Ambleside Newsletter Autumn 2023

Ambleside
WEALTH ADVISERS

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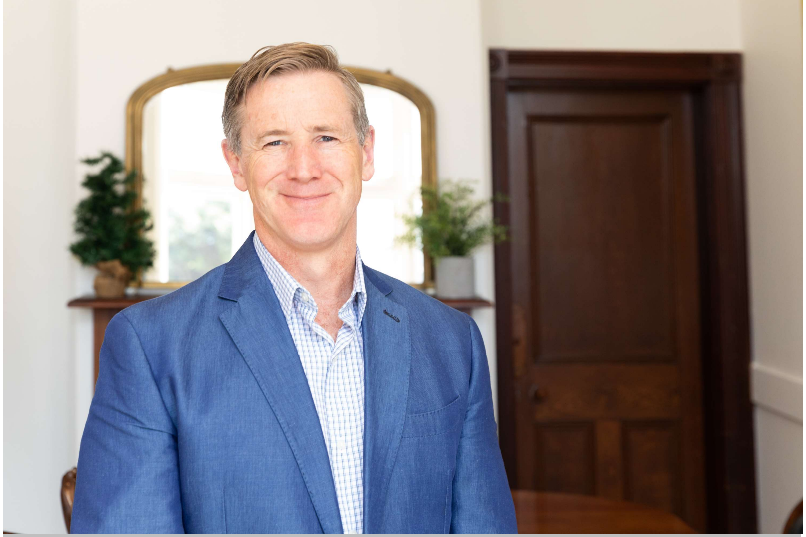


Welcome to our autumn newsletter. In this edition of our newsletter, Nicole writes about ‘buy now pay later’ schemes, and Rian has some Centrelink updates.

Ambleside has become a regular contributor to The Standard newspaper and ABC South West radio, where we are regularly asked to comment on financial issues that affect the people in our community. This includes interest rates, employment, inflation and investments. The most recent article, talks about wage and inflation growth, is included later in this month’s newsletter.

Changes to superannuation are making big news at the moment. As part of the wider budget review, Labor has floated the idea of limiting the amount that can people can hold in the accumulation phase of super. This is taxed at a flat rate of 15% and there is currently no limit. Labor has proposed taxing the first $3m at 15% (no change), and anything above that at 30%. This is expected to affect 80,000 Australians and won’t start until July 2025 (after the next election). This seems to be relatively minor change that will affect a small proportion of people, and raise around $2bn a year in tax.

One of the older super changes that has benefited members is **super stapling**. This is particularly relevant for younger workers who frequently change jobs early in their careers. The introduction of super stapling means working Australians will be attached to one super fund for life unless they choose otherwise. The measure aims to reduce the number of super accounts people may acquire throughout their working life. We often see people in their mid 20’s, who may have had a few casual jobs in hospitality and retail, holding three or four super funds all with small balances. Finally, a reminder that from 1st July 2023, employer contributions for super will increase from 10.5% to 11%. These will eventually reach 12% by 1st July 2025.

Market update

Market performance. The ASX 200 currently stands at 6,995, compared to 7,280 twelve months ago. The market is being dominated by inflation and interest rates, all stemming from the huge stimulus provided during COVID.

More recently we have seen several banks in the US get into trouble, as well as CreditSuisse in Europe. This has primarily been caused by the fact banks lend out more to borrowers than they have on deposit, which is by design and an important way of growing the economy. However, when enough depositors want their money at the same time banks can find it impossible to meet these demands.

While the topic of banks getting into trouble may remind you of the global financial crisis in 2008, the situation today is very different. Governments are now a lot quicker to protect depositors and the larger banks are forced to hold large amounts of cash to survive a future financial crisis.

Interest rates. We’ve seen a steady stream of interest rate rises since May last year. From a low of 0.1%, the RBA cash rate is now at 3.60%. Most financial institutions believe there will be one or two more increases before rates peak around mid year. Another major factor is the so-called **fixed rate mortgage cliff**. This refers to the fact that soon after COVID first hit, many people fixed their mortgages at very low rates of around 2.5%. A lot of these will revert to variable rates this year, which will see these people jump to over 5% overnight. This will undoubtedly have a major effect on the economy.

