September 2022

Persistently high inflation and aggressive rate hikes by the world's central banks put global share and bond markets under pressure. The US Federal Reserve has lifted rates seven times this year, but US inflation remains at 8.3%. There is now growing fear that central banks may push the world into recession. In a surprise twist, the Bank of England (which has also lifted rates seven times this year) was forced to switch back to Quantitative Easing, buying government bonds to support the British pound which crashed to a record low in response to a stimulatory mini-Budget released by the new Conservative Party leadership. This led to a late relief rally on global sharemarkets and a fall in the US dollar and global bond yields. Even so, major global sharemarkets finished the month down 6% or more.

In Australia, the picture is a little brighter. Economic growth was up 3.6% in the year to June. Company profits are also strong, up 28.5% in the year to June, and unemployment remains low, at 3.5% in August. While inflation eased from 7% in July to 6.8% in August (due to falling petrol prices), it is still well above the Reserve Bank's 2-3% target. Aussie consumers continue to spend at record levels, pushing up retail spending by 19.2% in the year to August, and petrol prices are set to increase by at least 22c a litre after the reinstatement of the fuel excise. Both will put upward pressure on inflation and interest rates. We think the months of January and February 2023 will be telling - with interest rate rises and inflation finally impacting household budgets. We are wary of borrowers coming off low fixed-rate loans in early 2023 also. There is likely more volitility to come before we can start looking towards brighter market returns by mid next year. Index performances for the first 3 months of the Financial Year were:

All Ordinaries: 6679, down 68 points or -1.0%;
Listed Property Accumulation Index 49754 points, down 3587 or -6.72%;
90 Day Bank Bills 3.063%, up 1.25%;
AUD vs U.S. Dollar 63.97c, down 5.17 cents or down -7.47%;
UK FTSE 100, 6893 points, down points or -3.86%;
Dow Jones Industrial Avg, 28730 points, down 2045 points or -6.65%

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Coming to terms WITH STAGFLATION

First, we had to brush up our understanding of inflation and what it means for our hip pocket and our investments. Now the term stagflation is being thrown into the economic mix.

For those with long memories, stagflation is a reminder of the late 1970s and early 1980s when the world economy fell into what then-Treasurer Paul Keating called "the recession we had to have".

The word has raised its head again with the World Bank warning that there is a rising risk of stagflation.[i] This took the wind out of the sails of global sharemarkets, with Australian shares down 10 per cent in the year to June, although they have since started to show signs of recovery.[ii]

Despite the term stagflation re-entering conversation, the general belief is that things will not get as bad as last century but they are still likely to be challenging.

So, what is stagflation? Basically, it's the combination of rising inflation, high unemployment, and weak economic growth. When all three happen at the same time, then the economy and living standards struggle. So let's look at each of these three markers in turn.

Rising inflation

The definition of inflation is a general increase in prices and a fall in the purchasing value of money.

Certainly, we are experiencing rising inflation right now. It's currently running at just over 6 per cent in Australia. The war in Ukraine took its toll on commodity prices globally which is contributing to the hike. While prices are off their highs, they are still hurting.

On the local front, floods on the east coast of Australia have damaged crops which will also push inflation higher.

Reserve Bank governor Philip Lowe has pointed to a top inflation rate of about 7 per cent in this current economic cycle which is well above the 2-3 per cent inflation target the Reserve Bank uses in setting monetary policy.

Slowdown in economic growth

Looking next at economic growth, and this is certainly slowing.

The OECD cut its outlook for global economic growth from 4.5 per cent in 2021 to 3 per cent this year and 2.8 per cent in 2023. In Australia, growth is expected to fall from 4.8 per cent to 3.5 per cent this year and 2.1 per cent in 2023.[iii]

The definition of economic growth refers to the size of a country's economy over time. It's measured in real and nominal terms. Nominal refers to the increase in the dollar value of production over time; real economic growth just looks at the volume produced. Real growth is the figure generally used.[iv]

Low unemployment

Unemployment, meanwhile, is at the lowest levels in Australia since 1974 at 3.9 per cent.[v] But despite the low unemployment rate, wage growth is less than half that of inflation, so it is hard to keep pace with the rising prices.

