

Economic & Markets Update

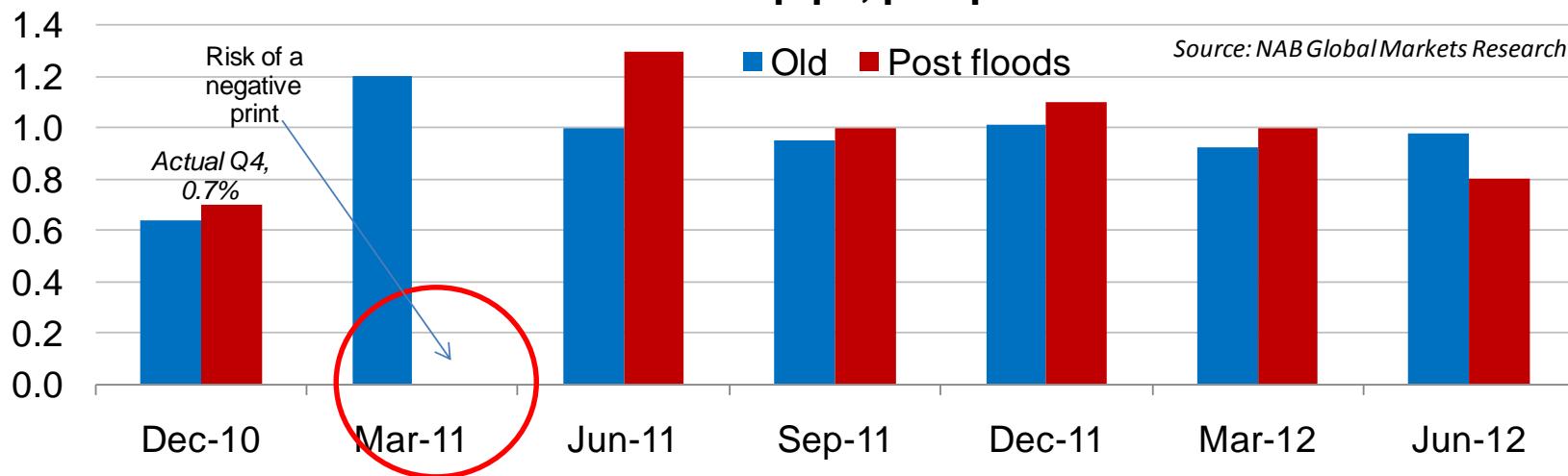
Alice Haynes & Greg Noonan

Business Markets - Qld

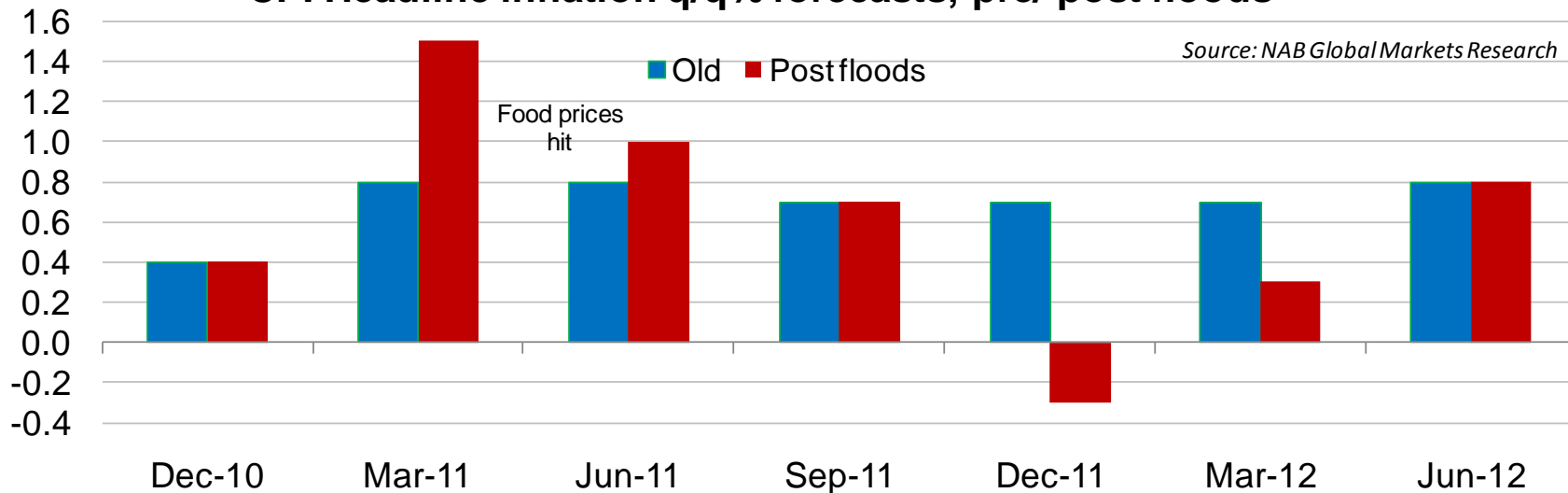
24 March 2011

