

## The Australian Economy – A positive report card

An Update from Phil Allen

I have just listened to a teleconference by George Lucas from InStreet Investments. George is a regular contributor to the Sky Business Channel. I have summarised his very interesting comments.

### **THERE ARE 4 THINGS AFFECTING THE AUSTRALIAN ECONOMY;**

1. **The inflow differential of money coming into Australia versus the outflow of USA and Japan.**
2. **The inflow of investment dollars into Australian mining. Trillions of dollars are earmarked for investment into this sector in the near future.**
3. **Inflow of money from the world central banks diversifying into Australia Dollars.**
4. **AUD is being used as a trading dollar instead of the Chinese Yuan.**

There is a worldwide lack of confidence in politicians (that's a no brainer). Unlike Australia, USA & Japan are unable to stimulate their economies through fiscal stimulus. This has led to an increased savings in Aust 10% & USA 5% up from negatives in both.

There is a 30-40% probability of a recession in Europe & USA, this has led to a 10-15% drop in the world stock markets.

The RBA has downgraded Australian economic growth for the second half of this year. So expect some more volatility until October.

The Standard & Poores rating agency S&P is expected to downgrade economies in Europe. Look for France & Spain to lead the way. It only makes sense if they've downgraded the largest economy in the World.

Emerging markets, of which he includes Australia, Brazil & China, have already been through monetary tightening which can now be cut. That puts us in a better position than the USA and Japan as they can't drop interest rates any lower – apparently zero is the lowest!

Whilst there is a lot of debt in Italy it is funded internally, that is, by the Italians themselves.

In Australia we have good dividend yield so we're not as reliant on share pricing.

With all the major infrastructure projects already underway or about to start, Australia is not reliant on short term events around the world. Look out for November when the Japanese announce a \$60 billion gas project in Darwin.

With an ongoing growth rate of 8% in China this will be enough to lead us through this rough patch. Interest rates should be cut by 0.5% and held low for a while.

**All in all a positive report card!**