Data Snapshot

Tuesday, 1 October 2013

Bank of Melbourne

RBA Cash Rate held at 2.50%

- **The Governor's Statement was very similar to the August and September Statements, suggesting that the RBA's stance of 'wait and see' while still keeping its easing bias remains intact.**
- **The RBA is certainly more encouraged by the impact of rate cuts to date, particularly in the housing market. That said, the current level of house price growth does not constitute a bubble in our opinion.**
- **There was also a notable mention on the improvements in business and consumer sentiment, but the RBA was cautious about this pickup being sustained.**
- **The RBA still appears to be relying on the weaker Australian dollar to help rebalance the economy. The resilience of the Australian dollar, and its recent appreciation should keep the prospect of another rate cut alive.**
- **We expect a 25 basis point rate cut in November, given the weakness of domestic demand and the sustained strength of the Australian dollar.**

Below is the Governor's statement interspersed with our views.

RBA Statement: At its meeting today, the Board decided to leave the cash rate unchanged at 2.5 per cent.

Recent information is consistent with global growth running a bit below average this year, with reasonable prospects of a pick-up next year. Commodity prices have declined from their peaks, but generally remain at high levels by historical standards. Inflation in most countries remains well contained.

Our view: *This paragraph is a re-run of statements made in the past two months. We expect monetary conditions around the world to remain accommodative and thus encourage growth. There are still risks to the global economy potentially flowing out of Eastern Europe and US budget wrangling but these seem likely to be contained.*

RBA Statement: Overall, global financial conditions remain very accommodative. Changes in the outlook for US monetary policy have increased volatility in financial markets, but long-term interest rates remain very low and there is ample funding available for creditworthy borrowers.

Our view: *Given recent developments in the US economy, aggressive tapering of US bond purchases seems unlikely. It appears US bond yields are set to remain low and thus support the US and global economies.*

RBA Statement: In Australia, the economy has been growing a bit below trend over the past year.

This is expected to continue in the near term as the economy adjusts to lower levels of mining investment. The unemployment rate has edged higher. There has been an improvement in indicators of household and business sentiment recently, though it is too soon to judge how persistent this will be. Inflation has been consistent with the medium-term target. With growth in labour costs moderating, this is expected to remain the case over the next one to two years, even with the effects of the lower exchange rate.

Our view: *New to this Statement is the acknowledgement that consumer and business sentiment has improved. The RBA remains unsure as to whether or not this improved sentiment will translate into great activity. We share their uncertainty. We expect Australia's annual inflation rate to fall to 1.7% when the latest figures are released on the 23rd October. Low inflation provides scope for a further easing on monetary policy.*

RBA Statement: The easing in monetary policy since late 2011 has supported interest-sensitive spending and asset values. The full effects of these decisions are still coming through, and will be for a while yet. The pace of borrowing has remained relatively subdued to date, though recently there have been signs of increased demand for finance by households. There is also continuing evidence of a shift in savers' behaviour in response to declining returns on low-risk assets.

Our view: *The RBA is certainly more encouraged by the impact of rate cuts to date and it still expects further effects to flow through. House prices are recovering well, which was confirmed in today's data from RP Data-Rismark. Dwelling prices rose 5.5% in the year to September, led by 8.0% annual growth in Sydney. While Australia-wide house prices grew at its strongest annual rate since late 2010, the current level of house price growth does not constitute a bubble.That said, the RBA is noting a shift in attitudes in response towards lower interest rates and appears to be expecting a pickup credit growth, albeit from a low base.In our opinion, it is the response outside of housing which has been muted. There is little evidence that consumer spending is responding to the lower interest rate environment to date.*

RBA Statement: The Australian dollar rose recently, but is still about 10 per cent below its level in April. A lower level of the currency than seen at present would assist in rebalancing growth in the economy.

Our view: *The RBA still appears to be relying on the weaker Australian dollar to help rebalance the economy. The resilience of the Australian dollar, and its recent appreciation should keep the prospect of another rate cut alive.*

RBA Statement: At today's meeting, the Board judged that the setting of monetary policy remained appropriate. 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.

Our view: *The key last paragraph is unchanged from September, suggesting that the RBA's stance of 'wait and see' while still keeping its easing bias remains intact. In our opinion, this still leaves a 25 basis point rate cut on the table for November, particularly if the Australian dollar fails to weaken as the RBA hopes.*

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The Detail