

26 October, 2005

NO KNEE JERK ON RATES SAYS HIA

Inflation was higher in the September quarter, a result widely anticipated given the strength of energy prices. Nevertheless the overall profile for the Consumer Price Index remains consistent with the Reserve Bank maintaining its neutral position on interest rates.

Inflation figures released today for the September quarter showed a 0.9 per cent increase in headline CPI, taking the annual rate from 2.5 per cent to 3.0 per cent, at the top of but not above the RBA's target band. Annual growth for CPI ex volatile items, the more relevant of the two measures, inched up from 2.3 per cent to 2.4 per cent and hence remained well below the top of the target band.

Australia's peak building industry body, HIA, said that removing the substantial role played by higher oil prices, today's inflation update did not pose a significant concern.

HIA's Senior Economist, Mr Harley Dale said that the removal of the effect of automotive fuel reduced the rise in the CPI from 0.9 per cent to 0.5 per cent.

"Clearly the fuel effect was substantial. While there are inflationary pressures apparent elsewhere there is simply not enough evidence of broad-based inflationary pressures in the Australian economy to warrant a move back to a tightening interest rate bias," Mr Dale said.

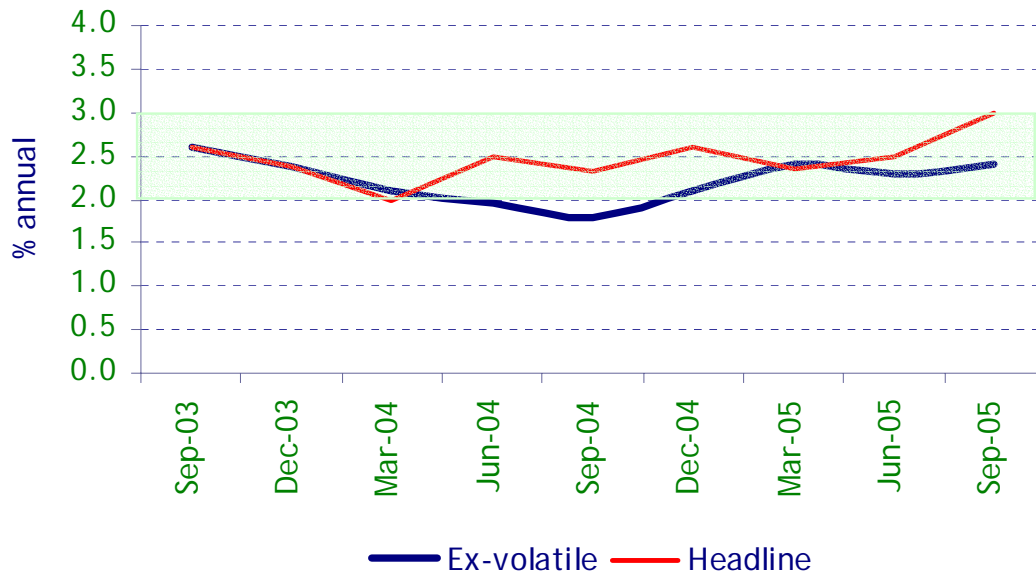
"The negative impact of higher fuel costs and transportation costs on Australian households and businesses is of far greater concern than the effect of petrol prices on headline inflation," he added.

"We are also in a situation where the economy is growing below par, the housing industry is slowing, and we are on the cusp of a slowdown in the labour market," Mr Dale said.

"All these factors will remain in play throughout 2005/06 and in this environment the most appropriate stance for monetary policy is clearly one of neutrality," Mr Dale added.

On a city by city basis, annual headline inflation was 2.9 per cent in Sydney, 3.1 per cent in Melbourne, 2.8 per cent in Brisbane, 3.0 per cent in Adelaide, 4.1 per cent in Perth, 3.5 per cent in Tasmania, 2.8 per cent in Darwin, and 2.9 per cent in Canberra.

The overall inflation profile is not overly concerning



FURTHER INFORMATION

Please contact Harley Dale, HIA Senior Economist on 0414 994 186.

Website: <http://economics.hia.asn.au>