Sydney Wealth Aged Care Financial Planning Investor Investment Tax Accountant Says Australia’s Economy Needs A Miracle

Australia’s Economy Needs A Miracle Bigger Than A Rate Cut

Australia’s Economy Needs A Miracle Bigger Than A Rate Cut 2018 saw the Australian economy grow at an annualised rate of 3.8 per cent over the first six months, which is well above average, propelled by strong contributions from the household sector and net exports. However, by the end of 2018 growth had slowed significantly falling to an annualised rate of 0.9 per cent, the lowest rate since the second half of 2008, during the global financial crisis.

The ongoing global slowdown and local factors significantly impacted Australia’s growth. Locally, the bad news has centred on declining house prices in the largest markets, Sydney and Melbourne, the value of which underpins the Australian economy. Shrinking household equity has put the brakes on consumer spending as they tighten their wallets immediately affecting retail. Property developers are thinking twice before beginning new construction projects as well. The slowdown in household consumption growth and the retreat of property investment were responsible for about half the decline in economic growth between the first and second halves of last year.

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Leading Australian financial expert Thomas Mousa, partner at Sydney-based TLK Partners says, “It’s almost the perfect storm, the government are stuck between a rock and a hard place.”

Looking forward, Australia’s economic outlook will continue to be shaped by juggling its growth prospects. On the one hand, continued caution on the part of consumers from falling house prices and a retreat in dwelling investment will weigh on growth and continue to affect the broader retail market. On the other hand, increased government spending on infrastructure and services, resource exports, and the effect of increased tax cuts announced in this year’s federal budget will add to growth. Overall, these factors are expected to result in a below-average rate of economic growth of around 2.2 per cent over 2019.

Mousa says, “Another fundamental issue is the escalation in household debt. Cash strapped consumers are turning to payday loans, Zip-Pay and After-Pay to fuel their consumer addictions when they can least afford it. Australia’s day of reckoning will come sooner rather than later with burgeoning bankruptcies that will add pressure to Australia’s cash strapped social welfare system if it is ignored.”

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Financial relief may come as soon as next Tuesday for Australian borrowers as lenders rush to cut their rates ahead of a widely anticipated Reserve Bank decision.

It is forecast the Reserve Bank of Australia will cut rates at least twice over the next year, to provide relief for borrowers and with a view to stimulating the economy.

“There is little room to move,” Mousa says, “but something is better than nothing. The economy is on a knife edge and these are precarious times for consumers and business owners.”

The rate cut is not a ‘done deal’ but, the odds of Australia's RBA announcing this rate cut has risen to 92 per cent, according to Refinitiv market data.

Be that as it may, preemptive moves by NAB, ING and BOQ have cut their rates to pressure the competition and it is a sure sign they believe the rate cut is imminent.

Almost 50 lenders cut their fixed rates in the last two months, according to financial comparison website RateCity, which is further evidence of an anticipated RBA rate cut.

One customer-owned financial institution has cut its one-year fixed mortgage rate (for owner-occupiers paying principal and interest) to 2.99 per cent — the first institution to offer a home loan below 3 per cent.

"Lending rates of less than 3 per cent will be commonplace in Australia very shortly," Mousa predicts.

“There are winners and losers in every economic season,” Mousa says. “Australia could be on the cusp of a great wealth transfer, where opportunity abounds for those who ‘saw the signs’ and positioned themselves well,” Mousa said.

While borrowers are now able to get loans at record low interest rates, this has yet to feed through to increased demand for debt.

The latest official data show home lending growth fell to 3.9 per cent over the year to April — the weakest annual growth rate since records began in 1976.

"Australians who want financial security must have a plan," Mousa says, "the old adage rings true, 'if you fail to plan, your plan is to fail."

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