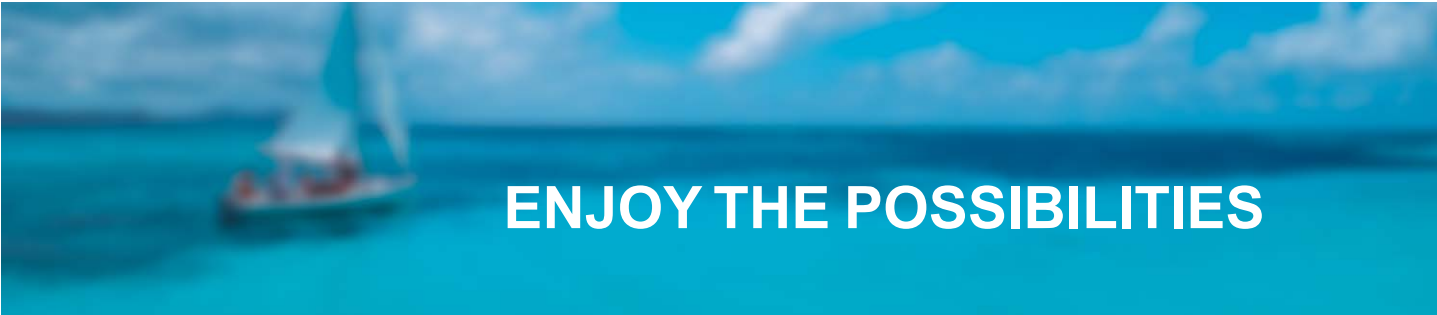




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AMEGA FINANCIAL SOLUTIONS NEWSLETTER



financial **snapshot**

The economics of COVID-19 lockdowns

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

A further rise in COVID-19 cases around the world is leading to questions about the need for another round of government-mandated lockdowns. Given that there are arguments for and against government lockdowns, we look at what the actual economic outcomes have been in both cases.

The backdrop

After the majority of the world went into a strict “stay at home” lockdown over late March-April, a lot of these restrictions have now been lifted. Most economies are now operating with “intermediate” lockdown stringencies which generally means that there are social distancing restrictions in place across public venues and on transport along with restrictions on gatherings.



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Pty Limited Australian Financial Services
Licence No. 232706

A 610 Burwood Road,
Hawthorn East,
Victoria, 3123
T 03 9908 3390
E clientservices@amegafs.com.au
W www.amegafs.com.au

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The first round of severe lockdown restrictions worked well to “flatten the curve” to reduce COVID-19 cases, to prepare the hospital system with protective equipment and testing tools and to get the contact tracing system in place. But as several countries started to open up their economies again over late May and June, COVID-19 cases started to spike again.

It always seemed highly improbable to completely eliminate the virus without a vaccine so it was always expected that there would be pockets of COVID-19 cases once the economy opened up again. However, the problem now is that some second waves of the virus in places like the US and Australia have higher case counts compared to the first round. While the US fatality rate is not as high this time round, hospitals in some states like Arizona, Florida and Texas are getting overwhelmed with COVID-19 cases, and deaths will get worse from here as they tend to lag behind new cases.

Should countries experiencing a second wave (or an extension of the first wave) re-impose lockdown restrictions again? Lockdown measures would reduce deaths and help the hospital system. On the other hand, lockdowns lead to closed businesses and higher unemployment. Both points of view are valid. However, the experience of COVID-19 around the world has demonstrated that in both cases, there is a big fall in consumption as households self-regulate their behaviour.

Sweden's experience

Sweden did not impose any strict “stay at home” lockdowns (restrictions including things like social distancing at public venues and banning groups larger than 50 people) at the start of the pandemic, instead opting for a “herd” immunity approach (where you need the majority of the population or ~60% to become infected before the country has some long-term immunity to the virus) and expecting that some people would decide to self-regulate their behaviour.

In theory, less lockdowns of businesses means better economic outcomes. But, interestingly Sweden hasn't made a strong case for this argument. June quarter GDP growth is still expected to have a steep decline but it does appear to have been better than the falls in the US and Eurozone, and around the same as Australia (but Australia had a strict lockdown for around 5 weeks).

