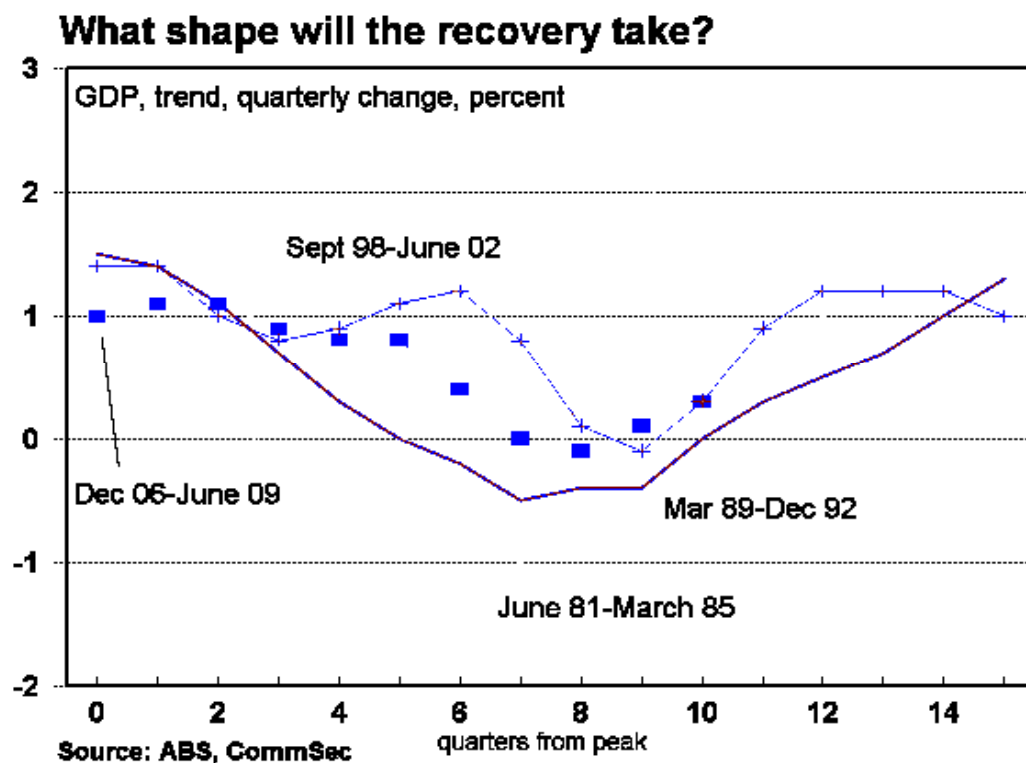


# 'U', 'V' or 'W'? – The Shape of Economic Recovery



pictures courtesy of [www.alice-in-wonderland.net](http://www.alice-in-wonderland.net)

**Craig James**

Chief Equities Economist, CommSec, September 2009



# Important information

This presentation has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Before acting on the information in this seminar, you should consider its appropriateness to your circumstances and, if necessary, seek appropriate professional advice.

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Examples used in this presentation are for illustrative purposes only.

# An alternate world of surprises, challenges and rewards...

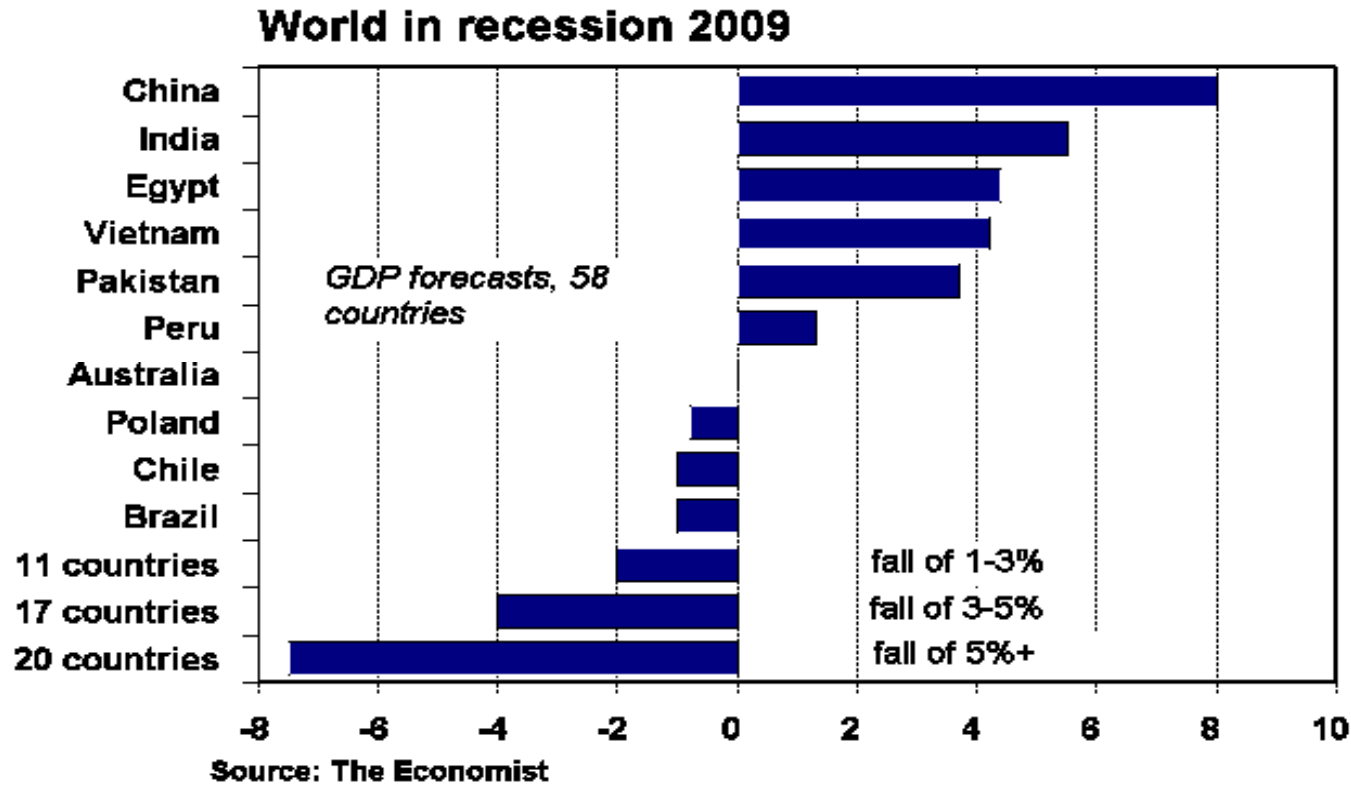
- **Healing process begins**
- **China lifts, US stabilises**
- **Australia survives**
- **Rates to rise**
- **Sharemarket recovers**
- **Still hurdles to clear**



# Global recession



- One moment boom, next moment bust...  
hope rests with emerging nations...especially China

