

## Director's Perspective

By Noel Hucker

With 2013 drawing to a close we'd like to thank you for your ongoing support of our business. The team at Harvest wishes you and your family a very happy holiday and a prosperous 2014. We look forward to working with you again in the New Year.

In our newsletter this month we reflect on Australian and US economic conditions and the outlook for 2014. We also provide an overview of where we currently are in the investment cycle.



## Current Economic Conditions and Outlook into 2014

### Australia

This year 2013 saw the Australian economy achieve its 23<sup>rd</sup> consecutive year of economic growth, the only developed economy in the world which can boast such an impressive record. Despite this, with the mining industry shifting from the construction and investment phase to the production phase, and conditions in non-mining sectors remaining soft, economic growth in the Australian economy has begun to slow down. The September quarter of 2013 saw the rate of economic growth fall to a two year low of 2.3% per annum.

The year 2013 also saw the Reserve Bank of Australia (RBA) cut the official cash rate twice, dropping it to a record low of 2.5%. In the presence of a high Australian dollar, money supply and credit growth, the RBA believes low cash rates to be the best policy for now. Underlying inflation is sitting at 2.3% pa as at the 2013 September quarter - well within the RBA's target band of between 2% to 3% - and we believe that the RBA is likely to keep the cash rate on hold at 2.5% for the best part of 2014.

The Australian dollar has experienced great volatility during 2013, beginning the year above parity against the \$US, before falling by 15% between April and August, reaching a low of \$US0.89 in the last week of August. The \$A then recovered on the back of a decisive Federal election result and strong economic data both domestically and from China; reaching a height of US\$0.96 in October 2013. The \$A has begun to retract once again this month, and after an announcement that the US Federal Reserve will begin to taper its Quantitative Easing programme in early 2014, fell to \$US0.89 at the time this newsletter was published.

A decisive Federal election result in early September 2013 has triggered improvements

in key economic confidence indicators. Both business and consumer confidence indicators for December 2013 are significantly higher than their lows of 2 years ago with the NAB Business Confidence Survey showing business confidence at a positive level for the first time since 2010.

Employment growth still remains low with the unemployment rate reaching 5.8% in November, almost equalling the peak unemployment rate during the GFC of 5.9%.

We expect that the pace of economic growth in Australia will increase slightly into 2014, and that global economic growth will return close to normal trend levels.

Business confidence has recently been showing promising signs of recovery and we expect this to continue into 2014.

Our forecast is that economic growth in 2014 will increase slightly to an estimated 2.5%, which, while positive, is still a below average result.

### United States

The US economy experienced slow, but nonetheless positive growth during 2013, giving it its third successive year of growth.

Unemployment in the US has fallen to 7.2%, its lowest level in five years. While this is a positive sign for the US economy, this headline figure masks some potential areas of concern. While employment numbers have increased, the participation rate has fallen, hitting 62.8% in October, its lowest level since 1978. In addition, many of the jobs created have been part time or temporary.

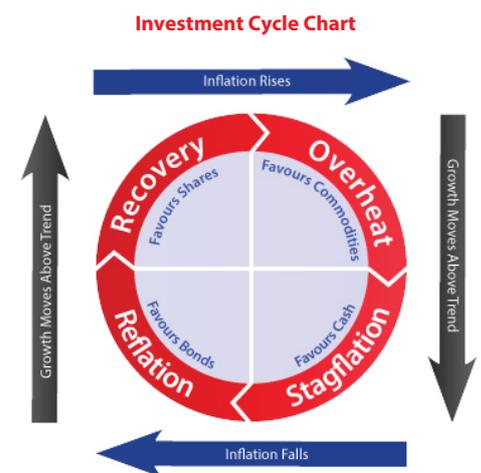
Difficult political and fiscal circumstances have been a major factor in slowing growth in the US. The 16 day US government shut-down in October caused the economic growth rate to fall to 2% for the final quarter of 2013, a much lower rate than the 2.5% predicted by many economists before the shutdown.

The US Federal Reserve has announced it will begin slowly tapering its Quantitative Easing programme in January 2014, indicating its belief that economic conditions are set to remain positive in 2014 and we expect this to result in a continuing positive economic growth rate in the US throughout 2014.

## Investment Cycle

### Where are we currently at?

The investment cycle has stayed in overheat for a third consecutive month as fiscal and monetary policies are expected to assist positive economic growth in 2014. The prospect of good growth and falling inflation has seen the cycle begin to turn towards recovery, a part of the cycle which favours equity investments.



**GENERAL ADVICE WARNING**  
© 2013 Harvest Employee Benefits. This Newsletter has been prepared for Harvest's clients. The information contained herein is current and up to date at the time it was prepared. Harvest Employee Benefits Pty Ltd, ABN 74 107 226 693 is a Corporate Authorised Representative and Mario Isaias, Noel Hucker and Inbam Devadasan are Authorised Representatives of Harvest Financial Group Pty Ltd, ABN 80 111 998 068 AFS Licence No 284909. Harvest reserves the right to correct any errors or omissions. Any advice contained herein has been prepared without taking into account any individual persons objectives, financial situation or needs. As such, before acting on any information contained herein, a person should consider whether the information is appropriate for that person, having regard to their objectives, financial situation and needs. The relevant Product Disclosure Statement should be obtained and read before making any decision regarding information contained in this Newsletter.