Summer Newsletter 2024

We wish you all a Merry Christmas and a happy and safe New Year. Our office will be closed over the holiday period but we will be back in the new year.

Economic Update December 2024

In this month's update, we provide a snapshot of economic occurrences both nationally and from around the globe.

Key points:

- 'Red wave' in US elections buoyed markets
- China continues to stimulate with the release of a further 10 trillion yuan ($US1.4 trillion) package
- Government Bond yields rise on expectation of inflationary policy settings under Trump
- Australian Senate endorses new interest rate setting committee separate for the RBA Board

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact the team.

The Big Picture

For the best part of the year, market commentators were focused on the November 5th US presidential election. With current president Biden faltering in front of cameras and 'Trump being Trump', commentators had a close call between Harris and Trump both in their narrative and their polls.

Except for a brief 'honeymoon' period for Harris after she took the Democratic nomination, sports betting thought Trump was a clear favourite. This proved to be the case and Trump convincingly won the election. Republicans (Trump) now hold the presidency, the House of Representatives and the Senate. A clean sweep. While the Republicans have a majority in both the House and the Senate given the number of discontents within each party, the majorities are not necessarily big enough to guarantee Trump's policies will seamlessly navigate the path to law and implementation.

Stock markets voted in favour delivering healthy gains in the S&P 500 and the ASX 200. Trump judged his degree of success in his first term by the improvement in stock market indexes. If he continues to be so motivated, it could be good for investors even if they don't like Trump.

Two of Trump's policies that attracted most attention during the campaign are: he wants to impose big tariffs on imports, and he wants to undertake a mass deportation of illegal immigrants.

Many economists have made dire predictions about the imposition of tariffs. The expectation being that tariffs from one side are met with tariffs from the other, resulting in a trade war, which historically has not led to an overall favourable economic outcome.

We also think that some of Trump's rhetoric is part of a bargaining process in that the additional tariffs so far announced, 25% on Mexico and Canada and 10% on China will be removed if the three countries address the respective actions the tariffs are imposed to penalise.

We do not think the US will impose the full range of tariffs currently on the table. By and large, we also note that Biden did not repeal Trump's first-term tariffs. If tariffs were so toxic, Biden should have repealed them on day one!

During November, the Federal Reserve (Fed) cut rates by 0.25% points to a range of 4.5% to 4.75%. At the recent peak, the rate was the range of 5.25% to 5.5%. In its September meeting, the Fed suggested there may be two more cuts in 2024 (after the 0.5% cut in September) and four more in 2025. Expectations have been pulled back slightly. That means the US is likely to have quite restrictive monetary policy until at least the end of 2025

So far, US economic data has largely held up. The latest September quarter growth data was 2.8% and inflation seems to have been contained. The jobs data have been a bit patchy. The numbers are scaled up from a small sample and the pandemic has redefined what is a normal job.

The latest labour force data were poor. Only 12,000 jobs were created but the unemployment rate was only 4.1% (down from 4.3% in July). Given the enormity of the effect of the two big hurricanes and the Boeing strike on the economy, it is difficult to estimate what the jobs number would otherwise have been. We await a fresh number on the first Friday of December.

China stepped up to the plate by announcing a $US1.4 trn stimulus package to be spent over five years. As it happened, exports surged 12.7% against an expected 5%. Imports just missed expectations at -2.3%.

Holiday Spending: A guide to not going broke over the Christmas period

Christmas and the holiday season are fast approaching (not to alarm you at all), and while this can be the happiest and most joyful time of the year, it can also be one of the most stressful times. The festive season comes with a large amount of extra expenses, and if we aren't careful this can cause a major strain on finances. With this said, it is vital to be able to pre plan and handle your finances through the festive season to ensure you enter the new year on solid footing. Here are a few ways to be proactive and manage your finances this holiday period.

1. Create a realistic budget

It's easy to get swooped up in the spirit of Christmas and not keep track of what you're spending, but if you don't want a rude awakening come Jan 1st, it's best to implement a budget. Try and think about all your expenses over the holiday period: Presents, decorations, travel, eating out etc. Write it out and be realistic with what you're willing to spend.

2. Prioritise expenses

Identify what matters most to you. Is it having a delicious meal, giving meaningful gifts to one another, or just spending some quality time all together as a family? Whatever it may be, prioritise your traditions based on what matters most to you and your family. By doing this, you will be able to cut down on a few unnecessary costs.

