



PLANET WEALTH

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Newsletter - December 2024

Welcome to the latest edition of our client 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 "Australian's falling living Standards - how to fix it" and provide you with information on "Getting organised on Christmas" and "Stay Scam Smart".

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.

We wish you a Merry Christmas and a Happy New Year!

All the best,

Planet Wealth



Australia's falling living standards - what's driving it and how to fix it

Key points

- Falling real wages and a surge in tax and interest payments have led to a slump in Australian living standards.
- But a broader driver of the malaise in living standards has been a slump in productivity growth from over 2% pa in the 1990s to near zero since 2016.
- Key policies to boost productivity growth include: tax reform; a cap on public spending as a share of the economy, deregulation; greater incentives to invest; and competition reforms.

"Productivity isn't everything, but, in the long run, it is almost everything". Paul Krugman, Economist

Introduction

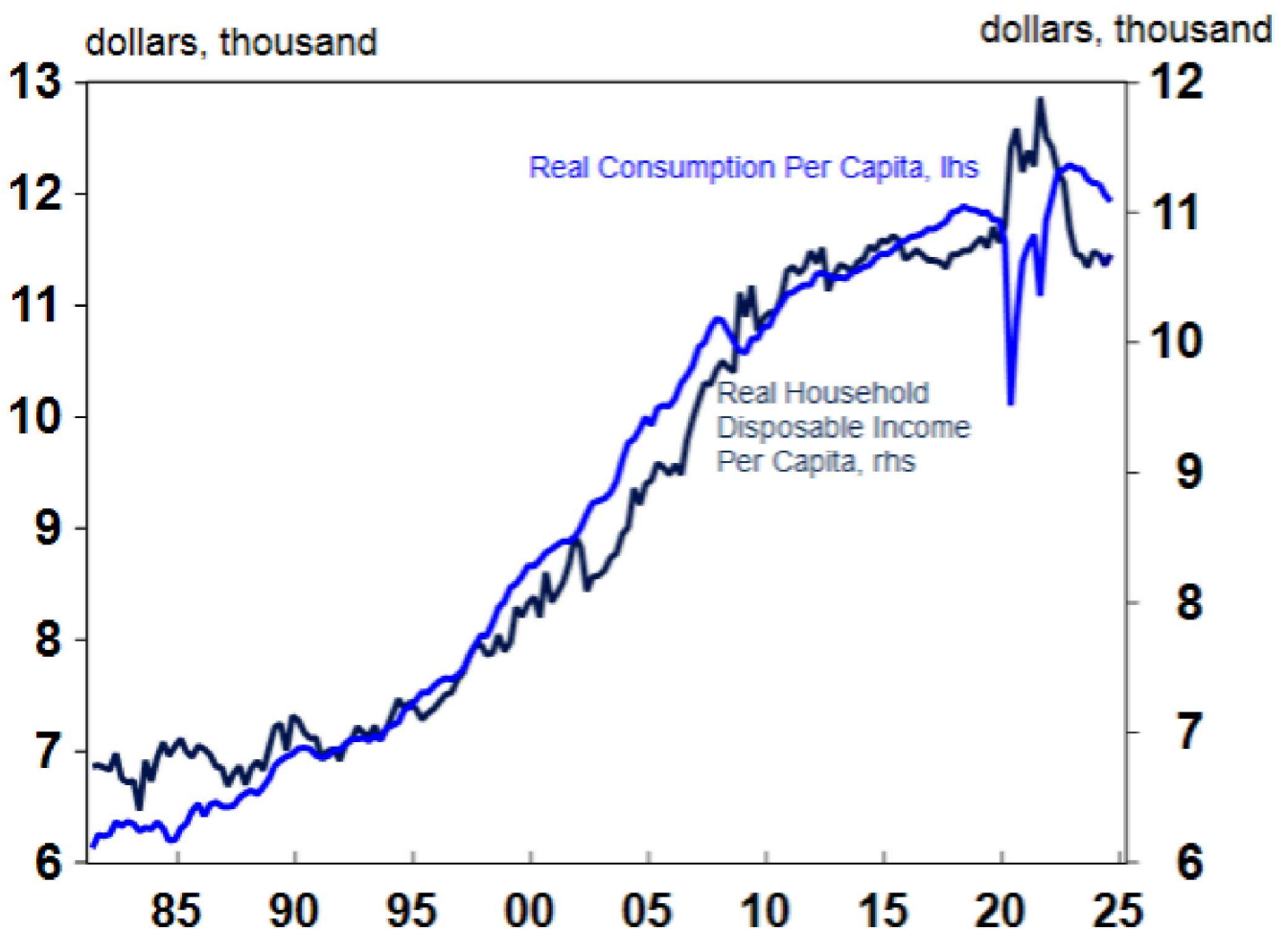
Decades ago, the Australian economist Dr Don Stammer observed that while Australia may manage a boom poorly it manages crises well. This was certainly evident in the 1980s when a terms of trade shock after years of stagflation galvanised the Hawke/Keating Labor Government to undertake more supply side productivity enhancing economic reforms to get the economy back on track. These were continued in the Howard/Costello years and Australians saw rapidly rising material living standards.

