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	Senior Economist	Senior Economist	Senior Economist
Besa Deda	Hans Kunnen	Josephine Horton	Janu Chan
dedab@stgeorge.com.au	kunnenh@stgeorge.com.au	hortonj@stgeorge.com.au	chanj@stgeorge.com.au
(02) 8254 3251	(02) 8254 8322	(02) 8253 6696	(02) 8253 0898