NEWSLETTER

March 2022

SHANLEY
FINANCIAL PLANNING

Introduction

This month, we spend some time talking and thinking about one of our major macroeconomic indicators – unemployment. We also look at the recent performance of the share market and ask whether the Russia-Ukraine conflict is likely to impact that market. If you or someone you love is affected by recent events in Ukraine, please know you are in our thoughts.

Nick Shanley

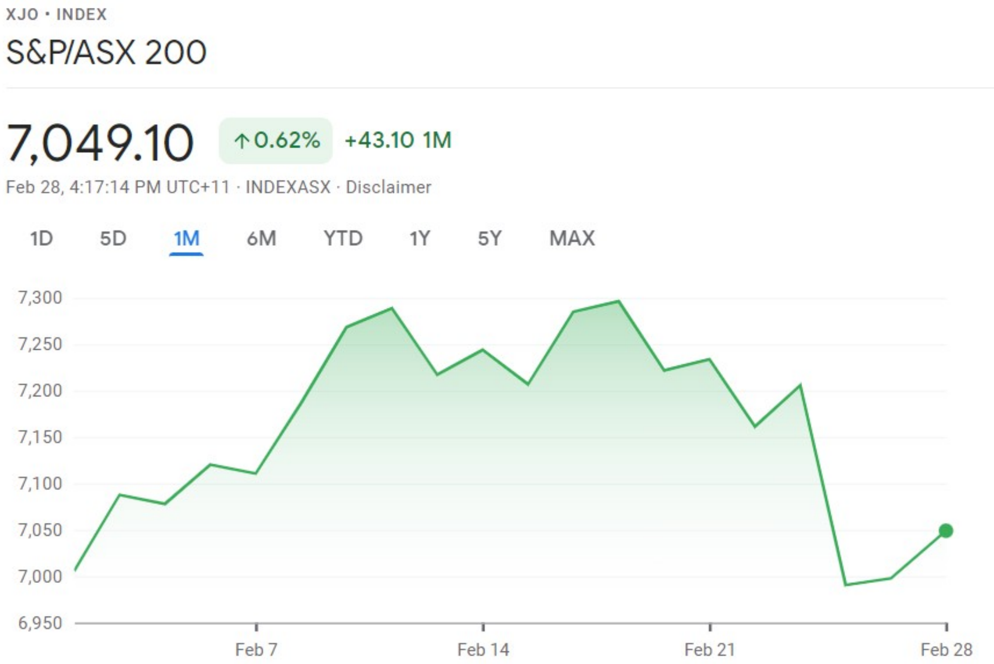
1800 317 027

nick@shanleyfinancial.com.au

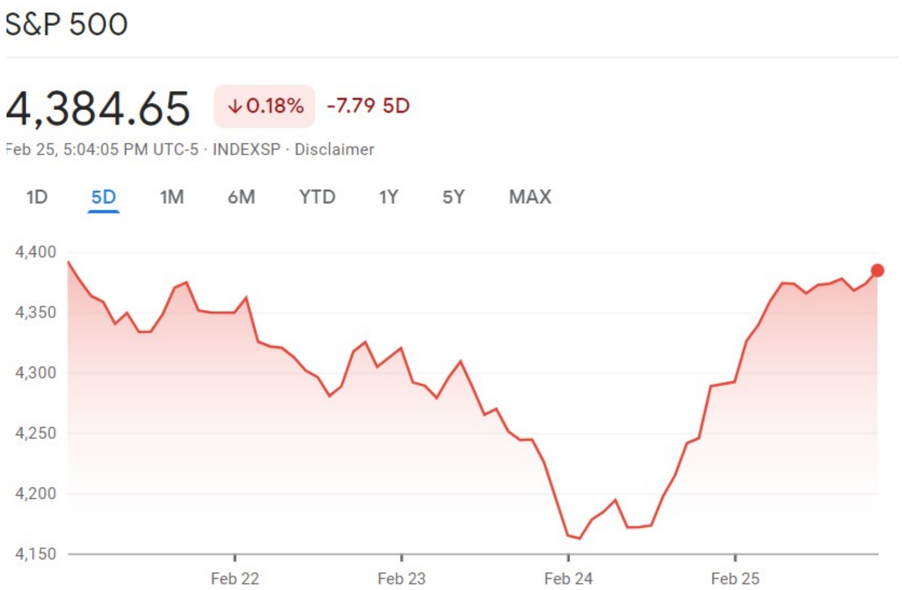
www.shanleyfinancial.com.au

The Share Market

The Australian share market ended February basically at the same level that it started it. As measured by the ASX 200, prices rose on average by 0.32% across February. Here is how it looks, thanks to Google and the ASX:



