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Tuesday, 2 June 2015

RBA Leaves Cash Rate on Hold at 2.00%

RBA in "Wait and See" Mode

- **At the RBA's June board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. Given that the RBA had just lowered the cash rate in May, this decision was unsurprising.**
- **There was limited policy guidance and the language used suggest a "wait and see" approach in the period ahead. This may have disappointed those who were looking for a more explicit easing bias. Nonetheless, the soft growth outlook and the comment that "monetary policy needs to be accommodative" suggests that if a bias exists, it continues to be towards easing.**
- **There was very little change in the accompanying statement to the Statement in May, despite the disappointing capital expenditure data released last week. The RBA simply reiterated that mining and non-mining investment would be a "key drag" on growth.**
- **The risk remains that a pick up in economic growth will not occur as the RBA expects given the weak outlook for business investment, and therefore leaves the door open for further monetary easing. However, we see scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.**
- **We remain comfortable with our view that the RBA will sit pat over the next few months, and continue to expect the RBA to keep rates on hold for the remainder of the year.**

At the the RBA's June board meeting today, the RBA left the cash rate unchanged at 2.0%, as widely expected. Given that the RBA had just lowered the cash rate in May, and earlier in February, this decision was unsurprising.

There was very little change in the accompanying statement to the Statement in May, despite the disappointing capital expenditure data released last week. The RBA simply reiterated that mining and non-mining investment were going to be a "key drag" on growth, and refrained from directly referencing this data.

Similar to the previous month, there was limited policy guidance. Only that "Information on economic and financial conditions to be received over the period ahead will inform the Board's assessment of the outlook and hence whether the current stance of policy will most effectively foster sustainable growth and inflation consistent with the target". This might have disappointed those who were looking for a more explicit easing bias, and implies a "wait and see" approach in the period ahead.

However, the outlook for below trend growth, an economy "operating with a degree of spare capacity" and the comment that "monetary policy needs to be accommodative" suggests that if a bias exists, it continues to be towards easing.

Concerns remained for the Australian dollar, and the RBA continued to state that “further depreciation seems both likely and necessary”.

Additionally, it notes risks to the housing market, although the RBA continues to rely on measures by APRA to contain these risks. Further, it notes that lending to housing was “broadly steady” and suggesting that the RBA continues to be satisfied that credit was not accelerating.

Outlook for Monetary Policy

Given the two rate cuts already delivered this year, the RBA seems reluctant to cut rates again over the next few months. There is likely a high hurdle for further rate cuts with the cash rate already at 2.0%.

If the RBA was concerned about the extended downturn in business investment implied by the capex survey, it was not clear in today’s Statement. More insight is likely to be gained in the minutes, but it appears as though the RBA is waiting for further evidence to determine whether the economy will pick up as it expects. The RBA continues to be encouraged by an improvement in household spending, and growth in exports and dwelling construction.

The risk remains that a pick up in economic growth will not occur given the weak outlook for business investment, and therefore leaves the door open for further monetary easing. However, we see scope for an improvement to the outlook given the potential impact of recent measures in the Federal Budget, the flow on effects of rate cuts earlier in the year and the lower Australian dollar.

We remain comfortable with our view that the RBA will sit pat over the next few months, and continue to expect the RBA to keep rates on hold for the remainder of the year.

The one page text of the Governor’s Statement can be found at http://www.rba.gov.au/

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