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PRESS CONFERENCE ON  
INTEREST RATES

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Tape begins as follows:

Prime Minister

...but we are expecting also that for overdrafts over \$100,000 they mightn't all come down by the same amount. But there will be general expectations that the average of the reductions would also equal a half percent. It ought to be noted that in that area, competition over the last two or three months, as we are advised by the banks, has already forced reduction of about .2 percent so that in a sense has led to moves now being announced officially by the trading banks of Australia. This is further confirmation that the Government's policies are working. They are going to continue to work and our objective will be to see a steady, continued and sustainable reduction in interest rates. And I think this is very pleasing news and indicates that we are by and large on track in this area.

Question

What effect do you think these reductions will have?

Prime Minister

It's a further mark in reducing inflation. We've indicated on a number of occasions the effect that reduced interest rates have on businesses; reduces the cost of money to them and as reductions become more pronounced over time, the advantages to industry, to farms, is obviously going to be significant. There is encouragement after so many years in which interest rates have tended to move in the wrong direction -- to know that the efforts to get rates down is now starting to bear fruit across the generality of overdrafts.

Question (Peter Harvey)

(Inaudible)...

Prime Minister

Well it is worth noting that the housing area did come down earlier this year by half a percent. Quite obviously with the continuation of the Government's policy that in the future we will be looking for further reductions in the housing area. This matter has been discussed in recent times but it is hoped that these moves should take place and be established and then that will be further assessed.

Question (Peter Harvey)

...moves will apply pressure though, surely?

Prime Minister

Of course it will and I think that also in a gentle way applies some pressure on Premiers who are often have a closer relationship to their building societies of course than we do. I would hope that the Premiers would be looking at what they could do to help with the general moves down, very earnestly, as a result of this.

Question

Can we expect another reduction in the fairly near future?

Prime Minister

I'm not going to put a time scale on it. Let me just say that the policy is working and under the policies that we have in place we would expect that the movement would be steady and sustained and quite obviously, a further reduction in the housing area would also be extraordinarily beneficial.

Question

Would you expect that this move now will significantly stimulate the employment situation?

Prime Minister

What happens in economy is a result of the effect of policies over time. You are not going to get to one particular point, one particular event, one particular day and suddenly say look, this is meant to be the breakthrough because I don't think an economy works like that. You need to have in mind the changes that have been taking place in the Australian economy over the last two or three years

One of the things I've noticed which heartens me greatly; the reactions from people and industry over recent months has been much much more optimistic for the future. Now it's still patchy but a number of industries are looking forward to the future with greater confidence, with better orders. Many are getting into export markets and there is the kind of example General Motors that's been quoted that's put on many hundreds of people over recent months, - expectations of putting on more over the next few months, another 500 or 600 by about April and that's a major industry. But in a number of smaller industries we've found them getting back into export markets. The sporting goods manufacturers are again seeking export orders. Many firms, use the example of colour television sets to Hong Kong, women's underwear to Japan made in Australia, furniture to Sweden, Australian-made saddles are being sold in Denmark and Germany and Europe, Southeast Asia and none of this could happen if there wasn't a reasonable cost base in Australia and if Australian industries weren't competitive, if they weren't producing a quality product. Now two years ago we didn't find this sort of activity, we didn't find this sort of interest, this determination to get up and do things. It is now becoming evident, through Australian manufacturing industry. We know unfortunately that of all the indicators employment is going to be the last indicator to respond. But the feeling

PRIME MINISTER (continued)

going around the manufacturing sector is one of much more enthusiasm and I think it will be present for some time.

Question

Do you think the trading banks wanted to do this or have they reluctantly acted because of...

Prime Minister

I think they've reacted to the market forces as much as anything else, because I made the point that over the last two or three months overdrafts over \$100,000 have come down as we have been advised, by an average of .2 percent and that's been quiet and unobtrusive. If people have been watching the marketplace I think they would have been aware that the deposit rate for large deposits, that's over \$50,000, has come down over the last three or four weeks and these are moves that the banks have initiated on their own. You've got the market situations I think and Government policy also because that can help to establish the market situations, have put them in the position in which the responsible thing to do is to make this move in lowering interest rates.

Question

The banks were saying only two or three weeks ago that they thought the time was not right for a move down and they mentioned (inaudible)...Was there a deal done...

Prime Minister

No, there was no deal in relation to that. At the very time in which that particular statement was made the banks had already started to move their deposit rate down on large deposits, which seemed to be somewhat in conflict with the public statement. As I indicated, the interest charged on larger overdrafts had started to come down two or three months ago.

Question

How would you account for that apparently conflicting position?

Prime Minister

I think you would have to ask somebody else that.

