Economic Slides for September 2024

September 2024 Retirement Living your Way

What a month it has been!! So, let's make some sense of what is going on.

As is often the case, the headlines sound bad…. BUT….

Q: Why did governments around the world increase interest rates?

A: To slow the economy and slow inflation….

What was the outcome of these increases? Economies are slowing, and inflation has slowed in a number of countries.

Aussie economy grows 0.2% in June quarter

BY ELIZA BAVIN | WEDNESDAY, 4 SEP 2024 12:48PM

Australian gross domestic product (GDP) rose just 0.2% in the June quarter 2024 and by 1.5% in the 2023-24 financial year, according to the Australian Bureau of Statistics (ABS).

ABS head of national accounts Katherine Keenan said: "The Australian economy grew for the eleventh consecutive quarter, although growth slowed over the 2023-24 financial year."

"Excluding the COVID-19 pandemic period, annual financial year economic growth was the lowest since 1991-92 - the year that included the gradual recovery from the 1991 recession."

GDP per capita was down for the sixth consecutive quarter, falling 0.4%.

State Street Global Advisors APAC economist Krishna Bhimavarapu labelled the data "meagre".

"This is perhaps the clearest indication yet that policy is restrictive enough in Australia. This data should at the very least lead the RBA to make a dovish pivot, considering how uncertain they were during the last meeting," Bhimavarapu said.

[redacted]

"We still look for the first rate cut in November as headline CPI could ease to around 3% in Q3."

Deloitte Access Economics partner Stephen Smith said the soft growth was evidence the economy is "still on life support".

"While the pace of economic growth in the June quarter met the very low bar of market expectations, that headline growth rate hides a fracturing of public and private sector activity," Smith said.

"Today's figures will come as no surprise to many Australians who are already battling through recession-like conditions. Household consumption has fallen in the past three months despite still strong population growth, real retail spending has gone backwards for almost two years now, job creation in white-collar private sector industries has essentially stalled, and business insolvencies have recently hit record highs."

Why is GDP Important?

Gross Domestic Product (GDP) is a crucial economic indicator because it provides a comprehensive snapshot of a country's economic performance. It measures the total value of all goods and services produced within a nation over a specific period, usually a year or quarter. Here's why GDP is important:

1. Economic Health: GDP is a key indicator of economic health. A growing GDP suggests that an economy is expanding, businesses are thriving, and employment opportunities are increasing. Conversely, a shrinking GDP indicates economic trouble, potential job losses, and a reduction in consumer spending.

2. Policy Decisions: Governments and central banks use GDP data to make informed decisions. For instance, if GDP growth is slowing, policymakers may introduce stimulus measures, such as cutting interest rates or increasing government spending, to boost the economy.

3. Global Comparison: GDP allows for comparisons between different countries, helping to rank economies by size and strength. It is also used by investors to assess the potential of investing in a country.

4. Living Standards: GDP per capita, which divides GDP by the population, is often used as a proxy for the standard of living. A higher GDP per capita generally suggests better living conditions and prosperity.

In short, GDP is a fundamental measure of a country's economic activity, influencing everything from policy-making to global economic rankings.

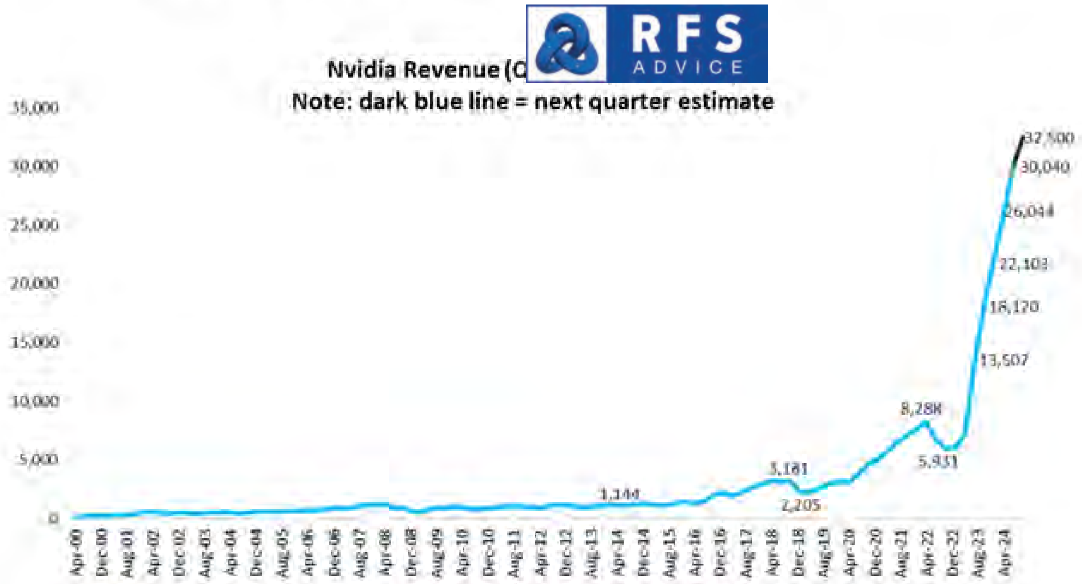
Let us start with a stock example showing that growth is still alive and well in the economy.

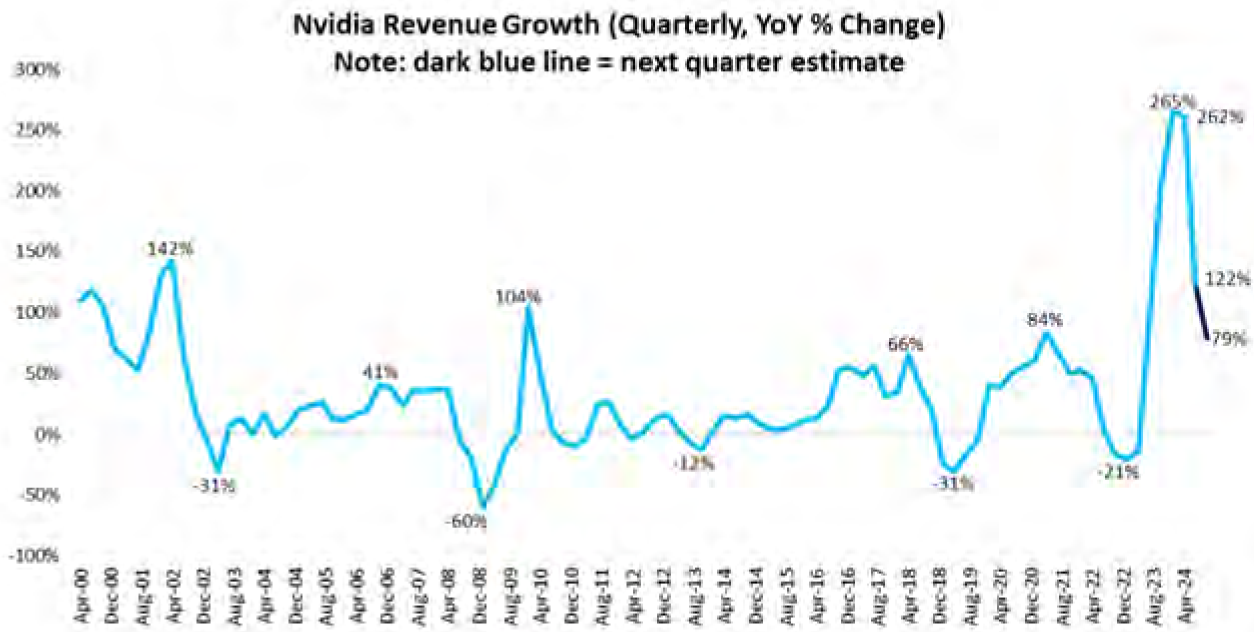
The emergence of AI and the speed that it has grown is unprecedented, as illustrated by the performance of chip maker, Nvidia, over the last 24 mths.

AI will drive greater efficiencies in so many areas which is why it has gained so much attention and been such a big driver.

It was another record quarter for Nvidia ($NVDA):

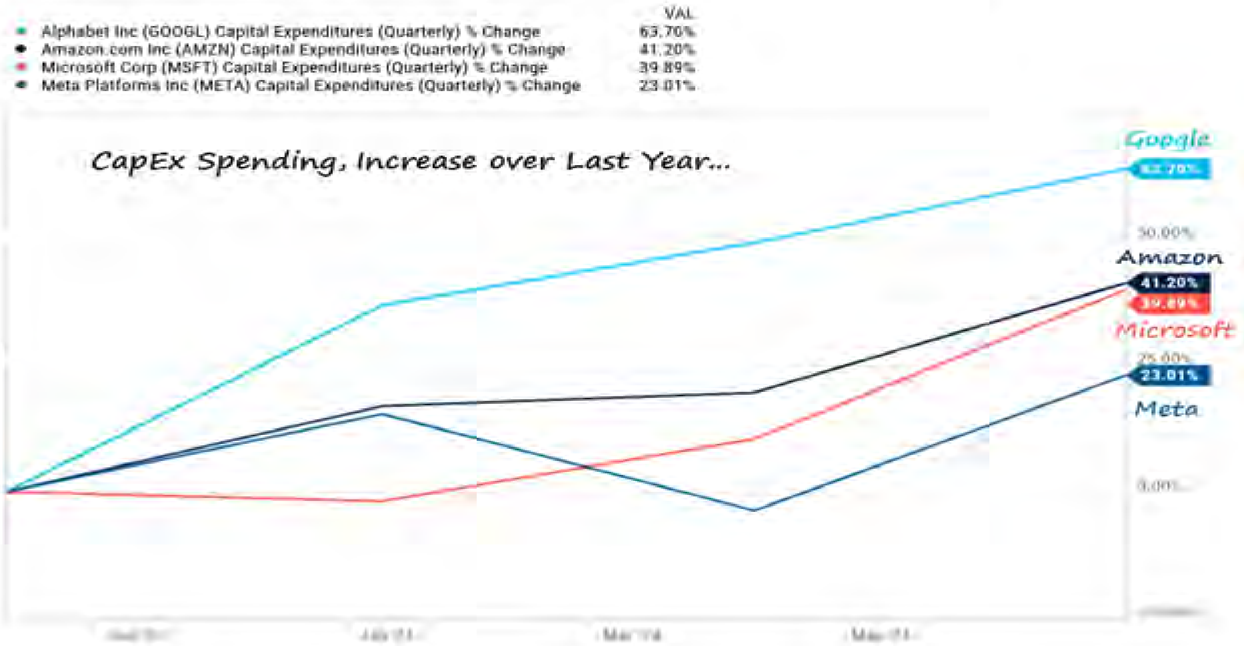
- Revenues surged to $30 billion, up 122% over the prior year (consensus estimate was $28.7 billion). Their revenue projection for Q3 is $32.5 billion, which would be a 79% YoY increase.





