**PEP 63a Edited\_Transcription**

[Daniel Hill] (0:05 - 25:40)

Welcome to the Official Property Entrepreneurial Podcast with myself, Daniel Hill. On this strip back podcast, we're going to be going behind the scenes with special guests to provide insight and inspiration on all things business, life, and the actual realities of high performance in practice. Success and failure are both very predictable.

We hope you enjoy. Hello, and welcome to the next Official Property Entrepreneurial Podcast. It is Tuesday.

It's that time again. It's time for your weekly fix of mantras, mindsets, and blueprint methodologies to level up everything you're doing, whether that's wealth, health, or life by design in your life and business. What I'm going to do today is actually something we've never done before on the podcast.

I'm going to take you behind the scenes on the board WhatsApp group. We have a number of programs on Property Entrepreneur. We have the program, which is our 81st year delegates who learn the methodology, learn the blueprint, put it into practice.

They then move up to Property Entrepreneur Advanced, which is our advanced property entrepreneurs that understand the blueprint and are then ready to execute in practice. It's all about taking the execution of the blueprint to the next level. Above that, we have the incubators, who are people that I do joint ventures with, and we do startups, scale ups, and rather than me be a non-executive director, I take an actual shareholder in the business and a lower non-exec fee, and we do a sort of pain and gain, skin in the game arrangement where I'm invested in the business, and we work closely together to make those ventures and businesses the biggest success they can be. Then the top level and the program that's been going for the longest is called the board. Now, the board is 15 board members, including myself, and the board was founded in 2013, who are all very experienced, very established, run very well-developed, lucrative businesses in their own right.

We meet every month on the board, in the boardroom, and we meet for lunch, then we have an afternoon in the boardroom looking at sessions, blueprints, deals, methodologies, personal development, finance, all these sort of things, economics. Then we go for, we have a walk and talk, we have dinner together. We also have a golf cup that we run through April, May, down to through to August, September, and it's the top level program we get to.

So as you can expect, whilst on the program, the first conversations may be around things like how to get motivated, how to get driven, how to decide what strategies to do, how to recruit your first team member, how to optimize your relationship with your PA or your EA. When you get up to board level, it's a lot about macroeconomics, wealth preservation, wealth, not necessarily creation, there is some wealth creation in there, but a lot of it's about wealth management, diversification, economics, longevity, personal development, spirituality, all these things. So really as high as you get really, the more advanced topics.

We also have a WhatsApp group and all day, every day, we're in there asking questions, supporting each other, and I'm there to help the board members on a literally one-to-one basis, either during the WhatsApp group messages or every other week we have a board mentoring Zoom call where everybody has a slot and that runs for about two hours and we do everyone back to back for 20 minutes each and cover really advanced board level topics. And in the WhatsApp group, what I'll often do and in the board meetings is I'll do very bespoke content, very bespoke training and try and support the board members with whatever's happening right now in the economy, whatever they should be doing right now in their business or how to overcome the problems and challenges they're having right now in their business.

Now, we all know that the news is there and may or may not be a good thing for us. The news, the tabloids, the clickbait, the manipulated statistics reports, information content that's out there all day, every day. And as an entrepreneur, especially at board level, one of the abilities you need to have is to understand what's in the news, understand what value is there to be derived from it.

And then again, at board level, how to apply it, how to execute it and how to make decisions against it effectively. At the minute, we're obviously seeing one of the big topics, and this is something that kept getting posted in the board group around inflation and around interest rates, both of which are really key elements to wealth creation, wealth management, diversification and longevity. And of course, we want to understand what do we need to do, when do we need to do it and how do the changes of inflation, increasing interest rates affect our business.

So what I did the other Sunday, I had no intention actually of sharing this. Everything inside the board is private and confidential. We all sign NDA agreements and contracts because everything we share there is literally 100% transparent.

However, in this podcast, I'm going to share with you some content that I delivered in the board to support them with their understanding of what they should be considering, how they should be interpreting and what's actually happening in the market with all things, interest rates and inflation. Now, if you look at the clickbait, inflation's at the highest post-war position it's ever been. We're looking towards potential hyperinflation in some sectors and industries in the States.

Of course, they're quite often a little bit further ahead of the UK and it's good to look at where those curves are. And we've had the highest and fastest, most aggressive interest rate raise in 20 years. Of course, these are snapshots.

They're sound bites. They're things that are being manipulated to create drama and clickbait and get you going. But equally, understanding interest rates and inflation in our business is absolutely paramount and fundamental if you want to actually learn how to create wealth, manage wealth and then have that wealth profile and portfolio for the long term and the longevity.