Question

Why was the loan announcement made last night, which is two weeks before the opening of the loan. It is normally made a week before the opening of the loan.

Prime Minister

Because there wasn't going to be a cash loan in addition to the conversion loan and the sooner the market began to know that the better.

Question

There have been instances in the past where there have been cash loans and the announcement hasn't been made that early?

Prime Minister

The rates advised were the rates proposed to us by Bank and Treasury advisers in this particular matter. Eric might like to add to it, but this came to us in the normal way and the Premiers were advised. I don't think there is anything unusual in relation to that.

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There was nothing abnormal in the procedure taken on this occasion at all? The Premiers were telexed in the same way -- loan council and it was thought desirable that this information there wasn't going to be a cash loan. (Inaudible) there was nothing extraordinarily unusual in the procedure.

Prime Minister

This is another area where if you watch the markets you would have been able to see that the Reserve Bank had been operating in the market to bear down on interest rates ever since the so-called indigestion period, in inverted commas, when the last loan had concluded.

Question

The market was decidedly edgy, from my reading of it, and this was generally regarded in the markets as an attempt to settle it down. They didn't expect the announcement a week earlier than normal. Would you like to comment on that?

Prime Minister

I wasn't aware of any edginess. I don't know how you make that sort of judgement.

Question

Well, there was a certain amount of selling pressure developing in the market.

Prime Minister

Yes, and if you look what had happened in the United States and the index there and in other markets overseas; If you look also at the implications for the European monetary system, which as I understand it will enlarge the market or the access in market for those in Britain for example who might want to buy Australian dollars to invest in the Australian market, there are a number of events occurring overseas that have implications.

Prime Minister (continued)

This is - I specifically asked a question in relation to the stock market and that's the sort of answer, again, I was given.

Question

Would you expect an increase in the volume of lending by the banks following this reduction?

Prime Minister

The bank lending has been at fairly high levels, I understand it, over recent weeks. I think it's the cost of living as much as the volume...

Question

Would you expect an increase in the volume of loans?

Prime Minister

I wouldn't have thought particularly.

Question

Isn't there limit on that agreed between banks and the Reserve Bank?

Prime Minister

Yes, but it is not an arbitrary limit.

Question

Is that limit still going to stay the same.

Prime Minister

There is a general guideline but it's -- you know you don't hit the same level each particular week. It's a general trend line.

Question

That's not going to change for a year?

Prime Minister

There has been no advice to change.

Question

Do you expect this reduction in interest rates to affect in any way the amount of money coming in from overseas.

Prime Minister

I wouldn't have thought so.

I would have thought that the major determinant of that is our rate of inflation compared with other peoples.

Question

Have you had any contact yet with any of the Premiers and did they hope that or expect that the building societies will follow...

Prime Minister

I haven't had any contact with the Premiers yet. I will be. I wouldn't go anticipating further moves imminently. I wouldn't want to leave that impression or I wouldn't want you to draw that conclusion but I did make the point that Premiers are in a position to influence building society rates. Some Premiers more so than others because they have the statutory relationship. State Government to building societies differs between the states.

Question

But you wouldn't expect such moves in the next say three months?

Prime Minister

Good heavens, I'm not putting a time scale on it.

Question

How does this change affect your target for bringing down infrastructure by 2 percent this year?

Prime Minister

Well, some rates will have come down very nearly by that amount. It's -- I think I've got some rates here, not all but I think again if you look at the words I used, because this is not uncommon, the words I used were chosen carefully - XASD 1.25; Commonwealth Bonds 20 years 1.7, 10 years 1.6; finance company, commercial mortgages 2 percent; industrial debentures 1.5 percent; some of the moves down, a number of diverse areas are now quite substantial.

Question

(Inaudible)

Prime Minister

September, '77.

Question

I think your actual words were what cost to ordinary people...

Prime Minister

Some important rates could come down by up to 2 percent.

Question

I think there is another quote about what people -- housing payments.

Prime Minister

I gave an example of what a 2 percent reduction would mean for housing.

Question

(inaudible)

Prime Minister

Half a percent. But the two percent wasn't specifically related to housing.

Question

That was an example you gave, wasn't it?

Prime Minister

yes.

Question

Do you expect to meet your monetary target for M3 of 6 to 8 percent by reducing further interest rates?

Prime Minister

I have been given advice today that there is no reason why monetary targets should not be met.

Question

Was that based on a belief that there were seasonal factors operating out and pushing money supply up?

Prime Minister

There are always seasonal factors. One of the factors that is operating from now on are various tax changes.

Question

Do you see the tax changes taking a great deal of money out of money supply?

Prime Minister

They are a factor but that's only one of many factors that operate.

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