

For immediate release
4 April, 2017

Independent rate hikes may give RBA breathing space

- ➔ Majority of experts (86%) who weighed in on the topic think the next RBA move will be a rate rise
- ➔ 69% of experts think independent rate hikes will enable RBA to hold the cash rate for longer
- ➔ Housing affordability and tax reform are top areas experts want addressed in this year's budget

4 April, 2017, Sydney, Australia – While the Reserve Bank paused the cash rate at 1.5% today – an outcome overwhelmingly expected by market onlookers – experts believe out-of-cycle rate hikes will give the Bank breathing space to hold the cash rate for longer, according to finder.com.au, Australia's most visited comparison website¹.

The vast majority (37 of 38) of experts and economists from the finder.com.au RBA survey accurately tipped the cash rate would remain unchanged today.

Interestingly, predictions of a rate rise are becoming more prevalent with 86% of the 36 experts who opted in to this question believing the next rate move will be up; this has risen from 68% of panelists last month.

However, a rate rise isn't likely to occur for some time with 70% of those experts who gave forecasts (34) believing a rate rise won't occur until 2018.

With this in mind, many Australian lenders have taken action independently of the Reserve Bank by raising mortgage rates.

Graham Cooke, Insights Manager at finder.com.au, says out-of-cycle rate hikes have characterised the home loan market in recent months.

"It's likely some time will lapse before the Reserve Bank increases the cash rate so banks have taken matters into their own hands.

¹ Experian Hitwise 2015

“This year, out-of-cycle rate increases have become the norm with several banks raising rates for both variable and fixed products,” he says.

When asked about recent out-of-cycle rate hikes, most experts and economists (69%) believe these hikes will allow the Reserve Bank to hold off for longer before adjusting the cash rate.

“While recent independent rate rises have been unpopular with homeowners, the banks may have given the RBA breathing space to hold out longer before making a move.

“We’re expecting the Reserve Bank to stay in its ‘wait and see’ mode for the foreseeable future,” he says.

With speculation about whether some of Australia’s capital cities are in a property ‘bubble’, most experts don’t think this is the case.

Seven out of 10 experts and economists think Sydney and Melbourne aren’t currently in a property ‘bubble.’

Shane Oliver from AMP Capital supported this notion, stating; “Yes, the Sydney and Melbourne property markets are overvalued, hot, and unsustainable but this does not mean a 20% plus generalised crash is inevitable.”

Not surprisingly, when experts were asked about the top issues they’d like to see addressed in this year’s budget, housing affordability was the number one issue.

Interestingly, the second biggest talking point was around tax reform and a combination of increasing the GST while decreasing income tax for lower income earners.

Here’s what our experts had to say:

Jordan Eliseo, ABC Bullion (Hold): "The RBA has made it clear they are reticent to cut rates further, despite economic conditions that we'd characterise as soft on the whole."

Shane Oliver, AMP Capital (Hold): "Underlying inflation risks staying below target for longer and the Australian Dollar is too high, but growth is ok. National income is rising and the Sydney and Melbourne property markets are too hot. So best to stay on hold."

John Hewson, Australian National University (Hold): "There’s Insufficient evidence of the economy slowing and they’re waiting for the Budget"

Alison Booth, Australian National University (Hold): "I think the RBA will hold the cash rate owing to the stability of the key macroeconomic indicators."

Darryl Gobbett, Baillieu Holst (Hold): "RBA has more concern about the systemic issues with higher debt likely to result from lower interest rates than it sees benefits from lower interest rates."

Richard Robinson, BIS Oxford Economics (Hold): "Although domestic economy is still weak and the Australian Dollar is tracking too high, the overheating residential property market precludes a cut to rates. A rate cut would help put downward pressure on the Australian dollar."

Michael Blythe, CBA (Hold): "[Current issues include] low inflation and housing concerns."

Savanth Sebastian, CommSec (Hold): "The RBA is comfortable how the economy is evolving. Rate cuts are not on the agenda and inflation remains contained."

Dr Andrew Wilson, Domain Group (Hold): "No real case for change this month, steady as she goes but economy still needs work - and Budget looming."

Saul Eslake, Economist (Hold): "Notwithstanding the most recent labour force data, which were disappointing, there is no compelling reason for the RBA to think that its most recent forecasts need to be revised down, or that monetary policy settings need to be eased further. On the contrary, the recent renewed strength in property investment lending is a strong argument against further easing - even if it doesn't constitute a case, on its own, for an immediate tightening."

Dr Mark Brimble, Griffith Uni (Hold): "The economy is still struggling to gather momentum with employment weakening and inflation lack luster. Confidence is also below trend. Financial Institutions have also been raise rates out of cycle and thus have increased pressure on the economy."

Peter Haller, Heritage Bank (Hold): "There is nothing in the underlying economic data to justify a change in rates."

