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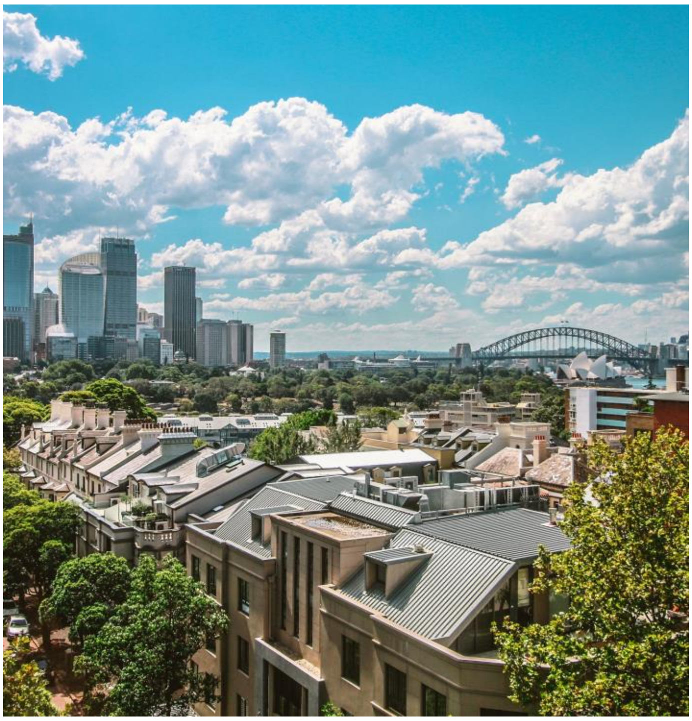
IS THE RBA GOING TO CUT INTEREST RATES IN 2019?



With global equity markets looking to end 2019 with a sell-off, all eyes are on central banks around the world and how they view the state of the global economy. For the Reserve Bank of Australia (RBA), their hawkish tone has become more subdued of late, hinting that any further rate hikes may not happen until 2020. In a recent report by Business Insider Australia, Tapas Strickland, a strategist from NAB confirmed the RBA's stance.

“Ongoing uncertainty and softer tones from the RBA recently has seen the market start to price in a small chance of the bank cutting rates next year. The OIS [overnight index swap] market now prices a 16% chance of an RBA rate cut by August 2019, while further out the RBA is seen to be on hold throughout 2020," he said.

The general consensus amongst market economists is that the RBA's next interest rate decision will be a hike, but it may not come for some time. This doesn't completely rule out the possibility of a rate cut if necessary. Guy Debelle, the RBA's Deputy Governor recently explained that the RBA has the capacity to lower interest rates and employ other monetary policy responses, if needed.

“The Reserve Bank has repeatedly said that our expectation is that the next move in monetary policy is more likely up than down, though it is some way off,” Debelle said. “But should that turn out not to be the case, there is still scope for further reductions in the policy rate. It is the level of interest rates that matters, and they can still move lower.”

Debelle has also hinted that the RBA may have the capacity to employ other policy measures used by other central banks during the Global Financial Crisis, namely the US Federal Reserve's quantitative easing (QE) program.

