

2009: First Australian recession in a generation

Overview

Following the collapse of financial markets and rapid deterioration in the global economy through late 2008, 2009 is shaping up to be the toughest year in decades for Australian businesses. In 2009 we expect Australia will suffer a mild recession. Annual GDP growth will stagnate at 0.1%, with at least two quarters of negative growth. Unemployment will rise from 4.5% now towards 7% and household incomes, spending and credit growth will all slow significantly. Residential construction, business investment and profits will be especially weak, and government spending (and deficits) will need to rise substantially. After 17 years of continuous economic growth, this will be the first local recession in a generation — a challenging new experience for many businesses and households alike.

The global downturn will affect all Australian industries, but some are being hit earlier and harder. The first to be hit have been:

- Banking and financial markets services;
- Mining, with plummeting values now followed by falling volumes;
- Retail, especially discretionary (non-food) and new automotive sales;
- Residential (new dwellings) and commercial construction activity;
- Export sectors (from mining and manufacturing to tourism and travel).

These sectors are all significant in their own right, but they also have major upstream and downstream links to other industries, including:

- Services to mining, exploration, minerals processing, engineering;
- Wholesale trade and distribution, transport, ports and terminals;
- Manufacturers of construction materials, fittings and furniture;
- Real estate services and some types of business-to-business services;
- Businesses requiring credit and new or renewed financing from banks.

Within each of these industries, there will of course be niches that are less affected; budget retail, receivers, alcohol, food retailers, gambling venues and even house renovators can all flourish in downturns.

It is debatable whether there are any truly 'recession-proof' industries, but those that provide essential goods and services and/or are closely tied to the public sector (by demand, funding or regulation) tend to be affected less by short-term business cycles, and more by longer-term factors such as demographics, government policy and the weather. Far from declining, some industries are still suffering skill shortages including:

- Health, welfare and community services;
- School education services;
- Essential, correctional and justice services;
- Public sector infrastructure and heavy engineering construction;
- Utilities and fuel (electricity, gas, water, petrol, diesel);
- Agriculture and related food production and processing.

There is also a geographic dimension to this outlook. Damage to finance and construction is already hammering Sydney. Declines in mining and related activity will hit the resource economies of WA and the NT hard. The slower, yet more diverse economies of Victoria, SA and Tasmania may fare better, but weak export demand will affect their key manufacturers.

30 January 2009

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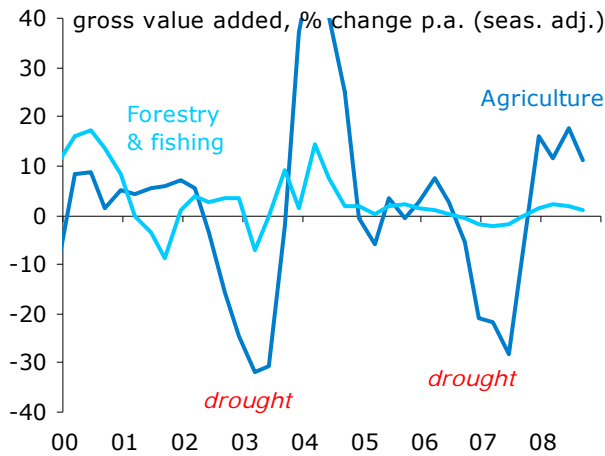
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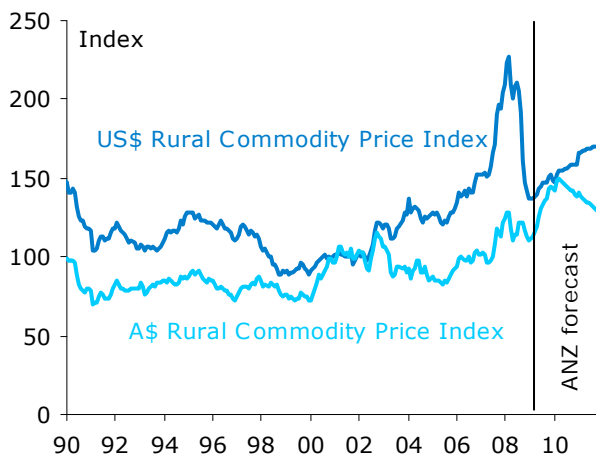
Agriculture

Farm production recovering from latest drought, forestry growing slowly, fishing remains flat



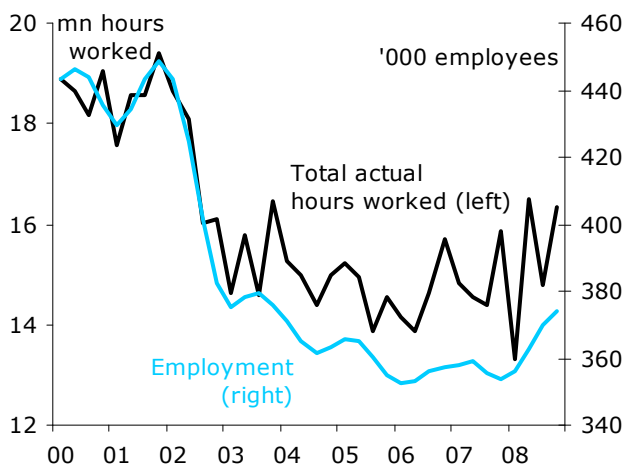
Source: ABS 5206.0.06 (data to Sept Qtr 2008).

Global rural commodity prices past the peak, but lower A\$ provides some local income protection



Sources: RBA, ANZ Economics and Markets Research.

Agriculture sector jobs are (partially) returning



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Agriculture, forestry and fishing accounted for 2.5% of Australia's GDP (by value added) in 2008, with agriculture contributing most (2.4%). This under-represents agriculture's total value to the economy however, since agricultural products are essential inputs for many other industries, as well as for export earnings and of course, for households. Just 3.5% of all employees now work in this sector, down from around 6% 20 years ago. 74% of agriculture workers are full-time.

Agricultural activity improved in 2008 after consecutive years of drought, with further potential for output to improve over the next 12 months. In Queensland, northern NSW and NT, good summer rainfall has improved the outlook for irrigated and dryland agricultural production. Elsewhere, assuming a return to average winter rainfall in 2009 in south eastern Australia, activity in the main broadacre industries of cattle, grain and sheep could also recover further in these areas.

For the 12 months to November 2008, key exports in the agricultural, forestry and fishing sector earned over A\$18 billion, up by 18% or nearly A\$3 billion from last year. Growth in grain exports were the largest contributor to this increase, up by 65% (A\$2.5 billion), while beef and lamb exports grew by 7% (A\$0.5 billion). The value of Australian dairy and wood exports also jumped, by around 15% p.a. each, but exports were modestly lower (-3% p.a.) for the fishing sector. Commercial ocean fishing faces ongoing challenges due to tightening quotas, although the aquaculture sectors continue to grow.

As of November 2008, 326,000 people were employed in agriculture, plus another 30,000 in services to agriculture, 7,500 in forestry and logging, 10,300 in commercial fishing and 800 in miscellaneous other activities. At its peak before the 2002 drought, the agriculture sector employed around 390,000 people. In response to the drought the sector slashed jobs by 20% in just 12 months.

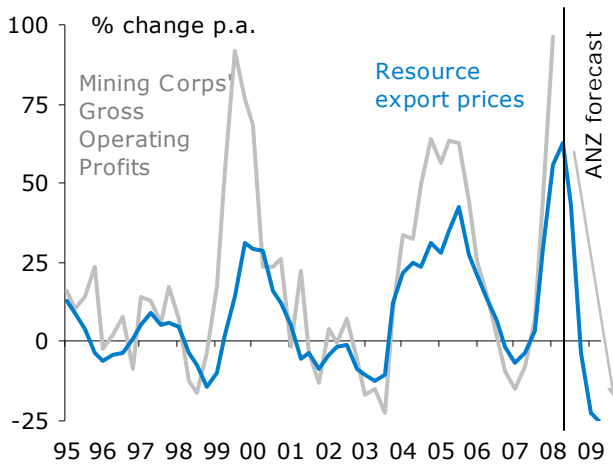
In recent years the mining industry with higher wages has reduced the pool of available labour to the agricultural, forestry and fishing sector. With some easing in the labour market and further scope for a pick-up in Australian agricultural activity, this may be one of the few sectors with a positive employment outlook in 2009.

The major cloud hanging over the industry in 2009 is agricultural commodity prices. Global prices for wheat, cotton, wool and dairy have all fallen by 50-60% over the last 12 months. Further significant price falls from this point would indicate demand for agricultural commodities has declined more than anticipated from the global economic downturn.

The recent fall in the A\$ is at least partly insulating the Australian rural sector from the large falls in global commodity prices since late 2008. We expect the A\$ to fall further in 2009, which will help maintain farm incomes and export revenues over the next 12 months in A\$ terms.

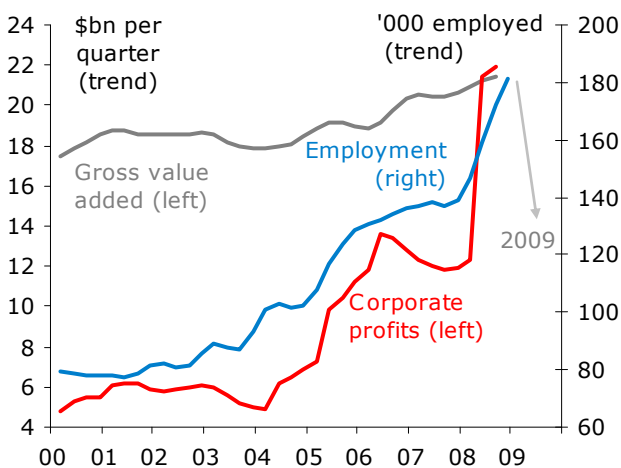
Mining

The great commodity price boom is over for now



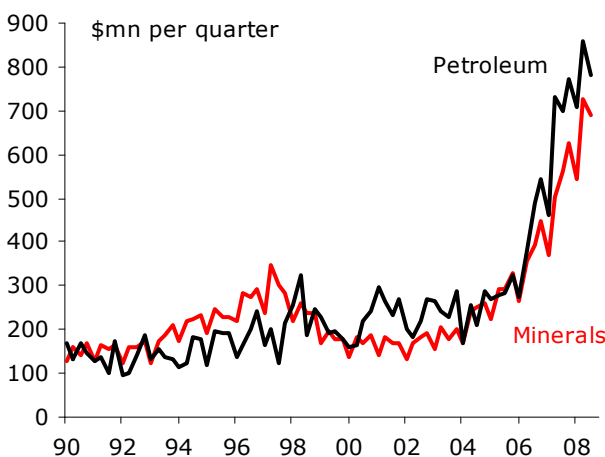
Sources: RBA and ANZ Economics and Markets Research.

Mining activity, profits and jobs peaked in 2008, are already following prices down – but how far?



Sources: ABS 5206.0.06, ABS 5676.0 (data to Sept Qtr 2008) and ABS 6291.0.55 (data to Nov Qtr 2008).

Exploration and capital investment trebled in four years, likely to fall rapidly with profits in 2009



Source: ABS 8412.0 (data to Sept Qtr 2008).

Mining and services to mining (contract exploration, surveying, testing, basic processing and the like) accounted for around 8% of total GDP (by value added) and 1.7% of total employment in 2008. 96% of mining employees work full-time.

Mining is, by its nature, a boom-bust industry. It grew faster and further than any other sector in 2007-08. And now that prices for mining commodities and equities have fallen from their spectacular peak, it has a longer way to fall than most other industries, in terms of values, earnings, output, investment and jobs.

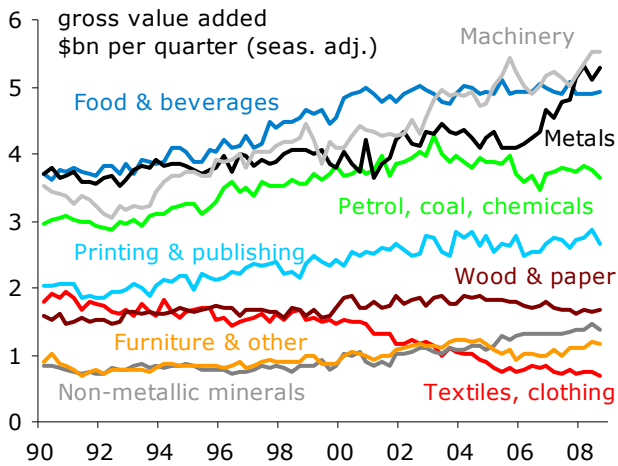
Mining profits and profitability reached record highs through 2008, earning an estimated \$22bn in corporate GOP in the Sept Qtr 2008 alone, nearly double the profits of a year earlier and implying a profit ratio of 54%. Almost all of this increase was due to price rather than volume changes, since mining's real value added grew by only (a still respectable) 6.3% over the same period. Mining profits are expected to fall back – by at least 20% p.a. by late 2009 – as key export contracts come up for renewal, some at half their previous price or less. Miners are already bracing for this price cut by reducing current production levels. But even after the expected price and volume falls, mining profits could still stay higher than their healthy 2006 levels.

Mining employment hit a modern peak of 180,000 in November 2008 – up a massive 30% in just one year. Jobs growth was strongest in oil and gas extraction and in services to mining. These new jobs will now be shed as quickly as they were created however, as local output falls rapidly and whole sites are shut down (e.g. BHP's \$2bn Ravensthorpe nickel mine, with 1,800 jobs lost). While it lasts, the mining sector's prosperity is flowing directly through to its (new) employees, with gross Average Weekly Ordinary Time Earnings (AWOTE) reaching \$1,948.30 in August 2008, 10% higher than a year earlier, and 69% above the all-industries average of \$1,151.40 AWOTE. Further growth in mining AWOTE in 2009 will be slower and may even stagnate, in line with mining activity, profits and employment.

