autumnedition 2022

financiallyspeaking

Brought to you by your Financial Planner, North West Financial Services (Qld) Pty Ltd

Economic outlook

December 2021 quarter economic review

Global economy

Inflation continues to be the key topic in relation to the global economy. The U.S. consumer price index rose 0.5% for the month of December, 7.0% on a year-on-year basis, the fastest rate of increase since June 1982.

The US Federal Reserve commenced tapering (reducing its bond purchases) in November. Since then, the Federal Reserve has provided multiple indications that it's run of ultra-easy policy since the beginning of the pandemic is coming to a close, making aggressive policy moves in response to rising inflation. For one, the Central Bank said it will accelerate the reduction of its monthly bond purchases.

The Federal Reserve will be buying US$60 billion of bonds each month starting in January, half the level prior to the November taper and $30 billion less than it had been buying in December. The Federal Reserve was tapering by US$15 billion a month in November, doubled that tapering rate in December, then will accelerate the reduction further in 2022.

In early January, projections indicated that Federal Reserve officials saw as many as three rate hikes coming in 2022, with two in the following year and two more in 2024. Since then, nearly five Fed interest rate hikes are being priced into investment markets.

In this issue

North West Financial Services (Qld) Pty Ltd
ABN: 96 102 314 045, AFSL: 302318
PO Box 2094
KEPERRA QLD 4054
Ph: 1300 881 223
Email: info@nwfs.com.au

Economic outlook continued

Australia

Job vacancies rose 18.5% in the three months to November to 396k. That reflects some rebound after a 10% decline in August alongside lockdowns, but also sees vacancies comfortably reaching new highs. The level of vacancies is now 74% higher than pre-pandemic February 2020. There are now just 1.6 unemployed people per job vacancy, a new record low and well down from 3.1 prior to the pandemic. Job vacancy data continues to indicate a very high level of demand for workers post the lockdowns.

Retail sales rose 7.3% month-on-month in November, well above the consensus for a 3.6% rise and following a 4.9% increase in October. That puts retail sales nationally 5.8% above their previous record high in November 2020 and 20.3% above pre-pandemic February 2020 levels.

The International Monetary Fund forecasts that Australia's GDP will grow 4.1% in 2022 on the back of increased business activity and international borders reopening. However, the Omicron outbreak, which has spread rapidly since mid-December, is likely to make a reasonable dent in economic activity, with some economists and fund managers already reducing Q1 2022 GDP forecasts. Having said this, if the economy grows at anywhere near 4.1%, this would likely be a good outcome. The key risks Australia still faces are prolonged global supply chain disruptions, tighter global financial conditions, geopolitical tensions, a house price correction.

Fixed income and currencies

Australian Government Bond yields rose significantly during the quarter, with the three-year yield increasing by a very large 0.60%. The long end of the curve rose 18 bps, which again was a significant move. This produced poor returns for the quarter for Australian Government Bonds in general.

The size of the increase in the 3-year bond yield relative to the size of the changes in the cash and 10-year bond rates indicates that rate rises are expected, but not immediately.

Similar to the Australian market, the U.S. three-year bond yield increased significantly (45 basis points) last quarter.

Credit spreads tightened over the quarter with both Investment Grade and High Yield spreads contracting by 14 basis points. Given the lower starting point of Investment Grade spreads, this is actually a more significant tightening for Investment Grade than High Yield, as the High Yield index spread is more than twice as wide to start with. Overall, U.S. credit had a favourable quarter.

The Australian Dollar (AUD) rose 1.9% against the US Dollar (USD) to 0.7263 in December and rose 0.50% during the quarter. We also saw a 1.5% increase in value against major trading partners ($A TWI) in December and 0.49% for the quarter.

Shares

The Australian market rose 1.53% in the December quarter. The leading sectors were Materials (up 12.44%) and Utilities (up 10.02%). Energy was the worst performer (down 8.82%). In the Materials sector, BHP had a significant rebound after a relatively poor Q3 – this was a key driver for the sector.

At a Style level, Value was the worst performing Style for the quarter, being the only Style to produce a negative return, albeit a relatively small negative. Having said this, Value performed broadly in line with the Index for the year.

