

# connect

Winter 2020

## Economic update

### What has happened in 2020?

The spread of Coronavirus (COVID-19) has been one of the most devastating global pandemics we have seen for decades with over 4.3 million confirmed cases and almost 300,000 deaths globally (as of mid-May).

In an effort to limit the spread and contain Coronavirus outbreaks, governments globally imposed lockdown measures that shut down businesses and restricted citizens' freedom of movement. International travel almost entirely ceased as many countries closed their borders. The economic damage caused by these

measures has been stark. Substantial government stimulus and monetary policy measures may help with the economic recovery but it will take time for businesses to restart and jobs to return.

### What could happen for the rest of 2020 and beyond?

In Australia, although government stimulus payments have helped dull the impact, the economic cost from the Coronavirus has been substantial with Australia likely to see its first recession this year since the 90s.

The stimulus programs, including spending on infrastructure and the "JobKeeper" scheme (a wage subsidy) have helped to avoid businesses collapsing for now. We should see gradual improvement as lockdown restrictions are removed. As the Prime Minister outlined in early May, lifting restrictions will unlock more freedom and the ability for people to "go back to normal". That includes giving people the confidence to spend and businesses the confidence to hire new staff, which will help the recovery.

History shows that it can be a long road back to where we were before a crisis. It took over two and a half years in the early 80s and almost four years in the early 90s for jobs to return.

We are only a few months into the current crisis. The last Australian recession in the early 90s saw an initial loss of 4.2% of all jobs. The recent April jobs report showed a loss of almost 600,000 jobs or 4.6% of workers that were employed in March. Unemployment has risen more quickly this time around and it highlights the scale of the challenge and how long it may take to recover, compared to history, as shown in the chart below.

### Returning to the new "normal"

The "normal" we return to after this crisis may be very different. The success of working from home could see changes in how some companies offer staff flexibility or where offices are located – many businesses have already "handed back the keys" and not renewed leases, which is having a big impact on the commercial property sector.



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Job losses in past recessions vs 2020 (% of starting jobs)



Source: ABS, IOOF Research calculations

Other industries such as tourism and education are likely to struggle for some time until people feel safe enough to fly internationally, which some former airline executives have suggested may take several years to occur.

Universities have been heavily reliant on international students to grow their revenues. They were not set up for a sudden, material loss of student numbers. Without government support, it is likely that we will see pay cuts as well as job losses as the sector adjusts to reduced business.

In relation to the property market, job losses will pose challenges. Rent deferral schemes have seen sharp declines in rental yields, impacting investor income. Job losses will tighten bank lending and it will be harder for buyers to secure a loan. This will have an impact on property prices, with less buyers in the market.

### It will be a similar story overseas

Globally, the focus will be on lockdowns to limit outbreaks, gradually relaxing restrictions and governments supporting businesses and workers through the worst of the economic slump. However, there will be some important differences.

Regions such as Europe are more vulnerable to weaker global growth. This will likely see pressure to relax restrictions within Europe ahead of the upcoming tourist season. As Europe is

still not a united region, differences between countries have prevented a coordinated approach to government spending.

Outside of Europe, many countries have still not controlled outbreaks, particularly in emerging economies such as Brazil. This suggests a longer period of recovery for these countries which represent the majority of the global population. The risk of new waves of infection is more pronounced overseas than in Australia and New Zealand. Some of this has played out already in countries such as Singapore and South Korea.

Lastly, in the US, the lack of coordination in managing the outbreak with different responses by different states and disagreements at a national level increases the chances of new outbreaks. This could pose a material challenge to their economic recovery. In addition, they, and other countries, are facing high unemployment for some time.

**We acknowledge that the road to recovery will be long, however, if we don't see a second phase of outbreaks, we can expect some parts of the economy to bounce back such as hairdressing or retail, whilst tourism and travel will take considerably longer. It is important to think long term about your investments. Please contact us if you need financial advice during this time.**

Source: IOOF Advice Research

## The real value of financial advice

Financial advice is NOT all about money, it's a big part of it of course, but there's so much more to it than that. It's about having an expert guide to help you reach your goals sooner – giving you more confidence, peace of mind and freedom.



**80% of clients believe advice has given them more confidence.**

And the same proportion of people also believe that having an adviser makes them more confident about making financial decisions\*.