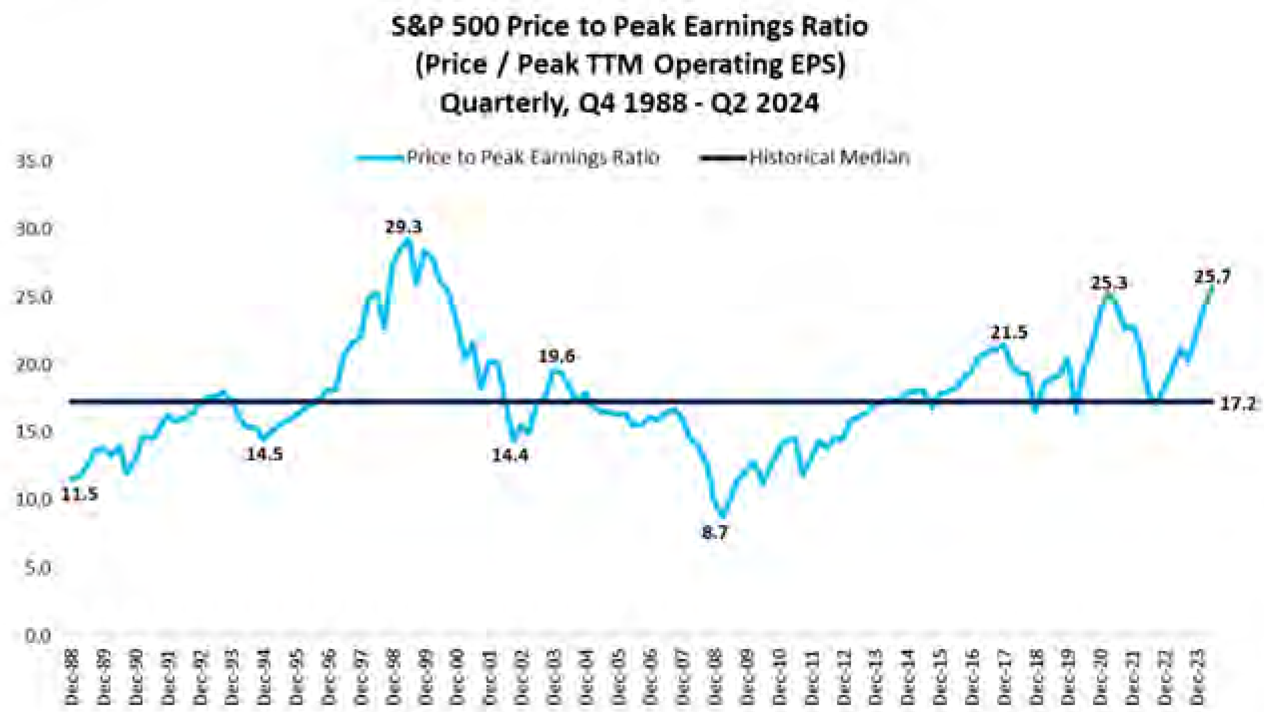
Nvidia's historic advance over the past few years has been a direct result of the AI arms race where the biggest tech companies are making some enormous bets on the future.

Google has increased capital expenditures by a whopping 64% in the past year, while Amazon (+41%), Microsoft (40%) and Meta (+23%) have also boosted spending.



The performance of these tech related companies has caused PE ratios in the S & P 500 (US market) to increase as shown below.

In looking at valuations, the expectations here seem quite high. The S&P 500's price to peak earnings ratio of 25.7 is 49% above the historical median and the highest we've seen since 2000.

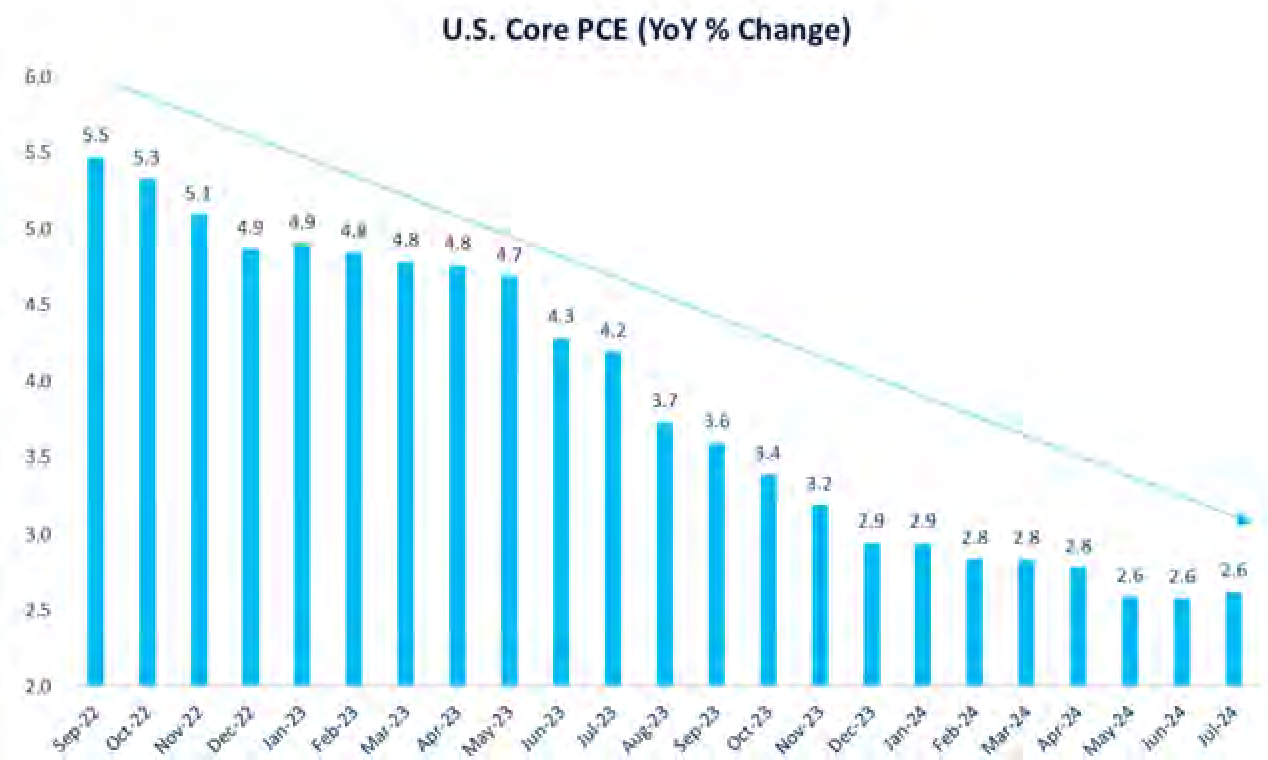


If we look at Inflation in the US, this continues to decline and in a rather perfect way. This decline will allow the Fed (the Central Bank of the US) to decrease interest rates which will help get the economy moving along.

As the US is in an election year, they need to be careful as new term governments tend to spend. This spending can then cause inflation.

With multiple variables, comes uncertainty. Markets and investors hate uncertainty!! Uncertainty causes volatility and in these times, you can almost look at volatility as a sign of different opinions.

> For the 3rd month in a row, the Fed's preferred measure of inflation (Core PCE) held steady at 2.6%. While still above the Fed's target rate of 2% and higher than at any point from September 2006 through March 2021, the market is betting this is low enough to warrant a rate cut in September.



The US has another issue. They have seen house prices increase significantly, which has seen people carry more debt. Sound familiar? We have seen the same thing in Australia.

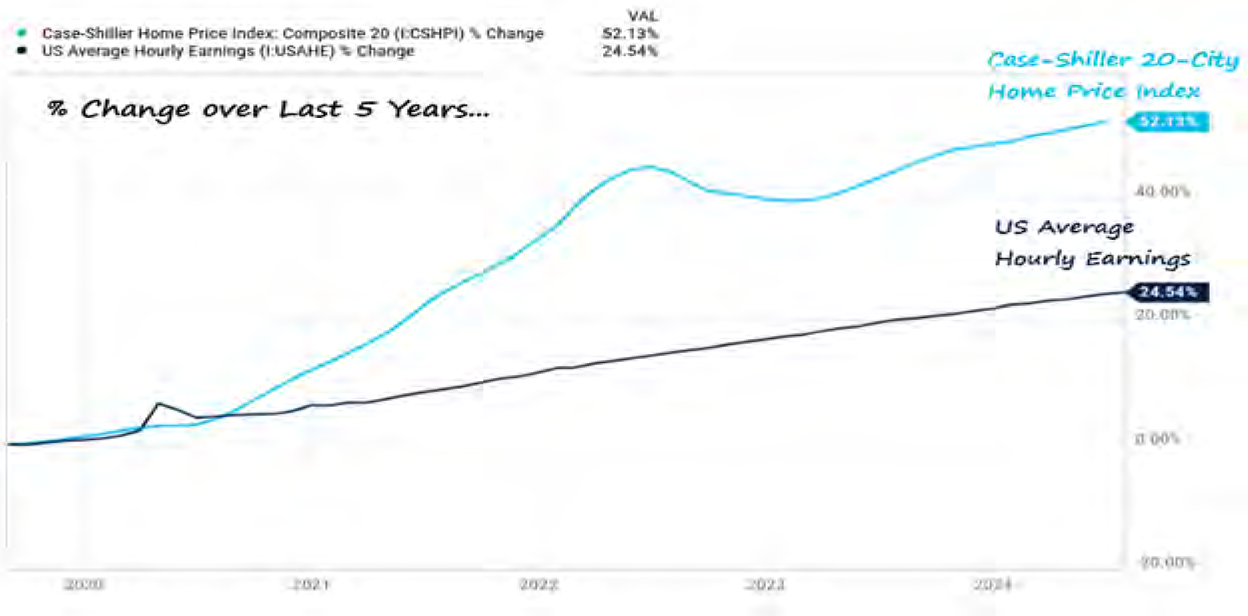
Longer term, higher debt will cause bigger issues down the track for people wanting to retire. No-one is talking about this yet. This housing bubble, or rapid growth in values, depending how you look at it, will have long lasting effects on so many people.

If you decrease interest rates too quickly then you add to this problem as housing debt could increase further and push housing prices higher and have more affordability issues.

The average earnings growth cannot keep up with the home price index.

Higher prices, of course, require a higher down payment. And home prices in the US continue to hit record highs, with the Case-Shiller National Index up 5% over the last year.

The Case-Shiller 20-City Index is up over 52% in the past 5 years while wages have grown 24%.



This is only an issue of you have a mortgage.

If you do, borrowing a larger amount and taking a longer time to repay will have an effect on the discretionary money you have and your ability to save. This is creating problems down track.

For people without debt and retirees this increase in your home value feels great but you can't spend it unless you sell or downgrade.

- Rising share of Americans that are mortgage-free and are not dependent on taking out a new mortgage when moving.

US Households now have 42% of their financial assets in stocks. That's the highest percentage on record with data going back to 1952.