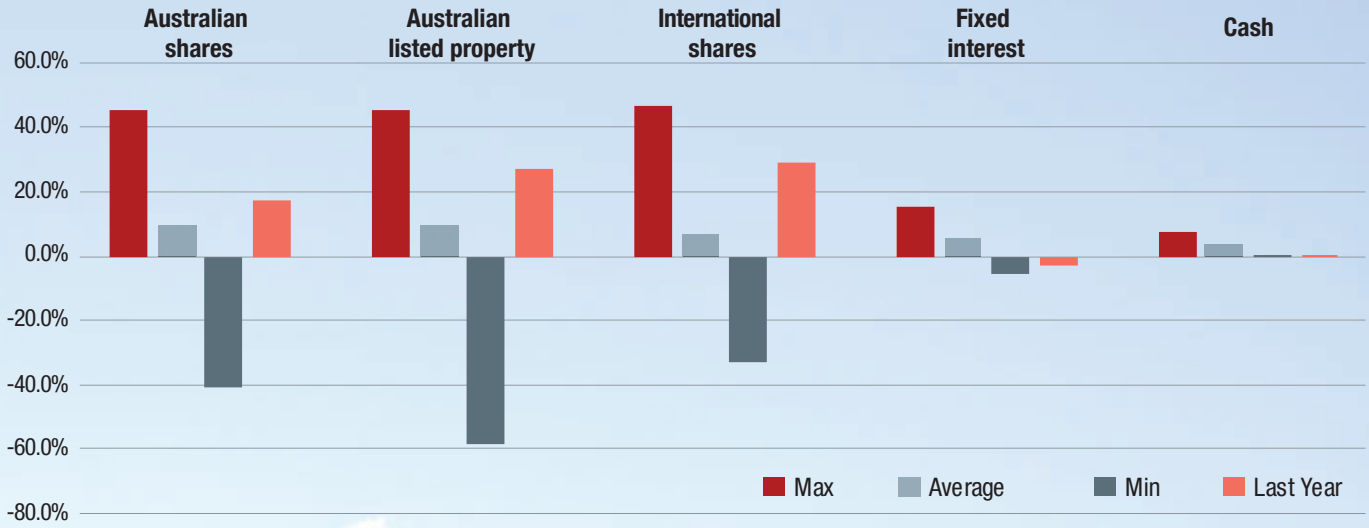
Overall, Quality and Growth continued to power ahead, both being the best two performers for the quarter and the calendar year.

International markets generally performed well during the December quarter, with the exception of the Hang Seng index (down 4.79%) and the Nikkei (down 2.24%).

From a Style perspective, all Styles produced positive returns for the December quarter, with Quality being the standout. For the calendar year, all Styles produced very favourable returns, with Momentum being one of the poor styles, but still returning an impressive 21.2%.

Last year vs rolling 1-year returns

This graph shows the maximum, minimum and average rolling 1-year returns since June 2002 versus 2021 returns. Equities and Australian listed property significantly outperformed the average, while both Cash and Fixed Interest had a relatively poor year.



Source: IOOF Research and Bloomberg

If you have any questions, or would like to discuss this further, please speak to your Financial Adviser.

Source: IOOF Research

Three reminders for the new (FBT) year

Salary packaging is an arrangement between an employer and employee for the employer to provide certain benefits to the employee or associate of the employee in lieu of cash. A typical example includes salary sacrificing into super. Employees might also package their salary for other non-cash benefits, which unlike super, may be subject to Fringe Benefits Tax (FBT).

Concessional employers

Employers are liable for FBT not the employee. Employers will ordinarily pass on any FBT to the employee by way of a reduced salary package. However, some employers receive concessional FBT treatment which can benefit their employees.

Fringe benefits provided by certain employers receive concessional treatment subject to a cap. The following organisations are exempt from paying FBT where the grossed-up taxable value of fringe benefits provided to each employee is less than or equal to the capping threshold:

- Public benevolent institutions
- Charitable institutions
- Public and non-profit hospitals

Tip: If you have multiple employers, for example Medical Doctors working for multiple hospitals, you may benefit from multiple threshold caps.

Note the value of the non-cash benefit is 'grossed-up' to reflect how much someone on the top marginal tax bracket (including Medicare levy) would need to earn to purchase the same benefit after tax.

Type of organisation	Capping threshold	Actual taxable fringe benefits which are exempt	
		No GST input credit claimed	GST input credit claimed
Public benevolent institutions	$30,000	$15,900	$14,422
Charitable institutions	$30,000	$15,900	$14,422
Public and non-profit hospitals	$17,000	$9,010	$8,172

Employees of these organisations who salary packaging up to their relevant cap can effectively increase their tax-free threshold.