One of the most important local spin-offs from the mining boom has been a secondary boom in mining-related investment. In 2007-08, the mining sector invested a record \$27.3bn in buildings, structures, plant, equipment and machinery – up 20% from a year earlier and triple 2003-04's level. This equalled one third of total capital expenditure in 2007-08. Another \$5.5bn was spent on exploration – \$3bn on oil and gas and \$2.5bn on mineral deposits. In the first quarter of 2008-09 (Sept 2008), mining spent another \$8bn on capital investments and \$1.5bn on exploration, and expected to spend a total of \$43bn on capital over the year. With the abrupt change in circumstances since September however, not all of this planned investment will go ahead, with several large projects already postponed or cancelled. Indeed, even a cyclically low investment realisation ratio of 0.8 (equal to 2001-02's low) now looks very optimistic for mining in 2008-09.

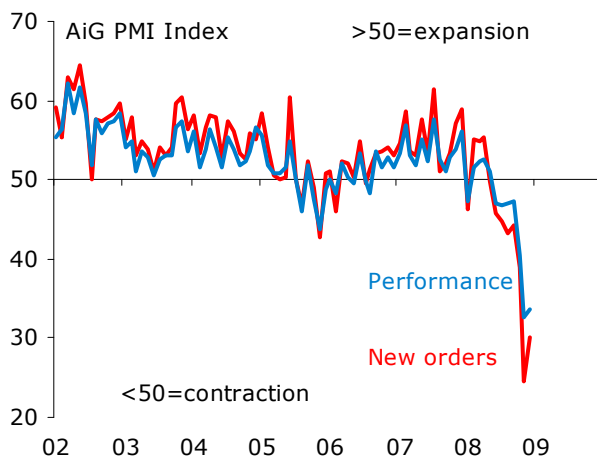
Manufacturing

Food, machinery & metals dominate output



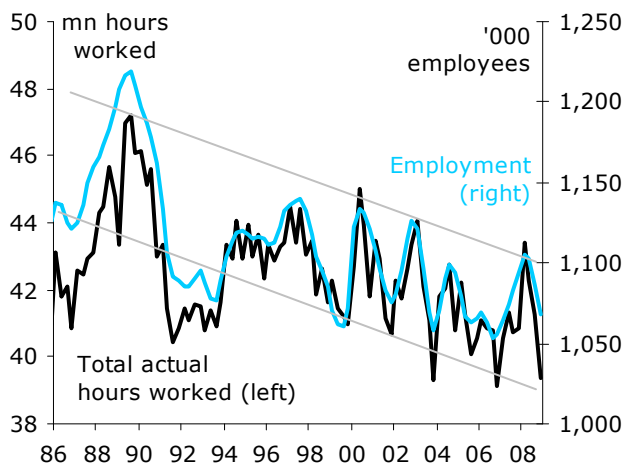
Source: ABS 5206.0.06 (data to Sept Qtr 2008).

Industry surveys point to serious contraction



Source: AiG PMI survey (monthly data to Dec 2008).

Manufacturing employment is likely to continue its sporadic, long-term decline



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Manufacturing accounted for just under 10% of GDP (by value added) and 10% of total employment in 2008, down from 14% of GDP and 16% of employment 20 years ago. 88% of manufacturing employees work full-time. The biggest manufacturing sectors (by value and employment) are machinery and equipment (about half of which is automotive and related), metal products and food and drinks. Manufacturing is most significant in Victoria and SA (12 and 12.3% of state jobs), but it makes up a high proportion of NSW and Queensland employment also (9.7 and 9.1% of state jobs).

Total annual manufacturing output grew by 3.3% in 2007-08 (value added, seas. adj.), just under GDP growth in that year. (3.7%). Among manufacturing segments, the standout growth areas in 2007-08 were furniture and other manufacturing (up 11.4%) and metal products (up 11.1%). At the other end, textiles, clothing and footwear and wood and paper products both contracted by more than 4% p.a.

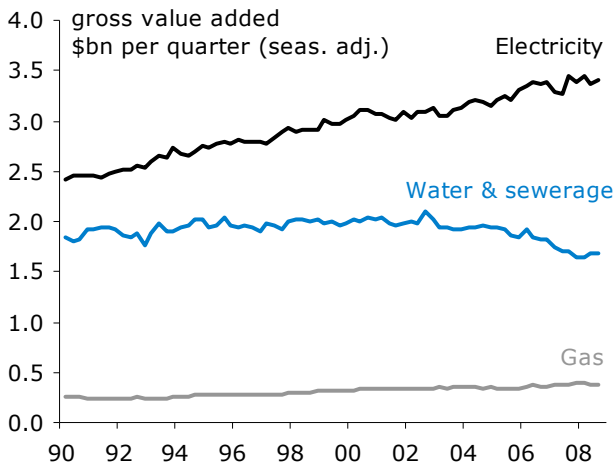
More recently, manufacturing as a whole contracted a full 1% in the Sept Qtr 2008 and industry surveys indicate further contraction since. The AiG PMI has indicated industry contraction every month since May 2008, at steadily worsening levels. Forward orders fell to their lowest point ever in this survey in Nov 2008. Exports look especially difficult due to declining demand and a freezing up of trade finance, although the lower A\$ may provide some relief. Capacity utilisation fell from a peak of 77.9% in Feb 2008 to 70% by Dec 2008, indicating production is already falling with orders, as indeed it must.

As is well known, employment in manufacturing has been declining for decades. Many of the job losses have been in the once-mighty textiles clothing and footwear and automotive segments. Elsewhere however, manufacturing still has robust pockets of growth, particularly in food and beverages, pharmaceuticals, biotechnologies, metal products, non-automotive machinery and specialist engineering products. Somewhat perversely, manufacturing's reputation as a declining, old-fashioned industry (particularly among younger workers) has made it harder for these growth areas to attract and train people, particularly in the recent period of record low unemployment. This may help to explain why manufacturing AWOTE grew 6.1% in the year to Aug 2008, compared with growth of 4.7% for all industries (although it remains some 5.4% below the average AWOTE for all industries). Going forward, labour demand will ease in 2009.

Recently announced Government support continues to focus on the auto sector, traditionally regarded as the linchpin of Australian manufacturing. In the latest package, the remaining three international companies with local assembly plants and their suppliers will be eligible for up to \$6.2 bn to 2013, plus another \$1.3bn 'Green Car Development Fund'. But given current global auto market conditions (including major production cuts in Japan and elsewhere), even this generous assistance may not be enough to stem further production and job cuts.

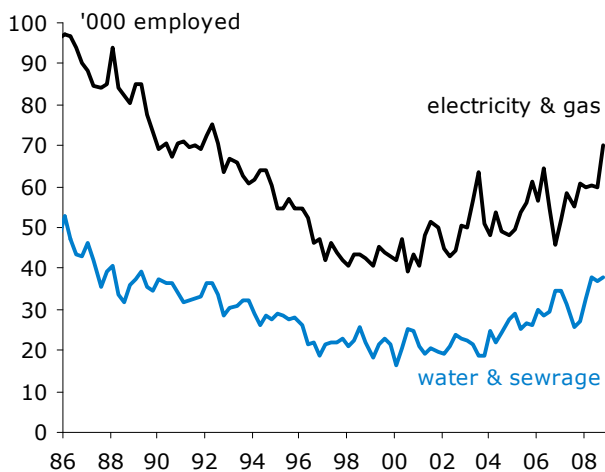
Utilities

Electricity and gas outputs grow slowly but steadily, water utilities affected by drought



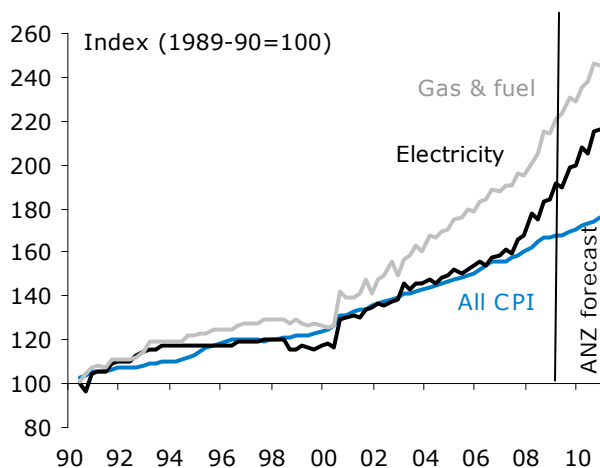
Sources: ABS 5206.0.06 (data to Sept Qtr 2008).

Utilities employment is back up to 1990 levels



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Gas and electricity prices will rise further in 2009



Source: ABS and ANZ Economics and Markets Research.

Electricity, gas and water are small but vital industries. They account for just 2% of GDP (by value added), but are an essential input for all other sectors, as well as for households. They employ 1% of the total workforce, 91% of them full-time, with jobs distributed fairly evenly around the country.

Utilities employment fell steadily through the 1980s and 1990s, as former state-owned businesses were privatised and rationalised. It has been drifting up again since 2000. By November 2008, this sector employed 108,000 people, the same as in 1990-92.

In domestic consumption terms, 2.1% of HFCE was spent on utilities in 2008, the same proportion as 20 years ago. Demand for energy (electricity and gas) grows each year due to population, income and industry growth. The growth rate has, however, decelerated over time due to improvements in energy efficiency and intensity (that is, energy consumed per dollar of GDP, income or capita). ABARE estimates total electricity consumption grew by 2.4% p.a. from 2001-02 to 2006-07. Renewable energy grew by 10% p.a., but it still comprises only 5% of the national total. ABARE projects growth in final energy consumption will slow to 2.2% p.a. for 2005-06 to 2011-12 and average 1.6% p.a. from 2005 to 2030. From 2009, demand for energy is likely to be slower than originally forecast by ABARE, due to slower activity and demand by large industrial consumers.

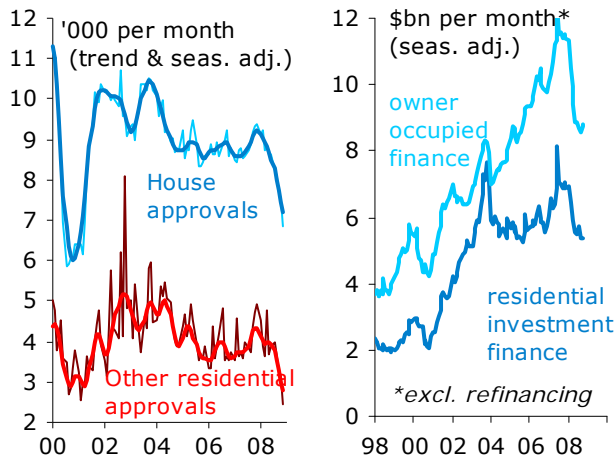
Demand for water has been constrained in recent years by ongoing drought and water restrictions, affecting rural, industrial and residential users. This situation is unlikely to change anytime soon.

Utilities businesses are heavily regulated at each stage of production, distribution and retail sales, by both state and national government agencies. They face some unique challenges at the moment, including: ongoing water restrictions in many urban areas; more frequent and extreme spikes in demand for electricity at peak periods (typically due to increased air conditioning during hot weather); the relatively new National Electricity Market (NEM); state-based retail price regulation; volatile prices for key resource inputs (e.g. coal, oil, gas and water); growing demand for renewable energy sources from regulators and consumers; difficulties obtaining finance for new investment due to the credit crunch; mandatory renewable energy targets (aiming to increase renewable energy to 20% by 2020) that will require very large new capital investments; and the impending introduction of national carbon emissions credits trading (the Carbon Pollution Reduction Scheme) sometime in 2010.

Different energy sources prevail in various locations around Australia — hydro in Tasmania, brown coal in Victoria, black coal in NSW and Qld and gas in WA — so these factors play out differently across states. The costs of implementing the CPRS will be highest in Victoria (due to its brown coal) for example, but so too will be the associated adjustment assistance.

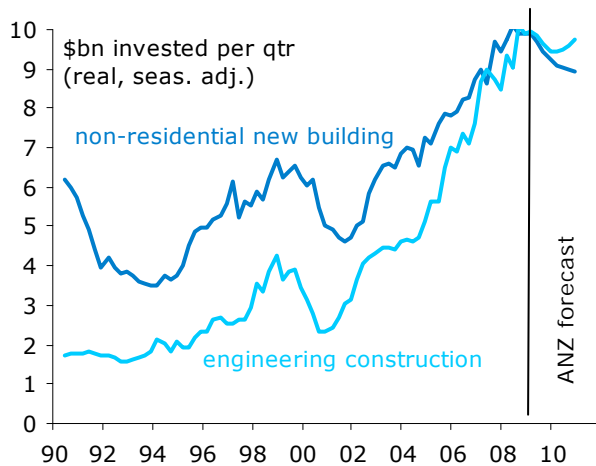
Construction

Residential planning and finance approvals have collapsed, indicating few dwelling starts in 2009



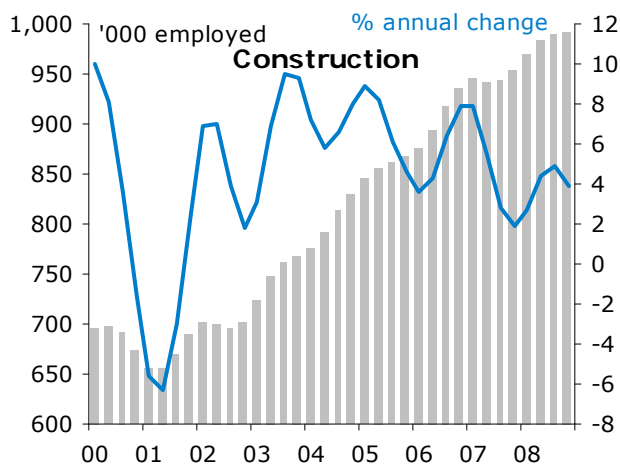
Source: ABS and ANZ Economics and Markets Research.

