Rate cut required to reduce spare capacity
Reserve Bank Board meeting

- The Reserve Bank has cut the cash rate by 25 basis points (quarter of a per cent) to a record low of 1.00 per cent. It is the second change in rates in 35 months (32 meetings).

What has changed since the last meeting?

- The Aussie economy grew by 1.8 per cent over the year to March – the weakest annual growth rate in 9½ years.
- The Australian jobless rate was steady at 5.2 per cent in May.
- The CoreLogic national home price index fell by 0.2 per cent in June.
- The Federal Budget was broadly in balance for the 12 months to May.
- The NAB business confidence index rose to a 10-month high of +7.3 points in May - the biggest lift in six years.
- Australia recorded a 16th successive monthly trade surplus of $4.87 billion in April.
- Annual credit growth stood at 3.6 per cent in May – the slowest rate recorded in 5½ years.
- The Australian ASX200 share index hit fresh 11½-year highs in June and was up 7.1 per cent over the quarter.
- The Australian dollar has held around US68-70 cents.
- US President Trump and Chinese counterpart Xi Jinping agreed to restart trade talks at the G20 Summit in Japan.
- US Federal Reserve Chair Powell said “The case for somewhat more accommodative policy has strengthened”.

The assessment

- Reserve Bank Governor Philip Lowe recently said that “is not unrealistic to expect a further reduction in the cash rate”, but cautioned that “it is important though to recognise that monetary policy is not the only option, and there are limitations to what can be achieved.” An easing of fiscal policy and structural reforms, including a focus on microeconomic, tax and innovation, are also required to support the economy through its current ‘soft patch’.
- Reserve Bank policymakers have become increasingly focused on developments in the labour market with a stated objective to get the jobless rate closer to 4½ per cent. In order to achieve this, a reduction in spare capacity and underemployment via policy stimulus is required to boost household incomes and eventually stoke inflation.

Perspectives on interest rates

- The Reserve Bank cut the cash rate by 25 basis points (quarter of a per cent) to 1.00 per cent after beginning the latest easing cycle on June 4 2019 (25 basis points). It is the first time there have been consecutive rate cuts since May/June 2012. There have now been 14 rate cuts since November 2011 with the cash rate cut by 4.75 per cent.
- The Reserve Bank had previously lifted rates seven times from October 2009 to November 2010 from 3.00 per cent to 4.75 per cent.

What are the implications of today’s decision?

- The Aussie economy continues to face challenges. The end of the residential property construction boom and growing consumer caution are weighing on domestic demand. Government spending on infrastructure and health care is lending support, but global growth has slowed due to trade protectionism.

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• But it’s not all bad news. Following the Federal election, business and consumer confidence have rebounded and the housing market is showing tentative signs of stabilisation. And it appears likely that income tax cuts will eventually be passed by the new Australian parliament in the coming weeks. Reports of a US-China trade détente in the aftermath of the G20 Summit on the weekend has the potential to lift sharemarkets, boosting Aussie wealth.

Comparing the two most recent statements
• The statement from the June 2019 meeting is on the left; the statement from today’s July 2019 meeting is on the right. Emphasis has been added to highlight key points in the wording in the statements.

Media Release
No: 2019-15
Date: 4 June 2019

Statement by Philip Lowe, Governor:
Monetary Policy Decision

At its meeting today, the Board decided to lower the cash rate by 25 basis points to 1.25 per cent. The Board took this decision to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target.

The outlook for the global economy remains reasonable, although the downside risks stemming from the trade disputes have increased. Growth in international trade remains weak and the increased uncertainty is affecting investment intentions in a number of countries. In China, the authorities have taken steps to support the economy, while addressing risks in the financial system. In most advanced economies, inflation remains subdued, unemployment rates are low and wages growth has picked up.

Global financial conditions remain accommodative. Long-term bond yields and risk premiums are low. In Australia, long-term bond yields are at historically low levels. Bank funding costs have also declined further, with money-market spreads having fully reversed the increases that took place last year. The Australian dollar has depreciated a little over the past few months and is at the low end of its narrow range of recent times.

The central scenario remains for the Australian economy to grow by around 2% per cent in 2019 and 2020. This outlook is supported by increased investment in infrastructure and a pick-up in activity in the resources sector, partly in response to an increase in the prices of Australia’s exports. The main domestic uncertainty continues to be the outlook for household consumption, which is being affected by a protracted period of low income growth and declining housing prices. Some pick-up in growth in household disposable income is expected and this should support consumption.