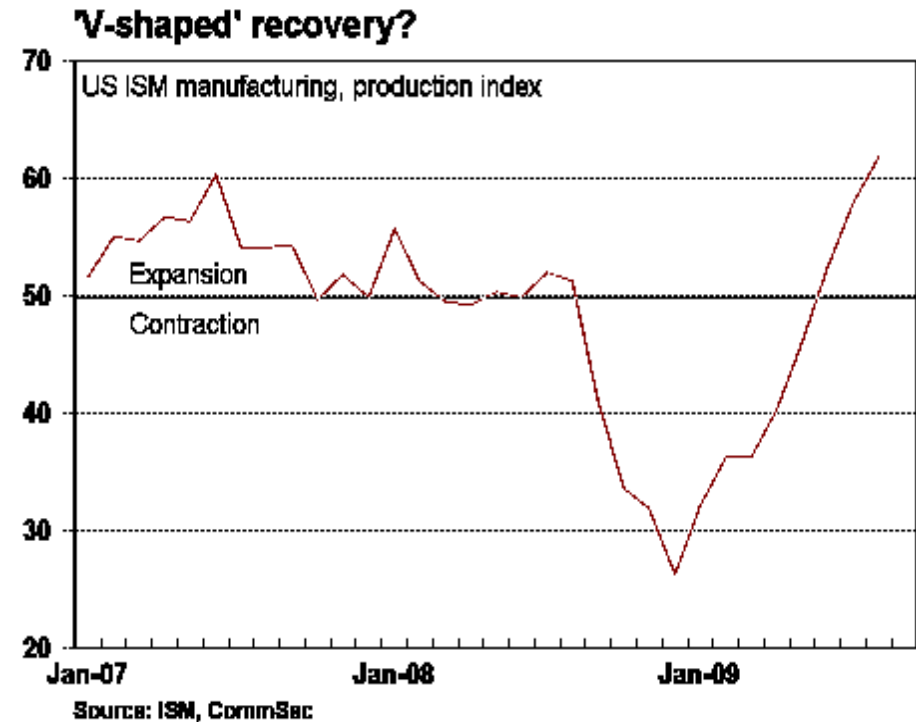
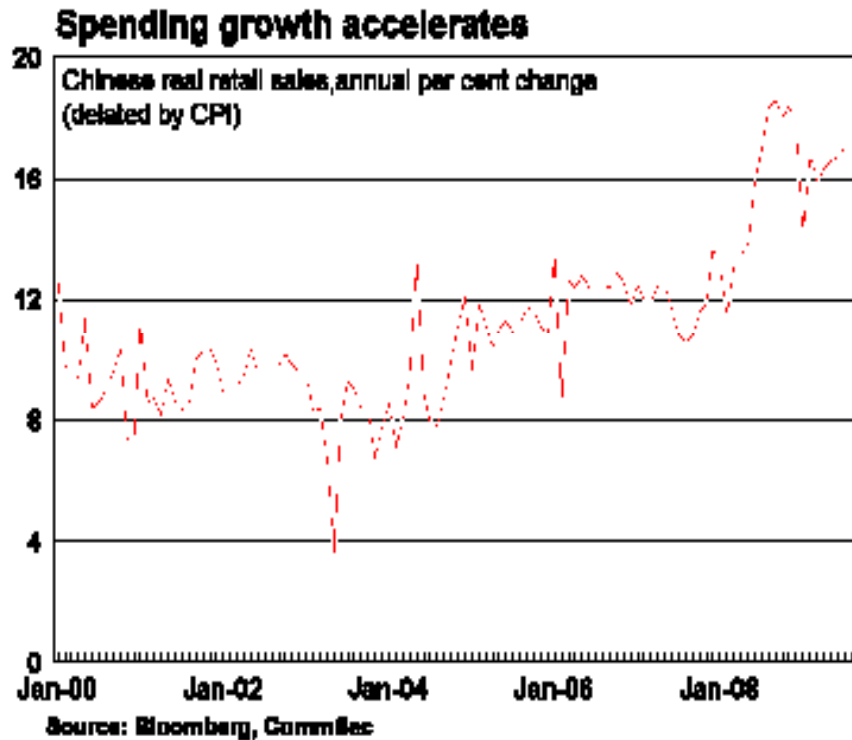


# ...but encouraging signs



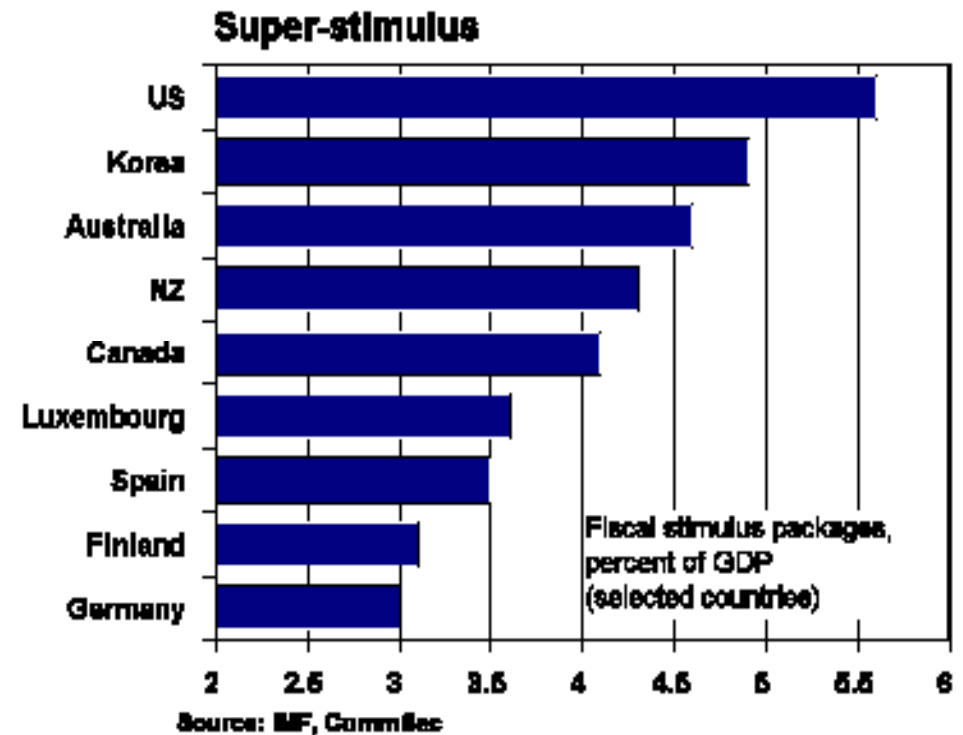
[www.novinite.com](http://www.novinite.com)