Looking at the three criteria for stagflation, unemployment in Australia is less than 4 per cent, inflation is running at just over 6 per cent and GDP growth is 3.3 per cent. At these levels it seems more likely, but far from certain, that we will experience a recession rather than stagflation.

Recession is defined as two consecutive quarters of negative growth.

Stagflation would be a bigger problem than a severe recession because the traditional ways to deal with it are either increased government spending or cutting interest rates. Unfortunately, these solutions are both inflationary and therefore not good tools for the current economic environment.

Big mortgages put brake on rate rises

Back in the 1970s and 1980s, interest rates hit 18 per cent as the Reserve Bank struggled to contain inflation. With mortgages at their current size, increased rates will start hurting much sooner so this will put a brake on inflation well before rates reach double digit levels.

The general view is that mortgage rates will peak at just over the 5 per cent mark.[vi]

Concern about the possibility of stagflation has fuelled the recent sharemarket volatility and uncertainty, although it seems unlikely on current evidence. As the future is impossible to predict, it is better to sit tight and wait for the market to recover rather than sell as a kneejerk reaction and realise losses.

If you would like to discuss your overall financial position in these uncertain times, then call us.

i https://www.washingtonpost.com/business/2022/06/07/world-bank-global-growth-forecast-stagflation/

ii https://tradingeconomics.com/australia/stock-market

iii https://www.oecd.org/newsroom/oecd-economic-outlook-reveals-heavy-global-price-of-russia-s-war-against-ukraine.htm

iv https://www.rba.gov.au/education/resources/explainers/economic-growth.html

v https://www.abs.gov.au/media-centre/media-releases/unemployment-rate-39#:~:text=The%20seasonally%20adjusted%20unemployment%20rate,Bureau%20of%20Statistics%20(ABS).

vi https://www.ratecity.com.au/home-loans/mortgage-news/high-will-rates-go-here-experts-think-rba-cash-rate

GUIDE TO concession cards for seniors

The excitement of heading towards retirement and a new stage of life can be tinged with concern over how to manage finances. For many people, seniors' concession cards are a good way to help make ends meet.

While discounts on goods and services are always welcome, they're even more valued right now as living costs continue to climb.

Concession cards for seniors provide significant discounts on medicines, public transport, rates and power bills. Many private businesses – from cinemas to hairdressers – also offer reduced prices to concession card holders.

There are different types of concession cards offered by federal, state and territory governments. While some are for those receiving government benefits, others are available to almost anyone aged over 60.

The cards are free and should not be confused with commercial discount cards that require an upfront fee or ongoing subscription.

Seniors Card

The Seniors Card is offered by all state and territory governments when you turn 60 (64 years in Western Australia) and are no longer working full time. This card is offered to everyone, regardless of your assets or income.

The Card will allow you to claim discounts on things like public transport fares, council rates and power bills. Thousands of businesses across Australia also offer reduced prices to Seniors Card holders. In some states, a separate card is offered to access discounts provided by private businesses and another card is provided for public transport.

There are a varied eligibility requirements and a range of different services offered based on your state or territory, so it's best check with your relevant government department.

Federal Government concession cards

If you're receiving a government pension or allowance, you're a self-funded retiree or you're a veteran, you may be eligible for one of several cards issued by the Federal Government.

The Pensioner Concession Card is automatically issued to people receiving pensions or certain allowances.

The card provides discounts on most medicines, out-of-hospital medical expenses, hearing assessments, hearing aids and batteries, and some Australia Post services.

In most states and territories, card holders receive at least one free rail journey within their state or territory each year.

Commonwealth Seniors Health Card

If you've reached the qualifying age for an Age Pension (currently 66 years and 6 months) but you're not eligible to receive a pension, you may be entitled to the Commonwealth Seniors Health Card.

You can receive the card if you:

- Are Age Pension age or older
- Can meet residence rules
- Are not receiving a government pension or allowance
- Can meet identity requirements
- Can meet the income test
- Provide a Tax File Number or are exempt

While there is an income test, no assets test applies. You will receive similar benefits to the Pensioner Concession Card.

Low Income Health Card

For those on a low income but not yet at Age Pension age, the Low Income Health Care Card can be a big help. If you meet the income test, you'll get cheaper health care and medicines and other discounts.

