Reid Wealth Management - June 2021 Newsletter

Here is the latest newsletter from Reid Wealth Management. Please do not hesitate to contact us if you have any questions in relation to these articles, or if we can help you with anything else.

Economic update - June 2021

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

Key points

- Inflation fears rise as US inflation data pops but interest rates unmoved and hold on to April levels
- Australian unemployment rate falls, JobKeeper withdrawal has not had the impact anticipated
- COVID infections not going away anytime soon, lockdowns in Australia still the first line of defence

The Big Picture

The US Federal Reserve (the "Fed") has maintained an accommodative monetary policy stance – to a greater or lesser extent – since the onset on the GFC in 2008. On a couple of occasions, the Fed caused a stir with consequent falls in share prices. The first resulted in the so-called 'taper tantrums'; the Fed was talking about reducing its bond purchases that were aimed at keeping longer term interest rates low. More recently, the second followed Fed chair, Jay Powell, talking about raising rates at the beginning of his term in office.

Since the onset of the pandemic, the Fed has maintained an all but zero Fed funds rate. We all know the party will end one day; nobody knows quite when.
The Fed recently changed its policy to wait for actual increases in inflation before it moves – rather than basing its policy decisions on expected inflation. It has also stated that it is prepared to live with inflation above its 2% target for 'some time' before it acts.

Because prices of some goods and services fell sharply at the onset of the COVID 19 pandemic (March – May, 2020) as a result of the original lockdowns early last year, the annual inflation rate was destined to jump up 12 months later. Fed Chair, Powell, warned us of this well in advance but the markets got the jitters at the start of May when the CPI came in at 4.2% for the year against an expected 3.6%. Matters were not helped when Powell's predecessor, Janet Yellen – now Secretary of the Treasury – made a public statement to the effect that rates would have to go up sooner than previously expected. She knows that the Fed is meant to be independent of government – as is our Reserve Bank (RBA) – and she even said as much. Yellen's expressed opinion was unhelpful.

The 4.2% inflation level was high because of two major factors. The first was due the price falls at the beginning of 2020. The second was, by chance, that the US economy was opening up 12 months later. Big discounts on hotels, air fares and second-hand cars were being removed. These categories jumped about 10%. The combination of these two factors creating a double whammy and inflation prints 4.2% which will almost certainly be transitory. However, the next month might also be a bit high for similar reasons – and then likely to fall back under 2% again is both our current view and the Fed's.

The 10-year bond yield jumped on the inflation fears so share prices fell as their yields were less competitive against a higher bond yield. However, this effect was short lived and it didn't take long for the markets to recover the losses. The S&P 500 got back to well within 1% of its all-time high and the ASX 200 actually made a new all-time high at the end of May.

The Fed's preferred inflation measure – the so-called core Personal Consumption Expenditure (PCE) inflation – strips out volatile energy and food price variations. The PCE measure, at the end of May, came in at a more modest 3.1% and the market barely reacted to that data point.

With U.S. President Biden handing down his first budget on the same day as core PCE was published, the 'punch bowl' is still overflowing and we currently have little fear of any substantive change in policy this year.

And it's much the same in Australia except for our latest inflation read of 1.1% being adversely impacted by lockdowns. The RBA has revised its forecast of GDP growth for 2021 to 4.75% from 3.5% with a fall in the unemployment rate at the end of the year to 5.0% from 6.0%. Given that the latest read on unemployment was only 5.5%, the RBA couldn't have waited much longer to play catch up!

At 5.5%, our unemployment rate is barely above the rate that existed just

Property update

Housing markets around Australia continued to surge in May with CoreLogic's national Home Value Index up 2.2% over the month.

The rise in May was a stronger result compared with April (1.8%), but weaker than the 32-year high recorded in March when values surged 2.8%.

CoreLogic's research director, Tim Lawless, observes that growth conditions remained broad based both geographically and across the housing types and valuation segments. "Values were up by more than 1% across every capital city over the month, with both house and unit values lifting across the board. Of the 334 SA3 subregions analysed by CoreLogic, 97% have recorded a lift in housing values over the past three months. Such a synchronised upswing is an absolute rarity across Australia's diverse array of housing markets."

For the second time in three months, growth conditions in capital city home values outpaced the regional markets. The combined capital city index rose 2.3% in May compared with a 2.0% rise across the combined regional areas.

Across the capital cities, the monthly change in dwelling values ranged from a 1.1% rise in Perth through to a 3.2% jump in Hobart.Across the non-capital city regions, conditions were more diverse. Regional NSW led monthly gains (2.5%), while values in regional WA had the weakest result (-0.1%).

Mr Lawless reaffirmed the fundamentals driving strength in the housing market remain in place. "The combination of improving economic conditions and low interest rates is continuing to support consumer confidence which, in turn has created persistently strong demand for housing. At the same time, advertised supply remains well below average. This imbalance between demand and supply is continuing to create urgency amongst buyers, contributing to the upwards pressure on housing prices.

"Despite the consistently strong headline results, the underlying trends have shifted over the past year," Mr Lawless said. "The most expensive end of the market is now driving the highest rate of price appreciation across most of the capital cities, whereas early in the growth cycle it was the most affordable end of the market that was the strongest.

"From a geographic perspective, it was the smaller capital cities that led the housing market out of the COVID slump, but now Sydney has risen through the ranks to record the largest capital gain over the past three months with values up 9.3%."

Although housing values are now rising the fastest once again in Sydney, at least in trend terms, the annual growth rate is generally higher across the smaller capitals, as well as Regional New South Wales and Regional Tasmania. Darwin cracked the 20% annual growth barrier in May, with values now 20.3% higher over the past 12 months. For Darwin dwellings, this is the strongest annual gain on record. Housing values across Regional New South Wales are up 18.6% while in Regional Tasmania values are 18.1% higher.

