

## Inflation Controlled Late in 2009

Mild economic conditions drove a benign result for consumer inflation in the December quarter of 2009, claimed the Housing Industry Association (HIA), Australia's largest building industry organisation.

"The December 2009 quarter update hardly shows inflation running out of control. Large interest rate hikes should consequently be viewed as both unnecessary and dangerous and will likely dampen the much needed housing recovery, especially the dire need for new rental investment, across the country," commented Ben Phillips, HIA Senior Economist.

The consumer price index increased by 0.5 per cent over the December 2009 quarter, to be just 2.1 per cent ahead of the same period 12 months ago. The RBA's preferred "underlying" measures increased by 0.7 per cent over the September quarter to be on average 3.4 per cent higher than a year ago.

The vast majority of the increase in the headline consumer price movement was a strong jump in food prices and continued price pressure in housing. Housing rents and housing purchase continue to grow in December, both jumping an above average 1 per cent over the quarter.

"Supply side constraints are continuing to place undue pressure on housing rents and home values, especially but not solely in Australia's capital cities. Reducing the obstacles to boosting Australia's housing supply is a fundamental policy challenge, and a challenge that becomes harder if interest rates are taken too high," said Ben Phillips.

"With both the headline and RBA measures of annualised inflation moving in the RBA's 'comfort zone' of 2 to 3 per cent, bold increases in interest rates would likely prove counter-productive for the Australian economy, stifling private business investment at what is still a fragile time and snuffing out the much needed housing recovery beyond 2010," added Mr Phillips.

**For further information:**

Ben Phillips, Senior Economist 0424 147 321