



# Interest rates set to rise

From the desk of ...

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INTEREST rates appear to have hit bottom as the Reserve Bank (RBA) has left interest rates unchanged at a 49 year low of 3%.

The RBA has removed its inclination to cut rates and has indicated that the next move will be an increase in rates. While the RBA has made it clear that rates have bottomed for now, it is certainly not suggesting that rate hikes are imminent. It is clear from the latest statement from the RBA that the global and domestic economies are doing better.

CommSec doesn't expect interest rate hikes to begin until 2010.

While economic conditions have been stronger than expected the RBA is warning of some after effects as the government's stimulus spending works its way through the system.

While the RBA does not want to derail our economic recovery by increasing interest rates, it is aware that the longer interest rates remain super-low, the greater the risks of imbalances developing such as a housing bubble.

The "normal" or natural cash rate as indicated by the RBA is around 5.25%.

“As improvement in economic conditions continues, rate increase will gradually draw nearer”

Borrowers should expect that eventually cash rates will need to rise around two percentage points.

The RBA has also indicated that rate increases will occur when the global economic recovery becomes durable. As improvement in economic conditions continue, rate increases will gradually draw nearer. Borrowers should start planning now for higher interest rates in the near future.

Reserve Bank Governor Glenn Stevens has also warned Australians that the dangers of rising house prices and current low interest rates need to translate into more dwellings, not just higher house prices. “If we fail to do that – if all we end up with is higher prices and not many more dwellings – then it will be very disappointing, indeed quite disturbing.” Glenn Stevens said.

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