Venn Brown
Investment Research & Advisory

Markets & Economics

Cash rate – perspective needed

Nothing is free, not even money

8th May 2024

Higher, but not high

Yesterday, the RBA announced that it would keep the target cash rate steady at 4.35%. Immediately upon the announcement, headlines started screaming the cash rate was being held at its "12 year record high".

Now, I'm all for records, but let's put this "record" in perspective. While we've all become accustomed to an official rate of 1-2%, this range has only been around for around ten years. At the end of 1989, the cash rate was 17.75%, and prior to 2012, the rate was above 4% for all but 13 months during the GFC.

Table 1: The old, not new norm

	Average	Max	Min
1990	14.8%	17.25%	12.00%
2000	6.0%	6.25%	5.50%
2007	6.4%	6.75%	6.25%
2008 (GFC)	**6.6%**	**7.25%**	**4.25%**
2009 (GFC)	**3.2%**	**3.75%**	**3.00%**
2010	4.4%	4.75%	3.75%
2015	2.1%	2.25%	2.00%
2020	0.3%	0.75%	0.10%
2021	**0.1%**	**0.10%**	**0.10%**
2022	1.4%	3.10%	0.10%
2024	4.4%	4.35%	4.35%

Source: RBA

ASX All Ordinaries

ASX:XAO

Sector	All
Num. constituents	497
Date	30-Apr-24
Value	7,907
52 week range	6,939 / 8,168
Market cap	$2,619b
Yield	3.6%

ASX Small Ordinaries

ASX:XSO

Sector	All
Num. constituents	200
Date	30-Apr-24
Value	3,032
52 week range	2,551 / 3,128
Market cap	$262b
Yield	2.6%

3-year Price Chart

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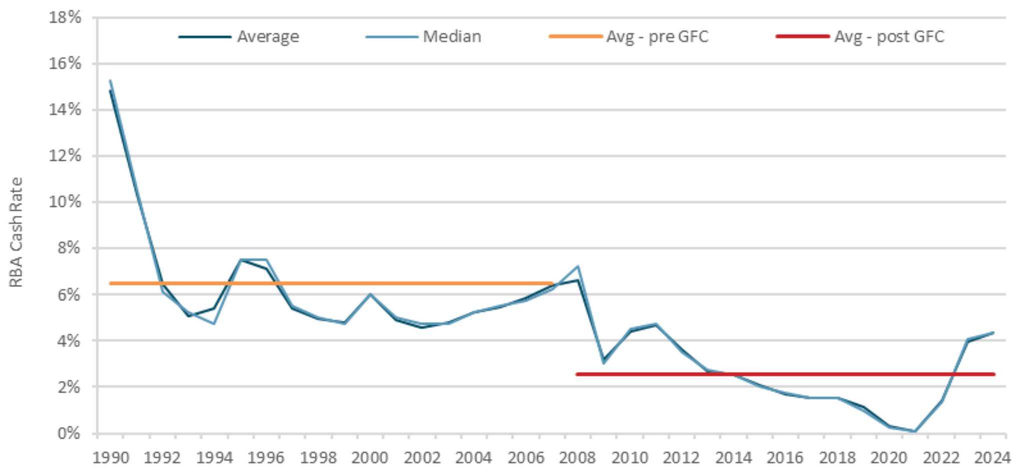
It wasn't until the peak of the GFC in February 2009 that the cash rate first dropped below 4%, but even then, it was brought back above to 4% in within 13 months (March 2010) and was held above 4% until May 2012 (See Figure 1). While Australians are struggling with cost of living pressures and rising mortgage rates, a look back in history shows that the last ten years have been the anomaly, not the norm.

As shown in Figure 1, the average RBA target cash rate from 1990 to the end of 2007 (18 years) was 6.5%. In the period from 2008 to now (16 years), the cash rate has averaged 2.5%. Yes, the rates are higher than they've been, but they're not high. While most headlines report how high interest rates are, a stronger argument is that the current 4.25% more closely resembles a normal rate and the last 10 years have been the anomaly.

It's also worth noting that 2007 started with a cash rate of 6.25% and *grew* to a local high of 7.25% until March 2008. The RBA didn't start lowering the rate until its September 2008 meeting, after which it dropped the rate by 325 basis points to 3.0% by April 2009. By October 2009, while the world was still affected by the worst economic downturn since the Great Depression, interest rates were steadily lifted, peaking at 4.75% in November 2010, where it stayed for 11 months until November 2011, when it started its ten-year decline.

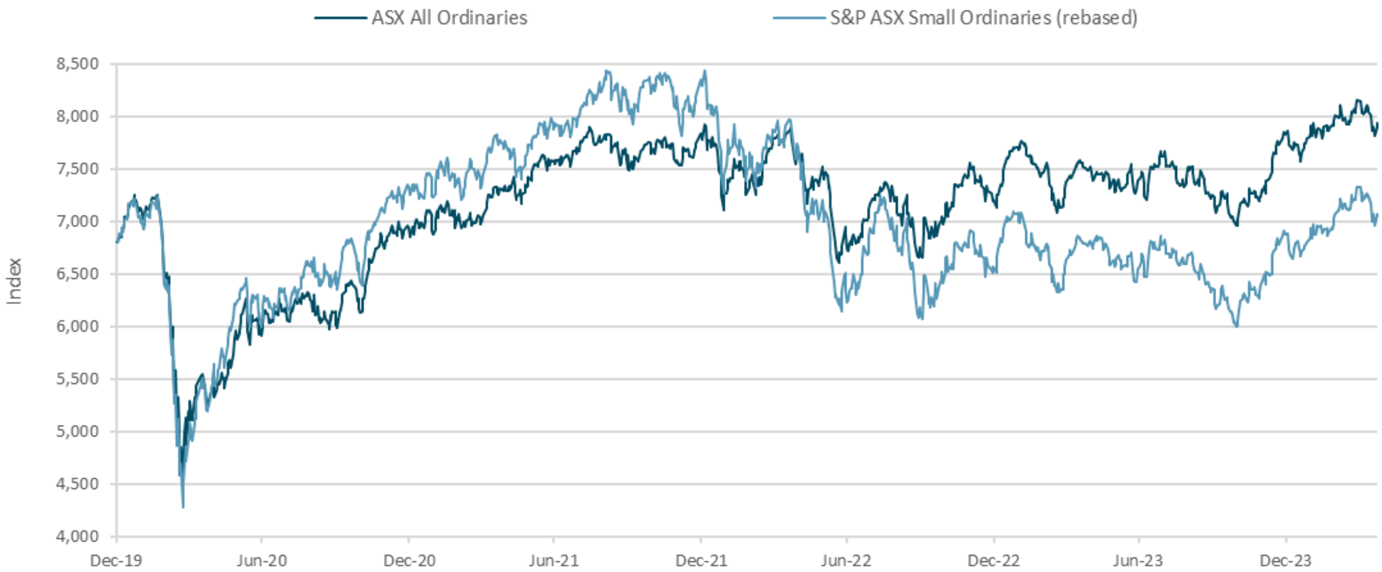
Figure 1: Pre-GFC, the cash rate averaged 6.5%. Post-GFC cash rate averaged 2.5%



Source: RBA. Venn Brown

So, while headlines might be decrying the high interest rates, realistically, the rates have simply reverted back to the old normal, and probably for the better. The days of free money are behind us.

Index performance



Source: Factset

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