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AICUD/AICUM Leadership Forum

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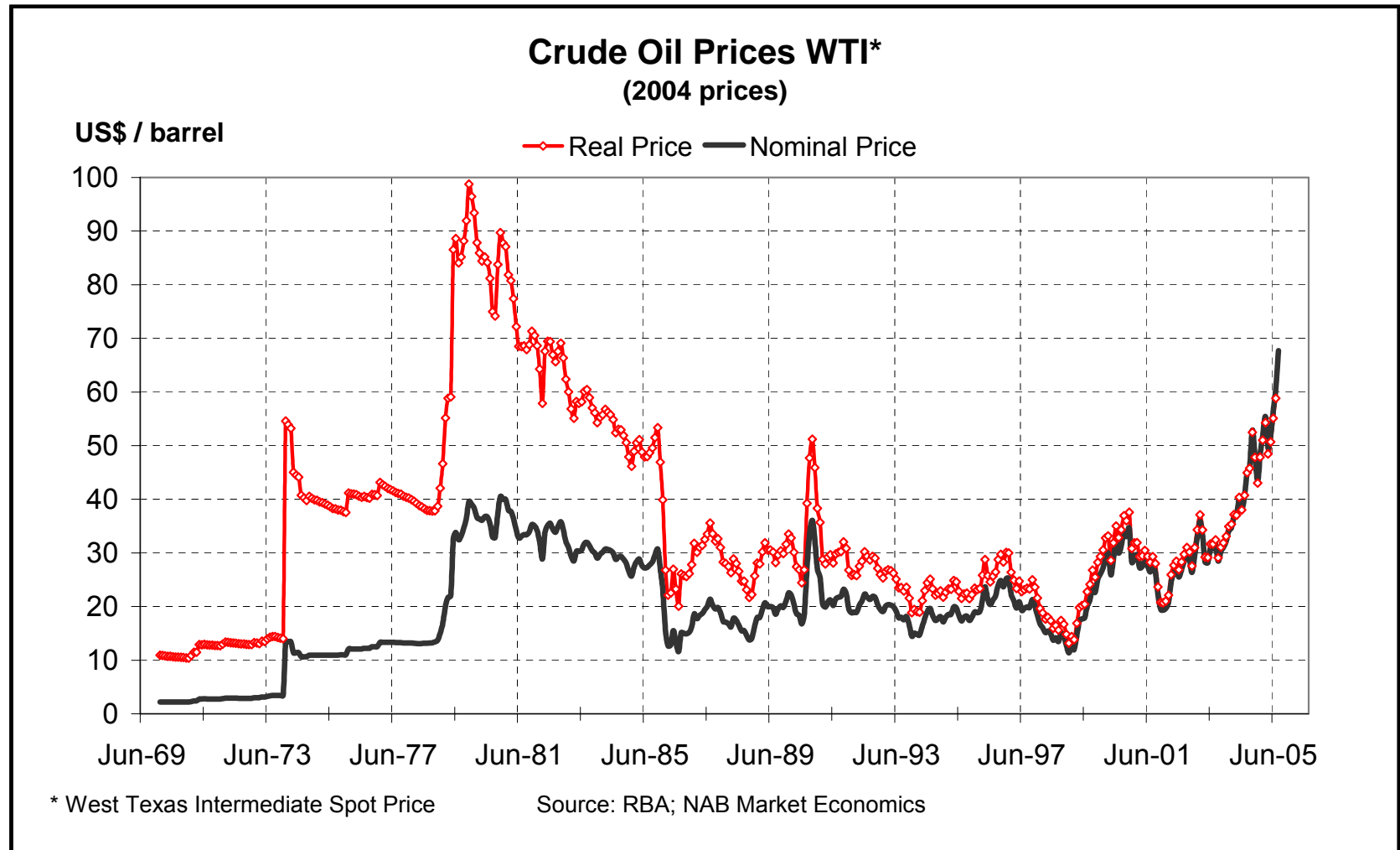




