

Reserve Bank Board Meeting Minutes – October 2010

ECONOMIC ALERT

19 OCTOBER 2010

KEY POINTS

The key points from the minutes of the latest RBA Board meeting on 5 October 2010 are as follows:

- The RBA continues to expect the Australian economy to grow around trend in the near term.
- The global economy is also expected to grow around trend over the next year or so, with growth expected to remain relatively strong in the emerging economies but subdued in most of the large advanced economies.
- In China, household spending has remained strong, and there are signs that the recent cooling in the residential property market has come to an end. In the US, the pace of growth has slowed, and the RBA believes that the risks surrounding the outlook remain on the downside.
- The prices of Australia's export commodities have remained at elevated levels, supported by strong growth in the Asian region. However, the RBA expects contract prices for bulk commodities to fall by around 5 to 15 per cent in the December quarter 2010.
- Domestically, demand for labour is expected to grow further, though at a slower pace than has recently been seen. The RBA's liaison with retailers also suggests that retail spending has strengthened a little over recent months.
- There are some signs that the rental market is tightening, with vacancy rates in some states reaching quite low levels. The tightness in rental markets was expected to continue given strong population growth and the recent decline in house building approvals. This may feed into increased rents.

Policy implications

- While financial markets were surprised by the RBA's interest rate decision, they continue to expect interest rates to rise over the next 12 months.
- For example, Credit Suisse interest rate futures show that financial investors predict a 35 per cent chance of an interest rate rise at the next board meeting, and an interest rate of 5 per cent within 12 months.