

June Quarter 2008

16 April 2008

Authors:

Tony Pearson
Deputy Chief Economist
+61 3 9273 5083
Tony.Pearson@anz.com

Mark Rodrigues
Senior Economist
+61 3 9273 6286
Mark.Rodrigues@anz.com

Julie Toth
Senior Economist
+61 3 9273 6252
Julie.Toth@anz.com

Riki Polygenis
Economist
+61 3 9273 4060
Riki.Polygenis@anz.com

Alex Joiner
Economist
+61 3 9273 6123
Alex.Joiner@anz.com

Wain Yuen
Economist
+61 3 9273 6295
Wain.Yuen@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.

Inside

The big picture

The predominant influence on the Australian economy over the next 12 to 18 months will be the desire of policy makers to slow economic growth and dampen inflationary pressures. However, the extent of the slowing will depend on the relative strength of offshore influences: namely the strains in financial markets and its influence on global economic conditions on the one hand, and the leg up in the commodity price cycle on the other. *Page 2*

New South Wales: Higher interest rates will bite hard

New South Wales will be hit hard by higher interest rates. Without a meaningful offset from exposure to the commodity boom, economic growth in 2008-09 is likely to be the slowest since the early 1990s recession. *Page 3*

Victoria: Past the peak

Like New South Wales, the Victorian economy is vulnerable to rising interest rates, and its manufacturing sector will suffer the added burden of the high A\$. In this environment, economic growth in the state will slow markedly. *Page 5*

Queensland: The sun still shines (though not as brightly)

Queensland remains well placed to navigate through the more challenging economic environment. Favourable fundamentals – including strong population growth and exposure to the resource commodities boom – should see the state remain at the good end of the ‘two speed economy’ divide. *Page 7*

Western Australia: Resources sector ensures growth

While there are signs that the growth cycle has peaked, further significant increases in resource commodity prices should ensure that Western Australia remains at the top of the state economic growth table next year. *Page 9*

South Australia: The next WA?

South Australia has joined the ranks of the ‘mining boom states’ of Western Australia, the Northern Territory and Queensland, with a number of major resource projects currently underway or being considered, spurring incomes, house prices and activity. *Page 11*

Tasmania: Time to take a breather

Tasmania is unlikely to be able to sustain recent solid growth rates in the face of rising interest rates and slower growth elsewhere in the country. *Page 13*

Northern Territory: Exports to support economic growth

The Territory's economy will benefit yet again from the further step up in commodity prices expected this year. *Page 14*

Australian Capital Territory: Easing in progress

Economic activity in the Australian Capital Territory is slowing, and with the new government looking for ‘savings’ across the public service, the risk of a more severe downturn remains on the cards. *Page 15*

This publication was finalised on 15 April 2008

Economics on the Web

View Economics@ANZ research and commentary on-line by going to <http://www.anz.com/go/economics>.

For your economic consultancy needs please call Tony Pearson on 03 9273 5083

Tony Pearson
Deputy Chief Economist

The big picture

Australia at a turning point

Strains in financial markets have seen interest rates rise and clouded the outlook for developing economies...

The Australian economy is being buffeted by several winds, from both offshore and on. Strains in global financial markets have depressed share prices and increased market interest rates. Mounting unease about the outlook for growth in the key developed economies has raised concerns about the prognosis for growth in the developing world, particularly in Australia's key export markets in Asia. At the same time, the commodity price boom looks set to continue for at least another year, with contract prices for major Australian exports such as iron ore and coal likely to record further significant increases in 2008-09. And prices of key soft commodities are also at high levels, which, in combination with the expected recovery in agricultural production, holds out the prospect of a considerable lift in rural incomes over the next year.

...but the biggest headwind for Australia is the desire of policy makers to slow growth and dampen inflationary pressures

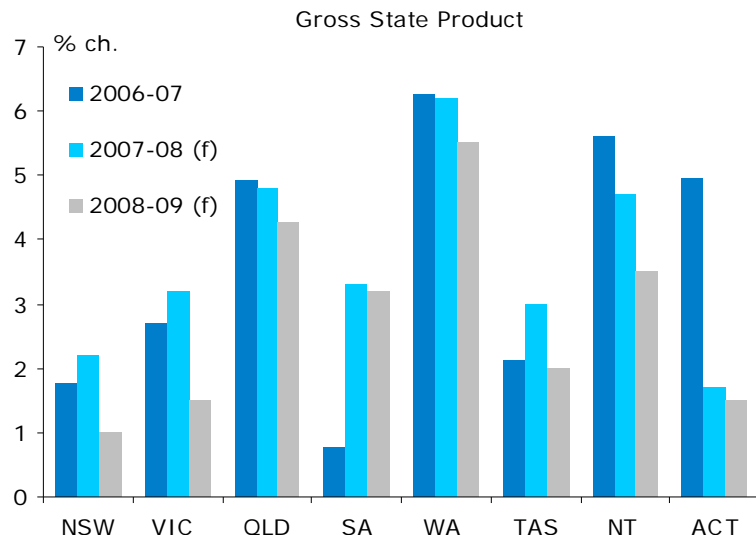
But the biggest influence on economic activity through 2008 and into 2009 will be the desire of policy makers to slow domestic demand and cool inflationary pressures. It is to this end that the Reserve Bank has lifted the cash rate by 1% since August, and why we expect a tight Federal Budget in May. The Australian economy ended 2007 on a high note, with GDP growth of 3.9%, well above the long term non-inflationary trend of 3 to 3.25%. Domestic demand was even stronger, growing at an annual rate of around 5.5%. Growth will need to slow to below trend for at least a year to generate sufficient spare capacity to allow price pressures to ease. We see both domestic demand and the overall economy slowing to an annual rate of growth of around 2½% by mid 2009.

Growth differentials between states are likely to widen again

The confluence of these drivers will have differential impacts on the states and territories. Those regions exposed to external demand and the ongoing commodity price boom will be insulated in part from tighter domestic policy settings. This suggests Western Australia, the Northern Territory, Queensland and increasingly, South Australia, will fare relatively well, with only a modest slowing in economic activity. In contrast, regions less exposed to the commodity boom and with a heavier reliance on domestic demand, will suffer more acutely from tight domestic policy. For New South Wales, Victoria and Tasmania, the moderating effects of higher interest rates are expected to hit hard. In the Australian Capital Territory there is the prospect of a slowing in employment – or even a reduction – as the new government looks for budgetary savings.

A feature of the second half of 2007 was a narrowing in the growth differential between the resource "haves" and "have nots" as domestic household spending lifted in response to generous personal income tax cuts, strong employment growth and solid wage gains. In 2008-09 this narrowing will be reversed.

Growth disparities between the states are set to widen again in 2008-09



Sources: Australian Bureau of Statistics and Economics@ANZ

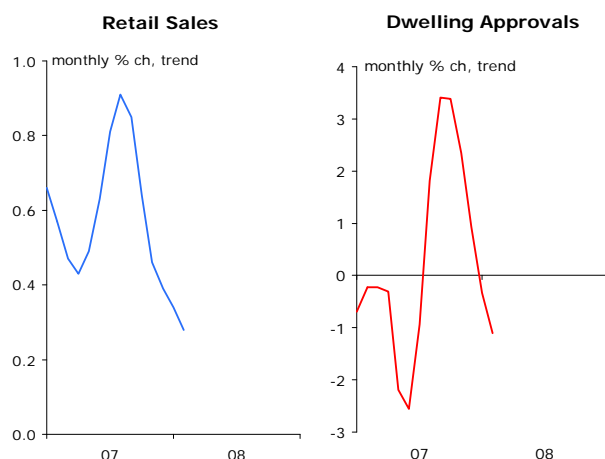
New South Wales: Higher interest rates will bite hard

Tony Pearson, Deputy Chief Economist

NSW heading for the weakest growth since the early 1990s recession

The New South Wales economy ended 2007 on a strong note. State final demand grew by 1.2% in the December quarter for growth over the year of 4.5%. Household consumption increased by 1% in the quarter; there was a big lift in dwelling investment of 6.8%; and the public sector made a strong contribution to growth with an increase in public consumption of 1.7%, partly offset by a 1.5% decline in public investment. The key weak spot was a fall of 0.2% in private business investment, the second consecutive quarterly decline. Even more pleasing to home owners was a 2.4% gain in the prices of established houses in the quarter and 8% over the year, helping to offset the pain of the price declines through 2004, 2005 and 2006.