- **Boom to bust...then recovery...  
Chinese spend, US manufacturing lifts**



# Australia survives...why?

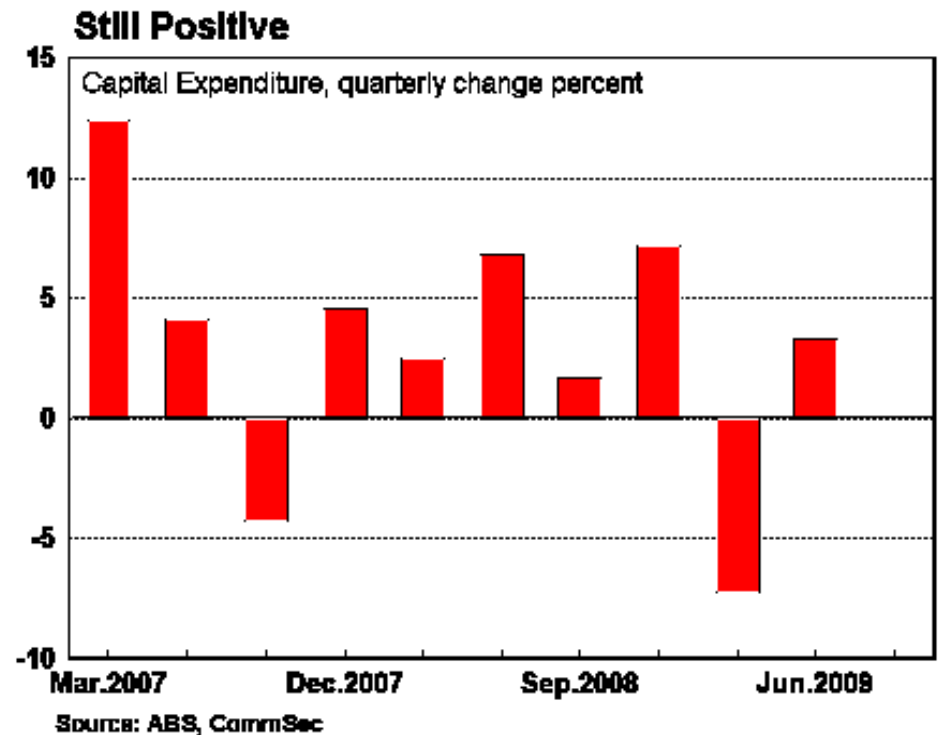
- Budget surplus
- No government debt
- Aggressive stimulus
- Strong banks
- Solid companies
- Housing under-supply
- Aussie dollar adjusts
- Companies keep staff



[www.fugrospatial.com](http://www.fugrospatial.com)

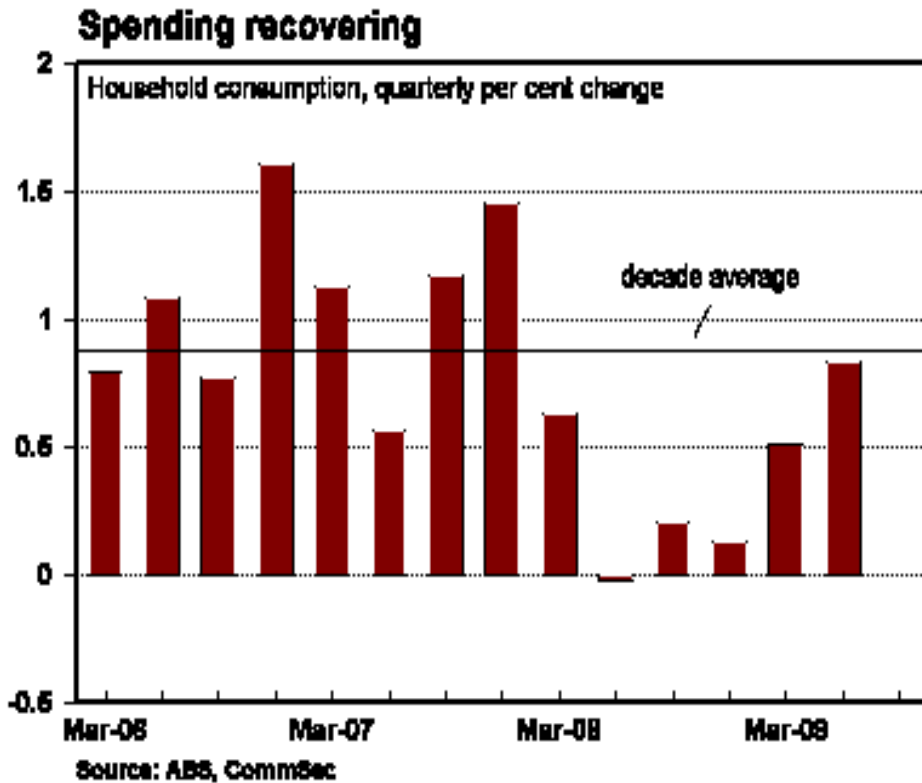
# Housing lifts, businesses invest

- Low interest rates, Govt grants & tax-breaks...  
...but also China & population growth



# Aussies spend again

- **Biggest lift in 18 months... more than just stimulus...**



## HOUSEHOLD SPENDING

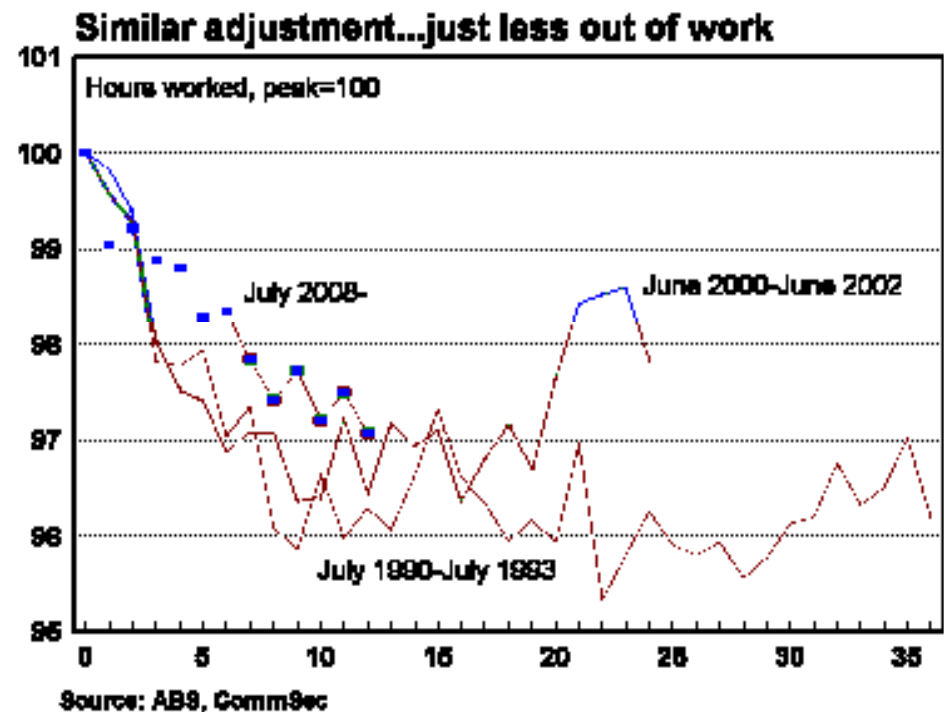
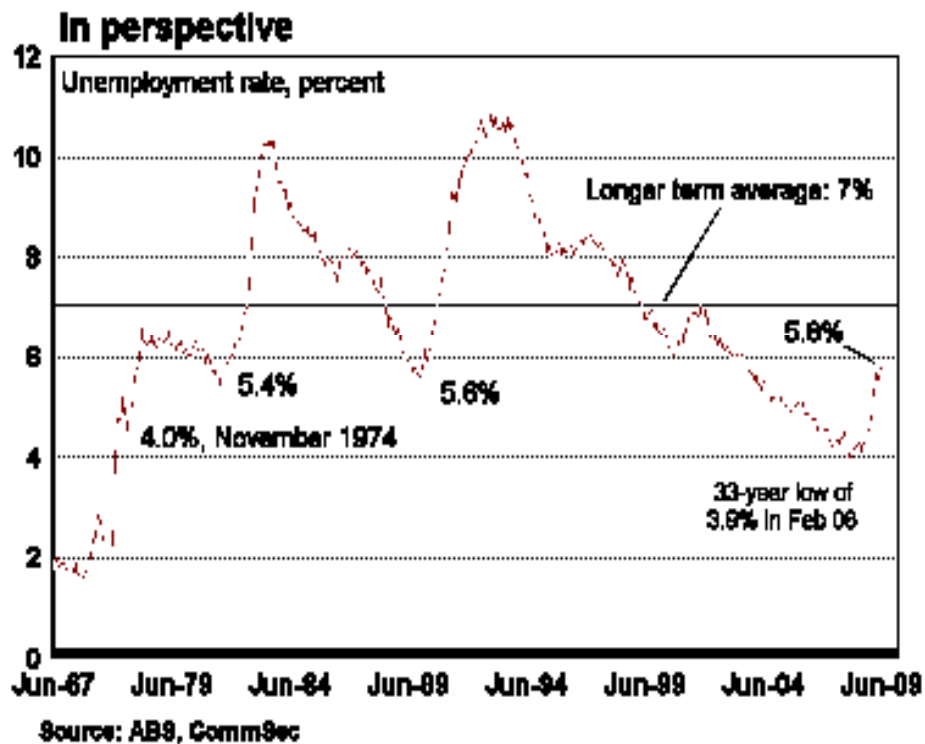
2008/09, percent change on year ago

