



Housing is a major issue for older people too



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The Australian welfare system, including the Age Pension, was designed on the assumption that older people own their home and can age there. But the latest National Seniors Australia research has shown this to be far from true for many of us.

This year, the 11th National Seniors Social Survey, or NSSS-11, asked more than 5,300 people aged 50 and over about their housing situation.

It revealed housing affordability concerns plague two-thirds of us, and more than half are living in homes unsuitable for later life because they need modifications, security of tenure, or assistance to manage their size.

BEFORE YOU GET STARTED

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Housing security remains a pressing problem for renters. Commenters mentioned having been forced to move multiple times in the past few years, with one writing, “Landlords too greedy, never know if we will be asked to move, in our seventies and frail. Need more security”.



The findings are consistent with concerns across the country about rental and mortgage crises, showing they affect older people as well as the young.

However, they also ring a new alarm bell by suggesting that the current trend towards home-based aged care will not be sustainable.

Housing is increasingly unaffordable

Survey respondents were asked if they were concerned about their ability to afford suitable housing during the 12 months following the survey, and during the rest of their lives.

One third (34%) were concerned for the short term, with the level of concern ranging from “only slightly” (20%) to “quite” (9%) to “acutely concerned” (5%).

The figure almost doubled to two-thirds (65%) when respondents were thinking about the remainder of their life.

Unsurprisingly, people who rented were nine times more likely than everyone else to be “quite concerned” or “acutely concerned”. Those with a mortgage were four times more likely to feel that way.

Having higher savings or being in an older age group provided some protection against concern.

In written comments, people elaborated on the sources of worry about affordability.

These included:

- The cost of buying housing, especially housing they wanted or that was accessible and age friendly.

- High rent levels and interest rates.
- Costs associated with retirement villages and aged care.
- Costs of buying, selling, and moving.
- Ongoing housing costs such as council rates, body corporate fees, and utilities.

As one person said, “House prices are going up and the cost of any renovations/adjustments are also going up quickly.”

Housing is not secure for all

Housing security remains a pressing problem for renters. Commenters mentioned having been forced to move multiple times in the past few years, with one writing, “Landlords too greedy, never know if we will be asked to move, in our seventies and frail. Need more security”.

Comments also revealed that long public housing waitlists and a scarcity of retirement living options for renters contribute to the problem.

Obstacles facing older renters who want to buy, such as an inability to secure a home loan because of their age, have left people stuck in precarious rental conditions in later life.

The high costs of housing and changing life circumstances such as later-life divorce, have also left some homeowners without housing security.

Ageing in place is impossible for many

Around half the survey respondents said their current home is unsuitable for ageing in place, with only 44% saying their home is suitable as is.

But options to move to age-friendly housing are stymied by multiple factors.

About a quarter (26%) said their home would be suitable with modifications. But some respondents discussed difficulties affording any renovations and problems finding tradespeople to do the work.

A tenth (10%) said they were unable to make modifications, in some cases because they were renting. A further tenth (11%) were unsure if their home was suitable.

When asked what they would like to change about their housing, the most common theme was a desire to move to a home that was smaller or more manageable in terms of housework, yard work, maintenance, and accessibility.

Alternatively, people desired paid home support to help them stay in their current home. One commenter spoke for many when they wrote, “More support with property/yard maintenance to allow us to stay in our own home”.

For 19% of homeowners, the scarcity of age-friendly housing stock and other retirement options was a major barrier to making a move.

In particular, many people identified problems finding appropriate housing in the area where they currently lived. They were concerned that they would have to move elsewhere, to areas they did not know and lacked the support and services they had come to rely upon. Having to leave their current area was a barrier to moving for 29% of people.

Some homeowners faced the related problem of owning

a low-value home. For 19% of respondents this meant that if they sold their home, they could not afford to buy one they would want.

Stamp duty adds to costs and was a barrier for a third of respondents (32%), while the hassle of buying, selling, and moving was a barrier for half (50%). Some commenters remarked on the physical, mental, and/or emotional difficulties presented by moving.

Yet staying in place may not be a viable option either, with commenters noting the scarcity of homecare workers, even for people who already had an aged-care package approved.

One respondent commented, “If only there were enough service providers available to provide the services I have codes for with MyAgedCare.”

This tricky situation is a crisis waiting to happen and requires urgent national action on housing in conjunction with aged care that recognises the realities of older people’s living circumstances today.

