Autumn 2022

Quarterly Economic Review December 2021

Global economy

Inflation continues to be the key topic in relation to the global economy. The U.S. consumer price index rose 0.5% for the month of December, 7.0% on a year-on-year basis, the fastest rate of increase since June 1982.

The US Federal Reserve commenced tapering (reducing its bond purchases) in November. Since then, the Federal Reserve has provided multiple indications that its run of ultra-easy policy since the beginning of the pandemic is coming to a close, making aggressive policy moves in response to rising inflation. For one, the central bank said it will accelerate the reduction of its monthly bond purchases.

The Federal Reserve will be buying US$60 billion of bonds each month starting in January, half the level prior to the November taper and $30 billion less than it had been buying in December. The Federal Reserve was tapering by US$15 billion a month in November, doubled that tapering rate in December, then will accelerate the reduction further in 2022.

In early January, projections indicated that Federal Reserve officials saw as many as three rate hikes coming in 2022, with two in the following year and two more in 2024. Since then, nearly five Federal Reserve interest rate hikes are being priced into investment markets.

Australia

Job vacancies rose 18.5% in the three months to November to 396k. That reflects some rebound after a 10% decline in August alongside lockdowns, but also sees vacancies comfortably reaching new highs. The level of vacancies is now 74% higher than pre-pandemic February 2020. There are now just 1.6 unemployed people per job vacancy, a new record low and well down from 3.1 prior to the pandemic. Job vacancy data continues to indicate a very high level of demand for workers post the lockdowns.

Retail sales rose 7.3% month-on-month in November, well above the consensus for a 3.6% rise and following a 4.9% increase in October. That puts retail sales nationally 5.8% above their previous record high in November 2020 and 20.3% above pre-pandemic February 2020 levels.

The International Monetary Fund forecasts that Australia's GDP will grow 4.1% in 2022 on the back of increased business activity and international borders reopening. However, the Omicron outbreak, which has spread rapidly since mid-December, is likely to make a reasonable dent in economic activity, with some economists and fund managers already reducing Q1 2022 GDP forecasts. Having said this, if the economy grows at anywhere near 4.1%, this would likely be a good outcome. The key risks Australia still faces are prolonged global supply chain disruptions, tighter global financial conditions, geopolitical tensions, a house price correction.

Fixed income and currencies

Australian Government Bond yields rose significantly during the quarter, with the three-year yield increasing by a very large 0.60%. The long end of the curve rose 18 bps, which again was a significant move. This produced poor returns for the quarter for Australian Government bonds in general.

The size of the increase in the 3-year bond yield relative to the size of the changes in the cash and 10-year bond rates indicates that rate rises are expected, but not immediately.

Similar to the Australian market, the U.S. three-year bond yield increased significantly (45 basis points) last quarter.

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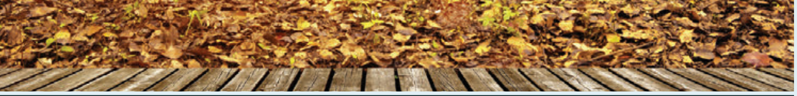
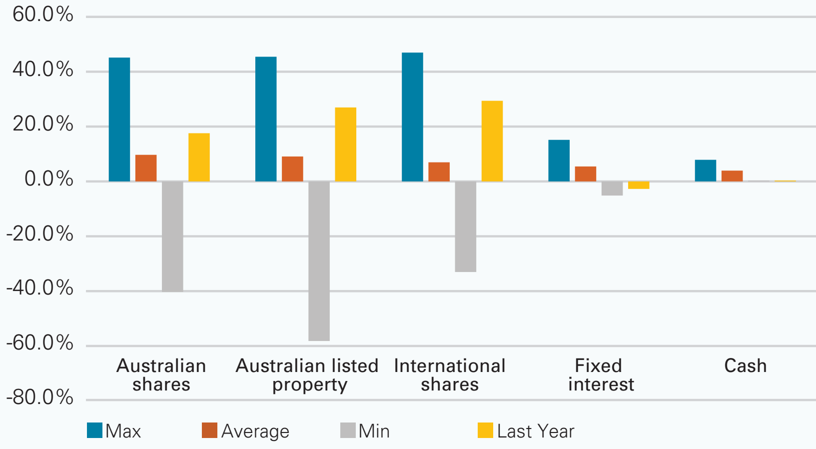


