

Economic brief
Prepared for LUTHERAN CONFERENCE

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Global Head of Economics
September 2004



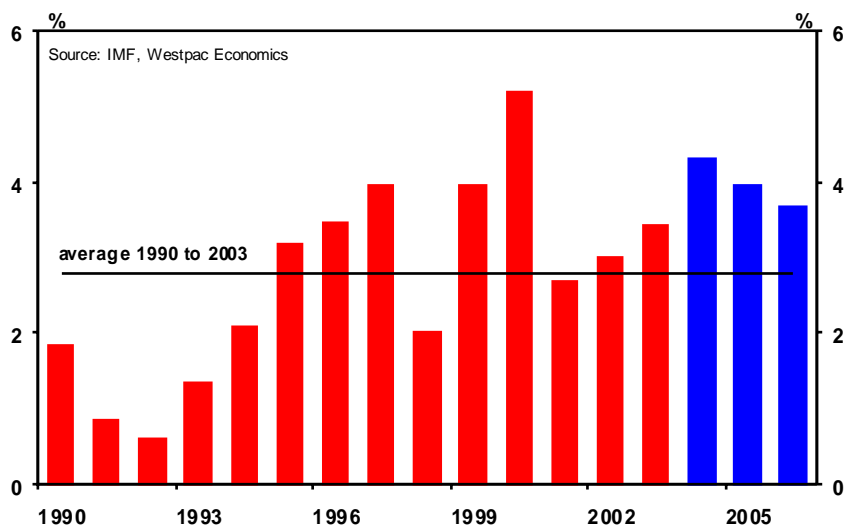
Current forecasts - September 2003

	latest	Dec-03	Jun-04	Dec-04
Cash	4.75	4.75	5.25	5.25
3yr	5.00	5.50	5.80	6.00
10yr	5.35	5.65	6.00	6.40
Fed Funds	1.00	1.00	1.00	1.50
10yr	4.14	4.50	4.90	5.40
AUD/USD	0.67	0.67	0.71	0.73
EUR/USD	1.14	1.14	1.16	1.20

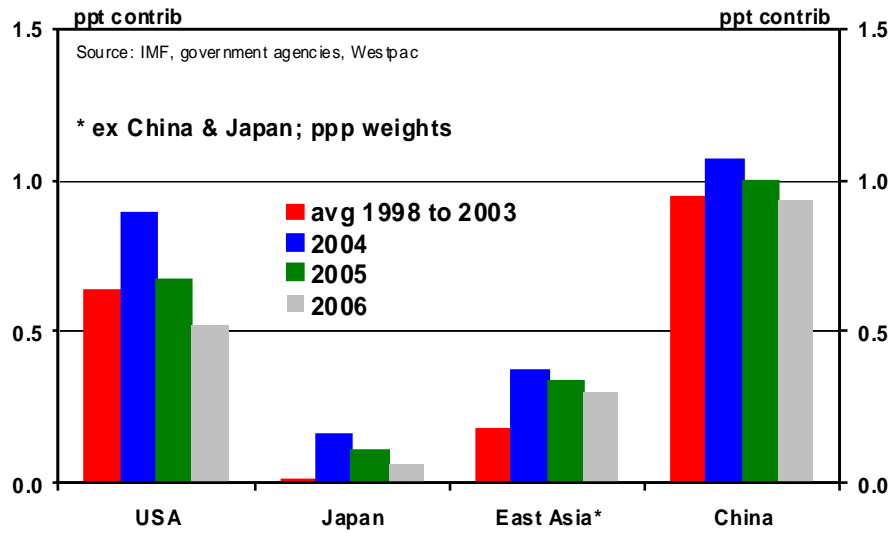
Current forecasts – September 2004

	latest	Dec-04	Jun-05	Dec-05
Cash	5.25	5.50	5.50	5.50
3yr	5.22	5.80	5.70	5.50
10yr	5.41	6.00	6.10	6.20
Fed Funds	1.25	2.25	3.25	4.00
10yr	4.05	4.50	5.00	5.50
AUD/USD	0.71	0.70	0.65	0.62
EUR/USD	1.23	1.19	1.16	1.12

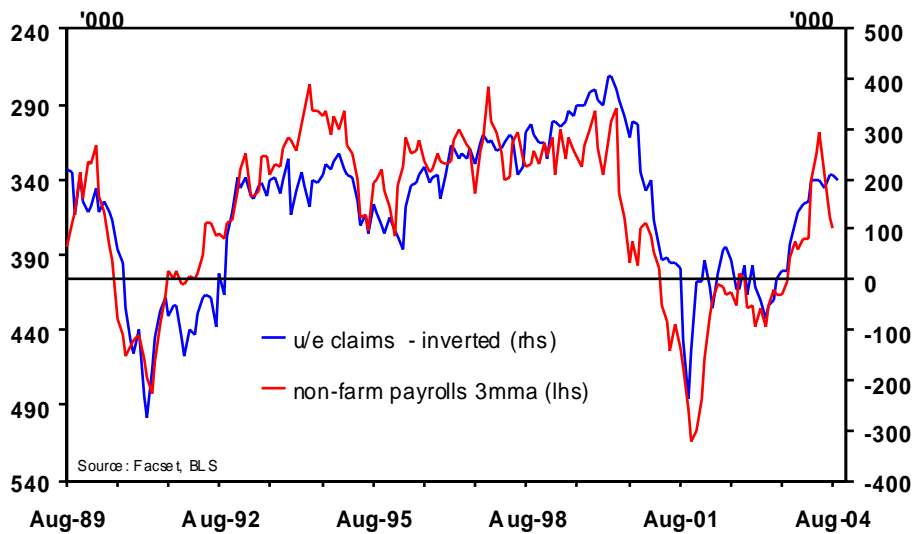
Global growth: 2004 the high point



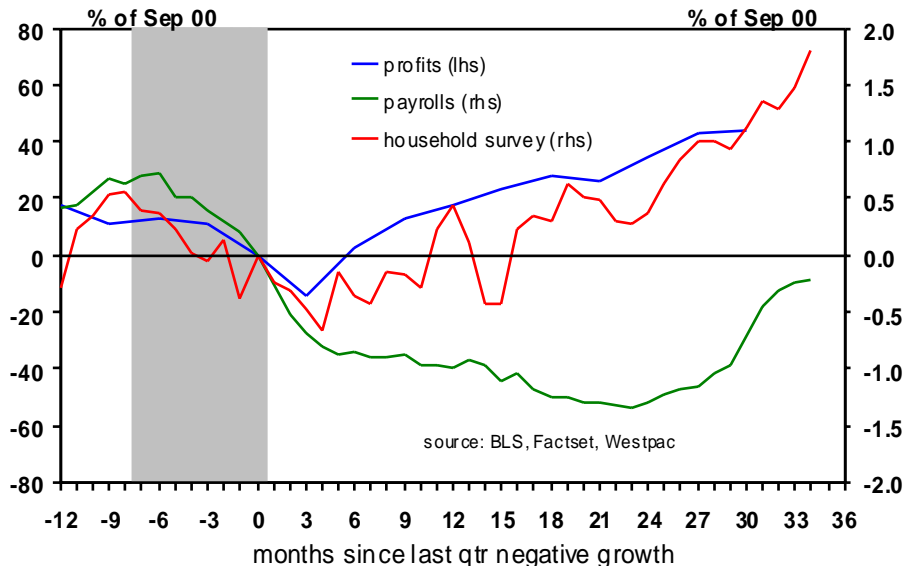
Contributions to global growth: look to Asia



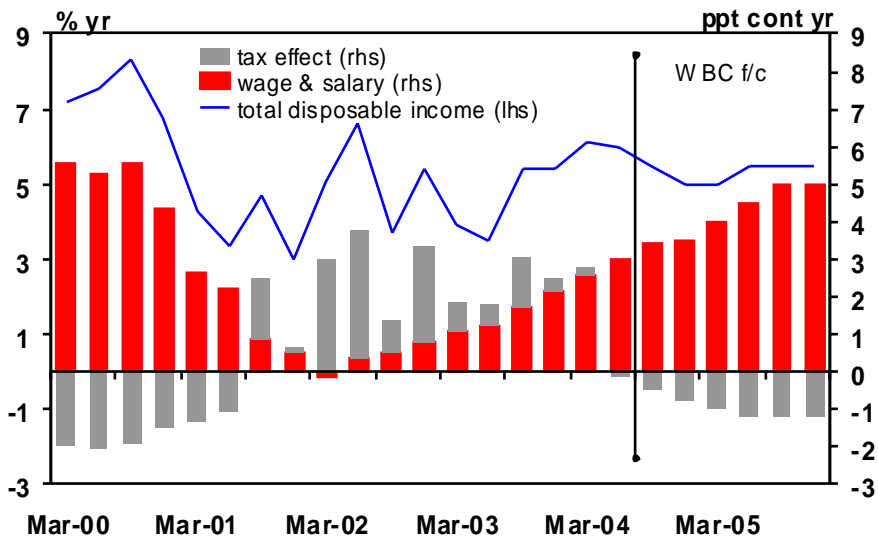
US initial unemp. claims & non-farm payrolls