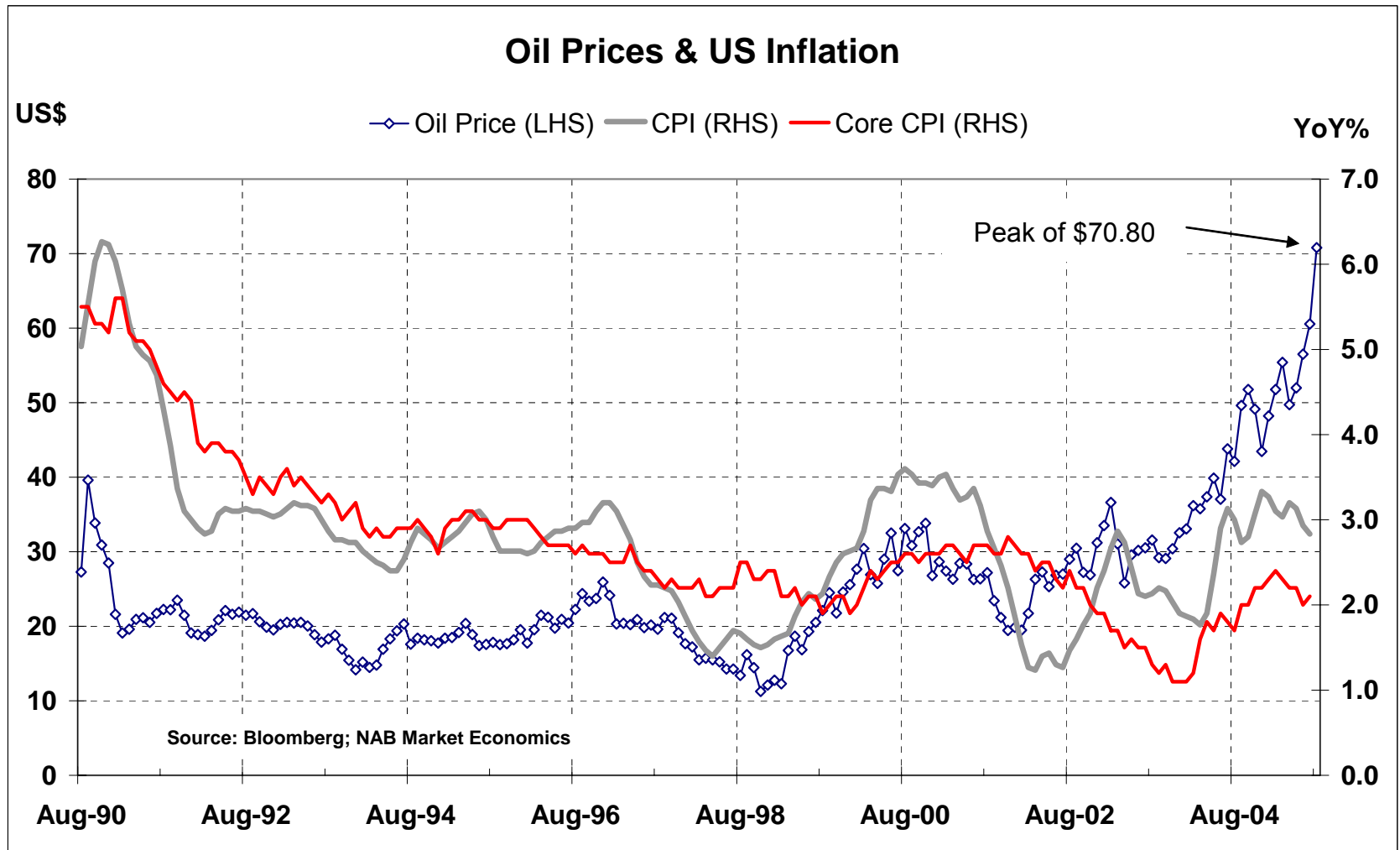
Part I International Backdrop



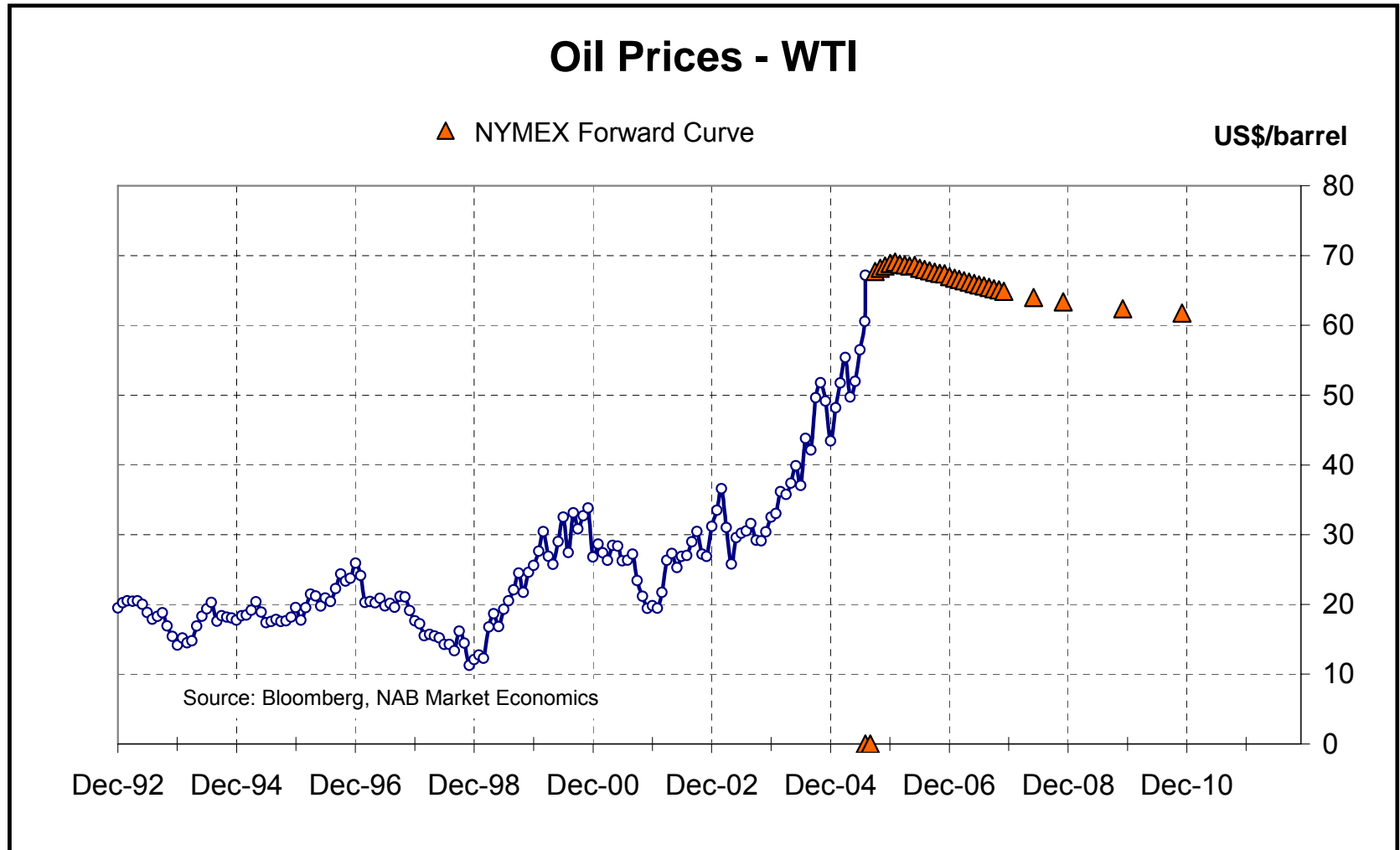
Oil prices high; still well off worst oil shock



US inflation still well contained, despite oil prices



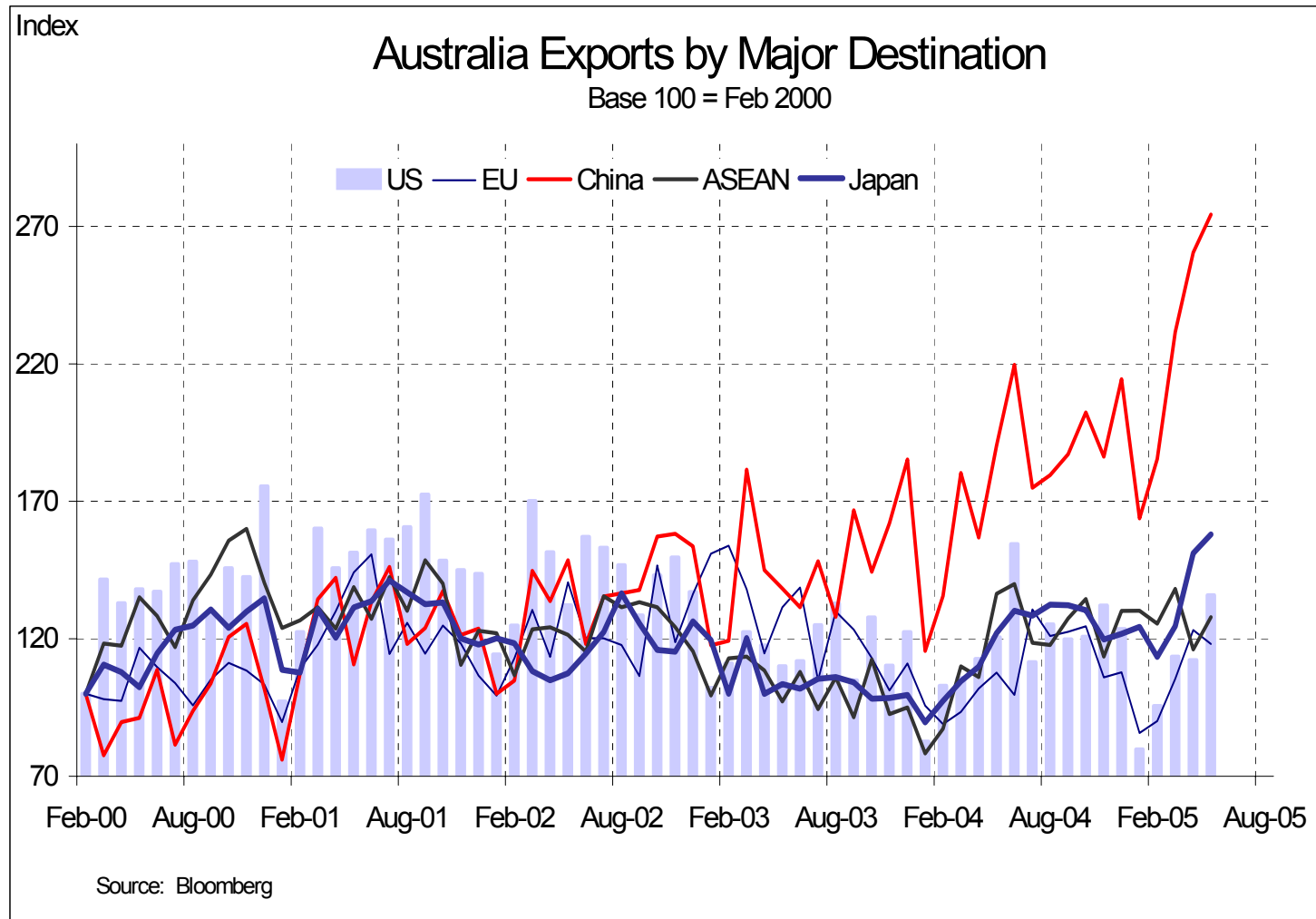
Oil futures see high prices persisting ahead



Impact on the US economy

- Estimates of the economic cost of hurricane \approx US\$100 billion
 - \approx 0.9% GDP for the US economy
- Cost of insurance \approx \$30 billion (Hurricane Andrew US\$22 billion (2005 \$))
 - 0.2% of GDP
- Oil production in the Gulf of Mexico cut by about 80%, \approx 25% of total US domestic crude production
 - Refineries have also been closed \approx 10% of US refinery capacity or 1.77m bbls per day
 - Recent reports show some production is already back on stream
- The IEA will make available 60m bbls of crude oil over the next month &
- The US administration will release a further 30m bbls from the Strategic Reserve
 - \approx 3.0 bbls per day

China: A rapidly growing market for Australia



Global economy supports Aussie export volumes

Global GDP Forecasts						
annual average %	2001	2002	2003	2004	2005 (f)	2006 (f)
US	0.8	1.9	3.0	4.4	3¾	3½
Japan	0.2	-0.3	1.4	2.7	1½	1½
UK	2.3	1.8	2.2	3.2	2	2¼
Eurozone	1.8	0.9	0.7	1.7	1½	2.0
Canada	1.8	3.4	2.0	2.8	2.7	3.0
Australia	2.2	4.1	3.5	3.2	2	3¼
New Zealand	2.6	4.7	3.4	4.8	2½	2¼
China	7.5	8.1	9.3	9.5	9¼	8½
World	2.1	2.6	3.4	4.7	4.0	3¾
Non-Japan Asia	4.2	6.1	6.3	7.5	6½	6½
Latin America	-0.3	-1.0	2.4	5.7	5.0	3¾

Source: NAB Group Economics (Tom Taylor)

