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HD **10 things to help you be a successful investor**

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IT IS all too easy to drown in an ocean of economic statistics and commentary. Barely a day passes now without multiple index readings, survey results, confidence barometers and price guides hitting the market.

So how does the household investor sort through the numbers? How to pick the difference between the events, numbers and commentary that matter, and those that are little more than white noise?

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News Corp Australia asked some of Australia's leading economists to nominate the key things they watch – from statistics and survey results to comments from central bankers and other prominent people – for an insight on the market and economic outlook.

Based on their responses, here is a list of the 10 most significant: 1 The Federal Reserve Few would quibble with the notion that the US Federal Reserve is the most important central bank in the world.

The bank's all-important Federal Open Market Committee meets eight times a year – about every six weeks – to make key decisions on interest rates and money supply.

These decisions heavily influence the biggest economy in the world, as well as global equity markets.

AMP Capital chief economist Shane Oliver says the tried and true saying "don't fight the Fed" means the American central bank is at the top of his broad watchlist.

"The Fed will eventually get their way, as we have seen in Australia over the past couple of years," Dr Oliver says.

"Given the high correlation between the Australian and US share markets, the Fed is really key." 2 The Reserve Bank You may not be able to fight the US Fed, but let's not forget about our own central bank. The Reserve Bank of Australia **board** meets on the first Tuesday every month bar January.

At 2.30pm, the governor announces what the nation's official interest rate – also known as the cash rate or base rate – will be.

That essentially sets interest rates for savers and borrowers, with low rates not only encouraging businesses and consumers to borrow and spend but also prompting savers to move out of fixed-term deposits and into equities.

HSBC chief economist Paul Bloxham says investors should particularly look out for the RBA's quarterly statement of monetary policy.

"This is probably the best comprehensive update of global and local conditions from Australia's perspective," Mr Bloxham says.

3 Westpac consumer confidence survey Officially it's called the Westpac-Melbourne Institute Index of Consumer Sentiment.

It is regarded as the nation's most reliable and best respected measure of just how consumers are feeling and, more importantly to investors, their future spending patterns.

The index is based on a survey that has been running since 1976 and carried out every month since 1986. It is a joint project between the bank and the Melbourne Institute of Applied Economic and Social Research – part of the University of Melbourne.

The survey results are released on the second Wednesday every month, and the headline number averages five component indexes.

These reflect consumers' evaluations of their household financial situation over the past year and the coming year, anticipated economic conditions over the coming year and the next five years, and buying conditions for major household items.

"It's got a long, long history and is one of the best private economic indicators released in Australia," Dr Oliver says.

"It's important because it gives you an insight into how Australians are feeling and if policy from the Reserve Bank and other regulators is actually working." 4 Building approvals The Australian Bureau of Statistics' monthly building approvals data is keenly monitored, particularly for "new **residential** starts" – the number of new houses, flats and other dwellings that are approved for development.

Activity in this sector is highly sensitive to interest rates and when Australia's economy is poised to improve, it's usually housing that leads the way.

Saul Eslake, Bank of AmericaMerrill Lynch's chief economist in Australia, warns the monthly numbers are highly volatile.

While the seasonally adjusted numbers are usually reported, he turns to the trend figures.

These figures "smooth out" the monthly numbers over a longer time frame and highlight the general direction the sector is heading.

5 **Chinese** PMI, industrial production numbers These are two key indicators economists keep their eye on to measure the health of our largest trading partner.

Purchasing Managers' Indexes are based on surveys of companies, and the focus on manufacturing PMIs is particularly strong.

They provide a key insight into new orders, inventory levels, production, supplier deliveries and the employment environment.

Marked on a 100-point scale, a score above 50 indicates companies are reporting above-trend growth while a score below 50 indicates they are below trend.

HSBC, a British banking giant that focuses heavily on Asian markets, publishes one of the most closely watched **Chinese** manufacturing PMI reports every month.

It publishes a "flash" or preliminary reading first, usually about three weeks into each month, with the full report following about 10 days later.

Industrial production figures essentially give investors insight into the volume of goods all those **Chinese** factories are churning out – and the volume of commodities they might need from Australia to keep powering on.

6 Consumer Price Index The ABS calculates the inflation rate by tracking the prices of more than 1500 items that consumers commonly **buy**. These are in the major groups of food, clothing, alcohol and tobacco, housing, household goods, transport, health and recreation and education. The figures are released quarterly.

