

## In This Issue

- [Economic Overview](#)
- [USA/Australia Free Trade Agreement](#)
- [Interest Rates](#)
- [Australia – High Economic Rating](#)
- [\\$874m of Wine Sold in USA](#)
- [Australian LNG to USA](#)
- [Monitoring Methane Gas](#)
- [Australian Dollar](#)
- [Record Share Market Day](#)
- [Inflation at 2.6%](#)
- [Foreign Investment in Real Estate](#)
- [US Commercial Service Web Site](#)
- [Contact Agar Carlyon](#)
- [Publisher's Details & Disclaimer](#)

### From the Editor's Desk

Welcome to a new year and the first "Agar Carlyon Report" for 2005. The Australian economy is moving into 2005 in a strong position but with a number of mixed messages. Inflation is still within the Reserve Bank's target range and unemployment is at a 30+ year historic low, yet most analysts predict a slowing of the economy during 2005. The A\$ continues to be strong against the US\$ making it harder for Australian exporters and further weakening balance of trade figures as imports continue to remain attractive. Many opportunities exist for US companies in Australia. And with the most important news being the commencement of the USA / Australia Free Trade Agreement (see page 2) on January 1, the outlook could not be better for companies doing trans-Pacific business.



David J G Taylor  
Editor

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### Australian Economic Overview

This month we report that the Reserve Bank of Australia (RBA) has kept official interest rates fixed at 5.25%, in comparison with the US Federal Reserve that on the same day (February 2) lifted rates 0.25% to 2.25%. There is a prediction that Australian rates will increase around mid-year – and then by only 0.25%. This is likely because of an increase in the inflation rate slightly above expectations in the December quarter and an increasing trade deficit. Imports rose 1.6% in the December quarter leading to an Australian trade deficit of \$2.6 billion.

There is an expectation that demand for resources will grow in 2005, helping to counter the otherwise worsening trade deficit. However, the Australian current account deficit of 6.5% of GDP is not considered overly alarming.

The \$A rose by 3.6% in the December quarter and still remains at a relatively high rate of US77.82 cents on February 2. This is continuing to make it hard for Australian exporters to build and maintain market share. The level of the exchange rate is due more to the drop off in the US market rather than any

underlying reason for a domestic strengthening the A\$. The expectation of some analysts is that the A\$ will be at around US72 cents in June 2005 and down to US68 cents by Christmas.

Retail sales have been up slightly – a bit below the expectation of most retailers. As reported in this Report, real estate sales remain strong, despite a slight flattening in prices. Other key expectations of some analysts are an annual growth rate of 3.2% for 2005, unemployment steady at 5.3% and inflation at around 2.9%.

[Top](#)

### **USA / Australia Free Trade Agreement**

The USA / Australia Free Trade Agreement (FTA) came into force on January 1st. If over the last month you have not given thought to how you should be capitalising on this agreement - you should start now.

Already a major promotion has been undertaken in LA, promoting the opportunities that the FTA will give Californian businesses which can look at exporting to Australia. The opportunities are endless.

Australia's trade facilitation service – Austrade - with partners from industry and federal and state governments, has been conducting a series of seminars to assist Australian businesses identify and secure opportunities in the vast US government market. Austrade estimates the US federal budget for technology procurement alone reached nearly US\$60 billion in 2004 with more than half this amount being spent on homeland security. Just as Australian exporters need to understand the challenges involved in doing business with US government agencies, including complex channels to market, strong competition and long sales cycles, so too will US companies need guidance in accessing the numerous opportunities now open to them in Australia. The Australian government, through Austrade is assisting Australian ICT and defence suppliers with advice on contacts, US regulatory procedures, registering as a government supplier, and the best ways of presenting their products to US government buyers.

Agar Carlyon is set up with an office in Sydney and colleagues in the US to assist companies in accessing the Australian market. As is well known, Australian companies have a good track record of developing innovative technology solutions and security products which have an excellent chance of interesting US government buyers. Agar Carlyon suggests that US companies look at the joint venture opportunities that could now be available. For further information on the Free Trade Agreement or any other aspect of accessing the Australian market, please email me at [editor@agarcarlyon.com](mailto:editor@agarcarlyon.com)

[Top](#)

### **Interest Rates**

On 2 February both the Reserve Bank of Australia (RBA) and the US Federal Reserve announced their latest interest rate decisions.

In Australia the RBA decided to leave the cash rate unchanged at 5.25%. Analysts expects a slight rise, probably just 0.25% within coming months. On the other hand, the US Federal Reserve has raised interest rates for the 6th straight time to 2.25%. Analysts expect the US rates to move gradually up to around 4%.

