

September Quarter 2007

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**Authors:****Wain Yuen**Economist, Regional and Rural  
+61 3 9273 6295  
Wain.Yuen@anz.com**Tony Pearson**Head of Australian Economics  
+61 3 9273 5083  
Tony.Pearson@anz.com**Mark Rodrigues**Senior Economist, Industry  
+61 3 9273 6286  
Mark.Rodrigues@anz.com**Peter Jacobs**Senior Manager, Agribusiness  
+61 3 8635 5920  
Peter.Jacobs@anz.com**Our Vision:**

For Economics@ANZ to be the most respected, sought-after and commercially valued source of economics research and information on Australia, New Zealand, the Pacific and Asia.

**Welcome**

Over the past 150 years, ANZ has supported the financial needs of regional and rural Australia. We understand the importance of face-to-face relationships with our customers and from working together we have developed a solid understanding of the unique issues faced by people in rural communities.

I am delighted to bring you our first ANZ Regional and Rural Quarterly, which provides insight into the economic issues impacting our regions, and most importantly examines the flow on effect to regional communities and industries. We delve into the issues that are important to our customers on the land and provide local information to assist decision-making.

If you would like to share your thoughts on any information featured please contact me at [rob.goudswaard@anz.com](mailto:rob.goudswaard@anz.com) or your local ANZ Regional Executive listed below.

Rob Goudswaard  
Managing Director, Regional, Rural and Small Business Banking

**Inside****The big picture**

Prospects for regional and rural Australia look very promising.

*Page 2***In focus – Is regional Australia running out of workers?**

Regional Australia is experiencing a jobs boom and historically low unemployment rates. As a result, the challenge is to ensure that labour supply keeps pace with demand, a task that will be made all the more difficult by the ageing of the population.

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Early season optimism has given way to uncertainty following dry conditions across southern Australia in late winter and into spring.

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Find out how your region is performing.

*Page 7***ANZ regional and rural services**

ANZ offers a comprehensive range of services in regional and rural Australia. To find out how we can assist you, contact your regional executive:

NSW/QLD: Hamish Davidson    ☎03 9273 5616    ✉hamish.davidson@anz.com

VIC/Tas: Michael Flower    ☎03 9273 0861    ✉michael.flower@anz.com

WA/SA/NT: Frank Fragnito    ☎08 8218 8753    ✉frank.fragnito@anz.com

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**Tony Pearson**  
Head of Australian Economics

**The Australian economy is expected to remain strong**

**But there are challenges such as skills shortages...**

**...interest rates are expected to rise in early 2008**

**...and the A\$ is expected to remain around current levels for the balance of 2007**

## Good times ahead for regional and rural Australia

The Australian economy is in a new golden age. There has now been sixteen years of uninterrupted expansion, the longest continuous period of growth since Federation. And prospects are good that growth will continue for a few years yet, with activity expected to remain buoyant on the back of continued strong household spending, solid business investment, increased infrastructure investment by governments, a recovery in dwelling construction, and improved growth in exports.

Regional and rural Australia will share in these good times. Farm production is expected to recover somewhat with the return to more normal seasonal conditions, although further rains in coming weeks are needed to secure this outcome. Rural producers will also benefit from recent rises in the global prices of key rural commodities, with the Reserve Bank aggregate index of rural commodity prices now at the highest level since the series was first compiled in July 1982. This holds out the prospect that a rebound in production volumes combined with still high prices will deliver a very substantial boost to rural incomes over the coming year.

Regional Australia is also benefiting from stronger growth in population. Population growth in regional centres in aggregate now exceeds that of metropolitan centres. Population growth in coastal areas remains strong, but much of the acceleration in overall regional population growth reflects stronger growth in inland regions. This lift in population is boosting economic activity in regional Australia in a variety of ways, including through increased demand for housing, increased consumer spending, and increased demand for services.

Having said that, there are a number of developments which are posing challenges for regional businesses. The sustained period of economic growth has led to a substantial tightening in the labour market, with the unemployment rate down to 4.3%, the lowest in over three decades. Employers across Australia report it is now more difficult to find and retain labour. The Federal Government has implemented a number of measures to increase the supply of labour, including increased short and long term immigration, and policy changes designed to lift domestic labour force participation rates such as the Welfare to Work program, and changes to child care and superannuation arrangements. Nevertheless, securing an adequate supply of workers is unlikely to get any easier while economic activity continues to be robust.

Also, interest rates are continuing to rise. The Reserve Bank raised the cash rate by 25bp to 6.50% on 8 August. This was the ninth increase in this tightening cycle which began in May 2002. The cash rate is now at the highest level in more than 10 years – since November 1996. And there is a high chance interest rates will rise again, with another 25bp lift expected in early 2008, as the Reserve Bank seeks to dampen medium term inflationary pressures.

And the continued strength of the A\$ is causing concern. Since the low of US\$0.4780 in 2001 the A\$ has appreciated to a recent high of over US\$0.88, an increase of 85% over six years. At the time of writing it was trading at US\$0.82. This has offset much of the gain in global prices for those producers who did not hedge their foreign exchange risk. We see the currency remaining at around its current level for the balance of 2007, with support from higher domestic interest rates and continued strong global growth.

On balance, within an environment of continued strong economic growth for Australia as a whole, and with an expected strong lift in rural incomes and solid growth in regional population, the prospects for regional and rural Australia look very promising indeed.

Mark Rodrigues  
Senior Economist, Industry

The economic fortunes of regional Australia have turned for the better

Unemployment has fallen to historic lows

Employment has grown strongest in regional NSW and Victoria...

## In Focus – Is regional Australia running out of workers?

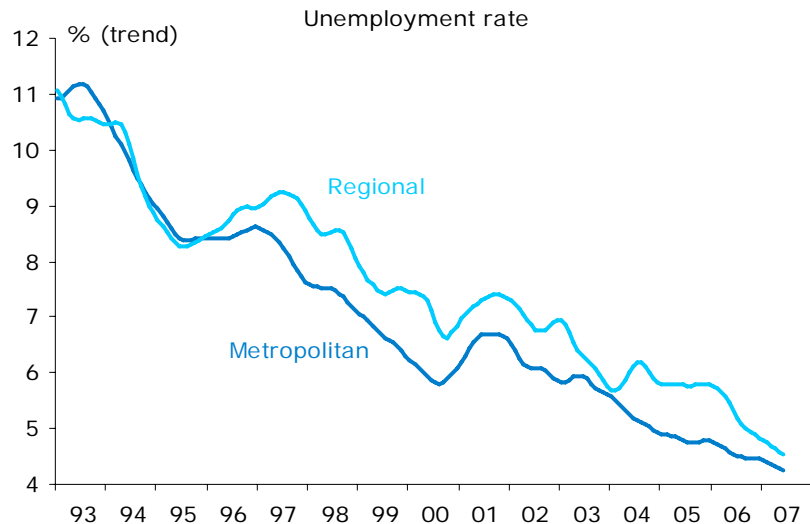
*Regional Australia is in the midst of an economic renaissance, with improved economic growth giving rise to a jobs boom and driving unemployment down to historically low levels. As a result, the economic challenge has now shifted from generating sufficient employment opportunities to ensuring the supply of labour keeps pace with demand, a task that will be made all the more difficult by the ageing of the population. Policies aimed at raising labour force participation will be imperative to securing the economic future of Australia's regions.*

### The regional renaissance...

It wasn't so long ago that if you lived in regional Australia and wanted a job, your best shot was to leave for the city. Australia's regions were in decline and, as the job opportunities dried up, the outflow of residents fed a downward economic spiral. How times have changed. Over the past few years, regional population growth has accelerated sharply and now exceeds that of metropolitan areas.<sup>1</sup> This has spawned a renaissance in many of Australia's regions, with increased demand for goods and services, housing and infrastructure generating new jobs and placing these economies on a sound footing.

Over the past year, employment in regional Australia has grown by an impressive 3.6%, well above the rate of 2.5% recorded in metropolitan centres.<sup>2</sup> Importantly, over 60% of new jobs created have been full-time. The strong hiring environment has driven a precipitous downward trend in unemployment. The regional unemployment rate now sits at a record low of 4.5%, slightly above the national rate of 4.3%, but well below the peak of over 11% in the early 1990s and rates of around 6% less than three years ago.

### The fruits of economic success: falling unemployment



Sources: Australian Bureau of Statistics and Economics@ANZ

The strongest regional labour markets over the past year are located in the largest states of New South Wales and Victoria. This is somewhat surprising given these states, in aggregate, have generally experienced slower economic growth and less impressive labour market outcomes than the boom states of Western Australia and Queensland, and points to contrasting labour market fortunes between the metropolitan and regional areas. Over the past year, employment in regional New South Wales and Victoria grew by 5.2% and 5.6% respectively. This is more than three times the rate of 1.4% in metropolitan New South Wales and 1.7% in metropolitan Victoria. This trend is even more stark in South Australia, where regional employment growth was 4.7% over the past year compared with a 0.4% decline in Adelaide. Regional employment

<sup>1</sup> See ANZ Regional Report, [Regional populations are growing...and greying](#), July 2007.

<sup>2</sup> Metropolitan areas are defined to include all capital cities (except Darwin) and urban centres with populations greater than 150,000 people. Regional Australia then encompasses areas outside of this.

...but Queensland and WA's regions retain the tightest labour markets

Raising labour force participation is the key to securing growth in regional Australia as its population ages

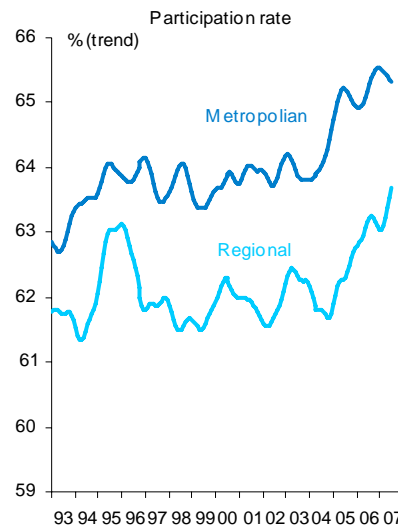
growth was more subdued but still strong in Queensland (2.8% per annum) and actually negative in Western Australia (-0.7%), with all of the strong employment outcomes in that state located in Perth.

Notwithstanding stronger regional employment growth in the larger states over the past year, the resource-rich states retain the tightest regional labour markets. Regional Queensland leads the way with trend unemployment rate now down to 3%, with regional Western Australia not far behind at 3.6%. South Australia's regions, where significant mining and related activity is also located, similarly has a very low unemployment rate of 3.4%. In contrast, regional New South Wales and Victoria both have unemployment rates in excess of 5%.

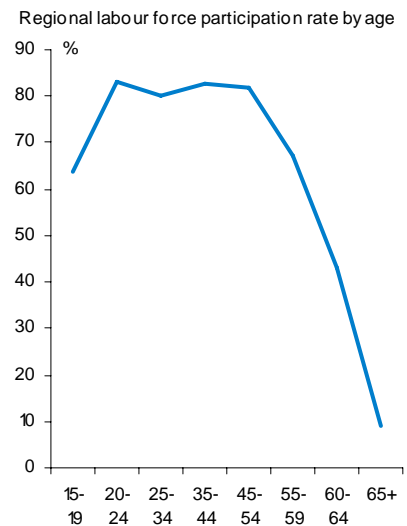
**If you think the labour market is tight now...**

A corollary of regional Australia's strong labour market performance is that finding new workers is becoming increasingly difficult. Most regions are already feeling the labour shortage to varying degrees, particularly, for example, in southern Queensland where the unemployment rate has fallen to a staggering 1.9%! But if you think the labour market is tight now, it's only going to get tighter as the ageing population begins to slow growth in the labour force. As noted in a recent *ANZ Regional Report*, the impact of population ageing will be particularly pronounced in regional areas because they have an older age profile than the cities. This reinforces the importance of policies aimed at raising labour force participation to ensure ongoing growth in regional Australia.

