Don't panic yet about rate rises: RBA warning

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THE fear of rising interest rates is creeping into the national consciousness again.

Following the Reserve Bank of Australia's warning that rising unemployment was not enough to stop it raising rates, a ripple of fear has spread across the continent. I had one missive in my inbox last week warning the bank was going to raise rates by two percentage points in the blink of an eye and then go much further. Scary stuff. All depends on what happens to the global and domestic economies, of course, but most people shouldn't be too worried about rates for the moment. Yes, if the economy remains on an even keel for a few more months the RBA will start raising rates. But the bank's warning had a lot to do with cooling the housing market, which has taken off again this year: reminding people that rates do go up as well as down and that the present rate setting cannot last. By jawboning the market, the RBA is hoping its tough talking will do some of the work of reining in credit growth and allow rates to stay lower than they otherwise would be. Many more people have taken on a mortgage in the past year, making the economy more sensitive to rate rises. I would argue 25 basis points packs more punch than it did in reining in economic activity now than it did 12 months ago. The RBA will be careful about raising rates too far, too fast. It will have last year's experience firmly in mind when it raised rates too high and the economy buckled. RBA governor Glenn Stevens said last week that the neutral setting for the cash rate -- neither expansionary nor contractionary -- was 5 per cent to 6per cent (against 3 per cent now). This shouldn't worry most people (and would positively delight retirees living off their savings).