AXIS
FINANCIAL GROUP

ECONOMIC INDICATORS

Edition 11

> *"One of the great mistakes is to judge policies and programs by their intentions rather than their results."*
>
> Milton Friedman
> *Economist, Statistician and Nobel Prize Winner*

ECONOMIC INDICTORS

In this edition of our Economic Indicators publication, we take a closer look at some of the key domestic and global indicators, provide a simple understanding of both the economic and credit cycles and a summary of the expected economic outlook ahead. As always, we invite you to review, consider and formulate your own opinions.

DOMESTIC INDICTORS

Snapshot Overview

Cash Rate Target[1]	Inflation[1]	Labour Productivity Growth[1]
4.10% Effective date 4 Oct 2023	5.40% Consumer Price Index Annual change Sep quarter 2023 5.60% Monthly Indicator Sep 2023	1.20% Average productivity growth over the past 20 years to 2021–22

GDP[2]	Unemployment[2]	New Housing Loan Commitments[2]
2.10% Annual change Jun quarter 2023. Chain volume measures – seasonally adjusted.	3.60% Sep 2023. Seasonally adjusted.	-9.40% Annual change Aug 2023.

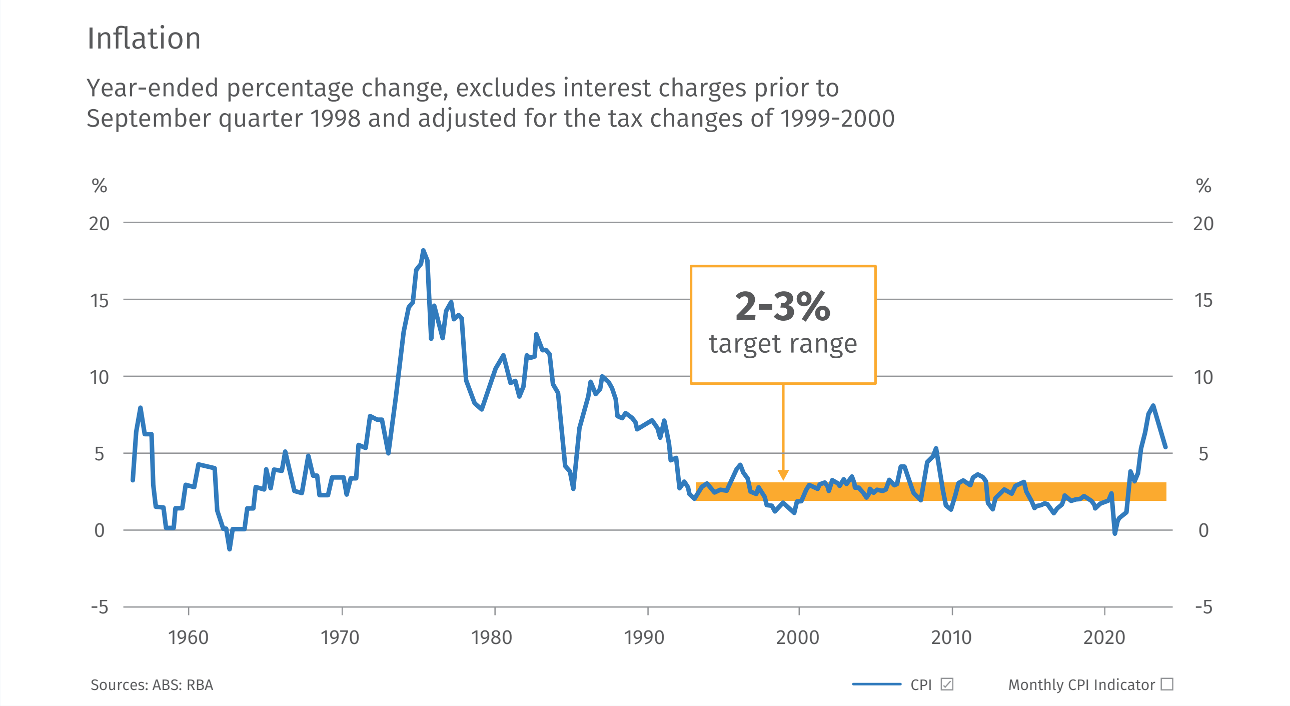
Cash Rate Target

As at October 2023 the Australian cash rate target is sitting steady at 4.1 per cent. The new Governor of the Reserve Bank of Australia (RBA), Michele Bullock, stated during a recent speech that the RBA's "focus remains on bringing inflation back to target within a reasonable timeframe, while keeping employment growing."[3]

