MST ADVISORS
Financial Business & Tax Advisory Services

JULY 2022

Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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Interest Rates 101

While we understand banks charge interest on their home loans, exactly what determines the rate? Should we be worried that interest rates will spike higher in the years ahead?

For most people, it's all a bit of a puzzle.

Traditionally, the Reserve Bank of Australia (RBA) is tasked with the responsibility of setting interest rates. It does this at monthly board meetings by determining the so-called cash rate, or the price the big retail banks pay to borrow money in the overnight cash markets.

This is part of a complex mechanism the Reserve Bank uses to control the level of cash or liquidity in the banking system. Doing so directly impacts the rate of interest charged by banks, not just on home loans but also on every product they sell.

This is a critical lever the Reserve Bank uses to regulate economic activity.

For example, suppose the economy is slowing. In that case, the RBA can lower the cash rate, increase liquidity throughout the banking system and, in doing so, encourage the big banks to reduce rates.

If the economy is trading too strongly, as indicated by a sharp upturn in property prices or a jump in the inflation rate, the RBA can use the cash rate to reduce liquidity, increase interest rates, and slow activity.

The decision to change the cash rate is announced following the RBA's monthly board meetings.

Regulating the economy is as much an art as it is a science, with market analysts studying the RBA's monthly board meeting minutes to gain a sense of the bank's attitude toward interest rates.

In the minutes released following the April 2022 cash rate hike, the RBA said it had considered raising the cash rate by between 0.15 per cent and by 0.4 per cent but had finally decided on an increase of 0.25 per cent.

To emphasise this point, in a press conference following this rate rise, the Reserve Bank boss of the time, Phil Lowe, noted it 'was not unreasonable to expect' the cash rate to climb as high as 2.5 per cent in the near future.

This statement sent a shudder through the money markets. Suddenly, the media was full of stories speculating that interest rates could climb much higher as part of the RBA's determination to lower inflation and cool local economic activity.

However, just the talk of higher interest rates can achieve the desired impact on economic activity. And this in itself can reduce the need for rate increases and, with that, lower how high rates need to rise.

The situation is complex.

Many Australians are highly geared; they have taken out substantial home loans believing record low interest rates would remain for years. Therefore, even a small rate hike can significantly impact the cost of their mortgage.

The COVID-19 pandemic encouraged Australians to save, with Market Economics estimating an extra $50 billion was contributed to home loans during this time. On average, home buyers were then 45 months ahead on their repayments.

While this was good news, it would then deaden the impact of any RBA rate rise as home buyers could effectively use the equity built up in their home loans to offset the higher bank charges.

At the same time, tough competition among Australia's big banks can put significant downward pressure on all rates, including home loans. And this is expected to continue as innovation and technology reduce the cost of lending.

For example, the Commonwealth Bank of Australia recently released a new digital home loan, Unloan, where the interest rate is set significantly below the bank's current lowest variable rate home loan. The bank will also reduce the prevailing rate of interest charged on this loan by one basis point for every year the loan is held.

Such factors make the RBA's task of moderating economic activity through cash rate adjustments even more challenging.

The RBA's integral role in regulating economic activity and the impact each of its decisions has on our own finances can be quite confusing. However, understanding a little about the mechanisms behind each cash rate adjustment can ease uncertainty about future interest rate fluctuations and help us all feel more comfortable in our own financial positions.

Baby budgeting

Welcoming a new family member is exciting but with so many aspects of your life changing, when it comes to your finances some forward planning can make the transition so much easier.

Fortunately, babies allow several months to prepare for their arrival and can be easy to get caught up in the excitement. When making preparations it's important to have all of Bub's needs ready; but is equally important for Mum and Dad to be financially organised.

It's wise to conduct a review of your financial affairs as early as possible, even before you start your family. A good idea is to draw up a "baby-budget". Do this by listing all household income and expenses under three columns: before pregnancy, during pregnancy and after pregnancy.

This allows you to see and compare your financial position at the different stages you're going to experience.

If you have difficulty keeping track of incidental spending you're not alone – many people can't account for where their money goes. To help, there are many apps available that assist to track your spending. Most major banks also now boast apps that can assist with budgeting,

The Money Smart website www.moneysmart.gov.au suggests using a spending tracking app for two weeks prior to completing your baby-budget and reports that people are often surprised by the results.

Determine your entitlements

At least one parent will probably take time off work and the potential reduction of household income can be daunting. Understanding your support entitlements upfront can relieve some of the worry.

The federal government offers eligible parents up to 18 weeks Parental Leave Pay. Centrelink has a Paid Parental Leave comparison estimator on its website, www.humanservices.gov.au. This tool will estimate your entitlement and enable you to determine the best option for your family.