Signs of slowing momentum in early 2008



Source: Australian Bureau of Statistics

Population growth is holding steady at an annual rate of around 1%, a marked improvement on the low of under 0.6% in 2004, but still one of the slowest growth rates in the country (above only Tasmania and around the same as South Australia). There has been an increase in births and a lift in international immigration, but the weak spot continues to be the haemorrhage of people to other states and territories, with the annual losses running at around 27,000 a year. New South Wales has the highest interstate emigration of any state or territory.

There are however warning signs that economic momentum began to wane in the first months of 2008. Retail sales rose by a monthly average of only 0.14% in January and February, well down on the monthly average increase of 0.77% in the final six months of 2007. The number of dwellings approved for construction fell in January and February in trend terms (which smoothes what are otherwise very volatile data) after a strong second half of 2007. And the speed at which the value of non-dwelling

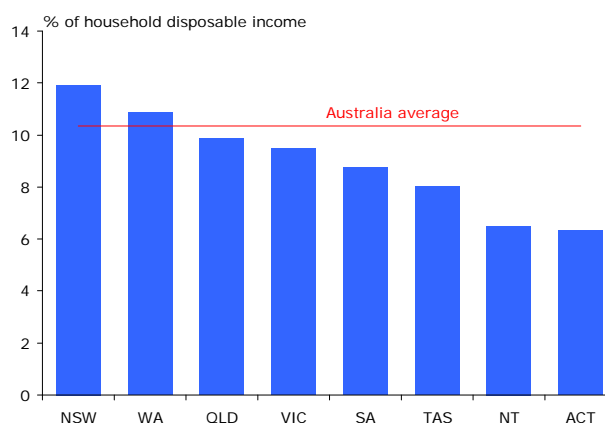
approvals is falling accelerated over the four months to February (again using trend data).

There has been too little time for this slowing in economic momentum to impact on the labour market. Employment growth has accelerated to a very robust annual pace of 4% and the unemployment rate remains at three decade lows of around 4¼%.

The bad news is that we believe the recent softening in the partial indicators of economic activity is a precursor of an even weaker performance to come.

NSW has highest household debt servicing ratio

Household Debt Servicing Ratio, 2006-07



Source: Australian Bureau of Statistics

New South Wales households will be hit relatively harder by higher interest rates than households in other states. New South Wales households have the highest interest servicing burden in the country, with interest payments consuming 11.93% of gross household disposable income in 2006-07, compared to an average in the rest of Australia of 9.52%. This suggests household disposable income will be eroded to a higher degree by higher interest rates, and this will reflect in a sharper reduction in household spending power. A higher debt servicing burden in combination with weaker economic activity and a weaker labour market might also exacerbate financial stress, with second round impacts on economic activity and spending. On this point, the Reserve Bank of Australia's March 2008 Financial Stability Review notes "housing loan arrears... [are]...noticeably higher in New South Wales than in the other states. Within New South Wales, the increase in arrears rates has been highest in western Sydney, where economic conditions have been relatively weak, house prices have been under downward pressure, and the share of households with high owner-occupier debt servicing ratios is considerably greater than in other parts of the country... Looking forward, an increase in arrears is likely due to...the recent tightening of financial conditions for the household sector."

The New South Wales business sector will also be negatively impacted by tighter financial conditions and market turmoil. This is in part due to the mix of

businesses in the state, in particular the low exposure to the commodity boom, and the high exposure to finance and insurance.

Mining contributes just over 2% of state gross industry value added, compared with close to 30% in Western Australia. New South Wales lacks the continued high income flows from offshore and continued solid business investment in mining and related infrastructure to provide a buffer against the slowdown in domestically focussed industries.

Sydney prides itself on being the financial capital of Australia, with 44% of Australia's finance and insurance sector located in the state, and with the sector comprising over 10% of New South Wales' gross state product, the highest contribution of any state and territory. This is a boon when times are good in the finance sector, but can have a cost when conditions become more adverse. The global financial crisis is likely to have a negative impact on the finance and insurance sector in the form of reduced activity, and employment losses.

One industry which should in theory be severely impacted by the recent interest rate rises is dwelling construction. Activity in this industry has been at recessionary lows over the past year. Dwelling completions in the September quarter 2007 (the latest available) totalled only 6,274, the lowest quarterly total in over a quarter of a century. Recent renewed softness in construction approvals points to further downside ahead. However, there must be a limit to how much lower it can go. Research recently

published by Economics@ANZ shows that after years of chronic underbuilding, the state now has a shortfall in the stock of dwellings relative to demand of 50,000. This suggests underlying *latent* demand for new dwellings will remain very strong, and should help to moderate the downside impact of the winding back of *effective* demand through higher interest rates.

And the New South Wales business sector more generally will battle against some strong headwinds. Tighter financial conditions are likely to impact on business investment, exacerbating the softness observed in the second half of 2007. The high A\$ will also have a negative impact on economic activity, eroding export earnings of companies not enjoying high hard and soft commodity prices – for example education and other services, tourism, and manufacturing not associated with the mining industry. And the high A\$ will also make life more difficult for import competing industries.

The bottom line is that New South Wales seems headed for a sharp deceleration in the pace of economic activity through 2008. That deceleration will initially be disguised, with the financial year performance in 2007-08 boosted by the relatively strong first half year. Year average growth will be a solid 2¼%, a small improvement on the 1¾% in 2006-07. But the soft entry into 2008-09 will see a slump in growth in that year to around 1%. That would be the weakest financial year growth since the early 1990's recession.

Economic data – New South Wales

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	0.3	0.8	0.4	-0.1	0.4	n.a.
Private building approvals	-15.5	72.8	-30.1	3.6	-7.6	n.a.
Employment	0.1	0.3	0.2	0.3	0.5	1.0
Unemployment rate, %	4.6	4.7	4.6	4.5	4.2	4.3
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	0.5	1.8	1.1	0.4	1.2	1.0
Private investment	-4.9	2.3	2.9	6.0	-2.0	2.2
Public demand	2.9	0.0	-1.5	1.2	1.7	1.1
State final demand	0.0	1.5	0.9	1.6	0.7	1.2
Population, ann. % ch.	0.3	0.3	0.3	0.2	0.3	n.a.
Median house price – Sydney, \$'000s	490.3	492.3	491.3	510.0	519.3	531.8
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	2.1	1.8	2.1	1.8	2.2	1.0
Employment	1.2	1.4	1.7	1.8	2.0	1.7
Consumer prices – Sydney	2.2	2.5	3.0	2.7	2.6	3.1

Sources: Australian Bureau of Statistics and Economics@ANZ

Victoria: Past the peak

Riki Polygenis, Economist

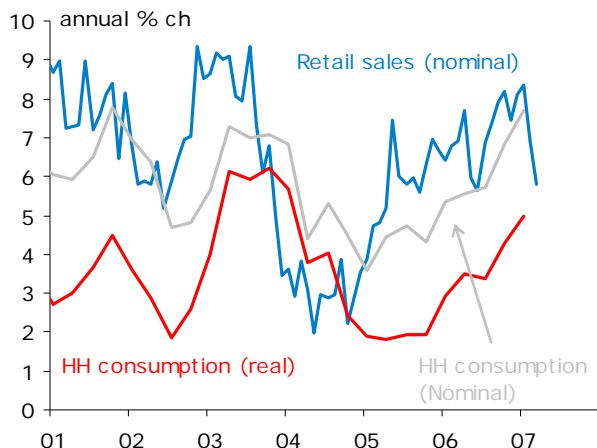
The Victorian economy boomed in the second half of 2007. State final demand surged by 2.0% in the December quarter, following a 1.1% rise in the September quarter, to be 5.2% higher over the year. All components of demand posted robust increases, with household consumption, dwelling investment, business investment and public expenditure increasing strongly. In addition, another 50,000 jobs were created in Victoria in the second half of the year, or two-thirds of the 146,000 jobs created nationally.

Looking forward, Victoria is not immune to tighter financial conditions and the turmoil on global financial markets. Victoria's industrial structure, which is heavily skewed towards the services, financial and manufacturing sectors, means the Victorian economy is vulnerable to now higher interest rates, reduced availability of credit on capital markets and the high exchange rate. Households also appear to be entering a period of financial consolidation, with indicators of household spending slowing in the early months of 2008. The key bright spot will be the agricultural sector, with production to bounce back from drought-affected levels and high global agricultural commodity prices boosting incomes. Economic growth in Victoria is now projected to ease to around 1.5% in 2008-09 following growth of over 3% in 2007-08.

