Update on the Housing Market

Last May we discussed the likely impact of the Coronavirus on the Australian property market and concluded that the pandemic will place downward pressures on the general level of house prices by either reducing demand or increasing supply.

Whilst property prices generally declined throughout most of 2020, they have since rebounded.

Why have House Prices rebounded?

Effective containment of pandemic and reopening economy.

Since the first wave of Australian cases in March-April 2020, subsequent outbreaks have generally been quickly and effectively contained, the Melbourne second wave is one of the main exceptions. We believe the combination of improving management of the virus and the rollout of the vaccine programme in late February 2021, should ensure further outbreaks remain well contained. More virulent strains pose a potential risk although early signs are that the vaccines should limit the damage that these could cause.

Effective management of the coronavirus through short term lockdowns has resulted in restrictions on personal and business economic activity being less disruptive than initially feared. This has not only had a positive financial impact but has also improved personal and business confidence.

Government support helps offset damage done

Government support has helped offset or reduce the economic damage of lockdowns led by the **JobKeeper** (wage subsidy) and **JobSeeker** (unemployment benefit supplement) initiatives. These programmes were combined with many lenders offering a deferral of repayments last year for both mortgages and small business loans. These measures were critical in supporting households to maintain financial security, including managing their debt, during the most stringent lockdowns.

Other support measures were also put in place for the housing and construction sector. Grants to underwrite the construction of new homes or major renovations (such as the **HomeBuilder** program) have been a catalyst for improving consumer confidence in the housing market and cushion the housing construction industry (a major employer nationwide).

Programmes designed to support financial institutions allowed lenders to access financing at low interest rates. The Reserve Bank cut rates three times in 2020 to a historical low of 0.1% This encouraged lending by banks, particularly home mortgages.

Uptick in mortgage lending

Mortgage finance is a strong short-term predictor for property prices, as illustrated below. Current strength in mortgage lending suggests house prices are likely to trend higher in the near term (the next year).

These factors supported domestic demand (and prices) for housing, which has been critical given the demand shock from stalled overseas immigration due to border closures.

Summary

For prices in general we expect continued growth in the near term. Houses are likely to be favoured over units given the meaningful demand shortfall with border closures and excess capacity in some markets. Longer-term we note that Australian houses remain highly indebted (amongst the highest levels in the world) which should constrain the amount of further credit growth we see in the longer term. This may favour other markets outside the more expensive values assigned in Sydney and Melbourne.

(Source: IOOF)

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RI advice
Retirement Advice Specialists

Suite 10/232 Robina Town Centre Drive ROBINA QLD 4230 | PO Box 3288, ROBINA QLD 4230 | 07 5593 0000 | enquiries@ritcoastal.com.au

Visit us on the web: www.rigoldcoast.com.au | Find us on Facebook: RIT Coastal

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In this Issue

Jeff's Jottings

With such an unusual 2020, 2021 seems to be slipping past faster than usual, 'blink and you'll miss it!'.

Australia's economy has continued its rapid rebound to grow larger than it was before the Covid-19 pandemic. Official figures show that Gross Domestic Product (GDP) rose by 1.8% in the first quarter, beating expectations.

We watch with interest the central banks decision globally on when to raise interest rates, and are encouraged by the continued improvement of the housing market—our article on page 4 of this newsletter provides further information on this subject.

Good news recently with the government announcing an extension of the temporary reduction in superannuation minimum draw down rates — now extended until end of financial year 2021/2022!

Many of our clients will be impacted by this decision. If you have any queries regarding this, please don't hesitate to contact our office.

And finally, with the cold well and truly setting in, ensure you stay warm this winter.

Jeff English

CEO and Senior Financial Adviser

RI Toowoomba and Ipswich

Market Update

A range of developments in April, including concerns about the safety of coronavirus vaccines, caused investors some worry as to the pace of immunisation and the strength of the global economic recovery. However, economic data released in April was strong and unlike our experience in the March quarter, where bond yields reacted negatively to stronger economic data, based on the fear of higher inflation, bond yields stabilised in April and share markets responded positively. By month's end, Australian shares returned 3.5% while the Australian Dollar traded at 77.2 US cents.

