Bongiorno – ProLoan conference

Bill Evans
Chief Economist

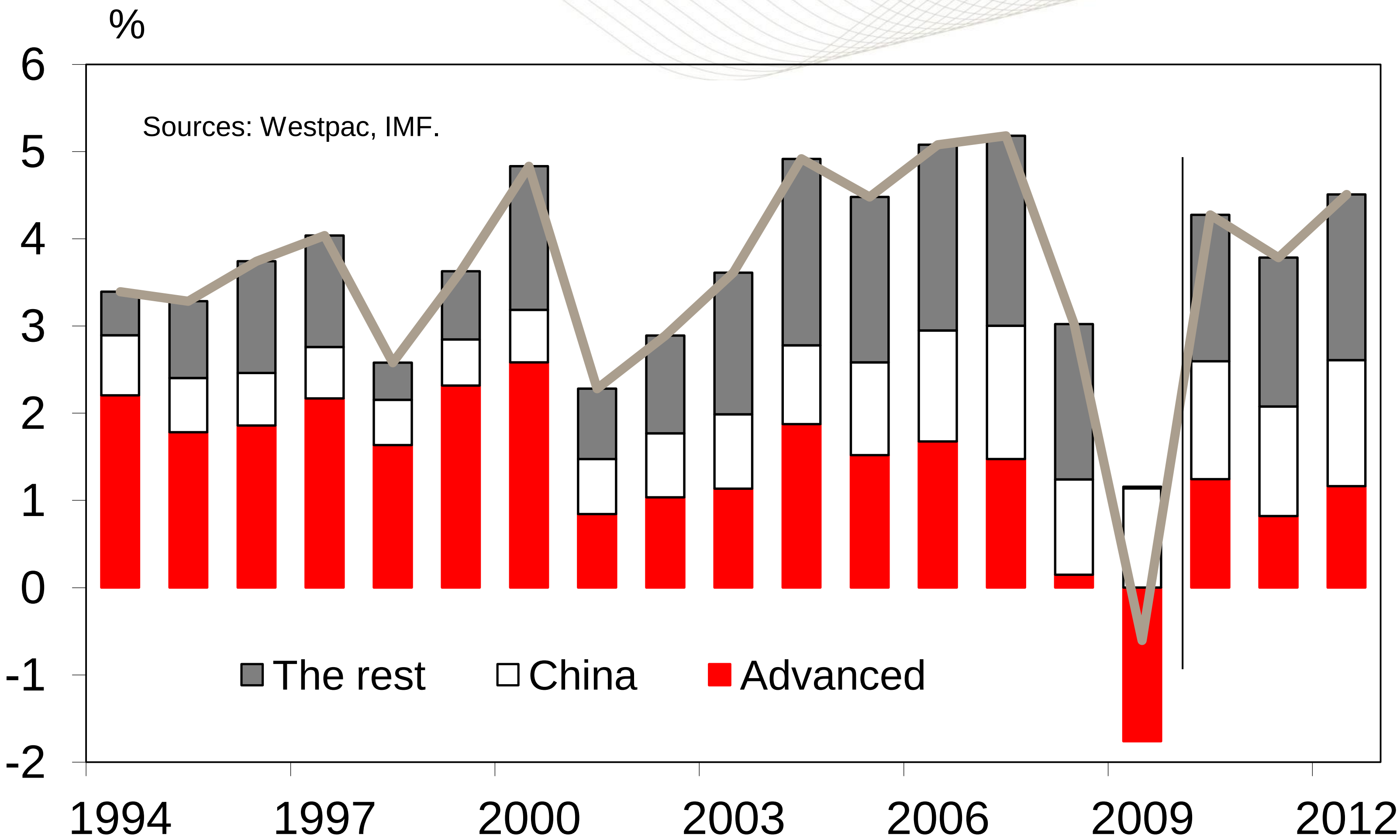
November 2010

Westpac InstitutionalBank

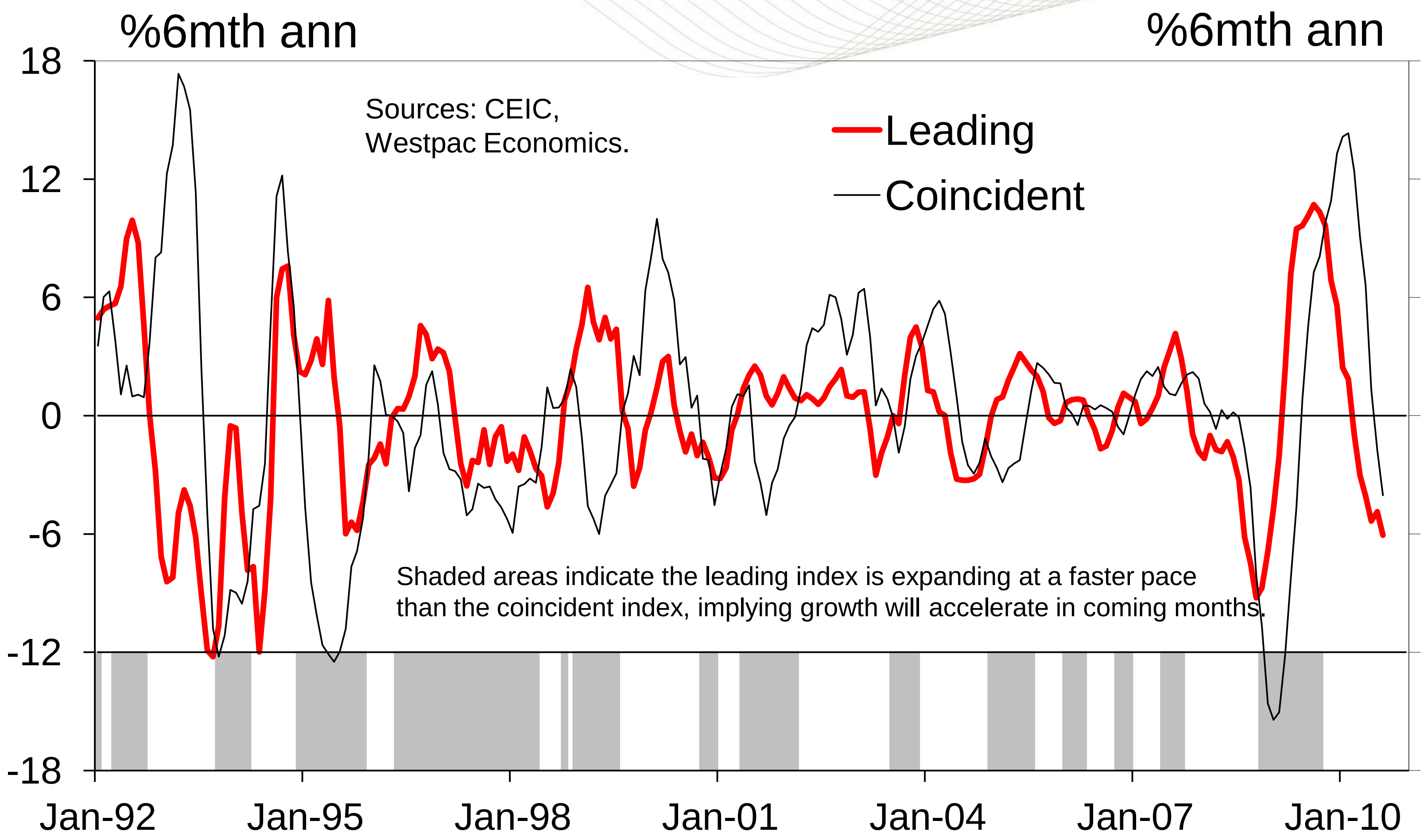
Current Forecasts- October 2009

	Latest	Dec-09	Jun-10	Dec-10
RBA Cash	3.25	4.00	4.50	4.50
3yr swap	5.34	5.5	6.25	6.25
10yr	5.56	5.50	5.75	6.00
US 10 yr	3.56	3.50	3.75	4.25
AUD/USD	0.92	0.98	0.92	0.95
USD/JPY	95	96	92	99
USD/EUR	1.47	1.48	1.40	1.48

Contributions to world growth



China: leading and coincident indicators



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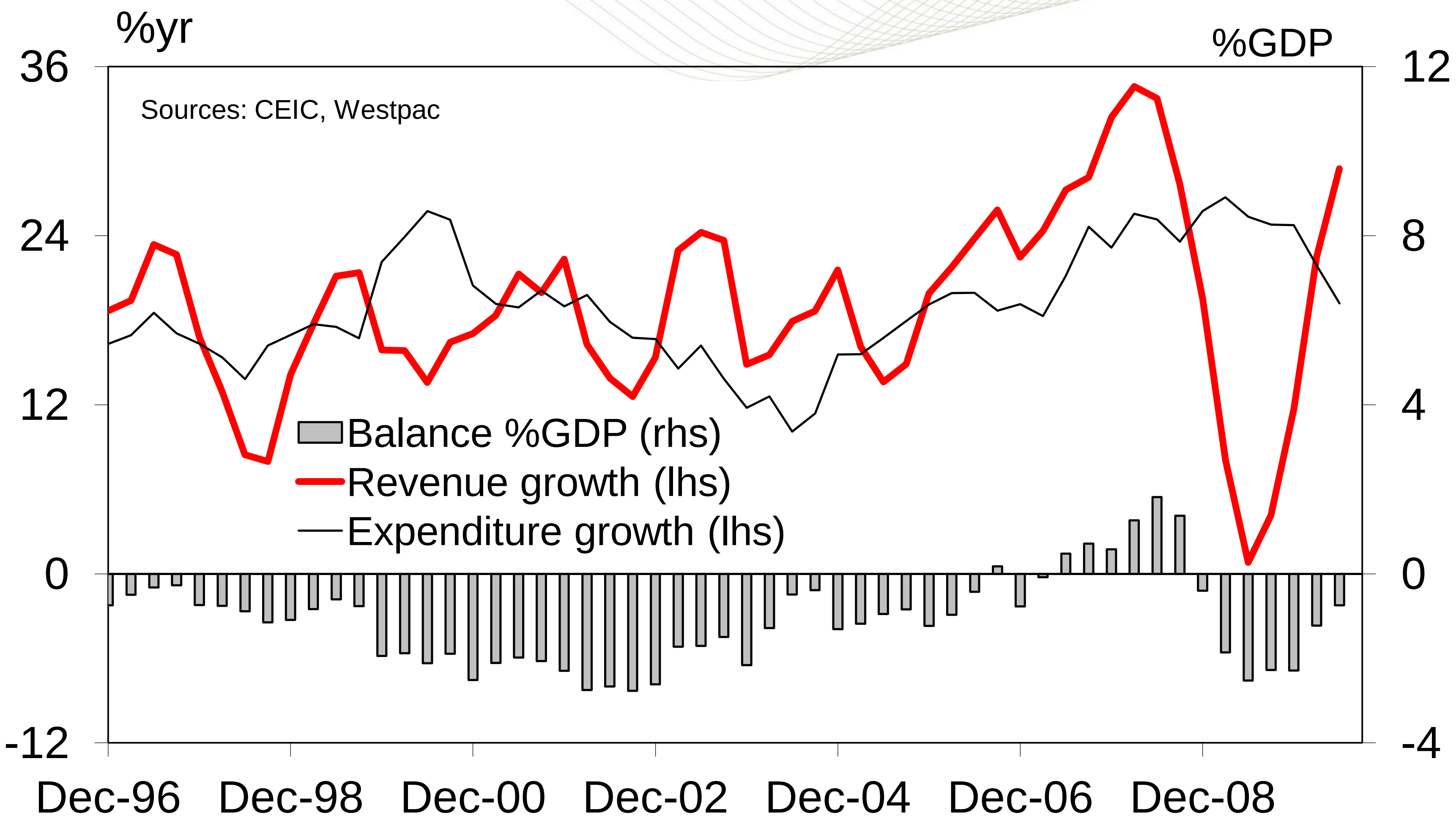
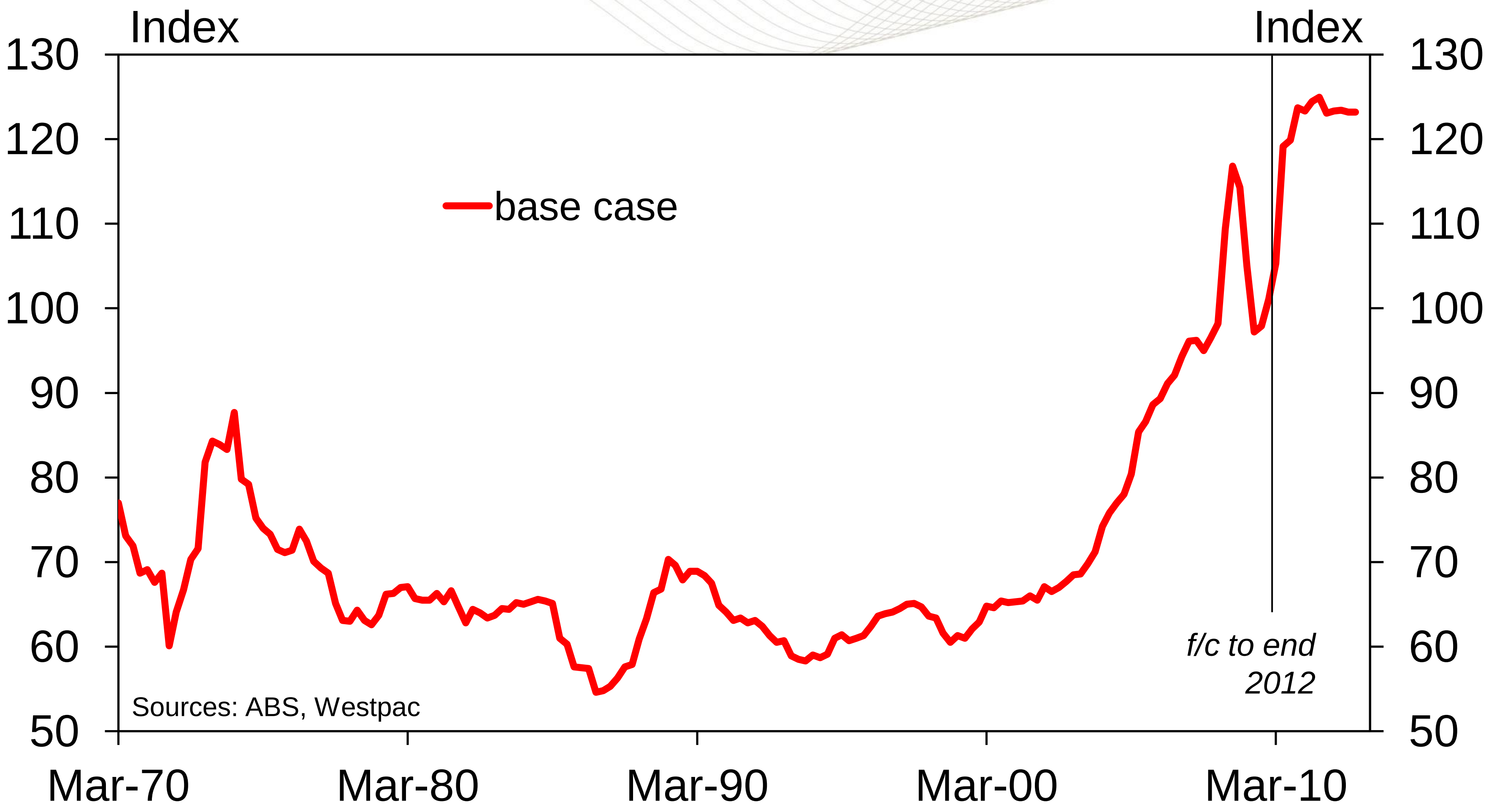
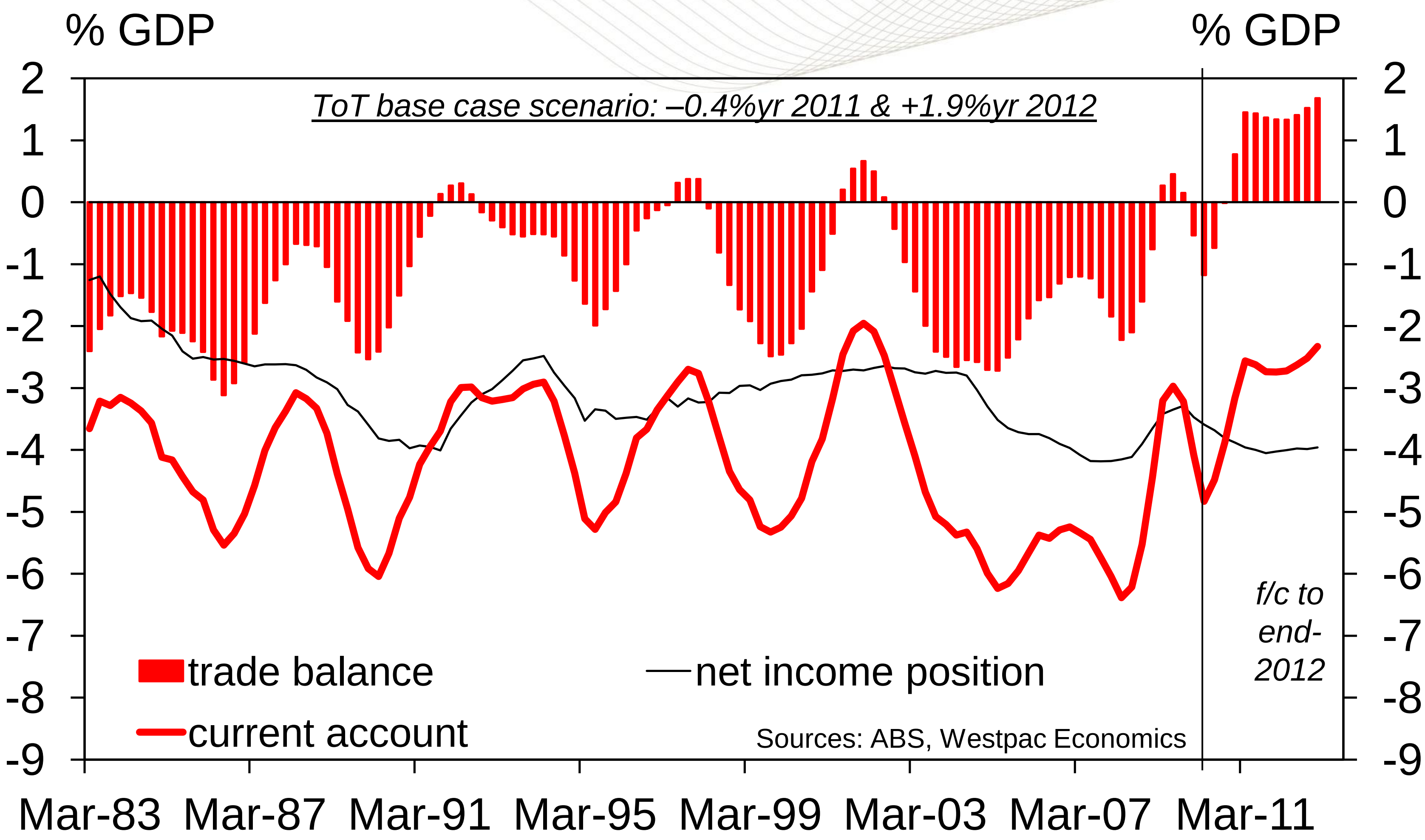
China: central government finances



