# MinutesoftheMonetaryPolicyMeetingoftheReserveBankBoard

Sydneyâ€“2October2018

## MembersPresent

PhilipLowe(GovernorandChair),GuyDebelle(DeputyGovernor),WendyCraikAM,PhilipGaetjens,IanHarper,AllanMossAO,CarolSchwartzAM,CatherineTanna

MembersgrantedleaveofabsencetoMarkBarnabaAMintermsofsection18AoftheReserveBankAct1959.

## OthersPresent

MicheleBullock(AssistantGovernor,FinancialSystem),LuciEllis(AssistantGovernor,Economic),ChristopherKent(AssistantGovernor,FinancialMarkets),AlexandraHeath(Head,EconomicAnalysisDepartment),JonathanKearns(Head,FinancialStabilityDepartment)

AnthonyDickman(Secretary),AndreaBrischetto(DeputySecretary)

## InternationalEconomicConditions

MemberscommencedtheirdiscussionoftheglobaleconomybynotingthatGDPgrowthinmanyofAustralia'stradingpartnershadcontinuedatanabove-trendpaceinthefirsthalfof2018.Althoughtimelymeasuresofglobalactivityhadrecentlyeasedsomewhat,globalgrowthwasexpectedtoremainsolidoverthefollowingcoupleofyears.MembersnotedthatdevelopmentsintradepoliciescontinuedtoposesignificantriskstothisoutIook.WhiletheUnitedStateshadconcludedtradenegotiationswithCanadaandMexico,additionaltariffmeasureshadbeenimplementedbytheUnitedStatesandChinaintheweeksleadinguptothemeeting.Todate,thetariffsimposedonUSimportsofChineseproductshadaffectedcapitalgoodsandindustrialinputsproportionatelymorethanconsumergoods.

IntheUnitedStates,GDPgrowthhadremainedstronginthefirsthalfof2018and,morerecently,industrialproductiongrowthandsurveyedconditionsinthemanufacturingsectorhadbeenrobust.Thestrengthineconomicactivityhadpartlyreflectedthefiscalstimulus,whichhadmorethanoffsetanyeffectofhighertariffs.GDPgrowthhadremainedabovetrendintheeuroareaandJapan.GrowthinoutputinJapanhadbeensupportedbystronggrowthininvestment,whichwasexpectedtocontinue.However,growthinindustrialproductioninAsiahadeased,ashadgrowthinexportsandnewexportorders;exportsfromtheeuroareatoChinahadalsoeased.

Above-trendgrowthinthemajoradvancedeconomieshadledtofurtherabsorptionofsparecapacityintheirlabourmarkets.Asaresult,wagesgrowthhadincreasednoticeably.Membersobservedthatminimumwageshadbeenincreasingfasterthanaveragewagesacrossanumberofeconomies.Mostnotably,inSouthKoreaminimumwageshadincreasedbymorethan15percentin2018andafurtherincreaseof10percentwasscheduledfor2019.Membersnotedthatincreasesinminimumwagesofthismagnitudecouldaffectemploymentdecisions,althoughsmallerincreases,suchastherecentincreaseinAustralia,wereunlikelytohaveamaterialeffectongrowthinemployment.

Higherwagesgrowthhadcontributedtoapick-upincoreinflationinanumberofadvancedeconomies.CoreinflationintheUnitedStateshadpickeduptobearoundtheFederalReserve'sinflationgoal.However,coreinflationintheeuroareaandJapanremainedsubdued.Higheroilpriceswereexpectedtocontributetoanincreaseinheadlineinflationinanumberofeconomies.

InChina,datareceivedoverthepreviousmonthhadbeenmixedandcontinuedtosuggestthateconomicactivityhadremainedsubduedinsomesectors,mostnotablyinfrastructureinvestment.Incontrast,manufacturingandrealestateinvestmenthadedgedhigher.Therewereindicationsthatrealestateinvestmentmightpickupfurther:housingdemandhadremainedstrong;housingpriceshadincreased,particularlyincitieswherehousingpolicieswerelessrestrictive;andproductionofconstruction-relatedproductshadbeenrelativelystrong.Tosomeextent,theoutlookforinfrastructureinvestmentdependedongovernmentpolicyandlocalgovernmentscontinuingtoobtainfundingthroughbondissuance.Overall,totalsocialfinancinginChinahadincreasedalittleoverrecentmonths.

