

# Rate rise may be necessary, Howard admits

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Prime Minister John Howard has conceded that the Reserve Bank of Australia will lift interest rates today, saying that while he would not welcome higher mortgage rates, he had to accept they were sometimes necessary to contain inflation.

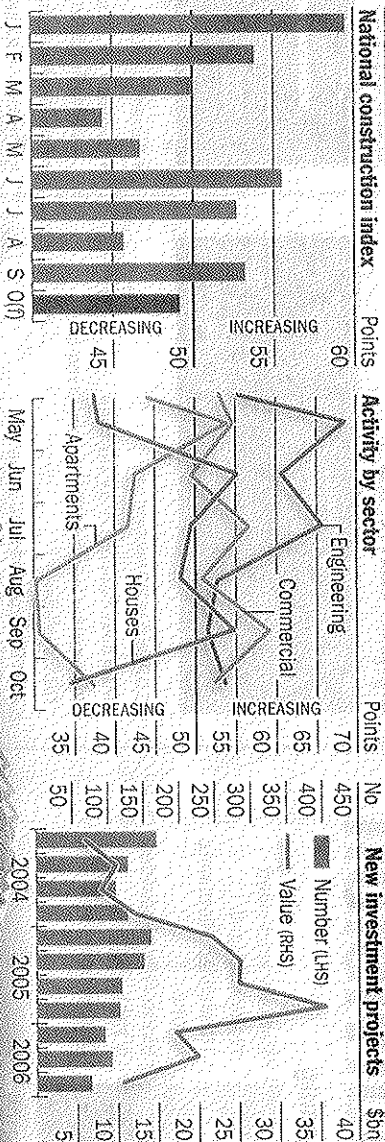
Speaking after the RBA's monthly board meeting yesterday, Mr Howard said it was clear that a rate rise was under consideration because the economy was overheating.

"I never want to see interest rates for housing go up... both as Prime Minister and as an individual," Mr Howard said. "But I have to accept the economic reality that occasionally a central bank does find it necessary to lift interest rates in the name of keeping inflation in check. If the bank were to sit on its hands and do nothing then the pain of adjustment later on might be much greater."

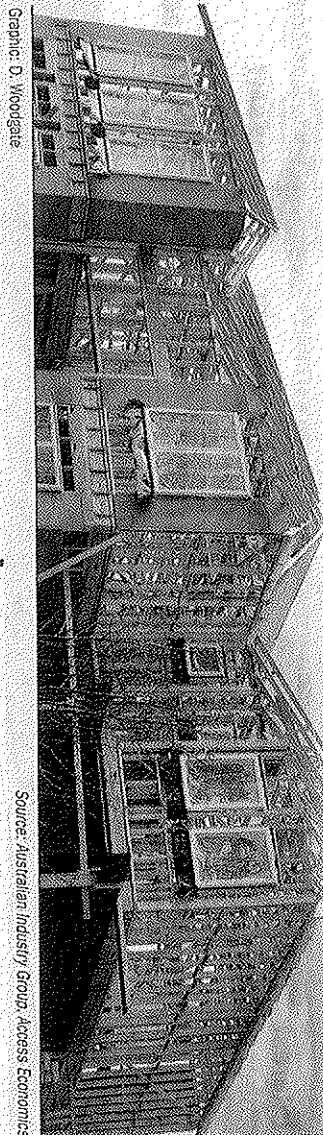
Mr Howard was commenting ahead of the RBA's announcement this morning of its decision. Financial markets view it as a virtual certainty that the central bank will increase the official cash rate by 0.25 percentage points to 6.25 per cent.

The RBA has already lifted rates twice this year by 0.25 percentage points as the headline consumer inflation rate has risen above its 2 per cent to 3 per cent target zone. The latest official inflation figures

## LOSING INTEREST



Graphic: D. Woodgate



Source: Australian Industry Group, Access Economics

showed the consumer price index rose by 3.9 per cent over the year to September, pushed up by higher food prices and the flow-on of increases in fuel and energy costs. Nationals leader and Deputy Prime Minister Mark Vaile has warned the RBA that another rate

rise at this time would hurt farmers and small businesses already struggling because of the drought. Mr Howard's comments yesterday acknowledged inflationary pressures. "The reason why interest rates went up last time... is because of the strength of the economy and the

overheating from that strong economy, which is causing some inflationary pressure," he said. But a construction industry survey issued yesterday suggested the rate rises earlier this year were already significantly dampening activity in the home-building sector.

## KEY POINTS

- Financial markets expect the central bank to announce a rate rise today.
- The Prime Minister acknowledges there are inflationary pressures.
- Home construction has slowed.

The Australian Industry Group-Housing Industry Association performance of construction index fell 3.9 points to 49.2 in October, dragged down by lower levels of activity and new contracts in the residential construction sector. Readings below 50 suggest the industry is contracting.

The HIA's executive director, housing and economics, Simon Tennant, said higher interest rates had dented demand for housing from both owner-occupiers and investors and this was flowing into lower levels of new home construction.

Access Economics reported that while the value of major capital projects rose strongly in the September quarter, much of this increase was caused by blow-outs in construction costs rather than expansion in the scope of projects.

Elsewhere, the latest St George-Australian Chamber of Commerce and Industry survey showed business conditions remained steady at high levels in the September quarter.

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