

Rates jump - again

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April 6, 2010 - 2:30PM

The central bank today lifted the cash rate - banks' starting point when calculating mortgage rates - by a quarter of a percentage point to 4.25 per cent, up from the 4 per cent level that has been in place since last month's 25-basis-point rise. "The Board judges that with growth likely to be around trend and inflation close to target over the coming year, it is appropriate for interest rates to be closer to average," RBA governor Glenn Stevens said in a statement accompanying the rates decision. Commonwealth Bank moved first, saying it will raise its standard variable mortgage rate by 25 basis points - matching the RBA - to 7.11 per cent, from Friday. Other banks, including the ANZ, are reviewing their rates with more announcements expected shortly. Today's rise extends a series of rate rises the RBA began in October, as the central bank battles to keep Australia's economic expansion on track without an outbreak of inflation. The RBA singled out rising commodity prices as likely to add to incomes and foster a build-up in investment in the resources sector. "They (the RBA) are sticking to the big picture that the global economy is improving and things here are picking up" Paul Brennan, head of market economics at CITI. "So, rates should be raised to normal levels quickly and they should soon be entering the restrictive zone as the economy stands to benefit from higher terms of trade," he said. "We expect the cash rate to rise to 5.25 percent by December."

Mortgage pain The latest interest rate rise comes days after the RBA chief Mr Stevens gave his first television interview, warning people against speculating on soaring house prices to get rich. Today's rise will add about \$45 to the monthly cost of an average 25-year, \$300,000 mortgage if it is passed on in full by the commercial banks. This comes on top of the rises that have seen the average monthly mortgage bill climb by about \$200 since October. In today's statement, Mr Stevens said credit for housing had been expanding "at a solid pace," although he noted that new loan approvals for housing had "moderated over recent months as interest rates have risen and the impact of large grants to first-home buyers has tailed off." "Nonetheless, at this point the market for established dwellings is still characterised by considerable buoyancy, with prices continuing to increase in the early part of 2010," Mr Stevens said. While economists were divided on whether the RBA would increase rates this month, some singled out the RBA's recent comments on housing as clearer pointers to their intended actions. "The RBA telegraphed its intention loudly and clearly particularly on the housing market so it's not a surprise to see the quote on 'considerable buoyancy'." said Moody's Analytics economist Matt Robinson.

China's pull Much of the impetus for Australia's economy continues to come from Asia, particularly the rapid recovery in growth of the country's largest trading partner, China. The rebound in demand is helping Australian mines post big increases in the prices for the output, with iron ore prices likely to see close to a doubling this year. "The (RBA's) commentary was still very upbeat and we expected it to remain that way," said JP

Morgan economist Helen Kevans. The terms of trade - the relative balance of export prices over import prices - is boosting income and will foster more investment, and add to the economy's momentum, Ms Kevans said. The dollar rose on the RBA decision, adding about a third of US cent to trade recently at 92.1 US cents, while stocks extended their gains to be up about 1 per cent for the day.

Strength queried The RBA's decision and accompanying explanation left some economists, though, unclear about the precise prompt for this month's move. ICAP economist Adam Carr said the RBA may be underplaying the mixed signals being sent about the overall economy's strength. "I am surprised they are playing down the marked slowing in lending data," Mr Carr said. "They clearly didn't view the decline in the lending data as a problem," he said, referring to slumping home loans which have dropped for four months in a row, most recently by 7.9 per cent in January. A shortage of available homes in Australia is one of the causes of runaway home price rises, analysts say, with new construction needed to alleviate the demand. Other weak data include the surprise drop in both retail sales and building approvals in February. In figures out earlier today, however, the number of job advertisements edged up last month building on a big gain in February, and pointing to on-going strength in the employment market.