

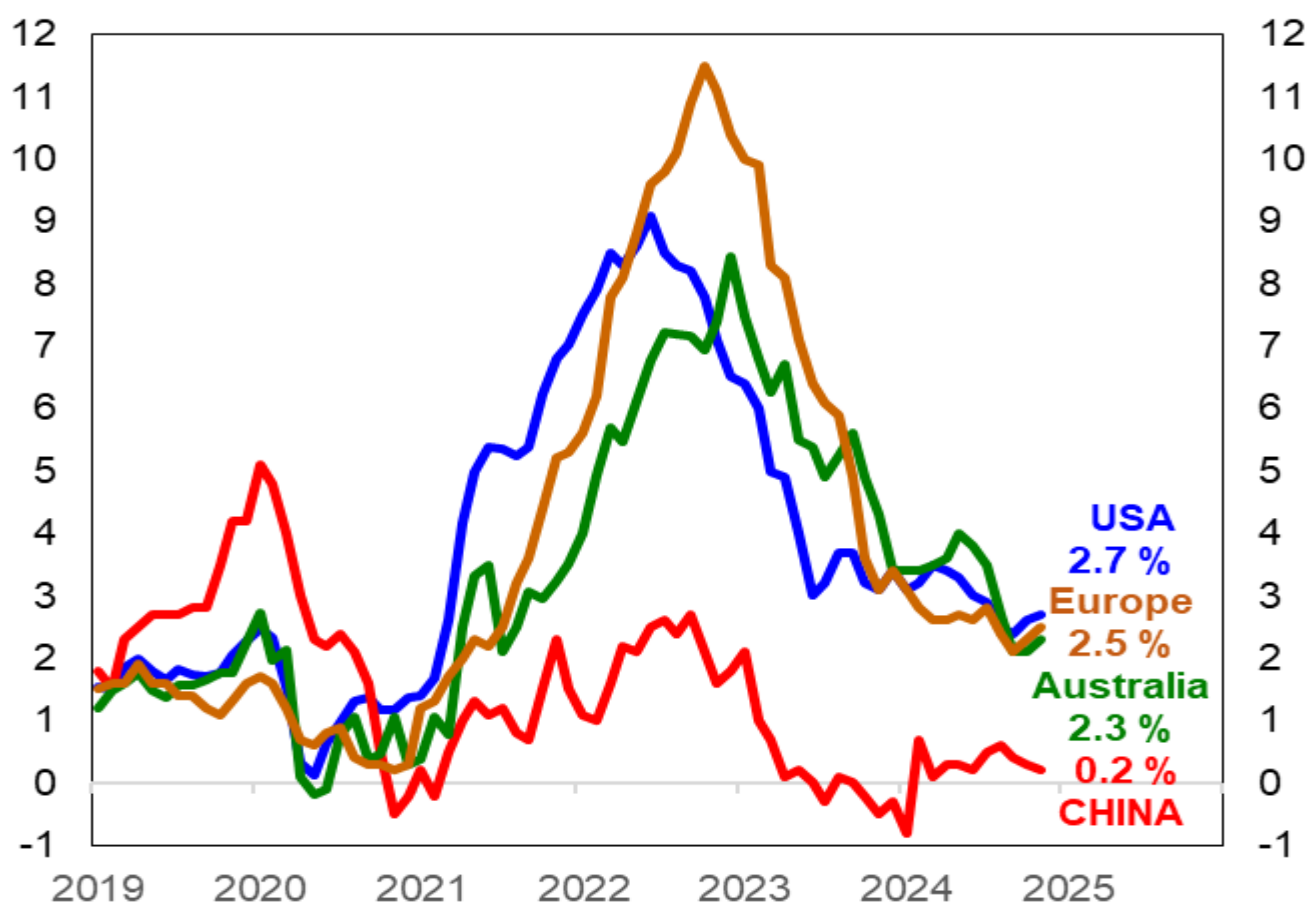
Economic News January 2025 - The year in Review

Global share prices made strong gains in 2024 largely driven by investor optimism over Artificial Intelligence. There was also confidence that with inflation falling around the world, central banks would make further cuts to interest rates which would further fuel share prices.