3. Preplan your gift list

When thinking about who you are buying gifts for this Christmas, it's okay not to buy something extravagant for everyone. Narrow your list down to your nearest and dearest and set a spending limit for each person, or better yet, do a Secret Santa! This will help you avoid all those little temptations to overspend. If material gifts aren't working, try thinking of something more personal and meaningful like an experience that won't strain the wallet. After all, Christmas isn't only about giving, it's about spending time with your friends and family (and eating lots of delicious food).

4. Utilise sales

Keep an eye out for sales and discounts leading up to the festive season. Most retailers will offer some kind of promotion in the weeks leading up to Christmas, so make sure to plan some strategic purchases. The Black Friday and Cyber Monday sales are two of the bigger sale events that will kick off at the end of November (so again, planning is a must!). Make sure to practice your smart shopping skills by comparing prices across the board to get the best deal!

5. Get crafty

If gift-giving is a high priority for you this season, get in touch with your creative side and give some DIY gifts a go! There's no need to spend and arm and a leg when you can make it yourself. Whether it's cards, wrapping paper, even decorations, this is hands down the easiest and most effective way to reduce holiday stress and costs, plus you'll have fun doing it! Afterall, it's the thought that counts, right?

Give yourself the gift of better finances by practicing these few tips. You'll be sure to minimise your holiday stress without emptying your bank account, starting the new year strong!

If you have any questions please don't hesitate to contact the office.

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How to raise financially responsible children

One of the most valuable gifts you can give to your child is teaching them about financial literacy. Instilling good habits and education on money management from a young age is a crucial set up in this world for success. So how do we raise financially savvy children?

1. Start Young
Education to kids around managing finances doesn't always have to wait, in fact, the earlier the better! Experts report that between the ages of 5 and 14 is when a child starts to form their 'money mindset', so we want to encourage healthy family discussions on money. Simple ways to introduce money as a concept and its value is through real coins and notes, along with a piggy bank where they can visually see how to save and spend. Playing games that involve a form of currency where the children have to count money and engage in cash transactions are also a useful education tool to teach the emotions around losing and gaining money.

2. Lead by Example
For children to develop healthy spending and savings habits, it's important that the adult figures in their lives demonstrate their own responsible financial habits. Having discussions with children around your own savings goals and budgeting can be a great method in helping them understand the importance of financial literacy.

3. Instil the importance of Hard Work
The idea that hard work pays off is encouraging when getting children to think about money. Entrepreneurial activities like a lemonade stand or dog walking are not only fun for children, but teach them skills in earning and reinvesting. Creating a household chores chart is a great way to instil good work ethic and shows that they will be rewarded for their work with pocket money.

4. Implementing saving and budgeting
When children reach the age where they are old enough to join the workforce through casual employment, helping them open their first bank account is a pivotal step in their finance journey. Creating simple budgets from their income and allocating their funds into separate savings and spending categories will aid in teaching them the significance of managing their finances through thoughtful money decisions.

5. Encourage Smart Spending
Educating teenagers on smart spending and being money savvy can guide them to make responsible financial decisions. Teaching them ways around comparison shopping and evaluating the price and quality of goods and services will aid in helping them make smart decisions with their finances. It is also a good idea to educate them on the concept of credit and responsible borrowing such as loans, so they understand how the idea of debt works. Having this knowledge will be vital in helping them make informed financial decisions.

Starting early and investing time in your child's financial literacy helps build a foundation for their success. Through guidance, practical experiences, and open and honest conversations, you can aid in the development of skills needed to ensure your child can navigate their finances with confidence.

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Mastering the Art of Debt Free Living

It's fair to say that everyone has their own personal financial goals in life. Whether you wish to travel the world, live in luxury, own a home or retire by a certain age. However, for many people, these goals can come with the baggage of debt. This doesn't have to be the case though. Living a debt free life is something we all strive for and it can be achievable with the correct amount of discipline, strategy and shift in mindset. Here is how you can start the journey to a debt free life.

The Do's:

1. Make a budget and prioritise debt repayments

The first step to your debt free life is to track all your expenses and income through a highly detailed budget. With everything laid out in front of you, it's easy to see where all your money is going, and ways you can cut back on unnecessary expenditure. This money can then be added into your debt repayments, making sure to tick off the high-interest debts first.

2. Save for emergencies

Something to do in order to look out for your future self is to start building up an emergency fund. This is something you would have as a separate savings account to help you prepare if something was to happen one day. Try and aim for around 4-6 months' worth of living expenses saved, putting aside a bit of money each month. This will leave you well prepared and will prevent you from having to take out a loan and go into unnecessary debt.

3. Live within your means

It might sound simple, but it is important to be realistic about your spending. Understanding that you might want something but can't afford it, can be a hard pill to swallow, but you must learn to be strict with yourself and stick to your budget. If you make the decision to live within your means now, eventually you will be able to splurge on those things you've always wanted. But in the meantime, try your best not to give into the temptation by separating your 'wants' from your 'needs', as these will only result in unnecessary expenses.

