Winter Newsletter 2021

Here is the latest newsletter from Infocus. Please do not hesitate to contact us if you have any questions in relation to these articles, or if we can help you with anything else.

Economic update - August 2021

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

Key points

- Despite some key economies reopening, the Delta variant of COVID 19 remains a real risk Inflationary fears are still with us but bond yields have fallen significantly suggesting it is not a problem
- The US and Chinese economies experienced solid rebound growth
- Monetary and government policies remain accommodative and policy remains accommodative

The Big Picture

Around half of the Australian population was in some sort of lockdown in late July as new COVID infections of the Delta variant surged. This round of infections and lockdowns seems to have started in Sydney with one errant Sydney airport-limo driver not doing the right thing. Sydney has been in lockdown for over a month and the NSW Premier is telling us it is going to get worse before it gets better. It looks like Sydney will be in lockdown for another month or more.

We know from last year that it's hard to avoid a recession if much of the economy is on lockdown. But not all states have it as bad as Sydney. It could be a close-run thing; some economists are predicting a recession (formally two consecutive quarters of negative GDP growth). Economics is not called the 'dismal science' for nothing. While new daily infections are in the 30,000 – 70,000 range for the US and UK, their economies are flying – at least for now. Australia's new infection rate is less than 1% of these comparator nations. Thankfully deaths are relatively low in all three countries compared to the first wave last year.

Not everyone agrees that NSW is holding the correct line on restrictions but all must agree that our vaccination rates are pathetically low. Only around 16% (at time of writing) of Australia's adult population are fully vaccinated, compared to over 50% in the US and UK. There are reportedly over three million doses of the AstraZeneca (AZ) variant stockpiled in Australia but the only alternative, Pfizer, is as rare as hen's teeth.

The government is now urging all age groups to line up for an AZ shot – after telling us the risks were too high for the under 60s. That's a hard sell. Pfizer shots are starting to be imported in significant quantities but not enough by our calculations to get us reasonably fully vaccinated before mid-2022.Social unrest is climbing in Sydney. A protest march of the order of 2,000 to 3,000 took to the streets and participants were largely unmasked. The population is not happy.

Notwithstanding, the Westpac consumer sentiment index rose a fraction to 108.8 just before the onset of the latest Sydney lockdown. Both NAB business indexes slipped but they still showed optimists outweighed pessimists. It is doubtful that the next surveys will hold that line.
When it comes to hard data, our unemployment rate fell to 4.9% which is the lowest read since 2011! We have to go back to 2008 before the unemployment rate was actually less than 4.9%. Jobs growth was strong at 29,000 new jobs for the month and part-time jobs went backwards as full-time jobs surged 52,000 for the month. It all

looked so good!

Property update

Australian housing values increased a further 1.6% In July, according to CoreLogic's national home value index.

The latest rise takes housing values 14.1% higher over the first seven months of the year and 16.1% higher over the past twelve months.

CoreLogic's research director, Tim Lawless, described the market as strong, but losing steam. "The 16.1% lift in national housing values over the past year is the fastest pace of annual growth since February 2004, however the monthly growth rate has been trending lower since March this year when the national index rose 2.8%."

Mr Lawless attributes the lower rate of growth in housing values to several factors. "With dwelling values rising more in a month than incomes are rising in a year, housing is moving out of reach for many members of the community. Along with declining home affordability, much of the earlier COVID related fiscal support (particularly fiscal support related to housing) has expired. It is however, encouraging to see additional measures being rolled out for households and businesses as the latest COVID outbreak worsens.

"On the flipside, demand is being stocked by record low mortgage rates and the prospect that interest rates will remain low for an extended period of time. Dwelling sales are tracking approximately 40% above the five-year average while active listings remain about -26% below the five-year average. The mismatch between demand and advertised supply remains a key factor placing upwards pressure on housing prices," Mr Lawless said.

Although the pace of growth has slowed, housing values continue to rise at a rate that is well above average across most areas of the country.

Overall, Australia's housing market remains in a strong position, however signs of a slowing rate of appreciation have become more evident.

The pace of capital gain has been tapering since April this year which can be attributed to growing housing affordability challenges along with less fiscal support. It is likely recent COVID outbreaks and associated lockdowns have contributed to some of the loss of momentum as well, particularly from a transactional perspective in Sydney which is enduring an extended period of restrictions.

Previous 'circuit-breaker' lockdowns have generally seen housing values remain resilient to falls, but the number of home sales and listings activity has been more substantially disrupted in the most recent lockdowns. Once restrictions are lifted, it's likely pent-up demand will flow through to an increase in activity. However, it is reasonable to assume the uncertainty associated with the duration and severity of Sydney's lockdown could see a greater level of disruption relative to previous shorter periods of restrictions.

Although the rate of growth has eased, housing values are continuing to rise substantially faster than average. Over the past 10 years, the average pace of monthly dwelling value appreciation has been recorded at just 0.4%.

