For immediate release
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Cup Day rate hold, while tracker mortgages unlikely to surface in Australia

- 90% of experts and economists are betting a cash rate hold for November 2016
- Majority of experts (69%) are tipping a rate cut in the first half of next year
- Just 1 in 3 experts believe tracker mortgages could be useful for borrowers

31 October, 2016, Sydney, Australia – While Melbourne Cup day has traditionally been viewed as a popular day for the Reserve Bank to shift the cash rate, new research from Australia's most visited comparison website[1], finder.com.au, suggests it's unlikely to be the case this time around.

The majority (90%) of the 33 experts and economists from the monthly finder.com.au RBA survey are betting on a cash rate hold at 1.5% at tomorrow's board meeting (Tuesday 1 November, 2016).

A finder.com.au analysis has found the Bank has cut rates on the first Tuesday of November just four times in the past 26 years.

The last two instances were on Melbourne Cup days in 2011 and 2008. However prior to this, it was more than 20 years ago in 1996.

Graham Cooke, Insights Manager at finder.com.au, says that in recent times, Melbourne Cup Day has seen more rate rises than rate falls.

"For many Australians, the first Tuesday of November is synonymous with the race that stops a nation. But for mortgage holders, it's also a day of worry that the Bank may up the cash rate while the limelight is on the track."

The RBA has increased rates on four out of the last 10 Melbourne Cup days.

Interestingly, just three economists (Darryl Gobbett of Baillieu Holst Ltd, Janu Chan of St.George Bank and Stephen Koukoulas of Market Economics) are expecting the cash rate to plummet in November this year.

[1] Experian Hitwise 2015

This follows inflation data released last week showing that inflation rose by 1.3% over the 12 months to the September quarter 2016.
Only three economists (12%) who forecasted beyond this month's decision are expecting a rate cut in December this year. Most experts (69%), however, predict a rate cut in the first half of next year.

Four economists (15%) are now expecting the next rate movement to be in a positive direction, and are tipping an increase to occur next year.

However when asked how low the rate will go before it starts to rise, only a third of the economists who responded (10, 34%) expect the rate to fall no lower than 1.5%.

Over half (14, 58%) believe at least one more cut is in the pipeline, forecasting the rate to bottom-out at either 1.25% or 1.00%.

Following ASIC's call for Australian banks to introduce tracker mortgages, economists were asked if these products could potentially benefit Australian borrowers.

The vast majority of experts said they didn't believe tracker mortgages would benefit the consumer, while 35% believe they could be useful.

Mr Cooke says while tracker mortgages are widely available in the UK and Ireland, it's unlikely that they will have a place in the Australian market.

"Tracker mortgages are a type of variable rate mortgage that follows or 'tracks' a base rate, such as the RBA rate, and similar to a variable rate product, borrowers can benefit from lower repayments when interest rates fall.

"As they are tied to a central bank rate, they offer more predictable interest rates to consumers, so if there's a rate change, borrowers don't need to wait around to see when and if their lender will pass on a rate discount.

"However, banks may struggle to make a profit on these types of products, so it's unlikely that they'll be offered widely within Australia," he says.

Interestingly, a separate survey by finder.com.au found that 30% of Australians would be interested in a tracker mortgage if they were offered locally.

In recent weeks, Auswide Bank introduced its RBA Rate Tracker Home Loan which is now available to borrowers.

Here's what our experts had to say:

Alan Oster, NAB: "Still looking to see impact of past cuts."

Alison Booth, Australian National University: "Now the inflation figures and other economic indicators are out, there is no need to change the cash rate."

Brian Parker, SUNSUPER: "The CPI data suggest that inflation may well have bottomed, and the RBA has signalled that it would very reluctant to cut rates at this point."

Christine Williams , Smarter Property Investing: "With the latest figures out I believe the rates for November will stay on hold. I am still of the belief there will be a drop in December."

Darryl Gobbett, Baillieu Holst Ltd (Decrease): "Sept Qtr CPI and other information points to underlying continuing well under 1.5% well through 2017. $A also continues higher than the RBA would see as desirable."

Dr Andrew Wilson, Domain Group: "Close call by the Bank - last real chance for the year to influence economic activity through a cut. Mixed news on economy with significant shedding of full time jobs, falling participation rates, record low and still falling underlying inflation, trend retail sales down and high dollar. But Sydney and Melbourne house prices booming with lower rates to add fuel to that inferno and intensify the political affordability debate."

Emily Dabbs, Moody's Analytics: "Inflation has stabilised slightly and employment growth remains robust. The recent rise in house prices across Sydney and Melbourne will also play a role as the RBA keeps an eye on financial stability. "

Garry Shilson-Josling, Australian Associated Press: "The economy is doing enough to allow the RBA to stay on the fence, and there are hints that inflation is bottoming out."

