AXIS FINANCIAL GROUP

ECONOMIC INDICATORS

Edition 9

"The world is changing in big ways which we haven't seen in our lifetimes."

Ray Dalio
Founder, Co-Chief Investment Officer and Co-Chairman of Bridgewater Associates, a global macro investment firm and world's largest hedge fund

ECONOMIC UNCERTAINTY

Record high inflation, debt levels and an ongoing run of interest rate hikes are hot topics of discussion in relation to the economy right now. What do these economic indicators tell us about the state of the economy? Where are we currently at within the economic cycle? Is the current approach to economic management being adopted globally by many advance economies sustainable over the long term? What impact does all of this have on investment markets?

AUSTRALIAN ECONOMIC INDICATORS

Economic Indicator	Value
Cash Rate Target (As at Feb 2023)	3.35 %[1]
GDP Growth (Forecast YoY 2023)	1.60%[2]
Inflation (Annual to Dec 2022)	7.80%[3]
Unemployment (As at Nov 2022)	3.40%[4]
Public Debt to GDP Ratio (2022 Estimate)	56.73%[5]
Household Debt as a Share of Income (As at Sep 2022)	188%[6]

INTEREST RATES

On Tuesday 7th of February 2023, the Reserve Bank of Australia (RBA) lifted the official cash rate target for the ninth consecutive time. Currently sitting at 3.35%, this is the highest that interest rates have been in Australia since September 2012.[7]

This upward trend of rising interest rates can also be tracked globally.

Region	Cash Rate	Direction	Change
USA	4.75 %[8]	Increase	01/02/2023
EU	3.00%[8]	Increase	02/02/2023
UK	4.00%[8]	Increase	02/02/2023
Canada	4.50%[8]	Increase	25/01/2023
China	3.65%[8]	Decrease	22/08/2022

Central banks are using the mechanism of lifting interest rates as a way to try and bring down high inflation levels. Rising interest rates effectively reduces the amount of spending within an economy. Less spending within an economy usually results in a slowing of economic growth and an economic contraction.

GDP GROWTH

Australian GDP Growth for the period September 2021 to September 2022 is reported as 5.9%[9] and forecast at 1.6%[10] in 2023.

Global GDP Growth for 2022 is reported as 3.2% and forecast at 2.9% in 2023. This is lower than the historical average of 3.8% from 2000 to 2019.[11]

Region	2021 GDP Growth[11]	2022 GDP Growth (Estimate)[11]	2023 GDP Growth (Forecast)[11]
USA	5.9%	2.0%	1.40 %
EU	5.3%	3.5%	0.70%
UK	7.6%	4.1%	-0.60%
Canada	5.0%	3.5%	1.50%
China	8.4%	3.0%	5.30%

INFLATION

As at December 2022, inflation rates have continued to increase to record highs in Australia, USA, UK and Canada with marginal drops seen in the EU and China.

Region	Inflation Rate	Direction	Change
USA	7.10 %[12]	Increase	December 2022
EU	10.40%[13]	Decrease	December 2022
UK	10.70%[12]	Increase	December 2022
Canada	6.80%[12]	Increase	December 2022
China	1.60%[12]	Decrease	December 2022

Speaking at the Greenwich Economic Forum in October 2022, Ray Dalio (founder, co-Chief Investment Officer and co-Chairman of Bridgewater Associates, a global macro investment firm and world's largest hedge fund) states "the way you get rid of inflation is to get people to spend less and that is an economic downturn." Dalio notes that policymakers are accountable for getting the economic balance right. You don't want too much inflation but you also don't want too weak an economy.[14]

UNEMPLOYMENT

The Australian Bureau of Statistics reports that from December 2012 to March 2020 Australia's unemployment rate sat in a range between 5.0% and 6.4%. In July 2020 it peaked at 7.5%. As at December 2022 it is sitting at 3.5%.[15]

Australian Unemployment Rate
Seasonally Adjusted %

Source: Australian Bureau of Statistics, Labour Force, Australia December 2022

A trend in declining unemployment rates since 2020 can also be seen in the US, EU, UK and Canada. China reported an increase in unemployment rates from 4.82% in 2021 to 5.5% in 2022.

Region	2020 Unemployment[16]	2021 Unemployment[16]	2022 Unemployment[16]
USA	8.1%	5.4%	3.6%
EU	7.2%	7.1%	6.0%
UK	4.6%	4.5%	3.8%
Canada	9.6%	7.5%	5.2%
China	5.0%[17]	4.82%[17]	5.5%[18]

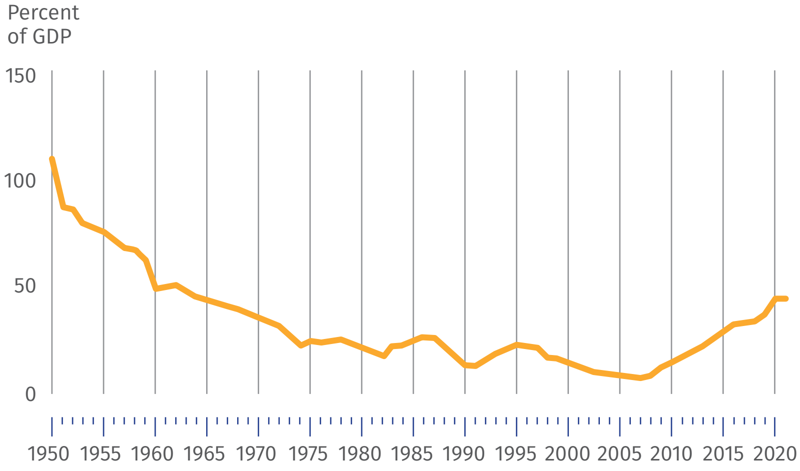
Investopedia states, "a low unemployment rate means that the economy is more likely to be producing near its full capacity, maximizing output, driving wage growth, and raising living standards over time. However, extremely low unemployment can also be a cautionary sign of an overheating economy, inflationary pressures, and tight conditions for businesses in need of additional workers".[19]

