# Monetary Policy On Hold In Australia

- **The Reserve Bank of Australia (RBA) left the benchmark interest rate unchanged at 0.75% despite mounting economic challenges and low inflationary pressures.**
- **The RBA reaffirmed its readiness to ease monetary policy if needed; we expect an interest rate cut in the near future.**

Australian monetary authorities opted to leave the benchmark cash rate unchanged at 0.75% following today's monetary policy meeting. The policy rate was lowered by a total of 75 basis points over the course of 2019 (chart 1) and we had assessed that further easing was likely as a pre-emptive action on the back of increasing downside risks to Australia's economic outlook.

The RBA's decision to stay on hold today was justified by the already-low interest rates and the fact that the impact of prior cuts will continue to filter through to the economy. Moreover, the Australian dollar's recent weakness may have been another factor behind the decision. Despite the RBA's current wait-and-see mode, we continue to forecast that further modest monetary easing is forthcoming in the near term. Governor Philip Lowe's dovish signals underpin our view. He highlighted that the RBA is prepared to ease monetary policy further if needed to support economic growth and full employment, and to bring inflation toward the RBA's 2–3% target. He also noted that interest rates will remain low for an extended period of time due to the domestic and international backdrop.

According to Governor Lowe, the global economic outlook is reasonable. However, he highlighted that the US-China trade and technology dispute remains a source of uncertainty while adding that the coronavirus is a new downside risk. In terms of the domestic economy, the RBA expects the bushfires and the coronavirus outbreak to weigh on domestic growth temporarily, while wage growth is expected to remain at the current subdued level "for some time yet". Despite such issues, the RBA's policymakers expect consumption growth—a key driver of the Australian economy—to pick up gradually, helping the country's economic growth to reach 2¾% in 2020. In contrast, we forecast output gains to average 2.1% y/y this year with risks tilting to the downside. While low interests rates and the recovering residential real estate market will provide support to the Australian consumer, we expect the labour market to soften somewhat over the coming months. Moreover, the bushfires and the coronavirus outbreak are set to dent the already-fragile consumer confidence further, preventing a notable recovery in household outlays. We also point out that the rapidly spreading virus will significantly slow China's current growth momentum, which will have an adverse impact on Australia. Indeed, China purchases almost 40% of Australia's total exports and over 80% of the shipments of the main export, iron ore.

Muted inflationary pressures will allow the RBA to maintain accommodative monetary conditions in the foreseeable future—and to provide further easing once evidence of economic weakness accumulates. Australia's headline inflation remains below the RBA's 2–3% inflation target, with prices rising by 1.8% y/y in Q4 2019. Demand-driven price pressures will likely remain largely absent in the foreseeable future, with headline inflation hovering around the lower end of the RBA's target range through 2021 (chart 1).

**CONTACTS**

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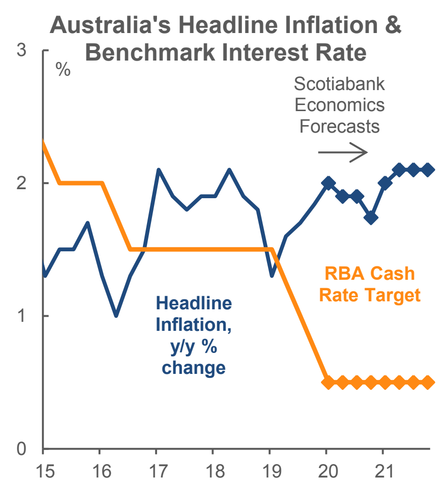
**Chart 1**



Sources: Scotiabank Economics, Bloomberg.