Interest Rate Outlook

bankSA

Tuesday, 16 April 2019

RBA Minutes of the April Meeting

Shifting the Goal Posts

- **In today's minutes of the Reserve Bank's (RBA) board meeting held in April, the message continues to be one in which the RBA is not ready to move official interest rates; "members agreed that there was not a strong case for a near-term adjustment in monetary policy."**
- **However, the commentary hints that the RBA now appears to be more inclined towards a rate cut rather than a rate hike.**
- **In the scenario in which the cash rate would need to be raised, the likelihood was viewed as being "low". The commentary hints at a pick up in inflation as being necessary for this to occur.**
- **The RBA also lays out the conditions for a reduction in the cash rate. In this scenario, "inflation did not move any higher and unemployment trended up… a decrease in the cash rate would likely be appropriate in these circumstances".**
- **The RBA further discusses the effectiveness of easing monetary policy, noting that "the effect on the economy of lower interest rates could be expected to be smaller than in the past." However, the RBA still has faith in the ability of lower interest rates to boost economic growth through the impact on the exchange rate and reduced interest payments on borrowing.**
- **The RBA is still hoping to wait and see how data evolves. Notably, the RBA is wanting further clarification on how to reconcile weak economic growth and the strength in the labour market. While the RBA is not ready to pull the trigger on lower rates as yet, the minutes lay the groundwork for a potential rate cut. The ongoing low inflation environment and expectation for labour market conditions to soften suggests that the case will build for the RBA to lower official interest rates later this year.**

In RBA Governor Lowe's first public address of the year on Feburary 5, Lowe stated that there were scenarios in which the cash rate could be lowered, and scenarios where the cash rate could be lifted. At the time, the balance of these risks were described to be "roughly balanced."

As economic developments have unfolded since then, the goal posts on a potential move in rates has shifted towards cutting in the RBA's mind.

In today's minutes of the Reserve Bank's (RBA) board meeting held in April, the message continues to be one in which the RBA is not ready to move official interest rates; "members agreed that there was not a strong case for a near-term adjustment in monetary policy.” However, there was discussion on the two different scenarios in which the cash rate could be moved higher or the cash rate could be moved lower.

In these scenarios, the RBA now appears to be more inclined towards a rate cut rather than a rate hike.

In the scenario in which the cash rate would need to be raised, the likelihood was viewed as being “low”. The commentary hints at a pick up in inflation as being necessary for this to occur.

The RBA also lays out the conditions for the scenario in which the cash rate would need to be lowered. The minutes do not mention the likelihood of this occurring, but if “inflation did not move any higher and unemployment trended up… a decrease in the cash rate would likely be appropriate in these circumstances”.

The RBA further discusses the effectiveness of easing monetary policy, noting that “the effect on the economy of lower interest rates could be expected to be smaller than in the past, given the high level of household debt and the adjustment that was occurring in housing markets”. However, the RBA still has faith in the ability of lower interest rates to boost economic growth through the impact on the exchange rate and reduced interest payments on borrowing.

Implications

The RBA is still hoping to wait and see how data evolves. Notably, the RBA is wanting further clarification on how to reconcile weak economic growth and the strength in the labour market.

While the RBA is not ready to pull the trigger on lower rates as yet, the minutes lay the groundwork for a potential rate cut. Inflation and the labour market remain key to this scenario. The ongoing low inflation environment and expectation for a weaker labour market suggests that the case will build for the RBA to lower official interest rates later this year.

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