ConsumerpriceinflationinChinahadpickedup,mainlybecauseofhigheroilandfoodprices,whilecoreinflationhadremainedrelativelysubdued.MembersnotedthatfoodandenergymakeuparelativelylargeshareofChinesehouseholds'consumptionandthatrecentdisease-andweather-relatedsupplyproblemsarelikelytoresultinfurtherincreasesinfoodprices.

Thepricesofironoreandcokingcoalhadincreasedsincethepreviousmeeting,partlyreflectingstrongdemandbyChinesesteelproducersandreportsthattheupcomingwinterrestrictionsonChinesesteelproductionmightnotbeasstrictasinthepreviousyear.Supplydisruptionshadalsocontributedtoarecentincreaseincokingcoalprices.Basemetalspriceshadbeenlittlechangedandremainedwellbelowlevelsofafewmonthsearlier.Oilpriceshadrisentolevelslastseenin2014,partlyasaresultoflower-than-expectedsupply.TheJunequarternationalaccountshadrecordedamodestdeclineinAustralia'stermsoftrade.

## DomesticEconomicConditions

TheJunequarternationalaccountshadbeenreleasedthedayafterthepreviousmeeting.RealGDPhadincreasedby0.9percentinthequarter,andupwardrevisionstogrowthinearlierquartershadtakenGDPgrowthovertheyeartotheJunequarterto3.4percent,whichwasthestrongestyear-endedrateofgrowthsince2012.MorerecentdatahadpointedtofurthersolidgrowthinGDPintheSeptemberquarter,althoughgrowthwasexpectedtohavemoderatedalittlefromthestrongratesrecordedoverthefirsthalfoftheyear.

HouseholdconsumptiongrowthhadpickedupintheJunequarterandhadremainedelevatedovertheprecedingyearinthefaceoftheweakincomegrowthreportedinthenationalaccounts.Membersobservedthatuncertaintyabouthowconsumptionwouldrespondiftherewereanextendedperiodoflowincomegrowth,and/ordeclininghousingprices,remainedanimportantconsiderationfortheforecasts.Morerecently,retailsalesvalueshadbeenflatinJulyandinformationfromliaisonwithretailershadcontinuedtopointtobelow-averagegrowthinnominalretailspending.

DwellinginvestmenthadincreasedintheJunequarterandovertheyear.TheincreasehadbeenconcentratedinNewSouthWalesandVictoria,wherecapacityconstraintsintheconstructionindustrywereapparent.Lookingforward,membersnotedthatthedeclineinresidentialbuildingapprovalssincemid2016suggesteddwellinginvestmentwaslikelytobeclosetoitspeakinthecurrentcycle.Nonetheless,thelargepipelineofworkyettobedonewasexpectedtosupportahighlevelofdwellinginvestmentintheperiodahead.

Intheestablishedhousingmarket,overallconditionshadcontinuedtoeasegradually.HousingpriceshadfallenalittlefurtherinSydneyandMelbourneinrecentmonthsandpricedeclineshadbecomemorewidespreadinbothcities.HousingpriceshadalsodeclinedfurtherinPerth,buthadbeenlittlechangedinothermainlandcapitalcities.RentalvacancyrateshaddeclinedovertheprecedingcoupleofyearsinallcapitalcitiesexceptSydney,althoughthevacancyrateremainedhighinPerth.

Publicsectorspendinghadcontinuedtogrowrelativelystrongly,withbothpublicconsumptionandinvestmenthavingcontributedtoGDPgrowthovertheyeartotheJunequarter.Recentdataonworkyettobedoneoninfrastructureprojectshadsuggestedpublicinvestmentwouldremainhighoverthefollowingcoupleofyears.Thefinalfederalbudgetoutcomefor2017/18revealedthatthedeficithadbeensmallerthanexpected,owingtohigherrevenueandlower-than-expectedspending.