Households consolidating

Household consumption in Victoria surged in the second half of 2007. Real household consumption expenditure rose by 1.8% in the December quarter, following growth of 1.3% in the September quarter, to be 5.0% higher over the year.

Household spending turns down in February



Source: Australian Bureau of Statistics

However, Victorian households now appear to be entering a period of financial consolidation. Higher interest rates, high petrol and food prices, falls in equity prices and general economic uncertainty are all prompting greater household caution. This is being reflected in weaker consumer sentiment

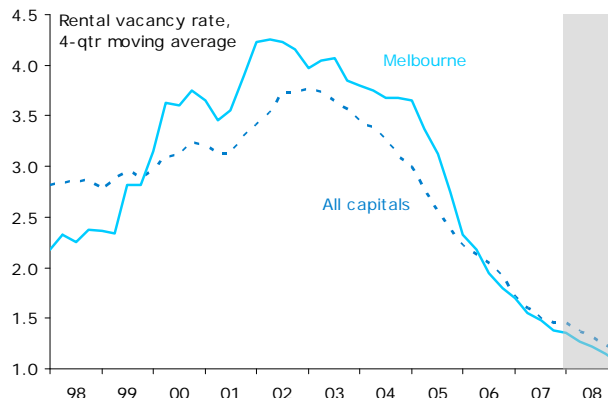
readings and lower retail sales. After rising in January (+0.9%), nominal retail sales fell by 1.6% in February, with weakness in all components except for department store sales. Spending on discretionary items has fallen the most, with sales of recreational goods down 6.6% over the two months to February, sales of household goods down 3.0% and sales of clothing and soft goods down 2.5%. The number of motor vehicles sold also eased in February after rising strongly in January. More recently, anecdotal evidence suggests that there were further falls in consumer spending in March, although this may partly relate to seasonal factors and the early timing of Easter in 2008.

Nevertheless, there are some fundamental supports which should ensure that while household consumption slows, it will not fall into a hole. In particular, while employment growth will ease from its current break-neck pace, it will remain positive at a rate supportive of household income growth. We are forecasting employment growth to slow to 1¾% in 2008-09 from around 2¾% in both 2006-07 and 2008-09. The next round of federal government tax cuts will also boost household income flows.

Further housing shortages ahead

Household behaviour is also likely to be significantly affected by developments in the housing market. House price growth of 18.1% over the year to December 2007 has continued to boost household wealth and confidence in the face of higher interest rates. Strong house price growth also encouraged an upswing in building approvals and dwelling construction. Unfortunately, this has been insufficient to make a substantial dint in the burgeoning shortage of dwellings in the state, with the rental vacancy rate falling to record lows.

Rental shortage to intensify



Sources: Real Estate Institute of Australia and Economics@ANZ

The Victorian housing market is now expected to slow. Auction clearance rates in Melbourne have started to fall, foreshadowing somewhat slower price growth in 2008, particularly in the outer suburbs. Higher interest rates are also affecting builder sentiment, with building approvals easing in recent months. In a market already characterised by a

shortage of dwellings, this foreshadows further falls in the rental vacancy rate towards 1% and a continuation of what has already been phenomenal growth in advertised rents (up 23.6% in 2007) for some time to come.

Business sector vulnerable to tighter financial conditions

In response to buoyant economic conditions in the second half of 2007, Victorian businesses were relatively optimistic. However business confidence has now started to ease and surveyed business conditions have been trending downwards. Victoria's industrial structure is heavily skewed towards property & business services and finance & insurance, which together make up 21% of the Victorian economy. Both of these industries are sensitive to tighter financial conditions in the form of higher interest rates and the reduced availability of wholesale funding on global capital markets. High interest rates will also be a challenge for Victoria's manufacturing sector, which is already struggling to compete on international markets due to the high level of the A\$, and facing higher input costs such as high petrol and other energy prices.

In a more uncertain economic environment, it is now expected that some investment plans will be scaled back. Nevertheless, the relatively high level of non-dwelling building work in the pipeline should maintain business investment at a reasonably high level and continue to expand Victoria's long-run productive capacity. This will also be supplemented by large-scale public infrastructure projects such as the dredging of Port Philip Bay, the Wimmera Mallee pipeline project and the construction of a desalination plant near Wonthaggi. In contrast, we are likely to see a fall in engineering construction as work on the East Link project draws to a close.

The agricultural sector will be the main industry to buck the trend in coming years, with production forecast to bounce back significantly from drought-affected levels in both 2007-08 and 2008-09. High global agricultural commodity prices will also boost farm incomes.

Victorian Gross Value Added by industry

	\$bn	% of total
Agriculture, forestry & fishing	5.48	2.3
Mining	4.80	2.0
Manufacturing	30.27	12.5
Electricity, gas & water supply	5.89	2.4
Construction	14.81	6.1
Wholesale trade	13.31	5.5
Retail trade	13.43	5.5
Accommodation, cafes & restaurants	3.79	1.6
Transport & storage	10.92	4.5
Communication	7.73	3.2
Finance & insurance	19.44	8.0
Property & business services	31.66	13.1
Government admin & defence	6.27	2.6
Education	11.10	4.6
Health & community services	14.67	6.0
Cultural & recreational services	3.97	1.6
Personal & other services	4.09	1.7
Other*	40.98	16.9
Gross state product	242.60	100

*'Other' includes ownership of dwellings, taxes less subsidies on products and the statistical discrepancy
Source: Australian Bureau of Statistics

Economic data – Victoria

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	0.6	0.9	0.8	0.9	-1.6	n.a.
Private building approvals	1.3	-11.3	3.8	2.6	-3.3	n.a.
Employment	0.2	0.5	0.5	0.3	-0.1	-0.7
Unemployment rate, %	4.4	4.8	4.7	4.5	4.1	4.3
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	0.4	1.2	1.2	0.6	1.3	1.8
Private investment	3.7	-3.4	3.8	1.9	2.0	1.2
Public demand	-1.1	1.9	-3.8	2.2	-0.4	3.6
State final demand	0.8	0.3	0.7	1.2	1.1	2.0
Population, ann. % ch.	0.4	0.3	0.4	0.3	0.4	n.a.
Median house price – Melbourne, \$'000s	322.3	330.4	335.8	360.0	377.3	390.2
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	4.4	2.4	2.5	2.7	3.2	1.5
Employment	1.7	3.1	1.7	2.7	2.8	1.8
Consumer prices – Melbourne	2.3	2.0	3.1	2.6	3.3	3.1

Sources: Australian Bureau of Statistics and Economics@ANZ

Queensland: The sun still shines (though not as brightly)

Mark Rodrigues, Senior Economist

Queensland remains as well placed as any state or territory to navigate through the more challenging economic environment expected in the period ahead. Although economic growth is likely to slow, favourable fundamentals – including strong population growth and exposure to the resource commodities boom – should see the state remain at the good end of the ‘two speed economy’ divide.

Overall, we expect GSP growth to slow from an estimated 4.7% this year, to a still-impressive 4.3% in 2008-09.

Economic sunshine but clouds on the horizon

Queensland concluded yet another impressive year on the economic front in the December quarter 2007, with growth in state final demand of 2.1% in the quarter and 7.2% over the year. Household consumption, business investment and public demand all contributed strongly to growth, offsetting some softness in the residential construction market. The external sector continues to weigh on economic growth, however, with a combination of capacity constraints and poor weather hampering growth in exports at the same time demand for imports continues to surge.

While the economy finished 2007 with considerable momentum, there are some signs that higher interest rates are beginning to take a toll, portending slower growth in the first half of 2008.

The effect has been most pronounced in the household sector, with retail sales falling in three of the past five months. As a result, annual growth in retail spending has slowed to 7.9%, down from a recent peak of 12.5% in September 2007. Similarly, in a sign that consumers are beginning to pull back on discretionary purchases, sales of new motor vehicles in the state fell by 1.6% in February following a 7.8% decline in January.

The news from the other interest rate-sensitive sector of the economy, residential construction, hasn't been that much more promising either. Approvals for private residential buildings fell for three consecutive months between November 2007 and January 2008, and are now 4.2% lower than a year ago. Meanwhile, housing finance approvals are now down 7.3% over the past year.