[Top](#)

### **Australia Ranked One of the Ten Most Economically Free Economies**

Australia is one of the ten most economically free economies in the world, according to a report from the The Heritage Foundation and The Wall Street Journal highlighted in a statement issued by the State of Victoria, Australia.

The Index of Economic Freedom is an annual ranking of countries worldwide with ratings that reflect analysis of 50 different economic variables grouped into 10 categories: banking and finance; capital flows and foreign investment; monetary policy; fiscal burden of government; trade policy; wages and prices; government intervention in the economy; property rights; regulation; and informal (or black) market activity.

Countries are rated one to five in each category, one being the best and five the worst. These ratings are

then averaged to produce the overall Index score. Overall, the scores of 17 countries in the Asia-Pacific improved while the scores of ten countries in the region declined. Hong Kong and Singapore remain the freest economies, with Australia and New Zealand are also in the top ten.

For the first time in the Index's eleven year history, the United States does not rank among the world's 10 freest economies despite its score remaining unchanged from the previous year. Improvements in the economies of Australia, Chile and Iceland enabled these countries to surpass the United States. According to the report, Australia was recently given accolades as one of the world's most entrepreneurial countries and one of the best destinations for a rich and relaxed lifestyle.

[Top](#)

### **\$874m of Australian wine sold in USA**

Australian wine producers had their best year ever in 2003-04 with a bumper grape harvest eclipsing the previous 2002 record, according to figures released last week by the Australian Bureau of Statistics. Overseas exports of Australian produced wine increased 13% on the previous year (584 million litres) with a total value of \$2,494 million. However, the average price per litre fell 9% to \$4.27 (down from \$4.67 in 2002-03).

The United Kingdom was the main country of destination for exports of Australian wine, taking 225 million litres (38%), followed by the United States of America at 175 million litres (30%). Other major markets included Canada (33 million litres), Germany (28 million litres) and New Zealand (27 million litres). In terms of the value of exports, the US market was the most lucrative at \$874 million while the UK was \$849 million.

The record grape harvest of 2.015 million tonnes was over a third higher (35%) than the drought affected previous year and exceeded the 2002 previous high of 1.754 million tonnes. The red grape crush benefited the most from the good seasonal conditions in 2003-04, with an increased crush of 38% (to 1.141 million tonnes). In comparison the white grape crush increased 35% (to 0.777 million tonnes).

The vintage grape crush reached a new record being well over a third higher (37%, up to 1.917 million tonnes) than the previous year and almost a fifth higher (19%) than the record set in 2002. Winemakers increased beverage wine production by over a third (35%) to a record 1,401 million litres. Table wine inventories rose by almost a fifth (18%) to 1,698 million litres at 30 June 2004.

Domestic sales of wine maintained steady growth rising 4% on the previous year to 417 million litres.

[Top](#)

### **Australian LNG to go to the USA**

The Australian potential to supply liquefied natural gas (LNG) safely and reliably into Mexico and the west coast of North America was the focus of a recent visit by Federal Industry, Tourism and Resources Minister, Ian Macfarlane.

While in Mexico and California, Mr Macfarlane met with key government and industry contacts to further promote Australia's long-standing record of competitively-priced, safe and reliable delivery of LNG to our overseas clients.

The US Department of Energy forecasts that natural gas consumption in the US will rise from 22 trillion cubic feet (Tcf) in 2003 to more than 30 Tcf per annum within the next 20 years, with LNG imports contributing nearly 6 Tcf.

Until now receiving terminals have been located on the east coast, but there is now a recognised need to build LNG receiving facilities on the west coast as well as opportunities to Australian companies. The growing demand for natural gas on the Mexican west coast also opens up major opportunities for Australian exports, with two LNG terminals proposed for Baja California receiving key government approvals.

[Top](#)

### **New Methods to Monitor Sheep Generated Methane Gas**

Research to reduce sheeps' production of methane - one of the most potent greenhouse gases - received a boost recently with the installation of new methane chambers at the Australian Commonwealth Scientific Industrial & Research Organisation (CSIRO) Livestock Industries' facilities in Perth, western Australia.

Shaped like cubicles, the see-through chambers enable researchers to accurately measure the continuous volume of methane produced by sheep over a 24-hour period. They have been operating efficiently for more than four months in a trial to measure the response of sheep to products designed to reduce methane gas emissions. Designed and developed by CSIRO Livestock Industries, the new chambers will be available for use for other research projects both within and outside CSIRO.