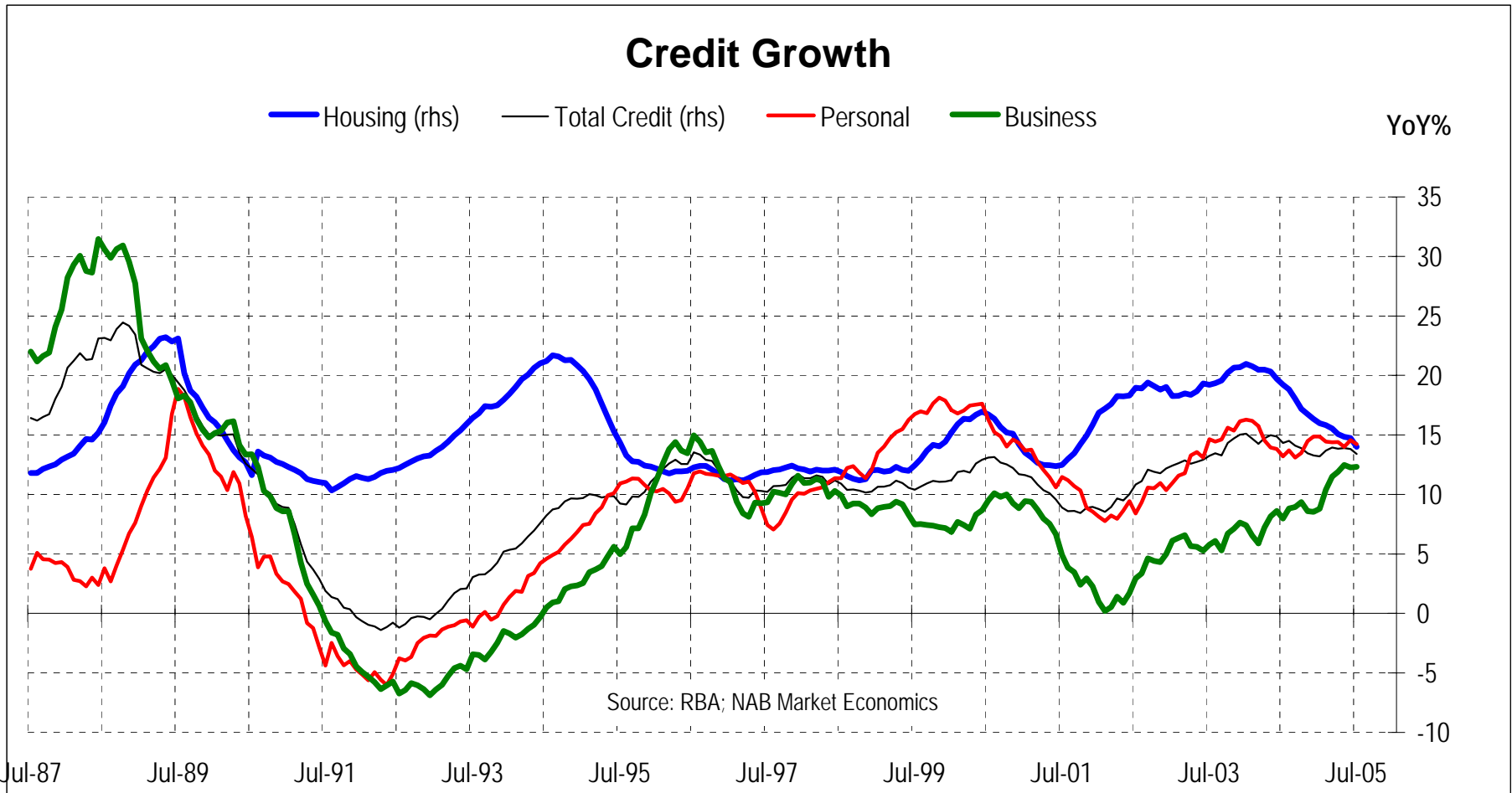


Part II

Australian Economic & Financial Outlook



Growth in credit outstanding

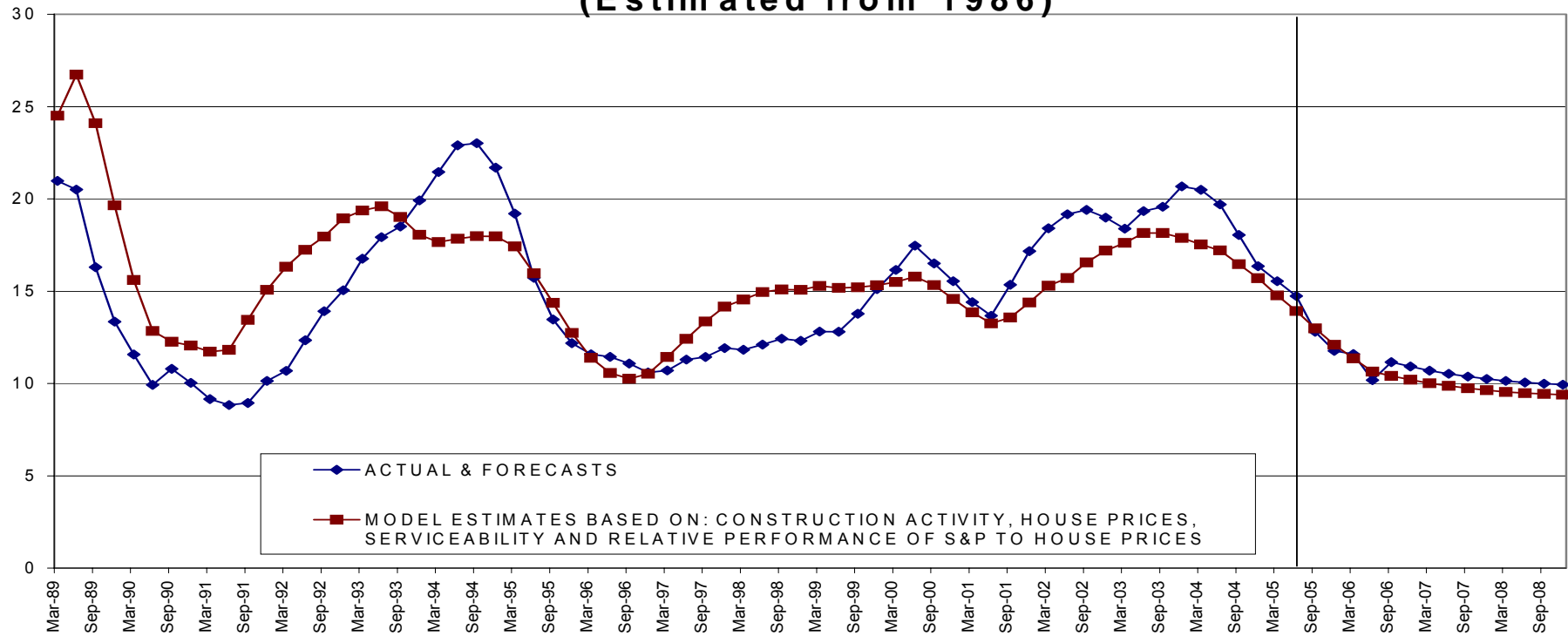


Housing Credit

- Variables which impact on housing credit growth are:
 - Housing construction cycle (assume falls of 10% this year)
 - House prices (assume no change)
 - Interest serviceability (rates unchanged)
 - House prices to Share Market (assume equity market out performs by 10%)
- Model results are as follows....

