MONEYNEWS

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Reflections

Australian Growth - resilient in tough times

'Resilient' is perhaps the best way to sum up Australia's economic performance over the past 12 months. That was the word used by Standard and Poor's director of sovereign ratings, Craig Michaels, when confirming Australia's AAA credit rating in mid-June.

Australia's strong performance is even more remarkable in a year characterised by ongoing uncertainty and volatility on global markets, culminating in the shock British exit – or Brexit – from the European Union.

Australian Key Indices as at June 2016		Share markets (% change) July 2015-June 2016	
GDP annual growth rate	3.1%	Australia	-10.1
RBA cash rate*	1.75%	US	-3.1
Inflation	1.0%	UK	-10.3
Unemployment	5.7%	China	-39.2
Consumer confidence	102.2	Japan	-28.4

** Note: RBA cash rate was lowered to 1.5% on 2 August 2016*

Economic Growth

Australia's economy is growing faster than other developed economies, at an annualised rate of 3.1 per cent in the March quarter, as we continue the gradual transition away from mining to a services-led economy.[i]

Despite perceptions that Australia is still a resources-based economy, service industries currently account for 58 per cent of Australia's output, far outstripping construction, mining, manufacturing and retail, each of which contributes less than 10 per cent.[ii]

In the US, signs of a gradual economic recovery remain intact with annual growth of 2 per cent, allowing the US Federal Reserve to cautiously begin lifting official interest rates. But growth has remained stagnant across the Eurozone (1.7 per cent) and Japan (0.1 per cent), with renewed fears that a Brexit could push the UK and Eurozone into recession.

Part of the reason for the glacial rate of global economic recovery is the slowdown in China, where growth has slipped below 7 per cent to 6.7 per cent.

Share markets

Sluggish global growth took its toll on global share markets over the past 12 months, but concerns about a Brexit sparked a new wave of selling once the shock outcome was announced. Australian shares didn't escape, down close to 6 per cent over the year. The top 20 Australian shares on the ASX fared worse, falling almost 13%. This was driven by large falls in resource companies and to a lesser extent the major banks. The US market fared better, up less than 1 per cent. Not so the UK (down 4 per cent), China (down 28 per cent) or Japan (down 23 per cent).[iii]

The good news was that equity markets rebounded strongly in July after the negative returns experienced in 2015/16.

Commodities

One of the factors affecting the Australian sharemarket in particular was ongoing volatility in commodity markets. Brent crude oil fell from US$57 a barrel to US$26 before recovering to around US$50. Iron ore fell from near US$59 a tonne to US$37, before also recovering to around US$53. But overall oil is down 19 per cent over the year with iron ore down 10 per cent.[iv]

It's not all bad news though. The global flight to safety has pushed gold above US$1300 an ounce, up more than 12 per cent in a year.

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Interest rates and inflation

Australian interest rates have fallen to record lows, but they still look extremely attractive compared to what's on offer globally.

The Reserve Bank has cut interest rates twice this year – by 50 basis points in total to 1.5% as at August 2016. This was in response to an unexpectedly large fall in inflation to 1.0% for the June quarter, well below the Bank's targeted band of 2-3 per cent.

With cash rates expected to head lower, most investors are searching for assets that provide a good yield, and any capital growth in this environment is a big bonus.

The yield on Australian 10-year government bonds fell close to 1 per cent over the year to 2.02 per cent. This narrowed the gap between local and US bond rates, with the 10-year US Treasury yield currently standing at around 1.49 per cent.[v]

The Dollar

Despite slipping 5 per cent against the US dollar over the past year, the Australian dollar remains higher than the Reserve Bank would like at around USD 0.7400.

Most economists predict the Aussie dollar will fall from its current levels to below USD 0.7000 over the next 12 months, which is good news for exporters but not so good for travellers.

