

18 March 2009

The post-financial crisis world

Outlook for the economy and markets

Prepared for AMInstitute National Conference Trade Exposition

Monday 16 March

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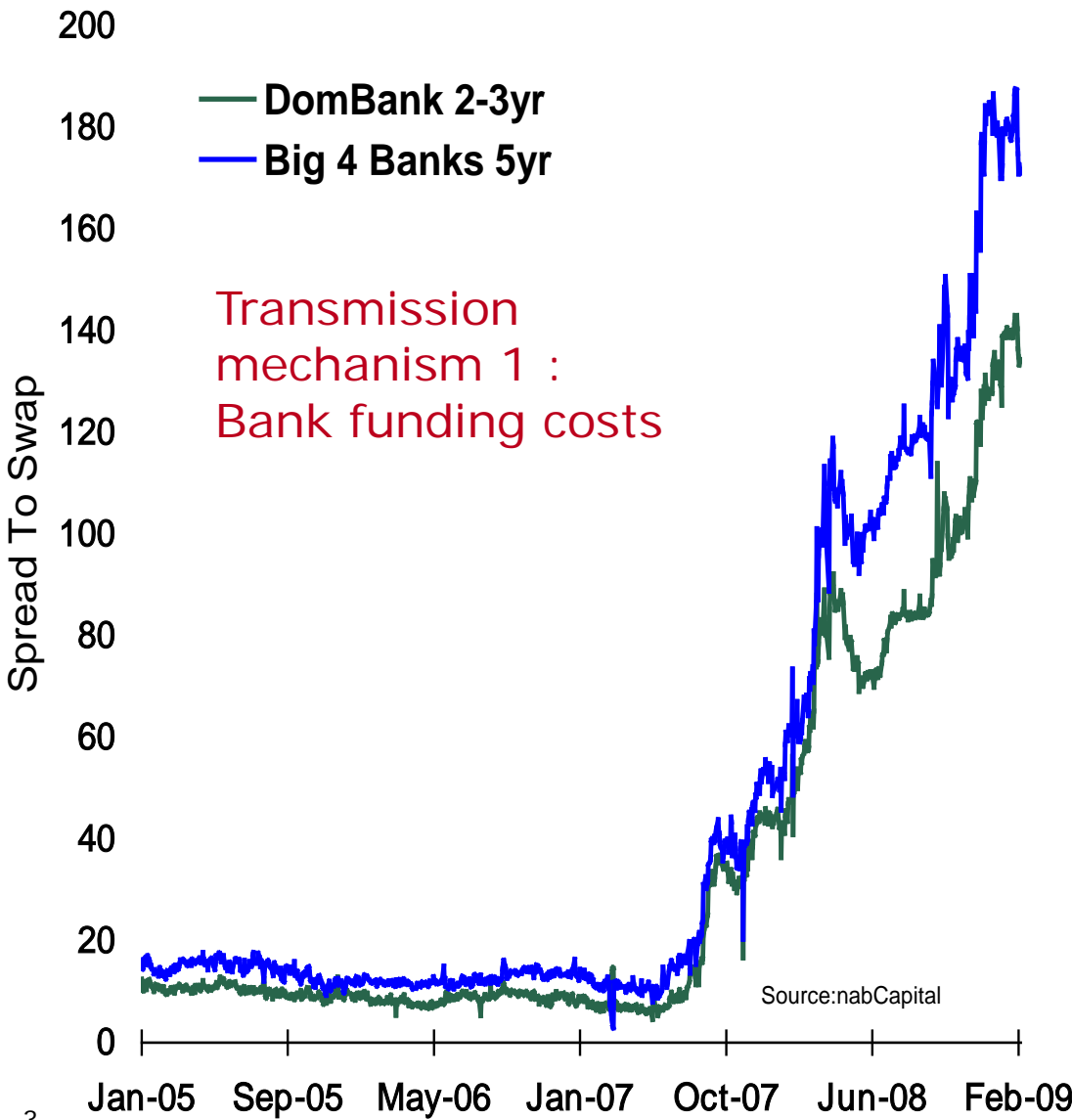
Part I

Global financial crisis

Implications for Australia



In Aust, securities guarantee is working... but cost of money still high

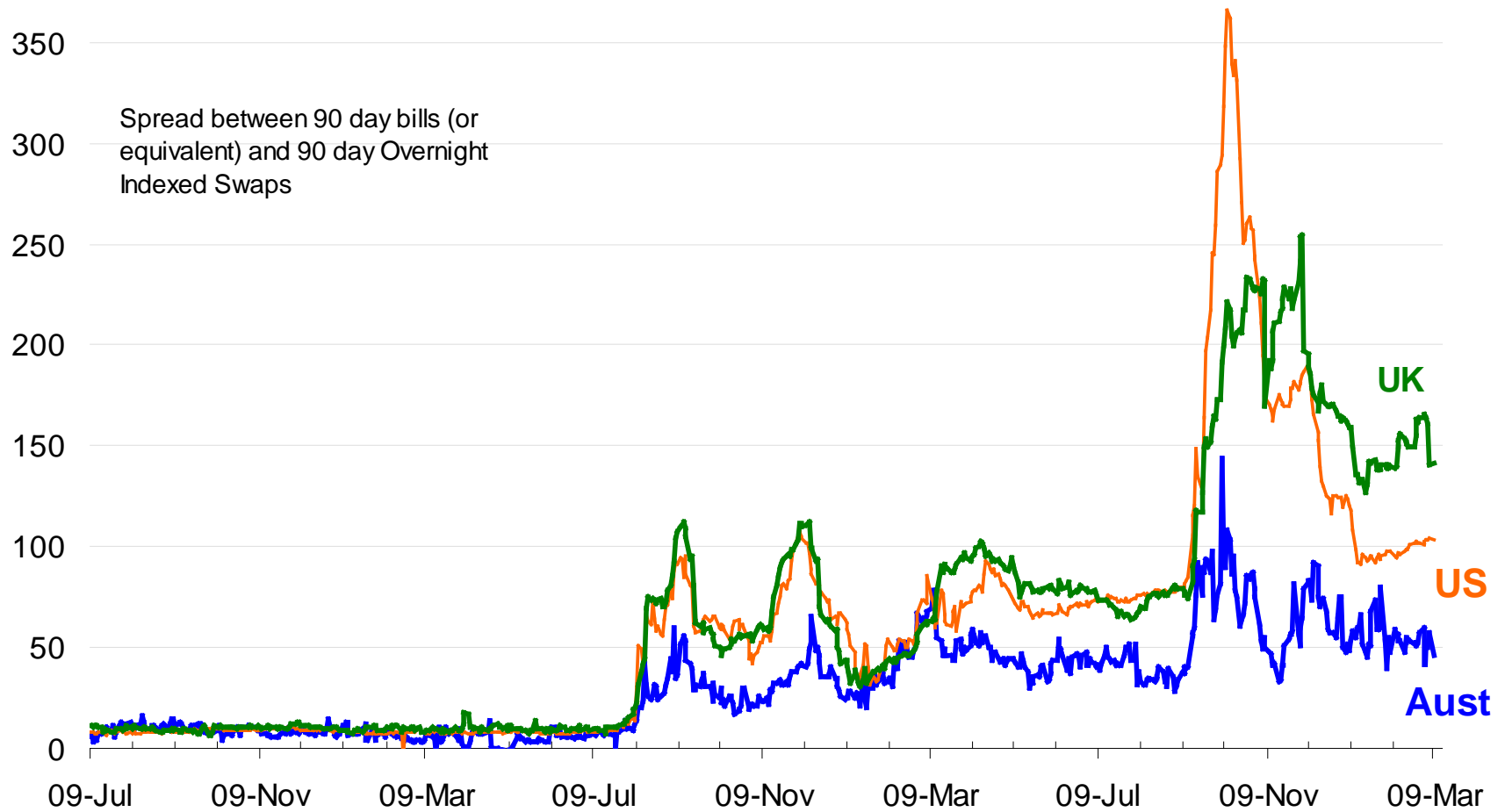


December: Gov't guaranteed money @ +190bps for 5 yrs (includes 70bps insurance)
 NAB: \$1.8bn
 CBA \$2.2bn

Latest: @ +140bps for 5 yrs (includes 70bps insurance)
 NAB: \$0.5bn on 6 Feb
 ANZ: \$0.85bn on 29 Jan
 WBC: \$1.9bn on 26 Feb

