

Reserve Bank Board Meeting Outcome – September 2011

ECONOMIC ALERT

6 September 2011

KEY POINTS

The RBA Board left the official cash rate at 4.75 per cent at its September 2011 meeting today. Key economic developments that shaped today's decision, as outlined in the RBA's related media release, are as follows:

- A number of market economists have revised down their forecasts for global growth.
- This partly reflects continued uncertainty and financial market volatility, which is reducing confidence and may result in more cautious behavior by firms and households.
- In Australia, private investment in the resources sector is picking up strongly in response to the high level of commodity prices.
- This has resulted in some reports of skill shortages, though these have so far remained confined to the resources and related sectors.
- Households continue to spend cautiously, while employment has grown only modestly this year.
- Despite modest growth in employment, and productivity, wages growth has returned to the levels seen prior to the Global Financial Crisis.

Policy implications

- The continued uncertainty and financial market volatility has also resulted in domestic market economists revising their forecasts for future interest rate changes.
- Market economists had generally expected the RBA to raise interest rates towards the end of the year, though most economists now expect interest rates to remain unchanged for the rest of the year.
- The future direction of interest rate changes has also become less certain; in a recent survey by the Australian Associated Press, 5 of the 12 economists surveyed said that they expected an interest rate rise in the March quarter 2012, while 3 thought interest rates would fall.