As you can see from the graph, however, the ride was a little more bumpy than that. The market actually rose by up to 4.2% at times during the month, before falling back in the second half of the month. The really big drop occurred on February 24, which is the date that Russia invaded Ukraine. That sent a big shudder through world markets, as this graph of the last five days of February for the US S&P 500 shows:

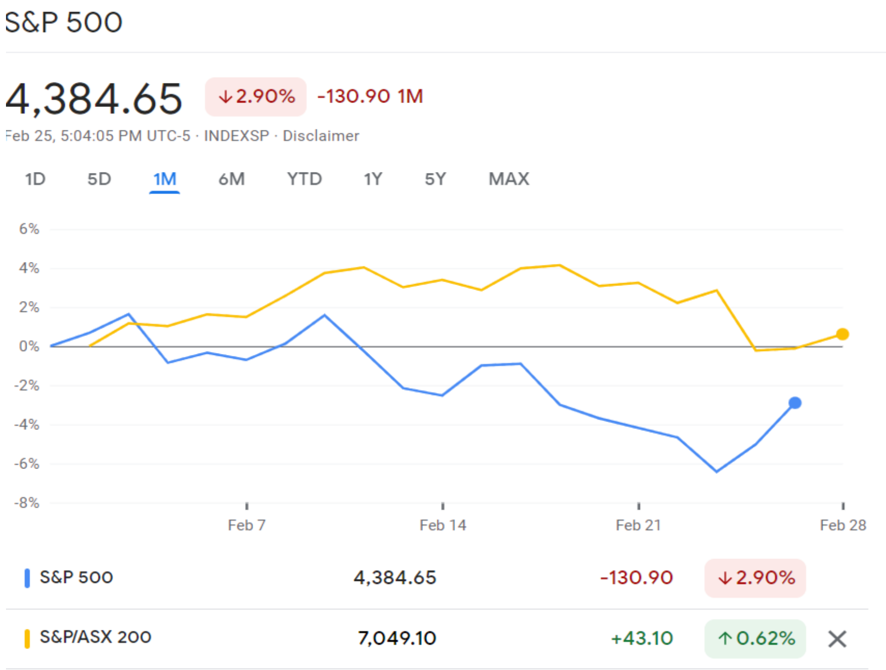


These short term experiences beg a question for investors: if the Russia-Ukraine conflict continues, what is the likely impact on share markets?

Unfortunately, there is no clear answer. If we take the early rebound of both the US and the Australian markets in the days following the invasion, we can see that the market is generally optimistic about the economic outlook for the major market participants.

In Australia, this may well reflect the fact that neither Russia nor Ukraine are substantial trade partners of ours. In 2019-20, just 0.1% of Australian merchandise trade was with Russia, which was our 42nd largest trading partner (source: DFAT). We exported $723 million worth of goods and imported just $250 million worth of goods. Ukraine is even smaller in terms of our trade relationship, ranking 83rd and involving a little over $110 million of goods. So, disruptions to either of these economies should not cause much flow-on effect for us here in Australia.

What's more, while the Australian market typically follows the US market, it has not been doing so as closely over the past weeks. Here are the two markets' comparative performance for the month of February, again thanks to Google:



The US market fell by more than ours, perhaps reflecting an expectation that the US will involve itself in a conflict involving Russia. Our market moved as well, but to nothing like the same extent and it only fell once Russia had actually invaded, whereas the US market was falling in anticipation of the invasion.

Because of this, we would be surprised if the Russian invasion has much of an effect on the Australian markets. That is not to say that our markets will keep rising in the short term – we have said before, it is a mug's game trying to know which way the market will move in the short term. But of all the factors impacting on our market, the Russian invasion is not likely to be a large influence. And, as we show below, the general state of the Australian economy is actually very promising.