The cost of short term funds also improving... still elevated

Price of Liquidity for Banks



Sources: Bloomberg, nabCapital Research

Stock markets pricing severe recession....Eroding wealth

Transmission
mechanism 2 :
Stock markets

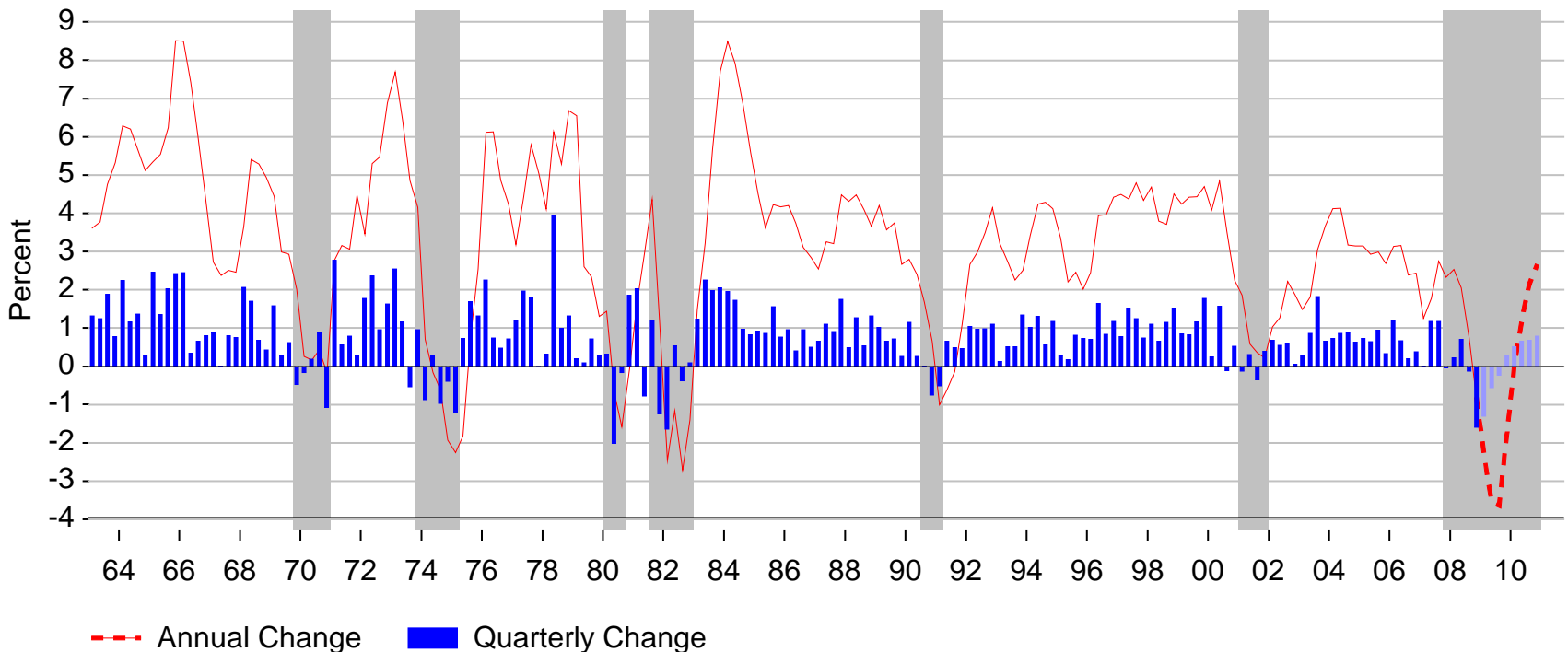
Stock markets pricing the worst times over past 80 years

Global trade drying up.... Triggered by deep US recession

Transmission
mechanism 3 :
Falling exports

US GDP

Quarterly and annual changes



Source: nanCapital Research, Reuters EcoWin

China's export drop hit production & hence commodity demand

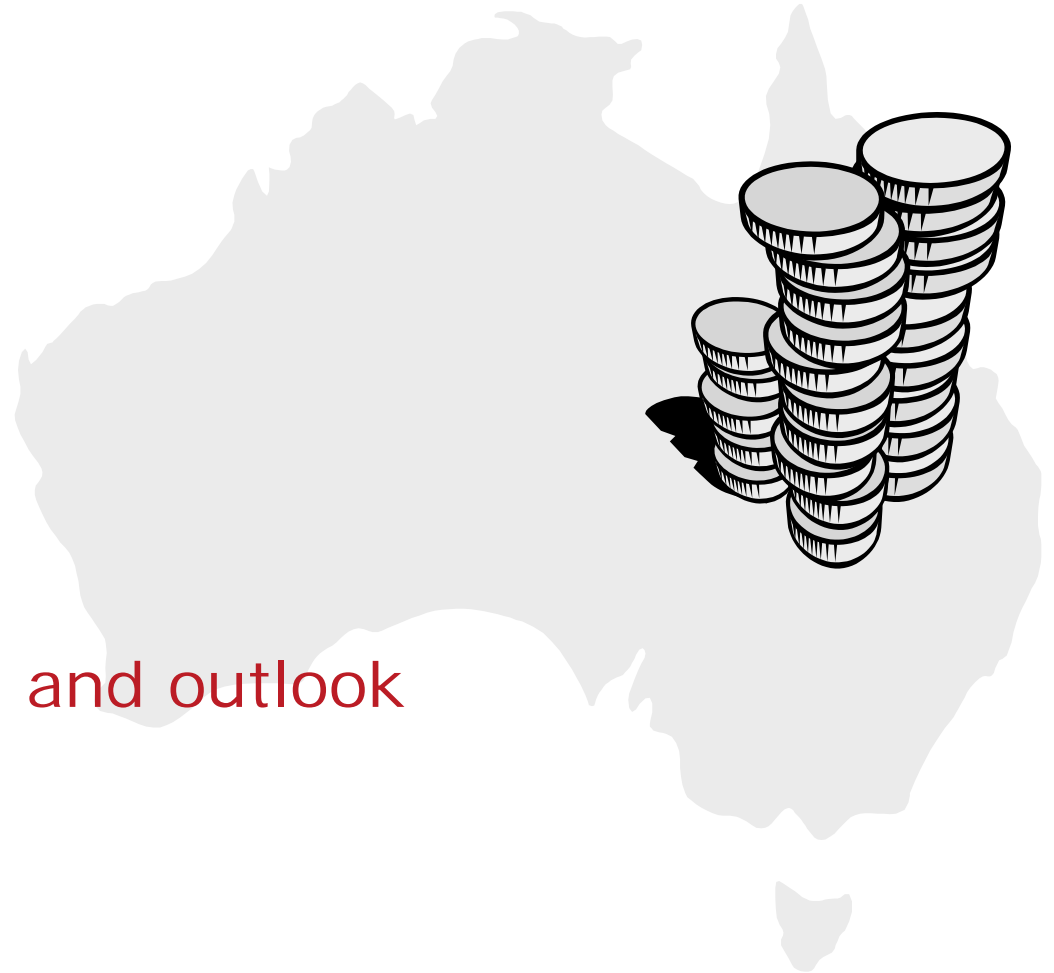
Recession year in 2009... Asian downturn bad news for Aust

Summary World Economic Forecast Table

GDP Growth (Ann av %)	2007	2008	2009 (f)	2010 (f)
Australia	4.0	2.3	-1.0	1.0
New Zealand	3.2	0.3	-0.9	2.3
US	2.0	1.2	-2.8	1.5
Japan	2.4	-0.6	-3.4	1.5
UK	3.0	0.8	-2.6	1.4
Eurozone	2.6	0.7	-3.8	0.4
India	9.3	7.6	5.4	5.7
China	11.8	9.5	6.2	6.9
Korea	5.0	2.5	-4.8	2.3
Taiwan	5.7	-0.5	-6.5	2.2
World	4.9	3.2	-1.0	2.3

