



And the world turns

The populations of many developed countries are ageing fast, sometimes with surprising outcomes.

Falling birth rates and improving mortality rates are translating to more white hair in our communities. Japan and Italy lead the way with the number of people over age 65 already close to 25%. Notably both countries currently have low levels of immigration. This may need to change. On current trends the total population in Japan in 2050 will have declined by 25% but the portion over age 65 will have increased to 40%.

Many European countries such as Germany, Austria, Greece, Spain and Sweden are heading in the same direction. In China the "one child" policy has led to increasing numbers of people over age 60 and the proportion under age 14 is falling fast. In Australia those over age 65 currently represent nearly 14% of the population, but that is predicted to grow to around to 25% by 2056.

Impact on spending

Traditionally household spending in the developed nations tends to peak between the ages 45 and 54. The 65+ households tend to spend less than half of that amount. This leads some economists to conclude that overall economic growth will be impacted as new retirees shut their wallets.

What we do know is that as we age our spending patterns change – less spent on football boots and gym gear and more on theatre tickets and physiotherapy! Of course the age at which we "retire" may well be very different as people actively pursue ongoing involvement in the workforce. Many will work longer and will have more wealth in retirement courtesy of asset booms and regulated savings programs (superannuation).

Impact on asset prices

In Australia the baby boomers own roughly 45% of the owner occupied housing and 51% of the investment properties and holiday homes. The 65+ group only

account for 21% of our housing wealth. Already we are seeing a shift in urban housing away from the big family home to houses and apartments designed for fewer people. Location in terms of access to services, retail and leisure interests will become increasingly more important than big homes on big blocks of land.

For the past 30 years there has been an increasing flow of money into retirement savings with typically 50-60% invested in share markets. In Australia the rate of investment (funds inflow) is well above the rate of withdrawal to fund retirees living expenses (funds outflow). At some point this may change. More likely is a shift in focus towards dividend yields as retiree investors look to maximise investment income....cont



The Importance of Regularly Reviewing Your Investment Portfolio

The importance of regularly reviewing your investment portfolio and your personal circumstances to ensure that your investments remain appropriate to your needs cannot be overstated. From our experience investment portfolios need to be adjusted over time, not only in response to changing investment markets and economies, but also in response to changing personal circumstances.

If you are currently not reviewing your financial affairs on a regular basis we encourage you to contact your Avenue adviser to discuss their review services.

Impact on society

It is hard to imagine what Australia will be like as a greyer community. The overseas experience illustrates some less obvious outcomes. In the city of Genoa in Italy, 10% of schools closed in the first decade of the century because of the drop in the number of school age children. Similarly toy shops are rare. Raising children is considered too expensive with many couples choosing to keep pets instead.

In China, which has no welfare system, an increasing number of younger workers (being the sole child) are supporting two

parents and possibly up to four grandparents. In Europe many young families are looking after their parents and there is a demand for daily aged care - rather like child care - so they are free to earn an income. In Italy bus timetables have been adjusted to allow for the extra time it takes for slower moving older people to get on and off buses.

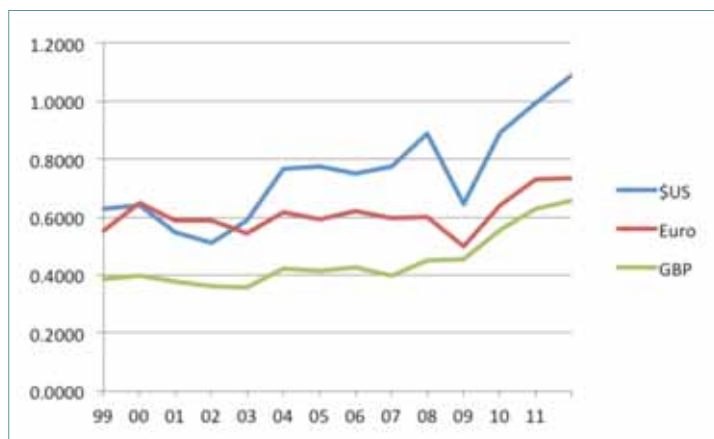
There are many uncertainties about the future. But one thing is certain, it will be different and there will be surprises. 