Public policy challenges. Australia faces some major public policy and fiscal challenges over the next few years that will impact the wider economic outlook. Programs that are facing major cost increases include the National Disability and Insurance Scheme, aged care, Defence, health and interest costs on public debt. The government will struggle to find revenue to meet these costs and we remain heavily reliant on the resources sector and royalties from mining exports. The federal budget on 9th May is shaping up to be big night.

Increase to Age Pension

We know that the age pension is an important source of income for many people. Latest figures show roughly 39% of Australians of Age Pension age receive the full Age Pension and a further 24% receive a part pension.

Centrelink payments are typically increased twice a year, in March and September. The increase is linked to inflation, which as we know, has seen a big jump with everyday items costing a lot more. In addition to the age pension, other payments have increased, including jobseeker, youth allowance, parenting payment and rent assistance.

Age pension rates. From 20 March 2023 the maximum full Age Pension increases $37.50 per fortnight for a single person, and $28.20 per person per fortnight for a couple.

Income and asset test. In addition to the rates, the upper limits for the assets test and income test have increased. This means more people will qualify for the age pension.

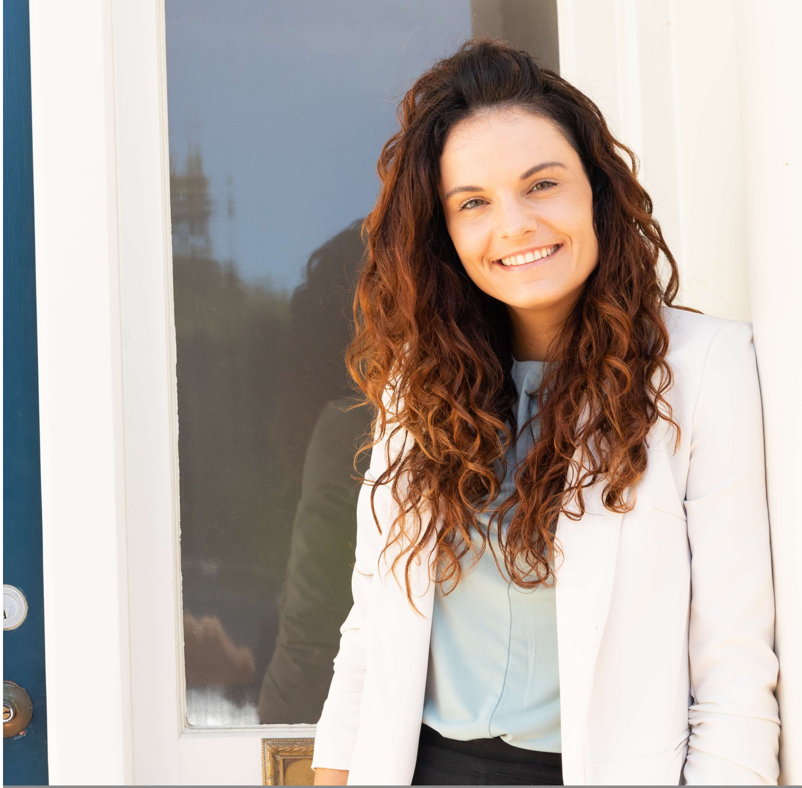
Ambleside Footy Tipping Competition

We invite you to be a part of our 2023 Ambleside Footy Tipping Competition.

There is no cost to enter and we will be awarding prizes for first, second and third places ($250, $200 and $150 respectively). If you are one of the winners, you can pick a voucher from your favourite Kepler Street business (such as the Capital Cinema, 2Tarts or Bohemia Café).

Whilst the first round is already complete, we would love you to join our competition.

You can register via the link on our website “Footy Tipping Comp”. If you would like to make your picks by phone each week, please reach out to Katherine at katherine@ambleside.net.au or on 03 5561 5180.



CAN 'BUY NOW, PAY LATER' SERVICES SURVIVE THE STORM?

In recent years, the use of 'buy now pay later' payment platform services has been growing fast, with many customers, predominantly millennials, using this option to get the items they want now without having to wait and save.