MininginvestmenthadrisenstronglyintheJunequarter,partlyreflectinghigherexpenditureonmachineryandequipmentaswellasasharpincreaseinexplorationactivity.Non-mininginvestmenthaddeclinedsomewhatintheJunequarter,buthadincreasedstronglyovertheprecedingyear.Overallconditionsinthebusinesssectorhadremainedpositive.Surveymeasuresofbusinessconditionshadremainedwellaboveaverage,despiteeasingalittlesincethestartoftheyear.Profitshadrisenstronglyovertheprecedingyear,particularlyintheminingsector,wherecommoditypriceshadbeenhigherthanpreviouslyexpectedandproductionhadrisen.TherehadbeenabroadbasedincreaseinexportvolumesintheJunequarter,ledbyruralexports.Thishadbeendrivenpartlybyhighermeatexports,asdroughtconditionsandrisingfeedcostsforlivestockhadencouragedhighermeatproduction.Membersnotedthateconomicconditionshadremainedchallengingindrought-affectedpartsofthecountry.Farmproductionwasexpectedtodeclinein2018/19becausedroughtconditionsinsomekeyfarmingregionswereexpectedtoreducecropyields.

MembersnotedthatemploymenthadrisenstronglyinAugust,drivenbyfull-timeemployment,andemploymentgrowthhadbeenstrongerthanpopulationgrowthovertheyear.Employmentgrowthovertheprecedingyearhadbeenstronginbusinessservices,whileemploymentinthehealthandsocialassistanceindustryhadbeenrelativelystable,havingincreasedstronglyinearlieryears.Employmentinthemanufacturingsectorhadpickeduprecently.Theparticipationratehadbeenlittlechangedatahighlevelin2018.Havingbeenaround5Â½percentfortheprecedingyear,theunemploymentratehaddeclinedalittleto5.3percentinJulyandAugust.Membersnotedthatsparecapacityinthelabourmarkethaddeclinedoverrecentmonths;youthunemploymentrates(thatis,forpeopleagedbetween15and24years)hadfallen,ashadtherateforpeoplewhohadbeenunemployedforuptoayear.Theunderemploymentratehadalsoedgedlower.

JobvacancieshadincreasedalittleintheSeptemberquarterandhadremainedhistoricallyhighrelativetothesizeofthelabourforce.Takentogetherwithotherleadingindicatorsoflabourdemand,suchassurveysoffirms'employmentintentions,thiscontinuedtosuggestthatemploymentgrowthwouldexceedpopulationgrowthincomingmonths,whichwasexpectedtoresultinfurthergradualabsorptionofsparecapacityinthelabourmarket.

Despiteongoingimprovementsinlabourmarketconditions,thenationalaccountsmeasureofaverageearningsgrowthhadbeenweakintheJunequarterandhadincreasedbyonly2percentovertheyeartotheJunequarter.Othercomponentsofhouseholdincome,includinggovernmenttransfers,hadalsorecordedbelow-averagegrowthintherecentperiod.Membersnotedthatgrowthinunitlabourcosts,whichadjusthourlyearningsforproductivitygrowth,hadbeensubduedforanumberofyears,averaginglessthan1percentinyear-endedtermsandhadledtodownwardpressureonunderlyinginflation.

## FinancialMarkets

Memberscommencedtheirdiscussionoffinancialmarketsbynotingthatfinancialconditionsinadvancedeconomiesremainedaccommodative,althoughtheyweregraduallybecominglesssoinsomeeconomies.Bycontrast,financialcon ditionshadgenerallytightenedinemergingmarketsin2018,withafeweconomieshavingeconomic,financialorpoliticalvulnerabilities.

Membersnotedthedivergenceinmonetarypolicypathsamongthemajorcentralbanks,consistentwithdifferencesinsparecapacityandtheinflationoutlookacrosseconomies.IntheUnitedStatesandCanada,policyaccommodationwasbeingremoved,withfurthergradualincreasesinpolicyrateswidelyexpectedinthecomingyear.TheFederalReservehadincreasedthefederalfundsrateby25basispointsinSeptember,asanticipated;boththemedianprojectionofFederalOpenMarketCommittee(FOMC)membersandmarketpricingsuggestedafurtherincreaseinDecember.ThemedianFOMCprojectionremainedforthefederalfundsratetoincreasetoalittleabovethemedianFOMCestimateoftheneutrallevelovertheubsequenttwoyears.Whilefinancialmarketpricingimpliedasomewhathigherpathforthefederalfundsratethanwasthecaseamonthearlier,thispathwasstillbelowthatimpliedbythemedianFOMCprojection.

