

## Minutes of the March RBA Board Meeting

### Between a Rock and a Hard Place

- The minutes of the RBA March board meeting continued to paint the picture of an RBA unwilling to move official interest rates any time soon. The Board highlighted a range of positives, but concerns were also raised.
- The RBA was notably more upbeat about the global outlook and the flow on effect to higher commodity prices. It continued to expect the terms of trade to weaken but that “the recent improvement in global demand suggested that higher commodity prices could be more persistent than previously anticipated.”
- Concerns surrounding the outlook for the labour market were apparent, with the RBA noting that “conditions had remained mixed” and that “momentum in the labour market remained difficult to assess”. Moreover, the minutes preceded the latest jobs data which showed a higher unemployment rate in February.
- A further mixed picture on the labour market leaves the RBA between a rock and a hard place. The RBA has expressed an unwillingness to lower official interest rates further, given the financial stability risks associated with the housing market and high household debt levels. However, talk of a rate hike is premature given there are growing doubts the labour market won’t be sufficiently strong to induce wages and inflation to pick up.

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On the domestic economy, the RBA continued with a similar broadly upbeat commentary. The RBA indicated that the 1.1% GDP growth outcome in the December was above expectations and confirmed “weakness in the September quarter was temporary”.

Nonetheless, there was recognition, that “there had been a build-up of risks associated with the housing market”. It suggests that APRA could be moving a step closer to taking additional steps to temper housing demand, although there were no hints as yet. The RBA reiterated that “supervisory measures had contributed to some strengthening of lending standards”. RBA Assistant Governor Bullock recently said in a speech that the RBA was watching developments closely.

Concerns surrounding the outlook for the labour market were apparent; the RBA noted that “conditions had remained mixed” and that “momentum in the labour market remained difficult to assess”. Moreover, the minutes preceded the latest jobs data release which showed that unemployment edged higher in February.

The other key risk surrounding the outlook was business investment. The RBA outlined a mixed view on non-mining business investment, but the RBA was overall dismissive of a fall in non-residential building approvals and the weak capex survey. The RBA continued to highlight that the survey did not include the education and health sectors, and did not include investment in intellectual property.

### Outlook for Monetary Policy

Today’s minutes revealed an RBA more upbeat on the global economy and commodity prices, but with some increased concern around the labour market and risks surrounding the housing market.

An ongoing mixed picture on the labour market leaves the RBA between a rock and a hard place. The RBA has expressed an unwillingness to lower official interest rates further, given the financial stability risks associated with the housing market and high household debt levels. However, talk of a rate hike is premature given there are growing doubts the labour market will not be sufficiently strong to induce wages and inflation to pick up.

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