

Dear Senators,

I support the intention to protect consumers with fairer bank fees on bank transactions and credit card accounts.

However, setting up an independent regulator to keep fees in check would be trying to address the symptoms without understanding the cause. The banks are under pressure from the financial markets (especially from institutional and other shareholders) to report ever increasing profits. The banking industry in Australia is in a mature state, especially as far as the consumer market is concerned – people with mortgages to the hilt and credit card debt bursting at the seams, there is very little the banks could do in terms of alternate products or market penetration to maintain/increase their profit levels. The obvious course of action is to increase the fees.

You may know that the big four banks reported total profits of \$8.5 billion in 2000 but by 2007 this has grown to \$16.5 billion – a compound annual growth rate of 11.7%. This is not unique to banks, similar pressure is exerted on companies to have annual profit growth figures in double digits.

This brings us to the question of whether the increases in CPI or inflation is due to 'consumer demand' or due to a combination of financial market expectations and lack of competition in key sectors. If you look at the latest ABS figures on inflation, it is very clear that the price growth in discretionary expenditure items (shaded) are either too low or in the negative territory, whereas the staple goods and services have increased markedly.

I do not believe this is caused by excessive demand (unless the people are expected to forego food, not travel etc) rather due to price increases by the supplier. It is no good using interest rates as a break to lower the inflation, as any reduction in consumer demand may encourage the suppliers to further increase the prices to maintain revenue levels. The vicious cycle will push working families to the wall, while the Australian companies search for profit growth in an ever decreasing Australian market.

As the Parliamentary Committee on Economics, you will serve the people well by looking at the whole picture of competition and pricing across all the key sectors and keeping an eye on the ACCC grocery price inquiry as well.

Sincerely

I Emmanuel

	<b>Dec Qtr 2007 to Mar Qtr 2008</b>	<b>Mar Qtr 2007 to Mar Qtr 2008</b>
<b>Weighted average of eight capital cities</b>	<b>% change</b>	<b>% change</b>
Transportation	1.9	6.8
Financial and insurance services	1.7	6.8
Food	2.1	5.7
Housing	1.9	5.7
Health	4.0	4.6
Education	5.2	4.3
Alcohol and tobacco	1.0	3.8
Recreation	-0.3	1.4
Communication	-0.1	0.1
Clothing and footwear	-2.4	-0.5
Household contents and services	-0.6	-0.7
<b>All groups</b>	<b>1.3</b>	<b>4.2</b>
All groups excluding Housing and Financial and insurance services	1.1	3.5