It's likely the rate of growth will continue to taper through the second half of 2021 as affordability constraints become more pressing and housing supply gradually lifts.

Source: CoreLogic

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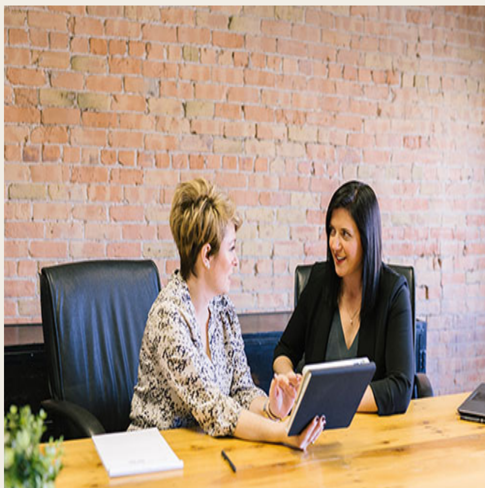
New legislation and changes to your annual renewal process



As of July 1 2021, new legislation regarding the annual service renewal process for ongoing fee-paying clients came into effect.

The new legislation, arising from the Hayne Royal Commission, was designed to increase clients' awareness and understanding of both the services they receive and the fees associated with those financial advice services.

The new legislation focuses on what was previously referred to as your annual FDS/Opt-in process, where you were presented with a Fee Disclosure Statement (FDS) outlining the services received and fees paid during the previous 12-month advice period. At the same time, you would have been asked by your adviser to confirm your acceptance to continue under the existing fee arrangement - commonly referred to as your "opt-in". This opt-in may have been done every 12-months or 2 years.

Under the new legislation, we now refer to this process as the Annual Renewal process, which will include your FDS and other items outlined below:

1. Fee Disclosure Statement - including:

- Fees paid over the last 12 months
- Agreed services for the last 12 months

2. Forward Fee Estimate

- Fee estimate for the next 12 months
- Services available over the next 12 months

3. Renewal Notice

- Client ongoing service agreement renewal every 12 months

4. Product Fee Consent

- Client authorisation for fee collection (where fees are being paid directly from a financial product or service provider.)

Items 1-3 will be presented to you in a single document and if Item 4 is applicable to you, your adviser will provide you with the relevant fee authorisation process.

The complete Annual Renewal process will occur every year and is essentially designed to:

- Confirm that you received the services you were entitled to in the previous 12 months
- Confirm that you were charged accordingly
- Ensure that you understand the services that will be provided for the next 12 months
- Ensure that you are clear on the fees associated with those services.

More on Product Fee Collection

Prior to the new legislation, your consent to deduct fees from any products or services you use was required only at the time of establishing the product or service. From July 1 2021 your adviser must obtain your consent for fees to be collected from products (excluding credit cards and basic banking accounts) *every year*. The way in which you receive this product consent form will vary from provider to provider and your adviser will assist you with this process.

Where does my Client Service Agreement fit in?

Your Client Service Agreement (or CSA) is the underlying contract you have agreed with your adviser and it outlines the services that your adviser will provide and the associated fee structure. You don't need to re-sign this every year unless the nature of the services provided or the fee arrangement changes, in which case a new CSA will be created and signed. For example, if your circumstances change and you now require an additional service from your adviser, a new CSA outlining the new services and any associated fee changes will be created.

In short, your Annual Renewal process is essentially the yearly renewal of the service and fee arrangement outlined in your CSA.

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Understanding the new super guarantee contributions

About 8.3 million Australian workers are set to get a boost to their long-term savings from July.

On July 1 the compulsory superannuation guarantee contribution made by employers will rise from 9.5 per cent of your base salary to 10 per cent.
For someone on average earnings of $68,000 this will mean an extra $6.50 per week will go into your super coffers.

The compulsory super guarantee rate has been sitting at 9.5 per cent since July 1 2014 and is set to rise by 0.5 per cent annually to 12 per cent by July 1 2025.
According to the Association of Superannuation Funds of Australia (ASFA), those who will benefit from the boost this month are mostly private sector employees – or about 77 per cent of all employees.

It reports that about 20 per cent of all employees already receive SG contributions at a rate of at least 10 per cent. So they will not be impacted by the SG rate increase. These people are mostly public sector employees, but it also includes private sector employees in industries that were once dominated by the public sector.

Originally, the super guarantee rate was set to rise to 10 per cent on July 1, 2015 and to 12 per cent by July 1, 2019. But it was successfully argued that the rise in super contributions could see employees miss out on wage increases. Even now there is concern that the increase in the super rate may lead to some employees being forced to take a pay cut.

