

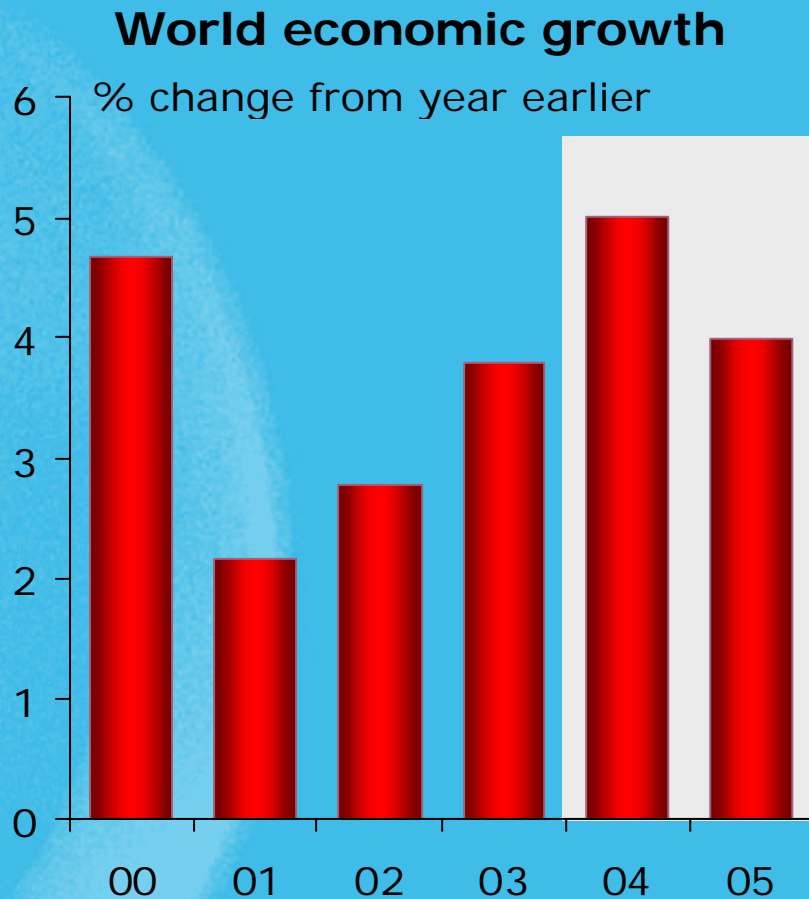
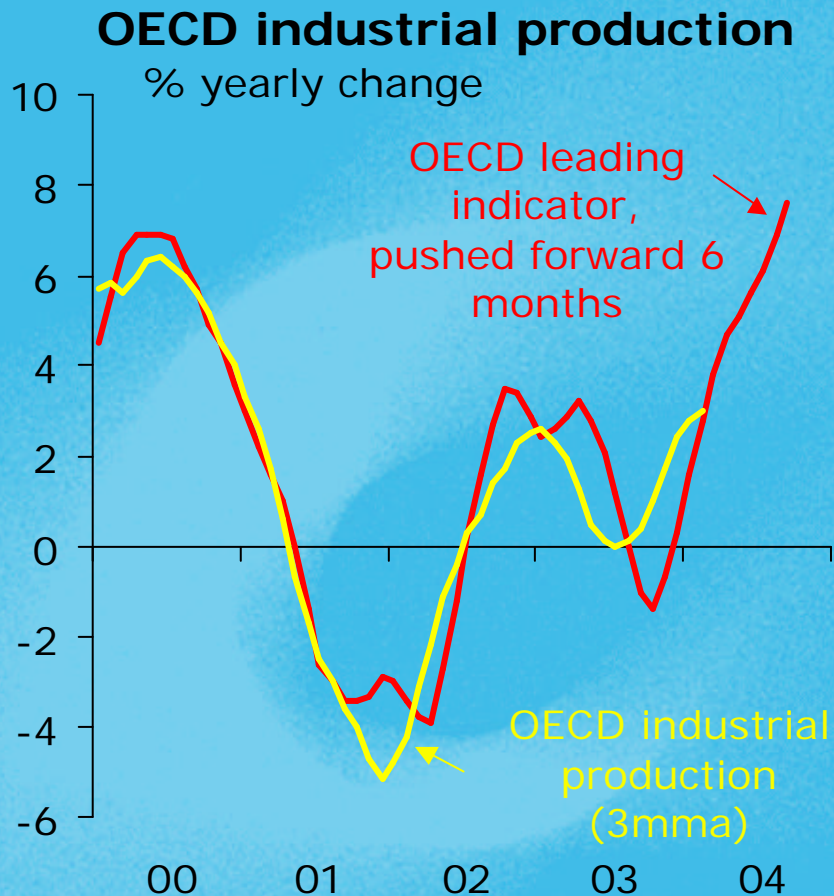
Economic prospects for Australia and Western Australia

Presentation to ANZ C&IB clients

Melanie Hay
Senior Economist
ANZ Bank

Monday 28th June
Perth

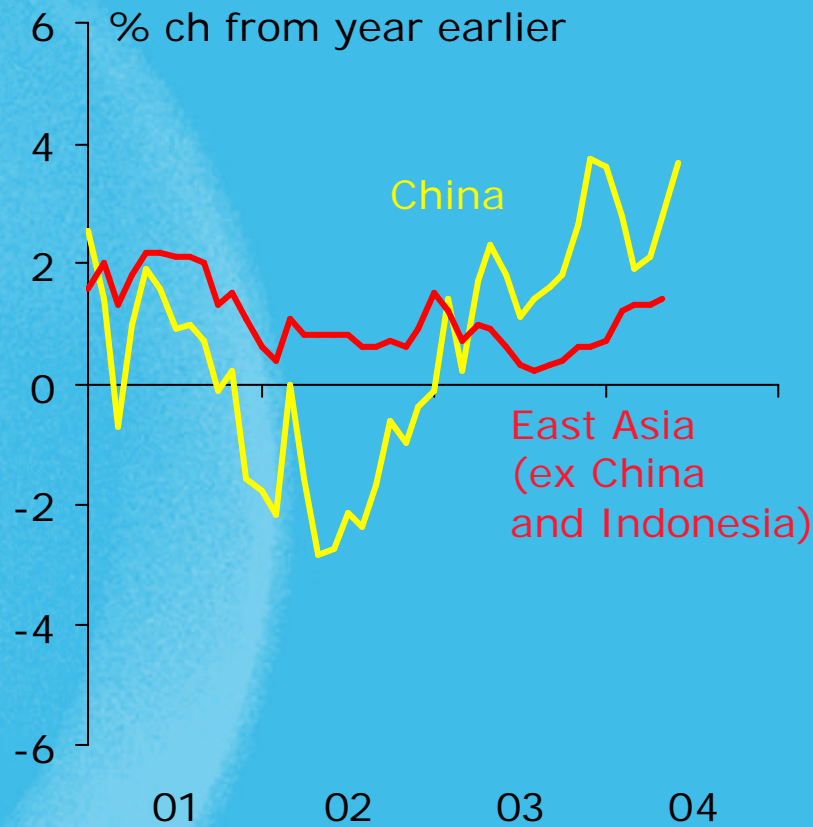
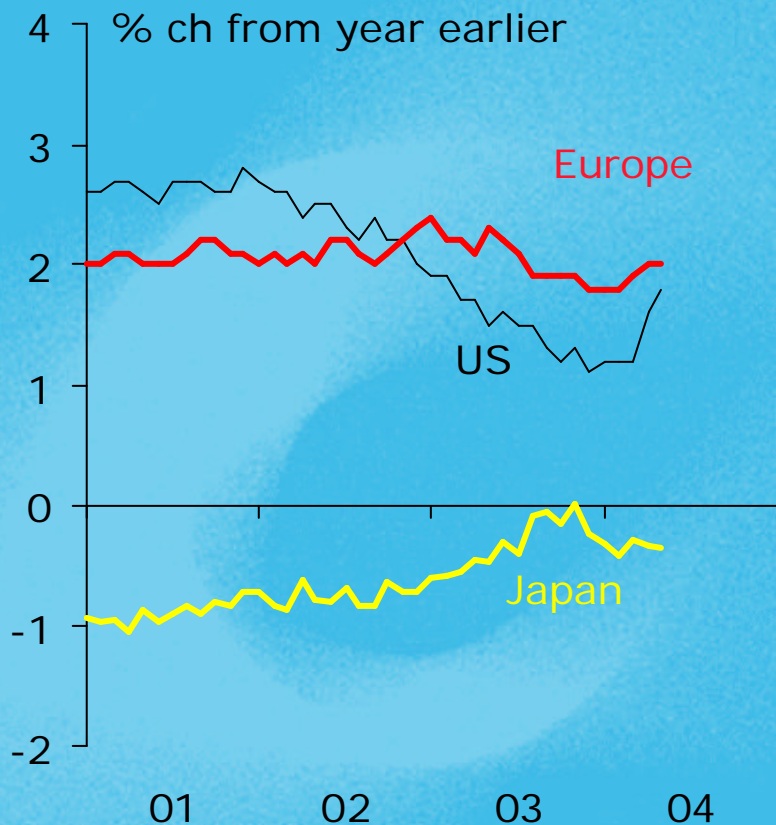
Global economic growth should continue to strengthen



