July 2020

July is here along with the winter chill. But July also signals the start of a new financial year and chances are most Australians are happy to say goodbye to the last one. This year more than ever it's a great time to plan your finances for the year ahead, to rebuild or make the most of savings you have made during months of social isolation.

With an extraordinary financial year behind us, it's a good time to take stock. After 28 years Australia's record economic expansion ended due to the COVID shutdowns. Our economy contracted by 0.3% in the March quarter and looks set to contract 8% in the June quarter, confirmation that we are officially in recession. The Budget deficit for the 12 months to May was a record $65.5 billion or 3.3% of GDP, $61 billion higher than predicted just last December. Unemployment rose to 7.1% in May, the highest since 2001, with another 1.6 million Australians on JobKeeper payments.

Yet Australia is weathering the COVID storm better than most nations, with signs of building business and consumer confidence. Retail sales rose a record 16.3% in May, after a record 17.7% fall in April, while new vehicle sales fell 35% in the year to May. The ANZ/Roy Morgan consumer confidence index is up 42% on its record lows in March, while the NAB business confidence index rebounded to -20 points in May, up from a record low of -65 points in April.

Financial markets finished the financial year mixed, but in better shape than many feared. In the year to June, US shares rose 4.6% while Australian shares trimmed their losses to 10.8% after a partial rebound in the last quarter. Falling global demand hit crude oil prices (down 33%) and iron ore (down 14%). The Aussie dollar firmed 3.7% in June to finish the year at US69c as a mark of Australia's sure handling of the COVID crisis.

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THE HOUSING MARKET:

Shaken not stirred

With Australia in a COVID-induced recession, residential property is not immune to falling economic activity. Yet housing prices are proving surprisingly resilient.

Only months ago, economists were forecasting a housing price slump of 20 per cent or more. Now, most have revised their forecasts to price falls of between five and 10 per cent.

The more optimistic predictions are due to Australia's success at containing the coronavirus, the gradual lifting of restrictions and government stimulus aimed at keeping Australians in work. The most recent of these measures is the HomeBuilder package.

Housing stimulus

The Morrison Government's HomeBuilder package, announced on June 4, offers home buyers a grant of $25,000 to build a new home worth less than $750,000.[i] The grant can also be spent on renovations valued between $150,000 and $750,000 to an existing home valued at no more than $1.5 million.

The scheme is limited to owner-occupiers (not investors) on incomes below $125,000 for singles and $200,000 for couples. The amount of money on offer is uncapped, but the government expects it to cost about $688 million for roughly 27,000 grants.

To be eligible, renovators must sign a contract with a builder by the end of 2020. They will need to have plans drawn up, finance approved, and any building and development approvals secured.

The package has been well-received by the housing industry, which hopes it will encourage buyers to bring forward purchases and support construction jobs. While critics argue the HomeBuilder package is too limited in scope and time to make a significant impact, it is more likely to support house prices than harm them.

House prices marking time

According to CoreLogic, national home prices edged up 0.6 per cent in the three months to the end of May, at the height of the economic shutdown. Melbourne was the only market to lose ground during that period (-0.8 per cent) but all regions lost momentum.

However, sales activity bounced back by an estimated 18.5 per cent in May after a drop of 33 per cent in April. The rise in sales coincided with an easing of social distancing restrictions, the arrival of JobKeeper payments in people's pockets and growing consumer confidence.

On an annual basis, national home values rose 8.3 per cent in the year to May with Perth (-2.1 per cent) and Darwin (-2.6 per cent) the only capital cities where prices are still lower than a year ago.[ii]

Rents and yields falling

Rents in every capital city except Perth fell in the two months to May. Falling rents are welcome news for renters, especially in cities like Hobart where a booming property market and the conversion of long-term rentals into short-term Airbnb lets had priced many out of the market.

However, falling rents are not so good for property investors. Rental yields were 3.8 per cent nationally in May, although higher in regional areas (4.9 per cent) than capital cities (3.5 per cent).

According to CoreLogic, there is a strong chance that rents will fall more than housing values, putting further pressure on rental yields, with yields in Sydney and Melbourne already at or near record lows.[ii]

Looking ahead

While the outlook for the property market is brighter than feared, there are still challenges ahead.

One test will come after September when JobKeeper payments and loan repayment holidays are removed. There is a risk that mortgage arrears and distressed sales could increase at that time. While unemployment is now expected to peak at around 8 per cent, not 10 per cent as previously forecast, it is not expected to return to pre-pandemic levels for at least two years.[iii]

On the positive side, interest rates remain at record lows and the OECD expects the Australian economy will bounce back by 4.1 per cent next year (if the coronavirus is kept under control), after a contraction of 5 per cent in 2020. This is a better economic performance than almost any other nation.[iv]

While the outlook for property is still uncertain, the stirrings of economic activity are encouraging. If you would like to discuss your property strategy in the light of current market developments, please get in touch.

i https://treasury.gov.au/sites/default/files/2020-06/Fact_sheet_HomeBuilder.pdf

ii https://www.corelogic.com.au/sites/default/files/2020-06/CoreLogic%20home%20value%20index%20June%202020%20FINAL.pdf

iii https://www.businessinsider.com.au/australian-unemployment-forecast-government-treasury-covid19-2020-6

iv https://www.afr.com/policy/economy/australia-leads-on-economic-recovery-oecd-20200610-p5514b

Making *your wishes* known

While Australia's handling of the COVID-19 pandemic was among the best in the world, the speed and spread of the illness underlined just how fragile life can be.

It was also a solemn reminder of the importance of ensuring your affairs are in order, so your wishes are met – in life and death.

