

Reserve tipped to leave loan rate alone

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Economists believe homebuyers will be spared further interest rate pain when the Reserve Bank board meets today, despite new figures showing inflationary pressures climbing as the effects of high petrol prices are felt through the economy.

Markets anticipate no chance of the Reserve increasing official rates from 7.25 per cent to 7.5 per cent today, even though a rate rise later in the year has been almost fully priced in.

Credit figures from the Reserve yesterday suggested rate settings were slowing the economy, with lending for housing falling to its lowest level since the 1990-91 recession.

But the latest TD Securities-Melbourne Institute monthly inflation gauge revealed the extent of the nation's inflation problem.

The gauge was up 0.5 per cent in June to hit 4.8 per cent over the past year. It is the highest reading in the 5½ years the gauge has been run.

Petrol and rental accommodation pushed up prices, while nationally there were falls in the price of fruit, vegetables, audiovisual and computing equipment. The figure suggests the next consumer price index report will be particularly ugly.

TD senior strategist Joshua Williamson said petrol was a key driver of inflation woes. If the gauge excluded petrol, the June increase would be just 0.1 per cent while the annual rate would be 2.9 per cent, which would fall within the Reserve's inflation target range.

Macquarie Bank interest rate specialist Rory Robertson said the slowdown in credit growth would be pleasing for the Reserve board.

Coupled with other readings of the economy, it suggested the next move by the bank would be to cut interest rates.

"It's too early to say it with any great confidence, but there is a growing prospect that the RBA's next move in rates will be down. By 30 June next year, a modest RBA easing cycle may be imminent, if it hasn't already begun," he said.

The Reserve figures showed that general credit growth had slowed to its lowest rate in 30 months, with even the strong business sector — which had been growing at well over 20 per cent late last year — now showing signs of fatigue.

ANZ senior economist Alex Joiner said the credit figures highlighted the "perfect storm" of higher interest rates, rising fuel prices and a slowing economy now buffeting the country. But inflation was still the Reserve's main focus. He warned it was possible there could be at least one more interest rate rise this year.

Meanwhile, the Bank for International Settlements — effectively the reserve bank to the world's central banks — used its annual report to warn people charged with setting interest rates that current food and oil price spikes may be here for the long term.