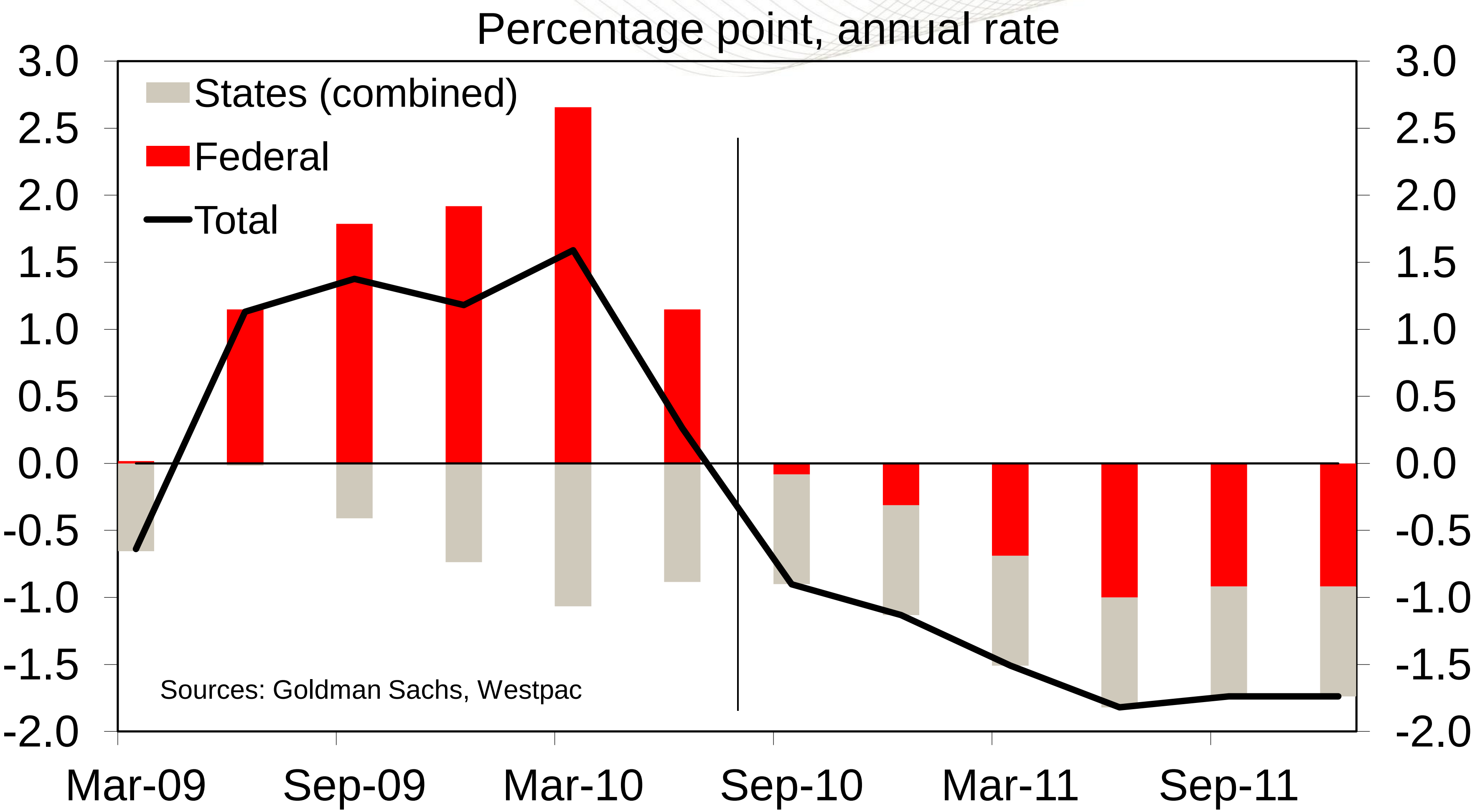
Terms of trade – gains to hold but no new leg



Current account and components: annual

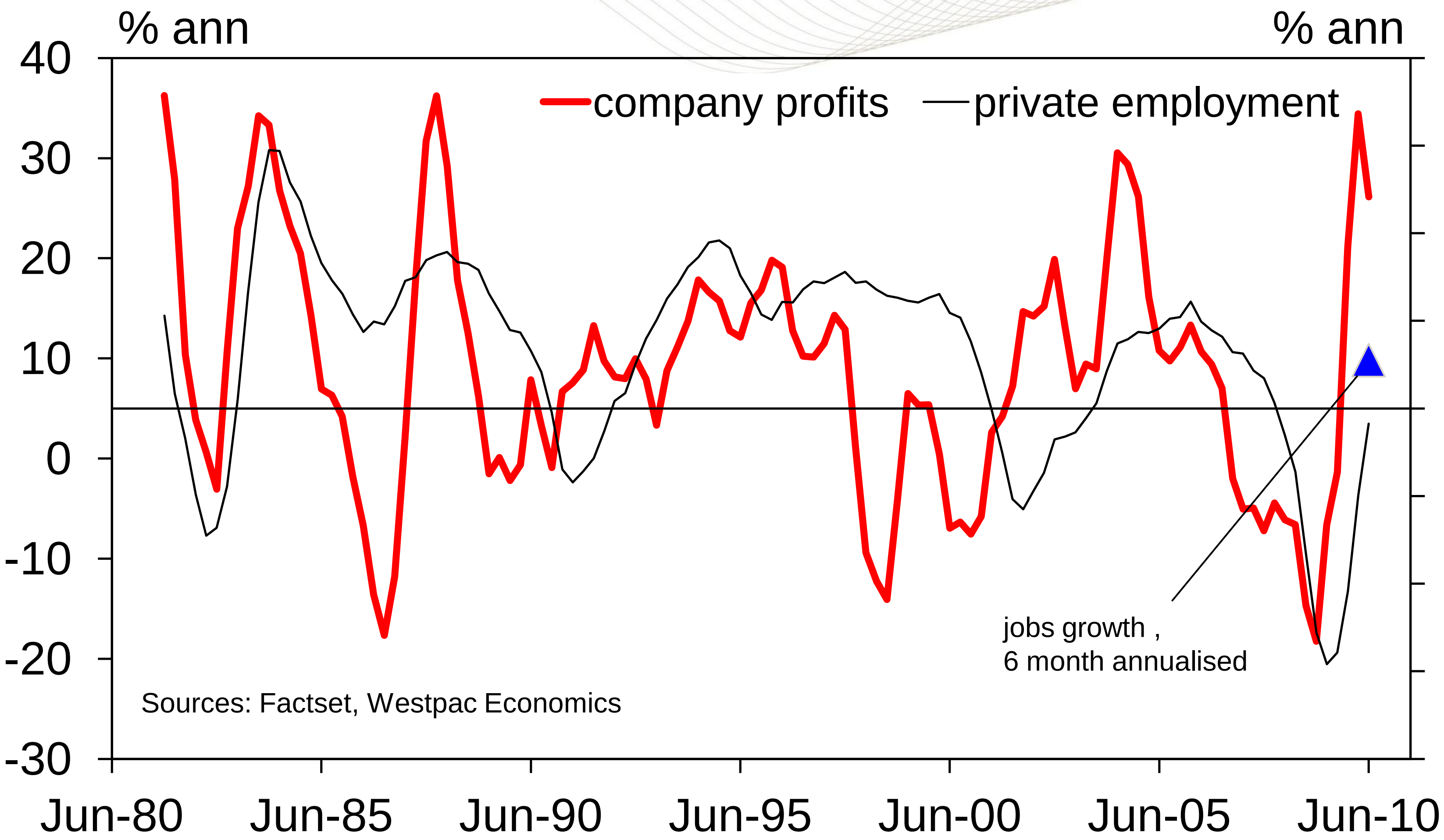


US fiscal impact on GDP growth*



*Includes estimated multiplier effects of federal, state and local fiscal policy.

US profits & employment



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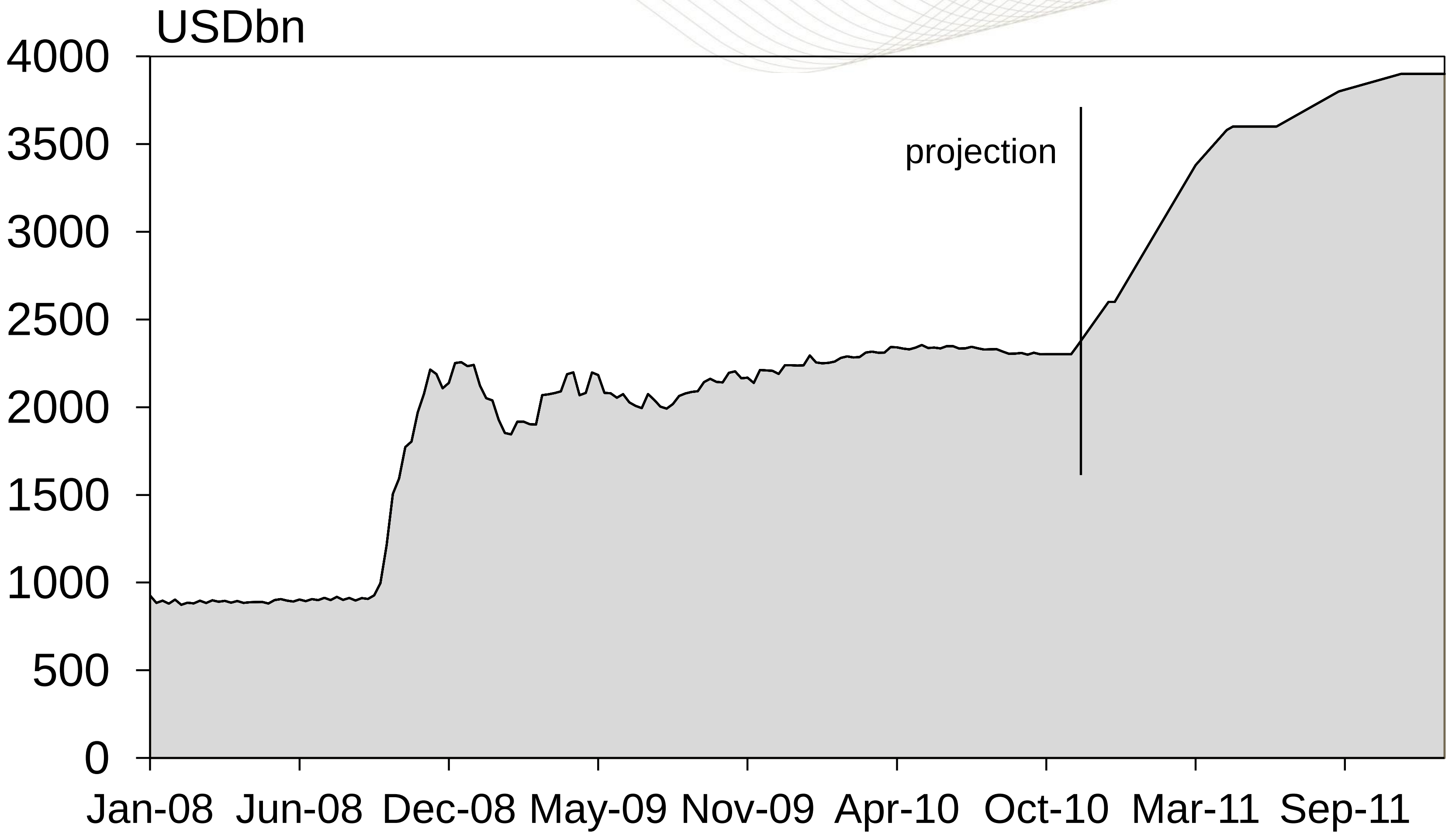
Evolution of the US Fed's balance sheet



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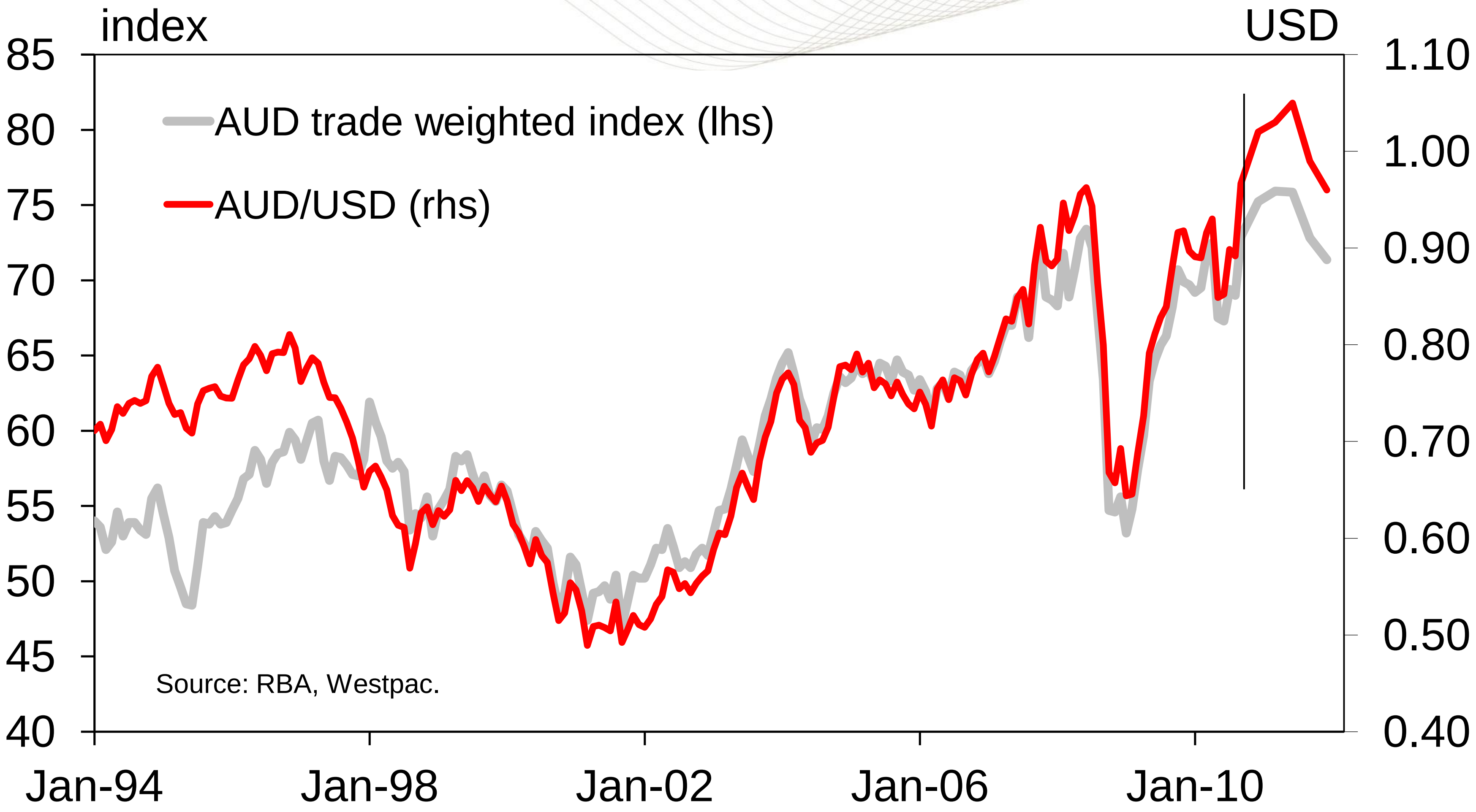
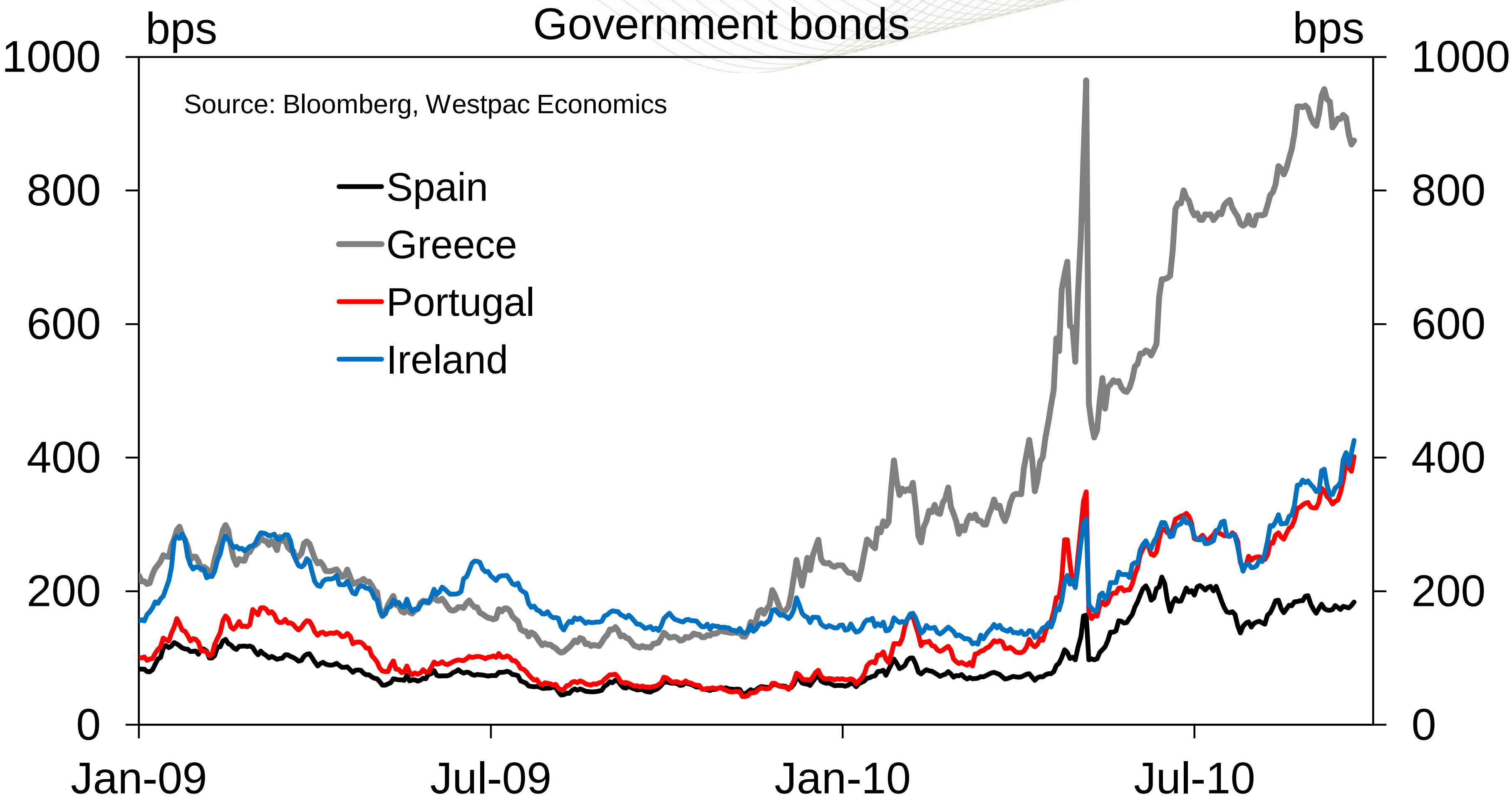
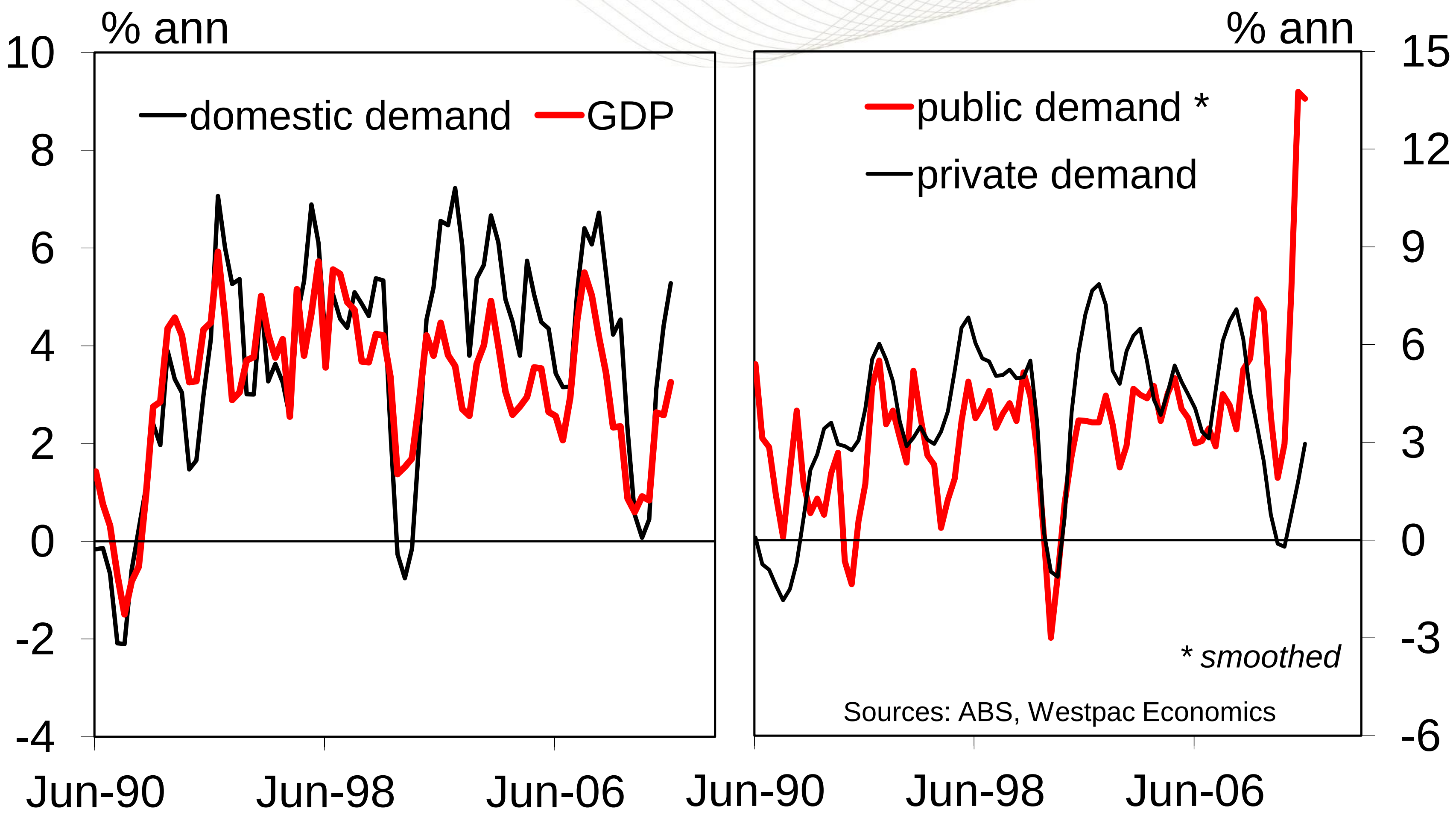
The Australian dollar: USD trend is crucial