Credit spreads tightened over the quarter with both Investment Grade and High Yield spreads contracting by 14 basis points. Given the lower starting point of Investment Grade spreads, this is actually a more significant tightening for Investment Grade than High Yield, as the High Yield index spread is more than twice as wide to start with. Overall, U.S. credit had a favourable quarter.

The Australian Dollar (AUD) rose 1.9% against the US Dollar (USD) to 0.7263 in December and rose 0.50% during the quarter. We also saw a 1.5% increase in value against major trading partners ($A TWI) in December and 0.49% for the quarter.

Last Year vs Rolling 1-year returns

This graph shows the maximum, minimum and average rolling 1-year returns since June 2002 versus 2021 returns. Equities and Australian listed property significantly outperformed the average, while both Cash and Fixed interest had a relatively poor year.



Source: IOOF Research and Bloomberg

Shares

The Australian market rose 1.53% in the December quarter. The leading sectors were Materials (up 12.44%) and Utilities (up 10.02%). Energy was the worst performer (down 8.82%). In the Materials sector, BHP had a significant rebound after a relatively poor Q3 – this was a key driver for the sector.

At a style level, Value was the worst performing style for the quarter, being the only style to produce a negative return, albeit a relatively small negative. Having said this, Value performed broadly in line with the Index for the year.

Overall, Quality and Growth continued to power ahead, both being the best two performers for the quarter and the calendar year.

International markets generally performed well during the December quarter, with the exception of the Hang Seng index (down 4.79%) and the Nikkei (down 2.24%).

From a Style perspective, all Styles produced positive returns for the December quarter, with Quality being the standout. For the calendar year, all Styles produced very favourable returns, with Momentum being one of the poor Styles, but still returning an impressive 21.2%.

If you have any questions, or would like to discuss this further, please speak to your Financial Adviser.

Source: IOOF Research

There's an app for that

It seems we are increasingly using apps in everyday life. Apps can help us manage certain aspects of our lives, tap into things that are of interest to us, or keep track of different goals.

We can use apps to look up movies, events and shows and book tickets within minutes; we can use apps to make medical appointments; track our health, fitness and mindfulness goals; dial into entertainment – to stream programs, listen to podcasts our download audio books. We are also familiar with the COVID-safe app which around 7 million Australians had downloaded as at October 2020[1].

But what about helping you track and measure your financial goals? Well of course, there's an app for that.

Banking and budgets apps

There are apps that link multiple bank accounts and other financial institutions that help you to manage your everyday spending. They provide a dashboard that outlines your spending categories which you can use to customise a budget. You can also run weekly, monthly or annual reports so you can see fluctuations in your spending.

Some examples of the more popular banking and budgeting apps include Pocketbook, MoneyBrilliant, and Frollo.

There's also an app called Finspo that allows you to compare fees and charges with different banks, so you can see if there are savings to be had by switching banking providers.

Everyday savings apps

One of the biggest expenses for any household is the grocery shop.

There's a free app called WiseList that allows you to compare the cost of items at major grocery stores. Yes, you can download an app and see a side-by-side view of an item at Coles and Woolworths. Of course, this is only useful if you have a Coles and Woolworths in your local area. If you live in a regional area of Australia, there may only be one option. But for city dwellers, this is a great way to shave a little bit off the cost of your grocery bill.

Another major expense is transport. If you drive a lot during the week you may see a huge chunk of your money go towards filling the tank. The PetrolSpy app allows you to compare costs at the bowser so you can decide where along your journey you want to stop and fill up, to achieve a little bit more of a discount.