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Five reasons to expect the \$A to rise - providing recession is avoided

KEY POINTS

- Since its February 2021 high of nearly \$US0.80 the \$A has fallen on the back of worries about the global growth outlook, worries about China, the strong \$US and relatively less aggressive monetary tightening by the RBA.
- However, there is good reason to expect the \$A to rise into next year: it's undervalued; short term interest rate differentials look likely to shift in favour of Australia; sentiment towards the \$A is negative; commodities still look to have entered a new super cycle; and Australia has a solid current account surplus.
- There is a case for Australian-based investors to tilt a bit to hedged global investments but while maintaining a still decent exposure to foreign currency.
- The main downside risk for the \$A would be if there is a hard landing globally and/or in Australia next year.

BY SHANE OLIVER

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Introduction

Changes in the value of the Australian dollar are important for Australian investors as they directly impact the value of international investments and indirectly effect the performance of domestic assets like shares via the impact on Australia's global competitiveness. They also impact the cost of travelling overseas and import prices. But currency movements are also very hard to get right. Over the last few years, the \$A has been soft. This note takes a look at the outlook for the \$A.

Why has the \$A been so soft?

Since reaching \$US0.80 in February 2021 the \$A has fallen leaving it below its average levels of the last few decades.



Source: Bloomberg, AMP

The downtrend since February 2021 reflects a combination of:

- The initial slow reopening of the Australian economy

from the pandemic relative to the US and Europe.

- Worries about a hit to global growth from the inflation surge and higher interest as the \$A tends to be sensitive to global growth given Australia’s high proportion of commodity exports.
- This has been accentuated by worries about China with lockdowns last year, a patchy recovery this year and property sector worries.
- A downtrend in commodity prices after an initial boost mainly to energy prices from the Ukraine war.
- Less rate hikes from the RBA, compared to the US Federal Reserve which has reduced the incentive for investors to park their cash in Australia. As evident in the next chart the \$A tends to fall when the gap between the RBA’s cash rate and the Fed Funds rate narrows (highlighted with arrows) as over the last two years and vice versa.
- Relative strength in the \$US generally (see the first chart above) as it tends to benefit in times of global uncertainty.

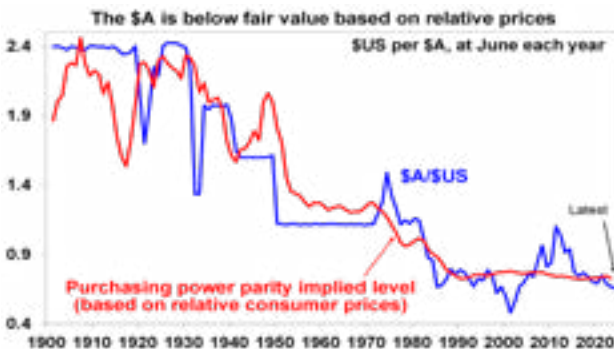


The dashed part of the rate gap line reflects money mkt expectations. Source: Bloomberg, AMP

But there are five reasons to expect the \$A to rise

After hitting a low of around \$US0.63 in October the \$A has risen to nearly \$US0.66 and there’s good reason to expect a further rise.

- Firstly, from a long-term perspective the \$A is somewhat cheap. The best guide to this is what is called purchasing power parity (PPP) according to which exchange rates should equilibrate the price of a basket of goods and services across countries - see the next chart.



Source: RBA, ABS, AMP

Global sentiment towards the \$A is somewhat negative and this is reflected in short or underweight positions. In other words, many of those who want to sell the \$A may have already done so and this leaves it vulnerable to a further rally if there is any good news.

If over time Australian prices and costs rise relative to the US, then the value of the \$A should fall to maintain its real purchasing power. And vice versa if Australian inflation falls relative to the US. Consistent with this the \$A tends to move in line with relative price differentials - or its purchasing power parity implied level - over the long-term. Over the last 25 years it has swung from being very cheap (with Australia being seen as an old economy in the tech boom) to being very expensive into the early 2010s with the commodity boom. Right now, it’s back to being modestly cheap again.

- Second, relative interest rates are starting to swing in Australia’s favour with increasing signs that the Fed is at the top whereas there is still a high risk that the RBA will hike rates further. Money market expectations show a narrowing gap between the RBA’s cash rate and the Fed Funds rate - see the relative interest rate chart above. More broadly the \$US is expected to fall further as US interest rates top out.
- Third, global sentiment towards the \$A is somewhat negative and this is reflected in short or underweight positions. In other words, many of those who want to sell the \$A may have already done so and this leaves it vulnerable to a further rally if there is any good news.