Household allocations to stocks as a share of their financial assets

Source: JPMorgan estimates

Now some current data thanks to Schroders.

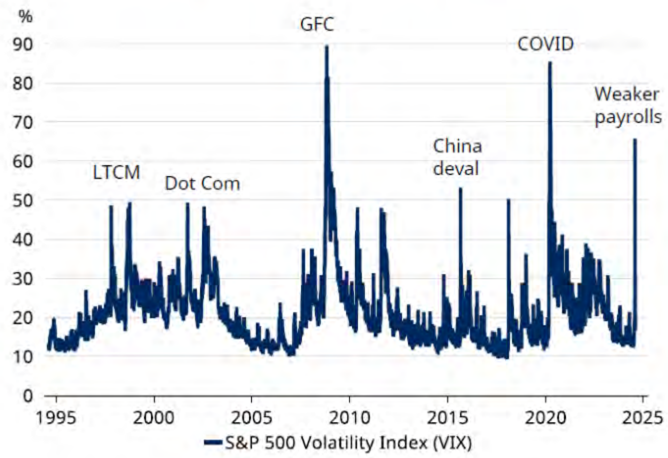
In August we saw a wild ride in markets as the bank of Japan increased interest rates.

As I said at the start, you increase interest rates to slow growth. That should be a good thing? Interestingly, this increase was the cause of the market volatility in August.

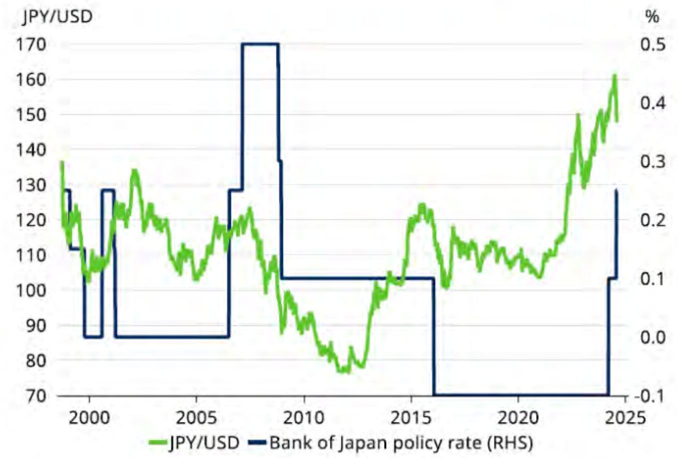
Wild start to August

It all started when the Bank of Japan put markets on edge by raising rates

Market volatility spiked to its third highest ever



The BoJ caused the first domino to fall by raising rates



Source: Schroders, Macrobond, 16 August 2024. (LHS) Daily data for past 30 years used. Intraday highs used for VIX.

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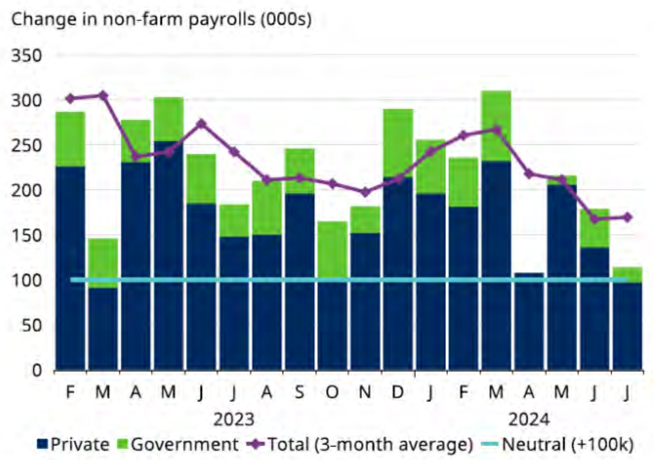
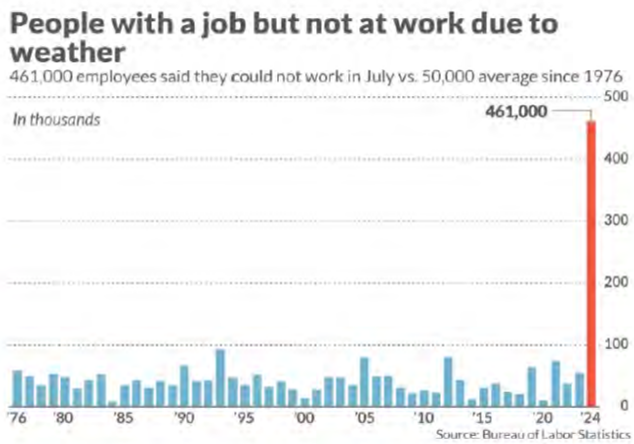
Looking at America they did see job growth slow, but they also had extreme weather conditions that prevented people from getting to work. Time will tell if this is a changing trend or a weather event.

Job growth slowed sharply in July

Beryl-y any impact? BLS reported that the hurricane had "no discernible effect"





Source: Schroders Economics Group, Bureau of Labor Statistics, Department of Labor, Macrobond. 2 August 2024

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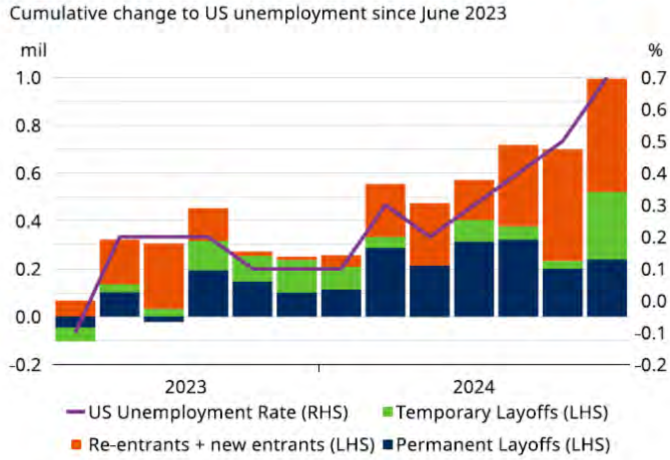
The labour market in the US remains strong. The unemployment rate rose but some of that was due to more jobs that had not been filled yet.

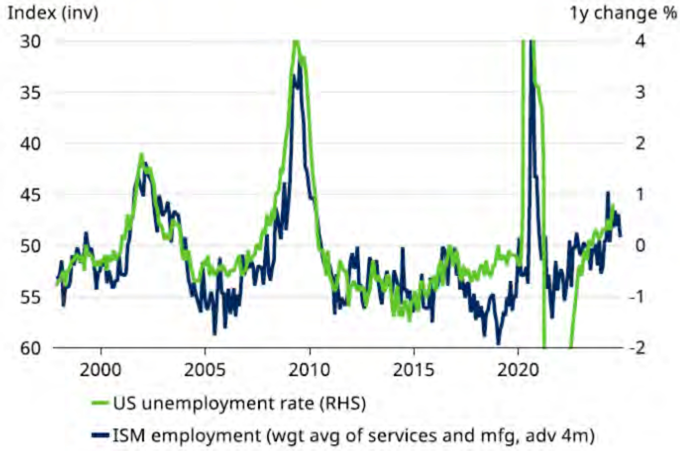
Unemployment rate rose, but isn't entirely alarming

On the contrary, it could be stabilising in coming months

Rise in unemployment rate was due to increased supply in the labour force and not permanent layoffs



ISM employment data also pointing to some stability



Source: Schroders, Macrobond, 12 August 2024.

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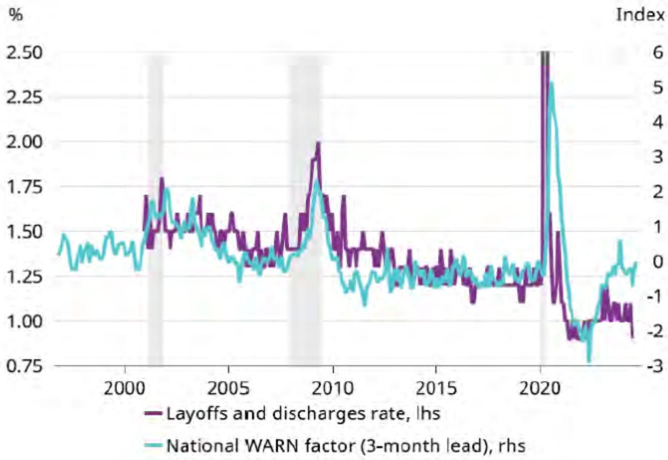
Hiring intentions still holding up

While the rate of layoffs is at an all-time low



Source: Schroders Economics Group, Bureau of Labor Statistics, National Federation of Independent Business, Federal Reserve, Macrobond. 9 August 2024

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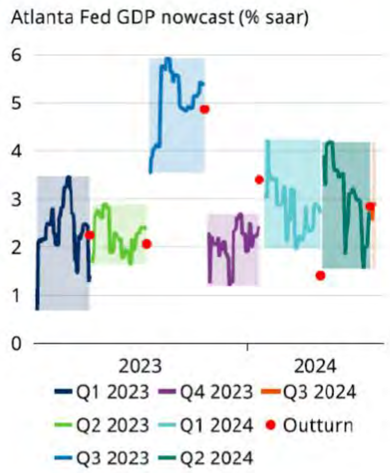
Growth in the US remains strong, and they are targeting a soft landing. Meaning, they are looking to slow inflation and the economy, without putting the economy into a recession.

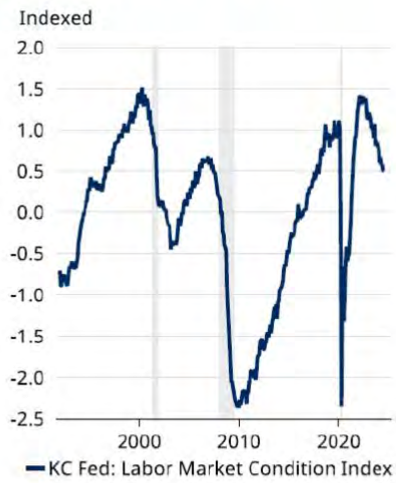
US growth remains healthy

The outlook remains bright amidst a strong labour market according to Fed's indicator

Nowcast GDP holding above trend at 3%



Fed's labour market condition index remains elevated



With increasing demand for loans, unemployment could stabilise

Source: Schroders, Macrobond, 09 August 2024. RHS: SLOOS credit demand refers to the average of small, medium and large firms.

