

DATA SNAPSHOT

RBA Holds its Fire For Now

Tuesday 1 March, 2011

- The Reserve Bank left the cash rate unchanged at 4.75% today. There were no real surprises in the accompanying statement; much of it resembled a shorter version of the statement published after the last RBA meeting. The new material in the statement was on wages, suggesting to us that the RBA is watching wage developments closely.
- In its statement the RBA noted that the global economy is continuing to expand, national income is growing strongly, business balance sheets are being strengthened and further growth in employment is likely. The subdued spots in the economy highlighted in the statement related to the household sector and credit growth.
- There is nothing in today's Reserve Bank media statement that alters our view that rate rises will be back on the Reserve Bank's agenda as soon as May or June.

The Detail:

The Reserve Bank (RBA) left the cash rate unchanged at 4.75% today. The last time the RBA changed the cash rate was in November last year when it lifted the cash rate by 25bp.

The RBA in its statement notes that the global economy is continuing to expand, national income is growing strongly, business balance sheets are being strengthened and further growth in employment is likely.

The subdued spots in the economy highlighted in the statement related to the household sector and credit growth.

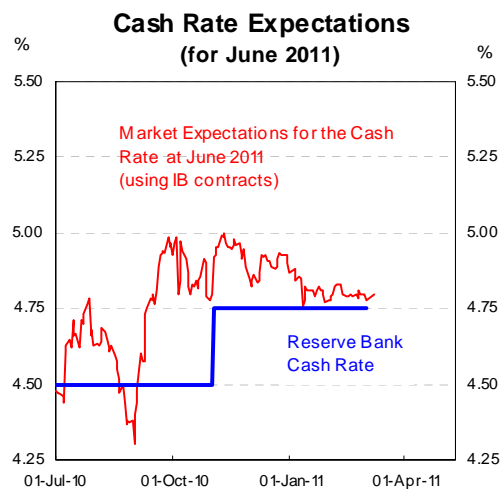
There were deletions and new sentences in today's statement, but much of the statement still resembled the message delivered last time the RBA met.

One could argue that the statement was slightly more upbeat because the assessment of the global economy was more favourable. Also, the RBA notes that "private investment picking up" in place of "beginning to pick up" that was there last time.

One of the new sentences related to wages and skills shortages. The RBA repeated from February that employment growth has been strong and that further growth is likely but at a slower pace. However, the RBA inserted that skills shortages are confined, at this point, to the resources and related sectors. It also inserted that growth in wages has returned to rates seen prior to the downturn. The references made to wages suggests to us that the RBA is watching wage developments closely but is not yet alarmed.

Our long-held view is that rate rises will be back on the RBA's agenda later this year and as soon as May or June. There is nothing in today's RBA statement that alters our view.

Financial markets continue to price in only a small chance of a rate hike before the end of June (see chart). But we think that these odds will shorten over the next month or two.



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