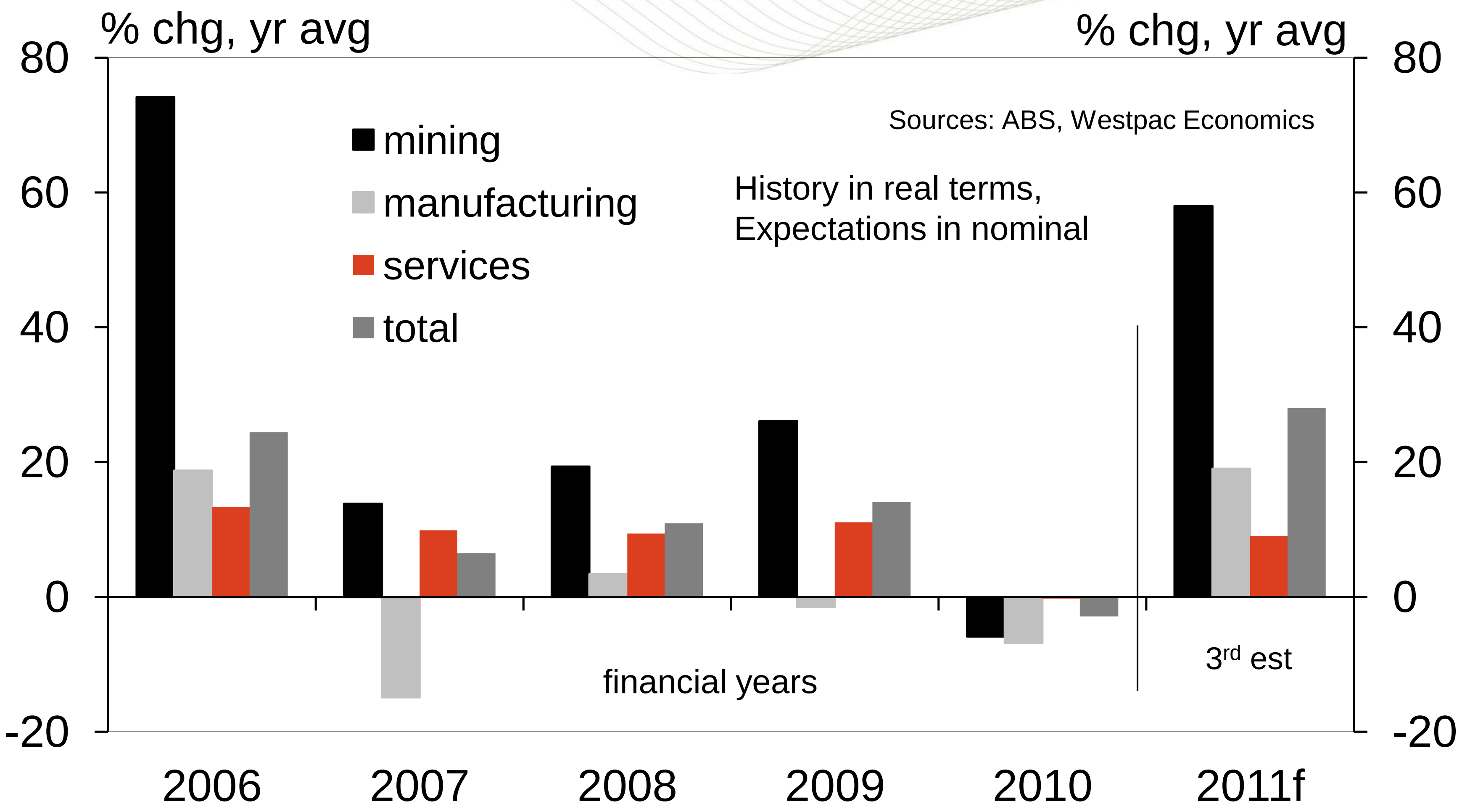
10yr Spread to German yield



Australian economic conditions



CAPEX plans by industry



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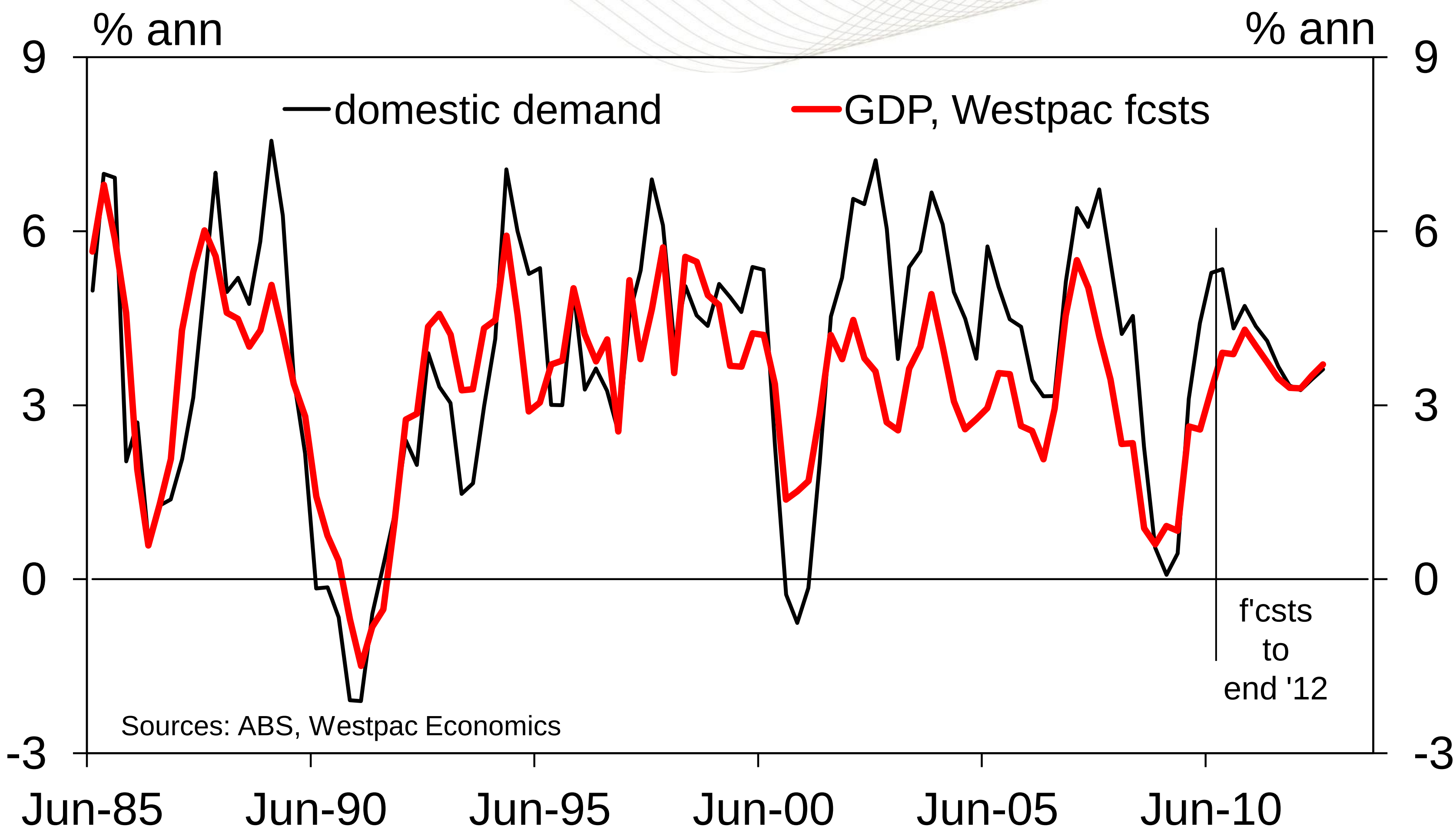
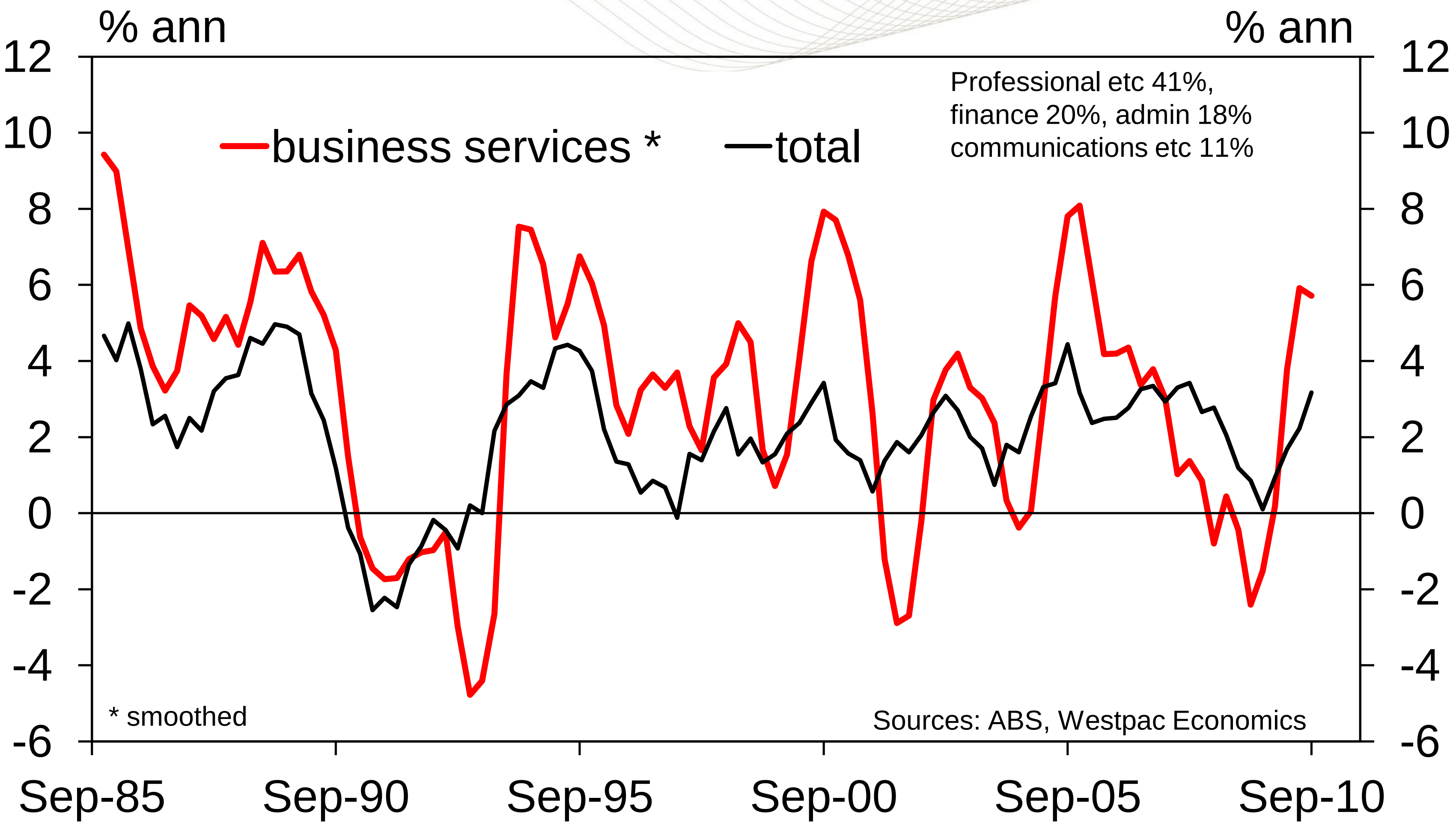
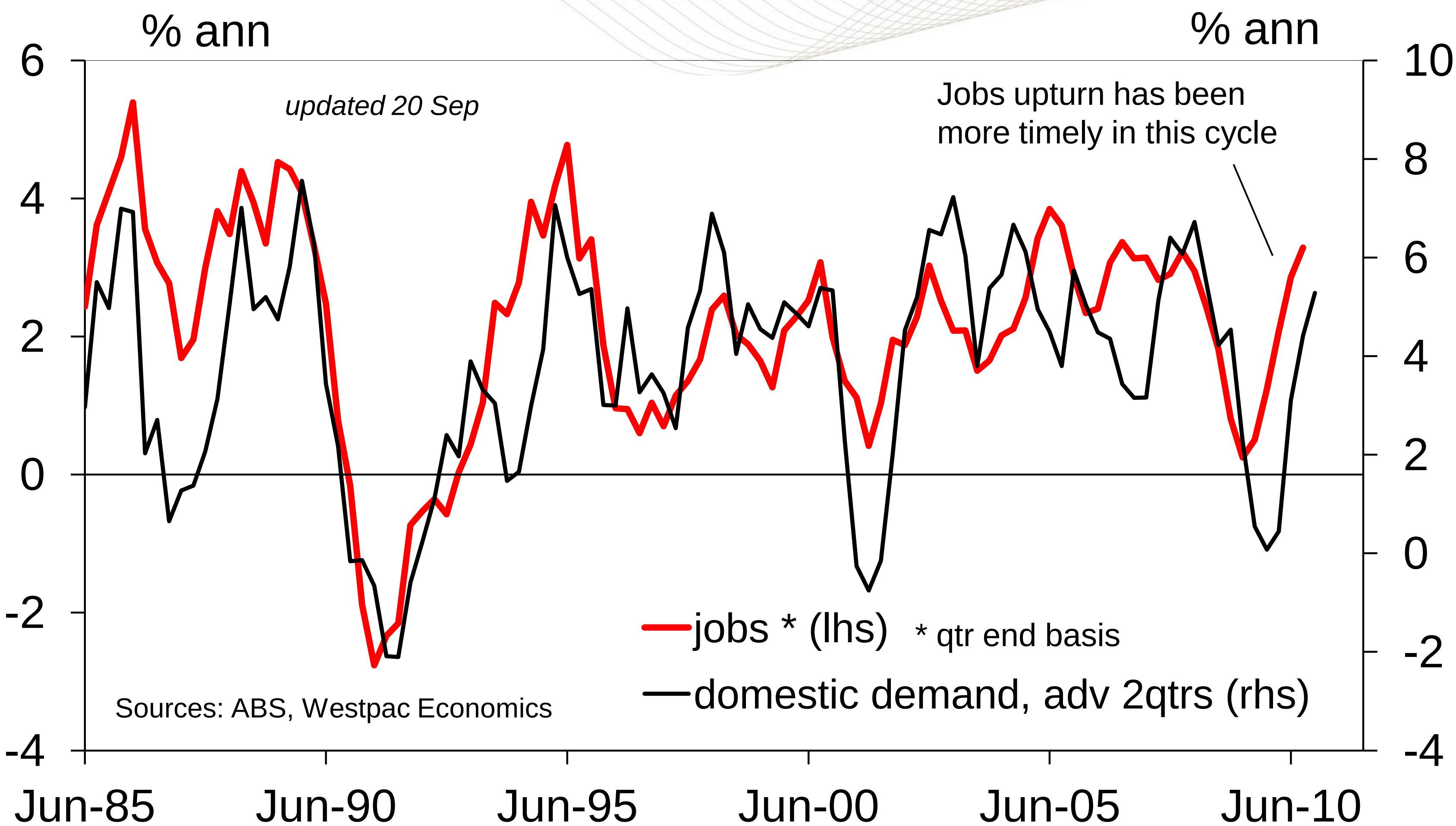
Australia: positive economic outlook



