

At least 75bp rate cut needed in Feb: brokers

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Rates dropped a dramatic three per cent in late 2008 but the industry believes more cuts are essential to stimulate the economy – and the weak housing market.

Over 90 per cent of the 800 plus respondents to the weekly *Mortgage Business* straw poll said the Reserve Bank should cut rates again when it meets on February 3.

More than half of respondents – 54 per cent – said at least a 75 basis point reduction was needed.

Justin Doobov, managing director of Intelligent Finance in Sydney, said the cash rate should be cut by a minimum of 75 basis points if consumer confidence and the state of the economy were to improve.

“People are still hurting and there is still potential for the economic situation to worsen.

“It would be better to act now rather than wait for the worst to happen and another rate cut would also instil some more confidence in the market.”

Borrowers do appear at least slightly more confident following last year’s successive rate reductions. Housing finance approvals rose slightly in October and November, according to statistics from the ABS.

Unemployment however is trending up and overall economic activity would indicate that further stimulus is needed.

If expert forecasts are anything to go by brokers should at least see 50 basis points shed from the official cash rate in February.

The futures markets are currently pricing in a cut of between 75 and 100 basis points while most economists are forecasting reductions of at least 50 basis points.

John Peters, senior economist at Commonwealth Bank, told *Mortgage Business* the bank was expecting a 50 basis point reduction in February - although a greater reduction hadn’t been ruled out.

“Our official forecast is for a 50 basis point reduction next month and another 50 not too long after.

“I wouldn’t fall out of my chair if we saw a one hundred basis point cut though,” he said.

Either way, Australian borrowers are going to see much lower rates within the early part of the year, Mr Peters said.

The Commonwealth Bank has forecast the cash rate to bottom out at 3.25 per cent in the first half of the year.

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