So what I'm going to do in this podcast is I'm going to share with you a 15-minute voice note that I left the board last Sunday and just confirm the date I'm recording this on the 16th of February. So this would have been the 13th or 14th of February I recorded this. Obviously, there may well have been some changes in the news since then.

However, my objective in the voice note was not necessarily to guide people's hand on what to do and what's happening, but more to understand the fundamentals of how interest rates work, how that relates to inflation and then applying some context to it in the current market, the current economy, the current global position. What should we actually be listening to? What actually applies to our businesses?

And how do we go about understanding from first principles, the academic and practical understanding of what is interest rates or what are interest rates? What is inflation? How do they relate together?

And what impact is that going to have on me, my portfolio, my business and my decisions going into the months ahead of 2022? So take a listen to this one. Hopefully it gives you both a behind the scenes of the sort of things we talk about at board level, but also a real understanding of the fundamental, and this is basic economics of interest rates and inflation.

So tune in. I hope you enjoy it. Excuse the background noise.

I was out getting steps, but I hope it finally clears up the secret method and the secret knowledge and understanding of how inflation and interest rates relate and how that's going to affect your decisions heading into 2022. I hope you enjoy. My sort of sentiments are really more just basic economics, just taking it back to the basics.

You think about interest and inflation rates, you've heard me talk about it before as two levers. And basically, if inflation is going up, and normally, sorry, rather, you think about it's all about spending. If interest rates are low, people tend to spend money because it's not making any money in the bank.

They can borrow it cheap, and they go out and buy loads of stuff. And then what happens is that drives the economy, drives growth, and then it starts to get a bit out of control. Because everyone's got money and more people want to buy than people can supply, prices start to go up because that price and demand and supply price mechanism just pushes them up.

So then what happens is you've got low interest rates, high spending, high growth, but price is starting to inflate because demand exceeds supply. And then what they do is increase interest rates, which means it's more expensive to borrow money, which means people can't go out and buy more. And also, there's more propensity or more motivation or incentive to save.

So interest rates go up, people start to save rather than spend, and then prices start to come down and things start to slow down. And then when you start to stabilise again, demand and supply sort of hit equilibrium or actually supply exceeds demand, and then you have to stimulate the economy, reducing interest rates and then encouraging people to spend. Obviously, it's all a game.

It's just all a game. That's all it is. So think about where we are at the minute.

And I do really stand by my initial sentiments from a year ago where any inflation will be short term because of why it's caused. And this is important when we're looking at what's actually going to happen. Traditionally, yes, inflation goes through the roof.

Interest rates basically chase inflation up the spike until it levels. Like if you're chasing inflation and people are still spending, you've got to make that pain high enough to stop them spending. And then eventually it starts to calm things down and you go through that cycle again.

The difference here, excluding two things which we didn't see in the pandemic when I said this originally, but should still be semi-transient, but we'll see, is the current. So that's the basic inflation and interest rate mechanism. What we've got here is inflation.

So you just assume inflation is going up, prices are going up, let's increase interest rates to stop people spending, encourage people to save and just chase it up the spike until it levels off and then starts to come down. Well, this is where you start going a little bit deeper into what inflation is and understand there's two types of inflation. So you have supply push inflation and you have demand pull inflation.

Now, demand pull inflation is the one I referenced in the basic model where demand pull inflation means everyone's going out to buy houses, everyone's going out to buy new cars, everyone's going out to buy a certain brand of food or clothes or the Nintendo Wii for Christmas. And because there's so much demand, supply doesn't meet it, so you just force the price up and then of the thousand people that want to buy it, only the 700 people who can afford it buy it and price just keeps going up until you hit equilibrium. That's demand pull inflation and you curb that by increasing interest rates to stop people spending basically and start people saving.

Supply push inflation is a bit different and that's really what we've got here where it's not an increase in demand in the main at macro level, it's a reduction in supply. And of course there is, you know, we've been locking down power stations, we've been locking down supply chains for a year, 18 months, two years in some cases. And then you can't just open the factory back up and have stockpiled everything ready to go, you've got to get that going and push it through the tube again.

So that in essence is short term and we are starting to see that anyway, so supply push inflation is because there's a lack of supply, it's forced up the price. Now that's not by excessive demand, in fact we did think it would be, we thought with 100 billion of QE floating around people's bank accounts you'd have this spike in spending post pandemic. Now if we hadn't had that we'd really be in a difficult position, like you'd literally be going to the shops and seeing empty shelves.

