Waverley Wealth News - Winter 2020

Welcome to the latest edition of our client newsletter - Waverley Wealth News.

I hope that you and your families are all well and safe in the current environment. It has certainly been a testing time for everybody locally, interstate & abroad.
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 by a further 8% in the June quarter, confirmation that we are officially in recession. 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 improving business and consumer confidence. 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.

As in previous editions, attached are three articles that we hope you find both interesting and helpful. If you would like to discuss any of the topics coverered, please don't hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, we hope and your family stay warm, happy and safe.
Kind regards,
Scott.

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Coronavirus safety net expanded

What does it mean for you?

In a rapidly evolving response to the spread of COVID-19, the Federal Government's second support package announced on 22nd March, has flicked the switch to more income support for retirees and workers.

Between the first $17.6 billion package announced on March 12, and this latest $66.1 billion package, the emphasis has shifted from stimulus aimed at keeping businesses up and running, to support for individuals to get them through the crisis.

Importantly, casuals and sole traders along with employees who lose work due to the coronavirus shutdown will receive help.

Retirees affected by falling superannuation balances and deeming rates out of line with historically low interest rates have also been offered some reprieve.

Minimum pension drawdowns halved

Self-funded retirees will be relieved the Government has moved quickly to temporarily reduce the minimum drawdown rates for superannuation pensions.

Similar to the response in the wake of the Global Financial Crisis, minimum drawdown rates for account-based pensions and similar products will be halved for the 2020 and 2021 financial years.

This means retirees will be under less pressure to sell shares or other pension assets in a falling market to meet the minimum payments they are required to withdraw each financial year.

Deeming rates cut again

In addition to the cut in pension deeming rates announced in the first stimulus package, the Government has cut deeming rates by a further 0.25 percentage points. This reflects the Reserve Banks latest cut in official interest rates to a new low of 0.25 per cent.

Deeming rates are the amount the Government 'deems' pensioners earn on their investments to determine eligibility for the Age Pension and other entitlements, even if that rate is lower than they actually earn.

This move will bring deeming rates closer in line with the interest rates pensioners are receiving on their bank deposits, especially those with lower balances.

From 1 May 2020, deeming rates will fall to 0.25 per cent on investments up to $51,800 for singles and $86,200 for couples. A rate of 2.25 per cent will apply to amounts above these thresholds.

Early access to super

More controversially, the Government has also announced it will allow anyone made redundant because of the coronavirus, or had their hours cut by more than 20 per cent, to withdraw up to $10,000 from their super this financial year and a further $10,000 in 2020-21.

Sole traders who lose 20 per cent or more of their revenue due to the coronavirus will also be eligible.

The Treasurer said the process is designed to be frictionless, with eligible individuals able to apply online through MyGov rather than going to their super fund.

While this provides an additional safety net for individuals and families who face the loss of a job or a significant fall in income, we do urge our clients to consider accessing their super as a last resort.

Taking a chunk out of your retirement savings now, after a big market fall, would not only crystallise your recent losses but it also means you would have less money working for you when markets recover.

So before you do anything, speak to us and look at other income support measures.

Relief for those out of work

All workers, including casuals and sole traders, who lose their job or are stood down due to the coronavirus shutdown, will be eligible for a temporary expansion of Newstart (now called JobSeeker) payments to new and existing recipients.

Individuals who meet the income test will receive a coronavirus supplement of $550 a fortnight on top of their existing payment for the next six months. This means anyone eligible for JobSeeker payments will receive approximately $1100 a fortnight, effectively doubling the allowance.

This measure includes people on Youth Allowance, Parenting Payment, Farm Household Allowance and Special Benefit.

Importantly, the extra $550 will go to all recipients, including those who get much less than current maximum fortnightly payment because they have assets or have found a few hours of part-time work.

Support for pensioners

Pensioners have also received additional support. On top of the $750 payment announced on March 12, an additional $750 will be paid to any eligible recipients, as at 10 July 2020, receiving the Age Pension, Veterans Pension or eligible concession card holders.

More support to come

This latest support package is unlikely to be the last as the Government responds to a rapidly evolving health crisis and progressive shutdown of all but essential economic activity.

If you have any questions about your investment strategy or entitlements to government payments, please don't hesitate to call.

Information in this article has been sourced from https://treasury.gov.au/coronavirus/households

Maintaining *Mental health* through the pandemic

The COVID-19 pandemic has shifted our day-to-day lives in a dramatic way. One of the biggest changes to come from this period, was a transition to working from home for many people.

On top of this adjustment, parents had the additional challenge of monitoring remote schooling for their children. Social interactions were severely reduced and many of the activities that allow us to unwind, such as going to the gym, a cinema or a concert, were no longer possible.

While this return to more of a home-based life has had its benefits, it has also meant a blurring of the lines between work and rest. Coupled with isolation, heightened stress and anxiety which has built up over the days, weeks and now months may become something quite serious, such as burnout.

What is burnout?

Burnout is a form of emotional, mental and physical exhaustion caused by prolonged or extreme stress. You may feel as if you've got nothing left in the tank and you struggle to concentrate and stay motivated. As a result you can start to dislike your job or doubt your ability to effectively do your work.

Burnout can creep up on you as stress accumulates. You may find yourself feeling depressed and anxious, dealing with physical symptoms such as headaches, sore muscles and stomach aches, are no longer able to think creatively or on the spot, and feel tired and drained.

Why burnout is on the increase

According to Safe Work Australia data collected between 2012 – 2013 and 2016 – 2017, 92% of serious work-related mental health conditions were attributed to mental stress.[i] The 2016 Snapshot of the Australian Workplace found that 29% of workers always or often felt a high amount of stress in relation to their job.[ii]

The COVID-19 situation has brought with it significant mental health challenges, as made evident by the increase in calls to mental health support services.

You may be feeling an increased pressure to keep many balls up in the air and placing expectations on yourself (or having them placed on you) to be as productive and efficient as you'd ordinarily be. Not only can working from home make it harder to switch off at the end of the day and compartmentalise your home and work life, it also reduces your social contact which can lead to isolation.

Looking after your mental health

It's important to acknowledge we're undergoing a pretty unique period of time. Society has had to adjust and many people are experiencing a collective uncertainty. Rather than push through with a 'business as usual' mentality, give yourself the space to recognise that you're in a challenging situation.

If you're working from home, you may have greater flexibility, plus no more dreaded morning commutes, but try to keep to a regular schedule as much as possible. Be realistic about how much work you can get through a day while still making time to have your three main meals away from the computer screen and powering off before bedtime.

Limit your exposure to the news, be aware of what you are viewing and reading, and take note of the impact it may be having on your mental health, whether it be depressing news stories or those happy social media posts.

While social distancing and restrictions may inhibit you from what you'd ideally like to be doing, think outside the square for now. Healthy relationships support good mental health. Ask a friend to grab a takeaway coffee with you and have a walk and a chat. Make a regular appointment to call or visit a family member or friend to check in with each other. Get out of the house for a bike ride or sign up to that outdoor bootcamp to get your blood pumping.

Resources to access

There's no shame in reaching out for help, as we all need support during times of hardship and when we are feeling overwhelmed. Beyond Blue is an excellent resource with helpful information, active forums and a 24-hour confidential support hotline (1300 224 636). You can also chat with your GP who can help you form a mental health care plan which provides access to a certain amount of subsidised sessions with a psychologist.

i https://www.safeworkaustralia.gov.au/doc/infographic-workplace-mental-health

ii https://www.convergeinternational.com.au/docs/default-source/research/a-future-that-works-2016-snapshot-of-the-australian-workplace

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