

Tuesday, July 21, 2009

The Reserve bank of Australia (RBA) saw no need to cut interest rates in July given further signs of stabilisation in the global and domestic economies. On July 7, the central bank left the overnight cash rate steady at a 49-year low of three per cent for the third consecutive month following a board meeting. The minutes of that meeting, released on Tuesday, show board members had focused their discussion on data showing further signs of a bottoming in the global economic downturn, particularly in China and the US. "Output in the major economies was likely to have contracted by a significantly smaller amount in the June quarter than in the previous two quarters," the minutes said. "While output in the developing countries of east Asia was likely to have recorded a substantial increase, underpinned by a pick-up in growth in China." "Members noted signs that the rate of deterioration in the United States had slowed and that the economy may be reaching a turning point." The Australian economy had been supported by a strong export sector in the December and March quarters as China's hunger for raw materials continued and the Australian dollar depreciated in value. "Over this period, export volumes had increased by almost two per cent, whereas in other countries, export volumes had typically fallen by 10-20 per cent," the minutes said. "While the depreciation of the Australian dollar had been helpful to exporters, the strong performance of the Chinese economy was particularly important. Australia's exports of both iron ore and coal had recently rebounded after earlier large falls. Board members noted the world economy looked set for "subdued growth" over the next two years. On the domestic front, the minutes noted that recent data, particularly for employment and housing, had not been as weak as expected. When the board last met the most recent Australian Bureau of Statistics data had showed the unemployment rate had risen to 5.7 per cent in May. It later rose to 5.8 per cent in June. Meanwhile, housing loan approvals and household spending had also recorded increases, while consumer and business confidence was rebounding. "The outlook thus remained for a gradual recovery to begin later in the year," the minutes said. "Labour market indicators were likely to remain soft for some time, though there were signs that employers were making efforts to minimise job shedding." The central bank also noted that a substantial easing of monetary and fiscal policy had been effective in stimulating demand. But it noted the outlook for inflation meant there was still scope to ease rates further. Between September 2008 and April the central bank cut the cash rate by 425 basis points, while the federal government produced two fiscal stimulus packages between October and March. "The full effect of policy measures would still be coming through for some time," the minutes said. "Members noted that the current inflation outlook afforded scope for some further easing of monetary policy, if that were needed to give further support for demand at a later stage."