

January 2009

## Economic News

Economic indicators released in January were poor. Labour force figures for December were weaker with full time employment decreasing by 44,000 and the unemployment rate has increased 0.1% to 4.5%.

Inflation was lower in the December quarter as the ABS reported the consumer price index (CPI) fell 0.3%, the biggest quarterly fall in 11 years. The CPI has risen 3.7% for the last 12 months. Contributing to the December quarter fall were pharmaceuticals (-4.7%) automotive fuel (-18.2%) and motor vehicles (-2.4%). Rents (+1.8%), fruit (+8.0%) and takeaway food (+1.5%) mitigated the price falls.

The November Building Approvals figures, seasonally adjusted, showed total dwelling unit approvals fell 12.8%, the most in six years; while private sector housing approvals fell 9.7% for the month.

On 3 February the Reserve Bank of Australia (RBA) Board announced a cut in the official cash rate of 100 basis points to 3.25%. The RBA statement observed that there was considerable deterioration in world economic conditions and a substantial downturn in demand last year. The RBA noted that while Australia has been more resilient than other foreign economies, a combination of last years financial turmoil, the severe global downturn and significant falls in commodity prices had dampened confidence and contributed to falling

demand. The RBA believes that the reduction in the cash rate is required to attempt to strengthen demand and support the economy against outside forces.

Economic indicators in the US remain poor. The US Labour Department reported that the unemployment rate has risen sharply in December to 7.2%, a 16-year high. US employers shed 524,000 jobs in December. This brings total job losses for 2008 to 2.6 million.

US Retail sales tumbled 2.7% during December, the Commerce Department said. This follows a 2.1% drop in November and 3.4% fall in October.

US headline inflation fell 0.7% in December, seasonally adjusted. Energy prices contributed to falls, down 8.3% in December and plunging 21.3% for 2008, the largest ever annual decline. Other contributors to the fall were new vehicle prices (-0.4%) and food prices (-0.1%). Core inflation (less food and energy) was unchanged for December and up 1.80% for the last 12 months.

The Institute for Supply Management (ISM) released the US manufacturing activity for December, with the manufacturing index falling and new orders dropping to record lows.

The Australian Dollar (AUD) fell 7.07% against the US dollar in December, ending the month at US\$0.6438. The AUD was also down against the British Pound and the Japanese Yen, falling 5.55%, and 8.05% respectively.

### Market moves — as at 31 January 2009

Returns (%) p.a	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
<b>Australian Equities</b>							
S&P/ASX 300 Accumulation Index	-4.84	-10.95	-27.31	-34.70	-6.70	5.84	6.62
S&P/ASX Small Ordinaries Accumulation Index	-4.65	-10.23	-41.53	-47.86	-12.24	1.20	2.94
<b>Global Equities</b>							
MSCI World Acc Index with Gross Div (A\$)	0.07	-8.48	-8.04	-17.27	-6.42	1.46	-1.40
S&P 500 Composite Accumulation Index (A\$)	0.40	-10.87	-2.31	-13.87	-6.53	-0.74	-2.76
FTSE100 Accumulation Index (A\$)	2.96	-11.49	-15.88	-25.02	-8.11	1.37	-1.78
<b>REITS (Listed Property Securities)</b>							
S&P/ASX 300 A-REIT Accumulation Index	-9.60	-19.13	-37.56	-52.85	-20.52	-5.92	1.66
UBS Global Real Estate Investors Index (A\$)	-12.11	-19.95	-43.10	-47.85	-18.10	-2.75	6.24
<b>Fixed Interest</b>							
UBS Warburg Composite Bond Index	1.41	5.71	11.58	15.16	7.49	7.12	6.26
UBS Warburg Bank Bill Index	0.40	1.38	3.39	7.39	6.75	6.33	5.79
BarCap Global Aggregate Index Hedged \$A	-0.62	5.01	5.01	6.61	6.50	6.81	7.00

Data source: IRESS, Perpetual Funds Management, Morningstar. Returns greater than one year are annualised.

### S&P/ASX 200 Stock Performance for the Month of January 2009

Best Performers		Worst Performers	
Babcock & Brown Limited	(+109.68%)	Babcock & Brown Power	(-47.27%)
PanAust Ltd	(+58.82%)	Emeco Holdings Ltd	(-40.35%)
Atlas Iron Limited	(+39.18%)	Leighton Holdings Limited	(-39.39%)
HFA Holdings Limited	(+37.04%)	ING Office Fund	(-38.89%)
Minara Resources Limited	(+29.82%)	Challenger Financial Services Group Limited	(-37.95%)

Data source: IRESS: S&P/ASX200 top performers

#### Australian Equities

The S&P/ASX 300 Accumulation Index fell 4.84% in January. This continues a disappointing run with the Index falling 34.7% in the last 12 months. Effects of the credit crisis on markets and local companies announcing weaker future earnings contributed to the falls. The S&P/ASX Small Ordinaries Accumulation Index slightly outperformed the large cap market, falling 4.65% for the month. However, smaller companies continue to underperform the large cap market over the longer term, plunging 47.86% over the last 12 months.

#### Global Equities

Global equities were uniformly stronger in January. The MSCI World Accumulation Index was 0.07% higher in AUD terms. This was also reflected in the S&P 500 Composite Accumulation Index and the FTSE100 Accumulation Index (A\$) which rose 0.4% and 2.96% respectively for the month in AUD terms.

Regional markets were up during January. In Japan, the Nikkei ended the month 10.83% higher, while Hong Kong's Hang Seng Index rose 8.35% in local currency terms.

European markets were also stronger with the German DAX, UK FTSE100 and the French CAC rising 10.88%, 6.86% and 8.21% for the month in local currency terms.

#### REITS (Listed Property Securities)

The S&P/ASX 300 A-REIT Accumulation Index fell 9.6% over the month, underperforming the boarder equity market. Poor market expectations for rental growth in shopping centres contributed to the falls. Overall, the S&P/ASX 300 A-REIT Accumulation Index fell 52.85% for the last 12 months.

The UBS Global Real Estate Investors Index was weaker in January, falling 12.11% in AUD terms and underperforming the local index. Over 12 months the UBS Global Real Estate Investors Index was down 47.85% in AUD terms.

#### Fixed Interest

The Australian bond market was stronger in January, with weakness in the US bond market and concerns over fiscal and monetary stimulus in the US contributing to the rise. The UBS Warburg Composite Bond Index rose 1.41% for December while the UBS Warburg Bank Bill Index returned 0.4% for the month. Over 12 months, the bond and cash markets returned 15.16% and 7.39% respectively.

The BarCap Global Aggregate Index Hedged \$A fell 0.62% in January and has returned 6.61% over the past 12 months.

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