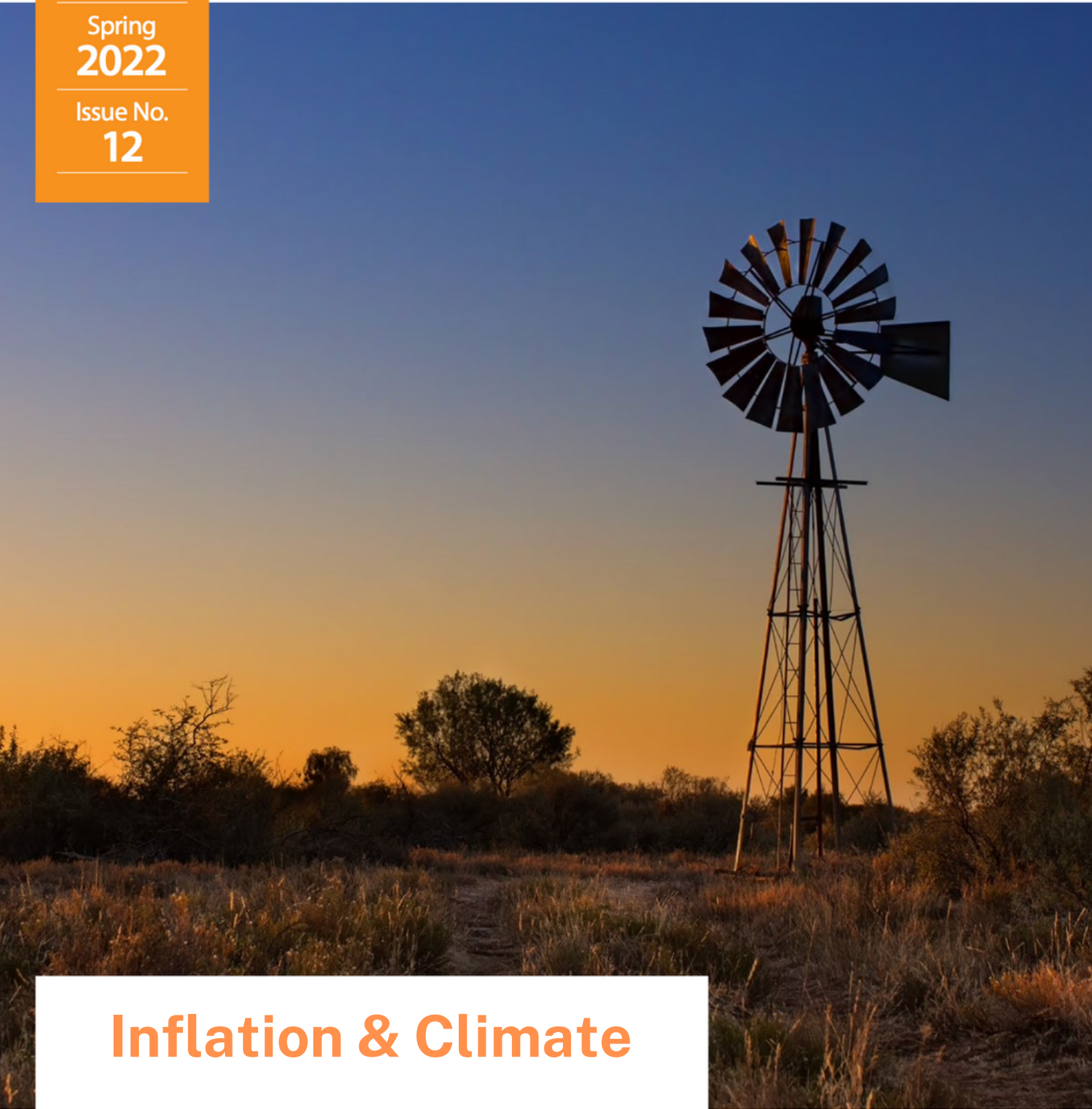


Now&Next



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Inflation & Climate



Inflation and climate dominate ASX reporting season

Supply chain pressures and inflation have dominated conversations about investment markets for much of the past year. Reporting season gives Australians a comprehensive look at how these forces are affecting businesses – and what they mean for investors.



August is a busy month for ASX-listed companies. The dust of the past financial year has finally settled and most organisations – those with 30 June balance sheet dates, at least – post their full-year results. Firms with different reporting calendars can also often offer up half-year results, adding up to a smorgasbord of information for investors.

Annual reports also provide a health check for corporate Australia. Directors disclose not only how their companies performed in the prior year but outline how they expect to perform in the months ahead, as well as any concerns or tailwinds they see affecting their operations.

This year's reporting season had plenty of important takeaways for investors.

Living costs to hit demand, but opportunity remains

It should come as no surprise that inflation concerns dominated directors' reports this year. Inflation, measured by the Consumer Price Index (CPI), hit 6.1% for the year ending 30 June 2022¹. Government forecasts now expect inflation to keep climbing to a peak of 7.75% in December this year.²

Australians are already feeling the pinch, with food prices soaring to almost unbelievable levels. Businesses have also taken note – and no, we're not just referring to KFC's controversial decision to replace lettuce with cabbage to keep burger costs down.³

In its full year report, CommBank warned that although Australia's unemployment rate is lower than normal and the economy is rebounding well from the COVID-lows, households remain under pressure. The lift in living costs, the bank said, will likely weigh on consumer demand.⁴

This was a concern also flagged by the largest listed investment company in the country, Australian Foundation Investment Company (AFIC).⁵ In a video to shareholders, AFIC portfolio manager David Grace described the consumer environment as "tough" but added the company sees opportunities ahead, nonetheless.

