Parkside Newsletter August 2022

It's August and as winter draws to a close there's snow in the Alps and the wattle is blooming. Many Australians will soon receive a sizeable tax refund, if they haven't already, which should help ease those rising cost-of-living blues.

Rising inflation and interest rates were the focus of attention in July. The US Federal Reserve lifted its target rate by 75 basis points to 2.25-2.50% to tackle surging inflation of 9.1%. At the same time, the US economy contracted by 0.9% in the June quarter, following a 1.6% drop in the March quarter.

By contrast, Australia is performing relatively well. In his first economic statement, treasurer Jim Chalmers downgraded growth forecasts to a still solid 3.75% last financial year and 3% this financial year. Inflation jumped to 6.1% in the year to June and is forecast to peak above 7% in December. And the Reserve Bank lifted the cash rate by 50 basis points to 1.35% in July, with a similar increase tipped this month and more to come. Governor Philip Lowe said he expects rates to get to 'at least' 2.5%. Unemployment fell to 3.5% in June, but rising prices and interest rates dented confidence. The ANZ-Roy Morgan consumer confidence index sits at 82.4 points – below 100 is pessimistic. While the NAB business confidence index fell 5 points to +1.4 points in June.

The biggest hit to inflation has come from housing and construction prices and petrol. But the housing market is cooling due to rising interest rates, with national home values easing 0.6% in June and new dwelling starts down 6.5% in the March quarter. Petrol prices are also easing, down 19c to below $1.93 a litre in late July on falling global oil prices. The Aussie dollar gained a cent to finish the month around US70c.

Parkside InvestorPlus® Pty Limited
Suite 27
3-9 Terminus Street
Castle Hill NSW 2154
P 02 9899 4899
F 02 9899 9029
E mail@parksideinvestorplus.com.au
W www.parksidefg.com.au

Time for an annual tune-up?

Checking in on your goals, finances and health

We don't think twice about taking our car in for a regular tune up. Why? Because we know it's going to mean our car runs at its best and saves unexpected problems down the track. It follows then that we should take the same approach to other areas of our lives. From our goals, to our finances, to our health, there's so much to be gained in checking in regularly to make sure everything's tracking well.

Kick your goals into gear

A good place to start is with your goals. If you set some at the beginning of the year, take some time to reflect on how you're tracking. If you didn't, there is no time like the present to stop and think about what you want for your future.

The next step is to make a plan. This will involve writing down your goals then looking at what resources you'll need to help you achieve them. You want to make sure you have allocated enough hours and dollars towards making them a reality. This will also dictate your overall timeframe. Set regular, realistic deadlines with measurable sub-goals and make sure you have someone in your corner to hold you accountable.

Remember too, that your goals don't need to be bigger than Ben-Hur. They might just be to see more of your friends or put a bit extra aside each month for a holiday. Reflect on the little things in life that bring you joy, and what you can do to pursue them.

Fueling up your finances

Once you've got a handle on your goals, it's a good idea to review your finances. The new financial year presents the perfect opportunity.

Start by reviewing your budget. If it's not currently working for you, what changes can you make to start taking meaningful steps towards your goals? Maybe there's an online subscription you aren't using or you're having one too many meals out. Shopping around for a better deal on your utility bills, as well as the interest rate on your mortgage and credit cards, is another worthwhile consideration.

It's also wise to take a proper look over your investments. Review your asset allocation and risk tolerance to make sure that your approach is still in line with your present situation as well as future goals.

For many of you, your biggest and most tax-effective investment will be your superannuation. It makes sense then to ensure you're comfortable with what your fund is returning as well as your current risk profile.

Your super may also include some level of insurance cover. If your circumstances have changed, it might be time to review. We can assist you in assessing whether you are adequately protected, looking at options both within and outside of super.