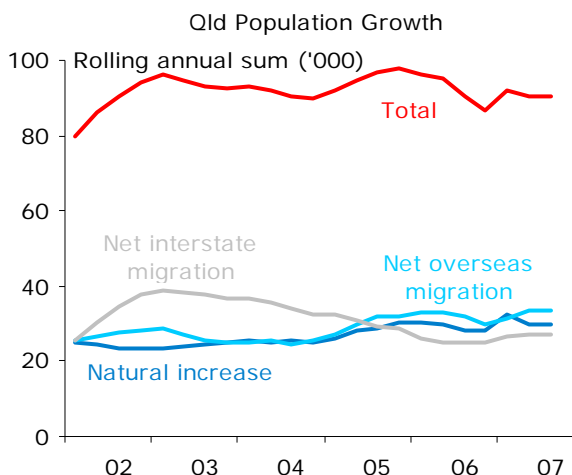
Economic fundamentals remain sound

While a moderation in growth in Queensland is almost certainly already underway, there are a number of reasons to think that the economy will still be able to achieve reasonably solid rates of growth over the year ahead.

Firstly, and at a very fundamental level, population growth remains very strong. Over the year to the September quarter, Queensland's population grew by 2.2%, only slightly behind Western Australia's

rate and well above the national average of 1.5%. In net terms, Queensland continues to attract the lion's share of interstate migrants. However, in recent years, overseas migration and natural increase have become just as important sources of population growth.

Queensland's economic fortunes continue to be underpinned by strong population growth



Source: Australian Bureau of Statistics

Second, and in part related to the surge in the state's population, infrastructure-related activity is booming, and seems unlikely to abate for a number of years. Notwithstanding the significant investment that has already occurred in recent years, with business and public investment at historic highs relative to state final demand, the cycle shows few signs of peaking.

Access Economics estimates that as at the December quarter 2007, there was \$43.4bn worth of investment currently being undertaken in Queensland, with \$9.3bn committed and almost \$77bn listed as ‘under consideration’ or ‘possible’. Combined, this accounts for over 22% of the investment pipeline nationally.¹

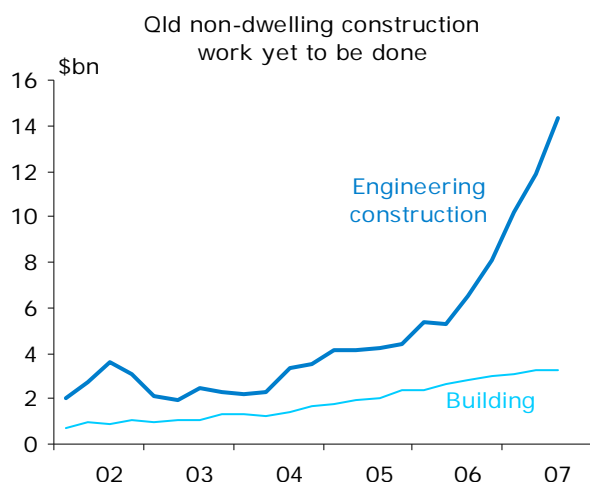
Official data tell a similar story with the value of non-residential building and engineering construction work yet to be done surging over the past year to a total of \$17.5bn as at the September quarter (more than 8% of annual state final demand), almost double the \$9.3bn a year earlier. The investment pipeline has increased significantly across all major asset types, but most significantly in water supply and storage (up almost thirteen-fold over the past year), bridges, railways and harbours (up almost five-fold) and office buildings (up more than three-fold in the past year).

Against this backdrop, and with similarly strong investment profiles in other states – notably Western Australia – a key issue is the state's capacity to source increasingly scarce labour and capital resources. In practice, it seems likely that

¹ Access Economics 2008, *Investment Monitor*, December quarter 2007.

the competition for resources will see at least some projects take longer to complete and cost more than budgeted.

There remains a significant amount of infrastructure-related activity still to come



Source: Australian Bureau of Statistics

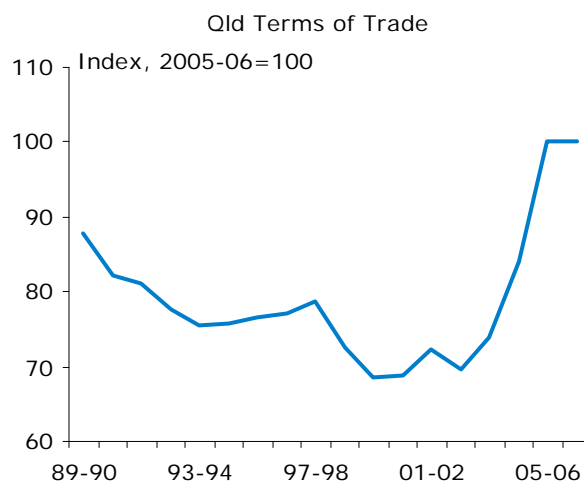
A third factor in Queensland's favour is its exposure to the commodities boom.

Mining accounts for 8.5% of total factor income in Queensland, behind only Western Australian and the Northern Territory in terms of its importance to state economic development. More specifically, Queensland accounts for more than half of Australia's coal production. This means that the state will again directly benefit from the further up-leg in the current price cycle, particularly for coal, with early indications pointing to a 210% price rise for coking coal and 125% for thermal coal for the 2008-09 Japanese fiscal year.

The stimulus to the state economy will be reflected in its terms of trade – the ratio of export prices to import prices – which has already increased over 40% since 2002-03. The increase in real incomes that such a movement in the terms of trade

represents will soften the impact of slowing growth state production (GSP).

The increase in Queensland's terms of trade has boosted state income



Source: Australian Bureau of Statistics

Higher agricultural prices are also on offer, but up until recently, drought has prevented Queensland's farmers from taking full advantage of this. Recent above-average rainfall, which has replenished soil moisture and water storage levels, has raised hopes of a better season in 2008-09.

Tighter budgetary conditions

Notwithstanding the more favourable commodity price backdrop, the 2008-09 state budget (due on 3 June) is likely to be one of the tightest in years, reflecting slower (albeit still solid) economic growth, higher interest rates and falling equity markets, which will reduce returns from the Queensland Investment Corporation. Treasurer Fraser has already flagged spending cuts of \$200m, but, in the current environment, delivering the government's four-year \$48.3 infrastructure program on time and on budget will be the real challenge.

Economic data – Queensland

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	-0.1	0.4	-0.2	-1.2	0.9	n.a.
Private building approvals	8.7	-10.2	-1.0	-6.0	2.6	n.a.
Employment	0.1	0.4	0.0	-0.3	0.6	0.1
Unemployment rate, %	3.8	3.8	3.5	3.4	3.6	3.6
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	0.7	1.4	1.5	0.9	1.3	2.2
Private investment	2.5	2.1	8.9	0.5	-4.9	0.9
Public demand	7.2	0.7	-2.6	10.6	1.3	3.2
State final demand	2.5	1.4	2.5	2.8	-0.3	2.1
Population, ann. % ch.	0.5	0.5	0.7	0.5	0.5	n.a.
Median house price – Brisbane, \$'000s	325.5	333.9	347.8	370.0	385.3	406.1
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	6.4	4.6	3.6	4.9	4.8	4.3
Employment	3.3	5.2	3.5	4.6	3.3	2.5
Consumer prices – Brisbane	2.9	2.6	3.1	3.3	3.8	3.2

Sources: Australian Bureau of Statistics and Economics@ANZ

Western Australia: Resource sector ensures growth

Alex Joiner, Economist

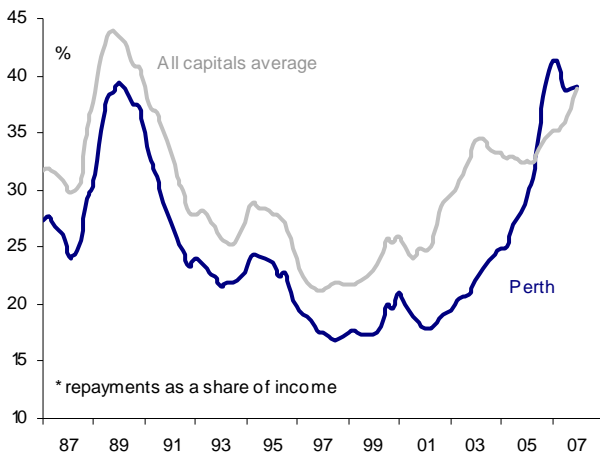
It is no secret that the resources boom has transformed the Western Australian economy in recent years. Since the beginning of the boom in 2001-02 the state has averaged economic growth of 5½% per annum, up from an average of 3.4% in the preceding six years. Over the same period, Australian GDP growth has slowed from 3.9% to 3.2% as monetary policy has been made progressively tighter. Going forward, GSP growth is expected to slow from an estimated 6.25% in 2007-08 to 5.5% in 2008-09. Notwithstanding this modest slowing, Western Australia will remain at the top of the national growth table as the stimulus from the commodity boom largely offsets the impact of higher interest rates.