Floods to inflict heavy growth damage this quarter in Australia

GDP forecasts q/q%, pre/ post floods

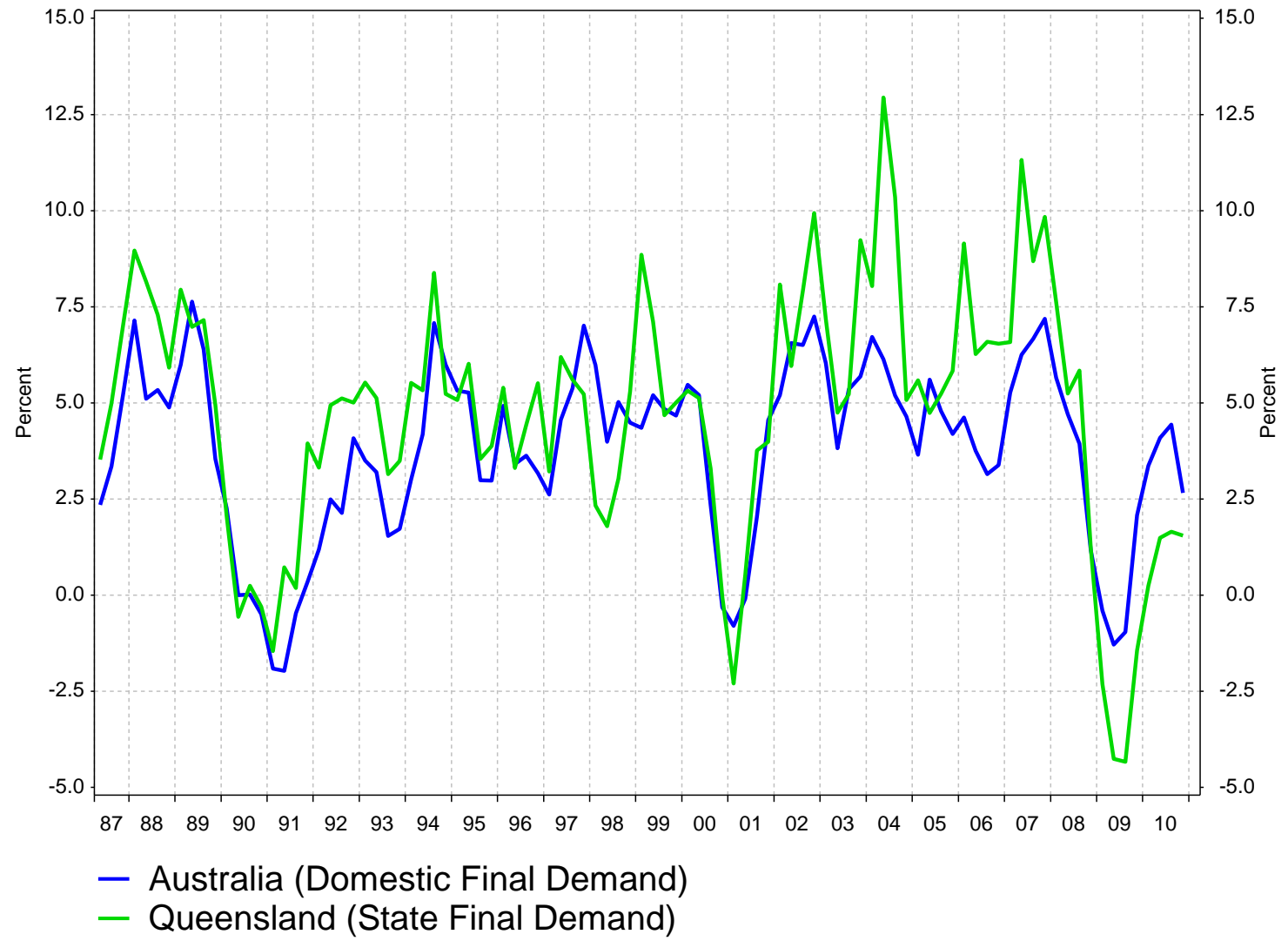


CPI Headline inflation q/q% forecasts, pre/ post floods



