

24 January, 2007

## **NO CASE FOR RATE RISE**

A larger than anticipated fall in the December quarter CPI confirms that inflationary pressures are easing.

Inflation figures released today for the December 2006 quarter showed a 0.1 per fall in the headline Consumer Price Index, taking the annual rate down from 3.9 per cent to 3.3 per cent. More importantly the Reserve Bank's weighted median index fell from 3.2 per cent in the September quarter to 3.0 per cent, back to the RBA's target band of 2 – 3 per cent.

Australia's peak building industry body, HIA, said that today's figures should be good news for interest rates as they clearly support the case for rates to remain on hold.

HIA's Executive Director, Housing and Economics, Mr Simon Tennent, said that with home construction and retail sales softening, and petrol prices no longer at record highs, a wait-and-see approach is appropriate for this point in the cycle.

"Another hike in interest rates so soon after the last move would most likely add to inflation as higher rates continue to inflate the housing component of the CPI," Mr Tennent said.

"Landlords looking to offset higher mortgage servicing costs have again added to inflationary pressures with the rents component of today's figures adding 1.0 per cent to the headline figure," Mr Tennent said.

"Furthermore, higher mortgage costs among owner occupiers have also added to inflation with home purchase adding a further 0.5 per cent."

"Clearly, higher rates will add to this vicious circle, putting home ownership further out of reach, and turning the screws that little bit more on the thousands of medium to low incomes families locked into the rental market."

### **For further information on this release please contact:**

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