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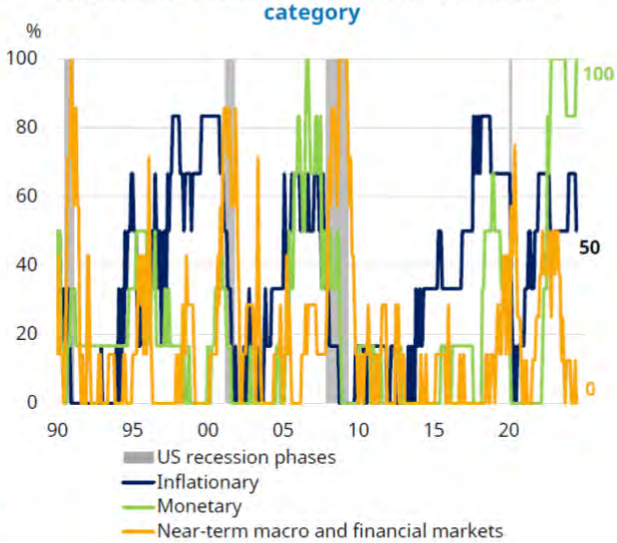
No sign of near-term recession risk

Less than half of the indicators are pointing towards recession

US recession dashboard

	Indicator	Latest value	Sign	Critical threshold	Signalling recession yes (Y) or no (N)	time in signalling recession (months)
Inflationary	Truck sales	0.5	>	0.4	Y	24
	Output gap	0.7	>	0.4	Y	24
	Initial jobless claims	235.0	<	321.0	Y	23
	Capacity utilisation	78.8	>	81.6	N	21
	Unemployment gap	-0.3	<	-0.3	N	17
	Commodity prices, y/y%	0.2	>	11.9	N	15
Monetary	Yield curve (10 year minus three-month Treasury bill)	-1.0	<	0.3	Y	13
	Fed funds rate, change over the last two years	3.0	>	1.5	Y	12
	Fed fund rate relative to cycle low	5.3	>	3.5	Y	12
	Real money base, y/y%	-0.8	<	-0.6	Y	9
	Real narrow money supply, y/y%	-6.3	<	-1.9	Y	6
	Real broad money supply, y/y%	-2.7	<	1.9	Y	5
Near-term macro and financial markets	ISM new orders, six-month change, %	4.9	<	-5.7	N	5
	Private house permits, y/y%	-0.7	<	-19.9	N	3
	S&P 500, six-month return, %	12.2	<	-6.4	N	2
	ISM new orders	49.3	<	48.6	N	1
	VIX index	14.4	>	23.4	N	1
	Average weekly hours (manufacturing sector), y/y%	0.5	<	-1.0	N	1
	Chicago Fed activity index	0.0	<	-0.4	N	1
	Manufacturing goods new orders, y/y%	2.5	<	-3.2	N	1
	Proportion of indicators signalling recession					45%

Proportion of indicators signalling recession by category



Source: Schroders, https://quanthub.schroders.com/multi-asset-research/collection/cyclical-models/signals-and-dashboards/cyclical-summary/, 31 July 2024

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RFS ADVICE

Economic data remains consistent with a soft landing

Although we acknowledge the risks of a hard landing have gone up

Have we seen the worst of the data deterioration in the US?

Continuing jobless claims remains within a reasonable range

Source: Schroders, Macrobond, 19 August 2024.

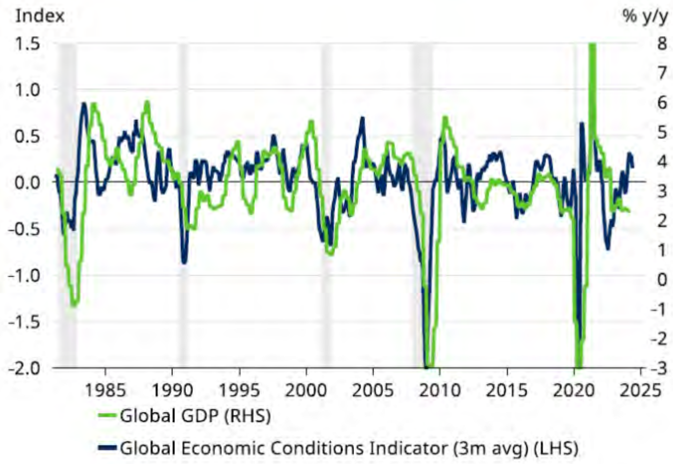
Now let’s take a broader look globally.

Export economies like Taiwan and Sweden are recovering off recent lows. These increases should lead into GDP in these types of economies.

Anticipating a pick-up in global growth

No longer just a US story

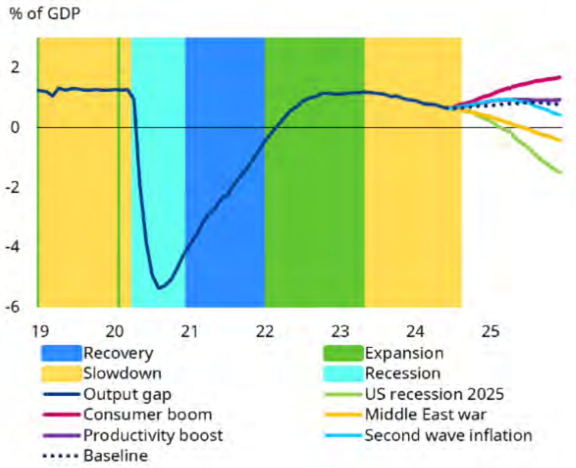
Economic conditions lead global GDP by three months



Export oriented economies like Sweden and Taiwan recovering

Source: Schroders, Macrobond, 10 June 2024.

Cyclical model also supports a positive outlook



Baseline/ scenarios	End-2024	End-2025
Consumer boom	Expansion	Expansion
Productivity boost	Expansion	Expansion
Second Wave Inflation	Expansion	Slowdown
Baseline	**Expansion**	**Slowdown**
Middle East War	Slowdown	Recession
US Recession 2025	Slowdown	Recession

Source: Schroders Economic Group, 05 August 2024.

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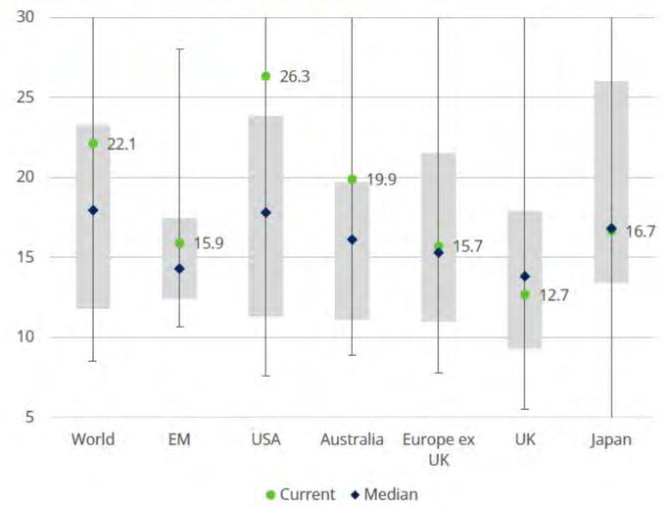
The US market does appear expensive on longer term measures, when looking at the economic and growth conditions I mentioned earlier.

With the US so dominant in the financial world, it's performance can have a positive impact on other countries and drag them along and help pull them up.

US remains expensive, rest of the world average

Our earnings growth model points to continued upside

P/E Ratio vs historical range



Global earnings per share growth model

Source: Schroders, MSCI, LSEG as at July month end 2024.

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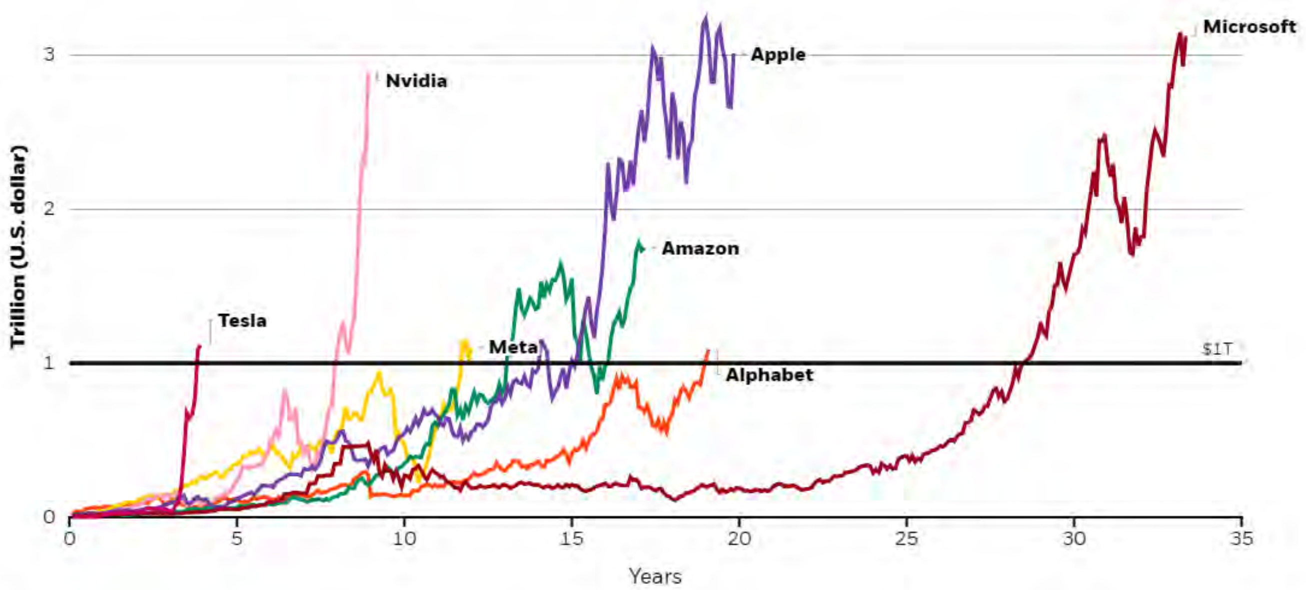
The speed of markets has increased.

As an example, the chart below shows the time it has taken for companies to go from a $10 billion valuation to where they are today. Growth has been exponential and getting faster and faster.

Microsoft	over 30 years
Apple	around 20 years
Amazon	around 16 years
Nividia	around 8 years
Tesla	around 4 years

Even if we count the time to make the trillion-dollar mark, the ranking order in time does not change. One trillion equals one thousand billion!!!

Years to go from $10 billion to current market capitalization



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. Past performance is not a reliable indicator of future results. Source: BlackRock Investment Institute, with data from Bloomberg, July 2024. Notes: The chart shows how long it took for the "magnificent seven" stocks to go from $10 billion to its current market capitalization.

Turning to Australia. The numbers do not look that bad.

Unemployment has not increased too much, although is still high.

GDP is low, due in a large part to Australia being so reliant on mining exports and China has been slowing down.

The consumer is starting to struggle under higher interest rates but again that is only really affecting those with home loans. Consumers have borrowed more than any generation before them, due to, and increasing the impact of the housing bubble.

One thing you need to remember:-

You get a job, save some money, buy a house, pay for life, then what is left over is hopefully used to repay debt and save for an early or wealthier retirement.

If you buy a more expensive house (i.e. you borrow more), and interest rates are higher, this has major effects down the road. This will have a huge impact on retirement and lifestyle for those with these debts.