Bullock suggested that "it is possible that this can be done with the cash rate at its current level but there are risks that could see inflation return to target more slowly than currently forecast. The Board will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation. At the same time, the Board is mindful that growth in demand and the rate of inflation have been moderating, and that there are long lags in the transmission of monetary policy."[3]

Inflation

Inflation levels are still well above the 2-3% target range with the consumer price index sitting at 5.4% (annual change September quarter 2023) and 5.6% (monthly indicator September 2023).[4]

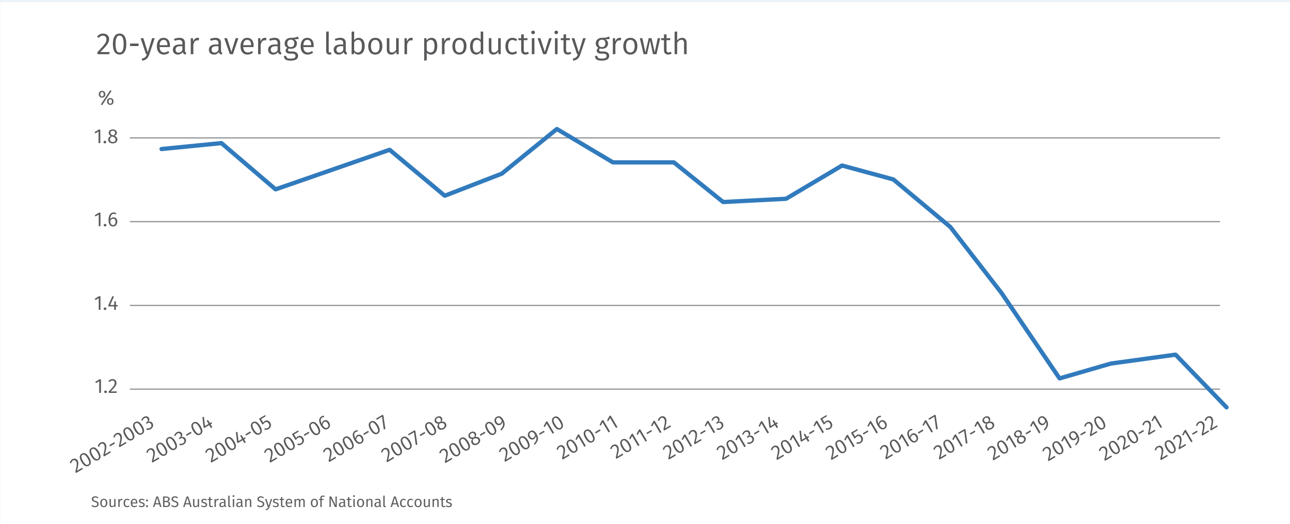


Labour Productivity Growth

Labour productivity for the whole economy dropped by 2.0% in the June 2023 quarter, resulting in a fall of 3.2% in annual productivity from 2021-22 to 2022-23.[5]

The Productivity Commission reports in their September 2023 quarterly bulletin that "this is largely because hours worked increased more than output. Output was up 0.4%, while hours worked for the whole economy and the market sector increased by 2.4% and 2.2% – the largest quarterly increase on record, outside the COVID-19 pandemic."[5]

The below chart published on the Australian Government Treasury, Measuring What Matters Dashboard shows that labour productivity growth has slowed in Australia since the mid-2000s. In the decade to 2020, Australia's productivity growth was the slowest in 60-years. Average productivity growth over the past 20 years to 2021–22 is around 1.2 per cent.[6]