Inflation is falling but the 'cost of living' is still challenging for consumers and governments

Global inflation gradually cooled in 2024 (see Chart 1). Milder prices for electricity and energy as well as improving production and transport supply chains lowered annual inflation. Notably inflation in both Europe and the US fell from above 3% in 2023 towards circa 2.5% by the end of 2024. By contrast, China has struggled to maintain price pressures given slower economic growth and a weak property sector.

Chart 1: Global consumer inflation



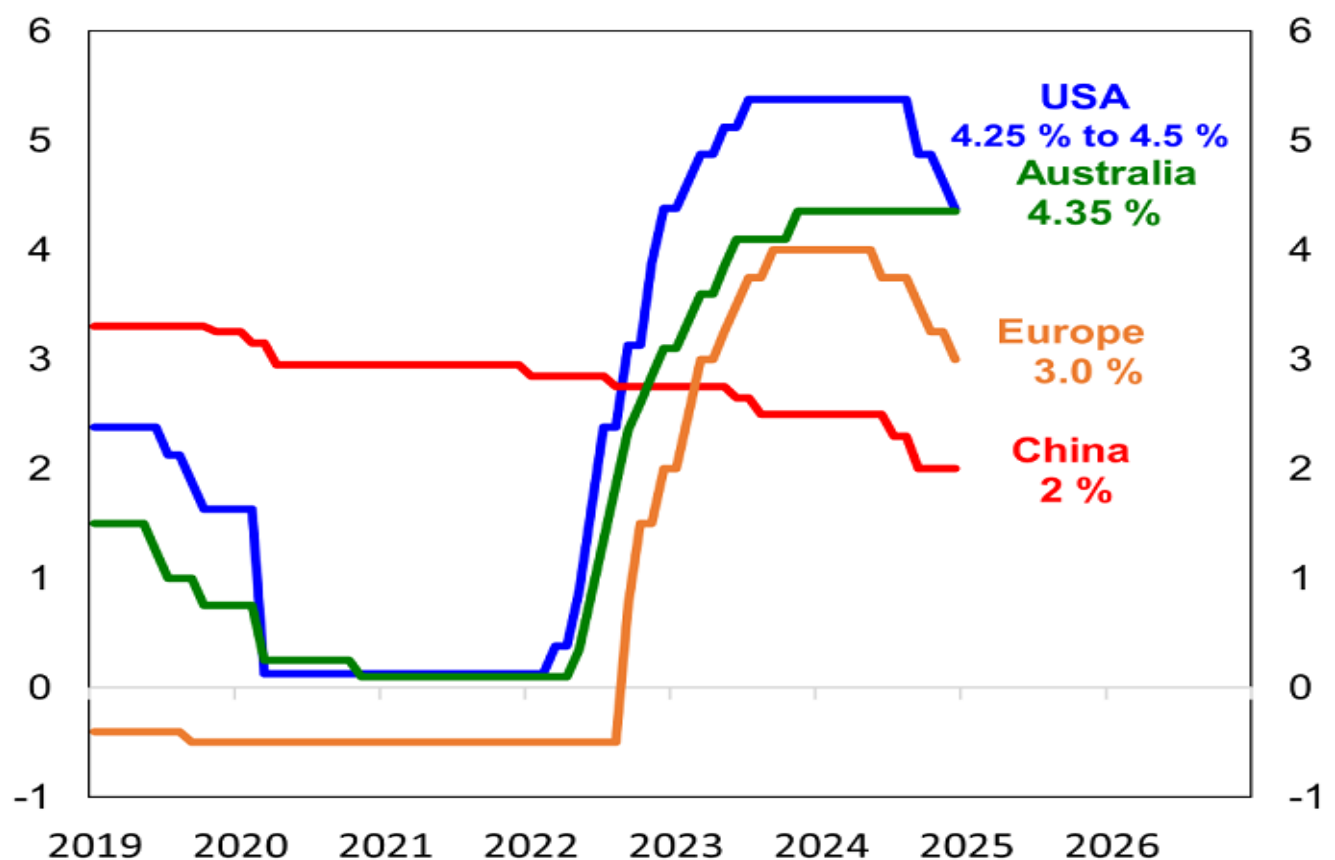
Sources: Australian Bureau of Statistics, Eurostat, National Bureau of Statistics of China, and US Bureau of Labor Statistics.

