

Zero Hour: Trade Tensions Have the RBA Considering Negative Rates

By Jason Aravanis

The intensifying trade war between the United States and China has led the RBA to consider implementing a negative interest rate policy.

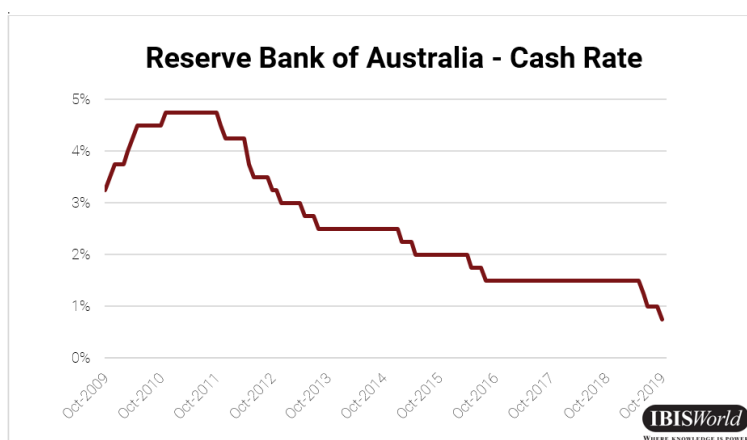
A negative interest rate policy would present a major threat to the profitability of Australia's banks

International economic uncertainty has followed the United States' imposition of further tariffs on Chinese goods and the continued devaluation of the Chinese Yuan in August. China's subdued economic growth threatens the Australian economy. However, the imposition of trade tariffs has improved the relative competitiveness of some Australian products in foreign markets. As the trade war continues to constrain Australia's economic growth, the Reserve Bank of Australia is considering a plunge into negative interest rates.

China has suspended its purchases of all agricultural products from American farmers in response to the Trump administration's latest round of 10.0% tariffs on \$300 billion of Chinese imports.

This decision is expected to increase China's reliance on Australian agricultural producers, particularly soybean producers in the Grain Growing industry. This decision may also provide some welcome support to the agricultural sector, which has been negatively affected by drought conditions in recent years. Other industries that could benefit from China's increased reliance on Australian food include the Beef Cattle Farming and Citrus Fruit, Nut and Other Fruit Growing industries.

The ongoing trade war is anticipated to hinder non-agricultural industries in Australia in 2019-20. This effect will be exacerbated if economic growth in China slows. Rapid economic growth in China, and the country's resultant demand for



Zero Hour: Trade Tensions Have the RBA Considering Negative Rates

Subscribe and become an industry expert

Subscription packages can be tailored to meet your individual or company's needs. Benefits of subscription include substantial discounts on report prices, exclusive data access and rates on customised research to help you move quicker than the competition.

Including key statistics, analysis, historical data and future forecasts, IBISWorld Industry reports provide the information you need to make sound business decisions – now and into the future.

For more information, please call us today on (03) 9655 3881

raw commodity imports, is the primary reason Australia has not had a recession in 27 years. If Chinese GDP growth were to fall below its 6.0% target, the country's demand for foreign raw commodity imports would likely decline. This possibility represents a significant threat to Australian commodity producers, such as the Alumina Production, Gold and Other Non-Ferrous Metal Processing and the Liquefied Natural Gas Production industries. Falling demand from Chinese customers for tourism and education services is likely to also cause other areas of the Australian economy to suffer.

The trade war is exerting downward pressure on economic growth in Australia. Due to persistently low wage growth, inflation stuck below the 2-3% target and an unemployment rate resistant to downward pressure, the Reserve Bank of Australia (RBA) is on the verge of introducing unconventional monetary policy. The cash rate has reached a record low of 0.75%, increasing the likelihood that the RBA will enact a negative interest rate policy (NIRP). The RBA may also soon begin to follow other central banks across Europe and Japan in charging interest on the reserves the major banks keep in their accounts at the RBA.

Although an NIRP can stimulate the economy by encouraging lending, the policy also presents a major threat to the National and Regional Commercial Banks industry. Banks generate profit by maintaining a margin between the interest rates paid on deposits and the interest rates earned from lending. If lending interest rates for firms and households become negative, then negative flow-on effects on bank profitability are inevitable unless negative rates are also imposed on deposits. Banks' capacity to charge interest on deposits is extremely limited, as retail depositors are likely to withdraw funds entirely to preserve their wealth.

Related industries:

[Grain Growing in Australia](#)
[Beef Cattle Farming in Australia](#)
[Citrus Fruit, Nut and Other Fruit Growing in Australia](#)
[Alumina Production in Australia](#)
[Gold and Other Non-Ferrous Metal Processing in Australia](#)
[Liquefied Natural Gas Production in Australia](#)
[National and Regional Commercial Banks in Australia](#)