

Quarterly Economic Update

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Financial Advice

- Australian economic data has been a little subdued over the past month; retail sales and building approvals are continuing to struggle and credit growth is easing. Inflation indicators were moderate in the December quarter, although the impact of the floods in Queensland on prices will be felt in coming quarters. Despite slower growth in December, employment remains a bright spot in the economy, and housing finance has picked up in recent months, flying in the face of expectations for a slowdown in the wake of rate hikes from the Reserve Bank of Australia (RBA).
- The RBA left its official interest rates unchanged at 4.75% in February, although its accompanying statement was fairly hawkish, focusing on strong global economic growth, robust commodity prices and Australia's high terms of trade. It suggests we can expect further interest rate rises from the RBA this year. In other central bank news, the People's Bank of China raised its official interest rates by 25 basis points on Christmas Day. It has also implemented other policy tightenings, including, most recently, a property tax in two major cities, in an effort to curb inflation.
- Signs of improvement in the economies of the US and Europe, against a backdrop of strong economic growth in emerging economies, has dominated financial markets in January. This has seen bond yields move higher in the US and UK and world stock markets gain for the month. Ongoing concerns about European sovereign debt and anti-government protests in Egypt were insufficient to dampen investor optimism.
- The Australian dollar fell sharply on news of the devastating floods in Queensland. However, it rebounded versus the US dollar later in January on improved global economic sentiment and has moved back above parity in recent days. Evidence that China's economic growth has continued to hold up was also positive for the Aussie dollar.
- Our special feature article this month "Recovery On Track" focuses on the global economic outlook, and will also appear in the upcoming edition of the ASX Investor Update newsletter.

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