

## KEY POINTS

On 4 October 2011 the Reserve Bank Board decided to leave the cash rate unchanged at 4.75 per cent. The minutes of the meeting have been published today and provide reasoning for the decision.

### *Domestic considerations*

- There continues to be large differences in conditions across sectors. Investment in the resources sector is accelerating and some related services sectors are experiencing better-than-average conditions.
- In other sectors, cautious behaviour by households and the earlier rise in the Australian dollar are having a noticeable dampening effect at the same time as the stimulus spending is abating.
- Indications are that the pace of near-term economic growth is unlikely to be as strong as earlier expected.
- With labour market conditions now a little softer, the likelihood of a significant acceleration in aggregate labour costs is lessening.
- These developments, together with new data showing that the pick-up in underlying inflation has been more gradual than initially indicated, suggest that **the medium-term inflation outlook may now be more consistent with the 2–3 per cent inflation target.**

### *Global considerations*

- There is continued uncertainty regarding the global economy and financial markets, including the prospects for resolution of the sovereign debt and banking problems in Europe and the outlook for global economic growth.
- This had been reflected in falls in measures of consumer and business confidence in the major economies, and is likely to weigh on spending and economic growth in these economies.
- Overall, recent events had led forecasters (such as the IMF) to reduce their estimates for global GDP growth.

### *Summary*

- The RBA Board believes that an improved inflation outlook, if confirmed by further data, **would increase the scope for monetary policy to provide some support to demand, should that prove necessary.** Financial conditions had already eased somewhat, with interest rates for some housing and business loans declining slightly because of increased competition and the fall in funding costs in financial markets. The exchange rate had also declined somewhat from the very high levels of a few months ago.
- Taking all these factors into account, **the RBA Board considers that the existing stance of policy remained appropriate.**
- Market economists are varied in their interpretation of the minutes. For example, Westpac are retaining their call that there will be a December rate cut (if not earlier if inflation data later this month is weaker than expected) while the Commonwealth Bank of Australia believes the RBA is more likely to leave the cash rate at 4.75 per cent in coming months and that the medium term outlook is for a higher, not lower, cash rate.