Source: Bloomberg, AMP

- Fourth, commodity prices look to be embarking on a new super cycle. The key drivers are the trend to onshoring reflecting a desire to avoid a rerun of pandemic supply disruptions and increased nationalism, the demand for clean energy and vehicles and increasing global defence spending all of which require new metal intensive investment compounded by global underinvestment in new commodity supply. This is positive for Australia's industrial commodity exports.



Source: Bloomberg, AMP

- Finally, reflecting continuing relatively high energy and iron ore prices Australia is continuing to run a current account surplus, albeit its down from recent highs (as gas & coal prices have fallen back and Australians have resumed travelling internationally). The swing into a current account surplus means Australia is a capital exporter and that there is more natural transactional demand for



Source: ABS, AMP

Where to from here and what is the main risk?

We expect the combination of a slightly more hawkish RBA, a falling \$US at a time when the \$A is undervalued and positioning towards it still short to push the \$A higher into next year, likely taking it back above \$US0.70.

The main risk is if the global and/or Australian economies slide into recession next year - this is not our base case but

it's a very high risk and if it occurs it could result in a new leg down in the \$A as it is a growth sensitive currency and a rebound in the relatively defensive \$US.

What would a further rise in the \$A mean for investors?

For Australian based investors, a rise in the \$A will reduce the value of an international asset (and hence its return), and vice versa for a fall in the \$A. The decline in the \$A over the last few years has enhanced the returns from global shares in Australian dollar terms. So, when investing in international assets, an Australian investor has the choice of being hedged (which removes this currency impact) or unhedged (which leaves the investor exposed to \$A changes). Given our expectation for the \$A to rise further into next year there is a case for investors to tilt towards a more hedged exposure of their international investments.

However, this should not be taken to an extreme for two key reasons. First, currency forecasting is hard to get right. And with recession risk remaining high the rebound in the \$A could turn out to be short lived. Second, having foreign currency in an investor's portfolio via unhedged foreign investments is a good diversifier if the economic and commodity outlook turns sour. As can be seen in the next chart there is a rough positive correlation between changes in global shares in their local currency terms and the \$A. Major falls in global shares which are circled in the next chart saw sharp falls in the \$A which offset the fall in global shares for Australian investors. So having an exposure to foreign exchange provides good protection against threats to the global outlook.



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Inflation eases in Australia. Is the end of the RBA's rate-hiking cycle near?

EXECUTIVE SUMMARY

- Price pressures eased in Australia and Europe
- China's manufacturing and non-manufacturing PMI surveys missed expectations in November
- OPEC+ announced production cuts for early 2024

BY ALEX COUSLEY

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On the latest edition of Market Week in Review, Investment Strategist Alex Cousley and ESG and Active Ownership Analyst Zoe Warganz discussed recent inflation numbers from Australia, the U.S. and Europe. They also reviewed the latest economic headlines from China and chatted about the recently announced oil production cuts by OPEC+ (Organisation of the Petroleum Exporting Countries Plus).

Is the Reserve Bank of Australia finished with rate increases?

Warganz and Cousley started the conversation by looking at the latest inflation data from the U.S., Europe and Australia, which Cousley said was generally positive throughout. In the U.S., he noted that the core personal consumption expenditures (PCE) price index—the Federal Reserve (Fed)'s preferred inflation gauge—increased by 0.2% in October, matching consensus expectations.

Meanwhile, both the eurozone and Australia experienced downward surprises in inflation, Cousley said. “In the eurozone, preliminary headline inflation cooled to 2.4% in November on a year-over-year basis—which was down from October’s 2.9% rate and below industry expectations,” he remarked, calling the news very encouraging for the European Central Bank. A similar story played out in Australia, with the nation’s consumer price index (CPI) easing to 4.9% in October, versus 5.6% in September, Cousley said.

“The decline in Australia’s inflation rate is very good news for the Reserve Bank of Australia (RBA), as the central bank has become an outlier among others in continuing to raise rates the last few months,” he observed. Looking ahead, Cousley said he believes rates at most major central banks are very close to peak levels. This includes the RBA, which has probably reached the end of its rate-hiking cycle, he stated.