The Don'ts:

1. Don't take more debt than you can handle

While loans can be beneficial when making large purchases such as a home, it's important to remember not to take on more than you can comfortably repay. When planning your budget, be realistic about the amount you can afford to repay each week. And always remember, the best way to reduce your debts is by not adding to them.

2. Avoid the use of a credit card

Generally speaking, credit cards have a high interest rate and therefore should only be used if necessary. If you are using a credit card, it's important to avoid accumulating further debts by ensuring you pay off your balance monthly.

Mastering the art of debt free living is no easy task, but with a clear plan and self-discipline, it can be achievable. Though it will take time and effort, the freedom and peace of mind that comes with living a debt free life is well worth the wait.

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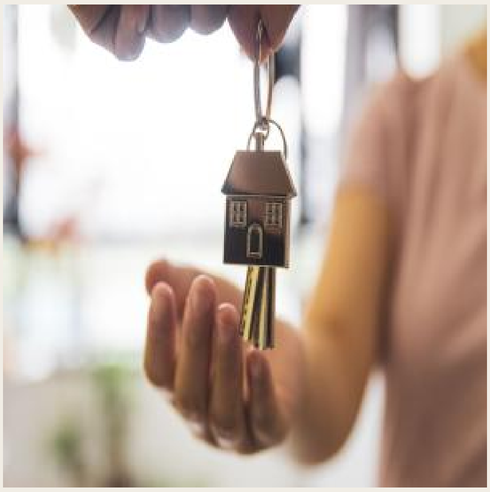
When are you truly ready to purchase a home?



Being able to rent a home allows you the freedom of being able to move when you like, and you don't have to endure the responsibilities of homeownership. However, at some point in life, most people dream of one day owning their own home. It is one the most significant financial decisions you can make and is a great way to start building financial security. This purchase is not only a major investment, but also a commitment. With today's high home prices combined with high mortgage rates, owning a home can be a struggle. So, the question is, "How do I know if I am ready to purchase a home?" Here you will find several key indicators to put you at ease and help you take the plunge.

1. Financial Stability

Credit Score

Having a low credit score is one of the most common reasons some renters aren't able to take the leap into homeownership. With a history of having too much debt and late payments, it will be hard to qualify for a mortgage. Therefore, it is imperative that you have a healthy credit score, as this will also mean you can obtain a better interest rate and loan terms. Get a copy of your credit score and identify areas bringing you down and make a focus on improving those areas. Usually, a score of 620 or higher is recommended, but the higher, the better!

Debt-to-income Ratio

On top of credit score ratings, another thing lenders will look at is your debt-to-income ratio (DTI). This will evaluate your monthly debts against your monthly income, with a lower DTI being more favourable in the eyes of a lender. It's always a good idea to pay off as much debt as you can before you purchase a home, allowing you to build up some extra savings for additional costs instead of having to worry about other repayments.

Savings

In addition to your downpayment, make sure you have an extra amount saved for initial expenses such as closing costs, moving costs, repairs, maintenance and renovations. It is vital that you have enough money saved to be able to cover these additional expenses on top of everything else. When thinking about how much is enough, try and aim for between 3 to 6 months' worth of living expenses saved.

2. Long Term Commitment

Job Stability

Having stability within your job and career can give you that extra piece of reassurance and commitment you need to purchase a home. Knowing that your income is stable for the foreseeable future will give you some piece of mind with your finances. On the other hand, if you have recently switched roles, changing career or aren't sure about your position, it may be best to hold off on the purchase of a home until you feel more secure to alleviate any unwanted stress.

Future Plans

Are you planning on starting a family? Or have a need to travel the world? It's important to consider your future plans and gather an idea on how long you plan on staying in a particular area. Typically, if your future sees you staying around for at least 5 years, then purchasing may be a smart option for you.

3. Emotional Readiness

Homeownership comes with its fair share of added stress to your life. From mortgage payments, to repairs and added responsibilities, you need to make sure you're ready for what might be thrown at you when entering this new life stage. Reflect upon your current life situation and if you can handle the shift in lifestyle that comes with home ownership. If the answer is yes, then you may be ready!

4. Professional Guidance

Real Estate Agent

Having an experienced and knowledgeable real estate agent on your side will make the whole process of buying a home a lot easier for you. Having a real estate agent on your side to act as your advocate and negotiate on your behalf to secure the best terms and prices can make all the difference.

