Winter 2021

Looking ahead to 2022

If you can imagine the economy as a road, 2020 saw a major earthquake emerge with the Coronavirus pandemic and the lockdown restrictions to halt its spread. Government and RBA support helped divert traffic around this major obstacle. 2021 will be a year of bouncing back and looking forward to the economy recovery, with rebuilding and gradual resumption of normal activity. However, it is safe to say, that the world in many ways has now changed.

Coronavirus pandemic and solutions on offer

The Coronavirus pandemic remains a concern with cases and fatalities in new waves particularly in India, Brazil and, to a lesser extent, continental Europe. We have seen a response in the creation of new vaccines at an unprecedented speed. It is likely we will have to wait until 2022 for a sufficient proportion of Australians to be vaccinated and "herd immunity" reached. This means that hotel quarantine failures and snap lockdowns will continue as a potential risk over the next two years.

Jobs market

The improvement in the jobs market has been pronounced and surprised even the more optimistic economists. Government support in JobKeeper played an important role in stabilising business finance, as did Australia's relative success in keeping the pandemic contained last year.

Looking forward, we have a picture of strong and improving business confidence and rising job vacancies. These should continue to drive jobs growth over the next year.

Property market

The property market has bounced back quicker than many expected. A key driver has been ample demand for borrowing by households with banks showing a willingness to supply, even increasing their exposure to riskier loans. Absent regulatory intervention to limit bank lending (as happened over 2017-19) and the near-term trajectory of credit growth (which leads price growth) suggests that property prices will continue climbing over 2021.

The Budget and Government debt

2021 will be a year of consolidation for the Government. The big-ticket spending items such as JobKeeper have now concluded and their focus shifted towards the economic recovery and reducing the extent of their economic intervention.

Low interest rates, and the RBA's commitment to keeping them low until at least 2024, will support the Government in refinancing its debt and locking in lower rates. It will also help with its longer-term ambitions of gradually reducing its debt position over time. However, the Federal Budget for FY22 highlighted that the Government is not rushing to this position. Treasurer Frydenberg committed to further spending with a number of social goals, notably aged care and child care, ahead of a Federal Election (this must be called by May 2022). Initiatives to counter the damage of the pandemic remain a feature of Government policy with the HomeBuilder program helping support the construction sector. While we have seen some support for the tourism and entertainment sector this has been more limited. We may also see, given the risk of new outbreaks, a need for further Government support given JobKeeper is no longer in place as a fallback option in the worst-case scenario of prolonged lockdowns.

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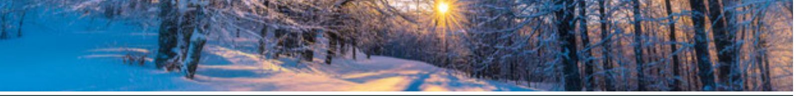


Inflation

The inflation outlook remains subdued. A strong Australian dollar acts to reduce inflation from imported goods and services, whilst making it harder for our foreign trade partners to purchase Australian goods and services. Meanwhile, the strength in the property market does not translate directly into higher consumer inflation (CPI). While the jobs market is improving there is still substantial scope for improvement without triggering a surge in wage growth. Underemployment is a key issue. This suggests that while there might be some pick up in inflation from the lows that we saw due to the 2020 lockdowns, it is unlikely to be extreme or sustained.

Economic growth

Households have built up substantial savings over 2020 thanks in part to Government stimulus efforts. Given strong consumer confidence this should see some improvement in private sector spending to drive the economy this year. The removal of Inter-State border restrictions allowing domestic tourism and trade to recover is another important tailwind.

On balance, 2021 will be a year of further improvement and recovery. If you have any further questions, please speak to your Financial Adviser.

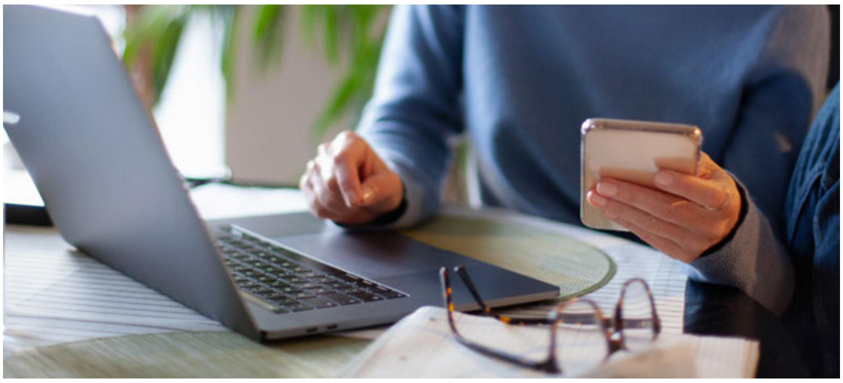
Source: IOOF Research

Can social media affect our spending?

Social media could influence us to spend impulsively.

Can social media use be linked to spending? Research shows it can. For example, one study found that social networks such as Facebook and Instagram can motivate impulsive buying behaviours.[1]

But how does social media affect our spending?



Advertising

Sites like Facebook and Instagram have evolved from social networking platforms to powerful advertising tools. We only need to look at our social media feeds to realise how businesses use targeted advertising to expose us to brands, products and services. Targeted posts are effective at getting us to spend because they're typically developed based on our demographics and even our behaviours.

Fear of missing out

Social media creates a tendency among users to compare their lifestyle to those of others. This comparison can trigger a fear of missing out or FOMO, leading us to buy and consume just to fulfil the urge to keep up with everyone else.

