

Reserve Bank Board Meeting Outcome – October 2010

ECONOMIC ALERT

5 October 2010

KEY POINTS

The RBA Board left the official cash rate at 4.50 per cent at its October 2010 meeting today. Key economic developments that shaped today's decision, as outlined in the RBA's related media release, are as follows:

- Global economic growth has recently been above trend, though is expected to ease somewhat over the year ahead. Growth in a number of Asian economies has moderated in line with recent policy initiatives, while Europe and the US are also expected to record more modest growth over the second half of 2010.
- Financial markets are functioning more smoothly, though some uncertainty remains.
- The price of Australia's commodity exports remains at a very high level.
- The large rise in Australia's terms of trade is boosting national income, which will help to support domestic demand.
- However, credit growth continues to be subdued.
- Abstracting from the recent rise in tobacco taxes, the RBA expects CPI inflation to be around 2 ¾ per cent in the near term.

Policy implications

- If the economy continues to grow as the RBA expects, then interest rates will need to be raised in order to help curb inflation.
- Market economists generally expect interest rates to rise before the end of the year.
- Looking further ahead, a recent survey conducted by 'The Australian' showed that most economists expect the RBA to take further action over the course of 2011; the median forecast of the economists surveyed was for at least three interest rate rises before June next year, which would take interest rates to 5.25 per cent.
- Reflecting the high level of Australia's terms of trade and the likelihood of further interest rate rises, market economists also expect the Australian dollar to remain above US90c in the near term.