If you decide to return to work after Bub arrives, you may qualify for government assistance with the cost of childcare. The Department of Human Services can provide information about your eligibility. Again visit www.humanservices.gov.au.

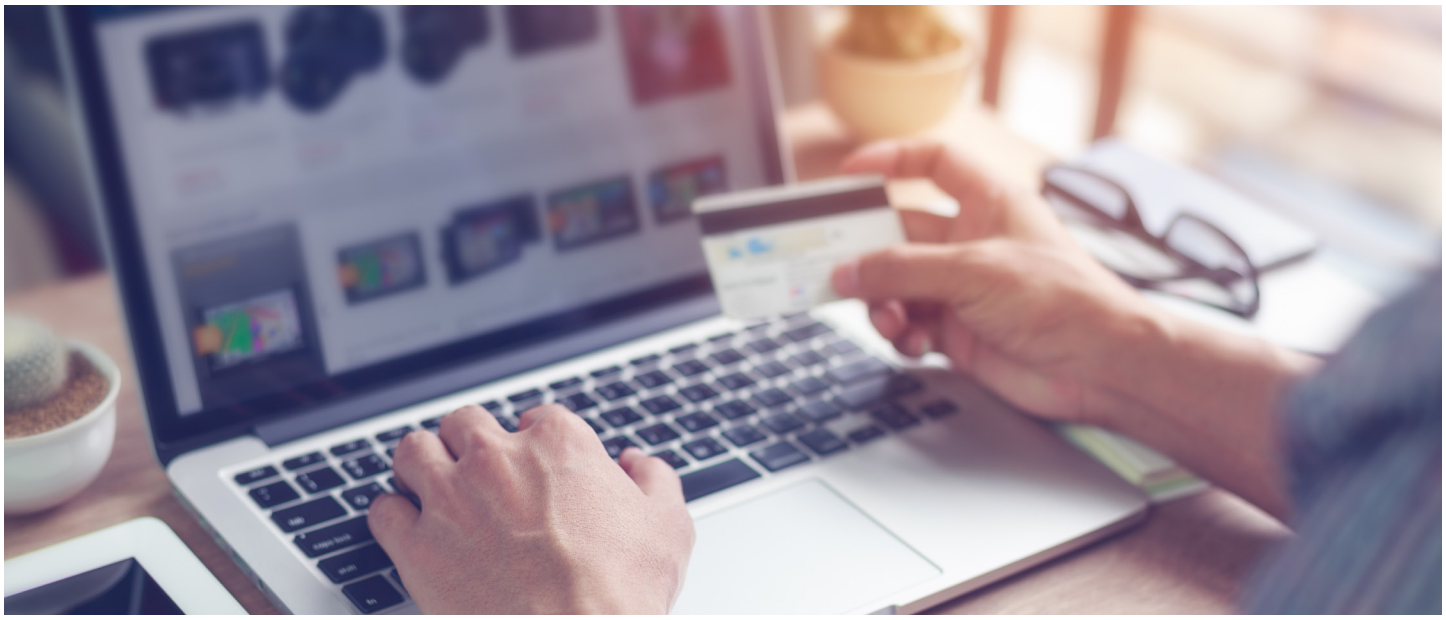
Planning = less stress

People often set up a savings strategy for key life events like buying a home, a major holiday or retirement. Having a baby is more than a key event – it is life-changing – yet few people consider saving for it.

Your financial adviser can assist you in creating a practical household budget and set up a savings plan that will help cover large or unexpected costs. At this time you should also consider life insurance to protect your family's future.

Planning ahead can provide peace of mind and place you in the best possible position to welcome the newest member of your family.

Keeping up with the Joneses: The bad habit that costs you



There's a quote that says, "Money can't buy you happiness, but it can buy you a yacht big enough to pull up right alongside it".

True if you've got that sort of money. For the rest of us, our spending is usually clothing, gadgets and cars – the kinds of things that make us happy.

Australian Bureau of Statistics (ABS) data suggests that consumer spending is influenced by job security and economic factors like interest rates and inflation.

Favourable economic conditions certainly lead to consumer confidence and substantially effect how much discretionary income is available.

However, isn't it also about our emotions? How often do you hear statements like, Be the envy of your friends…Don't miss out… Today only…?

We live in a world where we're expected to keep up with the Joneses. Every time we turn on the television or Google something, we're bombarded by sales and offers.

Then there are social media marketers; given the lucrative advertising deals these Influencers achieve for themselves, plenty of us are making purchasing decisions around the accounts we follow.

