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LOW INTEREST RATES – NOT GOOD NEW FOR EVERYONE

They are a boon for those with mortgages but not entirely good news for everyone.

Interest rates are now at record lows in Australia. The most recent rate cut announced by the Reserve Bank of Australia (RBA) was made on the back of weak economic growth, low inflation and a rising unemployment rate. The move is designed to stimulate the economy, business activity, and household spending in the face of slowing growth, sluggish investment and low commodity prices. That's the theory anyway.

Low interest rates can be perceived as a double-edged sword for people looking to invest in property. On one hand it's never been cheaper to borrow money, which is great if you're looking to buy your first home or purchase an investment property. On the flip side, easy borrowing enablement increases competition for the properties on the market and ultimately pushes property prices up. Also, there's always the additional risk of RBA potentially increasing the interest rates if the economy heats up.

Low interest rates can also have a negative impact on those who are saving or living off their savings such as self-funded retirees. This means that investors and savers, particularly those in retirement, are going to have to make their money work harder in order to receive a similar return and typically this involves taking on more risk.

Interest rates also have an effect on the value of a country's currency. As interest rates go down, so too does the value of the currency, making exports more competitive and imports more expensive. As a result we may see the cost of imports increase over the next few months.

This includes a whole raft of imported goods such as electronics, clothing and cars. So if you're thinking about buying a new TV or computer, you should consider these effects before purchasing.

For those shoppers accustomed to buying overseas goods online, the price impact will be more immediate. Naturally, a fall in the value of the Australian dollar is bad news for those travelling overseas, but may well have a positive effect for the local tourism industry as Australians begin to realise that it may be cheaper to spend their holidays within Australia rather than venturing overseas.

Lower interest rates can also lead to greater investment in the share market as more people search for a better yield in shares. This in turn can have a positive impact on many super funds. Asset values may increase as savers may be prompted to include more assets with higher expected returns in their portfolios.

If you are unsure about how low interest rates may be affecting your retirement savings it doesn't hurt to get in touch with your financial adviser. They will be able to review and assess your position and ensure that your financial wellbeing is protected now, and into the future as your needs and circumstances change.

Source: Capstone Financial Planning.

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