Winter 2020

Winter is here and we are almost to the end of another financial year. And what a year it's been! With so many Australians impacted by fires, floods, drought and now COVID-19, let's hope the new financial year sees a return to something like normality.

As May unfolded, hopes grew of economic re-opening. Reserve Bank Governor Philip Lowe told a Senate Committee on COVID-19 the economic downturn was less severe than feared due to Australia's better than expected health outcomes and government stimulus and support. However, he stressed: "It's very important we don't withdraw fiscal stimulus too early". Unemployment rose from 5.2% to 6.2% in April, but without JobKeeper support payments it would have been closer to 9.6%. The value of construction work fell 19% in the March quarter, 6.5% over the year, highlighting the need for government stimulus. New business investment in buildings and equipment also fell 6.1% in the year to March, although mining investment bucked the trend, up 4.2% in the March quarter. This was reflected in our record trade surplus of $77.5 billion in the year to April, despite a drop-off in imports and exports in April.

After a wave of panic buying in March, retail trade fell a record 17.9% in April, but consumer confidence is on the mend. The ANZ-Roy Morgan weekly consumer confidence index rose 8 weeks in a row to the end of May, up a total of 42% from recent lows to 92.7 points. As the global economy slowly re-opens and demand improves, iron ore prices rose 15% in May while crude oil was up 77%. Australian shares bounced back by around 5% in May, while the US market rose 3%. The Aussie dollar traded higher on our improved economic outlook, closing the month around US66.4c

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Timing the economic REBOOT

After successfully navigating our initial response to the COVID-19 (coronavirus) health crisis, backed up with $285 billion in government support to individuals and businesses to keep the economy ticking over, thoughts are turning to how to get the economy back on its feet.

It's a huge task, but Australia is better placed than most countries. Pre-pandemic, our Federal Budget was close to balanced and on track to be in surplus this financial year. Economic growth was chugging along at around 2 per cent.

In his Statement on the Economy on May 12, Treasurer Josh Frydenberg gave an insight into the extent of the challenge ahead. He announced that the underlying cash deficit was $22 billion to the end of March, almost $10 billion higher than forecast just six months ago. And that was before the $282 billion in support payments began to flow into the economy.

Global comparison

Economic forecasts are difficult at the best of times, but especially now when so much hinges on how quickly and safely we and the rest of the world can kick start our economies.

The International Monetary Fund (IMF) is forecasting the world economy to shrink by 3 per cent this year. To put this in perspective, even during the GFC the contraction was only 0.1 per cent in 2009.

In Australia, the government forecasts growth will fall by 10 per cent in the June quarter, our biggest fall on record. If we manage a gradual economic reboot, with most activity back to normal by the September quarter, the Reserve Bank forecasts a fall in growth of 6 per cent this year before rebounding by 7 per cent in the year to June 2021.[i]

Even if we pull off this relatively fast return to growth, it will take much longer to repair the budget.

Budget repair

Economists have recently reduced their forecasts for the budget deficit after the JobKeeper wage subsidy program came in $60 billion under budget. However, they are still predicting our debt and deficits will reach levels not seen since World War II.

For example, Westpac chief economist, Bill Evans forecasts a budget deficit of $80 billion this year and $170 billion next year. AMP's Dr Shane Oliver also expects the deficit to peak at $170 billion next financial year.[ii]

While polling shows most Australians approve of the way the federal and state governments have handled the crisis, many are beginning to wonder how we as a nation are going to pay for it.

The key to recovery will be getting Australians back to work; for those who have had their hours cut to return to full-time work, and those who have lost jobs to find work.

It's all about jobs

The unemployment rate is forecast to double to 10 per cent, or 1.4 million people, in the June quarter with total hours worked falling 20 per cent. After the June 2020 peak, the Reserve Bank expects a gradual fall in the annual unemployment rate to around 6.5 per cent by June 2022.[i]

With the government announcing the easing of restrictions on movement in three stages by July, Treasury estimates 850,000 people would be able to return to work.