TEMPORARY SETBACKS IN VACCINATION PROGRAMS

Headlines were largely dominated by the potential blood-clotting issues associated with the Oxford AstraZeneca and Johnson & Johnson vaccines. While the statistical probability of the two vaccines leading to serious medical problems is reportedly small, health authorities were still cautious. A number of countries, including Australia, recommended that younger people seek an alternative to AstraZeneca. The US also paused the use of Johnson & Johnson for two weeks, but resumed its use at the end of the month after a study concluded that the benefit of continued use outweighed its potential costs.

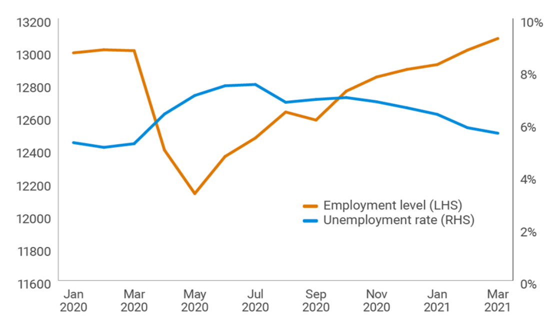
The negative impacts of these setbacks are likely short term, with the most likely consequence a slight delay in achieving herd immunity. Over the month, developed economies continued to make solid progress with their vaccination programs. Financial markets believe that by the end of September, the US, the UK and most of Europe will have achieved full herd immunity. In comparison, the availability of vaccines continued to be a major issue in developing economies, leading to a mixed outlook for emerging markets. For example, India is currently in the midst of a crippling second wave of coronavirus, with new daily cases running at around 320,000.

ECONOMIC DEVELOPMENTS

Global economic data released in April was generally strong. The recovery in the global manufacturing sector accelerated further, with strong rises in the US and Europe. Manufacturing in China has been steady over the last few months, reflecting the country's early recovery. While it still lags, the services sector in both the US and China continued to rise. In Europe, the sector has been impacted by lockdowns, but is starting to show signs of a recovery as some measures are eased.

US economic data continued to beat expectations, signaling a faster-than-expected economic recovery. In particular, US non-farm employment rose stronger than expected in March. Other leading indicators, such as the number of job openings, are pointing to further gains in employment. The easing of social restrictions and the latest transfer payment under the Biden financial support plan led to a strong 9.4% surge in March retail sales. While the same level of growth is unlikely for April, improvements for the labour market and consumer confidence point to more strength in spending.

AUSTRALIAN EMPLOYMENT CHANGES



Australia is also poised to make a strong economic recovery following last year's recession. The country has now recovered all lost jobs during the

Rich Tomato Beef Casserole

When the temperature drops and we find ourselves wanting to stay indoors and out of the cold, a winter casserole becomes a meal to warm the soul. Try this simple, yet hearty one on for size.

Ingredients

- *1/2 cup plain flour*
- *1kg chuck/stewing steak, trimmed and diced*
- *2 tablespoons olive oil*
- *2 garlic cloves, crushed*
- *2 x 425g cans chopped Italian tomatoes*
- *2 tablespoons tomato paste*
- *2 tablespoons brown vinegar*
- *2 tablespoons Dijon mustard*
- *1/4 cup flat-leaf parsley, roughly chopped*
- *500g cooked macaroni pasta, to serve*

Method

1.Preheat oven to 180 degrees Celsius. Place flour, salt and pepper in a shallow dish. Lightly coat steak in seasoned flour.

1.Heat 1 tablespoon oil in a frying pan over medium—high heat. Cook in small batches, adding more oil if required, for 2—3 minutes or until browned. Re-move cooked steak to a casse-role dish.

1.Add remaining oil, leeks and garlic to frying pan. Cook over medium heat for 3—4 minutes. Add tomatoes, paste, vinegar and mustard. Bring to the boil. Pour over steak.

1.Cover dish and bake for 2 hours until meat is tender. Season with salt and pepper. Sprinkle with parsley. Serve with pasta.

