Monthly economic e-news

January 2012

LOCAL GOVERNMENT SUPER

‘Health of our economy largely depends on the economic growth of our main trading partners’

Craig Turnbull
Chief Investment Officer

What the global outlook means for us

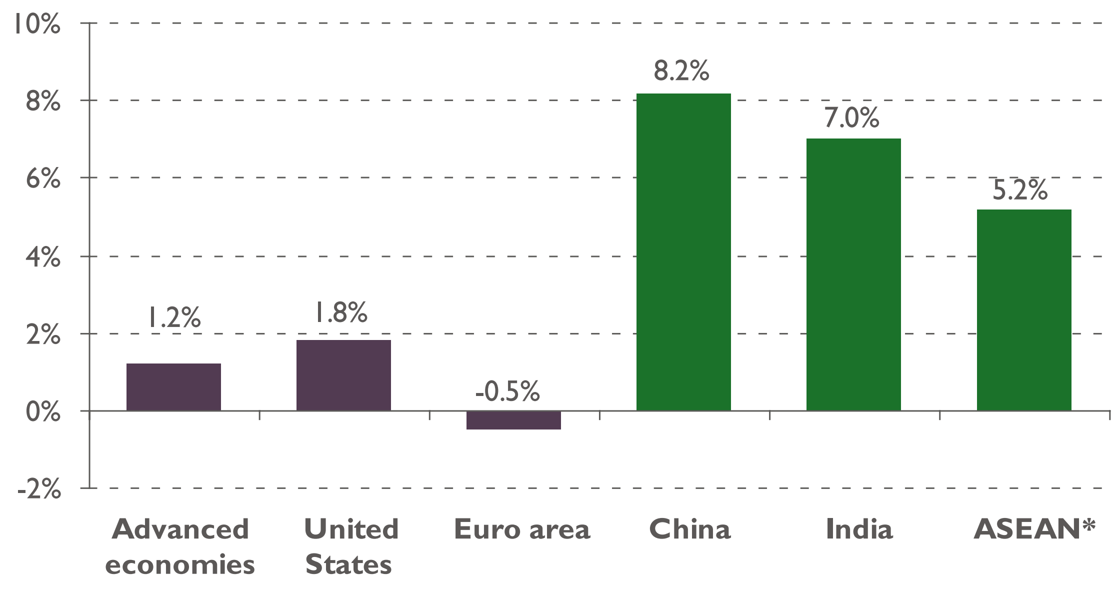
The International Monetary Fund (IMF) recently updated its World Economic Outlook and it painted quite a gloomy picture for the global economy in 2012.

While the IMF revised its growth forecasts for Europe, the United States and Asia, there is no specific mention of Australia in the report. So what do these forecasts really mean for the Australian economy and our investment markets?

What exactly has the IMF predicted?

The IMF lowered their projection of world economic growth in 2012 from 4% to just 3.3%. The Fund predicts that the world's advanced economies will grow by just 1.2% in 2012 with the countries in the Eurozone actually experiencing a mild recession and contracting by 0.5%.

IMF economic growth predictions for 2012



* includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Source: IMF World Economic Outlook

While the IMF predicted that the US economy would only grow by 1.8% in 2012, there are signs that the US economy is emerging from recession and this is good news for the global economy.

Business confidence is improving in the US and the unemployment rate, which peaked at 10% in October 2009, has now fallen to 8.3%.

Meanwhile in Asia, the IMF has lowered its growth predictions for China, India and the ASEAN economies but they still remain well above any of the advanced economies, underlining the economic strength in this region.

The Eurozone remains the key to restoring confidence in the global economy and any more turmoil in Europe could send the IMF back to their spreadsheets to revise their predictions once again.

So what does it mean for us?

We are not immune. The weakening global economy has affected business and consumer confidence in Australia, and this has been reflected in soft retail sales and the weakening job market.

In response, the Reserve Bank of Australia (RBA) cut the official cash rate twice late last year to 4.25% and many analysts are predicting more rate cuts this year to further stimulate the economy.

However it's important to recognise that the health of our economy largely depends on the economic growth of our main trading partners and the IMF is still predicting solid growth in China, India and the ASEAN nations.

Growth in Asia and lower interest rates should help to rebuild some investor confidence and in fact, we've already seen a rebound in the share market with the ASX200 rising by just over 5% in January with Resource stocks leading the way.

So there is some cautious optimism for the year ahead but much still depends on a long-term solution to the European debt crisis and the ability of the US economy to climb out of recession.

It's shaping up to be another interesting year.

Markets at a glance

for the month ending 31 January 2012

- ⇧ Australian shares[1] up by **5.08%**
- ⇧ Australian Government Bonds[2] up to **3.72%**
- ⇧ Australian dollar up to **US$1.0637**
- ⇩ Cash rate[3] down to **4.25%**
- ⇧ International shares[4] up by **4.78%**

1 ASX 200
2 Yield on 10 year Australian Government Bonds
3 RBA cash rate
4 MSCI – World ex Australia

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