It probably seems that the modern world is pestering us with advertising; how easy to lose control and find ourselves in debt!

Unlike Yacht-guy from the quote, our finances are generally limited, but there are ways to ensure we stay in control of our finances.

Budget

Make a budget and stick to it. Sure, it's not fun but it's a time-proven technique for keeping spending under control.

Be realistic though, and allow yourself some spending money, just make sure you don't splurge beyond your affordable amount.

The government's SmartMoney website provides a free calculator to enable you to create your own workable budget.

Debit, not credit

Use a debit card instead of a credit card. Debit cards can be linked to a bank account or loaded with cash, either way you're using your own money not the bank's, meaning you can't spend what you don't have – there's also no interest!

Additionally, it's wise to avoid those Buy-Now-Pay-Later schemes. They're so easy to arrange you can rack up quite a debt without realising it!

Payment plans

Most utilities and insurance companies allow you to set up regular payment plans so you pay a set amount each period. You'll always know what you're up for and it's paid automatically. Your gas or electricity provider can help get you started.

Avoid social media

Ever noticed how after Googling, say, camping equipment, suddenly you're seeing advertising for tents and camp-stoves?

Algorithms embedded in the internet record our searches to help advertisers target us through social media.

We get it – it's tough to avoid social media, but if you're susceptible to targeted online advertising, you may need to limit your exposure to it – at least for a while.

Pause

Avoid the temptation to impulse-buy.

Advertising is designed to appeal to our need to fit in, to keep up with our friends, to show off. Things you want to buy, but don't necessarily need, may simply be status symbols. Before you whip out the plastic, ask yourself if a handbag with an Italian label is really worth months on a repayment plan?

If you think you're going to struggle with any of our suggestions, visit MoneySmart.gov.au and download their online guide, Managing your money. It's filled with ideas and advice for getting on track and staying on track.

As for that quote about happiness and huge yachts, those words were courtesy of 80's rockstar David Lee Roth. Since most of us never scaled those dizzy heights, we'll just have to take his word for it.

To be or not to be the Executor

If you're the eldest sibling in the family, or deemed to be the "most responsible"; if you're seen to be a good friend by someone; or a fine upstanding citizen by others, chances are you will be asked to be an executor of someone's Will.

After you've enjoyed the warm feeling of being wanted, just pause for a moment and take stock of what it really means to assume this most important role.

You need to be aware that when the person dies, you will be required to spend a significant amount of time executing your responsibilities - and these can be onerous.

The actual functions will vary from one situation to another and, to some extent, depend on the surviving family members. However, the legally defined duties of the executor include:

- Arranging the funeral;
- Determining the assets and liabilities of the estate;
- Applying to the court for probate, if required;
- Determining what assets may need to be sold to pay outstanding debts – this may be defined in the Will or by established legal definitions;
- Arranging the sale of all assets which are not to be directly transferred to the beneficiaries – including the home, investments, business interests and personal chattels;
- Lodging tax returns for the estate and the deceased;
- Paying the debts;
- Publishing a notice that you intend to distribute the remaining assets to the beneficiaries;
- Distributing the remaining assets to the beneficiaries according to the terms of the Will.

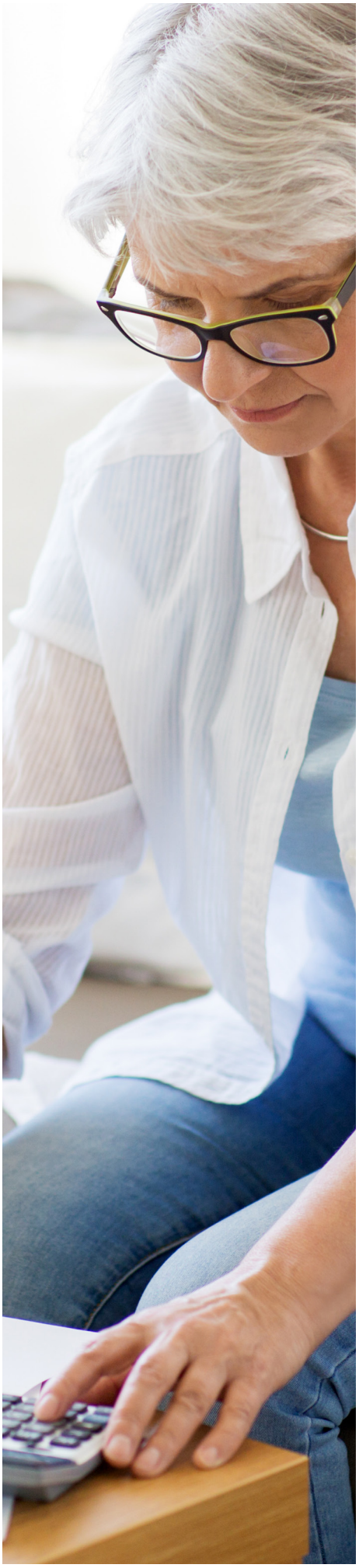
For all this, you may find yourself in the middle of family disputes and even subject to legal action from a dissatisfied beneficiary or creditor. If placed in this position, the executor needs to be able to manage his or her responsibilities as impartially as possible.

