



March 2013: Reserve Bank of Australia decision

- Cash rates remain on hold at 3%

Statement by Glenn Stevens, Governor: Monetary Policy Decision

At its meeting today, the Board decided to leave the cash rate unchanged at 3.0 per cent.

Global growth is forecast to be a little below average for a time, but the downside risks appear to have lessened over recent months. The United States is experiencing a moderate expansion and financial strains in Europe are considerably reduced compared with the situation through much of last year. Growth in China has stabilised at a fairly robust pace. Around Asia generally, growth was dampened by the earlier slowing in China and the weakness in Europe, but again there are signs of stabilisation. Commodity prices are little changed recently, at reasonably high levels.

Sentiment in financial markets is much improved compared with the middle of last year. Risk spreads have narrowed and funding conditions for financial institutions are more favourable. Long-term interest rates faced by highly rated sovereigns, including Australia, remain at exceptionally low levels. Borrowing conditions for large corporations are very attractive. Share prices have risen substantially from their low points. However, the task of putting private and public finances on sustainable paths in several major countries is far from complete. Accordingly, as seen most recently in Europe, financial markets remain vulnerable to occasional setbacks.

In Australia, most indicators available for this meeting suggest that growth was close to trend over 2012, led by very large increases in capital spending in the resources sector, while some other sectors experienced weaker conditions. Looking ahead, the peak in resource investment is approaching. As it does, there will be more scope for some other areas of demand to strengthen.

Present indications are that moderate growth in private consumption spending is occurring, though a return to the very strong growth of some years ago is unlikely. The near-term outlook for non-residential building investment, and investment generally outside the resources sector, is relatively subdued, though recent data suggest some prospect of a modest increase during next financial year. Dwelling investment appears to be slowly increasing, with higher dwelling prices and rental yields. Exports of natural resources have been strengthening, though recent bad weather is affecting some shipments at present. Public spending, in contrast, is forecast to be constrained.

Inflation is consistent with the medium-term target, with both headline CPI and underlying measures at around 2¼ per cent on the latest reading. Looking ahead, with the labour market softening somewhat and unemployment edging higher, conditions are working to contain pressure on labour costs, as was confirmed in the most recent data. Moreover, businesses are focusing on lifting efficiency under conditions of moderate demand growth. These trends should help to keep inflation low, even as the effects on prices of the earlier exchange rate appreciation wane. The Bank's assessment remains that inflation will be consistent with the target over the next one to two years.

During 2012, there was a significant easing in monetary policy. Though the full impact of this will still take more time to become apparent, there are signs that the easier conditions are having some of the expected effects. On the other hand, the exchange rate remains higher than might have been expected, given the observed decline in export prices, and the demand for credit is low, as some households and firms continue to seek lower debt levels.

The Board's view is that with inflation likely to be consistent with the target, and with growth likely to be a little below trend over the coming year, an accommodative stance of monetary policy is appropriate. The inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand. At today's meeting, taking into account the flow of recent information and noting that there had been a substantial easing of policy as a result of previous decisions, the Board judged that it was prudent to leave the cash rate unchanged. The Board will continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the target over time.