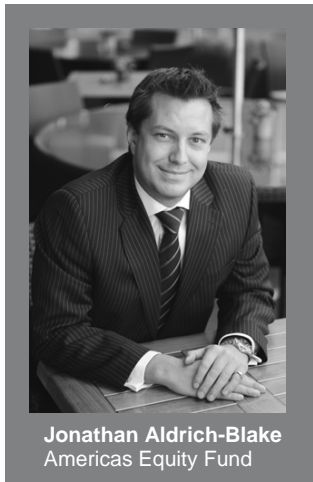


23 November 2009



Obama's Freshman Year

President Barack Obama has just passed the one year anniversary of his election. Having been given the hospital pass from George Bush, what has he achieved in his freshman year in office? Undoubtedly, his Everest to climb is the problems that face the US economy. When he won the election unemployment was rising, Lehman's had gone bust, AIG had been bailed out, the credit markets were frozen and the housing bubble had burst. Not to mention the international bridges that had been burnt over the past several years.

While elected on 4 November 2008, he did not take office until 20 January 2009. One of his first moves was to freeze the salaries for all top White House staff members. While it had no real material impact, and largely a symbolic act, it put him in good stead.

Other than the fiscal stimulus and TARP (Troubled Asset Relief Program) funds given to the banks, there have been other packages to aid the shrinking economy, namely the "cash for clunkers" and home buyer tax credit. The cash for clunkers incentive was an attempt to revive the failing US auto industry, with both GM and Chrysler having filed for Chapter 11 Bankruptcy Protections. The bill also provided incentives to promote greater fuel efficiency to reduce the nation's addiction to oil. The scheme was so successful they had to extend initial funding. Many critics merely saw this as a temporary fix, and stealing orders from the future. But with Ford recently posting a profit, and GM now looking to keep hold of its international brands, it appears to have stemmed the bleeding. While Detroit may never be the same production power house it once was, we think it should certainly survive and return to profitability.

The current homebuyer tax credit is due to expire at the end of November, with many looking for an extension. The current state of US housing, while stabilising, is not sitting pretty. There are unprecedented levels of housing inventory (around 4 million homes) and with many believing that there is a "shadow" inventory of roughly the same again. This hangover is the result of extended lax lending standards and the nation living beyond its means. While we believe the worst has passed for the US housing market, it will take some time for supply to return to normal levels, and will be a drag on the economy until it does.

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One of Obama's bigger pledges was to reform the healthcare system and extend affordable health cover to the nation. There has been a lot of horse-trading in Congress, and no end of trouble in getting agreement. We are still waiting for the detail. However, the main thrust is to make insurance companies more accountable and to extend greater cover, such as to disregard previous health conditions and to protect participants with chronic health conditions. Further emphasis is to be put on employers to be dutiful in extending cover to families. Initiatives such as broader use of generic drugs and upgrades in IT systems to improve efficiency seem to be making ground. The cost of this healthcare reform is thought to be in the region of \$50-\$65 billion per annum. This is not an insignificant sum of money, which is looking to be funded by improving efficiency and by taxing high income earners.

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While unemployment is still increasing, the rate at which it is rising has slowed, and it is well understood to be a lagging indicator. It is thought that the effect from the full stimulus package should reduce unemployment by around 2%, but with a lot of the cash still to be deployed, it will take time to filter through the system. We have started to see the temporary employment numbers expand, which is normally a precursor to an improvement in wider employment trends. We believe that this will be of primary importance in bringing about the return of the consumer and the resultant rate at which the economy recovers.

Looking forward, there are several factors that we believe will define his time in power, be it one or two terms. Apart from how the economy recovers and the levels the fiscal and budget deficit reaches, with many believing the strategy will be to inflate their way out of debt, there is the issue of the war, which is now arousing public scepticism. Looking to the long-term, his policy on renewable energy is proactive, far more so than previous administrations whose concern was on securing oil reserves for the future, rather than trying to create a nation that is energy independent. In the shorter-term, to secure a second stint at the helm, he will need to rebuild trust in regulation of the system that has controlled the headlines of recent.

Overall we are at the preliminary stages of his presidency and it will take time to see the fruition of many of his initiatives. Not to mention future hurdles including the unprecedented levels of debt that the government now faces. But the current administration has made it clear that it will do whatever it

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takes to get the US to pull through. Obama has a good team around him, especially with Ben Bernanke taking charge of the Federal Reserve, a disciple of the great depression. The President has himself said "the steps we've taken have made a difference, but I also know that we've got a long way to go to restore our economy".

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