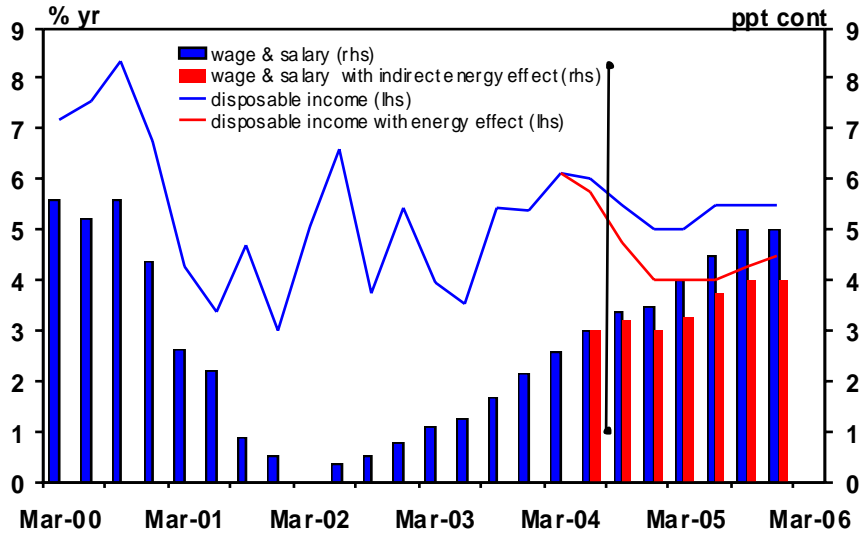
US domestic profits will induce jobs



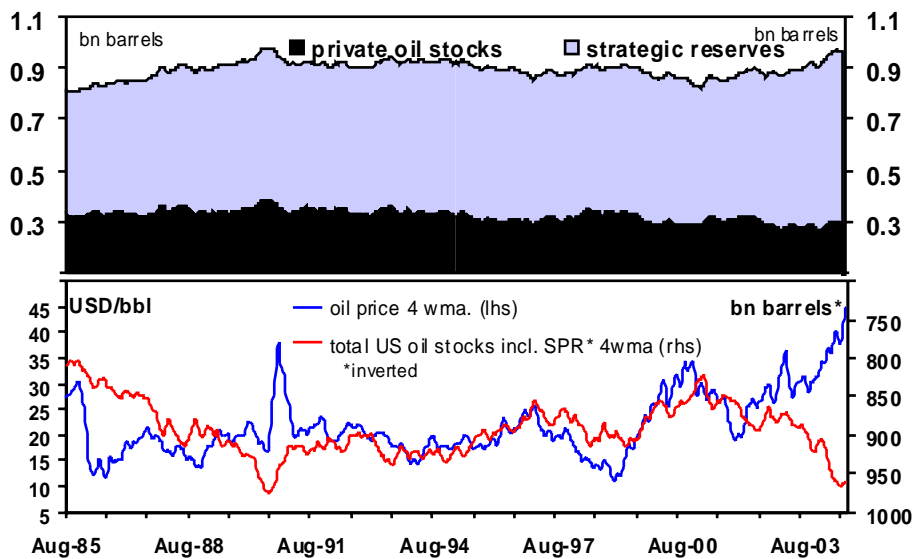
What's driving US disposable income growth



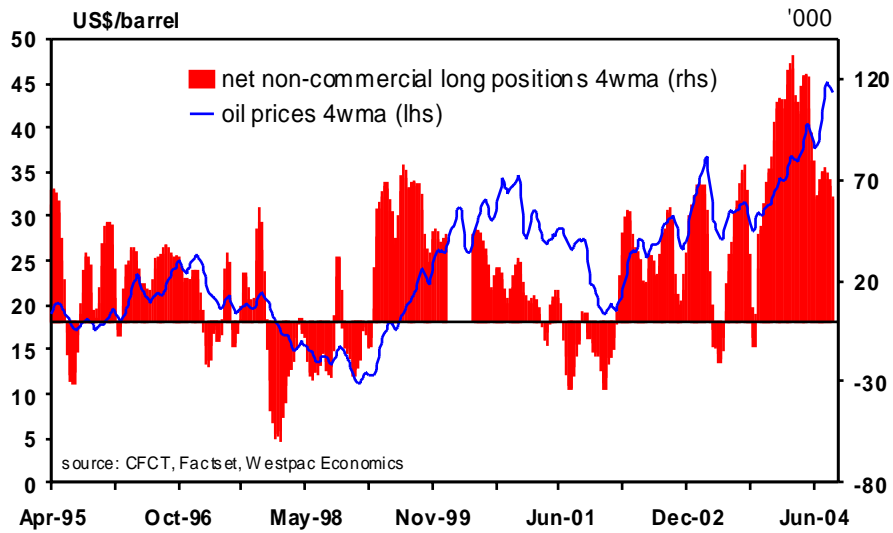
Potential energy price impact on income & employment



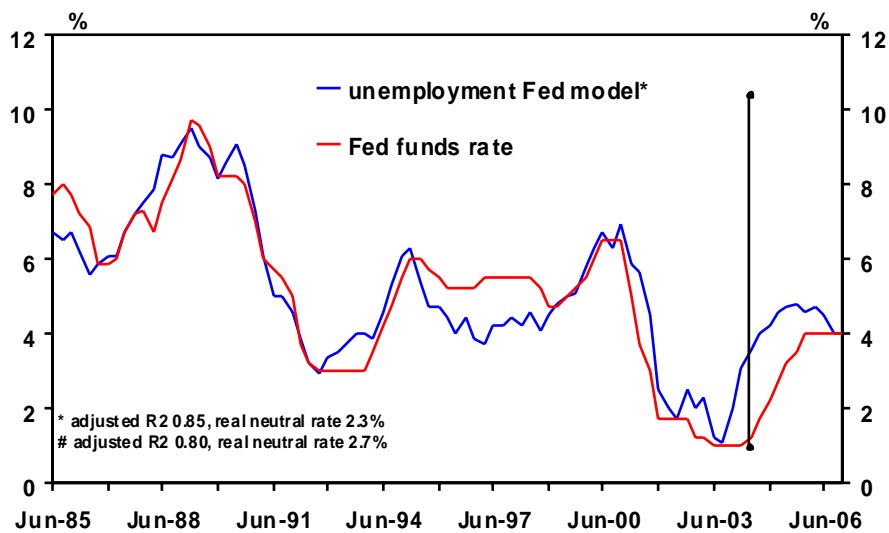
Oil prices are rising despite larger US stocks



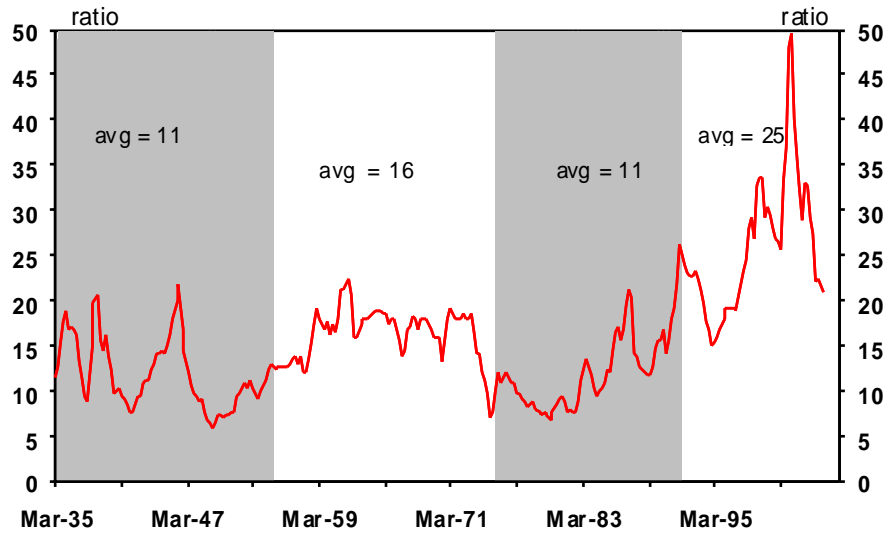
Speculative positioning for oil is still net long