Housing Credit Forecast v Model. After changes to history now on track

**Model Estimates & Growth in Housing Credit
(Estimated from 1986)**

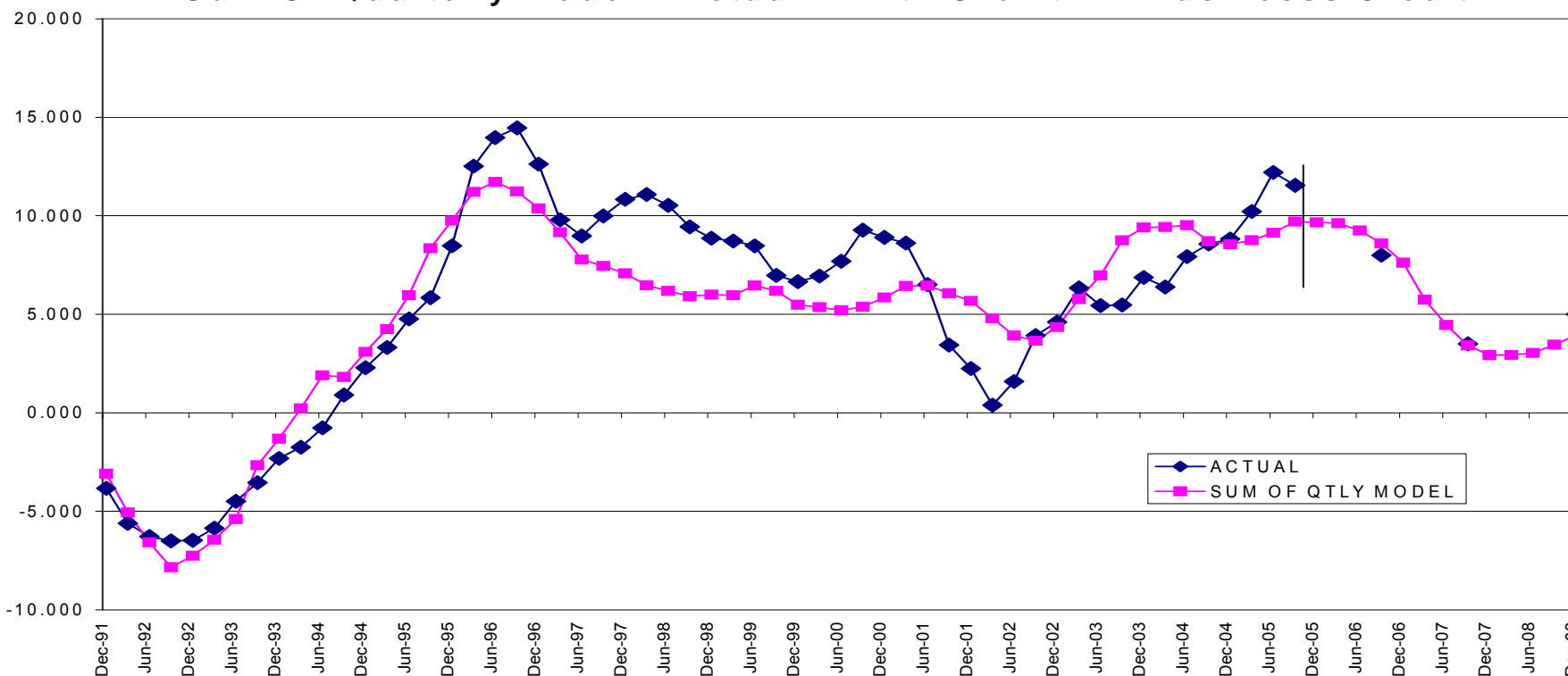


Business Credit...

- Our research points to key drivers of business credit as follows:
 - Lagged investment cycle (ie what happens to domestic demand and the level of capacity utilisation)
 - And business confidence (lagged around 6 months)
- When we put in our activity forecasts we get the following

Business Credit Forecasts. At present still tracking a touch above forecasts.

Sum Of Quarterly Model v Actual 12 Mth Growth in Business Credit

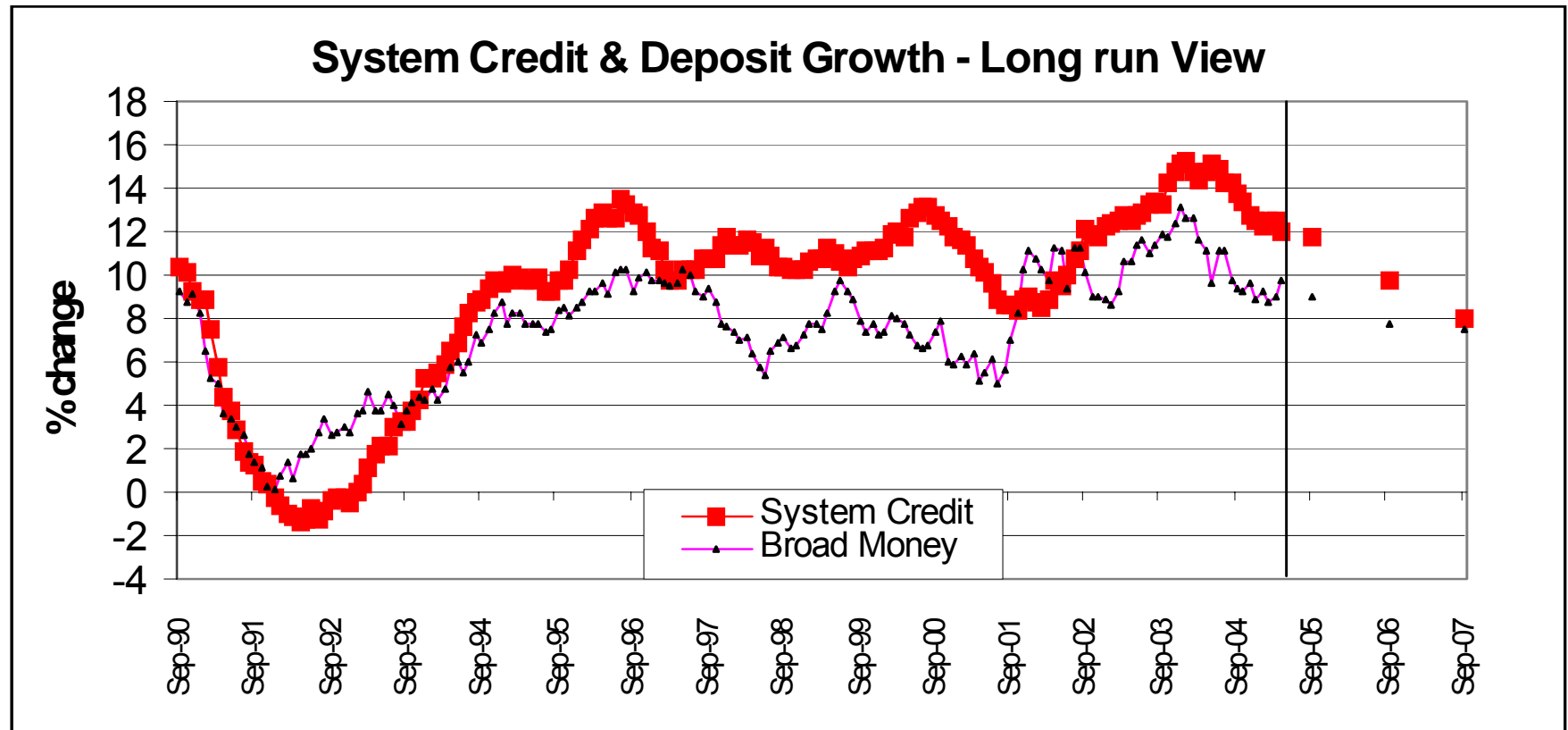


Consumer Credit

- Consumer credit really divided up into 3 distinct markets
 - Credit cards
 - Personal loans
 - Margin lending
- But no disaggregated data to model separately
 - Typically we tend to use change in nominal consumption as driver
- Hence we expect to slow (credit cards dominate) to around 11%



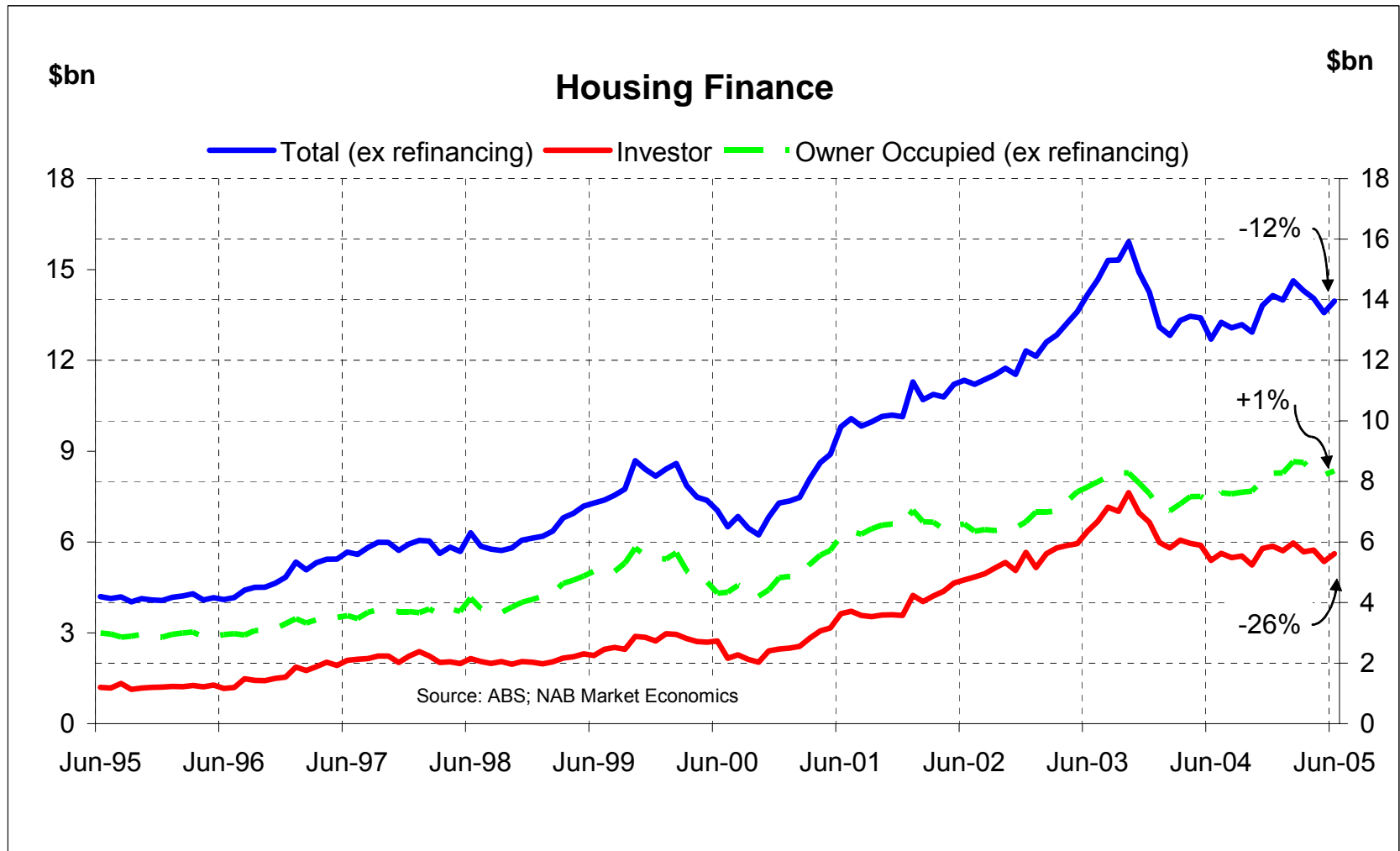
Deposits. Key trends very much driven by credit less velocity..



