Minutes of the November RBA Board Meeting

RBA Sees Enough Green Shoots

- The minutes of the RBA board meeting in November suggested that it was a relatively straightforward decision for the RBA to leave rates on hold. That was despite financial markets assigning around a 50% chance that the RBA would cut interest rates.
- RBA commentary continues to give the impression that further rate cuts may not be necessary. The RBA made plenty of reference to signs of improvement in the economy, and that the outlook had “firmed a little”. The RBA continued to be encouraged by the improving labour market and the lift in business conditions to above-average levels.
- Nonetheless, the door continues to be open for a rate cut. The statement: “the inflation outlook may afford some scope for further easing of monetary policy, should that be appropriate to lend support to demand” was reiterated. There remains uncertainty regarding the outlook for consumer spending and the recovery in non-mining investment.
- Global concerns also appear to have edged up a notch, although the outlook for the terms of trade (commodity prices) was little changed.
- The recent strength in the labour market and upcoming economic data should continue to support the view that the RBA will not need to cut rates further. However, low inflation and the spare capacity within the labour market suggest the cash rate will be hold for a while longer. We expect the RBA to leave rates on hold for all of 2016.

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There was no real discussion on the merits of a rate cut, which had been present in previous commentary when a decision appeared close. In the minutes of the March meeting 2015, the RBA devoted a paragraph in considering whether or not to reduce the cash rate. This would suggest that November’s decision to leave rates on hold was an easier decision than markets had anticipated.

After the range of commentary from the RBA over the past few weeks in the Statement on Monetary Policy and RBA speeches, there were few other new developments of note in today’s minutes.

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The RBA continued to be encouraged by the improving labour market and the improvement in business conditions to above-average levels. Another positive was that the end of the drag from mining investment was within sight, The RBA expects it to have “run is course by the end of 2017”. The RBA also expects that mining investment will provide the largest detraction from demand in 2015-16. Nonetheless, there remained risks with the outlook for consumer spending and uncertainty around the recovery in non-mining investment.

There was also a lift in concern regarding the global environment, particularly Asia and China. However, the RBA saw that “the outlook for Australia’s terms of trade (ie. commodity prices) was little changed”.

The RBA continued to signal that spare capacity remained, given the relatively high unemployment rate, low wage growth and lower-than-expected inflation.

Outlook for Monetary Policy

Low inflation and signs that spare capacity remains suggest that the bar for further monetary easing remains low. Risks for the global and domestic economy also continue to be skewed to the downside. Nonetheless, the RBA continues to be relatively upbeat regarding the outlook for the domestic economy. This suggests that it does not see a need to lower interest rates any further. Recent strength in labour market and possibly other economic data such as the forthcoming GDP should continue to support this view.

We continue to expect the RBA will leave rates on hold for an extended period, including all of 2016.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Hans Kunnen	Josephine Horton	Janu Chan
kunnenh@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 8322	(02) 8253 6696	(02) 8253 0898