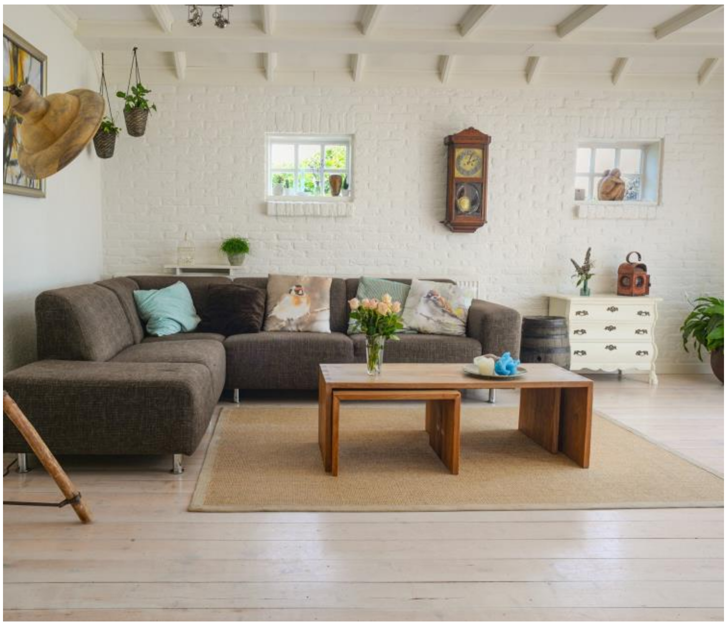
“We have also been able to examine the experience of others with other tools of monetary policy and have learned from that. Hopefully, we won’t ever have to put that learning into practice,” he said. “QE is a policy option in Australia, should it be required.”

The take away — the global markets are currently in an interesting, position and everyone is eager to predict the next economic downturn. While this is a natural part of the economic cycle, keeping abreast of how equity and bond markets around the world are performing, along with the performance of Australia's key industries will help to keep you aware of where things are heading without the noise.

Closer to home with your property investment portfolio, stay focused on the numbers (eg. new housing starts, home values, bank lending rates), not sensationalised headlines. And like other investments, you need to speak with your advisory professionals to make sure everything is structured in a way that best addresses your circumstances.

A LOOK AT THIS ISSUE:

WHEN FIXTURES & FITTINGS SHOULD BE UPDATED



Some of the things that start to show their age quickly in a property are fixtures and fittings. While some fixtures and fittings may need to be updated due to damage or a fault in the item, knowing when to update things in your home is important. This keeps your home in excellent condition before you need to make major updates.

Firstly, if you're unsure about all of the fixtures and fittings in your property, take a look at the entry condition reports for your property or the sales contract. These documents may include notes on items you may have forgotten about. Some examples of common fixtures and fittings include electric sockets, security systems, smoke alarm systems, kitchen appliances, laundry appliances, built-in wardrobes, heating and cooling systems, carpet, mirrors, and furniture (if applicable).

For appliances
If you've included appliances like fridges, a washing machine, dryer and dishwasher in your property, make sure you know when the warranty ends. The lifespan for household appliances can vary greatly depending on the brand of appliances in your property and how often they are used. Generally speaking, most appliances will reach the end of their lifespan anywhere between 5 years and 15 years. For items such as electric and gas cooktops, expect to get up to 15 years of use. For other appliances like washing machines and fridges, you're likely to get closer to 10 years of use out of the appliance.