Sources: Datastream, Economics@ANZ

Deflationary fears have abated considerably and inflation is now accelerating

Core consumer price inflation

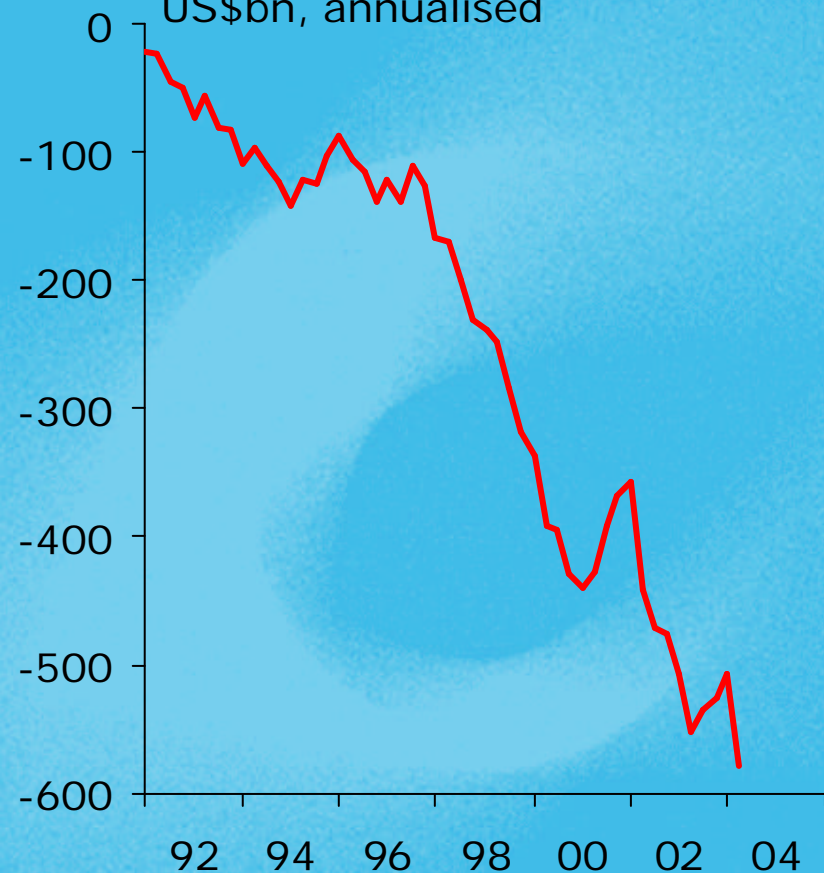


Source: Datastream

The prospect of higher US rates has buoyed the US\$ but structural challenges remain

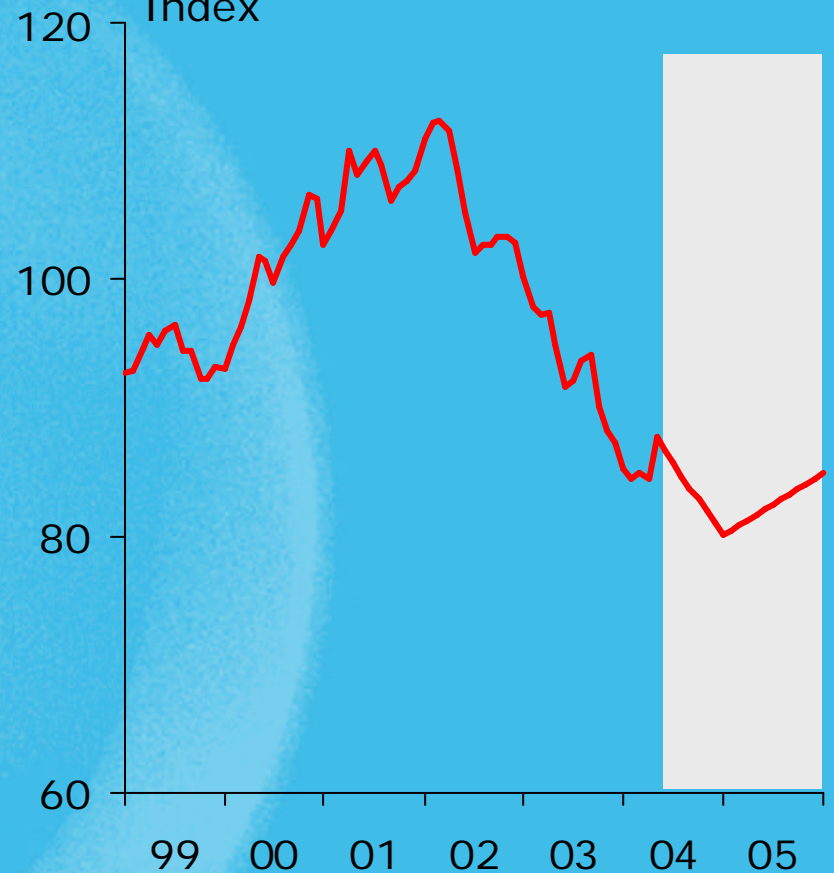
US current account deficit

US\$bn, annualised



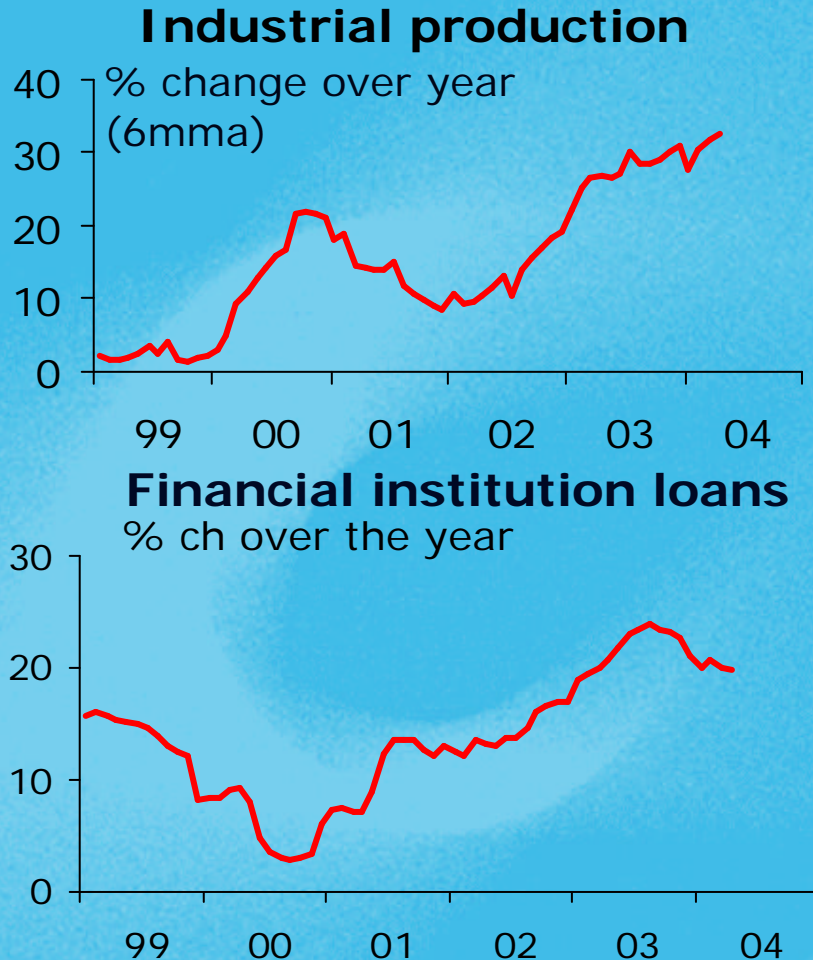
US\$ major currency index

Index



Source: Datastream

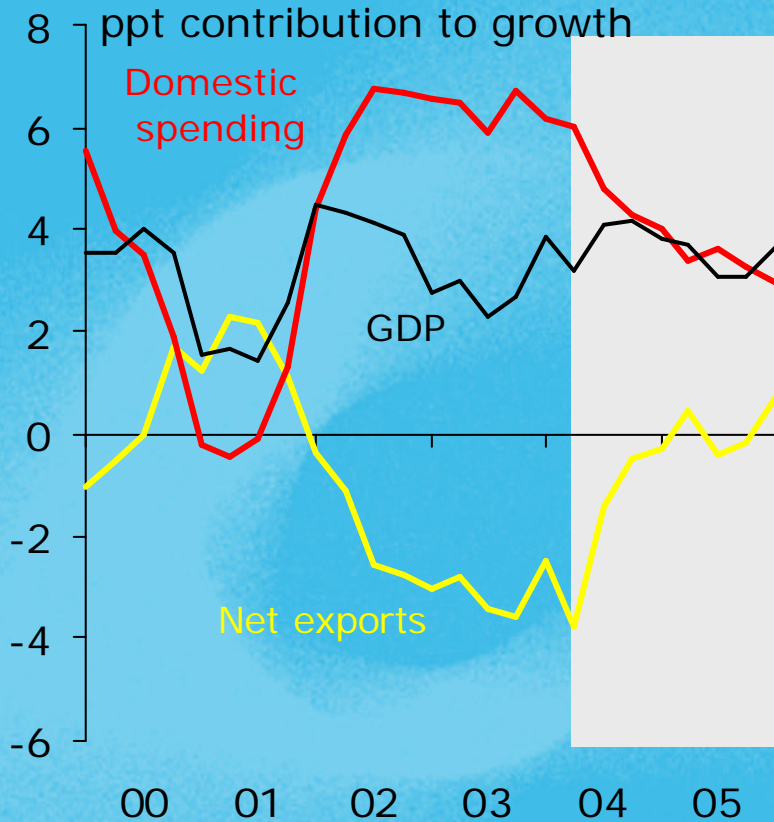
The challenge for China is to achieve a soft landing



