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RATE RISE WILL PUNISH HOMEOWNERS, BUILDERS AND RENTERS

Today's move by the Reserve Bank to raise official interest rates for the third time in six months will inflict more pain on Australia's housing industry.

Australia's peak building industry body, HIA, said that since the start of the year, homeowners with a mortgage of \$250,000 need to find an extra \$122 per month to meet minimum monthly payments.

HIA's Executive Director, Housing and Economics, Mr Simon Tennent said that while there is no denying the inflationary risks, monetary policy will prove to be the bluntest of instruments when it comes to slowing Australia's two-speed economy.

"The economic divide between the resource rich states and the rest of Australia has never been wider and sadly while the latest increase may cool the hyper inflated West, it will add further to the pain being felt among homeowners and renters in other states," Mr Tennent said.

"There are already worrying signs within the data, in particular the cooling in retail sales, new home sales, declining housing affordability and the potential effect of the drought. Moreover the latest interest rate increase will put further pressure on an already stretched rental market, with fewer investors likely to enter the market and existing landlords being given another green light to increase weekly rents," he added.

"For Australia's 2.2 million mortgage holders, many will need to tighten their belt another notch however, for the 650,000 families who have taken on a mortgage in the past 5 years, many will be taken to the brink."

"For the new home building industry, many have viewed the recent improvement in dwelling approvals as a return to normal conditions."

"This is most definitely not the case as buyers remain absent and at best, the industry is on track to deliver 150,000 homes in the next 12 months – well short of what the market currently needs," Mr Tennent added.

"With weakness appearing in some key sets of data, it is imperative that the Reserve Bank hold off on any further interest rate rises throughout 2007 until the three increases have been fully absorbed into the economy," Mr Tennent said.

FURTHER INFORMATION

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media release