

KEY POINTS

On 1 November 2011 the Reserve Bank Board decided to lower the cash rate by 0.25 percentage points to 4.50 per cent. The minutes of the meeting have been published today and provide reasoning for the decision.

In the minutes of its 1st November meeting, the Reserve Bank of Australia (RBA) Board highlighted the downside risks to the global economy due to the continued uncertainty about the prospects for the resolution of the sovereign debt and banking problems in Europe. The Board noted that it was likely that economic conditions in Europe would weaken further as result of the recent turmoil on confidence, credit supply tightness and the need for further fiscal consolidation.

On the domestic front, the Board noted that whilst conditions remained strong in the resource sector, below trend growth was expected to persist in the non-mining economy. In particular, the RBA observed that:

- the housing market remained subdued with growth in housing credit continuing to run below growth in disposable income;
- surveys of consumer confidence remained below average, despite recent improvement;
- business credit growth was still weak, although slightly stronger than a few months earlier; and
- the recovery in coal exports continued to be slower than expected due to difficulties in removing water from flooded mines.

With respect to inflation, it was noted that recent data had suggested that there was less inflationary pressure in the economy than had been expected at the start of the year. The Board appears more confident that growth in inflation will be contained by soft growth in the non-mining economy and global factors including the financial turmoil and the related effects on confidence.

In terms of financial conditions, the Board further noted that whilst a range of lending rates had edged down over recent months, overall credit growth remained low.

On the basis of these considerations, the Board indicated that a more neutral monetary policy setting would be compatible with achieving sustainable growth and inflation consistent with the 2-3% per annum target range for 2012 and 2013.

As a consequence, members of the Board concluded that “it was appropriate for there to be a modest easing in the stance of monetary policy”.