GDP

The Australian Bureau of Statistics (ABS) reports that the Australian economy grew by 3.4 percent in 2022-23, above the 10-year pre-pandemic average of 2.6 percent. The growth reflected a strong recovery in demand following the COVID-19 Delta-variant lockdowns in September quarter of the previous financial year. However, through the year growth was lower at 2.1%. This measure compares the economy between June quarter 2022 and June quarter 2023, excluding part of the recovery from the lockdowns.[7]

Martin North from Digital Finance Analytics interviewed on Nugget's News YouTube channel July 2023 provides an interesting perspective on GDP. North points out that the government is using a quantitative easing strategy of substantially increasing the population via immigration channels to bolster GDP statistics. "If you can bring people in, you can make the economy bigger and that then protects your GDP and makes you look as though you are managing the economy well. But if you look carefully, it is all about net migration and bringing more people into the country."[8]

North goes on to say "we are bringing 100K a quarter of overseas migrants into the country. Where are they going to go? Where are they going to live? Are they going to be able to buy property?"[8] Interestingly, these factors are more likely to contribute to inflation pressures than bring them down.

In addition to this, North points out that "a lot of the people that are coming in are prepared to work for lower wages and that puts a downward draft on wages growth. This is an unsustainable strategy that the government is executing. It's the big Australia strategy."[8]

Australia is not alone in executing this type of strategy, as North explains "other countries are doing it too. We are all fighting for these migrants. It is not necessarily a sensible strategy and I think it is one of the reasons the economy is going to go through a very difficult patch."[8]

According to North "entry requirements have been slackened and they are trying to make it easier and quicker for people to convert to residency. The government is doing absolutely everything it can to bolster these numbers and keep them high. I think it is bad policy."[8]

Unemployment

Headline estimates of employment, unemployment, underemployment, participation, and hours worked from the monthly Labour Force Survey conducted by the ABS are as follows in September 2023 seasonally adjusted:[9]

- Unemployment rate decreased to 3.6%.
- Participation rate decreased to 66.7%.
- Employment increased to 14,111,200.
- Employment to population ratio decreased to 64.4%.
- Underemployment rate decreased to 6.4%.
- Monthly hours worked decreased to 1,930 million.
- Full-time employment decreased by 39,900 to 9,806,400 people.
- Part-time employment increased by 46,500 to 4,304,800 people.

Martin North from Digital Finance Analytics interviewed on Nugget's News YouTube channel July 2023 comments that the "RBA's base assumption is that the unemployment rate needs to rise to 4.5% for inflation to drop back down to 2.5% which is not forecast to occur until 2025. Which means higher interest rates."[8]

North suggests that "there is a disconnect between what the RBA wants to see and what is actually been seen in regards to jobs numbers. More people are working multiple jobs, more people are working longer hours simply because they need them to get by."[8]

"The economy is actually a bit more buoyant than what the RBA would like to see. They are trying to engineer a slowdown to bring supply and demand back into balance yet the jobs numbers are currently going in the wrong direction (up instead of down)."[8]

GLOBAL INDICATORS

The Financial Stability Review released in October 2023 by the Reserve Bank of Australia (RBA) indicates that global financial stability risks are elevated, reflecting challenging macroeconomic conditions.[10]

Key Global Risks

The interaction of property sector stress in China with other long-running imbalances there that could spread to the rest of the Chinese economy and financial system and reverberate globally.	A further substantial tightening in global financial conditions and disorderly repricing in financial asset markets.	A sharp increase in unemployment and a slowdown in advanced economies.

Global Growth and Inflation

The International Monetary Fund reports that global growth is forecast to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections remain below the historical (2000–19) average of 3.8 percent.[11]

Global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024.[11]

ECONOMIC CYCLES

Understanding the Economic Cycle

The economic cycle refers to the cyclical pattern experienced by the economy. The economy remains in an expansion phase until it reaches its peak, reversing to the downside and entering a contraction before a trough, and begins to expand once again.[12]

Stage	Characteristics	Notes
Expansion	• Rapid growth. • Low interest rates. • Increased Production • Growth indicators (i.e. employment, wages, corporate profits, output, aggregate demand and supply of goods and services) reflect sustained upward trends. • Low cost of money (i.e. cost of credit is low).	An increase in the money supply can spur inflation.
Peak	• Growth hits maximum rate. • Prices and economic indicators stabilise before reversing to the downside.	Can create imbalances in the economy that need to be corrected. Re-evaluation of budgets and spending tend to occur.
Contraction	• Growth slows. • Employment falls. • Prices stagnate. • Demand decreases.	Businesses may not immediately adjust production levels leading to oversaturated markets, supply surplus and downward movement in prices. Recessionary environment may spiral into a depression.

