



TRANSCRIPT

RATES RISE HURTS HOUSING MARKET

ACCI Chief Executive Peter Hendy on ABC Radio's The World Today Program - Interest Rates - 2 August 2006.

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ELEANOR HALL: According to the housing industry, this is the tipping point for Australia's homebuyers.

The Housing Industry Association has accused the Reserve Bank board of making a decision that is premature and will price people out of the housing market.

And while business groups have broadly welcomed the rate rise, they are also warning that further rate hikes could damage the economy.

This report from our Finance Correspondent Andrew Geoghegan.

ANDREW GEOGHEGAN: Damned if you do, damned if you don't. That would be the thinking of the Reserve Bank Board, when it considers raising interest rates.

No matter how low they are, there's always an outcry when the bank pulls the interest rate lever to slow borrowing and spending.

Businesses are often the most damning, but not in today's economic climate.

PETER HENDY: Well, we think there's quite a lot of justification for this particular rate rise. We've been very worried about inflationary expectations building up.

ANDREW GEOGHEGAN: Peter Hendy, the Chief Executive of the Chamber of Commerce and Industry acknowledges that this will cost business, but so too does rising inflation.

PETER HENDY: We're hoping it will be the only rate rise that's necessary to get us back to the two to three per cent target for inflation the Reserve Bank has.

There's costs, of course - in excess of \$2.9 billion cost to business of this increase in interest rates - but inflation itself has significant costs to business and on the balance, we think this would be a justified increase.

ANDREW GEOGHEGAN: While business may be willing to cop higher borrowing costs, people on low incomes don't have such luxury. Many are already stretched in servicing their debt.

LIN HATFIELD DODDS: Our concern as ever, is just the added strain on budgets that are already tight for households. And that's going to make things really difficult for low-income Australian families.

ANDREW GEOGHEGAN: Lin Hatfield Dodds, the President of the Council of Social Service says the prospect of further rate rises will severely disadvantage low-income earners.

LIN HATFIELD DODDS: An interest rate rise isn't just a problem for people with house loans, although clearly it's a big problem for those people. But it does make things even more difficult for those Australians, and there are many of

them, who are locked out of the dream of buying a home.

So people who are renting, who would love join the great Australian dream of home ownership, and every time the rates go up, with very thin household budgets, that dream just recedes from their grasp.

ANDREW GEOGHEGAN: It is argued that this rate rise is necessary to discourage people from taking on more debt. Clearly that is a problem at the moment, isn't it?

LIN HATFIELD DODDS: Look, that's right. Then again, I'd have to say ACOSS' focus is, what is the lived reality and what is the lived experience for people who are low income and disadvantaged?

And the reality is just that housing affordability is a major factor in shaping the lives of people who are disadvantaged.

If housing affordability is diminished, options are constrained, and people find it difficult to access things like employment, education, health, transport, utilities. All those things that middle Australia tends to take for granted are very difficult when households are stretched.

ANDREW GEOGHEGAN: Those comments are being echoed by the housing industry.

SIMON TENNENT: Interest rates going up is always bad news for the housing market, and we're not just talking about the builders out there, but we're talking about obviously the home buyers at the moment, with a mortgage, but indeed the renters as well.

I mean, there is a housing shortage across Australia, and to have building remaining fairly soft at a time when interest rates are going up, is certainly bad news.

ANDREW GEOGHEGAN: Simon Tennent is the Executive Director of Housing and Economics at the Housing Industry Association.

He thinks the Reserve Bank has lifted rates prematurely.

SIMON TENNENT: I think the... for example, the jobs data is strong, but it's showing most growth in part-time work.

The inflation numbers are clearly being clouded by oil and fresh fruit, and even the building approval numbers and the housing credit numbers that we've seen recently have virtually been pre-May rate rise.

So we naturally, for the good of our members and for the good of a very important part of the economy, being the building industry, we would have liked to have seen them hold on for a bit longer.

ANDREW GEOGHEGAN: So which homeowners will be hit hardest by the rate rise?

Simon Tennent.

SIMON TENNENT: There's no doubt that Sydney-siders will feel the biggest pain, and that will come about because of the large proportion of people that are exposed to very, very high mortgage debt within the Sydney market.

Also, of course, the Sydney building industry is the one that's virtually on its knees at the moment.

ANDREW GEOGHEGAN: And there's likely to be more pain ahead, given the Reserve Bank's inflation concerns.

SHANE OLIVER: My feeling from reading it is that the Reserve Bank does still have a tightening bias.

ANDREW GEOGHEGAN: Shane Oliver is the Chief Economist at AMP Capital Investors.

SHANE OLIVER: They would be looking for some slow-down in global growth, a slow-down in local growth and some

abatement of the recent pick up of inflation before they would change their bias.

ANDREW GEOGHEGAN: And how's the reaction been from financial markets?

SHANE OLIVER: Well, the Australian dollar has moved up a little bit and the share market's moved down. This move today was broadly expected by the market, so it should come as no surprise.

But still, I think the share market's taken a little bit negatively, obviously remains concerned about the possibility of another rate hike this year.

So the Australian dollar is good news, in the sense that higher interest rates locally mean support for the Australian dollar against other currencies.

ELEANOR HALL: And that's Shane Oliver from AMP Capital Investors ending that report from Andrew Geoghegan.