Non-residential construction's long boom to end; engineering may begin to recover by late 2010



Source: ABS and ANZ Economics and Markets Research.

Jobs now close to 1 million, will fall away in 2009



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Australia's construction industry (residential, non-residential and engineering) accounted for 7% of GDP (by value added) and 9.3% of all employment in 2008. 88% of construction workers are full-time. Construction is one of the more pivotal industries, since it drives demand for so many other goods and services. It is also one of the most cyclical of industries, albeit with quite different drivers pushing the residential and non-residential segments.

Real spending on dwellings (new dwellings plus alterations and additions) stagnated at just 0.9% growth in 2008, but non-residential construction kept the industry humming, with 7.9% growth in new non-residential buildings and 9.9% growth in engineering construction (including transport, utilities and related). Activity was particularly strong in the mining-led regions and in Perth and Darwin.

Conditions changed starkly and rapidly in late 2008. Both residential and non-residential construction now appear to be locked into a firmly negative trajectory, despite falling interest rates, extended first home buyer assistance and improving housing affordability. Lack of household and investor confidence, tightening credit standards and an uncertain economic outlook (particularly for the big-spending mining sector) are now weighing heavily.

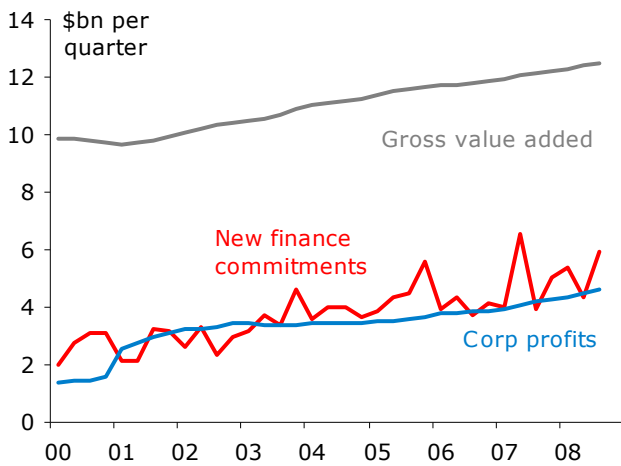
In November 2008, residential building and finance approvals crashed to their lowest levels since 2002. We now expect residential construction will contract by 4% or more in 2009 (in real spending terms). Non-residential building will contract by around 3.4%, while engineering construction will see a last puff of growth — just 1.4% — as current projects in both the private and public sectors are completed. Due to very long lead times and construction times, engineering construction tends to take longer to gear up and to wind down than the other segments. It also has a higher proportion of public sector projects that tend to follow a different cycle.

In the longer term, Australia has an undersupply of housing stock. This is a positive aspect to Australia's construction outlook not shared by the US, UK and other developed economies. Australian housing market fundamentals remain very supportive, with a rising birthrate and record net migration (213,000 in 2007-08) pushing annual population growth to 1.7% and underlying housing demand to 185,000 new dwelling units p.a. At the same time, new dwelling completions are running at 140,000 p.a. and falling. Consequently, Australia faces a chronic undersupply of dwellings over the next decade. Rental vacancy rates are already at record lows around the country. Despite the short-term negative outlook, this pent-up demand will begin to push the residential construction cycle back into action by mid-2010.

In the non-residential construction segments, business profits, confidence and investment spending are expected to be hit hard over the next 12-18 months. Longer lead times mean the next leg of growth may not begin until sometime in 2011.

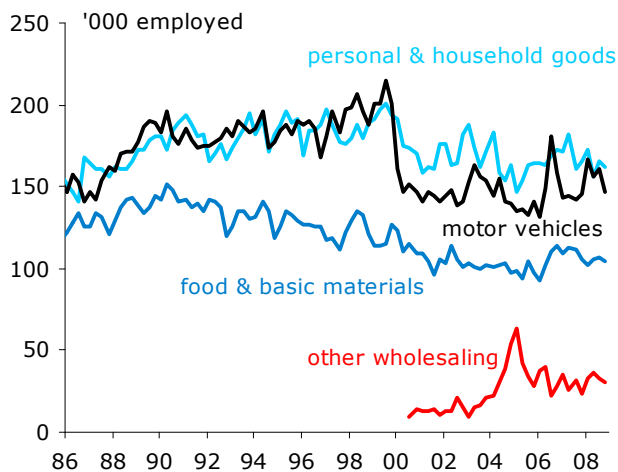
Wholesale trade

Wholesale activity & profits already relatively flat



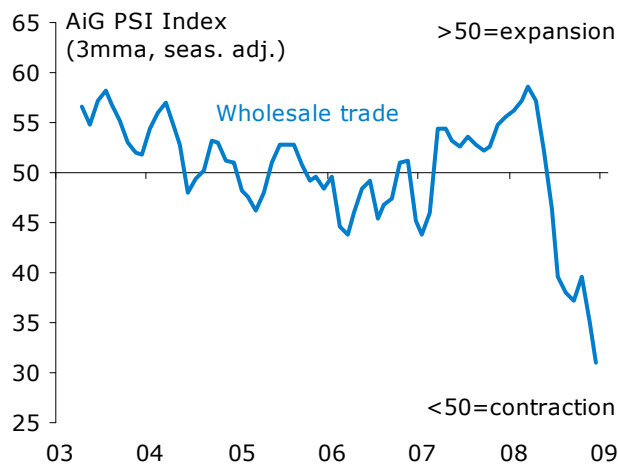
Sources: ABS 5206.0, 5671.0, 5676.0 (data to Sept 2008).

Wholesale jobs already down in 2008, likely to decline further through 2009 as trade decreases



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Industry surveys point to a very weak 2009



Source: AiG, Performance of Services (data to Dec 2008).

Wholesale trade accounts for 4.5% of GDP (by value added) and 4.2% of total employment. 83% of jobs in this industry are full-time.

By definition, wholesale traders deal with other businesses rather than with households, including local and international manufacturers, importers, suppliers and retailers. Many wholesalers also act as import agents, stock liquidators or in other specialist roles. Increasingly, many larger retailers act as their own wholesalers, dealing with manufacturers directly. Modern communications technologies and more open access to global trade (including with previously closed economies like China's) have made it increasingly easy for even small retailers to go directly to manufacturers. This blurring of the boundaries between industries has seen pure 'wholesalers' face growing competitive pressures from both suppliers and retailers in recent years.

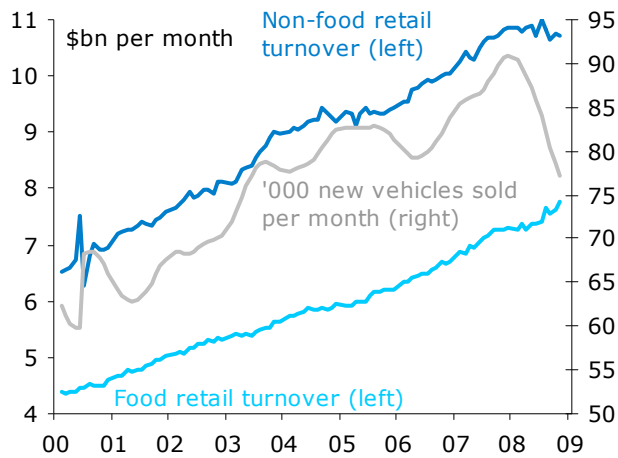
It has also meant wholesale traders have not always benefited from the strong growth of their retail counterparts. Wholesale trade has been a slow but steady performer over the past 5 years, despite the boom evident in other relevant sectors. Growth has been relatively subdued, at 2.7% p.a. average growth in real value added and 0.7% p.a. average growth in employment in wholesale, compared to 3.7% p.a. average real value added and 1.4% p.a. average employment growth in retail (Sept 2003 to Sept 2008). Wholesale trade jobs now sit at 4.2% of total employment, compared to 6.2% 20 years ago.

With local retail and global trade conditions now deteriorating, wholesale trade is likely to slow even further in 2009. The AiG Performance of Services survey indicates wholesale trade activity is at its lowest point since the survey began in 2003. Local retail trade turnover will most likely decline in 2009, as Australian retail spending drops and orders to wholesalers dry up (see page 8). This will particularly affect wholesalers of building materials, household goods, cars and other more discretionary items. Food, alcohol, beverages and essential items are expected to be less affected, although food wholesalers selling mainly to restaurants are likely to see demand decline. Both retailers and wholesalers will need to be very price-focused, as consumers become ever more price conscious.

For wholesalers specialising in imported items, the weak Australian dollar has the potential to eat into margins, since the slowdown makes it all the harder to pass higher import prices on to customers directly and immediately. The current disruptions to global trade due to difficulties maintaining access to essential international trade financing (e.g. to cover the cost of stock and shipments in transit) is an extra layer of complication in the current climate. This problem with access to trade finance should not be under-estimated. Already, it has been enough to delay or even halt trading on some key trade routes and has affected many different types of goods, from raw textiles to children's toys to cars. With global financial market turmoil still unfolding, this looks set to remain a problem going well into 2009.

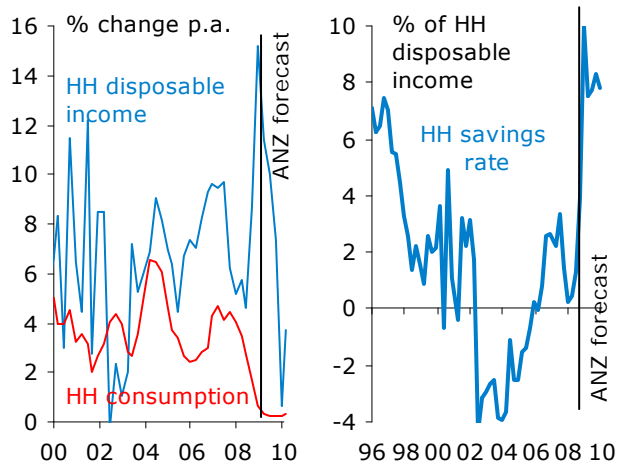
Retail trade

Non-food retail and auto sales tumble into 2009



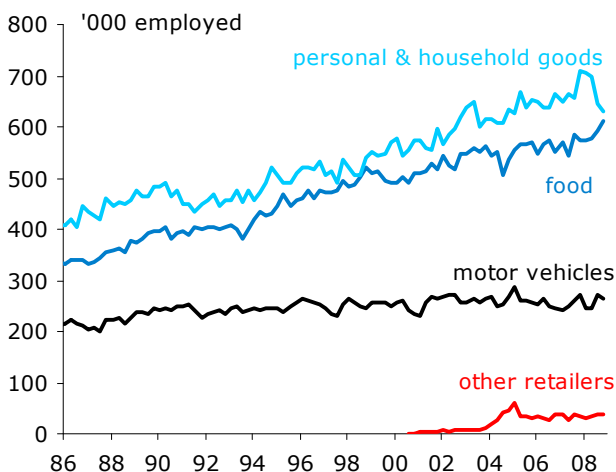
Sources: ABS 8501.0 (data to Nov 2008, seas. adj.) and ABS 9314.0 (data to Dec. 2008, trend).

Household incomes and spending growth will stall in 2009, as unemployment and savings grow



Source: ABS and ANZ Economics and Markets Research.

Retail jobs are very vulnerable, across all sectors



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Retail trade is Australia's largest employing industry, accounting for 14.4% of all jobs. Only 52% of retail jobs however, are full-time. Retail trade is highly cyclical. It is very vulnerable to the worsening local downturn, in terms of both turnover and jobs.

Retail trade contributes around 5.4% to GDP in value added terms, but in expenditure terms, retail turnover (excluding new auto sales but including cafes, restaurants and take-away food) is worth 36% of household consumption and 20% of GDP. These large shares of expenditure and employment help explain why recent government fiscal policy has focussed so strongly on keeping retail trade flowing.

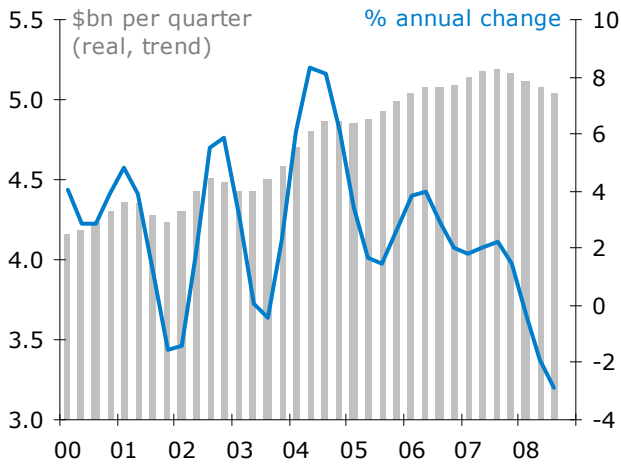
In 2009, we expect total household consumption to be flat (in real spending terms), with growth picking up again only slowly in 2010 (1.4% p.a.). This flat spending outlook is due partly to rising unemployment and partly to a sharp increase in the national savings ratio, as households become far more cautious with their spending and finances. Unemployment will directly affect a minority of households (even when it peaks, at an expected 7% or higher in 2010), but others are seeing reduced hours and incomes (from wages, shares, superannuation and other sources). The general mood is now shifting well away from conspicuous consumption and consumer credit. Unlike housing (mortgage) and business credit, which are still growing (albeit at decelerating rates), personal credit (such as credit and store cards) is now falling.