Avoid the argument app

Have you been out to dinner with a group of friends only to have the awkward conversation at the end about who owes what on the bill? And then plead with the waitstaff to pay separately? The Splitwise app allows you to track shared expenses and provide reminders of who owes what.

Apps aren't for everyone

Whilst some people wholeheartedly embrace apps and find them helpful and useful, they aren't for everyone. They take time and patience to set up and monitor, and not everyone wants to be glued to their mobile phone or device all day and night. And that's ok, because an app won't help everyone on their financial planning journey, but they might help some people stay on track and in control.

Talk to us

Apps are great but they are not a replacement for tailored financial advice. Getting your financial plan in place, one that is individually planned around your lifestyle and your goals, is the first step towards a more financially secure future. We can get your plan in place and discuss what apps you might consider using that will assist you in reaching your goals.

General advice only. You should do your own review of each app before downloading it for indications it may be fake.

Source: IOOF

1. Household Expenditure Survey, Australia: Summary of Results at https://www.abs.gov.au/statistics/economy/finance/household-expenditure-survey-australia-summary-results/latest-release

Inflation: what does it mean for me and my money?

Inflation is a hot topic at the moment. But what exactly is it, and how does it affect you and your money?

Inflation is making news daily through wage inflation, energy inflation, food inflation, fuel inflation…and not just in Australia, but in many other countries too. In simple terms, inflation means that the prices of everyday things are rising. Why does this matter? It means that unless our incomes rise in line with inflation, our money doesn't go as far, and we might find it more difficult to buy the kinds of things that we're used to having.

How high is inflation?

According to the most commonly used measure of inflation in Australia, the Consumer Price Index (CPI), inflation increased by 0.8% in the July to September 2021 quarter and rose 3% over the 12 months to September 2021.

Why does inflation happen?

There are **two** main causes of inflation:

1. Cost push inflation
   Is where the costs of producing goods or services goes up, and so price rises are passed onto customers.
2. Demand pull inflation
   Is when something is so popular that the supplier can't meet the demand. Prices go up to reflect the lack of supply.

How is inflation measured?

The official Australian inflation measures come from the Australian Bureau of Statistics (ABS), which tracks prices of a 'basket' of commonly purchased goods and services. This is supposed to represent the spending of the average Australian household. As people's buying habits change, so do the goods and services that the ABS tracks.

For example, in recent years, the ABS has added streaming services, ride sharing and smart phones to the CPI basket and removed items such as DVD hiring, cassette tapes and VCRs from the basket to more adequately represent the average household expenditure.

How is inflation controlled?

The Reserve Bank of Australia has a specific responsibility for low and stable inflation, full employment, and promoting the general welfare of the Australian people. The government has set a target of 2-3% for inflation, on average over time.

What does rising or high inflation mean for...

- …**your spending**: Rising prices of goods and services will mean that unless your income rises too, you will find it more difficult to afford the things you normally buy. Sharp movements in the rate of inflation are not helpful either, because they make it difficult for people to plan their spending. For example, rising inflation can trigger "buy now while stocks last" behaviour.
- ...**your savings**: If your savings don't grow at a rate at least equal to inflation your wealth is shrinking. For example, if inflation is running at 3%, cash in a current account is likely to earn less than 0.10% interest. Its value is being quietly eroded with every day that passes.
- **...your loans:** The Reserve Bank tends to use interest rates as its primary tool to control inflation. As inflation rises, the Reserve Bank tends to be more willing to raise interest rates – meaning mortgages, loans and credit cards can become more expensive.
- **...your investing**: When inflation is rising, or already high, holding assets such as shares, property and bonds (or even foreign currency) can be more attractive than keeping your cash in a bank account (because, as inflation rises, the value of cash tends to fall relative to other types of assets) – but shifts in inflation and interest rate expectations can also spook investors, creating volatility and unpredictability in asset prices.

If you have any questions, please speak to your Financial Adviser.

Source: Schroders

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