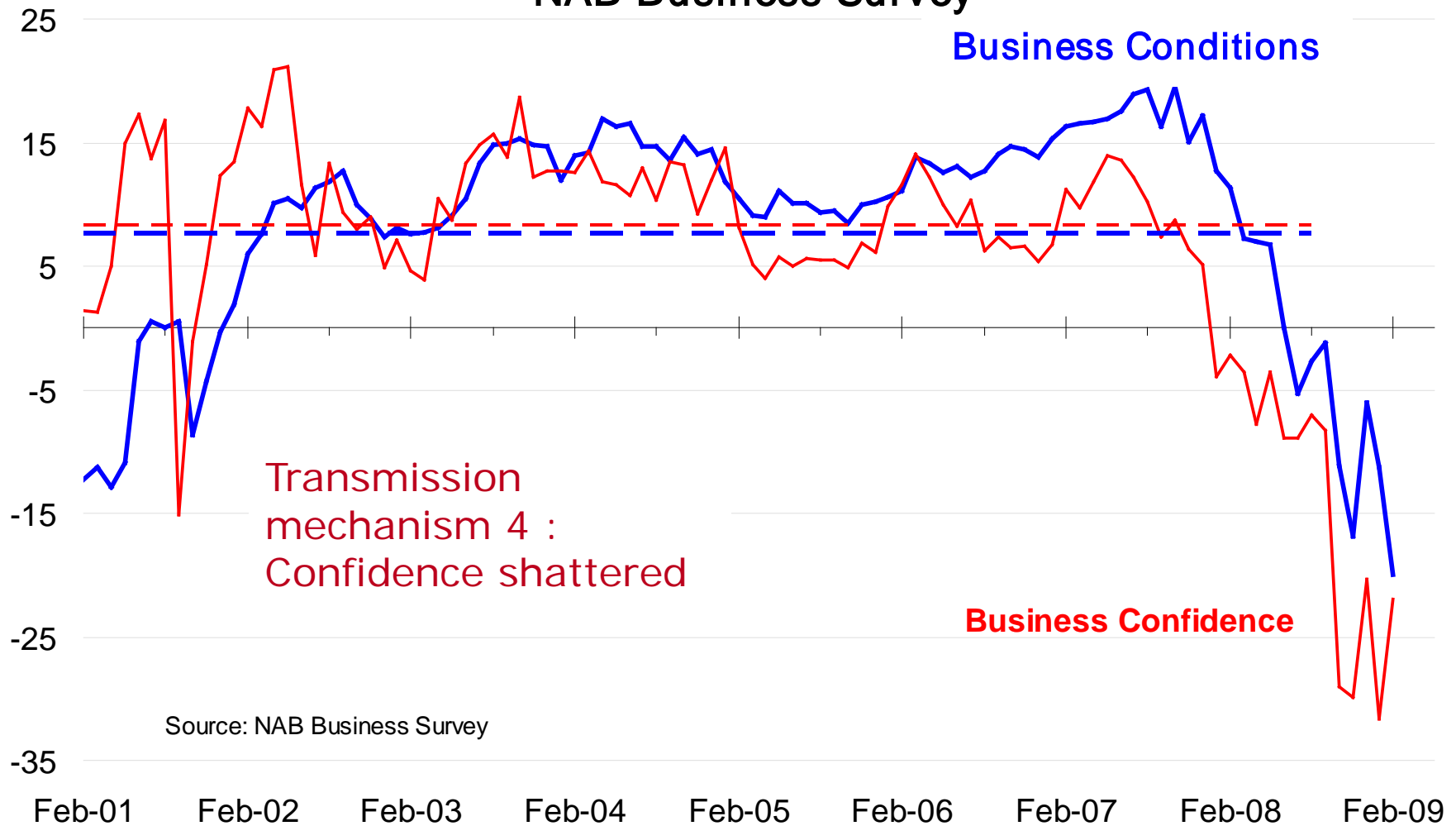
Part II Australia

- Economic conditions and outlook



February results show Conditions falling and Confidence weak

NAB Business Survey



Source: NAB Business Survey

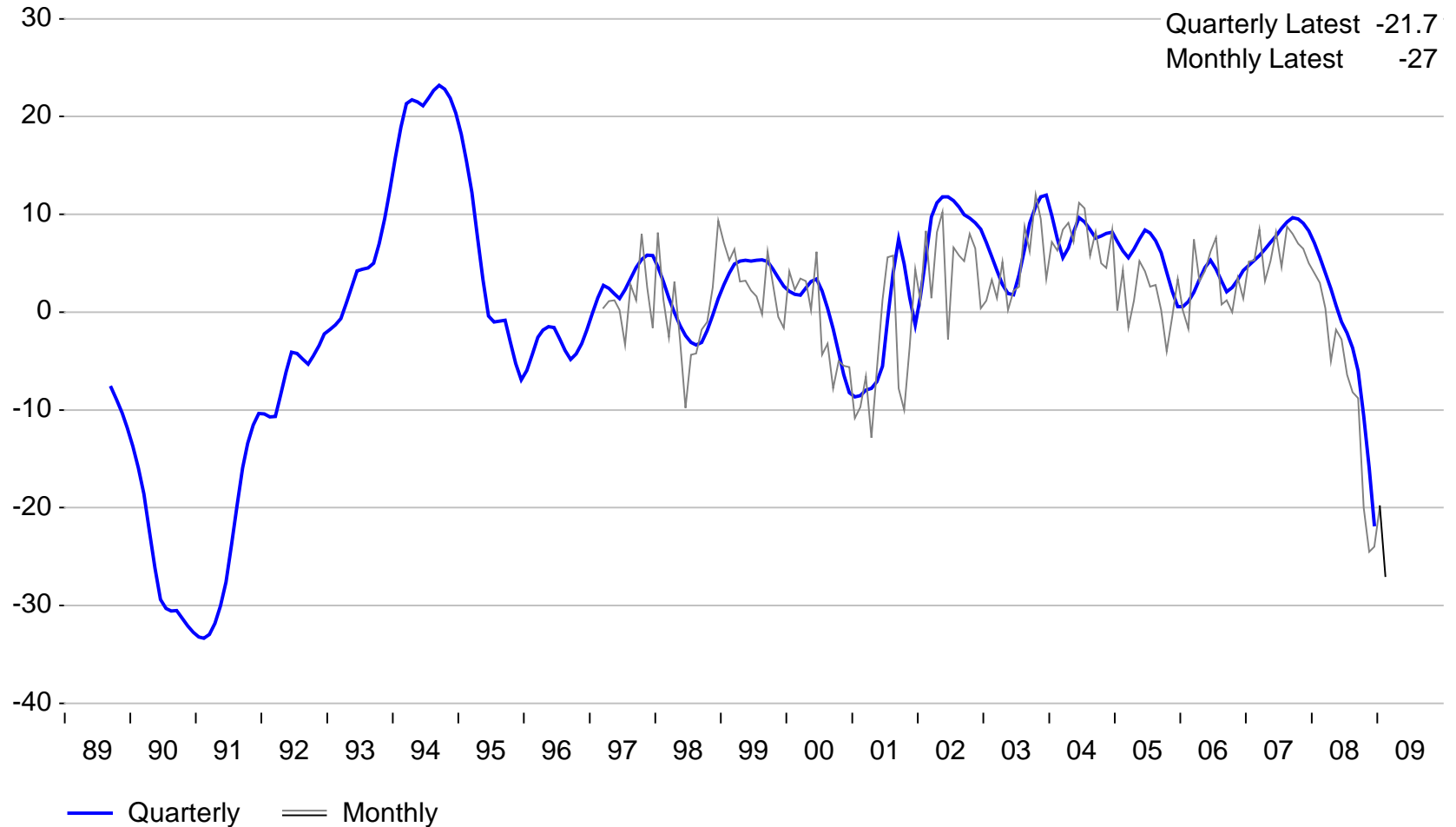
Transmission mechanism 4 :
Confidence shattered

