

Tuesday, 6 April 2021

Eyes on the RBA, Housing Boom Heats Up

Markets are focused squarely on the Reserve Bank (RBA) in an otherwise quiet week on the domestic front.

The Board met today and later in the week the RBA will release its Financial Stability Review.

There were no surprises out of today's meeting with policy settings left unchanged. The RBA did make some subtle changes to the wording of its statement, buttering up markets for upward revisions to its economic forecasts. We will get updated forecasts from the RBA with the quarterly Statement on Monetary Policy in May.

The Governor remained tight-lipped on yield curve control and quantitative easing. It remains an open question whether the RBA will extend these programs. Such a move would contribute to lower bond yields and help put downward pressure on the Australian dollar.

While there have been upside surprises in economic data since the last RBA meeting, we are still a long way from meeting the economic conditions required for a cash rate hike. It is clear the RBA also holds this view, as in recent weeks it has sought to hose down market speculation it will hike the cash rate sooner than 2024.

The Governor has stressed that wages growth remains anaemic. And while the labour market has tightened, we still need to see significant further improvements to drive wages to 3% and push inflation sustainably above 2%.

Later this week, the RBA will publish its bi-annual Financial Stability Review. Investors will be looking closely at the RBA's views on risks in the housing market, and in particular for any clues on the likelihood of a tightening in macroprudential policy.

The housing market is running red hot. Last week CoreLogic's national home value index showed that dwelling prices rose at the fastest monthly rate in 32 years in March. The housing boom has been underpinned by record low interest rates, the low level of housing stock and the faster-than-expected recovery in the jobs market.

The heat in the housing market is also flowing through to residential construction. Building approvals have risen sharply – last week data showed approvals were up 20.2% over the year to February. However, it will take some time for the increase in approvals to lift housing supply.

The housing boom is also spilling over to private credit. Private sector credit growth continued its upward trend in February, although remains slow at 1.6% over the year. Housing credit for owner-occupiers is driving the pick up in the credit expansion with growth running at a solid clip of 5.9%.

Credit extended for housing investment remains muted, growing at an annual rate of 0.2%. The Australian Prudential Regulatory Authority will be paying close attention to the pace of investor credit growth. It was excessive growth in investor credit that was a key driver of the implementation of macroprudential controls in 2015 and 2017.

The subdued investor credit numbers will providing policymakers some comfort they don't need to intervene in the housing market... at least for now.

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Forecasts

End Period:	2021				2022		
	Close (1 April)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.02	0.02	0.02	0.04	0.06	0.08
3 Year Swap, %	0.33	0.30	0.25	0.30	0.50	0.55	0.60
10 Year Bond, %	1.84	1.85	1.85	1.90	2.05	2.20	2.35
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.70	1.65	1.70	1.80	1.95	2.10	2.25
USD Exchange Rates:							
AUD-USD	0.7651	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	110.18	109	110	111	112	111	111
EUR-USD	1.1813	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3900	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7059	0.72	0.73	0.74	0.76	0.76	0.75
AUD Exchange Rates:							
AUD-USD	0.7651	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6478	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.3	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5504	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0838	1.10	1.10	1.11	1.12	1.12	1.12

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.6	2.2
CPI (Trimmed mean), %	1.5	1.2	1.9	2.0
Unemployment Rate, %	5.2	6.8	5.7	5.2
Wages Growth, %	2.2	1.4	1.9	2.0

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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