connect
Spring 2019

Economic update

In the US there are signs of slow economic growth this year. This is apparent from some leading indicators, such as the Markit Purchasing Managers' Index (PMI) and, to an extent, official economic data. Slow economic growth is a global theme, with few exceptions. The Australian economy is not immune to this slowdown.

US-China trade war

Tariffs and other forms of trade war continued during the June 2019 quarter. Negotiations between the US and China broke down after Chinese negotiators retracted commitments they made in previous negotiations. This led to both countries placing further tariffs on each other's goods and the use of non-tariff trade war tools. As an example of these tools, the US Government limited what business US companies could do with the Chinese communications firm, Huawei. This restriction has reduced the sales and competitiveness of Huawei products. Towards the end of the quarter the US and China agreed to resume talks and halt any further escalation.

Manufacturing slows

The Markit Global Manufacturing PMI (a measure of manufacturing activity globally) slipped to its lowest level since 2012.

Previously, strong US economic growth supported global manufacturing activity overall but with a slowdown in the US, coupled with weakness in Europe and China, a fall in global manufacturing is expected.

Bonds and shares rally

In global markets, bonds and shares rallied during the June quarter. Key to bond returns were interest rate cuts by a number of central banks because of slower economic activity. The Reserve Bank of Australia (RBA) also reduced the cash rate by 0.25%, which caused Australian yields to fall substantially (around 0.4% or more) which supported bond prices during the quarter.

Australia

In Australia, there was some disappointing economic data. March 19 quarter inflation and economic growth were both weaker than expected and the unemployment rate rose to 5.2%. The RBA cut interest rates, based on this economic data and its own assessments on the target unemployment rate. In early June the RBA cash was cut by 0.25% to 1.25%, the first change since August 2016. This was followed by a further 0.25% cut in early July, leaving the cash rate at 1%. Survey data on both consumers and businesses, such as the May and June NAB Business Surveys, which measure business conditions such as profitability and overall confidence, highlighted a more subdued consumer demand environment. Retail sector conditions remaining the weakest of the industries surveyed.

A bright spot for some segments of the economy was the Federal election win by the Coalition party. This ended the prospect of perceived 'anti-property' policies from the Labor party and saw a rise in sentiment in property markets. However, the drop in consumer confidence in the June Westpac – Melbourne Institute Index of

required financial services
wealth… protection… advice

Required Financial Services
194 Gladstone Street
South Melbourne VIC 3205
T 03 9695 5600
F 03 9695 5670
E anthonyd@required.com.au
W required.com.au

Consumer Sentiment (a full month after the election) casts some doubt on the sustainability of this positive sentiment. The outlook is for weaker, but still positive, Australian economic growth.

Share markets were volatile. The Australian sharemarket outperformed global shares during the quarter. The Coalition election win was positively received by Australian share market investors as it ended the threat of a number of Labor policies including ending dividend imputation credit refunds for some retirees. Shares exposed to the property markets such as REA Group and Domain, both online property sale platforms, rallied strongly on the rise in sentiment.

Global shares rose overall, supported by the easing monetary policy outlook. There was some selling pressure during May when the trade war escalation weighed on sentiment but this fear abated when the US and China agreed to another truce in their trade war. Bond proxies (income-producing stocks such as infrastructure and REITs) benefited from falling bond yields globally as investors sought out other income-producing alternatives.

The Australian dollar fell as a result of a weaker global growth outlook which outweighed strong iron ore prices.

Source: IOOF

Get insurance while you're still bulletproof

According to research by TAL insurance, the cost of personal insurance soars after the age of 35. This is also the time in our lives that you may be going through significant change such as marriage, children, a bigger mortgage and more responsibilities.

In the previous five years to 2017, TAL paid out insurance claims to the sum of $66m to people aged up to 35, but this figure soared for those aged 35–46 to a total payout sum of $152m.

From our experience, it's wise to get a personal insurance cover in place before you turn 35. If you are approaching your 35th birthday now is the ideal time to think about this, but it is important to stress that an appropriate insurance plan is wise at any age.

Your financial adviser can share the technical expertise and experience required to make sure you're properly covered.

Speak to your financial adviser today to discuss your insurance needs.

 Source: IOOF

What changes to the social security means test rules for lifetime income streams could mean for you

In February of this year the Government passed new law that changes the means testing rules for certain lifetime retirement income streams (super and non-super lifetime pensions and annuities). This commenced from July 2019.

