Market
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Economic and market developments, November 2009

Below is an edited transcript of a webcast recorded on 1 December, 2009 by MLC Investment Strategist Brian Parker.

Since we last spoke, share prices enjoyed a solid recovery from a period of weakness in late October, and now, recently, we've seen more volatility. this time triggered by news that Dubai had announced it was requesting a debt freeze for at least 6 months for one of its biggest holding companies, Dubai World.

Dubai World is the primary investment company for Dubai, the most populous of the seven United Arab Emirates. The company has global investments in real estate, transport & logistics, and financial services.

Dubai World is said to account for some $59 billion of Dubai's $80 billion in total liabilities. I'll discuss the implications of the developments in Dubai later.

First, to the economic developments over the last month or so.

Generally, the economic data around the world remains consistent with the global economic recovery story we've described in the last few months. A modest global economic recovery is underway, but we're yet to see signs that private spending - both consumer and business spending - is starting to recover in a sustainable way without the aid of substantial Government incentives.

Here in Australia, the economic numbers have been something of a mixed bag. Housing market indicators are still picking up. Indicators of housing activity such as building approvals data are still climbing, and house prices continue to pick up.
If we look at investment spending, the near term outlook looks quite sluggish, with weak private spending being in large part offset by stronger public spending. As we head into the next financial year, however, business survey data points to a recovery in private spending.

On the weaker side of the ledger, it looks as though retail spending growth has eased back significantly after the surge in spending in the first half of the year on the back of the Government's cash hand-outs.

On the export side, the surge in commodity exports earlier in the year, courtesy of the Chinese stimulus measures, could be abating in the second half of the year.

When we put that all together, the picture we get is of an Australian economy that has gone through the worst of the global recession with only a mild downturn. Whether or not you call it a recession, depends on where you sit.

Now, the economy seems set to enjoy a modest pick-up in growth over the next year or so. What this means is that regardless of whether the Reserve Bank decides to raise rates or keep them unchanged in any given month, rates are still going to be heading higher.

The emergency they had rates set for hasn't eventuated, and monetary policy still needs to be recalibrated. This doesn't mean the RBA is slamming on the brakes, just taking the foot off the accelerator.

Let's finish this month, by talking about what all this means for financial markets and investors.

Firstly, the news about Dubai, while surprising for markets has to be kept in perspective.
The amounts of money involved aren't threatening to the global financial system - but they are another reminder that businesses, consumers, and indeed sovereign states will experience credit difficulties, even after a global economic recovery takes hold.

This crisis may have started out as a US sub-prime mortgage crisis, but as we've said before, those involved in the US sub-prime mortgage market, were not the only ones doing dumb things with borrowed money, they were just the first to pay the price.

Secondly, while we believe the global economic recovery and recovery in Australia are genuine, they're also likely to be decidedly unspectacular.

The world financial system has been saved from Armageddon, but it'll take time for financial institutions to really get their houses in order, and until that time, the supply of credit to the world economy, will be far from ideal.

Thirdly, there will be more stumbles along the road for investors.

We mentioned last month, that in many ways the easy yards have been made. Further gains for share markets and other riskier assets are going to be tougher from here. Markets will have to digest more bad news from time to time, whether in the form of disappointing economic news or more corporate or sovereign entities facing credit difficulties.

While the speed and magnitude of the gains we've seen this year have reduced our estimates of future investment returns, those return prospects remain reasonable. However once again, we would caution investors against extrapolating the stellar gains of the last nine months or so, too far into the future.

Thank you again for listening.

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