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SLOWING ECONOMY FLIES IN FACE OF RATE RISE

Australia's economic growth rate slumped markedly at the end of 2004 with exports acting as a substantial drag at a time when domestic demand is cooling.

Gross Domestic Product grew by a bare 0.1 percent in the December 2004 quarter, taking annual growth to 1.5 per cent. This compares to revised growth of 2.9 per cent in the previous quarter and is the slowest growth pace seen since the middle of 2001.

The housing sector continued to cool with activity dipping for the second consecutive quarter.

Expenditure on new and established houses fell by 4.8 per cent to \$7 billion. Expenditure on alterations and additions declined by 1.9 per cent to \$5.5 billion.

Nevertheless the importance of the housing sector to the Australian economy was reinforced by the sector contributing over 10 per cent to annual economic growth.

Australia's peak building industry body, HIA, said that further falls in housing activity were already in train and any further rate rises could be very damaging to the prospect for a 'soft landing' for the housing sector.

HIA's Senior Economist, Mr Harley Dale, said that investment in housing was below its year ago level for the first time in three and a half years.

"A clear pull-back in housing activity, together with the peak in domestic demand having come and gone, firmly points to the need for interest rates to now be left on hold," Mr Dale said.

"Domestic demand is growing at its slowest pace in over three years, exports are showing precious few signs of filling the breach, and this is occurring before any impact from today's rate rise. In these circumstances it would be a risky proposition to raise interest rates beyond their current level," Mr Dale added.

FURTHER INFORMATION

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Higher Interest Rates have already slowed Housing