All of this means retail turnover will be flat at best in 2009 and may even contract. The more discretionary (non-food) segments are particularly vulnerable, as are new car sales. December retail sales saw the usual seasonal boost, plus the benefit of the government's one-off pension bonuses. But early indicators are that despite some heavy discounting, non-food retail sales have begun 2009 in a slump. David Jones has retrenched 150 office staff and will cut hours for floor staff, Harvey Norman has commenced store closures, and other major retailers have downgraded sales and profit expectations. Store closures and widespread job cuts are likely among large and small retailers. On the supply side, the low Australian dollar will eat into retail profits and/or cause local prices to rise for many of the nation's favourite consumer durables.

More positively, while retail trade has been one of the first sectors to be hit by this recession, it will also be one of the first sectors to recover; consumer spending responds surprisingly quickly to changing moods and circumstances. Some popular stories about 'recession-proof' retailing are currently doing the rounds in Australia and internationally. Small luxuries are said to do well — cosmetics, coffee, accessories — as are house brands and discount chains. In the UK and Europe for example, Aldi and other discount supermarkets are reporting double-digit growth, while some big cosmetics firms are reporting stronger sales. Aside from food, alcohol and essential items however, it remains to be seen which Australian retailers will prove recession-proof.

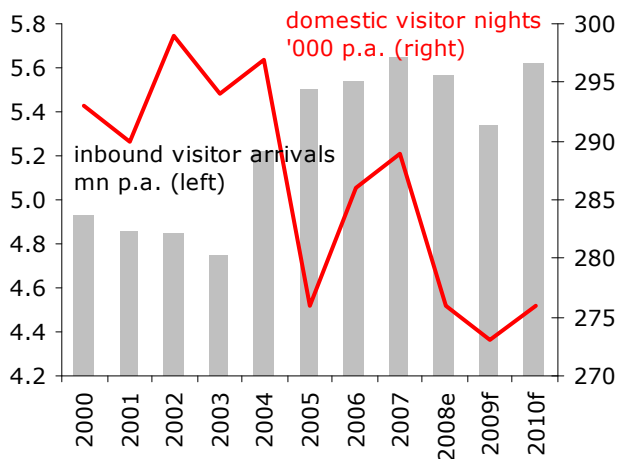
Hospitality

Hospitality activity has been shrinking since 2007



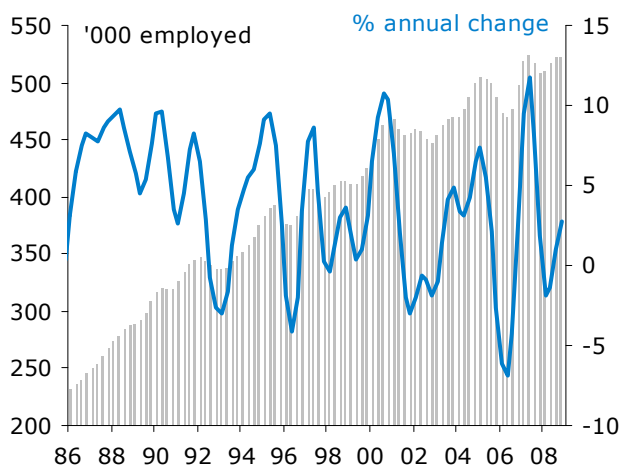
Source: ABS 5206.0 (data to Sept 2008, trend).

Inbound tourism and domestic accommodation demand are both expected to fall further in 2009



Source: Tourism Forecasting Committee, Dec. 2008.

Hospitality jobs are volatile, likely to dip in 2009



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Accommodation, cafes and restaurants (hospitality) accounted for 2% of GDP (by value added) and 4.9% of employment in 2008. It has the highest proportion of part-time and casual employment of any industry, at half of all current hospitality jobs.

Most hospitality services are provided to households and individuals rather than to other businesses, although business travel and meals are also an important market segment for this industry. In expenditure terms, 7.5% of HFCE was spent on hospitality in 2008 (down from 8.3% 20 years ago).

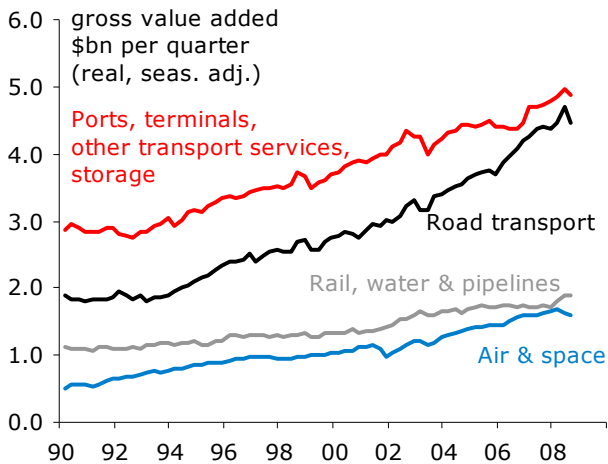
Hospitality growth (value added and jobs) has been weak or negative since early 2007. This trend is likely to continue into 2009, since hospitality spending is at the very 'discretionary' (non-essential) end of household and business spending.

In the domestic market (Australians holidaying and dining out close to home), demand for local holiday and business accommodation was down in 2008 (due to the high dollar making overseas travel more attractive and drought affecting many favourite inland holiday destinations) and the Tourism Forecasting Committee expects 2009 to be lower still. Advertising aimed at persuading Australians to keep their holiday dollars close to home may help — the low dollar and uncertainty about future employment and incomes will help persuade many to do this anyway. As with retail, the 'small luxuries' phenomena is likely to kick in, whereby some consumers trade down, rather than cutting all holiday and hospitality spending completely (e.g. buying a take-away instead of a restaurant meal). This could see increased trade for some providers at the lower end of the market, although even for them, total turnover is still more likely to be down than up as other consumers stop travelling or eating out completely. Less business can also be expected from local corporate customers as business profits slump and superfluous costs are targeted, including entertainment, travel and catering budgets.

Inbound tourism is also important to this sector, particularly in key markets such as Sydney, coastal Queensland and central Australia. Inbound tourist arrivals grew in each of the 4 years to 2007 but then fell 1.5% in 2008, for various reasons related to the international economy. The Tourism Forecasting Committee expects visitor arrival numbers to fall a further 4.1% in 2009, before fully rebounding (up 5.3%) in 2010. This rebound may be overly optimistic given the outlook for our key tourist arrival markets, including the US, UK, Japan and New Zealand, all of which are in for a lengthy period of recession. Arguably, in this market, 'push' factors are more important than the 'pull', so it will take far more than a low Aussie dollar to coax these visitors back. With increasingly pessimistic economic news flowing from these countries in recent months, the more likely scenario for Australian hotel and hospitality operators is probably a decline in inbound tourism numbers and spending as forecast in 2009, followed by flat to low growth in 2010 and 2011.

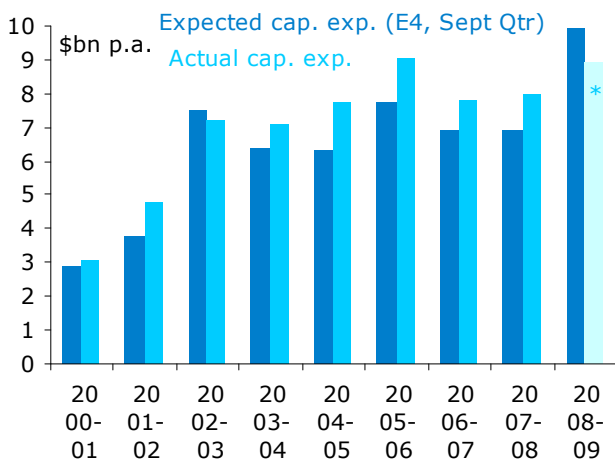
Transport & storage

Transport boomed in 2008, slowdown has begun



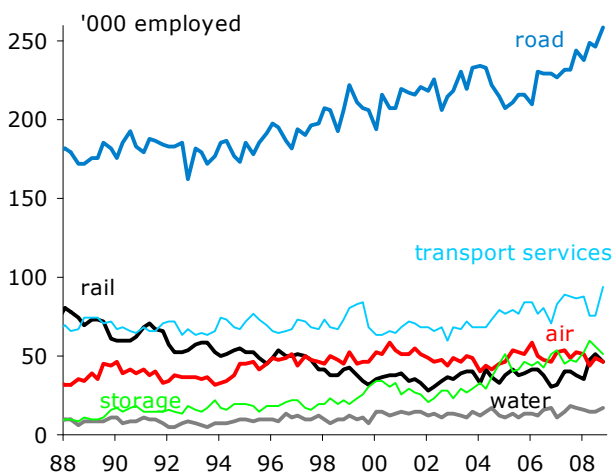
Source: ABS 5206.0.06 (data to Sept Qtr 2008).

Transport was expecting bumper investment for 2008-09. This will now be downgraded strongly



* Assumes a realisation ratio of 0.9 for 2008-09, equal to the low of 1989-90. Actual realisation may be even lower.
Source: ABS and ANZ Economics and Markets Research.

Transport jobs are at a peak, will decline in 2009



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Transport and storage services accounted for 4.7% of GDP (by value added) and 4.9% of total employment in 2008. 81% of transport and storage jobs are full-time. Transport AWOTE was almost exactly on average, at \$1,111.30, in August 2008.

Much of this sector's activity is business to business rather than business to households; that is, freight rather than passenger services.¹ The major sources of demand for freight transport services come from the physical production sectors such as agriculture, mining, manufacturing and construction, as well as from wholesale and retail trade. In domestic consumption terms, just 2.5% of HFCE is spent on passenger and freight transport services (up from 1.8% 20 years ago). By comparison, 5.3% of HFCE is spent on running private vehicles, indicating the importance of private car transport to households.

The transport industry benefited significantly from the international mining boom and from strong local retail turnover in recent years. Road transport activity has grown especially strongly, with gross value added up 6.2% p.a. in 2007-08. This growth was mainly achieved by adding to the national road freight fleet; new heavy truck sales peaked at over 3,300 per month in the second half of 2007 before falling below 3,000 in 2008, and further to year end.

Transport services activity (mainly terminals and ports) also grew strongly, at 6% for the year. Air and rail were slower, at 3.2% and 3.8% growth in 2007-08. Rail and air services are harder than road freight to grow quickly, due to physical capacity constraints and very high capital investment costs.

These growth rates began to unwind in the Sept Qtr 2008, with the transport as a whole down 3% and road transport down 5.4% (value added, (QoQ), the biggest quarterly declines since June 2003. This was well before the financial crisis had fully hit global trade. Given subsequent events, it indicates transport is in for a particularly harsh year ahead as trade volumes — and therefore freight demand — contract sharply in response to the global recession and the freezing of international trade finance. A small offsetting boost may come from agriculture.

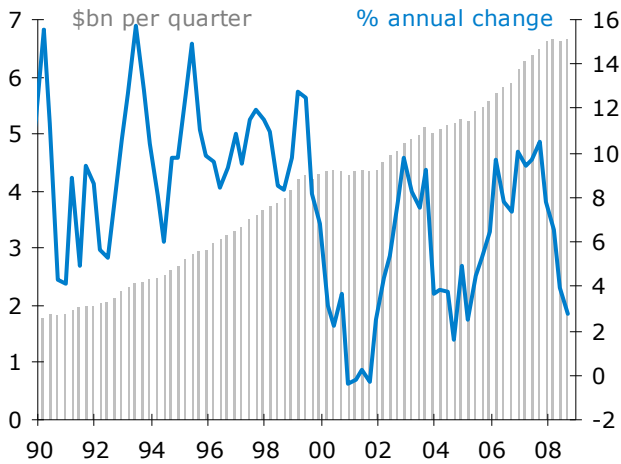
In September 2008 the transport industry was still expecting another bumper year in 2008-09 and intended to invest \$9.9bn in new capital (up 10% from 2007-08). As in other industries, these ambitious investment intentions are now being scaled back significantly, so the actual amount invested by transport is likely to be \$8bn or lower.

Transport employment reached a peak in Nov 2008, even though total hours worked was by then already declining (having peaked in Aug 2007). Almost all of 2007-08's jobs growth was in road freight, transport services (terminals and ports) and storage, rather than in the air and rail sectors. Logically, it will be these faster-growing sectors which will also bear most of the transport industry's job cuts in 2009.

¹ Postal and courier services are included in 'communications' not 'transport'.

