

Reserve Bank Board Meeting Minutes – September 2011

ECONOMIC ALERT

20 September 2011

KEY POINTS

The key points from the minutes of the latest RBA board meeting on 6 September 2011 are as follows:

International Conditions

- A number of market economists have revised down their forecasts for global growth in 2011 and 2012.
- This partly reflects continued uncertainty and financial market volatility, which is reducing confidence and may result in more cautious behavior by firms and households.

Domestic Conditions

- The RBA interviews Australian businesses on a regular basis as part of its liaison program. The following issues were raised in recent discussions:
- There is a growing realisation among businesses that the exchange rate is likely to remain at a relatively high level. This has led a number of businesses to re-evaluate their strategies, and in some cases, consider restructuring or even closure. On the other hand, some businesses have increased their investment expenditure in order to remain competitive.
- A rising number of firms are re-assessing their hiring plans.
- Retail sales remained soft in the September quarter, especially for high-end retailers.
- Other measures of consumer confidence remain weak. In particular, household surveys suggest that families are becoming more concerned about their personal finances and rising unemployment.

Policy Implications

- The continued uncertainty and financial market volatility has 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.