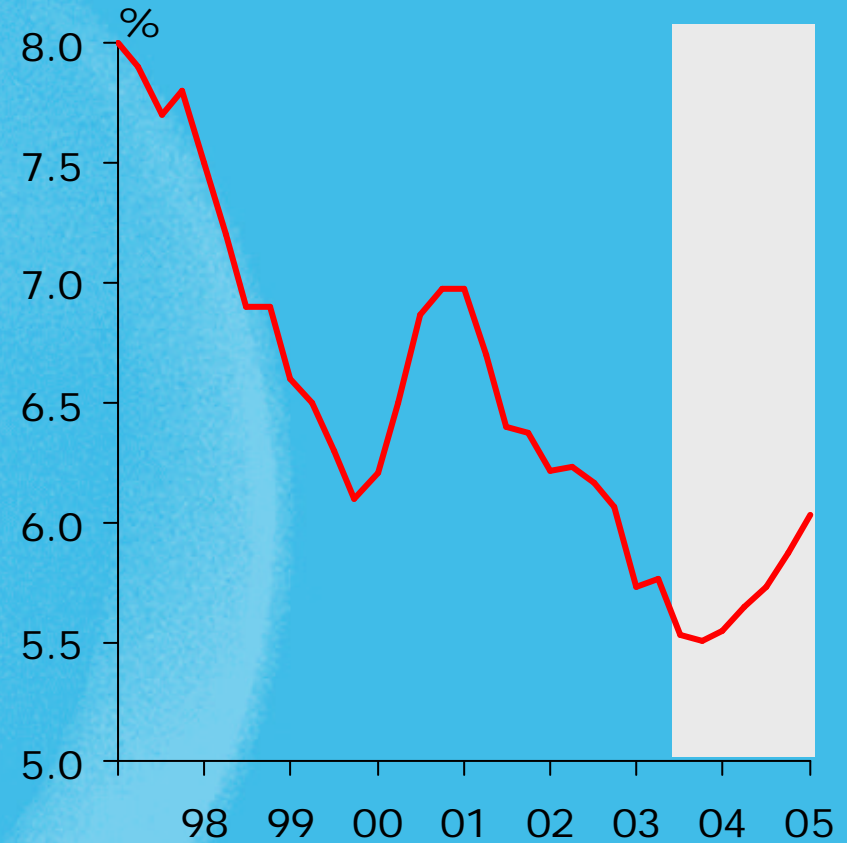
- **Chinese authorities began to tighten monetary policy in mid 2003**
- **Credit has been restricted to some overheating sectors**
- **The inability to finetune means that authorities are likely to go overboard**
- **China's growth rate is expected to slow from close to 9% to 6% next year**
- **If 2005 is worse than expected, government can re-open the fiscal tap**

Australian economic growth should rebound in the second half of 2004

Economic growth



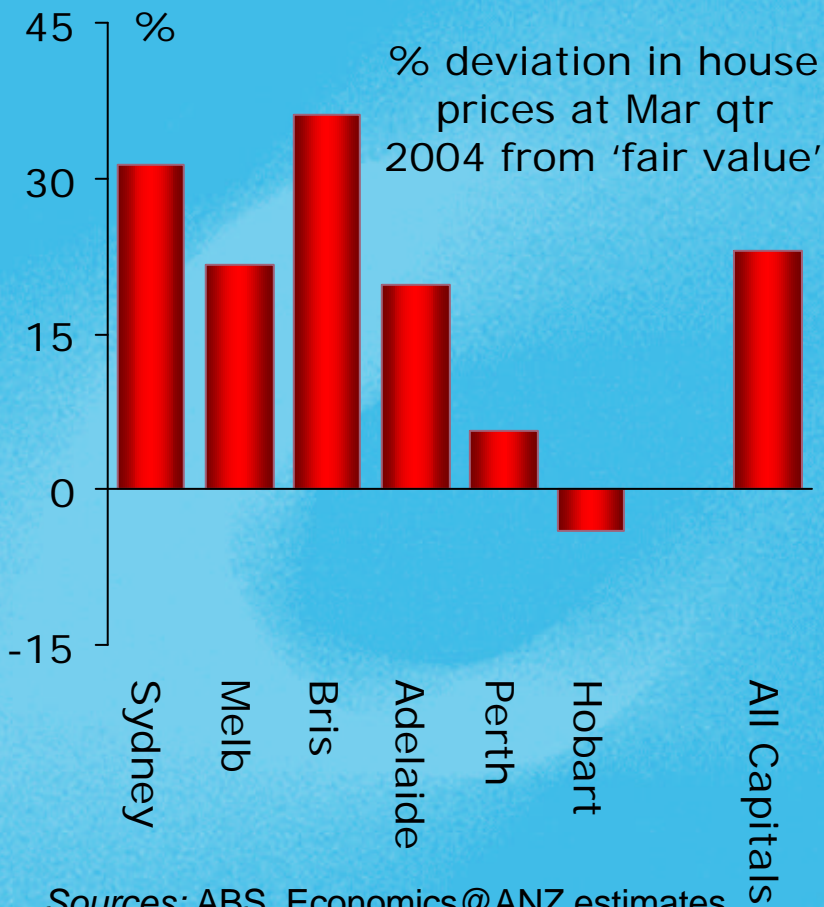
Unemployment rate



Sources: ABS; Economics@ANZ

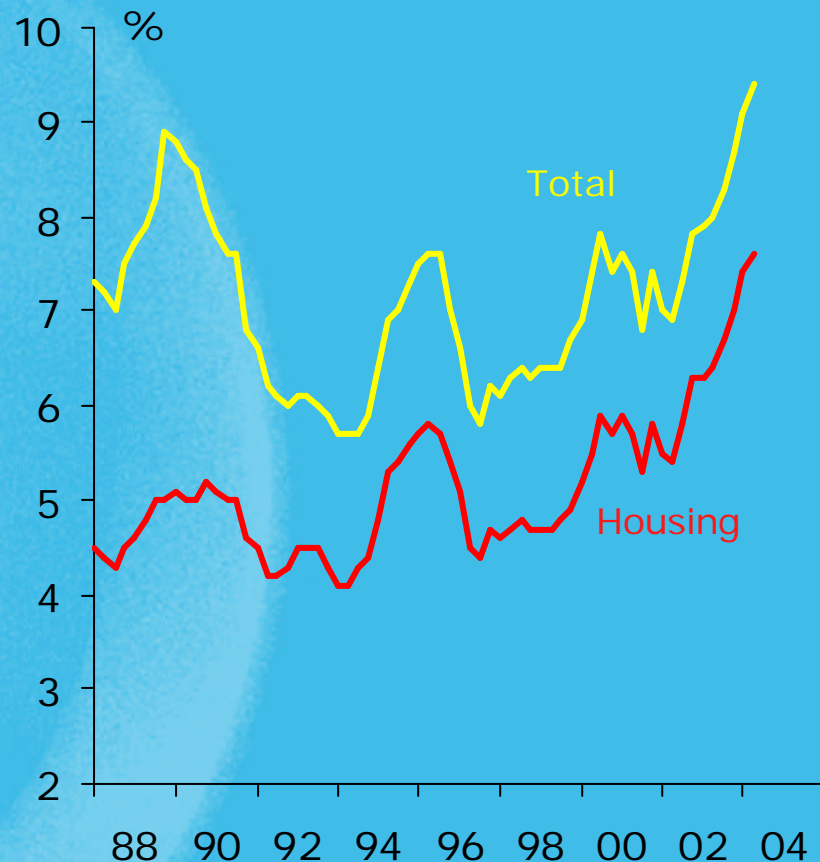
Overvalued housing and highly indebted households are the biggest risks

