



TRANSCRIPT

ACCI ECONOMICS AND INDUSTRY POLICY DIRECTOR GREG EVANS ON ABC RADIO'S "PM" PROGRAM - INTEREST RATES - 6 OCTOBER 2009

Business Shuns Support for RBA

MARK COLVIN: First to the Reserve Bank's decision to raise interest rates for the first time in 19 months. Rates have gone up by one quarter of a percentage point to 3.25 per cent.

The RBA governor Glenn Stevens says that the cost of money needed to be raised to keep inflation under control.

The Australian dollar jumped on the news but the business lobby is angry and a new report on the mortgage industry warns that higher interest rates will cause more defaults.

Finance reporter Sue Lannin.

SUE LANNIN: With interest rates at near 50-year lows of 3 per cent speculation about a rise has been at fever pitch over the past couple of days.

And on the streets there was little surprise after the Reserve Bank raised rates by one quarter of a percentage point.

VOX POP: It wasn't unexpected. I'm a self funded retiree anyway.

VOX POP 2: I thought it probably would have gone up more. I think it's very timely. I would have thought half a per cent was warranted. People are still spending. The figures look good in the economy.

VOX POP 3: Oh I don't think honestly it will have any effect at all.

VOX POP 4: Obviously rates have been so low for so, amount of time, which has helped everyone. Obviously the economy needs an interest rate rise.

VOX POP 5: A quarter per cent - it'll get worse than that. If the American dollar would pick up and the Australian dollar would go down it would be of a lot more benefit to me because we produce grain and exports.

SUE LANNIN: Interest rate strategist at Macquarie Group Rory Robertson expected the move.

RORY ROBERTSON: The Reserve Bank has made the judgement that the big recession that it feared early in the year when it took its rate down to an emergency 3 per cent, that big recession didn't show up partly because of good luck, partly because of good management.

And now that the big recession that was supposed to show up turned out to be a small recession the Reserve Bank is now recalibrating policy and removing some of the emergency aspect of its 3 per cent funds rate; so today we saw a quarter point hike to 3.25 per cent.

SUE LANNIN: In a statement Reserve Bank governor Glenn Stevens said economic conditions in Australia had been stronger than expected, inflation was falling and unemployment had risen by less than predicted.

He pointed out that banks had already raised fixed rate home loans and with the emergency caused by the global financial crisis now over it was time to start cutting the stimulus created by low interest rates.

Alan Oster, chief economist at the National Australia Bank, thinks the RBA moved too quickly.

ALAN OSTER: Our expectations would be that probably they'll follow up by two more rate rises by the end of the year and then sit back and watch for a little while.

We would really still have a view that says once they do that, they've shown they're serious and then see what happens and then every six months thereafter I think they'll probably do another 50 points or so and that gets them back to something a little bit more than four at the end of next year and something more like 5.5 the year after which is really where they see neutral being.

SUE LANNIN: Do you think it was the right decision?

ALAN OSTER: Well I think I'm on record as saying I would have preferred to wait but I mean the difference between an October and a November rise probably is pretty hard to justify one way or the other.

I would have waited, seen some more data. I think there is an issue out there particularly in the world economy as to how much of the growth and momentum we've seen recently is special.

At the end of the day you know, it's a very fine judgement.

SUE LANNIN: And business is not happy. The Housing Industry Association says it's a big risk. The National Retailers says spending will be cut back. The Australian Industry Group says a solid recovery remains some way off and the higher Australian dollar is already curbing growth.

Greg Evans from the Australian Chamber of Commerce and Industry says a recovery could be set back by the move.

GREG EVANS: Well we believe that the Reserve Bank of Australia has actually pulled the interest rate trigger too quickly. We believe on the back of continuing trade, weakness in trading conditions and also a very uncertain outlook both domestically and internationally; on that basis we believe the Reserve Bank has acted too hastily.

We are concerned that the Reserve Bank may have mistaken strength in the economy attributable to the fiscal stimulus as rather than real underlying strength in the economy.

MARK COLVIN: Greg Evans from the Australian Chamber of Commerce and Industry ending that report by Sue Lannin.