

RBA Minutes of the September Meeting Supporting The Task Ahead

- The Reserve Bank (RBA) released the minutes of its September policy meeting today.
- There was an acute awareness of the seriousness of the task ahead and the difficulties faced by households and businesses in Australia and around the world.
- Health solutions were noted as the 'end-game' for recovery but, in the meantime, for Australia, it was incumbent upon the RBA, the government and the financial sector provide support where it could.
- A concern for the RBA was the very weak outlook for capital expenditure in Australia. It also noted the impact of a reduced flow of migrants and a decline in household formation on the housing sector.
- Some recovery in global activity was noted but renewed restrictions in some countries had slowed momentum.
- In order to maintain a low interest rate environment, the RBA had purchased close to \$10 billion of Australia Government Securities (AGS) in August. The RBA stands ready purchase further AGS to maintain its targets.
- Given that recovery is expected to take time, the RBA extended and expanded its Term Funding Facility (TFF) with an eye to ultimately making credit more easily available to small and medium sized enterprises.
- The RBA will maintain accommodative monetary policy for as long as required. It is also prepared to consider further monetary measures that could support the recovery. We believe such measures could include a reduction in the cash rate to 0.10%, a lower target for three-year AGS yields or possibly moving its target further along the yield curve to 5 or even 10-year maturities.

The Reserve Bank (RBA) released the minutes of its September policy meeting today. At this meeting, its targets for the cash rate (0.25%) and three-year government bond yields (of around 0.25%) remained unchanged.

There was, however, an extension of the period during which banks could access the RBA's Term Funding Facility (TFF) whereby banks and other financial institutions are able to access cheap funding. The extra funding is now available until the end of June 2021. The TFF was also expanded to allow for increased demand for funds.

The RBA TFF aims to support credit to businesses, particularly small and medium sized

enterprises.

It not difficult to understand the actions taken by the RBA. The minutes stress the seriousness of the task ahead both domestically and internationally. They also highlighted the commitment of the RBA to ‘do what it can to support jobs, incomes and businesses.’

There were strong hints of optimism in the minutes. The board noted that the declines in economic activity around the globe were the largest in decades but that in many countries, recovery was underway. They did note, however, that momentum towards recovery had stalled following renewed restrictions in some jurisdictions.

The shock to aggregate demand and the severe disruption to global trade flows were noted. Health measures taken by governments sat behind both negative factors. This highlighted the dependence upon health solutions to eventually bring about recovery.

As health solutions are sought, the RBA acknowledges the role of coordinated responses of fiscal and monetary measures. The RBA board noted that the balance sheets of both the Federal and State governments were sufficiently strong to take on more debt as they sought to support economic activity.

Likewise, the RBA is seeking to ensure that the financial system remains strong and can support households and businesses.

Following the sharp contraction in June quarter GDP (released the day after the meeting) the RBA expects the September quarter to record growth in household consumption. This a position we are also taking given the easing of restrictions in most States since the end of June and the early results for activity in August.

Developments in the housing market were noted as being impacted by reduced flows of new migrants and a decline in household formation. While the RBA is unable to influence these factors directly, its low interest rate policy continues to support the housing industry.

In order to maintain a low interest rate environment, the RBA had purchased close to \$10 billion of Australia Government Securities (AGS) in August. The RBA stands ready purchase further AGS to reach maintain its targets.

The RBA is not of the view that recovery will be rapid. It acknowledges that fiscal and monetary support would be required for some time given the outlook for the economy and the labour market. It still expects the unemployment rate to increase to 10% by December, a view we find possibly too pessimistic given the most recent jobs data.

The RBA will maintain accommodative monetary policy for as long as required. It is also prepared to consider further monetary measures that could support the recovery. We believe such measures could include a reduction in the cash rate to 0.10%, a lower target for three-year AGS yields or possibly moving its target further along the yield curve to 5 or even 10 year maturities.

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