

Minutes of the June RBA Board Meeting

Steady as She Goes

Once again, the RBA minutes of the June board meeting did not suggest any major shift in its assessment of the economy and the outlook for interest rates.

On the domestic economy, the RBA remained mostly upbeat. The meeting was held just one day prior to the release of GDP data, which came in at 3.1% in the year to the March quarter. RBA commentary suggests that this was stronger than it had anticipated.

The RBA board meeting also followed the release of the Federal Budget. The RBA notes the strength in public demand, expecting Infrastructure investment “to continue to support growth for some time”.

The RBA also downplayed recent disappointing outcome in the most capex survey, which the RBA notes “does not provide information on intangible investments or investment in some parts of the service sector, including education and health”. Additionally, the RBA highlights resilience in profits in the non-mining sector, which was “positive for future investment”.

On the labour market, the RBA acknowledged recent softer outcomes, but then pointed out that forward-looking indicators pointed to “employment growth increasing to above-average rates in coming months” and maintained the view there will be a “gradual fall” in the unemployment rate.

On financial markets, the RBA discussed the political risks in the euro area, namely Italy, and instability in some emerging markets. Members noted that measures of sovereign risk had remained below levels recorded in the 2011-12 episode of instability and there had been limited spillovers to other euro area sovereign markets.

Members also discussed developments in emerging markets, noting that problems in a few countries had largely reflected idiosyncratic weaknesses and spillovers to Asia had been limited to date.

On housing lending, the RBA noted approvals to investors and owner-occupiers had declined in recent months. And banks had recently tightened their lending standards, including by collecting more information from loan applicants on living expenses to assess a borrower’s capacity to service a loan based on actual living expenses.

Despite the broadly upbeat tone on the domestic economy, the ongoing spare capacity in the labour market and only gradual increase in wages and inflation continues to suggest that official interest rates are unlikely to move for some time. A lift in global concerns also poses a downside risk to the outlook.

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