

## Reserve Bank of Australia Provides Further Stimulus

- The Reserve Bank of Australia (RBA) lowered its benchmark cash rate by 25 basis points (bps) to 0.75% in order to boost employment and income growth and to support confidence in its inflation-targeting mandate.
- The RBA stands ready to ease monetary policy further if needed.

The challenging global economic environment is prompting Australian monetary authorities to take additional steps to support the domestic economy. Today's benchmark interest rate cut, which was in line with our expectation, takes the RBA's policy rate to a new record low. The policy rate was reduced by the same magnitude at the central bank's meetings in June and July. A total of 75 bps of easing over the past four months highlights the monetary authorities' concerns regarding Australia's economic outlook.

The RBA's policymakers underscored risks related to both the global and domestic economy. They maintained their view that uncertainty stemming from trade and technology disputes is undermining investment prospects and international trade flows, with global risks tilted to the downside. Due to the persistent uncertainties, monetary easing biases have continued to spread globally as various central banks have recently joined the RBA in its stimulus efforts. Indeed, RBA Governor Philip Lowe admitted that the consideration of relative monetary policies played a role in today's decision.

In terms of the domestic economy, Governor Lowe pointed out that consumer spending momentum is the main uncertainty surrounding the outlook, reflecting muted wage gains and the expectation that Australia's employment growth will slow down over the coming months. Nevertheless, the RBA assesses that the Australian economy has reached "a gentle turning point", as low interest rates, infrastructure spending, stabilization in the housing market, and a recovery in the resources sector should underpin economic growth. We forecast Australia's real GDP to grow by 1.8% this year before recovering to 2.4% in 2020, yet output gains are expected to remain below the economy's potential of 2¾% y/y.

The RBA estimates that Australian inflationary pressures will remain subdued for some time yet due to the economy's spare capacity. In line with the RBA's forecast, we expect headline inflation (1.6% y/y in Q2 2019) to remain below the lower boundary of the RBA's 2–3% annual inflation target through 2020 (chart 1).

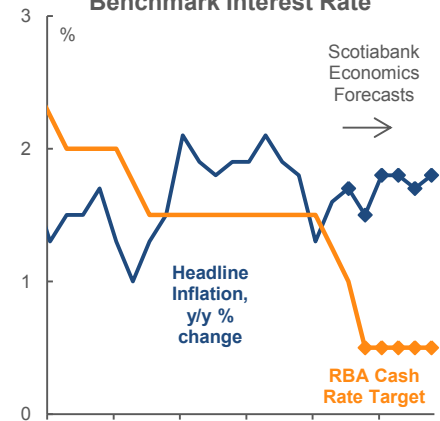
Governor Lowe highlighted that the RBA is prepared to ease monetary policy further if needed. He pointed out that interest rates are set to remain low for an extended period of time as the central bank aims to reach full employment in the economy and to achieve the inflation target. Given weak inflation projections and our expectation that Australia's labour market will fail to strengthen in the near term, we forecast the RBA to cut the benchmark rate one more time in this easing cycle, to 0.50%. We assess that the RBA would also be prepared to employ unconventional monetary policy tools to complement the interest rate cuts, should the achievement of the employment and inflation targets become subject to notable risks.

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Chart 1

#### Australia's Headline Inflation & Benchmark Interest Rate



Sources: Scotiabank Economics, Bloomberg.

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