What's driving the dollar up?

Since 2008 the Aussie dollar has been rising against most currencies.

The headline exchange rate is always A\$ versus US\$ and after a period of near parity the A\$ seems to have settled comfortably over that level. Some commentators are suggesting the A\$ could go much higher whilst our economy remains strong compared to the weaker US economy.

The graph shows how our dollar has appreciated against the US\$, the Euro and the British Pound since 1998. Against the US\$ it has gone from a low of 55c in 2002 to around a \$1.10 in May 2011. Almost as dramatic has been the A\$ against the pound moving from 35p in 2003 to over 65p in 2011.



Value of A\$ against the US\$, Euro and GBP 1999 to May 2011

Drivers of change

The Aussie dollar is the fifth most traded currency in the world behind the US\$, the Euro, the Yen and the GB Pound. Movements in the dollar against other currencies depend on supply and demand. If foreigners want to buy Australian goods and services they need to buy SA's first and this will push up the price (the exchange rate). If we want to buy products overseas we need to sell A\$'s and this will push the price down.

The commodity boom means that the A\$ is in demand causing the exchange rate to rise. Many commodity contracts are denominated in \$US so the SA-US\$ rate is particularly critical.

Fixed interest and currency traders also play an important role in setting exchange rates. Interest rates in Australia are relatively high compared to the rest of the world where many economies are still recovering from the Global Financial Crisis. Whilst our cash rate is 4.75%, the comparable rate in USA is 0.25%, 0.5% in the Eurozone and the UK and 0.3% in Japan.

Traders are attracted to the comparatively higher interest rates available in Australia as well as the stability of our economy,

the relative freedom of the foreign exchange market and the exposure our economy has to the key Asian economies and the commodities cycle.

Impacts of a rising dollar


For consumers, a higher SA means imports are cheaper. Online retailing is currently booming as Australian consumers take advantage of cheaper prices from overseas. Cheaper imports can assist in keeping a cap on inflationary pressures. It is not just flat screen TVs that are cheaper but also industrial machinery, equipment and components. This increased purchasing power means that some Australian businesses can operate more profitably.

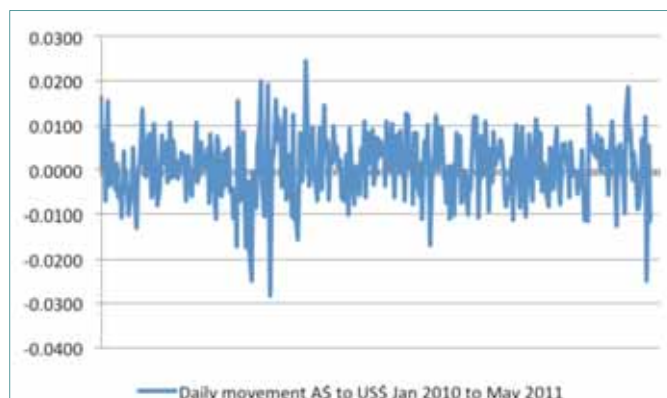
But a higher A\$ is not good for exporters and industries competing with imports. For instance, tourism suffers because locals will be tempted to travel overseas and higher prices may discourage foreigners from coming here. It's the same with education where overseas students will seek out more cost effective options. Retailers have to re-think their product mix and their strategies to compete (or join in) with the online offshore alternatives.

Exchange rate volatility

One of the side effects of being a popular trading currency is significant volatility. The graph shows the daily variations on each trading day from January 2010 to May 2011.

Whilst this volatility is hardly noticeable for consumers it is a major challenge for businesses where the revenue they earn from sales overseas or the costs of imported products and services will fluctuate daily. It is little wonder that no-one can predict where petrol prices will go next!