Despite falling inflation, consumers around the world continue to struggle with cost of living pressures. There are still persistent price pressures in health care, insurance and rents that continue to squeeze consumers' budgets, leading to heightened financial strain, particularly for lower- and middle-income households. Consumers expressed this frustration at the ballot box

in 2024. Notably there were changes in governments in Britain, France and the United States and elsewhere voters chose to scale back their support for the incumbent governments in India and Japan. This serves as a warning for those governments that are seeking re-election in 2025 in Australia, Canada and Germany, who must prioritise economic pressures in order to maintain voter popularity.

While Australia's inflation fell to 2.3%, this reduction was largely due to government electricity subsidies. According to the Australian Bureau of Statistics (ABS), "electricity prices fell 21.5% percent in the 12 months to November 2024". Even with lower electricity prices, the struggle to keep food on the table and a roof over our heads continues. Egg prices increased by 11.6%, insurance costs by 11% and rents by 6.6% in the past year. Ultimately the fall in inflation did not convince the [Reserve Bank of Australia \(RBA\)](#) enough to reduce interest rates.

Chart 2: Global central banks reduced interest rates but Australia was an exception



Sources: Federal Reserve Economic Data (FRED) St Louis Fed and LSEG DataStream.

[Regarding For](#) investment markets, another encouraging sign is that global interest rates are finally falling (see Chart 2). Most central banks are lowering their cash interest rates given that inflation is heading back to their circa 2% targets. The most prominent central banks lowering interest rates were the European Central Bank and US Federal Reserve with both cutting interest rates by 1% in 2024. China's central bank was more cautious only cutting interest rates by 0.5%. The clear exception to this global shift to lower interest rates is the [Reserve Bank of Australia \(RBA\)](#) which has kept interest rates at 4.35% since November 2023. This demonstrates that the RBA is more worried about maintaining low inflation and is prepared to keep interest rates higher in order to achieve their aim.---

Apart from surprising election outcomes across the globe, global politics continue to shape our economic landscape. The Middle East remained cursed by brutal violence with Israel and Hamas only reaching a [fragile](#) ceasefire in January 2025. Russia's devastating invasion of Ukraine in 2022 is still casting a shadow over Europe and remains a threat to political stability. Fortunately, Ukraine's brave defence has ensured a stalemate against the larger Russian armed forces.

The election of Donald Trump as the next US President has the potential to see more dramatic economic twists and turns in 2025. Trump's campaign promises such as the imposition of large tariff increases for China and Europe and the mass deportation of illegal US immigrants could provide significant shocks for global economics in 2025. ~~However, most, with analysts are~~ [predicting another solid year for investment markets in the US, to be strong](#) if Trump delivers his promised corporate tax cuts meaning business profits will increase but likely place the US government in even greater debt.

The global economy has provided both positive and negative surprises in 2024

Global economic activity has been 'multi-speed' in the past year. The US economy remains the primary source of strength. American businesses and consumers have kept spending despite the headwind of higher interest rates. Strong US jobs growth allowed the US unemployment rate to remain stable at around 4% and supported solid wages growth. Notably the US economy recorded annual gross domestic product (GDP) growth of 2.7% in the year to September 2024 ~~compared to potential growth estimates of around 1.8%~~ [outperforming cementing](#) its heavyweight status in the global economy.

By contrast, European economic growth was only 1% over the past year. Germany has struggled given weaker global demand for their luxury cars and chemicals. The United Kingdom modestly improved from their post 2016 Brexit malaise but is still characterised by low business investment and poor weather.

China's economic growth in the past year remains constrained by a cautious consumer and weak property market. Falling property construction activity and apartment prices undermined confidence in China's economy. However, China's growing market share in electronic vehicles [which reached 76% in October 2024 is one bright light for their economy and causing ...long established car makers like Nissan and Honda to discuss merging.](#)

Amongst Australia's other major trading partners, economic growth has also been disappointing. Japan also struggled with subdued consumer spending and weak exports. India's economic growth slowed to 5.4% in the year to September 2024 compared to 7.8% in 2023.