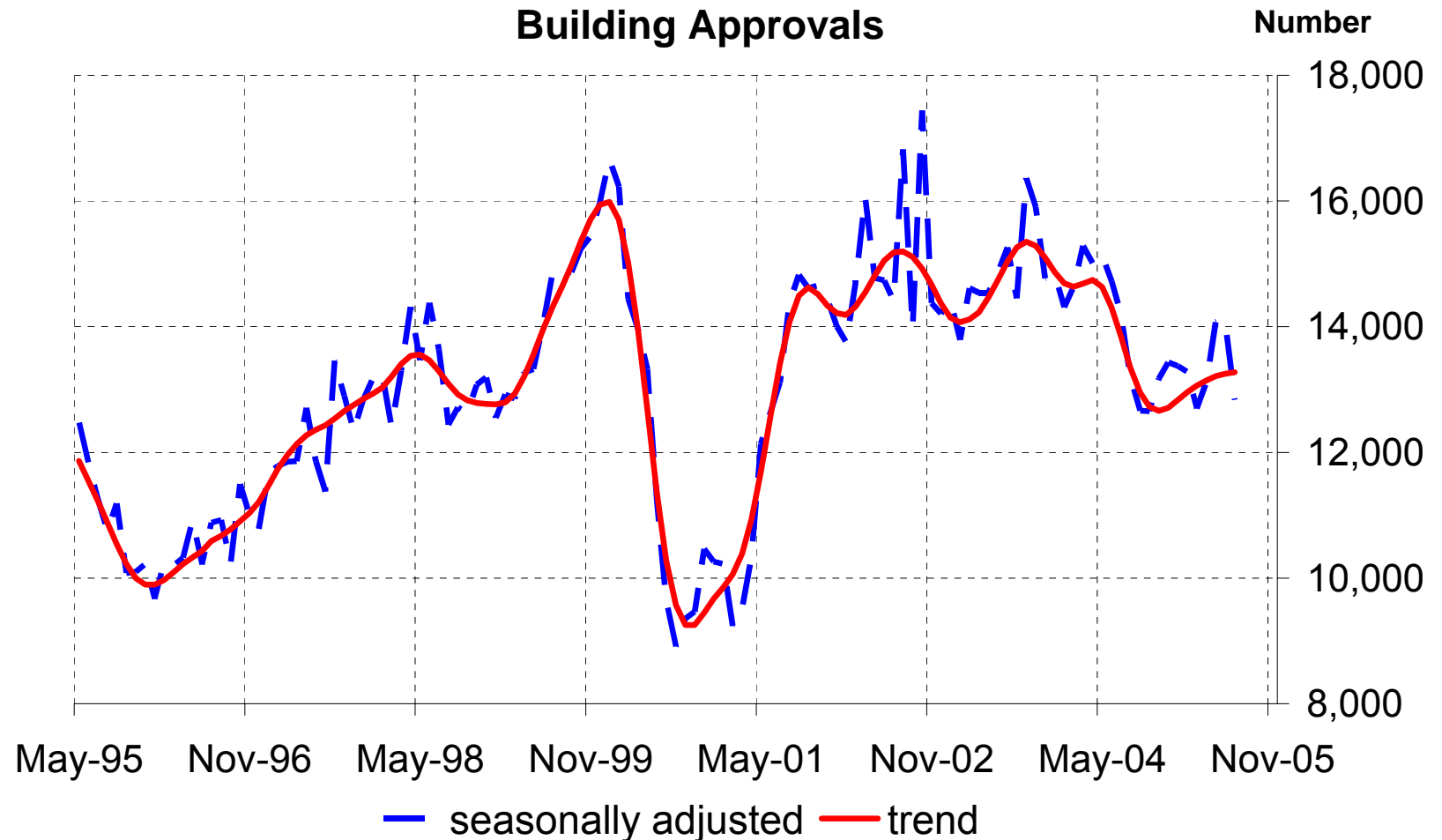
Forecasts of Australian Credit and Deposits.

Australian Credit, Deposits & GDP Forecasts				
	2004	2005	2006	2007
Domestic Demand	5.3%	2.7%	2.7%	3.7%
GDP	4.0%	2.0%	3.5%	3.7%
Credit	13.8%	11.8%	9.8%	9.5%
Housing Credit	17.4%	12.0%	10.0%	10.0%
Other Personal	13.0%	13.0%	11.0%	11.0%
Business Credit	9.0%	11.0%	8.0%	4.0%
System Deposits	9.4%	9.0%	7.5%	7.5%