Housing affordability

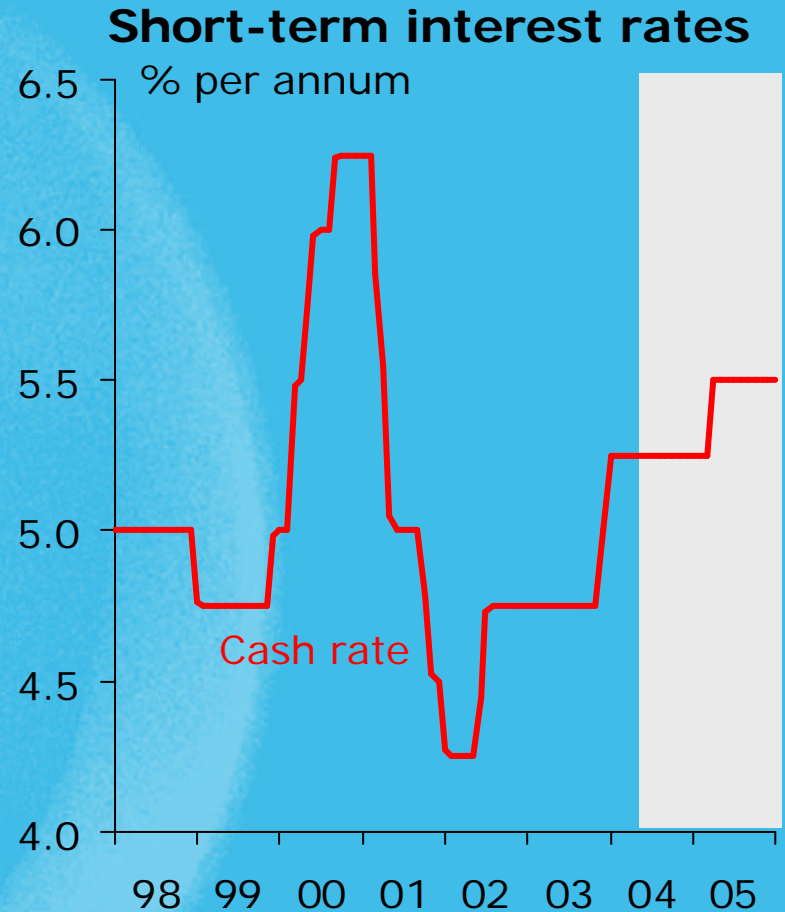
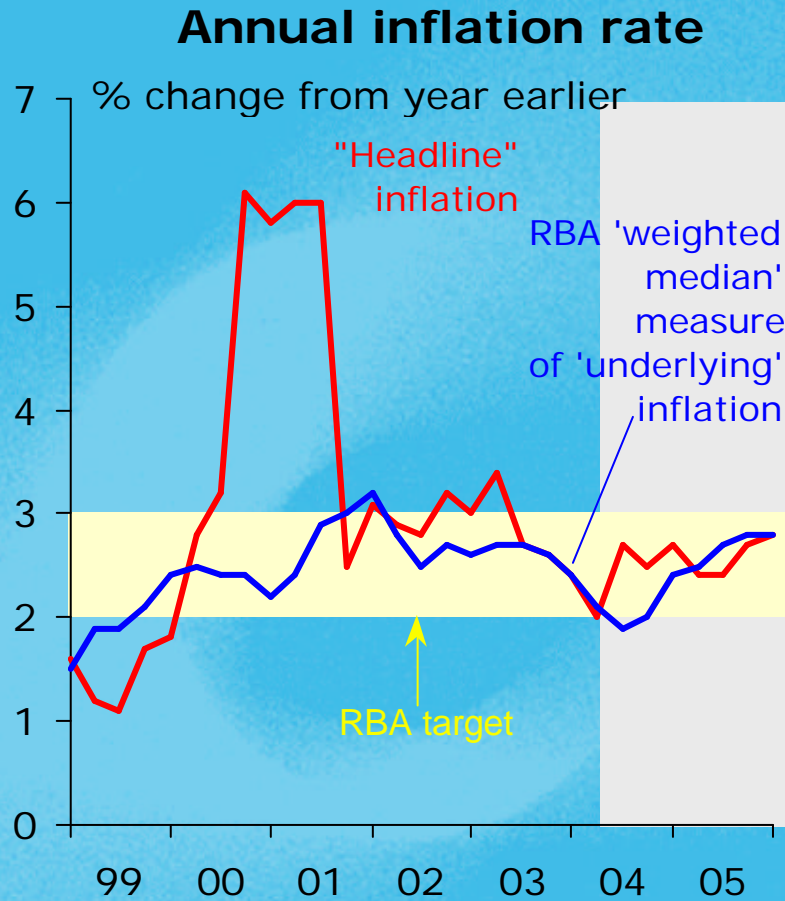


Sources: ABS, Economics@ANZ estimates

Interest payments to income



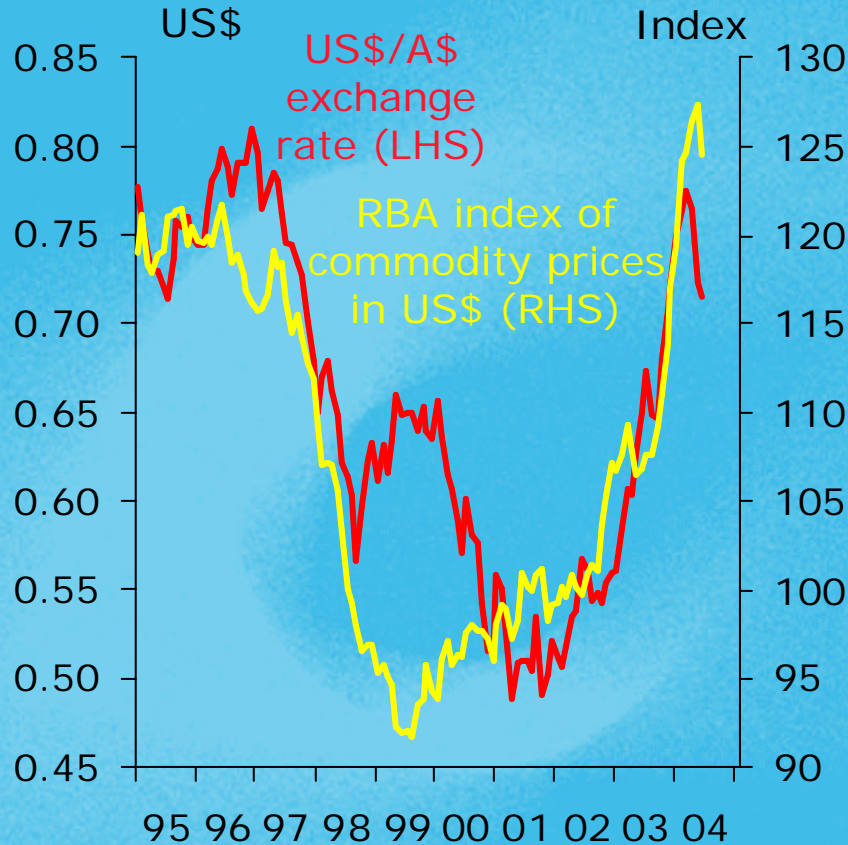
Interest rates are more likely to rise than fall at this point