GAMES TOYS & HOBBIES	36.7
RECREATION ITEMS & EQUIPMENT	20.0
MEDICINES MEDICAL AIDS	18.6
WATER & SEWERAGE CHARGES	16.3
SPORTING & RECREATIONAL SERVICES	15.5
ELECTRICITY GAS & OTHER FUELS	13.5
<b>TOTAL HOUSEHOLD SPENDING</b>	<b>5.4</b>
GAMBLING	-0.7
BUS SERVICES	-1.3
RAIL SERVICES	-2.0
MOTORING FUEL	-6.1
DOCTORS & OTHER HEALTH	-7.9
PURCHASE OF VEHICLES	-11.2

Source: CommSec, based on ABS data

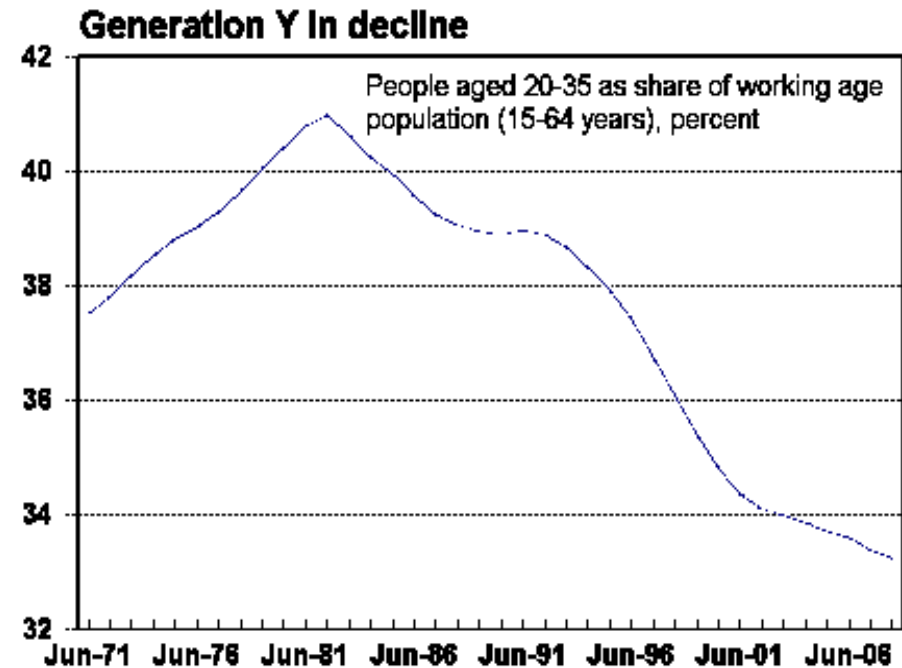
# All eyes on the job market

- Companies flexible on hours & pay....  
less hiring, but not firing.....



# Longer-term demographic influences

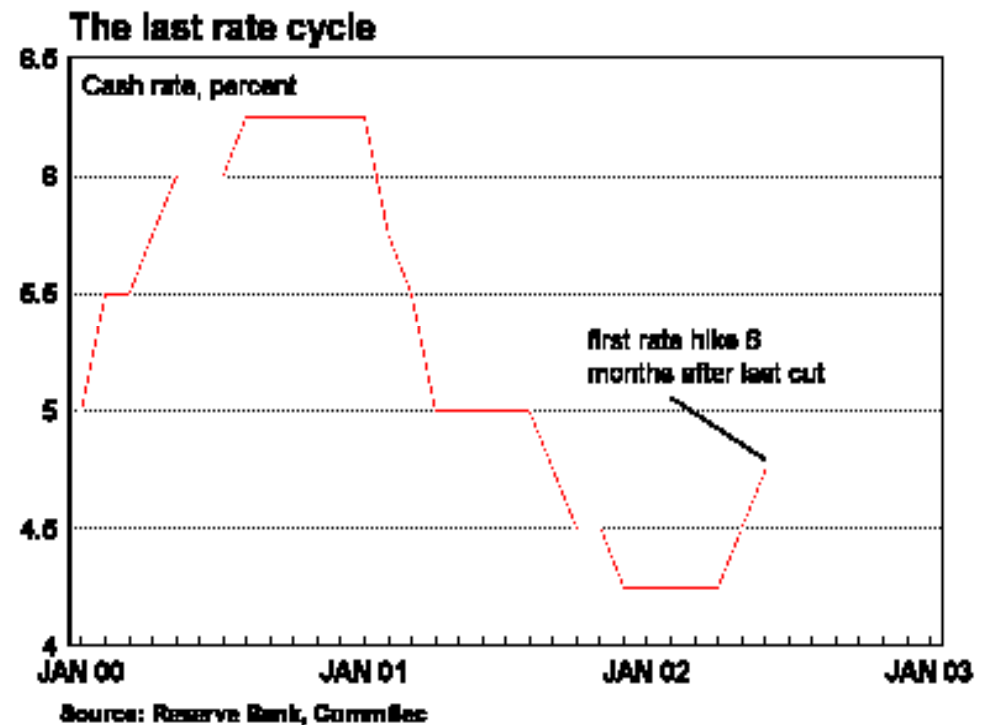
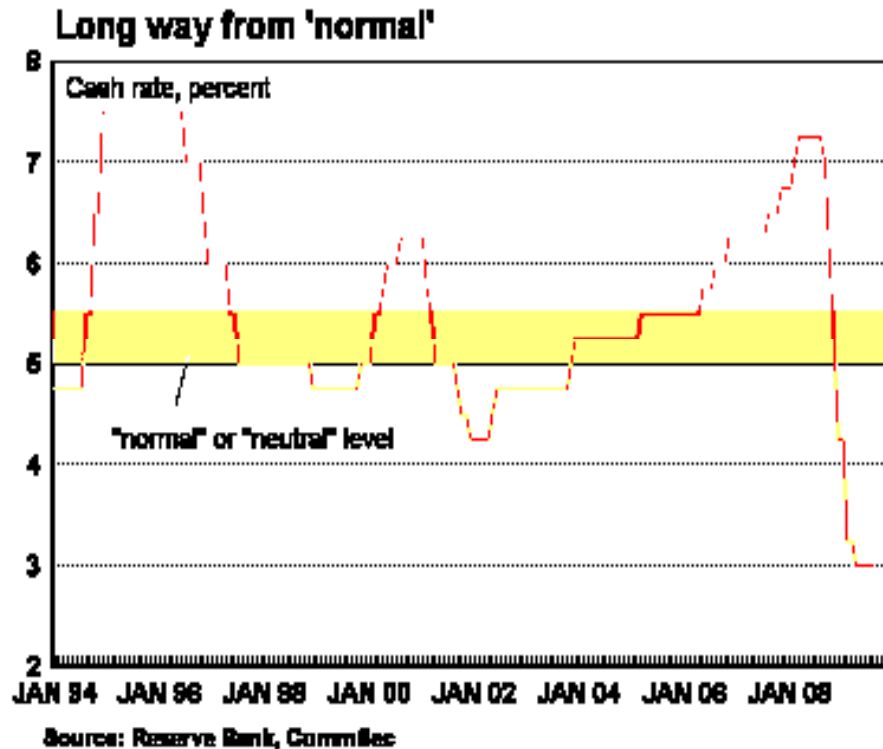
- **Less Gen Y staff; different attitudes**  
**More migrants, female and senior workers**



