RBA shakes market with 50-basis-point rate rise

ALEX DRUCE

The Reserve Bank has again shocked the market with a 50-basis-point rate increase to 0.85 per cent.

Governor Philip Lowe on Tuesday announced a second rise in the cash rate in five weeks as the RBA continues to wean the country off the emergency borrowing settings that nursed the economy through the pandemic.

The RBA was widely expected to announce its first consecutive rate rise in 12 years to quell the inflationary pressures pushing up the cost of food, fuel and electricity.

The only question remaining was how hard Dr Lowe and his board were prepared to go, with economists' predictions mostly split between a rise of 25 or 40 basis points.

Some had envisioned a 50-basis-point increase, but the biggest single rate rise since the year 2000 still came as a surprise.

The Australian sharemarket plunged by as much as 1.7 per cent on the news, while dollar briefly jumped to US72.20c.

In his monthly statement, Dr Lowe acknowledged the worrying strength of inflation as the driver behind the rise, but also pointed to a strong economy, a solid labour market and an upswing in business investment as reasons to be positive.

"The resilience of the economy and the higher inflation mean that this extraordinary support is no longer needed," Dr Lowe said.

BIS Oxford Economics head of macroforecasting Sean Langcake said the move signalled that the RBA was placing a much greater weight on getting inflation back to the target range, and that it was satisfied the labour market recovery would withstand higher rates.

"They have identified slower household consumption growth due to faster inflation and higher interest rates as the key risk to the outlook – faster rate rises add to this downside risk," Mr Langcake said.

The RBA board is engaged in a delicate balancing act that requires it to move fast enough to get inflation under control, without smothering the economy.

Tuesday's move continues what is expected to be an extended cycle of rate increases over the coming months which, while addressing consumer prices, will also drive up mortgage costs. Many also expect borrowers to pass some of this stress onto people renting their properties.

"While the rise in monthly repayments this month is relatively moderate, homeowners need to ready themselves for sizeable hikes in the months to come," RateCity.com.au research director Sally Tindall said

"These rate hikes aren't going to magically cure Australia's inflation woes. The RBA will need to hike again, potentially as early as next month and from there they could continue to come thick and fast."

Easing the cost of living has been the focal point of the political landscape for months now and Treasurer Jim Chalmers on Tuesday warned the situation would get "worse before it gets better".

"There is no point mincing words about that," Dr Chalmers said. "Our job as the government is to make sure that after some of this near-term cost-of-living relief runs out, that it is replaced by responsible long-term sustainable cost-of-living relief in areas like medicines and childcare, getting power bills down over time and getting real wages moving again."

COUPLE ESCAPES RENT HELL

TONY RAGGATT

Warren and Teresa Merchant have signed for a house and land package at new estate The Reserve in Bohle Plains after struggling to rent in Townsville. Picture: Shae Beplate

TOWNSVILLE couple Warren and Teresa Merchant are among a growing number of people moving from renting to home ownership as much out of necessity as preference.

They are buyers in a new estate, The Reserve, where they have secured a house and land deal.

With thousands of families struggling in the state's worsening rental squeeze, the estate is providing a lifeline with blocks priced from $158,000.

Having lost their home through no fault of their own, Warren, 64, and Teresa, 49, have moved rental properties three times in four years, due to the owners wanting to move back in or sell.

The couple describe the opportunity to secure a home as life-changing.

"It's just heartbreaking being forced to move," Teresa said.

"We felt we had made a house into a home, built friendships with the neighbours and were really a part of the community, only to have to leave it all behind.

"After having to do this over and over, we were so grateful for the opportunity to secure land of our own at a price we could afford as we really didn't think it would happen for us. We are really excited about the prospect that we can settle into this small community as it grows.

"It will be one of those friendly social communities where we can walk our dogs and say hello to each other.

"It will be our very own place of comfort where both our children and grandchildren can come and stay."

The Merchants said their new home payments would be the same as what they were paying to live in a rental and hoped to move in before Christmas.

Sales manager for the Urbex-developed estate, Sue Bidgood, said the Merchants were among many couples escaping the rental squeeze.

"With Townsville currently experiencing low vacancy rates around 0.7 per cent, one of the biggest pain points for locals currently is securing a rental in such tight markets," Ms Bidgood said.

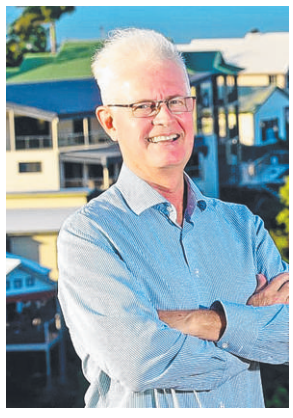
"The Reserve is aiming to provide a whole lifestyle and community experience at affordable prices, providing the opportunity for local families to finally have a home of their own."

The 221-lot estate is off Shaw Rd in the Bohle Plains.

The Reserve, connecting through to Harris Crossing to the south and Greater Ascot to the north, is expected to be developed over the next three to five years.

The estate is open for viewing from this weekend.

Hike tipped to add $850 a year to median mortgage



Economist Colin Dwyer.

LEIGHTON SMITH

NORTH Queensland's cost of living crisis is set to worsen after the Reserve Bank of Australia Board lifted the cash rate by an aggressive 0.5 points for the first time since 2000.

The steep rise in cash rate to 0.85 per cent was correctly forecast by regional economist Colin Dwyer.

"(This) decision is likely to add over $850 a year to the median Townsville mortgage," Mr Dwyer said. "Combining last month's increase with today's decision – that's over $1300 a year extra.

"Households and businesses should continue to prepare for more rises in the cash rate and mortgages and changes in sentiment before the end of the year."

He said it was positive that financial institutions and the RBA regarded clients and households as having sufficient buffers, with the capacity to cope with current and future mortgage rises.

"Rising mortgage rates are likely to influence higher unemployment," he said.

"The challenge for households and businesses is the combination of price rises for essential items like electricity, fresh food, petrol, home insurance, rents and mortgages."

The Ukraine war was influencing the cost of electricity and petrol while flooding in South East Queensland impacted fresh food costs.

"The combined increase in the cash rate and the expectation of future increases is likely to be a drag on local growth, local property sales, retail activity, business investment, confidence and momentum," Mr Dwyer warned.

Despite the setback for borrowers, his RBA rates forecast record remained positive.

"Townsville is in a much better position than average Australia. Townsville's median mortgages are lower, a third of Sydney and less than half Brisbane and the region is still creating jobs," he said.