

## Minutes of the November RBA Board Meeting

### Scattered with Uncertainty

- In the minutes of the November board meeting, there was a similar sense of optimism that was presented in earlier RBA commentary. They did not appear to add a significant amount of new insight into RBA thinking.
- Nonetheless, the minutes highlighted a number of areas of uncertainty facing the outlook. These uncertainties included the outlook for the terms of trade and for the Chinese economy. Domestically, there was uncertainty about the outlook for consumer spending and the amount of spare capacity within the labour market.
- The RBA continues to expect that inflation will return towards its target and that the domestic economy will pick up to be “above potential growth later in the in the forecast period”.
- We continue to be less upbeat given the ongoing issues with spare capacity in the global economy, the uncertainty around the outlook for China and the risk that the recent jump in commodity prices will be temporary.
- Domestically, recent economic indicators suggest a loss of momentum in key non-mining areas of the economy. Retail spending has been subdued in recent months and points to some doubt that there will be much acceleration in consumer spending. Business surveys have also suggested that conditions are less upbeat. This leads us to question the likelihood of an “above trend” growth scenario.
- The RBA’s relatively upbeat stance suggests that further rate cuts are unlikely in coming months, unless incoming data diverges significantly from its forecasts. However, in our view, the downside risks to the RBA’s growth and inflation forecasts continue to suggest that further monetary easing will be on the cards over 2017.

The minutes from the November board meeting did not appear to add a significant amount of insight into the RBA’s thoughts given the release of the Statement on Monetary Policy earlier in the month.

There was a similar sense of optimism regarding the outlook that was presented in earlier commentary, particularly regarding the lift in commodity prices and the global inflation outlook. Nonetheless, the minutes highlighted a number of areas of uncertainty facing the outlook. There was “significant uncertainty about the outlook for the terms of trade, partly because of uncertainty about the outlook for the Chinese economy”. There was “significant uncertainty”

about the outlook for consumption growth”. Additionally, there was “uncertainty about the degree of spare capacity in the labour market”.

On the inflation outlook, risks were “broadly balanced”. The RBA reiterated the belief that “underlying inflation was expected to return to more normal levels over time”. Wage growth had stabilised and the disinflationary effect from retail competition was expected to ease. Moreover, risks to the global inflation outlook were “more balanced”, although we question the underpinning assumption that “growth in the major advanced economies would exceed potential growth”. Indeed, the RBA notes that within China, “there was still overcapacity in some parts of the industrial sector”.

The labour market was a key focus. The RBA noted the decline in the unemployment rate, and “was expected to continue to edge lower” but recognised the high level of part-time work and elevated underemployment. This uncertainty surrounding the degree of slack in the labour market has an important bearing on the inflation outlook.

The commentary around the housing market was more mixed. The RBA noted the recent pickup in house price growth in Sydney and Melbourne, but recognised the low housing turnover and weaker growth in housing credit growth relative to a year earlier. Overall, the RBA generally still seems relaxed on conditions in the housing market.

### **Outlook for Monetary Policy**

The RBA continues to expect that inflation will return towards its target and that the domestic economy will pick up to be “above potential growth later in the in the forecast period”.

We continue to be less upbeat given the ongoing issues with spare capacity in the global economy, the uncertainty around the outlook for China and the risk that the recent jump in commodity prices will be unsustainable.

Domestically, recent economic indicators suggest a loss of momentum in key non-mining areas of the economy. Retail spending has been subdued in recent months and points to some doubt regarding the outlook for consumer spending. Business surveys have also suggested that conditions are less upbeat. We expect exports and dwelling construction to continue to contribute to growth. However, looking out to 2018, the story becomes less positive particularly for residential construction. The rebound in commodity prices and the lessening drag from falling mining investment are key positives but we question the likelihood of an “above trend” growth scenario.

This raises questions about the inflation outlook, particularly given the recent softening in labour market conditions of late.

The RBA’s relatively upbeat stance suggests that further rate cuts are unlikely unless incoming data diverges significantly from its forecasts. This would suggest little possibility of a move in coming months, and it is likely that the RBA will need more time to digest upcoming data. Nonetheless, the downside risks to the RBA’s growth and inflation forecasts continue to suggest to us that more rate cuts will be on the cards over 2017.

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

## Contact Listing

### Chief Economist

Besa Deda  
[dedab@stgeorge.com.au](mailto:dedab@stgeorge.com.au)  
(02) 8254 3251

### Senior Economist

Hans Kunnen  
[kunnenh@stgeorge.com.au](mailto:kunnenh@stgeorge.com.au)  
(02) 8254 8322

### Senior Economist

Josephine Horton  
[hortonj@stgeorge.com.au](mailto:hortonj@stgeorge.com.au)  
(02) 8253 6696

### Senior Economist

Janu Chan  
[chanj@stgeorge.com.au](mailto: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.