Get a handle on your health

Even if you're feeling fit as a fiddle, a regular health check-up can be a worthwhile investment of both time and money that could help you to live a long, happy and healthy life. If you have reached a milestone birthday it's worth speaking to your GP about any recommended tests.

Likewise, your physical health doesn't start and end with a doctor or dentist visit. Getting into some exercise habits now and changing your eating habits could bear dividends for your long-term health and well-being.

Someone in the passenger seat

No matter where you're going it's always helpful to have someone in the passenger seat to help you navigate the way. For your goals and your passions, it might be a friend, partner or family member. For your health, it's a doctor. And when it comes to your finances, we can help you protect the lifestyle you have, while mapping out the journey to achieve your ideal future.

If you need help with the financial aspects of your annual tune-up, give us a call. We're always here to help.

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

A GUIDE TO Aged Care *at home*

As we get older, most of us want to remain independent and in our own home for as long as possible, but this can be challenging without some help with household tasks and personal care.

Recognising this, the government runs a Home Care Packages program where approved aged care service providers work with individuals to deliver co-ordinated services at home.

Approval for a Home Care Package starts with an assessment by the Aged Care Assessment Team (ACAT). Eligibility for a Home Care Package, or other government subsidised help at home, is based on your care needs as determined through the assessment. You must also be an older person who needs co-ordinated services to help them stay at home or a younger person with a disability, dementia, or other care needs not met through other specialist services.

You can make your own referral via the government's My Aged Care website (https://www.myagedcare.gov.au/) or by calling 1800 200 422 and answering some questions.

Financial eligibility

Your financial situation won't affect your eligibility. But once you have been assigned a package, you will need a financial assessment to work out exactly how much you may be asked to contribute.

There are four levels of Home Care Packages – from Level 1 for basic care needs to Level 4 for high care needs.

The annual budgets for the packages are (in round figures) $9,000 for a Level 1, $16,000 for a Level 2, $35,000 for a Level 3 and $53,000 for a Level 4. The government contribution changes on 1 July each year.

The idea is that a person, using a consumer directed care approach, can decide how they would like to use that money for help which may include equipment such as a walker or services such as household tasks, personal care, or allied health.

Your contribution could be a basic daily fee up to $11.26 a day, as well as an income tested fee up to $32.30 a day or $11,759.74 a year.[i] These fees are adjusted in March and September each year.

Expect a wait

Demand for packages is high, with a wait of 3-6 months for a low-level package and 6-9 months for a higher level package.

It's not unusual to be approved for a high-level package but be offered or 'assigned' a lower level package as an interim measure.

Once approved for a Home Care Package, you must appoint a provider approved by the government, whose role is to administer, and manage the package for you.

The provider will charge a fee for their services which is deducted from the Home Care Package. This essentially reduces the amount of money from the package that can be spent on services. Administration costs can be 10-15 per cent of the package and case management another 10 per cent, or thereabouts.

The services offered and the way they are delivered can vary between providers, so comparing offers is important.

How much help you get from a package will depend on your care needs and fees, but generally a Level 1 package might provide two or three hours of help a week, a Level 2 about four hours, a Level 3 package about 8 hours and a Level 4 about 12 hours.

A recent Fair Work Commission ruling mandating minimum two-hour shifts for casual home care workers, while improving conditions for low-paid workers, is also expected to lead to increased costs for providers and ultimately Home Care Package recipients.

Self-managed home care

One way to get more hours of help and have a greater say in who delivers it, is to self-manage your Home Care Package. As well as saving the case management fee you can generally negotiate directly with workers the hours worked and the rate of pay.

You still need an approved provider to administer the package, with the fee being about 10-15 per cent.

There are currently five providers offering a self-managed option. One way to find support workers to assist with your care needs is through one of several online platforms where carers register their willingness to help, along with their hourly rates.

If you are weighing up your aged care options for yourself or a loved one, and would like to discuss financing arrangements, please get in touch.

i https://www.myagedcare.gov.au/home-care-package-costs-and-fees