



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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In his role as Investment Analyst, Chris closely monitors fund managers in terms of performance, operational activities and compliance as well as performing internal analytics on the fund.



Economic overview

January produced negative returns for the third year in a row as investors responded to earnings results by selling down stocks that failed to meet expectations and taking little action on stocks that surprised on the upside. Despite some positive and very encouraging economic data, we saw a significant sell-off in equity markets around the globe as investors are now looking for company financial data to justify the market rally we have seen over the previous 9 months. The Australian stock market returned -6.18% for the month – the worst monthly performance since November 2008 when markets were still digesting the collapse of Lehman Brothers. Whilst the catalyst for the sell-off was less dramatic this time round, you could be forgiven for reading a lot into these numbers and it just serves to highlight the fact that we are, perhaps, not completely out of the aftermath of the credit crisis just yet.

The Reserve Bank of Australia took a scheduled break in January so there was no rate announcement.* Unemployment fell to 5.5% as more jobs were created across industries through various stimulus measures and an increase in production and output. Australian house prices made news as well with a 12.1% rise for the year, according to Australian Property Monitors. All states experienced increases in house prices with Melbourne the stand-out with an 18.5% increase on the median house price for the year. The first home-buyers grant sparked much of the increase in prices but this was relatively superficial. If you look more closely it is the lack of supply that is the real driver. With the ever increasing population the capital cities, demand is outweighing supply and, consequently, pushing up prices. It is important that this is monitored closely by the government as if supply does not

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Monthly economic e-news



keep up with the increasing demand, these double digit yearly increases will become the norm and housing will become increasingly unaffordable.

In the US, there was further positive news. Unemployment remained stable at 10% and the yearly GDP change returned to positive territory for the first time since June 2008 indicating that the economy is expanding, albeit at a very subdued rate of 0.1%. Retail sales also produced impressive results with a 5.2% increase on last year.

This was something that I witnessed first hand on a recent personal trip to the US, which encompassed 11 states. While personal impressions are highly circumstantial and subjective two things struck me: the apparent strength of retail spending and the fact that many Americans are pursuing leisure activities. Firstly, shops seemed to be full although many consumers would have been there enticed by the significant discounts on offer. This is an important indicator of the mentality of the general public as people scared of losing their jobs are less likely to go out and spend on non-essential goods, regardless of the discounts. Secondly, and possibly even more importantly, leisure activities are the first thing to be cut when times are tough, but there was little evidence of this as far as I could see. Domestic flights and hotels were busy as were the major tourist attractions. What's more, they were dominated by domestic customers and not foreign travellers capitalising on the weak American dollar.

Systemically though, there are still unresolved issues in the US, which certainly need to be addressed before the economy can make a full recovery. The main issue is the levels of debt being carried by individuals and corporations and the difficulties being encountered with refinancing these debt obligations. The majority of home owners are carrying mortgages that exceed the value of their home. With the current high level of unemployment it is harder for home owners to meet their debt repayments and if they are forced to sell, the proceeds of the sale can be insufficient to cover the mortgage, let alone any other debts that may have accumulated. The banks have to wear the losses and when this is repeated numerous times, large losses are incurred, which discourages further lending. The Federal Reserve has tried to address this issue through near-zero interest rates, but it will take some time to wash through the system.

Investment markets snapshot

Investment type	Performance
Australian Equities	-6.18%
International Equities (Unhedged)	-2.88%
Australian Listed Property Trusts	-2.87%
Australian Government Bonds	1.48%
International Government Bonds	0.92%

*The RBA kept rates on hold in February.