



# TRANSCRIPT

## ACCI ECONOMICS AND INDUSTRY POLICY DIRECTOR GREG EVANS ON ABC RADIO'S "PM" PROGRAM - 3 NOVEMBER 2009 - INTEREST RATES

### Nothing Shocking: RBA hikes rates

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**ASHLEY HALL:** As widely anticipated the Reserve Bank has delivered a second interest rate rise in as many months.

The bank's board has already largely spelled out the reasons.

It's repeatedly raised concerns that a price bubble might be forming in the housing market and it's worried about inflation which has remained relatively high compared to the rest of the world.

The RBA governor Glenn Stevens says it's prudent to gradually reverse the significant rate cuts that were made in response to the global financial crisis.

Analysts believe the bank will continue to raise rates over the next few years as the economic outlook improves.

Economics correspondent Stephen Long:

**STEPHEN LONG:** Before the race that stops the nation came the rate that stops inflation.

Shocking won the cup but there was nothing shocking in the Reserve Bank decision, announced half an hour before the race.

**MALE:** Up 25.

**STEPHEN LONG:** The cash rate up 25 basis points to 3.5 per cent.

So well sign-posted was the rise that only the blind or comatose could have missed it and no doubt there's a few of them after the race day lunches.

Though a few pundits were expecting a bigger increase. This was the immediate reaction from Bill Evans at Westpac

**BILL EVANS:** Well, they have raised rates by 25 basis points. I was interpreting the speeches and the minutes of previous meetings which were much, much more urgent and hawkish than we saw in the statement today.

The irony is that since we saw the governor's speech and the minutes we've seen even stronger messages. In particular we saw a 4.2 per cent rise in house prices in the September quarter. We've seen that strong rebound in growth in the US economy. And we've seen confidence holding up even though interest rates were increased.

So since some of these other statements things have in fact got a little stronger. And so it is interesting that at this sort of turning point the rhetoric and the signals coming from the bank are changing a bit.

**STEPHEN LONG:** Getting just a little more comfortable and relaxed - comfortable about the recovery and a little more relaxed about inflation.

One reason is the high Australian dollar which the Reserve Bank noted in its statement is dampening import prices.

Su-Lin Ong from RBC Capital Markets:

SU-LIN ONG: Effectively what the bank is saying is that the exchange rate could constrain output and also dampen price pressures.

It's a roundabout way we think of the RBA saying that the sustained stronger Australian dollar is doing some of its tightening and some of its work for it in helping to tighten up overall monetary conditions.

**STEPHEN LONG:** What are the markets reading into those tea leaves?

**SU-LIN ONG:** Right now the speculation following today's statement and this discussion of the strength of the exchange rate is the markets are wondering whether the RBA may pause in December and maybe the governor might decide to sit on the sidelines, given I guess this stronger Australian dollar potentially doing some of the RBA's work for it in tightening up monetary conditions.

**STEPHEN LONG:** And presumably if the Australian dollar stays this strong it means we may not have as many rates rises and as tight a monetary policy as many have believed we **would**.

**SU-LIN ONG:** I think that's very true. A sustained stronger Australian dollar could do some of the RBA's work for it. It may well temper the overall magnitude of this tightening cycle.

**STEPHEN LONG:** Temper but not tame. Rates will go up further, barring another crash, though business is urging that the central bank hold its fire.

**GREG EVANS:** Well no Australian business or household will welcome today's rate hike. I think we should be mindful that many businesses and households even in current circumstances are finding it difficult to service their debt obligations and people are still losing their jobs.

**STEPHEN LONG:** Greg Evans, director of economics at the Australian Chamber of Commerce and Industry.

The lobby group released a survey of 2,300 member companies today. It showed that business confidence is up but actual trading conditions are still weak with business investment negative, employment falling and overtime work hours contracting.

**GREG EVANS:** We think the Reserve Bank now needs to step back, actually look at what the strength of the economy is, look at international conditions and also consider the September quarter GDP numbers for Australia. All of these need to be taken into account we believe before future rate increases.

The other important thing is I think we need to actually see what the real strength of the economy post the major stimulus measures are.

We believe the Reserve Bank still needs to be cautious. And a future rate rise could indeed crunch confidence and also demand in the economy.

**STEPHEN LONG:** Despite the official cash rate set by the Reserve Bank falling to historic lows, business hasn't seen the benefits.

Small and mid size companies especially have faced high borrowing costs above the average of the past decade, even in the downturn over the past year. The reason is that banks have whacked on a big risk premium on lending.

And it gets worse from here on.

For Kevin Rudd the political race gets harder too. Yes, Australia is the best performing economy in the advanced world but from here on its citizens are likely to face rising interest rates and a rising jobless rates in tandem.

But that wasn't worrying the Prime Minister today. In the other big race he backed the winner - and wasn't he celebrating.

**KEVIN RUDD:** (Shouting) It's mine! (Cheering, clapping)

**ASHLEY HALL:** An overjoyed Prime Minister Kevin Rudd ending Stephen Long's report.