

August 2009 Economic snapshot

Key points

Overall the highlights of the last month have been encouraging and include a better than expected reporting season. Some cautionary perspective is required though, as the so called interest rate 'doves' look like they could be circling as 'hawkes' with upward pressure being applied through the release of the stimulus package. The G20 are supportive of ongoing stimulus globally but the economic rationalists fear inflation.

In other news, Japan has voted out the ruling LDP Party in an economic environment that is now dire. The party has had an almost unbroken supremacy since 1955. Equity markets have continued to stage a recovery and here in Australia Governor Stevens has opined about the recession we didn't have - but held the cash rate steady while noting growth in the quarter. All steady as she goes from the RBA.

Statistics, statistics and more statistics



Tourism, housing finance; business confidence, rents (fall); capital spending; private sector credit; building approvals; GDP



Construction; unemployment (unchanged); company profits; new home sales (flat); current account deficit (increased).

Australia

- Global share markets have continued their upward momentum over the last month, with the ALLORDS up by 5.5% in August. Investors entered the local reporting season with some trepidation but were rewarded for maintained confidence across most sectors. Noticeably it's all about perspective as profits did fall:-
 - Gross operating profits, according to the ABS, fell 7.8% in the June quarter, seasonally adjusted, and were down 14.7% over the year;
 - EPS (according to Citibank) was down a solid 21.5% for the year and,
 - Write downs hit local balance sheets for six with a hit of \$44B (FY09).
- One possible reason share markets continue to run is that seasoned institutional investors have re-entered the market (weight of money in Superannuation theory) and are now buying on FY10 and FY11 earnings.
- Despite this, it remains important to note that the days of cheap money are mostly over and the Central Bank could be forced to show its hand and raise rates if the mountain of liquidity fueling the stock market starts to fuel inflation, particularly in the housing market. Here the signs are not unequivocal:-
 - Housing finance is up. Auction clearance rates in Sydney and Melbourne are around 70% (c/f last year 50%); Housing affordability has improved considerably and is the same as it was 10 years ago in Sydney (four years for Melbourne); Building approvals are up (7.7% July), But :-
 - New homes sales are flat (second month in a row). Rents are declining and the job market remains weak. Moreover :-
 - TD Securities-Melbourne Institute monthly inflation gauge was unchanged in August, and :-
 - The recovery in the exchange rate (The A\$/US\$ has risen 33% since 2 March) is a dual edged sword, (great for cheap imports, but bad for our job-creating export industries and the current account deficit) Although :-
 - The Reserve Bank has revised up its forecast of GDP and now predicts a rise by 0.5% over the year (previously a contraction of 1%) before lifting to 1% in the year to June 2010. Quite a balancing act.
- When all things are considered, there doesn't appear to be any individual sign that would force the Bank's hand one way or the other at this time and the RBA is likely to maintain a steady as she goes course.

Rest of World

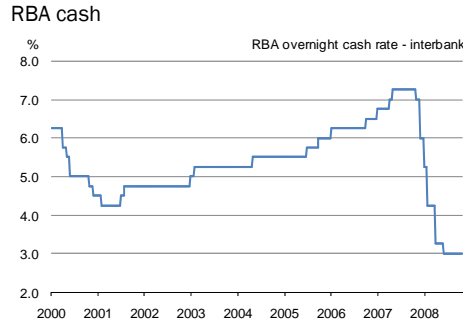


- Part of the fundamentals driving the exchange rate is the lift in commodity prices (driven by bullish forecasts of China's prospects). Commodity prices are now 52% below their high in May 2007 and up 37% from their low in February 2009. The Metals and Minerals (ASX300) Index (XMM) has risen 70% since its low in November 2008 and is 44% off its high in May 2008. Some are predicting A\$90c against the US\$
- Although significant, the shift in Japanese politics according to strategists is arguably a case of shuffling the deck chairs. Public debt is 200% of GDP, Japan has the oldest population in the developed world and the population is expected to decline by 30% between now and 2055. Also, unemployment has just hit a post War high of 5.7%. It also seems the Bank of Japan has limited room to move with the cash rate at 0.1%.
- Despite this the IMF has stated a recovery has started, noting that "sustaining it will require delicate rebalancing acts, both within and across countries". Contrast this with the upwards revision in the US Government deficit projection to US\$9T 2009-2019 (c/f US\$7.1T) and the UK Government which had cause for momentary cheer when the economy shrank by 0.7% in the JQ, rather than the predicted 0.8%.

