

Tuesday, 5 June 2018

RBA's Fingers Remain Itch Free

The Reserve Bank of Australia (RBA) board met today. As widely expected, the RBA Board left the cash rate on hold at 1.50%. The cash rate has stayed at this same level for nearly two years and there is no reason to expect a change any time soon. The accompanying statement suggests that settings will remain on hold for an extended period of time.

There were only a few changes in the accompanying statement on the domestic economy. These changes dialled down some of the cautious optimism on the domestic economy.

One of the changes was the removal of the sentence that the projected pick up in GDP growth "should see some reduction in spare capacity in the economy". It's possible this reference was removed because growth now needs to be faster to see a reduction in spare capacity or it might have been removed due to the stickiness of the unemployment rate in recent months.

On the unemployment rate specifically, the RBA noted that it had been "little changed at around 5.5% for much of the past year". Further, the RBA removed the line that the unemployment rate had "declined over the past year". It also dropped the view that labour market conditions were "improving".

Encouragingly, the RBA is still expecting there will be a gradual reduction in the unemployment rate and a strengthening economy that should see some lift in wages growth over time.

Another change is the RBA's insertion that "while there may be some further tightening of lending standards, the average mortgage interest rate on outstanding loans is continuing to decline".

Perhaps the more substantial changes in the statement were reserved for the discussion on financial markets. The RBA noted that financial markets have been affected by political developments in the Eurozone, particularly in Italy. The RBA also flagged that there are concerns about the direction of international trade policy in the US and economic developments in a few emerging market economies. The consequence is that long-term bond yields in most major economies have declined recently and there has been some widening of corporate credit spreads.

While the global economy remains in an upswing with the major economies in the world growing at the same time, greater risks to the outlook have emerged in the past month. The RBA's discussion reflects these risks..

We continue to expect the RBA to leave the cash rate on hold this year and for an extended time. The RBA's fingers are not itchy to pull the trigger and start a rate-hike cycle. The balance of risks continue to move towards the RBA taking longer to change interest-rate settings. Today's dovish tweaks in the statement and more worries over the risks in the world economy supports this view.

Interest-rate markets have a probability of 23% attached to an RBA rate hike of 25bp before the end of this year. This probability rises to 97% for June next year.

Besa Deda, Chief Economist

Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Josephine Horton
hortonj@stgeorge.com.au
(02) 8253 6696

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified. If you no longer wish to