

Reserve Bank Board Meeting Outcome - 1 November 2011

ECONOMIC ALERT

1 November 2011

KEY POINTS

At its meeting today, the RBA Board decided to lower the cash rate by 25 basis points to 4.5 per cent, effective 2 November 2011. Key economic developments that shaped today's decision, as outlined in the RBA's related media release, are as follows:

- The Australian economy is experiencing moderate growth. In non-resource sectors, cautious behaviour by households and the high exchange rate have had a noticeable dampening effect. The unemployment rate has increased a little over recent months, though it remains close to 5 per cent.
- Recent information suggests the subdued demand conditions and the high exchange rate have contained inflation more recently, notwithstanding continuing sizeable increases in utilities charges.
- With 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. Accordingly, the RBA's current judgment is that inflation is likely to be consistent with the 2–3 per cent target in 2012 and 2013, abstracting from the impact of the carbon-pricing scheme.
- Globally, there has been a moderation in the pace of global growth, though fears of a major downturn have not been borne out so far. The pace of US economic expansion picked up in the September quarter, but is still only moderate and leaves considerable spare capacity.
- China's growth has slowed, as policymakers there had intended. Output in Asia has now recovered from the effects of the Japanese earthquake, and domestic demand in the region is generally expanding. Trade performance, however, is starting to see some effects of a significant slowing in economic activity in Europe, where the prospects are for economic weakness to continue.
- Commodity prices, while still at high levels, have generally declined over recent months.

Policy implications

- The RBA Board has maintained a mildly restrictive stance of monetary policy, in view of its concerns about inflation.
- With overall growth moderate, inflation now likely to be close to target and confidence subdued outside the resources sector, the RBA concluded that a more neutral stance of monetary policy would now be consistent with achieving sustainable growth and 2–3 per cent inflation over time.