Encouraging imitation

Images of products or aspirational lifestyles posted on social media by people we respect or admire might influence us to spend unnecessarily or indulgently. This happens when we look to them for cues or guidance when we don't know how to act and simply copy what they're doing. Psychologists call this social proofing.[2]

Seamless shopping experience

Social media platforms can also encourage spending by providing a seamless shopping experience. For example, Facebook enables retailers to sell on the platform itself, and Instagram lets them add links to products and services mentioned in their posts so users can purchase them online. This makes it extremely easy to spend.

Making smart choices

Social media can help us make better choices by exposing us to more products and services and enabling us to learn about other people's experiences using them. But it can also influence us to spend unnecessarily or impulsively.

By setting financial goals, you can make smart choices with your money.

Your professional Financial Adviser can help you get started by creating a plan and budget to help you secure your financial future.

Source: IOOF

References:

[1] Aragoncillo, L, 2018, 'Impulse buying behaviour: an online-offline comparative and the impact of social media', Spanish Journal of Marketing

[2] Psychology Notes HQ, August 2015, 'What is the Social Proof Theory?'

Retirees' fears and expectations

For many, the word 'retirement' is associated with the idea of extended holidays to far-flung locations or spending quality time with grandchildren. However, there are a range of financial, emotional and psychological fears that are often linked to retirement – and for good reason.

Australians spend most of their working lives saving so that when the time comes to retire, they can lead a comfortable life. However, many are uncertain about what to expect. Research from CoreData found that around 50% of Australians retire early due to unexpected circumstances and within timeframes they did not choose. This can result in retirees feeling out of control and impacted not only financially, but emotionally as well.

Retirement planning is not a 'one size fits all' approach. But no matter what an individual's needs are, solid financial planning allows for a smoother transition and helps alleviate uncertainty.

Successful retirement factors

A successful retirement involves more than just money. Other important factors include mental and physical health, having realistic expectations and owning a home.

Retirement satisfaction occurs when a retirement lifestyle matches the retiree's expectations. Not every retiree has expectations of a luxurious retirement lifestyle, but all of them expect basic needs to be addressed.

There are two core factors that determine the amount of savings a retiree needs - life expectancy and projected expenses. Individuals need to consider these, along with other factors including marital status, health and home ownership, when determining how much saving a retiree needs in order to enjoy their desired lifestyle.

Staying healthy

Research from the Australian Centre from Financial Studies found those who retire early due to health issues are likely to have lower incomes and lower superannuation balances. By default, they are also most likely to incur additional health-related expenses in retirement.

Owning a home

Unsurprisingly, owning a mortgage-free home provides a greater sense of security and retirement satisfaction. Research from the Australian Housing and Urban Research Institute found older people with secure long-term accommodation tend to have better physical and mental health too.

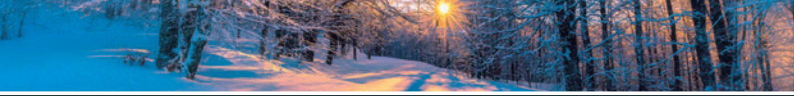
Home ownership is also intrinsically linked to retirement readiness and satisfaction. Those who own more than one property with no mortgage typically experience retirement success. Single property owners also enjoy a high level of retirement satisfaction. In contrast, individuals who own no property score the lowest.

Retirement is one of the single largest changes in an individual's life and it comes with a host of financial, emotional and psychological fears. A sound financial plan can help manage associated fears and expectations and most importantly, ensure the transition into retirement is as seamless as possible.

Talk to us

Enlisting the help of an expert, such as a Financial Adviser, can assist in developing appropriate strategies to help you meet your retirement goals.

Source: Fidelity Australia



How do you know when the advice is right?

Seeking financial advice can turn your life around and put you on a path to a happier and more secure financial future. But where do you start? Who do you trust? How do you know you are going to get value for money?

There are many questions that may pop into your head when you think about whether or not to seek professional advice. One major barrier to seeking financial advice may be that you don't know if the advice is going to be appropriate for you. You may also wonder if the advice is something you need a professional for, or if you can figure out on your own.

Appropriate financial advice can be life changing because you are tapping into the mind, and technical expertise, of a qualified and trained professional whose job it is to know the ins and outs of financial services, and stay on top of regulatory change. Financial Advisers are required to complete 40 hours of Continuing Professional Development each year to remain qualified and compliant – ongoing learning and development is a huge part of a Financial Advisers' value to their clients. Many Financial Advisers do not work independently, but as part of a team with experts in research, investments, insurance and the technical landscape. A broader and qualified team may contribute to a more well-rounded and holistically considered financial plan for each individual client.

Do your own research

There are reliable websites you can use to research the qualifications and specialist areas of a Financial Adviser. These include:

- The Government's MoneySmart website has an article on choosing a Financial Adviser: moneysmart.gov.au/financial-advice/choosing-a-financial-adviser
- You can check the ASIC register for registered Financial Advisers: moneysmart.gov.au/financial-advice/financial-advisers-register

Look at the published research

In 2020, CoreData conducted a survey[1] for IOOF with a sample size of 11,615 advised clients and 1,000 unadvised individuals across Australia. The research showed overwhelmingly that financial advice made a positive impact on the advised clients.

The research showed that:

- 84% of advised clients agree the value of advice outweighs the costs
- 91% agreed receiving advice helped them to achieve their financial goals
- 82% believe advice helps inspire them to work towards and reach their goals.

Talk to us

We have capacity to take on new clients and welcome the opportunity to meet with you.

Source: IOOF

[1] True Value of Advice Research by CoreData for IOOF 2020

SMALL STEPS TO GREAT SUCCESS

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