Financial savings with lower interest rates!

Wondering how to get yourself a lower mortgage rate?

I had another client call me just this week, asking if we could help to get their mortgage rate down from the current 4.9% that their (I won't name them…) lender has them on. Considering new loans are around 3%, the saving in interest per year to this person will be nearly $6,000 per annum!

I'm afraid there's not much joy for those of us with cash though – bank deposit rates continue to fall and are predicted to go lower soon. There can be alternatives, so please reach out if you need help.

Brett

Brett & the team

The impact of rate cuts from the Reserve Bank of Australia

Last year the RBA cut rates by 0.25% in June, July and October. This was for several reasons. The RBA was responding to a weaker global economy and was concerned about how this would impact the Australian economy. It also hoped that by cutting interest rates it would lower unemployment without increasing inflation substantially. And a third reason was to stop the Australian dollar rising too much, which would impact our exporting businesses against countries such as New Zealand which had already cut interest rates substantially.

RBA rate cuts have different impacts across the economy. Some groups and areas benefit while others are disadvantaged. These include:

BORROWERS

The majority of bank lending is for housing. Lower interest rates, provided they are passed on by banks to borrowers, reduce mortgage repayments and improve borrower spending capacity. The hope is for increased consumer spending to support economic growth.

SAVERS

Savers are penalised by lower interest rates because they receive less interest income. This disadvantages retirees and people with large amounts of cash held in bank accounts or conservative investment portfolios.

PROPERTY MARKET

Lower interest rates increase potential borrowing power and help to increase property prices. They also make property, with its potential for higher returns, more attractive than other safer investments such as cash. As a result, following the rate cuts, we have seen price rises in the Sydney and Melbourne property markets.

CONSUMER SPENDING AND SENTIMENT

If consumers feel confident about their future prospects, rate cuts can help encourage further spending. Or, interest rate cuts can have the opposite impact where too many cuts make consumers feel concerned about economic growth. Recently this has occurred with consumer sentiment falling to below-average levels after the three rate cuts.

BUSINESS INVESTMENT

Rate cuts make it easier for businesses to borrow at lower rates of interest or to issue bonds with lower yields. While this can encourage business spending this is typically only true if businesses are already struggling from a high cost of capital. If that is not the case then any impact on business investment is likely to be minimal.

ECONOMIC GROWTH

To grow the economy, rate cuts can be seen as a supply-side solution by making borrowing easier. If access to credit is not a major issue for consumers or businesses then the impact is limited. This may mean the Government needs to implement demand-side solutions, such as investing in transport and other infrastructure, that directly encourage more spending within the economy.

Source: IOOF