So, what might this mean for government bonds? Cousley said that from his vantage point, they remain an attractive opportunity, with bond yields trading well above expected

inflation. As the calendar turns to 2024, he said markets might start pricing in more rate cuts than currently anticipated due to elevated recession risks.

More fiscal stimulus expected in China in the year ahead

Switching to China, Cousley said the latest PMI (purchasing managers' index) surveys from the world's second-largest economy fell short of expectations in November. The country's official manufacturing PMI registered a reading of 49.4, while its non-manufacturing PMI slipped to a level of 50.2. A reading above 50 indicates expansionary conditions, and a reading below 50 indicates contractionary conditions, he explained.

"These surveys are reflective of the start-stop pattern that's dominated the Chinese economy for much of 2023," Cousley said, explaining that over the course of the year, China has experienced periods of better-than-expected economic news, followed by periods of worse-than-expected news.

Importantly, in the past few months, the Chinese government has started reacting more to the weaker-than-anticipated numbers by increasingly announcing more incremental stimulus measures, Cousley said. "We've seen more support for property developers and a desire to push more credit to the real economy, among other measures," he stated.

With the government expected to continue stepping up fiscal stimulus measures, Cousley said he anticipates GDP

(gross domestic product) growth of around 4.5% to 5% in 2024. If that pans out, it would be a pretty healthy outcome for China, he said. "I still expect risks to remain, especially around the country's embattled property market, but 2024 should feature a more active fiscal policy backdrop, which is encouraging," Cousley stated.

Markets react to OPEC+ announcement on oil production cuts

He explained that oil demand has been falling for the last six months, and is expected to continue to decline due to the slowing global economic environment. "Even if the world can avoid a recession next year, 2024 will still likely feature below-trend growth, which will weigh on demand for oil," Cousley said. He noted that risks also remain on the supply side, whether it's additional cuts from OPEC+ or an unexpected geopolitical event. However, in Cousley's opinion, slightly lower oil prices are more likely next year, given that further declines in demand are likely.

"It's possible that oil markets could rally on the news of any future production cuts in the short-term, as they did earlier this year. However, I believe that with softening demand, any rally would likely be short-lived," he concluded.

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Q&A: Ask a Question

Question 1

My mum will need to move into age care soon. What are the main type of fees she will need to pay for when moving into age care?

There are a few fees that your mum will need to pay when moving into age care. The main ones are:

A basic fee: This is the fee that all residents will have to pay.

A means tested care fee: This is an additional fee that your mum may need to pay depending on her income and assets.

There are also accommodation fees that your mum will need to pay. She can choose to pay for all her accommodation at once through a lump sum known as a Refundable Accommodation Deposit (RAD), she can pay for her accommodation through regular payments in the form of a Daily Accommodation Payments (DAP), or she can use a combination of both. In addition to the fees above, your mum will also have to pay a Daily Accommodation Contribution (DAC).

Lastly, there are extra fees that your mum may pay if she wants additional services such as a TV in her room etc, or higher accommodation standards.

Question 2

I'm interested in investing a sum of money into the stock market via dollar cost averaging (DCA). What are the benefits of investing via DCA in comparison to investing all at once?

Dollar-cost averaging (DCA) can provide some advantages over lump-sum investing. DCA's approach involves

regularly investing fixed amounts over time, reducing the impact of market volatility. This strategy reduces the risk of investing a large sum just before a market downturn. In contrast, lump-sum investing requires a significant one-time commitment and exposes your entire investment to immediate market conditions. The decision between DCA and lump-sum investing depends on your individual circumstances, risk tolerance, and your long-term objectives. Please see your financial adviser to help you develop an investing strategy that is suitable for your needs and objectives.

Question 3

I'm considering reducing the benefit period of my Income Protection policy. What are the potential risks of doing that?

Reducing the benefit period of your income protection policy carries several risks that should be carefully considered. By shortening the benefit period, you limit the duration for which the policy provides financial support in case of disability or illness. This could leave you financially vulnerable if you experience a long-term disability that extends beyond the newly reduced benefit period. Additionally, there is a risk of a potential mismatch between the benefit period and the actual duration of a disability. While lowering the benefit period may lead to lower premiums initially, it's crucial to assess the long-term impact on your financial security. Please see your financial adviser to help you make an informed decision that aligns with your financial needs and objectives.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to centraladvice@wtfglimited.com.