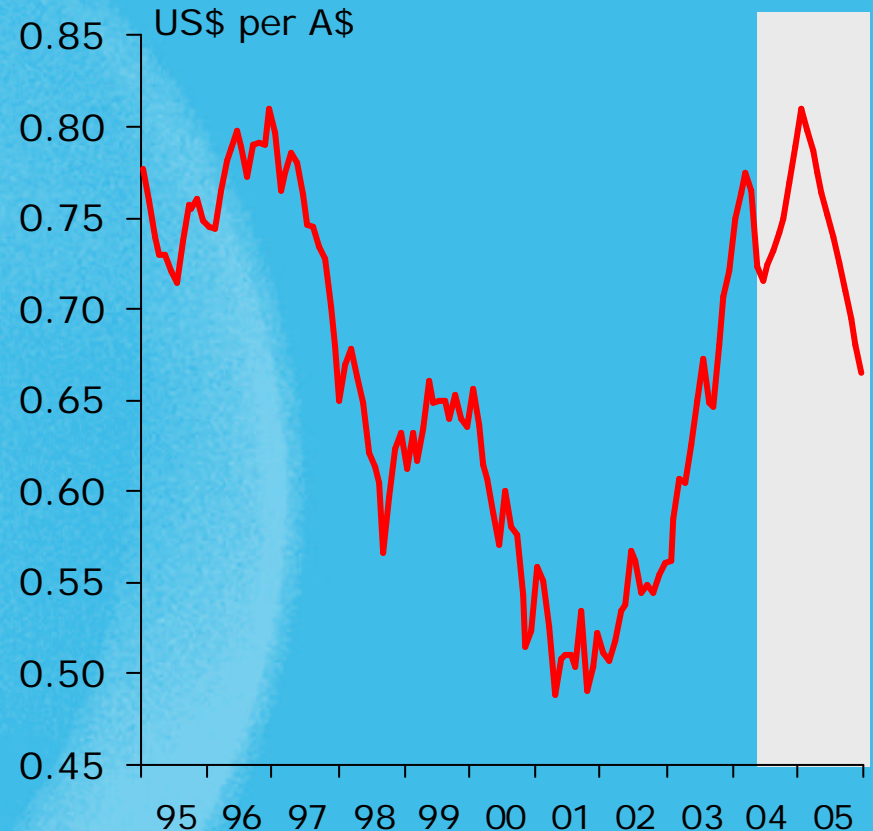
Sources: ABS; Economics@ANZ

The A\$ could stage a further late 2004 rally before declining over 2005

Australian dollar



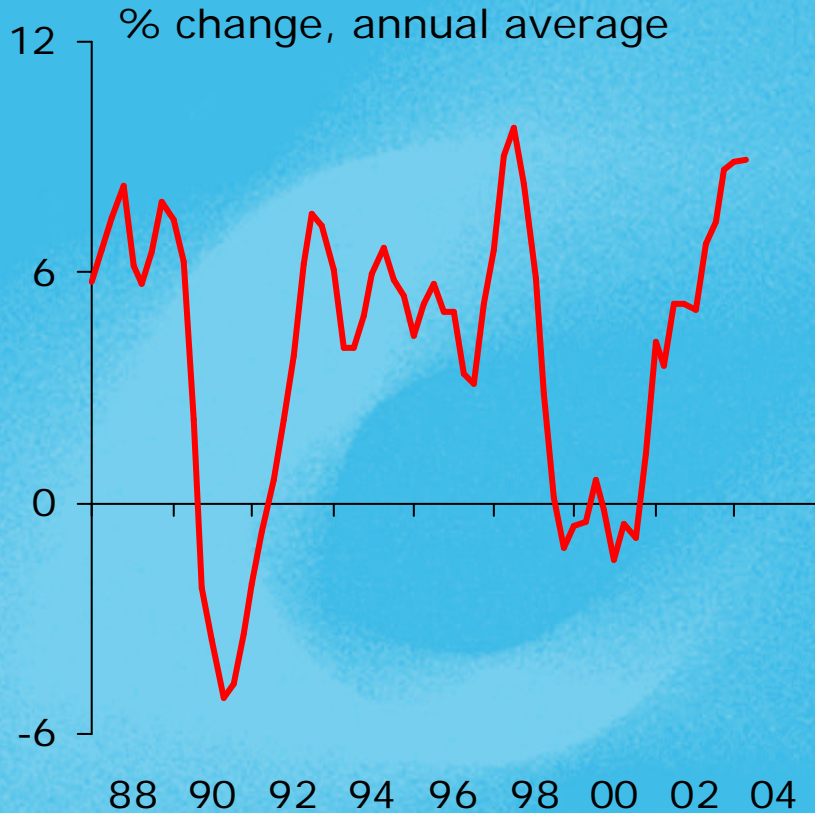
Australian dollar



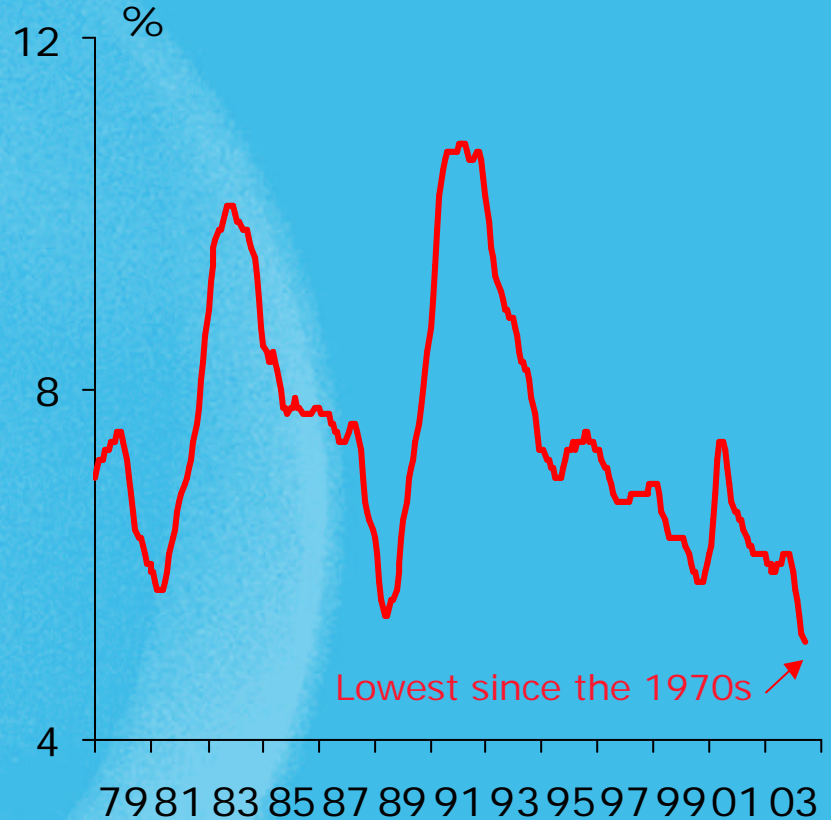
Sources: Datastream, Economics@ANZ

The Western Australian economy has been running hot

State final demand



Unemployment rate

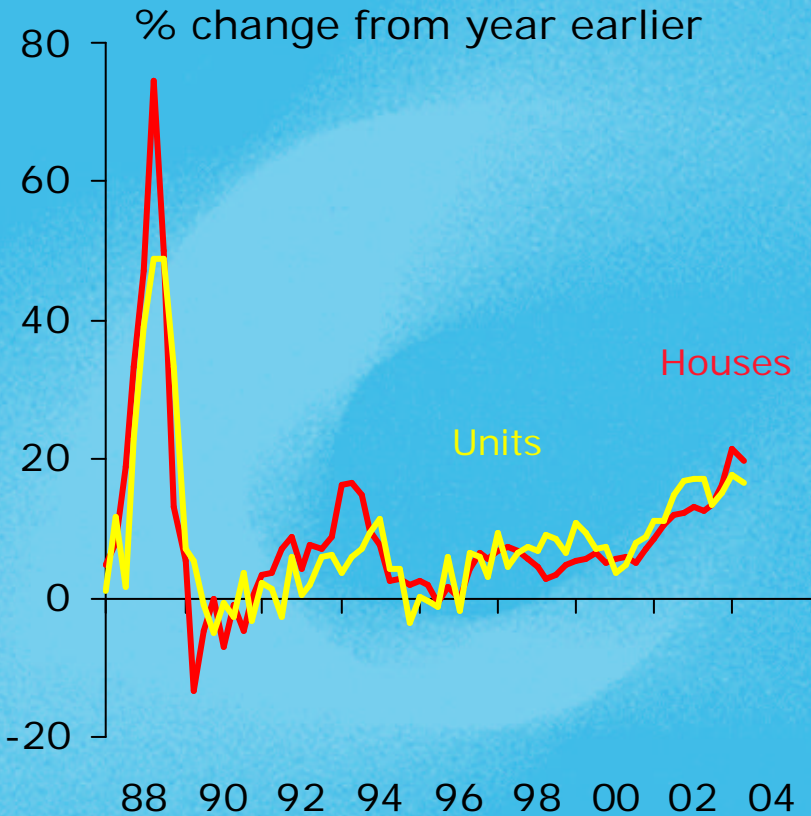


Sources: Datastream, Economics@ANZ