Source: ABS, CommSec

# So where to for interest rates?

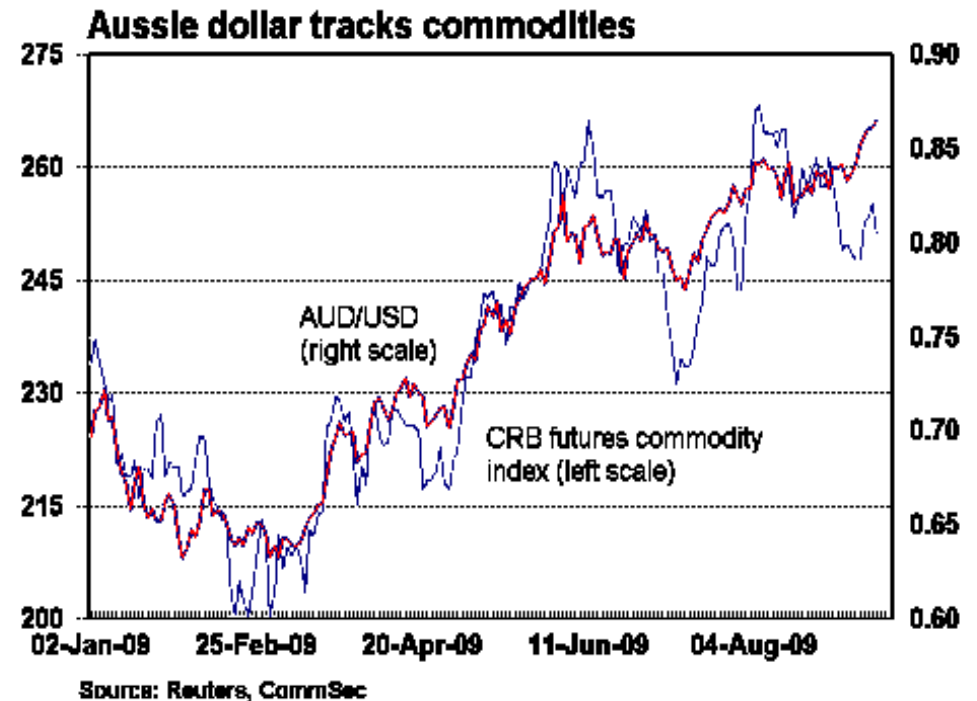
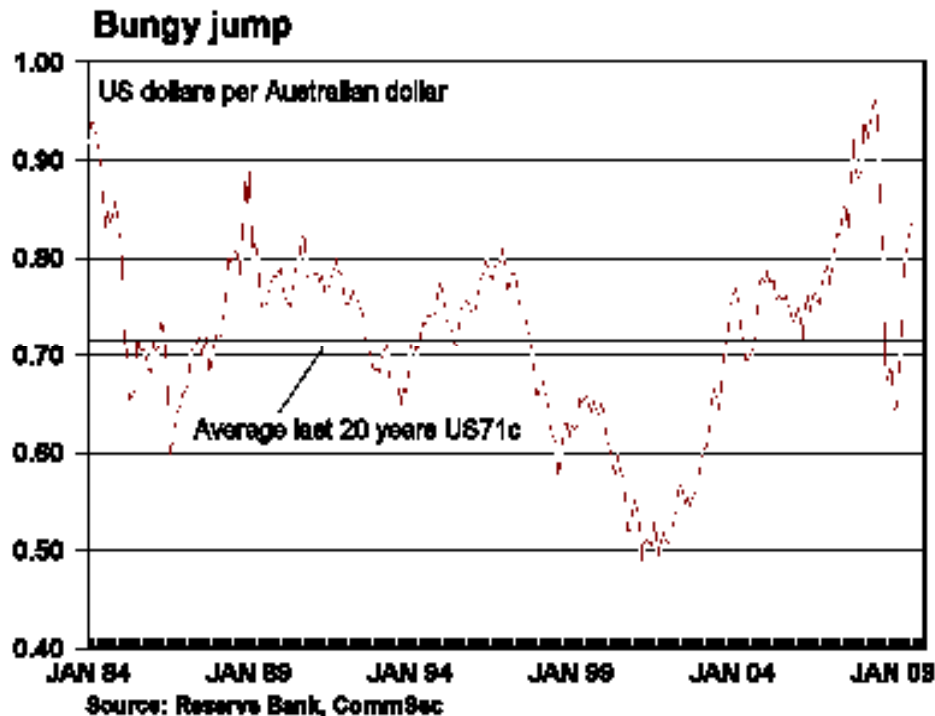
- Reserve Bank has “neutral” stance...  
Next move up, only the timing is uncertain...