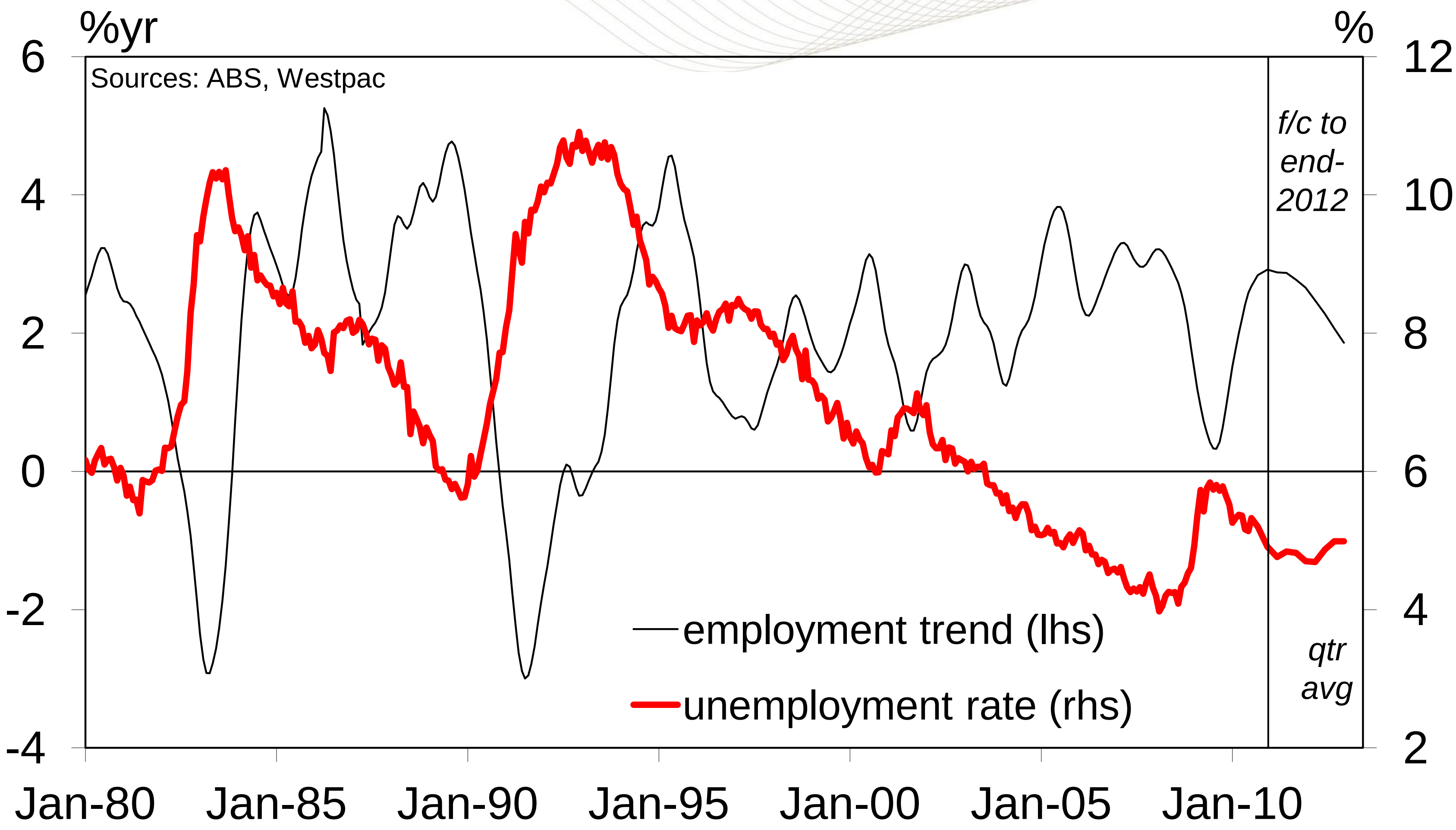
Business services: quick to hire & fire



Jobs growth & domestic demand



Employment growth & unemploy’t rate



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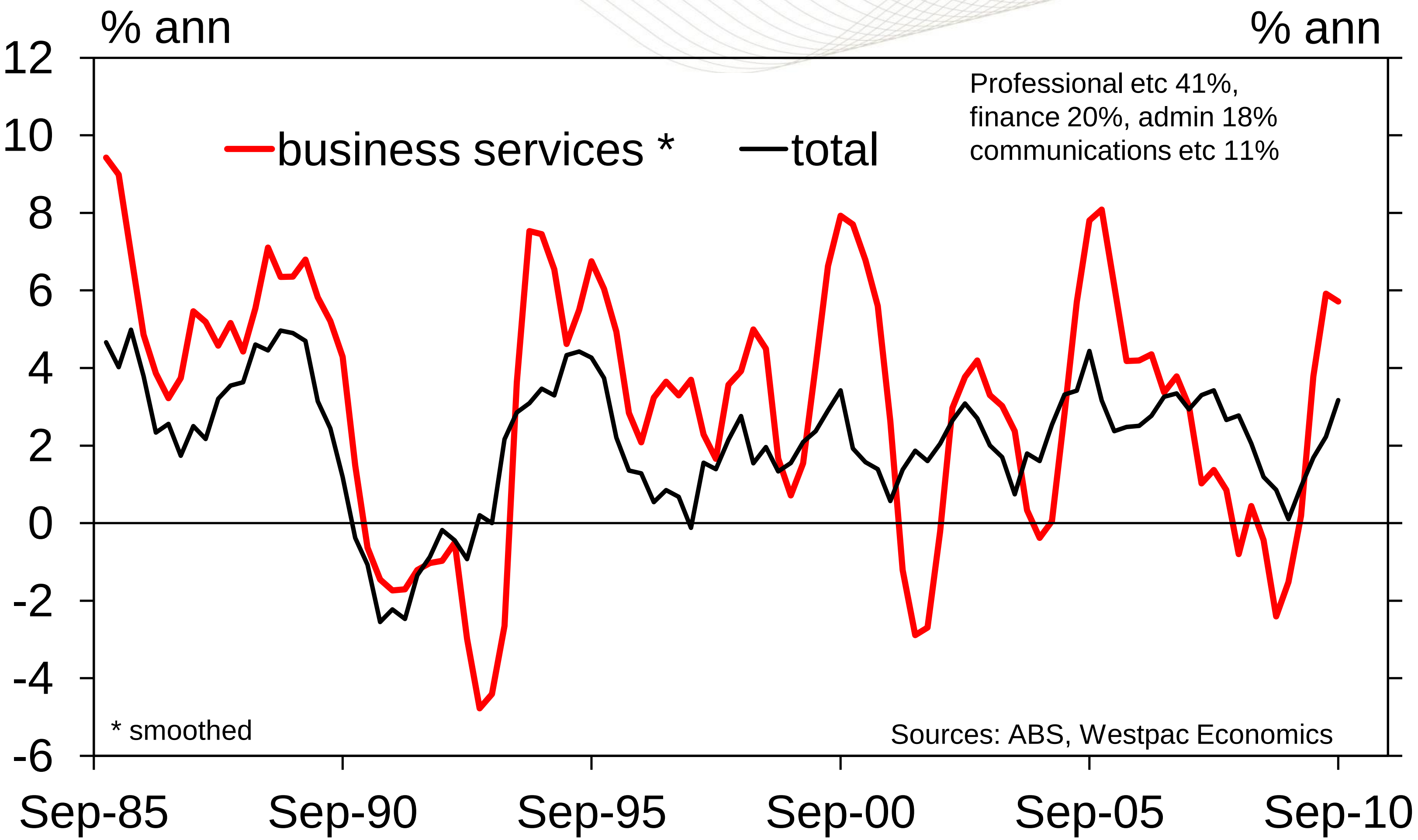
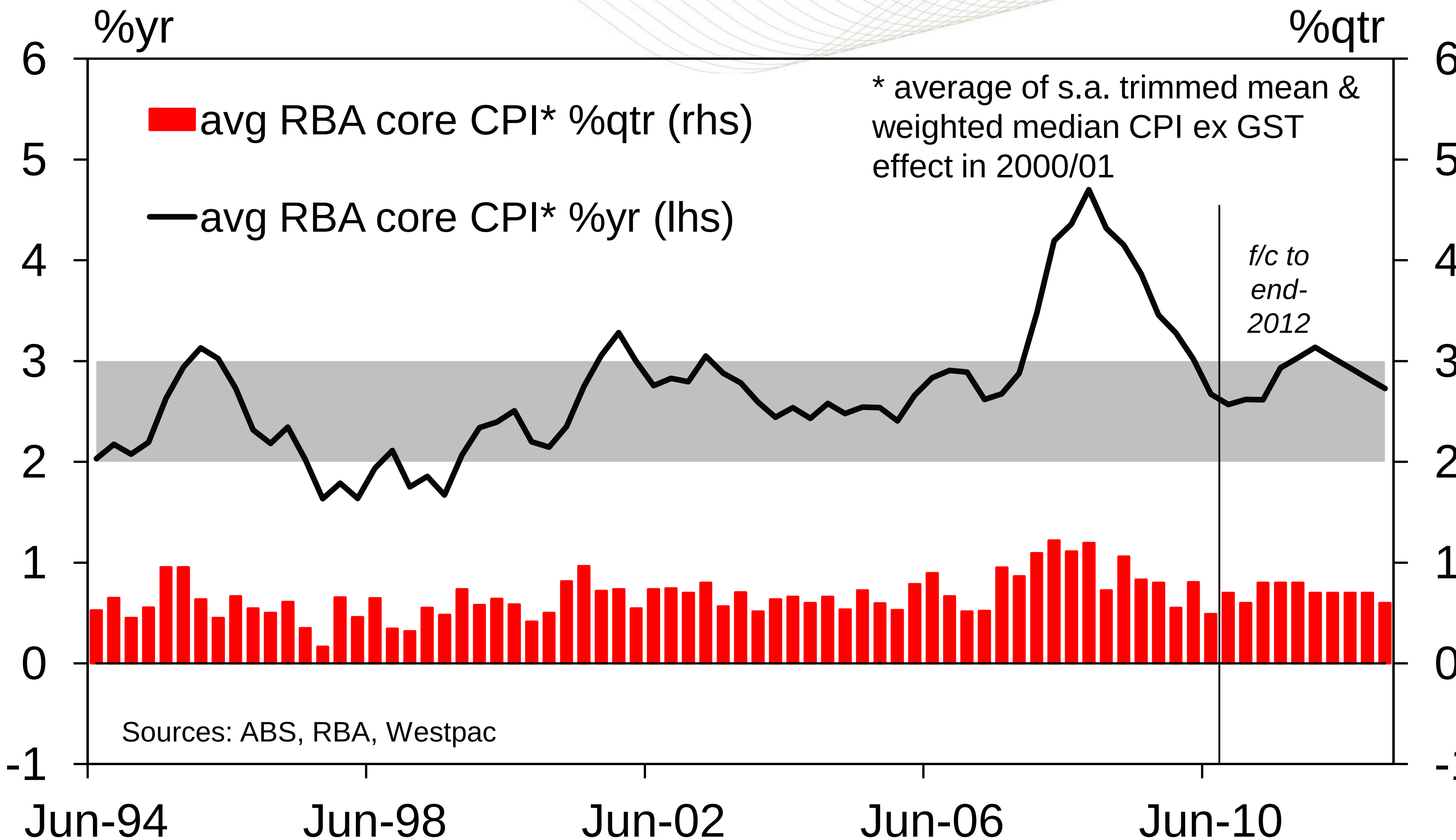
Business services: quick to hire & fire



CPI inflation: underlying & forecasts



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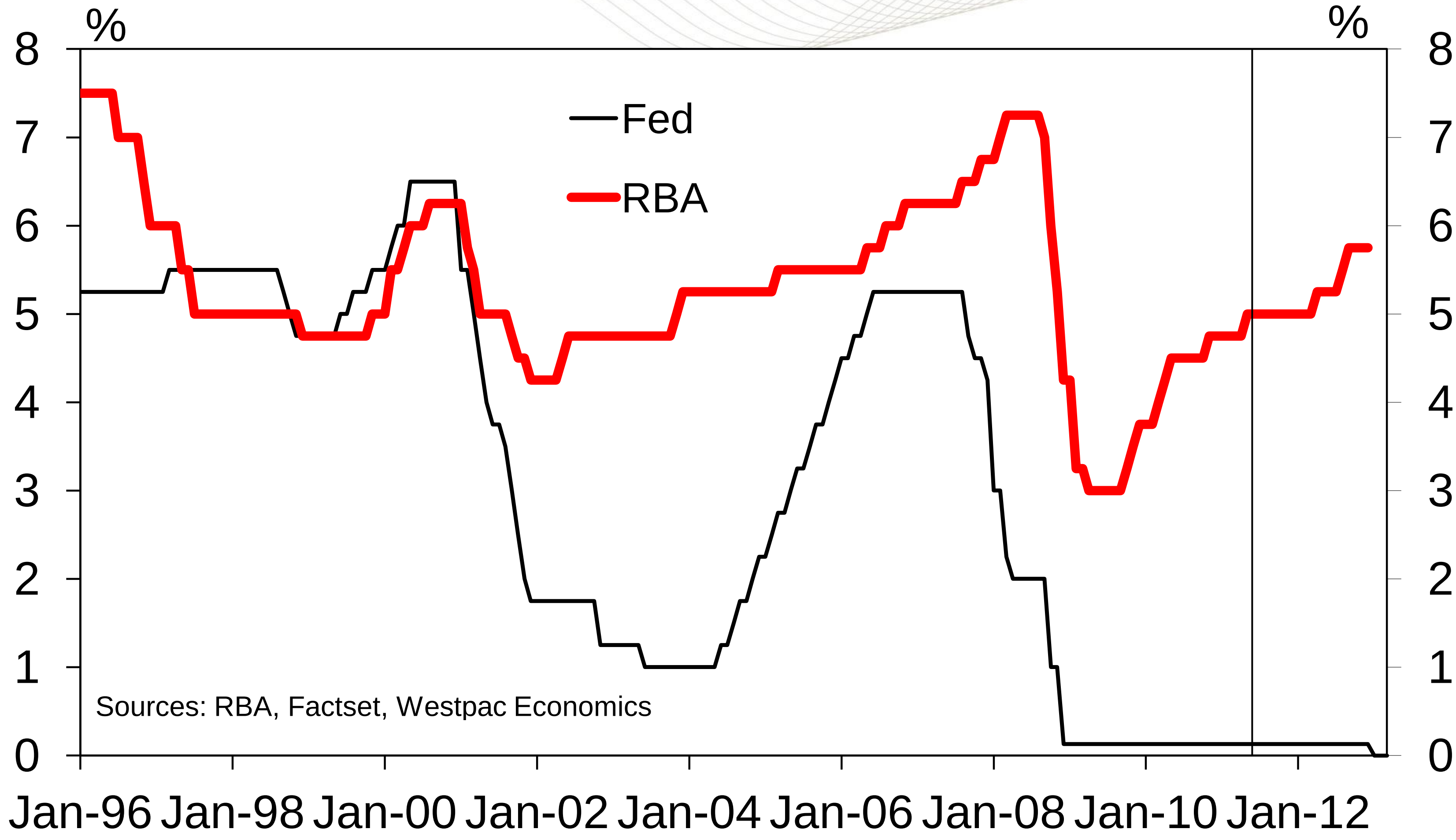
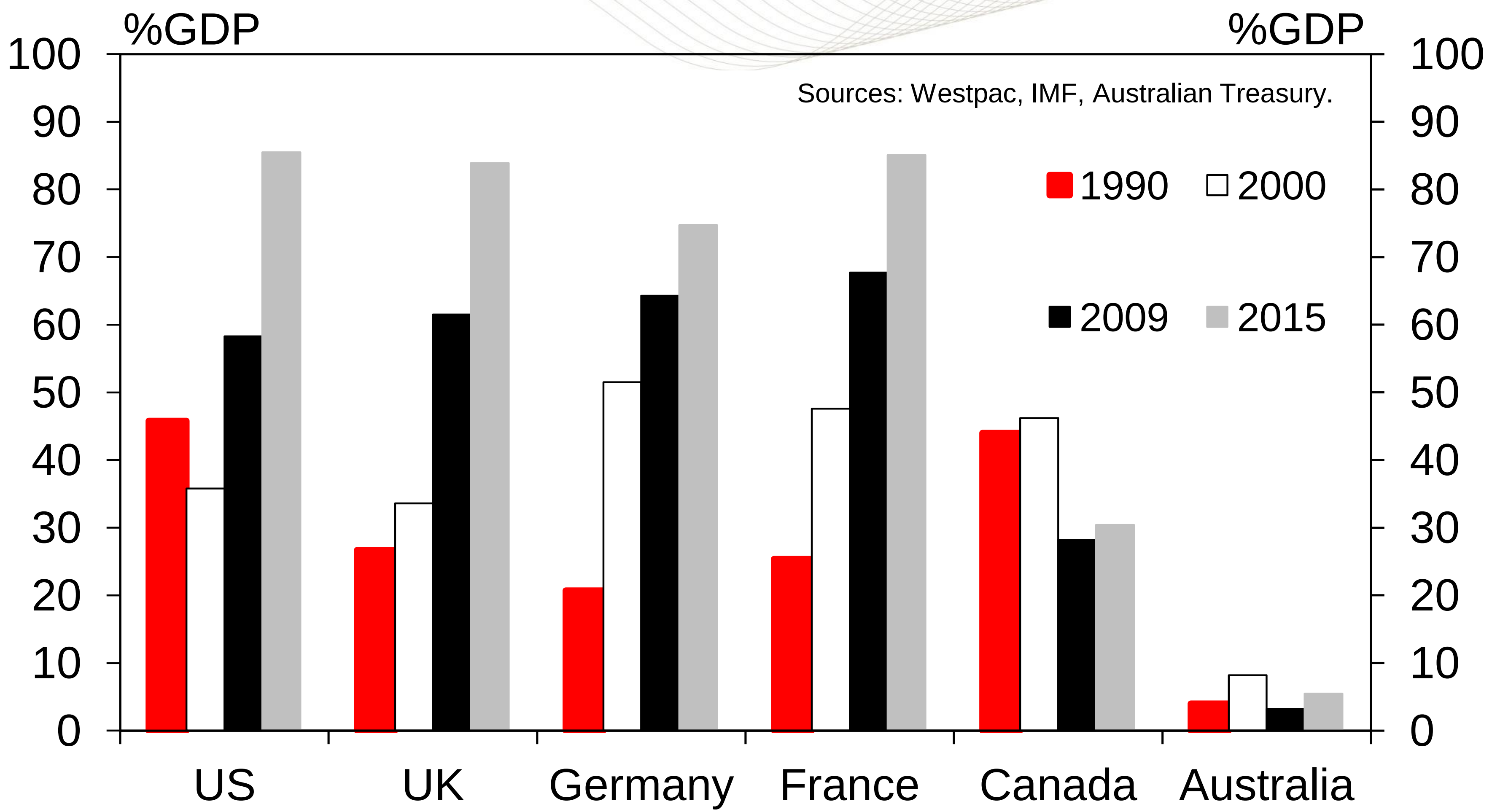
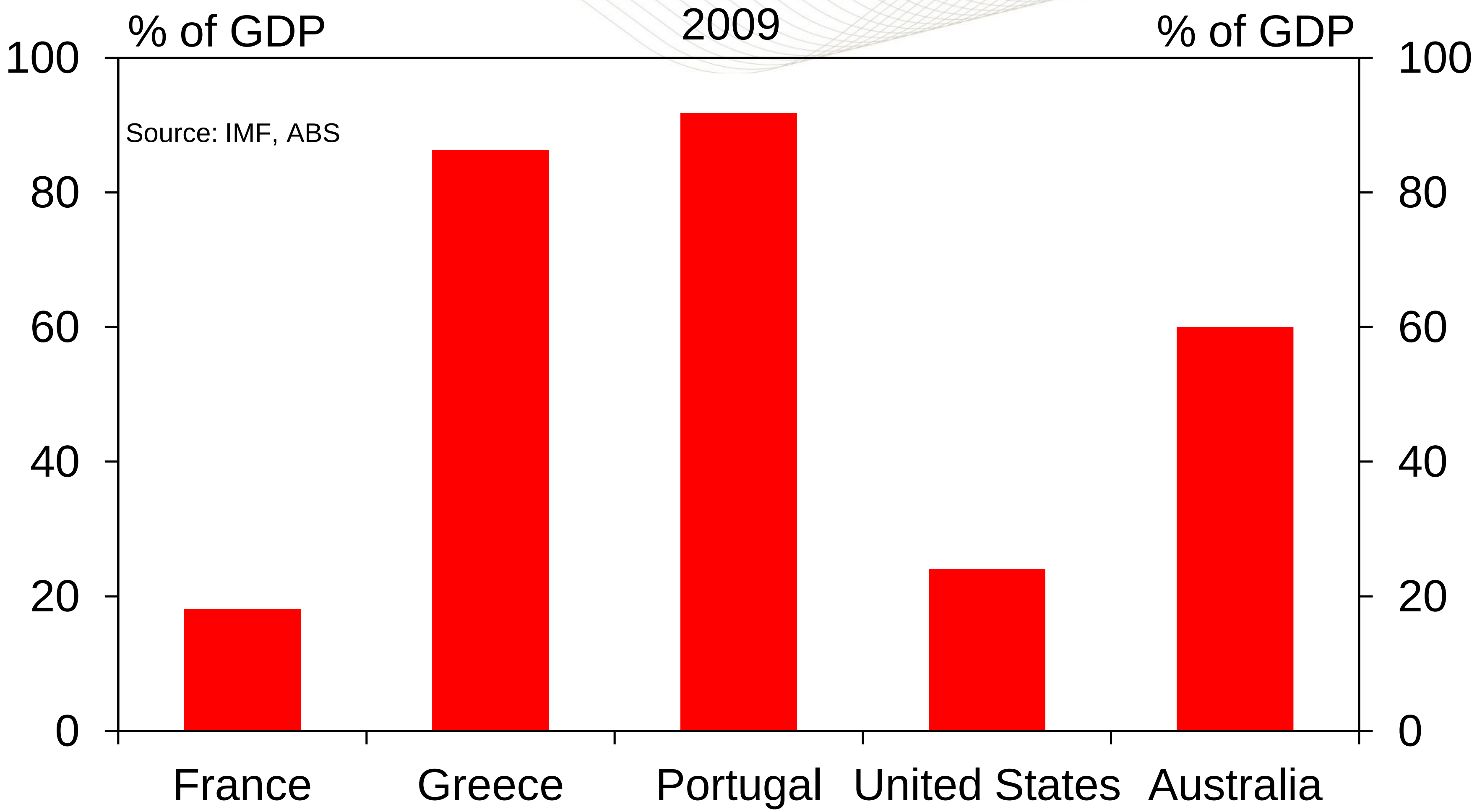
The Fed and the RBA margins to widen