So why is the Consumer Price Index, or CPI, important? "It's essential for working out where interest rates are headed locally," Mr Bloxham says.

Since 1993, the RBA has had a target rate for inflation of 2 to 3 per cent. Above this and it is likely to try to cool the economy by raising the official interest rate.

Below it and it is likely to try to stimulate the economy by cutting rates. All of which will impact your share portfolio.

There are various “underlying” measures of inflation included in the CPI statistics and the RBA focuses on two of them, known as the weighted median and trimmed mean.

But the main or “headline” inflation rate is still regarded as a crucial guide to the outlook for interest rates.

7 Auction clearance rates and house prices The family home is the biggest asset most of us are ever going to own so keeping an eye on the **property** market is always a good idea.

When house prices are rising, consumers feel more confident and that should translate to a more buoyant economy. This data is a good indicator of what is to come.

“It’s also another good guide to see if people are responding to interest rate cuts or not,” Dr Oliver says.

Auction clearance rates are printed in the weekend papers and a rate between 60 and 70 per cent is generally regarded as a balanced market.

The RP Data-Rismark Home Values Index is also widely regarded as the go-to guide for up-to-date home price movements.

8 Unemployment rate The ABS’s monthly Labour Force survey is arguably the most widely reported economic indicator in the nation.

While the more volatile seasonally adjusted numbers hog the headlines, economists turn to the more stable trend numbers.

Also take a look at the participation rate, which will tell you what percentage of the working-age population is employed or actively looking for work.

The unemployment rate can fall simply by more people dropping out of active job hunting – hardly a sign of a healthy economy.

The split between full-time and part-time employment is also useful. It’s also crucial to remember the unemployment figures are what economists call lagging indicators – they tell us what has already happened.

“While it is a lagging indicator, it is one that does have a lot of influence on the cash rate and because it comes out early in the month it can be crucial in the RBA’s decision making process,” Mr Eslake says.

9 Commodity prices The price of iron ore, coal and gold will tell you the bulk of what you need to know about the nation’s all-important mining sector.

It’s not only the miners that need prices to stay up – the savaging of engineering firms over the past 18 months shows just how many companies feed off the mining boom.

Key commodity prices can be tracked from news reports or by looking over the RBA’s monthly index of commodity prices.

“Commodity prices are crucially important to Australia as a major commodity exporter,” Mr Eslake says. “In particular keep an eye on the price of iron ore given it’s our single largest export item.” 10 Credit growth On the last working day each month, the RBA provides an update on the amount of credit extended to the private sector in the form of housing, personal and business loans.

The tally effectively shows the value of loans outstanding in Australia’s economy.

The growth figures give an insight into general confidence in the economy, as well as future interest rate movements.

CommSec economist Savanth Sebastian says that if growth in lending is strong, it indicates there is **firm** demand for assets such as cars and houses.

By extension, this suggests interest rates for loans are at an attractive level for consumers.

Mr Sebastian says strong credit growth also indicates banks and other financial institutions are lending willingly, suggesting economic sentiment is broadly upbeat.

WHEN TO WATCH n Federal Open Market Committee: The US Federal Reserve meets eight times a year to make key decisions on interest rates and money supply.

n Reserve Bank (RBA) **board** meeting: The RBA meets on the first Tuesday of each month, except January, to decide on the nation's official interest rate (cash rate). Announcement is made at 2pm, SA time.

n Westpac-Melbourne Institute: Survey of consumer sentiment released on the second Wednesday of each month.

n Australian Bureau of Statistics (ABS) building approvals: Released each month.

n **Chinese** PMI and industrial production: The HSBC Flash **China** Manufacturing PMI is released each month.

n Consumer Price Index (CPI): The Australian inflation rate (CPI) is released quarterly - on the fourth Wednesday of January, April, July and October.

n Auction clearance rates and house prices: The RP Data-Rismark Home Values Index is released on the first business day of each month.

n Unemployment rate: The ABS's monthly labour force survey is generally released on the second Thursday of each month.

n Commodity prices: The RBA's Index of Commodity Prices is released on the first business day of each month.

n Credit growth: On the last business day of each month, the RBA provides an update on the amount of credit extended to the private sector.

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