



TRANSCRIPT

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

Predictions Defied as Interest Rates Raised

Reporter: Neal Woolrich

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ALI MOORE, PRESENTER: The Reserve Bank has defied the pundits and delivered an earlier-than-expected interest rate rise. The increase of 25 basis points takes the cash rate to 3.25 per cent. As banks prepare to up their mortgage rates, business has accused the RBA of moving too soon. They say the rate hike threatens to dent confidence and stifle Australia's economic recovery. Neal Woolrich reports.

NEAL WOOLRICH, REPORTER: Just when some businesses have started cooking again, the Reserve Bank has delivered its first rate hike in 19 months. For Melbourne restaurant owner Victoria Wilson, it's a nervous wait. She's unsure whether it will hurt her lunchtime trade.

VICTORIA WILSON, RESTAURANT OWNER: Only very recently enjoyed the return of a lot of our business clientele over the lunchtime hours, and unfortunately I think that will directly affect that rebuilding of business over lunchtimes.

NEAL WOOLRICH: The first quarter of this year was one of the toughest times for Australia's restaurants. Victoria Wilson says business has picked up in recent months, but the rate hike threatens to put the brakes on the final few months of 2009.

VICTORIA WILSON: We are still tracking very well. My concerns will be now with this interest rate, and if another one does happen prior to Christmas, businesses will be looking very, very carefully at the amount that they spend on their Christmas functions.

NEAL WOOLRICH: But it's the possibility of a Christmas spending spree and the impact that could have on inflation which has made the Reserve Bank move. It says, "Economic conditions in Australia have been stronger than expected and measures of confidence have recovered."

The rate rise has raised the ire of Australia's business lobby. The Chamber of Commerce and Industry says the Reserve Bank should have waited until the Government's fiscal stimulus measures had been phased out.

GREG EVANS, DIRECTOR OF ECONOMICS, ACCI: We believe it was those sorts of measure should have been allowed to flow through the system and then we could've actually tested the real underlying strength of the economy, not necessarily the strength of the economy attributable to those fiscal stimulus measures.

NEAL WOOLRICH: The chamber says its latest survey of investor confidence shows sales, profitability and employment still suggest Australia's economy is shrinking.

GREG EVANS: What has been particularly weak, of course, is business investment, and business investment is very susceptible to interest rate movements. So, we are concerned about that. We're also concerned about the impact on consumer confidence.

NEAL WOOLRICH: The rate rise helped the Australian dollar, which jumped to a 14-month high against the Greenback, gaining more than half a cent in afternoon trade. And economists say there'll be several more rises on the way.

WARREN HOGAN, ACTING CHIEF ECONOMIST, ANZ: We think what they're doing is telling us that they're going to raise rates by 25 basis points at every meeting until they get to that 4.25, and then they're going to sit back and watch. If we start to see the economy respond negatively to the interest rate increases, they may stop earlier.

NEAL WOOLRICH: With banks funding pressures easing, local institutions are not expected to pass on any more than the official rate increase. However, there will be pain in the mortgage belt with analysts tipping a spike in home loan defaults.

MARTIN NORTH, FUJITSU CONSULTING: At low interest rates that we have, average affordability is roughly where it's been long term. That was what the Reserve Bank said a couple of weeks ago. But if rates begin to move up, affordability becomes a major significant issue, and our house-to-income ratios are some of the worst globally.

NEAL WOOLRICH: The construction sector is now also bracing for pain. It's concerned fewer people will be prepared to build new homes.