**Regional participation has increased but remains below metro rates**



**Labour force participation falls markedly at older age cohorts**



Sources: Australian Bureau of Statistics and Economics@ANZ

Labour force participation has increased significantly in regional Australia in recent years, from a low of 61.8% in mid 2004 to 63.7% currently. While this may not sound like much, it equates to around an extra 89,000 workers over this period. Notwithstanding this, the regional participation rate remains over 1½ppts below that of the cities. More needs to be done.

In this regard, there are two key areas that warrant policy focus. One is to increase the population of age groups that participate at relatively high rates in the labour force. Specifically, over 80% of those aged 20 to 54 in regional Australia are currently in the labour force, well above the overall rate of just under 64%. This will require a reversal of the current net outflow of younger people to the cities. The second challenge is to raise the participation of older age groups. Labour force participation drops markedly as people age, to around 67% for those aged between 55 and 59, 43% for 60 to 64 year olds, and to just 9% for those aged 65 and older. While there are efforts at a national level to provide incentives for people to continue working later in life, substantial incentives can be provided at a more local level, for example, through the adoption of flexible working conditions in individual firms.

It is sobering to think that if nothing is done, by 2047 less than one in two people aged 15 and older will be in the labour force.

Peter Jacobs  
Senior Manager, Agribusiness

## Agriculture this quarter

*Early season optimism for a strong cropping season has given way to uncertainty following dry conditions across southern Australia in late winter and into spring. Significant rainfall is needed in short order to prevent another failed crop. Producers in areas that have received reasonable rainfall this year will be well placed to take advantage of record high prices across a range of agricultural commodities.*

### A tale of two halves

The start of the winter cropping season has been a tale of two halves. The first half of the September quarter showed a lift in confidence of Australian farmers as a result of rising commodity prices for most agricultural products and the prevalence of more favourable growing conditions, particularly throughout Australia's southern wheat belt. The combination of good seasonal conditions and strong commodity prices provided good prospects for farmers recovering from drought. But despite the excellent start to the season, conditions have deteriorated across the southern wheat belt due to the lack of rainfall in August and the dry start to spring.

Crop forecasters are now downgrading national winter harvest expectations as soil moisture conditions deteriorate. More favourable conditions exist in parts of northern NSW, south east Queensland and central and southern WA.

For farmers fortunate enough to receive favourable rainfall, financial conditions are likely to prove outstanding given the positive crop yields and the unprecedented high grain crop prices. Many may not get the full benefit of record grain prices as some farmers elected to lock in grain prices through the use of futures contracts earlier in the season at what are now substantial discounts to spot prices.

Poor rainfall during August and early spring continues to pressure water reserves throughout southern Australia's irrigation systems despite some favourable winter inflows. Very low water allocations for the forthcoming irrigation year have been announced by the majority of water authorities, with storage levels considered insufficient for most irrigators to maintain commercial production levels. Historically, spring provides the highest level of inflows into irrigation systems such as the Murray-Darling and therefore improved allocations may be available to irrigators before summer.

### Rural commodity prices are booming

Despite the current relatively high level of the Australian dollar against the US dollar, favourable prices for most agricultural products exist across most industry sectors. In particular, grain and dairy prices are hovering around record highs and meat prices remain firm to strong.

Favourable conditions for agricultural commodity prices are likely to continue for at least the next decade according to OECD-FAO *Agricultural Outlook (2007 - 2016)*. According to the report, a wide range of major agricultural commodities will record improved prices over the next decade compared with those in the preceding five-year period ending May 2006. Key reasons for the improved price outlook include on-going world economic growth, population growth and increased feedstock demand for biofuel production.

The OECD predicts price improvements for major Australian agricultural commodities including wheat, coarse grains, oilseeds and all major dairy products. In addition, strong ongoing prices are predicted for beef and veal products.

This year's winter cropping season began strongly...

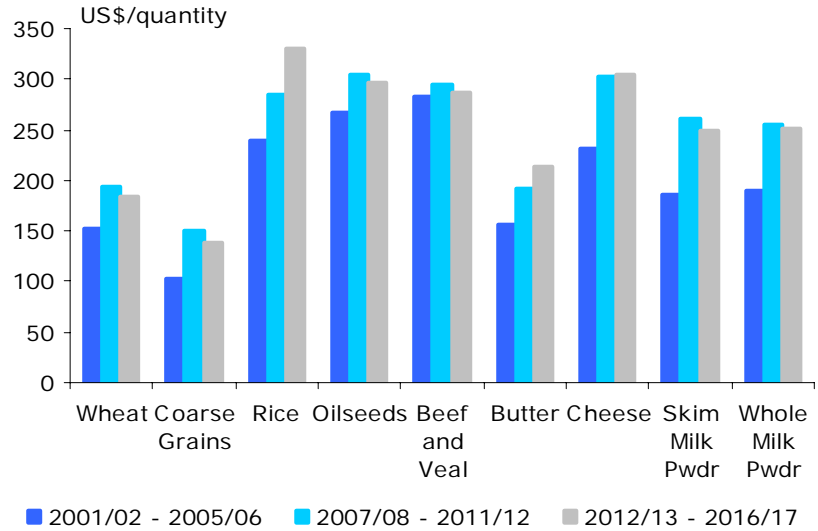
...but conditions have since deteriorated

Water allocations remain an issue

Rural commodity prices are very strong...

...and this is set to continue

**Agricultural commodity price outlook**



Note: Prices for wheat, coarse grains, rice and oilseeds are shown in US\$/tonne; prices for beef and veal, butter, cheese, skim milk powder and whole milk powder are shown in US\$/100kg.

Source: OECD-FAO *Agricultural Outlook 2007-2016*

**Australia's 'clean' image creates opportunities**

Another key issue for this quarter in agribusiness is an outbreak of Foot and Mouth Disease (FMD) among cattle in the south of England. FMD can cause severe production losses and is a major constraint to international trade in livestock products. Australia's reputation as a proven "clean and green" provider of quality food stuffs remains an important factor in gaining international trade within the agribusiness sector.

Australia has a competitive advantage with its 'clean and green' image



**Wain Yuen**  
Economist, Regional and Rural

**After a great start to the season, conditions have since deteriorated**

**Regional populations are growing**

**And labour market conditions remain strong**

## Around the regions

An excursion through regional Australia reveals several common themes. Still uncertain seasonal conditions continue to test the resilience of rural towns. On a more positive note, regional economies are experiencing improved economic conditions, buoyed by higher rates of population growth and a strong sense of community.

In many areas, the winter cropping season began with optimism that a recovery from the drought was underway. Good early season rainfall had given winter crop farmers reason to be cautiously confident and ABARE had forecast Australian wheat production to be around 22.5 million tonnes this year, more than double production in 2006-07. However, follow-up rainfall failed to eventuate in many parts of the country. Overall, some recovery from last year's drought stricken harvest is likely, but ABARE's forecast is now looking overly optimistic. Of particular concern, conditions in several areas such as northern Western Australia, western New South Wales and central Victoria are now finely balanced so that crops will fail if follow-up rain is not received.

The situation also remains critical for irrigators in the southern Murray-Darling Basin. At the time of writing, the allocation of high-reliability water shares has been set at 17% in the Goulburn system, 5% in the Murray system, and 13% in South Australia's River Murray. The latest report from the Murray Darling Basin Commission suggests that there is unlikely to be any significant change to these allocations until spring, when the most substantial inflows typically occur.

In the medium term, population growth will be required to support regional economies. In this regard, the outlook is bright with regional populations growing by 1.3% per annum, slightly above that of metropolitan centres. Regional Queensland has been the strongest performer with North and Central Queensland growing by around 2% per annum. Regional Victoria has also performed well, along with the northeast and Fleurieu regions of South Australia. In contrast, population growth has been weak in other South Australian regions and in New South Wales.

Labour markets remain strong with 68% of the regions experiencing a fall in their unemployment rate over the past 12 months. Unsurprisingly, regions directly exposed to the mining boom are experiencing the strongest results. In particular, regional Queensland, regional Western Australia and north and west South Australia all have unemployment rates below 4%. Having said that, in three regions – north Western Australia, south Western Australia, and central and far west New South Wales - employment growth has recently turned negative following a period of exceptional growth. In regional Western Australia, this reflects an easing in labour intensive activities such as construction, partly offset by an increase in less labour intensive mining activities. Outside of the mining regions, northeast Victoria is clearly the strongest performer with an unemployment rate of just 3%.

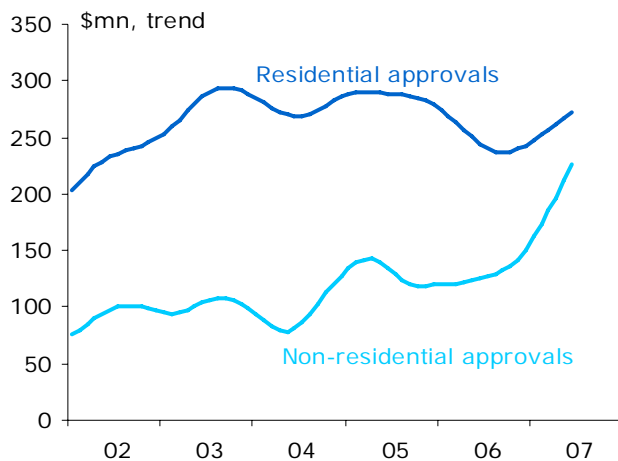
There are many reasons why people might move to regional Australia. The lower cost of living, and in particular housing, is one. But even more important is the strong sense of community in the regions. This sense of community is highlighted by festivals and events, from the Devonport Jazz Festival in Tasmania to the Prairie Races in North Queensland. Along with these events, the regions are coming up with new, innovative ways of attracting visitors such as the Otway Fly Tree Top Walk in South West Victoria, a walk through a forest canopy reaching elevations of up to 45 metres. In addition, investment continues to buoy the regions. For example, construction has commenced on the Australian Equine and Livestock Centre near Tamworth, Northern NSW while planning approval has been received for 'the Dunes', a Greg Norman designed golf course, resort and residential development at Port Hughes within two hour's drive of Adelaide. There are many more examples so read on to find out about your region.

## NSW North Coast

The NSW North Coast region



### Non-residential construction projects are picking up



Source: ABS

- Economic conditions in the NSW North Coast region are weak, but the outlook is promising.
- Over the past five years, the unemployment rate has fallen substantially from over 10% to 7.6%. This is still the highest rate in Australia, but the downward trend is set to continue given remarkably strong employment growth. At 9.9% per annum, employment growth is the strongest of the NSW regions.
- Tourism continues to be a significant driver of the NSW North Coast economy. In the March quarter of this year, tourist accommodation operators grossed \$132mn, up 10.6% from last year. Furthermore, the outlook is positive with the Tourism Forecasting Committee suggesting that the medium term outlook for inbound tourism remains solid, notwithstanding the strong Australian dollar.
- There continues to be support for the region's construction industry which employs 17,100 people on a full-time basis. The value of residential building approvals is up 11.6% over the year and the value of non-residential approvals is up 79.6%.
- This construction will help to meet the region's increasing population with continued migration making the Mid-North Coast one of the fastest growing regions in NSW. In 2005-06, the broader region grew by 1%.
- Stronger population growth will help the economy to expand in the medium term, backed up by State and Local Government planning which is targeting regional centres such as Grafton, Coffs Harbour, Port Macquarie and Taree and towns such as Maclean, Woolgoolga, Bellingen, Macksville, Kempsey and Forster-Tuncurry.

