

Reserve Bank Board Meeting Minutes – August 2011

ECONOMIC ALERT

16 August 2011

KEY POINTS

The key points from the minutes of the latest RBA Board meeting on 2 August 2011 are as follows:

Broadly speaking, recent news from the international and domestic economies has been less positive, though, by and large, this has reflected temporary disruptions to production and risks (as opposed to actual economic events) associated with European sovereign debt.

International Conditions

- The pace of global growth eased in the June quarter 2011.
- This in part reflected recent natural disasters in Japan. Indeed, disruptions to Japanese industrial production were said to have even affected Australian motor vehicle production and sales.
- Despite concerns over the sustainability of sovereign debt in Europe, and the fiscal position of the United States, the RBA noted that most economic forecasters continued to expect global growth to be around average, or a bit above, over the next year.
- The Chinese economy continues to grow strongly, while economic activity in the United States has slowed materially.

Domestic Conditions

- Following the inflation data released in late July, the members of the RBA board noted that their *'were grounds for concern about the medium-term outlook for inflation'*.
- In particular, the RBA is currently forecasting underlying inflation to be around 3 per cent or a little higher over the next few years.
- The introduction of a carbon price is expected to add around 0.7 percentage points to headline inflation in the second half of 2012.
- Coal exports from Queensland have picked up but are not expected to return to normal levels until early 2012.
- Retail spending appears to have remained weak since May.
- Australia's terms of trade reached their highest level on record in the June quarter 2011 and are expected to increase further in the September quarter.

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Policy Implications

- Financial markets have expected the next interest rate move in Australia to be down, and in fact, one prominent market economist is now forecasting interest rates to fall by 100bps through 2011 and 2012.
- In contrast, most domestic market economists have interpreted recent events as affecting the timing of the next interest rate rise not the direction i.e. recent events have meant that the RBA is now likely to raise interest rates towards the end of the year.
- Generally speaking, the predominate view of domestic market economists is seen to be the best guide to future interest rate changes.