Business Confidence

Business Conditions

Key concerns in NAB Survey is Forward Orders

NAB Business Survey Forward orders

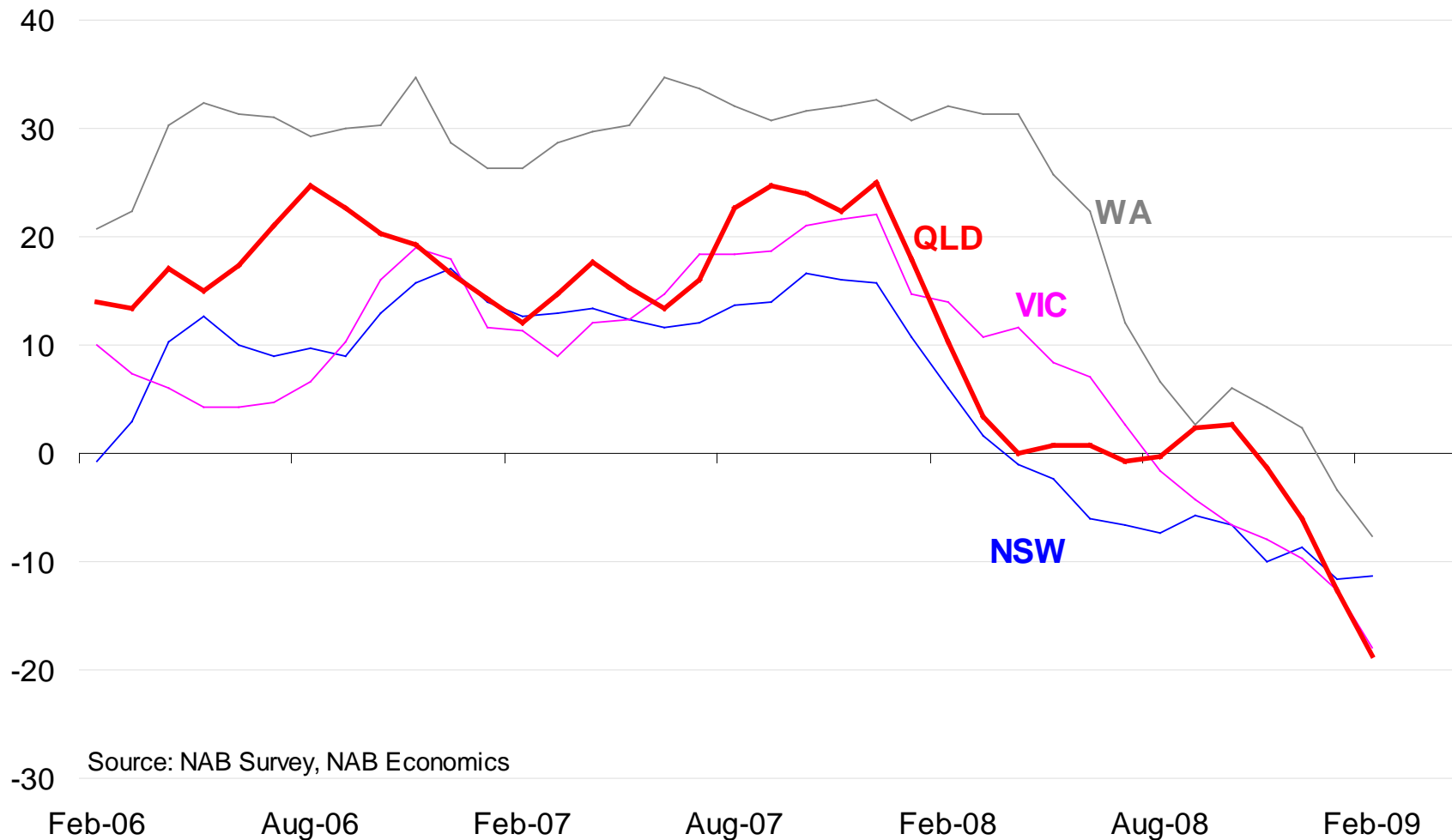


Source: Reuters EcoWin, nabCapital Research

Exports have fallen off a cliff in 2009

All States caught by the downturn: Resources no panacea

Business Conditions by State, 3 month average

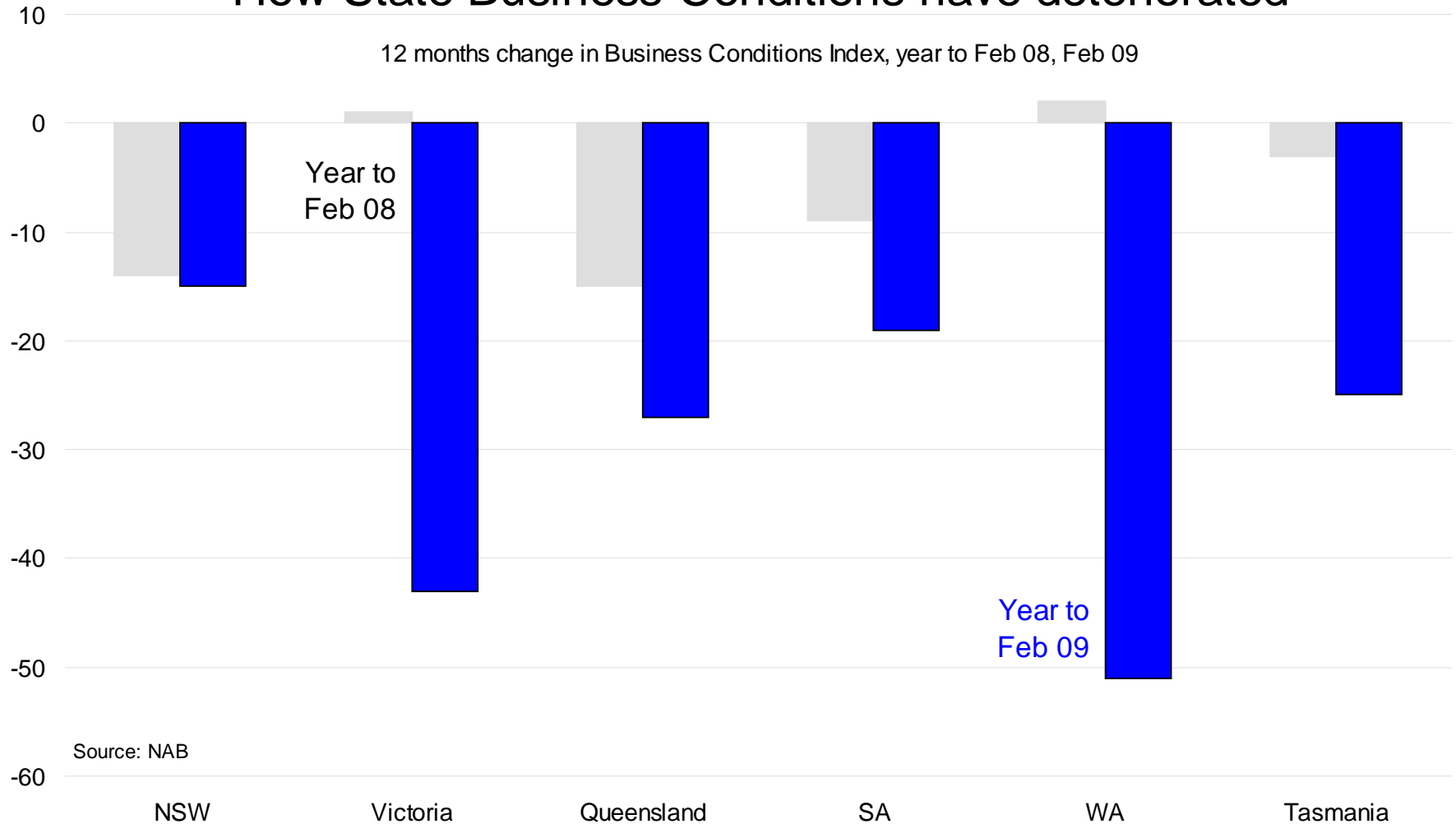


Source: NAB Survey, NAB Economics

Resource rich State fairing badly, as lower exports fall

How State Business Conditions have deteriorated

12 months change in Business Conditions Index, year to Feb 08, Feb 09