Australia's [mixed](#) economic performance is a mix of the extraordinary and the ordinary

Australia's sluggish economy was confirmed with a weak GDP result for the September quarter. Australia's economy expanded by only 0.3% and 0.8% for the past year. Essentially economic activity is barely registering a pulse. Notably Australia is in a 'per capita' recession where population growth exceeds economic growth.

In encouraging news, Australia is recording strong jobs growth. In the year to November, circa 388,000 new jobs were generated in Australia. The ABS noted that "Health care and social assistance continued to be a key driver of labour market strength" with an annual growth of

11.4%. However, there has also been a rising number of workers holding “multiple jobs” in the past two years. The ABS estimates that 6.6% of workers are now juggling different jobs. Hence, the “cost of living” crisis is exacting a high toll.

Aged Care changes

The Government has legislated changes to support ageing Australians at home and in residential aged care services. Most changes will apply from 1 July 2025.

With the number of Australians over the age of 80 expected to triple over the next 40 years, the sustainability of the aged care industry is under threat. In 2022/23, 46% of aged care providers made a loss from aged care accommodation. In 2023, the Aged Care Taskforce was established to explore these issues and make recommendations on how to improve the sustainability of the sector.

At a high level, unfortunately these changes mean Australians not receiving a Centrelink age pension payment will contribute more towards the cost of their aged care from 1 July 2025.

Pre 1 July 2025 entry

Accommodation costs		Ongoing care fees	
Accommodation fee	Basic Daily Fee	Means-tested fee	Extra-services fee
<ul style="list-style-type: none">• Paid as a lump sum and/or daily payment (or contribution if eligible for Government support)• Lump sum fully refundable• Daily Accommodation Payment fixed at entry based on set rate• Maximum lump sum \$550,000 (unless additional approval)	<ul style="list-style-type: none">• Paid by all residents• 85% of full single rate of Age Pension• \$61.96 per day (as at 1 July 2024)	<ul style="list-style-type: none">• Calculated based on income and assets• Annual and lifetime caps apply (\$33,309.29 and \$79,942.44 respectively as at 1 July 2024)	<ul style="list-style-type: none">• Additional fee agreed by facility and resident for additional and premium services such as accommodation and food options

Post 1 July 2025 entry

Accommodation costs		Ongoing care fees		
Accommodation fee	Basic Daily Fee	Non-clinical care contribution	Hotelling contribution	Fee for higher everyday living
<ul style="list-style-type: none">• Paid as a lump sum and/or daily fee• Facility retains an amount of 2% of refundable lump sum deposit for 5 years with the rest remaining refundable• Daily accommodation payment indexed to CPI after entry• From 1 January 2025 maximum lump sum \$750,000 (unless additional approval)	<ul style="list-style-type: none">• Paid by all residents• 85% of full single rate of Age Pension• \$61.96* per day	<ul style="list-style-type: none">• Calculated based on income and assets• \$130,000 indexed lifetime cap applies or limited to 4 years in residential care – whichever is reached first• For singles, paid if assets are above \$502,981* and/or income above \$131,279* (indexed)• Maximum of \$101.16* per day indexed	<ul style="list-style-type: none">• For singles, payable if assets over \$238,000*, income over \$95,400*, or a combination (indexed)• Up to maximum of \$11.24* per day (indexed)	<ul style="list-style-type: none">• Additional fee agreed between the facility and resident for additional and premium services

* Rates and thresholds as at 1 July 2024, subject to indexation before 1 July 2025

Global prospects

Global share prices made very strong gains in 2024 despite some challenges. The enthusiasm for AI and technology were the key factors supporting global rising share prices. There was also confidence that with inflation falling across the world, central banks would make further cuts to interest rates. A lower interest rate environment should be more supportive of corporate profits and share prices in the long run.

2024 as a whole has been a dynamic year in terms of economic policy and subsequent market impacts, and we look forward to continuing to analyse these ongoing trends throughout the coming year in order to protect and grow your financial assets.

We hope you have a very happy and healthy new year. If you have any questions or wish to discuss anything, please call us on 03 9544 1004.

All the best,

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