Net public debt: G7 chalk, Australian cheese

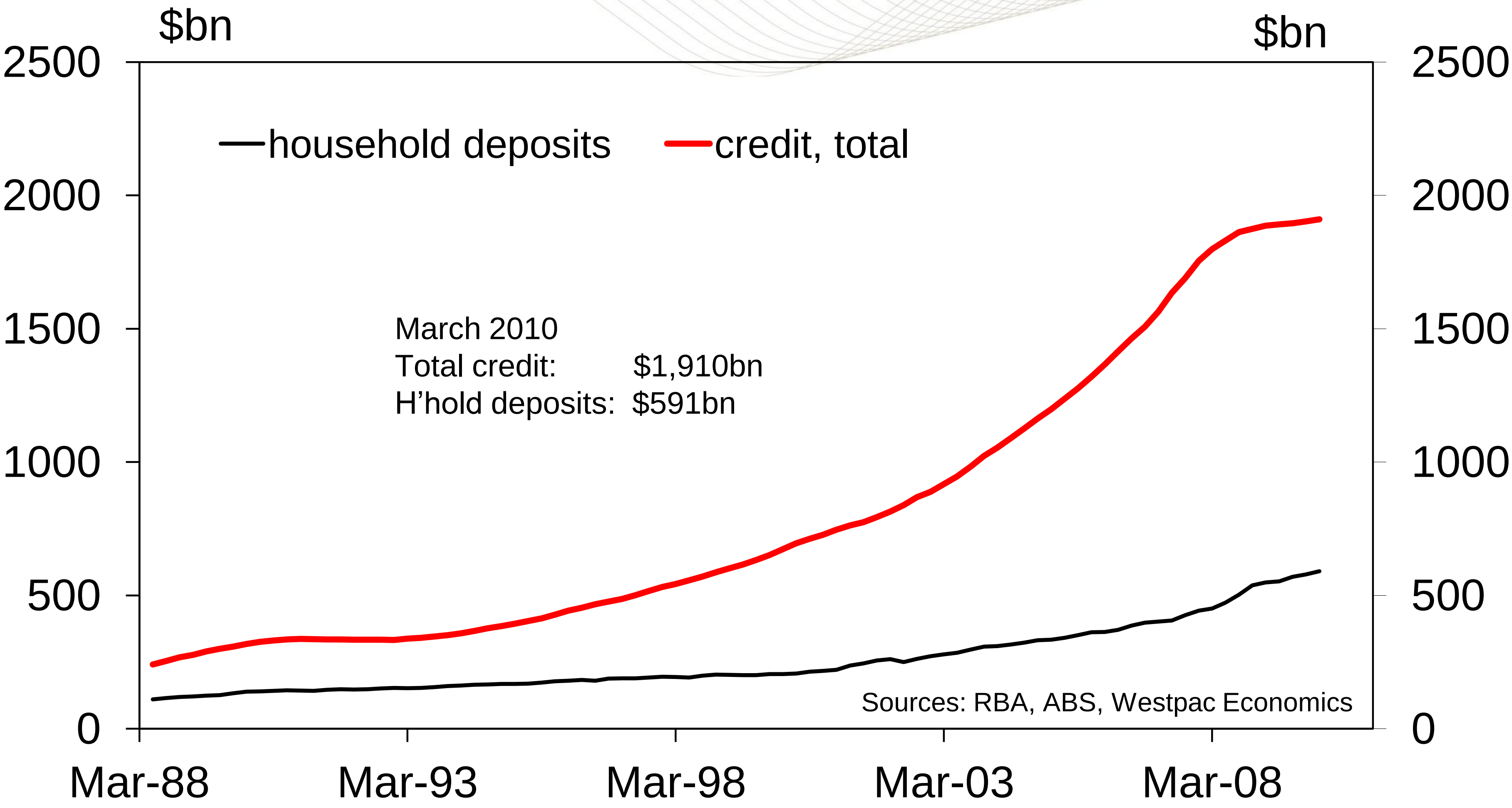


Net total foreign liabilities*

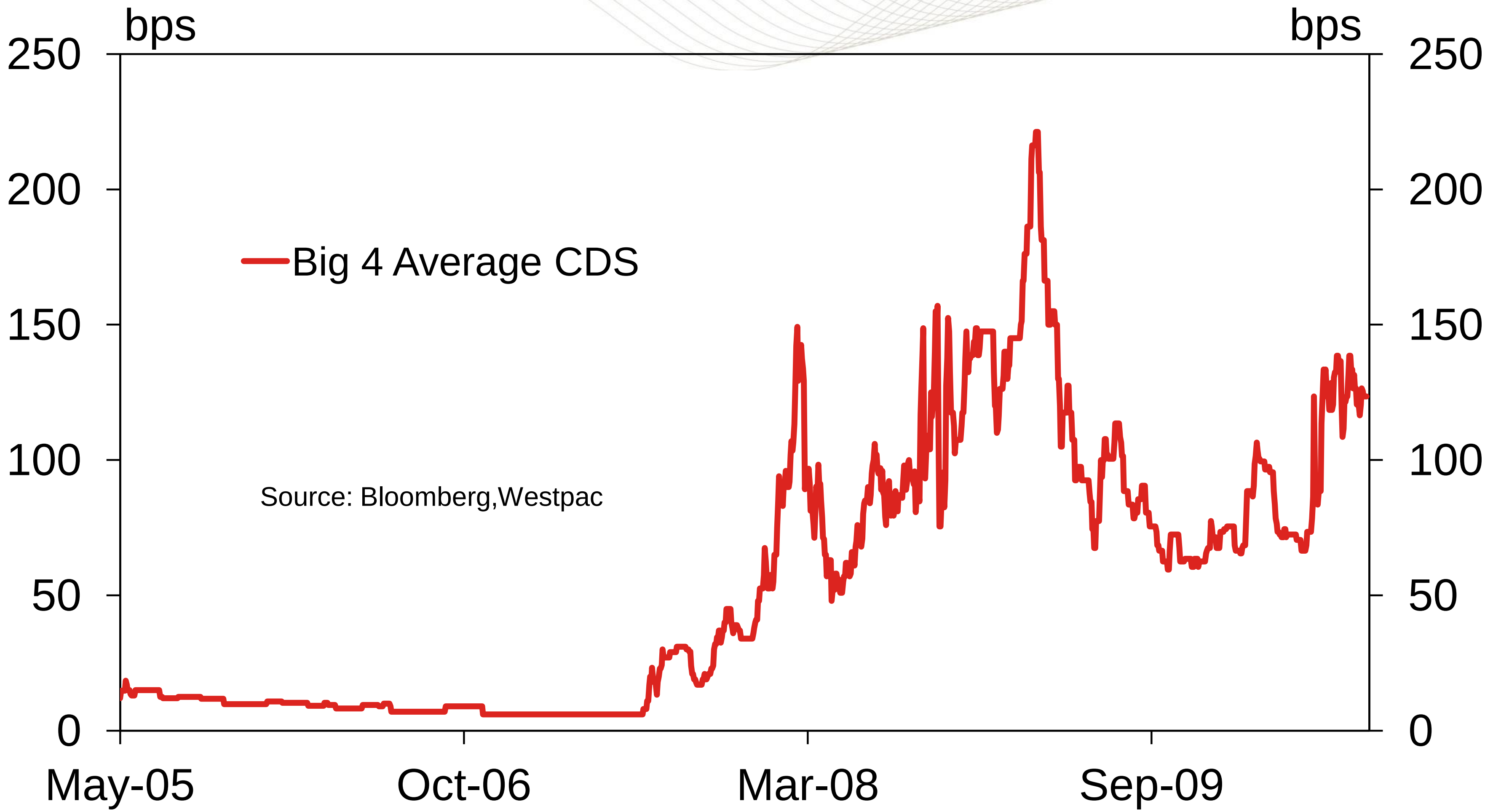


*France, Portugal and US are 2008 observations.

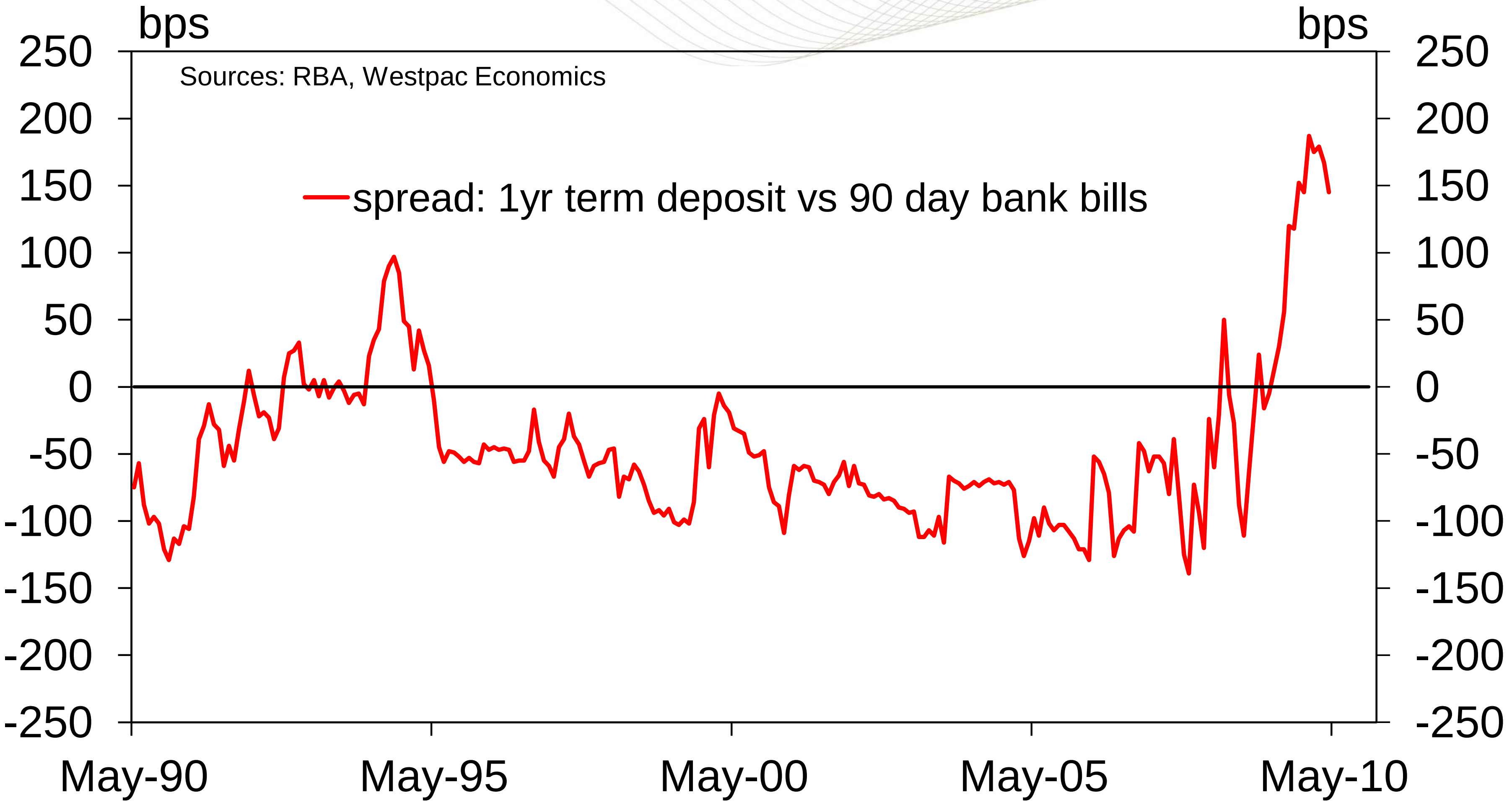
Credit & household deposits



AU Banks Increasing Credit Spreads



Funding costs / deposit rates bid up



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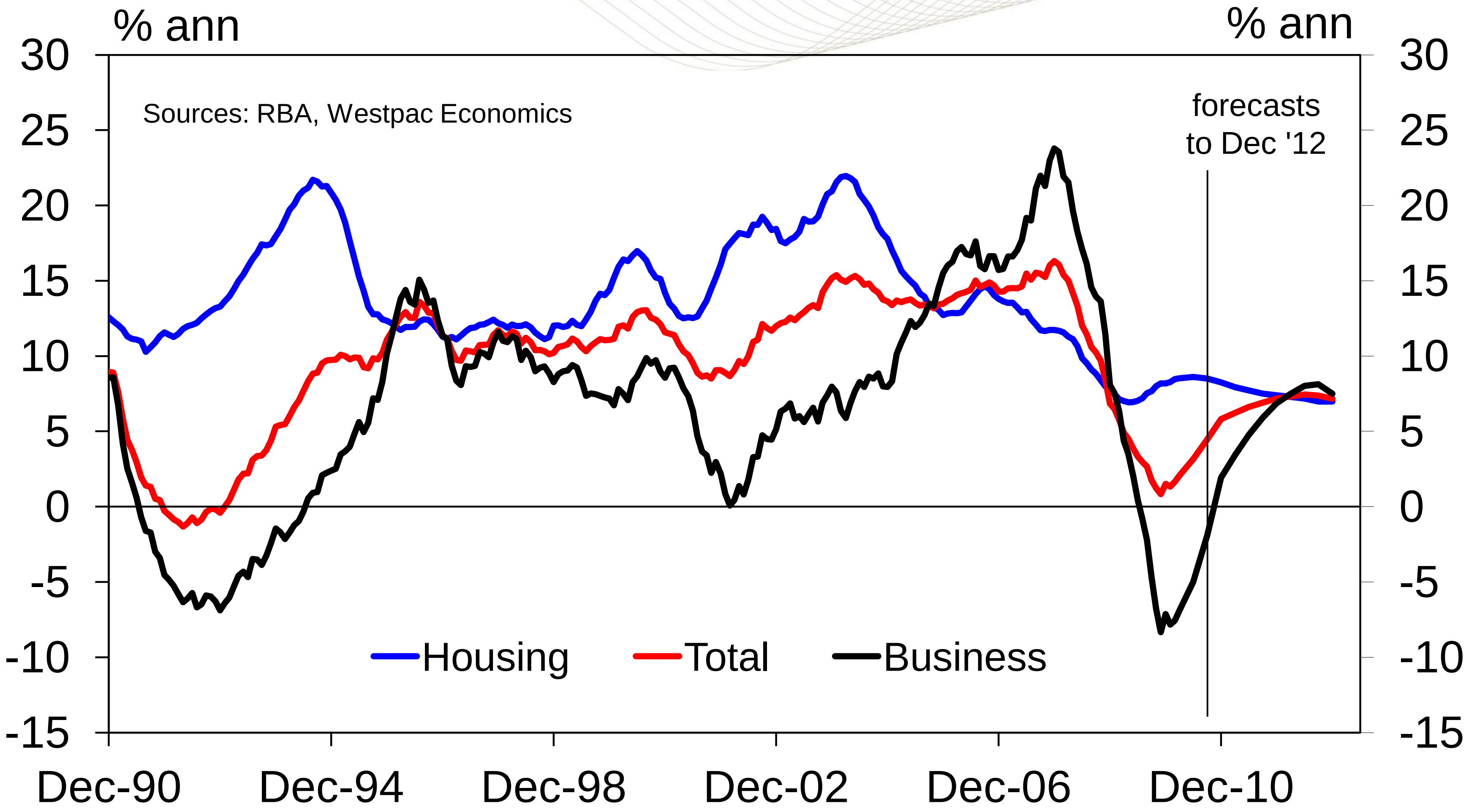
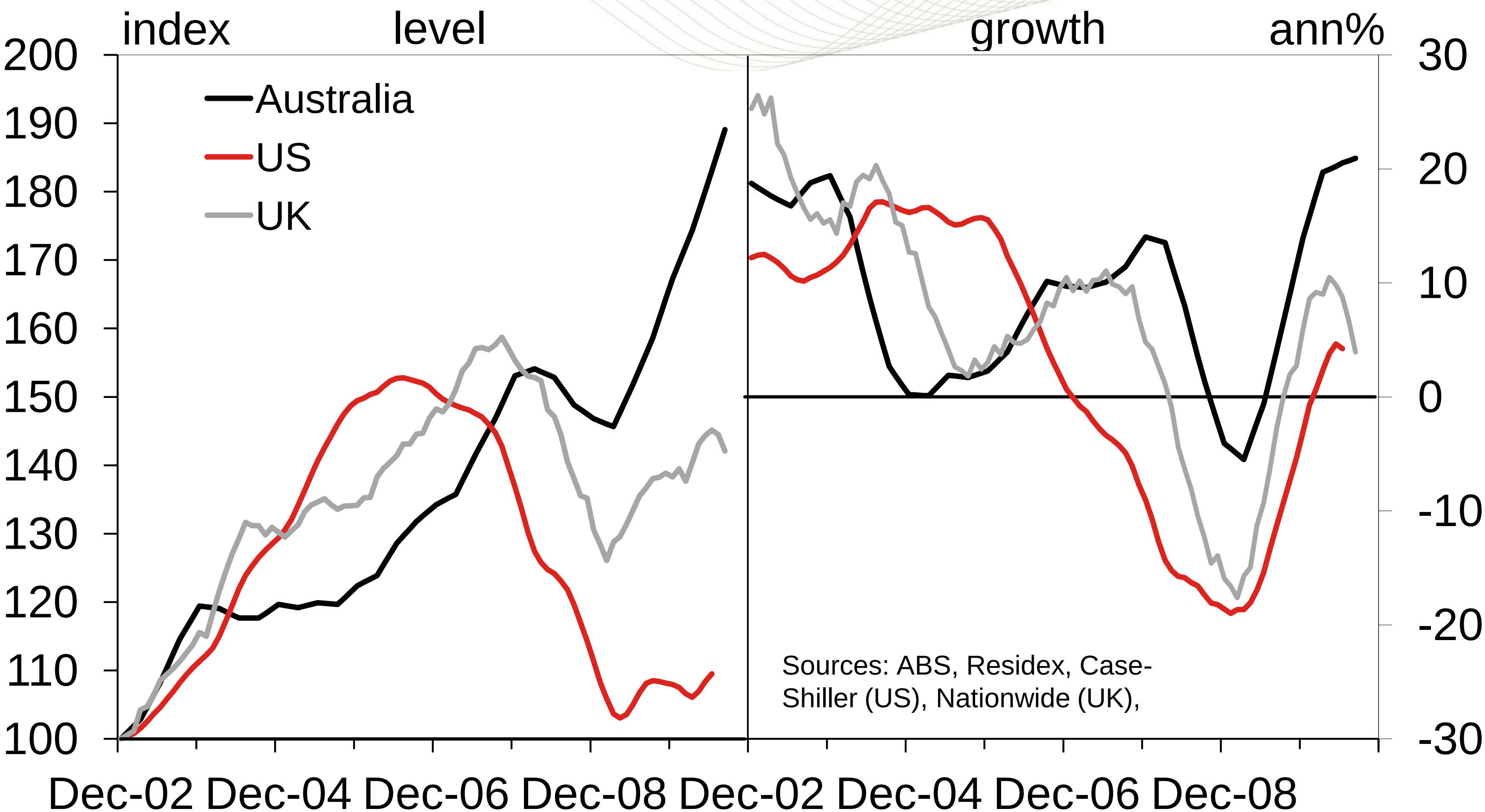
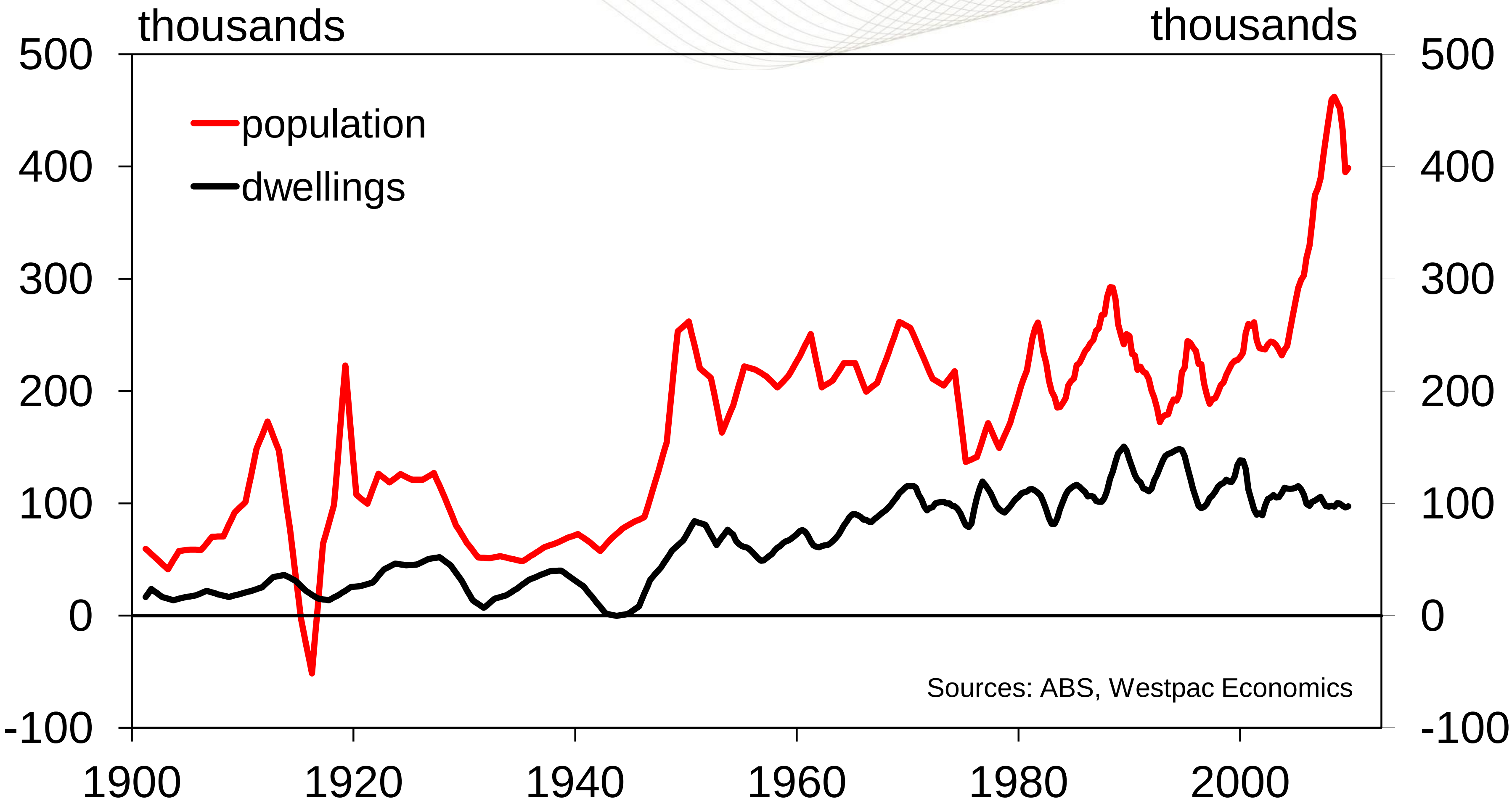
Credit growth to stay low