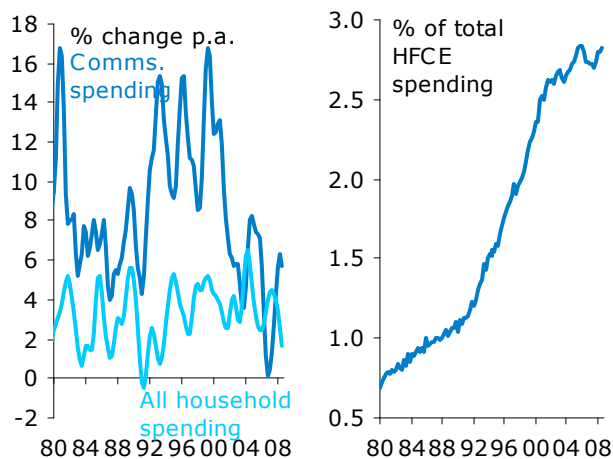
Communications

Communications growth levelling out in 2008



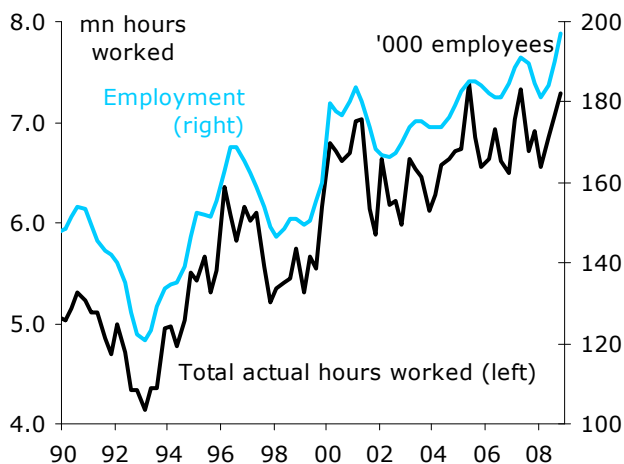
Source: ABS 5206.0.06 (data to Sept Qtr 2008).

Household spending on comms. returning to more 'average' growth, share of spending stabilising



Source: ABS 5206.0 (data to Sept Qtr 2008).

Communications jobs at a peak, likely to decline



Source: ABS 6291.0.55 (data to Nov Qtr 2008, trend).

Communication services (post, courier and telecommunications services by wire, cable or radio, including all telephone, network, radio and television relay stations, satellite services and exchanges but not broadcasting or IT services) made up 2.4% of GDP (by value added) and 1.8% of employment in 2008. 85% of communications jobs are full-time.

Communication services are provided to both businesses and households. In domestic consumption terms, 2.1% of HFCE was spent on communications in 2008, up from 1% 20 years ago. Communication services enjoyed strong growth over the past decade (with average annual growth in real value added of 5.8% 1998 to 2008), but more recently, industry growth decelerated through 2007-08 and into 2008-09. Growth in household spending on communication services shows a similar pattern.

The industry's growth path largely reflects the fortunes of the telecommunications sector, since postal and courier services are broadly stable. As is the case in other developed countries, the Australian telecommunications market is very much driven by new technologies in phones, internet services and related devices. New technology take-up rates in Australia tend to be high and rapid, resulting in strong growth for the industry when popular new devices and services are released. Most recently, the big growth spurt has been in home broadband internet connections, with an estimated 4.3 million (52%) of Australian households now connected, up a massive 22% in just one year. Households with higher incomes (\$120,000 p.a. or more), children under 15 years old and in metropolitan areas had higher rates of Broadband connectivity than lower income and regional households.

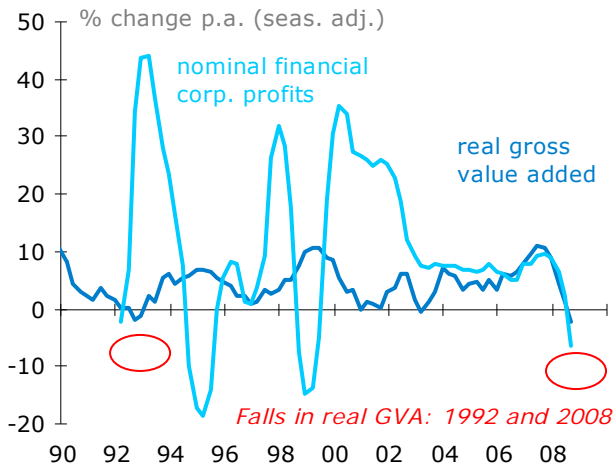
The recent slowdown in industry value added and turnover a saturation point may already have been reached with the current generation of technologies, particularly in mobile phones. Going forward, growth in spending in such services is likely to be more in line with consumption growth as a whole, rather than speeding ahead of it as in the recent past, as the technologies become more commoditised and less novel. In number terms, this will mean industry turnover growth in the order of 2-3% p.a. instead of the 5-10 % p.a. range that the industry had become accustomed to up until about 2006.

For most individuals and households, communication services are regarded as an essential element of modern life. As such, spending by households is unlikely to decrease significantly from current levels, even though total household consumption will decelerate or even fall in 2009.

Communications spending by businesses will however, decline as general business activity and profits fall through 2009. Business investment in new telecommunications technology and infrastructure is also likely to be lower in 2009 than was originally planned or anticipated just 6 months ago, particularly by (or for) mining, manufacturing and financial services corporations.

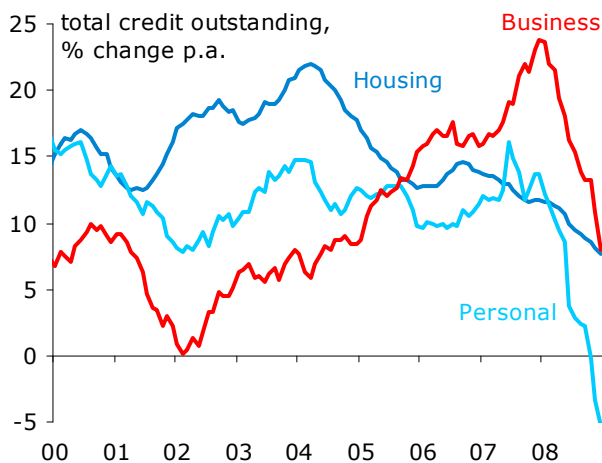
Finance & insurance

Finance sector activity and profits the first to fall



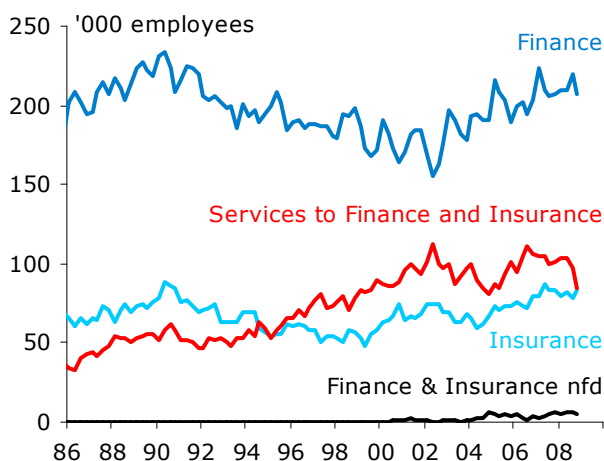
Source: ABS 5206.0 (data to Sept Qtr 2008).

Local credit crunch: private credit growth collapses as savings go up, spending goes down



Source: RBA

Finance and related employment already hit, with further to fall in 2009, insurance more stable



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

The finance and insurance industry accounted for 7.4% of GDP (by value added) and 3.7% of all employment in 2008. This is up from 1% of GDP, but down from 4.5% of employment, 20 years ago. 82% of employees in this sector work full-time.

The effects of the global financial crisis showed up almost immediately in Australian banks' profits and activity. Industry gross value added fell in all 3 quarters of 2008 (March to Sept) at escalating rates, with Sept Qtr value added falling 1.5% in the quarter and 2.1% from a year earlier — the largest annual fall since 1992. Profit announcements from all major institutions have also indicated some major hits in 2008. The aggregate gross operating surplus for financial corporations fell in all 3 quarters of 2008 (March to Sept). Sept quarter financial corporations' GOS was 6.5% lower than a year earlier. Nevertheless, Australia's banks are in better shape than most of their international counterparts. None have collapsed and all four of Australia's major banks having a AA credit rating — globally, only a handful of private sector banks are rated higher.

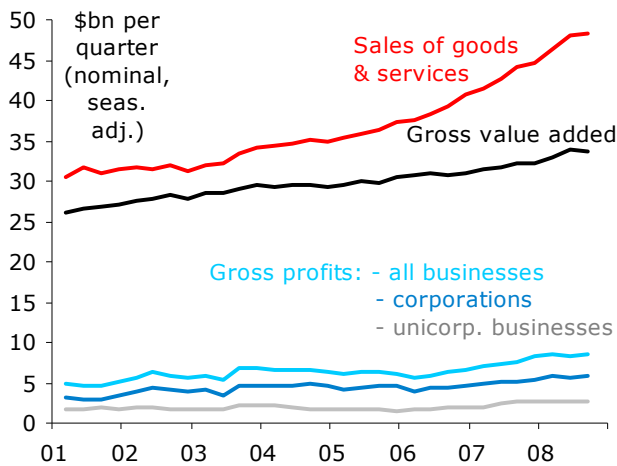
Further reductions in banking activity (GVA) and profits (GOS) are expected through 2009 and into 2010. A multitude of issues will impair bankers' ability to write new business including; a rapidly deteriorating local economy; the withdrawal of several international credit providers, brokers and the other specialist services from Australia; reducing local demand for credit and transaction services; elevated wholesale funding costs; greater risk of defaults; tighter lending standards (e.g. raising minimum home equity requirements); structural changes in the industry (such as mergers and acquisitions); uncertainty about possible changes to government regulation for financial markets and about the details of new fiscal stimulation measures (e.g. the special government funding guarantees for automotive dealers and for commercial property). Jobs in financial services will follow suit, particularly in Sydney which is the national financial markets hub and headquarters for most investment banks.

Services to finance and insurance businesses (including mortgage and stock brokers, advisers, consultants, share registries and stock exchanges) have also seen activity and profit levels tumble through late 2008, particularly in businesses directly dependent on equities trading. Job cuts have already begun, with more expected in 2009 as market trading values and volumes remain subdued.

Insurance is expected to be relatively less affected by the recession in 2009. However, there is already anecdotal evidence of declining coverage and take-up rates for private health insurance (this may be affected also by changes in government tax policy relating to health insurance) and history indicates that insurance claims (legitimate and fraudulent) tend to increase during recessions. And insurance companies, like many others, are being hit by asset and equity losses and by higher credit costs. All of this will put more pressure on returns and margins. Insurance is a smaller employer than financial services and job shedding is expected to be lower.

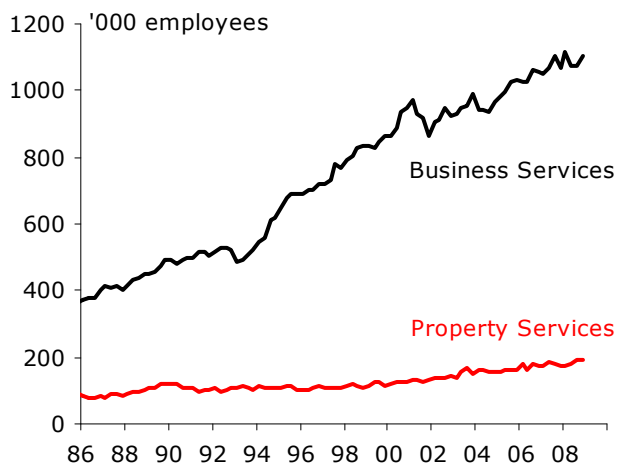
Property and business services

Sales and profits flatlining going into 2008-09



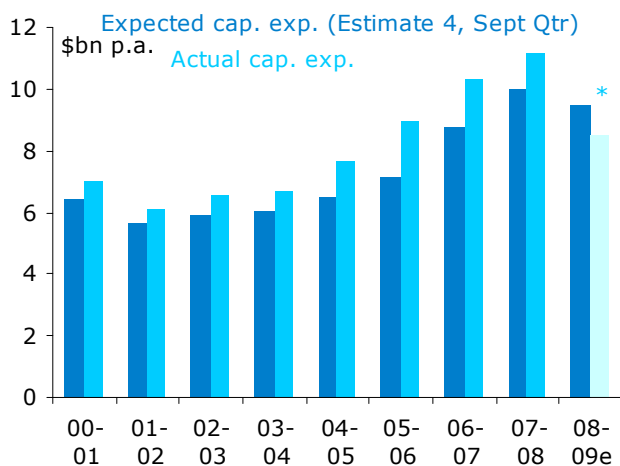
Source: ABS

Business jobs stable, but property likely to fall



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Business services investment expectations down



* Assumes a realisation ratio of 0.9 for 2008-09, equal to the low of 1990-91. Actual realisation may be even lower.
Source: ABS

Property and professional business services (including property operators and developers, real estate agents, machinery and equipment hire, IT, architectural, engineering, legal, accounting, marketing, management, technical, scientific, advertising and other business services) is Australia's single largest industry grouping by value added, at 12.3% of GDP in 2008. It also has the highest number of full-time jobs, with 968,000 or 12.6% of full-time employment in Nov 2008 (although it is the second-largest employer overall, behind retail trade). 74% of employees in this sector work full-time and AWOTE was \$1,267.90 in August 2008, 10% above the all-industry average, 6.7% above the industry's AWOTE a year earlier.

