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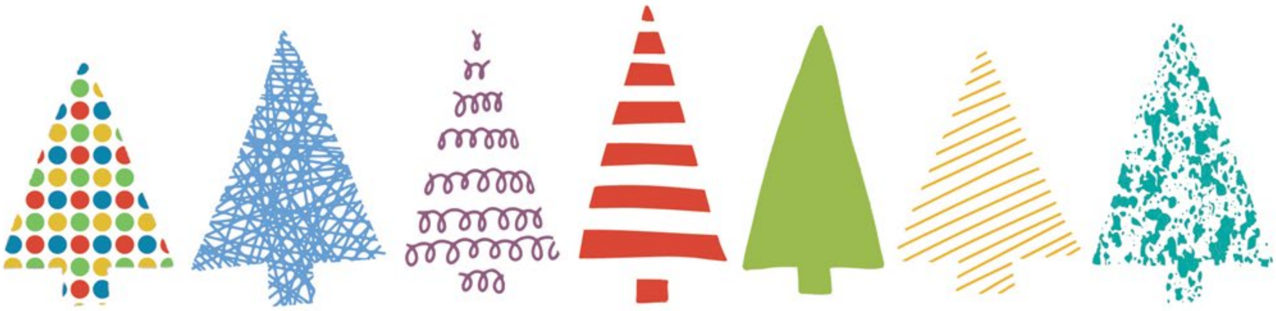

December 2019

December is here which marks the official start to summer. Unfortunately, the bush fire season is already underway. We would like to take this opportunity to express our heartfelt thanks to the firefighters, emergency services personnel and community members who have been working tirelessly to save lives and property.

After keeping interest rates on hold at 0.75 per cent in November, Reserve Bank Governor Philip Lowe said in a speech he would only consider unconventional measures to stimulate the economy if rates fell to 0.25 per cent. He ruled out negative interest rates but said he might consider buying government bonds.

Economic activity remains patchy. The Reserve Bank forecasts Australia's economy will stay flatter for longer with growth of 2.25 per cent this year rising to 2.75 per cent by the end of 2020. Business and consumer confidence remain weak, which was reflected in a 0.2 per cent decline in retail sales in the year to September, the biggest fall in 28 years. New vehicle sales followed the trend, down 9.1 per cent in the year to October, the biggest fall in a decade. Residential building was also down, by 10.6 per cent in the year to September, the biggest fall in 18 years. Unemployment rose slightly from 5.2 per cent to 5.3 per cent in October as the number of people in work fell for the first time in 17 months.

On a brighter note, Australia trade surplus rose for the 21st successive month in September, as our annual trade surplus with China hit a new record of $67.3 billion. Our exports have been supported by the weaker Aussie dollar which eased in November from US69c to US67.7c.

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12 TIPS FOR CHRISTMAS

If five golden rings and a whole menagerie of birds sounds like it might blow the budget this year, then perhaps the classic carol needs a rewrite.
That's why we've put together a list of hot tips to make the gift-giving season a breeze without scorching a hole in your hip pocket.

1 Make a list

Before you even step foot in your local shopping mall, make a comprehensive list. That goes for all the people you plan on giving presents to, as well as all the decorations and food supplies you'll need. The more specific you are the better.

2 Check it twice and set your budget

Once the list is done check it again and cross off any unnecessary items. Then proceed to set a maximum cost against each item line. If you're rigorous with this, you might even find your Christmas budget comes in at a surplus.

3 Shop around

Shopping around can save a lot of money. And these days its easier than ever as you can do most of the work online. The trick is that you need to start your research early and not leave all your shopping the last minute. There's no point buying a bunch of gifts nobody even wants in a drastic credit card frenzy.

4 DIY

There's nothing better than a home-made gift. It shows the receiver that you really care and they're usually cheaper.

Making home-made gifts can also be a really great way to bond with other family members if you do it as a group. It's what we in finance call a 'win-win'.

5 Shop with purpose...

Not only do you need a list when you shop. You also need a plan. It will inevitably take you more than one trip to the shops to get everything you need, so aim to buy the big things first. This way you'll know what you have to play around with for the smaller ticket items. Inevitably some of these may not seem quite as important once the bigger ones are accounted for.

6 Don't shop for yourself

Easier said than done we know. But try to avoid buying a whole bunch of stuff for yourself then having nothing left for your other purchases.

7 Track your spending

Tracking your spending as you shop is vital – and these days its easier than ever, with apps like The Christmas List, which helps budget and track your Christmas spend in real time.

