

Reserve Bank Board Meeting Outcome – August 2011

ECONOMIC ALERT

2 August 2011

KEY POINTS

The RBA Board left the official cash rate at 4.75 per cent at its August 2011 meeting today. Key economic developments that shaped today's decision, as outlined in the RBA's related media release, are as follows:

- The pace of growth in the global economy slowed in the June quarter 2011. This partly reflected the recent earthquake in Japan and the impact of high commodity prices on income and spending in some major economies.
- So far, China has only experienced a mild slowdown.
- Most market economists continue to expect the global economy to grow at or above average over the next two years.
- Similarly, the RBA expects real GDP in Australia to grow at or above average over the next couple of years.
- Private investment in the resources sector is picking up strongly in response to the high level of commodity prices, while households continue to spend cautiously. Growth in household credit has also slowed.
- Employment growth has moderated recently. Leading indicators point to further employment growth in the near term, though at a slower pace than that seen over 2010.
- Reports of skill shortages remain confined to the resources and related sectors, while wages growth has started to pick-up towards the levels seen prior to the Global Financial Crisis.
- The RBA remains concerned about the medium-term outlook for inflation.

Policy implications

- Market economists generally expected the RBA to leave rates on hold this month, partly due to current uncertainty in global financial markets, before raising rates to 5 per cent by the end of the year.