

>>> In a broad sense systemically published economic data fall into three categories: **leading, coincidental and lagging indicators**. Once we understand these terms, and they are simple concepts, the information we come across seemingly daily, will become much more meaningful and relevant to the understanding of key indicators such as inflation, interest rate movements, GDP figures, unemployment statistics, house price affordability and in particular the performance of investments on the stock exchange.

If we can think of a car passing on a road, the lagging indicator is where the car has already passed - it's like looking at the world in the rear view mirror; coincident indicator is where the car is travelling now; and the leading indicator is where the car is heading that may not be known and may be smooth, potholed or serpentine.

Unfortunately, although there is evidential data available on any number of economic indicators and statistical models abound, two of the most often and critically important figures used by policy makers to steer the economy, are lagging indicators, namely inflation, GDP trending and unemployment data. Central Banks, such as our Reserve Bank typically have to steer the economy by using old/out of date and sometimes inaccurate data to gauge and understand where the economy is heading, that is, while staring in the rear view mirror.

There are other leading indicators that could be used, and to be fair, are being used in tandem with crucial leading indicators, such as building approval numbers. Strong building activity and high property clearance rates at auction, for example, suggests favourable bank lending policy, low / falling interest rates, improving property 'affordability', a mid-term commitment to spending by consumers that translates as a knock on effect to the local economy, and a confident spending environment.

One of the main reasons economists have trouble forecasting economic trend and vitality is that it is extremely difficult to pick turning points and so they normally just extrapolate current trends.

To do this they rely on spending, output and prices not moving around too much. The difficult task is really separating out all the statistical noise from the data that reflects reality. It may well be that because too much focus is placed on lagging indicators it is difficult, for example, to appreciate that the unemployment rate is usually at its lowest level when a recession is starting and, inflation usually peaks in a recession and troughs in the expansion phase.

It is instructive to reflect on how rapidly the fall in the price of oil and commodity prices has distorted and spurned international and local economic activity and sentiment. The fall in petrol prices put extra money in our pockets, the fall in iron ore sales has had the opposite effect and has severely impacted government revenues. And then some! At the same time interest rates are at an all time low, and still falling, and inflation is quite low; the Australian dollar is weaker so our exports are becoming more competitive and local producers are at an advantage domestically against more expensive imports. It is wise to keep an eye on all these factors and not be blinded by doomsayers and other generators of negative sentiment.

We are constantly reviewing developments in the local and international market place and are taking long term decisions with our clients' interests in mind. I encourage all of you to keep in mind the sort of information reviewed above so we can go forward confidently, together.

As Malcolm Fraser once said "life wasn't meant to be easy". He was right, but we still need to press on.

For more information or to talk to one of our team, visit our web site or call us on **9787 5555**.

DISCLAIMER: The author of this newsletter is Dollar Growth Financial Planning Pty Ltd (ABN 37 128 939 873) a Corporate Authorised Representative (No:321108) of Financial Planning Services Australia Pty Ltd AFSL/ACL: 225982 ABN: 55010521810: www.fpsa.com.au. Any advice contained herein is general advice only and does not take into consideration the reader's personal circumstances. Any reference to the reader's actual circumstances is coincidental. To avoid making a decision not appropriate to you, the content should not be relied upon or act as a substitute for receiving financial advice suitable to your circumstances. The material contained herein is provided in good faith and is believed to be reliable and accurate. To the extent it is permissible by law, however, no liability is accepted for errors or omissions or for loss or damage suffered by any person as a result of inaccuracies in the publication. FPSA does not provide any tax and accounting services nor is responsible for any tax and accounting services provided to you by Dollar Growth Financial Group.

Any external links are provided for your convenience. We do not accept responsibility for or endorse the content or condition of any linked site.



Dollar Growth
Financial Group
Advice for Life

www.dollargrowthfinancialgroup.com.au

Dollar Growth Financial Group Level 1, Suite 2, 1 Cooks Avenue Canterbury NSW 2193

Tel: (02) 9787 5555 Fax: (02) 9789 6666 Email: clientservice@dollargrowth.com.au