INSIDE

DECEMBER 2022
FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Seven reasons why Australia should be able to avoid a recession

Key Points

- The combination of cost-of-living pressures, sharp interest rate hikes and a global downturn point to a sharp slowing in the Australian economy next year, with consumer confidence at recessionary levels.
- However, there are several reasons why Australia should be able to avoid a recession: the business investment outlook is solid; there is a large pipeline of homebuilding work; high energy prices boost national income; the $A will fall if the global economy gets too week; immigration is rebounding; inflation may be loss of a problem in Australia; RBA has moved into the more cautious lane on rate hikes.

1 - The business investment outlook is reasonably solid

Business investment plans for the year ahead remain strong. The ABS capital spending intentions survey is up about 15% on a year ago. It's likely this partly reflects the higher costs of investing, but it's also consistent with high levels of capacity utilisation, reasonable business conditions and confidence, and some easing in supply chain pressures. Real business investment is expected to grow by around 5% over the year ahead.

2 – There is a large pipeline of home building work

From their high last year, approvals to build new homes in Australia have fallen about 25% reflecting the end of the HomeBuilder grant and rising interest rates. While this points to a downturn in home building, it's likely to be cushioned because there is a large pipeline of work yet to be completed with home completions yet to catch up to the surge in home building approvals through the pandemic. This has been due to poor weather and shortages of labour and building materials. The large pipeline of work yet to be done will likely provide a floor for home building, preventing a plunge in dwelling investment that would normally flow from a 25% fall in approvals.

3 – High energy prices are boosting national income

While the surge in energy prices is a huge hit to household budgets, it's providing a big boost to national income via the earnings of energy companies. This is evident in strong trade surpluses and contributed to a $48bn improvement in the budget deficit last financial year and $42bn this financial year. This in turn is helping reduce the budget deficit and providing greater fiscal flexibility for the Australian Government.

4 – The $A will plunge if global recession leads to a sharp fall in commodity prices

So far this year the $A is down 11% against the $US but is unchanged on a trade weighted basis, ie against an average of currencies (as other currencies have fallen more against the $US than the $A has). But if global economic conditions collapse leading to a sharp fall in Australian commodity prices and hence our export earnings (which would push down inflation globally and in Australia) it's likely that the $A will fall sharply. This in turn will help support the Australian economy by making our exports more completive as it did in the Asian crisis, tech wreck and the GFC.

Alternatively, Chinese growth, after surprising on the downside this year could surprise on the upside next year. A key drag this year has been it's zero Covid policy. Bit there are several signs that it's heading towards an easing of it: with the People's Daily running an article downplaying long Covid; a relaxation of PCR test requirements in some regions; Pfizer's vaccine being made available to foreigners in China; and some regions building new makeshift hospitals. It's looking likely that the easing could come early next year. If so this could result in a sharp rebound in Chinese growth as the stimulus measures of the last year would then be allowed to work. This in turn would boost global growth and benefit Australia.

5 – Immigration is rebounding rapidly

A surge in new visas for arrivals as the backlog is worked through and in monthly data for net permanent and long-term arrivals point to a rebound in immigration levels. Consistent with this the Budget is projecting net immigration of 235,00 from this financial year consistent with pre-pandemic levels. This follows negative net immigration in 2020-21. The surge in immigration will help ease the labour shortage and tight jobs market. Which will help head off a surge in wages growth to levels well beyond those consistent with the inflation target.

6 – Inflation may be less of a problem in Australia

It is very well to say the economy is resilient, but that may just mean that the RBA will have to raise rates by more than otherwise to slow demand enough to get inflation down. In other words, the previous considerations are necessary to help avoid recession but are not sufficient. So, this brings us to inflation and here there are reasons for optimism that the RBA won't have to raise rates too much further (& not the 4% plus that the money market is assuming but which most likely tip us into recession):

- First, Australian wages growth is far lower than in other countries.
- Second, at least our energy prices have not been doubling or more, unlike Europe.
- Third, longer-term inflation expectations are still consistent with the inflation target which should make inflation a lot easier to bring under control than it was in the 1980s when high inflation was entrenched.
- Fourth, while the Australian Labour market is very tight, risking a wages blowout, this is a large part due to the absence of immigrants. Unlike in other countries labour force participation is above pre-pandemic levels and the return of immigrant will ease worker shortages.
- Fifth, the simultaneous monetary tightening by central banks risks a sharp slowing in global growth and inflationary pressures that Australia will benefit from, reducing the amount the RBA will need to tighten by.
- Finally, US upstream price pressure are slowing which should benefit Australia which is following US inflation with a six-month lag.

7 – The RBA has opted to move into the slow lane

Much will come down to how aggressive the RBA gets in raising rates. It has noted that it "will do what is necessary to" return inflation to target. But it's also noted that it's seeking to do this "while keeping the economy on an even keel". After an initial run of rapid rate rises that returned the cash rate to more normal levels it has since slowed the pace down to better assess their lagged impact, allow for the global downturn, and hopefully strike "the right balance between doing too much and too little." In motoring parlance "speeding kills"- the initial acceleration in rates was necessary to catch up to inflation but to continue at that pace would run the risk of a serious accident that tips us unnecessarily into recession.