Your ANZ Regional Manager is:

**Leigh Sellers**

(02) 6652 0391

leigh.sellers@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – NSW North Coast

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	240	243	247	252	257	262	267	273
Non-res building approvals, \$mn	142	151	162	173	185	197	212	226
Employment, annual % change	9.5	9.5	9.6	9.7	9.9	10.0	10.0	9.9
Unemployment rate, %	6.4	6.7	7.1	7.4	7.6	7.7	7.7	7.6
Participation rate, %	56.4	56.5	56.5	56.4	56.3	56.2	56.2	56.2
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	490.3	496.9	503.1	509.2	515.0	519.8	525.2	n/a
Population, annual % change	1.4	1.3	1.2	1.2	1.1	0.9	1.0	n/a
Mean individual taxable income, \$	28137	29425	30533	32071	34154	35348	n/a	n/a
Average farm debt, \$'000	144.6	175.9	179.4	313.3	144.3	160.6	205.6	n/a
Equity ratio, %	90	88	90	85	93	94	94	n/a
Average rural land holding, \$mn	1.24	1.20	1.25	1.69	1.75	2.08	2.72	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

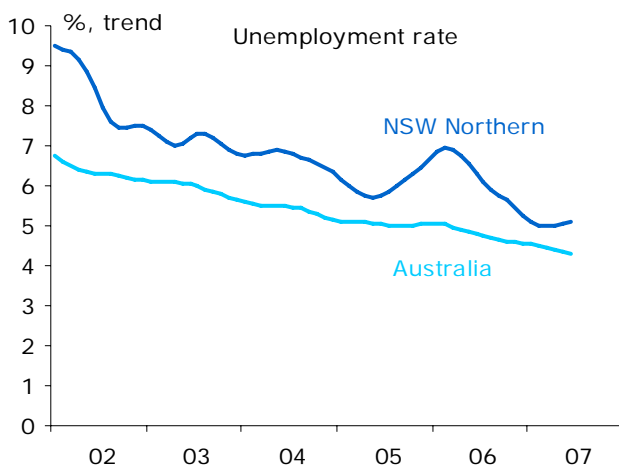


## NSW Northern

The NSW Northern region



The region's unemployment rate is falling, but remains above that of Australia



Sources: ABS and Economics@ANZ

- Economic conditions in the NSW Northern region have improved, but continue to lag behind other parts of Australia.
- Labour market opportunities have improved markedly, with the unemployment rate falling from 7% at the start of 2006 to around 5% at present. This reflects, in part, the coal mining boom around the Gunnedah Basin. Over the past five years, around 2,200 full-time jobs have been created in the Hunter's mining industry and there have been flow on effects to transportation and other industries.
- The construction industry is also buoyant and has been the largest contributor to jobs growth over the past five years. With the value of non-residential construction projects increasing by 45% over the past two years, construction activity in the region should remain well supported. Around Tamworth, construction of the Australian Equine and Livestock Centre commenced on 15 June 2007.
- There are also positive signs for the agriculture industry with ideal pre-sowing rains in April and May benefiting the region's winter crops. However, conditions in some areas are now finely balanced so that crops will fail if follow-up rain is not received. All crops will require further rain to ensure a reasonable yield.
- Prospects for manufacturing businesses continue to be clouded by increasing competition from offshore and a strong Australian dollar. However, like other parts of Australia, the NSW Northern region is gradually diversifying its economy to offset the decline in manufacturing.
- Government policy will also need to focus on lifting the labour force participation rate which is almost 6 percentage points below the national average.

Your ANZ Regional Manager is:

**John Stavert (acting)**

☎ (02) 6768 3646

✉ john.stavert@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – NSW Northern

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	384	375	366	355	345	334	323	311
Non-res building approvals, \$mn	264	262	264	263	265	267	272	275
Employment, annual % change	1.4	1.5	1.8	2.0	2.0	1.7	1.3	0.7
Unemployment rate, %	5.5	5.2	5.1	5.0	5.0	5.0	5.0	5.1
Participation rate, %	60.5	60.4	60.3	60.0	59.8	59.6	59.4	59.2
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	760.5	769.2	774.6	779.0	782.1	787.1	793.0	n/a
Population, annual % change	1.0	1.1	0.7	0.6	0.4	0.7	0.7	n/a
Mean individual taxable income, \$	34207	34044	34980	36153	37950	39778	n/a	n/a
Average farm debt, '\$'000	279.3	293.9	345.6	286.3	463.0	432.8	492.6	n/a
Equity ratio, %	84	84	85	86	84	83	85	n/a
Average rural land holding, \$mn	1.54	1.51	1.77	1.74	2.31	2.18	2.68	n/a

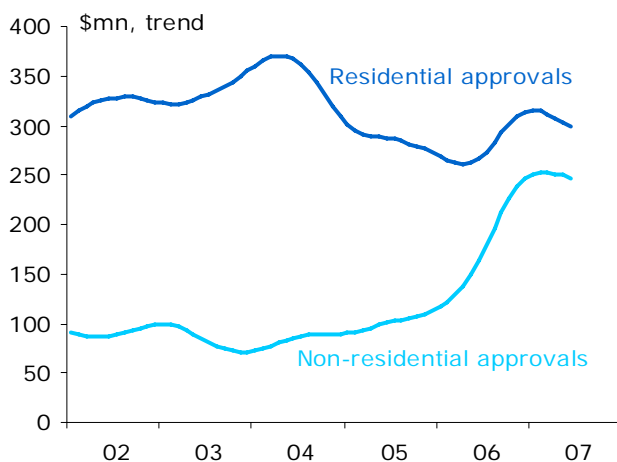
Sources: ABS, ABARE, ATO and Economics@ANZ; the table includes data on Newcastle.

## NSW South East

The NSW South East region



Non-residential construction is at high levels



Source: ABS

- Economic conditions in the NSW South East region continue to improve on the back of stronger construction and tourism activity, but medium term prospects will depend on an acceleration in population growth.
- Employment growth is currently tracking at 7% per annum, the strongest in more than a decade. As a result, the region's unemployment rate has dropped to 4.6%, the lowest on record but still above the national average of 4.3%.
- Tourism is based around the region's natural environment. In summer this year, the South Coast's beaches generated \$24.9mn for the region's motels, up 3.1% over the year, and \$33.3mn for the region's hotels, up 1.9%. Although data for the snow season is not yet available, there are reports of increased visitor numbers in the Snowy Mountains, underpinned by good snowfall. Looking forward, the Tourism Forecasting Committee's latest report suggests that the medium term outlook for inbound tourism remains solid.
- The construction industry – the region's largest employer - remains well supported with the value of residential approvals up 12.1% over the year and non-residential approvals up 50.5%.
- There are positive signs for dairy, the primary coastal agri-industry, with ABARE forecasting dairy prices to remain strong in the year ahead. This will help the region's farming community to recover from the drought. Meanwhile, signs are mixed for wool and sheep farming, the dominant inland agri-industries. The latest report of the Australian Wool Innovation (AWI) Production Forecasting Committee suggests that Australian production will fall by 4% in the 2007-08 season to 410 million kg greasy. This reflects less sheep shorn following the drought, partly offset by improved fleece weights.

Your ANZ Regional Manager is:

**Mark Nightingale**

(02) 4234 4723

mark.nightingale@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – NSW South East

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	308	313	315	314	312	308	303	299
Non-res building approvals, \$mn	238	246	251	253	253	251	250	247
Employment, annual % change	5.0	5.7	6.2	6.5	6.6	6.8	6.9	7.0
Unemployment rate, %	6.6	6.3	6.1	5.8	5.5	5.2	4.9	4.6
Participation rate, %	58.1	58.2	58.3	58.3	58.2	58.2	58.2	58.2
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	582.8	593.0	600.3	606.2	610.0	614.7	620.1	n/a
Population, annual % change	1.6	1.8	1.2	1.0	0.6	0.8	0.9	n/a
Mean individual taxable income, \$	33607	35180	36391	38031	39534	40973	n/a	n/a
Average farm debt, '\$000	34.7	12.8	43.5	83.7	58.9	60.9	86.4	n/a
Equity ratio, %	97	99	96	93	95	95	96	n/a
Average rural land holding, \$mn	0.96	0.85	0.89	0.96	0.96	1.14	1.60	n/a

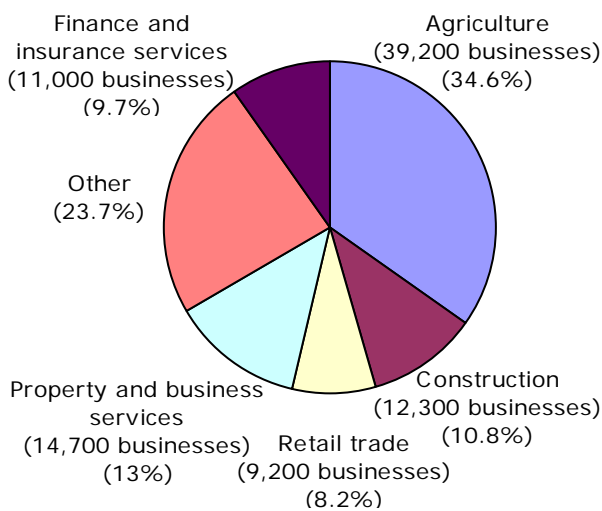
Sources: ABS, ABARE, ATO, Economics@ANZ

## NSW South West

The NSW South West region



Over a third of the region's businesses are in the agriculture industry



Source: ABS

- The NSW South West region, which encompasses a substantial part of the Murray-Darling Basin, remains affected by drought and limited water allocations. However, the broader economy is proving resilient.
- The very strong employment growth seen earlier this year has tapered off and is now around the national average. As a result, the unemployment rate has risen to 4.9% but is still low compared to other NSW regions. Encouragingly, NSW South West has 67% of its population over 15 years of age either in work or looking for work. This is the highest proportion in Australia, outside of the mining regions in Queensland and Western Australia.
- After declining from 2002 to 2004, the region's population growth has accelerated to 0.9% in 2005-06. This is consistent with the national trend and will support the region's construction and service industries.
- Meanwhile, there are positive signs for the region's large agricultural industry. Given the good start to the winter cropping season, areas sown to wheat and canola are well above average. Combined with very high global commodity prices, this year's dryland cropping season is promising. However, good spring rains are needed to ensure a successful yield.
- In contrast to the dryland cropping industry, the situation remains critical for irrigators in the southern Murray-Darling Basin. Opening water allocations for the 2007-08 irrigation season have been set at zero or otherwise minimal levels. The latest report from the Murray-Darling Basin Commission suggests that there is unlikely to be any significant change to these allocations until at least late winter, when the most substantial inflows typically occur.

Your ANZ Regional Manager is:

**Tony Williams**

☎ (02) 6926 9925

✉ tony.williams@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – NSW South West

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	120	117	114	111	108	104	102	98
Non-res building approvals, \$mn	85	89	93	95	98	99	101	103
Employment, annual % change	7.7	6.9	6.1	5.3	4.6	4.0	3.4	2.8
Unemployment rate, %	4.0	4.1	4.2	4.3	4.5	4.6	4.7	4.9
Participation rate, %	67.2	66.8	66.5	66.4	66.4	66.4	66.5	66.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	151.5	152.9	153.1	152.8	152.5	153.1	154.5	n/a
Population, annual % change	0.5	0.9	0.1	-0.2	-0.2	0.4	0.9	n/a
Mean individual taxable income, \$	29923	33138	34208	34537	35817	36750	n/a	n/a
Average farm debt, \$'000	153.8	195.5	170.3	265.4	262.4	274.5	311.3	n/a
Equity ratio, %	91	87	91	87	90	90	89	n/a
Average rural land holding, \$mn	1.49	1.39	1.40	1.76	2.59	2.35	2.39	n/a

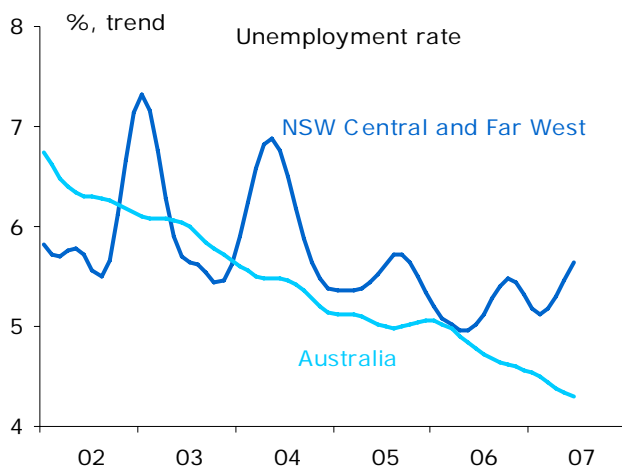
Sources: ABS, ABARE, ATO, Economics@ANZ

## NSW Central and Far West

The NSW Central and Far West region



The region's unemployment rate is rising



Source: ABS

- Economic conditions in the NSW Central and Far West region remain weak but there are early signs of a turnaround.
- The declining trend in the region's employment since October 2006 appears to be easing with employment growth broadly flat over the year to June 2007. The unemployment rate remains relatively high at 5.6%, well above the national average of 4.3% but should improve as employment growth picks up.
- Encouragingly, NSW Central and Far West has a relatively high proportion of its working age population either in work or looking for work. This is close to a decade high for the region and ensures a ready supply of labour as demand picks up.
- Hopes of a turnaround in the region's economy are being pinned on the agricultural sector with good rainfall supporting the start of this year's winter cropping season. In parts of the Central West, the area sown to winter crops is the highest in many years. However, further rainfall is needed to ensure a reasonable yield.
- A rebound in farm production will set the scene for a broader based economic recovery in the region, with the fortunes of many businesses and communities tied to the agricultural industry.
- Not surprisingly, those parts of the region dominated by mining, particularly Broken Hill, are performing exceptionally well with current high global commodity prices providing the incentive for companies to increase investment and exploration.
- The region is also benefiting from a turnaround in population growth. Since slowing to a crawl in mid-2004, population growth has accelerated to 0.8% per annum.