Housing demand: fell early 2004; still soft

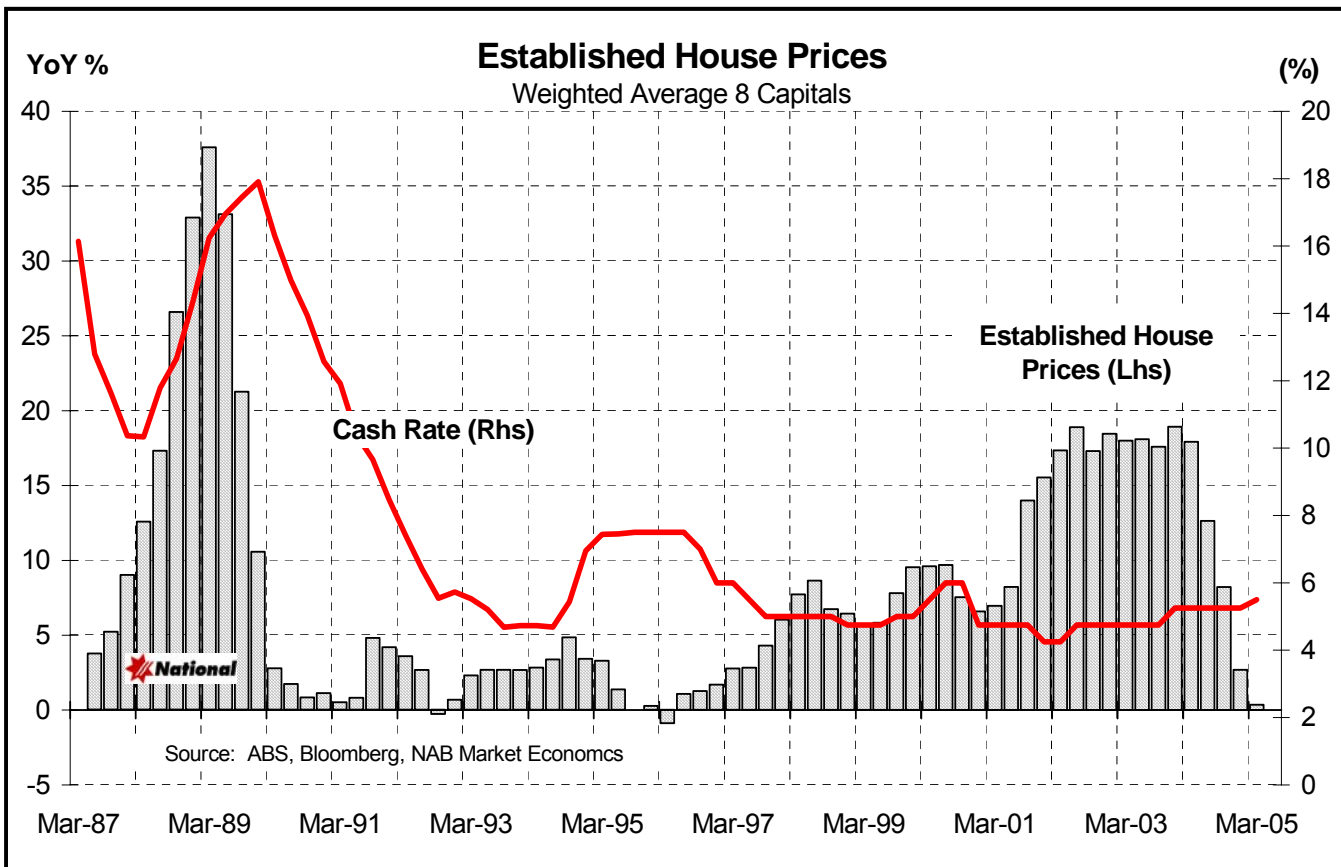


Residential approvals: downturn relatively mild



Source: ABS

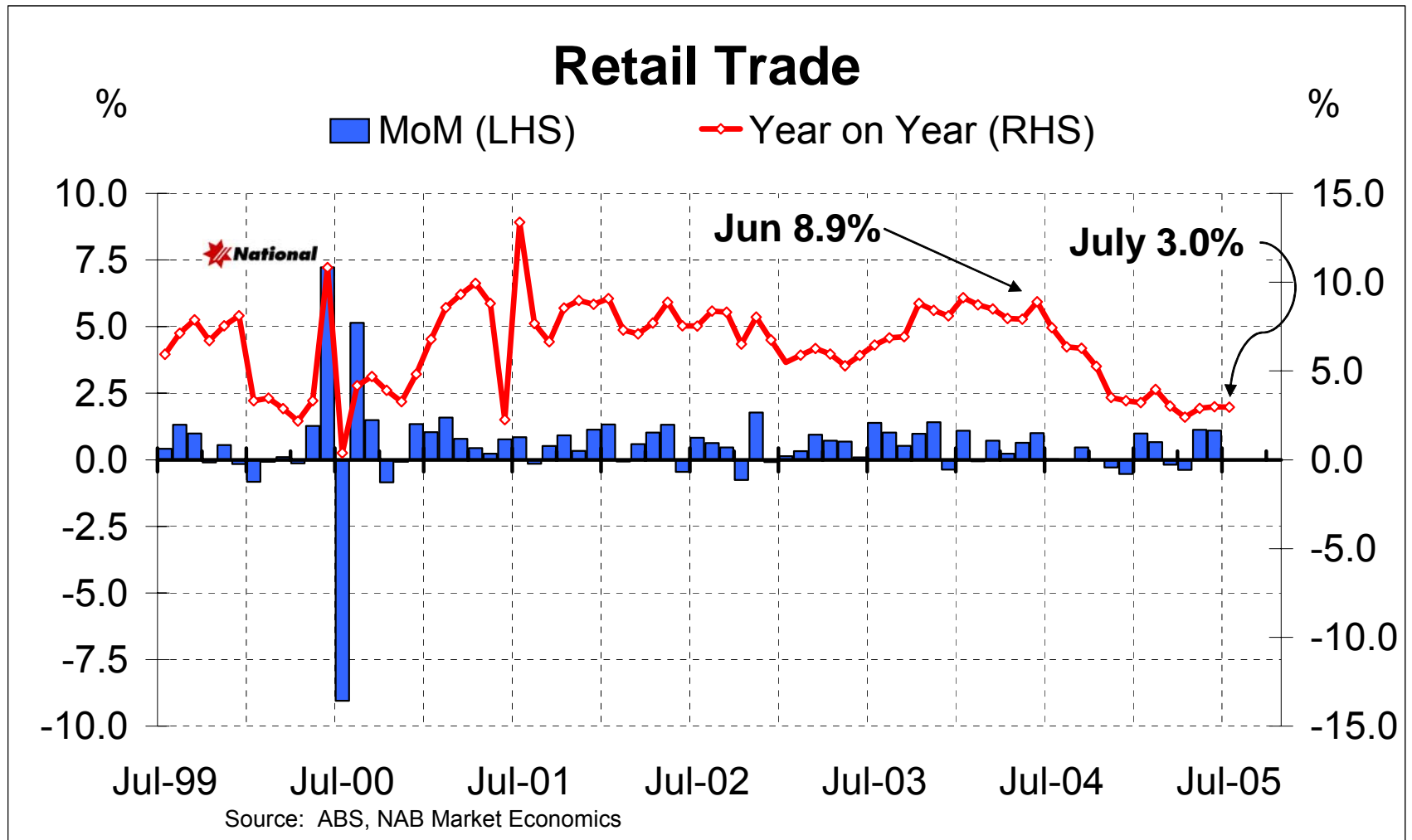
House prices: finding a bottom



	Qtr %	Yr %
Sydney	0.0	-3.4
Melbourne	-1.6	-1.7
Brisbane	0.5	2.5
Adelaide	2.3	8.0
Perth	2.1	9.9
Hobart	0.5	3.2
Darwin	3.8	9.6
Canberra	2.6	-1.3
Average	0.2	0.4

