

## **RBA signals a rates pause but it might not last long**

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Borrowers can expect a break from interest rate rises on June 1, the Reserve Bank of Australia (RBA) has indicated. In the minutes of its May 4 monetary policy meeting, the RBA said its board “had judged it to be prudent to undertake some further monetary policy tightening”. That decision took the cash rate to 4.5 per cent with the the sixth increase of a quarter of a percentage point since the monetary tightening began in October. In doing so, the RBA has achieved its aim of restoring interest rates faced by borrowers to “around the average levels over the past decade”. Now, the RBA looks set to rest on its oars, at least for a while. “Members felt this would leave monetary policy well placed for the present,” the RBA said in the minutes. The move in May was spurred by improved economic conditions and rising inflationary pressures. The RBA said the global economy continued to improve, despite concerns over Greece, which the board “spent considerable time discussing”. “The major news on the domestic economy had been the further strengthening in commodity markets and the slightly higher-than-expected inflation data for the March quarter,” the RBA said. And there is more to come. The expected resurgence to new highs by the terms of trade, the ratio of export to import prices, “would provide a large boost to nominal income”, the RBA said. There were some “early signs” that interest rate rises to date “were beginning to affect behaviour”, the RBA said, but domestic output growth still was expected to strengthen over the next couple of years. In its quarterly monetary policy statement earlier this month, the RBA upgraded its forecasts for growth and inflation, and reiterated them in the minutes released on Tuesday. The RBA said the March quarter inflation figures were “a little above the expectation”, with strong price rises for many services “which suggested that these sectors of the economy were operating with limited spare capacity”. Gross domestic product (GDP) was expected to grow by around 3.25 per cent (about the long term average) over 2010 and by 3.75 to 4.0 per cent in the following two years, the RBA said in the minutes. The RBA said inflation would be “not much below the top of the target range” over the next couple of years. Importantly, this is despite the contrary effects of policy. “The latest forecasts suggested that domestic output growth was likely to strengthen over the next couple of years, with the expansionary effects of the rise in the terms of trade more than offsetting the scaling back of fiscal and monetary policy stimulus,” the RBA said in the minutes. With the economy picking up pace and inflation skating on the thin ice near to top of its target range, the likely pause in the RBA’s schedule of rate rises may not last very long. Borrowers have not been let off; they have just been given a stay of execution.