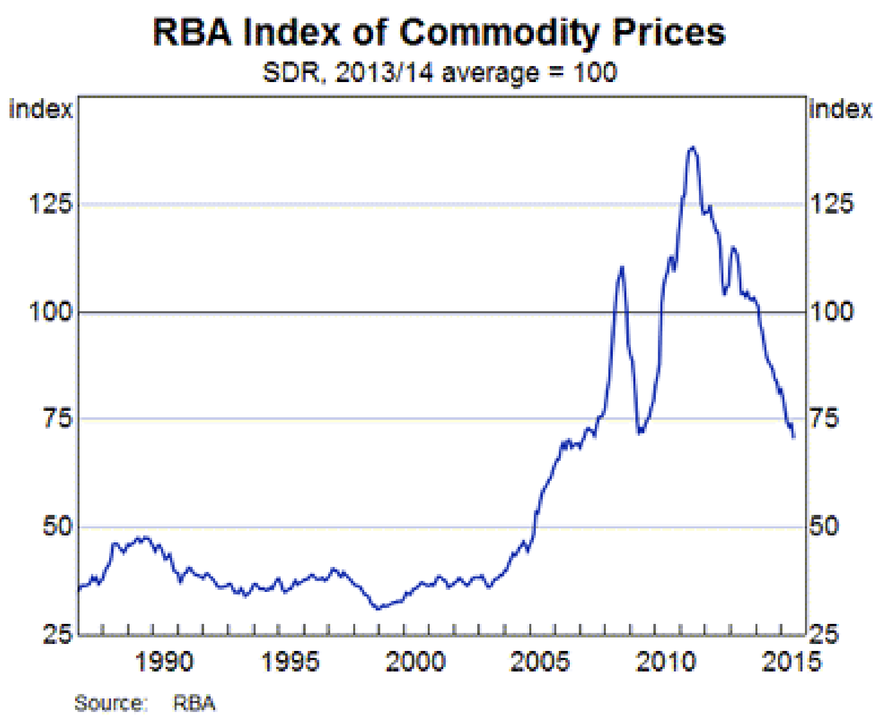
INVESTMENT MARKET UPDATE SEPT 2015

with Cameron Diffey, Director - Financial Advisory

A client often mentions to me that a price is simply a reflection of supply and demand, basic economic theory. In Australia the supply and demand story can be seen all around us. After years of underinvestment in supply, largely due to low prices and flat demand, China emerged as a buyer of commodities, and the surge in demand is largely unprecedented in history. Prices for iron ore, coal, oil, natural gas and copper spiked higher enabling producers to bring new supply to the market, this can take ten years and billions of dollars in the mining and oil and gas sectors. Today the new supply is hitting the market and driving down prices, combined with slowing growth in demand. In the agricultural sector these changes occur more quickly with the growing seasons and weather impacts. Australian farmers are generally receiving higher prices for grains, beef, sheep and wool. Dairy farmers are well aware of the supply demand equation with the global milk prices declining rapidly sending the price signal to reduce supply. Reducing supply is difficult when you have made a significant capital investment so the general approach is to maintain production, keeping prices lower for longer.

Low interest rates are a function of supply and demand. Governments and companies are keen to finance their budgets and business when interest rates are low, and will issue more debt. The question is who continues to buy the debt when interest rates are low, and for many governments, their respective central banks are the buyers, along with financial institutions who have to pay pensions to the retiring baby boomers.

The property market, in particular residential property is all about supply and demand. Supply of houses in the areas where a lot of people want to live is in short supply, so prices rise combined with domestic and foreign investment, cheap money, and people returning to live in NSW and Victoria. This is reflected in the surge in Sydney and Melbourne house prices.



In the broader business sector, demand is ever changing with technology, creating new opportunities but also destroying old business models. Adapt or perish! The internet has created new supply, globalization has supply coming from different geographical areas. The 'middleman' is being squeezed out in a lot of sectors of the economy. There is still demand for personal service, and a quality product, just have to work smarter for it, and be prepared to adapt to meet the market.

In our region manufacturing which is often a high productivity sector is losing ground, whilst private and public services are growing, generally lower productivity sectors with lower average earnings. Albury Wodonga is well located to continue to benefit from the growth in health care and education. However our region needs a boost from the lower $A and low interest rates, we need more jobs.

The financial world waits for the US Federal Reserve to raise short term interest rates from 0% (they have been at 0% for six years), Australian interest rates are likely to remain at low levels for some time as our economy adjusts to the decline in the commodities boom with economic growth likely to remain below 3%, which is below the long term average annual growth rate around 3.5%. In a general sense commodity prices are likely to remain under pressure while global economic growth remains subdued, notwithstanding that farm incomes in our area are rising, for the time being!

As an Australian test cricket captain departs, I recall a quote from a predecessor Greg Chappell, 'If you fail to plan, you are planning to fail'. I think Benjamin Franklin may have come up with it first.