



NEWSLETTER  
October 2018



# Introduction

In this newsletter, we look at a very strange phenomenon. In 2008/2009, Australia was one of only few developed economies that did not enter recession as part of the GFC. Despite that, our market fell by about the same proportion as the US share market. Since then, however, the US market has roared ahead, while the Australian market has grown at a much more gentle pace. Read on to find out the hows and whys of the difference.

## A look at history... the changing face of the workplace

If you work in a shared space, such as an office, or a private space such as your home or a vehicle, then chances are you will listen to the radio at least sometimes while you work. So, what did workers do in the age before radios?

Well, in some workplaces, there was a dedicated worker whose job it was to entertain or inform workers while they slaved away at whatever task they were facing. This position was filled by a lector. The lector would read aloud to the workers, many of whom were illiterate. Lectors would read from the daily press as well as from longer, published works such as a novel. Workers often contributed a small payment and elected the lector from among their number.

In the US, lectors came to an end when (i) the bosses got sick of them reading to workers about their workplace rights; and (ii) radios were invented. Probably in that order.



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## In the News

### Employment in Australia

Australia's employment statistics are on the improve.

We have been waiting all of our life but no one seems to have come up with a better way to generate income and wealth than through working. (At least, you need to work to earn your first million! After that investing can take over). So, in this newsletter we thought we would take a look at all things employment. Let's take a look at where the jobs are, where they're not and where they're likely to be in five years' time.

### The unemployment rate

The most recent unemployment figures were released in August of this year. Australia's official unemployment figures are compiled by the Australian Bureau of Statistics, and as at the end of August the unemployment rate was **5.3%**. This might sound like a lot, and if you're one of the unemployed it is a lot, but it is actually the lowest rate of unemployment for the last five years. From the employment point of view, our economy is doing quite nicely.

The official unemployment rate is calculated by the Australian Bureau of Statistics and uses two main variables. The first variable is known as the 'participation rate.' This is the percentage of the



total working age population who are available to work at any given point in time. For Australians aged between 15 and 64, the participation rate was 78%. That is,

78% of all Australians aged between 15 and 64 were available to work. The remaining 22% comprises people such as students, 'at-home' parents and other full-time carers, early retirees and disabled people.

The unemployment rate is then the percentage of active workforce participants who do not have a job. So, an unemployment rate of 5.3% means that 5.3% of the 78% of active participants in the workforce did not have any work during August.

Queensland has the highest unemployment rate, at 6.3%. Western Australia is not doing much better, with an unemployment rate of 6.2%. Tasmania's unemployment rate is 6%. In South Australia, the rate is 5.7%, in Victoria the rate is 4.9% and in New South Wales the rate is 4.8%. Australia's two territories, the Northern Territory and the ACT, have the lowest rates of unemployment at 4% and 3.7% respectively.

People aged 65 and over are not counted in the unemployment statistics. The workforce participation rate of people above retirement age is 13% (17% for men and 10% for women). This represents an increase of five percentage points between 2006 and 2018. That is, in 2006 the participation rate for people aged over 65 was just 8%.

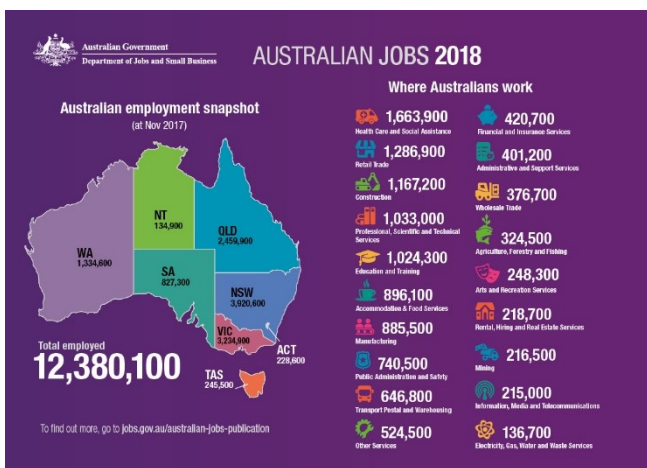
The participation rate for older Australians is almost exactly that of Canada and slightly higher than that of the United Kingdom. It is substantially below the participation rate for older residents of the USA and New Zealand. Older Papua New Guineans have things the toughest: more than 50% of their over 65s were still participating in the workforce in 2015 (Australian Institute of Health and Welfare).