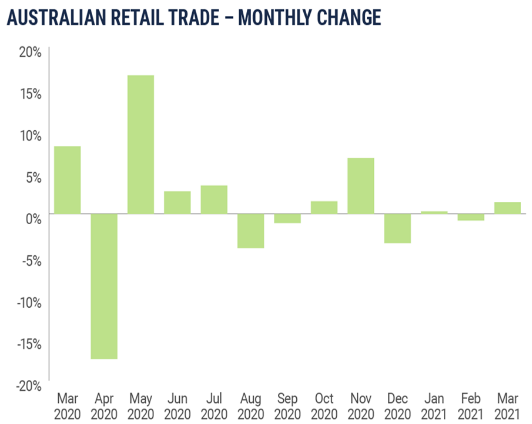
Tip: This dish is also great served with mashed potatoes and green beans.

(Source: taste.com.au)

Yum!

pandemic. In fact, recent figures suggest the level of employment is higher than the pre-pandemic peak in February 2021. Retail trade rose 1.4% in March, reflecting steadily improving consumer confidence. There is news on the inflation front. The Australian Consumer Price Index (which measures changes in the price level of a 'basket' of goods and services bought by households) rose just 0.6% on a quarterly basis and 1.1% on a year-on-year basis over the March quarter. While the low price increase may be distorted by some one-off changes, it seems inflation remains low despite the strong recovery in economic activity.

(Source: Colonial First State)



Government Supporting Retirees with Extension of Minimum Drawdown Rates

Australian Government
SUPPORT

On 29th May, the Morrison Government announced an extension of the temporary reduction in superannuation minimum drawdown dates for a further year to 30 June 2022. This extends the reduction to the 2021-22 income year and continues to make life easier for retirees by giving them more flexibility and choice in their retirement.

From 1 July 2021 minimum pensions will again be halved for all account-based and term allocated income streams as follows:

Age	Standard minimum	Reduced minimum for 2021/22
Under 65	4%	2%
65–74	5%	2.5%
75–79	6%	3%
80–84	7%	3.5%
85–89	9%	4.5%
90–94	11%	5.5%
95 or older	14%	7%

The True Value of Advice

We were recently part of a ground-breaking survey that found clients who received financial advice said it allowed them to be free from financial worries.

Key research findings of *The True Value of Advice* research paper include that:

- 90% of those with an adviser agreed that their adviser is a critical partner in their financial success
- More than nine out of 10 (93%) advised clients rated their financial adviser as very good or good with respect to the value of their services.
- 84% of advised clients agree the value of advice outweighs the costs
- 71% of clients found their adviser via a referral – highlighting the importance of relationships and word of mouth.
- 93% said they would likely recommend their financial adviser to family, friends, or colleagues
- The research revealed the key benefits clients experience from their advice, with it helping clients to identify, prioritise and achieve financial and personal goals, including that:
- 93% believe advice provides clarity around goals and progression towards them
- 91% agreed receiving advice helped them to achieve their financial goals
- 86% agreed advice helped them achieve personal goals
- 82% believe advice helps inspire them to work towards and reach their goals
- Almost half (46%) of unadvised individuals are open to the idea of seeking advice in the future, with 80% more likely to consider advice if they had a specific need identified

We are always here to assist our clients, and guide them on their financial journey.

These research results just highlight what we have known all along—financial success is just a phone call away.

How Will the Federal Budget affect you?

During this year's Federal Budget announcement Treasurer Josh Frydenberg stated "Australia is back!". The Budget proposes positive changes to superannuation, an extension of the low and middle income tax offsets and a boost to aged care services.

We've summarised some of the key points from the Budget below but, remember, these are subject to the passing of legislation:•

- From 1 July 2022, if you're aged 67 to 74 you will not be required to meet the work test to make non-concessional contributions and salary sacrifice contributions to super
- From 1 July 2022, you can make downsizer super contributions if you're age 60 and over (currently you need to be age 65 or over).• From 1 July 2022, if you're a first home buyer you can release up to $50,000 (up from $30,000) from your voluntary super contributions to help you buy your first home.
- The low and middle income tax offset is to extend to the 2021/22 financial year with a maximum offset of up to $1,080 for individuals or $2,160 for a couple.
- Additional support for elderly Australians requiring care either within the home or in a residential aged care facility

Superannuation

<u>The work test for older Australians.</u>

From 1 July 2022, if you're aged 67 to 74 you will not be required to meet the work test to make non-concessional contributions and salary sacrifice contributions to super. The work test will still be required to make personal deductible contributions to super.

