Bank of Melbourne

Tuesday, 16 June 2020

RBA Minutes of the June Meeting

Extreme Caution Persists

- **The Reserve Bank (RBA) released the minutes of its policy meeting in June today.**
- **There was some cautious optimism in the RBA's language. The RBA noted that "the downturn would be shallower than earlier expected", reflecting the containment of the virus in Australia and a lifting of restrictions earlier than previously expected.**
- **On the global economy, the RBA also pointed out that rates of COVID-19 infections had declined in "many countries" and restrictions were easing. A global economic recovery could continue if these trends continued.**
- **The remainder of the minutes were peppered with notes of caution, particularly with regards to the speed of recovery and longer-term consequences for demand.**
- **The minutes stated that there "continued to be material downside risks to the global outlook". These risks come from the risk of infections rising or if spending continued to be limited given "concerns about the virus or insufficient policy support".**
- **There was also a warning that "the pandemic was likely to have long-lasting effects on the economy".**
- **The RBA noted that in some industries, the number of jobs had stabilised or even "increased a little" towards the end of April. However, the RBA also pointed out the job losses in other industries and "pointed to the possibility of a more persistent reduction in overall demand than had previously been expected".**
- **While the RBA is recognising that the sharp contraction in the economy is not as bad as previously feared, it remains extremely cautious about the outlook. Concerns include the potential for COVID-19 infections to escalate again, but also the longer-lasting damage from the loss in demand and the loss in incomes. Very easy monetary policy settings are likely to be in place for some time.**

The Reserve Bank (RBA) released the minutes of its policy meeting in June today. At this meeting, policy settings were unchanged – the RBA maintained the official cash rate target at 0.25% and the target for the yield on 3-year Australian government bonds at 0.25%.

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On the global economy, the RBA also pointed out that rates of COVID-19 infections had declined in "many countries" and restrictions were easing. A global economic recovery could continue if these trends continued.

However, the minutes stated that there “continued to be material downside risks to the global outlook”. These risks come from the risk of infections rising or if spending continued to be limited given “concerns about the virus or insufficient policy support”.

The remainder of the minutes were peppered with notes of caution, particularly with regards to the speed of recovery and longer-term consequences for demand.

The Australian economy was still “experiencing the biggest economic contraction since the 1930s.” There was also a warning that “the pandemic was likely to have long-lasting effects on the economy”.

On the labour market, the RBA referenced the slowdown in job losses towards the end of April, and that in some industries, the number of jobs had stabilised or even “increased a little”. However, the RBA also pointed out the job losses in other industries and “pointed to the possibility of a more persistent reduction in overall demand than had previously been expected”.

Commentary on China provided an interesting case study on how other economies would recover from lockdown measures. The RBA noted that industrial production and measures of traffic congestion had reached levels prior to the outbreak. However, consumer spending and indicators of public transport “remained weak”. Board members note that it was unclear whether the weakness reflected “ongoing concerns about the virus, a loss of income during the lockdown or more enduring behavioural changes”.

These longer-run challenges will likely weigh heavily on the minds of policymakers.

This caution was evident in the considerations for monetary policy. The Board felt that the monetary policy measures implemented were “working broadly as expected”. The RBA added that “it was likely that this fiscal and monetary support would be required for some time” and that its “accommodative approach would be maintained as long as required”. The RBA also said it “was prepared to scale up” bond purchases again, but this comment looks to be a commitment to the existing target for the government bond yield and maintaining smooth market functioning.

While the RBA is recognising that the sharp contraction in the economy is not as bad as previously feared, it remains extremely cautious about the outlook. Concerns include the potential for COVID-19 infections to escalate again, but also some of the longer-lasting damage from the loss in demand and the loss in incomes. Very easy monetary policy settings are likely to be in place for some time.

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