Your gross income, before tax, earned in the eight weeks before you submit your claim is assessed and must be below certain limits.

The types of income included in the test includes wages and any benefits you receive from an employer, self employment income, rental income, super contributions as well as pensions and government allowances.

Other types of income are also counted including:

- Deemed income from investments
- Income and deemed income from income stream products such as super pensions
- Foreign income
- Distributions from private trusts and companies
- Compensation payments
- Lump sums such as redundancy, leave or termination payments.

Veteran Card

The Department of Veterans' Affairs has a concession card for anyone who has served in the armed forces and their dependents. Like other government concession cards, the Veteran Card provides access to cheaper medicines and medical care as well as discounts from various businesses. The Veteran Card is a new offering, combining the former white, gold and orange cards. There is no change to entitlements or services with the new card.

As you can see, the potential savings from seniors concession cards can be significant so be sure to check your eligibility. If you would like help working out your income and other eligibility requirements, give us a call.

GETTING THE BALANCE RIGHT IN *decision making*

We all approach decision making in our own way, making a multitude of decisions every day: 'Should I hit snooze again on the alarm?,' 'Do I take the train to work, or do I drive,' 'What should we have for dinner?'

In fact, researchers estimate that the average adult makes 35,000 decisions every day.[i] While most of these are fairly insignificant, we also constantly make complex decisions that may support us in many areas of our lives - from navigating a change of career, handling a new project at work, or even managing the complexities of interpersonal relationships.

Having some knowledge of the decision-making process can help you to be more self-aware when faced with those larger, more complex decisions.

The biology of thought

The human brain is an intricate organ. It contains about 100 billion neurons and 100 trillion connections and controls our emotions, thoughts, and actions. Our brains appear wired to work in complex ways to enable us to make the best decisions possible with the information we're given. In very simple terms the process is a little like a court trial. Our brains register sensory information like sights and sounds and then act as a jury to weigh each piece of 'evidence' to make a judgement or decision.

Thinking fast and slow

Nobel laureate Daniel Kahneman in his hugely successful book *Thinking, Fast and Slow* - suggests that there are two distinct and different ways the brain forms thoughts.[ii]

'Fast thinking' is automatic, intuitive, and used for most common decisions. It is our brain conserving energy by making the bulk of its decisions on some degree of autopilot. This style of thinking uses cognitive shortcuts to let us respond quickly and instinctively to a wide range of fast and ever-changing inputs, like discerning emotions from facial expressions, ducking when something is thrown at us, reading words on a billboard, or driving a car on an empty road.

On the other hand, 'slow thinking' is more thorough and logical but also takes more time and is resource intensive. It kicks in when you focus on a task or problem, monitor and control your behaviour, formulate an argument or do anything that causes your brain to exert itself.

Different thinking for different situations

Of course, both styles of thinking have their place. It's important to be able to make fast decisions when required - in fact, fast thinking comes from the most primal part of our brain to help us make the kind of snap decisions integral to survival. However, there are times when you need to analyse and think through all the implications of a complex decision like whether to accept that new job offer interstate or buy that new car.

Amongst the multitude of small decisions we face every day, it can be hard to find the time and energy for the big ones. Steve Jobs famously explained that he wore the same outfit every day to have one less easy decision to make so that he could focus his energy on the more complex decisions he was dealing with.

Minimising mistakes

If you find you rely heavily on fast thinking in your life, making choices based on gut instinct with little research or consideration, it may be time to consciously slow it down.

While that may not mean wearing the same outfit day in, day out, you might be able to have a few things in your life on autopilot, like putting together a weekly meal plan so thinking about what's for dinner is one less decision to make in your busy day.

Slow thinking takes discipline and effort. It's important to approach critical decisions in a measured way and give yourself the time and head space to think things through, rather than being swayed by emotion or the cognitive biases associated with fast thinking.

Good decision-making, either financial or otherwise also benefits from having a sounding board to talk things through with, and of course we are here to assist with any important financial decisions you may be faced with.

i https://iise.org/details.aspx?id=46559#:~:text=Among%20the%20biologically%20related%20factors,decision%2Dmaking%20is%20described%20next.

ii https://en.wikipedia.org/wiki/Thinking,_Fast_and_Slow