# Aussie dollar...winners & losers

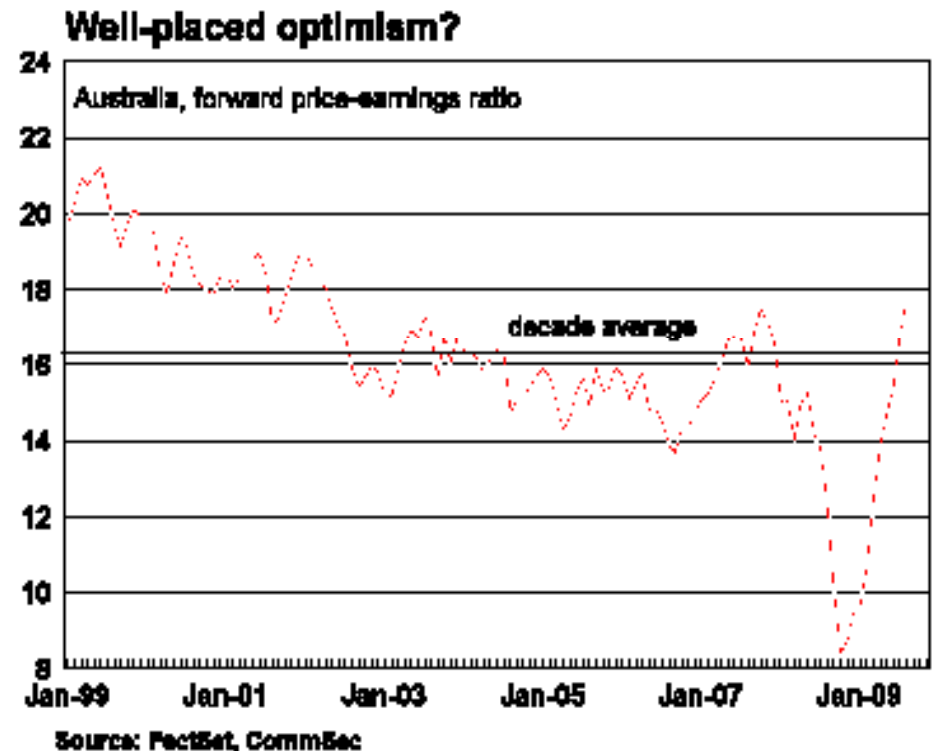
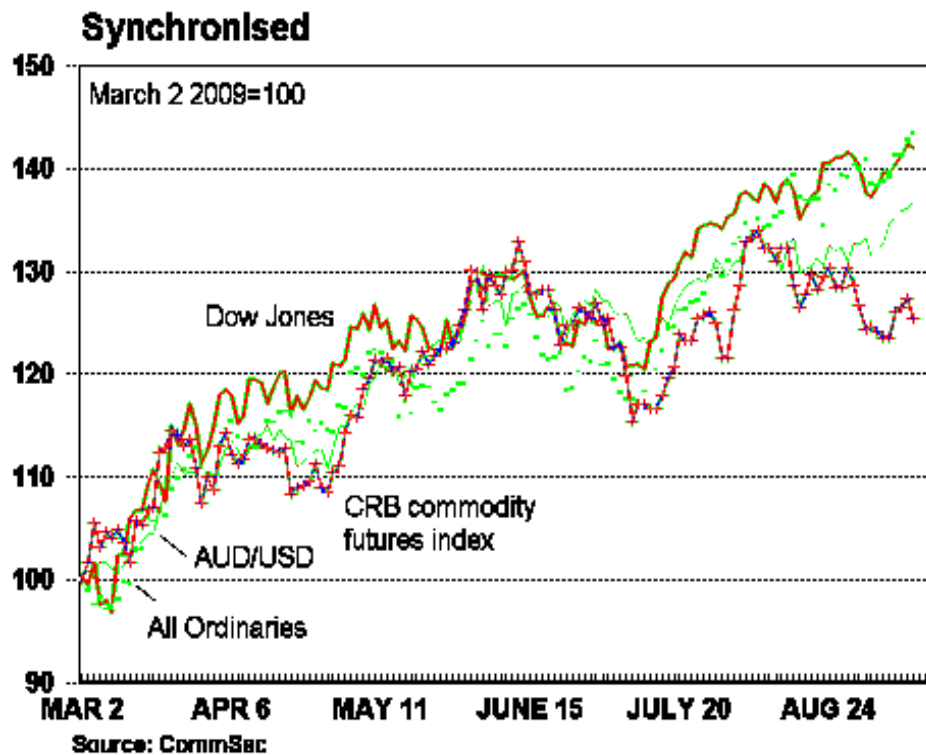


- The 'old' average was US71 cents...  
The 'new' average above US 80 cents?...



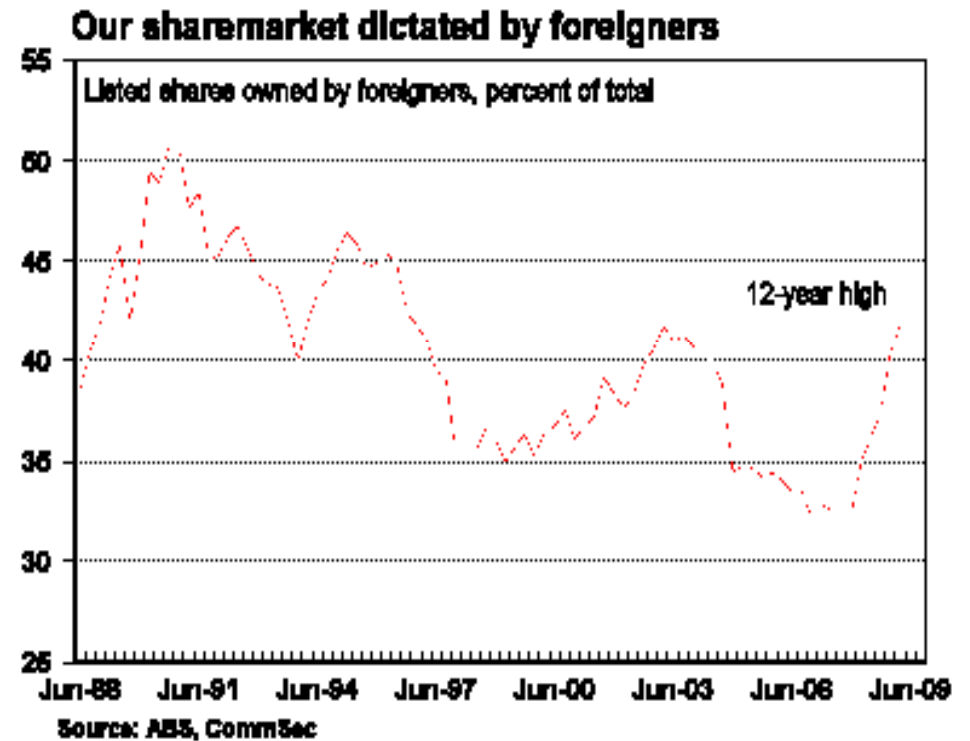
# Optimism or exuberance?

- Perception that the worst is over...  
but have investors got too excited?...