Perth property prices have risen sharply

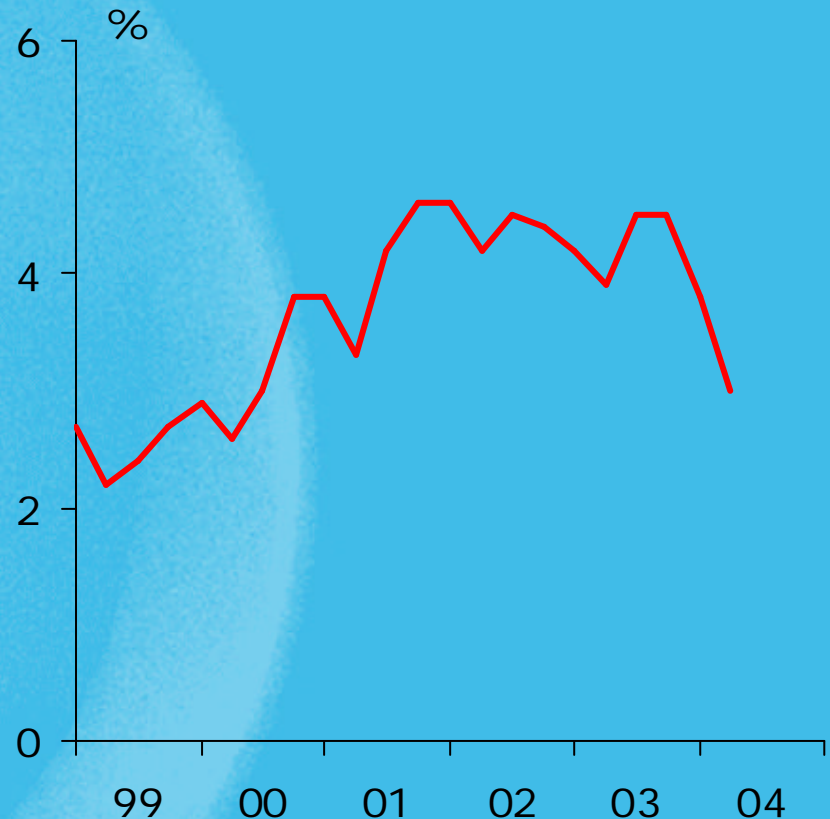
Perth residential property prices

% change from year earlier



Vacancy rates

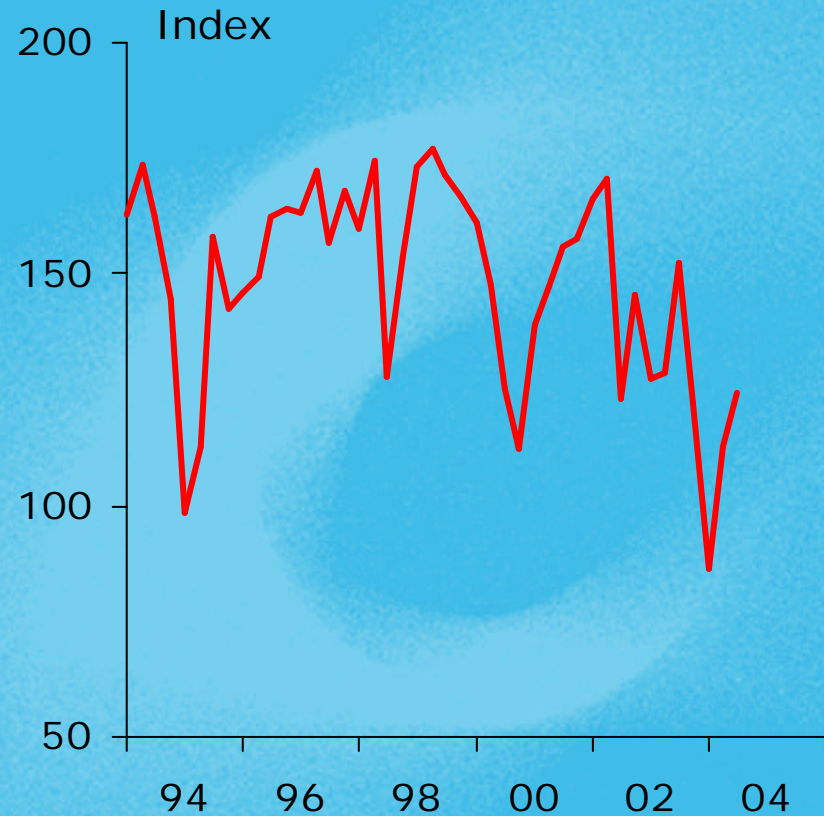
%



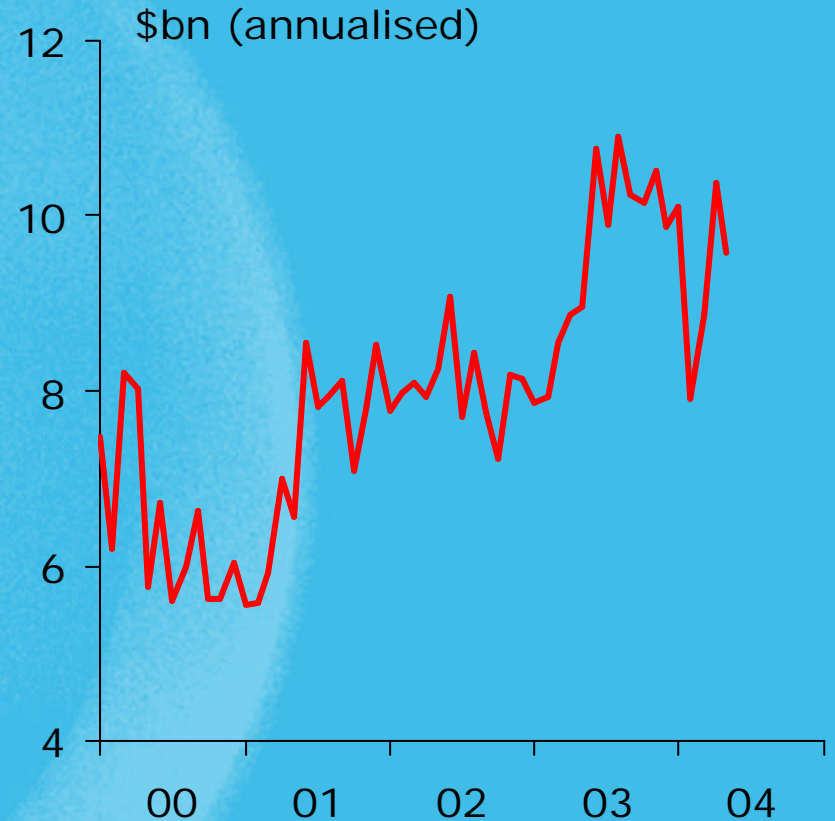
Sources: Datastream, Economics@ANZ

The WA property market is slowing but is far from crashing

WA-time to buy a dwelling



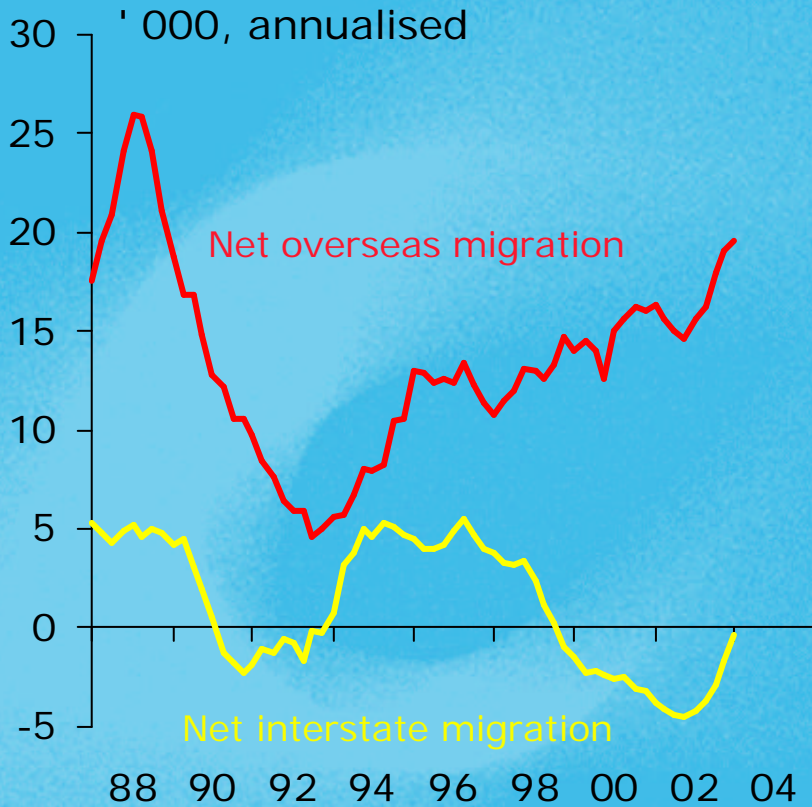
Value of owner occupier housing finance commitments



