

# Reserve Bank Board Meeting Minutes – July 2010

ECONOMIC ALERT

20 JULY 2010

## KEY POINTS

The key points of the minutes of the June RBA Board meeting held on 6 July 2010 are as follows:

- The world economy has continued to expand at around trend pace, although the regional pattern of growth is uneven. In addition, financial markets developments in June had highlighted some important risks, reflecting further focus on the European fiscal situation and banking sector problems.
- Short-term prospects for European growth going into 2011 have weakened, while the US economy has shown moderate growth in the first half of 2010, which is being constrained by recent soft employment outcomes.
- Recent moderation in Asian growth is desirable, given concerns about possible overheating in those economies. However, there is some uncertainty in the near term about the extent of the slowing. For Australia, a critical medium-term question is how can economies in Asia continue to grow strongly in the face of potentially a long period of subdued conditions in the major North Atlantic economies.
- On balance, the most likely outcome is for Australia's major trading partners to grow at around trend over the next couple of years.
- The Australian economy has been growing solidly over the past year, reflecting a sizeable contribution from fiscal policy. The economy is now in a period where private demand is expected to lift due to a pick-up in business investment flowing from the high level of the terms of trade. This is expected to offset the fall in public demand, though this will require careful monitoring.
- The cash rate, at current levels has allowed flexibility to maintain steady settings in the face of increased international uncertainty.
- Over July, there will be new information about the health of the European banking sector and an update on domestic inflation.
- In terms of the latter, the data is expected to show further easing in the year-ended underlying rate of inflation, although though the rate is likely to remain in the top half of the target range over the period ahead. **“The important question for the Board at its next (August) meeting would be whether the new information materially changed the medium-term outlook for inflation.”**

## Policy implications

- July's RBA Board meeting minutes confirm that unfolding outcomes in terms of the world economy and Australian inflation pressures will determine the Board's stance on the appropriate level of the official cash rate.
- At this stage, softness in domestic retailing and housing approvals and the potential for a deflationary impact from the Commonwealth Budget, combined with the increase in global financial market instability argue for some caution.
- However, if the June quarter CPI outcome, due to be released by the ABS on 28 July, is higher than the RBA currently expects it is likely that the Board will move in the short-term to pre-empt any build up in inflationary pressures as the economy heads back to trend growth, the labour market tightens further and skills shortages become more apparent.