



your **money** your **future**

## September 2020

Welcome to the latest edition of our newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss

- \* The economies of COVID19 lockdowns
- \* Taking control of your personal finances in a COVID19 world
- \* The twilight zone, Australian housing prices falling but worse to come

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us. In the meantime we hope you enjoy the read.

All the best,

The Team at Hanmoore



**Hanmoore Financial Solutions**

10-12 Chapel Street Blackburn VIC 3130  
P: 03 9878 4444

58-60 Napier Street Essendon Vic 3040  
P: 03 9370 4088

**E** [info@hanmoore.com.au](mailto:info@hanmoore.com.au)

**W** [www.hanmoore.com.au](http://www.hanmoore.com.au)

**Facebook** [hanmoorefinancialsolutions](https://www.facebook.com/hanmoorefinancialsolutions)



# The economics of COVID-19 lockdowns

**A further rise in COVID-19 cases around the world is leading to questions about the need for another round of government-mandated lockdowns. Given that there are arguments for and against government lockdowns, we look at what the actual economic outcomes have been in both cases.**

## The backdrop

After the majority of the world went into a strict “stay at home” lockdown over late March-April, a lot of these restrictions have now been lifted. Most economies are now operating with “intermediate” lockdown stringencies which generally means that there are social distancing restrictions in place across public venues and on transport along with restrictions on gatherings.

The first round of severe lockdown restrictions worked well to “flatten the curve” to reduce COVID-19 cases, to prepare the hospital system with protective equipment and testing tools and to get the contact tracing system in place. But as several countries started to open up their economies again over late May and June, COVID-19 cases started to spike again.

It always seemed highly improbable to completely eliminate the virus without a vaccine so it was always expected that there would be pockets of COVID-19 cases once the economy opened up again. However, the problem now is that some second waves of the virus in places like the US and Australia have higher case counts compared to the first round. While the US fatality rate is not as high this time round, hospitals in some states like Arizona, Florida and Texas are getting overwhelmed with COVID-19 cases, and deaths will get worse from here as they tend to lag behind new cases.

Should countries experiencing a second wave (or an extension of the first wave) re-impose lockdown restrictions again? Lockdown measures would reduce deaths and help the hospital system. On the other hand, lockdowns lead to closed businesses

and higher unemployment. Both points of view are valid. However, the experience of COVID-19 around the world has demonstrated that in both cases, there is a big fall in consumption as households self-regulate their behaviour.

## Sweden’s experience

Sweden did not impose any strict “stay at home” lockdowns (restrictions including things like social distancing at public venues and banning groups larger than 50 people) at the start of the pandemic, instead opting for a “herd” immunity approach (where you need the majority of the population or ~60% to become infected before the country has some long-term immunity to the virus) and expecting that some people would decide to self-regulate their behaviour.

In theory, less lockdowns of businesses means better economic outcomes. But, interestingly Sweden hasn’t made a strong case for this argument. June quarter GDP growth is still expected to have a steep decline but it does appear to have been better than the falls in the US and Eurozone, and around the same as Australia (but Australia had a strict lockdown for around 5 weeks).

A herd immunity approach also argues that the outlook for economy overall ends up stronger because lockdowns do not have to stop and restart cases rise and fall. But it is still unclear what achieving herd immunity actually looks like, with the main questions being what proportion of people actually need to get infected before herd immunity is achieved and how long does immunity last? Not enough is known about COVID-19 to answer these questions. And widespread accurate antibody testing to assess population immunity is still not widely available.

So far, the Swedish forward-looking economic indicators and high frequency data are still pointing to subdued near-term activity. High frequency indicators (like daily consumer spending transactions, hotel bookings, mobility and restaurant bookings) didn’t fall as much as the US and Australia but the bounce back has also been slow, just like in the US and Australia.

Finally, the most important factor to consider in the lockdown debate is the cost of human life, or the death toll. Sweden has had around 550 deaths per million in the population, one of the highest in the world (US is 428 deaths/million and Australia is 5 deaths/million). So, Sweden’s experience of similarly poor economic outcomes against a high death toll doesn’t leave much to be envied.