For retirees you may feel wealthier on paper, but the reality is your costs have gone up and you are still living in the same house.

Unemployment is looking fine at this stage. If anything, there is still too much government spending on projects which is causing a lot of the inflation issues.

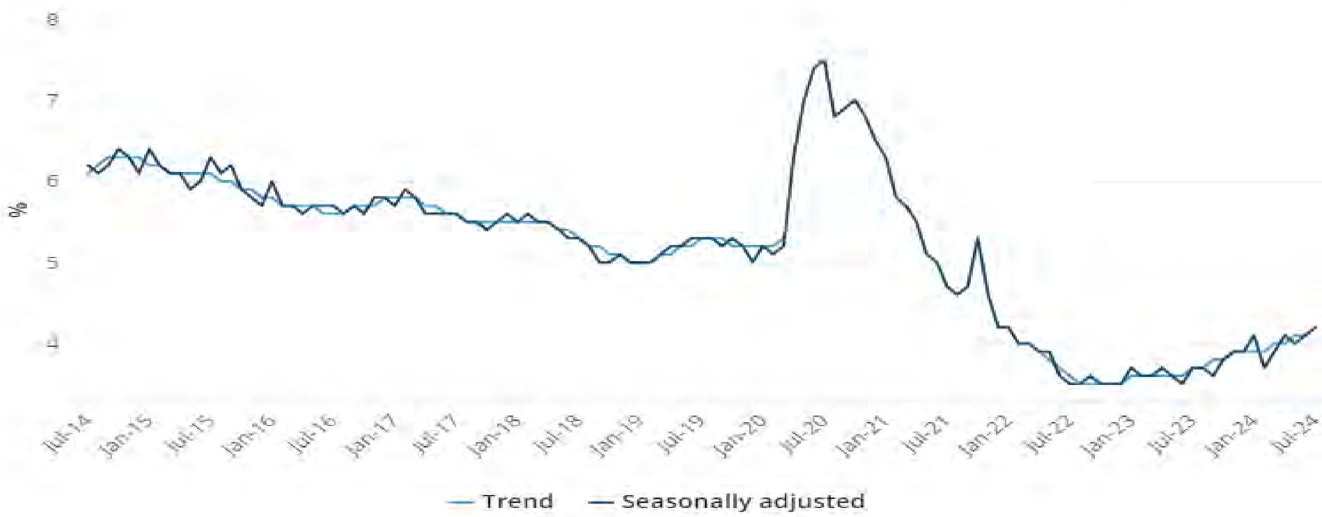
Unemployment

In trend terms, in July 2024:

- unemployment rate increased to 4.2%.
- unemployed people increased by 9,500 to 627,900.
- youth unemployment rate remained at 9.7%.

Unemployment rate

Graph Table Download

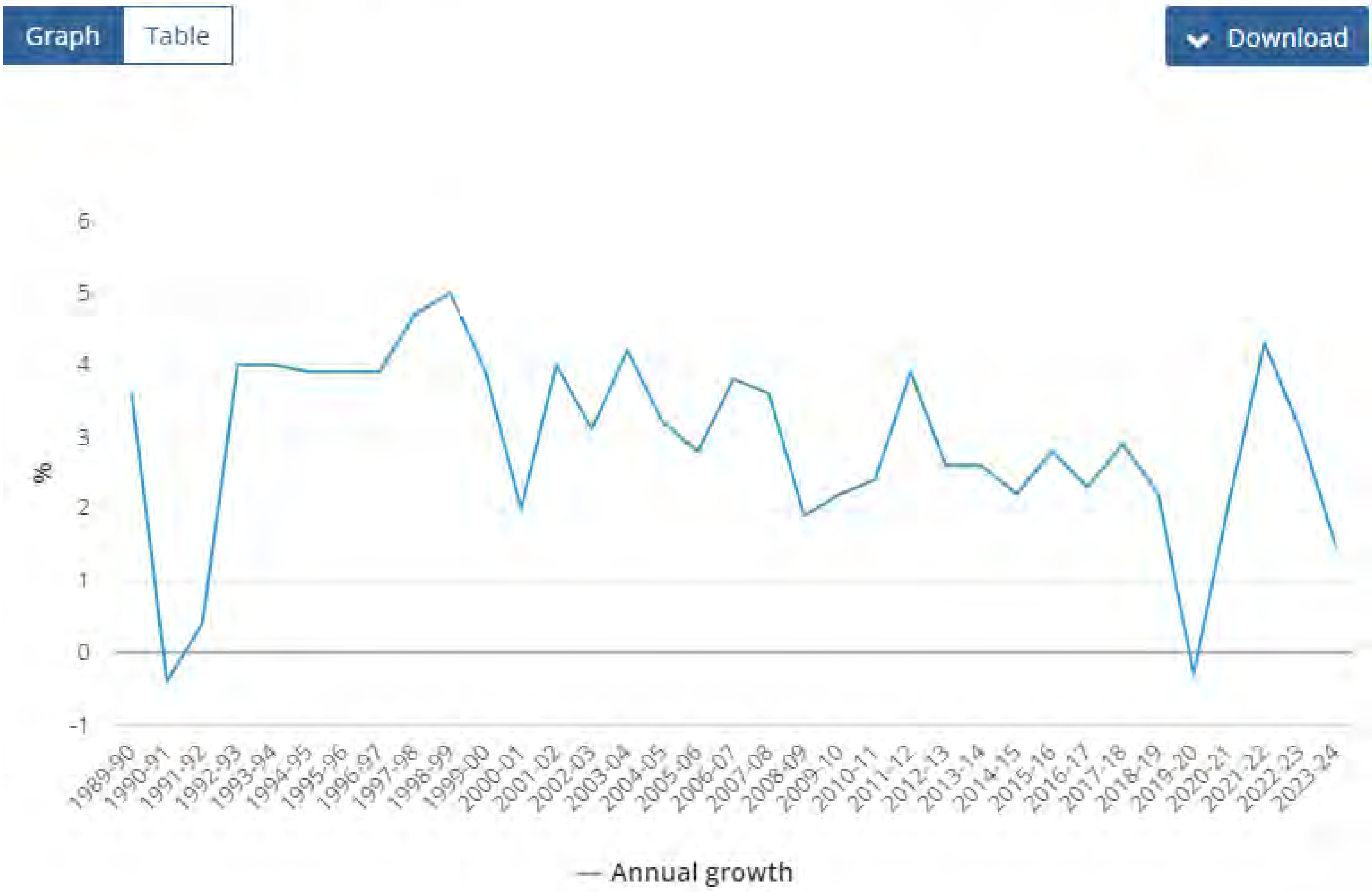


Large month-to-month changes occurred during the COVID-19 pandemic, resulting in multiple trend breaks. The ABS recommends caution when using trend estimates published in spreadsheets in this release for this period. Information on trend breaks can be found in Labour Force, Australia methodology, July 2024.

As previously mentioned, Australia is reliant on exports so it benefits from commodity price rises and volumes, BUT, when the volumes slow so do prices and therefore you have an amplified flow on effect.

We cannot control the rest of the world, only our own domestic issues. Unfortunately, the headlines will often focus on factors we cannot control here in Australia.

Annual growth in gross domestic product, chain volume measures, original



Domestic prices continue to grow while the terms of trade fell

Nominal GDP rose 0.2%. The GDP implicit price deflator (IPD) was flat in the June quarter, as the increase in domestic prices were offset by falls in export prices relative to import prices.

The Domestic final demand IPD rose 0.9% in the June quarter and 4.6% in the 2023-24 year. High construction prices and skilled labour shortages continue to drive growth in the series, but the prices have softened from the peak in 2022-23 (+6.6%).

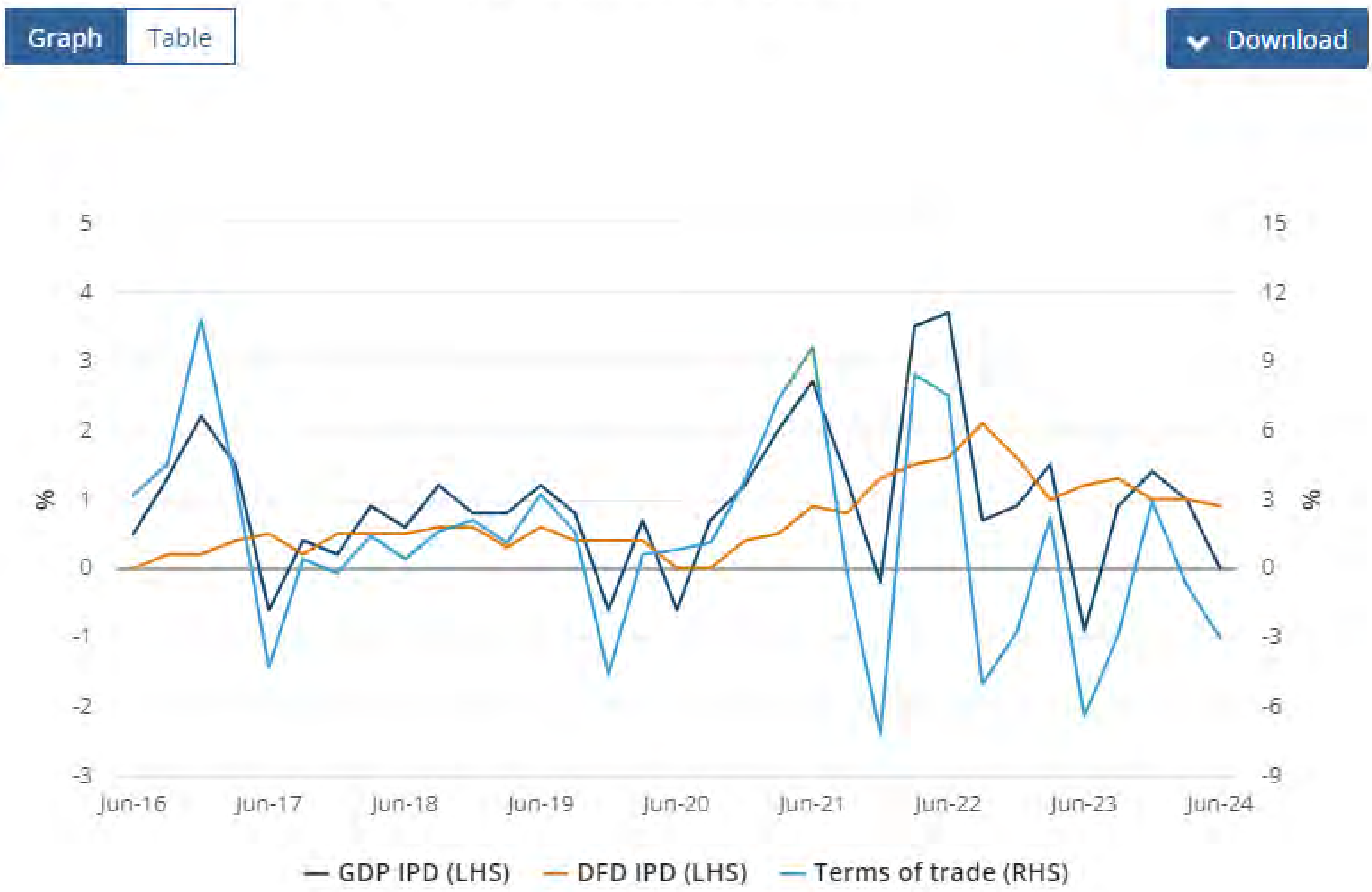
The terms of trade fell 3.0% due to falls in export prices relative to import prices. Mining commodity prices fell for a second consecutive quarter, influenced by reduced global demand for iron ore and coal. Import prices were unchanged from the previous quarter as price rises for transport freight were offset by lower oil prices.