What is the work test? The work test means you have been gainfully employed for at least 40 hours in 30 consecutive days during the financial year of the contribution. The announcement also proposed that individuals aged 67 to 74 will also be able to access the non-concessional bring forward arrangement. This is subject to contribution cap eligibility.

<u>Downsizer super contributions</u>

From 1 July 2022, you can make downsizer super con-tributions if you're age 60 and over (currently you need to be age 65 or over).Downsizer super contributions allows you to contribute a maximum of $300,000 (for each eligible member of a couple) to super up to the total proceeds from the sale of your home.

<u>Superannuation for low income earners</u>

From 1 July 2022, if you receive employment income of less than $450 per month your employer will now be required to pay you the superannuation guarantee (SG). The Retirement Income Review estimates that, approx-imately 300,000 additional people will receive superan-nuation guarantee payments each month, of whom 63% are women.

Changes to the First Home Super Saver scheme

From 1 July 2022, if you're a first home buyer you can release up to $50,000 (up from $30,000) from your voluntary super contributions to help you buy your first home. Under the scheme, voluntary concessional and non-concessional contributions made on or after 1 July 2017 may be released from super to help you purchase your first home.

Currently, you can release up to $15,000 of voluntary contributions from any one financial year, up to a total of $30,000 in contributions across all financial years, plus earnings on those voluntary contributions.

Under the proposed changes, you will be able to release up to $15,000 of voluntary contributions from any one financial year, up to a total of $50,000 contributions across all financial years, plus earnings.

Relaxing residency requirements and legacy pensions for SMSFs and SAFs

From 1 July 2022, if you have a self-managed super fund (SMSF) or small APRA fund (SAF) with old complying pensions (including term allocated or market-linked pensions) you will be able to exit these legacy pensions.

For some SMSFs the cost of running these pensions has been more than the actual pension they receive. Additionally, the residency rules for SMSFs will be relaxed so that you can be a non-resident for five years before affecting the SMSF residency rules. The 'active member test' will be removed for both SMSFs and SAFs.

Aged Care

<u>Improving aged care</u>

The Government's response to the Royal Commission into Aged Care Quality and Safety is a five-year reform plan based on the following five pillars:

- Home care – an additional 80,000 Home Care Packages will be released over two years.
- Support to aged care providers to deliver better care and services, including food, through a new government-funded basic daily fee supplement of $10 per resident per day.
- Introduction of a new star rating system to highlight the quality of aged care services.
- Create a single assessment workforce to undertake all assessments that will improve and simplify the assessment experience for senior Australians as they enter or progress within the aged care system.
- Updating the Aged Care Act and establishing new governance and advisory structures.

(Source: RI Advice)

Cold Weather Tips

1. Every degree above 19 degrees Celsius will cost you an extra 10 percent on your heating bill. Set your temperature lower and throw on a jumper—your wallet will thank you later!

2. Instead of heading out to find that warming comfort meal, save $$$ and make it at home. A hot soup or rich casserole is a good place to start—why not try our beef casserole recipe on page 2 of this newsletter?

3. Give the clothes dryer a break. As convenient as it is to throw our towels in the clothes dryer for that fluffy towel feel, hanging them out to air dryer is much more cost-effective.

Fast Money Facts

1. Did you know that the 1930 Australian Penny is one of the most rarest and valuable coins? The entry point for buying into this coin is $25, 000 to $30, 000

2. A not so fun money fact is the amount of credit card debt Australian's have—a combined $32 billion in debt! This is mostly made up of holiday spending including shopping and luxury accommodation.

3. The staircase at the Royal Australian Mint contains 15, 000 five cent coins. It sounds like a lot, however only equates to $750!