



## Home Truth

### THE RACE TO ZERO

It is now dawning on Australia that we may not have just joined the international so-called 'race to the bottom' (economically speaking), but that we may indeed not be too far from the lead.

Our international trade imbalance has blown out massively, unemployment is rising, the mining sector Golden Goose appears somewhat cooked, and most sobering of all, our government's unbridled magnanimity has every full time employed Australian in debt to the tune of \$20,000 (from less than zero in 2007).

That's the bad news. The good news is that as Australia's true economic reality pervades the masses, the RBA is changing tack and now openly challenging the government refrain that we're okay.

We may well see tangible evidence of the RBA's change of heart as early as Tuesday next week, the first day it can cut interest rates further from the present already near record low 3%. Money markets are calling a 2% rate bottom for this year but with all of our OECD trading partners stuck at or around 0%, if we don't quickly find traction in the 2% range, down into the 1's we will go, down from where there is only zero.

As unlikely as 0% interest rates may seem to us today, is it any less likely than our 3% today seemed through most of 2011 when the rate was (a then low) 4.75%, or before the GFC at a mild 7.25% (close to our 50 year average), or for those of you with slightly longer memories, the bad old 17% days of the Keating government.

Can you imagine what will happen to the price of residential property in a country with a growing population and a benchmark interest rate of 2% or lower?