Australia's growth to slow: Goldman Sachs

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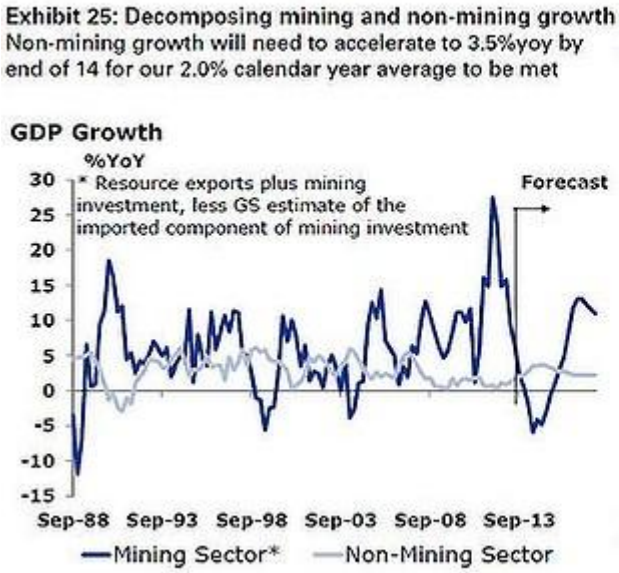
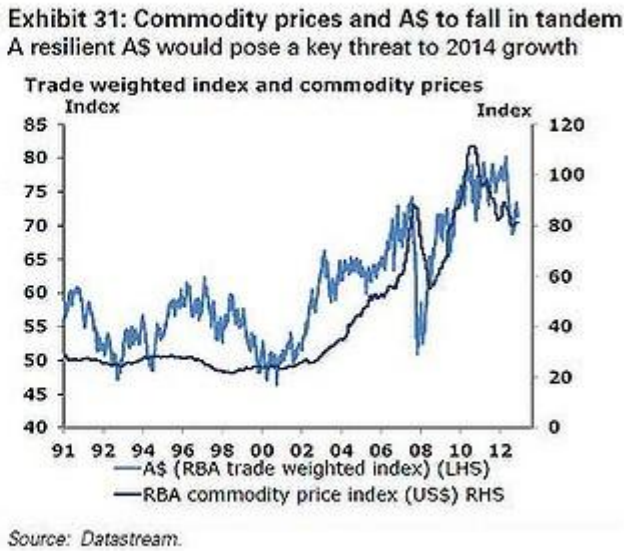
Losing steam: Goldman Sachs is expecting Australia's growth to slow in 2014. *Photo: Angela Wylie*

Australia will be the only developed country outside of Japan to have slowing growth next year, a leading US investment bank says, as the local dollar remains under pressure amid a bearish outlook for China.

"Relative to the acceleration forecast in the global economy, in Australia we expect economic growth to decelerate in 2014, anticipate further easing required by the RBA, forecast additional fiscal drag and see a corporate sector set on a path of investment restraint," Goldman Sach analysts said.

The US investment bank expects the Australian dollar to fall to 85 US cents by the end of next year. Its analysts forecast a rate cut in March, but no rate hike next year, and for the economy to growing at 2 per cent in 2014.





Australia' growth next year ... forecast to remain below-trend. *Photo: Goldman Sachs*

Despite the soft Australian outlook, the analysts said the recovery in the non-mining sectors of the economy had started and was expected to broaden and strengthen, "supported by historically loose financial conditions, an ongoing upswing in housing investment and near-term decline in the [Australian dollar] which should provide important support to corporate earnings".

The Goldman Sachs report came as markets awaited a clearer picture of the non-mining sector through the release of private capital expenditure forecasts for the current financial year tomorrow. The Bureau of Statistics figures will also include final September-quarter data.

The Bureau of Resources and Energy Economics (BREE) said in a report released today that Australia was transiting away from the investment phase of the mining boom towards the production phase.

The BREE report said there were 63 projects in the "committed stage", with a combined value of $240 billion. Six months ago, there were 73 projects with a combined value of $268 million. The decline was a result of projects moving to the completed stage, in particularly large projects valued at over $5 billion, BREE said.

"The projects completed over the past 12 months have added considerably to Australia's production capacity and will support strong commodity export volumes into the future," BREE's deputy executive director Wayne Calder said.

Weakening dollar

The Australian dollar has lost about 4 per cent of its value in November, and is on track to record its worst month since June. It was buying 91.17 US cents about midday.

Fears about China as well as heightened expectations of a near-term taper by the Federal Reserve was weighing on the local currency, said Rochford Capital director Derek Mumford.

"You are looking at hedge funds speculating that the Aussie [dollar] is going to go down. Maybe it's a reflection on perhaps a bit of concern about what happening in China ... and there won't be as much spending by the government to drive the economy," Mr Mumford said.

"What's happening to the Aussie at the moment has got very little to do with what's happening within Australia. It's got everything to do with China and the US, and to a certain degree, Europe. Australia's doing OK, but there's bigger macro issues that are really affecting the Aussie."

The Australian dollar was also near its year's low against the British pound sterling and the euro.

The local currency was trading at 56.29 pence and 67.23 euro cents. The dollar fell as low as 56.21 pence and 66.53 euro cents over the past year.

The expected improvement in the British economy was driving the falls in the Australian dollar, Mr Mumford said, adding it was less clear why the local currency was also weakening against the euro.

"I do think, potentially in the next couple of weeks, there'll be a re-appraisal of what's happening as far as the Aussie-euro. The Australian dollar still has the advantage of higher interest rates than the eurozone," he said.

"We've got below-trend but relatively steady economic growth here, and unemployment is relatively stable too. Although there's no great strength there, it's stronger than in most of Europe."

Equities outlook

A lower outlook for the Australian dollar as well as expectations of improving global growth would lead to 2014 financial year earnings growth of 9 per cent, and 10 per cent earnings growth in financial year 2015, Goldman Sachs analysts said.

"We see little room for further multiple expansion given stretched valuations and poor earnings momentum. We expect returns will skew to the second-half given Australia's 60 per cent+ weight to defensive yield leaves it with taper risk," the analysts wrote.

They continue to recommend being overweight on beneficiaries of a weak Australian dollar and improving economies in the US and Europe, on high-quality resource firms and in gaming stocks such as Crown's.

They remain underweight on banks, and high-yield low-growth sectors such as REITs and utilities.

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