ANOTHER RATE RISE – things are getting 'real'.

Five rate rises in five months and another three more to go before Christmas. The cash rate is at 2.35% with inflation at 6.1%. Inflation is set to rise to just under 8% by Christmas eventhough the target rate is between 2 & 3 percent.

A very basic overview of what's going on is the belief that the rising cost of living is due to high demand by consumers which has the effect of pushing up prices and thereby contributing to the rising inflation rate.

The rising cash (and mortgage) rate has the effect of increasing loan repayments for mortgage holders which has the impact of taking money out of family and business budgets.

This strategy is based on the concept that if people and businesses need to pay more for their loans, they will have less money to spend thereby dampening demand and thereby decreasing prices and the inflation rate.

The risks to this strategy are:

- If the inflationary pressures (increasing prices of goods & services) are not due to high domestic demand but are due to overseas price pressures, then the increasing mortgage rates will have little effect on domestic prices. (e.g. war in Ukraine & supply issues in China)
- If the rising interest rates take money from people's budget, they will spend less, meaning there will be less demand for goods and services which will cause people to lose their jobs and businesses to close due to lack of demand and clients.
- As people have less to spend but the cost of living continues to rise, people will want their wages to increase which will cause businesses to put up their prices causing a wage-price spiral. This will further exacerbate prices rising, rates increasing and people's purchasing power diminishing. This ends with businesses closing down & unemployment rising.

The general recommended strategy to deal with the current cycle is to:

- Identify the factors we can control and those which are beyond our control
- Develop strategies to manage the factors within our control
- Consolidate expensive debts to reduce monthly repayments and free up cash flow
- Look to reduce the rates paid for all debts to reduce monthly expenses.
- Develop a budget identifying income earnt vs expenses and identifying risks or shortfalls
- Not ignore the current and impending budgetary pressures which will impact people and businesses in the coming months, i.e. we will have less money to spend and prices will rise
- We should look to increase revenues, profit margins or income wherever possible.

The biggest indicator to consider is the unemployment rate – if it starts rising beyond the normal setting, then our economy is going to be really in trouble. At the moment it's at historic lows so we still have time to get it right!

The team at Chocolate Money will be able to assist identify and manage your personal and business finance situation. During the month of September, you are also able to meet with Harry Pontikis to conduct a one-hour business health check with the view of mitigating business risks and identifying opportunities. Contact Chocolate Money on 1300 137 539 or email harry@chocolatemoney.com.au directly for a business health check.