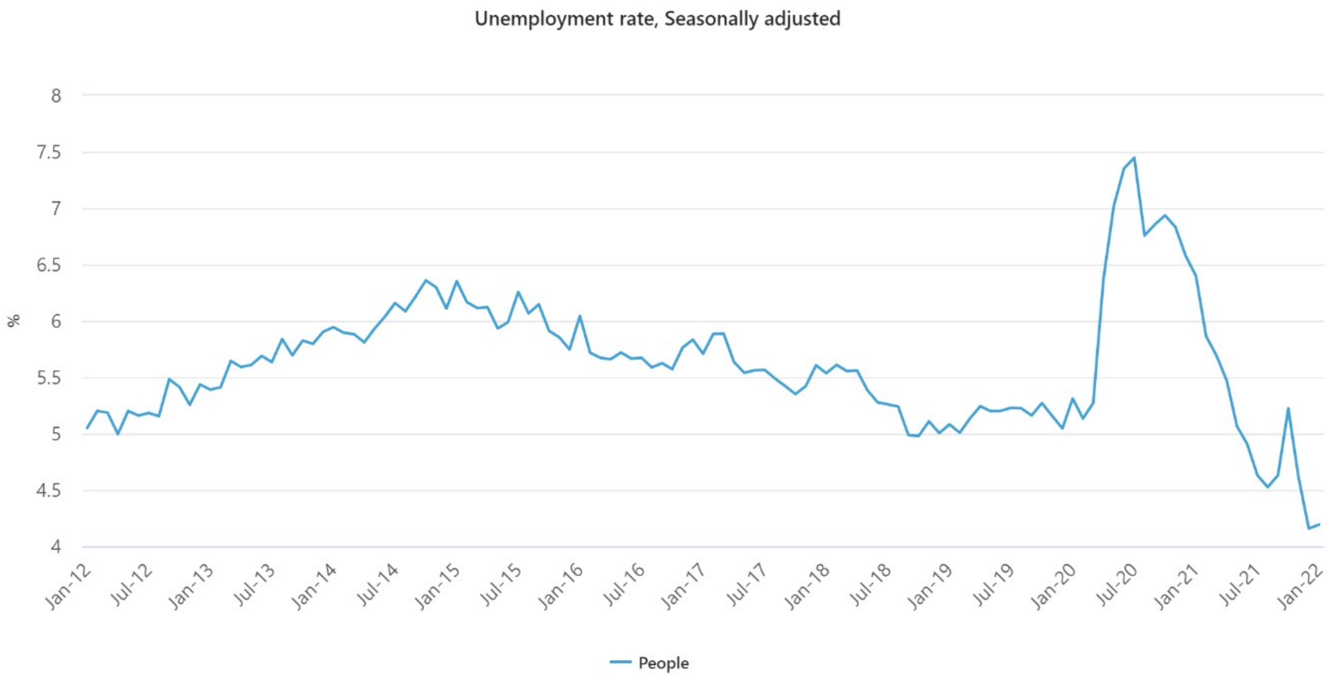
That said, we always feel uncomfortable discussing the financial implications of events such as the Russian invasion, because something more important than wealth is at stake. If you or someone you love is affected by the conflict in Ukraine, please know our thoughts and best wishes are with you at this time. And let us know if there is anything we can do to help. We sincerely hope that sense prevails and peace returns.

The State of the Economy - Employment

This month, we thought we would have a look at a few indicators of how well the Australian economy is tracking. Each of them relate to employment, which is a particularly useful measure of how healthy the economy is. After all, if an economy is going well, it should be providing work to as many people as possible. So, the number of people working indicates the strength of an economy.

Unemployment

The headline unemployment figure was 4.2% as at the end of January 2022. This is the same rate as it had been at the end of December, but is a markedly lower figure than we have seen over the last ten years, as shown in this graph from the Australian Bureau of Statistics:



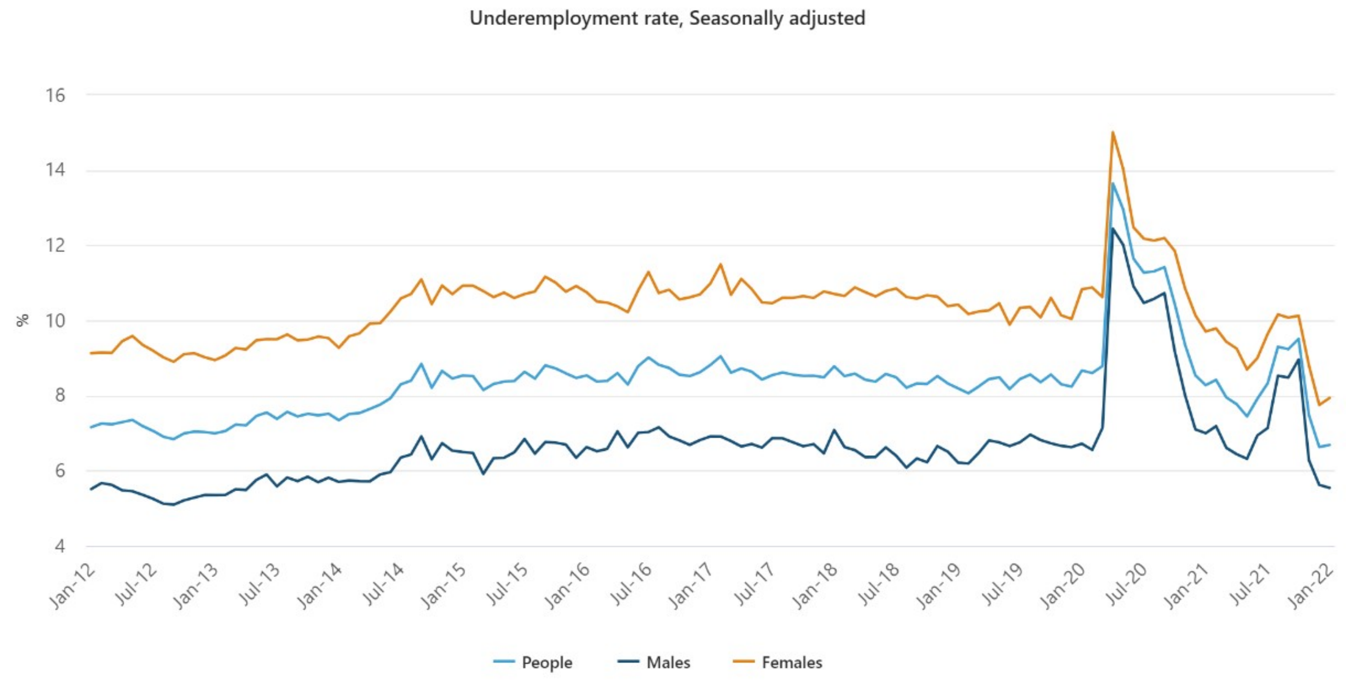
Source: Australian Bureau of Statistics, Labour Force, Australia January 2022

As you can see, unemployment is basically a whole percentage point lower than it was at the start of the Coronavirus pandemic. The pandemic has been good for the employment level.

Unemployment has a specific definition in Australia. An unemployed person is: "*one who, during a specified reference period, is not employed for one hour or more, is actively seeking work, and is currently available for work.*"

This means that a person ceases to be considered unemployed if they find a job for one hour a week. That can be a bit deceiving, as a person working one hour a week is stull almost entirely unemployed. So, the Australian Bureau of Statistics has another figure that should be seen as a complement to the official unemployment rate. That figure is the 'underemployment' figure, which is defined as follows: "*Underemployed people are those who worked part-time but were available for work and wanted to work more hours; or who worked full time but worked part-time hours for economic reasons (were stood down or there was insufficient work available).*"

As at the end of January 2022, the underemployment rate was 6.6%. This was also a ten-year low, as this graph demonstrates (the middle line is the average of men and women – note that the underemployment rate is (always) significantly higher for women than for men. This is one of the reasons that women's incomes are generally lower than men's; they work fewer hours. Please remember: underemployment only counts those part time workers who want to work more hours. It does not count part time workers who are happy with that):