A herd immunity approach also argues that the outlook for economy overall ends up stronger because lockdowns do not have to stop and restart cases rise and fall. But it is still unclear what achieving herd immunity actually looks like, with the main questions being what proportion of people actually need to get infected before herd immunity is achieved and how long does immunity last? Not enough is known about COVID-19 to answer these questions. And widespread accurate antibody testing to assess population immunity is still not widely available.

So far, the Swedish forward-looking economic indicators and high frequency data are still pointing to subdued near-term activity. High frequency indicators (like daily consumer spending transactions, hotel bookings, mobility and restaurant bookings) didn't fall as much as the US and Australia but the bounce back has also been slow, just like in the US and Australia.

Finally, the most important factor to consider in the lockdown debate is the cost of human life, or the death toll. Sweden has had around 550 deaths per million in the population, one of the highest in the world (US is 428 deaths/million and Australia is 5 deaths/million). So, Sweden's experience of similarly poor economic outcomes against a high death toll doesn't leave much to be envied.

Some interesting research from Australian professors at the University of New South Wales have estimated the costs of lockdowns against the benefit

of saving lives, which can actually be measured by statistical agencies – known as the cost of a “statistical life”. On these estimates, the costs of lockdowns tend to be greatly exaggerated in the media and by politicians. On their numbers, the cost of lockdown in Australia is around \$90bn, but this is heavily outweighed by a much larger (\$1.1tn) economic benefit in saving lives.

Household surveys have shown that on average, households do tend to support lockdown measures. In a survey of US households in June (from CivicScience), around 62% of households (on average) supported returning to lockdown as a strategy to reduce rising COVID-19 cases.

Suppression or elimination of COVID-19?

Without a vaccine, there appears to be no way to completely eliminate COVID-19 while it is still circulating around in parts of the world. So suppression of the virus is the only strategy from here. But, lockdowns may still be required in localised areas if case growth becomes too unsustainable, which is what happened in Melbourne.

The economics of lockdowns show that they aren't as disastrous for the economy as initially assumed. The pandemic will lead to a big hole in economic output with or without lockdowns. It means that more government support is required to fill this hole in economic output. While this means a build-up of government debt, the low inflation environment and record low borrowing costs mean that government debt repayments are sustainable for now.

Taking control of your personal finances in a COVID-19 world

Australians are becoming more engaged with their personal finances

It's fair to say 2020 hasn't quite panned out the way any of us thought it would. From local bushfires to a global pandemic it's been a rollercoaster of a ride. But there's growing evidence that Australians are tapping into their reserves of resilience to set their family finances up for a post-coronavirus landscape

Regardless of whether it's forced by circumstances beyond our control or simply because we're spending more time at home, research by Nature & The Lab shows COVID-19 has prompted many of us to become more engaged with our personal finances and focus more on our financial wellnessⁱ.

The pandemic has impelled us into a state of heightened financial consciousness and put personal finances front of mind. With the bigger picture so uncertain, we're looking to control what we can.

5 ways COVID-19 has changed our financial behaviour

1. We're tracking our finances more closely than ever, with more than one in three

Australians surveyed either reviewing their budget or creating a budget for the first time.

"This has been a breath of fresh air, I'm doing a financial spring clean and looking forward to getting back on track"

2. We're saving more and borrowing less by tracking our spending, looking for better deals and choosing the right products.

"It's the mindless swipe of the credit card. I'm realizing the consequences of small incremental spending adds up over time"

3. We're more engaged with our super and while most of us have taken the long view and avoided over-reacting to market volatility, we're checking our account balance and investment options.

4. We're focusing more on our investments and seeking more frequent updates on financial performance.

"I've always been careful with money but this has made me more determined than ever to get ahead"

5. We're more conscious of needing an emergency fund and building a safety net so we're better prepared in the future.

Tips to help maintain your financial wellness and realise your goals

- Implement small realistic steps to reach your long-term goals - if you feel your retirement plan isn't quite on course, we can help you get you back on track.
- Manage your debt more effectively - contact us if you'd like a hand getting on top of your debt.
- Become a better saver - it doesn't have to be a complex spreadsheet. There could be some simple day-to-day tricks to help you spend less and save more. Have you heard of the *Seven-day rule* or the *50/20/30 rule*? They could be the catalyst you need to change your relationship with money for good.
- Set a budget and review it regularly - there are online calculators to help make your life easier, like AMP's Budget planner calculator.
- Take advantage of your financial provider's online tools and apps.

