BUSINESS

Labor's brilliant plan to trash the economy

TERRY McCRANN

THERE will be a carbon tax under a government I lead, Opposition Leader Bill Shorten has "courageously" announced.

This was seconded by the man who would be his treasurer, Chris Bowen, in answer to questions after his post-Budget speech to the National Press Club in Canberra.

He tried to avoid admitting Labor would re-embrace the Gillard-Rudd tax, by using the weasel words a "price on carbon". But whatever it's called, it would be a carbon tax that would once again force up the price of electricity and feed across the economy into the prices of everything else.

All, of course, to absolutely no point, other than to damage the economy and directly hurt Australians. Because even if you religiously believe "climate change is real", as Bowen does, Labor's next carbon tax would have exactly the same impact on the climate, whether global or local, as the first version: absolutely zero.

Also interestingly, with a stunning lack of self-awareness, Bowen admitted to the press gallery he "religiously" read Morry Schwartz's far, far left — as in, even further left than Fairfax, and that's saying something — Saturday Paper.

Chris Bowen addresses the National Press Club in Canberra.

On the other hand, there won't be an inquiry into the iron ore industry under a government Prime Minister Tony Abbott leads.

After all but greenlighting a "save Twiggy Forrest" inquiry a week ago, the PM backed off late in the week, and it was left to Treasurer Joe Hockey to announce the non-inquiry on Thursday night.

This led the Saturday Paper to splash with a story exposing "The miners who control Abbott".

Even though the story provided not the slightest evidence that the PM had abandoned the inquiry on "BHP/Rio's bidding", and even though the paper noted Shorten had also opposed an inquiry, it still finished with: "We now know there are people Abbott is even more eager to please than Alan Jones."

The Saturday Paper did take its "journalistic" cue from its intellectual stablemate Fairfax, which has honed this to an almost daily ritual: Forget facts, just slime the PM.

Now, the two positions, from Shorten and from the PM, were interesting because on the one hand Shorten is gearing up to replay one of the great a disasters of the Gillard years, while Abbott has dodged — true, only after toying with it for a week — one of the bullets that destroyed Rudd's first term.

Remember when the "faithful" Shorten said in response to a question that he didn't know what Gillard, his then PM, had said, but whatever it was, he agreed with it?

So why didn't he just do it again: There will be no carbon tax under a government I lead?

Instead he has "courageously" opted to go where John Howard went in 1998, when the-then PM promised to introduce a GST and got less than 50 per cent of the two-party vote.

It's even more "courageous" when you promise to introduce a "big new tax" from opposition — a tax voters have already had the joy of experiencing and not liking.

In contrast, the PM avoided replicating the other great disaster of the Rudd-Gillard years — the mining tax.

Now, he wasn't toying with a tax on BHP and Rio, but the idea of an inquiry — and even more the implication of "heavying them" to keep Fortescue in business — was arguably even dumber, both in political and policy terms, if not necessarily more damaging.

Laurie Oakes suggested yesterday, in OUR Saturday paper, that the PM and Treasurer backed off because some foreign takeover proposals in the iron ore industry had landed on Hockey's desk.

While I'm a sceptical that anything of substance is likely to be proposed, there could be some opportunistic moves.

One could see China seeking to "land-bank" some of the second-tier ore deposits, now they are so cheap — for the very good reason they are once again uneconomic.

The second could be aimed at taking a significant stake in Fortescue, although Twiggy stirring up anti-BHP/Rio rhetoric would make that difficult.

Why I say any proposals are unlikely to be substantive is that it's in China's best interests to let the market keep working, with global oversupply forcing down prices.

Indeed, they have given it a further prod, by helping fund Brazil's Vale in developing a massive new 90 million tonnes-a-year mine.

And nobody else would sensibly aim to buy into iron ore; not when the demand for ore and the price will be totally controlled by China for the next two decades at least.

Beware those scary interest rates

ANTHONY KEANE
PERSONAL FINANCE WRITER

NUMBERS are great entertainers. Some numbers are evil, such as 666. Some numbers are funny, like 5318008 read upside down on a calculator. And some numbers are very scary, and dangerous.