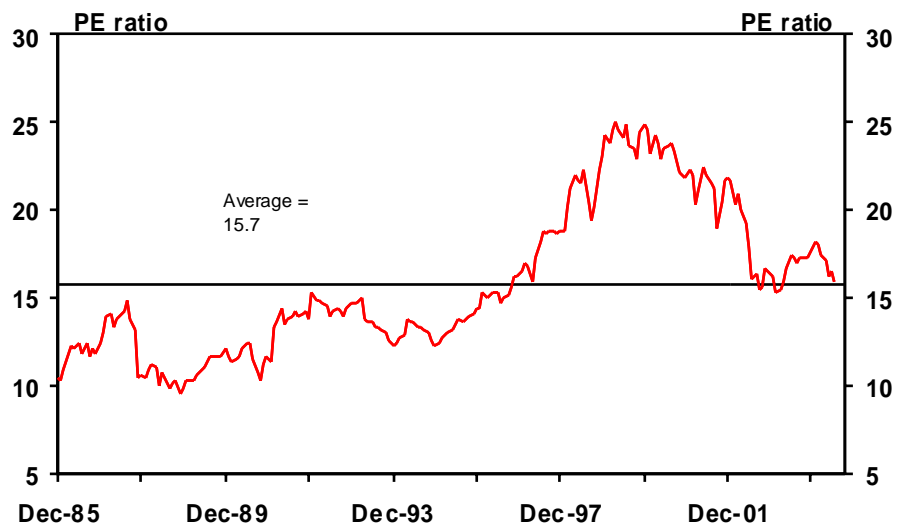
The Fed has held back for payrolls



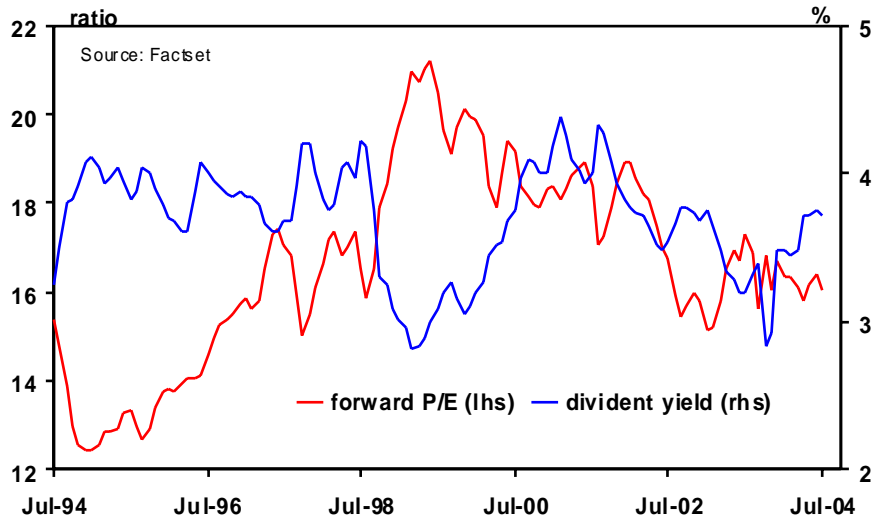
US S&P500 Price to Earnings



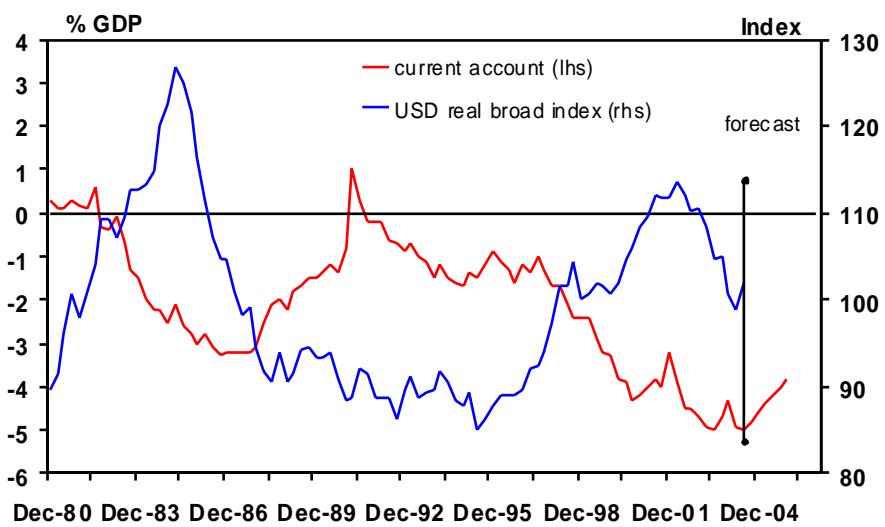
US sharemarket valuations Forward PE



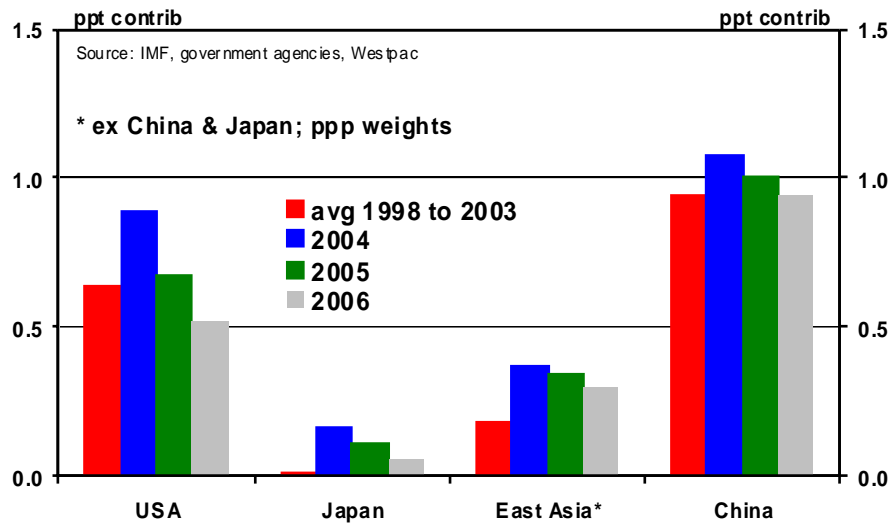
Australian forward P/E



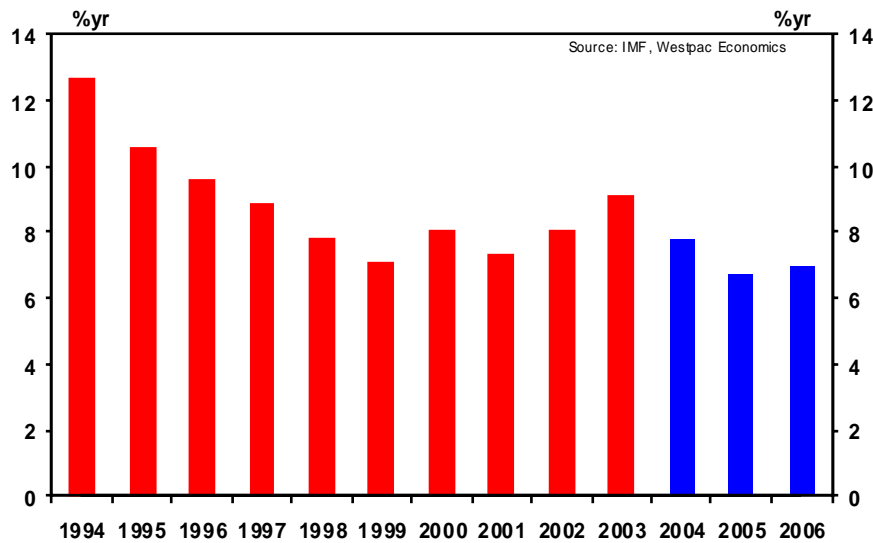
US Current Account and US Dollar



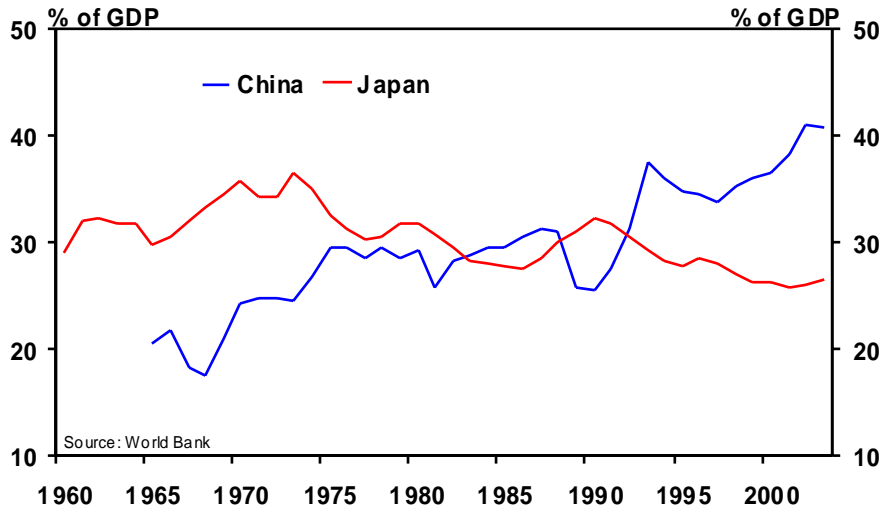
Contributions to global growth: look to Asia