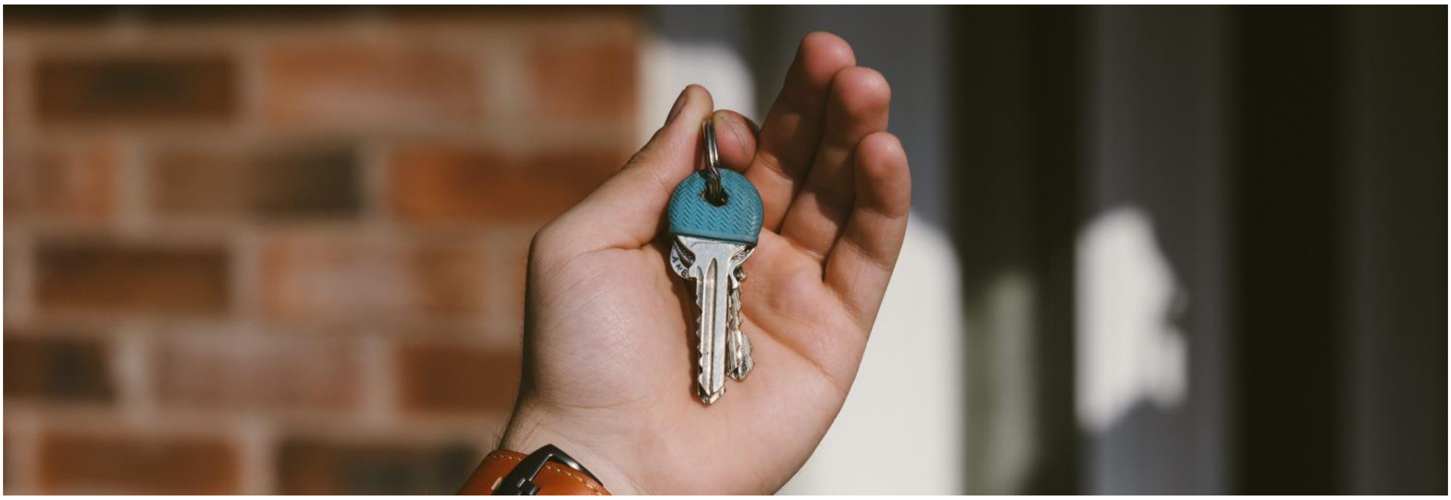
For carpets and light fittings
The condition of carpets and light fittings in your property will largely depend on how old the property is and how well it has been looked after. If the carpet is beginning to look worn or showing other signs it needs to be replaced, investigate the cost of replacing the carpet against having it professionally cleaned (though cleaning should be completed at the end of each tenancy). Expect to get between 5 and 15 years out of your carpet depending on the quality of the carpet and how much foot traffic goes through the property.

Light fittings can last many years in a property. It's when light fittings get broken or stop working that they need to be replaced. If possible, keep light fittings simple and easy for your tenants to reach for changing light globes.

Heating and cooling
If your property has heating and cooling systems make sure you understand how often it needs to be serviced. Most central heating and cooling systems need to be serviced once per year. Paying this annual cost for a service could also save you more money down the track as the contractor may be able to pick up issues before they arise.

Owning an investment property comes with many tasks that need to be remembered. By keeping in regular contact with your property manager, you'll be able to remain proactive about keeping your property in great condition.

WHERE WILL AUSTRALIAN HOUSE PRICES GO IN 2019?



As covered by comparison site Finder, the RBA's cash rate survey for December 2018 reported that 71% of industry experts and economists believe home values could continue to decline in 2019. On the extreme end, ANZ have forecasted a 15% to 20% decline from peak house prices in Sydney and Melbourne. Bear in mind, that some of these declines began months ago now.

Dr. Shane Oliver, Head of Investment Strategy and Economics and Chief Economist at AMP Capital explained his stance on the RBA's current policy stance and how housing values will fair in 2019.

“I have not been expecting a rate hike next year and have been forecasting a 20% decline in Sydney and Melbourne property prices top to bottom," he said.

Predictions by economists and industry experts that housing values will decline, particularly in Sydney and Melbourne have been getting more dramatic in recent times. Graham Cooke, Insights Manager at Finder.com.au explained his views.

"A 20% drop would see nearly $200,000 disappear from the equity of Sydney homeowners."

Cooke also explained that recent home buyers who put down a 20% deposit could end up in negative equity by the end of 2018 if economists' predictions are realised.

“ANZ’s suggested 15% drop would see $145,500 and $118,500 wiped off the average house price in Sydney and Melbourne, respectively," Cooke said.

On the back of declining home values, new construction is expected to slow down in 2019. Industry experts predict a 60% decrease in the amount of new construction home starts in 2019.

According to investment information website, Share Cafe, a crash in housing prices (eg. a 20% decrease in home values) remains a risk but it is unlikely unless unemployment rates increase, construction remains at the same levels and immigration levels decline.

It's important to note that the reported 15% to 20% declines in Sydney and Melbourne are top to bottom falls, meaning price declines could occur at a rate of 5% per annum. Like always, it's important to exercise caution with your investing decisions and make your own assessment based on your own research and personalised advice.