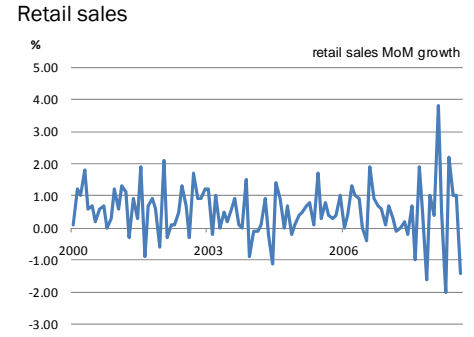
Summary

Concerns raised over the health of world economies sent shudders through the Chinese equity markets on 1st September which rippled through to global markets. Interestingly, while we would never rule out the ROW's importance to Australia, observe how the world order from our perspective has subtly changed in recent times in China's favour, with our leveraged position to its appetite for our resources. Are we Sino hitchhikers?

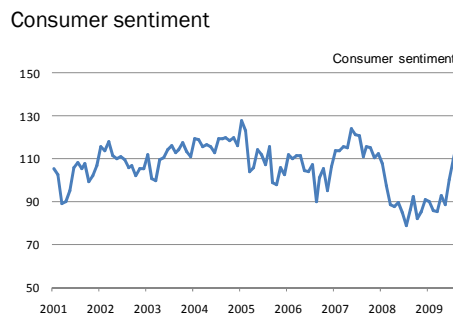
Big picture indicators



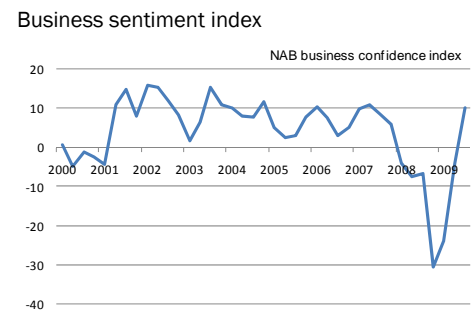
Source: RBA



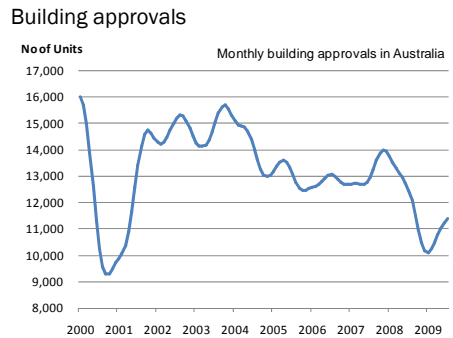
Source: ABS



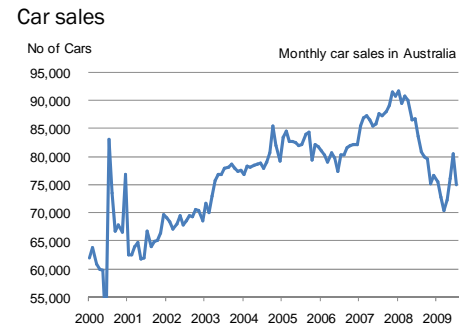
Source: Westpac Melbourne Institute



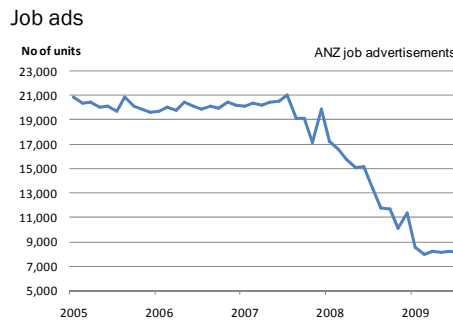
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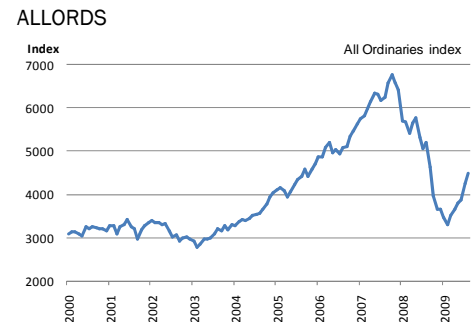
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