SEAFG Insights - 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.

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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

TECH TIPS

to get more hours in your day

Life just seems to get ever busier as the years roll by and our most precious commodity is often our time. We could all do with a few more hours in the day and technology continues to play a vital role in bringing efficiencies into our daily lives.

In fact, research indicates that technology saves the average person around two weeks a year – or almost two and a half years of our lifetimes.[i] The main time savers are the things most of us are generally already using – self-service checkouts, online banking and shopping, and mobile traffic updates. It's certainly worth ensuring you are making the most of these time savers and spending the least amount of time on mundane tasks by setting up online shopping lists and automating bill paying.

Then to take your time saving efforts even further, there are a myriad of applications that have sprung up to help you create efficiencies in your professional and personal life. Let's look at the best ways to stop wasting your precious time and then look at specific applications that may be of benefit.

Taming the email beast

Email is certainly nothing new. Once prized as a valuable communication tool, email is now singled out as a black hole for lost time. What is relatively new is the number of email management applications you can turn to for help. Such applications are indispensable if you use multiple inboxes, or if you have so many unread emails that you can't organise them on your own.

A good example is *Clean Email* which deletes thousands of old emails and organises new incoming messages automatically. It's also becoming more common to only check and respond to email a few times a day rather than on a continual basis as it can be a constant distraction.

Avoid distractions and stay focussed

When it comes to distractions it can be hard to stay on target 100 per cent of the time, however if you find that you are spending too much time on online diversions, apps like *Freedom* and the aptly named *Selfcontrol* block irrelevant content.

There is also a growing trend away from multi-tasking that suggests it's more effective to focus on one thing at a time, giving each task your undivided attention before moving on to the next. If that's an approach that you find challenging, there are a number of apps that have sprung up to help you keep focussed. If you find you jump from one thing to another and end up with a stack of half-finished tasks, apps like *Focuskeeper* provide discipline and the motivation to complete tasks.

Save time by being aware of time

One way of saving time is to become more aware of where your time is being spent so you can reduce wasted time. While it can be a little disturbing to find out how much time you spend checking your social feeds, apps like *RescueTime* are great for keeping you on target. *RescueTime* tracks what you're working on and suggests the best times for uninterrupted work and when you're losing focus and trying to tackle too many tasks the prompts help you to prioritise.

Get organised and outsource

Making the most of your time is all about getting organised. Apps that help you to break down your hectic life into tasks and 'to-do' lists also help you to prioritise and make sure nothing gets dropped. *Remember the milk* allows users to manage tasks, share lists and allocate them to others so it's a useful tool to keep your whole household or team at work organised.

It's important to put a value on your precious time and sometimes that means getting a hand with all the low-value tasks in your life that get in the way of what you really need to do. There are heaps of apps like *Fivver* or *Airtasker* that can help you to outsource all sorts of annoying, time-consuming jobs.

Is it time to start exploring how technology can help you to be more efficient and reclaim some of those lost hours? The challenge will then be deciding what to do with all that extra time on your hands!

i https://www.thelondoneconomic.com/tech-auto/modern-technology-saves-brits-the-equivalent-of-two-weeks-every-year-111552/