

Minutes of the June RBA Board Meeting

Another cut? Why?

- The minutes of the RBA June board meeting, gave few hints regarding the future direction of policy. It was broadly positive on domestic and global economic growth but did note that inflation was expected to remain low for some time.
- The board found plenty to be positive about in both the domestic and global economies. Domestically net exports were adding to growth, with a special mention for the growth in service exports which include income from international tourism and international education. The strength of housing demand was noted and construction was expected to remain firm over the next year or so, particularly in the eastern capital cities.
- What was missing from the minutes were comments on the risks facing the global economy, apart from concerns over the 'Brexit' vote. There was nothing in these minutes on debt levels in China or the impact of the stronger USD on US export growth. However, the board did note that output in east Asia was growing at a below average pace.
- While the RBA expects inflation to remain low for some time, it did point out that some measures of wages were positive. This comment would suggest that the RBA is keeping a very close eye on labour costs and how these might contribute towards higher inflation over time.
- Given the minutes of the RBA board meeting, it is not difficult to see why the cash rate was left unchanged. The Australian economy is growing at a reasonable pace, the unemployment rate has fallen, the outlook for business investment may be underestimated by the usual surveys and consumption continues to expand. The global economic environment does not appear threatening and domestic wage growth may have reached its low.
- Today's RBA minutes did little to support the view that the RBA will cut rates again. The key to future rate cuts lies in inflation. If inflation moves lower and stays lower for longer than the RBA is currently expecting then a further cut or cuts would make sense. We have a rate cut pencilled in for August as we believe the May rate cut alone will not achieve its aim of lifting inflation in the required time frame.

The minutes of the RBA June board meeting, gave few hints regarding the future direction of policy. It was broadly positive on domestic and global economic growth but did note that inflation

was expected to remain low for some time.

The tone of the minutes reflected the decision to leave the cash rate unchanged.

The board found plenty to be positive about in both the domestic and global economies. Domestically net exports were adding to growth, with a special mention for the growth in service exports which include income from international tourism and international education. The strength of housing demand was noted and construction was expected to remain firm over the next year or so, particularly in the eastern capital cities.

On the consumption front, the board noted that Australian's were still saving at levels well above those seen pre-GFC but, importantly, that the savings rate has fallen over the year. This is supportive of consumption as was the observation that consumers' perceptions of their own finances were still a little above average.

Adding to the positive tone of minutes, the board noted that the ABS survey of businesses may be under estimating business investment intentions. The capital expenditure survey excludes industries such as health and education where assets such as software were becoming increasingly important.

While the RBA expects inflation to remain low for some time, it did point out that some measures of wages were positive. This comment would suggest that the RBA is keeping a very close eye on labour costs and how these might contribute towards higher inflation over time.

On the international front, the RBA board 'looked through' the recent weak US payrolls result and noted that its lower unemployment rate and rising wealth had led to stronger growth in consumption and residential investment. On another positive note, the board noted that the level of GDP in the euro area had finally exceeded its pre-GFC peak and that India was growing strongly.

What was missing from the minutes were comments on the risks facing the global economy, apart from concerns over the 'Brexit' vote. There was nothing in these minutes on debt levels in China or the impact of the stronger USD on US export growth. However, the board did note that output in east Asia was growing at a below average pace.

Outlook for Monetary Policy

Given the minutes of the RBA board meeting, it is not difficult to see why the cash rate was left unchanged. The Australian economy is growing at a reasonable pace, the unemployment rate has fallen, the outlook for business investment may be underestimated by the usual surveys and consumption continues to expand. The global economic environment does not appear threatening and domestic wage growth may have reached its low.

Today's RBA minutes did little to support the view that the RBA will cut rates again. The key to future rate cuts lies in inflation. If inflation moves lower and stays lower for longer than the RBA is currently expecting then a further cut or cuts would make sense. We have a rate cut pencilled in for August as we believe the May rate cut alone will not achieve its aim of lifting inflation in the required time frame.

Hans Kunnen, Chief Economist
Ph: 02-8254-8322

Contact Listing

Chief Economist

Hans Kunnen
kunnenh@stgeorge.com.au
(02) 8254 8322

Senior Economist

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

Senior Economist

Janu Chan
chanj@stgeorge.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 St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George 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 St.George products and details are available. St.George 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. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