The executor can be held personally liable if a beneficiary suffers financial loss as a result of the executor's actions or inaction, and in some instances, be legally liable for any losses incurred.

If, after considering all of this, you don't think you can honour the person's request and fulfil the role appropriately, it might be best to decline the offer.

If you're feeling bad about not accepting, you could suggest that your friend or relative engages a professional executor in the form of a trustee company (or public trustee) or firm of solicitors. This will also guarantee the executor outlives the person making the Will.

Be mindful that laws do vary between Australian states and territories. Consider enlisting the assistance of an estate planning solicitor for specialist advice.



What do I need to know before investing in property?

It is no secret that Australians love investing in property. And while it can be an exciting prospect, it is essential to consider the finer details before jumping in, especially any ongoing costs and expenses you'll have to pay.

Investment property tax deductions

It is vital that you're aware of what you can and cannot claim as a tax deduction as a landlord.

For starters, did you know there is a difference between repairs and maintenance completed on the property versus improvements made?

The reason why this is so important to understand is that repairs and maintenance costs are claimable immediately as a tax deduction, while property improvements are claimable over several years (generally 2.5% every year for 40 years from the date that the improvements were completed). For example, lawn mowing, and land taxes can be claimed immediately, whereas renovating the kitchen needs to be claimed over several years.

The Australian Tax Office (ATO) allows the following expenses to be claimed immediately:

- advertising for tenants
- body corporate fees and charges
- council rates
- water charges
- land tax
- cleaning
- gardening and lawn mowing
- pest control
- insurance - building, contents, public liability, loss of rent
- interest expenses - related to borrowing
- pre-paid expenses - such as insurance premiums
- property agent's fees and commission
- repairs and maintenance
- legal expenses

While these property improvements are claimable over several years:

- Capital works – costs that increase the value of your property, such as significant structural alterations, e.g. renovating a kitchen.
- Borrowing expenses – expenses such as loan establishment fees, lender's mortgage insurance, valuation report fees, and title search fees are considered borrowing expenses.
- Depreciating assets - assets costing more than $300, such as carpets, flooring, roofing, hot water systems, etc., can be depreciated over time.
- Initial repairs – expenses incurred to fix existing damage after purchasing your property fall under initial repairs.

Take note these expenses CANNOT be claimed as a tax deduction:

- Loan repayments – you cannot claim your principal loan repayments as a tax deduction.
- Depreciating assets – from 9 May 2017, you cannot claim depreciation on assets if they have previously been used, such as second-hand furniture or existing carpet before you purchased the property. From 1 July 2017, if you rent out your own home, you cannot claim depreciation for assets that were in your home.
- Other unclaimable expenses – expenses paid by the tenant, personal use of the property, travel expenses to visit the property, and certain other costs like conveyancing (however, this cost is added to the initial price of the property, which can reduce your capital gains tax).

Why should you make property improvements or repair work before the end of the financial year?

Have repair or maintenance work that you have been putting off or trying to save for? Completing these repairs before the end of the financial year may allow you to immediately claim these expenses as a tax deduction, resulting in instant tax savings. Costs related to fixing a leaking pipe or regular servicing of appliances fall into this category.

Even though capital improvement expenses can only be claimed over several years, if you incur those expenses shortly before the end of the financial year, you can start claiming them a lot sooner than if they were completed in the first half of the financial year, for example.

Seek professional advice

Buying your investment property is just the start of your landlord journey. Once you have acquired your property, engaging a property manager to rent it out and manage it on your behalf may take a lot of the stress out of maintaining your property. They can identify the best candidates for your property and manage any simple repair work or major improvements.

Along with a property manager, your accountant is an important ally in your property investment endeavour. They will be your best source for information on claimable expenses and tax deductions and will also ensure your tax obligations are correctly lodged with the ATO.

And finally, above all else, enjoy your property investment ride. We guarantee it will be an interesting one!

5 tips to improve your financial wellbeing

In these ever-changing and uncertain times in society, there has never been a greater emphasis on our health and wellbeing.

