



**ENERGY INDUSTRIES®**  
SUPERANNUATION SCHEME

# JULY 2009



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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

July was another encouraging month, which showed a stabilising economy, with gathering signs of a sustained recovery.

Some of the key economic data released this month showed a fall in the rate of inflation, a further increase in unemployment and an overnight cash rate remaining at an historically low level. All of these indicators would suggest that the local economy was in a bad state, but there is much cause for optimism in Australia, which still looks to be in the best position of all developed nations to withstand the global financial crisis. The economic stimulus, first announced in February of this year has proven to be a success in the short term. The scale of the actions taken by the Australian government has exceeded those of other developed nations, as measured on a per capita basis. Australia also has the ability to further move on interest rates, as opposed to the likes of the US and the UK which have rates a little above zero, leaving them with few options for further monetary policy action.

In fact, in a recent speech, Glenn Stevens, the Governor of the Reserve Bank of Australia, suggested that there is now room to marginally increase interest rates, even though unemployment is still rising and inflation is below the target level. To some, this may be viewed as a contradictory move but, as unemployment and inflation are not good indicators for forecasting economic growth, there may be some scope for interest rate rises in order

to avoid an economic growth rate above what the economy can handle. Further to this, there is the risk that a housing 'bubble' could emerge, particularly in urban areas amidst the extension of the first home-buyers grant and a limit on the supply of housing.

Share markets bounced back strongly towards the end of the month. Domestically, the Australian Stock Exchange produced an 11-day run of positive returns – something we have not seen for six years. This has mainly been driven by the reporting season in the US in which companies release their profits to the public. The majority of earnings released have come in above expectations, which has encouraged some investors to deduce that the worst of the crisis is over and that companies will be able to generate sustainable profits. The problem with this is that these above-consensus earnings have been driven by reduced costs, not increased revenues. Cost-cutting exercises, in particular labour cuts, have been a key focus for the vast majority of US companies and have ultimately proven to be profitable in the short term. However, cost cutting is not a foundation for sustainable earnings growth and equity investors will be looking towards revenue increases in order to spark real confidence in the market. The Australian reporting season occurs throughout August so we will soon see whether Australian companies will follow the lead from the US.

In summary, we are beginning to see the signs of an economic recovery, at least in the short term. There is still scepticism about the long-term health of the local economy and mixed views emerging as to how much we can read into the short-term recovery in light of the significant stimulus measures. To conclude I will leave you with a quote from Glenn Stevens, who summed up the current situation with the following statement:

“Just as it would have been a mistake nine months ago to write off our long term economic prospects at the height of the financial turmoil, it would be a mistake now to lapse into the comfortable assumption that easy prosperity will come our way.”

## Investment markets snapshot

Investment Type	Performance
Australian Equities	7.31%
International Equities (Unhedged)	5.42%
Australian Listed Property Trusts	2.42%
Australian Government Bonds	0.11%
International Government Bonds (Hedged)	0.92%

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