Australian central bank cuts interest rates to record low

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3 October 2019

For the third time in five months, the Reserve Bank of Australia (RBA) this week cut its official interest rate to a new low, going deeper into uncharted waters. At its meeting on Tuesday, the central bank's board reduced the cash rate by 25 basis points to 0.75 percent and signalled its readiness to go even lower in coming months.

On top of two consecutive 25-point rate cuts in June and July, this decision takes the rate far below what the RBA labelled the "emergency" level of 3 percent during the 2008–09 global financial breakdown. It is a measure of the depth of the economic crisis brewing up behind the backs of the population.

Late last year, the RBA was still touting the prospect of improved economic growth and insisting the next move in interest rates was likely to be "up." For years now, the bank's optimistic forecasts of economic performance have proven false, just like those of successive Liberal-National and Labor governments.

Both the speed and scale of the rate cuts point to alarm within the financial elite about the turmoil gripping the world capitalist economy and the deepening slump in Australia. Financial market analysts are now predicting another rate cut this year, and possibly a further one by February, down to 0.25 percent, or almost zero.

According to the *Australian Financial Review*, the next step then could be "a radical program to buy financial assets such as government bonds through 'quantitative easing' (QE)." The bank "is running out of traditional interest rate ammunition and will be seriously contemplating the once unthinkable," senior writer John Kehoe warned.

In announcing the latest cut, RBA governor Philip Lowe alluded to the already-severe impact of the trade and economic war launched by the US against China. "The US-China trade and technology disputes are affecting international trade flows and investment as businesses scale back spending plans because of the increased uncertainty," he wrote.

Lowe also referred indirectly to the outbreak of currency wars fuelled by the interest rate cuts by rival central banks. "Interest rates are very low around the world and further monetary easing is widely expected, as central banks respond to the persistent downside risks to the global economy and subdued inflation," he noted.

In a speech last week, Lowe was more candid. If Australia did not follow global interest rates down, the Australian dollar would appreciate, he said, making Australian producers less competitive on world markets.

As if to confirm the bank's intent, the Australian dollar fell on the news of the rate cut to US66.94 cents—the lowest level since the 2008-09 crash. Its value has almost halved from $US1.10 during the mining boom.

Governments and central banks internationally are slashing rates to drive down the values of their currencies, in order to compete with each other amid an intensifying global downturn. The European Central Bank's rate is now negative, at minus 0.5 percent, as is Japan's rate of minus 0.10 percent, yet both economies remained mired in slump.

The RBA governor's statement revealed anxiety about the domestic economy, which grew only 1.4 percent in the year to July, a "weaker-than-expected outcome." On a per-capita basis, production fell during the year, pointing to declining working-class living standards.

Lowe stated: "The main domestic uncertainty continues to be the outlook for consumption, with the sustained period of only modest increases in household disposable income continuing to weigh on consumer spending."

In other words, stagnant real wages and rising unemployment and under-employment are "weighing" down consumption, which accounts for two-thirds of Australian capitalism's gross domestic product. Over recent months, the official unemployment rate has risen from 4.9 to 5.3 percent. Even by this understated estimate, more than 700,000 workers are jobless while another 1.2 million want more hours.

Despite interest rates being at the lowest levels ever, and small government income tax handouts from July 1, key indicators point to an ongoing downturn. On Tuesday, dwelling approvals data showed a fall of 1.1 percent in August, well below financial market expectations of a small rise after months of decline.

Credit growth for housing also experienced its lowest annual growth since records were first kept in 1977. The monthly increase for August was just 0.2 percent, down from 0.3 percent in July. That may be because households are among the most indebted in the world. RBA data released last week showed households had nearly twice as much debt as income: the ratio rose to 191.1 percent in the June quarter, up from 189.4 in March.

Some business representatives opposed the RBA rate cut, warning that it could trigger a renewed property bubble by making mortgages cheaper. That possibility was diminished by the refusal of the major banks, once again, to pass the full rate cut onto mortgages.

Housing prices nationally rose 1.7 percent in June, seeming to signal an end to a two-year implosion of a previous six-year property bubble. While prices rose in the two biggest cities, Sydney and Melbourne, however, they kept falling in many other places. In Perth and Darwin, values are now down more than 21 and 31 percent respectively from their peak.

Others in the corporate ruling class voiced fear that the rate cuts would cut into bank profit margins and also force savers, including retirees, out of deposits and into riskier investments to generate sufficient incomes. This concern was not for the depressed living standards of retirees but for the stability of the financial markets.

The financial elite's most strident criticism was that by trying to pump more money into the economy, the RBA would detract from the corporate and government offensive to boost productivity and profits at the expense of the working and living conditions of the working class.

On the eve of the rate cut, an *Australian Financial Review* editorial warned: "The world is in a state of confusion… Australia's best defence against the global trade and currency wars is a round of textbook structural reforms—such as to tax, workplace regulation and energy policy—to boost business confidence to expand, invest, innovate and hire people."

Such demands presage a social explosion in Australia, as part of the global resurgence of the class struggle already taking place, from the two-week-old US autoworkers' strike against General Motors, to the months of mass protests in Hong Kong. After years of soaring income and wealth inequality and deteriorating living conditions, the financial aristocracy is intent on further enriching itself by imposing the burden of the developing global breakdown onto working-class households.