Softer indicators should only be temporary

State final demand (SFD) growth for the December quarter 2007 showed a second quarter of relatively softer growth for Western Australia. However, through the year SFD growth remains at an impressive 9.7%, well above the national average of 5.7%.

Household consumption has led the way, contributing 1.1ppts of the 1.5ppts growth of SFD in the quarter and recording 7.3% growth in the year - the highest growth rate in just under three years. However, more timely data show retail sales have slowed in recent months. Similarly, the growth in the sales of new motor vehicles has softened significantly, contracting 0.3% through the year to February. The softness of these indicators is a reflection of the impact of higher interest rates on household discretionary spending. With median house prices doubling in the past four years and affordability deteriorating in kind, it is no surprise that the back-to-back rate hikes earlier in the year has made consumers take stock and pull back on spending.

Housing affordability back to national average



Source: Australian Bureau of Statistics

With house prices increases now slowing, household disposable income growth of just over 10% in

2006-07 has clawed back some of the rapid deterioration of affordability. More recent wages data suggest incomes will continue to grow at a healthy clip in 2007-08, giving a boost to consumers. Wages in the state have been growing at the fastest pace in the country, expanding 5.9% in the year to December 2007 (well above the Australian average of 4.2%). Average weekly ordinary time earnings in Western Australia reached \$1,211 in December, to be the highest of any state and second only to the ACT.

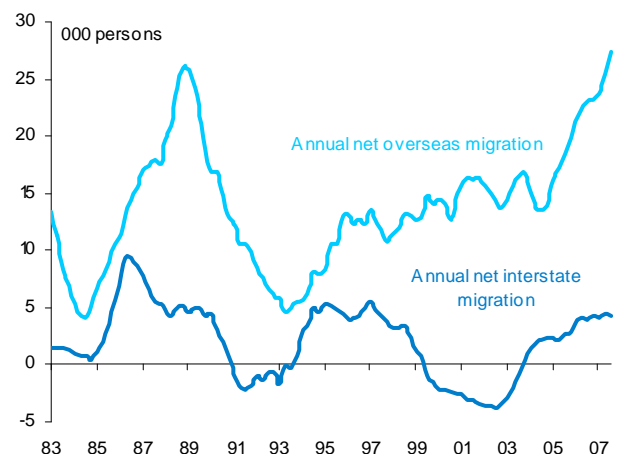
Strong employment prospects attract labour

Strong wages growth and significant ongoing demand for workers has kept labour markets tight, with the unemployment rate hovering around 3% for much of the past two years. Employment growth over the past 12 months has remained the fastest of any state averaging 3.5% per annum (just shading Queensland).

These very strong rates of employment growth have so far been enough to absorb the significant lift in population. In fact, a shortage of suitable local employees is prompting employers to seek labour from interstate and overseas. The promise of economic prosperity has seen net migration into Western Australia double in the past four years, to just under 32,000 in the year to September 2007. Of this, only 13% has come from other states with the remaining inflows from overseas. Annual net overseas migration to September 2007 has risen to 27,365 exceed the previous peak in the late-1980's.

On this previous occasion inflows were halted by an economic downturn, but thanks to another upswing in bulk commodity prices there looks to be little chance of that happening in the next few years.

Labour increasingly imported



Source: Australian Bureau of Statistics

Residential market to remain supported

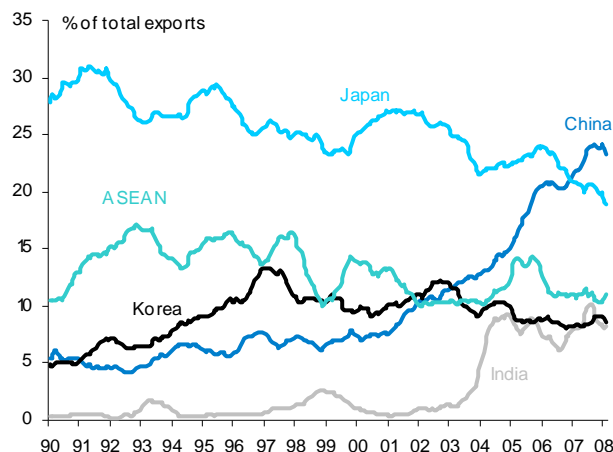
Despite strong demand from high population growth the residential housing market, for the moment, has run out of steam. This is unsurprising given that Perth house prices almost doubled in the three years

to the end of 2006. Since then, price growth has virtually stopped, capped by the significant deterioration of affordability and as of December 2007 was running at only 1.1% in the year. However, we do not anticipate any significant 'correction' in prices with the strong economic environment maintaining a floor under the WA property market for the foreseeable future. Building approvals slowed markedly in the latter half of 2007 and the short-fall in the residential market is now beginning to mount. Lack of adequate rental supply has seen rents skyrocket with increases in advertised rents in excess of 18% in the year to December. With another upswing in bulk commodity prices expected to deliver significant economic benefits to the state, higher incomes will see pressure on prices build as supply continues to tighten.

Resources trade set for another boom

The West Australian economy looks set to benefit even further from the strong Asian demand for its principle resources exports. Over three-quarters of the state's exports were sent to Asia last year with the local economy more exposed to the fast growing regional economies than any other state. As such, the average value of annual exports has increased by 21% per year since January 2005 due to the increases in prices and higher volumes. In recent years, China has surpassed Japan as Western Australia's largest trading partner primarily due to the formers insatiable demand for iron ore. Of Western Australia's nearly \$15bn of exports to China, iron ore accounts for just under \$10bn.

China now primary destination for exports



Source: Australian Bureau of Statistics

This figure looks set to rise significantly with at least a 71% increase in iron ore contract prices expected for the 2008-09 contract year. Also, it is expected that resources export volumes will continue to increase as the significant investment in infrastructure comes on line. As a result of anticipated increases in both price and volume, the state's \$63bn annual trade surplus looks as if it will increase substantially.

In the coming year, this will provide unprecedented insurance for the state's economic growth, against both the slowdown in developed nation economies and high domestic interest rates.

Economic data – Western Australia

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	-0.7	1.4	-0.6	-0.9	-0.6	n.a.
Private building approvals	-11.7	8.7	-11.3	5.6	-1.5	n.a.
Employment	0.3	-0.4	0.9	0.8	-0.1	-0.1
Unemployment rate, %	3.5	3.3	3.1	3.4	2.8	3.3
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	1.5	1.1	2.2	1.0	1.6	2.4
Private investment	-9.8	9.7	7.5	8.5	0.4	-0.3
Public demand	2.2	-0.5	1.6	0.7	-2.3	3.0
State final demand	-2.3	3.6	3.9	3.6	0.5	1.5
Population, ann. % ch.	0.5	0.5	0.7	0.5	0.6	n.a.
Median house price – Perth, \$'000s	446.2	461.4	463.8	455.0	462.3	466.6
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	6.4	4.0	4.8	6.3	6.2	5.5
Employment	1.3	4.2	4.9	2.5	3.0	2.0
Consumer prices – Perth	2.1	3.2	4.3	3.9	3.2	3.1

Sources: Australian Bureau of Statistics and Economics@ANZ

South Australia: The next WA?

Mark Rodrigues, Senior Economist

South Australia has joined the ranks of the 'mining boom states' of Western Australia, the Northern Territory and Queensland, with a number of major resource projects currently underway or being considered, spurring incomes, house prices and activity. Consequently, the state is likely to be the only state where economic growth will accelerate this year and maintain that pace into next. We expect GSP to increase by 3¼% in both 2007-08 and 2008-09, up from 0.8% in 2006-07.

