

Reserve Bank Board Meeting Minutes – November 2010

ECONOMIC ALERT

16 November 2010

KEY POINTS

The key points from the minutes of the latest RBA Board meeting on 2 November 2010 are as follows:

- GDP is expected to grow by 3 ½ per cent in 2010, and by between 3 ¼ - 4 per cent over 2011 and 2012.
- The RBA does not expect underlying inflation to fall further; instead, inflation is expected to remain around its current level for several quarters.
- Recent data suggests that consumers are still spending cautiously, which is leading many retailers to discount the price of their goods and services.
- While labour market conditions remain strong, the RBA noted that the labour market may not be as tight as the unemployment rate suggests. This is a positive sign for wages growth and inflation more generally.
- Indicators of investment intentions remain strong, particularly in the resource sector.
- However, there are few signs of a recovery in the non-residential construction sector.
- Business surveys generally suggest that manufacturing conditions are currently around 'average', despite the strong rise in the currency. This is said to reflect the fact that many manufactures benefited from cheaper imported capital equipment and components when the exchange rate appreciated, and that some firms focused mainly on the domestic market.
- Recent news on the global economy has been mostly positive, with commodity markets strengthening and the outlook for the Chinese economy improving.
- While growth in emerging economies has generally been solid, activity in the US, and parts of Europe, has been weak.

Policy implications

- Financial markets and economists generally expect the RBA to continue raising interest rates early next year.
- For example, futures market traders have assigned only a 3 per cent chance of the RBA raising interest rates in December, though some major investment banks expect the RBA to continue raising rates as early as February next year.