

Homes data whets rate rise fear

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Prime Minister John Howard and Treasurer Peter Costello were united in their efforts yesterday to downplay fears for the Australian economy as more evidence emerged to support an official interest rate rise today.

A day after disappointing Mr Costello's leadership ambitions and vowing to fight the next election, Mr Howard said petrol prices were the biggest worry of his political career.

"Bananas caused a kick-up in the inflation rate, but that will pass because the bananas are growing again and as they come onto the market the supply will increase and the price will fall and that will be OK," Mr Howard told Townsville radio 4TO yesterday.

"But petrol, the big ongoing additional cost thing is petrol, and it's the greatest worry of my political life, petrol in terms of its impact on the average Australian because we love our cars."

The federal government blamed uncontrollable events such as the banana price spike as a result of Cyclone Larry and volatile world oil prices for last week's shock 4 per cent annual inflation figure.

The Reserve Bank of Australia board, including current governor Ian Macfarlane and incoming governor Glenn Stevens, met yesterday to decide whether to lift the official interest rate by 0.25 percentage points to 6 per cent.

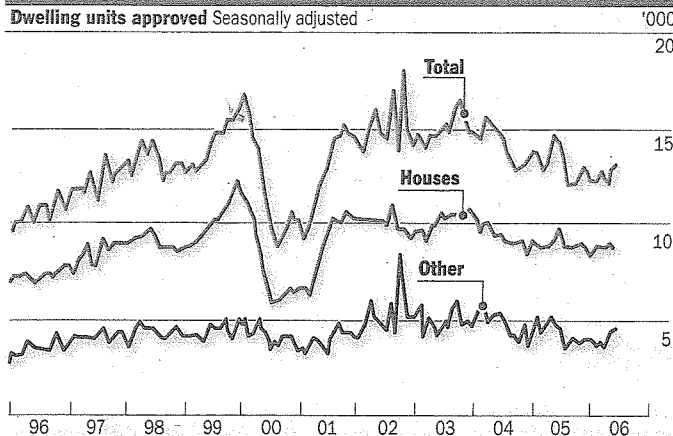
While Mr Howard said he would be silly to comment on interest rates while the board was sitting, he did add the central bank would also have to take into account Australia's two-track economy before deciding whether to lift interest rates.

"Western Australia and Queensland are doing better than other states, they are all doing quite well, although the property market in Sydney has fallen over a bit, but it will come back, it has got a great resilience about it," Mr Howard said.

"But it is true that there is a bit of a two-speed economy and that is one of the factors the bank will no doubt take into account."

Speaking in Sydney yesterday, Mr Costello sought to dismiss the doomsayers predicting an economic downturn should inflation and interest rates rise.

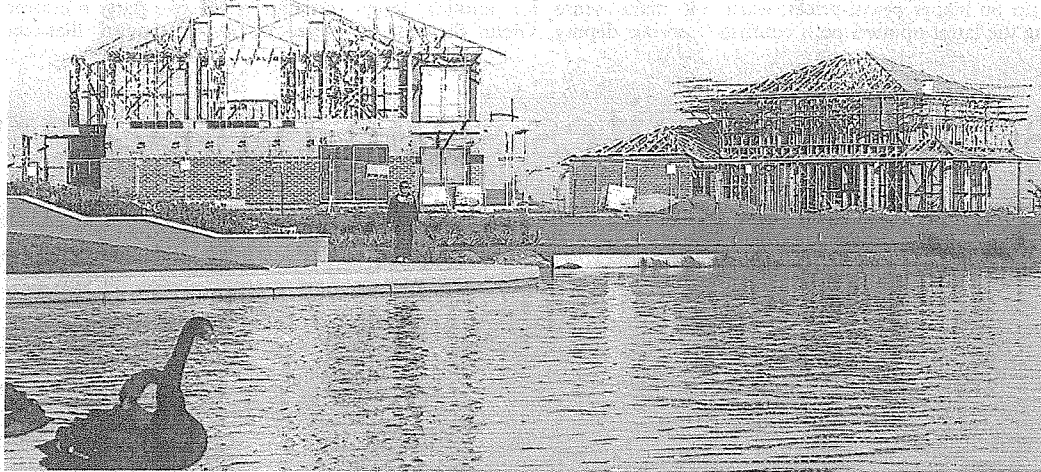
BEFORE THE STORM



Composition-adjusted house prices

| City | Change | |
|-----------|--------------|---------------|
| | 3 months (%) | 12 months (%) |
| Sydney | 1.2 | -0.9 |
| Melbourne | -0.8 | 2.5 |
| Brisbane | 1.4 | 4.4 |
| Adelaide | 2.7 | 5.9 |
| Canberra | 1.3 | 3.4 |
| Perth | 10.1 | 36.6 |
| Darwin | 6.9 | 20.5 |
| Hobart | 1.0 | 8.0 |

Source: Australian Property Monitors



KEY POINTS

- John Howard said Australia's two-speed economy needed to be considered.
- Data released yesterday showed Sydney townhouse and apartment approvals rose 13.3 per cent.

Mr Costello said there was no need for one of Australia's longest periods of economic growth to end in recession.

"If anybody tells you there is a recession we have to have, the object of economic policy is to avoid recession, recessions put people out of work," Mr Costello said.

Economic data released yesterday showed the recovery in Sydney's

property industry was already underway.

Sydney recorded its first quarterly rise in house prices above 1 per cent in 11 quarters, rising by 1.2 per cent in the June quarter so that the median Sydney house is worth \$523,000, according to a survey by Australian Property Monitors.

This represented the first break in almost three years of bleak Sydney prices which were down 10 per cent from the peak recorded in late 2003.

Perth prices continued to skyrocket, rising 10.1 per cent in the quarter to be almost 37 per cent higher than a year ago.

In addition, the Australian Bureau of Statistics reported council approvals to build new dwellings rose 1.6 per cent in June, which outpaced market expectations

which were for a 0.2 per cent rise.

The strength was in "other dwellings", including apartments and townhouses, where approvals were up 13.3 per cent, compared with new house approvals which fell 4.5 per cent in the month.

Master Builders Australia chief economist Peter Jones made an 11th-hour plea to the Reserve Bank to resist lifting rates today. "The Reserve Bank should discount a rise in the more volatile 'other dwellings' during the month as this sector of the market will continue to struggle with higher interest rates set to prolong the downturn," he said.

The Australian Chamber of Commerce and Industry chief executive Peter Hendy said a quarter percentage point rise would cost business almost \$3 billion.