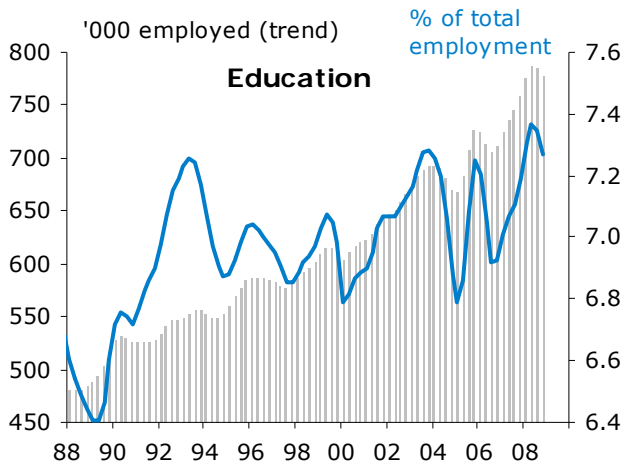
By definition, most 'business' services are provided to other businesses rather than directly to households, although many businesses in architecture, real estate, accounting, law, IT services and other professional services deal with individual and family clients as well (or instead of) businesses. These household-oriented professional services tend to be less affected by economic/business cycles, since families need their tax, property and legal affairs to be looked after, regardless of the state of the economy. They will however, want to spend less on these services and may seek to minimise transactions and costs. Real estate agents in particular, could be hit hard as turnover in the residential property market slows.

Among professional services firms that service only (or mainly) business clients, the impact is already becoming apparent as the economy changes from boom to recession. Commercial, M&A and other business-oriented legal specialisations for example, are already indicating declining demand from corporate clients. Among accounting services firms, the picture is more complex, with some specialisations likely to suffer decreasing demand but others — such as receivers, forensic accounting and auditing — seeing greater demand.

The key professional services that relate to the construction industry, including architecture, surveying and consultant engineering are already feeling the rapidly declining fortunes of the non-residential property development sector. Residential property development has been flat for some time and is not expected to pick up the slack significantly until late 2010 at the earliest (see p. 6). To the extent that professional building services are required at the beginning, rather than the end, of each new property development, they are the canaries of the construction industry's labour market. Anecdotally, the mass lay-offs that tend to precede the weaker phases of the building cycle in these firms appears to have already begun.

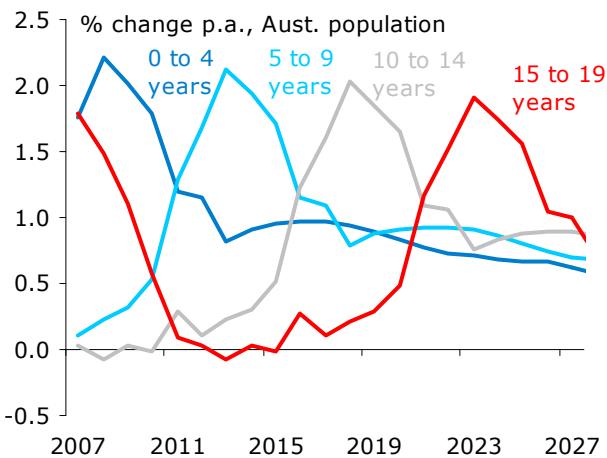
Education services

Education jobs hit a recent peak in early 2008, may drop in 2009, but long-term trend is up



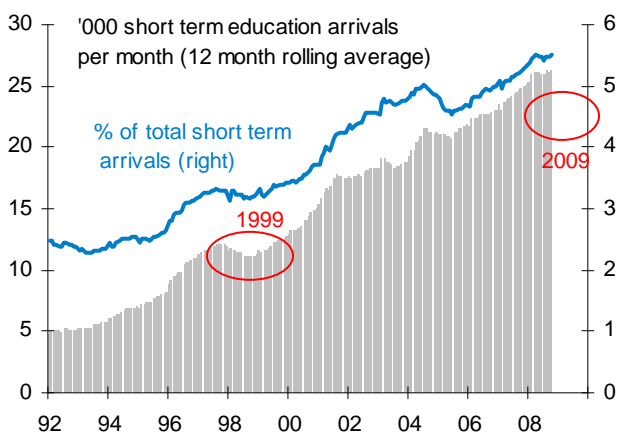
Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Recent mini baby-boom will mean stronger growth in school student numbers from 2012



Source: ABS population projections, series B.

Tertiary education export market likely to be (temporarily) hit by Asian recession in 2009



Source: ABS and ANZ Economics and Markets Research.

Education (pre-school, school, tertiary and other education services) accounted for 4% of GDP (by value added) and 7.3% of total employment in 2008. 63% of education employees work full-time.

Demand for school education is largely driven by local demographics, since attendance is compulsory from the ages of 5 to 16 years, with minor variations from state to state. Nationally, 94.5% of 15 year olds attended school in 2007, dropping to 84.4% for 16 year olds and 64.5% for 17 year olds. ABS population projections indicate growth rates for the school age population will be low in 2009, at 0.3% for 5 to 9 year olds, 0% for 10 to 14 year olds and 1.1% for 15 to 19 year olds. Growth will be similar in 2010. These flat growth rates reflect stable, low birth rates in the 1980s and 1990s.

Jump forward a few years however, and the current mini baby-boom in Australia will see growth in 5-9 year olds peak at 2.1% in 2013, 10 to 14 year olds peak at 2% in 2018 and 15 to 19 year olds peak at 1.9% in 2023. For those in the business of planning schools and classes, these dates are not far away.

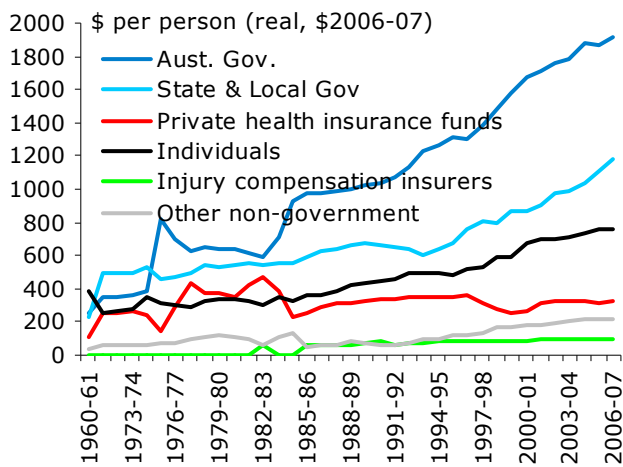
While school attendance is compulsory for all, household incomes and other socio-economic factors help determine the mix of public and private school education and the total amount spent on education. 30% of primary students and 39% of secondary students attended a private school in 2007. The proportion of students in private schools has been drifting up over the past decade, but this trend might begin to unwind as employment and household incomes come under pressure from 2009. Around \$20.6bn was spent by Australian households on education services in 2008. The share of total household expenditure going on education (3.4%) has been stable for over 25 years. But as with health services, a very large portion of education is provided and/or paid for directly by government.

In tertiary education (universities, TAFE, CAE and other colleges), demand comes from international as well as domestic students. Fees, incomes, employment, exchange rates and the general state of the economy (current and expected) are relevant. International education has become a major business in Australia over the past two decades, with Malaysia, Singapore and more recently, India providing ready markets. Student arrivals have risen from around 5,000 per month and 2.5% of all short-term visitor arrivals in 1991 (with seasonal peaks in February and July) to 26,000 arrivals per month and 5.5% of visitor arrivals in 2008. The health of Asia's economies is crucial to this lucrative market. The 1998 Asian financial crisis saw monthly student arrivals dip by 8.2% in 1999. Despite the discount provided by a sharply lower Australian dollar, a similar negative effect is expected in 2009, as the economic situation worsens across Asia. Monthly student arrivals were already decelerating in 2008.

The effect of the downturn on Australian student enrolments is likely to be slightly positive, since higher unemployment tends to encourage more people to study at tertiary level or higher instead.

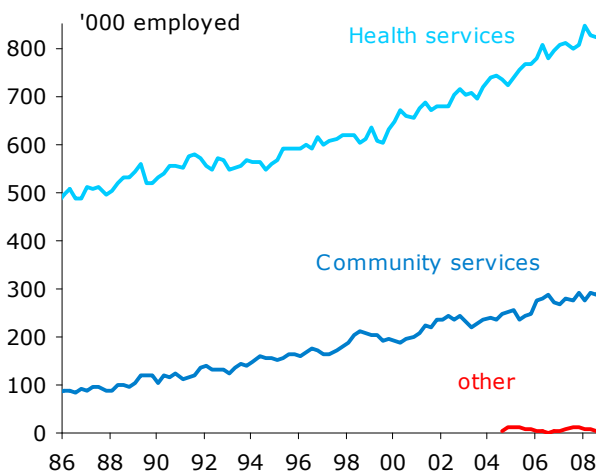
Health and community services

Government now pays 69% of all health costs



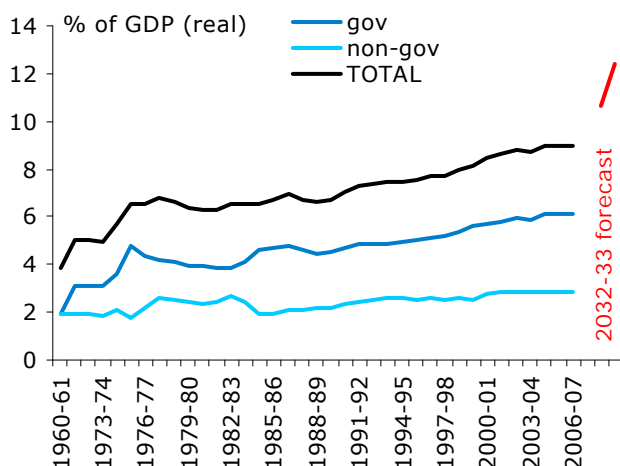
Source: AIHW 2008, *Health Expenditure Aust., 2006-07*.

Health services employment grows steadily



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Total health and aged care expenditure to climb from 9% of GDP today, to 12.4% by 2032-33



Source: AIHW 2008, *Projections of Aust health care exp.*

Health and community services (including hospitals, GPs, specialists, aged care, dentists, ancillary health, veterinarians, childcare, community and welfare services) accounted for 5.8% of GDP (by value added) in 2008, but this figure understates its high importance in expenditure and other terms.

Health is now the third largest employing industry nationally, at 10.6% of total employment. In Tasmania, South Australia and the NT it is the second largest, behind retail trade. Tasmania and SA have the 'oldest' populations while NT is the youngest and the most remote, illustrating the importance of local demographics in determining demand for health and community services. 58.6% of employees in this sector work full-time.

The AIHW estimates that nationally, we spent a total of \$94bn on health services (excluding community and welfare services) in 2006-07, equal to 8.9% of GDP. The amount spent on health has been climbing steadily for decades, both absolutely and as a proportion of GDP; in 1961 we spent 3.8% of GDP on healthcare, in 1971 we spent 5% and by 1991 we were spending 7.3%. Previous recessions have had little visible impact on this upward trend, since it is driven primarily by underlying demographic demand and active government policy.

Government spending has been the biggest driver of growth in health expenditure, particularly at the federal level. 42% of all health expenditure was directly funded by the federal government in 2006-07, with another 26% coming from state and local government budgets. Almost all welfare/community services are provided and/or funded by government.

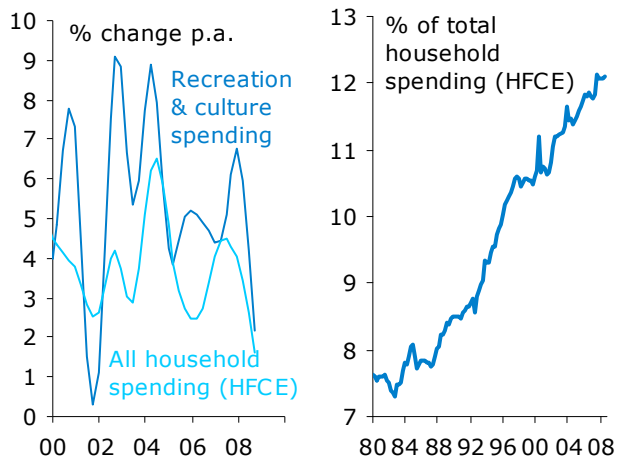
Both state and federal governments have attempted to reign in health spending growth in recent years. Measures to tighten Medicare and pharmaceutical benefits costs helped total health costs stabilise at just under 9% of GDP by 2005-06. Most recently, the 2008-09 Federal Budget allocated the health and ageing portfolio a total revenue of \$43bn in 2007-08 (up 10% from 2006-07) and \$51bn in 2008-09 — an apparent increase of 18% p.a.

While health services are not totally 'recession-proof', their solid government support means they are certainly expected to be less affected by the current downturn than other Australian industries, as has been the case in the past. In terms of potential effects, individuals currently contribute around 17% of health expenditure directly themselves (not including paying their insurance premiums), mainly on gap payments, ancillary services and pharmaceuticals. So some, less essential, health services might see reduced demand as consumers continue to tighten spending.

Looking further ahead, the AIHW has projected total health and aged care expenditure will grow by 189% from 2003 levels by 2033, taking total expenditure from the current 9% of GDP to 12.4%. Half of this growth will come from higher numbers and costs of health services per patient and a quarter will come from each of ageing and population growth.

