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Accounting|Financial Planning

Report for the Quarter ended 30th June 2013

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Economic Review

Australia's economy has been growing below trend and is expected to continue to do so in the near term as the economy adjusts to lower levels of mining investment. At its July meeting, the Reserve Bank of Australia decided to leave the Cash Rate unchanged at 2.75%. The Australian Dollar depreciated by slightly more than 11% against the US Dollar during the quarter to close at 0.9275. The Consumer Price Index rose 0.4% in the June quarter and rose 2.4% through the 12 months ended June. The Unemployment Rate increased by 0.2% in June to 5.7%.

In the United States, economic activity has been expanding at a moderate pace with real GDP increasing 1.7% in the second quarter. Labour market conditions have shown further improvement with the unemployment rate at 7.6% at the end of June. Sales of new single-family houses in June were 8.3% above the May rate and were 38.1% above the June 2012 number. The Consumer Price Index increased 0.5% in June after increasing 0.1% in May. The US Federal Reserve confirmed that it will continue purchasing mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at $45 billion per month until the outlook for the labour market has improved substantially. The US Federal Reserve also decided to keep the federal funds rate at 0% to 0.25% and anticipates keeping the rate at this level as long as the unemployment rate remains above 6.5%.

In June, China's manufacturing purchasing managers index (PMI) was 50.1%, down by 0.7% month-on-month.

Market Update

The yield on 10-Year US Government Bonds increased by 34 basis points during the quarter to 2.3% at the end of June. The A$ weakened by 11% against the US$ during May and June. Markets remain somewhat volatile with investors switching out of commodity-related sectors and into high dividend yielding sectors such as financials, food & staples and telecommunications.

Index	Close	Performance June Quarter	Performance FY 2013
ASX 200	4802.6	(2.3%)	22.7%
S&P 500 in US$	1606.3	2.9%	20.3%
S&P 500 in A$	1606.3	13.9%	29.3%

Strategy

The economic outlook for the US is improving further. Key supporting factors are the recovering housing market and the very accommodative monetary policies by the US Federal Reserve through its quantitative easing programs and very low interest rate setting. In addition, the US government will continue to run a budget deficit for the next few years thereby also providing fiscal stimulus.

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With fairly explicit support from the European Central Bank, bond markets in Europe have calmed down and the economy is showing some signs of improvement.

The outlook for the Australian Economy remains subdued. Mining investment has been a major contributor to GDP growth in Australia since 2005 but is now forecast to reduce sharply towards the end of 2014. It seems probable that the RBA will lower interest rates further over the next 12 to 18 months to provide monetary stimulus to the non-resources related sectors of the economy. Lower interest rates will likely lead to a further weakening of the Australian Dollar, which in turn should provide a well-needed boost to the export, manufacturing, tourism and educational sectors.

In a low interest rate environment and with interest rates in Australia probably heading lower, Equities remain our preferred Asset Class and Cash the least so. In respect of Equities, we continue to recommend exposure to high dividend yielding large-cap Australian stocks as well as increased exposure to International Equities to benefit from the relative strength in the US economy compared to Australia, and to gain from an expected further weakening in the Australian Dollar.

Contact us

For further clarification on the above or for information on how we can help you, please contact us:

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