### What's the benefit of all this extra confidence you get from having a financial adviser?

Our clients get more out of life and they sleep better too. They have the confidence to make the big decisions – for example, making the big decision to retire, sooner rather than later. They also have the confidence to seize opportunities as they arise and reap the rewards – such as, when the time comes, being able to afford quality aged care.

It's also about a whole team of people doing a whole lot of work for you – research, compliance and technical experts, paraplanners and support staff. This is a major part of the value equation. They can also help you avoid costly pitfalls – and all the grief that goes with them.

The real value of having a great financial adviser is that they can give you the confidence to explore new horizons and, most importantly, enjoy them.

\* Source: Suncorp Value of Advice Report 2017



# Taking control of your finances post-divorce

There's no doubt a divorce takes a toll emotionally. However, there are also financial implications that can leave you feeling vulnerable, especially if you're retired or approaching retirement. So, what are some of the things you can do to take control of your finances if your marriage ends?

## Understand your position

If you've been managing your finances jointly until now, you will need to work out where you stand as an individual – what you'll be earning from this point onwards and what assets you will have.

## Dividing up household wealth

Planning for housing and associated costs is obviously a priority, as both of you will need a place to live. Another issue to consider is tax, as not all assets are created equal. If one of you is keeping the family home while the other takes an investment property for example, you need to bear in mind that the family home will be tax-free in the event of a future sale while the investment property will attract capital gains tax. It can be a good idea to seek professional advice before making any decisions.

## Taking legal advice

Obtaining legal advice is recommended so you can be very clear on where you stand both financially and legally.

## Protecting yourself

It's important that you take proactive steps to protect your finances, ensuring you're now the one in control of your money. Refer to the government's MoneySmart website<sup>1</sup> for some helpful tips to consider.

## Retirement possibilities

For older couples, super is often their second biggest asset outside the family home. As part of the divorce settlement it may be possible to obtain a share of your partner's accumulated super balance.

If you've reached Age Pension age (currently 65.5), the reduction in your total assets could mean that you now qualify for a full or part Age Pension. Whatever you decide to do, it's recommended you seek professional advice first.

## Look after you

Change can be frightening, but it can also be empowering and freeing. Take the time you need to acclimatise to the change, and trust that the future holds bright new things for you.

1. ASIC MoneySmart <https://moneysmart.gov.au>

Source: MLC Asset Management





# The electric car revolution

Previously occupying a niche luxury market dominated by Nissan and Tesla, EVs are growing in popularity and are set to become more mainstream with manufacturers such as Hyundai and Kia looking to release more affordable options in the future. In this article we examine the rise of the EV and the role it will play in a green transport future.

## The benefits of going electric

The most obvious benefit is cutting down on fossil fuel, EVs have no exhaust emissions meaning they don't directly pollute the air. Cost-wise, EVs are more economical to run, even charging from the main power grid, a fully-charged car will cost you around a third of the price of a tank of fossil fuel. And then there's maintenance. No exhaust systems, starter motors, fuel injection systems or radiators means fewer service bills. Battery packs are expensive, however, and may need replacing during the vehicle's lifecycle.

There are also registration and stamp duty benefits. In the ACT, new EVs pay zero stamp duty and are eligible for a 20% registration discount. In Victoria, EVs have a \$100 annual registration discount, while in Victoria and Queensland you'll benefit from a reduced rate of stamp duty.<sup>1</sup>

Although running costs maybe more economical at present – if you buy a brand new EV you won't be left with much change from \$50,000 - a comparable fossil-fuelled car is around half the price.

## How far will it go?

The biggest stumbling block for many people is refuelling and in a country the size of Australia, range is critical. The top-of-the-range Tesla can drive up to almost 600km and, while more 'everyday' EVs have a range closer to 300km, you can still comfortably go about your day-to-day travel.<sup>2</sup>

It's when you want to go further afield that you will need to factor in stop-offs at recharging locations. The International Energy Agency reports that the number of public charging stations has increased by 143% between June 2018 and July 2019 and there are now almost 800 across Australia.<sup>3</sup>

**Please contact your financial adviser if you are considering a big purchase like an EV and it is likely to affect your financial plan.**

1. Tesla website, 'Vehicle & energy incentives'; 2. Canstar Blue, 'Electric cars available in Australia', April 2019; 3. Electric Vehicle Council, 'State of electric vehicles', August 2019.

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