Household consumption is slowing, which is needed to slow inflation. Even though we have what the RBA was trying to achieve, the headlines are all doom and gloom….

In Australia we need inflation to slow so we can then use interest rates to deliver a soft landing.

If inflation does not slow, rates cannot come down and this will have negative impacts on parts of the economy.

Quarterly growth in prices, seasonally adjusted



Weakness persisted in the economy

Domestic final demand contributed 0.2 percentage points to GDP growth.

Household consumption was weak and detracted 0.1 percentage points from GDP, due to reduced discretionary spending.

Government expenditure contributed 0.3 percentage points, driven by continued strength in social benefits to households.

Investment had no contribution to growth, as net transfers of second-hand assets resulted in a detraction from total private investment (-0.1 percentage points) and was offset in public investment (+0.1 percentage points).

Net trade contributed 0.2 percentage points to GDP, with a rise in exports (0.5%) and a fall in imports (-0.2%).

Changes in inventories detracted 0.3 percentage points from GDP, with a smaller build-up in inventories compared to the March quarter. Manufacturing and Wholesale trade inventories experienced a run down from increased sales of fertilisers inventories imported in March.

New public investment has slowed, but it's the jobs that are currently underway which are not on time, or on budget, and don't appear to have an end date that is of concern.

If you look at the Light Rail and the Palm Beach part of the highway and the time this is taking. It's as if these projects don't have anyone overseeing to ensure they are moving forward…

Households reduce total spending

Household consumption (-0.2%) fell to the weakest growth rate since the Delta-variant lockdown affected September quarter 2021.

Discretionary spending fell 1.1%, following a rise in March. The fall was driven by services and partly offset by goods. Transport services (-4.4%) and hotels cafes and restaurants (-1.5%) were the largest detractors, reversing their strength in March, though remain at elevated levels. Furnishings and household equipment (+4.0%) drove the rise in discretionary goods and was the largest positive contributor to total household consumption. Spending on household electrical purchases coincided with end of financial year sales, which also saw increased imports of household electrical items (+16.0%).

Essential spending increased 0.5% in the quarter. Rent and other dwelling services led the rise in line with continued population growth. Electricity, gas and other fuel (+2.4%) rose due to a reduction in electricity rebates provided during the quarter, alongside increased demand for heating due to a cooler June period. Spending on food (-1.0%) fell as households substituted to affordable options to reduce grocery expenses.

New private and public investment, chain volume measures, seasonally adjusted

Graph Table Download

When it comes to saving, households are dealing with higher inflation and higher interest rates, which is restricting their ability to save.

Even worse, they have been eating into their savings buffer, which was built through Covid and this is starting to hit low levels.

Many of these households need interest rates to decrease in the medium term.

Household saving ratio remained low

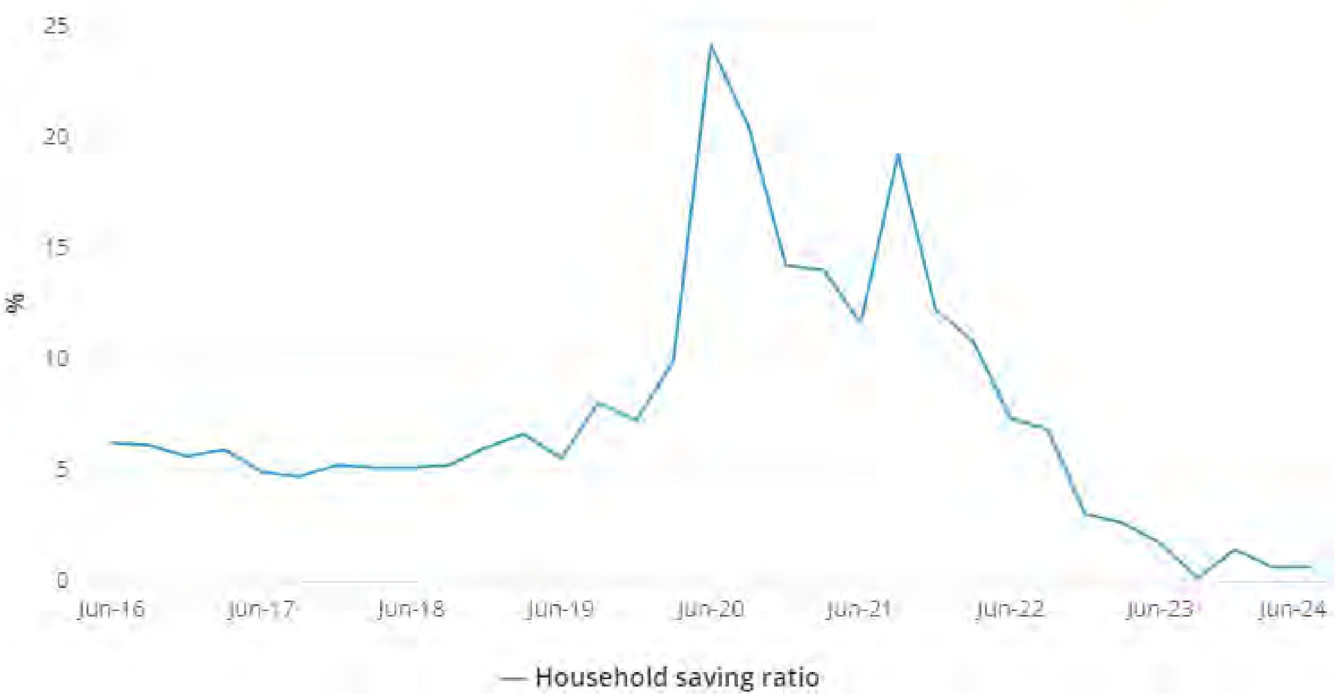
The household saving to income ratio remained at 0.6%, as growth in gross disposable income outpaced growth in nominal household consumption.

Gross disposable income rose 0.9% as gross income (+$7.8b) outpaced income payable (+$4.0b). Compensation of employees (+1.0%) was the main contributor to growth in income receivable, while income tax (+3.1%) drove the rise in income payable.

Nominal household final consumption expenditure (+0.7%) detracted from household saving as prices for essential and discretionary services continued to rise.

Household saving ratio, seasonally adjusted

Graph Table Download



Some interest comments from the Australian Bureau of Statistics web page.

Household spending fell following two quarters of growth

Household spending fell 0.2 per cent detracting 0.1 percentage points from GDP growth.

“Spending on many discretionary categories fell in the June quarter. This followed a relatively strong result in the March quarter, which included a number of sporting, gambling and music events.

“The strongest detractor from growth was transport services, particularly reduced air travel. This was the first fall for this series since the September 2021 quarter,” Ms Keenan said.

Furnishings and household equipment rose (+4.0 per cent) as households took advantage of end-of-year sales. This was partly offset by food (-1.0 per cent) with households spending less on groceries.

Government spending rose

Government spending rose by 1.4 per cent.

“National non-defence spending drove the growth this quarter and grew for the seventh consecutive quarter. The rise in June was due to continued strength in social benefits programs for health services. State and local expenditure also contributed to growth with a rise in employee expenses,” Ms Keenan said.

Investment fell for the third consecutive quarter

Total investment fell 0.1 per cent in the June quarter.

In the private sector, new machinery and equipment fell 1.6 per cent, driven by reduced agriculture and retail investment. This was partly offset by ownership transfer costs, which rose 3.9 per cent with strong activity in the property market.

Despite three quarters of falls, annual growth in total investment was 4.1 per cent.

Services exports drove a net trade contribution to growth

Services exports rose 5.6 per cent in the June quarter following falls in the previous two quarters. This was led by education-related travel services particularly from a rise in average spending after two quarters of falls.

Changes in inventories detracted from growth

The change in inventories detracted 0.3 percentage points from growth in the June quarter following a build-up in March.

The wholesale and manufacturing industries both experienced run downs in inventories. This reflected falls in some capital and

Looking at the impacts across the age groups, CBA published a cost-of-living report.

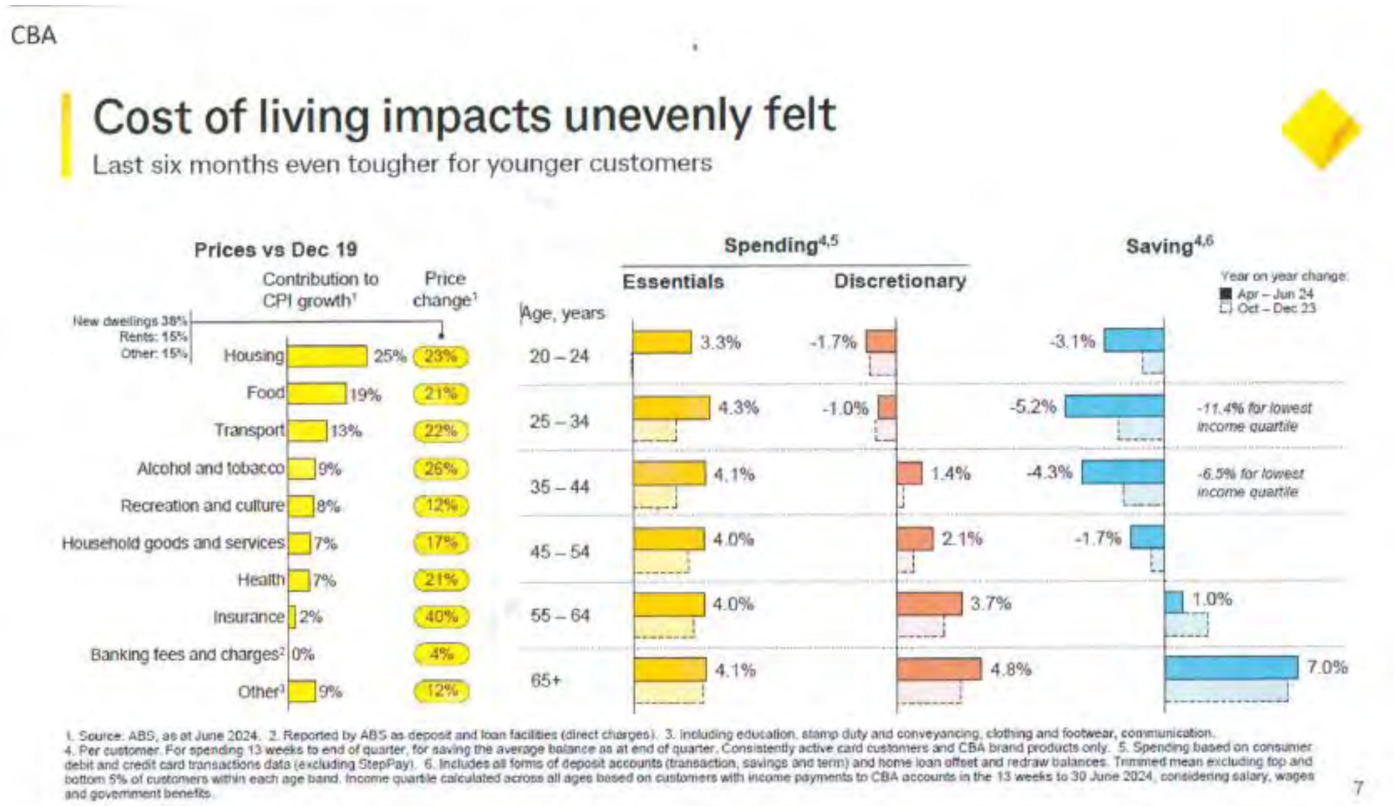
It appears the under 35 are feeling all the cost-of-living pain as they spend more and have more interest rate sensitivity.