But since then, the wheels seem to have fallen off the reform agenda and productivity has suffered. Numerous economists have been pointing this out for years but with the problem masked by strong export earnings no one really worried. Maybe until now. The past few weeks have seen increasing coverage of Australia's falling living standards with headlines like "plunging living standards hit households harder than recessions" and "how Australia became world's cost-of-living loser". So, what's driving it? And is it the sort of crisis that sees Australia reinvent itself again?

Falling living standards

The deterioration in living standards can be seen in various indicators. Often referred to lately is the slump in real household disposable income per capita which shows the value of incomes per person after allowing for tax, mortgage debt payments and inflation.

Australia Living Standards

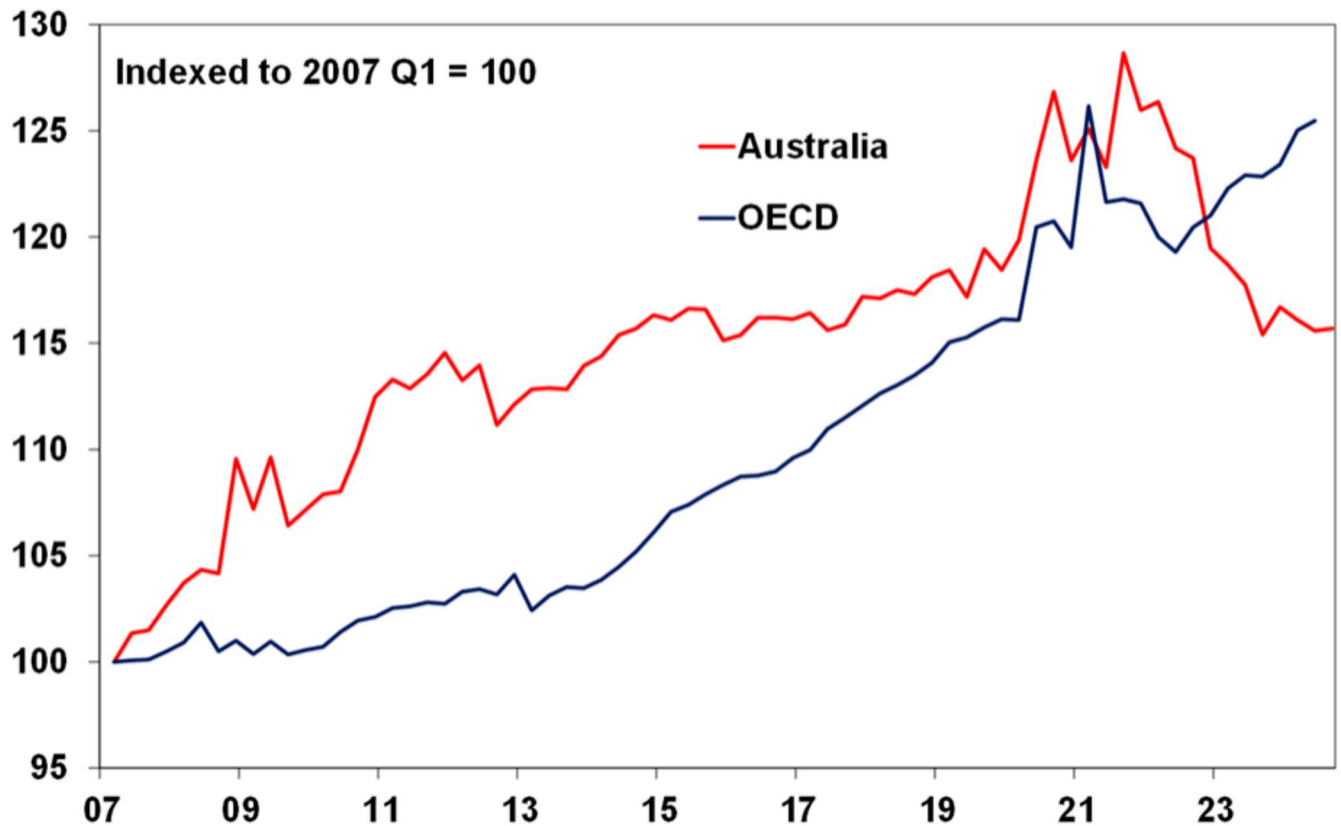


Source: Macrobond, AMP

Since its high point in 2021, it has fallen around 10%. Of course, as evident in the last chart this slump is exaggerated because it comes off the back of a surge through the pandemic due to payments like Job Keeper. But even allowing for that, real disposable income per person has been stagnant for a decade. The problem is also evident in falling per capita consumer spending which is down 2.8% from its 2022 high. It's also evident in the "per capita recession" with per person GDP down 2.1% from its 2022 high. Outside of the pandemic this is its biggest fall since the early

1990s. And the fall in real disposable income has been worse here than across OECD countries where the trend has remained up.