Concluding comment – Some may wonder why I haven't noted th4e strong jobs market as a reason why we should be able to avoid recession – the reason is because jobs are a lagging indicator. They were strong prior to the early 1990s recession too! Some may also argue that many households are protected by large mortgage and saving buffers – but many households aren't, so I decided to not rely on that one too. But the key is that there are enough other reasons why, although economic growth is likely to slow sharply from 3% this year to around 1.5% next year, we should be able to avoid a recession. Source: Dr Shane Oliver AMP Insights

Protecting your au domain name

The ATO Commissioner has just issued a warning to businesses on the importance of securing your au domain name!

To recap, au direct names were launched earlier this year by the organisation that manages Australian domain names, the Australian Domain Administration (auDA). This will allow businesses to elect to drop the .com from their web addresses.

.au has been introduced, after ongoing significant public consultation, to complement the existing 'namespaces' (e.g. .com.au, .net.au and.org.au) for those domain names with direct verified connection to Australia. Its purpose is to deliver a wider choice of available names in Australian domain, allow users to register shorter online names and provide names that are easier to type and display on mobile devices.

This change will align Australia with many other countries including the UK, Canada, USA and New Zealand.

To keep your business safe and undisrupted a consistent .au online presence will help to reduce the risk of unwanted parties piggybacking on your online brand / domain names. It is recommended that your equivalent .au direct domain is purchased.

Anyone can register your business's .au equivalent domain name unless you have secured it.

Since March this year, businesses with an existing domain name (i.e. those websites end in .com.au or .net.au) have been given priority to reserve their matching .au domain name. For example, a business with an 'ato.com.au' domain name can also register as 'ato.au'.

Remember to consider the benefits of registering an .au domain for your business and your individual circumstances. One of the benefits of registering is that you safeguard your brand's identity on the internet.

If you don't reserve your businesses' .au domain name, impersonators, web name campers or cyber criminals may potentially take it. The Australian Cyber Security Centre has issued an alertExternal Link on the risk of Cyber criminals using your brand's domain to impersonate your business and conduct fraudulent cyber activities.

You can register your domain name's .au equivalent at **www.auda.org.au/au-domain-names/au-domain-names/au-direct** or through **www.auda.org.au/accredited-registers** to protect the digital identity of your brand.

In most cases, there will only be one registrant eligible to apply for a reserved .au direct name as they will be the only holder of its match in another .au namespace (e.g. .com.au, .net.au and .irg.au). This is referred to as an uncontested name.

In these cases, the applicant will be allocated the domain name shortly after applying for Priority Status. The registrant will be able to choose a license term of between one and five years.

For contested names (names where different registrants have the same name in different namespaces), the earlier the creation date of your current domain name the higher the priority and the more likely you are to be allocated your requested name. Source: Butler Settineri

Reviewing your personal insurance policy: when, why and how

Insurance might not always be top of mind, but it's important to review your policies regularly to make sure you've got the right cover

Whatever your mix of cover – life, total and permanent disability, income protection and trauma – insurance can be an important part of protecting yourself and your family, now and into the future.

Thanks to the ability to pay for insurance through super, an estimated 97 per cent of working Australians have some level of life cover1. So it's a good idea to review your insurance regularly to make sure you have the right type of cover – and enough of it.

You probably don't think about your insurance regularly, but there are certain times when you should consider updating your policies to make sure they still reflect your lifestyle and insurance needs.

When and why, you should review your insurance

Insurance works best when you have the right level of protection for your situation and as your life changes, so might your insurance needs. You should consider reviewing your cover whenever changes like :

Taking on a mortgage to buy a property • having children • getting married • upsizing or downsizing your home • getting a pay rise or take a pay cut • starting a business • experiencing a change in your health or lifestyle • Paying off your mortgage • stopping supporting financially dependent children • joining a new super fund that may provide automatic insurance cover • retiring.

These milestones mark important times to review your insurance, including the amount of cover you have and whether your beneficiaries (those who will receive your insurance in the event of your death) are up to date.

How to review your insurance

Insurance is flexible and can be changed to align to your needs. Below is a step-by-step guide to reviewing what you have.

Step 1: Read your insurance contract

Refer to your product disclosure statement (PDS) and read it to fully understand what you're covered for (death, disability or injury or instance) and compare this against what you'd ideally like to be covered for.

Step 2: Check the insurance policy expiry date

Check if your insurance policy has an expiry date, and if so, make note of when it is so you're not caught off guard. It can be a good idea to set yourself a reminder a month or two before it's due so you can contact your insurance provider ahead of time.

Step 3: Know your beneficiaries

An insurance beneficiary is the person, or people, who will receive your insurance payout in the event of your death. It's important to make sure your beneficiaries are up to date so your money ends up in the right hands.

Step 4: Check if you have enough insurance

To help you work out the right level of insurance cover consider the following questions.
1 – How much money would your family have if you were to pass away or become disabled? Consider the amount of money you have in super, savings, shares and other assets, and existing insurance policies as a starting point.
2- How much money would your family need if you were to pass away or become disabled? Consider the size of your mortgage and any other debts you have, as well as other costs such as childcare, education, and day-to-day expenses you may be covering.

Step 5: Reduce or manage your insurance premiums

If affordability is a major concern, speak to your super provider or insurer depending on what type of insurance you hold, to find out how you can manage your premiums without losing your policy. You might be able to:

- reduce the amount you're insured for
- change how often you make a payment (if you don't hold insurance inside super)
- adjust your waiting and benefit periods.

Changing your insurance policy can be complicated, so it could help to speak to your financial adviser. Source: AMP Insights

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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