

RBA Stays Cool, Calm and Collected

- **At the RBA's board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. The RBA maintained its measured assessment of the domestic growth outlook.**
- **The RBA remained tight-lipped on the outlook for monetary policy. However, if a bias exists, it continues to be towards easing given the need for monetary policy to be accommodative and as growth remains below trend. Nonetheless, the RBA doesn't appear to be likely to pull the trigger any time soon.**
- **There was a passing comment on the developments in Greece and China and their impact on financial markets. While the RBA will be watching these developments, it remains uncertain as to their macroeconomic impact to date. The potential impact will likely be through financial markets and sentiment.**
- **We believe that the RBA can afford to wait for further evidence to determine whether the economy will pick up as it expects. This is despite few signs that a pickup in the domestic economy will occur. There is scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.**
- **We continue to expect the RBA to keep rates on hold for the remainder of the year, unless international or domestic developments take a turn for the worse.**

At the the RBA's July board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. The RBA maintained its measured assessment of the domestic growth outlook and the need for monetary policy to remain accommodative.

The RBA kept tight lipped about outlook for policy saying that "information on economic and financial conditions to be received over the period ahead will inform the Board's assessment of the outlook and hence whether the current stance of policy will most effectively foster sustainable growth and inflation consistent with the target".

There was a passing comment on the developments in Greece and China and their impact on financial markets. While the RBA will be watching these developments, it remains uncertain as to their macroeconomic impact to date.

The sharp falls in Chinese stock markets could weigh on sentiment and consumer spending. However, the Shanghai Composite remains around 77% higher than a year ago. Further, the relatively tight controls on financial markets in China means that its falls have had limited impact on share markets elsewhere around the world including Australia.

In the case of Greece, there are minimal trade linkages with Australia, and as such the direct impact on Australia is also likely to be limited.

Nonetheless, a further escalation of financial market volatility could increasingly weigh on

sentiment and economic activity, and would bear close watching by the RBA.

On the domestic economy, the RBA noted that the unemployment rate “has been little changed recently” therefore acknowledging the recent improvement in the labour market. However, the RBA continued to note “a degree of spare capacity” and that growth remained below trend.

There was a notable omission of a more detailed assessment on the the domestic economy that was present in the previous month’s statement. The positive comments on household spending, dwelling construction and exports was taken out, but the concerns about weak business investment and subdued public spending was also omitted.

The RBA is still waiting to watch upcoming developments on the domestic economy to gauge whether a pickup will occur next year.

Other comments on the Australian dollar and the housing market were identical to the previous month.

Concerns remained for the Australian dollar, and the RBA continued to state that “further depreciation seems both likely and necessary”.

The RBA also noted that lending to housing was “broadly steady” and suggesting that the RBA continues to be satisfied that credit was not accelerating.

Outlook for Monetary Policy

If a bias exists, it continues to be towards easing given the need for monetary policy to be accommodative and growth remaining below. Nonetheless, the RBA doesn’t appear to be likely to pull the trigger any time soon. The RBA appears to be comfortable with watching developments for a little while longer.

While there are little signs that a pickup in the domestic economy will occur, we think that the RBA can afford to wait for further evidence to determine whether the economy will pick up as it expects. We see scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.

Developments in Europe and Greece remain a key risk factor, although the potential impact will likely be through financial markets and sentiment.

We continue to expect the RBA to keep rates on hold for the remainder of the year, unless international or domestic developments take a turn for the worse.

The one page text of the Governor’s Statement can be found at <http://www.rba.gov.au/>

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

Contact Listing

Chief Economist

Hans Kunnen

kunneh@bankofmelbourne.com.au

(02) 8254 8322

Senior Economist

Josephine Horton

hortonj@bankofmelbourne.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne. Any unauthorized use or dissemination is prohibited. Neither Bank of Melbourne - A Division of Westpac Banking Corporation ABN 33 007. If you no longer wish to receive this information, please reply to this email with the word "Unsubscribe" in the subject heading along with your full name and company name.