Some interesting research from Australian professors at the University of New South Wales have estimated the costs of lockdowns against the benefit of saving lives, which can actually be measured by statistical agencies – known as the cost of a “statistical life”. On these estimates, the costs of lockdowns tend to be greatly exaggerated in the media and by politicians. On their numbers, the cost of lockdown in Australia is around \$90bn, but this is heavily outweighed by a much larger (\$1.1tn) economic benefit in saving lives.

Household surveys have shown that on average, households do tend to support lockdown measures. In a survey of US households in June (from CivicScience), around 62% of households (on average) supported returning to lockdown as a strategy to reduce rising COVID-19 cases.

## Suppression or elimination of COVID-19?

Without a vaccine, there appears to be no way to completely eliminate COVID-19 while it is still circulating around in parts of the world. So suppression of the virus is the only strategy from here. But, lockdowns may still be required in localised areas if case growth becomes too unsustainable, which is what happened in Melbourne.

The economics of lockdowns show that they aren’t as disastrous for the economy as initially assumed. The pandemic will lead to a big hole in economic output with or without lockdowns. It means that more government support is required to fill this hole in economic output. While this means a build-up of government debt, the low inflation environment and record low borrowing costs mean that government debt repayments are sustainable for now.

© AWM Services Pty Ltd. First published July 2020



# Taking control of your personal finances in a COVID-19 world

## Australians are becoming more engaged with their personal finances.

It's fair to say 2020 hasn't quite panned out the way any of us thought it would. From local bushfires to a global pandemic it's been a rollercoaster of a ride. But there's growing evidence that Australians are tapping into their reserves of resilience to set their family finances up for a post-coronavirus landscape.

Regardless of whether it's forced by circumstances beyond our control or simply because we're spending more time at home, research by Nature & The Lab shows COVID-19 has prompted many of us to become more engaged with our personal finances and focus more on our financial wellness<sup>i</sup>.

The pandemic has impelled us into a state of heightened financial consciousness and put personal finances front of mind. With the bigger picture so uncertain, we're looking to control what we can.

## 5 ways COVID-19 has changed our financial behaviour

**1.** We're tracking our finances more closely than ever, with more than one in three

Australians surveyed either reviewing their budget or creating a budget for the first time.

***"This has been a breath of fresh air, I'm doing a financial spring clean and looking forward to getting back on track"***

**2.** We're saving more and borrowing less by tracking our spending, looking for better deals and choosing the right products.

***"It's the mindless swipe of the credit card. I'm realizing the consequences of small incremental spending adds up over time"***

**3.** We're more engaged with our super and while most of us have taken the long view and avoided over-reacting to market volatility, we're checking our account balance and investment options.

**4.** We're focusing more on our investments and seeking more frequent updates on financial performance.

***"I've always been careful with money but this has made me more determined than ever to get ahead"***

**5.** We're more conscious of needing an emergency fund and building a safety net so we're better prepared in the future.

## Tips to help maintain your financial wellness and realise your goals

- Implement small realistic steps to reach your long-term goals - if you feel your retirement plan isn't quite on course, we can help you get you back on track.
- Manage your debt more effectively - contact us if you'd like a hand getting on top of your debt.
- Become a better saver - it doesn't have to be a complex spreadsheet. There could be some simple day-to-day tricks to help you spend less and save more. Have you heard of the *Seven-day rule* or the *50/20/30 rule*? They could be the catalyst you need to change your relationship with money for good.
- Set a budget and review it regularly - there are online calculators to help make your life easier, like AMP's Budget planner calculator.
- Take advantage of your financial provider's online tools and apps.

Contact us if you'd like more help with your personal finances.