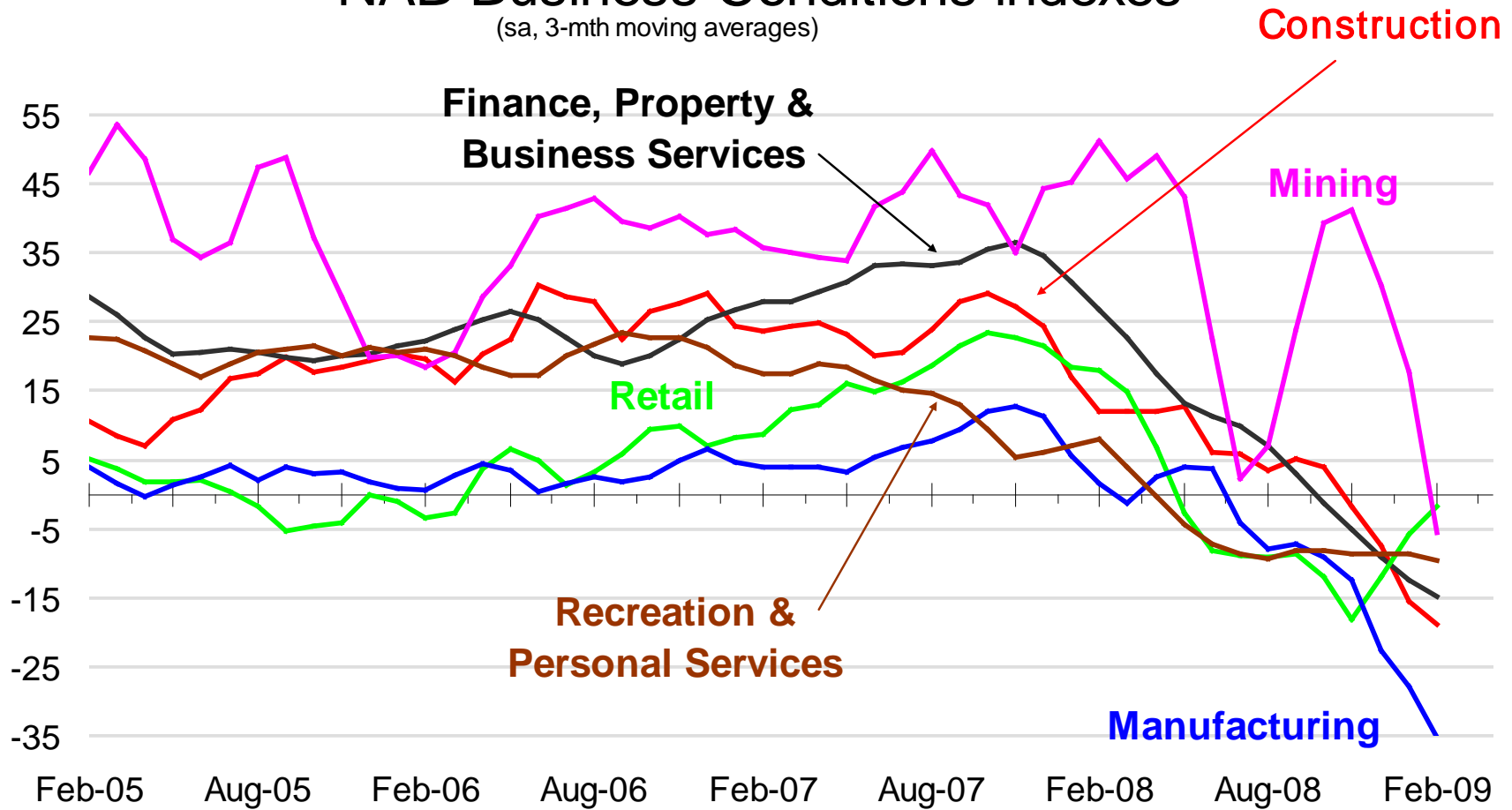


Source: NAB

Most industries doing it tough, even mining contracted in Feb

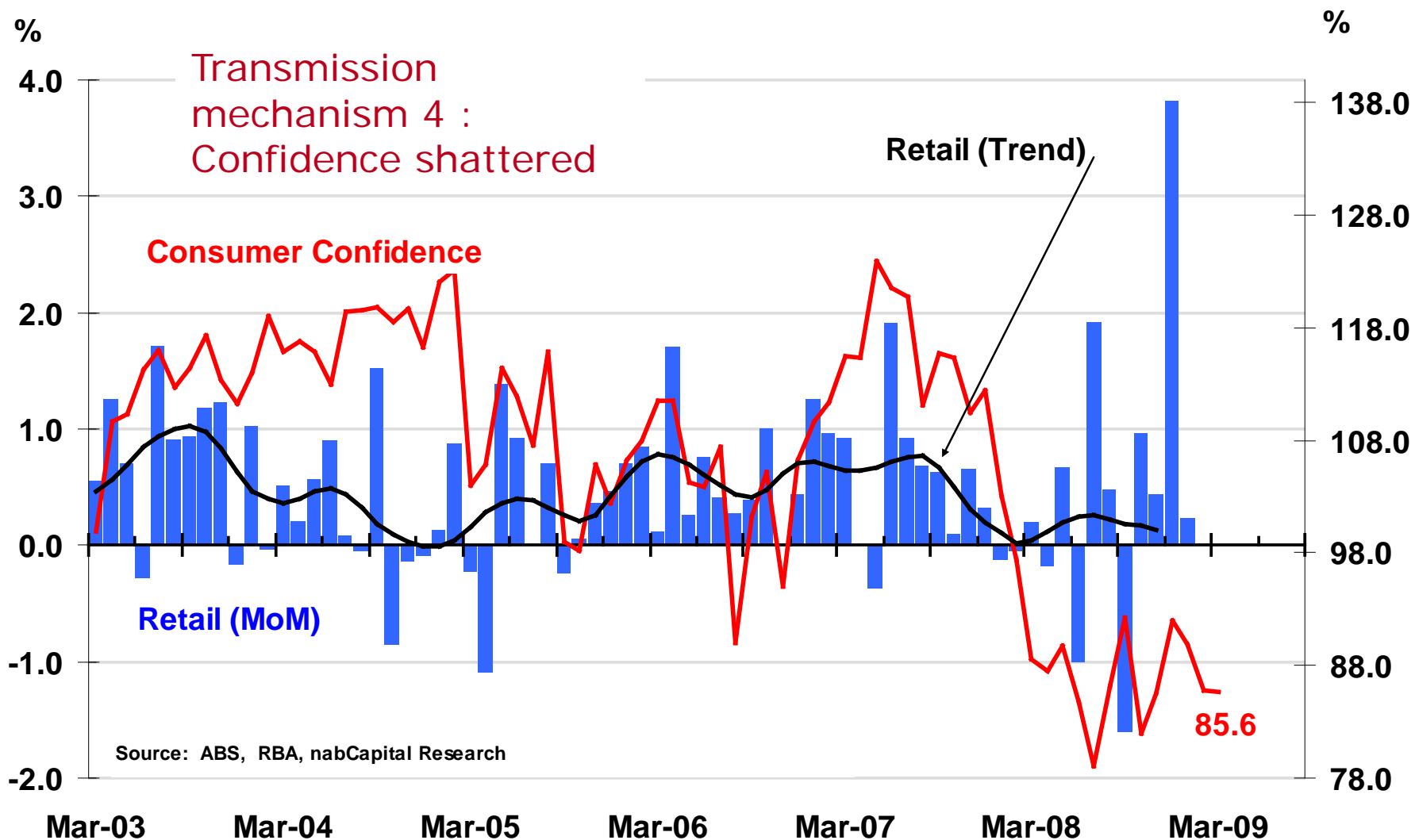
NAB Business Conditions indexes

(sa, 3-mth moving averages)



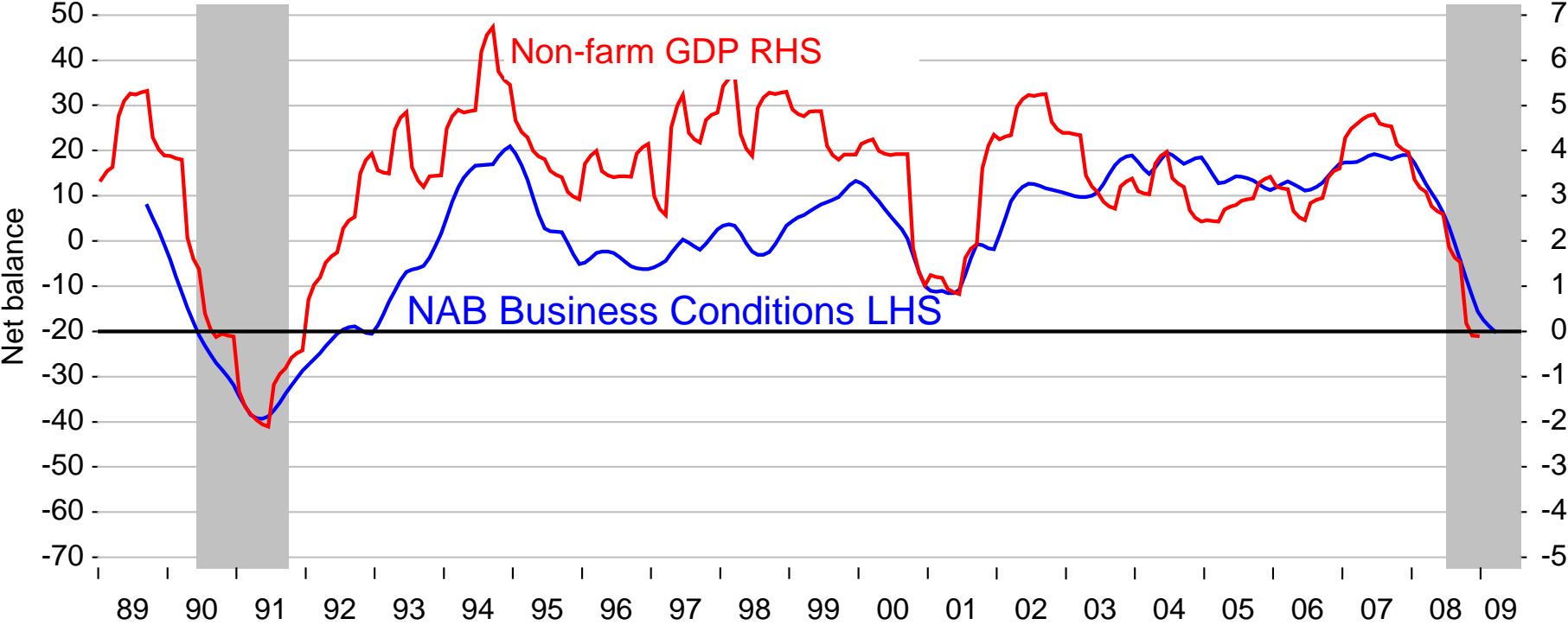
Source: NAB Business Survey

Retail benefiting from fiscal stimulus, rates, petrol; confidence poor



Economic implications: Conditions signaled recession

Aust: NAB Business Conditions vs GDP growth Index; annual % change



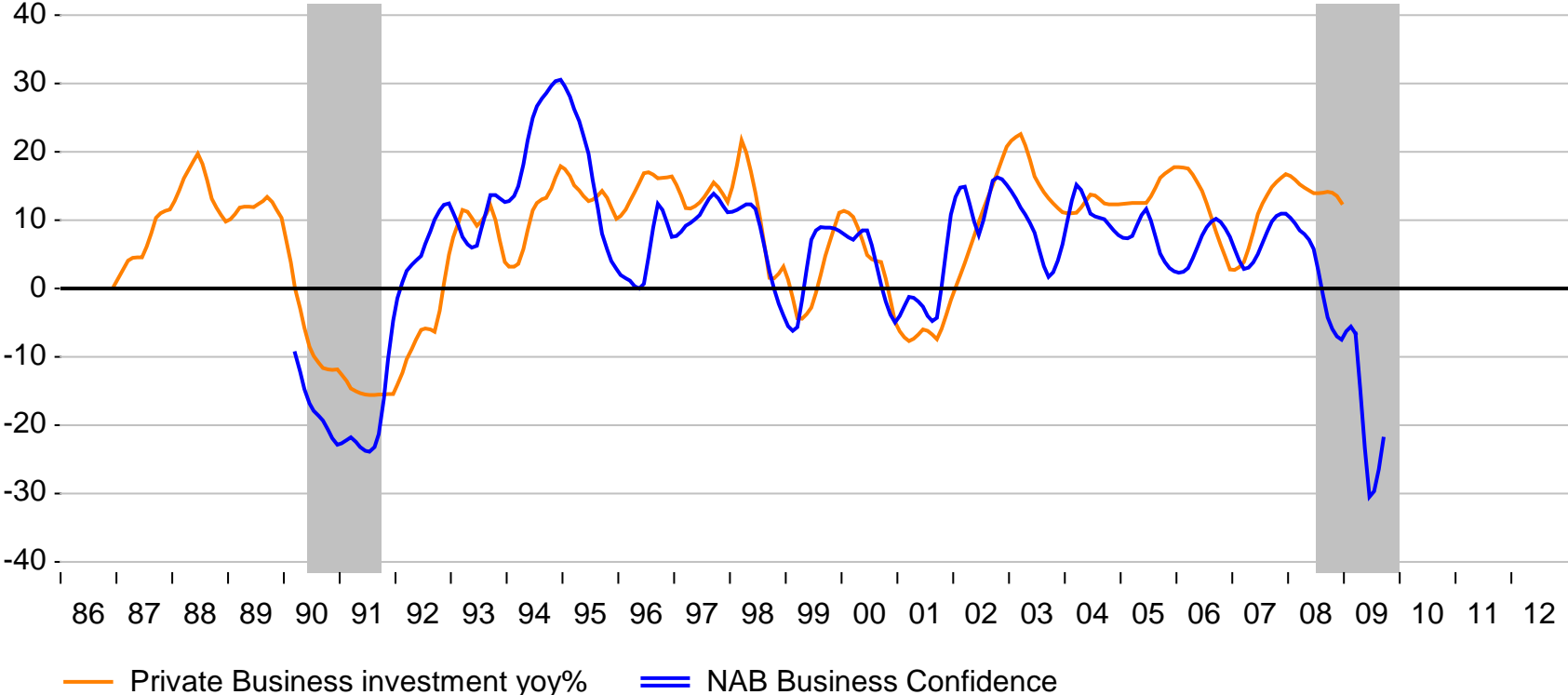
Source: nabCapital Research, Reuters EcoWin