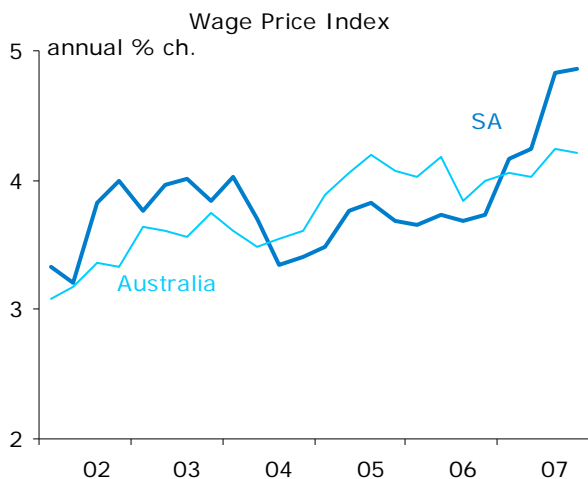
Households lead the resurgence

The turnaround in South Australia's economic performance in the past year has been led by households. Household consumption grew by 4.6% over the year to the December, up from 1.9% a year earlier. This accounted for all of the acceleration in growth in state final demand over this period – from 1.9% to 2.7% - with growth in all the other major components of final demand slowing over this period.

Household spending in South Australia has been underpinned by stronger growth in incomes. Gross disposable income grew by 7.1% in 2005-06 and 6.1% in 2006-07, and there is every indication that such growth will be sustained this year and next.

For starters, the state's labour market remains very robust, with employment growth surging to 4% over the year to March 2008, up from just 0.7% a year earlier. As a result, the unemployment rate has continued to track lower, and now sits at a historic low of 4.6%. Against the backdrop of a tightening labour market, wages growth has accelerated. Annual growth in wages now stands at 4.9% over the year to the December quarter 2007, up 1.2ppts over the course of 2007 and 0.7ppts more than the corresponding national average.

Accelerating wages growth has underpinned household incomes and spending in SA



Source: Australian Bureau of Statistics

In addition to the robust labour market, household disposable incomes will continue to be supported by personal income tax cuts over the next few years.

Of course, households in South Australia, as in the rest of the nation, are facing a number of headwinds that may be expected to impact adversely on spending. Most significantly, the increase in mortgage interest rates, which totals around 130 basis points since August 2007, looks to have already slowed consumer demand at a national level since the start of 2008, although the impact on South Australians is far from conclusive at this stage. For example, while growth in retail sales slowed to just 0.3% in February, it follows growth of 1.4% in the previous two months. Similarly, while new motor vehicle sales plunged by over 8% in February, this followed a 12% surge in January.

It is possible that South Australian consumers will be more insulated from the current high level of interest rates than their counterparts in the larger states because they hold less debt, on average. In 2006-07, interest payments accounted for around 8.7% of gross disposable income, well above the national average of 10.3% and some 3.2ppts less than the debt servicing ratio in New South Wales.

House prices are on the up as the housing market tightens

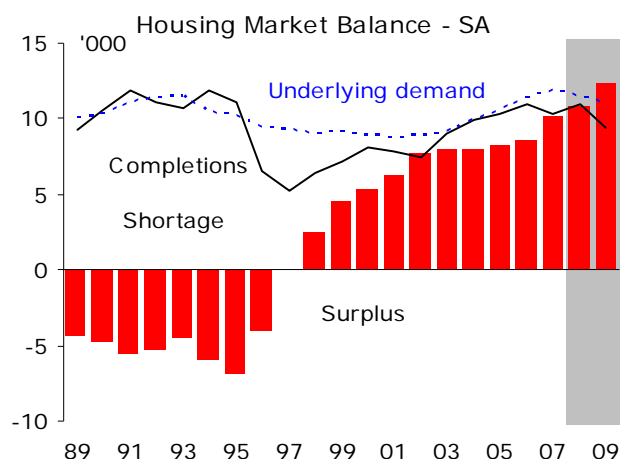
The primary reason that household debt levels are lower in South Australia than in the larger states is that the housing stock is relatively more affordable. For example, at \$345,000, Adelaide's median house price is only around 65% of Sydney's median price of over \$530,000.

That said, the gap is narrowing. Over the past year, median house prices in Adelaide have grown over 20% as the local housing market has tightened. This in turn has fed household confidence and wealth, supporting the rebound in consumer spending over the past year.

Looking forward, there is every reason to believe that house prices will continue to grow, albeit at a more moderate pace than that seen over the past year. While the local residential construction industry has fared relatively well, with dwelling investment up 4.6% over the course of 2007 and the average level of private building approvals in the past 6 months up almost 30% on the previous 6 months, it is simply not keeping up with underlying demand for new housing.

As a result, the shortage of housing stock in South Australia is growing, and we estimate it will reach the equivalent of 15.5 months of production (at current rates) by 2008-09. In this environment, residential vacancy rates in Adelaide are likely to remain near current historic lows of 1%, placing further pressure on rents and established house prices

New residential construction is struggling to keep up with underlying demand



Source: Economics@ANZ

Investment boom in prospect

In many respects, the above-mentioned surge in consumer demand is only the *proximate* cause of South Australia's economic revival. The underlying driver of recent improved economic outcomes – which spurred employment, wages and house price rises in the first place – is the discovery and development of major resource deposits in the state.

Of these, Oxiana's \$1bn Prominent Hill gold and copper mine is the most advanced, with commissioning set for late 2008. However, as we have noted on these pages before, the real excitement stems from BHP Billiton's Olympic Dam copper and uranium mine expansion project. While the project is still in its feasibility planning stage, it is already delivering economic benefits to South

Australia. For example, work associated with the project is likely to have been a major contributor to the 73% leap in mineral exploration expenditure (excluding petroleum) in the state in 2007. But this is just a drop in the ocean compared with the project's potential economic benefits if it proceeds. Current estimates are that the investment will be worth \$6.3bn and will lift copper production to 500,000 tonnes per year from a current capacity of 200,000 tonnes.

Outside of the resources sector, major investments in wind farms (such as the \$400mn Lake Bonney project and \$260mn project at Hallett), retail and commercial (the Port Adelaide waterfront development) and health (\$120mn Queen Elizabeth and Royal Adelaide Hospitals redevelopments) suggest that investment will be a major contributor to economic growth in the state in the years ahead.

Farm outlook remains bleak

Perhaps the only weak link in the current economic picture for South Australia is its agricultural sector. Unlike their counterparts in Queensland and New South Wales, South Australian farmers have continued to be hampered by well below average rainfall.

Looking forward, the Bureau of Meteorology is forecasting a 50% chance of above-average rainfall in the next three months. But with low levels of soil moisture and severely depleted water storage levels and flows in the Murray-Darling Basin, only an extended period of well above-average rainfall will materially improve prospects for the 2008-09 agricultural season.

Economic data – South Australia

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	1.1	0.5	1.4	1.4	0.3	n.a.
Private building approvals	-17.0	21.6	-21.4	2.0	14.1	n.a.
Employment	0.4	0.6	0.2	-0.4	0.7	0.1
Unemployment rate, %	5.4	4.8	4.8	4.6	4.5	4.6
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	0.2	0.3	1.3	0.6	1.0	1.6
Private investment	3.0	-1.9	5.7	1.0	-7.3	1.1
Public demand	2.9	0.6	-3.0	0.4	1.4	1.4
State final demand	1.3	-0.1	1.2	0.6	-0.6	1.5
Population, ann. % ch.	0.3	0.2	0.4	0.2	0.3	n.a.
Median house price – Adelaide, \$'000s	279.7	287.3	292.4	310.0	325.9	345.4
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	4.3	1.2	2.4	0.8	3.3	3.2
Employment	1.9	1.4	2.0	1.7	3.0	2.0
Consumer prices – Adelaide	3.0	2.3	3.2	2.6	3.0	3.0