### The employment rate

The media tends to be obsessed with bad news. That's why you will typically see unemployment figures being reported in the media. Often, it is more helpful to have a look at the employment figures and to dig a little deeper into them so that we can see underlying trends in the economy.

In November 2017, there were 12,380,100 employed Australians. The number of jobs rose by a little more than 400,000 during 2018. Spread across the country, here is where the jobs were, according to the Federal Department of Jobs and Small Business:



More specifically, the top 10 fastest-growing occupations over the next five years are expected to be (again, these images come from the Federal Department of Jobs and Small Business):



As you can see from the infographic, the largest sector for employment in Australia is health care and social assistance. More than 1.6 million of us work in those sectors. The next two most popular sectors are retail trade and construction - both of which tend to be cyclical and are therefore areas where employment varies the most according to the general state of the economy. The health sector, which is largely government funded or subsidised, tends to be more robust against economic cycles.

The health industry is expected to become an even more significant employer over the next five years. More than a quarter of a million jobs are expected to be added to this sector between now and May 2022. The construction sector is expected to come to parity with the retail sector over the same period. In order, the five fastest growing industries in terms of employment are expected to be as follows:



Economists think of the Australian economy as a predominantly 'tertiary' economy. This means that a significant and growing part of our economic activity comes in the form of services: healthcare, education, retail et cetera. In a tertiary economy, there is relatively less employment in agriculture and manufacturing, which are known as *primary* and *secondary* industries respectively. You can see Australia's move towards a tertiary economy reflected in our top growing occupations: almost all of them involve the provision of services. In fact, more than three quarters of Australian workers now work in a service industry. It has been a long time since Australia rode on the sheep's back.

### Casual versus permanent work

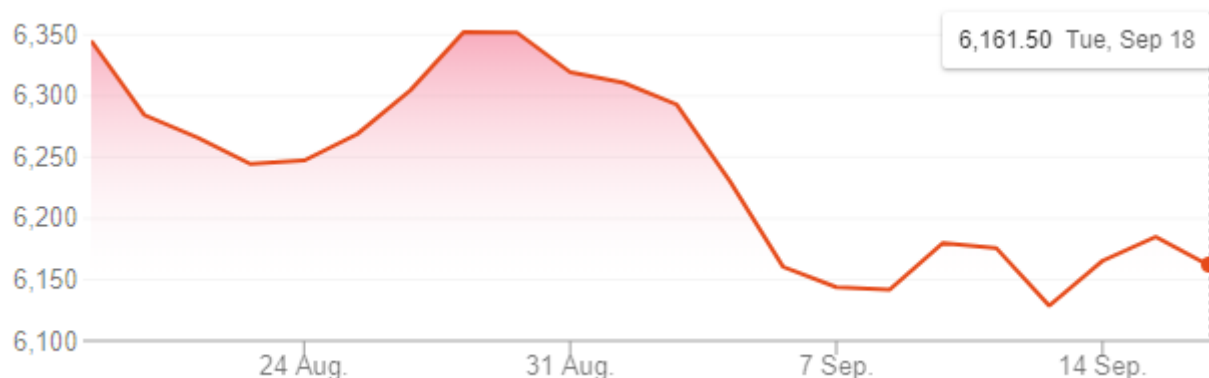
Around one in four Australian jobs are classified as 'insecure.' Usually, this means that they are casual, which means that the worker has no entitlement to paid leave such as sick leave or annual leave. To compensate for the absence of these entitlements, casual workers typically receive an extra 25% loading on their standard wages. Basically, if your job is a casual one, if you do not work you do not get paid.