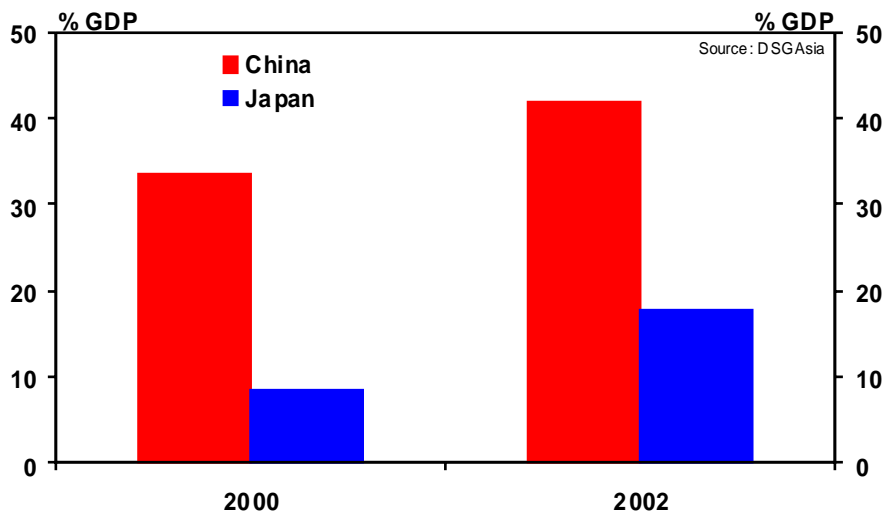
China's GDP growth – “soft” landing



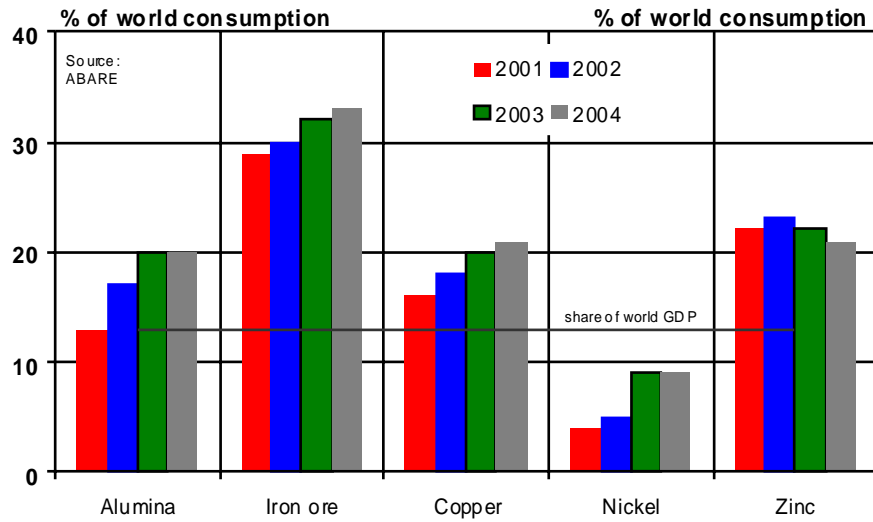
Risk to global outlook - Chinese overcapacity – profits to slow



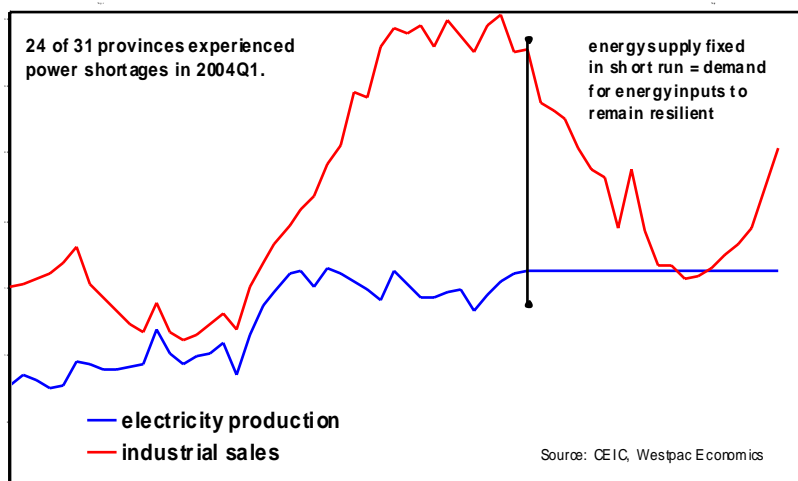
Non-performing loans still a major issue in China – wrong allocation of credit



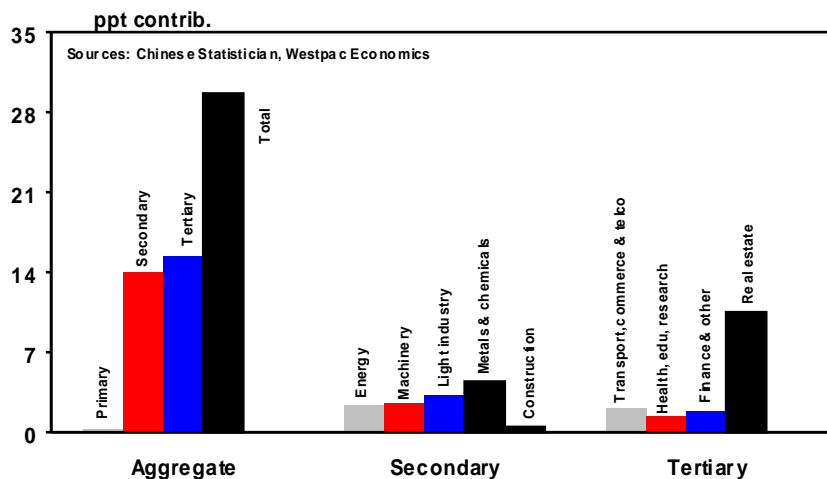
China's share of global commodity demand



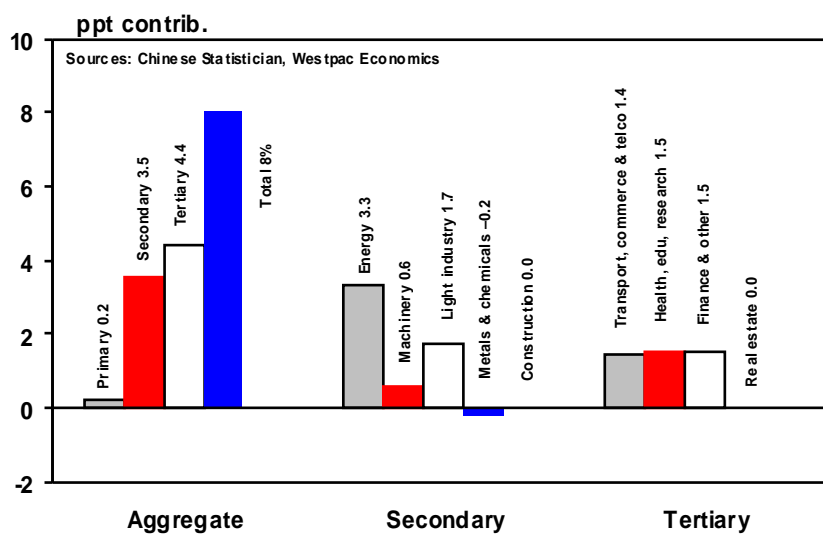
Chinese energy demand exceeding capacity



