

Reserve Bank Board Meeting Minutes – December 2010

ECONOMIC ALERT

21 December 2010

KEY POINTS

The key points from the minutes of the latest RBA Board meeting on 7 December 2010 are as follows:

International Conditions

- Economic growth in China and India remains strong, though there are some signs that inflationary pressures are starting to build in China, which may require the authorities to slow the pace of growth.
- The United States is only growing at a modest pace, with the housing sector showing little sign of improvement.
- Recent data on the Japanese economy has also been quite soft, despite the solid growth recorded in the September quarter.

Domestic Conditions

- GDP growth in the September quarter was a little softer than the RBA had expected due, in part, to household spending. On the other hand, business investment has been picking-up broadly in line with RBA forecasts.
- In addition, the RBA noted that there had recently been several announcements confirming that large investment projects were moving ahead.
- The national accounts highlighted that business conditions currently vary significantly across sectors; in contrast to the solid rises in output in the mining sector and of some professional services, manufacturing output has been flat over the first three quarters of 2010.
- Retailers continue to report that households are cautious in their spending and significant discounting remains widespread.
- More generally, overall price pressures remained relatively modest, reflecting discounting activity and exchange rate effects.

Policy implications

- Financial markets and economists generally expect interest rates to reach 5 per cent by the middle of next year.
- In particular, futures markets currently assign only a 10 chance of a rate rise at the next monetary policy meeting in February, but expect rates to be at 5 per cent by August.