Shane Garrett, Housing Industry Association (Hold): "The bank will see no pressing need for an interest rate change at this stage. Economic growth is performing reasonably well in most areas and inflation is not yet a threat."

Alex Joiner, IFM Investors (Hold): "No compelling shift in data or outlook justifies rates being kept on hold."

Robert Montgomery, Infrastructure Partnerships Australia (Hold): "The RBA will wait for more movement in underlying economic indicators."

Michael Witts, ING Bank (Hold): "No drivers have been identified that would suggest that the RBA is looking at changing the absolute level of the cash rate in the immediate period ahead."

Nicholas Gruen, Lateral Economics (Hold): "It's been telegraphed and they don't like changing rates unless they feel obliged to."

Leanne Pilkington, Laing+Simmons (Hold): "Not enough has changed in an economic sense since the RBA met in early March. The main indicators suggest any increase in rates in the near term could put undue pressure on markets and consumers."

Lynne Jordan, Liberty (Hold): "Household debt levels, low wage growth, active property investors and a weak inflationary environment still present a major policy challenge for the RBA. I don't think we'll know exactly when the RBA's next move will be until CPI data comes out at the end of April. If Inflation has gone up, we lean closer towards the rate increase many economists have predicted. But if it is the same or lower, the RBA will likely hold the cash rate and remain in the same predicament it has been for the past few months – that investors will continue to make the most of low interest rates and drive up prices, which could result in household debt levels increasing even further."

Matthew Tiller, LJ Hooker (Hold): "There has been little discernible change[to] economic indicators since the last RBA meeting. GDP has rebounded, inflation remains soft and employment growth has kept ticking over. The east coast housing markets remain strong and continues to be of concern to the RBA, especially when factoring the recent rises in mortgage rates from the majority of banks. These factors combined should see the RBA hold rates steady this month and over the short term."

Stephen Koukoulas, Market Economics (Hold): "It has an unhealthy emphasis on Sydney and Melbourne housing which is preventing it from cutting interest rates."

John Caelli, ME (Hold): "Risks to house prices outweigh concerns about low inflation in the short term"

Michael Yardney, Metropole Property Strategists (Hold): "Underlying economic growth, though a little better than the previous quarter, is still weak but the RBA can't cut rates because of its concern regarding the strength in the Melbourne and Sydney property markets"

Mark Crosby, Monash University (Hold): "The well telegraphed Fed rate rise is consistent with more normal US growth, and outside Europe and Japan the global environment is reasonably benign. The case for a rate rise is not yet strong enough to justify moving rates up, but further Fed rises later this year should lead the RBA to consider increasing rates in H2."

Emily Dabbs, Moody's Analytics (Hold): "Inflation pressures are starting to build, but the domestic demand remains constrained by high underemployment. The central bank is keeping a close watch on the hot housing property, and further easing is unlikely while household debt continues to grow strongly. "

Jessica Darnbrough, Mortgage Choice (Hold): "I think the Reserve Bank will once again take a wait and see approach to interest rates. At present, there is nothing in the global or

domestic economies that would push the Board to change their current stance on monetary policy. "

Christopher Schade, MyState Bank (Hold): "The hurdle for another cut is high. While inflation remains subdued, and the outlook for economic growth over the next year couple of years slightly below trend, interest rate settings in Australia are very accommodative and remain appropriate at their current level."

Alan Oster, NAB (Hold): "[The RBA is] still watching."

Jonathan Chancellor, Property Observer (Hold): "No need for any decision but hold. This year has seen continued upwards pressure on Sydney and Melbourne house prices, but standby for a shift given the continued regulatory measures and out of cycle bank rate hikes."

Matthew Peter, QIC (Hold): "The hot state of the housing market will keep the RBA from cutting rates, while the tepid recovery in the economy and lack of wage growth and core inflation will keep the RBA from raising rates - RBA on hold through 2017 and the first half of 2018."

Noel Whittaker, QUT (Hold): "No reason to move either way."

Janu Chan, St.George Banking Group (Increase): "The RBA is needing to balance a mixed outlook for the domestic economy and risks in the housing market. It suggests that the RBA will likely remain on hold in coming months."

Steven Milch, Suncorp (Hold): "Low inflation is being balanced by sound growth and a buoyant property market."

Brian Parker, Sunsuper (Hold): "Little change in the growth or inflation outlook from the previous meeting."

Clement Tisdell, UQ-School of Economics (Hold): "No indication from the governor of the Bank of a change."

Nicki Hutley, Urbis (Hold): "RBA does not want to exacerbate house price growth."

Bill Evans, Westpac (Hold)

Christine, Williams (Hold): "[The] employment rate has stayed the same with a mixture of casual and part time work employment No new full time work offered. Resources have not increased. With Cyclone Debbie's aftermath and the expectation of food rice increases this would not be the month to increase rates."

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