SomegradualremovalofmonetarystimuluswasalsoexpectedintheUnitedKingdom,NorwayandSweden,althoughpolicyratesintheseeconomiesremainedverylow.MembersobservedthatmarketpricingimpliedthatpolicyrateswereexpectedtobesteadyoverthecomingyearinAustraliaandNewZealand,whereerateshadnotreachedtheverylowlevelsobservedinsomeothereconomies.InJapan,theeuroareaandSwitzerland,maintenanceofverystimulatorypolicysettings,includingnegativepolicyrates,wasexpectedforsometime.

Governmentbondyieldshadedgedhigherinmostadvancedeconomiesoverthepreviousmonth,mostlyreflectinghigherrealyields.ThiswasconsistentwithincreasedmarketexpectationsforfurtherincreasesintheUSfederalfundsrate.Nevertheless,governmentbondyieldsgenerallyremainedlowbyhistoricalstandards,withinflationexpectationscontainedandtermpremiaatunusuallylowlevels.Otherindicatorsalsopointedtocontinuedaccommodativefinancialconditionsinmostadvancedeconomies,withcreditspreads,equityriskpremiaandequitymarketvolatilityhavinggenerallyremainedlow.OnenotableexceptionwasItaly,wheremarketconcernsaboutthefuturestanceoffiscalpolicyhadresultedintheyieldspreadofItaliandebtoverGermanBundsincreasingsharplyfollowingthereleaseoftheItaliangovernment'sdraftbudget.

MembersnotedtheongoingfinancialfragilityinTurkey,Argentinaand,toalesserextent,Brazil.Therehadbeensubstantialexchangeratedepreciationsandincreasesingovernmentbondyieldspreadsintheseeconomiessinceearly2018.Recently,financialconditionsintheseeconomieshadstabilisedsomewhat,althoughtheywarrantedmonitoring,includingtotheextentthatatighteninginfinancialconditionsmightspillovermoreindiscriminatelytootheremergingmarkets.InTurkeyandArgentina,thecentralbankshadincreasedpolicyratessharplytostemconcernsaboutfurtherexchangeratedepreciationgiventheeconomies'exposuretoforeigncurrency-denominateddebt.TheArgentineauthoritieshadreachedaprovisionalagreementwiththeInternationalMonetaryFundtorevisethetermsofthefinancialassistancepackageagreedearlierintheyear.

InChina,theauthoritieshadimplementedfiscalandmonetaryeasingmeasuresinthecontextofmoderatinggrowth.Membersnotedthetargetedandmodestnatureofthepolicymeasuresgivenpolicymakers'ongoingcommitmenttocontainingvulnerabilitiesinthefinancialsystem.Chineseequitypriceshaddeclinedsubstantiallyearlierin2018andtherenminbihaddepreciated,butbothhadbeenrelativelystablemorerecently.

TurningtofinancialdevelopmentsinAustralia,membersnotedthattheAustraliandollarhaddepreciatedbyaround8percentagainsttheUSdollarover2018.ThishadoccurredinthecontextofUSlong-termbondyieldshavingmovedabovethoseinAustraliaoverthisperiodandnotwithstandingsomeriseincommoditypricesmorerecently.Onatrade-weightedbasis,thedepreciationoftheAustraliandollarhadbeenmoremodest,andthetrade-weightedindexwasnotedasbeingin thelowerpartoftherangethathadprevailedovertheprecedingfewyears.

Interestratesonbankbillsandothermoneymarketinstrumentshadremainedabovetheiraveragesof2017,butthepatternoftemporarysharprisesintheseratestowardstheendofrecentquartershadnotbeenrepeatedattheendofSeptember.Banks'netbondissuancehadremainedstrongin2018.Non-financialcorporatebondissuancehadalsobeenrobustinthefirsthalfof2018,althoughithadbeenmoresubduedintheSeptemberquarter.Atthesametime,however,corporatebondspreadshadremainedlowandgrowthinbusinesscredithadpickedupalittle.

Membersobservedthattherehadbeenamodestincreaseinbanks'overallfundingcostsoverthefirsthalfof2018,reflectingthehighercostofdebtfundingasaresultoftheincreaseinmoneymarketinterestrates;thecostoffundingsourcedfromretaildepositshadremainedverylowover2018andhadevendeclinedalittlerecently.

