

## Minutes of the May RBA Board Meeting

### Labour Market & Housing Still in Focus

- The minutes of the May board meeting presented a similar cautiously optimistic tone that has underpinned commentary in recent weeks. However, it was noteworthy that the RBA continues to highlight the labour market and housing as the key sources of concern.
- There was extensive discussion on the labour market and in particular, the long-term shift towards part-time employment. The comments suggest some downplaying of the unemployment rate as a measure of spare capacity.
- In addition to the labour market, there remain concerns regarding the outlook for non-mining investment and the RBA noted a moderation in consumer spending.
- The other key concern for the RBA was the housing market. On this front, sentiment from the RBA was broadly unchanged from previous month. However, the RBA noted that “risks associated with household balance sheets had been rising” given that housing credit growth was outpacing growth in household incomes.
- These concerns in the domestic economy and an expectation that spare capacity in the economy will continue would point to a risk of a rate cut. However, the risks in the housing market and household balance sheets are preventing the RBA from lowering rates further. As such, we expect the RBA will leave official interest rates on hold.

The minutes of the May board meeting presented a similar cautiously optimistic tone that has underpinned commentary in recent weeks. Much of what was raised in today’s minutes was reflected in the quarterly Statement on Monetary Policy released earlier in the month.

However, it was noteworthy that the RBA continues to highlight the labour market and housing as the key sources of concern.

There was extensive discussion on the labour market and in particular, the long-term shift towards part-time employment. While there were a significant number of people who preferred working part-time, “some part time workers” cited a lack of full-time opportunities as the reason for working part-time. Given that the move towards part-time work is a long-run structural change, the RBA states that “the distinction between full-time and part-time work had become less important in assessing labour market conditions”. However, that “understanding the degree of spare capacity in the economy required an assessment of the additional hours part-time workers were willing and able to contribute as well as the number of unemployed people”.

The comments suggest some downplaying of the unemployment rate as a measure of spare capacity. Given that the rate of underemployment (those part-time workers wanting to work more

hours) is high, spare capacity in the labour market is likely greater than suggested by the current unemployment rate at 5.9%.

Indeed, it reflects the notes of caution around wages and inflation. “Wage pressures were expected to rise only gradually” and there was not yet any “sustained increase in inflation” globally despite an improved outlook for the global economy. Domestically, the RBA pointed to subdued labour costs and strong competition in the retail sector keeping down inflation. Nonetheless, rises in utility prices and the cost of new dwelling construction were working in the other direction to prop up inflation. The RBA also reiterates an “increased confidence” that underlying inflation will pickup towards its 2 to 3 per cent per annum target band.

The other key concern for the RBA was the housing market. On this front, sentiment from the RBA was broadly unchanged from previous month noting variable conditions across the country and that “it would take some time to assess the full effects of recent increases in mortgage rates and the additional supervisory focus”. That said, the RBA notes that “risks associated with household balance sheets had been rising” given that housing credit growth was outpacing growth in household incomes.

The RBA had also noted that consumer spending had “moderated” but consumer spending was “still forecast to expand a bit above its average of recent years”. The concerns surrounding non-mining investment remained, and that forward looking indicators were “mixed”.

### **Outlook for Monetary Policy**

The RBA remains relatively upbeat regarding the global economy. Domestically, however, there are concerns regarding the labour market, the outlook for non-mining investment and more recently, a moderation in consumer spending. There remains an expectation that spare capacity in the economy will continue. While these factors alone would suggest that another rate cut would be on the cards, the risks in the housing market and household balance sheets are preventing the RBA from cutting rates further. As such, we expect the RBA to leave official interest rates on hold.

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

## Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda <a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a> (02) 8254 3251	Josephine Horton <a href="mailto:hortonj@stgeorge.com.au">hortonj@stgeorge.com.au</a> (02) 8253 6696	Janu Chan <a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a> (02) 8253 0898

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