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## Higher Rates No Cure

Today's decision of the Reserve Bank to raise official interest rates will have long term impacts on the supply of new housing and household budgets.

With international economic activity showing signs of a slow down, it would have been prudent for the Reserve Bank to have stayed its hand on interest rates, at least until the dust settled on the financial turbulence in the United States.

HIA's Managing Director, Dr Ron Silberberg, said increasing interest rates to quell consumer spending may actually have the opposite effect when it comes to housing.

HIA argues that shortages in new housing supply mean that increases in interest rates will exacerbate price pressures in the existing housing and rental markets and therefore fuel further rises in the Consumer Price Index (CPI).

The housing group represents nearly 30 per cent of the total CPI. Higher rents and house prices are feeding directly into inflation readings. Much of the CPI covers the necessities as distinct from discretionary items of expenditure.

An assessment of the private rental market shows that more than 550,000 households are in rental stress.

"Because the Consumer Price Index seems to be driving monetary policy, it is overdue to review the structure and composition of the CPI, particularly the housing group," Dr Silberberg said.

Today's rate rise will hurt those paying mortgages and rent. Higher interest rates will have only a very modest impact on those households without a mortgage.

"Monetary policy is a blunt instrument and its impact on Australian households battling to make ends meet must be considered in more detail," he said.

Production of new housing is currently lagging behind demand by 20,000 dwellings per year. Successive increases in interest rates have slowed production of new housing putting further price pressure on existing housing stock particularly in the private rental and first-home buyer market.

"There is a requirement to provide some financial advice and assistance to that battling mortgage stress and a desperate need to bring down the statutory costs and associated expenses relating to the construction of new dwellings," Dr Silberberg said.

### Further information:

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media release