Tuesday, 5 October 2021

RBA Board Meeting

Statement Signals Lending Curbs

- **The Reserve Bank (RBA) Board meeting today was largely uneventful, although it did provide some interesting nuggets on housing and the jobs market.**
- **Policy settings were left unchanged, as widely expected. In September, the RBA began tapering bond purchases. The RBA continued to maintain its "central scenario" is that the cash rate will not increase until 2024.**
- **Today's statement added weight to the growing expectation that regulators will intervene in the housing market, possibly soon. A sentence was inserted flagging the "medium-term risks to macroeconomic stability of rapid credit growth at a time of historically low interest rates".**
- **There is a growing consensus that regulators will target debt-to-income ratios in an effort to rein in the risks associated with excessive household debt.**
- **A phrase citing the need for appropriate loan serviceability buffers was inserted to the statement, perhaps a hint that higher loan serviceability buffers are on the horizon.**
- **Encouragingly for the jobs market, the RBA flagged its liaison program and job vacancies suggest that "many firms are seeking to hire workers ahead of the reopening in October and November".**
- **Looking ahead, we expect the Reserve Bank will scale back its bond purchases further in the first half of 2022. We anticipate that the bond buying program will conclude by the end of 2022.**
- **We still expect the RBA to lift the cash rate in 2023. However, there are larger-than-usual risks around the medium-term outlook; a slower recovery than we have forecast or further setbacks on the health front could push out the timing of the first rate hike.**

The Reserve Bank (RBA) Board meeting today was largely uneventful, although it did provide some interesting nuggets on housing and the jobs market.

Policy settings were left unchanged, as widely expected. In September, the RBA began tapering bond purchases, reducing the weekly rate from $5 billion to $4 billion. And the central bank committed to holding purchases at $4 billion per week until at least mid-February 2022.

The RBA continues to maintain its "central scenario" is that the cash rate will not increase until 2024.

The statement shed little new information on the RBA's plans going forward.

It did, however, add weight to the growing expectation that regulators will intervene in the housing market to contain growing risks associated with the rapid run up in dwelling prices.

A sentence was inserted flagging the “Council of Financial Regulators (CFR) has been discussing the medium-term risks to macroeconomic stability of rapid credit growth at a time of historically low interest rates”.

This follows increasingly strong signals from policymakers in recent weeks that intervention will likely be needed to cool off the housing market. Last week, the CFR announced the Australian Prudential Regulatory Authority (APRA) will be releasing a paper in the coming months on its framework for implementing macroprudential policy.

There is a growing consensus that regulators will target debt-to-income ratios this time around. In the past, measures have included limits on investor and interest-only lending.

The RBA also inserted a new phrase citing the need for appropriate loan serviceability buffers. Banks consider a range of factors in assessing loan serviceability, including the ability to accommodate future increases in interest rates – also referred to as a loan serviceability buffer. The reference in today’s statement is perhaps a hint that higher loan serviceability buffers are on the horizon.

The chorus of commentary from policymakers of late suggests it is a matter of if, not when, macroprudential policy is implemented.

The RBA also made note of hit to the jobs market from the Delta outbreak, highlighting the nearly 4% decline in hours worked in August. Encouragingly for the jobs market, the RBA flagged its liaison program and job vacancies suggest that “many firms are seeking to hire workers ahead of the reopening in October and November”.

We are expecting the unemployment rate to tick up in the coming months before resuming its downward march below 4% by the end of 2022.

Looking ahead, we expect the RBA will scale back its bond purchases further in the first half of 2022. This forecast is consistent with our expectation of strong recovery next year, with GDP growth over 6%. Ongoing fiscal stimulus, low interest rates, elevated household savings, a strong housing market, a recovering global economy will all underpin growth.

Exactly how quickly the RBA tapers will depend on jobs and inflation outcomes, and the actions of other central banks. We expect the RBA’s quantitative easing program will conclude by the end of next year.

We still expect the RBA will lift the cash rate in 2023, following the strong recovery we have forecast in 2022. However, there are larger-than-usual risks around the medium-term outlook, and a slower recovery or further setbacks on the health front could push out the first rate hike.

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