

Tuesday, 18 June 2019

## RBA Meeting Minutes of the June Meeting RBA Prepares for More Action

- In the minutes of the RBA board meeting in June, the RBA laid the groundwork for further monetary easing. The key highlight was the phrase in the final paragraph - “members agreed that it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead”.
- Labour market conditions continued to be a key focus for the RBA. Since the RBA’s board meeting in June, the latest release on the labour market in May revealed a steady unemployment rate and ongoing strength in employment growth. The data did not suggest immediate action was required from the RBA. However, the steady unemployment rate is still indicative of a labour market with spare capacity, and confirms the view that the RBA will need to lower official interest rates once again.
- In regards to the housing market, the RBA acknowledged recent developments potentially impacting housing sentiment such as the removal of uncertainty to potential changes to taxation related to housing and the proposed change to APRA’s guideline to determine the borrowing capacity. The RBA noted it was “too early to determine the overall effects” although there had been a noticeable lift in auction clearance rates in Sydney.
- With downside risks to the economy persisting, including soft consumer spending, a deterioration in business conditions and a more uncertain global outlook, we cannot rule out the possibility the RBA lowering the cash rate at its next meeting in July. Nonetheless, we maintain our view that the RBA will lower rates in August and then again in November.

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Labour market conditions continued to be a key focus for the RBA, noting that “developments in the labour market would be particularly important”. A significant amount of text was devoted to discussion of labour market conditions. Overall, the RBA acknowledged the strong employment growth, but that leading indicators of employment were pointing to a moderation in that growth. The more cautious outlook on the labour market suggests a shift from earlier in the year, in which the described the strength in the labour market and weak economic growth as “tensions”. Increasingly, a number of indicators are suggesting labour market conditions will soften. Importantly for the wages and inflation outlook, the RBA notes that “it was apparent that the labour market still had significant spare capacity”.

The RBA reiterated its estimate of the unemployment rate at “full employment” or the

unemployment rate which was consistent with stable inflation to be at 4.5%. Given that the unemployment rate currently sits at 5.2%, along with rising underemployment, it would suggest that there is plenty of room for the labour market to improve before it generates a meaningful pickup in wages and inflation.

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On the global economy, the RBA was decidedly more cautious, particularly given the escalation in trade tensions.

### **Implications for Interest Rates**

The RBA has indicated that a further decline in the cash rate was likely.

Since the RBA's board meeting in June, the latest release on the labour market in May revealed a steady unemployment rate and ongoing strength in employment growth. The data did not suggest immediate action was required to reduce the cash rate. However, the steady unemployment rate is still indicative of a labour market with spare capacity, and confirms the view that the RBA will need to lower official interest rates once again.

Today, the RBA reiterated that lower interest rates had an impact in supporting the economy, through "a lower value of the exchange rate, reduced borrowing rates for businesses, and lower required interest payments on borrowing by households, freeing up cash for other expenditure". Nonetheless, the RBA called out for other measures to support growth, stating that "lower interest rates were not the only policy option available to assist in lowering the rate of unemployment, consistent with the medium-term inflation target".

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