Current forecasts - September 2003

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### Current forecasts – September 2004

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### Global growth: 2004 the high point

Source: IMF, Westpac Economics

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Average 1990 to 2003
Contributions to global growth: look to Asia

Source: IMF, government agencies, Westpac

* ex China & Japan; ppp weights

US initial unemp. claims & non-farm payrolls

Source: Factset, BLS
US domestic profits will induce jobs

% of Sep 00

months since last qtr negative growth

source: BLS, Factset, Westpac

What’s driving US disposable income growth

% yr

ppt cont yr

Mar-00 Mar-01 Mar-02 Mar-03 Mar-04 Mar-05

source: BLS, Factset, Westpac
Potential energy price impact on income & employment

- Wage & salary (rhs)
- Wage & salary with indirect energy effect (rhs)
- Disposable income (lhs)
- Disposable income with energy effect (lhs)

Oil prices are rising despite larger US stocks

- Private oil stocks
- Strategic reserves
- Oil price 4wma (lhs)
- Total US oil stocks incl. SPR 4wma (rhs)
- *inverted
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

Average = 11

Average = 16

Average = 11

Average = 25
Contributions to global growth: look to Asia

Source: IMF, government agencies, Westpac

* ex China & Japan; ppp weights

China’s GDP growth – “soft” landing

Source: IMF, Westpac Economics
Risk to global outlook - Chinese overcapacity – profits to slow

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

Source: World Bank

Source: DSGAsia
China’s share of global commodity demand

![China’s share of global commodity demand chart](chart)

Chinese energy demand exceeding capacity

24 of 31 provinces experienced power shortages in 2004Q1.

energy supply fixed in short run = demand for energy inputs to remain resilient

![Chinese energy demand exceeding capacity chart](chart)
Contributions to fixed asset investment growth

Anatomy of an investment soft landing
Chinese demand & commodity prices

Source: CEIC

- non-fuel imports (rhs)
- WCFI+BI (lhs)

Commodities price to turn down and drag AUD

Source: Westpac, Factset, Bloomberg

*including bulk commodities
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

Source: Westpac forecasts

Source: ABS, Westpac
Dwelling approvals downturns – houses. This is the mildest slowdown.

Private house approvals

Source: ABS, Westpac

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

Net balance of housing stock (rhs)
Underlying demand, annual
Approvals

Source: ABS, Westpac
Immigration drives up housing needs

Population change

- Immigration
- Natural increase

Housing requirements

- Demolitions, unoccupied
- Rising population
- Smaller household

Source: ABS, Westpac

Housing finance off peaks, but still too high

- Total finance
- Investor finance, ex-construction
- Owner-occupier finance, ex refinancing
- Target

Source: ABS, Westpac
Investment finance - it's not about “off plan”

Rental yield vs mortgage rates

Source: ABS, RBA, Westpac
Residential vacancy rates - falling

![Graph showing residential vacancy rates falling over time for Sydney and Melbourne, with data from March 1986 to March 2004. The graph is sourced from the RBA.]

House prices: a small pull-back in Q2

![Graph showing house prices with a small pull-back in Q2, with data from June 1989 to June 2004. The graph is sourced from the ABS.]

* Established houses in capital cities
Household debt servicing ratio – well above trend – vulnerable to rate hikes

Source: ABS, RBA, Westpac

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

Source: ABS, Westpac-MI
Housing Wealth Effect

![Graph showing Housing Wealth Effect with data points from 1960/61 to 2000/01. There is an unprecedented wealth effect averaging 1.1ppt p.a.](image)

Source: Westpac

Real consumer spending and income

Spending will slow relative to income over coming decade

![Graph showing real consumer spending and disposable income from Dec-80 to Dec-04. The wealth effect is highlighted.](image)

Source: ABS
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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