Tuesday, 7 July 2015

RBA Stays Cool, Calm and Collected

- **At the RBA's board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. The RBA maintained its measured assessment of the domestic growth outlook.**
- **The RBA remained tight-lipped on the outlook for monetary policy. However, if a bias exists, it continues to be towards easing given the need for monetary policy to be accommodative and as growth remains below trend. Nonetheless, the RBA doesn't appear to be likely to pull the trigger any time soon.**
- **There was a passing comment on the developments in Greece and China and their impact on financial markets. While the RBA will be watching these developments, it remains uncertain as to their macroeconomic impact to date. The potential impact will likely be through financial markets and sentiment.**
- **We believe that the RBA can afford to wait for further evidence to determine whether the economy will pick up as it expects. This is despite few signs that a pickup in the domestic economy will occur. There is scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.**
- **We continue to expect the RBA to keep rates on hold for the remainder of the year, unless international or domestic developments take a turn for the worse.**

At the the RBA's July board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. The RBA maintained its measured assessment of the domestic growth outlook and the need for monetary policy to remain accommodative.

The RBA kept tight lipped about outlook for policy saying that "information on economic and financial conditions to be received over the period ahead will inform the Board's assessment of the outlook and hence whether the current stance of policy will most effectively foster sustainable growth and inflation consistent with the target".

There was a passing comment on the developments in Greece and China and their impact on financial markets. While the RBA will be watching these developments, it remains uncertain as to their macroeconomic impact to date.

The sharp falls in Chinese stock markets could weigh on sentiment and consumer spending. However, the Shanghai Composite remains around 77% higher than a year ago. Further, the relatively tight controls on financial markets in China means that its falls have had limited impact on share markets elsewhere around the world including Australia.

In the case of Greece, there are minimal trade linkages with Australia, and as such the direct impact on Australia is also likely to be limited.

Nonetheless, a further escalation of financial market volatility could increasingly weigh on sentiment and economic activity, and would bear close watching by the RBA.

On the domestic economy, the RBA noted that the unemployment rate "has been little changed recently" therefore acknowledging the recent improvement in the labour market. However, the RBA continued to note "a degree of spare capacity" and that growth remained below trend.

There was a notable omission of a more detailed assessment on the the domestic economy that was present in the previous month's statement. The positive comments on household spending, dwelling construction and exports was taken out, but the concerns about weak business investment and subdued public spending was also omitted.

The RBA is still waiting to watch upcoming developments on the domestic economy to gauge whether a pickup will occur next year.

Other comments on the Australian dollar and the housing market were identical to the previous month.

Concerns remained for the Australian dollar, and the RBA continued to state that "further depreciation seems both likely and necessary".

The RBA also noted that lending to housing was "broadly steady" and suggesting that the RBA continues to be satisfied that credit was not accelerating.

Outlook for Monetary Policy

If a bias exists, it continues to be towards easing given the need for monetary policy to be accommodative and growth remaining below. Nonetheless, the RBA doesn't appear to be likely to pull the trigger any time soon. The RBA appears to be comfortable with watching developments for a little while longer.

While there are little signs that a pickup in the domestic economy will occur, we think that the RBA can afford to wait for further evidence to determine whether the economy will pick up as it expects. We see scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.

Developments in Europe and Greece remain a key risk factor, although the potential impact will likely be through financial markets and sentiment.

We continue to expect the RBA to keep rates on hold for the remainder of the year, unless international or domestic developments take a turn for the worse.

The <u>one page</u> text of the Governor's Statement can be found at http://www.rba.gov.au/

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