Contact us if you'd like more help with your personal finances.

ⁱ Nature & The Lab research, Apr-May 2020.

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How mindfulness can improve the way we work

Social psychologist and Harvard University Professor Ellen Langer says increased mindfulness can deliver measurable benefits.

Back in the day, the workplace tended to be a more structured environment. We worked set hours, followed set procedures and conformed to a set mindset.

But plenty has changed over the years. Modern 21st century workplaces are increasingly embracing flexible working hours, flexible procedures and more flexible mindsets.

And along with this has been the rise and rise of mindfulness—a movement that encourages us to think differently.

Mindfulness is often described as simply another form of meditation. But it's much more than that.

Mindfulness is the simple art of noticing new things. Paying attention. Never assuming.

Social psychologist and Harvard University Professor Ellen Langer has been studying mindfulness for more than 40 years.

Professor Langer says mindfulness is an active state of mind characterised by being:

- situated in the present
- sensitive to context and perspective
- guided (but not rigidly ruled) by rules and routine
- more engaged.

Her research shows increased mindfulness translates to measurable benefits for our psychological wellbeing, physical health and productivity¹.

When 1+1 can equal 3

It's all too easy to slip into mindlessness—the opposite of mindfulness. Mindlessness is grounded in accepting absolute truths.

Professor Langer says, “When you're asked a question to which you think you know the answer, there's probably another

way to look at it.”

Does 1+1 always equal 2? In a rigid theoretical mathematical context, yes. In the real world, with all the real world's variables, not necessarily.

By being mindful, and uncertain, you question everything. And this can lead to meaningful change.

Professor Langer says, “Rather than the illusion of stability, exploit the power in uncertainty.”

With only subtle shifts in our thinking and expectations, we can begin to change the ingrained behaviour that saps health, competence, optimism and vitality from our lives.

Try again. Fail again. Fail better

The fear of making mistakes can be a roadblock to change. And failure in one thing can result in success in another.

Professor Langer cites a famous example of a company turning a failed glue that didn't stick properly into the hugely successful concept of the post-it note.

Mindful optimism can be a more productive mindset than defensive pessimism, where you hope for the best but expect the worst. The alternative is to make a plan, and then get on with living—something Professor Langer says can help get us through the current COVID-19 crisis.

Mindfulness can have some startling benefits. Many of Professor Langer's studies focus on how changing mental perceptions can actually lead to improved physical outcomes.

Her famous Counterclockwise study showed the mind and body are more attuned than we might think. The researchers changed the external environment for a group of elderly

men and turned the clock back 20 years. The participants didn't simply emerge with a more youthful mindset, they actually rolled back the years in terms of their physical capabilities and even their appearance.

5 ways to create a more mindful workplace

Mindfulness doesn't only deliver personal benefits. It can also lead to better business outcomes. In a study of salespeople, participants who were encouraged to deviate from a set script and think about what they were doing ended up selling more magazines.

And mindfulness is contagious. In a collaborative workplace, there can be a knock-on effect. When you see someone else exhibiting mindful characteristics, you tend to increase your own mindfulness.

Here are a few tips from Professor Langer to create a more mindful workplace.

1. **Accept you don't always know the answer**
2. **See accidents or mistakes as possibilities**
3. **Recognise everyone has something useful to contribute**
4. **Encourage more from the people around you**
5. **Exploit the power of uncertainty.**

A workplace dominated by fixed mindsets can lead to problems as people become afraid a lack of knowledge will be discovered.

A workplace dominated by flexible mindsets can free people up to make meaningful change as they accept they don't necessarily have the best way of doing everything.

“Lack of expertise is what keeps us interested in what we're doing, and by extension, keeps us interesting to other people”, Professor Langer says.

“If we increase our mindfulness, we increase our effectiveness, health and wellbeing.”