Real gross disposable income per capita

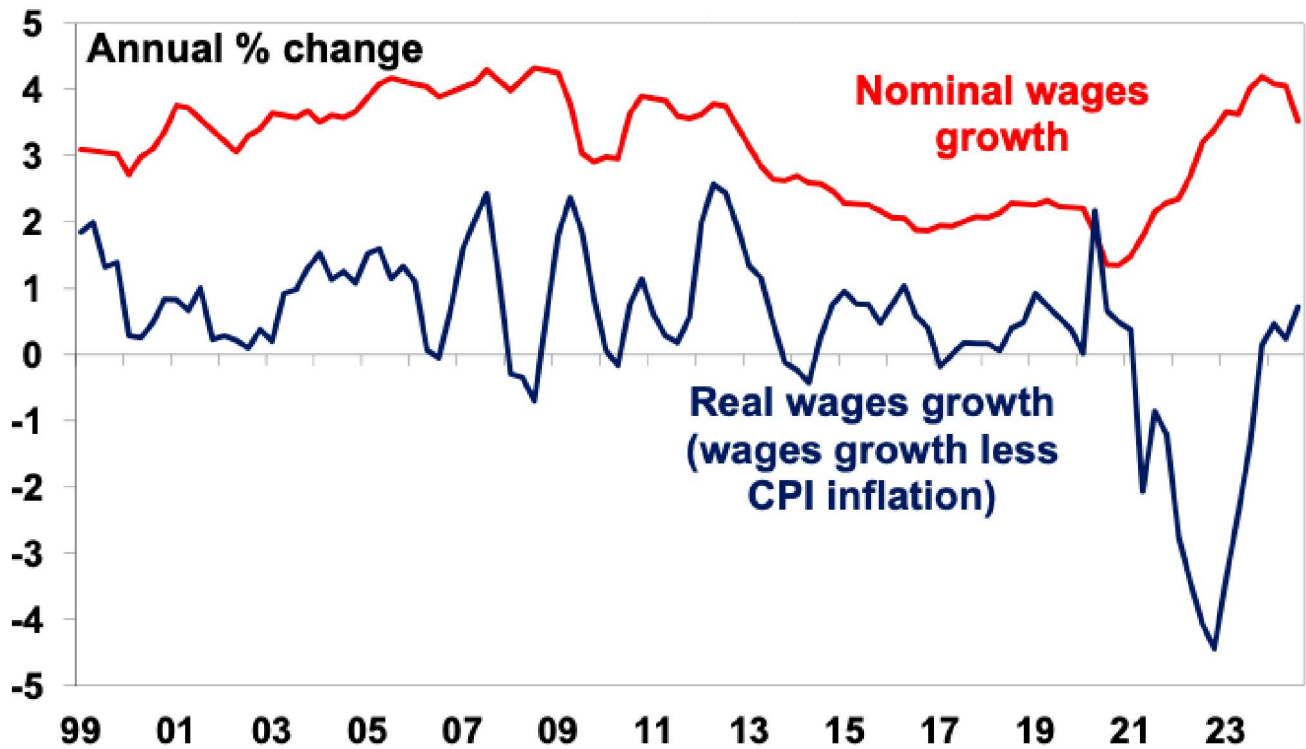


September quarter data for Australia is estimated from ABS data. Source: ABS, OECD, AMP

So, what's the problem?

The poor performance in real household disposable income reflects a combination of factors. First, wages growth has generally been weaker in Australia, such that wages have not kept up with inflation. For example, since the end of 2020 average consumer prices are up 18.7%, but average wages have only gone up 12.9%. This means real wages have fallen 4.8%. Recently real wages have started to rise but it hasn't made up for the gap.