Mostofthemajorbanksandmanyotherlendershadannouncedincreasesinhousinglendingratesinresponsetothehigherfundingcosts.Thiswaslikelytounwindthedeclineobservedintheaverageoutstandingvariablehousinglendingrateovertheprecedingyear.Growthinhousingcredithadcontinuedtoease,drivenlargelybyinvestors,whilegrowthinlendingtoowner-occupiershadremainedrelativelystrongat7percentinsix-month-endedannualisedterms.Membersnotedthat,onaverage,interestratesofferedonnewhousingloansremainedbelowinterestratesonoutstandingloansforowner-occupiers,andevenmoresoforinvestors,indicatingthatbankswerecontinuingtocompetefornewborrowers.

Variableinterestratesonoutstandingloanstolargebusinesses,manyofwhicharedirectlylinkedtobankbillswaprates,hadincreasedinlinewiththeincreaseinbankbillratesover2018,althoughtheyremainedverylow.Theaverageinterestrateonoutstandingvariable-rateloanstosmallbusinesseshadbeenlittlechangedovertheprecedingyear.

Australianshareprices,evenwhencomparedonthebasisofaccumulationindices(whichtakeaccountofdividendpayments),hadunderperformedrelativetomajorglobalmarketsintheprecedingmonth.MovementsinequitypricesinAustraliahadbeenmixedacrossdifferentsectors.Sharepricesoffinancialcorporationshaddeclined,withsharepricesfortheinsurancesectorhavingdeclinedoverthepreviousmonthfollowingdevelopmentsintheRoyalCommissionintoMisco nductintheBanking,SuperannuationandFinancialServicesIndustry.Bycontrast,equitypricesintheresourcessectorhadincreased,reflectinghighercommodityprices.

Financialmarketpricingimpliedthatthecashratewasexpectedtoremainunchangedforaconsiderableperiod.

## FinancialStability

MemberswerebriefedontheBank'sregularhalf-yearlyassessmentofthefinancialsystem.Overall,financialstabilityriskswerebroadlysimilartotheassessmentmadesixmonthsearlier.

Globally,ongoingeconomicgrowthhadsupportedfinancialstability.Banks'improvedprofitabilityhadenabledthemtoboosttheircapital.However,somebanksinEuropestillhadlowlevelsofcapital.Banks'assetperformancehadalsoimprovedinmostadvancedeconomies.Theshareofnon-performingloanshadfallenandinmanyeconomieshadreturnedtopre-crisislevels.However,insomeeconomiestheshareofnon-performingloansremainedhigh.Regulatoryreformsimplementedfollowingthefinancialcrisishadresultedinanincreaseinbanks'capitalratios,whichhadsignificantlyimprovedtheresilienceofthebankingsystem.

Membersnotedthatlowgovernmentbondyields,whilehavingrisensomewhatintheUnitedStatesinrecentmonths,wereunderpinningthehighvaluationofmanyassets.Thisimpliedthatanysharpincreasesinlong-terminterestratescouldprecipitatesignificantpricefallsacrossbroadassetclasses.Thecompensationinvestorsrequiredforbearingriskalsoremainedatlowlevels.

Incontrasttoadvancedeconomies,inChinanon-financialcorporatedebt,relativetoGDP,hadincreasedsubstantiallysincethefinancialcrisistoalevelthatwashighbyinternationalstandards.Thiswasasignificantfinancialstabilityconcern.Growthindebthadslowedinthepreviouscoupleofyears,buttheearlierrapidgrowthinlendinghadraisedconcernsaboutthequalityofthatlending.TheChineseauthoritieswerecontinuingtoaddressfinancialstabilityrisksandtheseeffortswereyieldingnoticeableresults.Specifically,therehadbeenapronouncedslowingincreditprovidedthroughnon-bankfinancialinstitutionsandtheextentoftheirlinkageswithbankswasstabilising.

TurningtheirdiscussiontofinancialconditionsinAustralia,membersdiscussedtheeffectofthetighteningofloanserviceabilitystandardsimplementedoverrecentyearsinresponsetorisksinhousinglending.Theynotedthatmostborrowerstookoutaloanthatwassubstantiallysmallerthanthemaximumloanthatlenderswerepreparedtooffer;three-quartersofborrowershadtakenoutloansthatwerelessthan80percentoftheirmaximumborrowingcapacitybasedonserviceabilityconsiderations.Thissuggestedthatrelativelyfewborrowerswouldhavebeenconstrainedbythetighteninginlendingstandardsthathadreducedmaximumloansizestodate.