Mr Grace noted that in the past year, AFIC had taken positions in a number of companies with exposure to consumer spending. And while the outlook for these consumer-oriented businesses remains tough, much of this has been priced into their shares, Mr Grace said, and he felt comfortable buying them now at what they see as a discounted price.⁶

A changing corporate climate

Another major theme throughout this year's reporting season was climate change. Insurer Suncorp – which recently announced plans to sell its banking business – was particularly hard-hit by the recent spate of natural disasters, including floods and fires across the east coast.⁷

Chair Christine McLoughlin said the 35 separate natural hazard events recorded during the year represented the highest number of such incidents in the company's century of operations. The combined cost of these to the business was \$1.08 billion – \$101 million more than Suncorp's allowance for the year. It's understandable then, that the business is advocating for stronger action on climate change.⁸

They're not alone in their quest to curb carbon emissions. Rio Tinto and Aurizon (mining and freight companies, respectively) both reconfirmed their commitment to cutting emissions.^{9,10}

Meanwhile, Unibail-Rodamco-Westfield (the French-owned company operating Westfield shopping centres) installed more than 1,200 solar panels across its shopping centres globally. The roll-out is part of the company's Better Places 2030 goals, which has seen the group cut energy consumption by 15% between 2015 and 2021 and begin to implement biodiversity plans.¹¹

CommBank also published its first ever standalone Climate Report, tracking the bank's progress against the 11 targets created by the Task Force on Climate-Related Financial Disclosures.¹²

Progress made on social and governance issues

Corporate action on climate change is often bundled with other responsible investing principles under the ESG banner – that is, environmental, social and governance concerns. While there was a strong focus on the 'E' this year, social and governance matters were also a focus for many businesses.

Outgoing Telstra CEO Andy Penn explained to investors that the telecoms company can only remain successful for shareholders "when we are also successful for our customers, our people, and the communities we serve"¹³

Mr Penn, who stepped down on 1 September 2022, flagged that in addition to steps taken to reduce the business' environmental impact, Telstra is implementing strategies to support diversity within its workforce and better protect vulnerable customers.¹⁴

Bendigo & Adelaide Bank made similar moves during the year. In its full year results, the bank noted it had delivered a framework to guide its ESG strategies into the future; updated its diversity and inclusion processes; and introduced a code of conduct for the bank's suppliers.¹⁵

The bank also signed up to super fund HESTA's 40:40 strategy, a broad industry initiative pushing for gender parity at the executive level of ASX 300 companies by 2030.¹⁶

i Talk to your financial adviser

As you consider the takeaways from this reporting season, your financial adviser is well-placed to evaluate any impact on your financial position and retirement plan.

- 1 Australian Bureau of Statistics, '[Consumer Price Index, Australia](#)', 27 July 2022, accessed 10 August 2022.
- 2 S Eslake, '[The Chalmers graphs: 7.75% inflation, plunging real wages, weak growth](#)', 28 July 2022, accessed 10 August 2022.
- 3 N Bucci, '[Hit an iceberg: KFC switches to cabbage in Australia due to lettuce shortage](#)', The Guardian, 7 June 2022, accessed 10 August 2022.
- 4 Commonwealth Bank of Australia, '[2022 Annual Report](#)', 10 August 2022, accessed 10 August 2022.
- 5 M Hayden, 'Top LICs on the ASX and how they have performed', Canstar, 9 February 2022, accessed 10 August 2022.
- 6 Australian Foundation Investment Company, '[Watch: Discussing AFIC's FY22 full-year results](#)', 1 August 2022, accessed 10 August 2022.
- 7 Suncorp, '[Annual Report 2021-22](#)', 8 August 2022, accessed 10 August 2022.
- 8 *ibid.*
- 9 Rio Tinto, '[Interim Results 2022](#)', 27 July 2022, accessed 10 August 2022.
- 10 Aurizon, '[Full year results presentation](#)', 8 August 2022, accessed 10 August 2022.
- 11 Unibail-Rodamco-Westfield, '[2022 half-year results](#)', 28 July 2022, accessed 10 August 2022.
- 12 Commonwealth Bank of Australia, '[2022 Climate Report](#)', 10 August 2022, accessed 10 August 2022.
- 13 Telstra, '[Full year 2022 results](#)', 11 August 2022, accessed 16 August 2022.
- 14 *ibid.*
- 15 Bendigo and Adelaide Bank, '[Results Presentation for the full year ended 30 June 2022](#)', 15 August 2022, accessed 16 August 2022.
- 16 *ibid.*

The numbers

The most significant price rises were new dwelling purchases by owner-occupiers.¹⁷

+5.6%

Automotive fuel **+4.2%**

Furniture **+7.0%**

70%

of Australian homes are separate houses.¹⁹

13% are townhouses

16% are apartments

Consumer Price Index rose

6.1%

over the twelve months to June 2022.¹⁸

Average weekly earnings are

\$ 1,769.80

at May 2022.²⁰

Unemployment rate is

3.4%

at July 2022.²¹

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CONTACT YOUR COUNT ADVISER AT:

¹⁷ Australian Bureau of Statistics

¹⁸ Australian Bureau of Statistics

¹⁹ 2021 Census Snapshot

²⁰ Australian Bureau of Statistics

²¹ Australian Bureau of Statistics