Australia wages growth

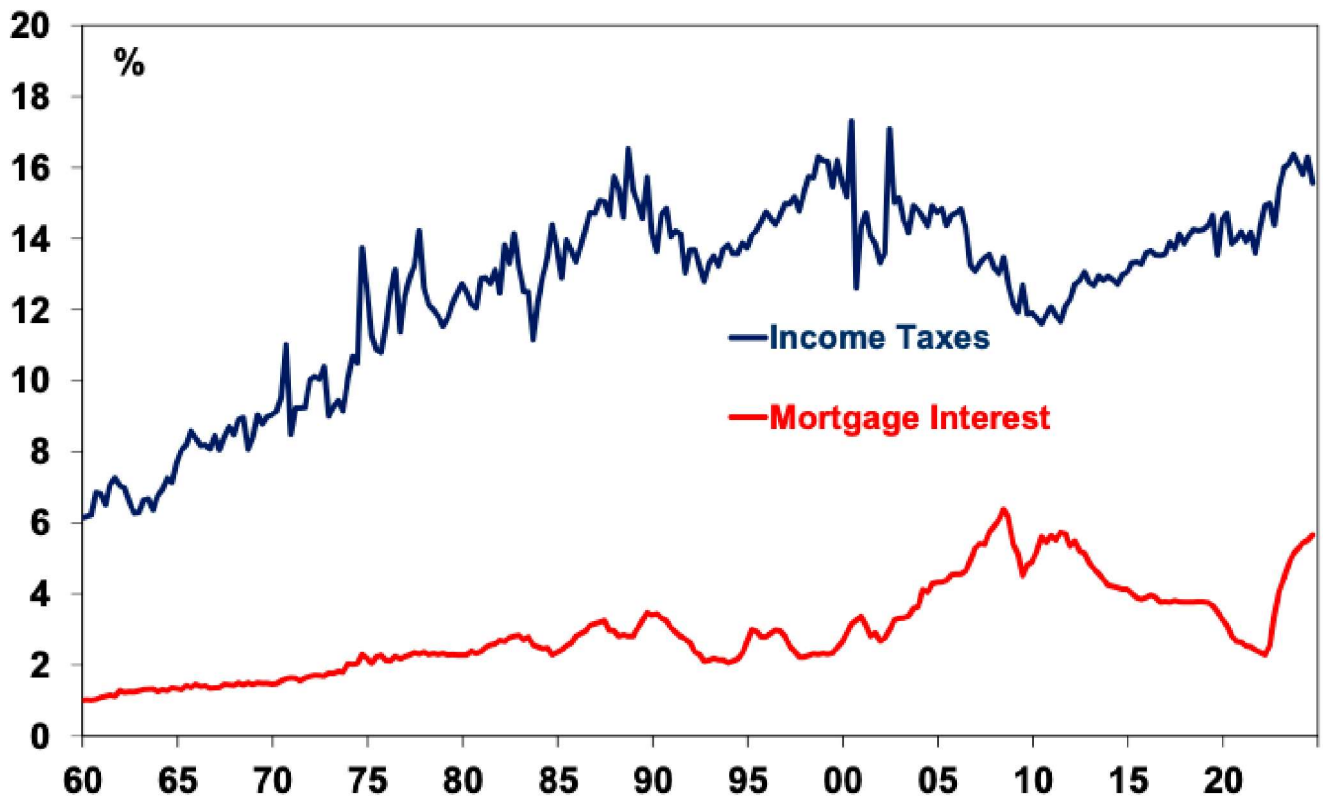


Source: ABS, AMP

Second, the rise in interest rates have seen a bigger rise in mortgage interest payments in Australia reflecting the high preponderance of variable rates and our relatively high household debt to income ratio.

Thirdly, bracket creep has driven income tax payments to a record high as a share of income further reducing disposable income. Tax and interest payments are taking up an extra 5% of income compared to 3 years ago.