ASFA's figures show that the cost to an employer of the SG rate increase for a median wage earner on $60,000 per annum is $5.75 per week. It is $6.50 per week for an employee who earns average earnings of $68,000 per annum. For a 30-year-old worker this could amount to an extra $80,000-$100,000 in super over time.

ASFA reports that some wage setting arrangements in the private sector may give employers the discretion to adjust the remuneration of their employees.
About half of private sector employees have their wages and conditions determined by an award or an enterprise agreement and half have their wages and conditions determined by individual common law contracts, which are subject to certain minimum conditions and pay rates set by the Fair Work Commission.
In a paper on the subject ASFA argues that business generally has the capacity to pay the additional super as employees on average have not been fully compensated for productivity increases in the economy over the past two decades.

With the economy making a strong and broad-based recovery from the COVID-19 crisis and staff shortages looming, it's not a time for employers to be cutting wages. Only those workers who have contracts that specify that super is included as part of their total package are at risk of having to take a pay cut when the compulsory increase kicks in.

If your employment contract states super should be paid on top of your base salary you can look forward to watching your long-term wealth grow faster.

Please contact your financial adviser if you have any questions about the new super arrangements.

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SMSF Legislation update

Senate passes 6 member fund Bill and non-concessional contribution (NCC) cap bring forward extension to individuals aged 65 and 66.

Yesterday morning (17 June 2021), the Australian Senate passed, without amendment, both the Treasury Laws Amendment (Self-Managed Superannuation Funds) Bill 2020 and the Treasury Laws Amendment (More Flexible Superannuation) Bill 2020. These measures extend the NCC bring-forward age up to 67 (from 1 July 2020) and increase the maximum number of SMSF members from four to six.

Labor sought to move an amendment to review the operation of the measures in 12 months' time, including reviewing the conduct of financial advisers, SMSF trustees and SMSF investment performance and governance but was narrowly defeated. The Bill now moves to the Lower House for debate where it is expected to be passed without amendment.

One Nation proposed an amendment which would allow the recontribution of COVID-19 early release amounts without penalty, and the removal of the Excess Contribution Charge in situations where an individual has exceeded their concessional contributions cap through no fault of their own, to which the Government agreed. However, One Nation also proposed an amendment to increase the concessional contributions cap for individuals over aged 67 and over which was defeated.

These measures should provide greater flexibility for families with more than 2 children who were always impacted by the maximum number of 4 members and the extension of the bring forward provisions for those age 65 and 66 now aligns with the increased retirement age of 67.

If you have any questions on how these measures might best benefit you and your family, please contact your adviser.

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Lonely in lockdown?

Snap lockdowns or simply the long winter months might be making you feel bored and lonely.

If you're feeling the pain of being on your lonesome, know that you're actually not alone. One in four Australian adults experience loneliness, according to a report by the Australian Psychological Society and Swinburne University.

Trying some of these antidotes may be just what you need to get beyond an overdose of 'me time'.

Reflect a little

While you might envy someone with thousands of Instagram followers or fun family photos on Facebook, you may feel most connected when you spend time with one or two friends. Recognise when you actually feel most connected. Is it when you are having fun in a group? Or having a meaningful one-on-one conversation with someone? Do you enjoy discussing ideas such as in a book club or a political group?

Build more of what makes you feel connected into your everyday life.

Nurture yourself

Feeling lonely is not necessarily a sign that you need to reach out more. It might be you need to connect better with yourself.

Here are a few suggestions for nurturing yourself and connecting to your body, mind, and spirit:

- Go for a walk in nature;
- Listen to a piece of music you like;
- Have a bath or shower by candlelight;
- Cook something healthy and nutritious;
- Read something uplifting or watch something that makes you laugh;
- Sing, paint, dance, snooze, meditate.

Make the most of opportunities

Practice connecting with people wherever you go. Can you find something to say to a shop assistant? Your local barista? A neighbour? Someone walking their dog? Such connections may not turn into lifelong friendships but they are still a good way to grease your social wheels.

Strengthen existing relationships

Do friends and family members go on the backburner when you're busy? Make the effort to check in with them more regularly. Ask what is happening in their life; how they are feeling and take the time to listen.

Passion projects

Perhaps you've been intending to join a new group or learn a new skill. Or you'd like to devote more time to a passion or hobby you love. Use your solo time to come up with a game plan. Join a local Facebook group or find a Meetup group that has similar interests or research community college courses that might connect you with like-minded people. Volunteering is another way to enhance your sense of community. Research organisations or projects that could use a helping hand and reach out.

Notice the good

Rather than dwelling on what isn't possible or what is not happening, choose to notice the good in your interactions. A stranger let you go ahead of them in the supermarket queue; you shared a laugh with someone; a friend called or sent a message; your boss appreciated your efforts; you enjoyed a Zoom call with your family.

Make an appointment

If you're struggling with your mental health or feeling social anxiety making an appointment with a therapist is a great step towards feeling less isolated.

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