It wouldn't be you can't get your favourite t-shirt in a medium, it'd be like the shops aren't open because there's nothing to buy, everyone's wiped us out. That coupled with obviously China's stop at the borders and all those sort of stuff for the mass manufactured bits, which is pretty much, yeah, absolutely significant volume of that. So we didn't actually have that because only about 10 to 15% of that stored up savings actually went out to get spent.

So there's a fair argument at a macro level that there isn't a spike in spending, so it's not demand pull inflation. And if you look at supply chains and energy prices and labour force, actually it's a reduction in supply that's pushed that price mechanism up. Now what you've got to do here is make a decision.

So if you think about traditional interest rates and it's like right we're going to increase this to stop people buying, the things that they're buying are staple goods, they're not going out on a shopping spree because they're loaded and they're full of confidence and the world's a great place and the house is going to double in every 10 years. It's just staple goods, they're food, it's gas and electricity. If you increase interest rates, is that going to encourage people to save more?

Maybe, maybe not, but that's not actually the problem. And is it going to reduce people's spending if you increase that interest rate to stop them going out and buying food and gas? It's really not.

The mechanism of interest rates isn't at a basic level, isn't that. So then you've got to look at well what is it then? So if increasing interest rates and chasing the spike isn't going to be effective, what's actually going to happen or got to happen?

Well, the two main things we're looking at, well you've got three things, three supply push price increase reasons. The first is supply chain. Now that's starting to free up.

If you look at Apple's last quarter, they're now, what was it? I can't remember exactly what the stat was, but basically I think they had like a record quarter on either sales or profitability. Now if you bear in mind that two of the biggest tech sectors was cars and phones due to chips.

You've got to assume that we're coming out the back end of that supply and it's starting to loosen up now. The borders are open, the ships are on the water. If you look at the container forecast, I can't remember what it's called, but it's basically a survey that's done quarterly or monthly about how much a shipping container costs.

I think they were like £1,500, then they went up to like £15,000 and now they're coming right back down to where they need to be. And that's just an example of if you imagine a snake eating a ginormous animal, you just watch the snake move, the animal move through the snake's body. It's the same thing with supply chain.

You've just got to loosen the whole thing up again and service today's demand and then play catch up on yesterday's. Not hugely dissimilar to the NHS, but it should be quicker. Supply side element, which is just supply chain in the main, you can assume is returning back to normal and it's just going to wash through the system.

It's not going to be hugely ingrained inflation. It's just the short term transition element. So I think we can leave that one.

The second one is energy prices. Energy prices are obviously driven by a number of things, including supply and demand. There was a huge shutdown in some production of barrels, which meant that when everyone opened up and all the factories started going again, you got a huge spike in demand.

Now, price has increased that. It should start to come down and the price of oil is starting to come down and that should be a short to medium term thing. It's not going to be adjusted by interest rates.

People aren't going to stop buying, if you increase interest rates, they're not going to stop buying gas and heat in their homes. In fact, it's self-regulating to a degree because actually it's the inflation itself that's reducing the demand, which will then enable in the medium term or even short term to increase supply because the average unit per head reduces. So there's an element there which is going to sort of balance out.

Is it going to be hugely ingrained? If it is, well, I don't think it will be, although I think it's going to be longer I suspect we're going to see some more conflict with the Russians and see what happens there. But I suspect we'll probably see over the next month or so, if that does happen, there'll be an increase, there'll be a spike in, a further spike in energy or oil prices.

But let's say in the short to medium term, it'll either level out or it'll have intervention. So it'll have state intervention, government intervention, industry compliance will be a further push on the green tech, on the low tech, sorry, high tech, low carbon initiative under the government's levelling up scheme. It will sort of level itself out.

Finally, so this is probably in descending order. Supply chain, I don't think it's going to have a huge impact. I think that's on its way out.

The shelves are starting to look stocked again. You can see it in real time. Second is energy prices, which are going to affect everyone personally, professionally, private and commercial.

I do think that was going to be more sort of short to medium term and balance itself out. But it is a real thing. But I don't think increasing interest rates is going to stop people heating their houses.

They've got enough problems. It's self-regulated as is. But then finally, and this is the hard one, is wages.

We're really undersupplied. I think it's like 85,000 vacancies at the minute in certain capacities. Don't quote my notes.

That's that. There's 85,000 vacancies for something. I can't remember what it was.

But basically, the market is hugely undersupplied, combination of changing immigration, people going home, shifting work life, sentiment, people, especially in hospitality, retail, people who have had a year locked up and then realised, you know what, I don't actually want to work every evening and weekend. And those sectors are just fundamentally changing now. And that will impact how things work.