Consumer confidence

Australian consumers remain cautiously upbeat. The Westpac Melbourne Institute Consumer Confidence Index rose 7.2 per cent to 102.2 in the year to June, thanks to low unemployment, low interest rates and inflation, a strong property market, stable dollar and solid economic performance.[vi]

The unemployment rate, at 5.7 per cent, has barely shifted over the year.

Residential property

After several boom years, the residential property market remains strong although it is still a tale of many markets.

Dwelling prices across all capital cities rose 10 per cent in the year to May 31, led by Sydney and Melbourne with growth of over 13 per cent. Brisbane and Adelaide were up 7 per cent and 3.9 per cent respectively, while Perth dragged the chain with a fall of 4.2 per cent. The median dwelling price is $580,000 in capital cities and $367,000 in the regional areas.[vii]

Looking ahead

While the low interest rate, low growth environment and recent market events remain a challenge for investors, Australia is well-placed to continue the transition from mining to a more diversified economy.

Looking forward, we see further volatility and uncertainty - with both political and economic events ahead. The US presidential election in November will be a closely watched event that may unnerve markets. Further, the continuation of very low interest rates will throw up challenges on how to stimulate economic activity without creating boom and bust in equity and bond markets.

References:
i All GDP figures in this article from Trading economics, as at March 31, http://www.tradingeconomics.com/country-list/gdp-annual-growth-rate#
ii RBA, http://www.rba.gov.au/snapshots/economy-snapshot/
iii Financial Times as at June 14, http://markets.ft.com/research/Markets/Equity-Indices
iv CommSec Economic Insights, 16 June 2016,
v RBA, http://www.rba.gov.au/chart-pack/interest-rates.html
vi Westpac Melbourne Institute, https://melbourneinstitute.com/downloads/media_release/2016/CSI/PressReleaseCSI20160615.pdf
vii Core Logic Home Value Index, http://www.corelogic.com.au/news/sydney-market-rebound-catalyst-for-jump-in-may-dwelling-values

Seek advice on the proposed Super Changes

As you may be aware, retirement planning just became more complex after the government gave superannuation a surprisingly extensive shake-up in the May budget. Subject to legislation being passed, some of the proposed changes won't come into force until 2017.

With such sweeping changes in prospect, many people will need to revisit their retirement income planning.

Yet despite the headache the proposed changes will cause, super is still the most tax effective retirement savings vehicle in the land, albeit less generous than it was.

We are here to help you minimise any adverse impacts and maximise the opportunities, if possible, so give us a call.

Managing big life changes

You've probably heard the saying 'change is as good as a holiday'. And sure, in some situations, altering your circumstances can be refreshing. But not all major life changes make you feel immediately clear, secure, and ready to take on the world. When everything you know is turned upside down, moving forward successfully is not a quick snap – it's a transitional process.

Navigating through the darkness before the dawn can be tough. Conversely, many people struggle with sudden good fortune. The good news is, countless people like you have been there before. They've struggled with decisions and made mistakes so that you don't have to.

The most stressful life (and financial) events

According to the Holmes Rahe Stress Scale[i], the biggest life events you may have to overcome include:

1. **Buying a home**
2. **Involuntary unemployment**
3. **Divorce or separation**
4. **Retirement**
5. **Estate planning**
6. **Pregnancy or gaining a new family member**
7. **Major changes to business**

How to deal with sudden changes

So what do all these life events have in common? Basically, they induce psychological states where you're more likely to be emotional and reactive than logical and rational. This can lead to poor outcomes which only fulfil your short term needs, or worse, cause further detriment to all involved.

