



Rate cuts could fire up property market

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THE Reserve Bank of Australia is expected to keep rates steady today but cut within months, which could fuel a property boom.

The RBA is likely to keep interest rates on hold at 7.25 per cent today, but experts are tipping cuts within months.

Data out yesterday showed that house prices in the nation's capitals have fallen, with more drops expected, in further signs the economy is cooling sharply.

Home owners are now battling falling prices and official interest rates that are at a 12-year high. But it's not all bad news for the property market, with one expert saying rate cuts could set Australia up for another property boom.

Commsec chief equities economist Craig James said a "triple whammy" of factors was paving the way for a boom once interest rates were cut again.

"Not only is the rental market super-tight, but population growth continues to strengthen and speculation has shifted to rate cuts," Mr James said.

"If rates are cut in coming months, investors could easily swing from cash-based investments and the share market to the property market."

Mr James said house prices were "about right", given they rose by 8.2 per cent in the year to June, identical to the 20-year average of the Australian Bureau of Statistics house price index.

Melbourne house prices fell 0.3 per cent - in line with the national average - but other capitals, including boom city Perth, slipped 2.4 per cent in the quarter. It is the first time in three years house prices have fallen.

Combined with other data showing a tightening in the job market, it means the Reserve Bank is shaping up for an interest rate cut within the next couple of months.

Other data also showed job advertising fell for a third successive month.

The ANZ newspaper and internet job ads survey fell a seasonally-adjusted 0.3 per cent in July.

ANZ expects jobs growth is now likely to slow and predicted the jobless rate would climb to 4.9 per cent by June next year, up from 4.2 per cent in June this year.

A survey by AAP of 19 economists showed they all expect the RBA to keep rates on hold today, for the fifth month in a row. However, three economists are now forecasting a rate cut by Christmas and 10 are pencilling in rate relief in the March quarter of 2009.

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