

NEWS RELEASE

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RBA FACES A REAL TEST IN NOVEMBER 2006

To increase rates or not? That's a tough question. The RBA didn't increase interest rates in October but market punters are already calling a November rate increase. A policy to keep inflation, as measured by the Consumer Price Index (CPI), between 2% and 3% in the long run is creating a challenge.

Interest rate increases can reduce demand led inflation. By forcing an increase in housing interest rates, the RBA can reduce household income surpluses and reduce demand. Further interest rate increases will be useful in curbing the increase in after tax income when the Federal Government's tax reductions start to impact.

But until then, higher interest rates will put pressure on the relatively weak economies of NSW and Victoria. Unlike Western Australia and the Northern Territory, these two states are not benefiting from the resource boom and households tend to be highly geared in property at a time when housing prices have fallen. Will persistent increases lead to a stagflation situation. Certainly not the persistent type of the 70's and 80's. Australian's financial system is now far more sophisticated and flexible as are our industrial relations policies. But, a mild bout might occur.

On a brighter note, property yields are starting to increase in NSW due to supply constraints. It might be time to start selectively looking at the development market. Make sure you consult with a trusted financial adviser before you make a move. Check www.asic.gov.au for tips on how to select an adviser or see www.fpa.asn.au.

Martin Venier, Australian Assured Income Management Limited Managing Director, believes diversification is more important than ever. "Ambiguous and difficult to call movements in economic variables and our advanced integration into the global economy, has exposed us to global trends that we cannot control locally" said Venier. There is a behavioral tendency for investors to invest most of their money locally, in areas with which they are familiar and comfortable – for most people that would be Australia. But there are many opportunities globally and investors returns can in fact be increased relative to the risk they assume, if they have a sensibly diversified investment portfolio. AusAssured plans to launch a global diversified income fund in May 2007.

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