House prices: international comparison



Dwelling stock and population: ann change



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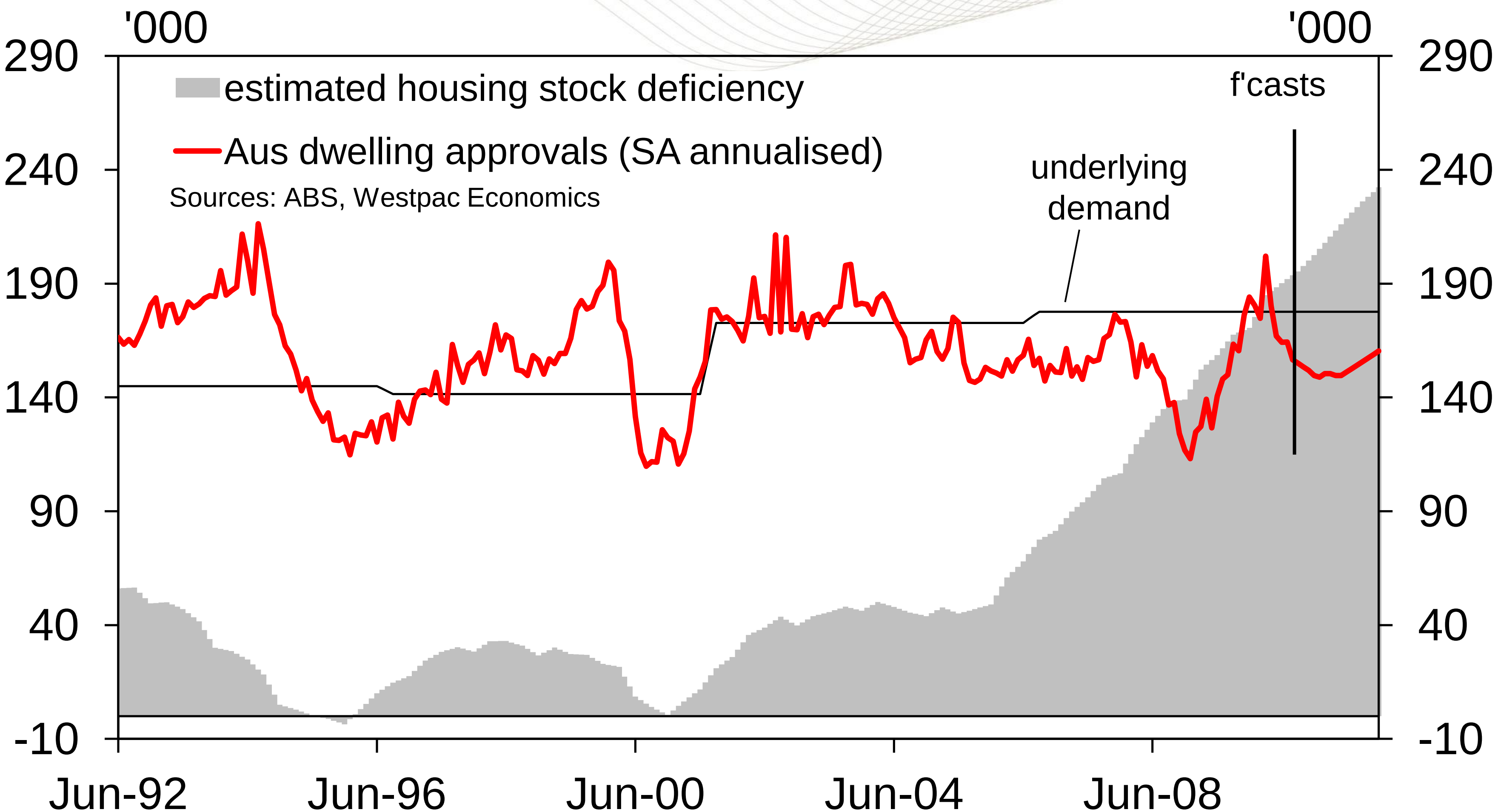
Australia’s housing stock deficiency



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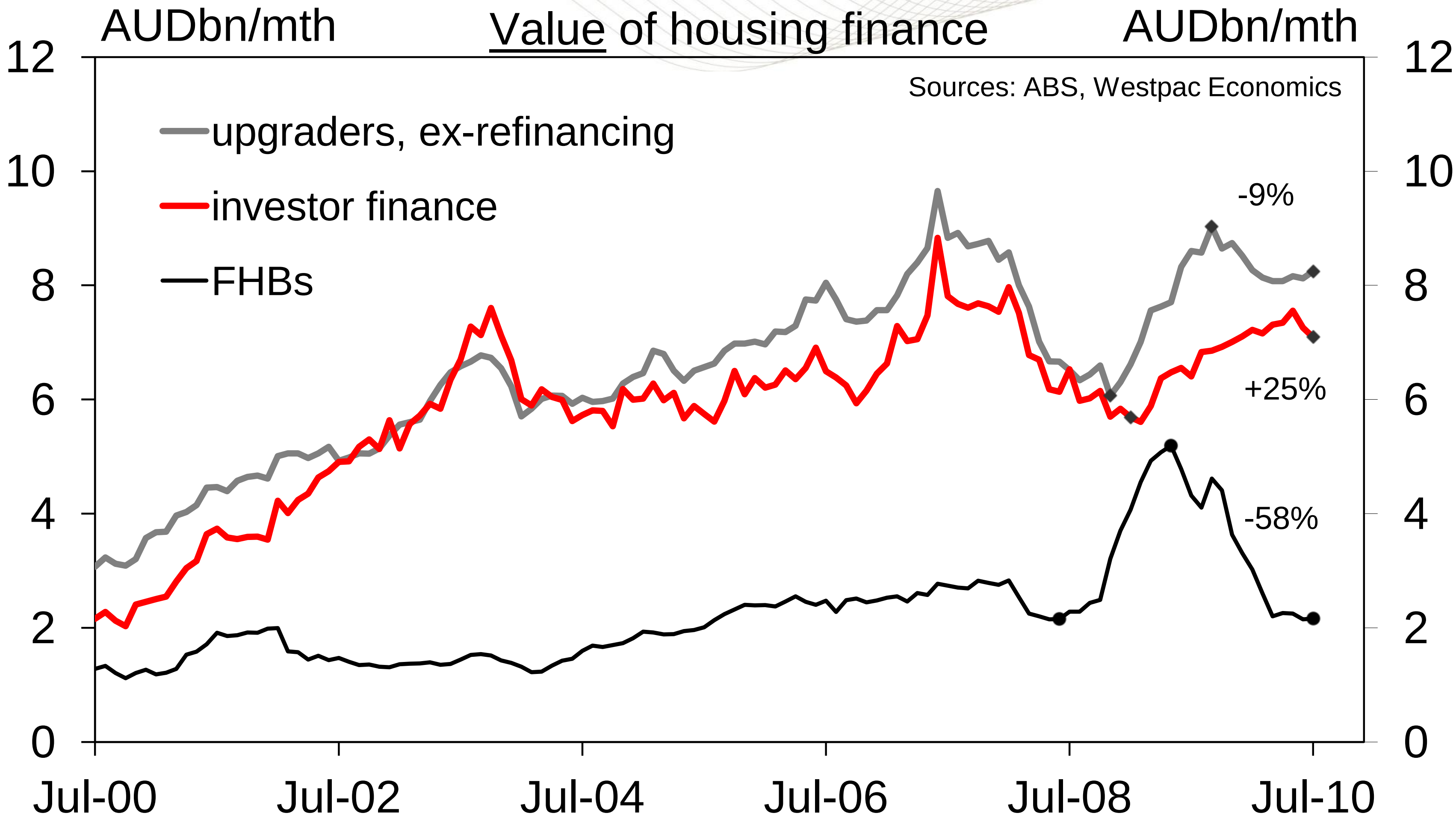
Housing finance: the shifting mix



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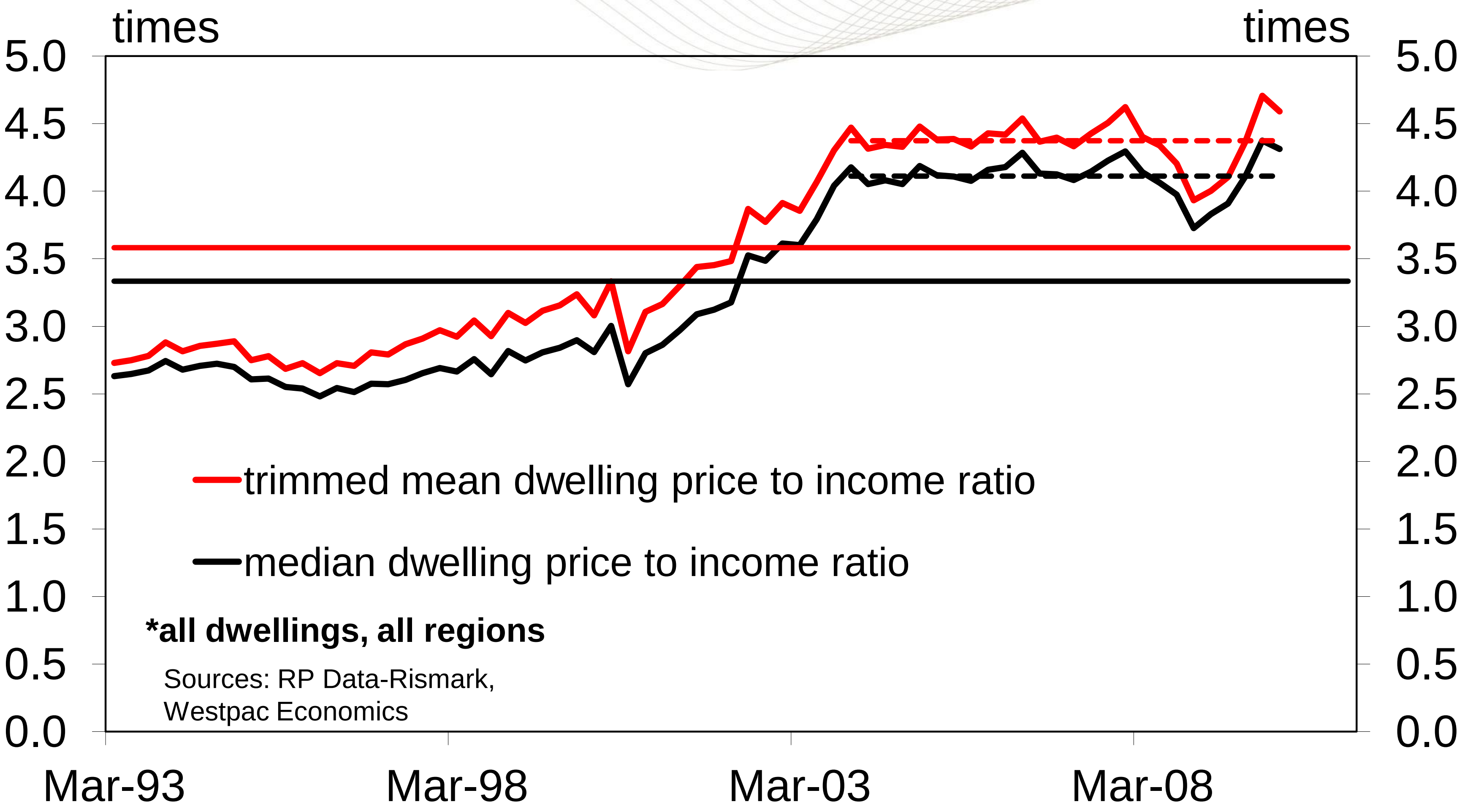
House affordability: all dwellings median