Your ANZ Regional Manager is:

**Clark Thompson**

☎ (02) 6362 1007

✉ clark.thompson@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – NSW Central and Far West

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	100	100	100	99	98	97	96	94
Non-res building approvals, \$mn	43	41	38	35	33	31	28	26
Employment, annual % change	-1.7	-3.1	-3.9	-4.0	-3.3	-2.3	-1.2	-0.1
Unemployment rate, %	5.4	5.3	5.2	5.1	5.2	5.3	5.5	5.6
Participation rate, %	61.5	61.1	61.0	61.3	61.9	62.7	63.5	64.3
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	336.0	338.3	339.3	339.5	339.5	341.0	343.7	n/a
Population, annual % change	0.4	0.7	0.3	0.1	0.0	0.4	0.8	n/a
Mean individual taxable income, \$	31463	33430	34518	34960	36184	37836	n/a	n/a
Average farm debt, \$'000	248.5	190.1	200.2	215.1	236.7	334.4	371.7	n/a
Equity ratio, %	87	89	88	89	89	86	87	n/a
Average rural land holding, \$mn	1.57	1.76	1.23	1.48	1.59	1.82	2.14	n/a

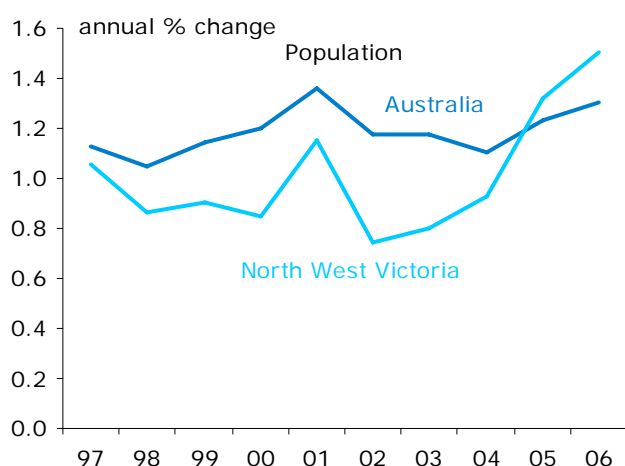
Sources: ABS, ABARE, ATO, Economics@ANZ

## North West Victoria

The North West Victoria region



The region's population growth now exceeds that of Australia



Source: ABS

- Economic outcomes in the North West of Victoria have improved in recent years, thanks in large part to the region's growing population. Population growth was a solid 1.5% in 2005-06, slightly above the national average and more than double the recent trough of 0.7% in 2001-02.
- The resultant increase in demand has generated impressive labour market outcomes. Employment growth is currently running at a very respectable rate of 7% per annum, although this pales in comparison to rates in excess of 16% recorded in the latter part of 2006. The surge in labour demand has been more than met by an increase in labour supply, with the labour force participation rate rising by a massive 5 percentage points since late 2004. As a result, the unemployment rate has actually ticked up a little, to be currently just under 6%.
- Both residential and non-residential construction building approvals have trended down over the past year, although several large developments have the potential for flow-on economic benefits to the broader community. Two prominent examples in the Mildura region are the \$70mn marina development and the world's first commercial solar power station 19km north east of Mildura.
- Prospects for agriculture – the region's most important industry – are mixed at this stage. Good early season rainfall has given broadacre crop farmers in the Wimmera/Mallee region reason to be cautiously confident, although forthcoming rainfall will determine the extent of the rebound from the drought. In contrast, the irrigated horticulture and dairy industries in the Sunraysia area face uncertain water allocations this year. Water security will continue to place pressure on both the farm sector and the communities that support them.

Your ANZ Regional Manager is:

**Fiona Manifold**

☎ (03) 5445 4447

✉ fiona.manifold@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – North West Victoria

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	145	143	140	138	136	134	133	129
Non-res building approvals, \$mn	70	70	70	70	69	67	65	65
Employment, annual % change	16.2	16.3	15.2	13.5	11.6	9.8	8.2	7.0
Unemployment rate, %	4.9	4.8	4.8	4.9	5.1	5.3	5.6	5.8
Participation rate, %	66.8	66.9	66.7	66.4	66.1	65.9	65.7	65.5
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	329.9	333.7	336.2	338.9	342.1	346.6	351.8	n/a
Population, annual % change	0.8	1.2	0.7	0.8	0.9	1.3	1.5	n/a
Mean individual taxable income, \$	30267	32150	34658	34082	34485	35761	n/a	n/a
Average farm debt, '\$000	163.8	133.3	125.3	156.1	163.5	200.0	304.1	n/a
Equity ratio, %	85	88	92	90	91	88	86	n/a
Average rural land holding, \$mn	0.96	0.88	1.04	1.12	1.35	1.32	1.71	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

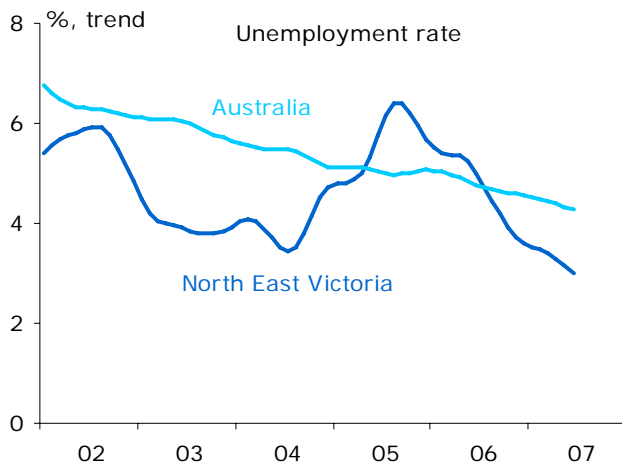


## North East Victoria

The North East Victoria region



The region's unemployment rate is at a record low



Source: ABS

- The North East region of Victoria has posted some impressive economic results in recent years, underpinned by stronger population growth. The region's population expanded by 1.3% in 2005-06, up from rates of around 1% in the previous four years, to be around the national average pace.
- With more people to service, it is little surprise the region's labour market is running hot. Employment growth has accelerated this year to an annual rate of 4.5%, well above the national pace of 2.6%. The improved employment environment has induced more people into the labour market, with the labour force participation rate rising sharply since late last year. Even with the increased supply of labour, the unemployment rate has continued to fall, and is now at a historical low of 3%.
- Residential and non-residential construction approvals have trended down over the past year, but can be expected to increase over coming years as new infrastructure is required for the expanding population.
- Near-term economic prospects will depend to a large extent on the agricultural sector. The arrival of some good rains early in the season provided for some much needed impetus to local farmer confidence. However the outlook remains mixed with the Bureau of Meteorology suggesting an increased likelihood of a drier spring.
- As with other regions in the Murray-Darling Basin, water security remains the major issue for irrigators in North East Victoria. This year's allocations will remain uncertain until the peak inflow months in spring. Longer-term, the operating environment will be determined by the nature of current attempts at both the federal and state level to implement more sustainable water management practices.

Your ANZ Regional Manager is:

**Peter Barclay**

(03) 5820 4444

peter.barclay@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – North East Victoria

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	171	168	165	162	160	157	154	151
Non-res building approvals, \$mn	100	95	89	82	75	67	61	54
Employment, annual % change	1.8	1.0	1.1	1.8	2.7	3.4	4.1	4.5
Unemployment rate, %	3.7	3.6	3.5	3.5	3.4	3.3	3.1	3.0
Participation rate, %	62.7	62.4	62.5	63.0	63.7	64.4	65.0	65.5
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	279.1	282.9	285.6	288.9	291.9	295.2	299.2	n/a
Population, annual % change	1.2	1.4	1.0	1.1	1.0	1.1	1.3	n/a
Mean individual taxable income, \$	30070	31807	32840	33113	34470	36536	n/a	n/a
Average farm debt, '\$'000	86.0	119.7	122.9	143.2	114.7	134.7	200.0	n/a
Equity ratio, %	92	89	91	90	93	92	92	n/a
Average rural land holding, \$mn	0.91	0.96	1.10	1.16	1.34	1.41	2.12	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

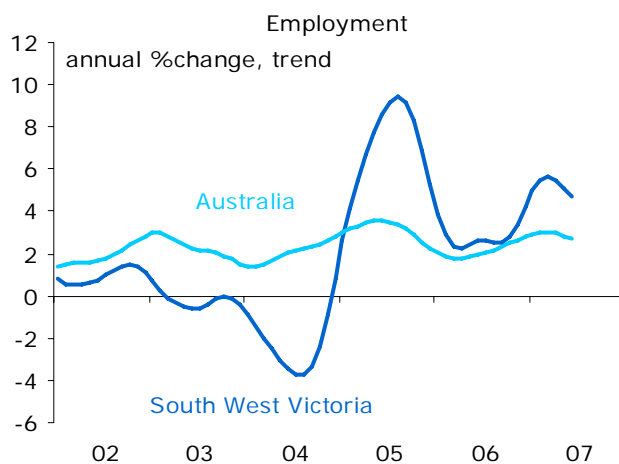


## South West Victoria

The South West Victoria region



Employment growth is strong



Source: ABS

- Economic conditions in South West Victoria are strong, reflecting the success of several regional industries.
- Tourism continues to be built around the region's natural attractions. These attractions include the Great Ocean Road and the Twelve Apostles, the Otway Fly Tree Top Walk and the old Beechy railway line from Colac, now a trail for walkers, hikers and cyclists. Supporting these attractions are 552 accommodation venues which hosted 671,000 guests and grossed \$68mn in the first quarter of this year, up 5.8% from last year. Over the past five years, tourism has created 3,100 full-time jobs and many more part-time and casual jobs. According to the Tourism Forecasting Committee's latest report, the medium term outlook for inbound tourism remains solid, notwithstanding the strong Australian dollar.
- Conditions are mixed in the region's agriculture industry. South West Victoria experienced the best start to the winter cropping season in decades, but finishing rains are needed. In this regard, the Bureau of Meteorology is forecasting a drier than normal spring. On a more positive note, work continues on the Wimmera-Mallee Pipeline Project. Completion of an early phase of this project should see water delivered to farmers later this year or in early 2008, thus supporting stock carrying capacity. The dairy industry is also on the mend, supported by strong global prices. However, recovery will be gradual as stocks of fodder are rebuilt.
- Increasing economic activity is translating into solid labour market outcomes with employment growth of 4.7% over the past year, well above the national average of 2.6%. As a result, the region's unemployment rate continues to trend downward, but remains above the national average at 5.5%.