QLD economy has underperformed since the GFC

Domestic Demand: Australia vs Queensland



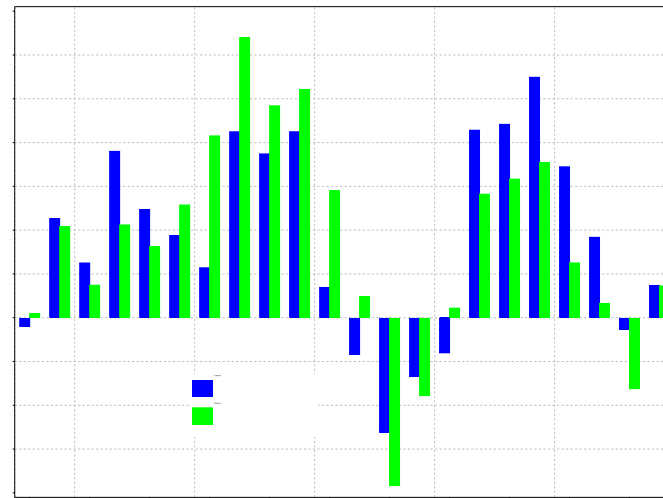
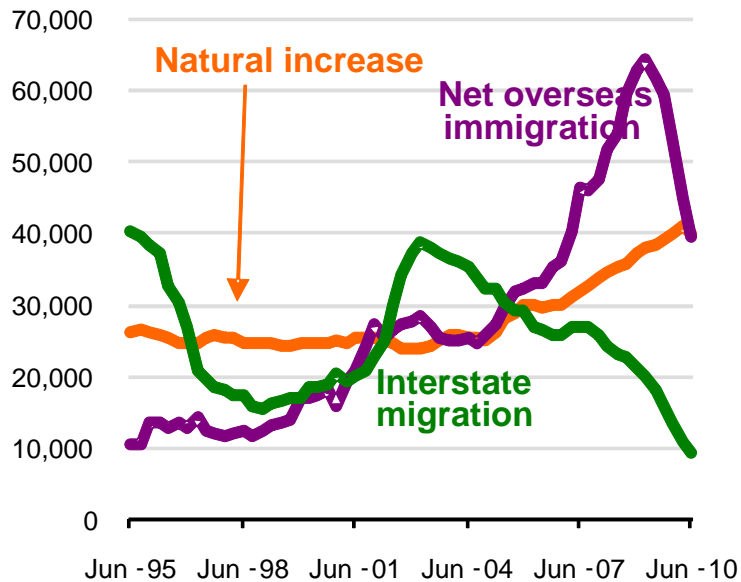
Source: Reuters EcoWin