Afterpay is one of the most popular of these types of services used, due to its simple payment structure, user-friendly platform, and focus on younger generations.

This payment platform enables customers access to interest-free payments as customers split their payments into four interest-free instalments, with no credit checks. However, like any financial product, there are potential drawbacks to consider including the temptation to overspend, late fees charges if payments are missed, and while Afterpay does not require a credit check to use the platform, missed payments can negatively impact a customer's credit score.

Afterpay was established in 2014 when interest rates were at 2.5 per cent and continued to reduce over the years until now. This saw more consumers' spending habits increase and so did the demand for Afterpay, making this one of Australia's fasting growing companies in recent years. Now that interest rates are on the rise, Afterpay is facing challenging times. For example, higher interest rates can increase borrowing costs for the company, potentially impacting its profitability. This, in turn, could lead to higher fees or interest rates for Afterpay users, which could make the platform less attractive to customers.

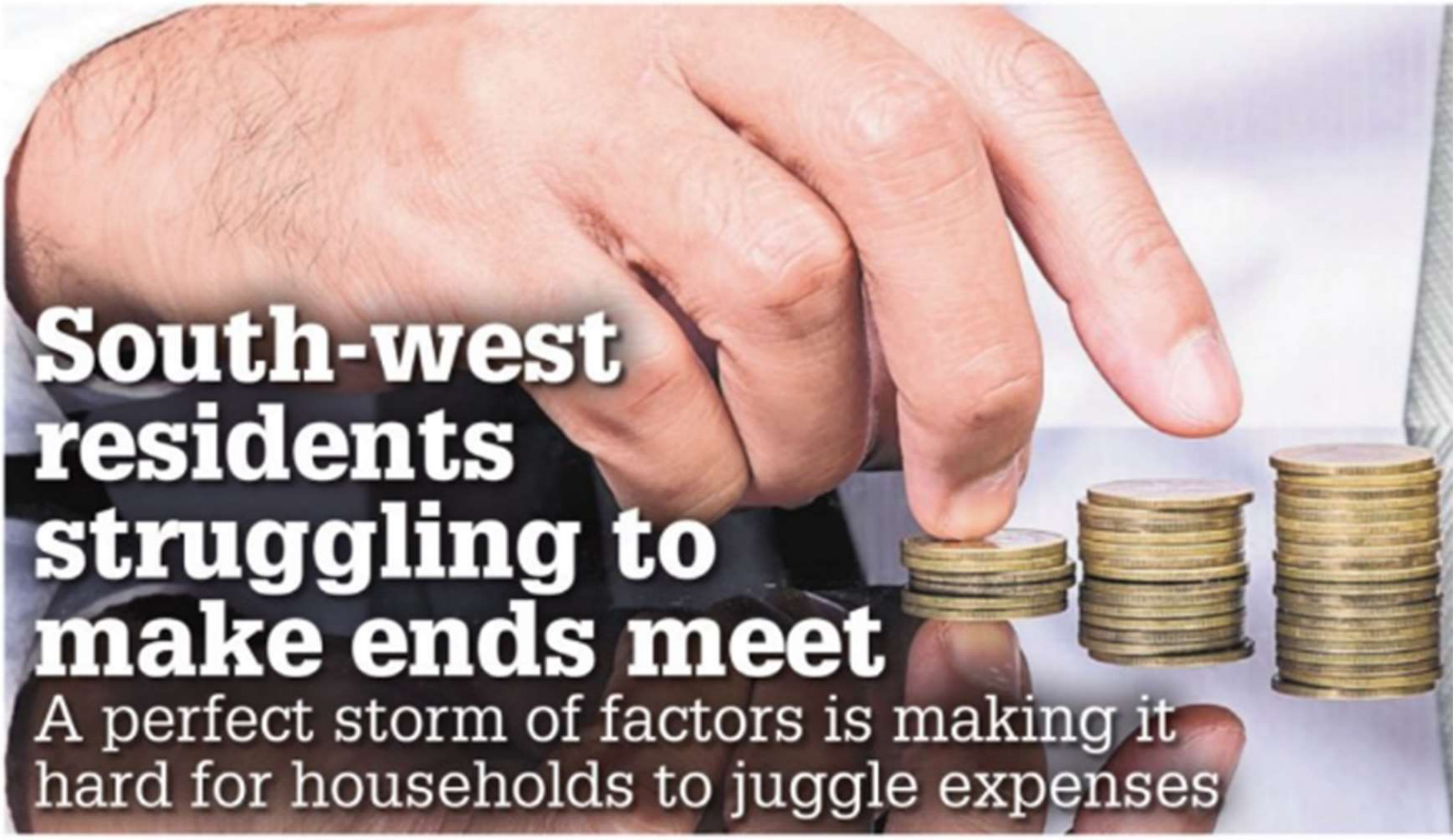
Higher interest rates can also impact consumer spending and borrowing behaviour. As borrowing costs increase, consumers may be less likely to use credit or take on debt, which could reduce demand for Afterpay's services. Additionally, if consumers are spending less overall, it could lead to a decrease in sales for retailers, which could indirectly impact Afterpay's revenue.

