



Market Update – 24 March 2020 including Stage 2 of the Fiscal Stimulus Package

This article covers Stage 2 of the Government's Fiscal package, a further \$66.1bn of spending announced by the Prime Minister on Sunday 22nd March plus an update on financial markets.

Overview of the Fiscal Stimulus Package

Similar to the first economic stimulus package of \$17.6bn, this second stimulus package is focused on keeping Australians in jobs and helping small and medium sized businesses stay in business so they can come out the other end intact. The measures have a range of effective dates with some not effective until after 30 June 2020. In addition to the \$17.6bn stage 1 and \$66.1bn stage two packages, the Government has also set aside a further \$40bn for medical supplies, health and a further round of economic assistance.

Relevant Details of the Package

Although there are many details of the package still to be clarified, the follow is a summary of what we know:

1. For individuals (casuals, sole traders, retirees and welfare recipients)

- A Coronavirus supplement to certain welfare recipients at a rate of \$550 p.f. for the next six months. This is paid to those on JobSeeker Payment, Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefits. As previously announced, the assets test and waiting periods will be waived for new applicants. The supplement does not apply to groups such as those on the Age Pension..
- A further one off tax free payment of \$750 from 13 July 2020 to pensioners, social security, veteran and other income support recipients and eligible concession card holders (including Commonwealth Seniors Health Card) except where they are entitled to the Coronavirus supplement.
- From 1 May 2020, the lower deeming rate will fall to 0.25%. The upper deeming rate will remain at 2.25%.
- Those individuals in financial stress can access up to \$10,000 in both the current and next financial years from their super. They must be either eligible for the Coronavirus supplement or be self employed / casual and their hours dropped by at least 20%. The amounts will be tax free and not count towards the Centrelink or DVA income test rules and is effective from 1 April 2020. Applications can be made on line.
- Similar to measures introduced during the GFC, the minimum pension drawdown for Account Based Pensions and similar products will be halved for the current and next financial years.

Impact: The Coronavirus supplement provides a doubling of the JobSeeker payment to cushion the blow for those losing their jobs. The total payment of \$28,600 p.a. plus additional benefits is still likely to be less than they were previously earning. The scheme contrasts to other more expensive models around the world where the Government is funding up to 80% of the salary to encourage employers to hold on to staff.

The other measures are also putting more money back in the pockets of older Australians. Both age pensions and the unemployed are groups that are likely to spend any cash received and hence assist in boosting economic activity.

Action:

- *Those losing their jobs should apply for Centrelink payments, assuming they can access an overburdened online system or can get anywhere near the front of the queue outside Centrelink offices.*
- *Income support recipients such as age pensioners should simply wait for the two \$750 tax free payments. Those over age pension age who were close to getting the pension should reassess whether they are entitled especially with the recent fall in value of their investments.*
- *Holders of the Commonwealth Seniors Health Card should also simply wait for the two \$750 tax free payments. Those who were close before may now be eligible given the falls in the deeming rates and the value of their investments.*
- *If in extreme financial stress, consideration should be given to applying for \$10,000 to be withdrawn from super in the 2020 and 2021 financial years.*
- *Those with adequate resources and living off income from a variety of different sources including from an Account Based Pension(s) should consider reducing or stopping payments from this month.*

2. For SME (small and medium-sized enterprise) businesses

- The establishment of a Coronavirus SME Guarantee Scheme whereby the Government will guarantee 50% of new short term unsecured loans up to \$250,000 by eligible lenders to SME's. As with the previous announcement, there will be no need to make repayments for the first 6 months.
- Relief for financially distressed businesses including temporary relief for directors from personal liability when trading insolvent, increasing of the threshold from \$2k to \$25k at which creditors can make a statutory demand and the time in which companies have to respond. Furthermore, there will be a temporary power to exempt compliance with the Corporations Act for up to six months.
- A doubling of the cash payments to SME and not for profit organisations with employees. Previously this was 50% of the PAYG withheld with a minimum of \$2,000 and a maximum of \$25,000. It will now be 100% with a minimum of \$20,000 and a maximum of \$100,000 with stage 1 being paid from 28 April 2020 and stage 2 from 28 July 2020. The amounts will be administered through the tax payment system.
- Support for the aviation industry.

Impact: The refund of up to \$100,000 based on PAYG withholding and access to new loans will provide some incentive to keep staff on and the business running. However, this may not be enough for some especially where their income dries up completely. Those wishing to battle on will be helped by the temporary changes regarding trading whilst insolvent.

Action: *Business will need to update their cashflow projections to understand how long they can survive for and how much debt they will accumulate in the interim. Some will come out bigger and better at the far end as competitors fold, however care should be taken not to take on so much debt that they will never recover. For those that continue on, the financial assistance regarding loans and PAYG withholding refunds may be enough to see them to the other side of the bridge.*

Market Update, Opportunities and Conclusion

We continue to see investment markets fall as countries and regions close their borders to foreigners and restrict gathering to ever decreasing numbers. These threaten to overwhelm policymakers' frantic efforts to cushion what is likely to be a deep global recession.

We understand this is a tough ride down for those fully invested. Unfortunately, we believe there will be a continual flow of bad news over the coming month as the rate of growth of infected people continues, hospitals (in some cases) overflow and the global death toll rises.

Ultimately, as the rate of increase starts to diminish and anti viral drugs prove effective as a cure (potentially towards the end of April), market volatility may start to decrease. However, countries may not fully open their borders until a vaccine is found and that is at least a year away. Alternatively as with SARS, the virus may just disappear after it has run its course or once herd immunity kicks in.

Those with significant cash balances may take this as a buying opportunity within the next month whilst markets are down from February highs. Indeed, with bonds at record lows, selling fixed interest investments when the time is right and moving overweight to equities in the short term may assist in boosting long term returns.

Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to Kevin Smith of The Professional Super Advisers on (02) 9955 5800 prior to acting upon this information.