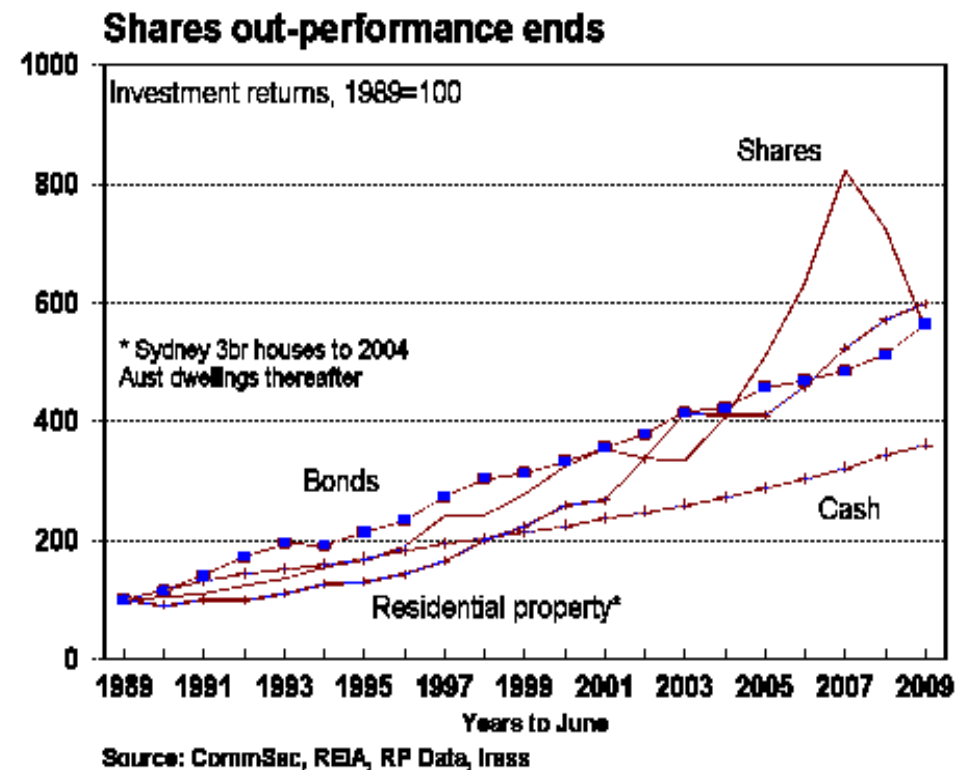
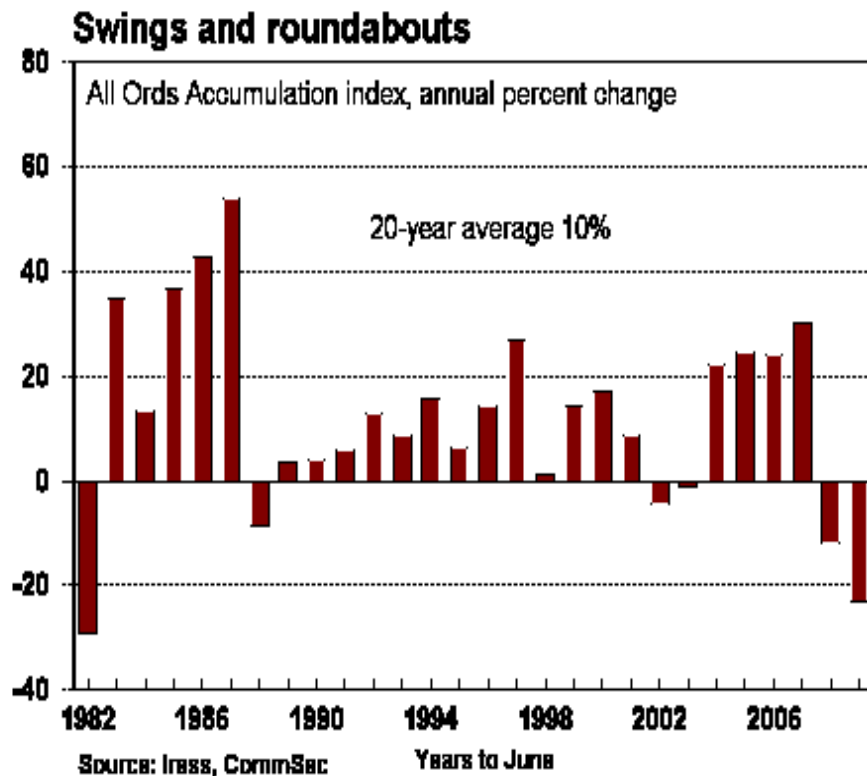
# Shares: Fate in others hands

- **Tight correlation with US... but doesn't exist forever...**



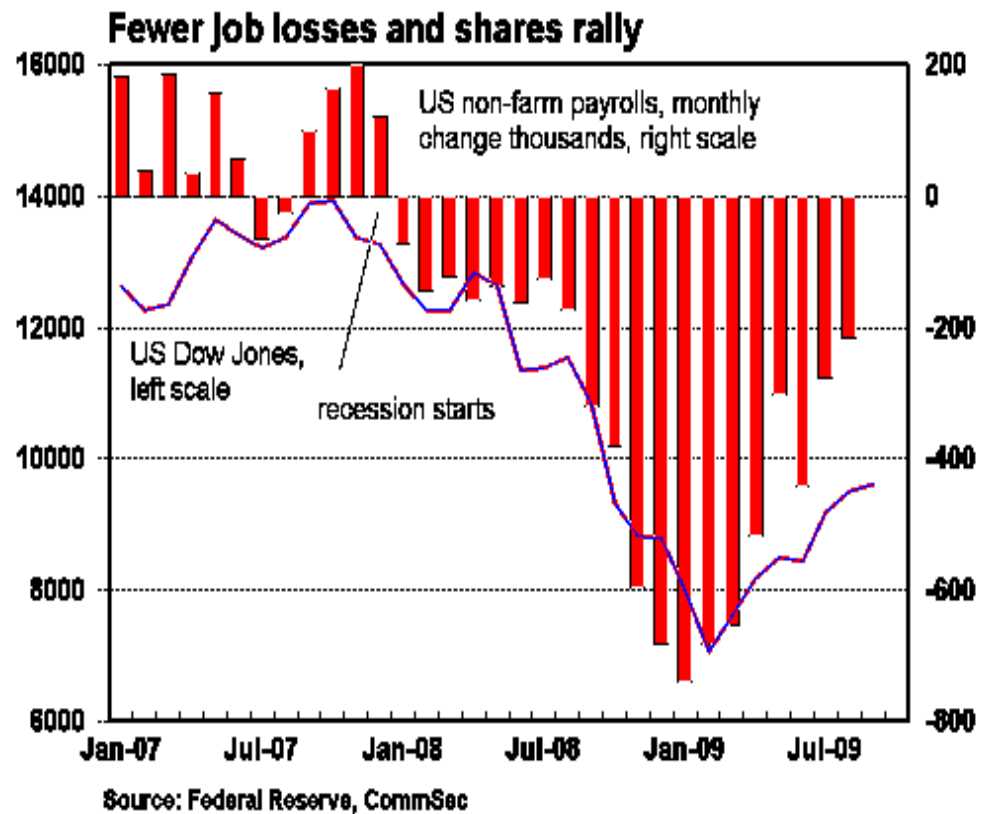
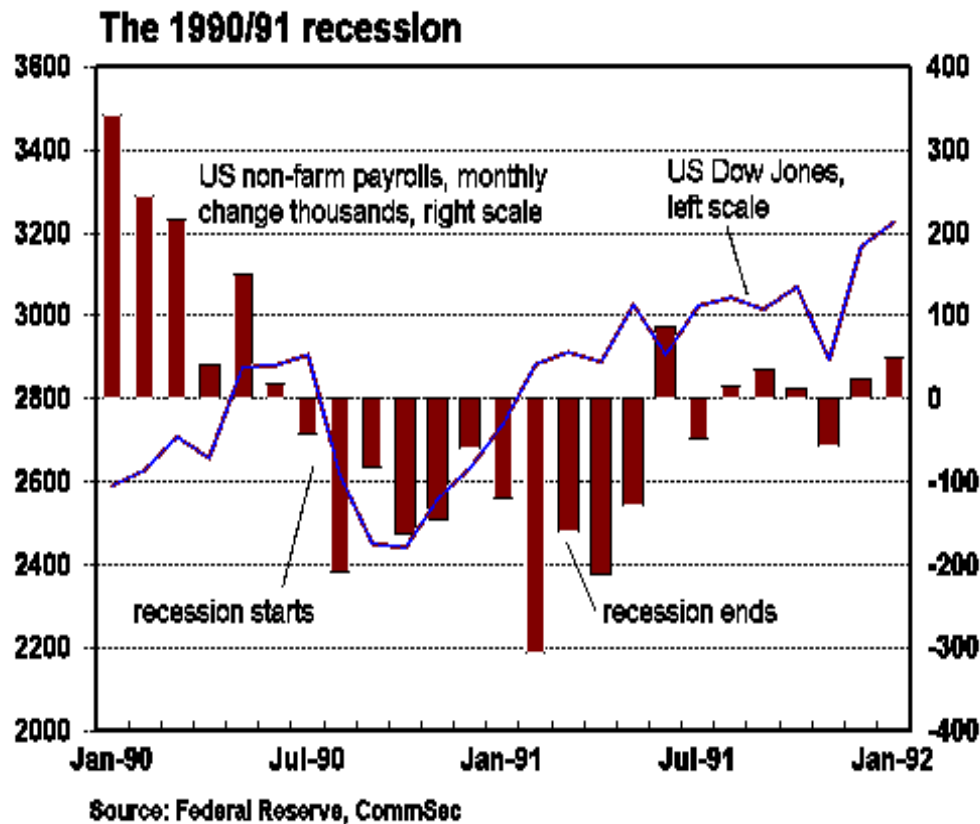
# Time in market