However, there is a crucial element that is often overlooked – our financial wellbeing. When addressing our overall health, it is essential that we also look at the responsibilities and stressors that come with managing our finances.

According to the Organisation for Economic Co-operation and Development (OECD), the average Australian household finds themselves in debt around 203% of their net disposable income, ranking us fifth worldwide behind countries such as Denmark and Norway. In this debt race, the further away from first place we come, the better!

With little education around budgeting and responsible spending, especially among young adults, it can be easy to fall into an unhealthy financial position. Yet, it may be comforting to know there are a range of basic strategies you can implement into your daily lifestyle to keep on top of your finances, all while positively contributing to your own health and wellbeing.

1. For the average Australian, it is essential to know where your hard-earned cash is truly going—spending $30 per week on coffee? It is sometimes easy to blur the lines between our needs and wants, so creating a structured budget to implement weekly is a great place to start.

The 50/30/20 budgeting method assigns half of your earnings to needs, such as rent, food and bills, another 30% goes towards wants and leisure (an occasional latte from your favourite café), leaving the remaining 20% to be distributed between debt repayments and savings.

Implementing an organised, non-negotiable budgeting system will create a solid foundation for managing your money.

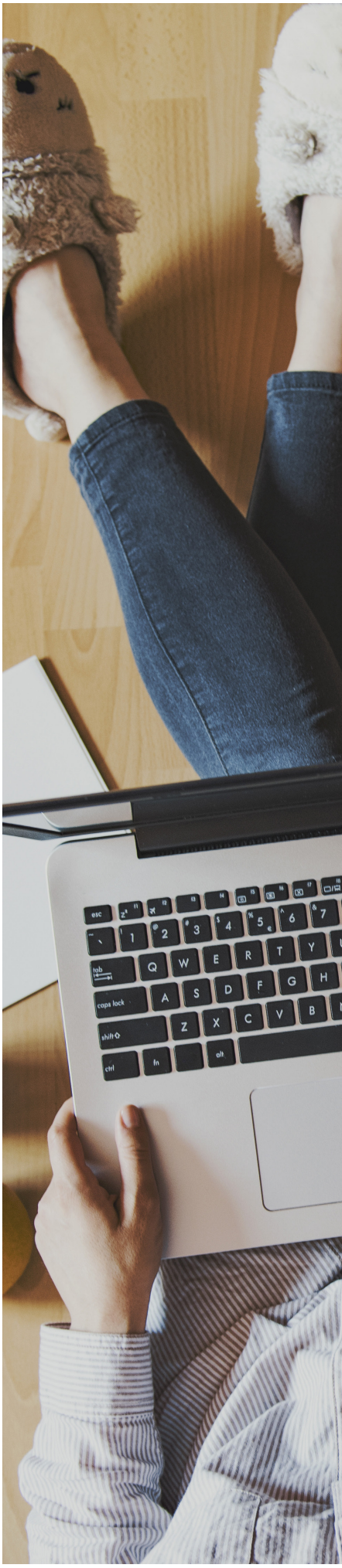
2. Another creative way to manage your debt is to map out a financial liabilities' hierarchy or debt pyramid. Jot down your current debts and place those with the highest interest rate at the top, much like your credit card. Then, make your way down, assigning debts such as mortgages, student loans, car loans etc., into their rightful positions based on interest rates or fees.

3. Beware of apps and programs allowing you to 'buy now, pay later', such as Afterpay or ZipPay. While easy to use and usually requiring no more than a few taps, these payment methods can quickly plunge you into financial despair. Miss one payment? You will likely cop a late fee, then another, and another, making it a tough cycle to break. The bottom line here: Don't spend money you don't have.

4. Much like that assignment you said you would do yesterday, or that pile of laundry that has been staring at you for days, it is easy to leave bills and repayments to the very last minute, or even worse, until they're overdue. Allocate an hour every other week to sit down, open those bills, review any owing repayments, and act accordingly.

5. Lastly, consider speaking to a professional! Investing time into your financial situation and wellbeing is essential to a well-balanced lifestyle. A financial adviser can give you realistic, well informed, and knowledgeable advice specific to your individual needs, and help set you up with skills that will last a lifetime.

Proactively managing your finances is the very best way to boost your financial wellbeing, lower stress, and keep you feeling your best during these uncertain social and economic times.



The female investor

Investment and portfolio building has traditionally been a male-dominated world, but these days more women are trading on the market – and they're good at it!

According to an ASX Australian Investor Study completed in 2020, women make up 42% of Australian investors, yet 45% of those only began investing in the year prior to 2020.

