

20120207 RBA: Monetary Policy Decision (Statement by Glenn Stevens, Governor)

Source: Reserve Bank of Australia

At its meeting today, the Board decided to leave the cash rate unchanged at 4.25 per cent.

Information becoming available since the December meeting confirms that economic conditions in Europe were weakening late last year, with risks still skewed to the downside. Reflecting this, most forecasters have lowered their forecasts for world GDP growth this year to a below trend pace. That said, recent data from the United States suggest a continuing moderate expansion after a soft patch in mid 2011. Growth in China has moderated as was intended, but on most indicators remained quite robust through the second half of last year. Conditions around other parts of Asia have softened. Commodity prices declined for some months to be noticeably off their peaks, but over the past couple of months have risen somewhat and remain at quite high levels.

The acute financial pressures on banks in Europe were alleviated considerably late in 2011 by the actions of policymakers. Much remains to be done to put European sovereigns and banks on a sound footing, but some progress has been made. Financial market sentiment, though remaining skittish, has generally improved since early December. Share markets have risen and term funding markets have re-opened, including for Australian banks, albeit at increased cost compared with the situation prevailing in mid 2011.

Information on the Australian economy continues to suggest growth close to trend, with differences between sectors. Labour market conditions softened during 2011 and the unemployment rate increased slightly in mid year, though it has been steady over recent months. CPI inflation has declined as expected, as the large rises in food prices resulting from the floods a year ago have been unwinding. Year-ended CPI inflation will fall further over the next quarter or two. In underlying terms, inflation is around 2½ per cent. Over the coming one to two years, and abstracting from the effects of the carbon price, the Bank expects inflation to be in the 2-3 per cent range.

Credit growth remains modest, though there has been a slight increase in demand for credit by businesses. Housing prices showed some sign of stabilising at the end of 2011, after having declined for most of the year. The exchange rate has risen further, even though the terms of trade have started to decline. This is largely a reflection of a decline in the euro against all currencies. Nonetheless, the Australian dollar in trade-weighted terms is somewhat higher than the Bank had previously assumed.

At today's meeting, the Board noted that interest rates for borrowers have declined to be close to their medium-term average, as a result of the actions at the Board's previous two meetings. With growth expected to be close to trend and inflation close to target, the Board judged that the setting of monetary policy was appropriate for the moment. Should demand conditions weaken materially, the inflation outlook would provide scope for easier monetary policy. The Board will continue to monitor information on economic and financial conditions and adjust the cash rate as necessary to foster sustainable growth and low inflation.

NovaRes Team