8 Spread the Christmas cheer (volunteer or donate)

Remember the true spirit of Christmas by giving back to your community in some way. Either volunteer some time with a local charity or give some funds to a deserving cause. Some charities even allow you to purchase donations as gifts with cute little cards made up to explain what the money went towards.

9 Watch your Afterpay

Though Afterpay can be a great way to get what you want when you want it, it's only helpful if you are diligent with your repayments. Christmas is a period famous for people going overboard and you don't want to end up unable to pay it back on time and having to pay hefty interest.

10 Credit card spending

The same goes for credit card spending. Where possible aim to use money you already have. Last year Aussies put $30 billion on plastic to cover their Christmas spend and 27% of them were likely to still be paying it off 12 months later.[i]

11 Reduce, reuse, recycle

At the end of the day we don't need more stuff just for the sake of having it. So, when making your Christmas list, consider getting each person one meaningful item rather than ten little things that may just end up in the bin. You can also re-gift things you don't like and recycle last year's decorations and Christmas wrapping. It'll save both money and the environment.

12 Be merry

Last of all don't forget to have a good time. By planning your Christmas spend well in advance, it means you can enjoy the day that little bit more.

i https://www.finder.com.au/press-release-jan-2019-christmas-debt-hangover-expected-to-hit-30-billion

THE **CHANGING** NATURE OF **DEBT**

Australians delight in their nation punching above its weight. But there's little to celebrate in being the world's silver medallists – we're a nose behind the Swiss – when it comes to household debt.[i] With the present-buying, holiday-taking season nigh, millions of Australians could soon find themselves sinking even deeper in the red.

Older readers may remember a time when credit was hard to come by and people were cautious about going into debt. But those days are long gone, as our appetite for credit and the way we access it, is evolving.

How did we get here?

In 2016, when the ABS last investigated household debt, the average Australian household owed almost $170,000. This year, Australians household-debt-to-income ratio hit a new record. It reached almost 200 per cent, meaning we spend almost twice as much as we earn.[ii]

The start of the easy-credit revolution can be dated to the introduction of Bankcard in 1974. Social, economic, educational, property market and technological changes over the last 45 years have resulted in both a growing pool of lenders and an increasing willingness among Australians to take on debt.

To be fair, much of this is 'good debt' – to buy a home or appreciating/income producing assets such as investment properties or shares. Also, some of it is student debt, incurred to get what is usually an income-boosting qualification.

That noted, it's also the case that Australians have become much more relaxed about purchasing depreciating assets, such as cars, and fleeting pleasures, such as restaurant meals and holidays, using other people's money. Money that then has to be repaid, typically at high rates of interest.

The buy now, pay later hazard

While warnings about credit card debt appear to be getting through to consumers, new debt traps are emerging.

In 2018, an ASIC report found Australians had a collective credit card debt of $45 billion and were paying interest on over $30 billion of that balance, as well as shelling out $1.5 billion in fees annually. Almost one in five consumers surveyed said they felt overwhelmed by their credit card debt load.[iii]

Perhaps that is why many Australians, especially younger and lower-income ones, are bypassing credit cards for buy-now-pay-later (BNPL) digital payment methods such as Afterpay and Zip Pay.

A recent Roy Morgan survey found that almost 2 million Australians used this type of credit in the year to September 2019.[iv] A 2018 ASIC report found Australians had $903 million in BNPL debt and that figure is almost certainly higher now, given the increased uptake in 2019.[v]

How does BNPL work?

Afterpay and its competitors allow consumers to buy now and, in theory, pay only the purchase amount later. That is, access zero-interest credit and pay no fees. That sounds good but, inevitably, there's a catch.

If users fail to make the required payments by the due date, they incur hefty late-payment charges. In 2018, Afterpay reported that late fees made up 24 per cent of its annual income.[vi] Unsurprisingly, there's growing concern that some Australians are adding BNPL debts to credit card and payday loan debts and getting deeper into financial strife in the process.[vii]

No free lunches, even at Christmas

Credit can be used wisely or unwisely. Taking out a mortgage makes sense if it means your family has a place to live (and you are likely to make a capital gain). Or getting a car loan so you can get to work. Credit may also be helpful to manage cash-flow issues during periods such as the festive season when your expenses are larger than usual, provided you can repay the debt in full in the short term.

Credit almost always involves interest payments, fees or some combination of both. Before pulling out your credit card at the cash register in the coming weeks, consider whether it's within your budget and you can afford to repay what is likely to be a short-lived spending buzz.

