

December 2008

## Economic News

Economic indicators released in December were mixed. The November Retail Sales figures released by the Australian Bureau of Statistics (ABS) were surprisingly resilient; with retail sales increasing 0.40%, seasonally adjusted. Significant contributors were food (+0.70%) and other retailing (+0.60%), while household goods retailing (-1.00%) and cafes, restaurants and takeaway food services (-0.30%) detracted from the growth. Falling interest rates and petrol prices are thought to have helped ease concerns about the economy.

Labour force figures for November were poor with employment decreasing by 15,600 to 10.75 million. The most recent unemployment rate figures show an increased of 0.10% to 4.40%.

The October Building Approvals figures, seasonally adjusted, showed total dwelling units approval fell 5.40%, while private sector house approvals fell 2.70% for the month.

The Reserve Bank of Australia (RBA) Board takes a holiday in January and will not meet until 3 February. Over the calendar year the RBA has lowered official interest rates by 300 basis points, finishing the year at 4.25%.

Economic indicators in the US remain poor. The US Labour Department reported that the unemployment rate has risen sharply in November to 6.70%, and jobless claims rose to a 26-year high of 573,000 in the week ended December 6.

US headline inflation fell by 1.70% in November, according to the US Labour Department; one of the biggest falls since monthly data first started being recorded in 1947. Much of the fall was attributed to the continuing drop in crude oil prices. For the 12 months to November, inflation was just 1.10%. Core inflation (less food and energy) was unchanged for November and up 2.00% for the last 12 months.

On 16 December the US Federal Reserve (Fed) cut its benchmark interest rate from 1.00% to a range of 0-0.25%. The unprecedented low rate is aimed at combating deflation and the global financial crisis. In its statement the Fed noted that labour market conditions have deteriorated while consumer spending, business investment and industrial production continue to fall. The Fed has suggested it may attempt to further stimulate economic activity by purchasing mortgage securities to assist credit flows.

On 24 December oil prices reached a low of \$US35.13 a barrel, having previously reached highs of \$147.27 in July, before rebounding. Dismal economic data from the US including falls in consumer confidence, rising oil inventories and car industry woes have contributed to the sharp fall in price.

The Australian dollar (AUD) rose 5.42% against the US dollar in December, ending the month at US\$0.6928. The AUD was also up 12.34% against the British pound, but weaker against the Japanese yen and the Euro, falling 0.02% and 3.38% respectively.

### Market moves — as at 31 December 2008

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	-0.14	-18.48	-27.20	-38.92	-4.03	6.72	7.40
S&P/ASX Small Ordinaries Accumulation Index	4.15	-29.21	-42.04	-53.17	-9.73	2.18	3.80
<b>Global Equities</b>							
MSCI World Acc Index with Gross Div (A\$)	-3.55	-11.36	-8.50	-24.86	-6.03	1.57	-1.43
S&P 500 Composite Accumulation Index (A\$)	-5.60	-11.69	-1.55	-20.65	-6.79	-0.66	-2.64
FTSE100 Accumulation Index (A\$)	-9.40	-16.66	-20.08	-34.81	-8.11	0.53	-2.40
<b>REITS (Listed Property)</b>							
S&P/ASX 300 A-REIT Accumulation Index	-10.40	-33.23	-34.34	-55.31	-18.12	-3.94	2.67
UBS Global Real Estate Investors Index (A\$)	8.34	-33.79	-34.82	-42.60	-13.06	0.39	7.45
<b>Fixed Interest</b>							
UBS Warburg Composite Bond Index	1.25	6.34	12.00	14.95	7.05	6.78	6.15
UBS Warburg Bank Bill Index	0.43	1.69	3.66	7.60	6.79	6.34	5.79
BarCap Global Aggregate Index Hedged \$A	2.54	4.81	6.93	9.21	6.73	7.14	7.18

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

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## S&P/ASX 300 Stock Performance for the Month of December

Best Performers		Worst Performers	
Eastern Star Gas Limited	(+82.54%)	Mintails Limited	(-84.00%)
Babcock & Brown Power	(+71.88%)	ING Industrial Fund	(-67.82%)
Felix Resources Limited	(+60.00%)	HFA Holdings Limited	(-61.43%)
Karoon Gas Australia Limited	(+57.83%)	ING Real Estate Community Living Group	(-48.98%)
GUD. Holdings Limited	(+55.99%)	Alesco Corporation Limited	(-48.52%)

Data source: IRESS: S&P/ASX300 top performers

### Australian Equities

The S&P/ASX 300 Accumulation Index fell 0.14% in December. This continues a dismal run with the Index falling 38.92% in 2008. 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 outperformed the large cap market, rising 4.15% for the month. However, smaller companies continue to underperform the large cap market over the longer term, falling 53.17% over the last 12 months.

### Global Equities

Global equities were uniformly weaker in December. The MSCI World Accumulation Index was 3.55% lower in AUD terms. This was also reflected in the S&P 500 Composite Accumulation Index and the FTSE100 Accumulation Index (A\$) which fell 5.60% and 9.40% respectively for the month in AUD terms.

Regional markets were down during December. In Japan, the Nikkei ended the month 3.92% lower, while Hong Kong's Hang Seng index fell 3.47% in local currency terms.

European markets were mixed with the German DAX, and the UK FTSE100 falling 2.93% and 3.30% respectively. The French CAC bucked the trend and rose 1.39% for the month in local currency terms.

### REITS (Listed Property Securities)

The S&P/ASX 300 A-REIT Accumulation Index fell 10.40% over the month, underperforming the boarder equity market. Overall, the S&P/ASX 300 A-REIT Accumulation Index finished a shocking calendar year falling 55.31%.

The UBS Global Real Estate Investors Index was Stronger in December, rising 8.34% in AUD terms and outperforming the local index. Over 12 months the UBS Global Real Estate Investors Index was down 42.60% in AUD terms.

### Fixed Interest

The Australian bond market was stronger in December, with the RBA official interest rate cut and the Fed's moves to encourage credit flows contributing to the rise. The UBS Warburg Composite Bond Index rose 1.25% for December while the UBS Warburg Bank Bill Index returned 0.43% for the month. Over 12 months, the bond and cash markets returned 14.95% and 7.60% respectively.

The BarCap Global Aggregate Index Hedged \$A rose 2.54% in December, and returned 9.21% over the past 12 months.

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