One such scary number is 4. Why 4, you ask? It seems like a pretty mild-mannered digit, but 4 is sucking you into a false sense of security.

That's because 4 is fast becoming the first number of the interest rate that millions of Aussies are paying on their home loans and investment loans.

Seven years ago people were paying 8 or 9 per cent interest on their mortgages. Now it's as low as 4 per cent. If we head back to those higher levels quickly, lots of people are going to be stressed by lots of nasty numbers and mix them with lots of swear words.

Real estate author and buyers' agent Patrick Bright explains the dangers of borrowing heavily: "Keep in mind that with an increase of just 2.5 per cent — which we have seen happen over an 18-month period in recent years — you will have a 50 per cent increase in your current mortgage repayment.

"The last thing you want to do is to be forced to sell your home or one of your investment properties because you can't afford mortgage payments."

Selling a property usually costs 3 per cent of a property's value. Add the buying costs of about 6 per cent and it means you've lost 9 per cent on your overall investment if you're a forced seller because of affordability issues, Bright says.

"Why blow, or risk blowing, all that money just because you pushed yourself a bit too hard?"

Bright's calculations are based on interest-only loans, which are standard fare for investors. A $300,000 interest-only loan costs you $1000 a month at 4 per cent, $1500 a month at 6 per cent interest and $2000 a month at 8 per cent. For a principal and interest loan of $300,000 the repayments are $1584 a month at 4 per cent, $1933 at 6 per cent and $2315 at 8 per cent.

The potential pain is more acute for $400,000 and $500,000 loans, which many people these days are willing to sign up for. Basing your borrowings on today's low interest rates is dangerous. Experts recommend adding 2-3 per cent to your current rate to see if you can afford the repayments when rates rise. There are plenty of online calculators for this.

Better still, pay the extra 2 or 3 per cent off the mortgage every month if you can. This will work wonders in slashing the overall interest bill and build a buffer if you run into tough financial times.

The number 4 has already taken over almost every fixed interest rate on the market, and it's swiftly invading the variable rate space.

Embrace the 4 while you can, but don't be caught out believing it will stick around.

SHARE TIPS

TONY PATERNO
ORD MINNETT

BUY

ANZ BANKING GROUP (ANZ)
Asian presence is a 'strategic' advantage. Cost programs are successfully curbing underlying expenditure growth. Have the ability to manage higher capital requirements through DRP over time.

MIRVAC GROUP (MGR)
Has an attractive pipeline of projects with strong residential pre-sales and office pre-commitments. This should deliver above-peer through-the-cycle earnings growth.

HOLD

BHP BILLITON LIMITED (BHP)
Trading on an attractive dividend yield of 5.1%, which is likely to prevent the stock de-rating materially from current levels

TELSTRA CORPORATION LIMITED (TLS)
Downside is limited in near term, but the stock would need further multiple expansion/yield compression to continue its rise.

SELL

ENERGY RESOURCES AUSTRALIA (ERA)
Trading well above our risk-weighted Net Present Value. There are risks around when the processing plant will recommence and the exploration success at the underground project.

PROGRAMMED MAINTENANCE SERVICES LTD (PRG)
For meaningful earnings growth, the company requires a recovery in general economic conditions (particularly in east coast markets), which we believe is unlikely in the near term.

CHRIS TAYLOR
WILSON HTM

BUY

ANZ BANKING GROUP (ANZ)
Following the recent share price decline, we think ANZ is well poised to deliver strong share price performance over the next 12 months.

RURAL FUNDS GROUP (RFF)
We are attracted to RFF for its distribution yield, favourable asset value drivers, potential to grow the asset base and experienced management team.

HOLD

WESFARMERS (WES)
Last weeks strategy day highlighted the key strengths of the Wesfarmers group however we retain a HOLD recommendation given the

SELECT HARVESTS (SHV)
SHV offers a positive outlook underpinned by the prospect of production growth however we believe this is largely reflected in the share price.

SELL

SCA PROPERTY GROUP (SCP)
Relative to the sector SCA is expensive in our view — it now trades on a tighter two-year forward EPS yield than Scentre Group.

VIRTUS HEALTH (VRT)
Our view remains that the purported demographic drivers of the IVF industry lack potency in addressing the protracted weakness in demand.