

The Effect of Changes in Monetary Policy on Consumer and Business Confidence

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Abstract

This article examines the response of consumer and business confidence to five measures of change in Australian monetary policy. Actual, expected and surprise increases in the official cash rate target and related interest rates are shown to negatively impact consumer sentiment. Business confidence is less affected by increases in the cash rate target, but is negatively affected by an increase in the 90-day bank accepted bill rate. Tests for model stability and asymmetries in the response of sentiment to increases and decreases in interest rates otherwise find only limited evidence for monetary policy having a perverse signalling effect on sentiment.

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