It's intriguing that younger women – known as Next Generation Investors aged 18 - 25 – are taking up stock portfolios. Their goals include saving for a holiday (50%) or paying down existing debt (34%).

The ASX study highlighted a few other interesting points:

- Women prefer products more commonly understood, such as direct Australian shares (53%), residential investment property (37%) and term deposits (31%).
- Women are less concerned than men about low interest rates and market fluctuations, but consider issues like whom to trust, hidden fees and liquidity.
- While men are more accepting of market volatility, women prefer stable or guaranteed investment returns.

While we're about breaking down stereotypes, the study found that women are generally more successful in their investments than men.

This could be because women are cautious by nature, taking longer to research investment choices and, once settled, preferring to ride out market ups and downs.

Conversely, men tend to regularly review their portfolios and trade aggressively, buying and selling assets, potentially incurring additional fees and losses due to market swings.

In recent times there has been a surge in Australian women backing other Australian women in start-up business ventures.

According to SmartCompany.com.au, female venture capitalists are recognising that entrepreneurial women face a specific set of challenges, such as a lack of networking and mentoring opportunities, and lingering perceptions around gender-based work/family roles.

Further, support for Indigenous businesswomen is increasing as women's investment networks strive to encourage women from diverse backgrounds.

Fact is, almost 40% of Australian women who are single for reasons of divorce, widowhood or otherwise, will retire in poverty. Issues around the gender pay gap are recognised contributors to women generally having less money in savings and/or superannuation: women save an average of $598 per month compared with men $839.

In an effort to improve these figures, many women strive to secure their financial futures through self-education: magazines, blogs, podcasts etc. Others seek professional advice through referral from a trusted friend or relative.

A great place to start is your local library, where you'll find financial books and magazines. Check out the ASX online Education centre, your local TAFE or the government's MoneySmart website for short investment courses and information.

The financial planning industry recognises that more women are actively investing. Financial advisers are developing strategies specific to women's needs and goals – in fact, the industry is well-served by a large number of financial professionals who are women.

The Financial Planning Association of Australia (FPA) can put you in touch with a qualified professional adviser so you can ensure all your decisions are well-informed and that your personal needs and goals are considered.

Women are proving themselves very capable investors, just another reason for women to take control of their futures.

How to go broke trying to get rich

According to the Collins English Online Dictionary, a get-rich-quick scheme can be defined as, a promise to make a person extremely wealthy over a short period of time, often with little effort and no risk.

If you think that sounds a bit dodgy, you could be right. Yet ordinarily sensible and cautious people signup to such schemes every day.

In difficult times, we can be forgiven for trying to find a simple way to move our finances forward, yet if it seems too good to be true…well, you know the rest.

Remember those pyramid-style investments we saw back in the 1980s? Fraudulent arrangements where investors' money was used to pay earlier investors. The plan worked well for those in at inception, but later investors lost out. The most well-known pyramid scheme was created by Charles Ponzi in the 1920's.

These days, pyramid schemes are illegal, but there are plenty of legal investment strategies out there that appeal to our desire to earn big returns over a short period of time, like gearing, crypto-currencies, even gambling.

However, being legal doesn't mean you should throw caution to the wind; all investments come with risk – it's about how much risk you can afford or are willing to accept.

We understand the risks associated with gambling – after all, casinos and other gambling outlets are not in the business of losing money!

But what about the risks associated with other investment opportunities?

Gearing can potentially yield strong returns but can just as easily generate great losses. Let's say you borrow at low interest rates to purchase an investment property. All this scenario needs is a period where the property is untenanted, and/or, interest rates increase, and suddenly you're unable to service the loan.

You may be forced to sell the property at a loss. Conversely, if selling for a gain, you're most likely up for capital gains tax (CGT), reducing your anticipated profit.

Crypto currencies are quick and easy to transact, but they're also anonymous, a feature attracting all kinds of investors – including crooks!

The crypto world has been used for nefarious activities like money laundering and illegal dark-web purchases, (think firearms). As online ne'er-do-wells have access to the latest technology, just like the rest of us, it can be difficult to spot an illegitimate scheme, and since there's no regulator, there's no claims process if you believe you've been swindled.

Additionally, crypto-currency investments are volatile; their value can sky-rocket overnight, but just as quickly plummet. Of course, such volatility can work to your benefit, but if your investment keeps you awake at night, it's probably not right for you.

So, is it really possible to get rich quick?

