Tuesday, 21 September 2021

RBA Board Meeting Minutes

Pressing Ahead With Cautious Taper

- **The Reserve Bank (RBA) pushed ahead with its plans to taper bond buying at its 7 September meeting, reducing purchases to $4 billion per week, while also delaying its intended review of purchases from November this year to February 2022.**
- **The minutes from the meeting released earlier today were light on new information although did provide some more insight into the RBA's decision.**
- **The Board considered keeping purchases at $5 billion per week but decided to reduce the rate of purchases because fiscal policy is the more appropriate tool to respond to the Delta outbreak. Plus, the economy is expected return to its pre-Delta path by mid 2022.**
- **It was also flagged that several other central banks have begun tapering. Plus, the RBA's bond buying program is "expanding faster relative to the stock of bonds outstanding than that of many other central banks". The RBA has previously outlined the actions of other central banks is an important determinant for the bond buying program.**
- **The RBA continued to reiterate conditions are not expected to warrant a rate hike before 2024 and in a speech last week the Governor pushed back against market expectations of rate hikes in 2022 and early 2023.**
- **The RBA has repeatedly stated wages growth will likely need to be above 3% to push inflation back into the 2–3% target band. The minutes note that even before the Delta outbreak, wages growth was subdued, despite the strong rebound in employment.**
- **We expect a strong rebound in activity next year. However, there is a possibility that the setback from the Delta disruption will push out the when the RBA would have otherwise hiked the cash rate. Uncertainty remains elevated. Much will depend on the timing and pace of the rebound in the labour market.**

The Reserve Bank pushed ahead with its plans to taper bond buying at its 7 September meeting, reducing purchases to $4 billion per week, while also delaying its intended review of purchases from November this year to February 2022. The minutes from the meeting released earlier today were mostly light on new information although did provide some insight into the RBA's decision.

In July, the RBA announced that bond purchases would be pared back from September. Ahead of the September meeting, there was widespread speculation over whether the RBA would defer tapering given the unexpected and drastic deterioration in the economic outlook. The RBA did not go down this path.

The minutes note the Board considered keeping purchases at $5 billion per week but pressed ahead with tapering plans because:

- Fiscal policy is the more appropriate for responding to a "temporary and sharp reduction in private sector incomes".
- The RBA expects the economy will return to its pre-Delta path by mid 2022.
- Several other central banks have already begun tapering, and at $4 billion a week, the RBA's bond buying program is "expanding faster relative to the stock of bonds outstanding than that of many other central banks".

On the last point, the RBA has previously outlined the actions of other central banks are an important determinant for the bond buying program.

The RBA continued to reiterate conditions are not expected to warrant a rate hike before 2024.

Last week, the RBA Governor pushed back against market expectations of rate hikes in 2022 and early 2023. The RBA has repeatedly stated wages growth will likely need to be above 3% to push inflation back into the 2–3% target band. The Governor has noted in the past he expects the unemployment rate will likely need to be around the "low 4s" to generate this wage growth. The minutes note that even before the Delta outbreak, wages growth was subdued, despite the strong rebound in employment.

In his speech, Lowe emphasised that the RBA would make decisions based on actual, not forecast, inflation and stating "it won't be enough for inflation to just sneak across the 2% line for a quarter or two" to trigger a rate hike. The Governor underscored they "want to see inflation around the middle of the target range" and have reasonable confidence that inflation will not fall below the band again.

On the economic outlook, the minutes reiterated the messages from the meeting. That is, a sharp contraction is expected in the September quarter but that the economy is expected to bounce back as vaccinations are rolled out and lockdowns lift in the December quarter. However, there is still considerable uncertainty over the speed of the rebound.

On business lending, the minutes flag lockdowns are likely to impact demand for new loans in the coming months. But to date, the uptake of repayment deferrals has been much lower than in the previous year.

We expect a strong rebound in activity next year. However, there is a possibility that the setback from the Delta disruption will push out the when the RBA would have otherwise hiked the cash rate. Uncertainty remains elevated. Much will depend on the timing and pace of the rebound in the labour market.

Matthew Bunny, Economist
Ph: (02) 8254 0023

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
Sonali.patel@bankofmelbourne.com.au
(02) 8254 0030