

SPENDING CONTROL IN A LOW-INTEREST ENVIRONMENT.

Robin Bowerman | 30 January 2014

Given that the official cash rate (or its nearest proxy) is at its lowest point recorded in more than half a century, it is hardly surprising that many more people are apparently loosening their purse strings.

After studying and interpreting the latest ABS figures for lending finance (covering housing, personal, commercial and leasing debt), economists are reporting that lending has increased to a six-year high.

As a further indication of a greater willingness to spend, new vehicle sales have been strong with sports recreation vehicles, for example, selling in record numbers last year.

A low-interest environment can, of course, provide borrowers with both challenges and opportunities.

One of the fundamental challenges is to assess how you would cope with making loan repayments on a larger loan if interest rates were higher.

Another challenge is to guard against paying excessive prices for assets in an environment where not only interest rates are low but also finance is readily on tap and there may be fierce competition from other buyers. The prevailing housing market comes readily to mind as an area where particular caution is required.

Further, don't fall into the trap of assuming that a lower cash rate means lower interest on credit card debt. Be warned, credit card interest rates remain high, as reported by interest-rate researcher Canstar in an [article](#) published late last year.

ASIC's consumer website MoneySmart provides some valuable online publications that will help keep your spending under control:

- [Buying a home, Home loans and Choosing a home loan](#). Subjects covered in these publications include: finding the right property, obtaining assistance for first-home buyers, understanding home loans, understanding interest rates, comparing interest rates, switching home loans and keeping on top of loan home repayments. (Many homebuyers use the websites of interest-rate researchers such as Canstar and InfoChoice to help create a short list of home loans to then compare in detail.)
- [Saving money on credit cards](#): Tips in these publications include: always paying your credit card bill on time to avoid late payment fees or extra interest rates, paying more than the minimum repayment each month to minimise interest (some cardholders pay off their entire bill each month to avoid any interest) and monitoring your credit card spending to ensure that you don't overshoot your credit limit.

Returning to home loans, it is interesting that the Reserve Bank's latest Financial Stability Review, released in September last year, indicated that many householders had been taking advantage of low interest rates to repay their mortgages more quickly than required under their loan agreements. Now that's an excellent example of the opportunities arising from a low-interest environment.

Written by Robin Bowerman, Principal, Market Strategy and Communications at Vanguard Australia.