Your ANZ Regional Manager is:

**Jennifer Tod**

☎ (03) 5564 8611

✉ jennifer.tod@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – South West Victoria

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	361	355	349	342	336	329	323	315
Non-res building approvals, \$mn	324	329	323	311	293	274	253	230
Employment, annual % change	3.4	4.2	5.0	5.5	5.6	5.5	5.1	4.7
Unemployment rate, %	6.8	6.6	6.4	6.1	5.9	5.8	5.7	5.5
Participation rate, %	63.1	63.1	63.3	63.5	63.8	64.0	64.2	64.4
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	542.2	548.2	553.2	557.8	563.0	570.0	577.5	n/a
Population, annual % change	1.0	1.1	0.9	0.8	0.9	1.2	1.3	n/a
Mean individual taxable income, \$	30241	32750	35489	34797	36210	37887	n/a	n/a
Average farm debt, '\$'000	192.9	223.7	187.5	229.3	232.7	169.3	319.9	n/a
Equity ratio, %	85	85	89	90	90	91	86	n/a
Average rural land holding, \$mn	1.12	1.23	1.34	1.86	1.82	1.59	1.83	n/a

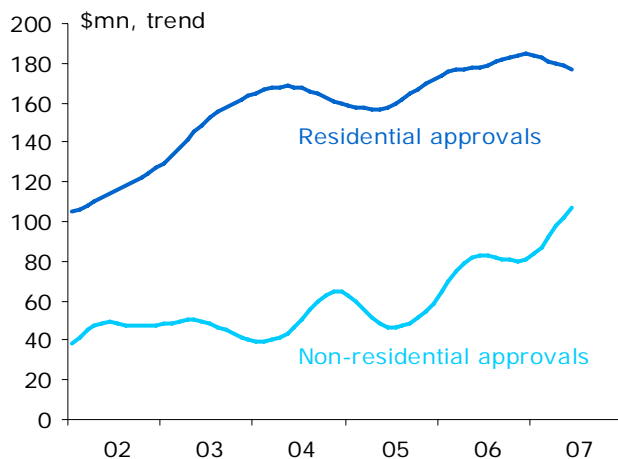
Sources: ABS, ABARE, ATO, Economics@ANZ

## South East Victoria

The South East Victoria region



Construction projects are helping to stimulate South East Victoria's economy



Source: ABS

- Economic conditions in South East Victoria are on the mend as the region's industries recover from drought and a series of natural disasters.
- Tourism has taken a battering from bushfires and more recently severe flooding. As a result, visitor numbers are down and room occupancy rates were only 48.7% in the first quarter of this year, compared to 84.9% a year ago. However, there are positive signs ahead with the region now welcoming back visitors and the Tourism Forecasting Committee's latest report showing a solid medium term outlook for inbound tourism.
- There are positive signs for dairy, the region's largest agricultural industry, following the drought which saw water availability slashed and fodder costs rise by 48%. According to ABARE, the drought reduced average farm cash incomes for Victoria's dairy farmers to \$8,200 in 2006-07 from \$89,860 in the previous year. However, dairy prices are expected to remain strong in the year ahead which will help the recovery process.
- Employment growth has picked up to 5.8% over the year, the fastest rate since March 2004. Continued strong employment growth should arrest the increasing trend in the unemployment rate, which is now at 6.5%, well above the national average of 4.3%.
- Construction projects are also helping to stimulate the region's economy with the value of non-residential building approvals increasing by 14.4% over the past year. In addition, an estimated \$3.1bn will be spent constructing Australia's largest desalination plant around Wonthaggi. The plant, to be completed by late 2011, will boost water supplies for Melbourne, Geelong, Westernport and South Gippsland.
- In the medium term, the region's strong population growth will help to drive the economy and place further demand on infrastructure.

Your ANZ Regional Manager is:

**Cliff Simkin**

(03) 5144 5421

cliff.simkin@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – South East Victoria

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	184	184	184	183	181	180	179	177
Non-res building approvals, \$mn	80	81	83	87	92	97	102	107
Employment, annual % change	1.5	0.7	0.2	0.5	1.4	2.7	4.2	5.8
Unemployment rate, %	4.8	5.1	5.4	5.7	6.0	6.2	6.4	6.5
Participation rate, %	58.3	58.5	58.8	59.1	59.5	59.9	60.4	60.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	238.8	240.4	241.6	243.4	246.1	249.5	253.4	n/a
Population, annual % change	0.4	0.7	0.5	0.7	1.1	1.4	1.5	n/a
Mean individual taxable income, \$	30160	32284	33233	34366	35481	37548	n/a	n/a
Average farm debt, \$'000	106.1	135.9	140.6	92.1	129.5	160.2	195.9	n/a
Equity ratio, %	92	91	92	94	94	93	94	n/a
Average rural land holding, \$mn	1.24	1.24	1.32	1.29	1.78	2.02	2.64	n/a

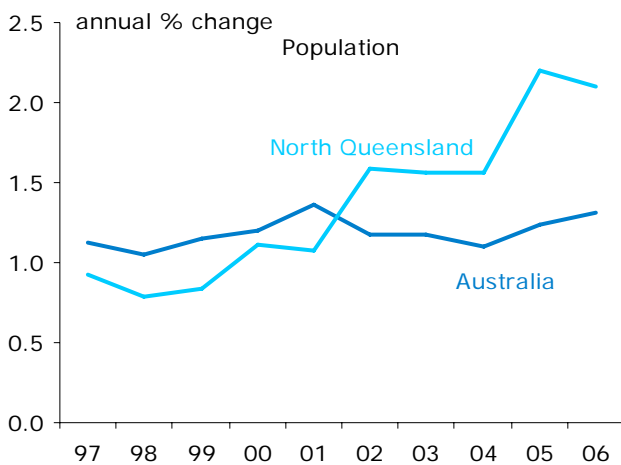
Sources: ABS, ABARE, ATO, Economics@ANZ

## North Queensland

The North Queensland region



Population growth in North Queensland is remarkable



Source: ABS

- Economic conditions in North Queensland are the strongest in years, supported by population growth of over 2% per annum, one of the fastest rates in Australia.
- Employment growth continues at a remarkable 7.1% over the year, and as a result the unemployment rate has fallen to 3.2%, well below the national average of 4.3%.
- Meanwhile, residential construction is rocketing along with the value of approvals increasing by 31.4% over the past year. Stripping out the price effect, 3,000 dwelling units were approved in June, up from 1,660 a year ago. Demand for property continues to be buoyed by the mining industry workforce, although many of these workers operate on a fly-in/fly-out basis.
- In addition to the stimulus from the mining industry, the State Government has committed significant funds for a range of infrastructure projects including \$21.6mn for the new \$45.3mn Weipa hospital; \$15.1mn to complete the \$80.2mn upgrade of the Ross River Dam; \$9.0mn towards a \$45.0mn redevelopment of Ingham Hospital; \$18.5mn to complete the \$63.4mn upgrade to the Mount Isa railway line; and \$12.7mn to improve reliability of water supply from the Mount Isa Terminal Reservoir Pump Station.
- There are mixed signs within the region's agricultural industry. Sugar prices remain under pressure given higher global sugar stocks and the strong Australian dollar. Similarly, the strong currency, combined with the US return to North Asian markets, will continue to place pressure on cattle and beef prices through 2007 and 2008 according to Meat and Livestock Australia's *Cattle Industry Projections 2007 Mid-Year Update*. On a brighter note, MLA expects that grazer and feedlot incomes should improve as feed costs fall and productivity lifts.

Your ANZ Regional Manager is:

**Ross Matthews**

(07) 4091 5694

ross.matthews@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – North Queensland

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	592	602	612	625	640	660	679	697
Non-res building approvals, \$mn	313	306	303	302	303	300	301	291
Employment, annual % change	3.9	4.4	5.0	5.6	6.1	6.6	6.9	7.1
Unemployment rate, %	5.0	4.9	4.6	4.2	3.9	3.6	3.4	3.2
Participation rate, %	70.2	70.1	69.9	69.7	69.4	69.2	68.9	68.7
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	580.0	586.3	595.6	604.8	614.3	627.8	641.0	n/a
Population, annual % change	1.1	1.1	1.6	1.6	1.6	2.2	2.1	n/a
Mean individual taxable income, \$	33618	34326	35581	36832	38899	41862	n/a	n/a
Average farm debt, \$'000	213.0	201.4	212.3	304.3	308.2	155.7	261.3	n/a
Equity ratio, %	96	91	94	95	95	98	97	n/a
Average rural land holding, \$mn	2.65	3.20	3.77	4.90	5.70	6.04	5.95	n/a

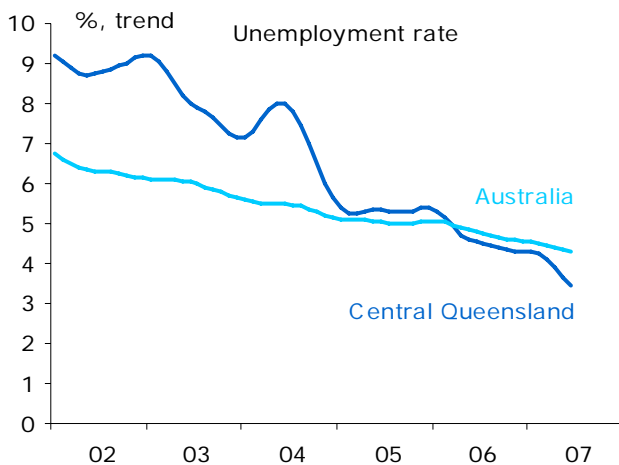
Sources: ABS, ABARE, ATO, Economics@ANZ

## Central Queensland

The Central Queensland region



Central Queensland's unemployment rate is now below that of Australia



Source: ABS

- All indicators depict considerable strength in Central Queensland's economy.
- Following a broadly flat outcome earlier this year, employment growth has picked up to 4.4% per annum, significantly higher than the national average of 2.6%. Reflecting this strong growth, the unemployment rate is now 3.4%, the lowest on record. At these levels, skills shortages are a major issue for businesses.
- The construction industry - the region's largest employer - will continue to be well supported with the value of residential approvals up by 21.5% over the past year and non-residential approvals up by 17.7%.
- Mining exports, particularly of coking coal, continue to underpin much of the strength in the region's economy. Significant investment is underway to expand port capacity and other infrastructure. For example, the State Government has committed \$103mn to continue expanding the RG Tanna Coal Terminal at Gladstone; \$28mn to continue expanding the Abbott Point Coal Terminal; \$133.7mn to construct power transmission lines between Nebo and Broadsound, and Strathmore and Pioneer Valley; \$49.9mn to improve the overhead electrical system on the Goonyella coal railway network and to duplicate track between Broadlea and Wotonga rail sidings; and \$60.1mn to duplicate coal trains track around Blackwater.
- According to Meat and Livestock Australia's recently released *Cattle Industry Projections 2007 Mid-Year Update*, "the near-term outlook for the Australian cattle and beef industries has become more challenging than anticipated" since "the high A\$ and US return to North Asian markets will continue to place pressure on cattle and beef prices through 2007 and 2008". Nevertheless, grazer and feedlot incomes should improve as feed costs fall and productivity lifts.