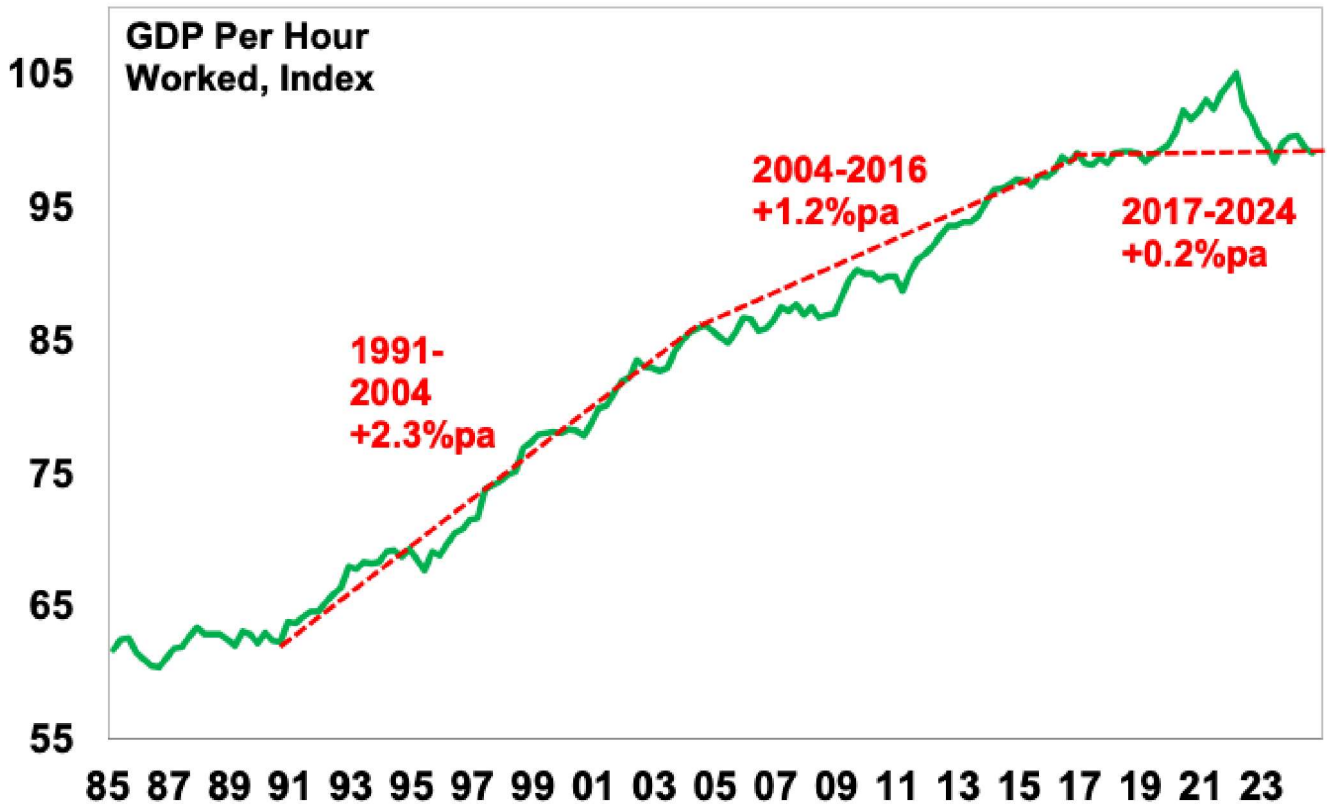
Household Payments, % of Gross Income



Source: ABS, AMP

Of course, as inflation and interest rates fall we will see some improvement in real disposable incomes. However, a more fundamental driver of the slump is poor productivity. Productivity is often thought of in terms of labour productivity, i.e. GDP per hour worked. See the next chart. While productivity growth was strong in the 1990s and into the 2000s it slowed from the mid-2000s and has stalled since 2016. Just like real incomes! And our productivity growth has dropped to the low end of OECD countries.

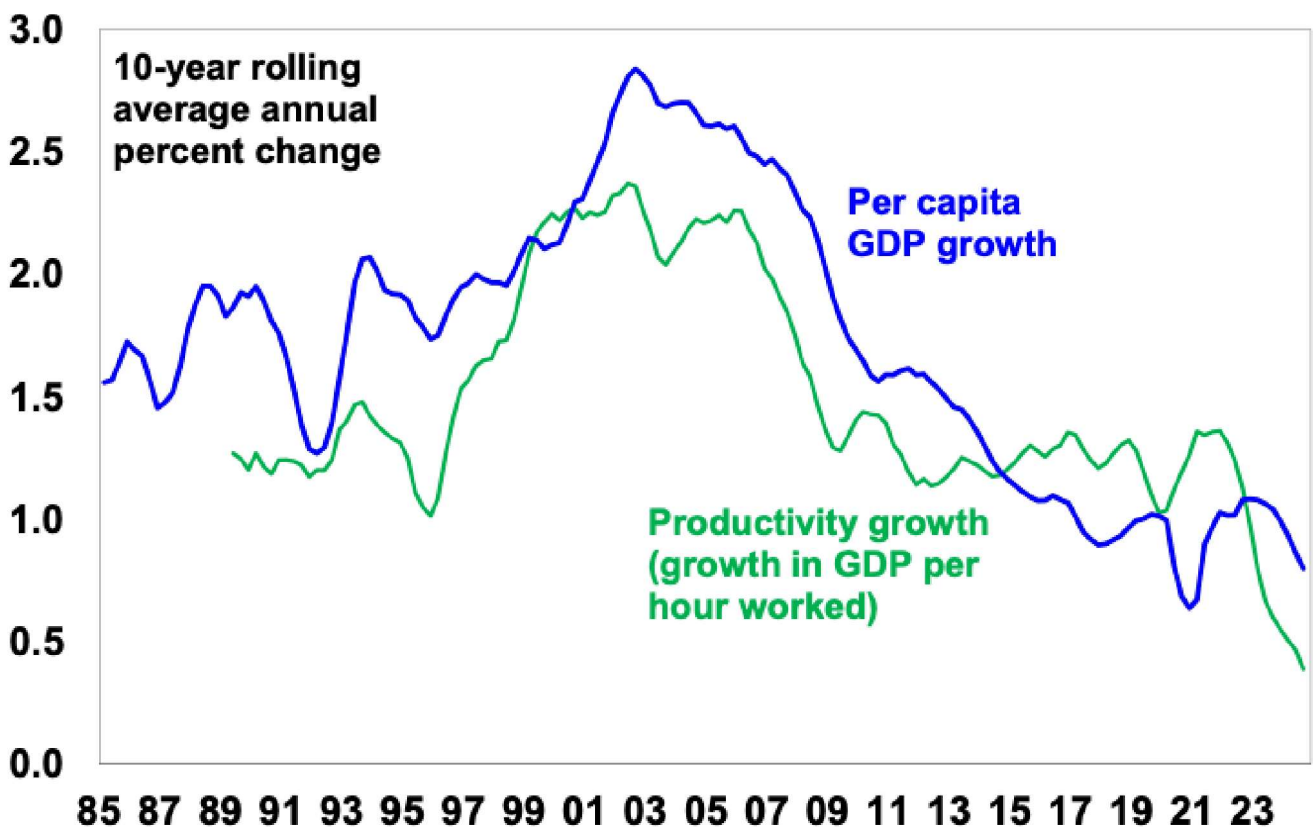
Australian Labour Productivity



Source: ABS, AMP

Productivity growth is the main driver of material living standards over long periods. As can be seen in the next chart, the slowdown in productivity points to ongoing softness in per capita GDP and hence consumer spending. If sustained it will start to impact Australian asset class returns.