<sup>i</sup> Nature & The Lab research, Apr-May 2020.  
© AWM Services Pty Ltd. First published July 2020



# The twilight zone: Australian house prices falling but worse to come

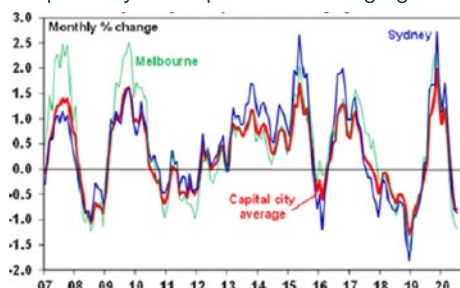
Average property prices across Australia's capital cities fell for the third month in a row in July. The monthly fall, of 0.8%, means capital city prices have fallen 2% on average since their peak in April 2020<sup>i</sup>.

AMP Capital chief economist and head of investment strategy Dr Shane Oliver says average property prices rose by 10.3% between June 2019 and April 2020, but that the property cycle has now "well and truly turned back down again."

"The rebound in property prices from around mid-last year ended in April and the hit to the economy from the COVID-19 (coronavirus) shutdown and associated uncertainty is now driving property prices down," Dr Oliver says.

"Were it not for the economic support measures protecting heavily indebted households and property investors, prices would be falling more rapidly in response to forced sales. As a result, we're in a bit of a twilight zone as support measures help to protect the property market and keep the price falls gradual at this stage."

Capital city home prices are falling again



Source: CoreLogic, AMP Capital

## How your city fared

The two Australian cities hit hardest by COVID-19 outbreaks experienced the biggest fall in prices in July. In Sydney, prices fell by 0.9%, and have now fallen by 2.1% since April, while in Melbourne prices fell 1.2% and are down 3.2% from April.

Prices also fell in Brisbane (-0.4%), Perth (-0.6%), Hobart (-0.2%) and Darwin (-0.3%), but rose in Adelaide (by 0.1%) and in Canberra (by 0.6%)<sup>i</sup>, thanks partly, Dr Oliver says, to the stability of public sector jobs in that city.

## Regional Australia

Across regional Australia, average house prices remained unchanged in July. The only regional areas where prices fell were in Victoria (down 0.5%) and Western Australia, where average prices fell 3.2% for the month<sup>i</sup>.

"Regional prices are likely to hold up better than in the cities, due to lower levels of household debt which makes regional residents less vulnerable to the financial stresses caused by the economic downturn," Dr Oliver says.

He adds that regional areas may experience a further boost as the shift to working from home makes it easier for people to relocate from the capital cities while still keeping their city jobs.

## What lies ahead for property prices?

"I expect further falls ahead as high unemployment, the depressed rental market and the collapse in immigration take their toll," Dr Oliver says.

He adds that while JobKeeper, the increased JobSeeker payments, bank payment holidays and other support measures have helped to prevent a sharp fall in prices, it's

likely that the price falls will increase in size from October as these economic support measures start to be reduced.

"Sydney and Melbourne will be most vulnerable to falling property prices given their higher dependence on immigration, higher debt to income ratios, higher house price to income ratios and greater investor penetration."

## Big falls predicted

Due to the resurgence of COVID-19 in parts of Australia, Dr Oliver is now forecasting average property prices will fall by 10-15% in total from April this year, an increase from his previous forecast of 5-10% fall. However, if Australia succumbs to a widespread second wave of COVID-19, bringing with it more economic shutdowns, he says the falls could exceed 20%.

"I'm also assuming more government stimulus will be announced in the months ahead – if it's not forthcoming that would also add to the risk of a sharper fall in property prices."

In Melbourne, where a second wave of COVID-19 has already led to a second economic shutdown, Dr Oliver forecasts the falls will be larger than the national average, at 15-20% in total.

"Sydney prices are likely to see a total decline of 10-15% whereas Adelaide, Brisbane and Hobart are only likely to see falls around 5%."

"Perth looks a bit more fragile, despite having seen a 22.3% decline from its 2014 high, and so prices there are likely to fall 5-10%, but I expect Canberra property prices are likely to be flat, or even rise."

<sup>i</sup> <https://www.corelogic.com.au/news/australian-housing-values-continue-drift-lower-falling-06-july-covid-driven-housing-downturn>