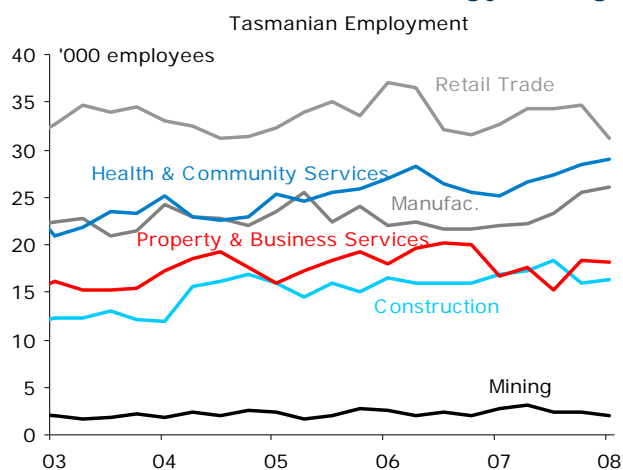
Sources: Australian Bureau of Statistics and Economics@ANZ

Tasmania: Time to take a breather

Julie Toth, Senior Economist

The Tasmanian economy had a relatively strong final quarter in 2007, with state final demand up 3.6% and private investment up 10.1%. The household sector was slower however, with 1.7% growth in private consumption. This slowing in consumption became increasingly evident in the first months of 2008, with retail sales down 1.2% in January and flat in February. As in all other states, new vehicle sales in Tasmania also weakened, with monthly sales in March down 4.1% from a year earlier. With two interest rate rises, international financial market woes and a consequent slowing of the national economy, we expect this downturn in Tasmanian consumer demand to continue well into 2008. We estimate Tasmanian GSP growth will slow to 2% in 2008-09, from an estimated 3% in 2007-08.

Tasmania at work: retail, mining and construction down, but health and manufacturing jobs surge



Source: Australian Bureau of Statistics

Indications of a consumer slowdown are also evident in Tasmania's labour market. Employment grew

2.8% in the year to February 2008, with the unemployment rate hovering just above 5%. Jobs in retail trade however (the state's single largest employer), were down 4.4% on a year earlier, in line with the lower level of retail demand.

In contrast, the next biggest employer, health and community services, grew 15.3% p.a. (to 29,000 employees). With retailers facing a subdued 2008, health services looks likely to soon become Tasmania's biggest employer. Health services now account for 1 in 8 jobs in Tasmania, compared with 1 in 10 nationally, no doubt reflecting Tasmania's older population profile. In the next largest sector, manufacturing jobs edged up to 26,000, 18% higher than a year earlier, despite the challenges of a higher Australian dollar. Elsewhere, jobs in the lucrative mining sector fell back to 2,000, from a recent peak of 3,000. And, with continuing dry conditions across much of the state, agricultural employment declined another 5% over the year. Overall, we expect total Tasmanian jobs growth to be around 2.8% for 2007-08, slowing to 1.5% in 2008-09, in line with state economic activity.

Construction activity and employment has been more volatile, with delays to the giant pulp mill project at Longreach. In residential construction, we expect increased activity in the state's housing market in 2008, now that population growth (primarily from inter-state migration) is positive. Building approvals increased in the last six months to their highest level since the mid-1990s, and are now running in excess of an annualised rate of 3,100. However, as with the mainland states, interest rates and other constraints are keeping the cautious building industry from fully meeting new demand. Shortages caused Hobart house price growth to accelerate, reaching 11.1% in the year to December 2007. Tasmanian house prices should remain well supported going forward.

Economic data – Tasmania

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	-0.2	0.8	1.3	-1.2	0.2	n.a.
Private building approvals	-8.7	3.9	12.5	-2.2	5.7	n.a.
Employment	-0.4	0.6	-0.2	0.5	-0.5	-0.9
Unemployment rate, %	5.6	5.2	5.4	5.0	5.1	4.8
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	0.0	3.3	1.2	0.3	2.6	1.7
Private investment	-9.1	0.9	6.3	5.4	-3.4	10.1
Public demand	-10.7	9.5	-0.8	1.7	0.1	3.6
State final demand	-4.3	4.4	1.5	1.5	0.9	3.6
Population, ann. % ch.	0.1	0.2	0.2	0.1	0.2	n.a.
Median house price – Hobart, \$'000s	273.9	278.4	286.2	291.8	298.3	309.3
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	4.7	3.2	2.8	2.1	3.0	2.0
Employment	4.5	2.7	3.2	0.8	2.8	1.5
Consumer prices – Hobart	2.5	3.2	3.2	2.5	2.9	3.0

Sources: Australian Bureau of Statistics and Economics@ANZ

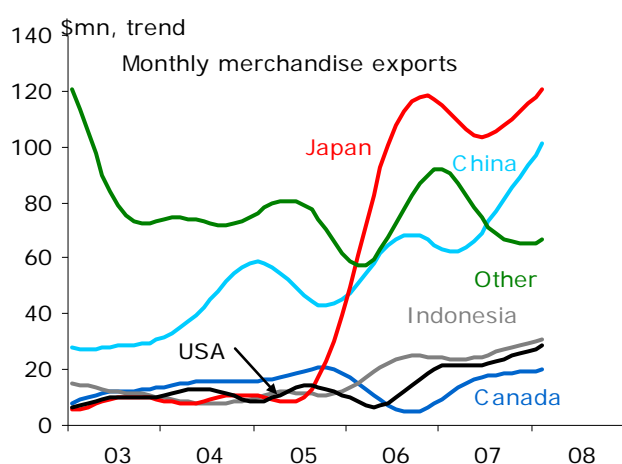
Northern Territory: Exports to support economic growth

Wain Yuen, Economist

Economic growth in the Northern Territory is forecast to slow from 4.7% in 2007-08 to 3.5% in 2008-09, although in both years growth should remain above the national average. Prices for the Territory's largest exports (mineral fuels and mineral ores) will remain at elevated levels, motivating continued investment, and boosting incomes. In addition, the substantial investment of recent years should support a lift in export volumes.

The direct exposure of the Territory to the slowdown in the United States is relatively small; it accounts for less than 7% of exports. However, indirectly, the Territory is exposed through Japan, its most important export market, and which is somewhat leveraged to the fortunes of the United States. On balance, continued solid growth in China (the second most important export partner) and other Asia is expected to provide sufficient buffer to ensure favourable global demand.

NT exports increasingly headed for Asia



Sources: Australian Bureau of Statistics and Economics@ANZ

Economic data – Northern Territory

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	0.8	1.8	2.7	-1.2	1.2	n.a.
Private building approvals	-9.7	-8.3	-1.3	2.6	6.4	n.a.
Employment	0.2	0.1	0.1	0.1	0.0	0.0
Unemployment rate, %	4.9	5.0	5.0	4.9	4.8	4.7
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	1.2	0.5	2.5	2.2	2.5	2.3
Private investment	8.5	-17.0	8.0	-7.0	0.7	-1.3
Public demand	0.1	1.5	0.2	-3.0	5.1	0.5
State final demand	2.8	-4.1	3.1	-1.8	2.9	0.9
Population, ann. % ch.	0.6	0.3	0.6	0.5	0.7	n.a.
Median house price – Darwin, '\$'000s	361.7	379.3	390.7	395.0	412.1	421.6
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	2.0	5.5	5.5	5.6	4.7	3.5
Employment	-2.9	-1.2	2.9	5.5	5.0	2.0
Consumer prices – Darwin	1.4	2.2	3.4	4.4	3.4	3.0

Sources: Australian Bureau of Statistics and Economics@ANZ

In addition to the risk of a slowing in export demand, the higher cost of funding and reduced availability of credit could prompt a re-evaluation of some investment plans. At present, several investment projects remain in progress including the \$350mn Browns copper, cobalt and nickel project, the \$140mn Bonaparte gas pipeline and Xstrata's \$110mn conversion of the McArthur River mine. In addition, the \$1.3bn Timor Sea LNG project and the \$500mn development of the Montarra oil field are substantial projects on the horizon.

The Northern Territory's labour market remains robust with employment growth of 4.9% over the year to March. This is well above the national average of 2.9%. Looking forward, we forecast employment to grow by 5% in 2007-08 before easing to 2% in 2008-09 as labour intensive construction projects are completed.

Supported by jobs growth, household consumption increased by a remarkable 9.8% over the year to December 2007. More recent partial data suggests that, in contrast to other states, the Northern Territory has yet to experience a slowing in demand. Nominal retail sales increased by 10.5% over the year to February, the fastest pace of growth in Australia. We expect this to ease as higher interest rates and lower share prices prompt consumers to rein in spending.

