



## *The Wonder from Down Under*

Sustained by an expanding resource sector and energy-hungry Asian trading partners, Australia is the only major economy to have avoided a technical recession in 2009 recording only one quarter of contraction in gross domestic product. Indeed, the commodity-rich country is being called the "Wonder from down under" as the nation enters its 19th straight year without a recession. It also became the first G-20 nation to tighten interest rates since the financial turmoil began.

Continued improvement in confidence and surprising strength in consumption, investment and exports triggered inflation concerns that prompted the Central Bank, the Reserve Bank of Australia (RBA), to start the tightening cycle in early October, and boosted expectations of further interest rate hikes over the coming year. For five months in 2009, Australia's interest rates were held at a 49-year low rate of 3% before the RBA hiked up the official cash rate for three consecutive months to 3.75%.

As inflationary pressures build, it is estimated that the economy may return a 3.75% growth rate in 2010. This optimistic forecast follows a year in which Australia has been the only G-20 country to experience positive Gross Domestic Product (GDP) growth, due to solid export demand and mining investment along with a massive government economic stimulus. The stimulus package worth approximately A\$70 billion (US\$64 billion) and including A\$20 billion in cash handouts to low and middle income earners boosted private consumption and business investment and protected the local economy from the worst of the global economic meltdown. After a quarter of negative growth, GDP grew 0.4% in the March quarter, 0.6% in June and 0.2% in the September quarter, resulting in annualized economic growth of 0.5% for 2009. A rebound in business and consumer confidence, housing construction recovery and increased public infrastructure spending are expected to underpin this year's growth.

Government stimulus measures prevented the economy from contracting as GDP in the September quarter expanded at an unexpectedly low 0.2% from the previous quarter due to net trade. Net exports reduce GDP growth by 1.6% due of a drop in volumes and a near 6% increase in imports.

In terms of unemployment, the jobless rate peaked at 5.8% before falling to 5.7% in September significantly lower than other industrialized countries. The low rate was mainly attributed to employers cutting employees hours of work rather than their jobs. Economists have also forecasted that due to investments underway employment growth should accelerate in 2010. Western Australia (WA), for example, recently approved an A\$43 billion Gorgon Gas Project, in conjunction with A\$116 billion of approved investment projects.

Another key aspect of Australia's success is the fact that its banks emerged from the financial crisis relatively intact. They are both solvent and their bad debts are believed to have peaked. The government took steps to strengthen the financial system, such as guaranteeing the deposits and wholesale funding of Australia's financial institutions.

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According to a number of analysts, the Australian government has greater scope to ease fiscal policy than governments of most other Western countries because it was at a position where interest rates were already high, the budget was in surplus and there was no net public debt. It was also noted that while these factors contributed to a quick economic recovery, the underlying reason why Australia was not mired in a recession was due to the fact that the economy was in balance.

Australia's previous recession was caused by a major contraction in the construction sector leading to an excess of supply. Unlike the 2009 downturn in the U.S. where there was an oversupply of housing resulting in a housing construction contraction of 70%, Australia housing activity peaked 5 years ago. The mineral boom meant the economy was doing extremely well, and as a precaution, the RBA tightened rates and reduced housing debt supply. In addition, fears of a mining bust were never realised in 2009. The risk of China and commodity prices collapsing did not materialize. Mining companies stalled production during the year and stopped a few uneconomical projects, and are proceeding cautiously.

Despite the good economic numbers, the prevailing mood is not universally positive. Risk of significant contraction in Australia may no longer exist, but investors are cautious about the speed of the economic recovery. Many expect business conditions to remain difficult, noting that aggressive cost cuts and productivity gains rather than a strong pickup in demand-led revenues have boosted earnings.

Australia's performance on the stock market can be gauged from EWA (Ishare MSCI Australia). For a one year period ending January 2010, this ETF had a return of 80%. Demand continues to be strong for Australia's resources, driven by China's massive investment program in infrastructure and industry. Australia's major Asian trading partners are performing well. Japan and South Korea are expecting modest growth, and though China's growth is predicted to slow from 12% to 7% it is still strong growth by global standards. This is further supported by Australia's net debt position, expected to peak at 10% of gross domestic product in 2013, all in all, the outlook appears positive.

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**Table 1: Regional Market Performance (as at 28 January 2010)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	765.93	-0.01	-0.43	-0.17	-9.42
All Trinidad	1,114.14	0.38	1.77	0.99	-1.60
JSE Index	75,273.67	-0.01	-9.08	-9.64	-13.41
JSE Select	1,717.73	0.81	-8.34	-9.50	-16.08
All Jamaica	64,365.54	-0.02	-8.22	-9.30	-14.45
BSE Composite	782.86	-0.01	-0.50	-0.44	-14.76

**Table 2: International Market Performance (as at 28 January 2010)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,084.53	-2.86	-3.83	-4.28	24.08
Nasdaq Composite	2,179.00	-3.83	-4.89	-5.61	39.83
Dow Jones Industrial	10,120.46	-2.59	-4.04	-4.38	20.83
German Dax	5,540.33	-3.60	-7.71	-8.40	22.61
FTSE 100	5,145.74	-3.55	-5.37	-6.45	19.80
Nikkei 225	10,414.29	-4.18	-2.07	-2.26	28.47
Hang Seng	20,356.37	-2.43	-5.23	-6.72	54.75
Eurostoxx	2,737.33	-4.40	-8.22	-9.29	17.85

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