

RBA Economic Outlook

After travelling to the UK and London recently I have seen the full impact of the Global Financial Crisis. Australia by comparison has seemingly missed the worse of the crisis due to the availability of the huge surplus which carried forward to the current Federal Government.

The RBA has also released its half yearly Financial Stability Review on 23rd September 2009. This report normally read by economists and rarely mentioned in the media, has become an interesting read as the global economy moves towards a recovery. The report does not predict anything for the future, rather it states where our economy and more importantly the UK, Europe and the US are currently situated and the issues they are facing.

Like all reports the devil is the in the detail. Our credit system has continued to function without major problems. Although bad debt through loan losses may rise further in the current environment, Australian banks remain better placed than their counterparts in many other advanced economies.

Over the past 9 months many of our major firms have been looking to raise capital to offset their exposure to debt. The greed factor is gone and has been replaced by the fear of failure factor. The equity raised has lowered debts and improved balance sheets.

Unemployment is continuing to rise to around 10% in both the US and UK, compared to Australia's 5.8% unemployment figure. In the US more than 50% of people under the age of 25 years are unemployed.

In the US and UK property values have fallen 20 - 30% and commercial property even further. In the UK when I spoke to real estate agents both in London and major regional centres, where advertising previously indicated "offers over", the theme is now "price negotiable"

In the US a staggering one in every eleven home loans is in significant arrears, 90 days or more past due on their repayments. One third of American home loans are in a negative equity position, meaning the debt is higher than the property value. One eighth of borrowers owe more than 125 per cent of their property value. In contrast, in the United Kingdom, the Bank of England estimates that between 7 and 11 per cent of owner-occupier mortgages are in (mostly marginal) negative equity.

Thankfully in Australia the banks have tightened their lending requirements and are slowly moving back towards the 80% lending limit. I maybe showing my age but having to save 20% for a home deposit creates discipline and a reasonable financial contribution towards the purchase. I approached HSBC, Barclays, Halifax and TSB Lloyds Banks in the UK regarding their current policy on home lending. Without a 30 to 40% deposit, loans were simply not being approved.

Northern Rock and Royal Bank of Scotland (RBS) were days from collapsing before the British Government injected billions of pounds. The UK taxpayer now owns an 87% shareholding.

There has been much debate of the past months on how the economy is going. With predictions of a V shaped recovery and W shaped recovery by different commentators.

In the last 10 Bear Market Corrections, the share market has recovered 37% in the first 12 months after the low point. We have already reached that average since March, so we can expect a bumpy ride for some time yet.

Whilst volatility will continue, there are opportunities for long term strategies that will aim to capture good performance and manage risk. If you have any questions regarding your situation, please feel free to call us on (07) 3868 3200 for a review appointment.

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