However, it's important to note that the impact of rising interest rates on Afterpay is not entirely clear. While higher interest rates could negatively impact the company in the short term, it's possible that they could also have positive long-term effects. For example, higher interest rates could lead to a reduction in inflation, which could benefit the broader economy and, in turn, support demand for Afterpay's services.

Whether or not you believe this service impacts consumer purchasing behaviour either positively or negatively, is a discussion for another day. It will be interesting to see how Afterpay and other similar platforms can remain a lucrative enterprise given they began when interest rates were low and now that rates are on the rise and it's unknown how long this will last, can these services survive the storm? - Nicole O'Sullivan

Ambleside in the news

NEWS



South-west residents struggling to make ends meet

A perfect storm of factors is making it hard for households to juggle expenses

WAGES

BY MONIQUE PATTERSON AND BEN SILVESTER

Region

RECORD national earnings growth is providing little comfort to south-west households as real wages continue to slide thanks to stubbornly high inflation.

National data released by the Australian Bureau of Statistics on February 22 showed hourly wages had risen by 3.3 per cent over the past year and 0.8 per cent in the final three months of 2022. ABS head of prices statistics Michelle Marquardt said it was the biggest rise for the December quarter in a decade, following on from record quarters in September and June.

"In combination these quarterly increases have resulted in the highest annual growth in hourly wages since December quarter 2012," Ms Marquardt said.

Average weekly earnings data released on February 23 showed the same pattern with a 3.4 per cent annual rise driven largely by jumps in skilled sectors like mining, professional, scientific and technical services.

Nationwide the average adult working full time earned $1876.80 each week, with the Victorian average a fraction lower at $1856.70.

The gender pay gap remains a prominent issue both nationwide and within Victoria. Full-time female workers in Victoria earn $314.7 less per week on average than males, a nearly 19 per cent difference. Over the past decade the gap has oscillated, dropping from 24 per cent in 2012 to just 14 per cent in 2019, but blowing back out again through the pandemic to a peak of 19.5 per cent in mid-2022.

But as the nation records 10-year-high wages growth, why aren't workers feeling any more financially secure? Ambleside Wealth Advisors principal James Kelly said it was because record growth wasn't ending up in the average worker's pocket or bank account once their expenses were taken into account.

"Wages may have gone up but inflation has gone up more, so people aren't actually better off in a real sense," he said.

"It's like they're treading water but being washed backwards."

The latest inflation figures released by the ABS in late January put the annual rate at 7.8 per cent, meaning while wages had increased 3.3 per cent, and earnings 3.4 per cent, the cost of things people need to pay for had surged by double that.

"Some people might feel good having more money in their pocket but because expenses have gone up so much they can't do more with the money they have coming in," Mr Kelly said.

He said in south-west Victoria the inflation and cost-of-living crisis was slamming both employees and small business owners.

"I've got clients on both sides of the ledger but the ones making most noise are the business owners trying to find staff because the labour just isn't there," he said.

"As a result employers are having to pay above the odds to get staff. That puts pressure on their bottom lines and the best way to alleviate that pressure is to raise the price of their goods or services."