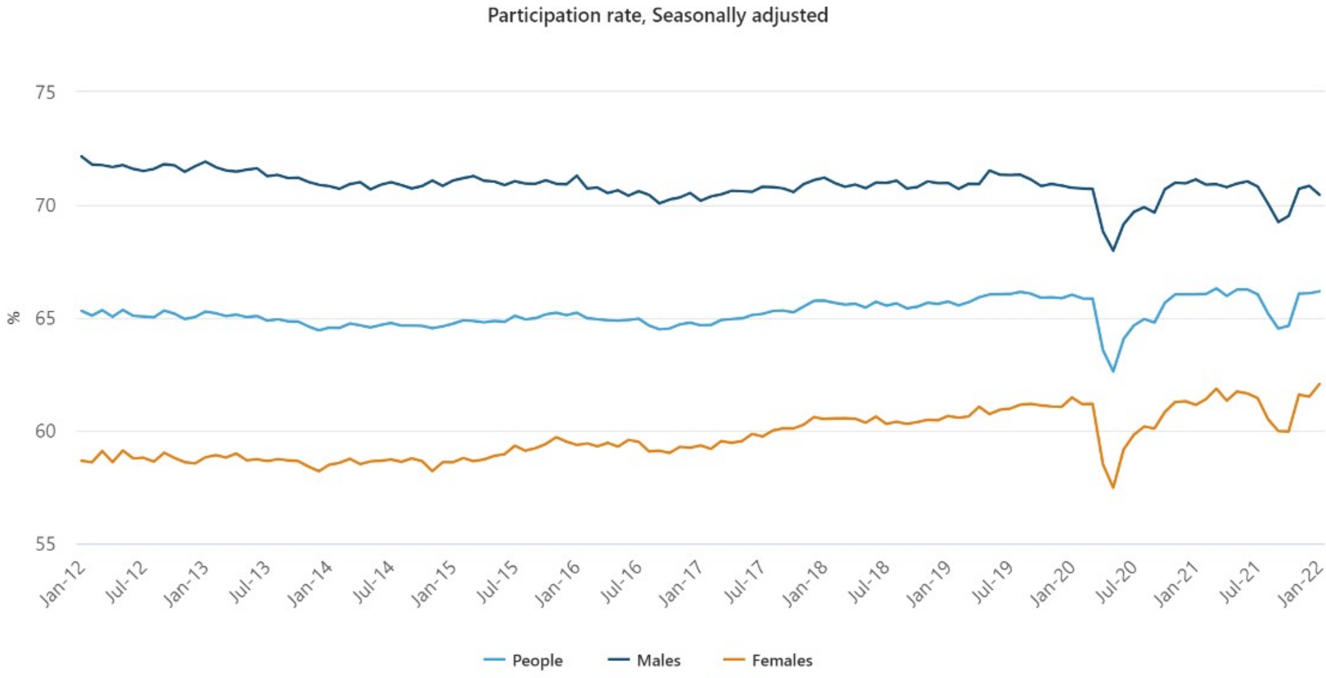
Source: Australian Bureau of Statistics, Labour Force, Australia January 2022

To properly understand the state of the labour market, these two figures – official unemployment and official underemployment – should really be added together to give us a figure we might call 'total underemployment.' This tells us the extent of unused labour available to the economy. As at the end of January, this combined figure was 10.8%. Basically, this means that for every 100 people who were willing and able to work, only 89.2 jobs existed. Of the 100, 4 people missed out on work altogether (unemployment is 4.2) while the remaining 96 people shared the 89 jobs.

Again, by recent standards this is actually a low figure. At the end of January 2012, unemployment was 5.0% and underemployment was 7.2%, meaning total underemployment was 12.2%.