Salary packaging non-cash items such as a car and salary sacrificing to super

A question that often arises is whether someone's concessional super contribution cap is impacted if they salary package into a non-cash benefit like their mortgage or novated car lease. Salary packaging income for non-super benefits does not reduce your concessional super contribution cap. This means if you are currently salary packaging you may also benefit by salary sacrificing part of your salary to super.

Timing

Arrangements must be made before remuneration is earned. This is particularly important to remember when expecting a future 'bonus'. If it is intended for part of a future bonus to be salary packaged it is important that the arrangement be entered before it is accrued.

For more information please discuss with your financial adviser and your payroll office who may assist you with exploring your salary packaging options.

Pension Loan Scheme replaced by the Home Equity Access Scheme

Since 1 January 2022, the Government's Pension Loan Scheme has been rebranded as the 'Home Equity Access Scheme'.

This Scheme allows senior Australians to access the equity in their real property by borrowing from the government, against the value of their property to supplement their retirement income. And they don't have to be receiving income support from the government to qualify. But they do need to have appropriate and adequate insurance covering their secured real asset(s).

The feature of this Scheme is that borrowers can remain living in their family home without having to sell their property and they do not have to repay the loan during its term. Retaining their home may carry Centrelink concessions such as main residence exemption and may have sentimental and estate planning advantages.

This Scheme provides a cashflow solution for many cash strapped retirees. However, this does mean the loan amount will increase over time and will need to be repaid when the property secured by the loan is sold or from the person's estate after they have passed away.

Since 1 January 2022, the interest rate on this loan has dropped from 4.5% to 3.95% and is compounded on the outstanding loan balance each fortnight.

Proposed changes to the Scheme from 1 July 2022

A Bill has been introduced into Parliament (which hasn't yet passed), that proposes to increase the flexibility of this Scheme with the following changes:

No negative equity guarantee

The introduction of a no negative equity guarantee will mean that those participating in the Scheme with an outstanding loan balance on or after 1 July 2022 will not have to repay more than the equity they have in the property used to secure the loan. This will protect the borrower in case the value of their property falls. The guarantee will extend to both existing and new Scheme participants.

Pension Loans Scheme advance payments

Currently, the Scheme does not allow access to lump sums, and only allows for fortnightly amounts of the combined pension and loan payments of up to 1.5 times the maximum pension rate.

It is proposed that from 1 July 2022, borrowers will be able to access lump sum advance payments up to 50% of the maximum annual rate of Age Pension either as a single lump sum or two instalments within a year. This will provide flexibility for borrowers, which may be used where a large one-off expenditure is required.

Case study:

Mandy is 70-years old and qualifies for the age pension, but due to her level of assets is not entitled to receive an age pension. Despite not receiving a pension, as she has a securable property, being her home with sufficient equity and adequate and sufficient insurance on it, she is able to borrow under the Home Equity Access Scheme.

- The maximum single Age pension is currently $967.50 per fortnight ($25,155 per year – as at 1 January 2022).
- Mandy accesses the Scheme, using her property as security, and can nominate to receive a loan of up to 150% of the Age pension limit, being $1,451.25 per fortnight ($37,732 per annum).
- Alternatively, if she wants to access the loan as a lump sum, the maximum advance available to her is:

  $967.50 x 50% x 26 (fortnights) = $12,577.50.

Under the proposal, she is able to access up to two advances in any 26 fortnight period, however the amount available as a second advance will be reduced by the value of the first advance. This ensures no more than the capped 50% amount can be taken as advance payments.

There is age-based loan-to-value ratios which will continue to apply when determining the maximum advance amount available to a participant. This means the actual advance a borrower is eligible to receive may be less than the maximum allowable advance described above.

If you have any questions please speak to your Financial Adviser and for further details on the Home Equity Access Scheme please contact the department of Services Australia.

Inflation: what does it mean for me and my money?

Inflation is a hot topic at the moment. But what exactly is it, and how does it affect you and your money?

Inflation is making news daily through wage inflation, energy inflation, food inflation, fuel inflation... and not just in Australia, but in many other countries too. In simple terms, inflation means that the prices of everyday things are rising. Why does this matter? It means that unless our incomes rise in line with inflation, our money doesn't go as far, and we might find it more difficult to buy the kinds of things that we're used to having.

How high is inflation?