Look at some of the American studies about the labour market. People in retail now are in the middle of the going rate for like a retail person. It's like $15 an hour.

They're all sorts of like fringe benefits as well, because they're just trying to get people into those roles. Because you can imagine, you know, if you fall into that in your teens and that just becomes your life, that's OK. If you have a circuit breaker year where you've had time with your friends, your family, you've started to experience what it is like having meals in the evening with your partner and weekends to yourself, do you really want to be rushing back to work in the evenings and weekends in a bar or a restaurant or a kitchen or a shop?

You probably don't. And in America, they're already about six or 12 months ahead on that. And we'll probably see something similar here.

But that's going to be the impact is wages. Because whilst supply chain can free up and gas prices can come down, in the same way that prices are fast to rise and slow to fall, it's the same with salaries. And you can't, unless we change the immigration rules, which for some reason the government don't seem to be doing.

I don't really understand that. I mean, it is short term visas of like, yeah, come here for 12 weeks as a HDV driver. I mean, that's just basically like, yeah, there's crude ways to explain it.

But that's not how you treat people, is it? That's not how you incentivize people to come work for you. I think out of 5,000 HDV applications that are made available for internationals, something like 40 got taken.

Because who's going to take on that inconvenience just for a bit of work? Anyway, so they're the main things. And it's just salaries got to keep an eye on.

Obviously, there's cost of living crisis, gas is up, but then there's loads of jobs as well. Why are so many people still on social support when there's work to do? And you remember in the pandemic, I was saying about, we're letting fruit and veg rot in the fields.

But then you've got people like, well, there's certain spaces of our country where people could go and do that work. There's enough people. They just need to be the right mechanisms or motivations to get people to do it.

And then we obviously need to change some sort of immigration elements and play catch up on other sectors. But that is the only thing, I think, that could really ingrain itself. Because if the average cost of living, the minimum wage now is heading towards 10 pounds.

You can't then, very hard to bring it down. Remember how crazy everyone went? Although everyone's taking it now.

But the 20 pound a week LHA pandemic thing. Imagine doing that to people's salaries. Everyone in retail has taken their jobs, got trained up, done two years in it.

And now they're all getting a pay cut. Just doesn't really work, especially along with the government strategy of we should be really back into growth by this summer or shifting gears this summer. And then 2023, really be back into growth.

And you'll be increasing salaries, not reducing. Doing that thing to that field to spike spending. So that's the one that I think will hang around.

Anyway, in a roundabout way, I would say just keep an eye on what's going on. Remember, there's always a crisis. You can't talk people out of a panic.

It might be gas prices. It might be Bitcoin. It might be property prices.

Or it might be the Kardashians and Kanye West or whatever getting divorced. There's always something for people to panic about. And I would say it's just being highly strategic, well-read, and then hoping for the best, expecting the worst, looking at your finance structure, looking at your loans, use it as an opportunity to do what we all should do all the time, have a tidy up, have a trim on the detail, make sure you're locked in and you know what you're doing.

Just balance your risk profile. But I don't think we're going to see. Oh, yeah, sorry.

I found a part here as well about interest rates, not about why they're caused or how you control them, but just the fundamentals of the UK economy is something crazy like 80% or 80% of financed mortgages. Obviously, there's not all properties are mortgaged. In fact, quite a high proportion of them actually aren't.

But a reliant on low interest rates, if you were to increase that cost of interest rate and everyone falls off their fixed rates onto a tracker, you're going to end up with a potential collapse. You're just going to end up with a huge affordability issue. You know, UK mortgages, especially for the resi sector specifically, buy to let would just follow the curve.

With the resi space specifically is affordability ratio is really, really high. I think it's back up to where the highest has been, I think four to five times is not uncommon. And you couple that with a utility pandemic, if you like, or cost of living crisis, you start ramping up that interest payment, you're just going to the whole thing like a stack of cards.

And the government has got to be aware of that. And they're not just not going to let that happen. Plus, a load of government money is underwritten in the UK property market.

And it's the international appeal. And you're going to start talking about power shifts from west to east and all that. Last thing you want is to start losing the vulnerability of your asset base, which in the UK is primarily or is heavily property and services.

So anyway, there's again, there's my insight. Some of it's basic, some of it's subjective, or some of it's applied. Feel free to share your comments, welcome your thoughts and comments.

But for what it's worth, that's my two pence. Thank you for listening to the official Property Entrepreneur podcast. Trust you found value and insight in the topics discussed.

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