Economic implications: Unemployment deluge about to hit

- NAB data points to employment falling by 1½%yoy by June
- Implies emp falls from 10.7mn in Jan to 10.5mn by June: -200K
- An average of -40K per month over next 5 months

Economic implications: Big dip in investment coming

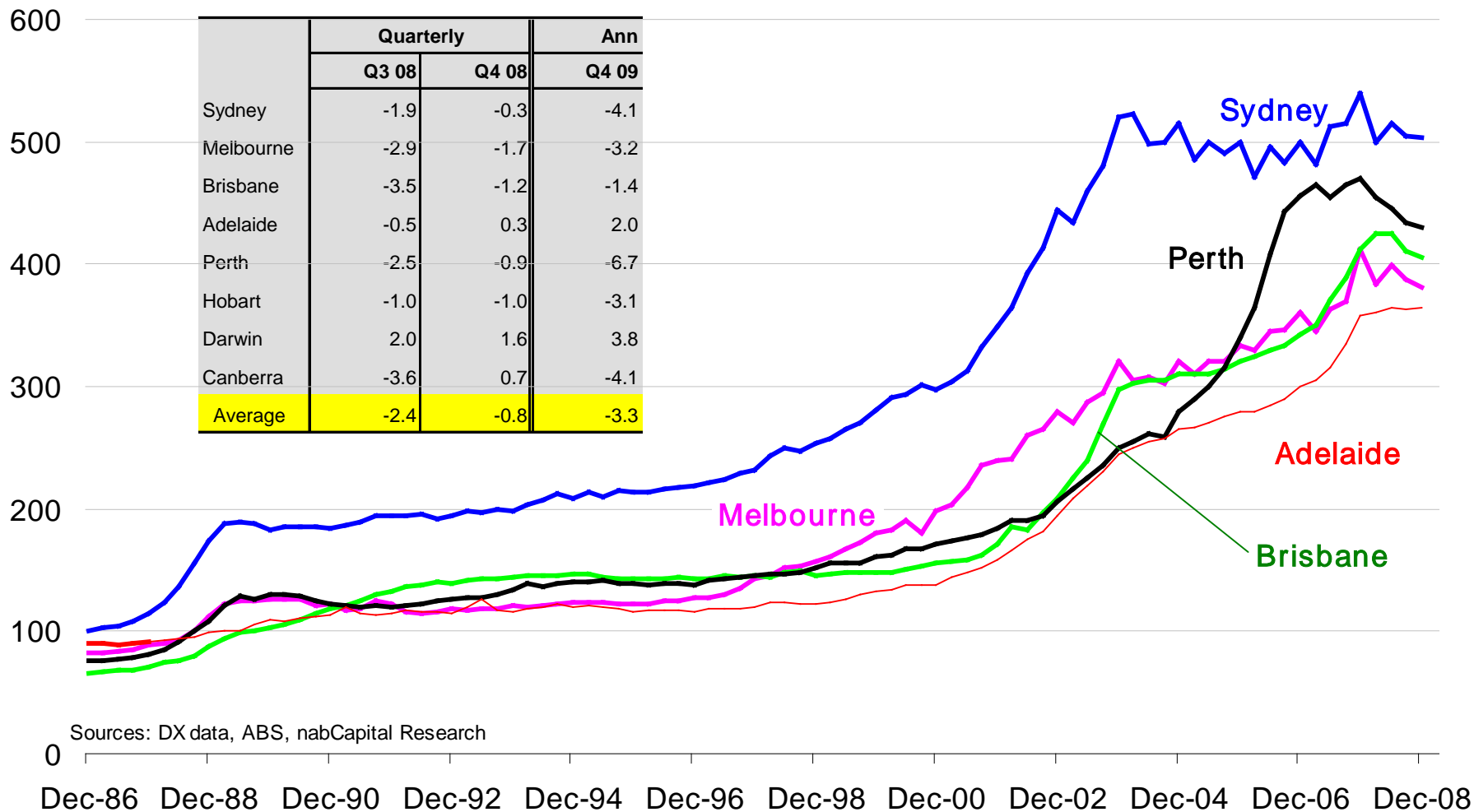
NAB Business Confidence & Business Investment



Source: Reuters EcoWin

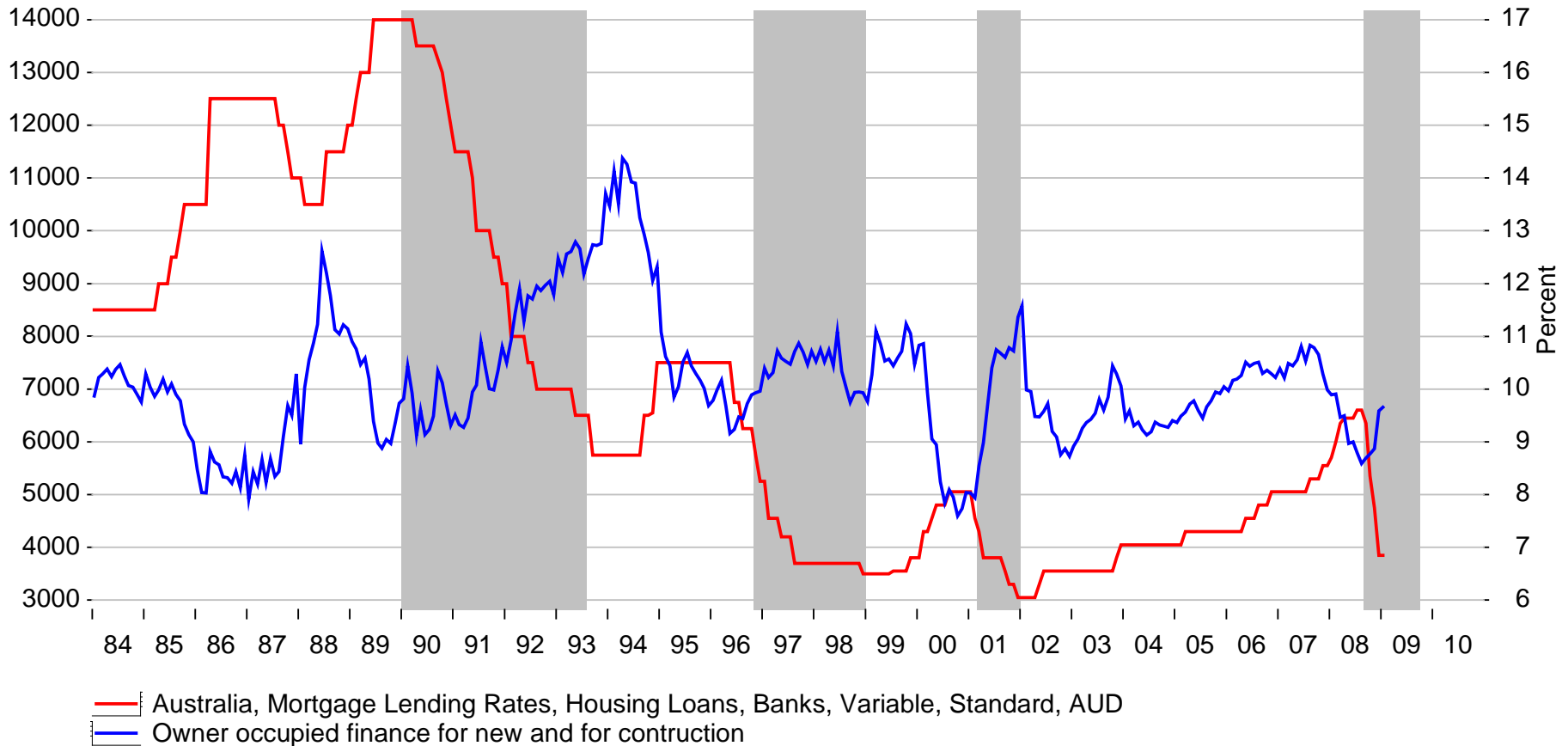
RBA rate hikes designed to slow demand down.....It worked....

