

SLOWER GROWTH BUT SOME POSITIVES ON THE RADAR FOR AUSTRALIAN ECONOMY

In the first of a two-part series, we outline what the current economic climate – characterised by a resources sector downturn and low interest rates and modest growth – means for Australian investors.

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As Australians brace for a federal election, all eyes will be on the polls – and the economy.

A slump in the resources sector has contributed to an International Monetary Fund prediction that growth in Australia will continue to fall until 2017.¹

Australia's annual gross domestic product growth in 2015 was a modest 2.5 per cent,² well down on its longstanding average of 3.5 per cent.³ However, recent news has been better, with the economy growing 0.6 per cent in the final quarter last year (a growth rate that came in at the high end of economists' estimates) as consumer spending, housing construction and public sector expenditure offset a fall in company investment and export prices.³ In such a delicately balanced economic climate, it is important for investors to understand the key market forces – and to seek the assistance of a financial adviser who can help navigate the changes.

Jobs growth

Robust employment figures also suggest our economy may fare relatively well. Australian Bureau of Statistics figures show jobs growth contributed to the unemployment rate falling to 5.8 per cent late last year, although it crept up to 6 per cent in January 2016.⁴

UNSW Business School economist Tim Harcourt suggests the impact of the mining sector on Australia's economy has been overplayed – notwithstanding its revenue importance for government – as it does not create as many jobs as some other sectors.

"The transition to the non-mining sector is probably easier than we think because most of the employment comes in construction and health and education and other parts of the services sector," he says. Harcourt believes Australia is well placed to move from a "mining boom to a dining boom" as agricultural exports increase to powerhouses such as China and India.

Although China's economic growth slipped to 6.9 per cent in 2015,⁵ the weakest in 25 years, the nation's fast-growing domestic services sector still offers considerable export opportunities for Australia.

Rebalancing act

The Reserve Bank of Australia also notes that the Australian economy is successfully "rebalancing" after a decade-long boom in mining investment, with low inflation meaning there is still scope for further rate cuts if needed. RBA Governor Glenn Stevens, in a March statement,⁶ points to expansion in non-mining parts of the economy strengthening during 2015. "This was reflected in improved labour market conditions ... with growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, inflation is likely to remain low over the next year or two," he says.

The combination of low interest rates, modest inflation and a reasonably healthy jobs market means Australia is much better placed than it was during significant recessions such as in 1974–75 (high inflation, rising unemployment) and the early 1990s (asset price boom, high interest rates and high unemployment). "We're not in recession," Harcourt says. "So it's an easier slowdown now because we don't have the inflationary impacts and we don't have the very high interest rates that we had before."

Market highlights

- **Weak resources sector dampens growth hopes.**
- **Rising consumer spending and housing construction offer hope.**
- **Employment growth a positive.**
- **Low interest rates a buffer for consumers.**

In part two of this series we will give an overview of the types of investments that are likely to thrive in this current climate. To determine the investment strategy that best suits your individual needs throughout market changes, please contact us.

1 International Monetary Fund, World Economic Outlook, <https://www.imf.org/external/pubs/ft/weo/2015/02/index.htm>
2 ABC, <http://www.abc.net.au/news/2015-03-04/gdp-growth-slows-in-december-quarter/6279428>

3 Trading Economics, <http://www.tradingeconomics.com/australia/gdp-growth-annual>

4 Australian Bureau of Statistics, <http://www.abs.gov.au/ausstats/abs@.nsw/mf/5206.0>

5 Wall Street Journal, <http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398>

6 Reserve Bank of Australia, <http://www.rba.gov.au/mediareleases/2016/mr-16-04>.