Tuesday, 3 September 2019

RBA Cash Rate Outlook

Keeping the Powder Dry

- **The Reserve Bank (RBA) left the official cash rate unchanged at 1.00%, in a widely-expected decision.**
- **The RBA is keeping its powder dry while it assesses incoming data and the impact of recent rate cuts. The Aussie dollar has also moved lower in recent weeks, doing its job as an automatic stabiliser.**
- **However, economic growth running is well below trend, inflation is running below the RBA's target band and the unemployment rate is above that of full employment, suggesting the central bank will need to cut again.**
- **For now, we continue to favour October for the next rate cut, but today's lack of explicit language opens up the possibility the RBA waits longer to ease.**
- **The debate is also still centred on whether the RBA will need to adopt a range of "unconventional" policies as the cash rate gets near its lower bound. But no clues were given in today's statement.**
- **The RBA Governor has previously outlined the possible scenarios that might see unconventional policies deployed – if all central banks take cash rates to zero and/or if Australian economic growth outcomes disappoint.**
- **The greater weight given to global developments was noticeable in the minutes that followed the July board meeting. It was also more obvious in today's statement. The RBA again described the outlook for the global economy as "reasonable" with risks to the "downside", but added that "the slowdown in global trade has contributed to slower growth in Asia".**
- **Moreover, in the final paragraph of the statement, the RBA made a tweak to suggest their key focus was more than just the labour market. We know from the July board meeting minutes that global developments have shifted into prominence.**
- **On the domestic front, the RBA's changes were mixed. The RBA said inflation pressures remain subdued but added "this is likely to be the case for some time yet". On the labour market, the RBA's comments are the same except for the noteworthy removal of the sentence referring to "little inroad into the spare capacity in the labour market".**
- **The RBA also was more positive on housing-market developments by removing the description of "soft" conditions in the housing market and noting "further signs" of a turnaround in established housing markets. These comments, however, were negated by the contrast made with the weakening in new dwelling activity.**

The Reserve Bank (RBA) left the official cash rate unchanged at 1.00%, in a widely-expected decision. The RBA is keeping its powder dry while it assesses incoming data and the impact of recent rate cuts. The Aussie dollar has also moved lower in recent weeks, doing its job as an automatic stabiliser.

However, economic growth running is well below trend, inflation is running below the RBA's target band and the unemployment rate is above that of full employment, suggesting the central bank will need to cut again.

For now, we continue to favour October for the next rate cut, but today's lack of explicit language opens up the possibility the RBA waits longer to ease, especially as the final paragraph continued to suggest monetary policy would be eased further "if needed". Interest-rate markets certainly reduced the probability of a rate cut next month from 74% to 60% in the wake of today's board meeting.

The debate is also still centred on whether the RBA will need to adopt a range of "unconventional" policies as the cash rate gets near its lower bound, especially if global risks continue to deteriorate. But no clues were given in today's statement.

The RBA Governor has previously outlined the possible scenarios that might see unconventional policies deployed – if all central banks take cash rates to zero and/or if growth outcomes disappoint domestically.

On central banks taking the cash rate to zero he must be especially referring to the US Federal Reserve, as the cash rate is below zero in the eurozone and near zero in many other major economies.

The RBA Governor didn't specify how far economic growth would need to be below its forecasts, but presumably if outcomes continue to fall short of the RBA's forecasts, then quantitative easing draws nearer.

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Moreover, in the final paragraph of the statement, the RBA made a tweak to suggest their key focus was more than just the labour market. We know from the July board meeting minutes that global developments have moved on to the radar.

On the domestic front, the RBA's changes were mixed. The RBA said inflation pressures remain subdued but added "this is likely to be the case for some time yet". On the labour market, the RBA's comments are the same except for the noteworthy removal of the sentence referring to "little inroad into the spare capacity in the labour market".

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Outlook

The RBA might has kept its powder dry for now. But the RBA is continuing to indicate that it would lower rates again "if needed". Softer employment conditions and a further deterioration in global growth suggest the RBA will need to slice the cash rate again. We continue to favour October as the timing for the next rate cut, but concede today's statement makes it less of a done deal.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist	Senior Economist	Economist
Besa Deda	Janu Chan	Nelson Aston
dedab@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au	nelson.aston@bankofmelbourne.com.au
(02) 8254 3251	(02) 8253 0898	(02) 8254 1316