MEDIA RELEASE

4 May 2010

Rates Move Beyond 'Normal'

The Housing Industry Association (HIA), Australia's largest building industry organisation, says the decision by the Reserve Bank of Australia (RBA) to lift interest rates today pushes rates above the 'normal' level and this will hit household budgets hard.

"HIA urges the RBA to exercise caution and not lift rates further over the short term in light of the still considerable risk attached to future economic performance and the blunt impact rate increases impart sectors of the economy not directly benefiting from the China-induced boost," said HIA Executive Director, Stuart Clues.

"The RBA has lifted rates six out of the last seven meetings which in combination with non-official rates has seen mortgage rates increase by 160 basis points in just 8 months, in contrast with the rest of world which has mostly left rates unchanged,"

"The rate increase today adds $51 per month to the typical monthly repayment meaning that first home buyers are now forking out an additional $317 per month more than September 2009.

"The double-whammy of increasing interest rates and a dire housing shortage will combine over 2010 to see housing affordability again reach record lows for both the home purchase and rental market.

"Negative signs are already appearing in the new homes market with both building approvals and home lending figures down over 2010. The housing shortage will only worsen over the next 12 months as the full impact of higher rates filters through.

"As pointed out in the Federal Government's Henry Taxation Review, the key action to prevent undue upward pressure on existing home values (and rents) is to ensure a sustainable boost to the new housing stock, to alleviate Australia's chronic shortage of dwellings.

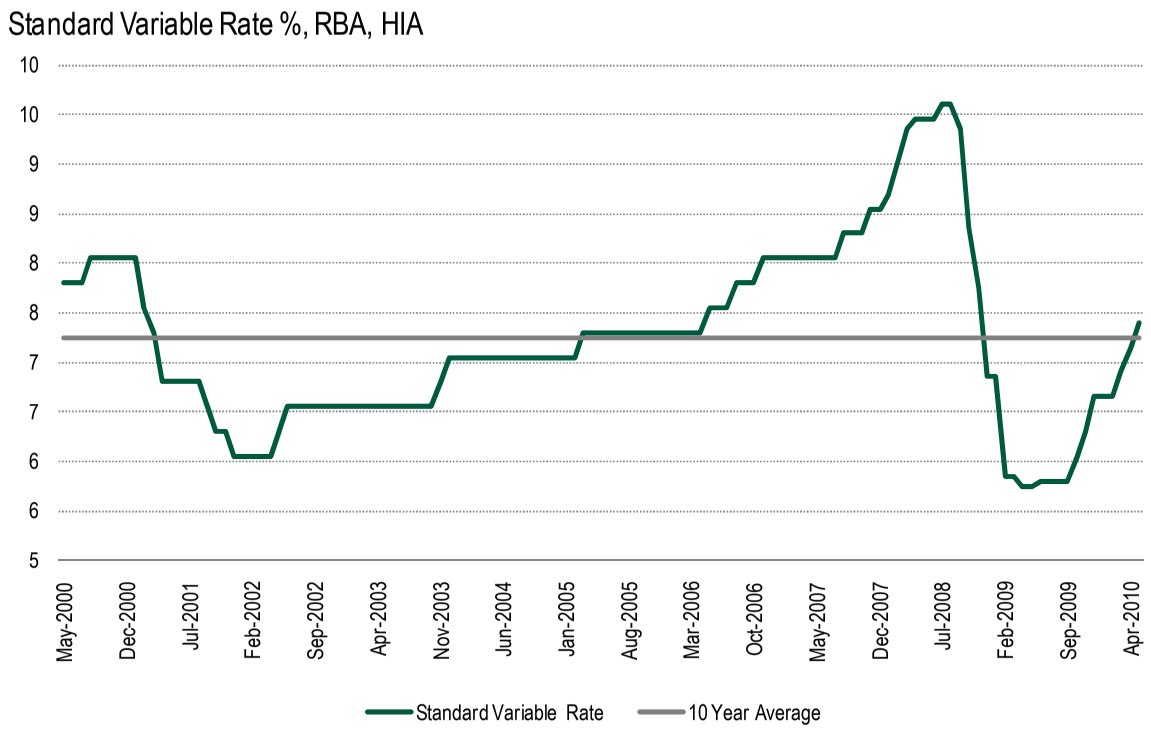
"Higher interest rates doesn't advance that cause, indeed it hinders it, as does the current severe lack of finance being extended to the residential development sector," Stuart Clues said.

Impact of Interest Rate Changes on typical 30 year housing loan ($300,000)

	Standard Variable Rate	*Repayment*	*Comparison with*	
			Sep-09	*Apr-10*
Sep-09	5.80%	$1,760	$0	-$266
Apr-10	7.15%	$2,026	$266	$0
May-10	7.40%	$2,077	$317	$51
Extra 100 bps	8.40%	$2,286	$525	$259

Source: RBA, HIA

For further information:
Stuart Clues 0438 319 753


Standard Variable Rate %, RBA, HIA
10
10
9
9
8
8
7
7
6
6
5
May-2000
Dec-2000
Jul-2001
Feb-2002
Sep-2002
Apr-2003
Nov-2003
Jun-2004
Jan-2005
Aug-2005
Mar-2006
Oct-2006
May-2007
Dec-2007
Jul-2008
Feb-2009
Sep-2009
Apr-2010
Standard Variable Rate
10 Year Average