



# GTC FINANCIAL SERVICES

Total Financial Care



## Economic Update July 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 - July 2016



### The Big Picture

Brexit – or the referendum to decide Britain's future in the EU – dominated news up until the vote on June 23rd and then swamped it. The polls were always close – and there were only two possible outcomes – 'exit' or 'remain'. But for some reason, markets and the British people were stunned when the 'exit' vote got up.

If we allow for the 72% turnout (voting was not compulsory) 'exit' scored 37% of the vote, 'remain' 35% and the 'no vote' was 28% - so it was a close run race. But Boris Johnson – the lead MP for 'Brexiting' – looked a bit like a frightened rabbit when he won. Indeed, he has now dropped out of the race to be the next PM!

Current British PM, David Cameron, went into hiding after announcing he would stand down by October and the leader of the opposition, Jeremy Corbyn is in trouble with half of his shadow ministry resigning because they claim he didn't lobby hard enough to 'remain'. And then 80% of his party gave him a vote of no confidence – but he won't stand down, yet. There are now rumours of replacing the Governor of the Bank of England because of his views on Europe. The England soccer coach got sacked a couple of days after Brexit because his team lost to Iceland in Euro 2016! Nobody seems to have won! But leadership issues are not confined to Britain.

There is a chance that Parliament, who must sanction the vote for an exit to be enacted, might not take that next step and Germany is even looking like it might try to woo Britain back in.

The main downside for Britain is that London might lose its status as a major financial centre. In time, Europeans, who now freely work in Britain, might have to go home and vice versa. But it will take years for the whole process to unravel – perhaps a decade.

In the meantime stock markets have taken big hits but our ASX 200 seems to have done relatively well. Losses have largely been erased.

Of course, at home, we not only have Brexit to deal with. We have our own election on July 2nd, a possible rate cut on July 5th and the US jobs report on July 8th.

The US Fed seems to have walked away from a rate hike anytime soon – as we have been

predicting for months. One cut in December is a far cry from the Fed's four this year that they predicted last December – but it makes sense to wait.

Brexit may play a role in the Fed's thinking but the last jobs number of +38,000, when +160,000 was expected, demonstrates a hike now would not be prudent.

Our jobs data were quite well received but we still see some weakness in full-time employment. Yes, there were +17,900 new jobs, but all were part-time. There were zero new full-time jobs, making January the last increased trend in full-time jobs!

But there are some good points. The European Central Bank did raise its growth forecast for 2016 – from 1.3% to 1.4%, and the Spanish general election the Sunday after Brexit, resulted in an increased majority for the ruling People's party. This has been taken as a statement of conservatism after Brexit. That is, there was no swing to more radical parties that might want to follow Britain out of the EU.

By the way, Brexit is nothing like Lehman Brothers and the GFC. It's not even as bad as the Greek debt crisis. Maybe more like the Blues losing the State of Origin series again (for those south of the border)!

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