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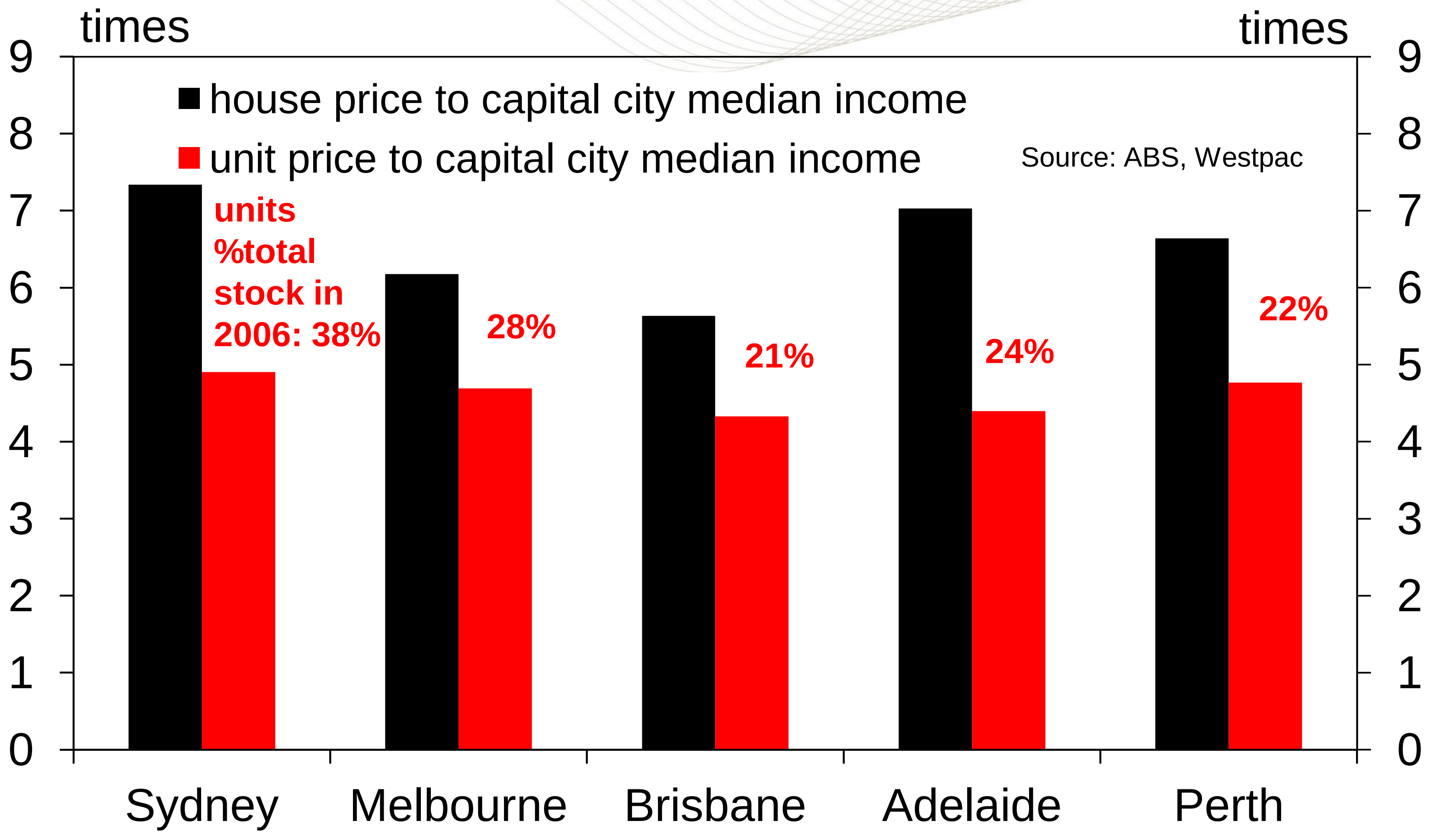
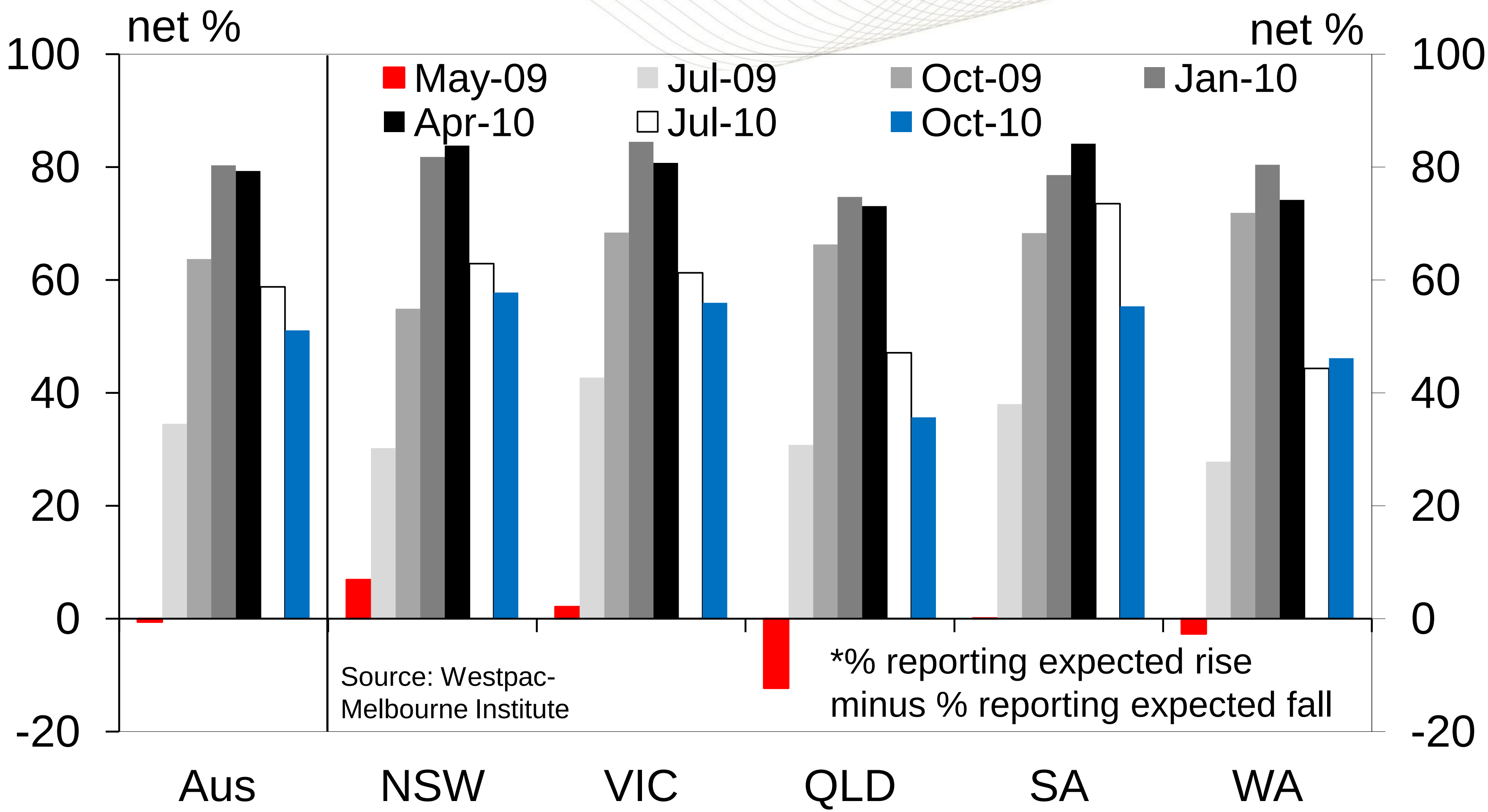
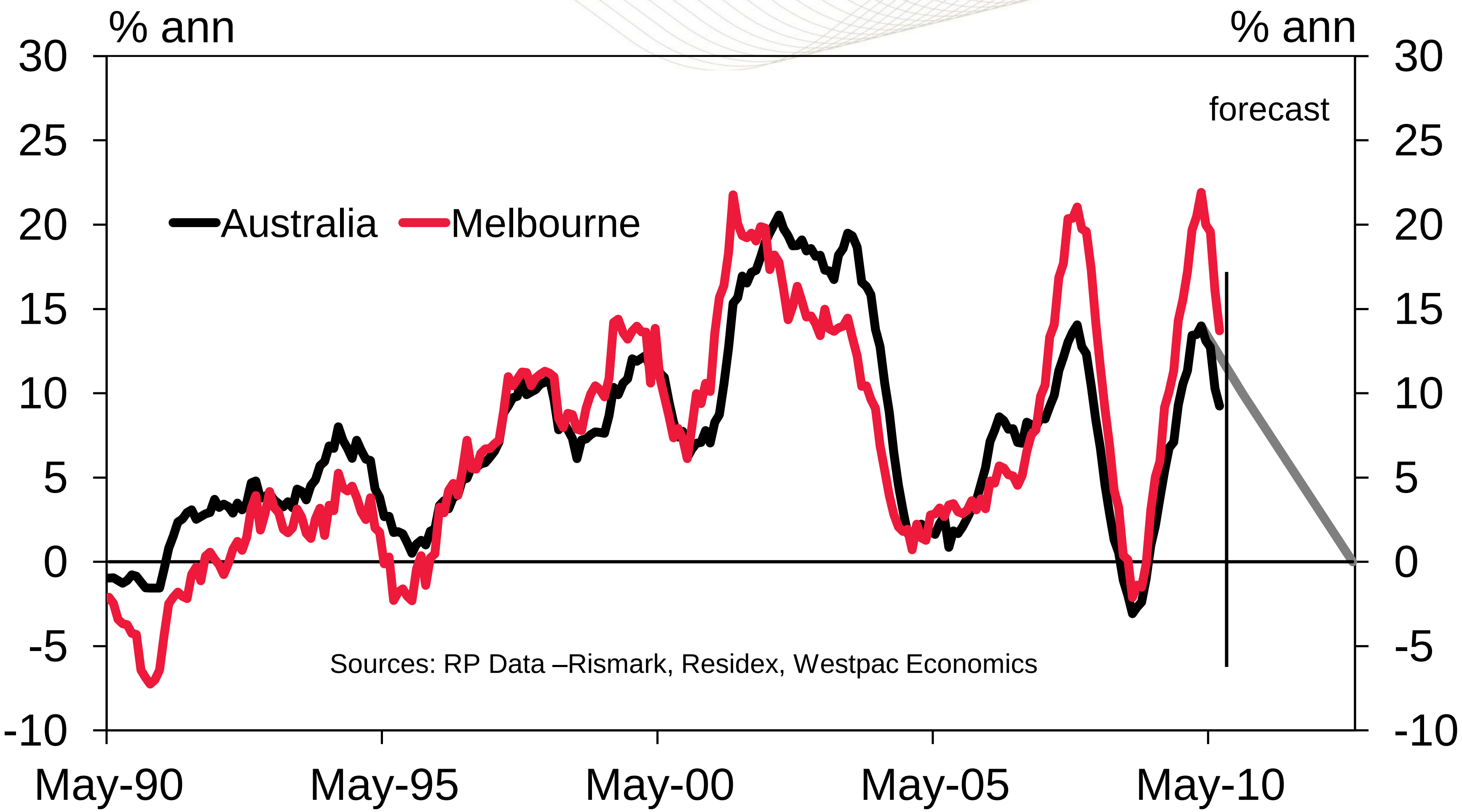
Price-income ratios: units vs houses