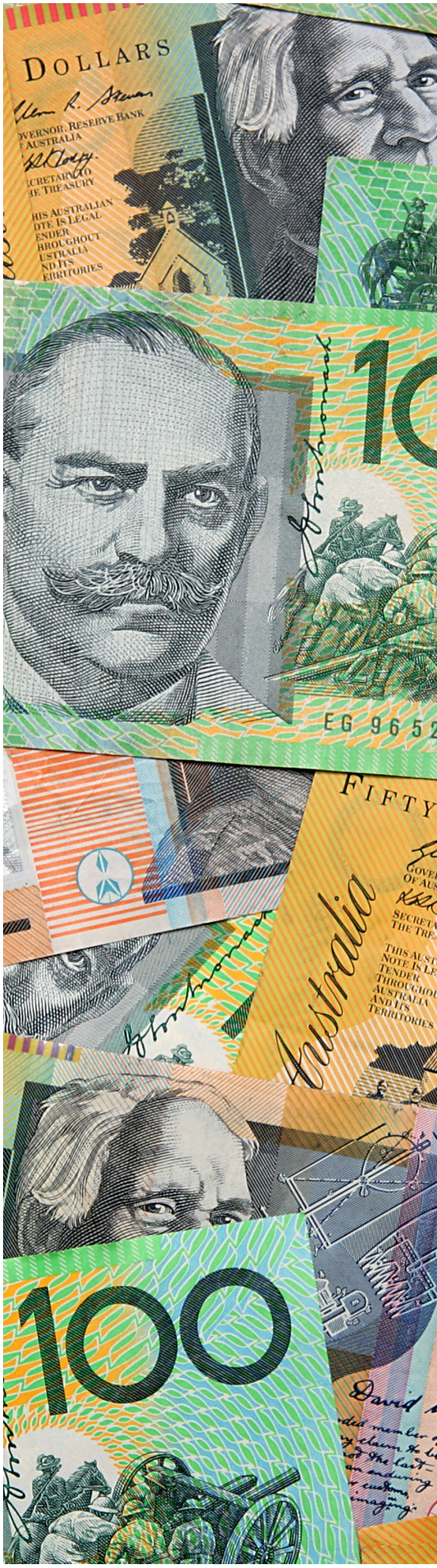
That depends on your definition of quick which is why you should always seek professional advice before making any financial decisions.

Keen to invest capital in a business? Your accountant and financial planner will be able to help.

Fancy borrowing to invest in property or shares? Perhaps you've had your eye on a commodity you think is about to take off.

Your financial adviser can help create a strategy that meets your specific needs and attitude to risk.

And as for gambling, well you can ask your financial adviser about that too, just don't bet on the response!



The business of farming

The picture is familiar – a couple, steaming mugs in hand, watching the sun rise over rich pastures while a gentle morning mist slowly evaporates to reveal grazing cattle. The couple exchange a smile of contentment: another day in paradise.

For one short moment you wonder who in their right mind would trade life on the land for the rat-race of the city.

Alright, now take the romance out of it and look at the reality – the business of farming is tough!

It's a business of extremes – extreme highs countered by extreme lows. It's a business of cycles charted by the seasons - years of abundance interrupted by the unavoidable threat of drought, flood, fire or other natural disaster our great continent is famous for.

The hard truth is that it's estimated the average farming business faces crop failure or significant stock loss roughly one year out of every six.

Is farming really different from any other business?

In any commercial venture, strategic planning to help you ride out the rough times is essential. Remove the emotion of land-ownership and the family traditions that accompany farming and you're left with a business that experiences good times and bad, profitable years and years of loss; and as with any other business, running a farm is expected to be profitable.

Unlike other businesses, if your farm isn't profitable, it's not that easy to shut up shop and turn off the lights on your way out.

The business of farming is often difficult to view in such impersonal terms; after all, working the land tends to 'run in the family'. It's a legacy passed from generation to generation. But it is a business nonetheless. It exists to supply a commercial demand while producing an income for the people who work on it. It puts food on the table, pays for the children's education and funds retirement – just as you'd expect of any other business.

Regardless of the nature of that business, successful operators plan ahead and surround themselves with skilled people. For example, you're expert at raising beef cattle but at what stage were you supposed to become a tax expert as well?

Do you expect too much of yourself?

Which leads neatly into an interesting point: although people who work the land tend to display a marked willingness to offer assistance to others, they rarely seek assistance for themselves. Many place unfair expectations on themselves by attempting to 'go it alone'.

The business of running a profitable farm involves specific issues and complexities but there's no reason you should feel you're alone when trying to get your head around topics like:

- budgeting and cash flow,
- tracking income and expenditure,
- managing taxation, wages and superannuation.