Established house prices, \$'000



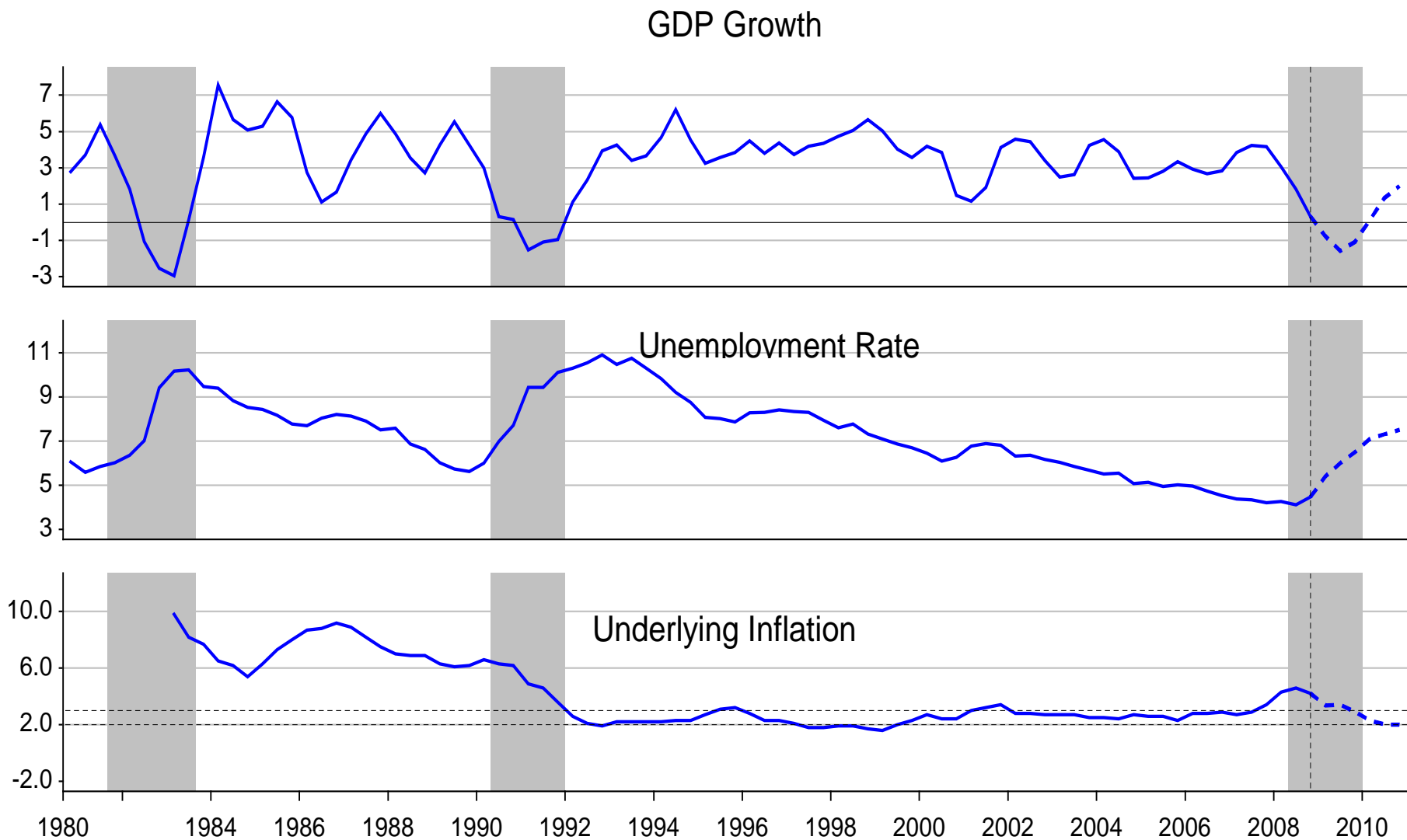
Approvals still awful but lending starting to rise

Aus: New dwelling finance and mortgage rates
Number, rate



Source: Reuters EcoWin

Aus forecasts: moderate recession; rising jobless; falling inflation



Source: ABS and NAB

%



Part III

Markets in turmoil

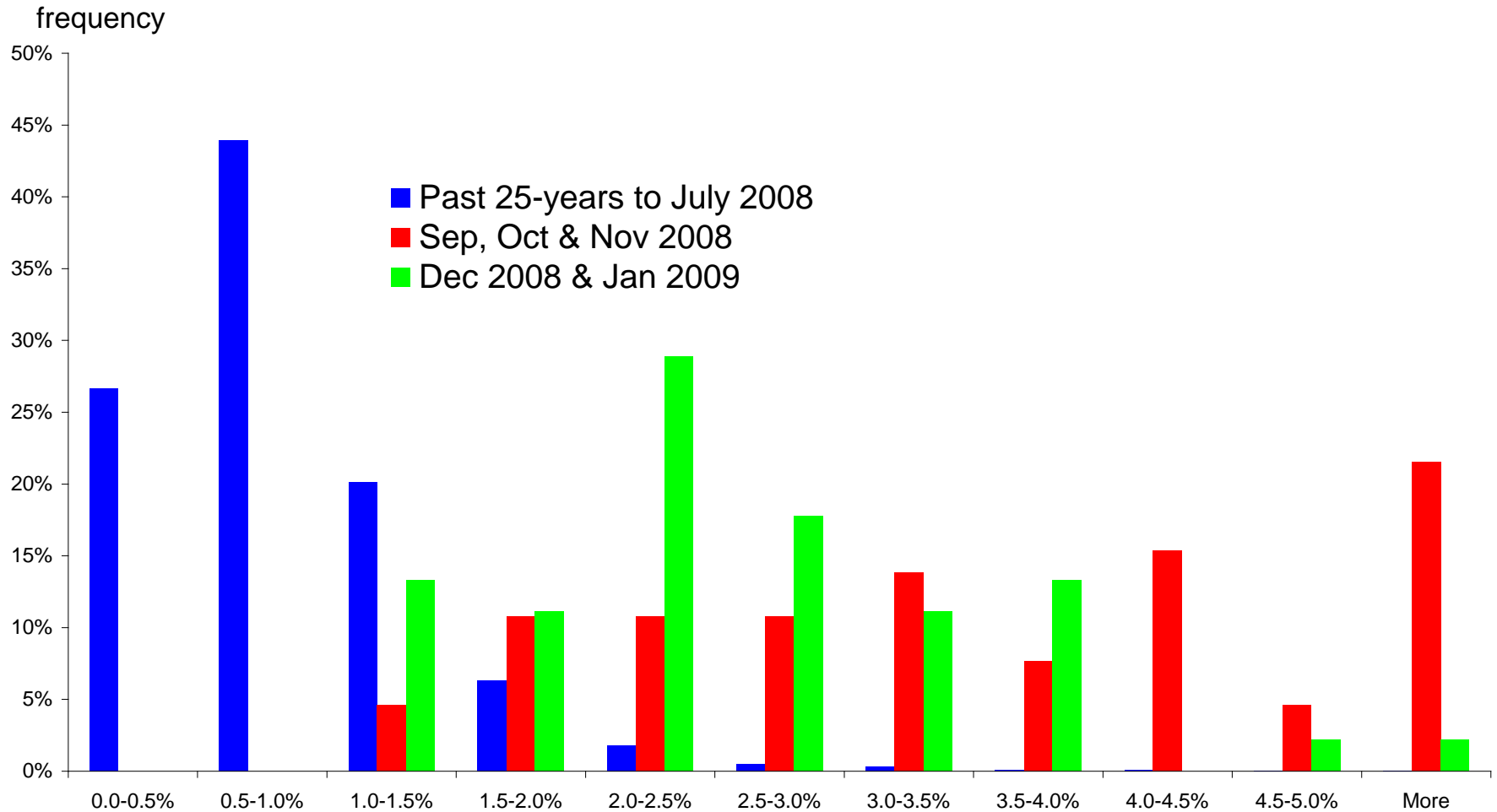
- How bad; What's ahead?

RBA decides to pause.... Our view: more to come

- RBA has cut aggressively
 - 400bps in the 5 months September to February
 - unprecedented urgency
- Inflation coming back more rapidly than RBA previously forecast
- Policy now clearly accommodative and some runs on the board
 - Housing lending rising, particularly for first home buyers
 - Business credit growth bounced and 30% investment allowance working
 - Retail sales bounced in December 3.8% and held up in November
 - GDP not collapsing, but weak
 - More fiscal stimulus from February package in the pipeline

Australian dollar: volatility unprecedented in recent months

Distribution of daily AUD/USD range



AUD outlook summary: Volatility to continue but trend higher

- The currency has fallen spectacularly over the past half year
 - The peak was at 0.9850 on 15 July
 - Low so far has been 0.6009 (27 Oct)
 - Recent high 0.7268 on 7 January
- The fall reflected
 - Plunging commodity prices; downgraded forecasts for Aus and global growth; steep RBA rate cuts; and investor risk appetite drying up

AUD outlook summary: Volatility to continue but trend higher

- The likely trough was at US60¢
 - FX pricing deep recession, complete commodity price reversal
 - RBA intervention is usually profitable; RBA buying at US60-63.5¢ late in 2008
- Currency to move higher during 2009
 - RBA rate cuts will end late 2009, leaving AUD with yield advantage
 - Investor sentiment about the outlook will improve
 - Commodity prices above long run averages
- Near term, AUD probably capped at around 67¢
 - Stock markets in decline and investor risk appetite low
 - But rate differentials could limit the downside

The numbers.....