According to the most commonly used measure of inflation in Australia, the Consumer Price Index (CPI), inflation increased by 0.8% in the July to September 2021 quarter and rose 3% over the 12 months to September 2021.

Why does inflation happen?

There are two main causes of inflation:

1. "Cost push inflation" is where the costs of producing goods or services goes up, and so price rises are passed onto customers.
2. "Demand pull inflation" is when something is so popular that the supplier can't meet the demand. Prices go up to reflect the lack of supply.

How is inflation measured?

The official Australian inflation measures come from the Australian Bureau of Statistics (ABS), which tracks prices of a 'basket' of commonly purchased goods and services. This is supposed to represent the spending of the average Australian household. As people's buying habits change, so do the goods and services that the ABS tracks.

For example, in recent years, the ABS has added streaming services, ride sharing and smart phones to the CPI basket and removed items such as DVD hiring, cassette tapes and VCRs from the basket to more adequately represent the average household expenditure.

How is inflation controlled?

The Reserve Bank of Australia (RBA) has a specific responsibility for low and stable inflation, full employment, and promoting the general welfare of the Australian people. The government has set a target of 2-3% for inflation, on average over time.

What does rising or high inflation mean for:

- **your spending**. Rising prices of goods and services will mean that unless your income rises too, you will find it more difficult to afford the things you normally buy. Sharp movements in the rate of inflation are not helpful either, because they make it difficult for people to plan their spending. For example, rising inflation can trigger "buy now while stocks last" behaviour.
- **your savings**. If your savings don't grow at a rate at least equal to inflation your wealth is shrinking. For example, inflation is now running at 3%, but cash in a current account is likely to earn less than 0.10% interest. Its value is being quietly eroded with every day that passes. This effect of inflation is easier to see by looking back in history.

The following table shows how much you would need to spend today to equal $10 spent in each of the following years:

Goods and services costing $10 in	Would now cost
1930	$4,433.33
1950	$2,720.45
1970	$1,221.43
1990	$208.17
2010	$124.56

ABS CPI as at 30 September 2021

- **your loans**. The RBA tends to use interest rates as its primary tool to control inflation. As inflation rises, the RBA tends to be more willing to raise interest rates – meaning mortgages, loans and credit cards can become more expensive.
- **your investing**. When inflation is rising, or already high, holding assets such as shares, property and bonds (or even foreign currency) can be more attractive than keeping your cash in a bank account (because, as inflation rises, the value of cash tends to fall relative to other types of assets) – but shifts in inflation and interest rate expectations can also spook investors, creating volatility and unpredictability in asset prices.

If you have any questions, please speak to your Financial Adviser.

Source: Schroders

There's an app for that

It seems we are increasingly using apps in everyday life. Apps can help us manage certain aspects of our lives, tap into things that are of interest to us, or keep track of different goals. We can use apps to look up movies, events and shows and book tickets within minutes; we can use apps to make medical appointments; track our health, fitness and mindfulness goals; dial into entertainment – to stream programs, listen to podcasts or download audio books. We are also familiar with the COVID-safe app which around 7 million Australians had downloaded as at October 2020[1].

But what about helping you track and measure your financial goals? Well of course, there's an app for that.

Banking and budgets apps

There are apps that link multiple bank accounts and other financial institutions that help you to manage your everyday spending. They provide a dashboard that outlines your spending categories which you can use to customise a budget. You can also run weekly, monthly or annual reports so you can see fluctuations in your spending.

Some examples of the more popular banking and budgeting apps include Pocketbook, MoneyBrilliant, and Frollo.

There's also an app called Finspo that allows you to compare fees and charges with different banks, so you can see if there are savings to be had by switching banking providers.

Everyday savings apps

One of the biggest expenses for any household is the grocery shop.

There's a free app called WiseList that allows you to compare the cost of items at major grocery stores. Yes, you can download an app and see a side-by-side view of an item at Coles and Woolworths. Of course, this is only useful if you have a Coles and Woolworths in your local area. If you live in a regional area of Australia, there may only be one option. But for city dwellers, this is a great way to shave a little bit off the cost of your grocery bill.

Another major expense is transport. If you drive a lot during the week you may see a huge chunk of your money go towards filling the tank. The PetrolSpy app allows you to compare costs at the bowser so you can decide where along your journey you want to stop and fill up, to achieve a little bit more of a discount.