If you are feeling concerned about your level of debt, please give us a call to plan a way forward.

i https://www.abc.net.au/news/2019-10-18/household-debt-leaves-australians-working-longer-spending-less/11608016

ii https://www.abc.net.au/news/2019-03-28/australian-household-wealth-down-260-billion-in-december-quarter/10950242

iii https://www.abc.net.au/news/2018-07-04/1-in-6-credit-card-users-struggle-under-mountain-of-debt/9936826

iv http://www.roymorgan.com/findings/8191-buy-now-pay-later-september-2019-201911040100

v https://www.abc.net.au/news/2018-11-28/asic-reviews-afterpay-and-buy-now-pay-later-schemes/10561232

vi https://www.abc.net.au/news/2018-08-24/afterpay-late-fees-24pc-income-asic-loophole-credit/10156902

vii https://thenewdaily.com.au/money/consumer/2018/11/20/afterpay-debt-trap/

Steering through choppy seas

Like it or not, we live in interesting times. More than a decade after the Global Financial Crisis, the global economy is facing fresh headwinds creating uncertainty for policy makers and investors alike.

This time around it's not a debt crisis, although debt levels are extremely high, but geopolitical instability.

The ongoing US-China trade war and Brexit confusion in Europe have increased market uncertainty and volatility and put a spoke in the wheel of global growth. The International Monetary Fund (IMF) forecasts global economic growth to ease to 3.0 per cent over 2019. It expects Australia to grow at 1.7 per cent.[i]

Against this backdrop, there has even been speculation that the Reserve Bank may need to resort to 'unconventional measures' such as negative interest rates and quantitative easing to boost growth. These measures have been widely used overseas but are foreign concepts to most Australians. So what are they?

Why negative rates?

Negative interest rates have been a feature of the global financial landscape since the GFC, in Japan and in Europe. European central banks charged banks to hold their deposits, encouraging them to lend out cash instead to kick start economic activity.

So far, the Reserve Bank hasn't followed suit, but we are edging closer. The cash rate is at a record low of 0.75 per cent with further cuts expected.

The Reserve Bank has said it is unlikely to take rates below zero. Taking interest rates too low could run the risk of igniting another property boom.

If negative rates are off the table, another way to bankroll economic growth is quantitative easing.

What is quantitative easing?

In the aftermath of the GFC, central banks in the US, Japan and Europe printed money to buy government bonds and other assets. By pumping cash into the system they hoped to boost economic activity.

There has been much debate about whether quantitative easing worked as intended. What it did do was push investors into higher-risk assets such as shares and property in pursuit of better returns.

It has also increased global public and private debt to $200 trillion, or 225 per cent of global GDP. Until now, high debt levels have been supported by high asset prices. But when coupled with geopolitical and trade tensions, debt adds to the downward pressure on growth.[ii]

The slowdown in economic growth in Australia and elsewhere is reflected in falling bond rates. In recent times more than 10 European governments have issued bonds with negative interest rates.[iii]

In recent months, yields on Australian government 3-year and 10-year bonds have dipped below 1 per cent, an indication that the market expects growth to slow over the next decade.

What does this mean for me?

It seems more than likely that bank deposit rates will stay low for some time. That means investors seeking yield will continue to look to property and shares with sustainable dividends. But it may not be plain sailing.

Trade wars, Brexit, high asset prices and slowing economic growth are creating a great deal of uncertainty. Each new twist and turn in trade talks sends markets up in relief or down in disappointment.

After a decade of positive returns, and average annual returns of 7 per cent from their superannuation funds, investors may need to trim their expectations.

Time to plan ahead

If retirement is still a long way off, you can afford to ride out short-term market fluctuations. Even so, it's important to make sure you are comfortable with the level of risk in your portfolio.

If you are close to retirement or already there, you need to have enough cash to fund your pension needs without having to sell assets during a period of market weakness. For the balance of your portfolio, you need a mix of investments that will allow you to sleep at night but still provide growth for the decades ahead. When markets recover, you want to catch the upswing.

Successful investing requires patience but also adaptability. If you would like to discuss your overall portfolio in the light of market developments, give us a call.

i https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

ii https://www.smh.com.au/politics/federal/200-trillion-in-global-debt-at-risk-if-trust-falters-oecd-20190909-p52pdr.html

iii https://www.ricewarner.com/can-super-funds-continue-to-meet-their-investment-targets/