- Time in market, not market timing...  
...importance of diversification



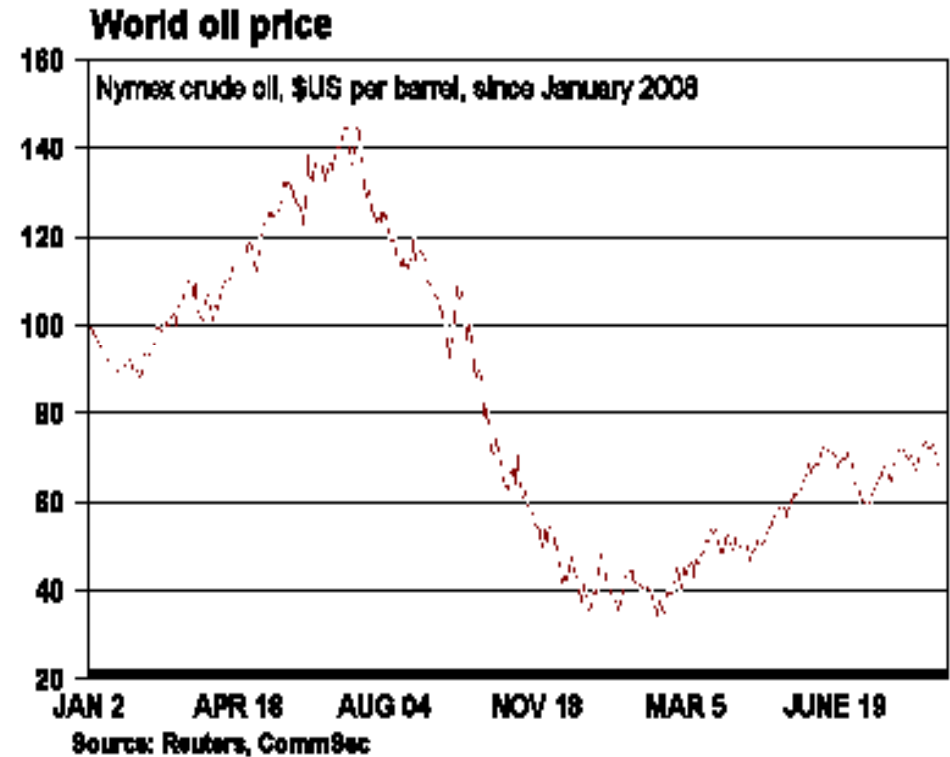
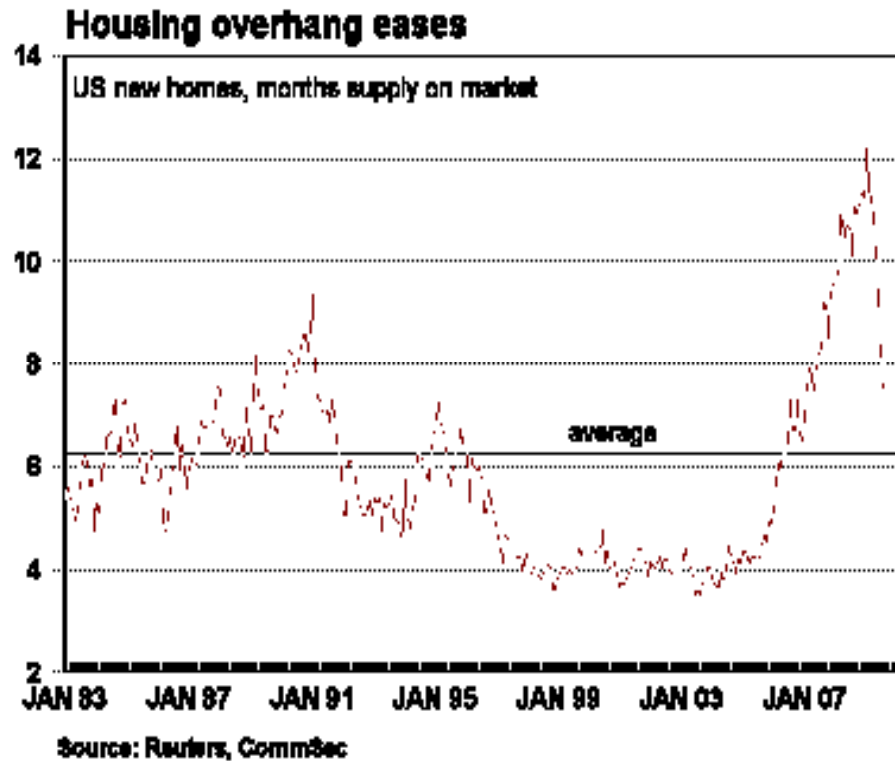
# Important signposts

- Sharemarket turns before economy...jobs in focus



# Recovery watchlist

- US housing, US banks, commercial property, government debt, inflation/deflation, oil prices...



# CommSec forecasts

## FORECASTS

<b>Economic growth</b>	"small rise" in 2009 2.0-2.5% in 2010
<b>Inflation</b>	2.0-2.5% ave in 2009 2.50-2.75% ave in 2010
<b>Unemployment</b>	6.50% end-2009 6.50% end-2010
<b>Cash rate</b>	3.00% end-2009 4.50-4.75% end-2010
<b>Sharemarket</b>	4,650 by December 4,900 by June 2010
<b>Australian dollar</b>	US87c in December US91c in June 2010



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