

Minutes of the April RBA Board Meeting

Caught Between the Devil and the Deep Blue Sea

- The minutes of the April board meeting continued to suggest that the RBA remains caught between heightened risks in the housing market and patchy conditions within the domestic economy.
- A lot of the commentary was devoted to assessing the financial stability risks that were raised in the RBA's recent Financial Stability Review. The RBA noted that "it would take some time to assess fully the effects of the recent pricing changes and the increased supervisory attention", and that more could be done to address risks.
- There was some increased concern in regards to the domestic economy. The RBA noted that household spending was "a little weaker than expected". On the labour market, highlighted that conditions were soft, but the minutes preceded the surge in jobs data that was witnessed last week, which was likely some payback for the weakness in jobs in earlier months.
- The RBA also was slightly less upbeat regarding the potential boost to incomes given that iron ore prices have recently fallen. However, this was an outcome that had been expected by the RBA.
- Some of the commentary could be interpreted as the RBA being a bit less upbeat in regards to the inflation outlook. The concerns with regards to the labour market on top of subdued wage growth and ongoing competition in the retail sector were highlighted. The recent stabilising in commodity prices also meant that globally core inflation measures were low.
- The RBA's concerns on the labour market will be somewhat alleviated by recent surge in employment, although the RBA should be cautious into reading too much into one month's data. Notwithstanding the more positive jobs data, there remains a risk that inflation will not pick up as anticipated as spare capacity continues to exist and commodity prices were no longer rising. That said the RBA remains clearly concerned with regards to risks arising from the housing market. While these concerns remain, the RBA will likely refrain from cutting official interest rates.

The minutes of the April board meeting raised a range of concerns from the RBA. Most notable were the concerns over the risks in the housing market and recent weakness in the labour market. In the final paragraph, the RBA states, "Developments in the labour market and housing markets warranted careful monitoring over coming months".

A lot of the commentary was devoted to financial stability risks that were addressed in the RBA's recent Financial Stability Review. It discussed the measures by APRA and the action taken to curb

interest-only lending. It was noted that “it would take some time to assess fully the effects of the recent pricing changes and the increased supervisory attention”, and that more could be done to address risks.

There was some increased concern in regards to the domestic economy. The RBA noted that household spending was “a little weaker than expected”. On the labour market, the RBA board highlighted the discrepancy between softer job growth and above-average business conditions, and that forward-looking indicators pointed to stronger employment than observed. However, the minutes preceded the surge in jobs data that was witnessed last week, which was likely some payback for the weakness in jobs in earlier months.

The RBA also was slightly less upbeat regarding the potential income boost from commodity prices given that iron ore prices had fallen. However, this was an outcome that had been expected by the RBA.

Interestingly, the RBA added a paragraph on inflation in its considerations for monetary policy, highlighting that the pick up in underlying inflation was expected to be “gradual”. It also noted that wage growth was subdued, and that “competition in the retail sector continued to be strong”. It could possibly be interpreted that the RBA perceived an increased risk that inflation would not pick up as expected. The RBA was also less hawkish on global inflation given that oil prices had stabilised, and that core inflation was still low. However, it noted that the reduction in spare capacity in advanced economies would be expected to result in a lift in global inflation.

Outlook for Monetary Policy

The minutes continued to highlight that the RBA remains caught between heightened risks in the housing market and patchy conditions within the domestic economy.

While the RBA’s concerns on the labour market will be somewhat alleviated by recent surge in employment data, there remains a risk that inflation will not pick up as anticipated. Moreover, the RBA should be cautious into reading too much into one month’s data, and other indicators continue to suggest that there remains spare capacity within the labour market. This risk that inflation will not pick up as expected is further reflected by stabilising commodity prices. In particular, the recent pullback in iron ore and coal prices are less of a boost to incomes, although this development is broadly in line with the RBA’s expectations.

That said the RBA remains clearly concerned with regards to risks arising from the housing market. While these concerns remain, the RBA will likely refrain from cutting official interest rates.

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