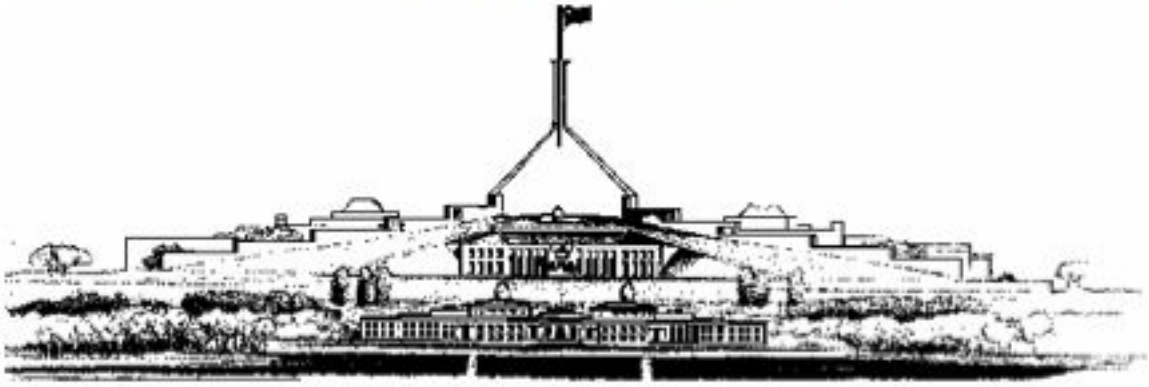
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

COMMITTEES

Economics, Finance and Public Administration Committee

Report

SPEECH

Monday, 1 December 2003

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Monday, 1 December 2003	**Source**	House
Page	23274	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (12.56 pm)—At the time of the last hearing, monetary policy had not been adjusted for a year. The official interest rate had remained at 4.75 per cent, despite the Governor of the Reserve Bank's previously expressed intention to move back to a more neutral setting, which had widely been interpreted as around 5½ per cent. When the governor declared that intention he was explicit in describing the stance of monetary policy as `expansionary'. During the intervening period, it has been evident that his hand was stayed by downward revisions in expectations for both Australian and world economic growth.

What was most significant about the June hearing was confirmation from the governor that there had been a `difference of opinion' between the governor and the Secretary to the Treasury at the previous board meeting. The difference of opinion related to the `risks about the world economy'. The governor said that there were `very big risks there' and they were `on the downside'. The Treasury Secretary saw even greater risks with world economic growth than the governor. It is significant that Dr Henry had been sufficiently alarmed about these downside risks to raise the possibility of a further easing. On the other hand, the governor's focus has been on the overheated property market. I asked the governor whether, if there were a cut in rates of a quarter of a per cent, that would be sending an entirely wrong signal to the property market at the moment. His response was:

> It could, yes. On the other hand, I do not think—as I said—at the end of the day that interest rates are necessarily crucial there.

Reserve Bank governors are always equivocal. He continued:

> But there is a risk that that could give another final boost to a credit cycle that was very late in its maturity and was probably almost about to turn down. That would not be very helpful.

It is worth contemplating the state of the housing market, which—as the Reserve Bank's own submission to the Productivity Commission inquiry into home loan affordability shows—has been fuelled in large part by low interest rates. At the June hearing, the governor was at particular pains to point out the problems with speculation in inner city apartments because they are sold off the plan, typically 18 months in advance of having to find a tenant who will pay a rent sufficient to cover the borrowings. Those speculators are seriously exposed. The governor made the point that if the `credit driven house price spiral' continues over that 18-month period and the world economy slows:

> ... then you would be setting yourself up for a very nasty explosion, which would cause a huge amount of financial distress and, almost certainly, a large recession.

They are the governor's words, not mine. He noted, however, that he did not expect that to happen because he could see the `speculative excesses starting to abate'.

Notwithstanding the easing in those speculative pressures, we need to take note of the increase in housing stress. In this property cycle it is not confined to recent home buyers, as it largely has been in the past. I represent an area which, when I was elected, had highly affordable housing relative to other capital cities. Five years ago you could buy a three-bedroom house in my electorate, with a glimpse of the sea and 25 minutes from the CBD, for $85,000, albeit in a suburb close to heavy industry. Those property values have risen by at least 100 per cent in that time. A great many people are managing much larger mortgages. Many people, encouraged by the property bubble, have traded up, adding to their mortgage burdens. Most first home buyers, except those with helpful families, have been priced out of the market.

The mortgage broker around the corner from my office goes for quite long periods without filling out a single application for a first home owners grant. The mainstay of his business is smaller loans of $20,000 to $30,000 for renovations. All of this adds to the debt exposure of people who might otherwise have been well insulated from mortgage rate increases. What has changed since the hearings to which this report refers is that there have been some signs of strengthening world economic growth and there has been one increase in official rates of

one-quarter of a per cent. We are due for another hearing with the governor next week and we will be able to probe him on all of the reasons for that, but I expect that what we are seeing is that he has resumed action to return rates to a more neutral setting. *(Time expired)*

Mr HAWKER (Wannon) (1.01 p.m.)—I move:

That the House take note of the report.

I seek leave to continue my remarks later.

Leave granted.

The SPEAKER—In accordance with standing order 102B, the debate is adjourned. The resumption of the debate will be made an order of the day for the next sitting. The member for Wannon will have leave to continue speaking when the debate is resumed.