Tuesday, 20 September 2016

Minutes of the September RBA Board Meeting

Groundwork for More Cuts?

- **There were no major surprises in today's minutes of the RBA board meeting in September, where the RBA left monetary policy unchanged. It followed cuts to official interest rates in May and August.**
- **Its commentary does not suggest that the RBA is poised to lower anytime soon, however, the RBA did not give much away back in June or July ahead of the rate cut in August.**
- **The RBA's assessment on the housing market is of particular interest, given that in the past it has been a key hurdle to lowering interest rates. The minutes suggested that the RBA continues to be relatively relaxed about recent developments.**
- **There was also discussion about the impact of monetary policy on households, which will also be important in gauging the monetary policy outlook.**
- **The low inflation outlook without prospect of a significant pickup in economic growth suggests that more rate cuts are on the cards. We expect that persistently low inflation will lead the RBA to lower official interest rates to as low as 1.0%. Housing market developments and the CPI data released in October will be critical in laying the groundwork for a rate cut at its meeting in November.**

There were no major surprises in today's minutes of the RBA board meeting in September, where the RBA left monetary policy unchanged. The RBA is back in "wait and see" mode after cutting official interest rates in May and August.

There were some new developments regarding mining and the investment outlook, which noted an "improvement in sentiment in parts of the mining industry", although it continued to note a further "large decline" in mining investment in 2016-17.

The RBA remained fairly subdued about the outlook for non-mining investment, and that "uncertainty about future demand growth was weighing on non-mining business investment".

The RBA's assessment on the housing market is of particular interest, given that in the past it has been a key hurdle to lowering interest rates. The minutes continued to downplay the recent pick up in auction clearance rates, and noted the low turnover in markets and that credit growth was lower than a year earlier. This suggests that the RBA continues to be relatively relaxed about recent developments.

There was also some interesting commentary on the impact of lower interest rates on households, suggesting that the issue of effectiveness on monetary policy was discussed. It was noted that "the positive effect of lower interest rates on the disposable income of borrowing households is larger than the negative effect on the income of lender households" and that there was a "delay in the response of consumption spending to lower interest rates". Thus the RBA seems to still think that lower interest rates will have a positive impact, but just less so that in the past.

In regards to the growth outlook, international and domestic economies were "broadly consistent" with forecasts published in August. The RBA was still a little cautious on the labour market, and that liaison contacts had reported a "cautious approach to hiring". Forward indicators were "consistent with little change in the unemployment rate".

Outlook for Monetary Policy

There have been few new developments in recent months to alter the outlook for monetary policy. For the moment, the RBA is sitting pat following the rate cuts in May and August.

Its commentary does not suggest that the RBA is poised to lower anytime soon, however, the RBA did not give much away back in June or July ahead of the rate cut in August.

We think that the discussion surrounding the housing market and the effectiveness of monetary policy continues to leave the door open for further monetary easing.

The low inflation outlook without prospect of a significant pickup in economic growth suggests that more rate cuts are on the cards. Unless we see a strong resurgence in the housing market, we expect that persistently low inflation will lead the RBA to lower official interest rates to as low as 1.0%. The CPI data released in October will again be critical in laying the groundwork for a rate cut at its meeting in November.

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