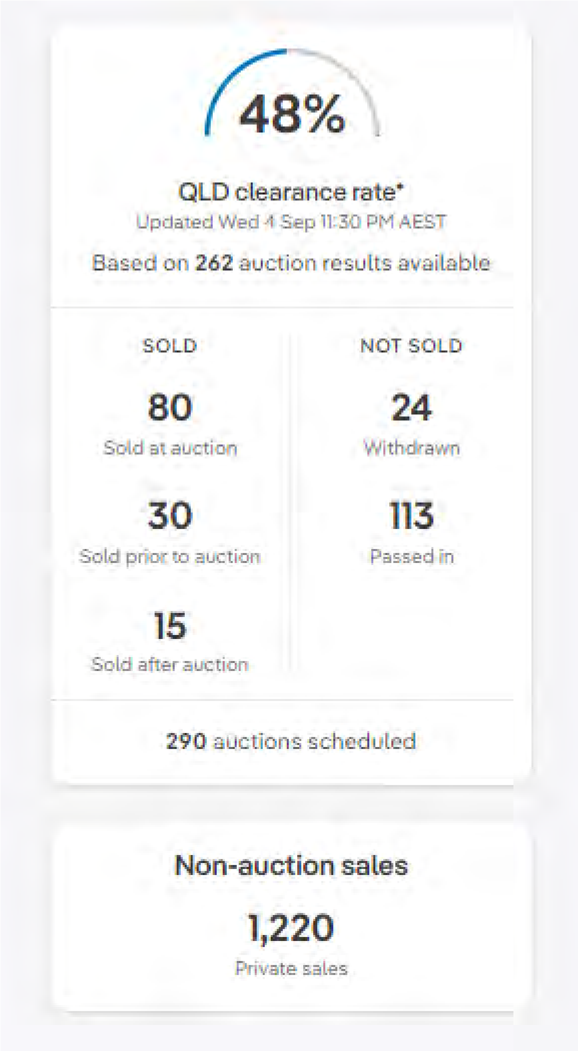
The 35 – 64 age group is very much the mortgage bracket, so as expected they are feeling the pain of higher interest rates and increasing costs.

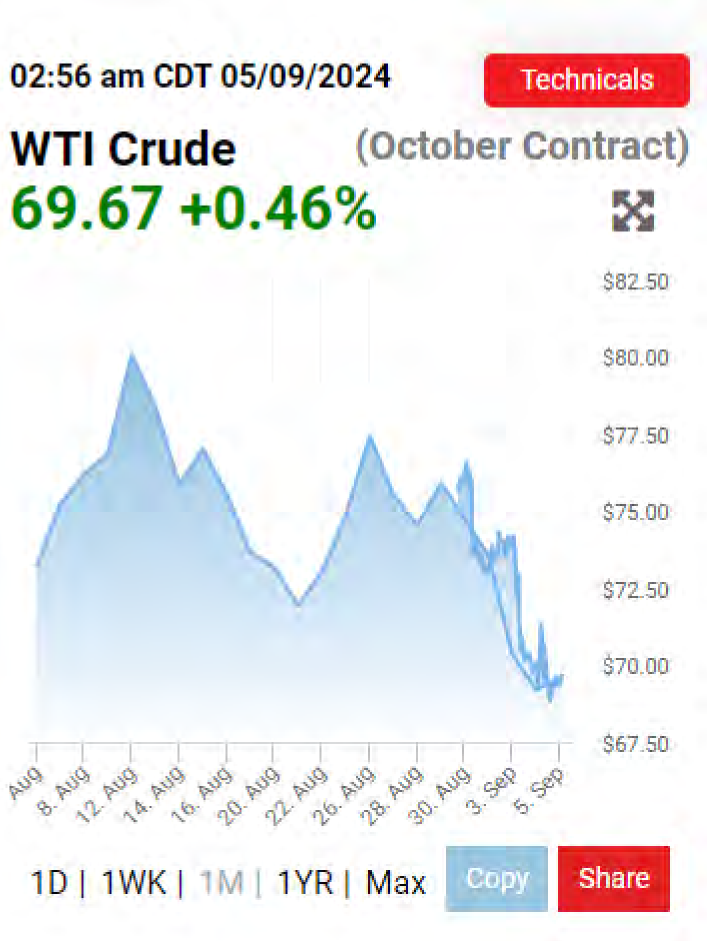
Over 65 may be seeing the costs of everything increase, BUT, there is also more income on offer from investments as well as cash and term deposit rates have increased as interest rates have gone up.

Those with larger amounts in retirement are probably tracking along ok, BUT, this group is getting pressure from a different direction. Their adult children, which are often in the 35 – 40 bracket, are asking for help to offset their own financial struggles.

The below graph highlights the pressure points across the community and gives a great snapshot.







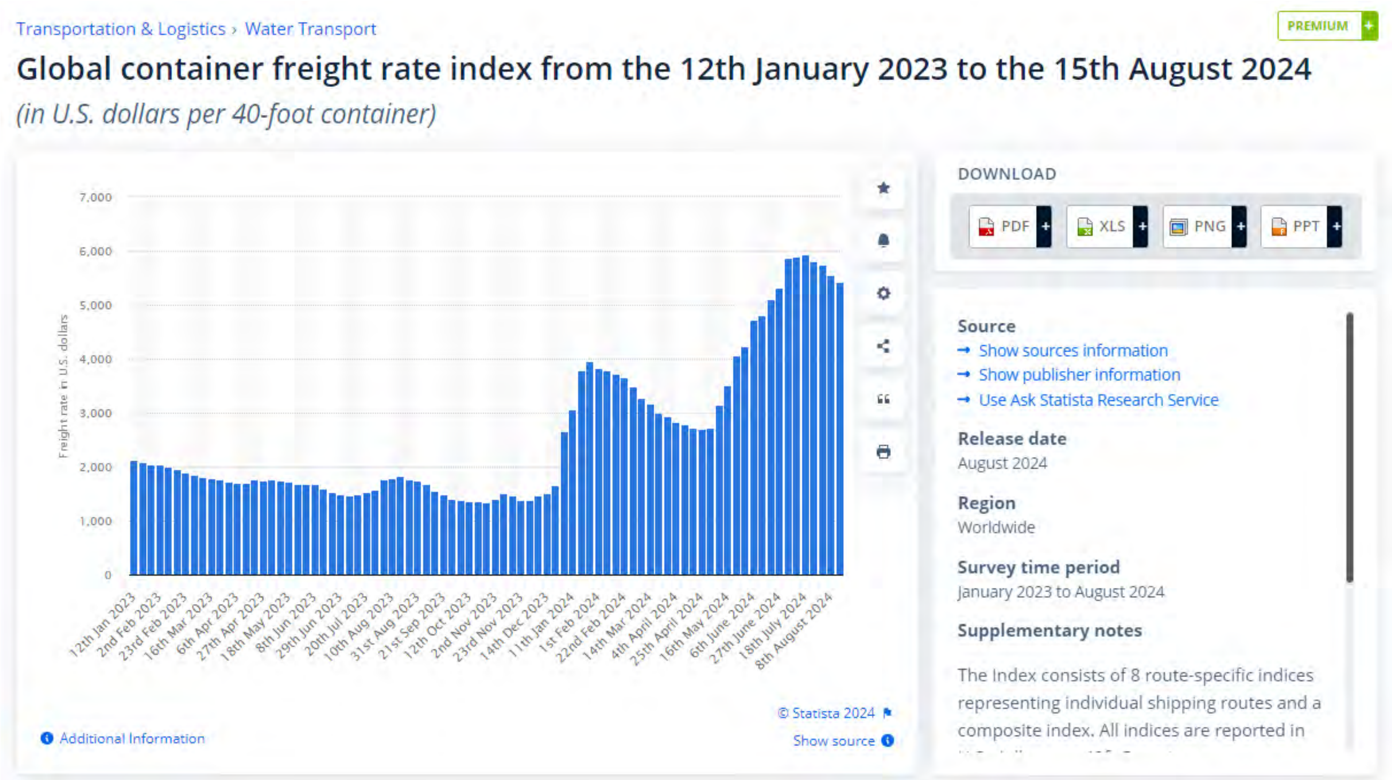
The Aussie dollars has been in a range.

Oil prices has softened on slower demand.