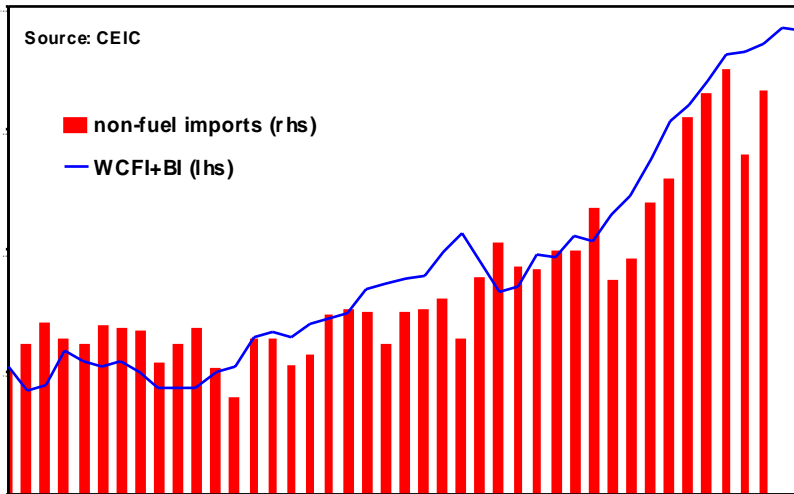
Contributions to fixed asset investment growth



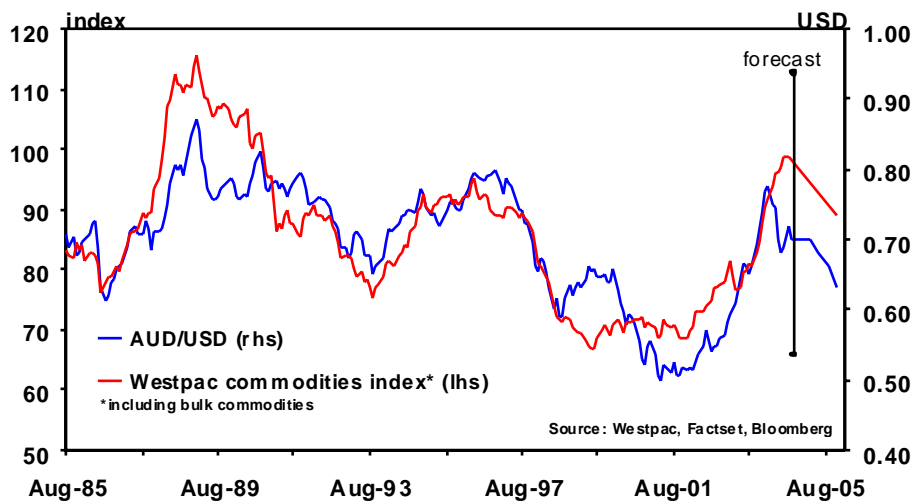
Anatomy of an investment soft landing



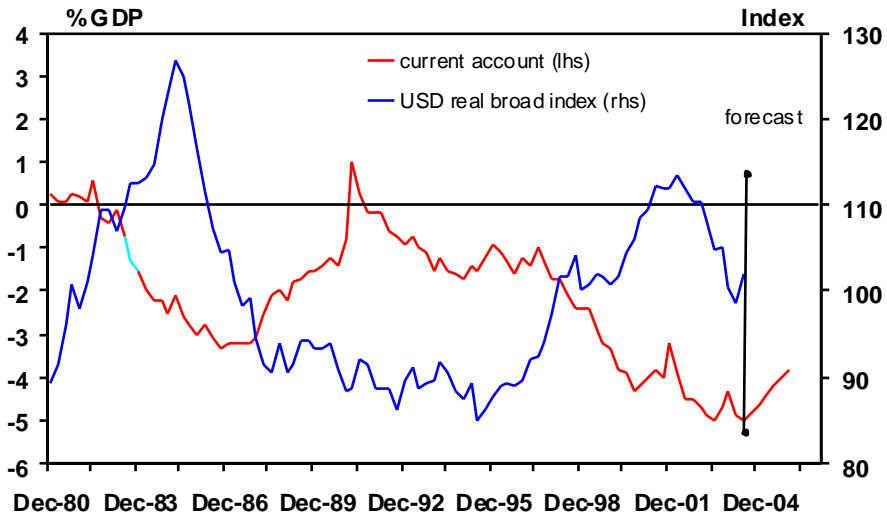
Chinese demand & commodity prices



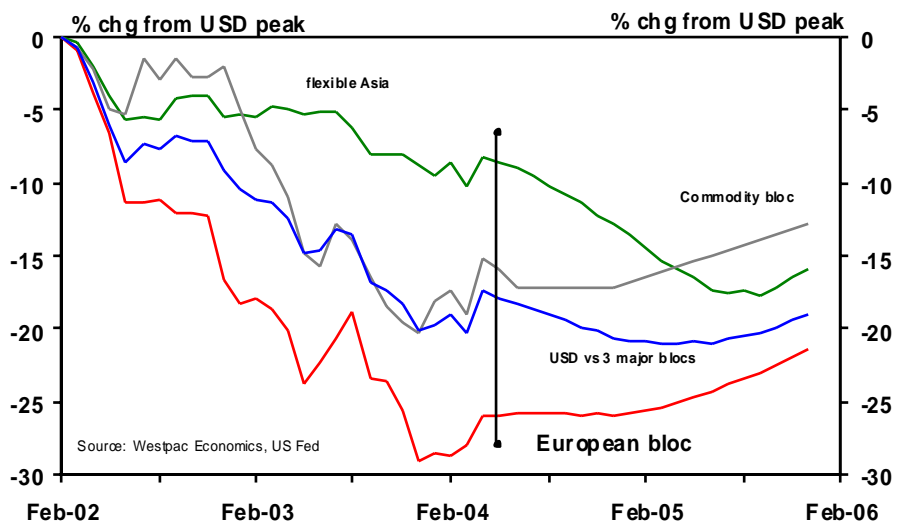
Commodities price to turn down and drag AUD



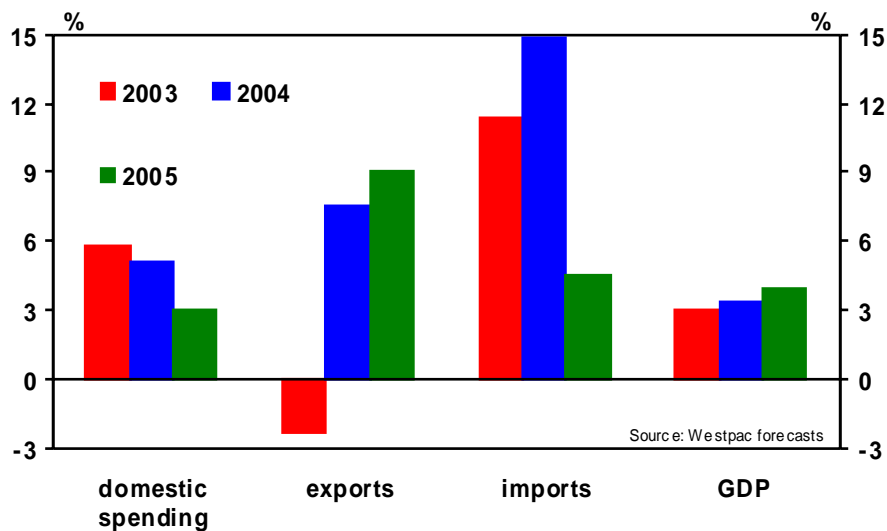
US Current Account and US Dollar



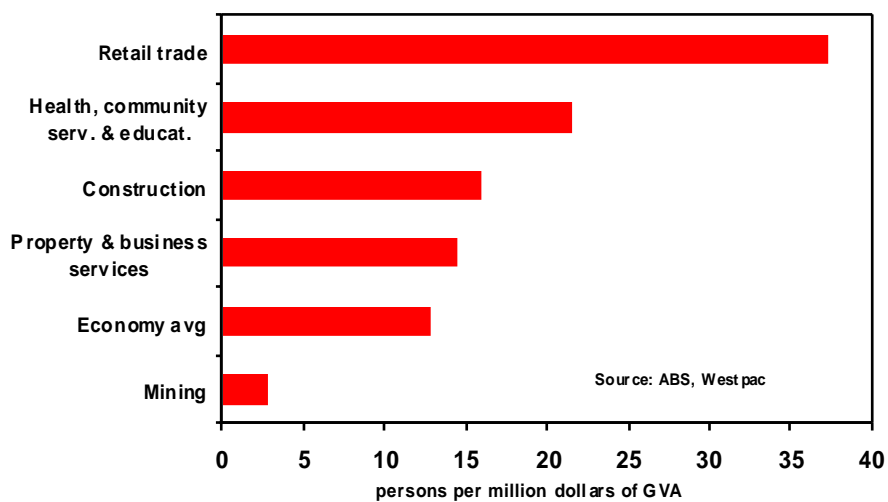
The foreign exchange market 2002 to 2006