Australian Labour Productivity Growth



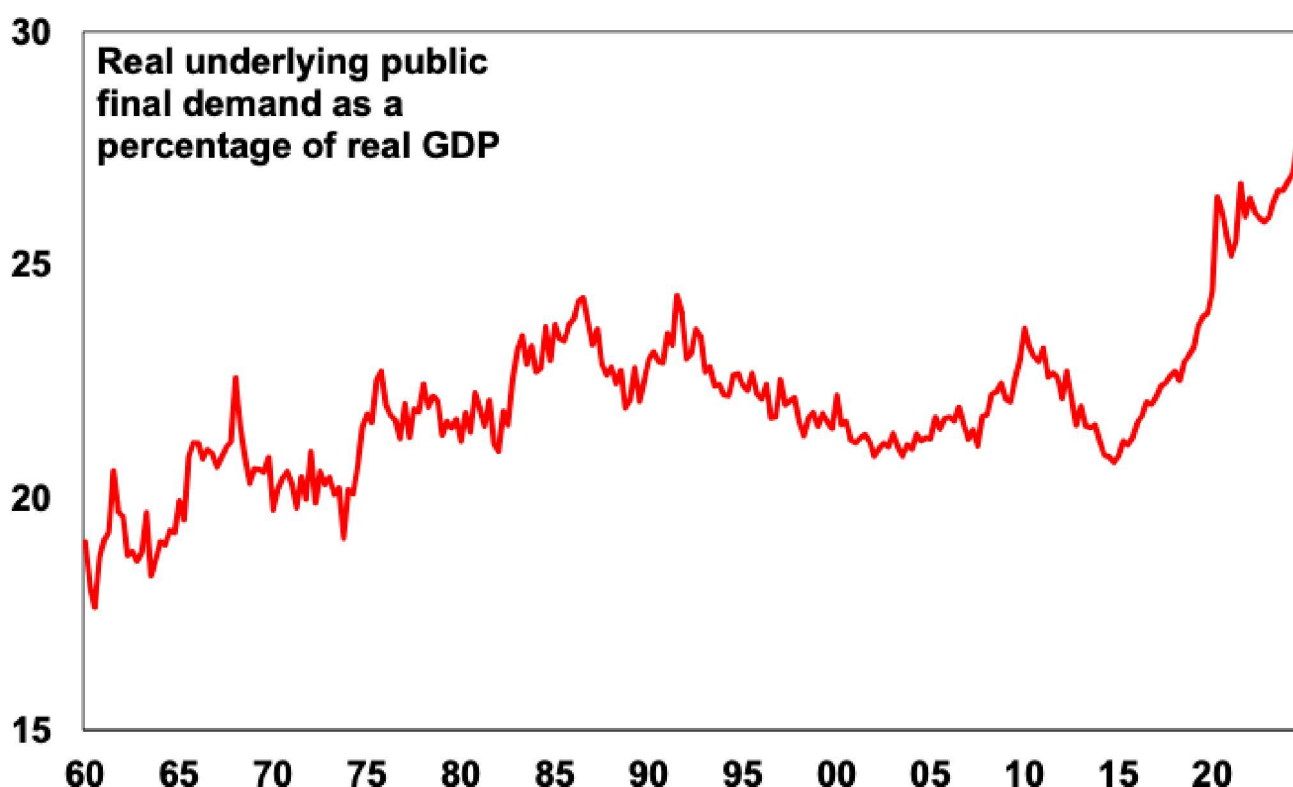
Source: ABS, AMP

We can make up for this by faster population growth but this doesn't help living standards per person. Likewise, it can be masked by strong commodity prices and hence national income but medium-term threats to Chinese growth mean we cannot rely on that. Lower productivity growth makes it harder to boost the supply side of the economy to keep inflation down and results in lower real wages growth, slower growth in profits and a reduced ability for the government to provide services.

So why the slump in productivity growth?

After the malaise of the 1970s, there was a focus in the 1980s on supply side economic reforms designed to improve productivity growth by making the economy more flexible and competitive, improving incentives and improving skills. This saw productivity growth surge through the 1990s into the 2000s. But since then, a range of factors have contributed to slower productivity growth, including: no big new reforms since the GST and some backsliding; very strong population growth has led to urban congestion and poor housing affordability; growth in business investment stalled in the 2010s; market concentration has increased, reducing competition; confusion regarding climate policies has contributed to underinvestment in power supply and energy costs; and a huge expansion in public spending.