At the other end of the spectrum, the weakest housing markets over the past year have been in Regional Western Australia (0.0%), and also in Melbourne (5.0%) where the extended lockdown has created a more significant drag on the annual rate of growth.

Source: CoreLogic

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Keep your energy bills under control this Winter

Rugging up indoors is not the only way to avoid an over-the-top energy bill this Winter.

There are plenty of things you can do to stay both warm and happy. Sometimes they just require small changes in behaviour and awareness.

On average about 40 per cent of the energy Australians use at home is related to heating and cooling – not including heating hot water. Going solar or adding insulation might not be an option. But giving some of these tips a try can help keep winter bill shock at bay.

- Open curtains or blinds to let the sun warm rooms during the day and close them at night;
- Keep doors shut and only heat rooms you are using. Switch off the heater when the room is warm;
- Use a door snake to prevent drafts;
- Pile on winter woolies and add an extra blanket before turning on the heater;
- Swap the electric blanket for a hot water bottle;
- Set your thermostat between 18 and 20 degrees. Every degree above 20 can add 10 per cent to your heating bill;
- Check your hot water habits. It accounts for another quarter of our energy bills. So make sure your thermostat is set at 60 degrees Celsius for storage hot water systems and no more than 50 degrees Celsius for instantaneous systems. Plus, wash clothes in cold water; keep showers short; and install a low-flow shower-head.
- Cooking winter comfort food can impact our energy costs. Choosing to cook in an electric frypan, pressure cooker, or microwave is more efficient than an electric oven, for instance.
- Appliances are a significant energy drain. Television is the fourth highest user of electricity in our homes and home entertainment products often use more than a washing machine, clothes dryer, and dishwasher combined. Switch off at the wall appliances that are sitting idle on standby power and practise pulling the plug on phone chargers, microwaves, sound systems, and video games.
- Use the eco cycles on appliances such as washing machines, dryers, dishwashers and air conditioners.
- The energy efficiency of your appliances plays a part, too. An old fridge or second-hand appliances are likely to drive up your bill. If you're replacing appliances aim to buy the most energy-efficient products you can afford. Fridges and televisions include a star-rating (the more stars the more energy efficient the appliance) and an estimate of how much electricity it uses each year. A television with ½ a star uses more than five times the electricity used by a television with 6 stars.
- Lighting represents about 10 per cent of energy bills. To keep a lid on lighting costs opt for LED or CFL lighting rather than incandescent and halogen bulbs. And – even easier – flick the switch on lights in rooms not in use.
- If you've already made a lot of these changes try reviewing your energy supplier, particularly if you've been on the same contract for years or your typical energy use might have changed.
- Using a smart meter is a great way to get clarity on your energy usage. An in-home display unit will let you see how much electricity you are using at that time and how much it will cost per hour.

Make sure you take note of when you start trying any of these tips so you can compare the energy consumption between bills!

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9 ways to boost your immunity this Winter

Finding yourself craving comfort foods as the temperatures drop and the days get shorter? Who doesn't?

But scoffing down salt-encrusted hot chips or gooey melt-in-the-mouth chocolates as you huddle by the heater in winter doesn't do your immune system any favours.
Thanks to COVID 19 we've all become super-conscious of how washing our hands can help stave off unwanted illnesses. Our diet has an important part to play too.

As we head into the cold and flu season here are nine ways to give your immune system a boost.

Embrace the season

Strawberries and mangoes may be enticing at any time of year, but meals that make winter fruit and veg the heroes are better for your bod. It's been harvested at the peak time and is packed full of the vitamins needed to get you through the winter months.

Think citrus fruit – such as grapefruit, oranges, and mandarins - and broccoli, cauliflower, carrots, mushrooms, and spinach.

Reel life

Adding oily fish to your menu a couple of times a week is a great way to turbo-charge your immunity. The likes of salmon, tuna, and sardines contain the omega 3 fatty acids that are vital to a healthy immune system. Plus, they are a source of vitamin A, D, B6, and B12.

Tinned, fresh, frozen: it's all good.

Keep 'em lean and mean

Pub grub can make it seem normal to eat a slab of steak or a gargantuan meal of ribs. But for the sake of your health meat-lovers should stick with smaller portions about the size of their palm. And think lean.

You can get a good amount of immunity-boosting iron and zinc from lean poultry such as chicken and turkey breast with skin removed and lean red meat.

Go nuts

Snacking on raw or unsalted nuts – or adding them to meals - is a good support for your immune system. Almonds, cashews, and walnuts contain protein, healthy fats, and vitamin E. A small daily handful should do the trick.

Sow some oats

Rolled oats contain a type of soluble fibre that has immunity-boosting properties and can help your body fight infection. So go wild and sow some rolled oats into smoothies, porridge, or a warming oat crumble for dessert.

Culture vulture

Greek yoghurt contains more protein and less sugar than plain yoghurt and it's full of vitamin B, folate, calcium, and good bacteria. A dollop can easily be added to breakfasts, desserts, or used as a substitute for sour cream.

Garlic goodness

Whether you add it to sauces, dishes, or roast it whole, garlic packs a powerful punch. It contains an antioxidant which has antibacterial properties.

Green machine

Drinking green tea is another way to power up your immune system. The humble cuppa contains polyphenols – antioxidants – that can protect the body's cells against damage.

Soul food

Chicken soup is often a go-to when you feel a cold or flu coming on. Here's why: it has anti-inflammatory properties that can help keep upper respiratory tract infections at bay.

Put your health first this Winter to help keep you fighting fit until the warmer weather returns.

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