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HD **A slow start as investors look to score**

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THE ECONOMY

TO borrow an analogy from Australia's winter sports, the economy spent the first quarter running on the spot with minimal impact on the scoreboard.

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But while some observers might have viewed the first term as an ugly spectacle, the nation's tough preseason should serve it well as the match — sorry, the year — wears on.

A couple of important free kicks in the form of an improving US economy and a solid contribution from Australian construction are also adding colour to our cheeks.

Australia ran on to the field full of vigour — but the momentum built at the back end of last year hasn't amounted to all that much so far.

Yes, official interest rates are stable but unemployment touched the symbolic 6 per cent mark, the high dollar is causing headaches and evidence of a concerted shift away from resource-led growth has been slow to materialise.

However, many economists and business leaders are coming around to the Reserve Bank's "glass half-full'' attitude; so much so that when the siren sounds on 2014, the economic rebalancing act is expected to be complete and rate rises well and truly back in vogue.

AMP Capital Investors chief economist Shane Oliver says the pick-up can be traced back to the property belt.

"The strong momentum in the housing market was exactly what we needed," he said. "It proved there was confidence that the economy was not going to spiral downwards following a weaker contribution from the **mining** sector.

Oliver said the danger now was that the booming property market is "too much of a good thing" which would set up the economy for a hard landing once house prices moderate.

CommSec economist Savanth Sebastian says the RBA plans to mitigate the risks of a property bubble; last month governor Glenn Stevens warned investors and owner-occupiers alike about the risks of overleveraging.

"The RBA will ramp up that commentary as they deem necessary," he said. "Ongoing growth in house prices in the short term is the most likely outcome but there's a huge supply side response to come and that will ensure more sedate levels of growth in the medium to long term." As Australia's growth profile broadens, a high local currency — it has spent the past three weeks above US90c — becomes less of a problem for the central bank, he says. Instead it's the next quarterly read on inflation, due this month, that will have the RBA on tenterhooks. A figure pushing at the upper end of the bank's 2-3 per cent target band could put rate rises on the table earlier than expected, he said.

The Australian sharemarket rounded out the quarter virtually flat after retreating in January on the global reaction to the US Federal Reserve's dwindling stimulus program and fears of a slowdown in **China**.

A solid corporate profits season and renewed faith in **China** helped to ease those concerns; as a result the ASX 200 rebounded in February before holding its ground last month. Over the quarter, it added a mere 42 points.

Investors should keep their seatbelts tightly fastened as the road ahead has plenty of twists and turns.

CMC Markets chief market strategist Michael McCarthy said: "We're expecting the sharemarket to fluctuate between optimism on improving domestic growth and concern over the impact of extended stimulus." He said the Fed would conclude its quantitative easing by the end of the third quarter, placing some downward pressure on the Australian dollar.

In this game, though, perhaps the strongest indicator of renewed confidence can be found in the corporate boxes, said **Equity** Trustees investment chief George Boubouras.

"We had a reporting season that really did deliver," he said. "It was one of the best for six or seven years." With cheering like that from the stands, the economy can push on, knowing it's starting to win back a few fans.

SHARES UP 0.8 per cent THE skittles were lined up for sharemarket investors to strike early in 2014, but the reality was quite different. The crisis in Crimea, the prospect of an earlier-than-expected end to US stimulus and concerns about **China**'s growth trajectory kept investors on their toes.

At the end of the quarter, a poor January for equities was cancelled out by a solid showing in the subsequent two months as the global picture cleared.

The quarter finished almost where it began, the ASX 200 climbing just 0.8 per cent.

IG Markets analyst Chris Weston said markets had anticipated the effect of winding back quantitative easing in the US, while the Reserve Bank's stint on the interest rate sidelines allowed more cash to be tipped into shares.

"If the RBA lets people into an asset class, then we've got to own that asset class. If the US Fed ups rates, where do we want to be? We want trades that work in a rising rate environment." Mr Weston said this could make banking stocks less attractive with yields likely to be less compelling as lenders hold off on lifting their standard variable mortgage rates.

SUPERANNUATION UP 0.7 per cent THE mixed performances on investment markets so far this year are causing a roller-coaster ride for superannuation returns. January was down 0.85 per cent, February soared more than 2 per cent but March is set to be back in the red by almost half a percentage point.

SuperRatings estimates the average balanced super fund has finished the March quarter up 0.7 per cent.

The modest performance will be disappointing for most super fund members as their savings earn returns of less than a third of the current inflation rate.

PROPERTY UP 3.5 per cent THE last-minute buyer surge last month helped push national home prices to a stronger-than-expected 3.5 per cent increase during the quarter, after an initial lacklustre start to the year. However, property analyst RP Data warns the price jump is not sustainable in most capital cities, including Melbourne's national high this quarter with a 5.4 per cent price rise.

Nationally, house prices, which were up 3.6 per cent, outperformed apartments, which increased just 2.7 per cent during the quarter.

However, apartments earned higher rental returns for their owners, with an income of 4.6 per cent for the quarter compared with 3.8 per cent from houses.

CASH Down 0.02 percentage points AUSTRALIA'S savers remain as committed as ever to their cash investments, but the landscape for deposit holders remains rocky, according to comparison website RateCity.

The nation has a record $831 **billion** invested in cash and term deposits but returns have been low because the Reserve Bank is keeping the cash rate at 2.5 per cent.

RateCity says the average one-year rate for a $25,000 deposit is 3.45 per cent, while only one in five online savers can boast a maximum rate of 4 per cent or higher.

The average online savings rate is just 3.14 per cent.

“For retirees it’s not been good at all,” RateCity chief executive Alex Parsons said.

“Term deposits have been particularly low over the past six months.” The onus is on savers to shop around if their account doesn’t have a four in front, he says.

“There are two types of savers: those who don’t keep a focus on their money, then those who do their research and use sites to compare rates.” He said consumers need not stick with the big four lenders either — there were more than 100 non-bank institutions offering sharp rates at the pointy end of the market.

Mr Parson said the medium-term outlook for cash was positive with official rate rises a possibility before the end of the year.

THREE MONTHS IN REVIEW PEOPLE'S CHOICE AMP up 11.8% Woolworths up 5.2% Origin **Energy** up 1.5% Qantas up 0.9% CBA down 0.4% Telstra down 3.2% BHP Billiton down 4% Wesfarmers down 6.4% Coca-Cola Amatil down 8.3% Myer down 18.9%

OVERSEAS Dow Jones Industrial Average down 0.7% FTSE 100 down 2.2% DAX flat Nikkei down 9% Hang Seng down 5%

STATE OF PLAY* RBA cash rate 2.5 per cent Unemployment 6 per cent Australian dollar US92.3c ASX 200 5394.83 points* As of midnight March 31, 2014

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