Treasury also estimates that this easing of restrictions will increase economic growth by $9.4 billion a month. However, this outcome depends on us following the health advice. The cost of re-imposing restrictions could come at a loss of more than $4 billion a week to the economy.

The growth strategy

Looking ahead, Treasurer Frydenberg made it clear he expects the private sector to lead job creation, not government. If the past few months are anything to go by, Australians have risen to the challenge.

From working from home and staying connected via Zoom, to restaurants pivoting from dine-in to takeaway and manufacturers switching to production of ventilators and hand sanitiser, individuals and businesses have been quick to adapt and innovate.

This is likely to be one of the positive legacies of the pandemic and should help our economic recovery in the years to come.

If you would like to discuss your finances and how to make the most of the recovery, give us a call.

i https://www.rba.gov.au/publications/smp/2020/may/economic-outlook.html

ii https://www.amp.com.au/insights/grow-my-wealth/the-coming-surge-in-australias-budget-deficit-and-public-debt

Unless otherwise stated, figures have been sourced from Treasurer Josh Frydenberg's *"The economic impact of the crisis"* statement https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/ministerial-statement-economy-parliament-house-canberra

How COVID-19 changes tax time

As this financial year draws to a close, it will be viewed as a year like no other. COVID-19 (coronavirus) has impacted everybody's life, albeit in different ways for different people.

For some, staying at home has meant you have greater savings; for others, the virus has meant lower wages or even the prospect of unemployment for one or more members of the family.

Whichever side of the equation you fall, end of financial year planning has never been more important. Traditionally it marks a time when you can stop and assess your current situation and make plans for the future. That hasn't changed but your circumstances may well have.

Super options

If you are in the fortunate position of having saved more money, you could consider making extra contributions to your super. This could take the form of voluntary contributions, spouse contributions, co-contributions or carrying forward any unused contributions from last year.

As superannuation is concessionally taxed, it makes sense to make the most of this environment.

Using the unused contributions rule, say you only made $20,000 in concessional contributions in the 2018-19 financial year, then you have $5000 in unused contributions you could make this current year. This means you could contribute a total of $30,000 in this current year ($5000 unused contributions plus the annual contributions limit of $25,000) as long as your super balance is less than $500,000.

Or you might consider making a co-contribution to your fund. If you earned $38,564 or less this financial year, then you could contribute up to $1000 to your super as a non-concessional payment and the government will match it with a contribution of up to $500. That's a handsome return on your investment of 50 per cent. The government's co-contribution gradually phases out once your income reaches $53,564.

If on the other hand you have lost some or all of your income and have fallen on financial hard times, you may be eligible to withdraw $10,000 from your superannuation before the end of this financial year and then a further $10,000 in the first quarter of the 2020-21 financial year.

This will have an impact on your final retirement balance, but it may be of considerable help in your current situation. It's important to weigh up carefully the pros and cons of such a move.

Tax concessions

Of course, reduced income will mean you may well benefit from a tax refund as you may not have worked the full year or not at the rate you began the year.

When you are calculating your expenses for this current financial year, also remember that there are expenses associated with working from home such as mobile and internet costs, electronic device purchases and stationery costs.

The Australian Taxation Office has a quick formula which will allow you to claim 80c for every hour worked at home or else you can choose to calculate the actual amount yourself.[i] This may end up giving a better result but could be more time consuming.

The volatile sharemarket may also mean that you have some capital gains or losses that you can offset against your taxable income.

Retiree breaks

For retirees, the coronavirus may also have put a dent in your income due to sharemarket losses or reduced rental income from investment properties.

To ease the pressure, the Government has moved to cut the minimum drawdown requirement on superannuation pensions by 50 per cent for both this current financial year and next year. If you are in a position to take advantage of this drawdown reduction, then it may go some way to maintaining your retirement savings.