There's only one way to remove yourself from that reactive state – mindfulness. Mindfulness means being self-aware, having the ability to see your situation from an outsider's perspective, and thinking before you act. Here's how you get there:

- Get a mentor. A friend, family member or amenable acquaintance who has been through what you're going through. They'll be able to give you a fresh perspective and (evidence-based) hope for the future.
- Take it one day at a time. And if you don't think you can get through a day, try a shorter time period. As a wise TV comedienne recently said, "You can stand anything for 10 seconds. Then you just start on a new 10 seconds."
- In a similar vein, concentrating on small tasks, one at a time, can help make a seemingly impossible task seem much more manageable. For example, take income insecurity. You may be feeling anxious because you don't know how to pay for all of the expenses you currently have. But listing your expenses in priority order can help clarify just how little you have to spend to get by.
- It's a good idea to have scheduled 'down time' while you're going through a major change. Whether it's meditation, exercise, a massage, shopping, or a good old snooze, mark it in your diary – and don't let anyone cross it out. This can help prevent you from feeling overwhelmed at other times – such as when you're making an important financial decision.
- Take action. Putting off work involved with a major life change just means the stress snowballs. Even taking a small step can help take the pressure off. For example, if you're feeling a bit restless about being retired, enquire about a volunteering position. You don't have to make a commitment, but you've opened yourself up to the possibility of contributing your skills to a cause.
- Ask yourself how much of your situation you can really control. Try to be objective – pretending you're giving advice to a loved one can help. Letting go of what you can't control allows you to spend mental energy on what really matters.

Hindsight is 20/20 – when to reassess after change

After you've made it through to the other side of a major life event, it's important to reassess your financial situation. You may think that you've dealt with all the financial implications. But doing a review of your finances can still yield benefits...

If you've recently been through a big change, get in touch with us to help reassess and plan for a prosperous future.

References: i https://en.wikipedia.org/wiki/Holmes_and_Rahe_ stress_scale

Home Care vs. Residential

If there is ever a time when stress levels and emotions can run high it is facing the myriad decisions around caring for an elderly family member or loved one.

Discussions around where someone – whether it is yourself or a nearest and dearest – is going to live and how it is going to be paid for, are often fraught not least because decisions are commonly made under extreme pressure. A fall or a rapid deterioration in health can trigger the necessity for people to make crucial calls about a loved one's future care within days.

Australia's ageing population means it is inevitable that more people will need some sort of living assistance, either at home or in a residential facility. According to the Productivity Commission the number of people needing aged care services will increase from more than one million today to 3.5 million by 2030.

Home based support

While the preference for most people is to age gracefully in their own home, there are a number of reasons why it may not be an option for the long term.

Fortunately there are numerous private and Government supported services which are available to allow people to stay living in their own home for as long as possible.

The Home and Community Care program is the simplest way for people to get help which allows them to remain at home. Someone who needs services such as domestic help or basic nursing care can seek Government assisted care following a simple assessment by an approved provider. How much a person pays for services will depend on their financial situation, including whether or not they receive any Age Pension.

Where several services are needed for a person to remain in their own home a more comprehensive Home Care Package would be required.

As with any move into residential aged care, the Home Care Package requires an assessment by an Aged Care Assessment Team. Generally these can be arranged through a General Practitioner or within a hospital. They can also be found via the Governments ACAT Finder through its website myagedcare.gov.au.

Supported living

Unfortunately not everyone's health allows them to remain at home. There is a wide range of residential care available for those people who for medical or physical reasons need to be in a supported living environment.

The cost of securing a bed in an aged care facility can depend on a number of factors including its location, the facility type and the level of care they require.

Where an accommodation payment is required the options are generally a lump sum or periodic payments, both of which could be several hundred thousand dollars.

It will depend on an individual's financial situation as to what is the best way to pay, including whether they are in a position to and want to sell their house to make the lump sum payment.

In addition to the emotional attachment some people have to their home, there may be someone still living in the home. The sale of a house can also have further financial implications, including impacting one's Age Pension.

An alternative to selling is to rent the house and use the rental income to meet the accommodation or care costs or look at alternative income producing assets such as those within a superannuation fund.

The cost of care inside an aged care facility also depends on an individual's financial circumstances.

Choosing the best form of aged care and working out the most beneficial way of paying for it from a Centrelink and personal financial point of view requires expert knowledge of various systems, including aged care, Centrelink and taxation.

Please don't hesitate to call us and to discuss issues concerning aged care for yourself or your loved ones.

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