

Perennial Perspective

Take me to our leader!

Brian Thomas

After five Aussie Prime Ministers in five years it's no wonder New Zealand's Prime Minister (PM), John Key, last year joked "We know the Prime Minister's coming, we just don't know who's going to turn up!" about an upcoming visit from our PM. He went on to explain that Australia has had more PM's than Greece in the 8 years that he has been in power.

Our recent election was supposedly going to clear the Senate of small parties and create a clearer mandate but has done neither. The importance of this potential period of instability in leadership and a more difficult Senate may be seen in ten years' time as a turning point for our "lucky country", although it is relatively easy to argue that our successes have not had much to do with Governments but more about having gold, wool and then iron ore when the world needed it!

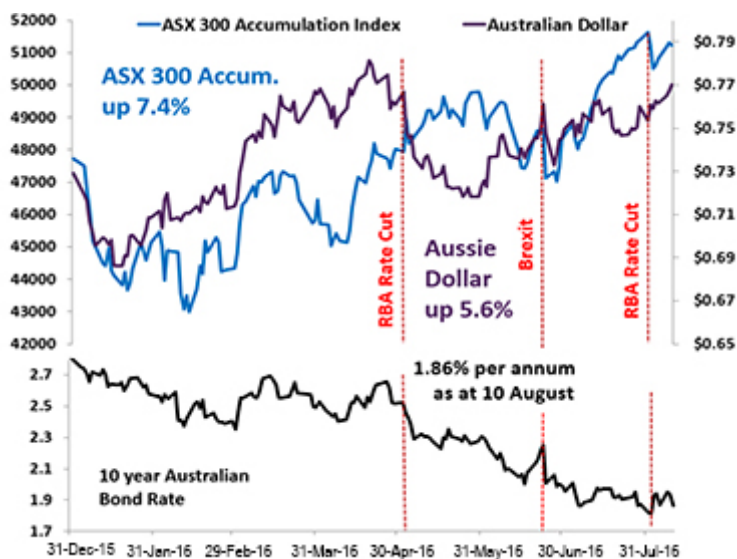
This need for decisive Government action is even more relevant in a world where monetary policy seems to be reaching its' limits (as pointed out by Glenn Stevens this week) with low and negative rates not really providing enough stimulus to the private sector. It is worth noting however these record low rates have at least helped to create full employment in the major developed economies.

After the "surprise" rate cut in May which initially heralded a fall in our dollar and a stock market boost (see chart below and look for the subsequent moves in the dollar and share market) the telegraphed cut on 2 August seems to have had little effect with our stubborn dollar rising post the announcement and shares falling (although it's only been a few days since the announcement). Part of the reason for the impotence has been the banks decision not to pass all of the rate cut on to borrowers resulting in future "show and tell" appearances with the Parliamentary economics committee to open them up to more scrutiny.

Despite all this it is pleasing to note that share investors have still been rewarded so far this

year with a return of 7.4% for the last 8 1/2 months.

Market up 7.4% to 10 August



Source: IRESS, Perennial. Period 31 December 2015 to 5 August 2016.

In a future environment where relying simply on our resource wealth and easing monetary policy will not have the desired outcomes, Australia needs clear leadership including a focus on properly assessed infrastructure projects (i.e. by Infrastructure Australia) beyond the marginal seat infrastructure promises we saw from both parties pre- election. Let's hope the new Government and the Senate can step up.

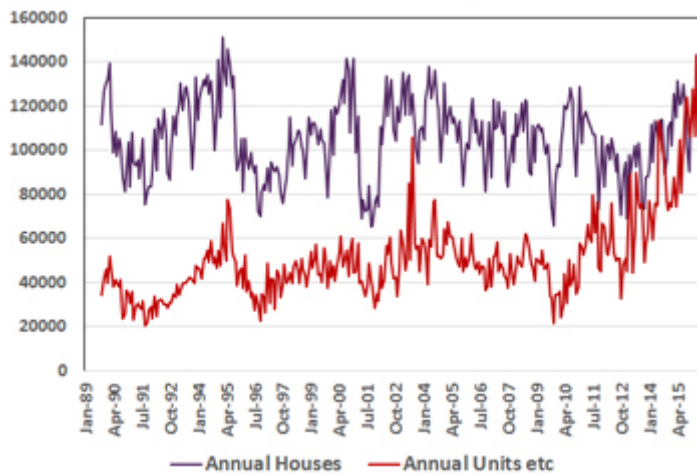
Gross (Domestic) Accounting

The obsession with Gross Domestic Product (GDP) as if it is a number wrought in stone is, I believe, a big issue. This month we saw China change their calculation methodology (admittedly to be more in line with other countries) that has seen the size of their 2015 GDP increase by over a billion US dollars. The cynic in me says that this will help the bureaucrats more easily achieve the Governments' target of doubling the size of the economy from 2010 to 2020. Back in Australia, other factors may be holding down "official" numbers with a report commissioned by Google making the point that official GDP may be underestimating the value of the digital efficiencies created by Google which they estimate could add another 1.9 per cent to GDP – apart from being a good advertisement for Google, it does make some valid points that the quality of life we enjoy due to increased quality of goods and the efficiencies and lifestyle benefits of the digital revolution are not fully reflected in our GDP numbers.

Housing - approvals slowing implying completions to peak in 2018?

Whilst the number of residential building approvals has eased in June, the absolute numbers are still high at around 224,000 annualised. Importantly this means that the building boom focussed on the East coast is not over yet, as these approvals turn into building activity which looks like peaking over the next few years (2018 could be the peak). The rise in apartment approvals has been quite dramatic as shown below and although there is forecasted oversupply in Melbourne and Brisbane we haven't seen the massive overbuild that was a key drive of the Ireland and Spain property crashes around the Global Financial Crisis.

Annualised Private Residential Buildings Approvals



Source: Perennial, Australian Bureau of Statistics, 2016

Reporting season

As we enter reporting season we expect pretty much a repeat of February's themes of "costs out" and subdued Earning per Share (EPS) growth. Consensus numbers show that overall EPS is expected to grow at 1.3% with resources falling 19.5% (picking up by 42.6% in 2017) and the rest of the market up 2.6% (up 6.4% in FY17). The positive news is that we haven't had much in the way of pre confession downgrades leading up to this however it will be a case of "shoot first, ask questions later" for companies that under-deliver. It will be interesting to see whether the focus on actual earnings will affect the current high level of PE (Price to earnings) evident in the increasingly expensive stocks typically in the REIT and healthcare areas.

Brian Thomas

General Manager- Investment Services

Perennial Value Management

This article is an extract from [Perennial Perspective August 2016](#).

To read this newsletter in full please [click here](#).

Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. This website is provided for information purposes only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. This information does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this website is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, Additional Information Booklet and application forms can be found on this website. Use of the information on this website is governed by Australian law and is subject to the terms of use.