The rate of casual work has not changed much over the last 20 years. At the end of 1997, the rate was 24.18% and at the end of 2017 the rate was 25.08% (Australian bureau statistics). During the 1980s, however, the rate of casual work was much lower: in 1982, just 13% of employed workers were employed casually. The 1980s saw a period of deregulation and restructuring in the Australian economy, and the increasing presence of casual employment came as a result of those changes.

## The Share Market

### The Stock Market

Between the middle of August in the middle of September, the ASX 200 fell by 3.15%. Here's how it looked on Google (in case you're wondering, red usually means bad!):



ASX 200 August-September 2018

Much of the fall was attributed to falls in the share prices of our major banks. As we discussed in our last newsletter, the financial sector dominates the Australian sharemarket and so falls in that sector reverberate through the entire market.

One very interesting observation that we have made recently is the disparity in the performance of the Australian sharemarket compared to the American sharemarket since the global financial crisis. That crisis started 10 years ago and saw the American market's S&P 500 index bottom out at 756 points in March 2009. By mid-September 2018, that market had surged ahead to slightly more than 2900 points, a rise of 380% over the nine and a half-year period.

If you had been one of the really brave few who bought a broad-based portfolio of shares on 13 March 2009, you have almost quadrupled your wealth since then. Once again, here is how it looks on Google - note the colour has turned to green!



S&P 500 (US Market) Last Twenty Years

On that same day in March 2009, Australia's ASX 200 was 3345 points. By mid-September 2018, the Australian market had risen to 6189 points. This is an increase of 85%. Not bad, but nowhere near the

growth enjoyed by U.S.-based investors. In fact, the average U.S.-based investor has done *four times* better than the average Australian-based investor. Here is how things looked in Australia:



ASX 200 Ten Years to 2018

Now, before you decide to sell all your Australian shares and move all your money to the United States, please remember that what happened 'yesterday' should not dictate how you invest today. In all likelihood, the American horse has well and truly bolted.

Much of the outstanding performance in the American market is attributed to the technology giants who dominate that market. Just as the Australian market is dominated by the finance sector, so the American market is dominated by the tech sector. The largest three companies on the American exchange are Apple, Microsoft and Amazon. Together, these three companies comprise approximately 11% of the American market. Google, whose shares are split into two types, both of which are inside the top 10 largest share offerings, comprises a further 2.6% or so of that market. Four companies account for almost 14% of the total market – and remember, the US is a big market.



In August, Apple became the first company whose total shares were valued at more than US \$1 trillion. If you want to see the impact of these tech giants on the American market, consider this graph showing the lifelong sharemarket performance of Apple shares. Once again, the source is Google:



*Apple Shares Since Formation*

As you can see, in mid-March 2009, when the whole US market was bottoming out, you could buy a share in Apple for \$US14.51. That share is now worth more than US\$220 - an increase of 1500%. Microsoft has been a little calmer. Its shares were also selling for approximately \$14.50 US in March 2009. Those shares are now worth around \$113. That's an increase of around 800% - still pretty good, and still substantially more than returns available to the average Australian investor.

This experience mirrors the historical experience of the introduction of disruptive new technologies into an economy. While the internet and the rise of the digital realm have been with us since the 1990s, it is only now, twenty years later, that we are seeing these technologies become intrinsically embedded in the economy. A similar thing happened with the advent of previous technologies such as automobiles and electricity. It takes time for people to figure out how to build a successful business around these new technologies – yet another reason why the market for newer technologies such as 'cryptocurrencies' has been so volatile.

Over the very long-term, markets in countries such as Australia and the US have tended to do about as well as each other. Therefore, as a long-term prospect we would expect some correction to this period of disparate performance. Given how much the run-up in tech prices has driven the US experience, the correction could come in the form of a fall in the performance of one or more of these tech giants – another reason to not invest all of today's money in yesterday's super-performer.

## 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.

Please arrange an appointment to seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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