Mr Kelly said that process could end up feeding back on itself, becoming what's called a wage price spiral.

"People keep paying more for goods and services pushing demand higher and prices keep rising," he said.

The Reserve Bank of Australia's run of nine consecutive interest rate hikes was meant to put the brakes on people's ability to keep paying more and fuelling the spiral, Mr Kelly said.

"That is what the government wants, for people to stop spending so much," he said.

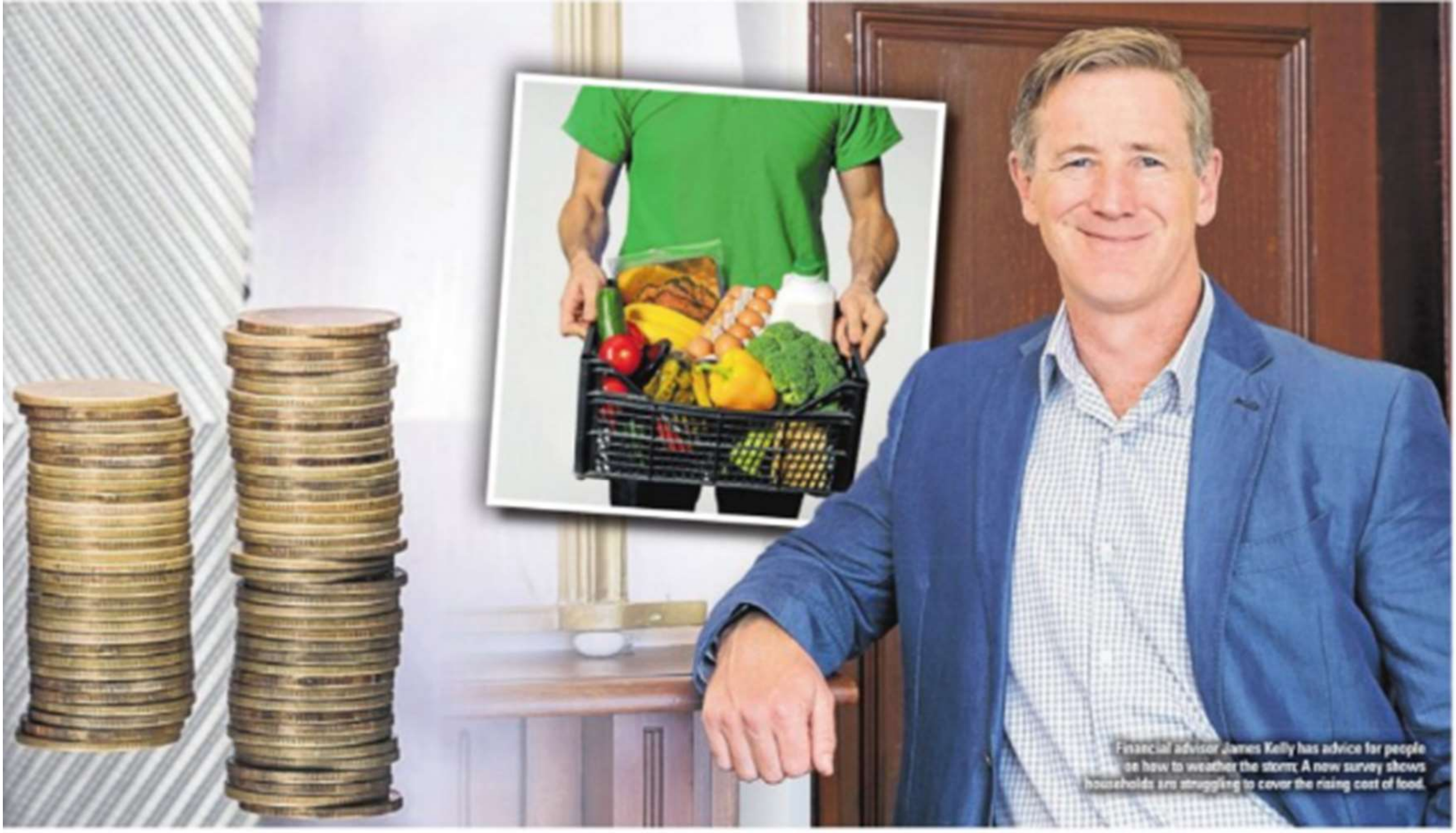
"The only way they can do that is to make mortgages so bloody high that people have no money to do anything else with."

