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Expectations Justify Rate Cut

The Housing Industry Association's inaugural Business Expectations Report, launched today, provided vindication for the large interest cut announced by the Reserve Bank of Australia on Tuesday.

The HIA, Australia's largest building industry association, said that weak housing conditions in 2008 were reflected in little expectation of a short term improvement in the operating environment within the residential sector.

HIA Chief Economist, Harley Dale, said that the Business Expectations Report contained over 1,650 responses across a wide range of businesses within the housing industry.

"Nearly half of all respondents expect trading conditions to remain the same over the next six months while a further 31 per cent expect trading conditions to deteriorate," said Harley Dale.

"Over 70 per cent of respondents expect some degree of tightening in credit availability over the next six months and over 50 per cent expect a further contraction in already tight profit margins," Mr Dale said.

"Given that such a subdued set of business expectations comes at a time when new home building is already enduring a fifth straight year of weakness, the importance of recent and future interest rate cuts is immediately apparent."

"An easing monetary policy cycle over the next 12 months will provide both households and businesses with much needed relief on borrowing costs and create an environment where budding first home owners can contemplate dipping their toe in the market," added Mr Dale.

"At the same time it remains vitally important that all levels of government play their part in ensuring structural barriers to housing come down so that the residential sector can play its traditional role in leading economic activity in Australia back up again in 2009/10."

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