FM FINANCIAL

Helping you make the right financial decisions for both now & the future
fmfinancial.com.au

Summer 2017

It's December but before we tuck into our Christmas turkey (or prawns), switch on the cricket and head for the beach, there is always work to complete and loose ends to tie up.

The Australian economy sent mixed messages in November. The Reserve Bank's statement of monetary policy early in the month forecast economic growth will gradually pick up from the current annual rate of around 1.8 per cent to 3.5 per cent by the end of 2019. Inflation, currently 1.8 per cent, is expected to remain low and while the next movement in interest rates is likely to be up, the Reserve is in no hurry to act.

The improving economic outlook is reflected in business profits, with the NAB business conditions and profitability indices at record highs in October, at 21.1 points and 26.2 points respectively. The jobless rate also continues to fall, from 5.5 per cent to 5.4 per cent in October, the lowest since February 2013. Wage growth, however, still lags at 2.0 per cent in the year to September, only just ahead of inflation at 1.8 per cent. Consumer confidence hit a four-month high in November before easing back slightly; the ANZ/Roy Morgan consumer confidence index finished the month at 115.0 points, above its long-term average. This has yet to translate into retail sales which were up just 0.1 per cent in the September quarter while retail prices fell 0.4 per cent. The Australian dollar finished the month around US76c, up almost 6 per cent so far this year.

The team at FM Financial wish everyone a safe & happy Christmas & New Year. We look forward to being part of your financial success in 2018.

FM Financial
Burnie - Centrepoint Arcade, 59 Wilson St, TAS 7320
East Devonport - 29 Murray St, TAS 7310
Hobart - Level 4, 29 Elizabeth Street HOBART TAS 7000
Melbourne - Suite 2.14, Level 2, 202 Jells Rd, Wheelers Hill, VIC 3150
Launceston - L1/25 York St,TAS 7250 (In partnership with Parker Accounting & Financial Services)

P 1300 763 544
E info@fmfinancial.com.au
W www.fmfinancial.com.au
Facebook fmfinancial
Twitter fmfinancial1

Opportunities in the cooling property market

Things are looking up for first home buyers for the first time in years as house price growth begins to slow across the country. While prices have been on the slide for some areas in the West and the North since the end of the mining boom, the housing market in Sydney and Melbourne also appears to be losing steam.

At a national level, house prices were unchanged in October and up just 0.3 per cent over the quarter according to the latest figures from property research group CoreLogic. Significantly, the over-heated Sydney market fell 0.6 per cent over the three months to October, joining Perth and Darwin which have been falling since 2014.[i]

Hobart is the top performing market, fuelled by mainlanders searching for more affordable housing. Prices for Hobart dwellings rose 12.7 per cent over the past year, although price growth slowed to 0.09 per cent in October. It's easy to see why people are flocking to the Apple Isle; the median dwelling value of $396,393 in Hobart is less than half what you can expect to pay in Sydney ($905,917) where prices are up 74 per cent since the boom began in early 2012.

Melbourne is the second most expensive city, with an average dwelling price of $710,420. And while the Melbourne market isn't falling, it also shows signs of cooling with growth of 1.9 per cent in the three months to October and annual growth of 11 per cent. Other capital cities show little change with Brisbane up 0.6 per cent over the quarter while prices in Adelaide rose just 0.1 per cent.

Tighter lending begins to bite

The Australian housing market is a tale of many markets, each with their own supply and demand issues. But there are some common factors at play. At a national level, concerns about rapidly rising prices, risky lending practices and worsening housing affordability prompted regulators to act.

In late 2014, the Australian Prudential Regulatory Authority (APRA) announced that lenders were to limit housing finance to investors to 10 per cent of their total home lending. Then in March 2017 APRA announced a 30 per cent limit on new, interest-only home loans to dampen risks in the housing market.

In April the Australian Securities and Investments Commission (ASIC) signalled a crackdown on lenders and mortgage brokers recommending more expensive, interest-only loans to customers who were often unaware of the risks.

