



In the current financial climate, it's good to be an Aussie!

With the USA poised to slip into official recession (two successive negative growth quarters) and a black cloud hanging over many of Europe's most powerful economies, Australia is still looking pretty good compared to the rest of the world. In spite of weeks of bad news, we should recognise our economic strengths for the blessings they are and acknowledge at least five good reasons to be cautiously optimistic about the future!

Our banks are in much better shape than those of the USA and Europe!

In America and Europe, governments are intervening to support shaky banks, but in Australia, our banking system is in relatively good shape – with the big four banks standing firm in spite of a global credit crisis. There has been minimal government intervention, aside from a guarantee on bank deposit funds for 3 years. Whilst the need for a government guarantee may sound alarming, it was necessary to prevent a potential 'run' on smaller more vulnerable banks and building societies towards 'the big four banks'. It is important that our banking system is in good shape for every one of us who have shares or managed fund investments, because a strong banking sector is the Australian economy's first line of defence.

The Government will spend an extra \$10 billion by Christmas to stimulate the economy

Last year's record budget surplus was meant to be hoarded and spent over several years to stimulate infrastructure development. But the government has recognised that this is a time of economic crisis and it will spend half of it (more than \$10 billion) before the end of the year to kick start the economy and keep unemployment rates down. At least \$4 billion of this emergency funding will be distributed to pensioners and lower income families. This will not only help those Australians who need help most in tougher times, but also give consumers more to spend on household goods and food in the next quarter, thus stimulating our manufacturing sector and as a consequence, the share market.

Snapshot

Snapshots



Home loan costs and interest rates are coming down!

With the official interest rates dropping, fixed interest mortgages are already lower at some banks and the rest should follow. The first home owner's grant for new homes has also just been trebled, so there is now a real incentive for first home buyers to get out there and revive the moribund home building market.

Our exports are now more affordable and competitive!

With the recent fall in our Aussie dollar, our products become cheaper to overseas consumers. In the face of reduced spending and tighter credit being experienced by Australia's most important trading partners, this is a blessing for Australian exporters. It makes our exports more affordable, stimulates global demand for our products and encourages mining and manufacturing in Australia despite a global slow down.

China, our major international trading partner, is still in the black!

Like Australia, China is standing up to the global financial crisis very well. Yes, it is true that many of her biggest international customers such as the USA are buying less, but significant demand for Chinese manufacturing is in China itself – the emerging Chinese lower middle class. While things are slowing in China, there is natural momentum that will continue albeit at a slower pace. Australian exporters still have a willing buyer in China that won't change for another 50 years.

The upshot of all this positive news, is that if you are looking at a historical reference point for Australia's financial situation, don't look at the recession we had to have in 1987. It may be shaping up more like the 2001 "tech wreck", when Australia was one of the few countries to escape a recession* – so be glad, very glad, that you are an Aussie!

*Source: Westpac, as reported SMH 16 Oct



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