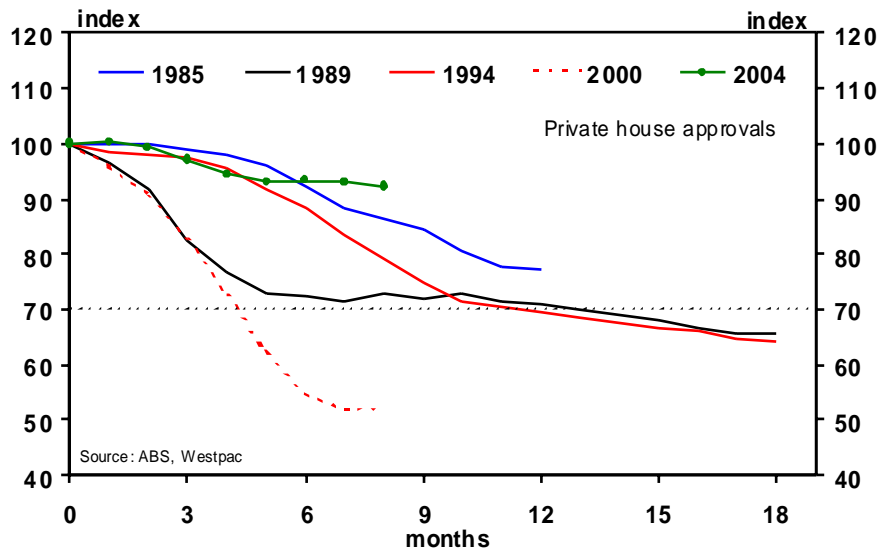
Domestic demand to slow – offset by export recovery- but imports too high



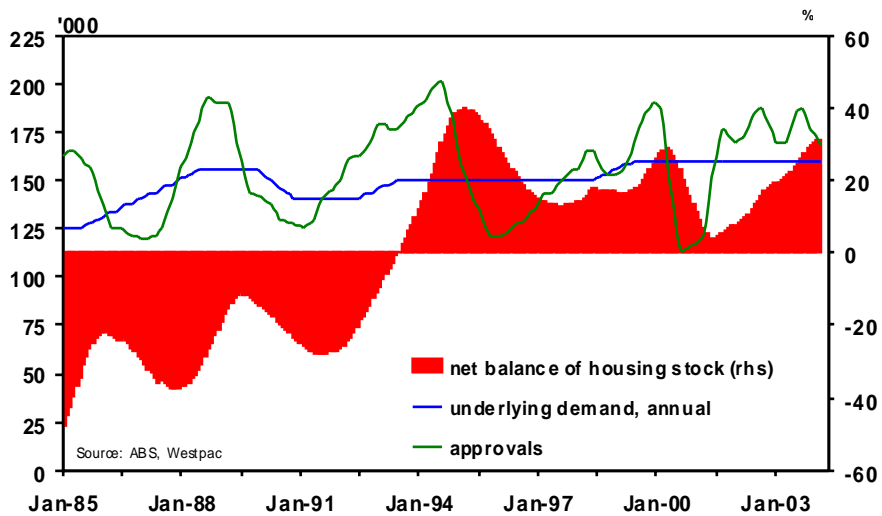
Employment intensity



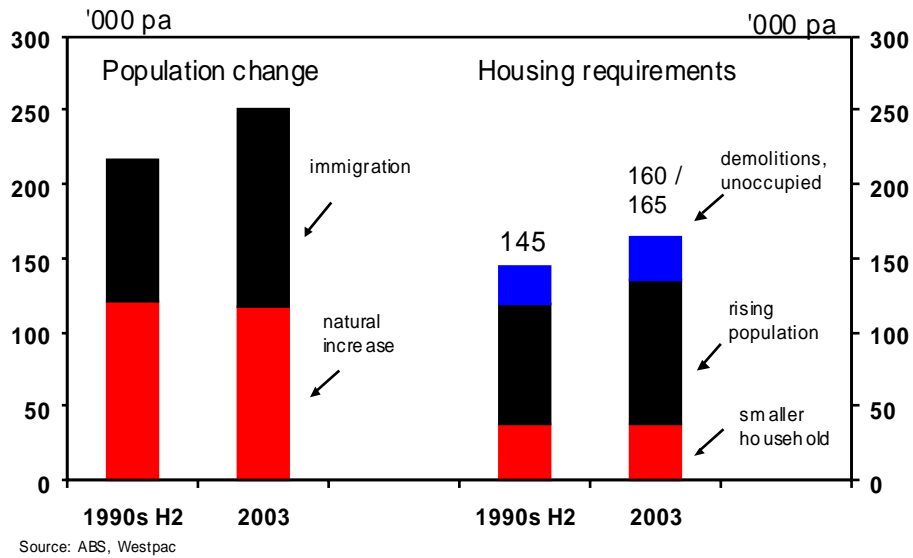
**Dwelling approvals downturns – houses.
This is the mildest slowdown.**



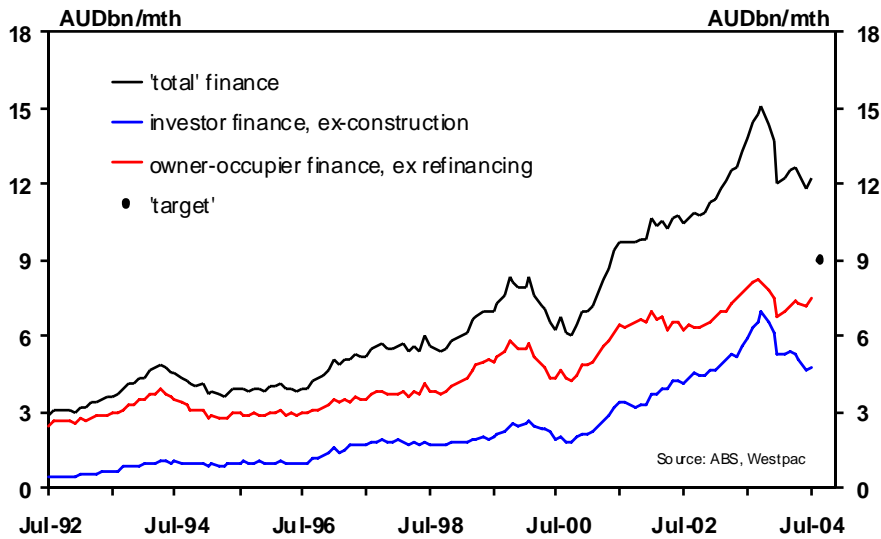
**Dwelling supply & demand- modest oversupply
points to moderate downturn in activity**



