Take Control - With Your Independent Financial Adviser

2021

YEAR IN REVIEW

TWO STEPS FORWARD ONE STEP BACK

There are no prizes for guessing what dominated the economic landscape in 2021. For the second year running, the pandemic was the focus for policy makers, markets, businesses, and individuals alike.

The year began with hopes that the rollout of vaccines around the globe would stem the spread of COVID-19 and allow economies to reopen. Instead, most countries were hit by wave after wave of the virus, periodic lockdowns, and ongoing disruption to lives and livelihoods.

Yet there were also positives. Australia's vaccination rate exceeded all expectations while property and share markets soared. Investors who stayed the course enjoyed double digit returns from their superannuation, with the median growth fund tipped to return more than 12 per cent for the year.[i]

The big picture

If the pandemic has taught us anything, it is to expect the unexpected as new variants of the coronavirus – first Delta and now Omicron – hampered plans to return to a 'new normal'. This saw governments removing restrictions one minute then reimposing lockdowns and border closures the next.

Yet through it all, the global economy picked up steam. Final figures aren't available yet, but in the year to September the two global powerhouses the US and China grew at an annual rate of 4.9 per cent, while the Australian economy grew by 3.9 per cent.

Australian Key Indices December	2020	2021
Economic growth	-2.2%	*3.9%
RBA cash rate	0.1%	0.1%
Inflation (annual rate)	0.9%	^3.0%
Unemployment	6.6%	#4.6%
Consumer confidence	112.00	104.3

Share markets (% change) Year to December	2020	2021
Australia All Ordinaries	-1.45%	13.56%
US S&P 500	16.37%	27.0%
Euro Stoxx 50	-5.14%	20.90%
Shanghai Composite	13.87%	4.80%
Japan Nikkei 225	16.01%	4.91%

* Year to September, ^September quarter # November   Sources: RBA, ABS, Westpac Melbourne Institute, Trading Economics

The Australian economy is estimated to have grown by more than 4 per cent in 2021 and is forecast to pick up speed in 2022 to around 5 per cent. This is good news for jobseekers, with unemployment falling to 4.6 per cent ahead of the Christmas rush.

But challenges remain. As global demand for goods and services picked up, ongoing shutdowns disrupted manufacturing and supply chains. The result was higher prices and emerging inflation.

Inflation and interest rates

Australia's inflation rate jumped from less than one per cent to 3 per cent in 2021. This is lower than the US, where inflation hit 6.8 per cent, but it still led to speculation about interest rate hikes.

The Reserve Bank insists it won't lift rates until inflation is sustainably between 2-3 per cent, unemployment is closer to 4 per cent and wages growth near 3 per cent. (Wages were up 2.2 per cent in the year to September.) The Reserve doesn't expect to meet all these conditions until 2023 at the earliest, but many economists think it could be sooner.

Some central banks such as the UK and New Zealand have already lifted rates. And while Australia's cash rate remains at an historic low of 0.1 per cent, bond yields point to higher rates ahead. Australia's 10-year government bond yields rose from 0.98 per cent to 1.67 per cent in 2021, while US long bonds finished at 1.51 per cent.

Even so, low interest rates were not enough to convince everyone to resume normal life and spend. While consumers remained positive overall, the Westpac-Melbourne Institute consumer sentiment index fell 6.9 per cent in the year to December.

Shares continue to shine

Global sharemarkets made some big gains in 2021 on the back of economic recovery and strong corporate profits. The US market led the way, with the S&P500 index up 27 per cent to finish at near record highs.

European stocks also performed well while the Chinese market suffered from the government's regulatory crackdown and the Evergrande property crisis.

In the middle of the pack, the Australian market rose a solid 13.5 per cent in 2021. The picture is even rosier when dividends are added, taking the total return to 17.7 per cent. The best performing sectors were telecommunications, property trusts, consumer discretionary and financials. Only two sectors fell – energy and information technology.[ii]

Volatile commodity prices

As the global economy geared up, so did demand for raw materials. Commodity prices were generally higher but with some wild swings along the way.

Oil prices rose around 53 per cent on supply constraints and increased demand. And although coal is due to be phased out in the long term, thermal coal prices soared 111 per cent and coking coal rose 37 per cent.

Australia's biggest export, iron ore, fell 25 per cent but only after hitting a record high in May.

Despite demand for our raw materials and a sound economy, the Aussie dollar fell against the strengthening greenback. After starting the year at US77c it finished at US72.5c, providing a welcome boost for Australian exporters.

Property boom

It won't have escaped anyone's notice that Australia's residential property market had another bumper year, although the pace of growth shows signs of slowing.

National home prices rose 22.1 per cent in 2021, according to CoreLogic. When rental income is included the total return from property was 25.7 per cent.[iii]

Regional areas (up 25.9 per cent) outpaced capital cities (up 21.0 per cent), as people fled to the perceived safety and affordability of the country during the pandemic. Even so, prices were up in all major cities, led by Hobart (28.1 per cent), Brisbane (27.4 per cent) and Sydney (25.3 per cent). Melbourne suffered from prolonged lockdowns, up 15.1 per cent.

And in news that will please owners and investors but dishearten first time buyers, Sydney became the first city to surpass a median value of $1 million.

Looking ahead

The pandemic is likely to continue to dominate economic developments in 2022. Much will depend on the supply and efficacy of vaccines to protect against Omicron and any future variants of the coronavirus.

Financial markets will also keenly watch for signs of inflation and rising interest rate. In Australia, inflation is likely to be constrained while wages growth remains low, and the Reserve Bank keeps rates on hold.

The wild card is the looming federal election which must be held by May. Until the outcome is known, uncertainty may weigh on markets, households, and business.

i https://www.chantwest.com.au/resources/remarkable-a-10th-consecutive-positive-year

ii https://www.commsec.com.au/content/dam/EN/Campaigns_Native/yearahead/CommSec-Year-In-Review-2022-Report.pdf

iii https://www.corelogic.com.au/news/housing-values-end-year-221-higher-pace-gains-continuing-soften-multi-speed-conditions-emerge

Unless otherwise stated, figures were sourced from Trading Economics (www.tradingeconomics.com) on 31/12/21

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