The centrepiece of any estate planning is your Will, which sets out who you would like to receive your assets when you die, and how they are to be distributed. But you also need to consider what will happen to your superannuation as well as who will act on your behalf if you are unable to make decisions about your finances, health or wellbeing.

Expressing your Will

Despite the importance of a Will, it's estimated that nearly half of Australians don't have one.[i] If you die intestate (without a Will), your assets will be distributed according to a legal formula within each State, which may not be in line with your wishes. In an era where complex family situations and blended families are common, this can create unnecessary conflict at what is already a difficult time.

Even if you have a Will, it's not a set-and-forget document. You must make sure it is up to date and reflects major changes in your life, such as marriage, divorce, the birth of a child or the purchase of a home.

Super is not part of your Will

It is not widely understood that superannuation is not covered by your Will unless you specifically direct it to be by nominating a legal personal representative (LPR) as your beneficiary.

Unless you nominate a valid beneficiary, the fund's trustees will determine who receives your super. Even if you don't have much money in super yet, chances are you have life insurance with your super which is paid out to your beneficiaries on your death.

To be valid, a beneficiary must be your LPR or a dependent, defined under super legislation as your spouse, child, someone in an interdependency relationship with you or a financial dependent. If you don't nominate anyone, or your nomination is not valid, generally the money will go to your dependants or your LPR - but it's always good to make sure.

The best way to ensure your super and any insurance payout ends up with the people you want to receive it is to make a binding death benefit nomination. There may be a small charge and you need to renew it every three years to remain valid. A non-binding nomination is only a guide so the trustees can overrule your nomination.

It is also worth remembering that if your beneficiaries are adult children, there may be tax implications for them.

Living Wills

Estate planning isn't just about planning who gets what when you are gone. You should also consider putting in place directives to let your family and others know how you want to see out your days.

An enduring power of attorney will allow you to nominate somebody to act on your behalf if you are no longer capable of conducting your own financial matters. A general power of attorney is not sufficient as it is usually for a set period and becomes invalid once you can no longer make your own decisions.

You should also organise enduring guardianship to appoint somebody to take control of any lifestyle or medical issues should you become incapacitated. And it is worthwhile introducing an advance care directive which states exactly what medical treatment you do and don't want to receive towards the end of your life.

Spread the word

Once you have prepared an estate plan, it's a good idea to gather all your documentation in one place and tell your family and legal representative where they are. Also, consider giving someone you trust your online passwords to avoid complications down the track.

Getting your affairs in order can provide great peace of mind for you and your family, now and in the future and we are here to assist.

i https://www.contestingwills.com.au/how-many-people-die-without-writing-a-will/#:~:text=The%20Australian%20Securities%20and%20Investments,t%20yet%20written%20a%20will.

New financial year
new perspective

The start of the financial year is always an excellent time to take stock of your current situation and visualise where you'd like to be in the future.

It's fair to say this year hasn't been 'business as usual'! While no-one could have predicted the first six months of 2020, nor want to repeat them, it's likely there have been lessons learned. So as you review and set new goals, consider any takeaways from lockdown and how they have influenced your goals and path for the future.

Different priorities and new goals

Your priorities may have forcibly changed in response to the change of circumstances, or perhaps you realised that some things are more important to you than others. Do you now want to spend more time with family, improve your connection to your friends, help out in the community? Perhaps you have a reignited passion for your work or have been motivated to look for greater opportunities. Has not being able to travel in the short-term made you more determined to hit the road or jet off to a new destination?

Work/life balance remains a top priority for many people, yet it can feel elusive at the best of times. By identifying what is important to you and what you want more (or less) of, you'll be better placed to make changes to reach more of a balance.

You might have also discovered a new hobby. If you're a gym junkie, you might have made the shift to exercising outdoors and discovered a love of trail running or mountain biking. If you love visiting restaurants and cafes, perhaps you started to enjoy more time in the kitchen, trying to replicate your favourite chef-cooked meals. Whatever hobby you've picked up or re-sparked, think about how you can keep it up when life returns to a new normal. Perhaps this hobby could even be a side business or has ignited an idea for a new career path?

Awareness of your finances

It's likely your financial situation has changed in 2020. Your income and expenditure may have altered during the period of lockdown, and while we were all impacted in different ways, the period presented a degree of uncertainty for everyone, highlighting the need for financial security.

The financial goals you established last financial year or in January are likely to have shifted due to the year's upheaval. And you may also have new goals following the COVID-19 pandemic. Review your finances and your budget to set new objectives, working with your current situation to build a financial safety net and work towards your future goals.

Setting and achieving your goals

The first half of the year has shown us that plans can and sometimes, must change. But don't let this stop you from setting goals and working towards your vision of the future.

Ensuring your goals are smart, or specifically SMART – Specific, Measurable, Assignable, Realistic and Time-related, will make it easier for you to follow through and achieve them. Whether they're related to finances, your career or spending more time with family and friends, drill down into the details.

The SMART framework strengthens your goals by making sure they are thought through. For instance, if this has been a time of financial instability for you, your priority could be having more savings behind you. But how much money will you put away and how often, who will make this happen, and is this feasible? With increased uncertainly, it may be beneficial to set micro goals with shorter time frames. This will allow you to be adaptable while still progressing towards your larger goals.

Getting support

This tumultuous year has also highlighted the importance of reaching out for support. This may be a coach, friend or mentor who provides guidance, encouragement and keeps you accountable on your journey. When it comes to establishing your financial goals and working through concerns, you don't have to go it alone.

We can help keep you on track to achieving your objectives and guide you through the process, so feel free to get in touch today.