Until the major economies of the world sufficiently recover from the GFC and their domestic interest rates return to more normal levels a strong A\$ is likely to continue. 



How do we compare?

There is no other country like Australia. But how do we compare with others, Canada for example.

Both Australia and Canada started out in the same way as colonies of Great Britain before they became Federations. Both are predominately English speaking though Quebec uses French and English. We are both large countries with relatively sparse populations. Canada is 25% larger than Australia with a population of 34.5m compared to our 22.5m.

Both countries have been founded on immigration. Today Canada takes about 240,000 immigrants a year mostly from China, India and the Philippines. Australia has an immigration target of about 200,000 a year with most coming from NZ (over 36,000), UK, India, China and South Africa.

Economies

The GDP of Canada is around \$1.35 trillion compared to Australia's \$0.95 trillion. Both countries came through the Global Financial Crisis better than other developed nations. Both have solid banking systems and both only had exposure to sub-prime mortgages of around 1%.

A key difference is that Canada has a great dependence on the USA which takes about 80% of its exports whereas Australia's main exports are more diverse going to China (22%), Japan (19%), Korea (8%) and India (7%).

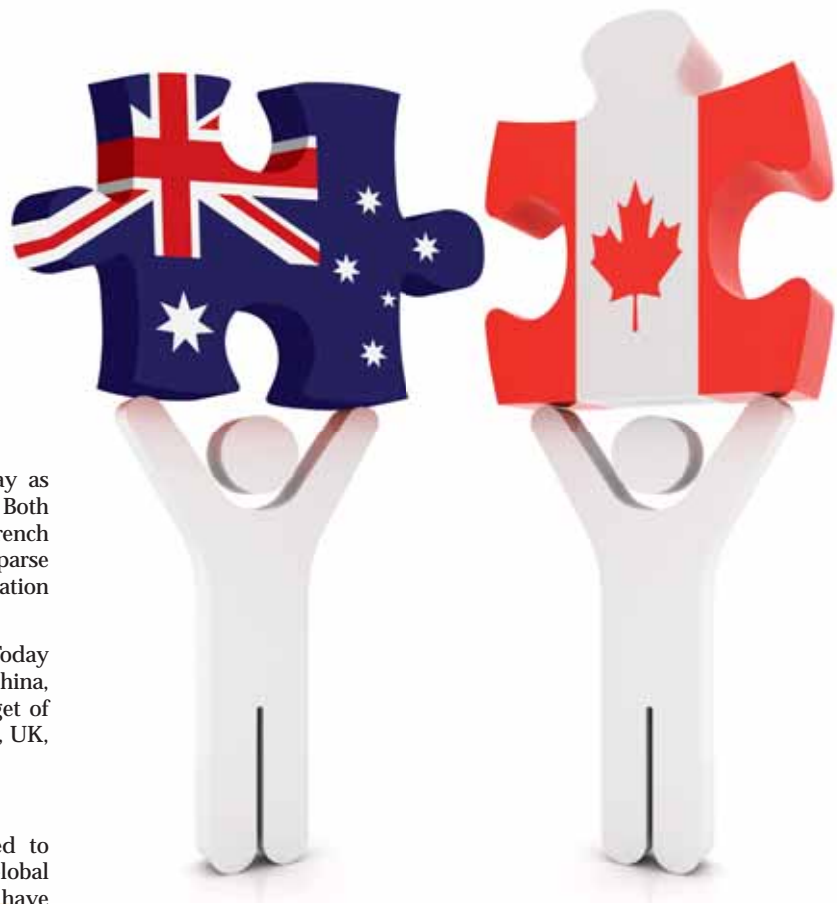
Australia has come out of the GFC in better condition than Canada. GDP growth in Australia is expected to be 3.2% this year whereas in Canada it is estimated to be a more muted 2.3%. Unemployment is also higher in Canada - 7.6% compared to our 4.9%.