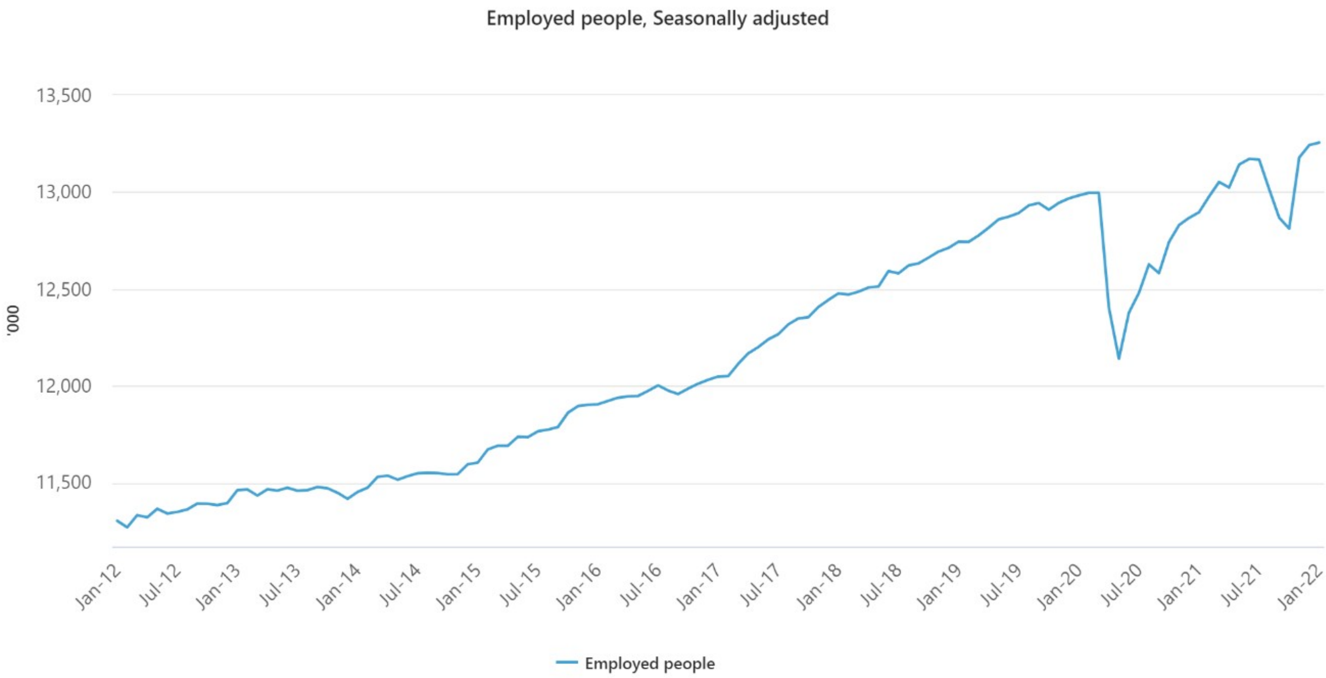
The percentage figures used for unemployment and underemployment are not the percentage of the whole population who do not have work. The percentages come from that portion of the community who make up what is called the 'labour force.' The rate at which people 'of working age' in the whole community make themselves available to enter the labour force is called the 'participation rate.' At the end of January, this rate had risen as well, to be 66.2%. This figure also varies according to gender: 70.4% of men and 62.1% of women (of working age) were part of the labour force at the end of January.

A strong economy tends to attract people to look for work and thus increases the participation rate. This has been happening lately, with Australia's participation rate currently at its highest for the past ten years:



Source: Australian Bureau of Statistics, Labour Force, Australia January 2022

This last figure is especially interesting, given that unemployment and underemployment are falling. Both of those figures are drawn from the labour force. So, when we combine the fact that total underemployment is falling with the fact that there are more people looking for work than there has been for ages, we see that the total number of people with a job is rising substantially. Once again, we can see this in a graph from the ABS:



Source: Australian Bureau of Statistics, Labour Force, Australia January 2022

In January 2012, there were only 11.3 million people in paid work. Today, the figure is 13.25 million. This is an increase of 17%. And it leads us to a simple conclusion: Australia's economy is improving in terms of making a job available for Australians. This is a great cause for optimism.

There are likely to be many reasons for this growth in employment. After all, there are always many reasons for everything we seen in the macro economy. One very likely reason is that Covid has actually caused a direct need for more people to be working. If you have needed to go for a PCR test or a Covid vaccine, think of all the people who were working at the facility that you visited. Now consider that none of those jobs existed prior to the pandemic. Extend your visit out to the whole distribution network and we can see that just dealing with Covid tests and vaccinations has stimulated our economy.

The stimulatory effect of Covid is underlined by the fact that the state hardest hit by Covid (Victoria – at least in terms of lockdowns etc) has the lowest total underemployment rate of 10.1%. NSW, which was also hard hit, has the second lowest total underemployment of 10.6%. Of the other states, only WA is below 11% and South Australia is actually almost 13%. States which suffered most due to Covid saw the number of people in work rise the most.

This underlines one of the common experiences in economic history: things that are 'bad' for people can be 'good' for the economy as a whole. The economy will not waste resources in a time of need.

The challenge now is for us to maintain these historically high levels of employment. Aiming for fuller employment is one of the reasons that the RBA continues to keep interest rates low. On Tuesday March 1, the RBA again announced that there will be no change to their target interest rate this month. In doing so, they concluded that "The Board is committed to maintaining highly supportive monetary conditions to achieve its objectives of a return to full employment in Australia and inflation consistent with the target."

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

Contact Details

Address	Suite 106 / 10-16 Kenrick Street The Junction NSW 2291
Phone	1800 317 027
Website	www.shanleyfinancial.com.au
Email	admin@shanleyfinancial.com.au

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