It's a process that has put many households under additional pressure when all their other costs are already rising. Mr Kelly said most of his clients were in a good position to ride out the mortgage pain because they foresaw the hikes.

"In an ideal world people will have kept ahead on their mortgages knowing this was coming but I don't think that's happened for a lot of other households," he said.

"Now we're heading towards this cliff where 85 per cent of fixed rates will come off in the next 12 months. A lot of people will be going from 2 per cent interest to 5 per cent overnight."

Mr Kelly said the best thing any homeowner could have done was get ahead on their mortgage during the



Financial advisor James Kelly has advice for people on how to weather the storm; A new survey shows households are struggling to cover the rising cost of food.

pandemic but for the ones who didn't, or couldn't, some serious belt tightening was in store.

"People are really starting to sit up and pay attention and really scrutinise every dollar they spend," he said.

"Now that we're here, facing the cliff, it's about critically looking at what is a discretionary item. Do I really need that?"

In some ways homeowners have been paying under the odds for accommodation during the preceding period of low interest rates. But south-west renters have faced several years of climbing accommodation costs with persistently low vacancy rates keeping demand sky high.

The rising cost of essential items has added an extra burden with many renters struggling to find homes they can afford.

Brophy Family and Youth Services housing support and linkages programs manager Leah McDonald said more than 100 people had already sought help to find a home in 2023.

"We are seeing people on a low income completely priced out of the rental market," Ms McDonald said. "Those fortunate enough to obtain a rental are finding it difficult to cover the cost of bond and rent in advance by themselves.

"We are also seeing high incidences of couch surfing and severe overcrowding in homes as family and friends try their best to support those who are seeking shelter."

Ms McDonald said the number of people seeking help to cover the cost of groceries, rent arrears or motel accommodation had grown in 2023.

A Food Insecurity in Warrnambool 2022 report released by South West Healthcare this week showed residents on a median income were struggling to keep up with the rising cost of living.

Surveyed families of four in Warrnambool were being forced to pay between 13 and 20 per cent of their weekly income on a healthy food basket, a tool used across Australia to gauge whether people have access to affordable healthy food.

The survey found a family of four relying on Centrelink payments would be forced to shell out between 25 and 37 per cent of their weekly income for a healthy food basket.

Survey respondents said their grocery bill had risen in recent months, in line with *The Standard's* investigation into the cost of staple items, which revealed the prices had risen by 11 per cent in 12 months.

They said their previous budget for groceries no longer covered essential items.

"It was noted that the rising costs of food are impacting 'not just the people that are the poorest of the poor, (it) might just be people that can't afford to buy the food they want to eat'," the survey found.

A lack of affordable housing was also making it hard for Warrnambool residents to eat healthy food, the survey found.

"The biggest barrier at the moment is housing," the report found. "Because if people don't have cooking facilities, they can't meal prep. And so many people are in that boat".

The survey found the rising cost of living was making it difficult for individuals and families to prioritise food in the way they would like to.

"(It's) really hard because I feel like I should be doing a better job but financially I can't really because that means that I'm not going to be able to pay the bills," one survey respondent said.

This comes after it was recently revealed Warrnambool residents are paying a massive $875 more on their energy bills than they were 12 months ago.

Mr Kelly said most financial experts were tipping a couple more interest rate rises, peaking around the middle of the year.