Avoid the argument app

Have you been out to dinner with a group of friends only to have the awkward conversation at the end about who owes what on the bill? And then plead with the waitstaff to pay separately? The Splitwise app allows you to track shared expenses and provide reminders of who owes what.

Apps aren't for everyone

Whilst some people wholeheartedly embrace apps and find them helpful and useful, they aren't for everyone. They take time and patience to set up and monitor, and not everyone wants to be glued to their mobile phone or device all day and night. And that's ok, because an app won't help everyone on their financial planning journey, but they might help some people stay on track and in control.

Talk to us

Apps are great but they are not a replacement for tailored financial advice. Getting your financial plan in place, one that is individually planned around your lifestyle and your goals, is the first step towards a more financially secure future. We can get your plan in place and discuss what apps you might consider using that will assist you in reaching your goals.

General advice only. You should do your own review of each app before downloading it for indications it may be fake.

1. Household Expenditure Survey, Australia: Summary of Results at https://www.abs.gov.au/statistics/economy/finance/household-expenditure-survey-australia-summary-results/latest-release

Source: IOOF

Making it a habit

At the beginning of each new year, many of us resolve to change something in our lives.

It could be going to the gym more, taking up a new pastime, losing weight, putting more money into super, or committing to seeing those friends we've neglected over what's been the most testing of times.

Studies have shown that 80 per cent of new year's resolutions fail[1], and as we approach the second quarter of the new year it's likely that any new habits you'd like to form have begun to wane.

But the good news is that forming new habits – and sticking to them – is very achievable: all that's needed is a strategic approach, and an understanding of how the mind – and body – adapts to something new.

Understand why you're doing it

What's the genuine reason for wanting to form that new habit? If you're wanting to take up lawn bowls for example, is it because of the sport, the people you'll meet there, or getting outdoors? If you're wanting to form new financial habits, such as sticking to a budget, what does that mean for you and your personal situation in the long-term? What's the incentive? If you can drill down to get to the true why, and visualise how you'll feel, and what you'll have accomplished by sticking with it, you'll have the motivation to form a new habit.

There are no shortcuts – new habits need to be worked at!

We'd all love to decide to eat more healthily and, voila, it happens automatically. Unfortunately, however, it's just not that straightforward! Studies have shown that forming new habits begins with consciously doing the thing we want to become a habit, and then performing that behaviour frequently and consistently.

It can take anything from just over two weeks to the best part of a year[2] to form a new habit – with an average of 66 days needed for something new to become ingrained. But the reality is that it's not until a new routine becomes automatic that habits are formed – and there's no shortcut!

Give your new habit context

Associating a new routine (something you'd like to become a habit) with something you already automatically do (an existing habit) can also increase the chances of success[3].

For example, if you want to get into the habit of drinking more water, consciously choosing to have water with breakfast every morning will increase the chances of it becoming a habit. This is because you're anchoring it to an event or giving it a context: the new 'habit' becomes part of something else.

This is called habit stacking.

It works on a principle that before or after you perform an existing habit, you add a new habit to it. For example, before you have your first cup of coffee of the day [existing habit], you'll stretch for five minutes [new habit].

You can join new habits with existing ones, too. For example, if you're a sucker for a renovation show, you can commit to watching one per day – while on the exercise bike or treadmill. If you love listening to a particular podcast, resolve to listen only when on your morning walk.

By connecting something we enjoy doing with an activity we want to become a habit, we can increase our chances of it sticking.

1 https://www.inc.com/marla-tabaka/why-set-yourself-up-for-failure-ditch-new-years-resolution-do-this-instead.html

2 https://onlinelibrary.wiley.com/doi/abs/10.1002/ejsp.674

3 https://www.sciencedirect.com/science/article/abs/pii/S002210311100254X

How habits are formed: the science

Of course, our brains are key to forming new habits, and it's the connections – neural pathways – between neurons that are responsible.

Essentially, the more we perform a task or a routine, the stronger the neural pathway between neurons gets. Neuroscientists found that the brain chunks together the individual components of a habit (for washing your hands, for example, think turning on the tap, dispensing soap, washing, turning off the tap and drying) and that certain neurons in the brain initiate and end the sequence of tasks that make up the habit.

A study[4] from researchers at the University of California in San Diego identified certain brain chemicals and neural pathways that were involved in switching between behaviour that was habitual, and actions that were deliberately taken.

They said the findings provided strong evidence to suggest that those neural pathways competed for control of the orbitofrontal cortex – the area of the brain which makes decisions – and that the endocannabinoids neurochemicals moderated goal-focused circuits.