Inflation is about the same at 3.3% to March 2011 but interest rates are quite different. Whilst the cash rate in Australia is 4.75%, the equivalent rate in Canada is 1%.

Debt and savings

Australia has a lower level of government debt than Canada. In Australia debt is 22.4% of GDP (equivalent to \$11,731 per person) whereas in Canada it is 82.1% of GDP (\$37,862 per person).

Personal debt levels are very similar in the two countries with average debt levels being about 150% of disposable income. However Australians seem to have realised the need to reduce personal debt and savings are estimated by the RBA to be around 10% of income compared to 2.5% in Canada.




Housing

Housing affordability is a problem in Australia with a survey by Demographia giving us an overall score of 7.1 when any score over 5.1 is considered 'seriously unaffordable'. Sydney (9.6), Melbourne (9.0) and Adelaide (7.1) had the least affordable housing.

In Canada low interest rates have continued the upward pressure on house prices and there are concerns of a 'bubble' emerging. Overall affordability is 4.6 but Vancouver (9.6), Montreal (5.2) and Toronto (5.1) are the least affordable.

Lifestyle

A high standard of living, space and a democratic society have made both countries attractive places to live. The 2005 Economist Quality of Life survey ranked Australia 6th and Canada 14th in world rankings. The 2011 survey of liveable cities ranked Vancouver number one with Toronto and Calgary in the top ten. Melbourne was ranked third with Sydney, Perth and Adelaide in the top ten.

In many ways Australia and Canada face similar challenges because we are relatively small players in the global economy. However we do sit in different parts of the world and cannot help being influenced by our neighbours. It will be very interesting to see how the similarities change over the next 50 years as we both continue to adapt to a changing world. 

“ Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time. ”
Thomas A. Edison

“ What you get by achieving your goals is as important as what you become by achieving your goals. ”
Henry David Thoreau



**THE
LIGHTER SIDE**

“ A successful man is one who makes more money than his wife can spend. A successful woman is one who can find such a man. ”
Lana Turner



Getting a fabulous 360° degree view

Sydney was first and now Auckland and Brisbane have followed in allowing you to climb their iconic bridges.

There are only three bridges that can be legally climbed in the world – and they are all down under. It all started back in 1989 when a private climb was organised on the Sydney Harbour Bridge. BridgeClimb founder Paul Cave reckoned everyone should have the opportunity to climb the bridge and put a proposal to the NSW Government.

They came back with over 80 reasons why it couldn't be done. Paul set out to design a safe and legal system to overcome these objections and in 1998 the first public bridge climbs started. Over 2.5 million people have now enjoyed the 360 degree view from the top over the harbour, to the Heads and the Olympic Stadium.

Everyone is familiar with the Sydney Harbour Bridge and is probably the most spectacular climb of the three. At the top you are 134m over the water. The climb is not strenuous and people in their 80's and 90's have climbed. It is also very safe because you are attached to a wire every step of the way. You will wear a 'bridge suit' worn over your normal clothes and have a headset so you can hear the commentary from the climb leader.

The Auckland Harbour Bridge is longer and flatter than the Sydney Harbour Bridge. It opened for climbing in 2001 and uses a similar system to Sydney. The bridge is 64m over the water at its highest point and provides spectacular views over Waitemata Harbour, the city, the many volcanic cones around Auckland and the dormant volcano on Rangitoto Island. The climb takes you under the bridge and then up and over the top on the way back. For the more adventurous there is the opportunity to do a bungee jump from the bridge as part of your climb.

The Story Bridge in Brisbane opened for climbing in 2005. It was designed by John Bradfield, the designer of the Sydney Harbour Bridge and is a cantilever shape unlike the 'coat hanger' shape of the others. The climb takes you over both peaks so is quite different. The bridge is 80m above the water at its highest point and provides great views of the city, Moreton Island and the Glasshouse Mountains.

There is no prize for doing all three bridge climbs except that warm inner glow of achievement. Of course you could do a twilight, night or sunset climb and some people have even got married on the top.



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