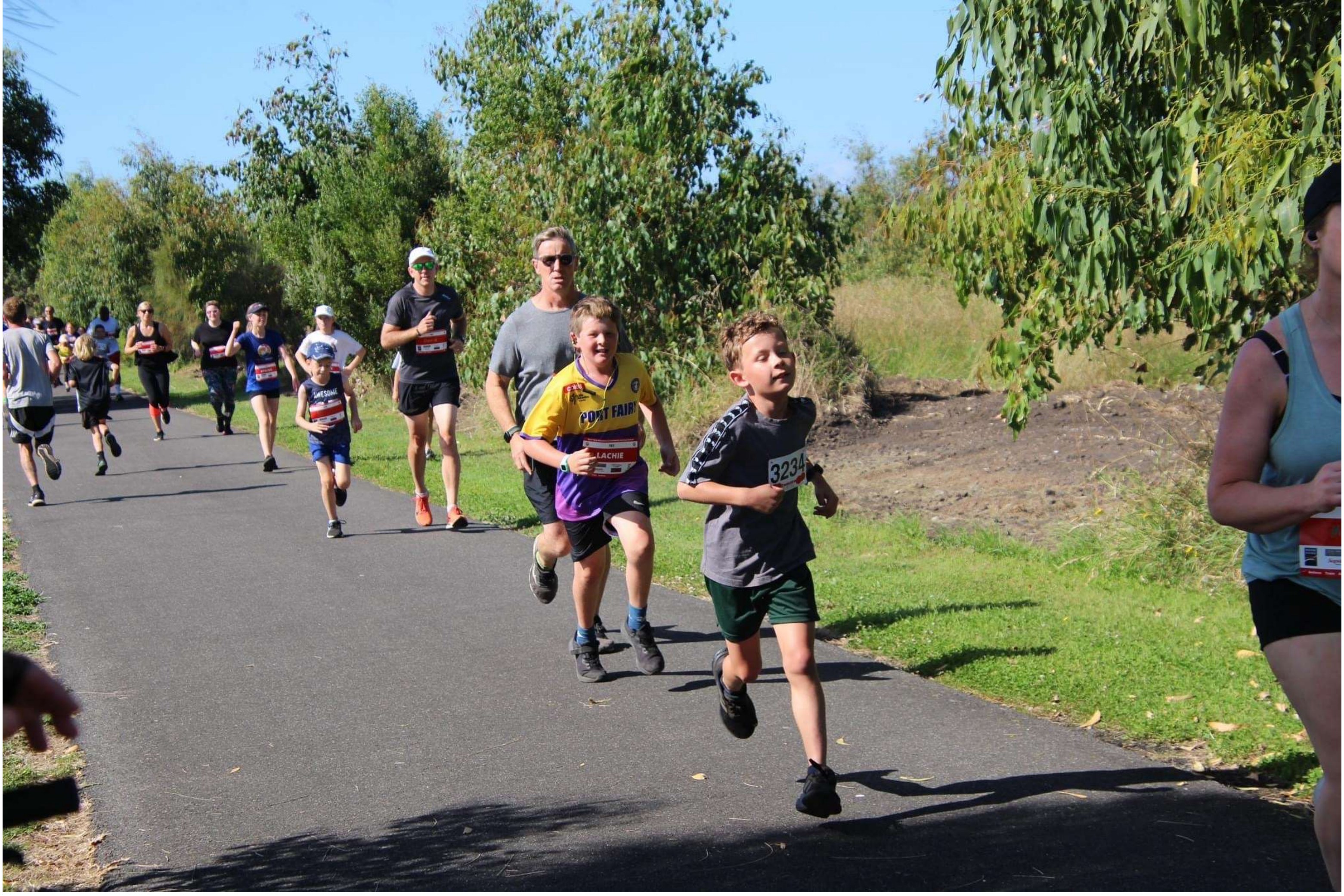
"There's a bit of a lag between the rates rising and then having an effect, so usually (the RBA) go a little too far and have to pull them back slightly," he said.