Employment growth has been strong over the past year, labour force participation has been increasing, the vacancy rate remains high and there are reports of skills shortages in some areas. Despite these developments, there has been little further inroads into the spare capacity in the labour market of late. The unemployment rate had been steady at around 5 per cent for some months, but ticked up to 5.2 per cent in April. The strong employment growth over the past year or so has led to a pick-up in wages growth in the private sector, although overall wages growth remains low. A further gradual lift in wages growth is expected and this would be a welcome development. Taken together, these labour market outcomes suggest that the Australian economy can sustain a lower rate of unemployment.

The recent inflation outcomes have been lower than expected and suggest subdued inflationary pressures across much of the economy. Inflation is still however anticipated to pick up, and will be boosted in the June quarter by increases in petrol prices. The central scenario remains for underlying inflation to be 1¼ per cent this year, 2 per cent in 2020 and a little higher after that.

The adjustment in established housing markets is continuing, after the earlier large run-up in prices in some cities. Conditions remain soft, although in some markets the rate of price decline has slowed and auction clearance rates have increased. Growth in housing credit has also stabilised recently. Credit conditions have been tightened and the demand for credit by investors has been subdued for some time. Mortgage rates remain low and there is strong competition for borrowers of high credit quality.

Today’s decision to lower the cash rate will help make further inroads into the spare capacity in the economy. It will assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target. The Board will continue to monitor developments in the labour market closely and adjust monetary policy to support sustainable growth in the economy and the achievement of the inflation target over time.

Media Release
No: 2019-18
Date: 2 July 2019

Statement by Philip Lowe, Governor:
Monetary Policy Decision

At its meeting today, the Board decided to lower the cash rate by 25 basis points to 1.00 per cent. This follows a similar reduction at the Board’s June meeting. This easing of monetary policy will support employment growth and provide greater confidence that inflation will be consistent with the medium-term target.

The outlook for the global economy remains reasonable. However, the uncertainty generated by the trade and technology disputes is affecting investment and means that the risks to the global economy are tilted to the downside. In most advanced economies, inflation remains subdued, unemployment rates are low and wages growth has picked up. The slowdown in global trade has contributed to slower growth in Asia. In China, the authorities have taken steps to support the economy, while continuing to address risks in the financial system.

Global financial conditions remain accommodative. The persistent downside risks to the global economy combined with subdued inflation have led to expectations of easing of monetary policy by the major central banks. Long-term government bond yields have declined further and are at record lows in a number of countries, including Australia. Bank funding costs in Australia have also declined, with money-market spreads having fully reversed the increases that took place last year. Borrowing rates for both businesses and households are at historically low levels. The Australian dollar is at the low end of its narrow range of recent times.

Over the year to the March quarter, the Australian economy grew at a below-trend 1.8 per cent. Consumption growth has been subdued, weighed down by a protracted period of low income growth and declining housing prices. Increased investment in infrastructure is providing an offset and a pick-up in activity in the resources sector is expected, partly in response to an increase in the prices of Australia’s exports. The central scenario for the Australian economy remains reasonable, with growth around trend expected. The main domestic uncertainty continues to be the outlook for consumption, although a pick-up in growth in household disposable income is expected to support spending.

Employment growth has continued to be strong. Labour force participation is at a record level, the vacancy rate remains high and there are reports of skills shortages in some areas. There has, however, been little inroad into the spare capacity in the labour market recently, with the unemployment rate now stabilising in Sydney and Melbourne. The outlook for consumption, employment and wages growth is being supported by low interest rates. Low rates are tilted to the downside and there is stronger confidence in the global economy. Global financial conditions remain accommodative.

Inflation pressures remain subdued across much of the economy. Inflation is still, however, anticipated to pick up, and will be boosted in the June quarter by increases in petrol prices. The central scenario remains for underlying inflation to be around 2 per cent in 2020 and a little higher after that.

Conditions in most housing markets remain soft, although there are some tentative signs that prices are now stabilising in Sydney and Melbourne. Growth in housing credit has also stabilised recently. Demand for credit by investors continues to be subdued and credit conditions, especially for small and medium-sized businesses, remain tight. Mortgage rates are at record lows and there is strong competition for borrowers of high credit quality.

Today’s decision to lower the cash rate will help make further inroads into the spare capacity in the economy. It will assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target. The Board will continue to monitor developments in the labour market closely and adjust monetary policy if needed to support sustainable growth in the economy and the achievement of the inflation target over time.
Implications for home buyers
- The following table shows current monthly repayments on a range of mortgages and projections if rates are cut by major lenders in response to the lower cash rate.

### MORTGAGE CALCULATOR (Monthly repayments, 30 years)

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Source: CommSec