

RBA Chalks Up Two Years

The Reserve Bank of Australia (RBA) has today made the decision to keep the nation's official cash rate on hold at 1.50%, marking two years at this record low rate.

"A number of factors are contributing to the RBA board's decision to hold the official cash rate for such a sustained period," Mortgage Choice Franchisee, Scott Partridge said.

"The RBA recently raised concerns over the vulnerability of overly indebted households to economic shocks and noted the implications that a significant change to interest rates would have on these households' disposable incomes.

"It will not have escaped the Board's notice that dwelling values across the nation have shown a consistent decline over the last three months. Indeed, the latest data from CoreLogic suggests the decline in dwelling values may be gaining momentum, driven by long-term falls in Perth and Darwin, as well as the two largest housing markets, Sydney and Melbourne.

"CoreLogic's Hedonic Home Value Index also revealed that national dwelling values fell 0.6% in July. An increase to the official cash rate could put further pressure on the nation's housing market.

"Further, the latest Consumer Price Index for the June quarter came in under market expectations and below the RBA's target range, rising 0.4% on the previous quarter and 2.1% annually. This lacklustre result is expected for some time to come.

Economists suggest a mix of other factors contribute to the board's decision each month, such as data on consumer and business sentiment and business conditions across industries.

"The most recent Quarterly Business Survey from the National Australia Bank found that favourable business conditions continue and point to business investment growth. High commodity prices are resulting in favourable conditions in the mining sector, however business confidence is just above average, where it has been for some time," said Mr Partridge.

"Consumer sentiment has a significant impact on the economy and while the latest Westpac Consumer Sentiment survey reported the most positive reading since November 2013, the overall level of sentiment is below the long-term average as consumers continue to feel pressure from sluggish wages, rising electricity and petrol prices and declining dwelling values.

"Another factor which influences the board's monetary policy decisions is the national unemployment rate, which is sitting at 5.4% according to the latest Labour Force Survey from the Australian Bureau of Statistics. This is regarded as notionally full employment.

"Abroad, conditions in the global economy remain generally positive. In the United States, the Fed raised the federal funds rate at its June meeting and is expected to raise it again.

"Some are calling for the RBA board to make a change to the stagnant cash rate. My view is that raising or cutting the rate at present could have negative ramifications to the growth of the economy and may place undue pressure on family finances.

"Looking ahead, I expect the cash rate to remain static for the foreseeable future. However lending standards are expected to tighten further, which could make it harder for some to secure a home loan. For this reason I would urge anyone seeking a home loan to speak to a qualified mortgage broker who can help guide them through the home buying process.

"Despite the complexity in the lending environment, prospective buyers could benefit from softening property prices and the lowest mortgage rate in decades, which makes now a great time to buy," Mr Partridge concluded.

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