Investors paying more for credit

Lenders responded to the regulators' concerns by lifting interest rates on interest-only and investor loans. According to comparison site Canstar, the average standard variable rate for investors has grown to around 0.5 per cent higher than the equivalent rate for owner occupiers.

And it seems these measures are working. The number of investor home loan approvals dropped sharply in 2015 and again in 2017, while owner occupier loans have shown a significant uptick in 2017.[ii]

While tighter lending policies have undoubtedly taken some of the heat out of the housing market, other forces may also be playing a role.

Understanding supply and demand

So far there is little sign of a housing bust in Australia, with significant unmet demand from first home buyers, high levels of migration and land shortages in major urban areas. But when house prices rise as far and as fast as they have in markets like Sydney and Melbourne, it's natural to expect periodic corrections.

Commentators have been warning of an oversupply of apartments in Melbourne as well as in Brisbane. The Brisbane market has been cooling for some time, and now property values in Melbourne are rising at their slowest quarterly pace since 2016.

Despite the slowdown in price growth, Australian housing is still far from cheap. But with tighter controls on investor lending and continuing low interest rates for owner occupiers, the tables may be finally turning in favour of first home buyers.

If you would like to discuss your property strategy, give us a call.

i All price data from CoreLogic, 1 November 2017, https://www.corelogic.com.au/news/growth-conditions-remain-flat-national-basis-while-sydney-values-fall#.WgEZ3uQUnlU

ii ABS; RBA

Separating needs from wants

Even those of us who have been paragons of responsibility for 51 weeks of the year can be tempted to take a budgeting holiday when Christmas and the summer vacation roll around. Unlike overindulging at the Christmas lunch, this has more than short-term consequences.

Last December, Australians spent $25.6 billion in retail stores. A survey conducted at the time by peer-to-peer lender SocietyOne found shoppers planned to put over half the cost of the presents they bought on credit or store cards. SocietyOne's research also found that while shoppers believed they'd pay off their festive splurge by April, most actually wouldn't.

If you don't want to stagger into the New Year with a painful debt hangover, it's worth taking a moment to sort your needs from your wants. Separating wants from needs can be one of the toughest aspects of budgeting, particularly around the festive season.

Needs are not the same as wants

The line between needs and wants can be a little blurry but a good rule is to ask yourself 'Do I absolutely need to have this?' If the answer is no you've probably identified a want.

You may want to serve French Champagne at your Christmas lunch but you don't need to. Nobody's suggesting you shouldn't splash out at this special time of year. But your lunch guests are likely to be more than satisfied with a sparkling wine. You don't need to spend money you don't have on extravagant gifts and entertaining to express your love for, or try to impress, friends and family.

This is no time to take a budgeting holiday

Your wants are very much driven by emotion. We all want to shower the people we love with gifts, an abundance of festive food and other treats. However this can lead to impulse spending we did not originally plan for. Focus on the essentials and plan how much you're going to spend before you head to the shopping mall then stick to that budget once you get there.

Don't buy now, pay much more later

Just because you want something but don't need it doesn't mean you shouldn't buy it. Make sure you've got enough to cover your needs or basic day to day expenses, then with what's left over, prioritise your wants.

It's also important to consider how you are paying for the little luxuries. Watch out for the temptation to put them on credit. The average credit card balance is $3,130 with interest being paid on $1936 of that amount. The amount of interest varies, but at a time when interest rates are at unprecedented lows, Australian credit card users typically pay 10-15 per cent interest. The interest rate for most store cards hovers around 20 per cent.

Credit cards are not even necessarily the most expensive form of retail debt. If you enter into one of those 'pay nothing for 6, 12, 18 or 36 months' deals you'll be looking at an interest rate of almost 30 per cent once the interest-free period ends.

A more recent market entrant called Afterpay – a type of reverse layby where you get the product now and pay it off afterward – has rapidly gained traction in Australia. A big part of Afterpay's appeal is that no interest is charged on the amount owed. But fees are levied if repayments aren't made so it's possible to end up paying $68 in fees on a $100 purchase.

