

RBA minutes foreshadow downward revision to inflation forecasts

15 April 2008

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- **Minutes from the Reserve Bank of Australia's April meeting repeated the relatively balanced tone expressed in the Governor's appearance before the Parliamentary Committee on Economics, Finance and Public Administration on 4 April.**
- **Of key importance is the likelihood of a further downward revision to the RBA's inflation forecasts.** While the Bank will not be revising its forecasts until the release of the March quarter CPI on 23 April, their "preliminary assessment" was that both headline and underlying inflation "would fall by a little more than earlier thought over the next two to three years." In March, the RBA stated that both inflation measures "were expected to be slightly below 3 per cent by mid 2010". The RBA must now be expecting that inflation will return to within the target band earlier in 2010 and possibly in 2009.
- **ANZ remains of the view that the RBA will hold the cash rate at 7.25% over the next 12 months before easing policy in mid to late 2009.** The minutes are consistent with our assessment of the risks around this view. That is, if rates are to move in the next six months, the move is likely to be up. Over a longer time horizon, the risks have shifted to the downside. Indeed, with the strong response to higher interest rates we are now seeing in domestic spending indicators, the risk of an earlier move in the cash rate back down to neutral levels (of around 5% to 6%) appears to have increased.
- **The RBA is increasingly comfortable that they have done enough work to restrain domestic demand growth.** They believe that the "current stance of monetary policy was exerting a significant restraining influence on both households and businesses." Since the time the minutes were taken, most economic data has supported this contention with consumer and business confidence continuing to fall, surveyed business conditions now trending downwards and retail sales falling in February for the second consecutive month.
- While the RBA is confident that economic momentum has started to shift, it does not want to overplay this and is conscious that **the Australian economy still faces a number of "cross-currents"**. In particular, while "the slowing global economy and tighter financial conditions ... were likely to reduce expansionary forces", there is also likely to be a large boost to real incomes flowing from further increases in the terms of trade stemming from higher contract prices for bulk commodities such as coking coal, thermal coal and iron ore.
- There was little change to the RBA's outlook for the global economy. The RBA expects world growth to slow to below average in both 2008 and 2009. They expect "good growth" in emerging economies such as China and other east Asian economies despite some moderation. The US and other G7 economies would be the main driver of slower global growth.

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