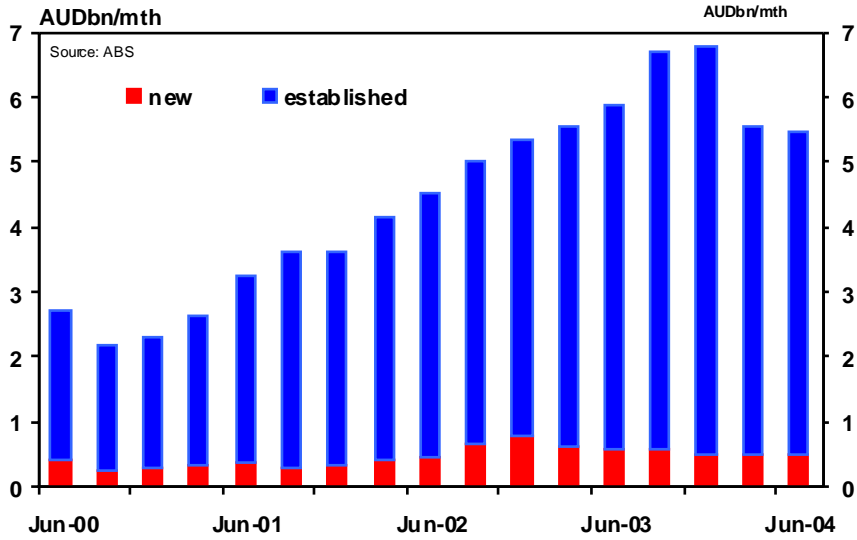
Immigration drives up housing needs



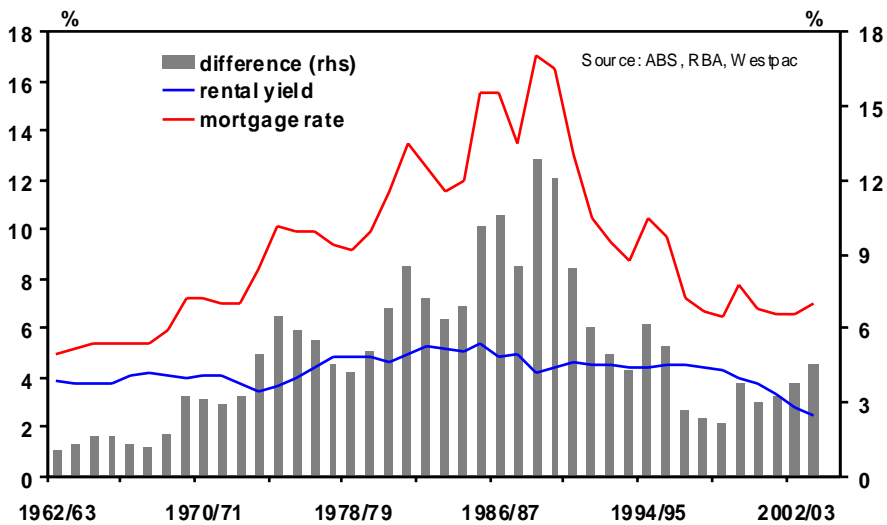
Housing finance off peaks, but still too high



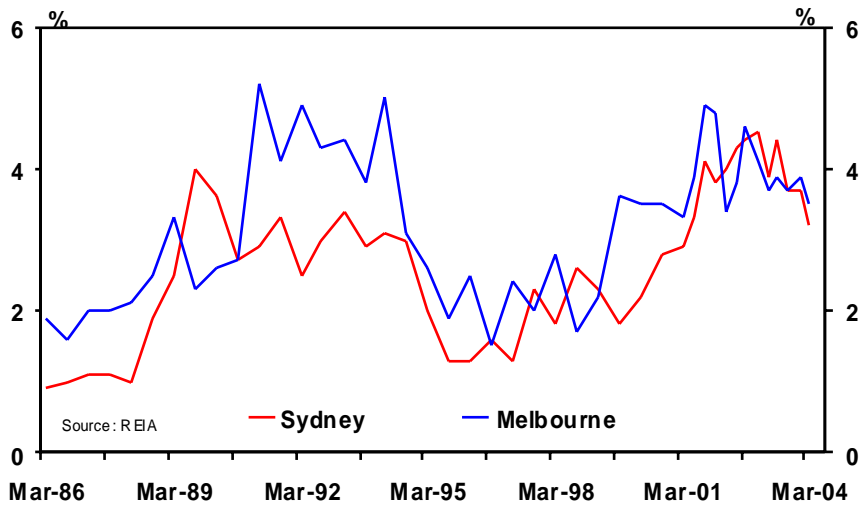
Investment finance- its not about “off plan”



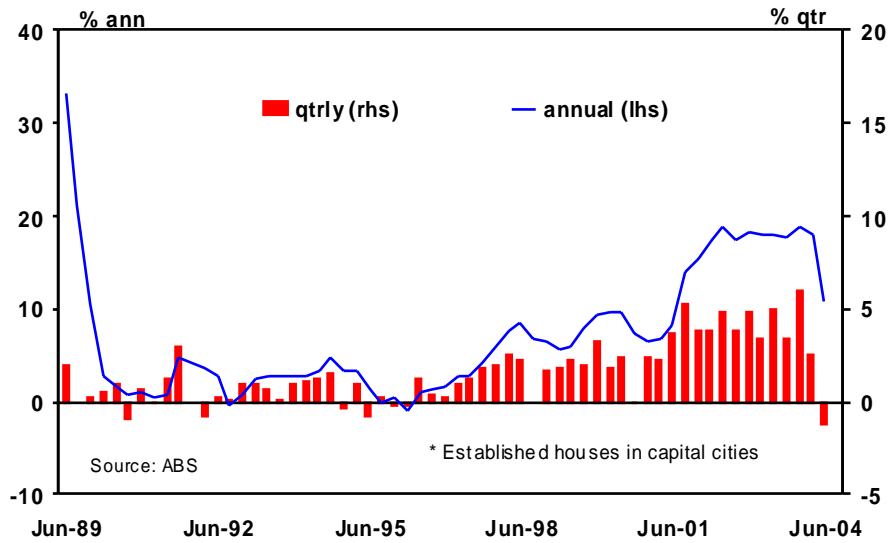
Rental yield vs mortgage rates



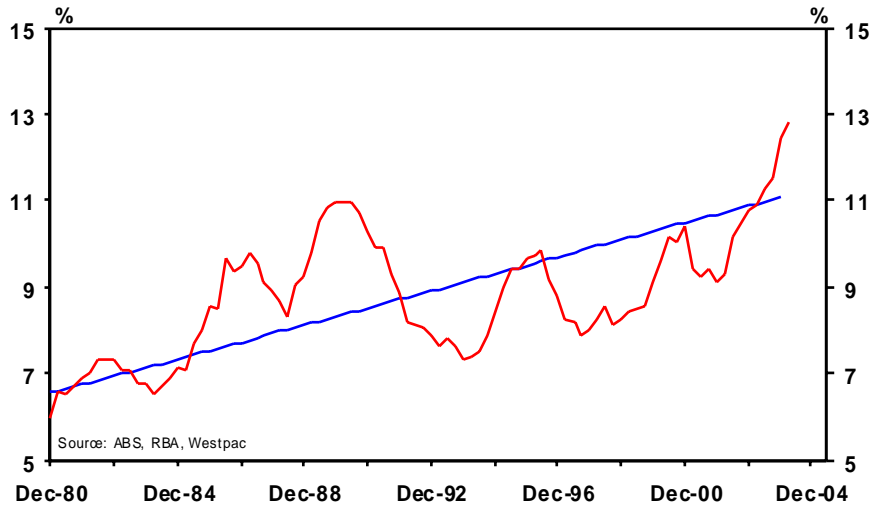
Residential vacancy rates- falling



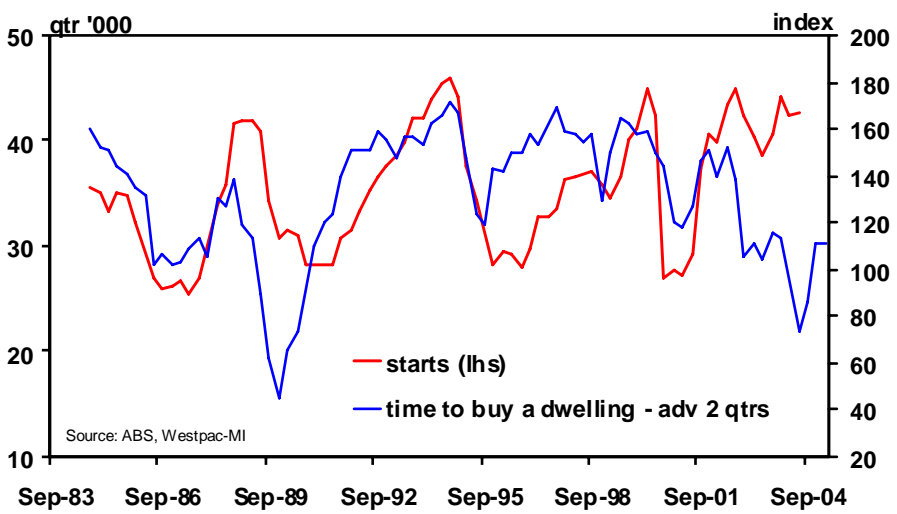
House prices: a small pull-back in Q2



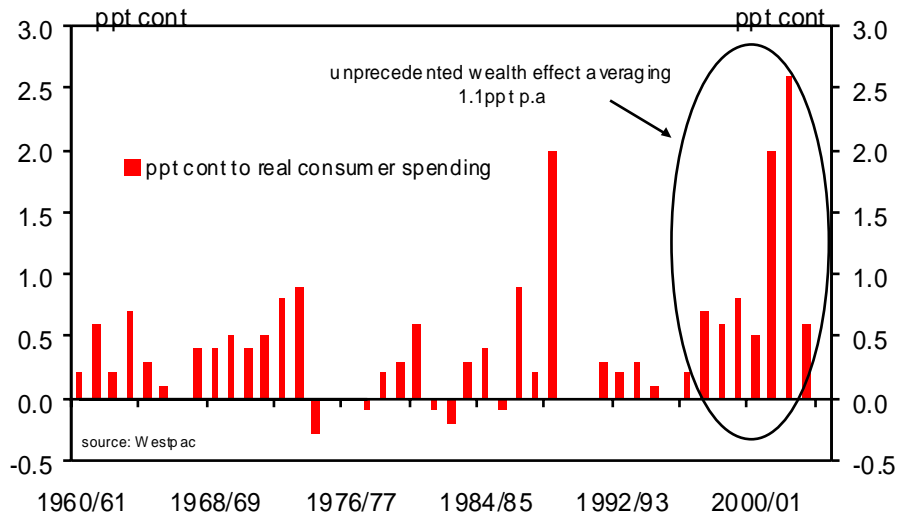
Household debt servicing ratio – well above trend – vulnerable to rate hikes