Thetwoquantitativepolicymeasuresthathadbeenimplementedinpreviousyearsâ€“namely,theinvestorandinterest-onlybenchmarksâ€“werejudgedtohavebeeneffectiveinreducingthespecificriskstheytargeted.Therateofgrowthinlendingtoinvestorshaddeclinedandremainedwellbelow10percentperannum,andtheshareofinterest-onlyloansinnewhousinglendinghadfallenfromaround40percentto15percent.Theshareofinterest-onlyloansinthestockofoutstandingloanshadalsodeclined,inlargepartbecauselendershadincreasedinterestratesonexistinginterest-onlyloans.

MembersdiscussedquantitativeanalysisundertakenbyReserveBankstaff,whichshowedthattheinvestorbenchmarkimposedin2014hadledtoachangeinthecompositionofnewlendingforhousing.Inparticular,theinvestorbenchmarkhadresultedinlendingtoinvestorsgrowingmoreslowlybutlendingtoowner-occupiersgrowingmorequickly,withnodiscerniblechangeinnewhousinglendinginaggregateatthetime.Additionalanalysisindicatedthatoverthepreceedingfewyears,theinvestorbenchmarkhadresultedinslowergrowthofhousingpricesinlocationswithahighshareofinvestors,relativetolocationswithalowshareofinvestors.Whileslowergrowthinhousingpriceshadnotbeentheobjectiveofthepolicymeasures,membersnotedthattheanalysissuggestedaroundtwo-thirdsofthedifferenceingrowthinhousingpricesbetweentheseregionsinrecentyearscouldbeattributedtotheprudentialmeasures.

YieldsonAustraliancommercialpropertyhaddeclinedoverrecentyears,althoughspreadstogovernmentbondyieldswerewithintherangehistoricallyobserved.Membersnotedtherewasstrongforeigndemandforcommercialproperty,withsomeforeigninvestorswillingtoacceptloweryieldsandhencepayhigherpricesthandomesticinvestors.OfficevacancyratesinSydneyandMelbournegenerallywerelow,whichwaspromotingconstructionactivity.

Australianbanks'ratioofnon-performinghousingloanshadedgedupfurtheroverthefirsthalfof2018.Theratiowasaroundthesamelevelobservedfollowingthefinancialcrisis,butremainedlowbothinabsolutetermsandrelativetoothercountries.Thevastmajorityofbanks'non-performingloansremainedwellsecured.Muchoftheincreaseinnon-performingloanshadoccurredinWesternAustralia,whereeconomicconditionshadbeenweak.

Australianbanks'capitalratioshadalsoincreasedsubstantiallyaftertheonsetofthefinancialcrisis.Themajorbankswereclosetooralreadymeetingâ€˜unquestionablystrongâ€™capitallevelsandotherbankswereabovetheirregulatoryminimums.MembersnotedthatthereturnonequityforthemajorbanksinAustraliaremainedhighrelativetothatinothercountries.IntheUnitedStatesandJapan,returnonequityforlargebankshadsettledataround8â€“10percent,considerablylowerthanthatprevailingbeforethefinancialcrisis,whiletheAustralianmajorbankscontinuedtoachieveratesofreturnonequitywellabovethislevel.

MembersdiscussedthereleaseoftheinterimreportoftheRoyalCommissionintoMisconductintheBanking,SuperannuationandFinancialServicesIndustry.Thereportcontainsmanyquestionscoveringabroadrangeofissues,butatthisstageprovidesrelativelylittleindicationoftherecommendationsthatarelikelytobemadeinthefinalreport.Membersobse rvedthatwhiletheregulatorshadalreadyoverseenatighteningoflendingstandards,andadegreeoftighteningoflendingstandardshadbeenimplementedbybanksinanticipationoftheCommission'sfindings,itwaspossiblethatbankscouldtightenlendingconditionsfurthergiventheissuesraisedinthereport.Membersnotedthatitwouldbeimportanttomonitorthefuturesupplyofcredittoensurethateconomicactivitycontinuedtobeappropriatelysupported.

## ConsiderationsforMonetaryPolicy

Inconsideringthestanceofmonetarypolicy,membersnotedthatglobaleconomicconditionshadcontinuedtobepositivefortheAustralianeconomy,althoughtheglobaleconomicoutlookwassubjecttoarangeofrisks.Mostnotably,developmentsininternationaltradepolicycontinuedtobeasourceofuncertainty.However,energyandbulkcommoditypriceshadgenerallyremainedelevated,whichhadsupportedAustralia'stermsoftrade.

