

Reserve Bank Board Meeting Minutes – August 2010

ECONOMIC ALERT

17 AUGUST 2010

KEY POINTS

The key points of the minutes of the August RBA Board meeting held on 3 August 2010 are as follows:

- Financial market sentiment improved over the past month, though volatility in financial prices remains higher than normal. Economic data suggest that the global economy continues to expand, though growth rates have probably eased since early 2010 and still show regional divergence.
- Recent data for Europe has been more positive, but US growth has moderated since the start of the year. The Asian region has experienced very strong growth, though it looks to be slowing to more sustainable rates. Growth moderation in the Chinese economy had contributed to some easing in commodity markets, though Australia's major export commodity prices are still at very high levels.
- Underlying inflation has continued to fall, in line with the Bank's forecasts and is now below 3 per cent. Employment has continued to grow solidly but, despite this, consumer spending remains soft, notwithstanding high levels of consumer confidence indicators.
- Credit growth remains soft while the housing market had stabilised following the surge in prices late last year and earlier this year.
- Indicators of business investment remain strong and, more broadly, RBA staff forecast that GDP growth will strengthen in 2011 and 2012 to above-average rates. **“Accordingly, even though underlying inflation was expected to remain around 2¾ per cent over the next year, it was forecast to pick up a little thereafter.”**
- Over late 2009 and early 2010, the unusual level of monetary accommodation that had been put in place during the global financial crisis was removed. Interest rates on loans to households and businesses had returned to around average levels by May. In June and July, with economic growth close to trend and inflation forecast to fall to the target range later in the year, the Board was comfortable with the level of interest rates in an environment of market volatility.
- Recent data has not changed the Board's assessment. Inflation outcomes in the June quarter were in line with the Board's expectations and the growth outlook has not changed. Markets have settled somewhat, but uncertainty over the global outlook is higher than earlier in the year. **“The Board therefore judged the existing level of the cash rate as still appropriate, and decided to leave it unchanged for the time being, pending further information.”**

Policy implications

- August's RBA Board meeting minutes confirm again that unfolding outcomes in terms of the world economy and Australian inflation and growth will determine the Board's stance on the appropriate level of the official cash rate.
- At this stage, forecasts for inflation to remain in line with the RBA's target, softness in domestic demand and the potential for a deflationary impact from the Commonwealth Budget suggest that the RBA will be happy to remain on the sidelines for the short-term.
- In the absence of any unexpected strength in forthcoming economic data, the Bank is likely to wait until the release of the September quarter CPI data in late October before considering any further rise in the cash rate.
- The minutes indicate that the Bank expects growth to rise to above-average rates in 2011 and 2012 and inflation to pick up modestly from 2011-12. This timing and the usual lag of around 9-12 months between changes in the cash rate and inflation outcomes suggests that the RBA Board has adequate leeway to avoid getting 'behind the inflation curve'.