Public spending as a share of Australian GDP



Source: ABS, AMP

The latter is particularly significant as the shift in resources from the private sector to the public sector has been bad news for productivity because public (or non-market) sector productivity is invariably lower than that in the private (or market) sector and because public spending has been squeezing out private business investment which has weakened private sector productivity. The

boom in public sector spending by depressing productivity and keeping demand higher than it otherwise would have been has in turn meant higher for longer RBA interest rates.

How to sustainably boost growth in living standards?

The key is to boost productivity but there are no quick fixes. Fortunately, there are plenty of good ideas, including these seven key measures:

1. Tax reform to rebalance from direct tax to a broader GST, compensate those adversely affected, and remove nuisance taxes like stamp duty to incentivise work effort and investment & better allocate resources.
2. Put a limit on the size of government spending below 25% of GDP. If we want more government services, we need to find others to cut.
3. Deregulate product and labour markets to remove red tape and boost labour market flexibility.
4. Provide more incentives to boost investment & adopt new technology.
5. Undertake competition reforms to reduce market concentration.
6. Match population growth to the ability to supply new homes and make it easier for people to live away from congested cities.
7. Reduce climate policy uncertainty and rely more on market signals as to how best to transition to net zero.

For a deeper look at the productivity malaise and solutions see [here](#).

So, what's stopping us?

While Australian governments appear to be keen to do reforms that boost the size and power of government, support for the hardnosed supply side reforms needed is low. Two things may change this. First, Trump proposing an even lower US corporate tax rate, and a DOGE focussed on reducing the size of government and regulation may put intense competitive pressure on Australia. Like Reagan's and Thatcher's reforms did in the 1980s. And the living standards malaise may start to drive support for more serious reform. We may have a way to go yet though!

Dr Shane Oliver - *Head of Investment Strategy and Chief Economist, AMP*

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Getting organised for Christmas

Ah, the holiday season! A time for joy, cheer, and, let's be honest, a whole lot of stress if you leave your shopping until the last minute. If you've ever found yourself racing through crowded stores in the week before Christmas, frantically searching for the "perfect" gift, you know exactly what I mean. But what if I told you there's a much easier way to navigate the holiday madness?

You don't have to start super early or even be ruthlessly organised, but a little bit of pre-planning and a head start on the Christmas chaos can make for a much saner, happier experience. You can make choices that are kinder on your wallet, more appropriate for the gift recipients and maybe even a little more sustainable and ethical than a snatch and grab from the nearest department store.

Let's dive into why getting ahead of the holiday curve is a win-win for everyone!

Stress levels: breathe easy!

Let's face it, much of the anxiety at Christmas comes from the pressure to buy gifts. The closer you get to the big day, the more chaotic it becomes. Long lines, over-crowded stores, constantly checking for delivery updates, and a ticking clock can turn even the most festive spirit into a grumpy Grinch.

Shopping early gives you the luxury of time. You can browse online without the pressure of deadlines looming over you, knowing you have adequate time for shipping. You can support local businesses and might even discover unique gifts you wouldn't have spotted in the chaotic rush of late December.

Budget-friendly giving

Now, let's get down to the nitty-gritty: your budget. We all know that holiday spending can spiral out of control. And while the allure of "Buy Now, Pay Later" schemes might seem tempting, they can quickly turn into a financial trap. Sure, it sounds great to spread payments over several months, but that can lead to overspending and ultimately add stress when those bills start rolling in.

By shopping early, you can take control of your spending. You have the chance to set a budget, compare prices, and avoid those impulse buys that happen when you're in a rush. This way, you can stick to your budget and still find thoughtful gifts without breaking the bank.

Sustainable choices

Let's not forget about our dear planet. The holiday season is notorious for generating a mountain of waste, from excess packaging to the carbon footprint of rushed shipping. By planning your shopping in advance, you can make eco-friendly choices that benefit both your wallet and the world we live in.

When you plan ahead, you can seek out local artisans, make homemade treats for friends and family, choose gifts that are sustainably made, or even go for experiences instead of material items. Think cooking classes, concert tickets, or a membership to a local zoo—gifts that create memories instead of clutter. Plus, with a little forethought, you can minimise waste by opting for eco-friendly wrapping or repurposing materials you already have at home.

Enjoying the Season

Let's not overlook the fact that shopping early allows you to really soak in the holiday season. Instead of being stressed out and overwhelmed, you can take your time to enjoy the festive spirit—all while knowing you've got your shopping sorted.

