

Reserve Bank Board Meeting Outcome – September 2010

ECONOMIC ALERT

7 September 2010

KEY POINTS

The RBA Board left the official cash rate at 4.50 per cent at its September 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.
- Australia's terms of trade have regained their peak of two years ago, despite some softening in global commodity prices.
- The Australian economy is estimated to be growing around trend due to high levels of public spending and improved private demand. The high level of the terms of trade is expected to help offset the withdrawal of policy stimulus over the year ahead, with business investment expected to increase particularly strongly.
- Business credit appears to have stabilised, though credit conditions for some sectors remain difficult. Housing credit growth has moderated in recent months, which appears to have helped to slow house price growth.
- The labour market continues to firm and wages growth has picked up in line with the Bank's expectations. The Bank expects underlying inflation to be in the top half of its target band over the next year, and CPI inflation to be just above 3 per cent for the next few quarters due to recent changes to tobacco taxes.

Policy implications

- The RBA expects private domestic demand in the Australian economy to strengthen in the year ahead. This would put upward pressure on inflation. That said the RBA is clearly weighing this factor against the downside risks posed by a softening global economy.
- While inflation is forecast to remain close to the target level, a strong rebound in domestic demand could lead to a significant pick-up in inflationary pressures.
- The forthcoming labour market, inflation and retail trade data will shed further light on the strength of the recovery in domestic demand, and serve as important factors determining the timing of the Board's next move.