Weekly Economic Update

OPTIMAL ECONOMICS

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The IMF's latest World Economic Outlook document landed with a thud in Australia. The IMF chided Australia for the "drawn-out persistence" of inflation while leaving expected GDP growth this year steady at a soggy 2.1%. This "persistence" of inflation stems a lot from the federal government's worsening fiscal flatulence, although profligate states are adding to the stench.

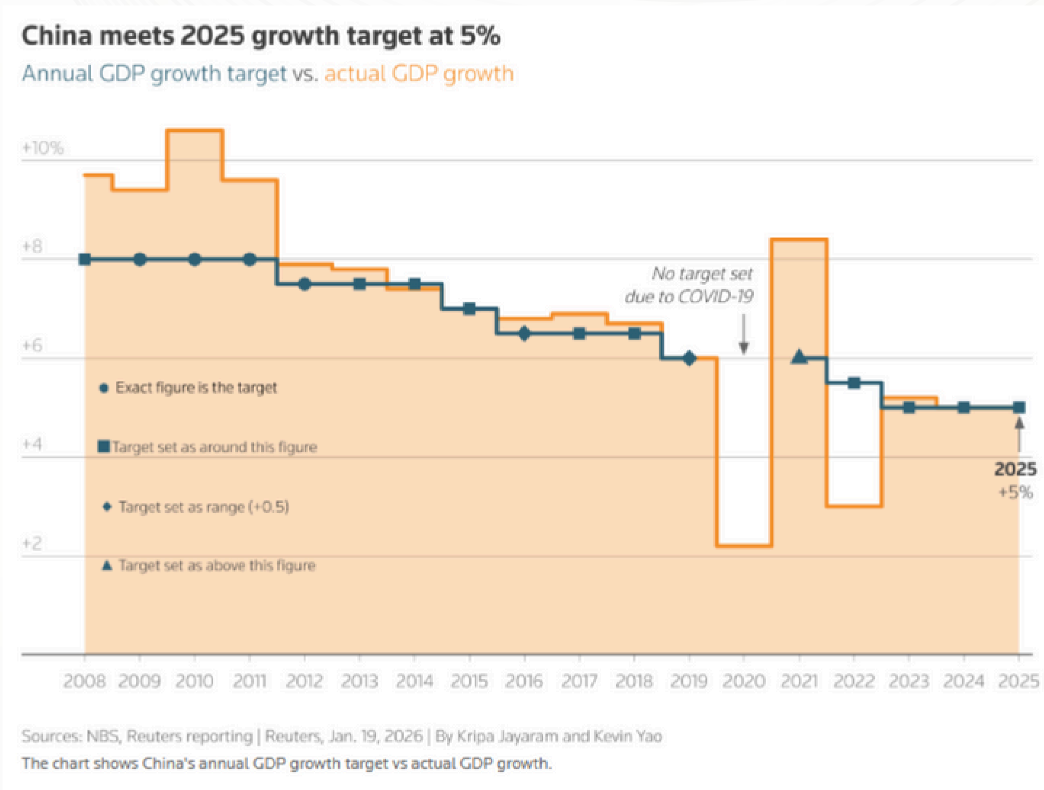
The main global developments this week included China printing GDP growth at 5% for last year. This, remarkably, is bang in line with the official target (see chart below). Some economists suspect actual growth in China (which takes more than 30% of Australia's exports) is much weaker because of the softness in private investment and retail spending. Exports, though, have been booming, despite the worsening global trade war.

On that, the trade conflict got much worse last weekend when President Trump threatened to impose a 10% tariff on eight European nations, an impost that would have jumped to 25% in April should his undignified lunge at Greenland be rebuffed. Then, unexpectedly, the President withdrew his tariff threat as "immediate negotiations" commenced. The damage was done to global relations, though, a "rupture", according to Canada's PM Mark Carney.

The main domestic news was that the economy generated a whopping 65,200 jobs in net terms in December, following the unexpected fall in employment in November. This bounce in employment pushed the jobless rate down to 4.1%, the lowest since last May. Yesterday's outcome runs counter to the leading indicators of jobs growth, which have been softening.

The Reserve Bank faces some difficult deliberations in coming weeks. Some economists think the RBA will lift the cash rate as soon as next month. This bold view is driven largely by the "persistent" inflation referred to by the IMF and the apparent rebound of the jobs market. Futures markets price a 35% chance of a rate hike in coming months. Let's see what next week's quarterly CPI data reveals.

In financial markets, we've said this before and we'll probably say it again, gold prices reached a fresh record high this week thanks to the additional uncertainty. But the "sell US" trade was back with a vengeance. US shares dived on Tuesday by the most since last April (after the so-called "Liberation Day" tariff announcements), US bond yields spiked as bonds were dumped, and the US dollar fell.



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