Your ANZ Regional Manager is:

**Ian Waraker**

(07) 4931 7772

ian.waraker@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – Central Queensland

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	383	377	371	369	374	386	402	420
Non-res building approvals, \$mn	138	142	143	144	143	141	139	134
Employment, annual % change	0.4	-0.1	-0.3	0.1	1.0	2.1	3.3	4.4
Unemployment rate, %	4.3	4.3	4.3	4.2	4.1	3.9	3.7	3.4
Participation rate, %	61.7	61.5	61.5	61.6	61.9	62.2	62.6	62.9
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	426.2	430.7	436.1	442.6	451.4	460.5	469.5	n/a
Population, annual % change	0.5	1.1	1.2	1.5	2.0	2.0	2.0	n/a
Mean individual taxable income, \$	32393	33071	33811	34685	36767	39310	n/a	n/a
Average farm debt, \$'000	388.5	340.3	581.9	318.2	557.4	670.7	563.9	n/a
Equity ratio, %	82	88	85	90	87	86	89	n/a
Average rural land holding, \$mn	1.54	1.97	2.64	2.71	3.15	3.70	3.88	n/a

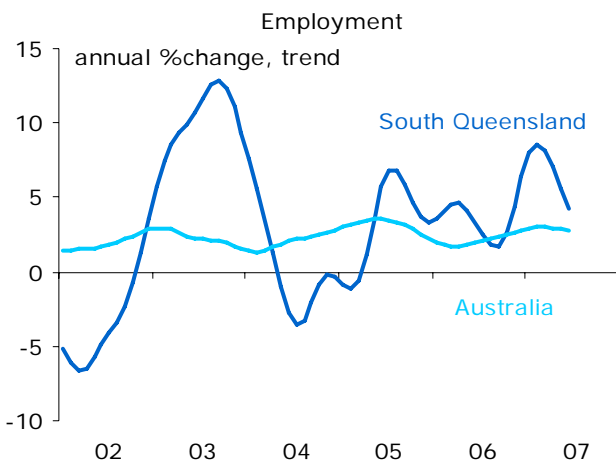
Sources: ABS, ABARE, ATO, Economics@ANZ

## South Queensland

The South Queensland region



### South Queensland's employment growth is very strong



Source: ABS

- Economic conditions in South Queensland are relatively strong, notwithstanding the challenges faced by the agricultural industry, the region's largest employer.
- In contrast to many other parts of the country, the situation for crops in Southern Queensland remains finely balanced. Following reasonable rainfall in June, conditions have since dried up and the Bureau of Meteorology is predicting dry conditions to continue in coming months. As a result, winter crops in many areas of South Queensland are at risk of failing. The State Department of Primary Industries and Fisheries' latest estimates suggest that the chance of failure is greater than 30% around Goondiwindi and Dalby.
- Energy-related exploration and investment continues to support the economy with the State Government contributing \$118.3mn to complete and commission the \$1.16bn Kogan Creek Power Station. In other areas, fiscal stimulus includes \$19.8mn to upgrade hospitals in the region, including the medical ward at Toowoomba hospital; \$18mn for improvements to the New England Highway between Toowoomba and Crows Nest and \$5.8mn for upgrading sections of the Roma-Taroom Road.
- Employment growth remains solid at 4.2% p.a., well above the national average of 2.6% p.a. Combined with a falling participation rate, this has led to the unemployment rate reaching the remarkably low level of 1.9%, the lowest of any region in Australia.
- In contrast to the other Queensland regions, construction in South Queensland is easing from very high levels. The value of residential approvals is down 7.7% over the year and non-residential approvals are down 20.2%.

Your ANZ Regional Manager is:

**David Hunt**

(07) 4639 0542

david.hunt@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

### Economic data – South Queensland

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	113	112	112	112	113	113	114	115
Non-res building approvals, \$mn	71	68	65	63	62	62	62	64
Employment, annual % change	4.4	6.5	8.0	8.6	8.1	7.0	5.6	4.2
Unemployment rate, %	3.9	3.8	3.6	3.3	2.9	2.5	2.2	1.9
Participation rate, %	66.6	67.0	67.1	67.0	66.7	66.3	65.8	65.5
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	234.1	237.4	240.2	242.9	245.8	250.2	253.5	n/a
Population, annual % change	1.2	1.4	1.2	1.1	1.2	1.8	1.3	n/a
Mean individual taxable income, \$	29771	29198	30775	31184	33424	35790	n/a	n/a
Average farm debt, \$'000	127.3	130.7	116.9	163.5	150.5	201.6	323.8	n/a
Equity ratio, %	89	90	93	90	91	90	88	n/a
Average rural land holding, \$mn	0.96	1.10	1.27	1.26	1.48	1.64	2.20	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

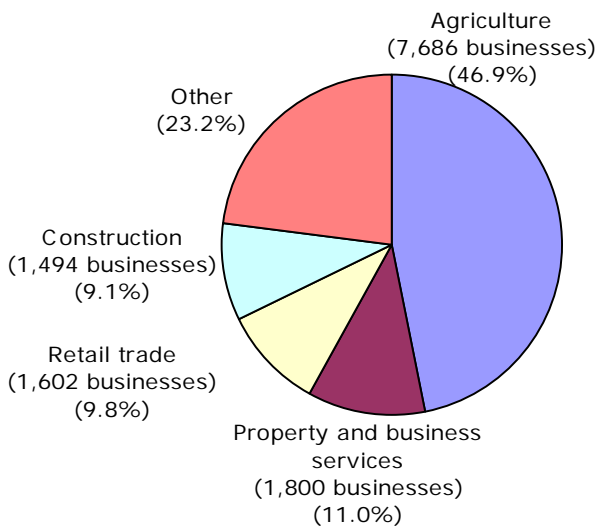


## Adelaide Hills and South East SA

The Adelaide Hills and South East SA region



Almost half of the region's businesses are in the agriculture industry



Source: ABS

- Economic conditions in the Adelaide Hills and South East SA region remain mixed with the impact of the drought still clearly felt in many areas.
- There are early signs of a recovery in the agricultural sector, which accounts for 46.9% of the total number of businesses in the region. Good opening rains have supported the region's dryland crops, particularly in the Tatiara and Mallee areas. The South Australian Department of Agriculture forecasts that this year's area sown for wheat and barley will be the highest in over 5 years and the yield potential is 15-20% above the five year average. Further rain is needed to ensure these yields, but the Bureau of Meteorology is forecasting a drier than average spring in South East SA.
- In contrast to dryland crops, the situation for irrigated crops remains critical with continuing uncertainty around water allocations. The latest report from the Murray Darling Basin Commission suggests that there is unlikely to be a significant allocation until at least late winter, when the most substantial inflows typically occur.
- The broader economy is also showing signs of recovery with employment growth of 0.6% over the year to June. This reverses a negative trend extending back to late 2005. Stronger employment growth has arrested an upward drift in the unemployment rate, which is now at 4.5%, just above the national average of 4.3%.
- The residential construction cycle appears to be in an upswing with the value of approvals up by 11.5% over the past year. This strength reflects growth in regional towns such as Mount Barker which combines the attraction of country living with close proximity to Adelaide.
- Overall population growth in the region remains modest. Unless reversed, this will act as a constraint on medium-term economic growth.

Your ANZ Regional Manager is:

**Barry Clarke**

☎ (08) 8725 5312

✉ [barry.clarke@anz.com](mailto:barry.clarke@anz.com)

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ [athertos@anz.com](mailto:athertos@anz.com)

### Economic data – Adelaide Hills and South East SA

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	53	54	55	56	57	58	59	61
Non-res building approvals, \$mn	22	22	22	21	21	21	20	20
Employment, annual % change	-0.8	-0.8	-1.0	-1.1	-0.9	-0.5	0.1	0.6
Unemployment rate, %	4.0	4.2	4.3	4.4	4.5	4.5	4.5	4.5
Participation rate, %	61.9	61.9	61.8	61.7	61.6	61.7	61.8	61.9
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	165.0	165.2	165.6	165.8	166.0	167.1	167.6	n/a
Population, annual % change	0.2	0.1	0.2	0.1	0.1	0.6	0.3	n/a
Mean individual taxable income, \$	30431	31935	38174	40287	37234	37987	n/a	n/a
Average farm debt, \$'000	214.2	159.0	184.5	234.4	265.2	244.0	369.5	n/a
Equity ratio, %	86	89	89	88	91	91	91	n/a
Average rural land holding, \$mn	1.34	1.20	1.31	1.75	2.47	2.36	3.34	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

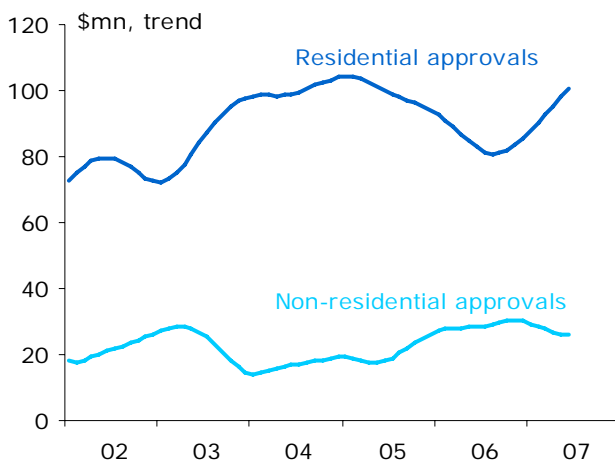


## North East SA and Fleurieu

The North East SA and Fleurieu region



Residential construction is picking up



Source: ABS

- Economic outcomes in North East SA and Fleurieu continue to be buoyed by strong population growth, which, despite easing to 1.6% in 2005-06, remains above the national average of 1.4%.
- Increasing demand from a growing population has proved a benefit for the residential construction industry. The value of residential building approvals has increased by more than 20% over the past year, with activity particularly feverish in the Gawler, Barossa, and McLaren Vale areas.
- Outside the construction industry, stronger demand has yet to translate through to the labour market, with employment growth currently running at a modest 0.6% per annum. As a result the unemployment rate has trended up over the past year, although remains at still healthy levels of around 4.5%.
- Agriculture – the region's largest industry – looks set for an improved year following good opening rains in the area. As with other regions, follow-up rains will be required in coming months to secure an above-average harvest. The outlook for agricultural production this year will resonate beyond the farmgate, with local communities dependent on farm business suffering in equal measure through the drought.
- The region's substantial wine industry is also looking forward to improved conditions, with the 2008 vintage looking very positive and this year's drought-depleted harvest significantly reducing oversupply in the industry. Local growers are reporting improved prices from wineries and expect that all production will sell this year. However, this optimism is being tempered by the current uncertainty around water allocations.

Your ANZ Regional Manager is:

**Lindsay Nobes (acting)**

☎ (08) 8218 8194

✉ lindsay.nobes@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data –North East SA and Fleurieu

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	84	86	88	90	93	95	98	100
Non-res building approvals, \$mn	31	30	29	28	28	27	26	26
Employment, annual % change	-0.8	-0.8	-1.0	-1.1	-0.9	-0.5	0.1	0.6
Unemployment rate, %	4.0	4.2	4.3	4.4	4.5	4.5	4.5	4.5
Participation rate, %	61.9	61.9	61.8	61.7	61.6	61.7	61.8	61.9
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	111.9	114.0	116.3	118.8	121.3	123.9	125.9	n/a
Population, annual % change	1.8	1.8	2.0	2.2	2.2	2.1	1.6	n/a
Mean individual taxable income, \$	28778	31393	34244	34727	35360	35943	n/a	n/a
Average farm debt, \$'000	174.0	181.6	186.1	197.7	177.6	257.8	301.6	n/a
Equity ratio, %	86	87	89	92	93	90	89	n/a
Average rural land holding, \$mn	1.08	1.19	1.40	2.06	2.14	2.17	2.38	n/a

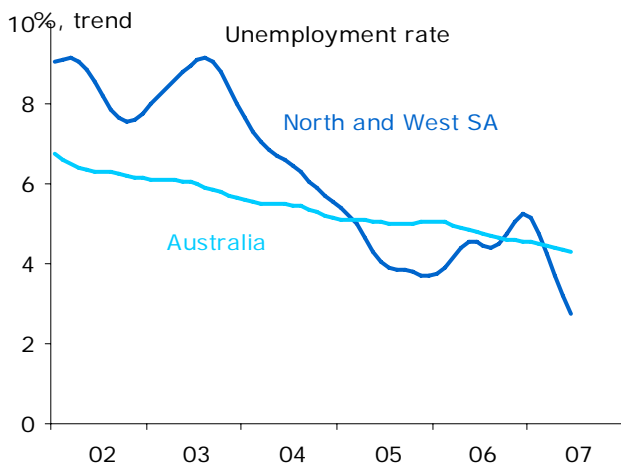
Sources: ABS, ABARE, ATO, Economics@ANZ

## North and West SA

The North and West SA region



The region's labour market is now very tight with the unemployment rate falling to a record low



Source: ABS

- The economy of North and West SA continues to be fuelled by the mining industry, with production of copper, gold and uranium running at full steam at the region's largest mines – Olympic Dam and Prominent Hill.
- Business investment in the region is booming. Strong global demand and high prices for resource commodities has prompted significant investment to expand current operations and exploration activities. Outside of mining, 'The Dunes' development at Port Hughes, within two hour's drive of Adelaide has received State Government planning approval. The Greg Norman designed golf course, resort and residential development will be one of the largest private investments in South Australia with an estimated cost of \$250mn, creating 1,640 residential allotments. Overall, the value of non-residential building approvals is up almost 60% over the past year.
- As in other parts of the country, early rains have produced some of the best crops in living memory in parts of the Yorke and Eyre Peninsulas. However, a dry July means follow-up rains are required to ensure a strong finish to the season.
- Demand for labour from the mining and construction industries is almost insatiable. Employment has increased by a staggering 7.2% over the past year, the strongest of any region in the country. As a result, the region's unemployment rate has fallen to just 2.8%.
- Labour shortages will remain prominent for the foreseeable future and are likely to impose a major constraint on business expansion plans, although there remains some scope to increase labour supply in the region by increasing the labour force participation rate from the current level of 63.8%.