Financial Adviser

Consulting with a financial adviser is a smart way to gain a better understanding of your financial situation in determining realistically how much you can afford to spend on a home. Financial advisers are there to offer guidance before and post-purchase, helping you structure your finances based on your long-term goals.

Determining whether you are truly ready to purchase a home involves a lot of careful consideration and homework around

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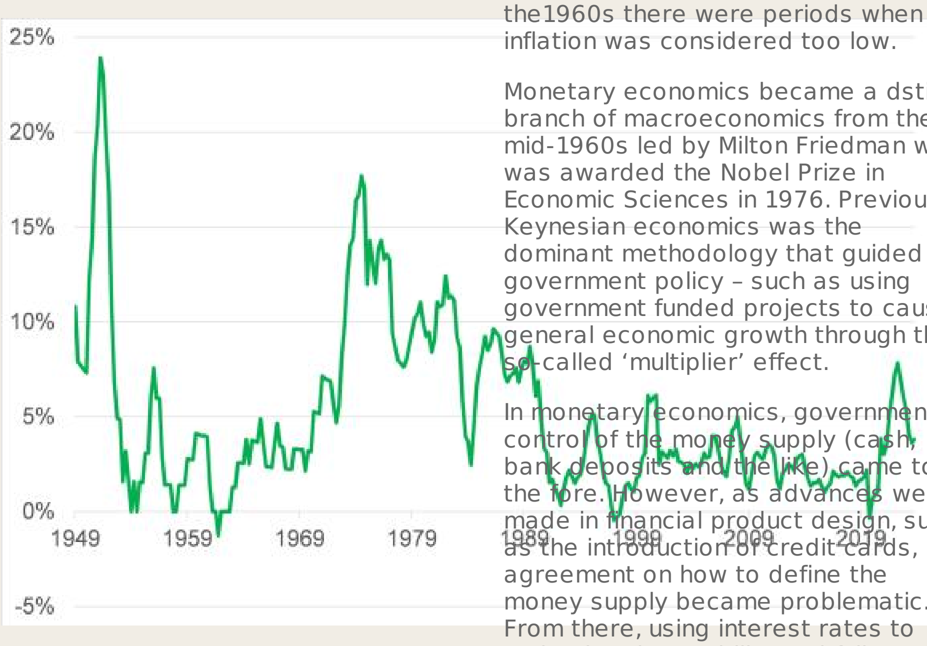
Inflation: The good, the bad and the ugly

The 'cost-of-living crisis' or 'inflation crisis' has taken centre stage in recent times in Australia and overseas, and for good reason.

Inflation is by no means a new phenomenon; it is well known but at the same time it is not as well understood. Australia has been living in a relatively low inflation environment for ~35 years, we've had it good for a long time. However, this cost-of-living crisis, off the back of a post-pandemic increase in inflation, is serious and has hurt many households – but not all to the same extent. For many the cost-of-living crisis is a real challenge, but when considered in light of history and compared to the range of experiences internationally, you may come to the conclusion that we're doing OK.

This article aims to explore the intricacies of inflation, drawing lessons from history and the broader international experience, to provide insights into Australia's current economic landscape.

Chart 1: Post-WW2 Australian CPI inflation



The December quarter 2022 reading of 7.8% is high, however as illustrated in Chart 1, it is overshadowed by the peaks before 1990. The costs to society were so great in that period that the Reserve Bank of Australia (RBA) was charged with targeting inflation to a range of 2% to 3% from 1990.

Why that range?

The Reserve Bank of New Zealand (RBNZ) is currently targeting 1% to 3%, but most of the major central banks target a single number of 2%.

It is generally agreed that the high inflation of the early 1950s was caused by the consequences of the Korean War (1950-1953) on which the TV series MASH was loosely based. In the1960s there were periods when inflation was considered too low.

Monetary economics became a dstinct branch of macroeconomics from the mid-1960s led by Milton Friedman who was awarded the Nobel Prize in Economic Sciences in 1976. Previously, Keynesian economics was the dominant methodology that guided government policy – such as using government funded projects to cause general economic growth through the so-called 'multiplier' effect.

In monetary economics, government control of the money supply (cash, bank deposits and the like) came to the fore. However, as advances were made in financial product design, such as the introduction of credit cards, agreement on how to define the money supply became problematic. From there, using interest rates to maintain price stability and full employment became the policy instrument of choice.

Inflation in a range of around 0% to 2% was considered 'bad inflation' in the late 1960s because it does not help business adjust product development because individual price changes stand out to the extent that business might be reluctant to conduct suitable product development.

If 'good' inflation is in an approximate range of 2% to 3%, and 'bad' inflation is in the range 0% to 2%, what is 'ugly

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