The research into truly understanding how the brain adapts to changing habits is still in its infancy, but what we do know is this: to maintain a new habit, you've got to consciously do it, repetitively, until it's something that happens naturally.

And, by fully understanding your motivation for doing it, you'll have a strong incentive to stick with it.

3 tips to establishing a new habit

1. Truly understand why you want to form the new habit. What's the ultimate goal?
2. Link it to another existing behavior – brushing your teeth, driving to the shops, making a coffee. This is called habit stacking.
3. Alternatively, incentivise yourself with something you enjoy either during the activity (for example, watching or listening to something you love during exercise) or give yourself a reward.

Source: IOOF

4 https://ucsdnews.ucsd.edu/pressrelease/how_the_brain_makes_and_breaks_a_habit

When it comes to your retirement, financial advice can make all the difference.

If you're getting closer to retirement, you're probably exploring all the things you'd like to be doing: spending more time on hobbies, more time travelling or simply less time working.

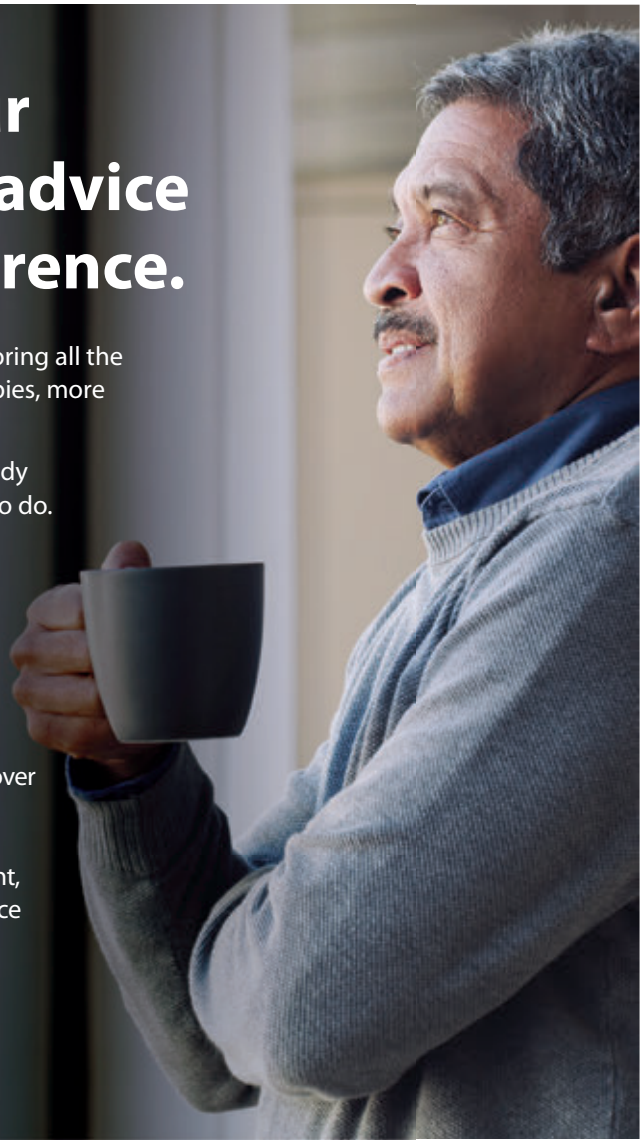
One thing you want to make sure of is that you have a steady income stream to make the most of what you really want to do. And that's where the value of financial advice has been proven to help those with a goal achieve what they want.

Of those who set goals with a financial adviser, 86% said financial advice helped them achieve their goals.*

This key insight came to light in a groundbreaking survey of over 12,000 Australians in conjunction with CoreData. It found the benefits of financial advice helped whatever your age, wealth or gender. So, whatever you're looking to achieve in retirement, we're here to help. We can provide you with professional advice for your financial planning needs.

Let us help you plan for your retirement.
Call us today to arrange a meeting.

Source: IOOF Survey 2020: *The True Value of Advice – A study of 12,643 Australians*



NORTH WEST FINANCIAL SERVICES (QLD) PTY LTD

North West Financial Services (Qld) Pty Ltd
ABN: 96 102 314 045, AFSL: 302318
PO Box 2094
KEPERRA QLD 4054
Ph: 1300 881 223
Email: info@nwfs.com.au

WMA-30175 (50722) 0222