Sentiment points to housing downturn- but the worst seems to have passed

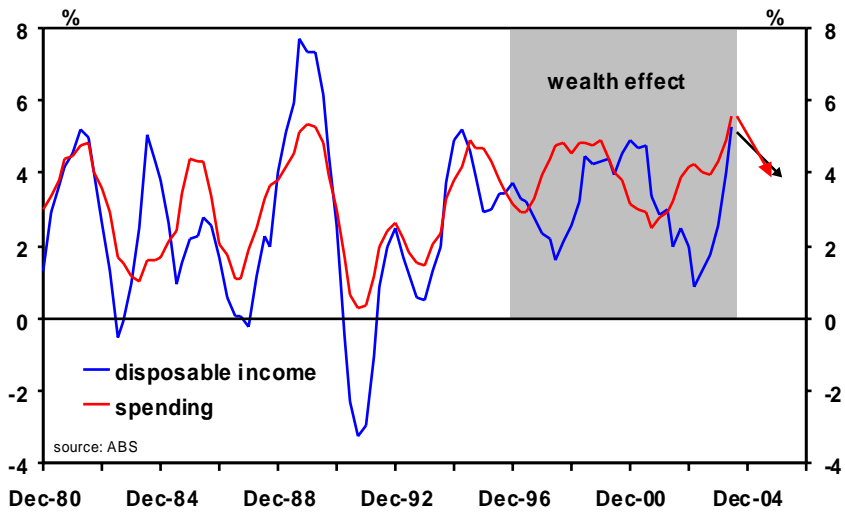


Housing Wealth Effect

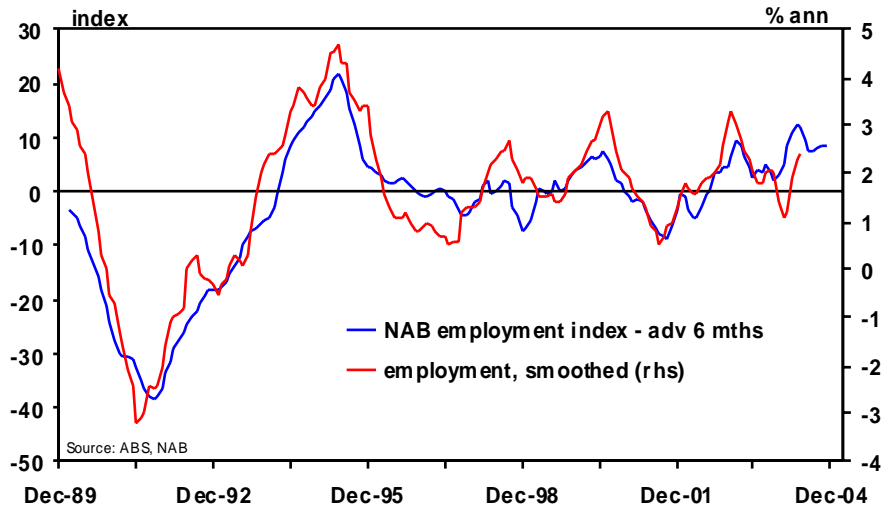


Real consumer spending and income

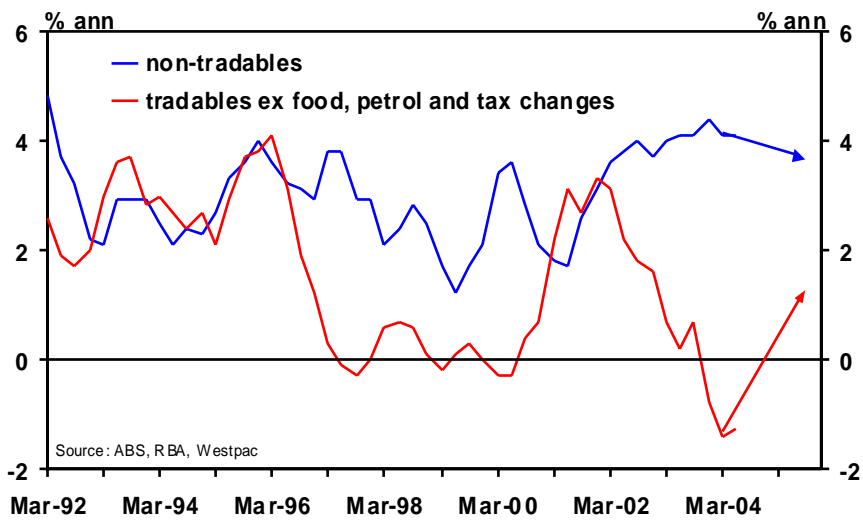
Spending will slow relative to income over coming decade



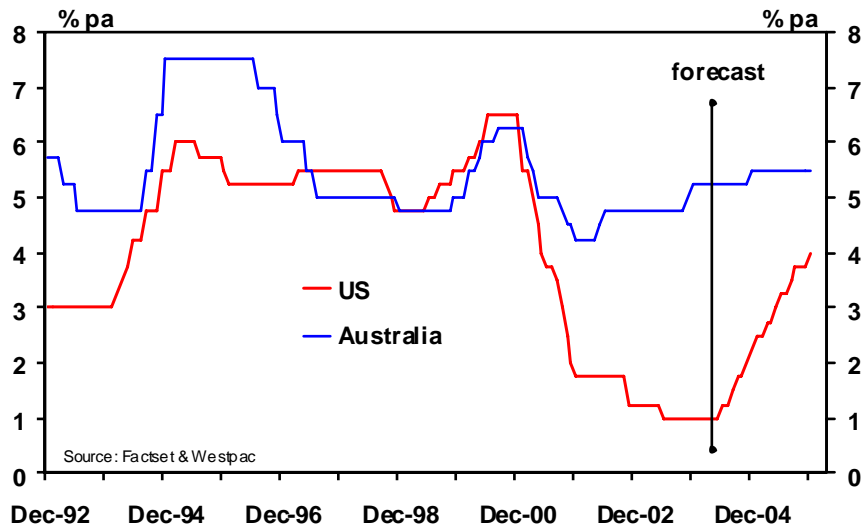
Firms upbeat on employment – positive employment outlook from lead indicators



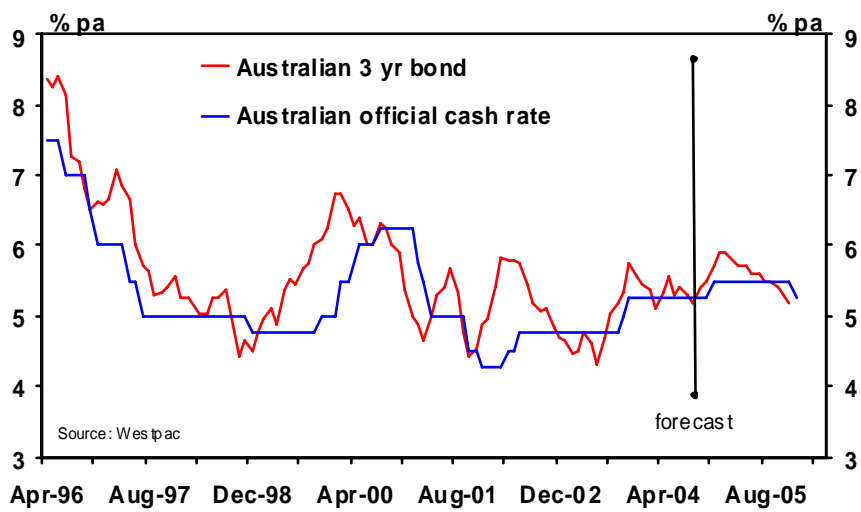
Inflation is in the non-traded sector - AUD correction will reveal inflation pressures



RBA & Fed: differential to narrow markedly



3-year bond rates heading higher – forecast rate hike is not priced into the curve



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