19 November 2019

RBA Minutes of the November Meeting

Hold on a Minute

- **The minutes for the Reserve Bank's (RBA) November meeting provided more details on the Board's decision to leave rates on hold.**
- **The case for a rate cut in November was considered, however the Board decided to wait for further evidence of the effect of the cumulative cuts to date in 2019. Markets were pricing just a 6% chance of a cut prior to the meeting, suggesting it was a closer decision than markets were thinking.**
- **Interest rates have already been cut 3 times so far in 2019 in response to slowing growth and underlying inflation falling short of the RBA's 2-3% target band.**
- **The minutes of the November meeting retained the commitment to "ease monetary policy further if needed", but recognised that lower interest rates could be having negative effects. These were highlighted as adverse effects on savers' incomes and on consumer confidence.**
- **There was no mention of unconventional monetary policy, however as interest rates approach their effective lower bound (ELB), it is likely that alternative policies will need to be deployed. The minutes stressed that the usual transmission channels (lower exchange rate, higher asset prices and lower borrowing costs) were working.**
- **The cash rate is currently at a record low of 0.75%. The transmission of monetary policy typically operates with a lag, however the lacklustre consumer spending and inflation outcomes suggest that further easing is warranted.**
- **The RBA acknowledged that economic outcomes had fallen short of its forecasts over the past year. GDP growth and inflation have both been below the levels forecast by the RBA, despite the easing of policy since June. It noted that spill-overs from the housing downturn had a larger-than-expected impact, particularly on consumption and dwelling investment.**

The November minutes of the RBA board meeting show that the decision to keep rates on hold was much closer than the market was expecting.

There has been little inroad into the RBA's policy objectives of inflation and full employment, despite three cuts to the cash rate so far in 2019. The Board decided to keep rates on hold at a record low 0.75% in November and further assess the impact of the monetary policy easing to date.

In its assessment of domestic economic conditions, the RBA noted that consumer spending remains the greatest uncertainty for the outlook. Retail sales volumes turned negative in the September quarter, their worst outturn since Australia's last recession in the early 1990s. House prices have recovered faster than expected, which should provide support to spending as households feel wealthier and more confident. However, turnover remains subdued. Low wages growth and high household debt continue to be major dampeners to household consumption. The RBA expects consumer consumption to increase due to a recovery in household income and house prices.

On the labour market, the RBA continues to expect the unemployment rate to fall, but doesn't expect the unemployment rate (currently 5.3%) to fall to the level at full employment (estimated at 4.5%) before the end of 2021. Accordingly, expectations for wages growth have been tempered. The minutes note that wages growth is "expected to remain around its recent rate over the forecast period". Given that a pickup in wages growth is required for inflation to move into the RBA's target range, it further cements the current easing bias. The minutes precede the latest labour force data, which showed a net employment loss of 19k, the worst result in more than 3 years.

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The minutes did not contain a specific mention of unconventional policies, although rates are approaching their effective lower bound (ELB). The Board discussed the possibility that further reductions in interest rates could have different effects than previously, when interest rates were higher. The RBA noted that mortgage rates were still falling largely in line with cuts to the cash rate, however the impact of the October cut was less than previous cuts. As interest rates approach the ELB, the more likely it is that alternative policies will need to be deployed.

Global uncertainty subsided somewhat between the October and November minutes, with progress on a partial US-China trade deal. Additionally, global central banks are nearing the end of their easing cycle, which lessens pressure on the RBA to relieve currency pressures.

The November minutes retain a clear easing bias, but reiterate the RBA's belief that existing cuts are having an impact and that a "gentle turning point" has been reached in the economy. The close decision today and soft employment data last week suggest further easing is likely. We continue to expect a further 25 basis points cut to the cash rate in February next year.

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