Of course, the rule of bringing forward expenses into the current year and deferring receipts into the following year still holds. For instance, if you have insurance premiums to pay and can afford it, consider making them up to 13 months in advance in the current year.

Donating to charity is also something to consider, particularly when there is so much need for financial assistance in the community this year. All donations to registered charities are tax deductible.

If you want to know how to make the most of your end of financial year planning this year, please contact us to discuss.

i https://www.ato.gov.au/General/COVID-19/Support-for-individuals-and-employees/#Employeepayments

Maintaining *Mental health* through the pandemic

The COVID-19 pandemic has shifted our day-to-day lives in a dramatic way. One of the biggest changes to come from this period, was a transition to working from home for many people.

On top of this adjustment, parents had the additional challenge of monitoring remote schooling for their children. Social interactions were severely reduced and many of the activities that allow us to unwind, such as going to the gym, a cinema or a concert, were no longer possible.

While this return to more of a home-based life has had its benefits, it has also meant a blurring of the lines between work and rest. Coupled with isolation, heightened stress and anxiety which has built up over the days, weeks and now months may become something quite serious, such as burnout.

What is burnout?

Burnout is a form of emotional, mental and physical exhaustion caused by prolonged or extreme stress. You may feel as if you've got nothing left in the tank and you struggle to concentrate and stay motivated. As a result you can start to dislike your job or doubt your ability to effectively do your work.

Burnout can creep up on you as stress accumulates. You may find yourself feeling depressed and anxious, dealing with physical symptoms such as headaches, sore muscles and stomach aches, are no longer able to think creatively or on the spot, and feel tired and drained.

Why burnout is on the increase

According to Safe Work Australia data collected between 2012 – 2013 and 2016 – 2017, 92% of serious work-related mental health conditions were attributed to mental stress.[i] The 2016 Snapshot of the Australian Workplace found that 29% of workers always or often felt a high amount of stress in relation to their job.[ii]

The COVID-19 situation has brought with it significant mental health challenges, as made evident by the increase in calls to mental health support services.

You may be feeling an increased pressure to keep many balls up in the air and placing expectations on yourself (or having them placed on you) to be as productive and efficient as you'd ordinarily be. Not only can working from home make it harder to switch off at the end of the day and compartmentalise your home and work life, it also reduces your social contact which can lead to isolation.

Looking after your mental health

It's important to acknowledge we're undergoing a pretty unique period of time. Society has had to adjust and many people are experiencing a collective uncertainty. Rather than push through with a 'business as usual' mentality, give yourself the space to recognise that you're in a challenging situation.

If you're working from home, you may have greater flexibility, plus no more dreaded morning commutes, but try to keep to a regular schedule as much as possible. Be realistic about how much work you can get through a day while still making time to have your three main meals away from the computer screen and powering off before bedtime.

Limit your exposure to the news, be aware of what you are viewing and reading, and take note of the impact it may be having on your mental health, whether it be depressing news stories or those happy social media posts.

While social distancing and restrictions may inhibit you from what you'd ideally like to be doing, think outside the square for now. Healthy relationships support good mental health. Ask a friend to grab a takeaway coffee with you and have a walk and a chat. Make a regular appointment to call or visit a family member or friend to check in with each other. Get out of the house for a bike ride or sign up to that outdoor bootcamp to get your blood pumping.

Resources to access

There's no shame in reaching out for help, as we all need support during times of hardship and when we are feeling overwhelmed. Beyond Blue is an excellent resource with helpful information, active forums and a 24-hour confidential support hotline (1300 224 636). You can also chat with your GP who can help you form a mental health care plan which provides access to a certain amount of subsidised sessions with a psychologist.

i https://www.safeworkaustralia.gov.au/doc/infographic-workplace-mental-health

ii https://www.convergeinternational.com.au/docs/default-source/research/a-future-that-works-2016-snapshot-of-the-australian-workplace