation in the Australian dollar was again highlighted as "likely and necessary" for more balanced growth.

Outlook for Monetary Policy

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