

RBA cuts cash rate to new record low of 2.5%

By Larry Schlesinger
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The RBA has cut the [cash](#) rate by 25 basis points to a new record low of 2.5% following its monthly monetary policy meeting today.

The cash rate is now 50 basis points below the previous official low of 3% reached, following the onset of the GFC, in April 2009.

Prior to this, the previous low was in January 1960 with a [2.89% 'cash rate' recorded](#) based on proxy historical RBA data going back to 1959 – the RBA only started publishing [official interest rate](#) setting in January 1990.

The rate cut was anticipated by nearly all economists following the RBA sitting on its hands in June and July.

[The pace of borrowing has remained relatively subdued until recently](#), RBA Governor Glenn Stevens said in his August statement.

You can read *Property Observer's* analysis of [what the RBA's decision will mean for you](#).

"The pace of borrowing has remained relatively subdued, though recently there are signs of increased demand for finance by households, "the RBA governor Glenn Stevens said in the August monetary statement.

Banks are expected to pass on the rate cut in full though the impact on the housing market is expected to be muted.

The average variable mortgage rate should drop below 5.5% with Canstar reporting an average variable prior to today's decision of 5.71%.

RP Data national research director Tim Lawless says today's reduction in the cash rate comes at a time "when the housing market is already responding to the low debt servicing environment".

"Since the housing market reached a recent low point in May last year we have seen dwelling values rise by 6.5% based on the RP Data – Rismark combined capital city index. That equates to a gross profit of around \$30,000 for the average home owner," he says.

"The difficulty for the RBA going forward will be how to keep a lid on what may be viewed as excessive housing market growth while also providing a sufficient level of stimulus in place to the broader economy via their monetary policy settings.

“Glenn Stevens has previously commented that the RBA’s preference is for a pick-up in dwelling construction, not necessarily an increase in home values such as we are currently experiencing.

“Lower mortgage rates are likely to provide further motivation for buyers to become active, however with values rising it is going to be more difficult for prospective owners, particularly those without equity behind them, to come up with a [deposit](#).

“This affordability challenge is likely to be most felt by the first home buyer segment and it may be the factor that continues to prevent prospective first time buyers from entering the housing market.

“For investors, with the average discounted variable mortgage rate now approaching the 5% mark they are likely to find more and more properties are approaching a cash flow neutral or cash flow positive yield. Anecdotally more and more investors seem to be focusing on rental yield and positioning for long term capital growth,” says Lawless.