RBA’s stalemate nearing its end

The Reserve Bank of Australia (RBA) has today made the decision to leave the nation’s official cash rate (OCR) unchanged at 1.50%.

“RBA board members have held the nation’s cash rate yet again, however a range of economic factors are likely to encourage the bank to cut the rate,” said Mortgage Choice franchise owner Scott Partridge.

“The OCR’s function as an anchor to lenders’ interest rates shifted over 2018, as lenders were forced to respond to higher funding costs. Moreover, markets are pricing in a 90% probability of a rate cut by August this year, adding further pressure on the RBA to change its long held stance on monetary policy,” said Mr Partridge.

The RBA considers a range of global and domestic economic factors when making its monetary policy decisions. At its March meeting, the US Federal Reserve took a dovish stance on monetary policy, opting to hold the Fed funds rate at 2.25-2.50%. A rate hike was expected by the Fed, however comments from Chairman Powell points to no increases in the near-term due to ongoing economic expansion in the US.

In the minutes of the March Monetary Policy Meeting, RBA board members noted that trade tensions continue to weigh on the global economic outlook. Members noted that in Australia, labour market conditions had continued to improve. The RBA continues to monitor the weakening housing market, drawing attention to Sydney and Melbourne, where dwelling values had fallen 13% and 10% respectively, since their peaks.

The most recent CoreLogic Hedonic Home Value Index revealed that national dwelling values fell by 0.6% over March and have fallen by a cumulative 7.4% since peaking in October 2017.

The most recent data from the Australian Bureau of Statistics revealed that the number of dwelling commitments to owner-occupiers fell 2.6% over January 2019.

Furthermore, National Australia Bank’s most recent Monthly Business Survey points to deteriorating business confidence. Similarly, the Westpac Melbourne Institute Index of Consumer Sentiment revealed the weakest consumer mood since September 2017.

Mr Partridge said today’s strict lending practices, born out of lenders’ self-imposed tightening in the wake of the Banking Royal Commission, continues to play a part in the slowing property market. This places greater importance on the need for future home buyers and borrowers alike to get in shape financially.

“The slowdown in the nation’s economic growth would also be of concern to RBA board members, with recent GDP data revealing a slowdown in growth due in part to declining dwelling investment.

“In the current lending environment, my advice to borrowers would be to speak to a mortgage broker to ensure their home loan applications are as tight as possible. The reality is that lenders are going to call out any and all undeclared living expenses on home loan applications, significantly lengthening the time to approval.

“Preparing for a home loan application today is not as simple as saving for a deposit. The high level of scrutiny by loan assessors means prospective buyers, and those looking to refinance their loans, should be: cutting back on discretionary spending at least six months ahead; closing credit cards that are no longer being used and reducing limits where possible; and knowing where they are spending every dollar.

“The good news for those with property ownership aspirations is that lenders are aggressively competing for low risk borrowers, which means it’s a great time to learn what your options are.

“If you are looking to apply for a home loan this year and need to get home buying ready, speak to your local Mortgage Choice mortgage broker. A broker will assess your financial situation in the same way a lender would and give you a clear indication of your borrowing power. When the time comes your broker can help you prepare a home loan application that has the best chance of being viewed favourably by the lender you choose," concluded Mr Partridge

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