

RBA's benign rates outlook

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The minutes of the latest monetary policy meeting of the Reserve Bank provide no reason to be concerned about an imminent interest rate rise. The minutes of the RBA board's August 3 meeting, released today, are essentially an expanded version of the brief announcement made on the day of the meeting. But the assessment of the economy underpinning the decision to keep the cash rate at 4.5 per cent was explained in much greater detail in the RBA's quarterly monetary policy statement released on August 6. As a result, there is nothing surprising in the economic roundup in the minutes. Nor is there any new insight into the decision-making process or the likely time before the RBA gets down off the fence and moves the cash rate again. Most likely, though, the next move will be upward. In the minutes, the RBA reiterated its judgment that the risks around its outlook were evenly balanced. "Members noted that the remained both upside and downside risks around these central forecasts," the minutes said. Even so, the forecasts show inflation bottoming out at 2.75 per cent before rising to around three per cent, the top of the two to three per cent target range, as growth in gross domestic product (GDP) strengthens "in 2011 and 2012 to above-average rates". The logical implication of that is that the economy's capacity constraints will be stretched and higher interest rates will be increasingly likely to ease the inflationary pressure as time goes on.

Inflation threat eases

In the meantime, though, inflation is heading back into the target range and there is uncertainty troubling global financial markets. The minutes explain that this was the background to the board's decision to hold the cash rate steady in June and July. "Developments over the latest month had not materially changed the board's assessment," the minutes said. Presumably, a reduction in market volatility combined with evidence that the economy is picking up to above average growth and that inflation has indeed bottomed out around 2.75 per cent would increase the chance of another rate rise. As the minutes say, the decision was made to leave the cash rate steady earlier this month "for the time being, pending further information". Inflation figures at the end of October are now likely to be seen as the next possible catalyst for a rate rise. But the minutes give no sign that such a shift in the RBA's stance is particularly likely in the near future.