These new rules are designed to encourage the use of certain lifetime income streams which feature payments for life, irrespective of how long a person may live, and reducing access to capital over life expectancy. These new rules can provide what can be attractive means testing outcomes for investors.

It is important to understand that the new rules only apply to an investment in a lifetime income stream made on or after 1 July 2019. The new rules do not apply to account-based pensions or term income streams (including term annuities). Also, for any lifetime income stream investment made before 1 July 2019 the previous rules (known as the "deduction amount" rules) will continue to apply and these rules can also provide attractive outcomes.

What are the changes under the social security income test?

The new rules will assess 60% of payments from lifetime income streams under the income test. For example, where a lifetime income pays income of $5,000 p.a., $3,000 p.a. will be assessed under the income test.

This may be more or less than the income derived from alternate investments but is generally seen as an attractive treatment.

What are the changes under the social security assets test?

The changes to the assets test for lifetime income streams may also generally be seen as attractive and can, for assets test affected clients, improve Age Pension eligibility.

For lifetime income streams that commence on or after 1 July 2019 the new rules will generally assess:

- 60% of the purchase price of the lifetime income stream until age 84, subject to a minimum of five years; and 30% of the purchase price thereafter.

This concessional assessment can be attractive compared to alternate investment structures where 100% of any asset is assessable. Where your Age Pension is being reduced because of the assets test, an investment in a lifetime income stream subject to this assessment could immediately improve your Age Pension eligibility.

To find out more about the changes to the means testing of lifetime income streams, and potential impacts on your personal circumstances, contact your financial adviser.

Source: Challenger

How social media is affecting your spending

Social media use has been linked to our mood, self-esteem and even sleep. Research shows that it can also be linked to our spending.

For example, one study found that social networks, particularly Facebook and Instagram, can motivate impulsive buying behaviours. They also act as a source of inspiration that may trigger buying.[1]

But how does social media affect our spending?

Advertising

Sites like Facebook and Instagram have evolved from just being platforms for social networking and photo sharing. They are now powerful advertising tools. We only need to look at our social media feeds to realise how businesses use targeted advertising to try to expose us to their products or services. Targeted posts are effective at getting us to spend because they're often developed based on our demographics and even our behaviours.

Fear of missing out

Social media creates a tendency among users to compare their lifestyle with those of others. This comparison can cause a fear of missing out or FOMO.

A study found that one in two teens and one in four adults in Australia experience FOMO because of their social media use.[2] Our anxiety about missing out often leads us to buy and consume just to fulfil the urge to keep up with everyone else.

Encouraging imitation

Images of products or aspirational lifestyles posted on social media by people we respect or admire might influence us to spend unnecessarily or indulgently. This happens when we look to them for cues or guidance when we don't know how to act and simply copy what they're doing. Psychologists call this social proofing.[3]

Seamless shopping experience

Social media platforms also encourage spending by providing a seamless shopping experience.

For example, Facebook enables retailers to sell on the platform itself, and Instagram lets them add links to products and services mentioned in their posts so users can purchase them online.

This makes it extremely easy to spend. In a survey of Australian university students' spending habits, 43 per cent of respondents cited the seamless in-platform shopping experience on Instagram and Facebook as a major trigger for how much they spent via social media.[4]

Being smart with spending

Social media can help us make better choices by exposing us to more products and services and enabling us to learn about other people's experiences using them. But it can also influence us to spend unnecessarily or impulsively.

By setting financial goals, you can make smart choices with your money. Your professional financial adviser can help you get started by creating a plan and budget to help you secure your financial future.

Source: IOOF

1 Aragoncillo, L, 2018, 'Impulse buying behaviour: an online-offline comparative and the impact of social media', Spanish Journal of Marketing, accessible at: https://www.emeraldinsight.com/doi/full/10.1108/SJME-03-2018-007

2 Australian Psychological Society, 2015, 'Stress and wellbeing: How Australians are coping with life', accessible at: https://www.headsup.org.au/docs/default-source/default-document-library/stress-and-wellbeing-in-australia-report.pdf?sfvrsn=7f08274d_4

3 Psychology Notes HQ, August 2015, 'What is the Social Proof Theory?', accessible at: https://www.psychologynoteshq.com/social-proof

4 UniBank, May 2018, 'How social media is really impacting student spending habits', accessible at: https://www.unibank.com.au/about/member-news/2018/may/how-social-media-is-impacting-student-spending

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WMA-26768 (50680) 0819