HD RBA Repeats Unsure Low Rate Wld Offset Mining, Budget Impact

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-Says AUD Down 8% Since Late January Despite Commodity Price Fall
-Focus On Spare Capacity In Labor Market
-Says Consumption Growth Appears To Have Eased, Non-Mining Investment Up Slowly

By Sophia Rodrigues

SYDNEY (MNI) - The Reserve Bank of Australia repeated comments that point to a slight dovish tilt in its monetary policy stance by saying it was difficult to judge whether support to demand from low rates was enough to offset the expected decline in mining investment and the effect of planned fiscal consolidation.

The dovish bias was also seen in the continued focus on spare capacity in the labor market and comments around the exchange rate, which has risen despite big declines in key commodity prices.

However, overall, in the minutes of the July 1 board meeting published Tuesday, the RBA maintained the line that "on present indications, the most prudent course was likely to be a period of stability in interest rates."

The "present indications" included the view that "GDP growth was forecast to be a little below trend over the next year or so, before picking up gradually thereafter." Inflation was expected to remain within the target.

The outlook was supported was "significant degree of monetary stimulus already in place to support economic activity."

Still, the RBA expressed uncertainty when it said "low interest rates were working to support demand, but members agreed it was difficult to judge the extent to which this would offset the anticipated substantial decline in mining investment and the effect of planned fiscal consolidation."

Importantly, the RBA noted that "after picking up through last year, household consumption growth appeared to have eased, while non-**mining** business investment was picking up gradually."

The RBA also said the Q1 national accounts data confirmed wage growth has been relatively low and business surveys and liaison suggested they are likely to remain subdued for some time, consistent with the modest improvement in the labor market to date.

This was "consistent with the spare capacity in the labor market," the RBA said.

Forward-looking indicators of the labor market were mixed recently but they are consistent with only moderate growth in employment in the months ahead, the RBA said.

On the exchange rate, the RBA said after the 2% appreciation over the past month (to July 1), the Australian dollar has risen by 8% since late January "notwithstanding noticeable declines in bulk commodity prices over the same period."

"The exchange rate remained high by historical standards, and was therefore offering less assistance than it otherwise might in achieving balanced growth in the economy," the RBA said.

The minutes showed considerable discussion on the European Central Bank's stimulatory policy measures which contrasted with the further scaling down of asset purchases by the U.S. Federal Reserve, the third hike in the official cash rate by the Reserve Bank of New Zealand and the forward shift in market expectations of the first increase in the Bank of England's policy rate.

Members noted that Japanese purchases of foreign **bonds** continued to rise in June and more detailed data showed "solid purchases of U.S. and Australian **bonds**," the RBA said.

On commodity prices, the RBA noted the **iron ore** price was about 30% lower than earlier in 2014 which reflected increases in supply as well as a softening in the growth of demand for **Chinese** steel. Other commodity prices were little changed over the month past but have fallen significantly since the start of the year, the RBA said.

In detailed comments on the Q1 GDP data, the RBA noted the 1.1% q/q growth was driven by strong growth in resources exports, which was not expected to grow as quickly in the coming quarter. Excluding resources exports, growth had picked up but was less than 2% over the year compared with total growth of 3.5%.

**Mining** investment fell to around 15% below its peak in late 2012 and further "substantial falls were anticipated over coming quarters," the RBA said.

At the same time, "growth in public demand was weak and was expected to remain so over the next couple of years, in line with planned fiscal consolidation by federal and state governments," the RBA said.

The RBA maintained its optimistic outlook on housing construction, saying that despite the decline in building approvals in recent months "they remained at relatively high levels and both work yet to be done and loan approvals for new dwellings pointed to further strong growth in dwelling investment in coming quarters."

In the case of housing market, there were signs of some tempering in conditions as "housing price inflation has slowed in recent months, auction clearance rates had fallen from the high levels seen late last year, and loan approvals had been little changed over the past six months."

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**RE** austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

**PUB** Deutsche Boerse AG

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