Let's return to the stats for a moment. If the odds are that one in six farming years may result in a financial loss to your business, doesn't it make sense to put a plan in place that helps ride out these years?

A tailored plan is crucial to success

A financial plan, tailored to the particular business of your property, can mean the difference between borrowing through the tough times and treading water in the good; or having reserve funds for the lean years and surplus for savings and business growth during the productive years.

Timing is also vital. Not planning early enough may mean that your business decisions are triggered by events over which you have no control. Planning early puts you in command and increases your options.

If you could assemble a business strategy that structured your property so that it produced higher income, wouldn't you be interested?

Financial advisers with an understanding of rural property management can work with you to create such a strategy.

Development of an appropriate business plan provides strategies for:

- stock/produce sales and purchases,
- stocking rates,
- seasonal planning,
- succession planning.

Consider these points:

1. **Budgeting** – like any business owner, farmers understand this requirement first hand. It might be handling household expenses or managing the costs of the property. Identifying needs from wants is paramount to keeping operational costs under control.
2. Many events that impede profitability are outside of your control which raises the question of **contingency planning** – what you can do now to prepare for these events.
3. **Wealth creation** sets up your future. A business with sustainable profitability, even in less lucrative years, will enable you to plan your life through each of its stages from raising a young family to retirement and beyond.

These issues are the same as those faced by the lady running a cafe or the local plumber. The difference lies in the experience and background of the professionals they have behind them helping them to achieve their goals.

Now, picture this: a sweat-stained man returning to the homestead after an honest day's graft on the land. He may appear alone, but he has a trained army at his back and a plan for the future.

What is your most valuable asset?

A  YOUR **HOUSE?**

B 

YOUR **SUPERANNUATION?**

C  YOUR **INCOME?**

The answer is c!

Without the ability to earn income we don't have the money to pay the bills and save for the future.

Financial security doesn't just mean accumulating wealth but also protecting it. Many people insure their house and car but forget about protecting their income. If you are sick or injured and cannot work, you may have savings or sick leave from your employer to keep you afloat. ***But after that...?***

Talk to us about protecting your most valuable asset

Quarterly Economic Update: April-June 2022

The price of a lowly head of lettuce has never been a recognised barometer of the strength of the Australian economy, that is until the media started reporting iceberg lettuces were selling for $10 a head.

Suddenly, this has become a touchstone for everything that is wrong with the domestic economy. Prices are on the rise, spurred by higher transport costs and climate-based disruptions to the food chain, and the cost of living is surging.

While some relief came with an unexpected 5.2 per cent increase in the basic wage, a move endorsed by the newly elected Federal Government, the prospect of similar inflation linked wage increases were dismissed as a 'baby boomer fantasy' by the trade union movement.

Nonetheless, fears of further wage increases remain. So, all eyes are now focused on price rises with the most recent figures from the Australian Bureau of Statistics, pegging Australia's rate of inflation at 5.1 per cent per annum.

As bad as this might seem, it is still one of the lowest inflation rates among OECD nations, beaten only by Japan and Switzerland, at the bottom of the inflation table with 2.5 per cent, followed by Israel on 4.0 per cent, and Korea and France with 4.8 per cent.

However, with inflation in the United States at 8.3 per cent and 7.8 per cent in the United Kingdom and both countries expecting this rate to go higher, the fear is Australia's rate will start moving towards 7 per cent - a rate not seen in Australia for more than 20 years.

Inflationary fears were made worse by the Governor of the Reserve Bank, Phil Lowe, calling for "front-loaded" interest rate hikes to avoid stagflation and warning against any super-sized wage claims.

Just the mere mention of stagflation, something not seen since the seventies, has sent a shiver through the economy.

This drove fears that home loan interest rates will also be pushed higher, causing more financial stress for those who have borrowed heavily and bought property at the recent record-high prices.

While all four of the big banks are reporting current home loan arrears at record low levels and the majority of customers are tracking well ahead on their home loan repayments, fears still remain about the impact of higher interest rates.

Property prices have already started to slide with industry analysts expecting the average prices in Melbourne and Sydney to fall by 10 per cent this calendar year and by potentially as much again next financial year.

Meanwhile, the value of cryptocurrencies, which seems to magnify prevailing market sentiments, has collapsed across the board with values falling by as much as 70 per cent.

The largest single cryptocurrency, Bitcoin, which was trading at just $US67.81 in July 06, 2013, soared as high as $US68,000 last November, is currently trading at $US20,200, with little market enthusiasm.

While cryptocurrency was once touted as being something of a safe haven and a means of diversifying investment portfolios, it is fast becoming a magnifier of market excess and pessimistic economic sentiment.