GTC FINANCIAL SERVICES

Total Financial Care

Economic Update June 2016

Within this month's update, we share with you a snapshot of economic occurrences nationally and from around the globe. We hope you find this month's economic update as informative as always.

Economic Update - June 2016

"The Big Picture"

We were calling for a rate cut in the last update on two grounds – full-time jobs (f/t) growth had stalled and inflation was low. We don't get another read on inflation for a couple of months but May's jobs report showed that the last three months had experienced cuts to trend f/t employment. That is worrying. The question is, will the RBA's cut in May be enough?

No one else seems to be talking about this stall in f/t jobs which makes it even more worrying. The argument seems to be that 5.7% unemployment is good enough, but what has been happening is that f/t jobs are being replaced by part-time jobs (p/t). Since the official data just adds the two types of employment together for total employment, they are missing the point. An average p/t job is about 10 hrs/week, while it is around 40 hrs/week for a f/t position. And that's why some of our consumer data isn't as good as we would like.

The last GDP growth number was out of the box but that was largely driven by net exports. The domestic economy is not as strong. So we think we need at least a couple more rate cuts and the sooner the better. But what about the impact of the Budget? We think it isn't likely to do much for the health of the economy in the short term. The main changes seem to be cuts to some company taxes and changes to superannuation regulations.

Around the globe, countries are trying to get debt under control rather than implement expansionary and costly fiscal programmes. We are no different and so we are reliant on our RBA.

In the US, their Federal Reserve (Fed) has been dragging its feet on enacting its second rate hike since the GFC. It promised four for 2016 last December when it made its first hike but now they are only predicting two this year. Markets don't believe them. The Fed keeps saying each meeting is "live", meaning that rates could go up at any time, but their accompanying language doesn't back that.

In a recent speech at Harvard, the Fed Chair, Janet Yellen, used words like 'probably raise rates', 'in coming months', and 'if economic data improve'. Not exactly positive wording! US jobs data in May were a bit on the weak side and US GDP growth was revised up from +0.5% for the year to only +0.6% when trend growth is closer to 3.0%. These data do not seem strong enough to warrant a rate hike now and it may be many months or more before they are.

Data in China has been a little bit lighter than expected, but oil and iron ore prices seem to have stabilised after extreme volatility at the start of 2016.

Japan's economy continues to struggle. It planned a staged increase in sales tax when Prime Minister Abe came to power a few years ago, but he has just postponed the second hike for a second time! Increases in taxation are contractionary and their economy, like ours, needs the opposite.

The UK is facing up to its referendum on whether to leave the European Union on June 23rd. The enigmatic Boris Johnson is leading the exit campaign while the PM is for staying in. Polling does suggest that Britain will remain in the EU. An exit would cause great market instability.

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