Grant Harrod, LJ Hooker: "Strong East Coast property markets, combined with the diminishing impact of cutting already record-low interest rates, should see the RBA hold the cash rate over the short term. "

Janu Chan, St.George Bank (Decrease): "Low inflation and little prospect that it will return to the RBA's 2 to 3% target band over the medium term. This has been reinforced by softer labour market conditions which suggests that spare capacity remains within the economy. The RBA also appears more relaxed on housing. Nonetheless, we view next week's decision a very close call as recent comments by Lowe suggest flexibility around the RBA's inflation target. "

John Caelli, ME: "The CPI data remains weak but continued strength in house prices means the Bank can probably remain on hold for a while."

John Hewson, ANU: "A safe bet on Cup Day. Vagueness on inflation, although core inflation consistent with RBA forecasts."

Jonathan Chancellor, Property Observer: "All the economic stats lend themselves to a wait and see approach. The strong east coast spring housing market doesn't need any extra impetus."

Jordan Eliseo, ABC Bullion: "The higher than expected CPI print guarantees a "hold" on Melbourne Cup Day, with the RBA happy to sit on the sidelines. But with core inflation still soft, the AUD far higher than they'd like to see it, and the employment picture deteriorating, it's still just a question of "when" not "if" they'll ease again "

Leanne Pilkington, Laing+Simmons: "Because to announce another rate cut with such a spotlight on the housing market would be risky from a public perspective and they would prefer to be cautious. Therefore the safest move is to leave them on hold."

Lynne Jordan, Liberty: "“The odds are looking slim for a Melbourne Cup day rate cut, with the RBA set to hold the official cash rate again at 1.5 per cent. The latest inflation figures were always going to play a big part in the RBA’s decision, and with inflation creeping in a little stronger than expected, there is no need for any action yet. "

Mark Brimble, Griffith Uni: "While headline inflation was slightly higher than expected, it is still outside the target band and underlying is weaker. The AUD is stubbornly creeping up and housing is reasonably robust, despite emerging weakness in certain parts of the market. Bias remains to further easing, but with November shaping up to be a big month (US elections for example) it likely they will hold for now."

Matthew Peter, QIC: "With inflation within expectations, the RBA can afford to sit on 1.5% cash rate into 2017"

Matthew Pollock, Master Builders Australia: "The Q3 CPI result was low but showed signs of improvement. on top of that commodity prices are on the improve and should give a much need boost to national income growth, and in turn lift price growth."

Michael Witts, ING Bank: "Given the solid GDP data and no further weakening in the inflation rate, together with ongoing focus on housing prices, the RBA will sit tight in November."

Michael Yardney, Metropole Property Strategists: "The RBA is looking for reasons not to cut rates further and the slight uptick in inflation, plus our generally softer property markets will allow the RBA to hold rates at the present level."

Nicholas Gruen, Lateral Economics : "Because it's flying by the seat of its pants and thinks things are OK right now - even if it forecasts continuing slack in the economy. "

Noel Whittaker, QUT: "Inflation figures are OK - no reason to move."

Paul Bloxham, HSBC: "The inflation targeting regime is 'flexible' and the RBA has already cut by 50bps this year"

Paul Dales, Capital Economics: "The weakness of underlying inflation in the third quarter means there is a greater chance than widely believed that the RBA will cut rates to 1.25% in November. However, the focus on the medium-term nature of the inflation target, concerns over housing and the recent rises in commodity prices mean the RBA is more likely to put up with low underlying inflation and keep rates at 1.5% for now. "

Peter Haller, Heritage Bank: "Quarter 3 inflation data was not sufficiently weak to justify a further cash rate cut at this time"

Richard Holden, UNSW Business School: "Inflation data was not terrible."

Robert Montgomery, Infrastructure Partnerships Australia: "Despite low underlying inflation recorded in the latest data release, the RBA will hold rates at 1.5%. However, continued low inflation could put pressure on the RBA to make a further cut in 2017."

Saul Eslake : "(1) Latest inflation numbers don't warrant taking interest rates down to a new record low; (2) Other economic data released since last meeting will have done little to alter the RBA's assessment of or outlook for the Australian economy (although maintenance of upward trend in coal and iron ore prices might have made them marginally more optimistic); (3) growing prospect of Fed raising US rates means there could be some (welcome) downward movement in the A$ by year end"

Savanth Sebastian, Commsec: "Modest lift in inflation is likely to result in policy makers holding off from cutting the cash rate. Debate on the benefit of further rate cuts will be a key reason for a no change decision."

Scott Morgan, Greater Bank: "The economic data doesn’t support a cut at this time. Core Inflation is still below target but in line with expectations. The US Fed decision on rates may be a key driver of any further Australian cash rate movements."

Stephen Koukoulas, Market Economics (Decrease): "Inflation has been undershooting the RBA target for two years and shows no signs of lifting. The recent CPI saw the lowest quarterly and annual underlying inflation result on record. The RBA needs to cut rates to try to get inflation back to its target range."

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