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## Economic Update - December 2015

Wishing you a Happy Holiday and New Year! One of the real joys of the festive season is the opportunity to say thankyou. From all of us may your holiday be filled with joy and good cheer, and the new year bring you happiness.

## Economic Update - December 2015



**Most share markets were very strong in October so it was no big surprise to see markets take a breather in November. This was particularly the case as the big trigger for the next major economic trend is due in mid-December (16th) – the US Fed's decision on its first rate hike in seven years.**

Jobs data in the US were a bit weak as released in September and October. In contrast, November's release was very, very strong. Markets expected a below recent average 185,000 new jobs but the data revealed a rather large 271,000 jobs!

Unemployment was steady at 5.0% and there, at last, was some moderate wage growth at 2.5%. It would now take a lot for the Fed not to hike at its next meeting.

On top of jobs, the US economic growth in Q3, measured by GDP, was revised up from +1.7% to +2.1%, and the market has priced in more than a 70% chance of a rate hike. Since a hike means the Fed's rate will still only be in the range 0.25% to 0.50% there can be no material effect on the real economy. Markets could react but it has been so well telegraphed – and tested a few times before – that volatility should be reasonably well contained – unless, of course, the Fed does not hike! That would be big, bad and ugly for markets.

No matter on which side of politics you belong, Turnbull has turned around the fate of the current government immeasurably. The Westpac – Melbourne Institute Consumer Sentiment Index is up a massive +8.1% in the two months since the leadership spill.

The level of economic argument is now clear and inclusive of all Australians. It will take a while for our economy to return to higher levels of growth but it seems the process has, at last, begun.

Our jobs data surprised many as unemployment fell to below 6% and +58,600 new jobs were created. As we often report here, much of the month-to-month variation is due to statistical sampling error. There is almost no way these numbers can have a bad spin but a return to trend unemployment of 6.1% in December is quite likely.

The Reserve Bank of Australia (RBA) although not cutting rates on the 1 December stated that the next change will be down if any change is made soon. However, the current consensus view of economists is that the next change will be up – but not for 12 months of so. These views are consistent.

As the China economy rebalances from mining to consumer-driven activity, Retail Sales data is becoming more important than manufacturing data. The sales data is strong and the latest government statement is for economic growth to be around 6.5% for the next five years – only just below the current 7% target.

The biggest issue in China is the South China Seas confrontation. China has built some man-made islands and is claiming new stretches of international waters, and the US is flexing its muscles with its navy patrolling in the area.

Russia and Turkey are also in confrontation – about Syria. Interestingly, sanctions against Russia are not being talked about – as they were with the Ukraine issue.

The migration issue is still growing in its magnitude and now the European Union is offering Turkey money in exchange for Turkey holding onto the refugees crossing the border from Syria into Turkey.

By Christmas, so much economic uncertainty will have evaporated, and 2016 is much more likely to be better than the current year.

To continue reading this month's economic update, please visit [www.infocus.com.au/news/economic-update-december-2015](http://www.infocus.com.au/news/economic-update-december-2015)

Should you have any queries in relation to this newsletter, please feel free to contact our office or your adviser.

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