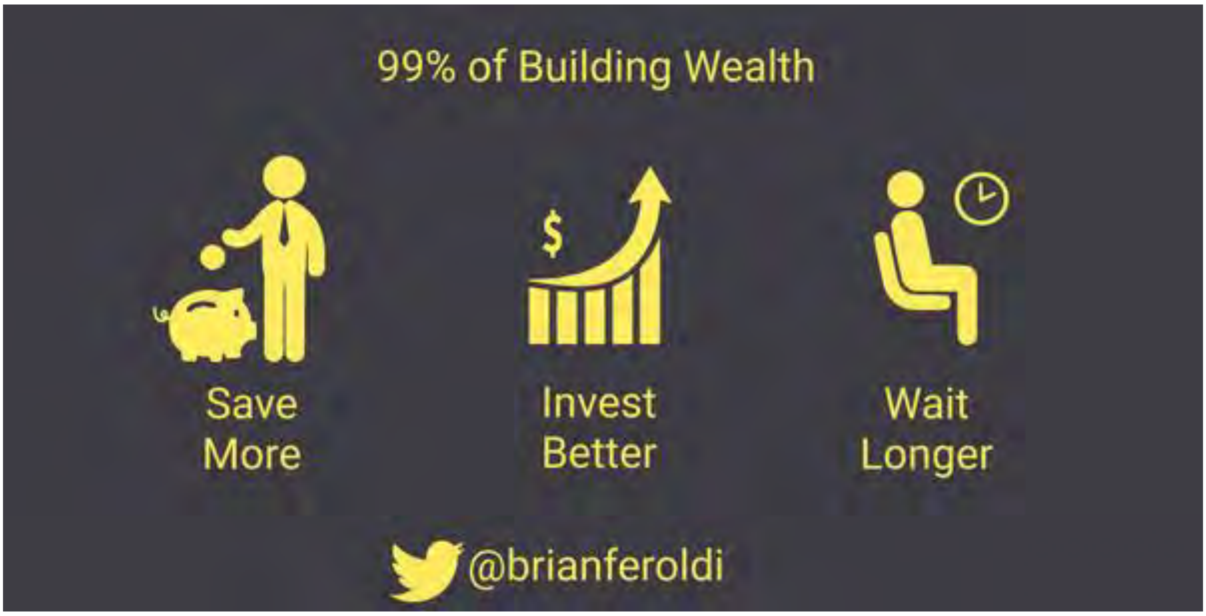
Auction clearance rates have slowed with interest rate and cost of living pressure issues.

What next.....

The cost of shipping has had a huge spike. This is effecting all imports and exports and causes a further slowing in demand across most countries. These increases will create an inflationary pressure increase in Australia.



With all the uncertainty that we hear in the media, we thought some great 'Investment Lesson' graphs will help keep things in perspective. I'm sure you will identify with many of them….


99% of Building Wealth
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More
Invest
Better
Wait
Longer
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Investing Plays
All Kinds Of Tricks
On Your Mind
$20
$10
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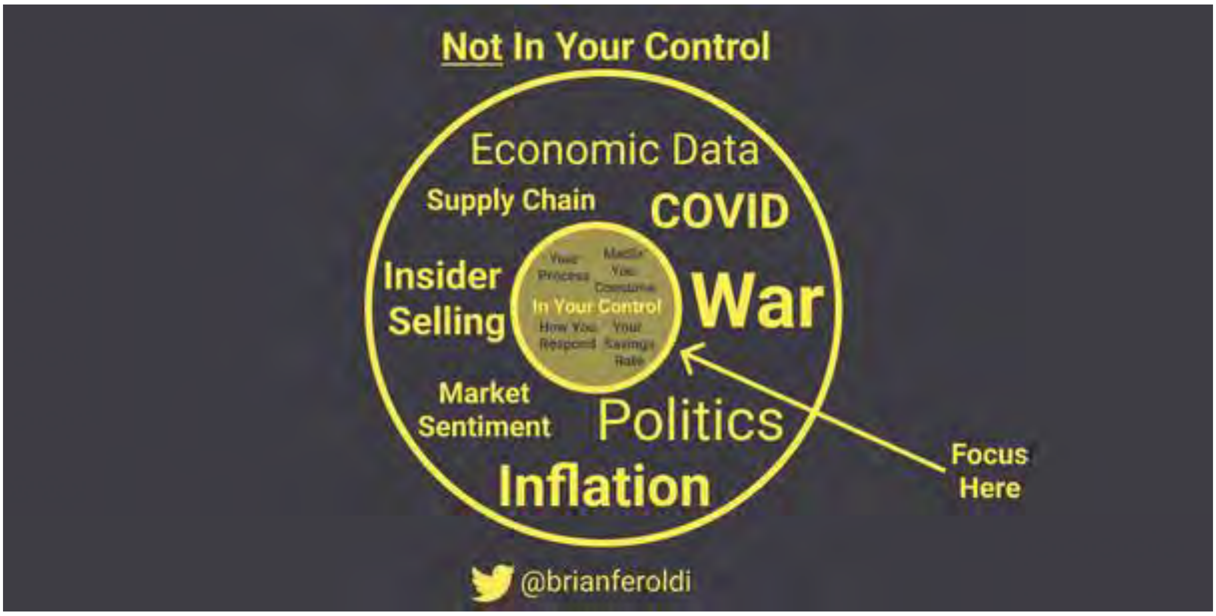
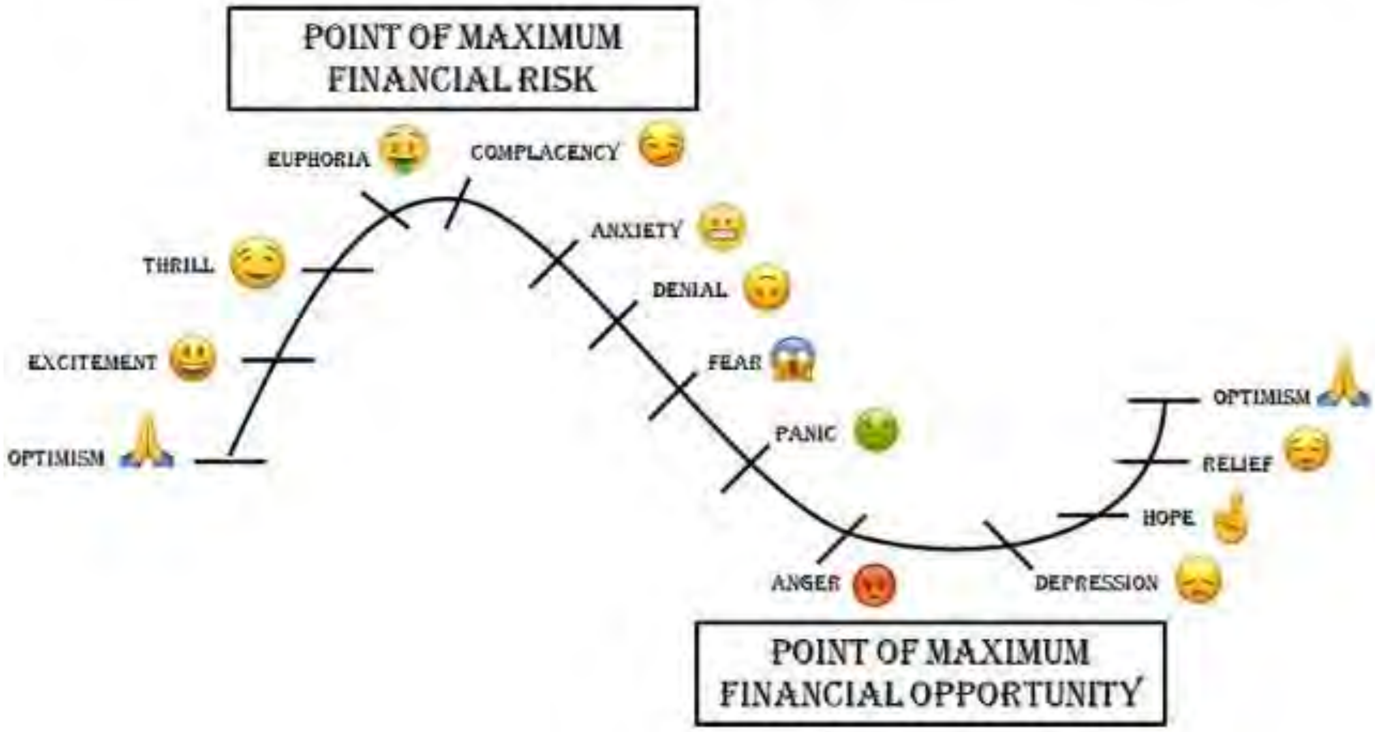
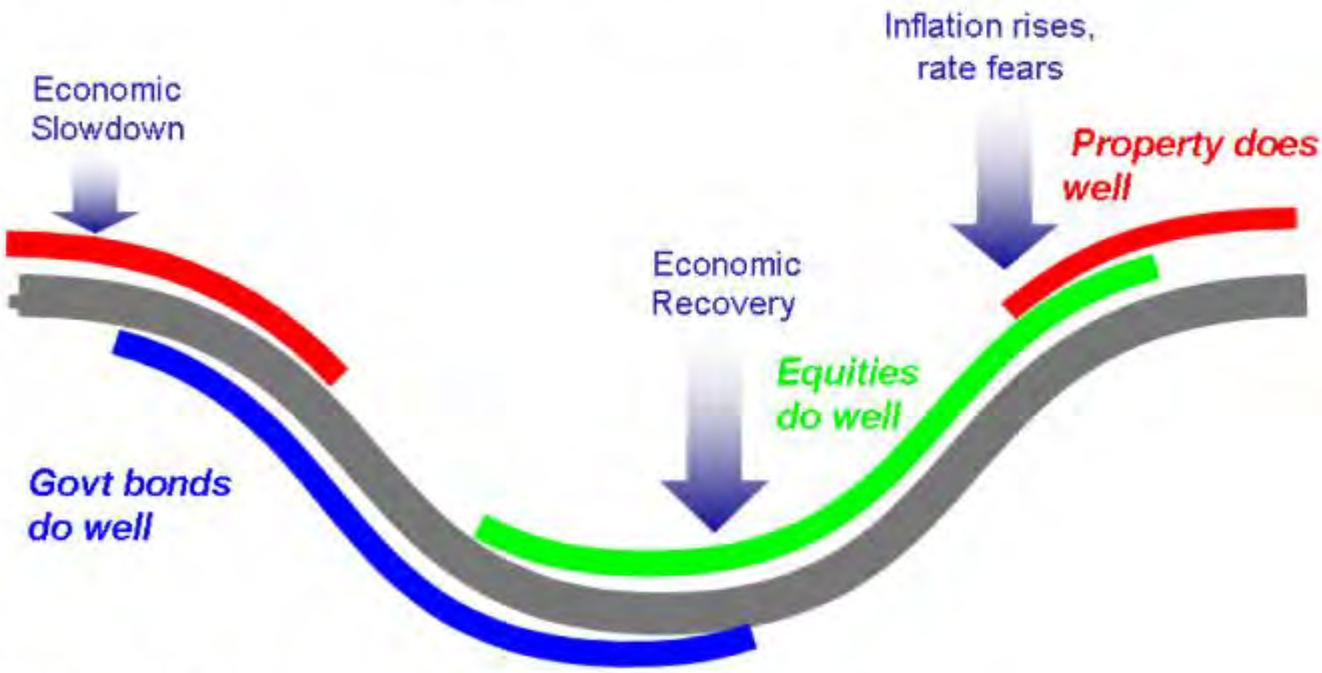

Not In Your Control
Economic Data
Supply Chain
COVID
Insider Selling
In Your Control
War
Market Sentiment
Politics
Inflation
Focus Here
@brianferoldi


Checking Stock Prices Daily
Is Like Putting A Webcam In A Forrest
To Make Sure The Trees Are Growing
@brianferoldi

THE CYCLE OF MARKET EMOJIS



The standard 3 to 5 year investment cycle



Source: AMP