Your ANZ Regional Manager is:

**Adam Moss**

(08) 8821 3056

adam.moss@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

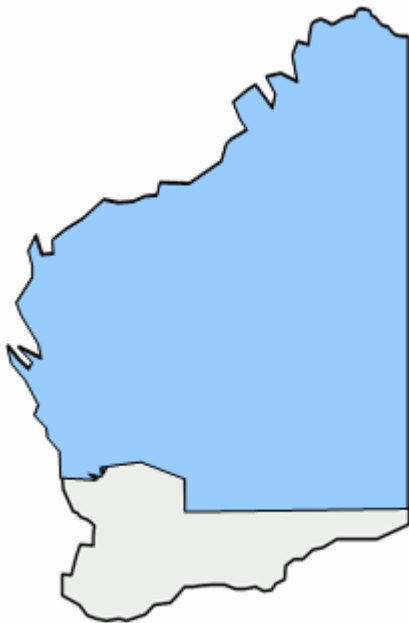
### Economic data – North and West SA

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	65	65	65	65	66	66	67	67
Non-res building approvals, \$mn	27	29	32	36	40	45	50	55
Employment, annual % change	5.8	4.8	4.1	3.9	4.3	5.1	6.0	7.2
Unemployment rate, %	5.1	5.2	5.1	4.8	4.2	3.7	3.2	2.8
Participation rate, %	63.6	63.5	63.3	63.3	63.3	63.4	63.6	63.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	115.1	114.2	112.8	112.5	112.1	111.7	112.1	n/a
Population, annual % change	-0.3	-0.8	-1.2	-0.2	-0.4	-0.3	0.3	n/a
Mean individual taxable income, \$	31621	33302	34605	36121	37756	39261	n/a	n/a
Average farm debt, '\$000	215.1	180.4	257.8	269.6	282.3	312.7	238.9	n/a
Equity ratio, %	80	83	82	88	90	88	92	n/a
Average rural land holding, \$mn	0.85	0.88	0.99	1.69	2.00	2.05	2.27	n/a

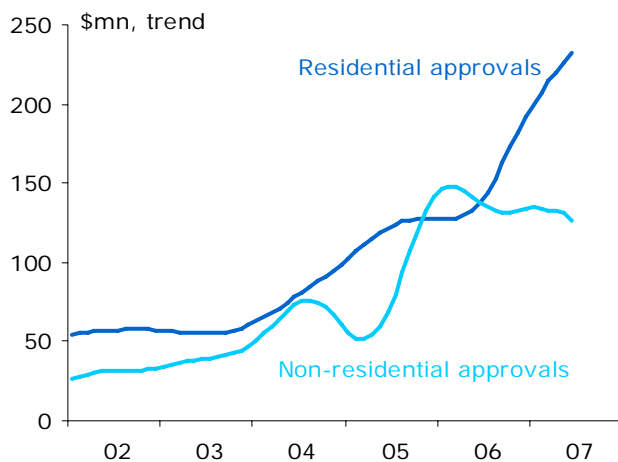
Sources: ABS, ABARE, ATO, Economics@ANZ

## North WA

The North WA region



Residential construction is booming



Source: ABS

- North WA, which encompasses the Pilbara and mid-west regions, continues to ride the global commodity boom.
- Residential construction activity is increasing at a phenomenal rate with the value of approvals growing by almost 70% over the past year. Non-residential approvals have fallen slightly but remain at an elevated level.
- Competition for skilled labour remains a major constraint on further expansion plans with the unemployment rate at 3.9%, below the national average of 4.3%. Reflecting the abundant employment opportunities, 71% of North WA's population (over 15 years of age) are either in work or looking for work. This proportion is one of the highest in Australia.
- In contrast to many other regions of Australia, the start of this year's winter cropping season was not accompanied by rainfall in north WA. According to the State Department of Agriculture and Food, "there is now a distinct crop potential divide across the State with areas south of a line from Dandaragan to Kondinin experiencing reasonable to excellent conditions, as opposed to areas north which need exceptional rainfall during August, September and October to reach anywhere near average yields". Late rain falling in the mid-west wheat belt has provided some hope of a harvest.
- Faring better has been the region's live cattle export industry with a recent Meat and Livestock Australia report showing that Australia's exports were up by 18% in 2006-07. By destination, record shipments were made to Indonesia, up 26% over the year to 452,117 head. It is estimated that the live export industry contributes \$87mn per annum to North WA's gross regional product and adds up to 1,045 jobs.

Your ANZ Regional Manager is:

**Ian Bethune**

(08) 9921 6914

ian.bethune@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

(03) 9273 6011

athertos@anz.com

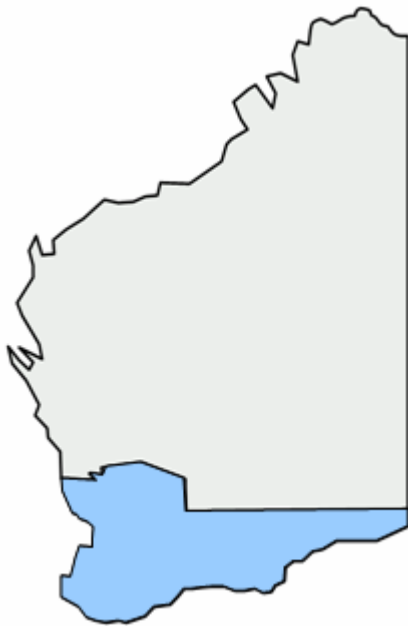
### Economic data – North WA

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	182	191	200	207	214	220	226	232
Non-res building approvals, \$mn	132	134	135	134	133	133	131	126
Employment, annual % change	2.0	1.3	0.7	0.2	-0.1	-0.5	-0.7	-0.9
Unemployment rate, %	3.5	3.6	3.6	3.6	3.7	3.8	3.9	3.9
Participation rate, %	71.7	71.6	71.5	71.4	71.4	71.3	71.2	71.1
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	187.1	188.0	188.4	188.9	187.9	188.2	189.9	n/a
Population, annual % change	0.2	0.5	0.2	0.3	-0.6	0.2	0.9	n/a
Mean individual taxable income, \$	31001	30341	31503	33593	34436	36051	n/a	n/a
Average farm debt, '\$000	498.1	417.8	417.1	522.5	599.4	547.1	706.0	n/a
Equity ratio, %	77	83	83	83	82	82	82	n/a
Average rural land holding, \$mn	1.71	1.78	1.88	2.38	2.52	2.48	3.00	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

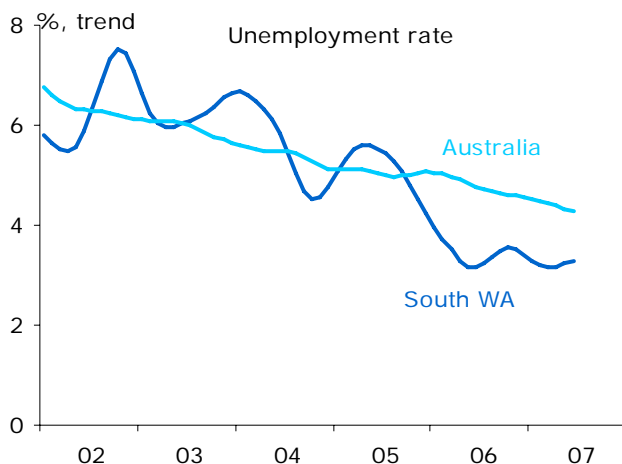
## South WA

The South WA region



- The region's economy is thriving, fuelled by the global mining boom. New projects are underway, such as a nickel mine in Hopetoun, and further projects are in the pipeline, such as a mine in Wellstead, just out of Albany.
- Reflecting high levels of activity, the unemployment rate has fallen to around historical lows of 3.3%, significantly below the national average of 4.3%. Competition for labour remains intense with graduates capable of earning \$120,000p.a. driving an ore pack.
- Employment growth has eased recently, following double digit growth in 2006. This easing reflects supply constraints and a compositional shift with the completion of labour intensive construction projects leading to a ramping up in mining production, which is less labour intensive.
- Lured by attractive employment opportunities, population growth remains strong. Many regional areas offer a safe community environment for families while still within proximity to mining sites via Perth airport.
- Strong population growth continues to underpin residential construction activity with the value of approvals growing by 5.3% over the past year. However, this is significantly slower than the 35% growth experienced in 2006.
- There is also increasing confidence in the region's agriculture industry. Improved rainfall in some areas has encouraged spending on chemicals and fertilisers. As with other regions, further rainfall is needed to ensure adequate yields.
- Agriculture and forestry related industries are also benefiting from additional investment with a processing plant to be built in Albany for the woodchip industry. The plant will convert woodchips into a hardwood-type material.

The unemployment rate is around record lows



Source: ABS

Your ANZ Regional Manager is:

**Lloyd Chidlow (acting)**

☎ (08) 9323 8228

✉ lloyd.chidlow@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – South WA

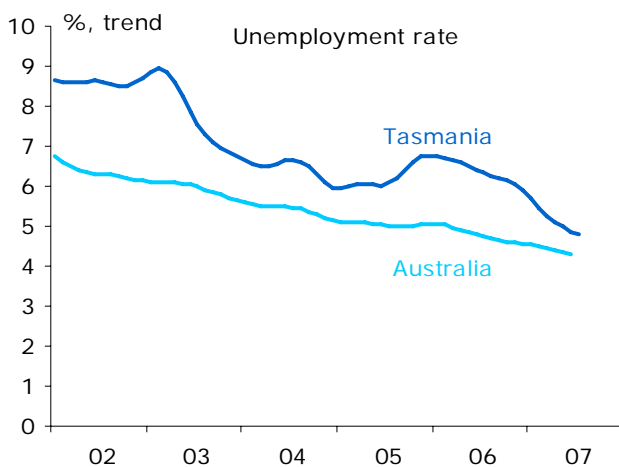
Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	458	459	461	463	466	469	474	475
Non-res building approvals, \$mn	105	103	102	101	100	99	97	97
Employment, annual % change	-0.5	-0.7	-0.8	-0.9	-1.1	-1.3	-1.6	-2.0
Unemployment rate, %	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.3
Participation rate, %	65.0	64.9	64.8	64.8	64.8	64.8	64.9	64.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	314.4	320.2	324.6	329.5	335.6	344.7	353.1	n/a
Population, annual % change	2.2	1.8	1.4	1.5	1.9	2.7	2.4	n/a
Mean individual taxable income, \$	32156	32623	34623	37864	39606	41210	n/a	n/a
Average farm debt, '\$'000	364.0	390.3	428.2	435.0	527.9	643.6	757.3	n/a
Equity ratio, %	81	83	85	86	86	84	84	n/a
Average rural land holding, \$mn	1.70	1.89	2.16	2.49	3.00	3.27	3.88	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

## Tasmania



The gap between the Tasmanian and Australian unemployment rates is the smallest in a decade



Source: ABS

- Economic conditions in Tasmania remain mixed, particularly in the agricultural industry.
- Over the past 12 months, much of northern and central Tasmania experienced the lowest rainfall on record. Although June saw improved rainfall, July was drier than last year, according to the Bureau of Meteorology's latest report.
- Reflecting improved farming and water management practices, most cropping, dairying and beef operations are proving resilient. However further rainfall is needed, particularly to restore water storages. On a brighter note, prices for several rural commodities are at very high levels. ABARE's latest forecasts suggest that dairy prices, which are currently around record highs, will remain strong in the year ahead, reflecting buoyant world demand and limited supply.
- More broadly, conditions in the labour market have improved markedly with the unemployment rate now at 4.9%, the lowest on record. This reflects an improvement in employment growth, which appears to have turned a corner following a trough in December 2006.
- Meanwhile events such as the Devonport Jazz Festival, held in late July, continue to buoy community interest and attract visitors. Tasmania's tourism industry remains relatively stable with tourist accommodation grossing \$124mn in the March quarter of this year, up 4.2% on last year.
- In the medium term, lower rates of population growth pose a risk to the region's economic growth with Tasmania again losing people to the mainland for the first time in four years.

