

RBA open to rate cuts over coming months

By Alistair Walsh

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The Reserve Bank of Australia has toned down concerns about borrowing conditions in the minutes for its rate hold on October 1.

It says the effects of its latest rate cut in August still has further to run.

“House prices and turnover had increased and leading indicators pointed to a pick-up in dwelling investment over the period ahead,” the minutes say.

“While credit growth remained moderate, there were signs of an increased appetite for borrowing, most notably among investors.”

The Bank says policy stimulus had had sufficient influence on the economy though it wouldn't rule out another rate cut.

“Members agreed that the Bank should again neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them,” it says.

“The Board would continue to examine the data over the months ahead to assess whether monetary policy was appropriately configured.”

The Bank says household interest payments continued to decline over the June quarter and conditions in the established housing market had strengthened over 2013.

“House prices increased by around 2.5% over the September quarter and by 5.5% over the year. However, the value of the dwelling stock relative to household income remained below the levels that had prevailed for most of the past decade,” the Bank says.

“Auction clearance rates remained well above average and turnover had picked up over recent months. Loan approvals for established dwellings for both owner-occupiers and investors had increased strongly over the past year. While the growth of housing credit remained moderate, it was edging higher, with stronger growth in investor credit.

“Dwelling investment had declined a little in the June quarter following a soft patch in building approvals earlier in the year, but dwelling construction remained higher than a year earlier and forward-looking indicators pointed to a further recovery in the second half of 2013.”

In September the Bank made note banks should maintain prudent lending standards.

Commonwealth Bank analyst Gareth Aird says the bank is maintaining an easing bias.

"The comment, 'that the Bank should again neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them' was identical to the August and September Board minutes. To us, these comments suggest that further changes to the cash

rate are data and AUD dependent. And they indicate that the Bank retains a mild easing bias," Aird says.

He predicts there will be a rate hold in November depending on further job information.

"In our view, the things that the RBA will most closely be monitoring for future policy direction are (i) labour market conditions; (ii) inflation; and (iii) the AUD," he says.

"Last week's labour force data showed that conditions in the jobs market remain soft. The headline unemployment rate fell, but only because of a drop in the participation rate. We expect softness to continue over the near-term, as does the RBA.

"On the inflation front, the QIII CPI prints next week. Another weak reading may see the probability of a November rate cut increase. At this stage the market expects rates to stay on hold in November. And we agree that the cash rate will be left unchanged on Melbourne Cup day. The near-term path of the AUD will be impacted by what happens in the US and in particular with regards to the US debt ceiling issue and Fed asset purchases.

"We continue to think that the current 2.5% cash rate is the low point for this cycle."