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Reserve Bank Board Meeting

RBA Eyeing Housing More Closely

- **The Reserve Bank delivered no surprises today. The central bank reiterated it does not expect to lift the cash rate until 2024 because it does not anticipate actual inflation to be sustainably within its 2–3% target range before this date.**
- **The RBA also left its bond-buying programs intact and remained tight-lipped about possible extensions. Financial markets were hoping for clues as to whether the April 2024 bond will be moved to November 2024 for its yield-curve control program and whether the $100 billion bond-buying program for 5-10-year bond maturities will be extended a third time.**
- **The RBA did make some subtle changes to the wording of its statement around the economic outlook and housing.**
- **For the economic outlook, the RBA appeared to be buttering the market up for upward revisions to its economic forecasts to be published in its quarterly Statement on Monetary Policy early next month.**
- **Wording around housing also strengthened a notch in today's statement. The RBA said it "will be monitoring trends in housing borrowing carefully". A tightening of macroprudential regulation later this year cannot be ruled out.**

The Reserve Bank (RBA) delivered no surprises today at the conclusion of its monthly Board meeting. Policy settings stayed the same. That is, the cash rate stayed at a record low of 0.10%. The bond-buying program targeting a 3-year government bond yield of around 0.10% remained intact (also known as yield-curve control). So too did the previously announced second tranche of the RBA's $100 billion bond-buying program for bond maturities of 5-10 years.

Just as important, the final paragraph of the RBA's accompanying statement was unchanged. This paragraph continued to reiterate that the RBA does not expect to lift the cash rate before 2024 at the earliest because it does not expect actual inflation to be sustainably within its 2-3% target range before this date.

For conditions to be met, "wages growth will have to be materially higher than it is currently". The RBA estimates that wages growth running at an annual clip of at least 3% is needed. A much lower unemployment rate to achieve such a pace is also required.

At a recent Senate hearing, the RBA Deputy Governor suggested the unemployment rate consistent with full employment in the economy was around the high 3s to low 4s, down from 4.5% previously. This downward revision suggests the unemployment rate needs to fall to a lower level than previously thought to generate significant wage pressures. Wages growth currently remains anaemic.

The RBA did make some subtle changes to the wording of its statement – around the economic outlook and housing.

First up, the RBA expects the economic recovery to continue this year and next. But the RBA appeared to be buttering the market up for upward revisions to its economic forecasts. The RBA dropped references to specific point forecasts for GDP, as it did in February's statement, of 3½% over 2021 and 2022. Instead, the RBA took a more general approach and suggested economic growth would be "above-trend".

These upward revisions would not be surprising because the run of economic data since the last Statement has been on balance on the stronger side of the ledger.

On underlying inflation, the RBA has also opted to not repeat the forecasts in February's statement of 1¼% over 2021 and 1½% over 2022. Instead, the statement flags that the RBA expects underlying inflation to stay below 2% over the next few years.

New forecasts from the RBA will be published next month in their regular, quarterly Statement on Monetary Policy.

Wording around housing also strengthened a notch in today's statement. The RBA's wording around housing strengthened a notch in today's statement. In February, the RBA introduced language around the importance of sound lending. Today, the RBA went a step further and said it "will be monitoring trends in housing borrowing carefully".

The RBA noted that housing credit to owner occupiers has picked up, but that investor credit growth remains subdued. Investor credit data is still soggy but last week's housing finance data shows that investor lending is accelerating. The big lift in first-home buyers could also be a pocket of risk the RBA may wish to monitor if lending to first-home buyers is characterised by high loan-to-valuation (LVR) ratios. A tightening of macroprudential regulation later this year cannot be ruled out.

Turning to the RBA's quantitative easing programs and the RBA board remained tight-lipped on whether these programs would be extended. Financial markets were hoping for some new clues.

The question around yield-curve control is will the RBA direct its purchase program to the bond with November 2024 expiry or leave it as the bond with April 2024 expiry. If the RBA leaves it as April 2024, financial markets will interpret this to be a signal the RBA expects its conditions for rate hike to be met by early 2024 – signalling the start of a rate-hike cycle earlier rather than later in 2024.

The second tranche of the bond-buying program, worth $100 billion and announced on 2 February 2021, is soon due to start and run to around late August. We received no fresh hints today on whether this would be extended a third time, and the current pace of purchases maintained, or whether tapering would start in September. We see the risks are that tapering won't start this soon, but the stronger economic activity domestically and offshore means that the probability of an extension is not as high as it was a few months ago. We might not learn the fate of this bond-buying program until June at the earliest, as the RBA waits to assess more data.

The RBA is swimming in uncharted waters navigating the tapering of quantitative easing. Financial markets are swimming in the same pool with the RBA.

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