Stage	Characteristics	Notes
Trough	• Economy hits a low point. • Supply and demand bottom out before recovery. • Spending and income stagnated.	Opportunity to reconfigure finances in anticipation of recovery.

There are different economic theories to explain what drives the economic cycle and the conditions associated with each stage can impact business and investment decisions.[13]

The macroeconomic theory of Monetarism suggests that government can achieve economic stability by targeting the growth rate of the money supply. This theory ties the economic cycle to the credit cycle, where changes in interest rates reduce or induce economic activity by making borrowing by households, businesses, and the government more or less expensive.[13]

Understanding the Credit Cycle

The credit cycle is one of several recurrent economic cycles within a modern economy. It describes the phases of access to credit by borrowers based on economic expansion and contraction. The credit cycle often tends to run longer than the phases of the economic cycle because of the time required for weakened fundamentals of businesses to show up.[14]

Stage	Characteristics	Notes
Expansion	• Low lending requirements. • Low interest rates. • Increase in amount of available credit. • Risk to lender low.	Stimulates a general increase in economic activity. Assets and investments tend to rise in value.
Peak	• Lending requirements tighten. • Interest rates start to rise. • Risk to lender starts to increase.	Assets and investments generally begin to decrease in value, or do not return as much income, reducing cash flow to pay back loans.
Contraction	• Strict lending requirements. • Interest rates rise. • Less credit available • High risk to lender.	
Trough	• Contraction continues until risks to lender reduces.	Credit cycle begins again.

The primary cause of the 2008 Global Financial Crisis is attributed to a contraction in credit.[14]

ECONOMIC OUTLOOK

In their quarterly newsletter released in July 2023, T.Rowe Price report that it is “extremely unlikely that we will return to a stimulus-driven world, given the clear risks posed by rising prices. This matters because stimulus has played such a large part in raising asset prices over the past decade. It also matters because the market is anticipating material interest rate cuts as we move into 2024. There is so much money in the global economy that there remains ample liquidity to create asset price inflation.”[15]

They believe that “the era of stimulus, consistently expanding multiples, and a repeat of post-GFC equity return patterns are largely behind us.”[15]

In their mid-year investment and economic outlook publication Macquarie has the “expectation that the global economy will slip into a short and shallow recession starting in 4Q23 with the US, Europe and the UK experiencing various-sized economic contractions out through mid-2024.”[16]

“Economic and financial market transitions take time. The economic downturn has been a slow train coming, but it will arrive.”[16]

“When uncertainty is high, there is always the temptation to sit on excess cash. However, over the long term, trying to time markets has proven to be a costly strategy versus being fully invested and well-diversified.[16]

When asked about his perspective Martin North from Digital Finance Analytics interviewed on Nugget’s News YouTube channel July 2023 made the following comments:

“The value of shares has gone up a lot from their previous low at the beginning of the year. This is an interesting contradiction, high interest rates, bond yields being where they are but you have still got markets believing that things are actually not too bad and in fact maybe markets should go higher.”[8]

“There is a fundamental disconnect between what I am seeing here between what we see and what markets are doing. I don’t know whether markets will go higher or whether in fact they are due for the next wave down but that is the key critical question now because the stock markets are reporting that earnings on corporates are not that flash.”[8]

“They are predicting lower than last year, the cost of debt is rising, inflation may not be beat yet but it could be beat later. So, there is an interesting question as to whether markets are fundamentally overvalued and I would argue, I still think they are, I think there is a lot of downside risk but the markets have a way of just holding on to the hope that the Fed is going to cut and the companies will continue to outperform them.”[8]

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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