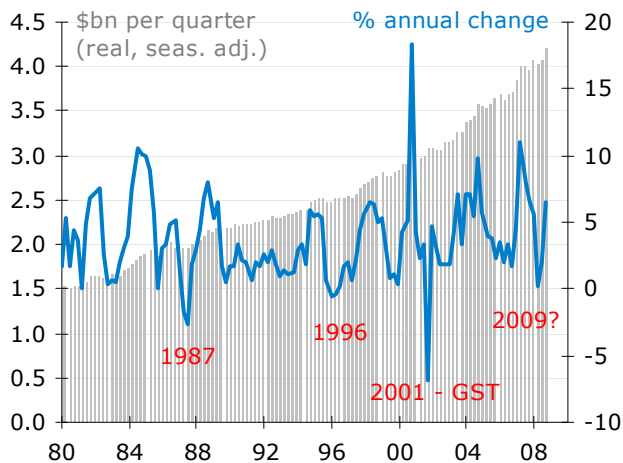
Cultural and recreational services

Recreation taking a growing share of spending, but it is discretionary, volatile and vulnerable



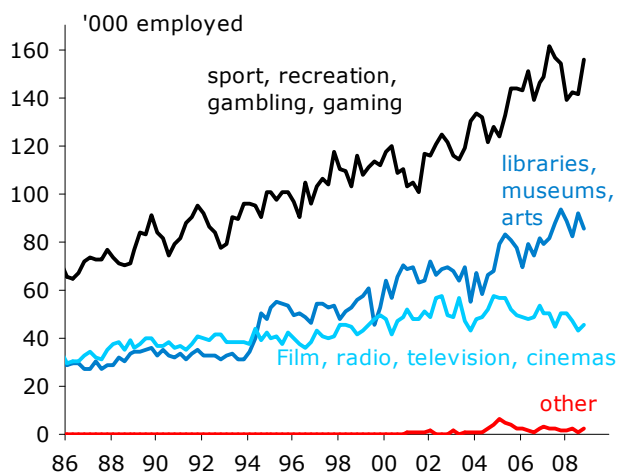
Source: ABS 5206.0 (data to Sept Qtr 2008).

Real value of activity is likely to contract in 2009



Source: ABS 5206.0 (data to Sept Qtr 2008).

Sport & recreation dominate culture-related jobs



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Cultural and recreational services (including film, television, radio, libraries, museums, galleries, parks, theatres, arts, sport, gambling, gaming and many other recreational services) accounted for just 1.5% of GDP (by value added) and 2.6% of all employment in 2008. Many people also participate in this sector on an unpaid, voluntary basis.

The latest ABS survey of attendance at cultural events (2005-06) indicates cinemas were the most popular cultural service (10.4 million people or 65% of people aged 15 and over), followed by zoos (5.7 million or 35%), botanical gardens and libraries (5.4 million or 34% each). Women attend more cultural events than men. In the same year (2005-06), 44% of people aged 15 or over attended at least one sports event, with far more men attending than women. The most popular sports events were Australian Rules football (2.5 million people or 16%), followed by horse racing (2 million or 13%), Rugby League and motor sports (1.5 million each).

Not all attendance however, is revenue-generating. Looking at spending patterns instead, recreation and culture takes 12% of total Australian household spending (HFCE). It is second in size only to housing (i.e. rent and mortgages). This is a large increase from the 8% of HFCE spent on recreation 20 years ago. Additional revenue for many operators also comes from international tourist arrivals.

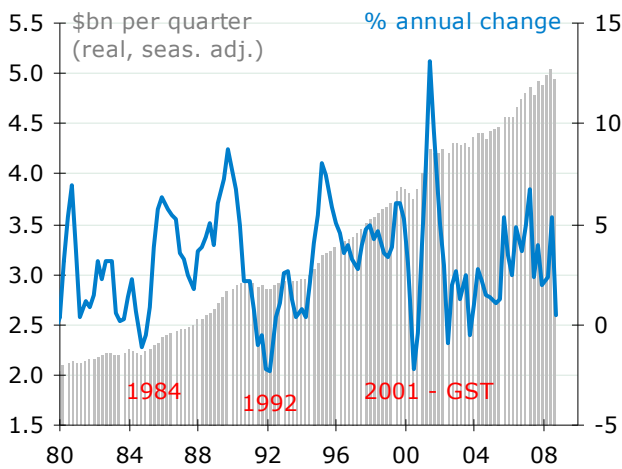
Spending on culture and recreation is high but it is non-essential and, in tight periods, it is vulnerable. Even so, this sector has shrunk (in real value added annual growth terms) surprisingly rarely in recent history — 1987, 1996 and 2001. This is probably due to the inclusion of 'gambling' in this category, which has been a strong area of growth nationally. But with Australian employment now contracting for the first time in many years and household consumption expected to be flat at best, 2009 is likely to be a bad year for this sector as a whole.

Employment in culture and recreation has grown by 35% over the last decade (Nov 1998 to Nov 2008). Jobs peaked at 294,000 in May 2007 but have since dropped back to 282,000. Over half of the jobs are in 'sport and recreation', which includes all sports, gyms, pools, theme parks, racing and gambling. Gambling is regarded by some analysts as 'recession-proof', since many people tend to seek solace (and hopefully a big win) from it. Even so, some revenue and job losses can be expected in 2009 as household spending on all entertainments (particularly on non-gambling activities) tightens.

Jobs in the smaller 'cultural' sector (85,000 employed in libraries, museums, gardens, theatres, recording studios and the arts) have also grown well (up 51% from 1998). In 2009, performing arts (and to a lesser extent, other cultural venues) will be vulnerable to funding cuts from government and sponsors as well as from lower ticket sales. Film and television job numbers have been relatively static. This segment will suffer from lack of access to necessary credit and investment.

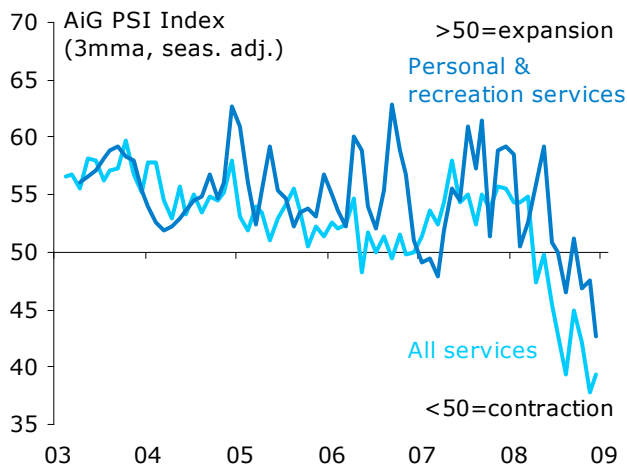
Personal and other services

Personal services may have peaked in early 2008



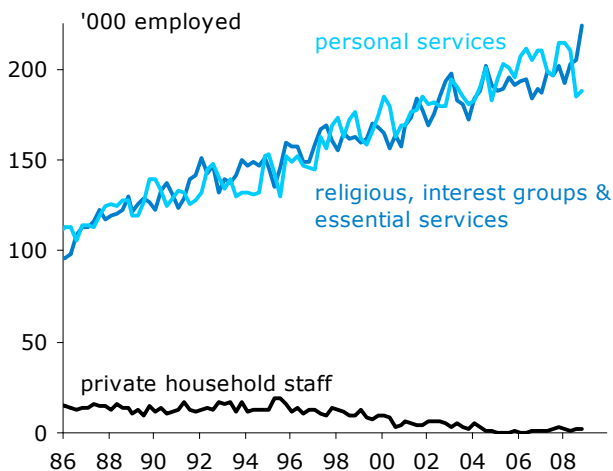
Source: ABS

Personal and recreational services businesses are less pessimistic than other services businesses



Source: AiG Performance of Services Index.

Essential services jobs are safe, but other personal services jobs are already declining



Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Personal and other services includes a grab-bag of public and private sector services such as video hire, laundries, dry cleaners, photographers, film processors, funeral directors, domestic cleaners, nannies, gardeners, hairdressers, religious groups, industry associations, trade unions, police, fire brigades, waste disposal and emergency services. Together, all of these disparate services account for 1.8% of GDP (by value added) and 3.8% of total employment. 70.2% of employees work full-time. AWOTE in this industry was \$1,118.10 in August 2008, 2.9% less than the all-industry average but 6.2% more than for this industry a year earlier.

This industry includes two distinct streams: (1) services for individuals or households that are discretionary or less essential and (2) government funded essential services. These two groups have very different characteristics, drivers and outlooks.

Among the personal services for households and individuals, most are highly discretionary by nature and vulnerable to downturns in consumer spending. They have done relatively well in the recent decades of prosperity, but are about to suffer through much leaner times. Domestic services such as cleaning, gardening, nannying and laundering for example, will be cut immediately by people who reduce their working hours, income or become unemployed. Dry cleaners, hairdressers and film processors will also see reduced demand as people cut their spending.

Longer-term trends are also relevant to this sector. Despite Australia's recent prosperity, 'private household staff' appears to be a job left behind in the 20th century. 10,000 to 15,000 people were still employed in private households through the 1980s and 1990s, but numbers dropped steadily through the 2000's to under 2,000 nationally today. This is largely a reflection of modern contracting arrangements, with domestic cleaners, nannies, gardeners and the like now working as private contractors servicing many households, rather than directly employed by one household only.

Religious groups, trade unions and industry associations are also in long-term decline in Australia, in terms of membership and revenues. The effect of a recession can go either way for such groups, depending on whether they are seen as an 'added extra' or as an essential assurance (or insurance) service by actual and potential members.

The second stream in this industry group, the essential services, face a very different scenario. As government funded and/or provided services, fire brigades, police, ambulances, waste disposals and the like will be largely unaffected by Australia's looming recession. Indeed, many of these services may benefit from reduced fuel costs as petrol and diesel prices fall back to more manageable levels. Waste disposal services will also need to contend with any additional issues arising from falling scrap prices (which tend to follow core commodity prices) and from any changes to greenhouse gas policies.

Australian industry outlook summary

(seas. adj.)	2007-08			2009 growth outlook		2010 growth outlook	
Industry	Activity ^a (\$mn p.a.)	Profits ^b (\$mn p.a.)	Employees (‘000 people)	Activity ^a	Employment	Activity ^a	Employment
Agriculture	25,042	6,163	371.6	↗	↗	↗	↗
Mining	83,096	54,402	180.3	↓	↓	↓	↓
Manufacturing	106,725	41,784	1,066.9	↓	↓	↓	↓
Utilities	21,842	na	108.6	↗	→	↗	→
Construction	77,008	9,404	984.5	↓	↓	↗	→
Wholesale trade	49,033	17,115	442.8	↓	↓	↓	↓
Retail trade	58,904	13,030	1,532.2	↓	↓	↓	↓
Hospitality	20,525	na	515.9	↓	↓	↓	↓
Transport & storage	51,017	11,885	528.5	↓	↓	↓	↓
Communication services	26,373	na	198.7	→	→	→	→
Finance & insurance	81,336	31,930	383.8	↓	↓	↓	↓
Property & business services	131,139	21,982	1,291.4	↓	↓	↓	↓
Government admin. & defence	40,707	na	486.4	→	→	→	→
Education	43,681	na	763.5	→	→	→	→
Health & community services	62,898	na	1,136.6	↗	↗	↗	↗
Cultural & recreational services	16,113	na	282.6	↓	↓	↓	↓
Personal & other services	19,835	na	413.5	↓	↓	↓	↓
All industries	1,083,942	38,9872	10,688.0	+0.1%	-0.1%	+2.0%	-0.2%

a. Industry gross value added, chain volume measures, seasonally adjusted. Total for all industries is real GDP, which includes ownership of dwellings, taxes less subsidies and statistical discrepancy.

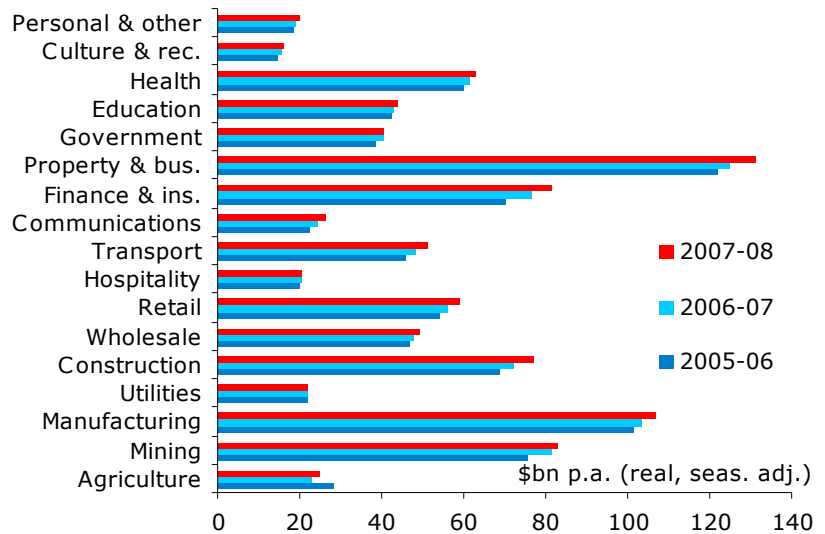
b. Nominal company gross operating profits (GOP), for businesses employing 20 people or more, in selected industries only, sourced from the ABS Business Indicators Survey. For agriculture, profits is nominal 'realised agricultural income' (excludes forestry and fishing). For finance and insurance, profits is nominal 'corporate gross operating surplus' (trend). For all industries, profits is total nominal corporate gross operating surplus, trend, sourced from ABS *National Accounts*.

