

Gateway's Economic Outlook - April 2011

To keep you up-to-date on the state of the Australian economy and, more importantly, what that means to you and your hip pocket, we've introduced a new section to *gatepost* called 'Economic Outlook'. Each quarter, we will take a look at the major economic developments in the Australian economy and explain in a snapshot what this means for you and your family.

The Cash Rate is still 4.75%. After four 0.25% Cash Rate increases in 2010, we are yet to register an increase this year. This is great news for most Australians, especially those with large debt such as mortgages. The Reserve Bank of Australia (RBA) reviews the Cash Rate on the first Tuesday of each month except for January. Setting the Cash Rate is part of what is called "Monetary Policy" and whilst the RBA looks in detail at many aspects and influences on the Australian economy both domestic and international, broadly it is designed to keep the level of inflation in the value of the Australian economy somewhere between 2 and 3% so that there is economic stability, close to full employment levels and economic prosperity. At March's meeting, the rate of inflation was well within the target range. As at 31 March 2011, market experts are predicting that we will see no increase to the Cash Rate for some months ahead and are even predicting a 7% chance of a decrease, though this is unlikely.

In the housing market, prices have remained static so far in 2011. According to RP-Data Rismark figures, national city home values remained unchanged in February after a 1.5% (seasonally adjusted) drop in January. This drop was driven by the RBA increase in November 2010 that saw a larger than usual increase to many Bank mortgage rates. And, coupled with several natural disasters such as the Queensland floods, purchaser appetite was dampened. According to RP Data the national city median dwelling price in February was \$459,000.

The Australian dollar has reached record highs, worth 103.47 US cents (as at noon on 31 March 2010). Back in May last year the Aussie Dollar was worth a bit over 81 US cents. The phenomenal increase in the value of the Aussie Dollar is a story not just about the resilience on the Australian economy in the fall-out from the Global Financial Crisis but also the fragility of the American economy. What this means for Australians is a mixed bag – on a personal level if you are buying imported goods like TVs, or if you are planning a big overseas trip, you are on a clear winner. However, if you run a business that exports goods or are involved in the tourism industry, the current strength of the dollar makes for some pretty tough trading conditions.



Graph 1: AUD/USD exchange rate 2001- 2011