Tuesday, 20 March 2018

Minutes of the March RBA Board Meeting

The RBA Still Sees Gradual Progress

- **The minutes of the Reserve Bank (RBA) Board meeting in March continued to point to optimism with regards to the domestic and global outlook. The RBA also reiterated that there was "progress" in reaching its goal of reducing the unemployment rate and inflation moving closer to target.**
- **In light of recent developments, the RBA continued to be upbeat on the domestic economy. The RBA downplayed some of the softer aspects of GDP data in the December quarter. The RBA expects GDP growth to exceed "potential growth" over 2018.**
- **The RBA also noted the ever so slight pickup in wage growth in the December quarter. However, despite the improvement in the labour market, the RBA also highlighted that there was not yet a "definitive pick-up in wage growth".**
- **The RBA's overall assessment on the global economy was positive - the momentum over 2017 had been maintained into 2018. However, the RBA did highlight the risk to the global economy from an increase in trade protectionism in light of the steel and aluminium tariffs from the US.**
- **The next move in the official cash rate is likely to be higher. Nonetheless, the RBA is still watchful on developments on inflation, wages and the labour market. The acknowledgement that spare capacity continues to persist and that wage growth has not yet picked up in a meaningful way suggests that the RBA is still not close to raising rates any time soon. We continue to expect that the RBA will leave rates unchanged for all of 2018.**

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In light of recent developments, the RBA continued to be upbeat on the domestic economy. The RBA downplayed some of the softer aspects of GDP data in the December quarter, which turned out to be weaker than expected. While the March board meeting preceded the GDP release by a day, it noted that the detraction from growth from net exports would be temporary. Moreover, the RBA expected GDP growth to exceed "potential growth" over 2018.

There was substantial discussion around the capital expenditure (capex) survey. The RBA noted this survey implied a further decline in mining investment. The outlook for non-mining investment was less clear from this survey. However, the RBA correctly acknowledges the unreliability of early estimates of capex, and that there was a strong risk that investment spending will be upgraded as the year progressed.

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Implications

The RBA continues to be mostly upbeat regarding the outlook for the global and domestic economy. The next move in the official cash rate is likely to be higher. Nonetheless, the RBA is still watchful on developments on inflation, wages and the labour market. The acknowledgement that spare capacity continues to persist and that wage growth has not yet picked up in a meaningful way suggests that the RBA is still not close to raising rates any time soon. We continue to expect that the RBA will leave rates unchanged for all of 2018.

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