Avoiding debt

The simplest way to avoid pricey debt is to avoid spending money you don't have. Wherever possible, limit yourself to using lay-by, cash or a debit card to cover Christmas expenses.

With a bit of planning you can manage to take care of your day to day needs and still afford some luxuries of the festive season – without copping the credit card hangover in January.

Homing in on a retirement

Owning your own home has long been the Australian dream but after years of strong house price growth it's becoming less of a reality for many. This has major implications for retirement planning.

The major factor behind the shifting approach to home ownership is the prohibitive price of property, particularly in Sydney and Melbourne. As a result, today's younger generations may be close to 40 before they take their first step on the property ladder.

It's sometimes argued that renting can be just as wise as owning. Advocates say you can invest the money you save through not paying rates, meeting the costs of maintenance or interest on loans. But this strategy can prove a problem in retirement.

Owning your own home is often viewed as the fourth pillar of our retirement support system, with the other three being superannuation, savings and the aged pension.

Increase in mortgage debt

In the past, it was assumed that most people will own their own home outright and be mortgage free by the time they retire. Accordingly, the burden of paying rent or loan repayments is generally not taken into consideration in assessing the cost of living in retirement.

But in recent years there has been an increase in the numbers of retirees holding mortgage debt. In fact, 9.7 per cent of people aged over 65 had mortgage debt in 2013-14 compared with just 3.9 per cent in 1995-96.

More significantly, the number of people aged 55-64 with an outstanding mortgage debt had jumped 29 per cent from the level in 1995-96 to 44.5 per cent in 2013-14.[i] It's safe to assume that many people in this age group will still be in debt once they reach retirement.

Some of this increase in mortgage debt can be put down to the rising cost of housing. An additional factor is the increasing divorce rate which means people can find themselves in the uncomfortable position of starting anew in the housing market later in life.

Cost of housing

If you choose the rental path, you could struggle in retirement as rent can take up an increasing amount of your available income.

In the past, well over half of renting retirees were in public housing, but that figure has dropped to less than 40 per cent due to reduced availability of public housing.[i] This has implications for retirement incomes.

Today, tenants aged 65 or over renting from private landlords spend 35 per cent of their income on housing costs.[i] Anything more than 30 per cent is regarded as being in 'housing stress'.

Looking at housing figures overall, including those who rent as well as own, 22 per cent of all retirees spent more than 25 per cent of their income on housing in 2013-14, this number has been steadily rising over time.[i]

Advantages of home ownership

One of the advantages of owning your own home outright in retirement is that you can always draw on the capital if necessary either by way of a reverse mortgage or taking out a loan using your home as collateral.

Another plus is that you have an asset to pass on to the next generation. Although for many baby boomers, passing on wealth is no longer a key focus. In fact, many prefer to use some of their savings to help their children get a foothold in the housing market.

A COTA50+ survey found that around 40 per cent of self-funded retirees have helped their children or grandchildren fund a deposit for a home.[ii]

For those who have the funds, this can be a good strategy. However, you do need to be mindful of leaving yourself short in retirement by passing on too much of your money too early. And if you are already retired and receiving an aged pension, then you will be limited to gifting no more than $10,000 in one financial year and a total of $30,000 over a rolling five-year period so as not to affect your payments. Any excess to both gifting rules will be deemed a deprived asset.

Housing affordability is becoming an issue for Australians at both ends of the age spectrum. That's why it's a good idea to have a talk with us to discuss your retirement housing and income needs.

i 'No place like home', prepared by Saul Eslake for AIST, March 2017, http://www.aist.asn.au/media/20734/AIST_Housing%20affordability%20and%20retirement%20incomes_FINAL%2021032017.pdf

ii https://www.cotansw.com.au/MediaPDFs/COTA%20NSW%2050plus_Report_2016web.pdf