Pro tips for early shopping success

1. **Make a list and check it twice:** Start with a list of everyone you want to buy for, along with ideas for gifts. This keeps you organised and focused.
2. **Set a budget:** Determine how much you want to spend in total and allocate specific amounts for each person to avoid overspending.
3. **Shop sales:** Keep an eye out for a bargain. Shopping around and comparing prices can save you a packet!
4. **Get creative:** Consider gifts that are experiences rather than items. These often create lasting memories and can be more meaningful than something you've snatched up in a store.

So, there you have it! Get organised and set yourself up for a holiday season that's less stressful, more budget-friendly, and kinder to our planet. So why not turn on your favourite holiday tunes, and start making that list now? Your future self (and your wallet) will thank you for it. Happy early shopping!



Stay scam-smart this silly season

How to beat the scammers and enjoy stress-free shopping.

It's that time of the year again...

From Black Friday all the way through to Australia Day, the silly season is almost upon us.

Back in the day, shopping for bargains was all about fighting your way to the front of the queue to grab that coveted pair of pants or shiny new sneaker drop.

Nowadays, we're more likely to be poised over our smartphones, thumbs ready to pounce on online deals.

We all know online shopping is convenient and quick, as well as giving that instant rush. But it also has its pitfalls. It's a rich playground for scammers to target unsuspecting customers.

Did you know almost half of all messages sent on Black Friday in 2023 were scams¹? That's way up on the usual level of around 1%.

Here are some easy tips to stay scam-smart during this silly season and enjoy stress-free shopping.

12 tips to shop safely online

1. **Avoid clicking suspicious links.** Watch out for messages that urge you to click on suspicious links, especially if there's a sense of urgency involved – urgency is a common trick used by scammers.
2. **Be wary of calls.** Exercise particular caution if the caller says they're from the Fraud team, especially if they go on to ask for personal details. If in doubt, call your bank back through their website and ask for the Fraud Team that way.
3. **Be sceptical of deals.** Be cautious of websites that offer massive discounts on popular brands. If a deal seems too good to be true, it probably is.
4. **Shop on reputable websites.** Stick to well-known retailers with a strong online presence.
5. **Keep your software up to date.** Regularly update your antivirus software, device operating system, apps, and web browsers to protect against cyber threats.
6. **Use strong, unique passwords.** Use a password manager to generate and store strong passwords and change them regularly.
7. **Don't connect to suspicious wireless networks.** Avoid using untrusted Wi-Fi networks, especially in public places.
8. **Educate yourself.** Stay informed about common scams and check out [ScamWatch](#) for updates on current fraud tactics.
9. **Verify the website.** Double-check the URL and look for any typos or inconsistencies.
10. **Watch out for social media.** Be wary of deals promoted on social media, especially from unfamiliar or new accounts.
11. **Use secure payment methods.** There are dispute resolution processes available for PayPal or your credit card if things go wrong. Here's a [quick guide](#) to shopping securely online.
12. **Check your bank statements.** Stay on the lookout for unusual transactions and report them to your bank.

What to do if you've been scammed

If the worst happens, don't panic. If no goods show up or you suspect you've been a victim of a scam, act quickly. Get in touch with your bank and report the incident to [ScamWatch](#).

Current as at December 2024

Source: AMP

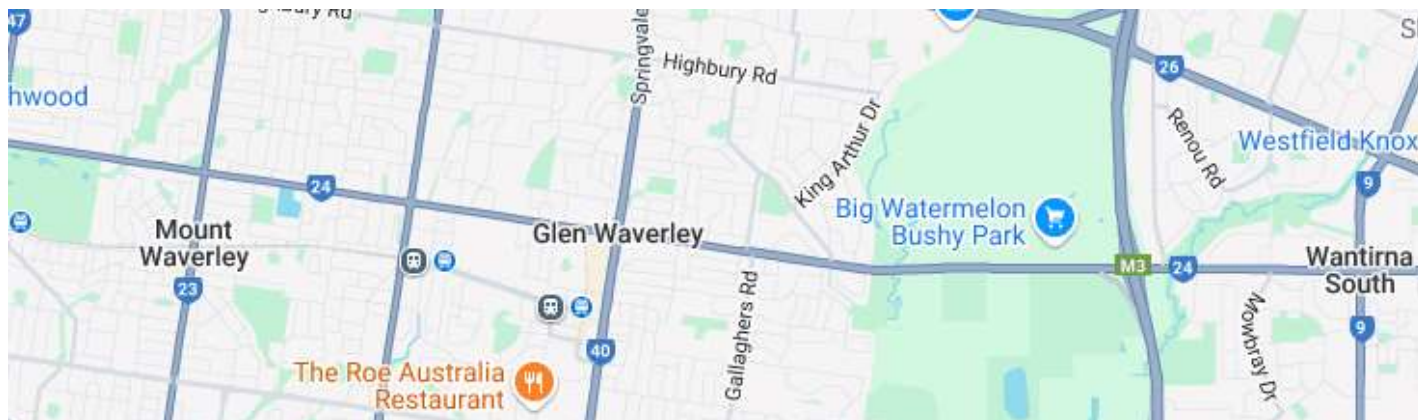
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