

2 September 2008

Approvals Reinforce Need for 50 Point Cut

The RBA's decision to lower official interest rates by 0.25 percentage points is welcome news, although a 50 point reduction was surely justified.

HIA Chief Economist, Harley Dale said the July update for building approvals reinforced Australia's housing shortage would reach 45,000 dwellings in the 2008/09 financial year alone.

"Leading indicators of residential construction have remained unequivocally weak in the first month of the new financial year," said Harley Dale.

"A larger reduction in rates was required to ensure the massive shortfall in Australia's housing stock begins to turn around as soon as possible," Mr Dale said.

"A significant reduction in rates over the remainder of the year would not only attract much needed investment in new residential construction, but also ease inflationary pressures stemming from extremely tight rental market conditions. A win-win situation," he said.

Provided the full impact of today's 25 percentage point cut in the official cash rate is passed on to mortgage holders that will save a household with a \$200,000 mortgage over \$36 per month.

"If the full rate cut is not passed on then the effect on already fragile household confidence could be quite damaging," Mr Dale said.

"Consumers also need to be satisfied that there is effective competition in the Australian banking sector," he said.

"The likelihood of another rate cut before the end of the year is very high, and very necessary to arrest a slowing domestic economy and a burgeoning housing shortage," he added.

Mortgage Repayment Savings

<i>Loan Size</i>	<i>Current Repayment</i>	Rate Reduction		
		<i>25 bps</i>	<i>50 bps</i>	<i>75 bps</i>
\$200,000	\$1,696	\$36	\$73	\$109
\$300,000	\$2,544	\$55	\$109	\$163
\$400,000	\$3,393	\$73	\$145	\$217

For further information:

Harley Dale 0414 994 186
Ben Phillips 0424 147 321