Outcome of Reserve Bank of Australia Board meeting, 6 December 2011

RBA cuts target cash rate to 4.25 per cent

At its meeting today, the RBA Board decided to lower the target cash rate by 25 basis points to 4.25 per cent, effective 7 December 2011. Key economic developments that shaped today's decision, as outlined in the RBA's related media release, are as follows:

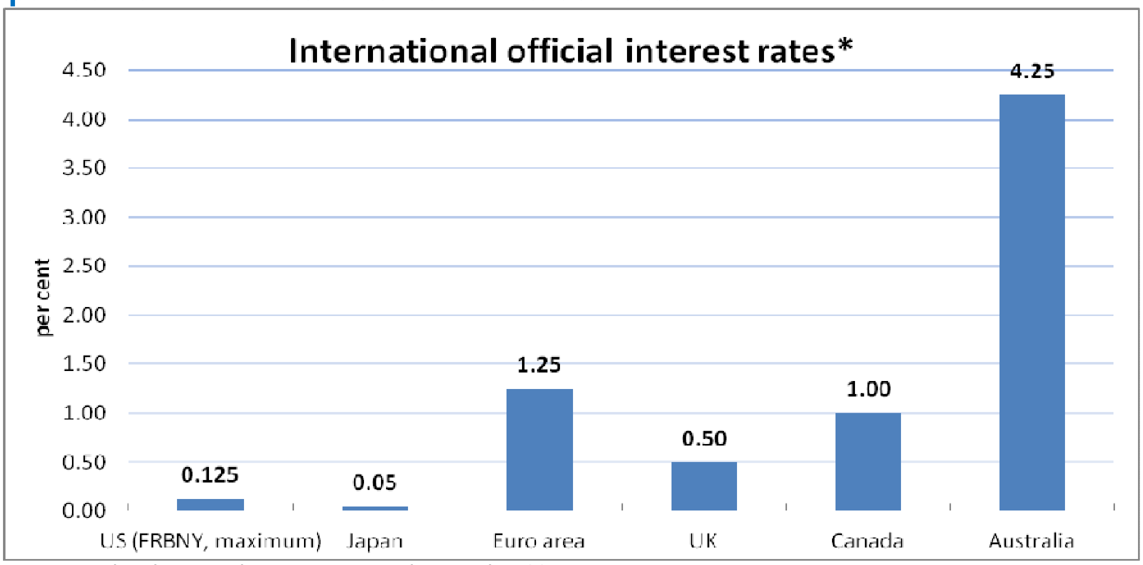
- Trade in Asia is now seeing some effects of a significant slowing in economic activity in Europe.
- The sovereign credit and banking problems in Europe are likely to weigh on economic activity in Europe over the period ahead.
- Australian output growth has been close to trend and investment in the resources sector is picking up very strongly, with more in the pipeline. While some related service sectors are enjoying better-than-average conditions, in other sectors, more cautious spending behaviour by households and the high exchange rate have had a noticeable dampening effect.
- With Australian labour market conditions now softer, the likelihood of a significant acceleration in labour costs outside the resources and related sectors in the near term has lessened.

Policy implications

The decision by the RBA Board to further cut the target cash rate is a clear sign of concern regarding the global economic outlook and the patchy domestic economy. Moreover, domestic underlying inflation is regarded by the RBA as being in check; with the Board concluding the inflation outlook afforded scope for a modest reduction in the cash rate (the chart provides an international comparison of official rates).

According to Governor Stevens, the reduction in the cash rate as a result of the Board's previous decision flowed through to lending rates, which are now around their average level of the past 15 years. Nevertheless, credit growth remains subdued. In addition, asset prices have declined further in recent months.

Chart: Comparison of international official interest rates



* International economies rates as at end November 2011.
Source: RBA.