DEBT TO GDP

Data published on Statista in October 2022 reports the Public Australian Debt to GDP ratio forecast for 2022 at 56.73%.[20] This indicator describes the general government gross debt in relation to the country's GDP. Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. GDP, on the other hand, refers to the total value of final goods and services produced during a year.[20]

The International Monetary Fund (IMF) chart below details the trend of Australian Central Government debt levels for the period 1950 to 2021.[21]

Trend (1950-2021)



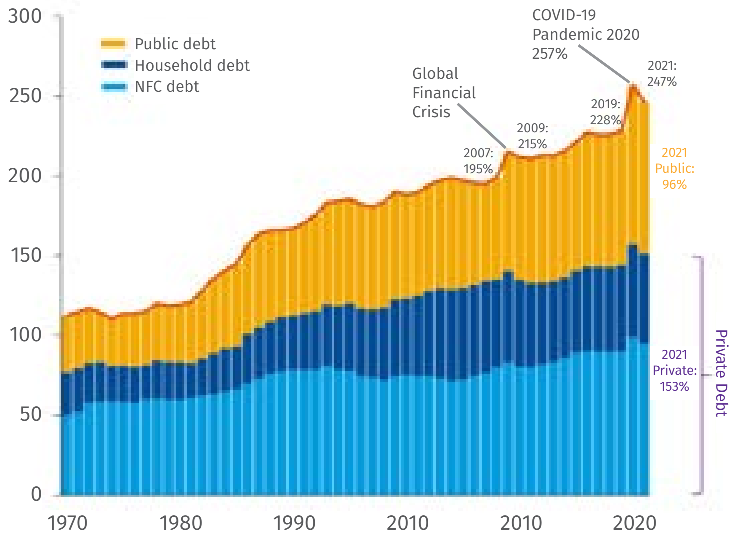
Australian Central Government debt as a percentage of GDP in the 1950's was up at 109.69%. In 2007 (just before the GFC) it had dropped to its lowest level of 6.07% and has since been on an upward trend, currently sitting at 43.95% by the end of 2021.[21]

The International Monetary Fund (IMF) released a blog article in December 2022 titled 'Riding the Global Debt Rollercoaster'. It states that "global debt remained above pre-pandemic levels in 2021 even after posting the steepest decline in 70 years, underscoring the challenges for policymakers".[22] It also details that "total public and private debt decreased in 2021 to the equivalent of 247 percent of global gross domestic product, falling by 10 percentage points from its peak level in 2020. Expressed in dollar terms, however, global debt continued to rise, although at a slower rate, reaching a record $235 trillion last year".[22]

Up and down

Global public and private dept ratios fell sharply in 2021, after the record surge in 2020.

(dept as a percent of GDP)



Source: IMF Global Debt Database and IMF staff calculations. Note: The estimated ratios of global debt to GDP are weighted by each country's GDP in US Dollars. NFC = Non-financial corporations.

In an educational video titled 'How the Economic Machine Works', Ray Dalio states that "debt has the effect of being economically stimulative over the short-run but depressive over the long-run because at some point the debt has to be paid back."[23] He explains that when debt burdens are too high there are 4 ways they can be brought down.

Approach	Economic Impact
Spending Cuts	Deflationary
Debt Defaults and Restructures	Deflationary
Raising Taxes/Wealth Redistribution	Deflationary
Printing New Money	Inflationary

These 4 ways happened in every deleveraging in modern history. US in the 1930s, England in the 1950s, Japan in the 1980s and Spain and Italy in the 2010s. It is important that policymakers get the right balance of using deflationary and inflationary ways in order to maintain stability within the economy.[23]

OUTLOOK

With interest rates rising, GDP growth rates forecast to decline, inflation rates still at record highs, unemployment significantly low and debt levels extremely high, it appears policymakers have quite a challenge ahead of them to bring inflation levels back down to target levels without weakening the economy.

The Reserve Bank of Australia (RBA) reports in their Statement on Monetary Policy February 2023 release that "over the period ahead, high inflation is expected to continue to weigh on growth in real household incomes and consumption. Rising interest rates are expected to add to this effect by reducing real disposable incomes for some households".[24]

"Declines in net wealth, driven by lower housing prices, are also expected to dampen household spending. Housing prices have continued to decline across most of the country over recent months. These competing forces influencing household spending represent a considerable uncertainty surrounding the outlook."[24]

The International Monetary Fund (IMF) World Economic Outlook Update for January 2023 reports "given the tension between rising recession risks and monetary policy uncertainty, markets have seen significant volatility. While many central banks in advanced economies have stepped down the size of hikes, they have also explicitly stated they will need to keep rates higher, for a longer period of time, to tamp down inflation".[25]

"Risk assets could face significant declines if earnings retrench further or if investors reassess their outlook for monetary policy given central bank communications. Globally, the partial reversal of the dollar rally has contributed to recent easing due to improved risk appetite, and some emerging market central banks have paused tightening amid tentative signs that inflation may have peaked".[25]

"Financial market volatility is expected to remain elevated and could be exacerbated by poor market liquidity. For some asset classes (such as US Treasuries), liquidity has deteriorated to the March 2020 lows of the COVID-19 pandemic. With the process of central bank balance sheet reduction (quantitative tightening) underway, market liquidity is expected to remain challenging."[25]

CONTACT AXIS

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Give us a call on **1800 111 299** or email **super@axisfg.com.au**

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