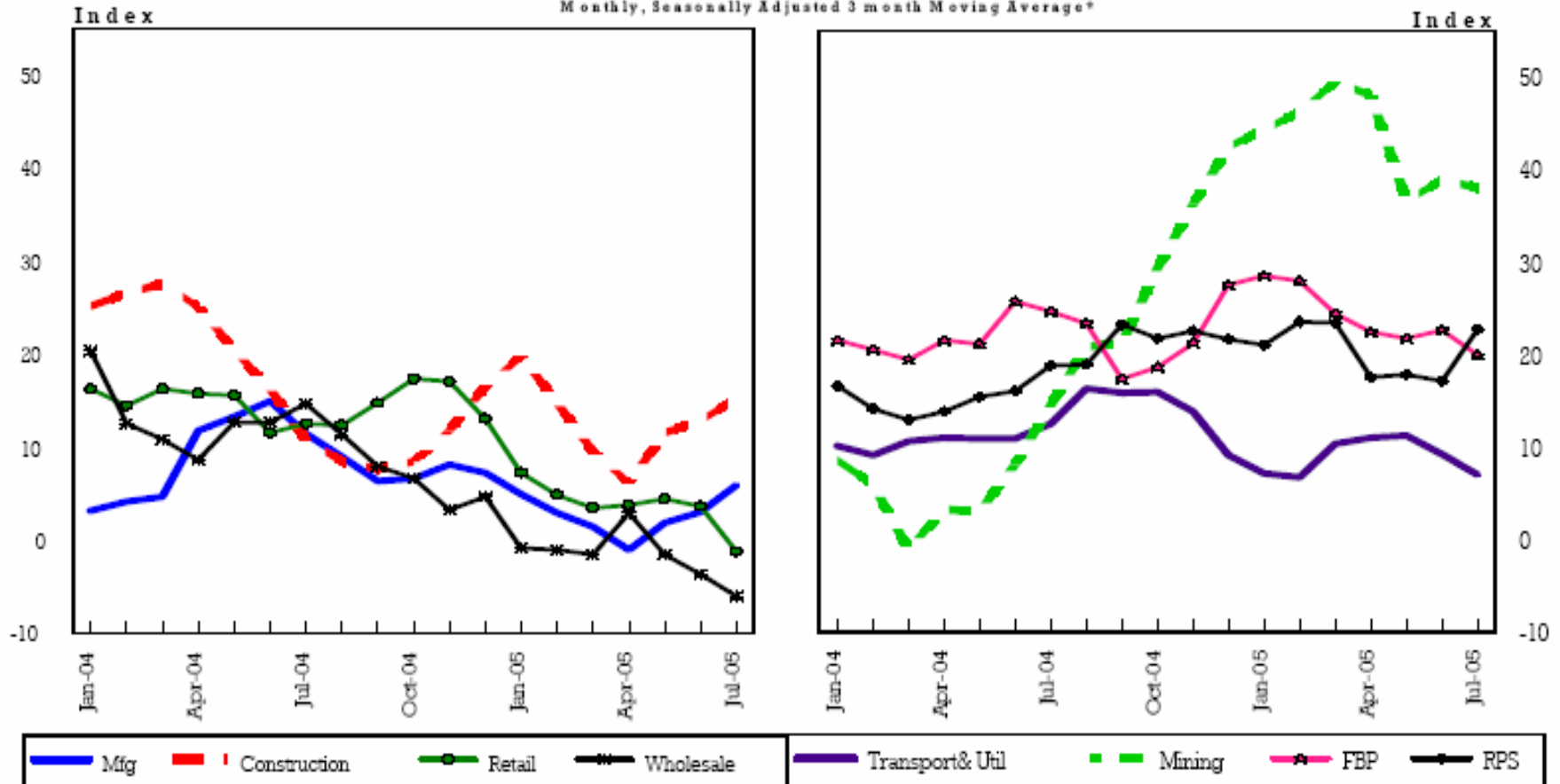
Source: ABS

Retail sales soft since mid-2004



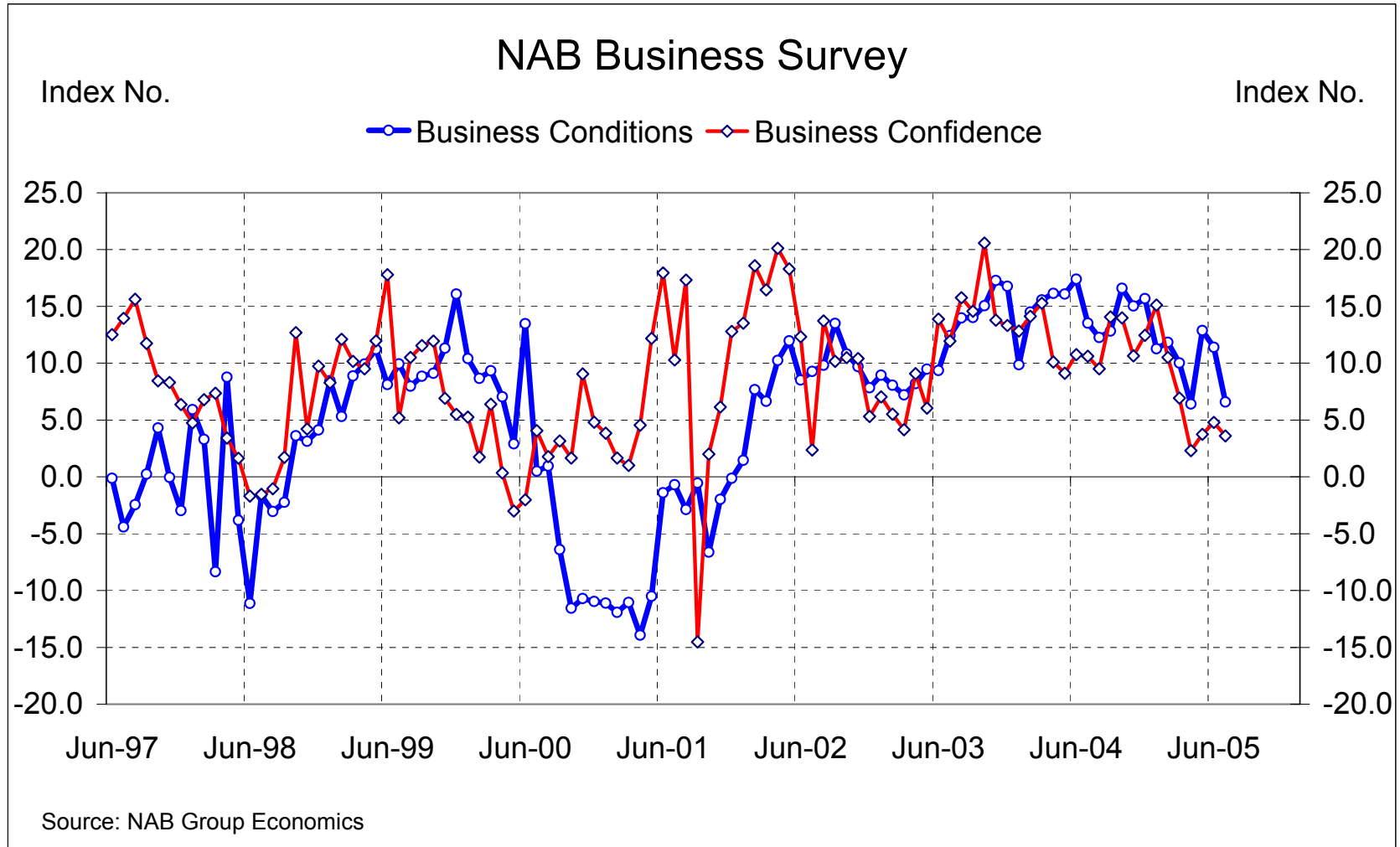
Cyclical sectors fairing the worst

Business Conditions by Industry
Monthly, Seasonally Adjusted 3 month Moving Average*