Livestock account for 12% of Australia's man-made greenhouse gases and similar levels in other countries.

[Top](#)

### **Australian Dollar**

On February 3 the A\$ was trading at US77.82cents. The A\$ had been steadily rising against the US\$ over the past month but is slightly down on its December 2004 level. The rise in the A\$ reflects the weakening of the US\$ due to various US domestic economic factors – more than the strength of the Australian economy. However, the strengthening A\$ will make it harder for Australian exporters to remain competitive in world markets.



[Click here to check current A\\$ v US\\$ exchange rate](#)

Source – FutureSource.com

[Top](#)

### **Australian Share Market Has Record Day**

The Australian stock market recorded its best day's gain in two years on 27 January as a result of a resurgence in investors' confidence in both banking and resource stocks. There is an expectation that the economy might slow over the coming year, but that the strength of these two sectors will deliver good returns. The two year spike was also on the back of a bullish few days on the NYSE. Banks and resources are being seen by analysts as ones that will improve over the year

[Top](#)

### **Annual Inflation Rate Now 2.6%**

The Australian Bureau of Statistics has announced that the Consumer Price Index (CPI) – the main measure of inflation - had risen 0.8% in the December quarter. The increase is double that recorded in the September quarter, and compares to an anticipated rise of 0.6%. Australia's annual inflation rate now stands at 2.6%, the highest it has been since the September quarter of 2003. This is still within the Australian Reserve Bank's 2 to 3% target range. With what could be generalised as "moderate" inflation, the Australian economy remains very strong and with the lowest unemployment rate in around 30 years.

For the final months of 2004, the Bureau of Statistics said the cost of living was pushed up by higher house purchase costs, petrol, cars, domestic travel, rent, fruit, beer and restaurant meals. The CPI results have again raised expectations that official interest rates might be raised during 2005, to dampen the economy slightly.

[Top](#)

### Foreign Investment in Australian Real Estate

The latest issue of "Real Estate Update" issued by the Real Estate Institute of Australia carries an interesting lead article on foreign investment in Australian real estate. The article is reproduced below.

"Australian real estate continues to be the principal sector for foreign investment in Australia, according to the 2003-04 annual report of the Foreign Investment Review Board, released this month. Total foreign investment in real estate increased from \$21.9 billion in 2002-03 to \$28.7 billion in 2003-04.

In 2003-04 there were 114 approvals for foreign investment in commercial real estate valued at \$10.43 billion.

There were 3945 approvals for foreign investment in residential real estate, with a total value of \$18.31 billion. Of these 574 proposals were for "off the plan" purchases, valued at about \$300 million, as well as 292 applications by developers for advance approval to sell property off the plan. There were 28 fewer approvals compared with the previous year, but the value rose by \$ 3 billion to \$9.1 billion.

The main location of proposed investment in Australian real estate is Queensland, which attracted 38.6% of total by value, compared with 23.7% in 2002-03. The value of investment in residential real estate was \$7.28 billion. Western Australia experienced a significant increase to 17.1% of total investment by value, up from 6.2% in 2002-03. The value of investment in residential real estate was \$4.36 billion.

Foreign investment in NSW real estate fell to 27.1% of total by value, down from 39.6% in the previous year. The value of investment in residential real estate was \$4.08 billion. Foreign investment in residential real estate in other states / territories included: Victoria \$1.32 billion, South Australia \$0.1 billion, Tasmania \$0.03 billion; ACT \$0.07 billion and Northern Territory \$0.01 billion. Singaporeans were the most significant investors in Australian real estate, with approvals valued at \$3.37 billion. Other investors were from the United Kingdom (\$2.288 billion); United States (\$1.629 billion); Malaysia (\$1.065 billion); Japan (\$906 million); Germany (\$898 million); other European Union countries (\$481 million) and China (\$121 million)."

The Real Estate Institute of Australia can be contacted via [www.reia.com.au](http://www.reia.com.au)

[Top](#)

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[Top](#)

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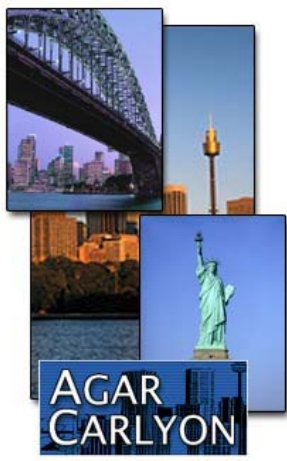
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[Top](#)