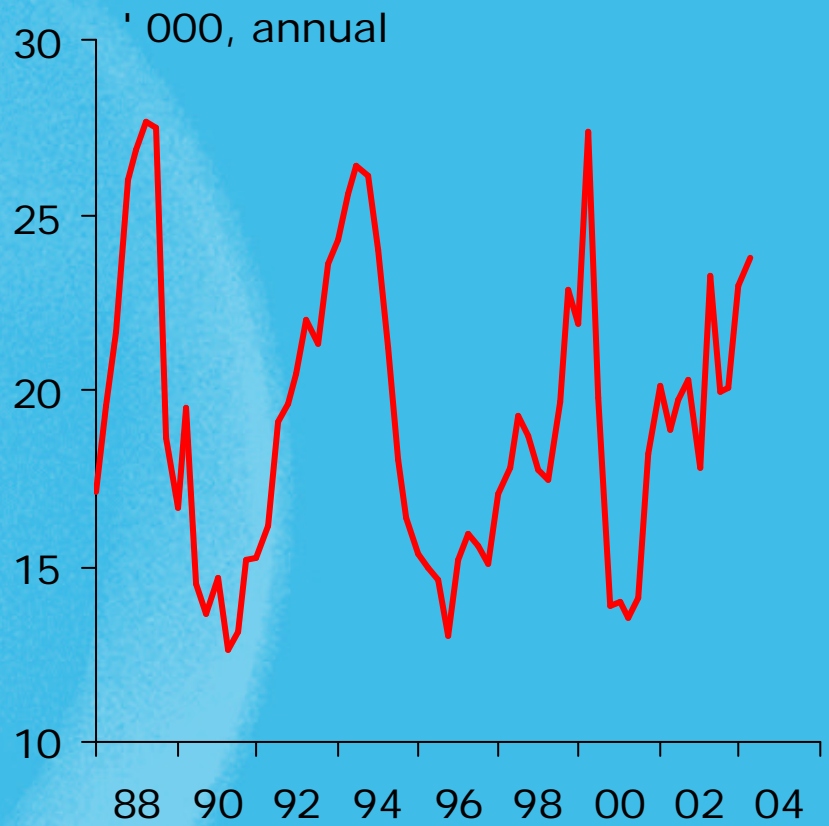
Sources: Datastream, Economics@ANZ

Strong population growth should buoy demand for housing in Western Australia

Net migration



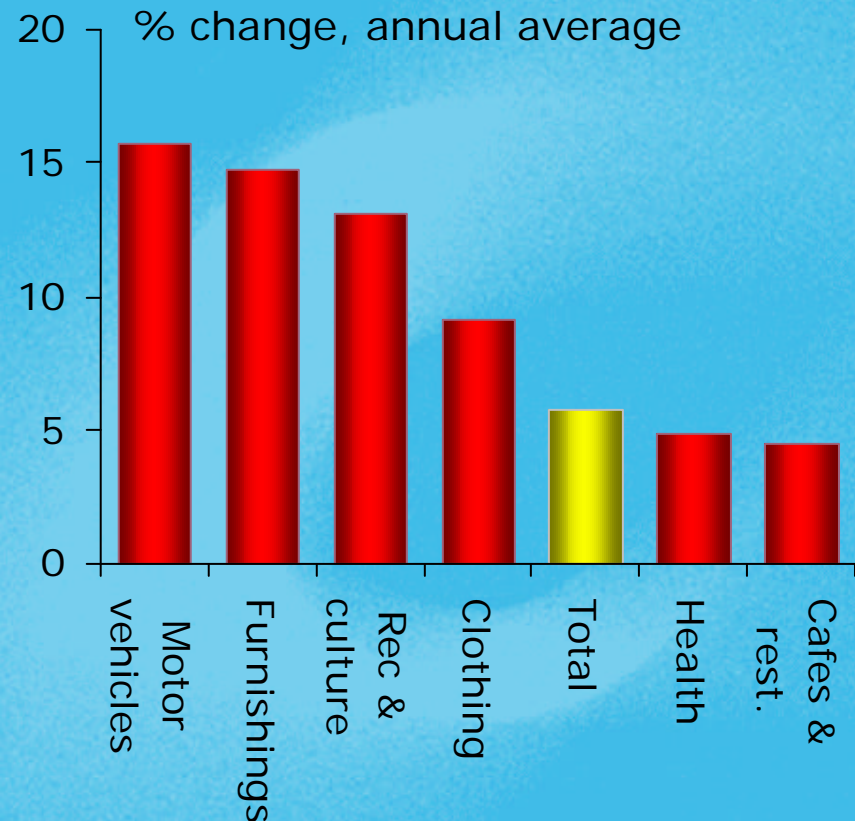
Dwelling starts



Sources: Datastream, Economics@ANZ

The sharp rise in house prices has been important for household spending

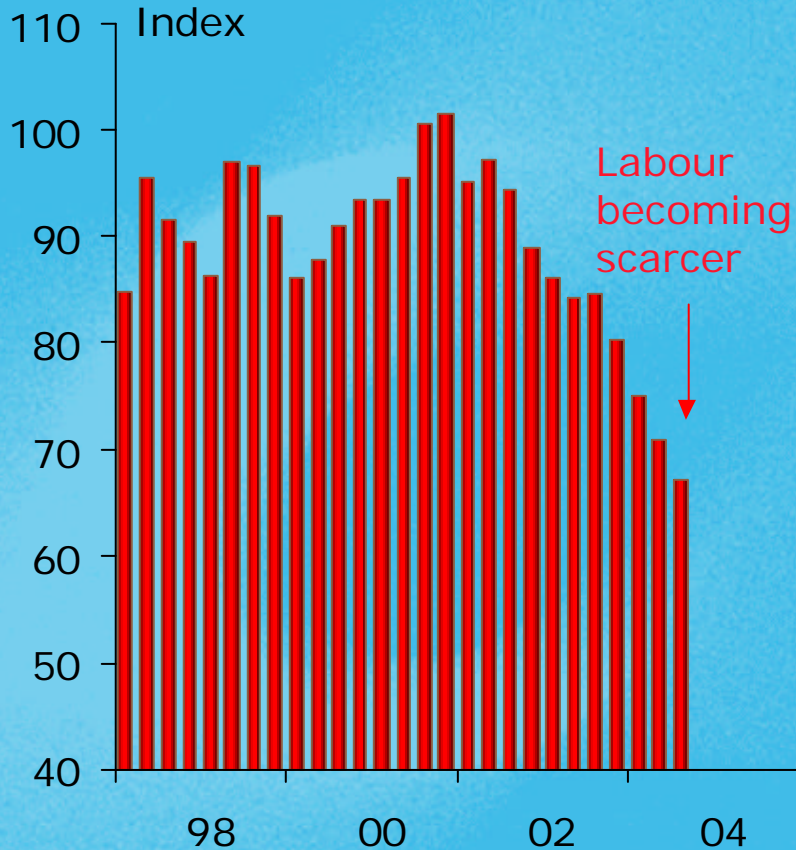
Real consumer spending March quarter 2004



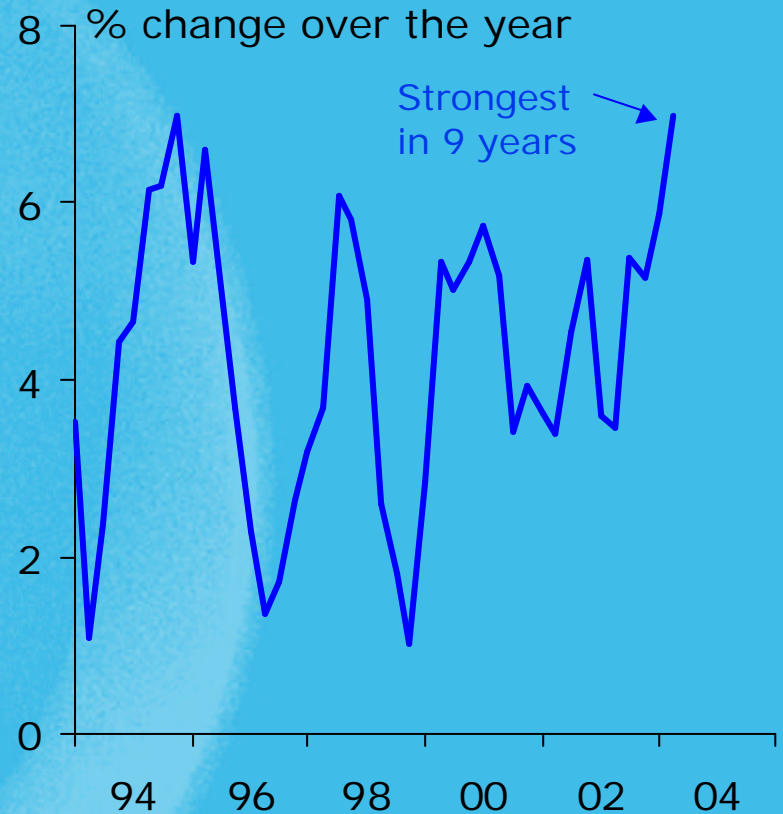
- Real housing wealth increased by 20% in 2003
- A 5% rise in real housing wealth adds 0.5% to household consumption growth
- This implies that if real housing wealth had remained unchanged in 2003 household consumption growth would have been 2% lower...
- ... and domestic economic growth around 1% lower

Wage pressures are rising amid labour shortages

Availability of labour



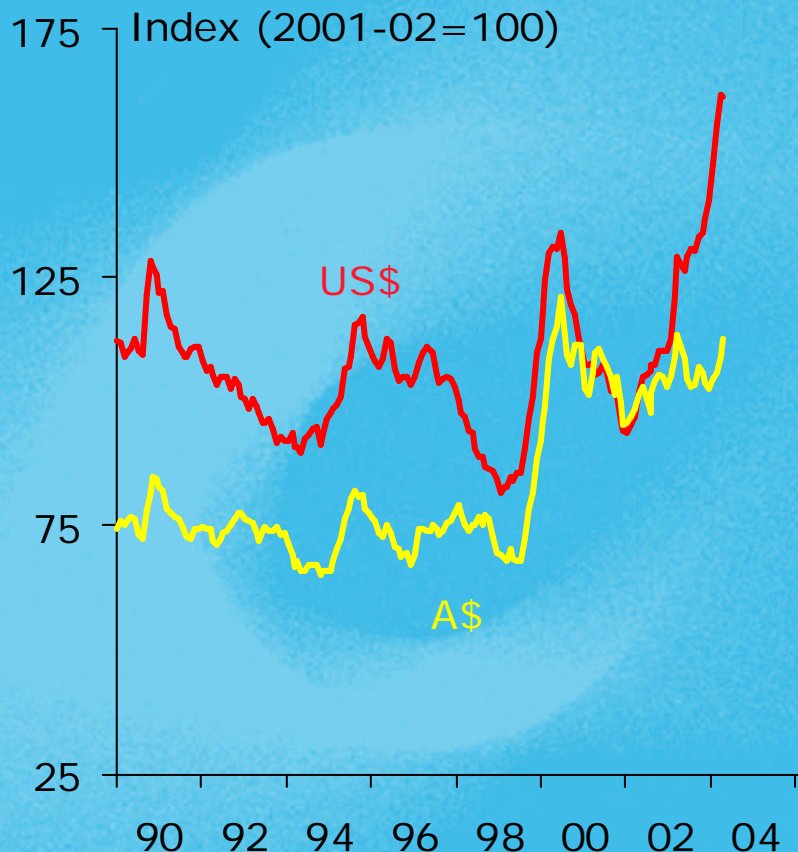
Full-time employee earnings



Source: CCIWA, ABS

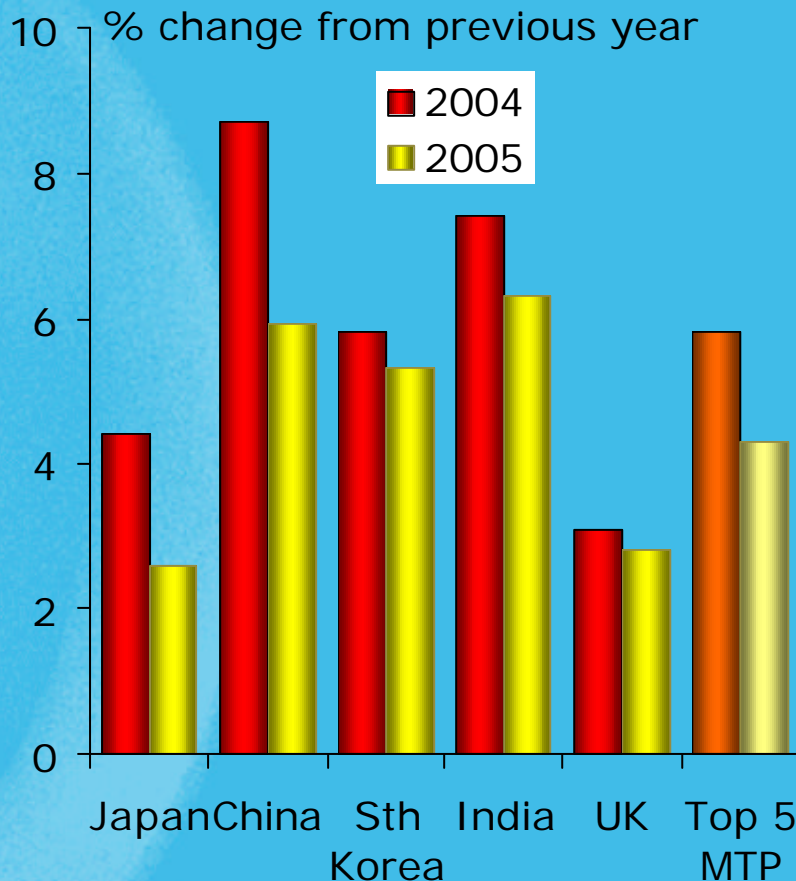
WA will benefit from very strong growth in its export partners in the near term but..

