Retirewell eNewsletter

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Economic trends indicate continuing sharemarket growth

The Australian economy is in better shape than the impression given by recent reports on job losses, judging by the latest figures released last week on retail sales growth, the trade account and building approvals.

Dr Shane Oliver, Head of Investment Strategy and Chief Economist at **AMP Capital,** comments: "Growing at a much stronger than expected 1.2% in January, **retail sales** marked their ninth consecutive increase. What's more the gains were broad based with particularly good gains for department stores unlike the December result which was heavily dependent on higher food prices. Retail sales are now up 6.2% on where they were a year ago, which is the fastest rate of annual increase since November 2009. It's looking increasingly [likely] that, thanks to a combination of lower interest rates and rising wealth levels and a modest improvement in consumer confidence, retail sales are at last throwing off the malaise they have been in since 2010. While the pace of growth may settle back towards 5% this year, the environment for retailers has clearly improved."

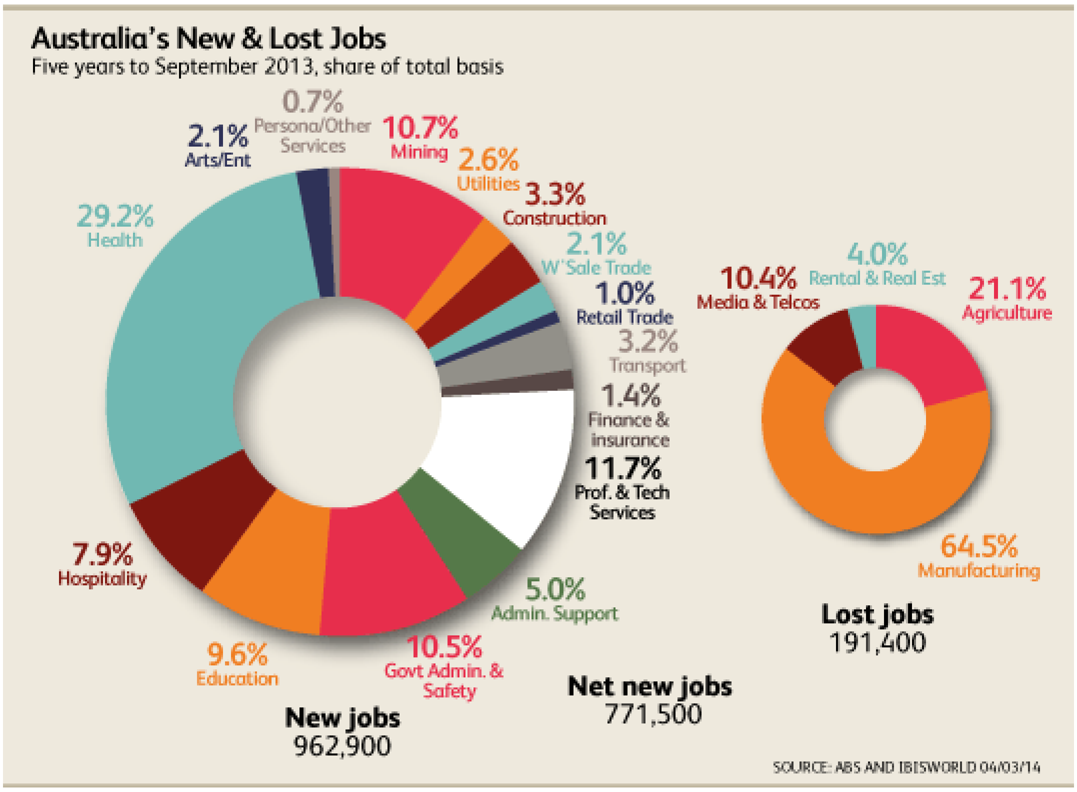
As consumer spending accounts for about 60% of the economy, this is an important development.

The **trade surplus** came in at $1.4 billion in January, with exports up strongly and imports down.

Dr Oliver says: "This was way above market expectations for a $100 million surplus and is the biggest surplus since August 2011, which is a pretty good outcome given the fall in our export prices which has occurred since then. The huge increase in the trade surplus likely involves a bit of 'noise' (e.g. the $425m rise in non-monetary gold exports), but the improving trend since 2012 is clearly evident. The silver lining to the end of the mining investment boom is clearly becoming evident. Not only is it boosting resource exports as new projects start producing, but falling mining investment is helping drive a decline in imports of mining related equipment (capital goods imports fell 9% in January)."

This occurred while **building approval** numbers reached a 12-year high. They were up nearly 7% in January and 35% over the last year, which is phenomenal growth.

As for job losses, the chart below from business forecasters **IBISWorld** shows that the nation is creating around five times more jobs than it is losing!



Phil Ruthven, the founder and chairman of IBISWorld, says: "The number of jobs that will be lost in three years' time is really tiny: less than 50,000 (but mistakenly said to be as high as 100,000). The nation creates that many new jobs every three months!" It is of interest to note the extent to which the make-up of our economy is changing away from manufacturing and agriculture towards services.

A paper published by Dr Oliver last week entitled ***The Australian economy – looking beyond the gloom*** reinforces the good news above. Dr Oliver points out that 50% of companies exceeded market expectations in the February profit reporting season (compared with a norm of 43%) and that Australian economic growth is showing signs of improvement, with solid rises in house prices over the last year, consumer and business confidence trending up and the lower A$ likely to boost demand for local goods and services.

Importantly, another recent paper by Dr Oliver makes the case that the US and hence global shares appear to have entered a new long-term bull market. In ***The US reinvents itself, yet again!*** Dr Oliver says that the US seems to be bouncing back, due to the determination of American policy makers to shrink the Budget deficit, the energy boom, a manufacturing renaissance and ongoing innovation. Obviously, this augurs well for Australian investors.

Both of the above papers are attached for your information.

If you have any queries or concerns regarding your financial situation, please contact your Retirewell Adviser.

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