

ECO.



Nobody fully understands the reasons for this somewhat better economic performance and we're not rushing to judgement just yet

Treasury secretary Ken Henry, on a better Australian performance than predicted in the federal budget.

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After the fall

● Australia will hopefully miss a recession this year. And next. If so, it will be the only nation in the Organisation for Economic Co-operation and Development to grow this year – albeit at a modest 0.5 per cent – and one of just four of the top 20 nations to do so, the other three being China, India and Indonesia, which are not in the OECD.

Australian households are certainly confident, as seen in the latest Westpac/Melbourne Institute Consumer Sentiment

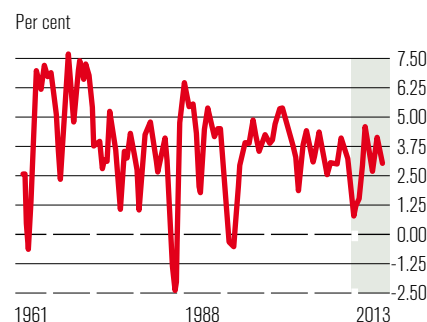
Index, which reached 113 points in August. The public has an uncanny ability to determine whether there will be a recession. The critical level, on a two-month moving-average basis, is 80 points; below this, recession follows soon after. Interestingly, the United States has to go below 60 points, suggesting it has a greater tolerance of misery.

For reasons not understood, Australia and the US are vulnerable to recession only every 8½ years at the end of a long business cycle. Consumers pick it every time. But they don't cause one. Australia missed the 2001 potential recession and, unlike the US, it looks like missing out again this time.

Australia has not had a recession as a result of a fall in consumption expenditure for more than 50 years. Instead, recessions are caused by drastic falls in capital expenditure by business (assisted by reluctant bank lenders).

Consumer and business confidence

AUSTRALIA'S ECONOMIC GROWTH



Source: IBISWorld

and the sharemarket both recover well before the real economy; they are doing so now and have been since March.

The economy has yet to weather the last of falling capital expenditure. But the prospects for a recovery next year are strong. Contrary to recent commentary, recoveries head skyward at a fast clip. This one should be no exception. **BRW.**

Hot and gold

● September is the golden month when a wide variety of unexpected events usually trigger rises in bullion prices.

The biggest single event was the September 11 attacks in 2001. In 2005, Hurricane Katrina knocked out oil rigs in the Gulf of Mexico, which sent the price of crude oil soaring and triggered fears of inflation. In 1979, the Hunt brothers of Texas tried to corner the silver market and the price jumped by 49.5 per cent.

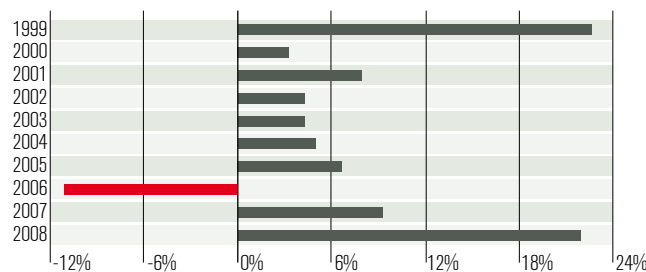
In 1999, a Bank of England gold auction was oversubscribed eight times after investors unexpectedly abandoned fears it would depress prices. In 2007, just as the financial crisis was about to erupt, smart money pushed gold to a 27-year high of about \$US700 an ounce.

Last year, investors fled to the safety of gold as Lehman Brothers collapsed, banks

were nationalised and billions were spent on saving the global financial system. In their rush for a haven, investors pushed the price up 10.8 per cent in a day.

Gold rose between the first and last trading days of September eight times in the past decade. In nine of the 10 years, even more money was made by waiting for the mid-month low before buying in.

GOLD'S SEPTEMBER RANGES



Source: Bloomberg

Data collated at SeasonalTrader.com since 1975 shows the annual bullion-price cycle wanes from March until September when it kicks higher before softening again in October and November.

“Edward R. Dewey, known to many as the father of cycles research, claimed cycles were the mysterious forces that triggered [news] events,” says cycles analyst and hedge fund adviser Jake Bernstein, who is positioning himself for surprise events next month. “September 14 to 17 is an historically important time frame for the movement of gold for a variety of reasons. There’s usually a very significant precipitous event. This year, September 15 is a Tuesday. Mark it on your calendar. I’m not psychic enough to know if this trade will work out this year but I have been talking about it since 1985 and it keeps on winning.” **BRW.**

David Coe