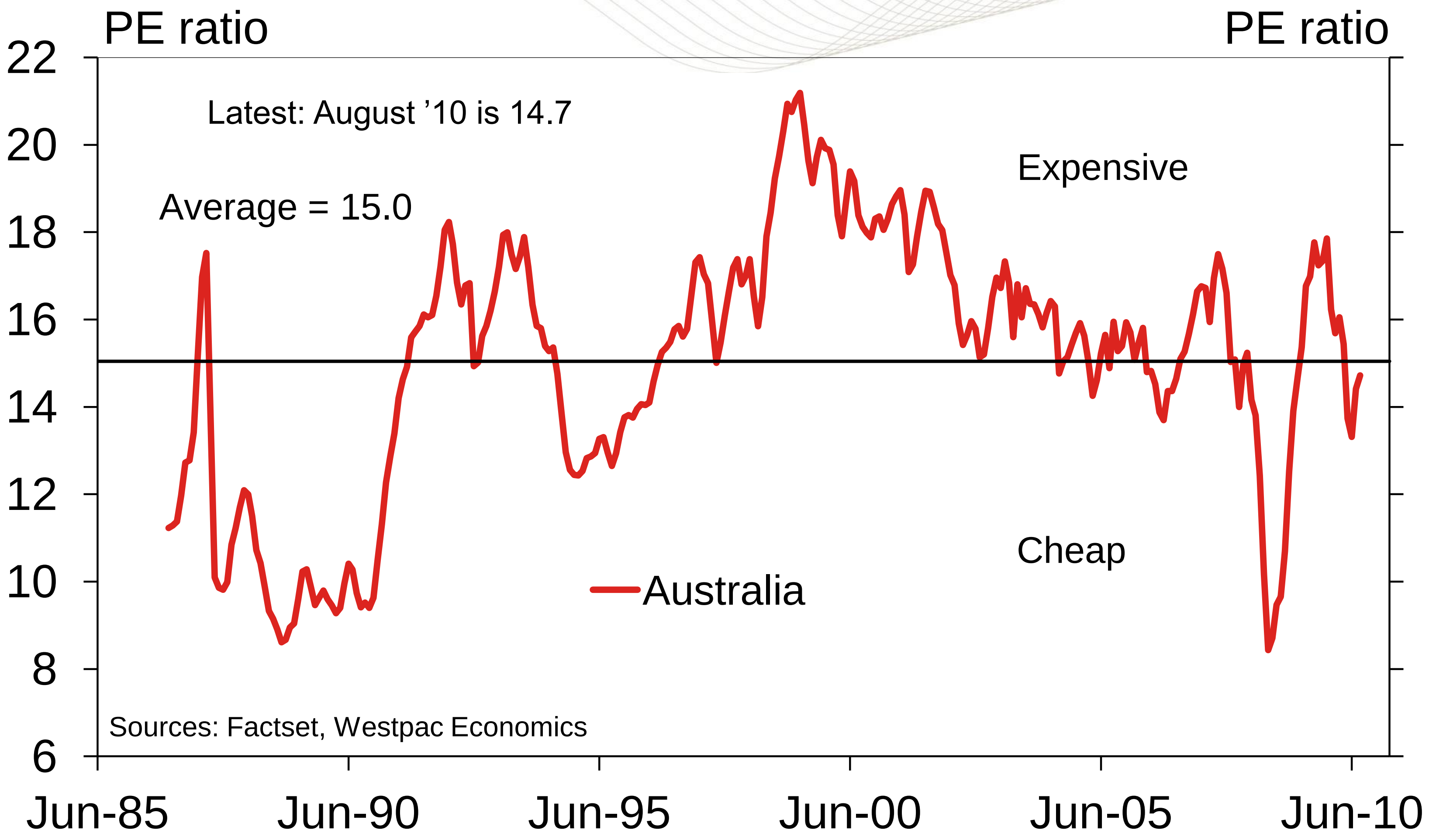
House price expectations by state



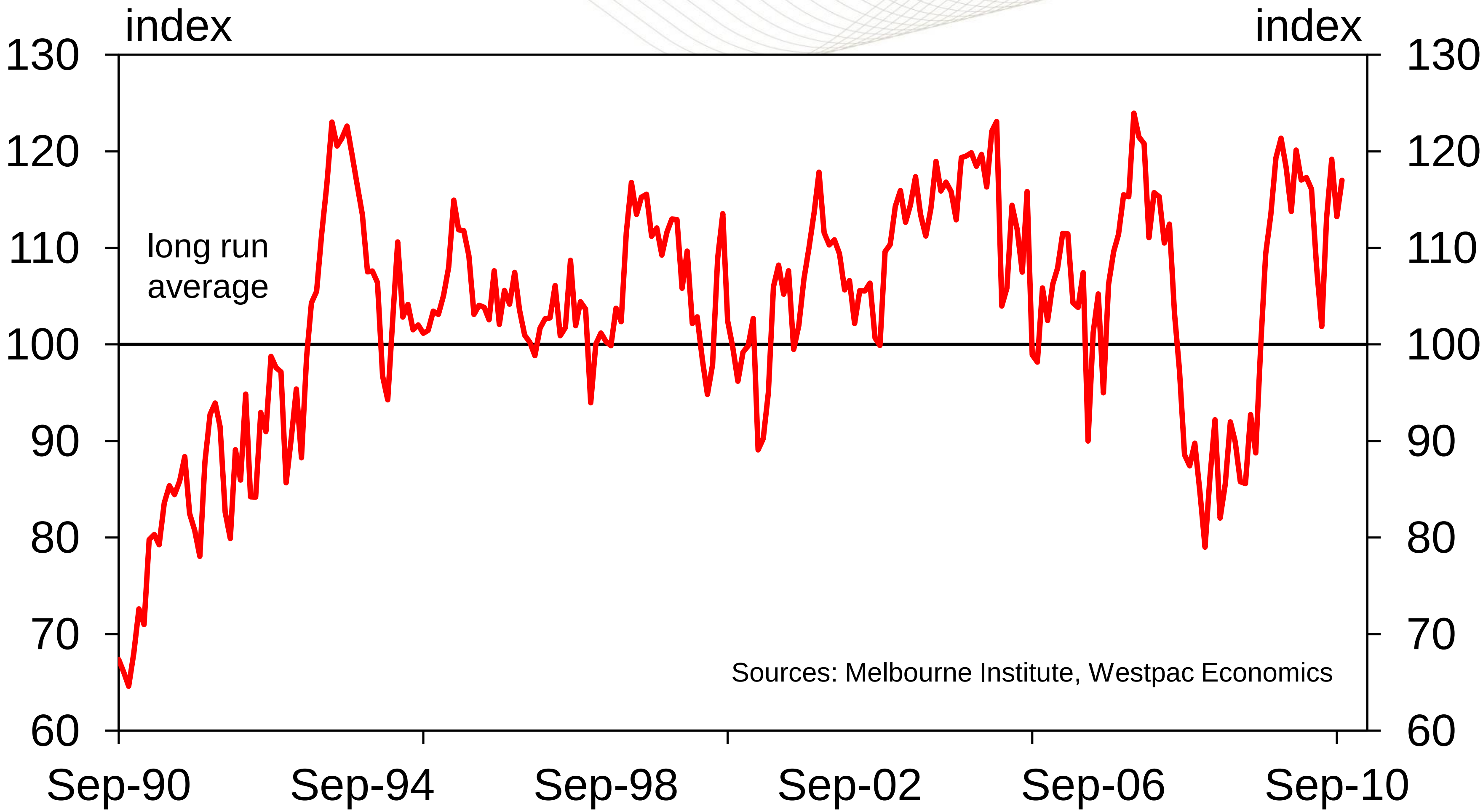
House prices – soft landing achievable



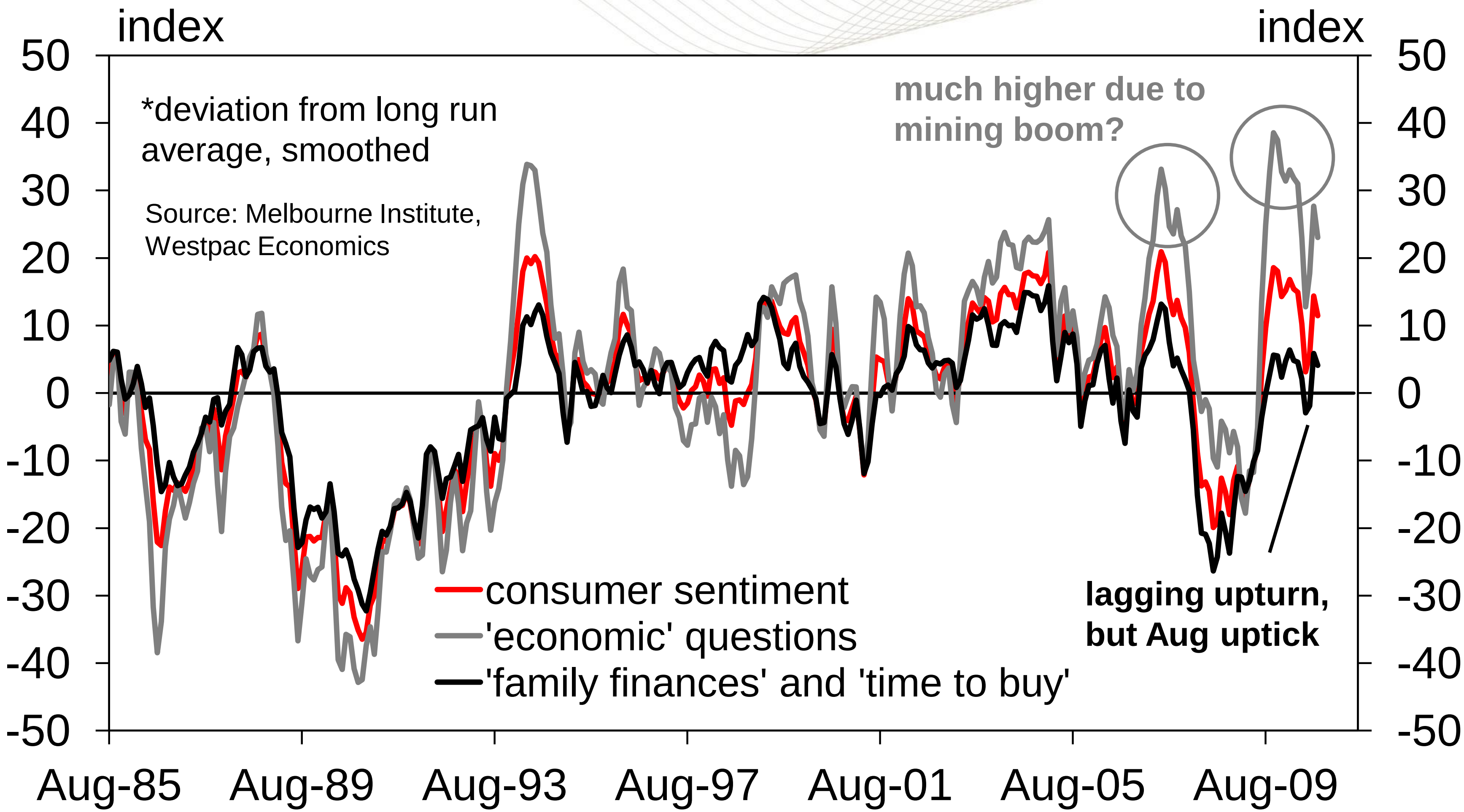
Australian share market: 1yr forward PE



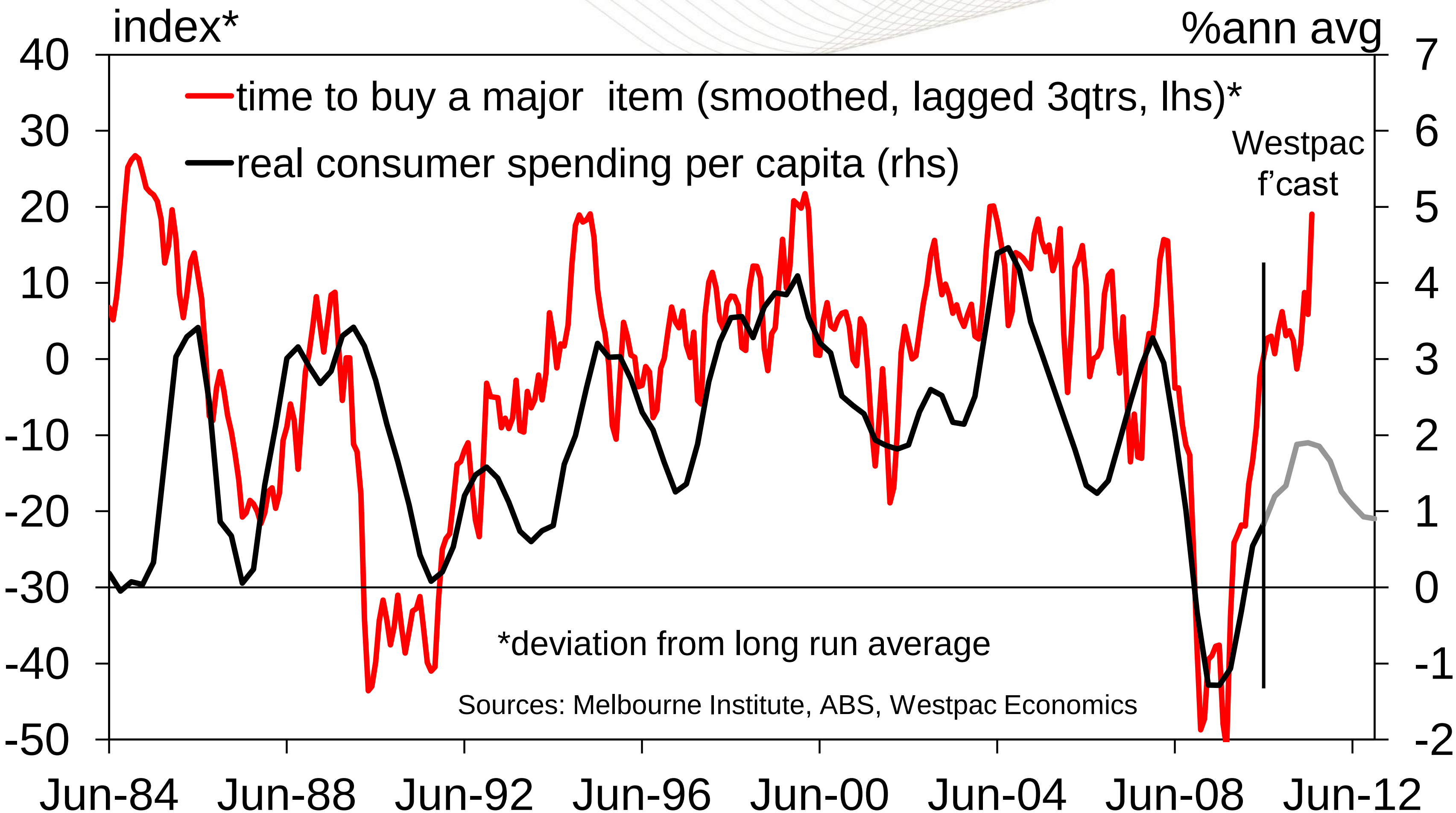
Consumer sentiment rebounds



Consumer sentiment decomposed



‘Time to buy a major item’ vs spending



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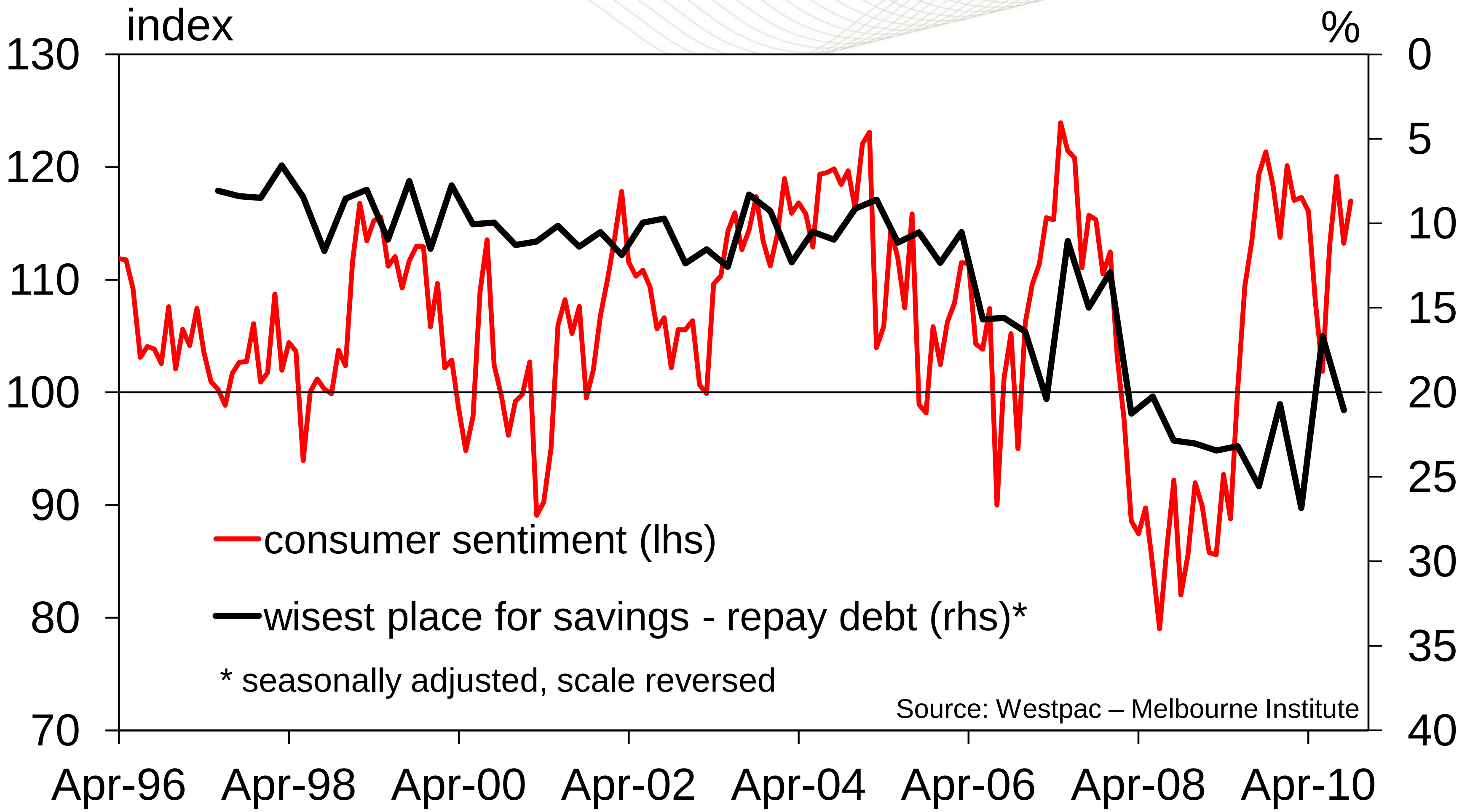
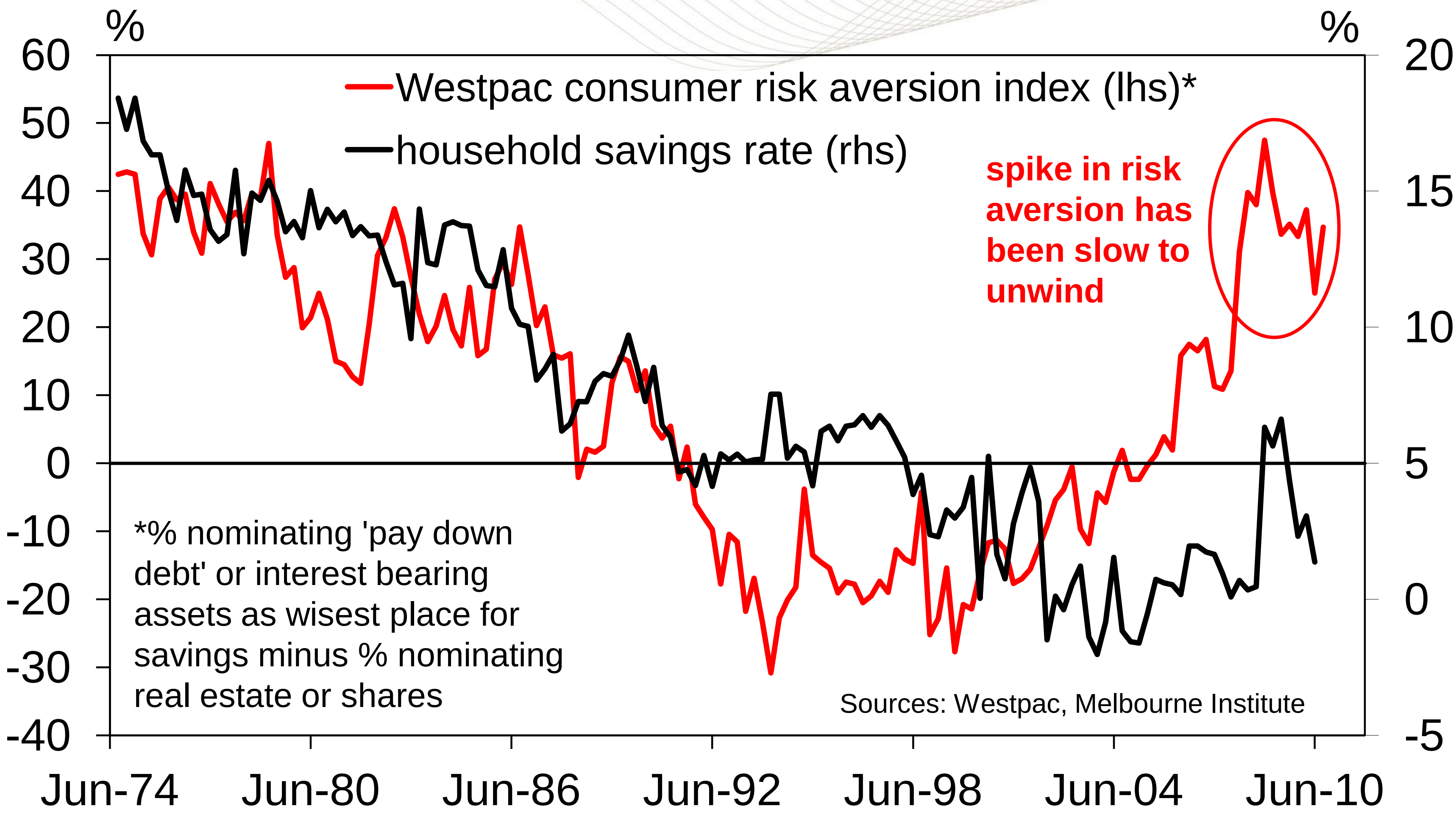
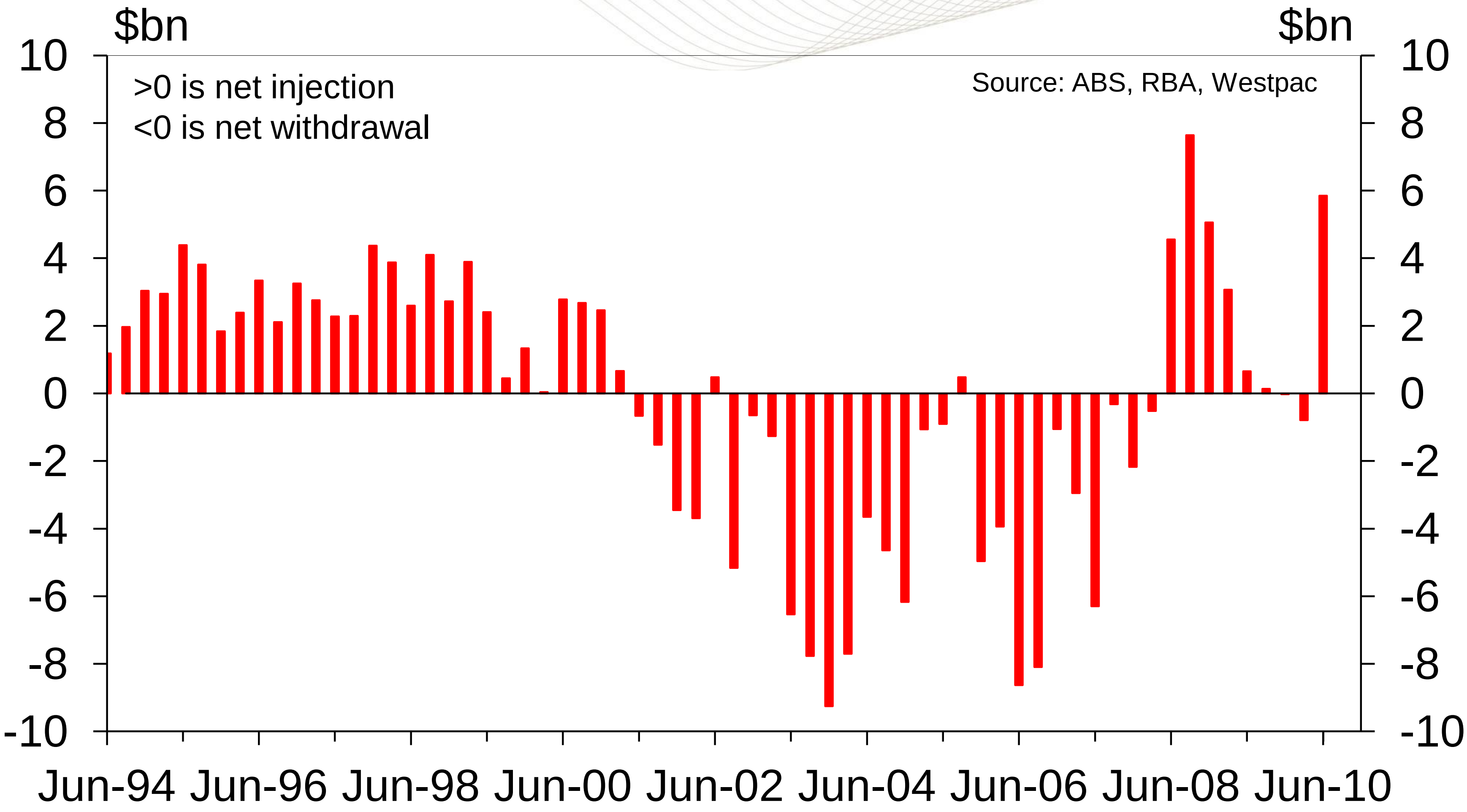
Westpac-MI Consumer Sentiment Index



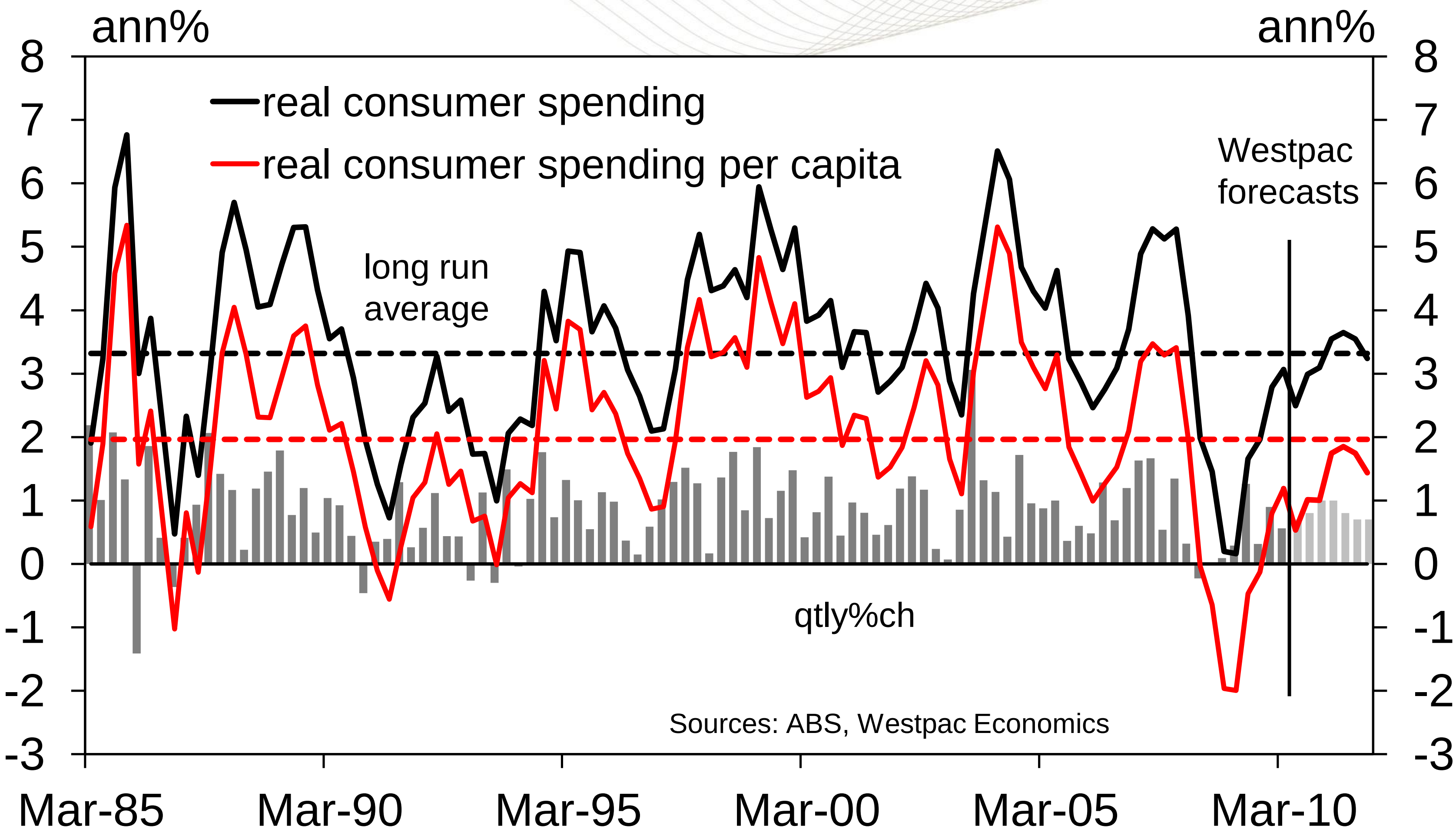
Consumer risk aversion index



Housing equity injection/withdrawal



Spending outlook: positive but restrained



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Current Forecasts – November 2010

	Latest	Dec-10	Jun-11	Dec-11
RBA Cash	4.50	4.75	5.00	5.00
3yr swap	5.10	5.30	5.30	5.50
10yr	5.08	5.20	5.40	5.50
US 10 yr	2.60	2.20	2.20	2.75
AUD/USD	0.98	**1.02**	**1.05**	0.95
USD/JPY	84	82	80	90
USD/EUR	1.40	1.42	1.45	1.35

The global outlook

- China is currently slowing – renewed government stimulus and easing of credit restrictions will be required soon. We are confident of that outcome.
- The US is likely to make a policy mistake by withdrawing fiscal stimulus too soon ensuring disappointing growth through 2010 and 2011 – Fed on hold till 2013 – need to unwind QE first.
- US corporate are in great shape with USD 2 tr in cash holdings but sales and regulation uncertainty will constrain recovery – watch for M and A surge – only "safe" expansion option.
- The Fed is likely to now restore quantitative easing. Extent of QE will surprise both bond and currency markets – weaker USD and bond rates.
- Europe can hold the line with large rescue packages but the key flaws in the Euro system will mean ongoing volatility before eventual restructuring of "weak Europe debt".

Australia’s domestic growth outlook

- Australia’s economic growth is set to strengthen through 2010/11. Business investment should fill the gap created by the government’s spending slowdown but the consumer will become more cautious in the face of higher rates.
- The RBA has made a big mistake in giving too much weight to one part of the economy – the mining sector. The shock to confidence of the excessive rate hikes now is going to slow housing; consumer; and non mining investment
- The RBA will not tighten again until June quarter 2011.
- Risks abound: risks to the rosy outlook for the terms of trade; structural slowdown in credit growth; fiscal tightening; affordability constraints on housing; high AUD.
- AUD is set to go above parity through 2010 and 2011 H1. That will mainly reflect USD weakness as FED embarks on huge QE program. End of QE in 2011 will see AUD drop back below parity.