



2023

YEAR IN REVIEW: defying predictions

Australia's economy stubbornly defied predictions during 2023, dashing any hopes that we might begin to return to some kind of normal.

Some had expected an end to the Reserve Bank's continued cash rate rises during the year. Instead, inflation has been a stubborn foe and we saw five rate rises, adding another 1.25%. But there was good news for property investors with an increase in prices in some cities.

On another positive note, superannuation funds bounced back after losses in 2022.ⁱ SuperRatings reported that the median balanced option is expected to return 9.6% in 2023, after most funds produced negative returns the previous year.

The big picture

Global economic forecasts for 2023 were also beset by a number of wild cards during the year. While many economists were predicting recession in the United States and Europe and a rebound in China, the year ended differently with no recession in the US, Europe struggling but doing better than expected and China still battling some headwinds.

October brought concerns of a wider Middle East conflict, the International Monetary Fund revising its outlooks for the region, saying that an escalation of the conflict could be far-reaching, affecting tourism, trade, and investment.ⁱⁱ

Inflation and interest rates

In Australia, economic growth slowed a little on 2022's result but still delivered a better return than forecast. On the latest data available from the end of September, the economy grew by 2.1% although a larger-than-expected increase in the population is putting extra pressure on housing and prices, keeping inflation higher.ⁱⁱⁱ It was the eighth quarter in a row of economic growth.

Australia key indices December			Share markets (% change) Year to December		
	2022	2023		2022	2023
Economic growth	5.8%	*2.1%	Australia All Ordinaries	-7.2%	8.4%
RBA cash rate	3.1%	4.35%	US S&P 500	-19.3%	24.2%
Inflation (annual rate)	7.8%	^5.4%	Euro Stoxx 50	-11.7%	19.2%
Unemployment	3.5%	#3.9%	Shanghai Composite	-15.1%	-3.7%
Consumer confidence	82.5	82.1	Japan Nikkei 225	-9.3%	28.2%

^{*}Year to September, [^]September quarter # November

Sources: RBA, ABS, Westpac Melbourne Institute, Trading Economics

The rising cost of living is proving harder to tame than hoped or expected despite continuing cash rate rises.

Consumer prices rose 1.2% during the quarter and 5.4% over the year. On a CPI basis, rents rose 7.6% in the past twelve months, which was the largest annual increase since 2009.^{iv}

The Reserve Bank continued its battle to get inflation under control, raising the cash rate five times to finish the year at 4.35%.

Sharemarkets

Global sharemarkets ended 2023 on a more positive note. In the US, welcome news from the Federal Reserve of an end to rate hikes saw stocks and bonds soar in the final weeks of the year. During the year, the Dow Jones index increased by 13.7% and the Nasdaq by 43.4%. There was mixed news in Asian markets with a jump of 28.2% on the Nikkei 225 and 18.7% on India's BSE Sensex but China's Shanghai Composite fell 3.7% and the Straits Times index of Singapore was down 0.3%.^v

Australia's sharemarket may not have experienced the heady double-digit returns of some global markets but it ended the year with a gain of almost 8%, marking its best performance since 2021.^{vi}

Commodities

Despite big falls from the peaks of 2022, commodity prices remain high across the board.

Iron ore, Australia's biggest export, rose more than 21% as the Chinese government continues to create strong demand by stimulating property and infrastructure development.

Oil prices saw some spikes during the year but steadied by December. However, the World Bank notes that conflict in the Middle East, on top of the disruptions caused by the war in Ukraine, could cause a major oil price shock, pushing global commodity markets into uncharted waters.^{vii}

As the US dollar gathers strength and Australia's high inflation figures persist, the Australian dollar is under pressure. It ended the year where it began after recovering from a slide in the second half of the year.

Property market

While rising interest rates usually dampen property prices, by year's end we saw a remarkable turnaround for some cities in another result that upended forecasts.

CoreLogic's national Home Value Index rose 8.1% in 2023, up from the 4.9% drop in 2022 but not quite at the stellar 24.5% increase recorded in 2021.^{viii}

It was a patchy performance across the country. House prices rose at more than 1% every month on average in Perth, Adelaide, and Brisbane in the second half of the year. While Melbourne values dropped in November and December, Sydney and Canberra prices barely moved, and Hobart and Darwin prices fell slightly.

Looking ahead

As floods and storms ravage the eastern states and bushfires break out in the west, another tumultuous Australian summer might be mirrored by a chaotic year for the economy both in Australia and overseas.

The RBA expects economic growth to remain subdued but resilient in 2024, largely supported by construction and infrastructure work. Meanwhile the rebound in international students and tourism is expected to contribute to robust growth in consumer spending.^{ix} The RBA is also confident that inflation will continue to fall slightly throughout the year, but many predict at least one more cash rate increase during the year.

Worldwide, China's spluttering economy and the outcome of the US presidential election may cause ripple effects across the globe, meanwhile markets will be nervously watching the conflicts in the Middle East and Ukraine as well as China's threat to blockade Taiwan, for the potential to create broader economic challenges.

If you would like to discuss your financial goals and circumstances in the light of prevailing economic conditions, don't hesitate to get in touch.

Note: all share market figures are live prices as at 31 December 2023 sourced from: <https://tradingeconomics.com/stocks>.

i <https://www.afr.com/policy/tax-and-super/super-balances-grow-almost-10pc-thanks-to-tech-rally-20240103-p5euwb>

ii <https://www.imf.org/en/Blogs/Articles/2023/12/01/middle-east-conflict-risks-reshaping-the-regions-economies>

iii <https://www.abs.gov.au/media-centre/media-releases/australian-economy-grew-02-cent-september-quarter>

iv <https://www.abs.gov.au/articles/11-things-happened-australian-economy-during-september-quarter>

v <https://www.businesstoday.in/markets/story/global-market-performance-heres-how-global-equity-markets-major-currencies-performed-in-2023-411391-2023-12-31>

vi <https://www.abc.net.au/news/2023-12-29/asx-markets-business-live-news-dec29-2023/103271578>

vii October 2023 Commodity Markets Outlook: Under the Shadow of Geopolitical Risks [EN/AR/RU/ZH] - World I ReliefWeb

viii <https://www.corelogic.com.au/news-research/news/2023/australian-home-values-surge-in-2023>

ix <https://www.rba.gov.au/speeches/2023/sp-ag-2023-11-13.html>

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