

WINEVVS

Dollar hits decade low after RBA cuts rate to 0.75pc to head off rising unemployment

By business reporter Stephen Letts

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The Reserve Bank has driven its official cash rate below 1 per cent for the first time as it battles to head off rising unemployment and stimulate a stalling economy.

The cut, of 25 basis points to 0.75 per cent, is the RBA's third cut since June and comes after jobs data showed the unemployment rate had risen to 5.3 per cent from 4.9 per cent at the start of the year.

The move came as little surprise, with markets pricing in an 80-per-cent chance of a cut following recent speeches from RBA governor Philip Lowe, highlighting concerns about not only low wages growth and unemployment but the impact rate cuts overseas could have in driving up the Australian dollar to uncompetitive levels.

The big banks passed on around 80 per cent of the 50 basis points of cuts in June and July, but are not being so generous this time.

The CBA, Australia's biggest home lender, was the first to move, passing on a little more than half the cut.

CBA edged down its key rates for owner occupiers by 0.13 per cent per annum to 4.80 per cent.

Investors with principal and interest standard variable rate (SVR) home loans also received a 0.13-per-cent cut to 5.38 per cent, while investors paying interest-only loans were rewarded with the full 0.25-percentage-point cut.

Savers continued be squeezed

NAB also held back a large part of the cut, passing on just 0.15 per cent to owner-occupiers paying principal and interest as well as interest only.

However, they made an outsized move for investors with interest-only loans, cutting their rates by 0.3 per cent.

"We acknowledge our housing investors paying interest only have some of the highest rates, which is why we have decided to cut their rate by 30 basis points," NAB's head of consumer banking Mike Baird said.

Mr Baird said while cutting mortgage rates he was well aware of the growing impact reductions in interest rates have on the bank's 3 million savers and investment customers.

"NAB, like all major lenders, largely relied on customer deposits in order to lend.

"With the RBA cash rate at historic lows, the cost of deposits comes under pressure ... this dynamic is unlikely to change for the foreseeable future," he said.



PHOTO: The Reserve Bank has cut rates for the third time in five months. (Reuters/file)

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Key points:

- The 25-basis-point cut is the third time the RBA has moved rates down since June
- Australia's biggest lender, the CBA, was the first major to move, but only passed on about half the cut to most of its mortgages, while NAB cut most loans by 0.15 percentage points
- After the announcement, the Australian dollar hit a decade low of 67.0 US cents



Following the RBA's cash rate decision we have announced the reduction of the Standard Variable Rate for our home loan customers by between 0.13% p.a. and 0.25% p.a. and limited the base rate reduction on our NetBank Saver product by 0.05% p.a.

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Government plea ignored

The less-than-generous cuts, while expected, is certain to aggravate Treasurer Josh Frydenberg who earlier had urged the banks to pass on the rate cut in full.

"It is the Government's expectation that the banks will pass on this 25-basis-point rate cut in full," he said.

"What this means for an Australian family with a mortgage of \$400,000 is \$720 less a year in interest payments. That's a significant benefit to an Australian family."

Shadow Treasurer Jim Chalmers said the economy was struggling under the Coalition's watch.

"When Australians are struggling, when growth's the slowest it's been for a decade, when wages are stagnant, the Government's leaving all of the heavy lifting to the bank," Dr Chalmers said.

"Interest rates [are] a quarter of what they were during the global financial crisis."

More cuts in the pipeline

RBA governor Philip Lowe said in a statement accompanying the decision more work may need to be done to support the economy.

"The Board will continue to monitor developments, including in the labour market, and is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time," Dr Lowe said.

Earlier this year the RBA confirmed it was looking to drive the unemployment rate down to 4.5 per cent, a level which it considers to be "full employment".

The RBA has also been frustrated by its inability to lift inflation, which has consistently undershot the 2-3 per cent band for more than three years.

"The Board took the decision to lower interest rates further today to support employment and income growth and to provide greater confidence that inflation will be consistent with the medium-term target," Mr Lowe said.

"The Board also took account of the forces leading to the trend to lower interest rates globally and the effects this trend is having on the Australian economy and inflation outcomes."

Australia joins low rate club



With the cash rate down to a fresh low of 1 per cent, Australia has entered what's been dubbed the "era of irrationality, impotence and inequality".



EMBED: RBA cash rate

Home loans start falling

A number of small lenders slashed their variable home loans within minutes of the decision, leaving the bigger banks in their wake.

Homestar Finance and Athena Home Loans both passed on the full 0.25 per cent, while Reduce Home Loans cut its lowest variable rate by 0.20 per cent, but for new customers only.

However, RateCity chief executive Paul Marshall said with rates already so low, some banks will find it hard to pass Tuesday's cut on in full.

"It's a juggling act between the interests of savers, borrowers and shareholders, especially now interest rates are in uncharted territory," Mr Marshall said.

On RateCity figures, the average homeowner with a \$400,000 mortgage could save up to \$57 a month and \$682 a year if the 0.25 rate cut is passed on in full.

Loan size	25bp cut saving (per year)	20bp cut saving (per year)	15bp cut saving (per year)
\$300,000	\$512	\$410	\$308
\$400,000	\$682	\$547	\$411
\$500,000	\$853	\$684	\$513
\$750,000	\$1,280	\$1,025	\$770
\$1 million	\$1,706	\$1,367	\$1,026

Source: RateCity.com.au based on a current average rate of 3.91% for owner-occupiers paying principal and interest over 30 years.

Dollar slides towards decade low

CBA chief economist Michael Blythe said the RBA's statement hints at more cuts in the pursuit of full employment.

"While today's cut had been well-telegraphed, the debate about the desirability of the move has heated up," Mr Blythe said.

"Our view for a while now has been that interest rate cuts are of limited use.

"Households tend to leave their home loan repayments unchanged, so little additional spending power is unleashed, the potential boost from a lower Australian dollar is limited by still high commodity prices and the move to a current account surplus and the negative impact on business and consumer confidence," he said.

Mr Blythe noted the RBA was growing increasingly anxious about the global economy, a theme common to all central banks at present and underlies the shift from rate rises in 2018 to rate cuts in 2019.

"The global race to the bottom is, in a sense, dragging the RBA along. Failure to participate could see the Australian [dollar] move higher."

The RBA would no doubt be somewhat pleased with the market's reaction to Tuesday's announcement.

After an initial spike, the dollar started retreating down to a decade low of 67.0 US cents (at 4:20pm AEST).

\$A hits a decade low at 67 cents

\$A/\$US

— \$A



Chart: ABC News/Stephen Letts • Source: Refinitiv • [Get the data](#)

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