Dollar Growth Financial Group

SMARTTALK

Financial Planning | Tax and Accounting | Mortgages | Estate Planning

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DID YOU KNOW?

For the first time ever, young people wanting to enter the property market have to compete with retirees who are in the process of downsizing. This intergenerational competition for the same type of properties is seriously disadvantaging the younger generation and distorting property prices.

But who is doing it tough?

In 1973, the average capital city house price was five times the average annual income. In 1993, it was six times. In 2013, it is ten times the average annual income.

Is this a bubble in the making?

Message from Philip Enger

Since the February edition of Smart Talk on the topic of inflation, the major world economies, including our own have not experienced inflation driven problems. This is both surprising and welcome. Surprising, because on going Central Bank driven stimulatory attempts to drive economic activity can be a dangerous strategy to pursue and can trigger inflation outcomes; and welcome, because the last thing the global economy needs right now is instability induced by inflationary pressures and concerns.

There is mounting evidence that the US economy is on the mend and that the expansionary monetary policy being pursued by the Federal Reserve may be beginning to work. The next step is dangerous: when to terminate this policy initiative. If it is aborted too soon the economy may not have achieved enough momentum to thrive on its own. If the injection of stimulatory funds is continued for too long, inflation could kick in and undo all the good work done thus far.

The major world economies are all relying on Keynesian policies to weave its magical outcomes and produce a new nirvana (it is the state of being free from suffering). The danger is that inflation and a host of devalued currencies could spoil it all. Our own nirvana could then be a casualty by default.

We at Dollar Growth Financial Group will continue to keep our eyes and ears attuned to these developments and keep you informed.

We have a critical stake in this outcome. Let's hope that the US, UK, Japan, and Europe can get their policy settings right. On the home front, our key economic indicators as monitored by the Reserve Bank continue to attract the envious eyes of the world.

Remember inflation is the biggest threat not only to economic stability, but also to your desired lifestyle.

Kind Regards,

Philip Enger
Managing Director

INFLATION PART 2

HOW IS AUSTRALIA DOING?

The so-called 'helicopter' era (endless dollar notes being tossed by the bag full from the sky, otherwise known as Quantitative Easing), is being used to pump large amounts of extra liquidity into an economy to stimulate growth, is being utilised as a major policy initiative in both the US and Japan. While the Federal Reserve in the US is trying to induce employment growth by stimulating the local economy and leverage the export advantage currently being experienced because of the lowered value of the US Dollar, in Japan the goal is to stimulate the economy for a different reason: to help overcome crippling deflation that has held the Japanese economy captive for over fifteen years.

During periods of deflation consumers stubbornly resist spending because they know that by putting off purchases they will be able to get better deals some time in the future as prices are expected to keep on falling. Businesses respond by trying to tempt consumers into the market place by lowering their prices. This downward spiral of prices continues until inevitably sellers trade at a loss and many businesses eventually fail. The deflationary spiral results in slowed economic activity, disappearing profits and mounting unemployment. Deflation is a devastating environment to escape from and can be highly damaging to the economic and social fabric of a country. In this paradoxical situation, while the US is mindful of the ever present danger of sparking a period of inflation that would/could cancel out the benefits of the stimulatory effort, in Japan the BoJ has deliberately set an inflation target of 2.5% as a policy desirable outcome to try to induce consumer spending and a depreciation in the value of the Yen to assist manufacturing and drive Japanese export activity.

Why is all of this important for the Australian economy and for local investors who are relying on a dynamic low inflation, low unemployment economy to fund their retirement expectations? As we all know there is nothing like the pressure of rising prices to erode away the value of our wages, throttle consumption and in turn trigger business failures and rising unemployment. As we live in a global economy anything and everything that influences consumer confidence here or abroad is likely to impact on economic behaviour and sentiment. Our own mining sector is especially sensitive to trends and events in China, which in turn can be influenced by the level of economic activity in the US, that is a huge export market for it.

Lead times are long, so the investment environment which always reflects the medium or long term in its current share pricing, can quickly turn a thriving economic landscape into a rout on the share market.

Australia more than any other economy has largely escaped the huge fallout from the GFC. The Reserve bank has been assisting this process by reducing interest rates thereby reducing costs to business and helping home mortgage holders with their monthly payments. Not withstanding the two speed nature of the Australian economy with the mining industry doing well and manufacturing and the retail sector being forced to contain costs and enter into a period of restructuring, (doing things differently/better), inflation is well within Reserve Bank target and unemployment is surprisingly low. This is a good situation to be in. However, the political instability being felt around the country is not a welcome or desirable situation and could impact on mid-term investment decision making.

Quantitative Easing (QE)

Quantitative Easing (QE) is an unconventional monetary policy used by central banks to stimulate the national economy when standard monetary policy (lowering interest rate) has become ineffective. A central bank implements quantitative easing by buying financial assets from commercial banks and other private institutions, thus creating money and injecting a pre-determined quantity of money into the economy. This is distinguished from the more usual policy of buying or selling government bonds to change money supply, in order to keep market interest rates at a specified target value.

Expansionary monetary policy typically involves the central bank buying short-term government bonds in order to lower short-term market interest rates. However, when short-term interest rates are either at, or close to, zero, normal monetary policy can no longer lower interest rates. Quantitative easing may then be used by the monetary authorities to further stimulate the economy.

For more information or to talk to one of our team, visit our web site or call us on **9787 5555**.

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