

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 14 – 15 February 2007

Question: aet 97

Topic: CPI Housing Rents

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Senator SHERRY asked:

What about the potential impact of housing rents flowing through to inflation; has that been given any recent examination? Today there is a superannuation link story, but there has been more regular commentary about the increase in housing rents, the increase in returns. Does Treasury have any observations to make about what are apparently increasing housing rents?

Dr Kennedy—Housing rents, in the CPI, have been growing, I think, at around 3.7 per cent through the year—once again, it is a number I will get checked in a moment. But it is also the case that the whole stock of rents take a fair bit of time to change, to turn over, and there has clearly been evidence of acceleration in housing rents. So it is an issue that we have been thinking about and the extent to which it might feed into prices.

Senator SHERRY—Has the growth figure been higher than that 3.7 per cent in the immediate past?

Dr Kennedy—I will take that on notice. I think there has been somewhat of an acceleration of rents in that CPI number. There is certainly evidence coming to bear that the new rents that are being settled, if you like, have been increasing. But, as I said, that takes some way to work its way through. A measure of rent is based on the whole stock of rents. The increase in rents would have been an acceleration, certainly since its longer run growth was reasonably modest for some time.

Senator SHERRY—So it is a recent trend for it to edge up, if you like, or move up?

Dr Kennedy—I believe so. I will confirm that for you.

Senator SHERRY—Why would that be the case? Why would housing rents increase? What has happened that has led to that?

Dr Kennedy—Basically, more demand, presumably, for those rental properties than there has been supply would see rents start to increase, and that is likely to be what we are seeing. Activity around the housing market has been quite modest for a couple of years, and the population has continued to grow reasonably strongly. It would be mixed, but I am certainly aware that rental vacancy rates are low in most cities—in fact, all cities, I think, around two per cent or lower.

Senator SHERRY—What proportion of the CPI are housing rents? Is it reasonably significant? I am not looking for the exact figure.

Dr Kennedy—What do you mean by ‘is it significant’?

Senator SHERRY—The weighting by level compared to other components would be a better way of putting it, I think.

Dr Kennedy—I think it is low single digits, but I can get someone to find that out for you while you’re asking questions, if you like.

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Senator SHERRY—Yes, sure. I don't think we'll finish before the lunchbreak at 12.30—I am sure we won't—but perhaps if you can get some information on that for when we resume after lunch.

Dr Kennedy—We think it is about four per cent of the basket, but we will check that for you.

Answer:

Rents in the Consumer Price Index (CPI) grew by 3.7 per cent through the year to the December quarter 2006.

Growth in CPI rents over a longer period can be obtained from the ABS publication Consumer Price Index (ABS Cat. No. 6401.0).

Rents constitute 5.2 per cent of the CPI basket.