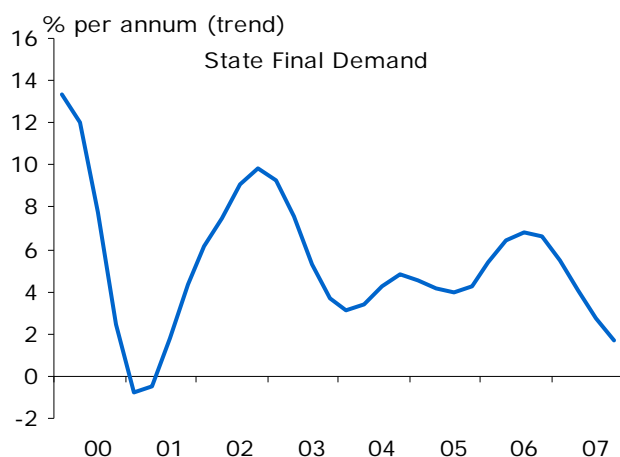
On a positive note, population growth is accelerating with a net increase of 1,528 people in the September quarter 2007, the largest quarterly increase in 11 years. Underpinning the result was a strong influx of people into the Territory from other states in response to the solid economic and employment prospects available.

Australian Capital Territory: Easing in progress

Wain Yuen, Economist, Industry

Economic activity in the ACT is moderating. In trend terms, state final demand grew just 0.2% in the December quarter, the slowest quarterly pace of growth in seven years. Soft economic outcomes are likely to continue over the next 18 months, with GSP forecast to grow by just 1.7% in 2007-08 and 1.5% in 2008-09.

The ACT economy is slowing



Source: Australian Bureau of Statistics

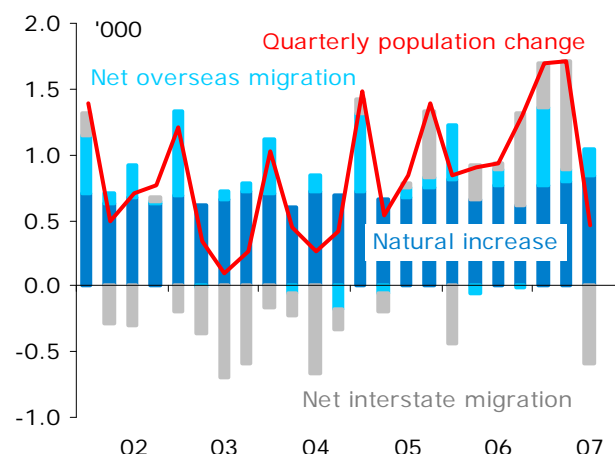
As with other states, tighter financial conditions, equity market volatility and declining confidence are combining to rein in the ACT's growth in private demand. Recent data on retail sales, for example, show that annual trend growth in the ACT eased to 3.2% in February, compared with 8.6% a year ago.

Employment growth remains subdued, growing by 1.5% over the year to March. Yet the ACT's labour market remains extremely tight with the unemployment rate just 2.7%, the lowest in Australia. As a result, wages growth has crept up to 4.4%, above the national average of 4.2%.

Looking forward, there is likely to be some easing in labour market conditions. In trend terms, the ANZ *Job Advertisements* series shows that the number of ACT newspaper job ads fell by 3.4% in March, the largest monthly decline since June 1996, when a then newly elected Howard Government was in power. This time around, the new Labor Government is actively attempting to limit spending with the result that Commonwealth departments are now cutting back on recruitment.

Population growth is also easing with a net increase of just 460 people in the September quarter 2007, the smallest increase since December 2004. With more people leaving the ACT than entering, net interstate migration provided a drag on population growth in the most recent quarter. As the Federal Government's savings measures translate into recruitment freezes, the negative net migration trend can be expected to continue.

Population growth declined in September 2007, dragged down by net interstate migration



Source: Australian Bureau of Statistics

Economic data – Australian Capital Territory

Monthly data (% change)	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail sales	0.3	-0.5	-0.7	2.0	1.2	n.a.
Private building approvals	-4.6	-1.6	1.1	1.6	5.8	n.a.
Employment	0.1	0.2	0.3	0.3	0.3	0.3
Unemployment rate, %	2.5	2.5	2.5	2.5	2.6	2.7
Quarterly data (% change)	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Household consumption	1.4	0.8	1.7	0.1	0.7	1.8
Private investment	-2.8	-0.5	1.2	-1.9	-4.2	-3.2
Public demand	1.6	1.0	-0.6	3.9	-2.1	1.6
State final demand	1.0	0.8	0.4	2.0	-1.4	1.2
Population, ann. % ch.	0.3	0.4	0.5	0.5	0.1	n.a.
Median house price – Canberra, \$'000s	411.2	418.0	424.3	443.0	457.6	477.8
Annual data (% change)	03-04	04-05	05-06	06-07	07-08 (f)	08-09 (f)
Gross state product	1.8	2.4	3.4	5.0	1.7	1.5
Employment	0.1	2.1	1.2	3.8	0.0	0.8
Consumer prices – Canberra	2.6	2.3	3.6	2.9	3.4	3.1

Sources: Australian Bureau of Statistics and Economics@ANZ

Contacts

ANZ Research

Saul Eslake
Chief Economist
+61 3 9273 6251
Saul.Eslake@anz.com

Fiona Allen
Business Manager
+61 3 9273 6224
Fiona.Allen@anz.com

Tony Pearson
Deputy Chief Economist
+61 3 9273 5083
Tony.Pearson@anz.com

Mark Rodrigues
Senior Economist
+61 3 9273 6286
Mark.Rodrigues@anz.com

Julie Toth
Senior Economist
+61 3 9273 6252
Julie.Toth@anz.com

Wain Yuen
Economist
+61 3 9273 6295
Wain.Yuen@anz.com

Warren Hogan
Co-Head of Australian Economics
and Interest Rates Research
+61 2 9227 1562
Warren.Hogan@anz.com

Sally Auld
Co-Head of Australian Economics
and Interest Rates Research
+61 2 9227 1809
Sally.Auld@anz.com

Katie Dean
Senior Economist
+61 3 9273 1381
Katie.Dean@anz.com

Riki Polygenis
Economist
+61 3 9273 4060
Riki.Polygenis@anz.com

Alex Joiner
Economist
+61 3 9273 6123
Alex.Joiner@anz.com

David Croy
Strategist
+44 20 7378 2070
croyd@anz.com

Patricia Gacis
Strategist
+61 2 9227 1272
Patricia.Gacis@anz.com

Amy Auster
Head of Foreign Exchange and
International Economics
Research
+61 3 9273 5417
Amy.Auster@anz.com

Tony Morriss
Senior Currency Strategist
+61 2 9226 6757
Tony.Morriss@anz.com

Jasmine Robinson
Senior Economist
+61 3 9273 6289
Jasmine.Robinson@anz.com

Mark Pervan
Head of Commodities Research
+61 3 9273 3716
Mark.Pervan@anz.com

Paul Braddick
Head of Property and Financial
System Research
+61 3 9273 5987
Paul.Braddick@anz.com

Ange Montalti
Senior Economist
+61 3 9273 6288
Ange.Montalti@anz.com

Alex Joiner
Economist
+61 3 9273 6123
Alex.Joiner@anz.com

Stephanie Wayne
Research Analyst
+61 3 9273 4075
Stephanie.Wayne@anz.com

Research & Information Services

Mary Yaxley
Head of Research & Information
Services
+61 3 9273 6265
Mary.Yaxley@anz.com

Marilla Rough
Senior Information Officer
+61 3 9273 6263
Marilla.Rough@anz.com

Manesha Jayasuriya
Information Officer
+61 3 9273 4121
Manesha.Jayasuriya@anz.com

ANZ New Zealand Research

Cameron Bagrie
Chief Economist
+64 4 802 2212
bagriec@anz.com

Khoon Goh
Senior Economist
+64 4 802 2357
gohk@anz.com

Philip Borkin
Economist
+64 4 802 2199
borkinp@anz.com

Steve Edwards
Economist
+64 4 802 2217
edwards1@anz.com

Kevin Wilson
Rural Economist
+64 4 802 2361
Kevin.Wilson@nbnz.co.nz

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

14th Floor 100 Queen Street, Melbourne, Victoria, 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

This document ("document") is distributed to you in Australia and the United Kingdom by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZ") and in New Zealand by ANZ National Bank Limited ("ANZ NZ"). ANZ holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZ for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.