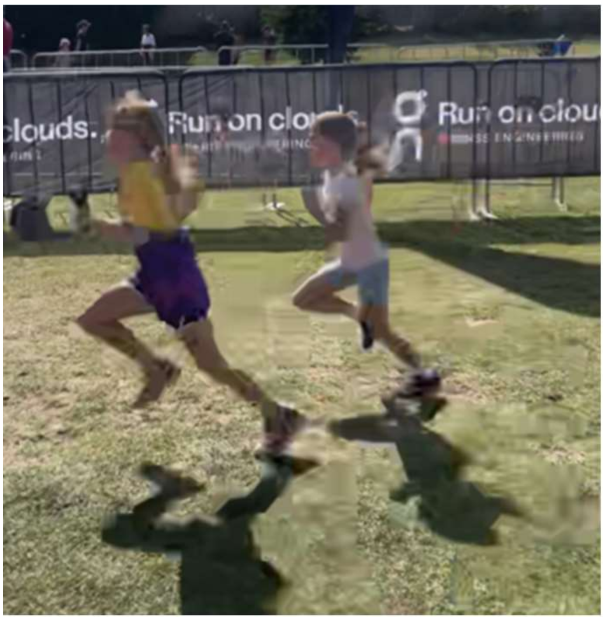
"If unemployment were to go up, coupled with high interest rates, that's where the wheels could fall off."

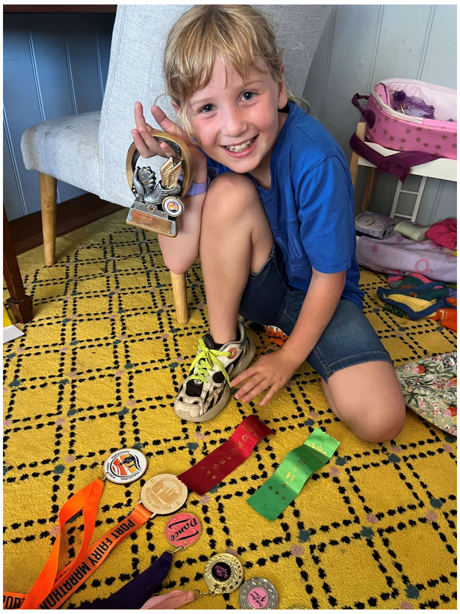
Mr Kelly said there were few answers in the short term and many people would have to grind out the coming year but things would look different by the end of 2023.

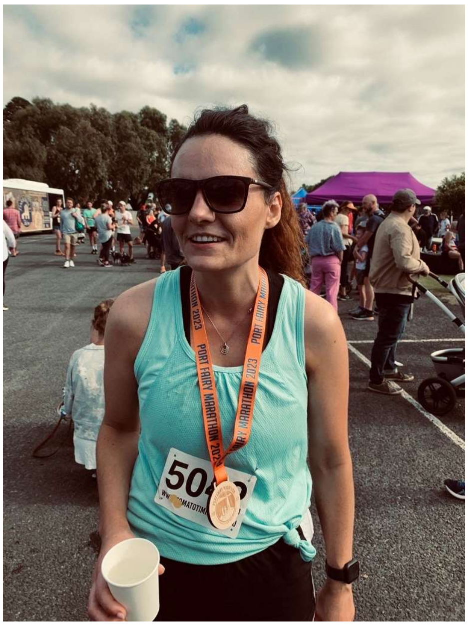
"I believe this is a hangover from COVID, so it will pass, but if your margins are thin it will be tough," he said.

"I'm not convinced prices will necessarily come down by the end of the year but hopefully they will be steady and there's a better balance between wage growth and inflation."









Port Fairy Marathon

Congratulations to the committee of the Port Fairy Marathon for hosting such an incredible event! The event comprises the marathon, a half marathon, 10km's and 3.5km.

Ambleside is proud to support the event as a sponsor. Many of us enjoyed the day and the sunshine in Port Fairy! James and his kids, Lachie and Charlotte, completed the 3.5km, Lauren's son, Leigh and our practice manager, Katherine, ran the half marathon and Nicole completed the 10km. Congratulations to Nicole who ran in a personal best, at 46.44 minutes.

Lauren’s Breakfast Granola

Ingredients

- 3 tablespoons coconut oil (or butter)
- 2 tablespoons chia seeds
- 2 cups of almonds, cashew nuts, pecans, walnuts, pumpkin seeds, chopped roughly
- 3 cups coconut flakes
- 1 cup of oats
- 3 tablespoons of rice malt syrup (optional)

Method

Mix all together and pop in the oven for 30 minutes until golden in colour.

Lauren serves her muesli with her favourite yoghurt and fruit. Also delicious with milk or an afternoon snacks.