Membersnotedthatmostadvancedeconomieshadcontinuedtogrowatabove-trendratesandlabourmarketshadcontinuedtotighten.Thishadledtoanoticeableincreaseinwagepressures.CoreinflationhadpickedupintheUnitedStatesandanumberofsmalleradvancedeconomies,buthadremainedsubduedintheeuroareaandJapan.Headlineinflationhadbeenboostedbyhigheroilprices.AlthoughsomesectorsoftheChineseeconomyhadslowed,theauthoritieshadeasedfiscalandmonetarypolicyinatargetedwaytosupportnear-termgrowth,whilecontinuingtopaycloseattentiontofinancialrisks.

Againstthebackgroundofrisingglobalinflationarypressures,afewcentralbanks,includingtheFederalReserve,hadincreasedtheirpolicyratesinrecentmonths,andthedegreeofmonetarypolicyaccommodationwasexpectedgraduallytobereduced.Changesintheexpectedpathsofmonetarypolicyhadbeenreflectedinchangestofinancialmarketpricing,mostnotablyabroad-basedappreciationoftheUSdollar.Thisappreciationhadraisedrisksforsomeeconomies,particularlythemorefragileemergingmarketeconomies,buttheresultantmodestdepreciationoftheAustraliandollarwaslikelytohavebeenhelpfulfordomesticeconomicgrowth.

RecentdataoneconomicactivityintheAustralianeconomyhadbeengenerallypositiveandconsistentwiththeforecastforGDPgrowthtobeabovepotentialoverthefollowingtwoyears.GDPgrowthhadbeenwellabovepotentialgrowthovertheyeartotheJunequarter,supportedbystrongpublicdemand,resourceexports,non-miningbusinessinvestmentandsteadyconsumptiongrowth.Employmentgrowthhadincreased,theparticipationratehadremainedhighandtheunemploymentratewastrendinglower.Businessconditionshadalsoremainedpositive,althoughthedroughthadledtodifficultconditionsinpartsofthefarmsector.

Forward-lookingindicatorsoflabourdemandcontinuedtopointtoabove-averagegrowthinemploymentintheperiodaheadandfurtherfallsintheunemploymentrate.Wagesgrowthwasexpectedtoincreasegraduallyassparecapacityinthelabourmarketisabsorbed.However,recordedhouseholdincomegrowthhadbeensubduedandthiscontinuedtobeanimportantsourceofuncertaintyfortheoutlookforconsumptionandinflation.

HousingpriceshaddeclinednoticeablyinSydneyandMelbourne,followingsignificantgrowthoverprecedingyears,buthadbeenlittlechangedinmostothercities.Housingcreditgrowthhaddeclined,largelyasaresultofasizeableslowingindemandfrominvestors.Somelendershadincreasedtheirstandardvariablehousinglendingratesbysmallamountsinresponsetohighermoneymarketinterestrates,althoughhousinglendingrateshadbeenreducedforsomenewloans.Moregenerally,lendingstandardshadbecometighterthantheyhadbeenafewyearspreviously,partlyreflectingtheintroductionofsupervisorymeasurestohelpcontainthebuild-upofriskinhouseholdbalancesheets.Somefurthertighteningoflendingstandardsbybankswaspossible,althoughcompetitionforborrowersofhighcreditqualityremainedstrong.

Takingaccountoftheavailableinformation,membersassessedthatthecurrentstanceofmonetarypolicywouldcontinuetosupporteconomicgrowthandallowforfurtherprogresstobemadeinreducingtheunemploymentrateandreturninginflationtowardsthemidpointofthetarget.Inthesecircumstances,memberscontinuedtoagreethatthenextmoveinthecashratewasmorelikelytobeanincreasethanadecrease.However,sinceprogressonunemploymentandinflationwaslikelytobegradual,theyalsoagreedtherewasnostrongcaseforanear-termadjustmentinmonetarypolicy.Rather,membersassessedthatitwouldbeappropriatetoholdthecashratesteadyandfortheBanktobeasourceofstabilityandconfidencewhilethisprogressunfolds.Therefore,theBoardjudgedthatholdingthestanceofmonetarypolicyunchangedatthismeetingwouldbeconsistentwithsustainablegrowthintheeconomyandachievingtheinflationtargetovertime.

## TheDecision

TheBoarddecidedtoleavethecashrateunchangedat1.5percent.