

DATA SNAPSHOT

RBA Board Minutes for the Sep-09 Meeting

Tuesday, 15th September 2009

- **The flavour of today's minutes continues to show a more upbeat central bank than what was the case in August.**
- **Despite this, the RBA still appears to be holding back from moving to an explicit tightening bias. This is given some uncertainties surrounding the economic outlook.**
- **Today's minutes exclude the stronger than expected domestic Q2 GDP figures. The latter was released the day after the September 1st RBA meeting.**
- **We continue to expect the first of the RBA's interest rate hikes to occur early next year. But if the incoming dataflow remains stronger than expected, a rate hike later this year can't be ruled out.**

Today's minutes reveal a central bank that remains more optimistic than before about how global and domestic economic conditions have evolved. Members noted that the global economy has continued on its recovery path. The Asian region has been the standout performer. This in turn has been a key positive for the Asian dominated export market in Australia. Indeed, the RBA notes today that, "The flow of information on the Australian economy over the past month had been mostly positive". But the RBA also highlighted some upside surprises in other countries, including positive growth in France and Germany in the June quarter. Also, recent information suggests that the majority of economies outside Asia were now approaching a turning point. There were positive signs in global housing markets as well. According to the RBA, "...in countries that had experienced better economic outcomes and/or fewer financial sector problems (e.g. China, Canada, Norway and Australia), house prices now appeared to be rising quite solidly and were above or around earlier peaks. Even in the US and UK, which had earlier experienced significant falls in house prices, there had been some up-ticks recently:.

But the RBA also cautioned that there was still some uncertainty surrounding the domestic and international outlook. So although the central bank has said that it would in due course need to adopt a less expansionary stance, it appears that it is still being very careful about delivering an interest rate hike. In terms of uncertainties to the outlook, the RBA noted that there is the question of if the recovery in some countries was sustainable. In particular, the issue was if these improvements were largely a temporary by-product of stimulus measures or if the basis for such growth were more fundamental. Meanwhile, banks, corporates and households in many countries also still faced significant balance sheet adjustments and this could potentially hamper growth.

Accordingly, the RBA appears to continue to hold back from taking on an explicit tightening bias. It noted that, "the policy decision in the near term involved balancing the risk of over-staying an accommodative stance, and that of prematurely tightening and adversely affecting confidence and demand". The central bank states that it decided to hold interest rates steady this month, pending further evaluation of incoming information in coming months. **We expect the first of the RBA's rate hikes to occur early next year. But the risk of a rate hike later this year will be greater if the incoming dataflow continues to positively defy expectations.**

Some other key comments made on the Australian economy in today's minutes were:

* There were signs that some of the unexpected strength in investment in the June quarter owed to the pull-forward of spending to qualify for tax concessions that ended in June. But investment plans for the year ahead had also been revised up.

* Information from liaison suggested that household spending might be holding up reasonably well even several months after the government payments had ended.

* There were some signs that Chinese demand for resources had not continued at the exceptional pace of the June quarter. But liaison with resource companies suggested that they were very confident about medium-term prospects.

* Business credit was still very weak, borrowers were facing tight credit conditions and rising borrowing costs as banks continued to review risk margins as lending facilities were reviewed. For some sectors,

particularly those related to property, this was likely to continue to limit activity in the near term. The rise of market yields, in expectation of monetary policy tightening, was also adding to borrowing costs.

* The most recent labour market data continued to suggest that the deterioration in the numbers employed and in unemployment had been less than feared earlier in the year. There had been a noticeable increase in flexibility in hours worked.

* There was a significant moderation in private-sector wage growth over H1-09, consistent with reports that some companies had implemented wage freezes (this slowing was less pronounced in public-sector wage growth). The RBA noted that such events would be helpful in minimizing job losses.

* The slowing in wages would exert some downward pressure on underlying inflation from the current elevated levels.

* There were some favourable signs in the Australian residential mortgage-backed securities market...the prospect of issuance without the support of the Australian Office of Financial Management was increasing.

* Underlying profits of Australian companies had fallen significantly but recent earnings reports had mostly met or exceeded analyst expectations. Issuance of new equity had been running very strongly in the quarter to date.

The full RBA minutes for the September 1st monetary policy meeting can be obtained at: <http://www.rba.gov.au/MonetaryPolicy/RBABoardMinutes/2009/rba-board-min-01092009.html>

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