Your ANZ Regional Manager is:

**John Garwood**

☎ (03) 6332 9459

✉ john.garwood@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

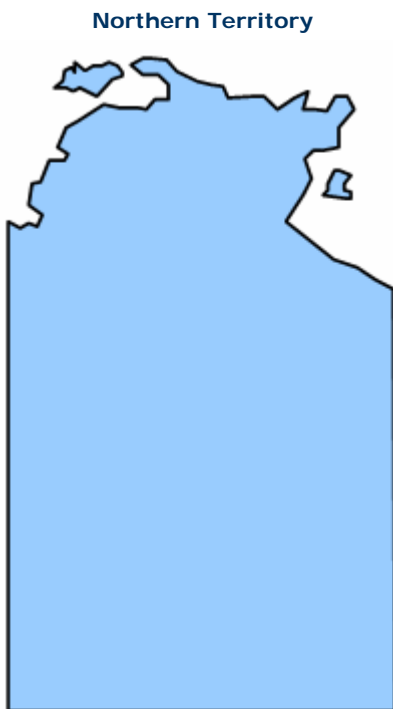
✉ athertos@anz.com

### Economic data – Tasmania

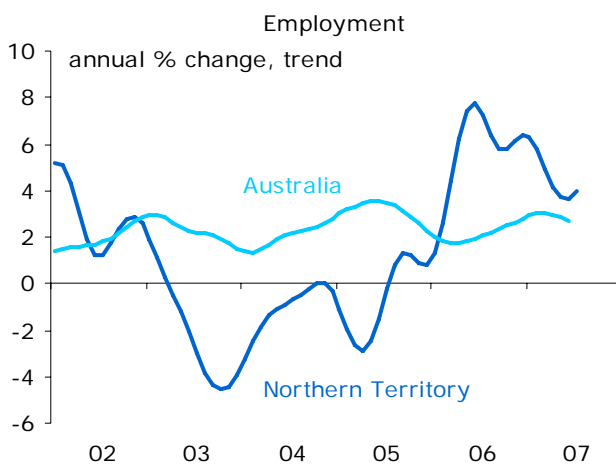
Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	54	54	53	52	51	50	50	49
Non-res building approvals, \$mn	25	26	26	27	27	28	30	30
Employment, annual % change	0.4	0.2	0.2	0.3	0.4	0.5	0.6	0.8
Unemployment rate, %	6.0	5.9	5.7	5.5	5.3	5.1	5.0	4.9
Participation rate, %	60.3	60.2	60.2	60.1	60.1	60.1	60.1	60.2
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	471.4	471.8	472.6	477.3	482.2	485.7	488.9	n/a
Population, annual % change	0.0	0.1	0.2	1.0	1.0	0.7	0.7	n/a
Mean individual taxable income, \$	31410	33604	34270	35477	37595	39461	n/a	n/a
Average farm debt, '\$'000	214.7	161.8	156.1	186.9	146.4	203.9	276.3	n/a
Equity ratio, %	84	87	88	89	92	91	91	n/a
Average rural land holding, \$mn	1.15	1.01	1.04	1.25	1.44	2.08	2.70	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ; Note: the table includes data on Hobart

## Northern Territory



### Employment growth remains very strong



Source: ABS

- Economic conditions in the Northern Territory are very strong, underpinned by its mining and energy sectors. In particular, the Territory's 2007-08 Budget highlights that production of liquefied natural gas, gas condensate and liquid petroleum gas at the Bayu-Undan fields, and increased alumina production from Alcan are the major drivers of strong growth.
- A booming mining industry and improved employment opportunities are encouraging people to look for work with the result that the participation rate has gradually climbed to 71.6%. This is the highest in Australia. Employment growth is easing, but at 3.6% over the year remains significantly stronger than the Australian average. The strong inflow of people into the workforce has lifted the unemployment rate to 4.6%.
- Supported by a buoyant labour market, retail sales are growing strongly. In trend terms, the volume of retail sales has increased by 7.7% over the year to June.
- The construction industry remains robust. In particular, the value of residential building approvals increased by a phenomenal 61.1% over the past year. Even after stripping out the impact of higher prices, the volume of approvals is up 30.6% over the year.
- Separately from the mining boom, the natural increase in the Northern Territory's population has also picked up in recent years, underpinning overall population growth. Stronger population growth bodes well for the medium term economic prospects for the Northern Territory, particularly given its very young age structure relative to the rest of the country.

Your ANZ Regional Manager is:

**Michael Wake**

☎ (08) 8982 3504

✉ michael.wake@anz.com

Media enquiries to:

**Sue-Ellen Atherton**

☎ (03) 9273 6011

✉ athertos@anz.com

### Economic data – Northern Territory

Monthly data (trend)	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Residential building approvals, \$mn	39	41	43	44	45	45	45	45
Non-res building approvals, \$mn	26	25	25	25	24	23	22	22
Employment, annual % change	6.1	6.4	6.3	5.8	4.9	4.2	3.7	3.6
Unemployment rate, %	3.0	2.9	3.1	3.5	3.9	4.3	4.5	4.6
Participation rate, %	69.4	69.5	69.7	70.0	70.4	70.8	71.2	71.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	195.6	197.8	198.7	198.5	199.8	203.4	206.7	n/a
Population, annual % change	1.5	1.1	0.5	-0.1	0.6	1.8	1.6	n/a
Mean individual taxable income, \$	36698	37911	39294	40711	43026	45716	n/a	n/a
Average farm debt, \$'000	798.6	832.4	750.6	784.7	503.4	538.2	563.5	n/a
Equity ratio, %	82.1	85.1	90.1	87.2	93	93	94	n/a
Average rural land holding, \$mn	3.65	3.90	4.07	3.50	4.04	5.20	6.37	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ; Note: the table includes data on Darwin



## ANZ Research

Economics@ANZ				
<b>Saul Eslake</b> Chief Economist +61 3 9273 6251 <a href="mailto:Saul.Eslake@anz.com">Saul.Eslake@anz.com</a>	<b>Fiona Allen</b> Business Manager +61 3 9273 6224 <a href="mailto:Fiona.Allen@anz.com">Fiona.Allen@anz.com</a>			
<b>Tony Pearson</b> Head of Australian Economics +61 3 9273 5083 <a href="mailto:Tony.Pearson@anz.com">Tony.Pearson@anz.com</a>	<b>Mark Rodrigues</b> Senior Economist, Industry +61 3 9273 6286 <a href="mailto:Mark.Rodrigues@anz.com">Mark.Rodrigues@anz.com</a>	<b>Wain Yuen</b> Economist, Industry +61 3 9273 6295 <a href="mailto:Wain.Yuen@anz.com">Wain.Yuen@anz.com</a>	<b>Riki Polygenis</b> Senior Economist (Acting), Australia +61 3 9273 4060 <a href="mailto:Riki.Polygenis@anz.com">Riki.Polygenis@anz.com</a>	<b>Amber Rabinov</b> Economist, Australia +61 3 9273 4853 <a href="mailto:Amber.Rabinov@anz.com">Amber.Rabinov@anz.com</a>
<b>Amy Auster</b> Head of International Economics +61 3 9273 5417 <a href="mailto:Amy.Auster@anz.com">Amy.Auster@anz.com</a>	<b>Katie Dean</b> Senior Economist, International +61 3 9273 1381 <a href="mailto:Katie.Dean@anz.com">Katie.Dean@anz.com</a>	<b>Jasmine Robinson</b> Senior Economist, International +61 3 9273 6289 <a href="mailto:Jasmine.Robinson@anz.com">Jasmine.Robinson@anz.com</a>	<b>Dr. Alex Joiner</b> Economist, International +61 3 9273 6123 <a href="mailto:Alex.Joiner@anz.com">Alex.Joiner@anz.com</a>	
<b>Paul Braddick</b> Head of Financial System Analysis +61 3 9273 5987 <a href="mailto:Paul.Braddick@anz.com">Paul.Braddick@anz.com</a>	<b>Ange Montalti</b> Senior Economist, Financial System Analysis +61 3 9273 6288 <a href="mailto:Ange.Montalti@anz.com">Ange.Montalti@anz.com</a>			
<b>Warren Hogan</b> Head of Markets Research +61 2 9227 1562 <a href="mailto:Warren.Hogan@anz.com">Warren.Hogan@anz.com</a>	<b>Cherelle Murphy</b> Senior Economist, Markets +61 3 9273 1995 <a href="mailto:Cherelle.Murphy@anz.com">Cherelle.Murphy@anz.com</a>			
ANZ Investment Bank				
<b>Warren Hogan</b> Head of Markets Research +61 2 9227 1562 <a href="mailto:Warren.Hogan@anz.com">Warren.Hogan@anz.com</a>	<b>Sally Auld</b> Senior Interest Rate Strategist +61 2 9227 1809 <a href="mailto:Sally.Auld@anz.com">Sally.Auld@anz.com</a>	<b>Tony Morriss</b> Senior Currency Strategist +61 2 9226 6757 <a href="mailto:Anthony.Morriss@anz.com">Anthony.Morriss@anz.com</a>	<b>Cherelle Murphy</b> Senior Economist, Markets +61 3 9273 1995 <a href="mailto:Cherelle.Murphy@anz.com">Cherelle.Murphy@anz.com</a>	
<b>David Croy</b> Strategist +44 20 7378 2070 <a href="mailto:croyd@anz.com">croyd@anz.com</a>	<b>Patricia Gacis</b> Market Strategist +61 2 9227 1272 <a href="mailto:Patricia.Gacis@anz.com">Patricia.Gacis@anz.com</a>			
<b>Sarah Percy-Dove</b> Head of Credit Research +61 2 9227 1142 <a href="mailto:Sarah.Percy-Dove@anz.com">Sarah.Percy-Dove@anz.com</a>	<b>John Manning</b> Senior Credit Analyst +61 2 9227 1493 <a href="mailto:John.Manning@anz.com">John.Manning@anz.com</a>	<b>Bradley Bugg</b> Senior Credit Analyst +61 2 9227 1693 <a href="mailto:Bradley.Bugg@anz.com">Bradley.Bugg@anz.com</a>		
Research & Information Services				
<b>Mary Yaxley</b> Head of Research & Information Services +61 3 9273 6265 <a href="mailto:Mary.Yaxley@anz.com">Mary.Yaxley@anz.com</a>	<b>Marilla Rough</b> Senior Information Officer +61 3 9273 6263 <a href="mailto:Marilla.Rough@anz.com">Marilla.Rough@anz.com</a>	<b>Manesha Jayasuriya</b> Information Officer +61 3 9273 4121 <a href="mailto:Manesha.Jayasuriya@anz.com">Manesha.Jayasuriya@anz.com</a>		
ANZ New Zealand				
<b>Cameron Bagrie</b> Chief Economist +64 4 802 2212 <a href="mailto:bagrie@anz.com">bagrie@anz.com</a>	<b>Khoon Goh</b> Senior Economist +64 4 802 2357 <a href="mailto:gohk@anz.com">gohk@anz.com</a>	<b>Philip Borkin</b> Economist +64 4 802 2199 <a href="mailto:borkinp@anz.com">borkinp@anz.com</a>		
<b>Sean Comber</b> Economist +64 4 802 2286 <a href="mailto:combers@anz.com">combers@anz.com</a>	<b>Steve Edwards</b> Economist +64 4 802 2217 <a href="mailto:edwards1@anz.com">edwards1@anz.com</a>	<b>Kevin Wilson</b> Rural Economist +64 4 802 2361 <a href="mailto:Kevin.Wilson@nbz.co.nz">Kevin.Wilson@nbz.co.nz</a>		

**Important Notice**

Australia and New Zealand Banking Group Limited is represented in:

**AUSTRALIA** by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

10th Floor 100 Queen Street, Melbourne 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

**UNITED KINGDOM** by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

**UNITED STATES OF AMERICA** by:

ANZ Securities, Inc. (Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

**NEW ZEALAND** by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

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