WA commodity prices



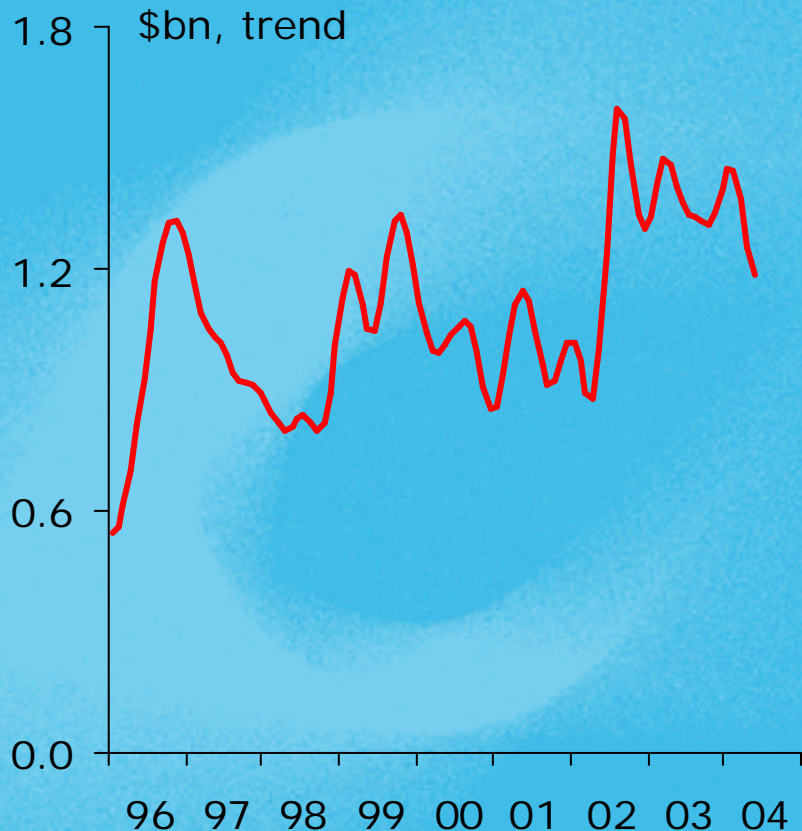
Source: ABS

Top 5 MTP growth

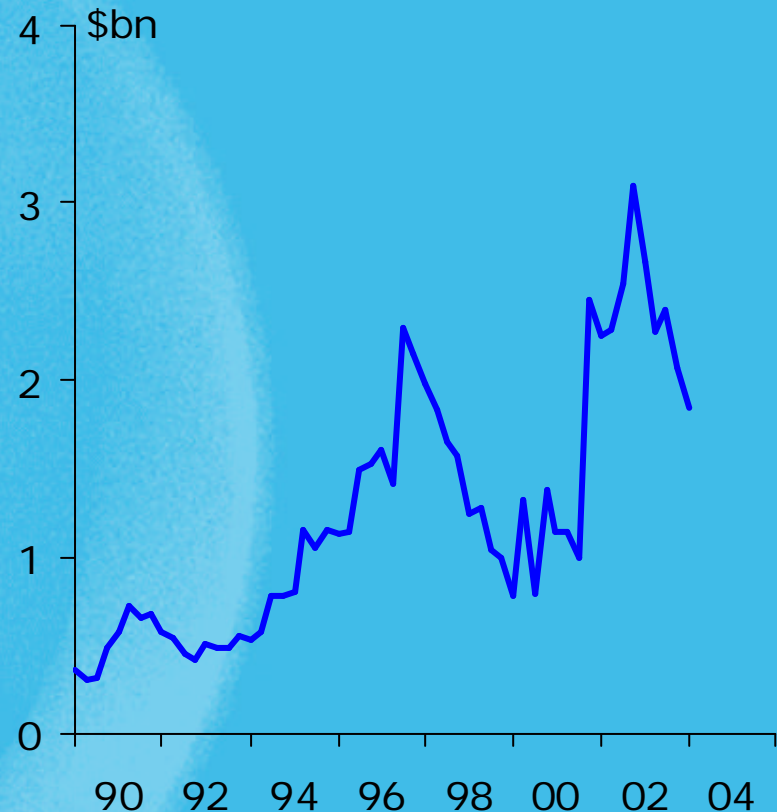


..the longer term outlook is not as bright without further investment!

Non-residential building approvals



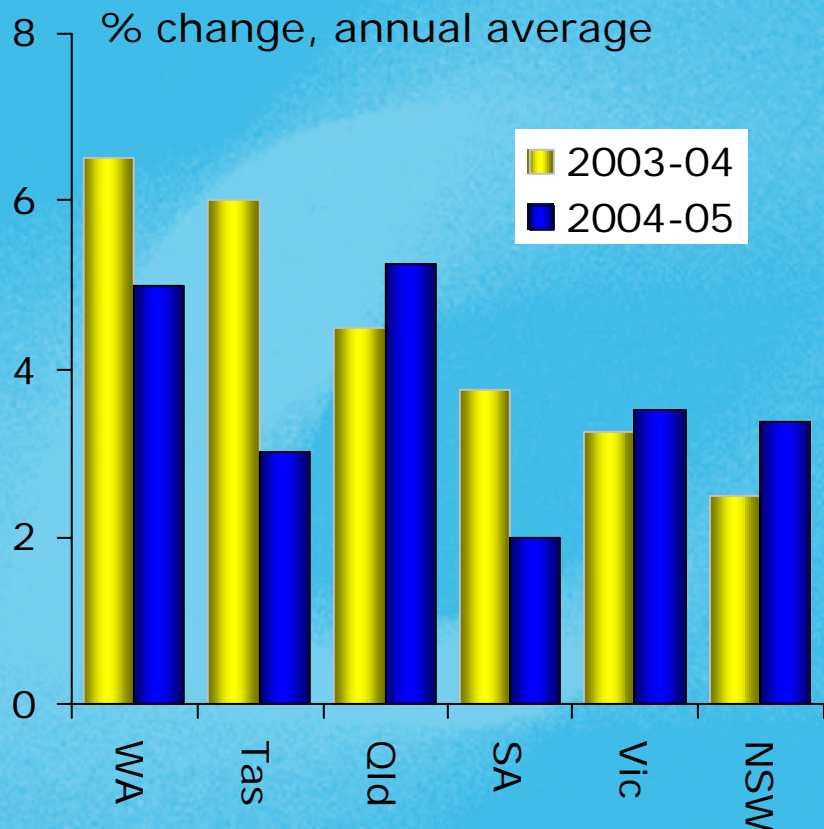
Engineering work yet to be done



Source: ABS

WA should remain one of the best performers over 2004-05 but 2005-06 more challenging

Real economic growth



- **Exports will drive WA's economy over 2004-05**
- **Not labour intensive but flow-on effects**
- **Solid property market and strong population growth will also provide support**
- **A slower world economy in 2006 could spell trouble for WA**

Other risks to the outlook

- **Sustained rise in oil prices – will damage international and domestic economic growth**
- **China crash – a sharper than expected slowdown will dent global growth and hurt WA exporters**
- **Rapid increase in US interest rates – this would pack a big punch to highly indebted households with flow-on effects elsewhere**
- **A sharp fall in the US\$ - possible so long as the massive US current account deficit needs funding, could be the death blow for some exporters**
- **Drought – low Autumn rainfall has seen seasonal conditions deteriorate across parts of Australia**
- **Terrorism**

Summary of forecasts

	2002-03	2003-04	2004-05
WA GSP (% change)	3.9	6½	5
WA unemployment rate (%)	6.0	5¾	5½
Aust GDP (% change)	2.8	3½	3¾
Aust unemployment rate (%)	6.2	5¾	5½
Consumer prices (% change)	3.1	2½	2½
Official cash rate (% pa, Dec)	5.25	5.25	5.50
10-year bond rate (% pa, Dec)	5.7	5.8	6.1
AUD/USD (Dec)	0.75	0.81	0.65
AUD/EUR (Dec)	0.60	0.61	0.54
AUD/YEN (Dec)	80.2	85.5	71.5