



RBA to cut interest rates soon – NAB brings forward timing of the first cut

The RBA left the cash rate unchanged at 7.25% at today's August Board meeting. However, the Statement from the RBA Governor, Glenn Stevens, revealed a pronounced shift in the Reserve's outlook on the economy.

Significant changes in the Statement were

- The RBA noted that financial conditions have tightened further over the past couple of months and heightened concerns over credit are persisting – reasons to expect the economy to slow further ahead
- Falling asset prices were added to the list of data adding suggesting the economy will slow further ahead
- Higher oil prices are adding to inflation but (the next point is new) this is also dampening growth in a number of countries – the international backdrop is getting worse
- Today's Statement took out the phrase *"the inflation outlook remains concerning"*, used in the July version

The key change was the addition of the sentence

"Nonetheless, with demand slowing, the Board's view is that scope to move towards a less restrictive stance of monetary policy in the period ahead is increasing".

This is a clear and unambiguous assessment from the central bank that it anticipates it will soon be in a position to start to cut rates. This will be designed to move interest rates down from the RBA's current quite restrictive policy setting to around neutral.

We have been saying for some months now that interest rate cuts were coming and our forecast has been the easing cycle would begin in the March quarter of 2009.

However, over the past month we have become worried about how quickly the evidence of the slowdown has been accumulating and how broadly the slowdown has become evident across the range of economic indicators. Not the least of these has been the sharp deterioration in Business Conditions and plummeting Business Confidence, as revealed in our June Quarter Business Survey released last week.

After today's statement we now expect the RBA to cut rates by at least 50bp by the end of 2008.

In total, we expect rates to be slashed by 125bp over the coming year.

The timing of the first cut remains uncertain but it could be as early as the next RBA Board meeting on 2 September.

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