VanEck®

Access the opportunities.

Interest rates to remain lower for longer – RBA to cut further

Sydney, 26 November 2019 – Interest rates will remain lower for longer in Australia and globally as several structural factors combine to produce near economic stagnation, despite central banks' and governments' best efforts to trigger growth, according to Russel Chesler, VanEck's Head of Investments.

With interest rates at historic lows or near historic low levels worldwide, that situation is not likely to reverse.

"We believe the RBA will cut interest rates to a historic low of 50 basis points by early next year. Several factors are combining to hold back economic activity, which will keep interest rates very low," said Chesler.

"First, debt levels remain very high, which is suppressing economic activity. Globally, total non-financial debt to GDP, which includes government debt, household debt and company debt (excluding financial debt such as that held by banks), is sitting at its highest level in at least 20 years, at around 220% of global GDP, up from around 160% in 2000. In the US, for example, corporate debt issuance has escalated. With such high levels of debt, households and businesses aren't consuming or investing as much as they otherwise would do.

"Second, demographic factors are contributing to low levels of economic growth. The increase in the size of the developed market working-age population has slowed considerably in the last 20 years and is expected to contract from around 2030, which will weigh heavily on consumption.

"That will take pressure off bond yields and coincide with a slowing in global population growth. In most developed nations, population growth is either slowing, or in the case of Japan, the population is shrinking. Even in China, population growth is below 1% and it is not much higher in India. Global population growth will only remain positive primarily due to emerging and frontier market population growth," said Chesler.

Structural factors in Australia too will keep interest rates low. While population growth is healthier, at around 1.6%, helped on by immigration, household debt is very high, having escalated dramatically since the 1990s. Both household-debt-to-income and house-prices-to-income ratios are very high. Other than Switzerland, Australia has the highest level of household debt as a percentage of gross domestic product (GDP) in the developed world.

"Another structural factor backing up lower rates is the low level of corporate investment. Non-mining investment as a percentage of GDP remains well below historical averages and combined with the cyclical fall in mining investment, this does not bode well for the economy," said Chesler.

"Without business investment, economic growth and productivity could stall. While we all know mining investment has fallen sharply since the end of the commodity boom, more broadly across the economy, business investment as a share of GDP has dropped too, taking away an essential ingredient for economic growth.

"Finally, we are also likely to see low interest rates persist in Australia given household consumption will remain subdued. Household income per capita is not increasing and wages growth remains very low, reflecting the high level of underemployment. Australia's underemployment rate is sitting at almost 8.5%. This indicates that a relatively large proportion of the working population is working part time.

"Combining all of these factors, we are likely to see interest rates remain at historical low levels for an extended period of time in Australia and offshore, which will force investors looking for income to assess new investment opportunities outside of interest rate products like bonds or term deposits.

"Simply speaking, cash and government bonds will not yield the income that retirees need for retirement and which will force them to move up the risk curve," said Chesler.

ENDS

MEDIA CONTACTS

Nicki Bourlioufas
Director, Spot On Content & PR
nicki@spotoncpr.com
+61 411 786 933

Vanessa Marks
Head of Communications
vmarks@vaneck.com
+61 438 243 085

ABOUT VANECK

VanEck is one of the world's largest issuers of ETFs (Exchange Traded Funds), managing in excess of $50 billion globally for individual and institutional investors. Founded in New York in 1955, VanEck is a pioneer in international investing and in gold funds, launching the first gold equities fund and the first gold ETF in the US.

In Australia, VanEck is the fastest growing ETF provider in the country and a leader in 'smart beta' investment strategies. We have 19 ETFs on ASX that focus on delivering superior performance through beyond-the-usual approaches and providing access to asset classes typically unavailable to Australian investors.

vaneck.com.au

IMPORTANT NOTICE: This information is issued by VanEck Investments Limited ABN 22 146 596 116 AFSL 416755 ('VanEck) as the responsible entity and issuer of the VanEck Vectors Australian domiciled exchange traded funds ('Funds'). This information only contains general education and general advice about financial products and is not personal financial advice. It does not take into account any person's individual objectives, financial situation or needs. Before making an investment decision in relation to a fund, you should read the PDS and with the assistance of a financial adviser consider if it is appropriate for your circumstances. PDSs are available at www.vaneck.com.au or by calling 1300 68 38 37. Past performance is not a reliable indicator of future performance. The Funds are subject to investment risk, including possible loss of capital invested. An investment in Chinese equities has heightened risks compared to investing in the Australian market. These risks include currency risks from foreign exchange fluctuations, ASX trading time differences, foreign laws and regulations including taxation, potential difficulties in enforcing contractual obligations, changes in government policy, expropriation, economic conditions including international trade barriers, restrictions on foreign ownership, securities trading restrictions, restrictions on repatriation and restrictions on currency conversion. No member of the VanEck group of companies gives any guarantee or assurance as to the repayment of capital, the payment of income, the performance, or any particular rate of return from any Fund.