Australian production and consumption summary

Industry gross value added

Largest 5 industries by gross value added, Sept Qtr 2008:

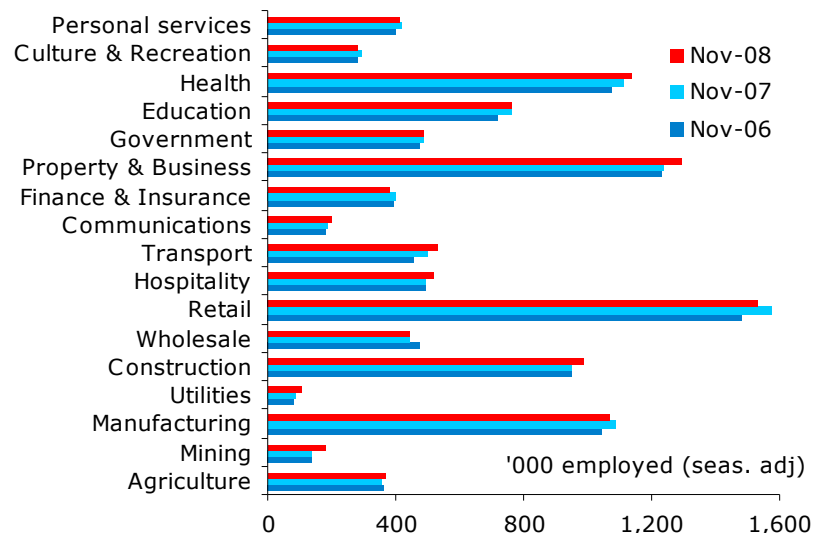
1. Property & business services (12.3% of GDP)
2. Manufacturing (9.8%)
3. Mining (7.9%)
4. Finance & insurance (7.3%)
5. Construction (7.2%)



Industry employment

Largest 5 industries by employment, Nov Qtr 2008:

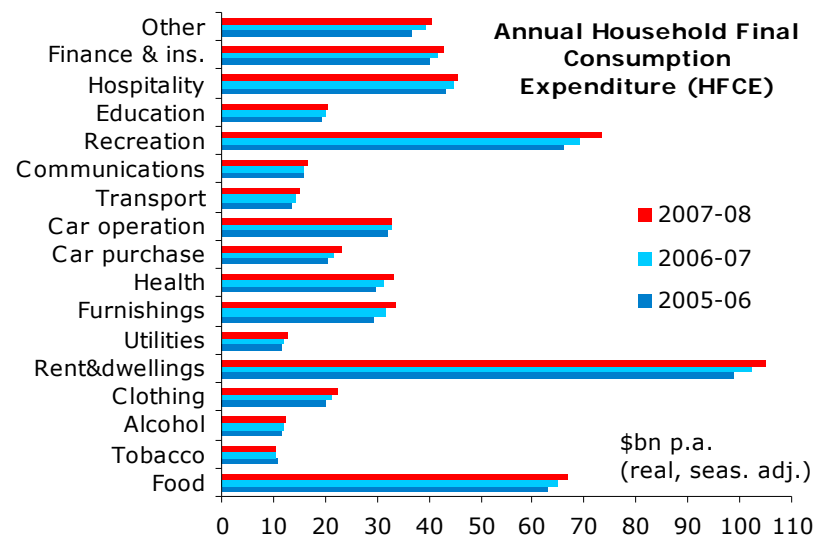
1. Retail trade (14.4% of total employment)
2. Property & business services (11.9%)
3. Health & community services (10.6%)
4. Manufacturing (10.0%)
5. Construction (9.3%)



Domestic expenditure

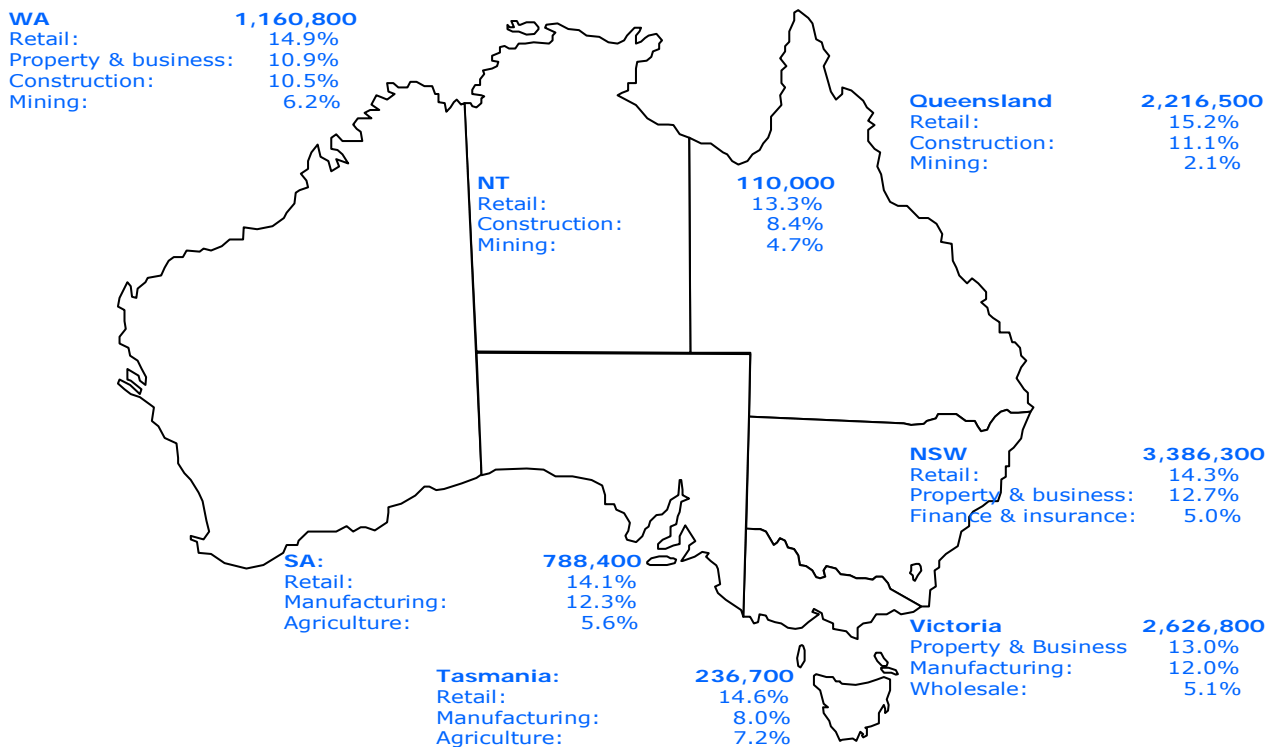
Major components of GDP by expenditure, Sept Qtr 2008:

1. Household consumption (HFCE) (53.7% of GDP)
2. Public sector (government) consumption (17.3%)
3. Business investment (16.6%)
4. Dwelling investment (6%)
5. Public sector (government) investment (4.3%)



Sources: ABS 5206.0 (data to Sept Qtr 2008), ABS 6291.0.55 (data to Nov Qtr 2008).

Australian employment distribution – industry & geography



Australian employment by state and industry, November 2008

Industry	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust	% f/t
% of state or territory total employment (over-represented industries in each state highlighted in bold)										
Agriculture	2.6	3.2	3.8	5.6	4.6	7.2	2.9	0.2	3.5	74
Mining	1.0	0.4	2.1	1.3	6.2	0.8	4.7	0.0	1.7	96
Manufacturing	9.7	12.0	9.1	12.3	8.2	8.0	4.2	2.4	10.0	89
Utilities	1.0	0.9	0.9	0.9	1.4	1.1	0.9	0.6	1.0	91
Construction	8.8	8.6	11.1	7.9	10.5	8.7	8.4	6.4	9.3	88
Wholesale	4.2	5.1	3.3	3.9	4.1	4.8	2.0	1.4	4.1	83
Retail	14.3	14.0	15.2	14.1	14.9	14.6	13.3	11.1	14.4	52
Hospitality	5.0	4.4	5.2	4.5	4.4	5.0	3.9	4.7	4.8	51
Transport	5.1	4.6	5.9	3.9	4.7	3.7	5.5	2.6	4.9	81
Comms.	1.8	2.3	1.7	1.7	1.4	1.5	0.9	0.7	1.8	85
Finance & ins.	5.0	3.3	2.7	3.0	2.5	3.3	1.4	1.8	3.5	82
Prop & bus.	12.7	13.0	11.7	10.1	10.9	8.5	9.0	14.5	12.1	74
Government	4.2	3.3	4.4	4.0	4.0	6.7	11.6	25.7	4.5	82
Education	7.2	7.3	7.0	7.1	6.4	8.7	10.5	8.3	7.2	63
Health	10.3	11.1	9.7	13.0	9.9	12.5	12.0	9.3	10.6	59
Culture & rec.	2.9	3.0	2.3	2.5	2.1	2.0	3.6	5.1	2.7	60
Personal serv.	4.0	3.5	3.8	4.3	3.7	3.0	5.3	5.1	3.9	70
Total ('000 jobs)	3,386.3	2,626.8	2,216.5	788.4	1,160.8	236.7	110.0	192.0	10,717.5	72

Source: ABS 6291.0.55 (data to Nov Qtr 2008).

Key Australian macroeconomic forecasts (as at 30 January 2009)

Australian economic indicators	2007	2008 (estimate)	2009 (forecast)	2010 (forecast)
Economic activity (annual % change)				
Private final demand	6.0	3.7	-0.8	1.4
Household consumption	4.3	2.2	0.6	1.4
Dwelling investment	2.7	0.9	-4.2	17.8
Business investment	13.9	12.4	-3.2	-4.5
Public demand	2.7	5.7	3.7	2.4
Domestic final demand	5.4	4.1	0.2	1.6
Inventories (contribution to GDP)	0.6	-0.2	-0.1	0.0
Gross National Expenditure (GNE)	5.9	4.0	0.0	1.6
Exports	3.3	4.6	-3.2	3.1
Imports	11.4	11.8	-2.4	1.3
Net Exports (contribution to GDP)	-1.7	-1.7	-0.1	0.3
Gross Domestic Product (GDP)	4.0	2.3	0.1	2.0
Prices and wages (annual % change)				
Inflation: Headline CPI	2.3	4.4	3.0	3.1
Underlying*	3.1	4.5	3.5	2.8
Wages	4.1	4.2	3.6	3.5
Labour market				
Employment (annual % change)	2.8	2.3	-0.1	-0.2
Unemployment rate (%)	4.4	4.2	5.4	6.8
External sector				
Current account balance: A\$ bn	-68.2	-53.7	-72.6	-88.8
% of GDP	-6.3	-4.5	-6.0	-7.1

*Average of RBA weighted median and trimmed mean statistical measures.

Australian interest rates	Current	Mar 09f	Jun 09f	Sep 09f	Dec 09f	Mar 10f
RBA cash rate	4.25	3.00	2.75	2.50	2.50	2.50
90 day bill	3.38	3.45	2.80	2.80	2.80	3.15
3 year bond	2.97	2.55	2.75	2.85	3.15	3.65
10 year bond	4.08	3.90	4.15	4.15	4.25	4.55
3s10s yield curve	1.11	1.35	1.40	1.30	1.10	0.90
3 year swap	3.51	3.15	3.20	3.35	3.65	4.15
10 year swap	4.41	4.40	4.60	4.65	4.75	5.05
Australian exchange rates	Current	Mar 09f	Jun 09f	Sep 09f	Dec 09f	Mar 10f
A\$/US\$	0.6572	0.63	0.58	0.56	0.54	0.54
A\$/¥	59.36	61.74	58.00	56.56	55.08	56.70
A\$/€	0.5035	0.50	0.48	0.50	0.50	0.50
A\$/£	0.4662	0.43	0.41	0.40	0.39	0.39
A\$/NZ\$	1.276	1.21	1.23	1.24	1.23	1.20
A\$/CA\$	0.8041	0.76	0.70	0.69	0.70	0.71
A\$/CHF	0.7619	0.76	0.72	0.75	0.76	0.77
A\$/CNY	4.515	4.31	3.98	3.84	3.69	3.69
A\$ Trade weighted index	54.50	52.65	49.34	48.41	46.97	46.91

Industry definitions

Agriculture

Agriculture, services to agriculture, hunting and trapping, forestry and logging, commercial fishing.

Mining

Coal mining, oil and gas extraction, metal ore mining, other mining, services to mining.

Manufacturing

Food, beverage and tobacco; textile, clothing, footwear and leather; wood and paper products; printing, publishing and recorded media; petroleum, coal, chemicals and associated products; non-metallic mineral products; metal products; machinery and equipment; furniture, household goods and other products.

Utilities

Electricity and gas supply, water supply, sewerage and drainage services.

Construction

General construction, construction trades and services. Includes residential, non-residential and engineering.

Wholesale trade

Basic materials, machinery and motor vehicles, personal and household goods wholesaling.

Retail trade

Food, personal and household goods, motor vehicle retailing and services.

Hospitality

Accommodation, cafes, restaurants.

Transport and storage

Road, rail, water, air and space, pipelines and other transport, transport services, storage.

Communication services

Postal and courier services, telecommunications.

Finance & insurance

Deposit taking financiers, central banks, financial asset advisors, life insurance and superannuation funds, health and other insurance, mortgage and stock brokers, stock exchanges, other services to finance and insurance.

Property & business services

Property operators and developers; real estate agents; machinery and equipment hire; scientific research; technical, computer, legal, accounting, marketing, management, secretarial and other business services.

Government administration and defence

Government administration, justice, defence, foreign government representation.

Education

Preschools, schools, post-school and other education.

Health & community services

Hospitals, aged care, medical, dental, ancillary, other health services, veterinary, childcare, community care.

Cultural and recreational services

Motion picture, radio and television, libraries, museums, arts, parks, gardens, sport, gambling, other recreation.

Personal & other services

Personal and household goods hire, video hire, hairdressers, funeral services, laundries, gardening, religious organisations, interest groups, police, corrective services, fire brigades, waste disposal, household staff.

Source: ABS 1292.0, ANZSIC 1993.

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