Interest Rate Outlook

bankSA

Tuesday, 4 September 2018

RBA's Steady Hand Still Holding Firm

The Reserve Bank of Australia (RBA) left the official cash rate on hold at 1.50% as widely expected. Indeed, the RBA's commentary today was remarkably similar to its statement in August. Market participants however, were looking for more cautious commentary, as suggested in a spike in the Australian dollar after the release. This comes with a backdrop of increasing uncertainty over the outlook.

On the global economy, there was no change to the RBA's view that the global expansion was "continuing". Notably, there was no change to the assessment that there was "ongoing uncertainty regarding the global outlook… from the direction of international trade policy in the United States".

There also continued to be upbeat commentary regarding the domestic economy, maintaining its forecast for the Australian economy to average "a bit above 3 per cent". The RBA also highlights that "in the first half of 2018, the economy is estimated to have grown at an above-trend rate".

In light of capex release last week by the ABS, the RBA did not reference the weak outlook for spending in the investment intentions survey. Indeed, the RBA notes that non-mining business investment is expected to increase. This likely reflects the large amount of investment spending that is not included in the ABS capex survey.

There also continued to be a positive assessment on the labour market, and there was recognition of the unemployment rate falling to 5.3%, a six-year low. The subsequent commentary could suggest that the RBA had some more confidence that wage growth will pickup. The RBA comments that wage growth has "picked up a little recently" although it adds that that this was "likely to be a gradual process".

The RBA left its commentary regarding higher wholesale funding costs unchanged, noting that "money-market interest rates are higher than they were at the start of the year, although they have declined somewhat since the end of June. These higher money-market rates have not fed through into higher interest rates on retail deposits. Some lenders have increased mortgage rates by small amounts, although the average mortgage rate paid is lower than a year ago".

Similarly, the outlook for the housing market in today's Statement was a carbon copy of the accompanying statement last month.

A notable change, however was the recognition that the Australian dollar had "depreciated against the US dollar along with most other currencies".

The RBA's message that "progress" was being made in achieving its employment and inflation goals but that this "progress is likely to gradual" suggests little change to the RBA's stance that rates are not going anywhere anytime soon. We will await the minutes in two weeks' time for further detail into RBA thinking.

Janu Chan, Senior Economist Ph: 02-8253-0898

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda	Josephine Horton	Janu Chan
dedab@stgeorge.com.au	hortonj@stgeorge.com.au	chanj@stgeorge.com.au
(02) 8254 3251	(02) 8253 6696	(02) 8253 0898