	2007	2008	2009	2010
Economic Activity				
Australia	4.0	2.3	-1.0	0.9
US	2.0	1.2	-2.8	1.5
Eurozone	2.6	0.7	-3.8	0.4
China	11.8	9.5	6.2	6.9
World	4.9	3.2	-1.0	2.3
Australia Other				
Underlying inflation	3.1	4.4	2.9	2.0
Unemployment Rate	4.4	4.2	5.7	7.2
Current Account (% GDP)	-6.3	-4.2	-7.0	-6.4
	Now	2009	2010	
Markets - period end				
RBA Cash Rate	3.25	2.00	3.00	
Fed Funds Rate	0.25	0.13	2.00	
3 Year Swap Rate	3.40	3.7	5.3	
AUD/USD	0.63	0.76	0.78	

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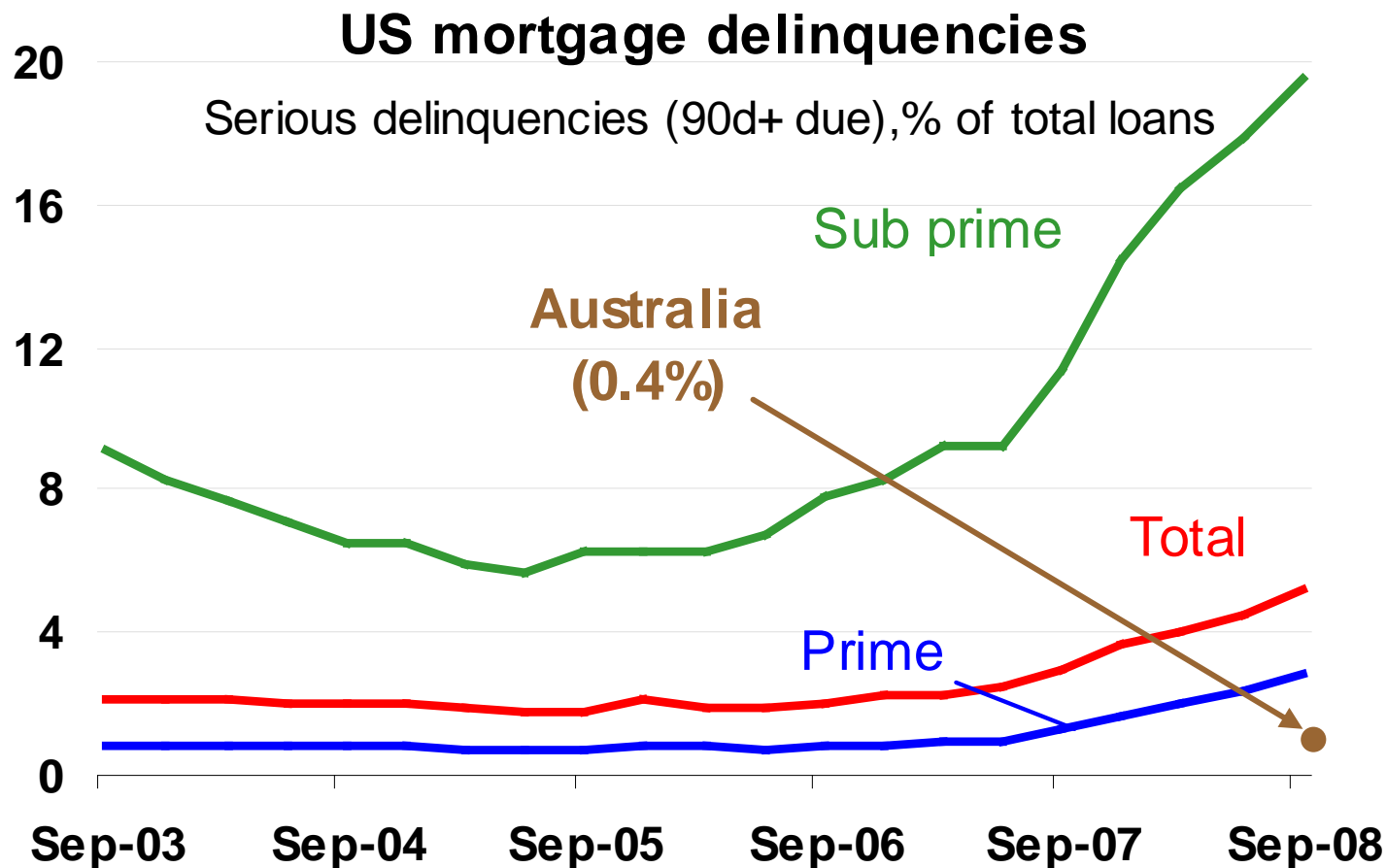
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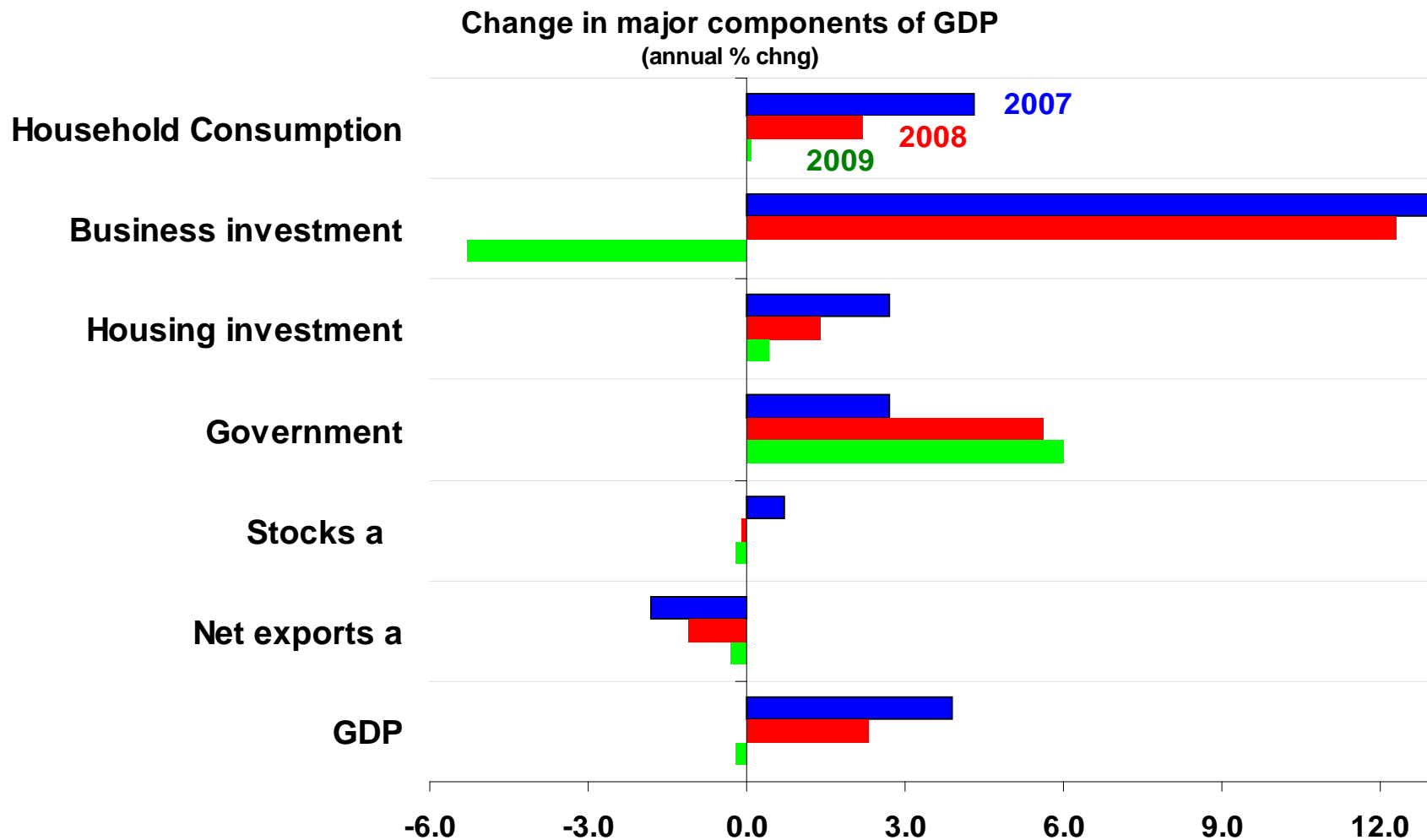
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US mortgage delinquencies still rising... Aus much better



Sources: Bloomberg, MBAA, nabCapital Research

GDP downturn led by weaker consumption and investment



Source: ABS; nabCapital a Contributions to growth in percentage points