Minutes of the October RBA Board Meeting

RBA Maintaining Cautious Optimism

- **The minutes of the Reserve Bank (RBA) Board meeting on October 3, painted an increasingly more optimistic outlook.**
- **The main takeaway in the release was an implicit signal that the RBA was not thinking of increasing interest rates any time soon. The RBA sought to distance itself from other central banks around the world which are pulling back on monetary stimulus.**
- **The RBA further emphasised that domestic conditions would have a greater impact on the setting of monetary policy.**
- **The, RBA however, seemed broadly positive on the outlook and that "economic conditions internationally and domestically had been more positive since 2016".**
- **The increased sense of optimism remains evident in the RBA's language around the domestic and international outlook. The minutes have reiterated some key positives with recent labour market strength, public investment and the flow on impact to non-mining investment.**
- **While an improving labour market will be supportive of consumer spending, the RBA has made clear that the concerns regarding household debt and slow wage growth remain. We obtained evidence earlier in the month that these concerns are impacting negatively on consumer spending.**
- **These risks to the outlook, along with ongoing spare capacity in the labour market suggest the RBA is still not ready to consider raising rates any time soon. We are maintaining our long-held view that the RBA will keep the cash rate steady into 2018.**

The minutes of the Reserve Bank (RBA) Board meeting on October 3, painted an increasingly more optimistic outlook.

Nonetheless, the main takeaway was an implicit signal that the RBA was not thinking of increasing interest rates any time soon. The RBA sought to distance itself from other central banks around the world which are pulling back on monetary stimulus.

"Members observed that moves towards higher interest rates in other economies were a welcome development, but did not have mechanical implications for the setting of policy in Australia." The RBA further emphasised that domestic conditions would have a greater impact on the setting of monetary policy noting that "the timing of any changes in interest rates would be dependent, as always, on developments in domestic economic conditions".

The RBA, however, seemed broadly positive on the outlook and that "economic conditions internationally and domestically had been more positive since 2016".

One of the key positives was the large pipeline of public infrastructure work, which was improving the outlook for non-mining investment. Also, the impact of the decline in mining investment had mostly passed.

On the labour market, the RBA recognised its recent strength. However, the RBA highlighted that slow wage growth and high household debt would still weigh on consumer spending. It pointed out that there was still spare capacity, but it still expected wage growth was expected to increase as this spare capacity declined over time. The fact that tighter labour markets had not translated to higher wage growth or inflation in other advanced economies was noted by the RBA.

The Australian dollar remained a concern for the RBA, stating that a "material further appreciation of the exchange rate would be expected to result in a slower pickup in economic activity and inflation than currently forecast".

On housing, the RBA noted the impact of recent regulatory measures by APRA, which had resulted in a shift in composition of lending towards owner occupiers. Conditions had eased in Sydney, but to a lesser extent in Melbourne. Concerns in regards to the housing market likely remain with the RBA as borrowing continues to outpace growth in incomes.

On the global economy, the RBA's stance seemed relatively unchanged. It noted global conditions had "remained positive".

Implications

The increased sense of optimism remains evident in the RBA's language around the domestic and international outlook. The minutes have reiterated some key positives with recent labour market strength, public investment and the flow on impact to non-mining investment.

While an improving labour market will be supportive of consumer spending, the RBA has made clear that the concerns regarding household debt and slow wage growth remain. We obtained evidence earlier in the month that these concerns are impacting negatively on consumer spending. The ongoing spare capacity in the labour market also suggests the RBA is still not ready to consider raising rates any time soon.

This stance was further emphasised with the RBA distancing itself from other central banks currently tightening or looking to tighten monetary policy. We are maintaining our long-held view that the RBA will keep the cash rate steady this year and next.

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

Contact Listing

Chief Economist

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

Senior Economist

Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist

Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898