

Homeowners brace for rise

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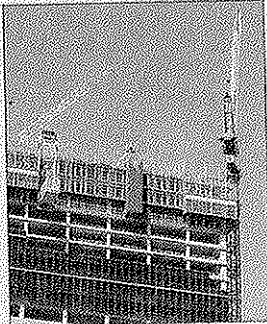
THE mortgage payments of Australian homeowners are almost certain to rise next month, as the evidence strengthens that the red-hot economy needs cooling.

The latest economic indicator, the producer price index, has shown a stronger-than-expected 1 per cent increase in the past three months.

The index charts wholesale prices and shows it is costing producers more to do business.

Australian consumers have been protected from widespread price rises so far as businesses absorb the increases. However, evidence has started to emerge that the higher costs are being passed on.

The Reserve Bank of Australia has rated the index as one of the most



ON the up ... building costs have increased.

important pieces of economic data when it has raised rates in the past.

The number was seen by economists yesterday as a worrying pointer to the inflation result published tomorrow. Inflation is currently high and is in danger of rising further.

The RBA meets on Melbourne Cup day and is almost certain to order

the third interest rate rise this year.

UBS economist Scott Haslem said only a much lower inflation rate, which is not likely, could prompt the RBA to stay on hold.

The move will take rates to 6.25 per cent, which converts into a variable mortgage rate of about 8.07 per cent.

"It does increase the risk of a rate hike," Mr Haslem said.

The prospects of a rate rise are now about 73 per cent, according to the financial markets.

The recent economic data has strengthened the case that the RBA will have to move.

JP Morgan chief economist Stephen Walters said homeowners should be prepared for the worst next month.

"We are thinking that there will be a rate rise in

November," Mr Walters warned.

An increase would be the fourth rate hike since the 2004 election and the eighth consecutive increase since 2002.

The greatest increases in the producer price index were building construction costs and fees charged by real estate agents, lawyers and accountants.

Labor's shadow treasurer Wayne Swan said the labour market in Australia was tight and the national skills crisis was affecting the economy.

"Now what's clear from the numbers today is that underlying inflation in the Australian economy is still bubbling along," he said.

"Now what is becoming perfectly clear is that Peter Costello and John Howard don't understand the pain that inflation causes to people buying a home."