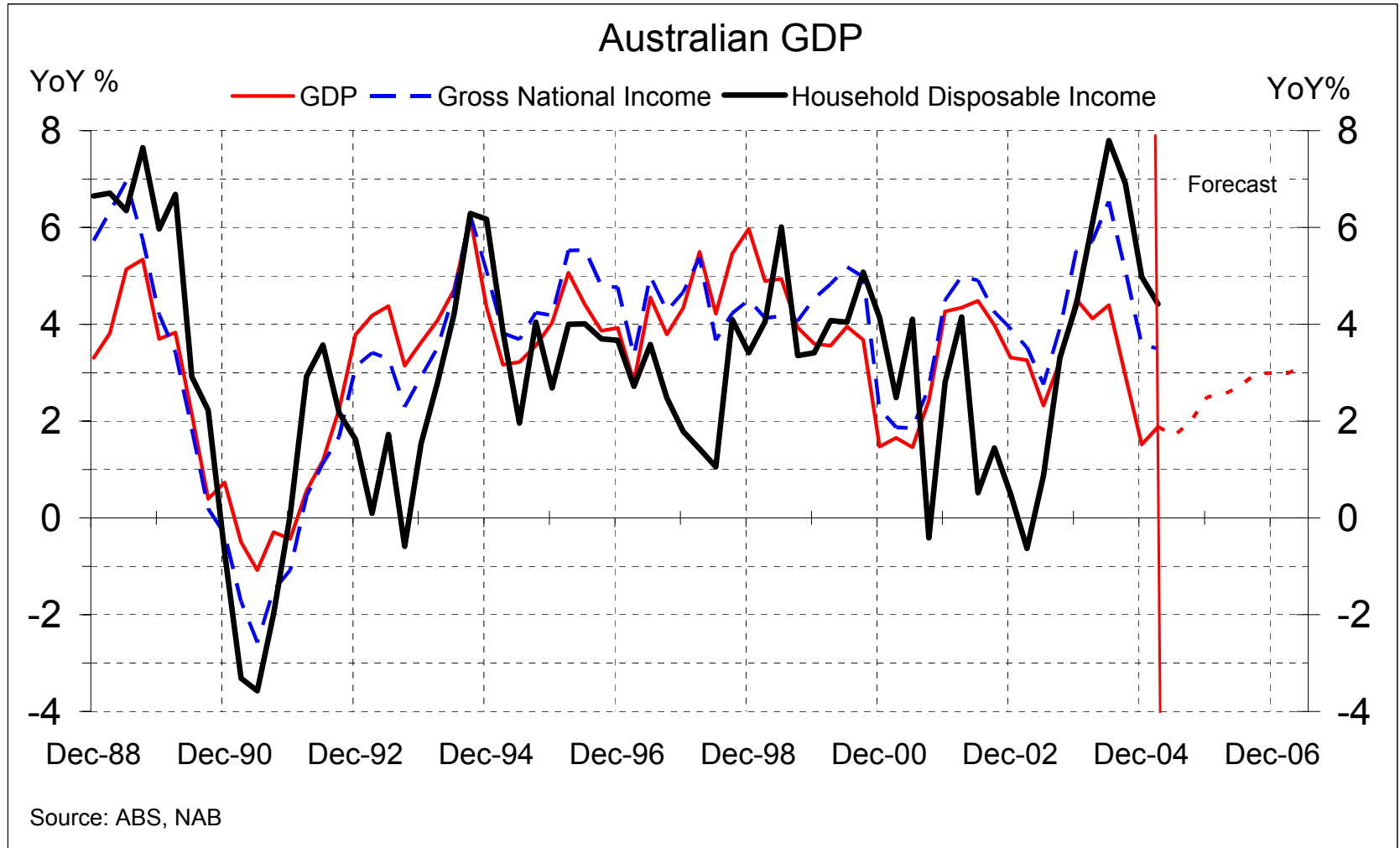


* Seasonally adjusted by National using X12

NAB Survey: weak early '05; bounced in May



Outlook: gradual improvement in economy



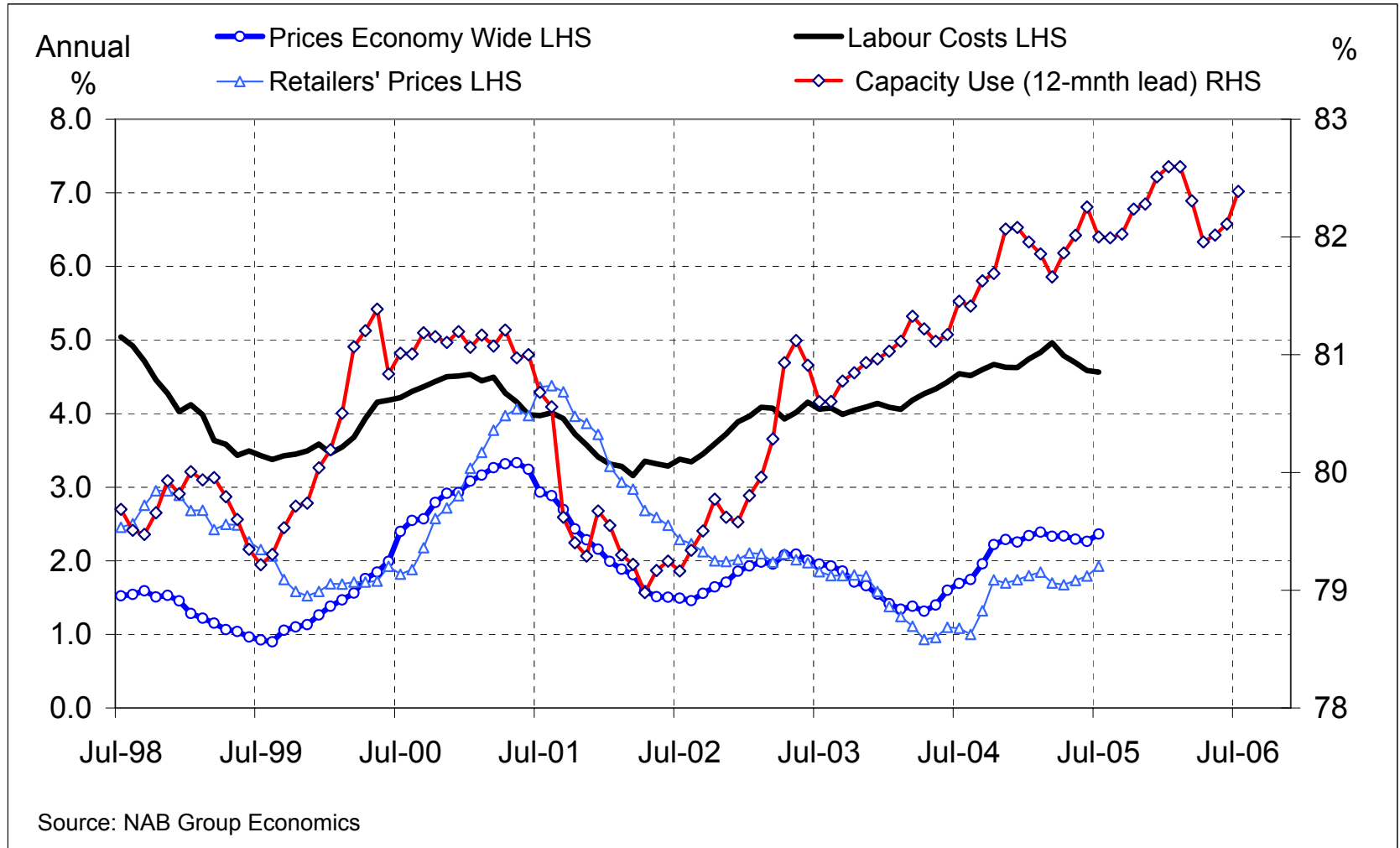


Part III

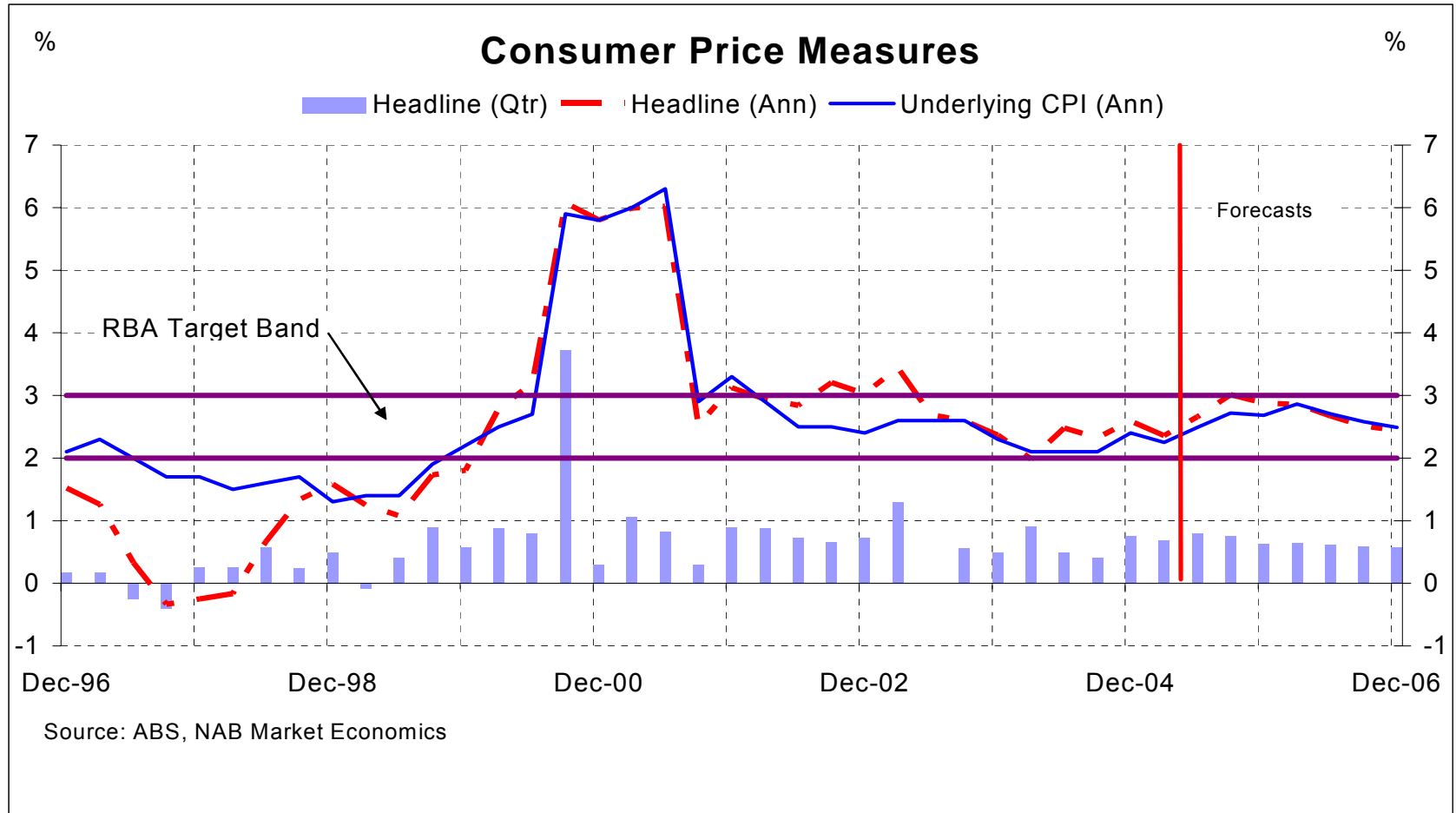
Interest Rates



NAB Survey measured of inflation pressures



CPI: OK for now – rising ahead



Reserve Bank: Rates on hold ahead

- RBA now firmly back to a 'neutral' policy outlook – risks balanced
 - Domestic demand has slowed to a more sustainable pace
 - Inflationary pressures not rising as quickly as the RBA feared

- We expect softer data ahead
 - Rising unemployment; easing inflationary in 2006

- Our view is RBA on hold for remainder of 2005
 - Potential rate cut in early 2006



NAB's Forecasts

	2004	2005 (f)	2006 (f)
Real GDP (Yr Average %)	3.2	2.0	3.3
Private Consumption	5.8	3.0	2.4
Residential Construction	5.1	-6.1	-1.0
Business Investment	9.5	7.2	4.6
Government Spending	4.1	2.7	3.2
Exports	4.1	3.4	5.9
Imports	14.5	6.9	3.4
Net Exports (Contribution)	-2.9	0.1	0.2
Other (End of period)			
Unemployment Rate (%)	5.1	5.5	5.8
Employment (YoY%)	2.7	2.2	2.0
Wages (YoY%)	3.7	4¼	3.7
CPI Inflation (YoY%)	2.6	2.6	2.7
Current Account (% GDP)	-7.2	-6.1	-5.4
Official Cash Rate (%)	5.25	5.50	5.25
AUD	0.78	0.72	0.68

Source: NAB Group Economics

Important Notices

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