

More RBA rate cuts predicted as confidence plunges

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Business confidence has slumped to its lowest level on record, fuelling speculation the Reserve Bank will continue to take a hatchet to its cash rate in the coming months.

The RBA has sliced 200 basis points off the cash rate in the past three months, taking it to 5.25 per cent.

But economists are predicting rates could fall to four per cent, if not lower, in the first half of next year as the central bank tries to fend off a recession.

The National Australia Bank's highly respected monthly business survey for October tumbled a massive 21 index points to minus 29, its lowest level since the series began in 1997.

"Business confidence is bad here, as it is in practically every other developed economy in the world ... that's because of the global financial crisis," Prime Minister Kevin Rudd told parliament.

The latest slump in confidence comes despite the RBA slashing its key rate by a full percentage point at the beginning October.

"Even with the volatility that accompanies surveys based on sentiment, the results are alarming," TD Securities senior strategist Joshua Williamson said.

Mr Williamson was already predicting a cash rate of 4.0 per cent in the first six months of next year.

"The risk of a lower trough in the target cash rate now needs to be considered," he said.

The central bank indicated yesterday in its quarterly monetary policy statement that further rate cuts were likely.

Economists expect it to cut by 50 basis points when the RBA board next meets in December.

In the statement, the RBA forecast annual economic growth to fall to a skinny 1.5 per cent by June next year, undercutting Treasury's prediction of 2.0 per cent growth in 2008-09 made only last week.

The discrepancies in the forecasts sparked a heated debate between the government and the opposition.

“There is a difference in terms of the Reserve Bank and the Treasury forecasts because the Treasury forecast does take into account the loosening of monetary policy,” Treasurer Wayne Swan told Sky News in an interview from Washington.

He refused to speculate on future interest rate decisions.

But opposition treasury spokeswoman Julie Bishop says the treasurer should come clean on his rate expectations given his own growth forecasts have speculated on future interest rate cuts.

“The Rudd government should level with the Australian people and reveal the assumptions it has made in order to produce a growth figure in MYEFO to match the prime minister’s forecast of a growth figure with a two in front of it,” Ms Bishop said in a statement.

Prior to last week’s MYEFO, Mr Rudd had repeatedly said economic growth would have a two in front of it in 2008-09, but without giving a precise figure.

Ms Bishop’s concerns were echoed by frontbench colleague Andrew Robb.

“It’s got the smell of manipulation about it,” he told reporters.

“I think they were required to get a two in front of the forecast so the prime minister wasn’t embarrassed.”

Mr Rudd described this attack on the integrity of Treasury secretary Ken Henry as “extraordinary”.

“Once again the Liberal Party has been off the leash today, this time in relation to the secretary of the treasury,” Mr Rudd said.

“Economic responsibility ... depends on whether you are going to support the independence of the economic institutions of this country, including the Reserve Bank, including the secretary of the treasury, including the independence and integrity of the regulators.”

Dr Henry will likely be quizzed on Treasury’s forecasts when he faces the media at a lunchtime address at the National Press Club tomorrow.

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