Population less supportive of Qld housing demand

House price growth has eased after interest rate increases

Qld Population growth drivers



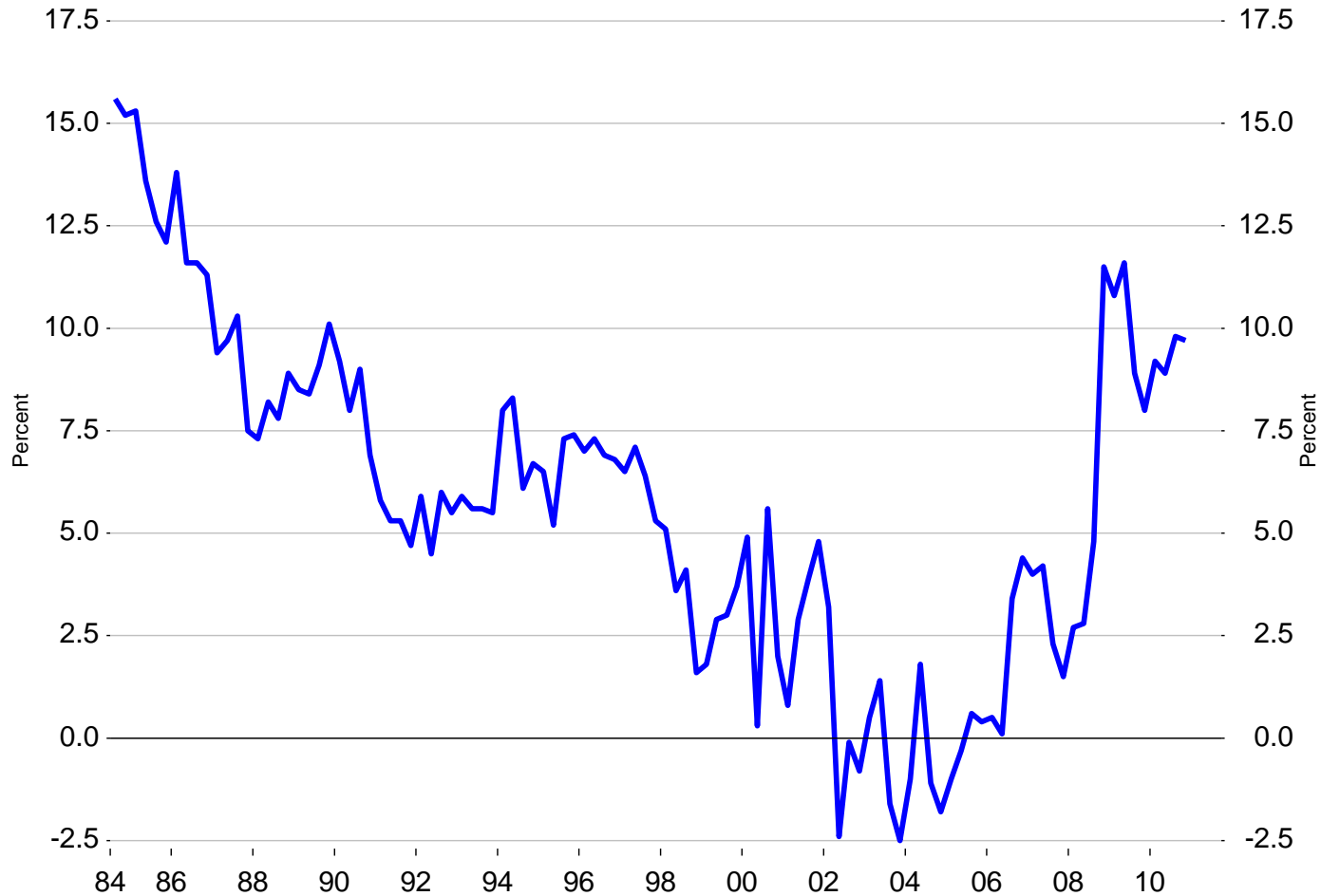
Source: ABS, NAB Global Markets Research

Retail Sales are softer

Household savings have risen strongly

Household Saving

% of Household Disposable Income



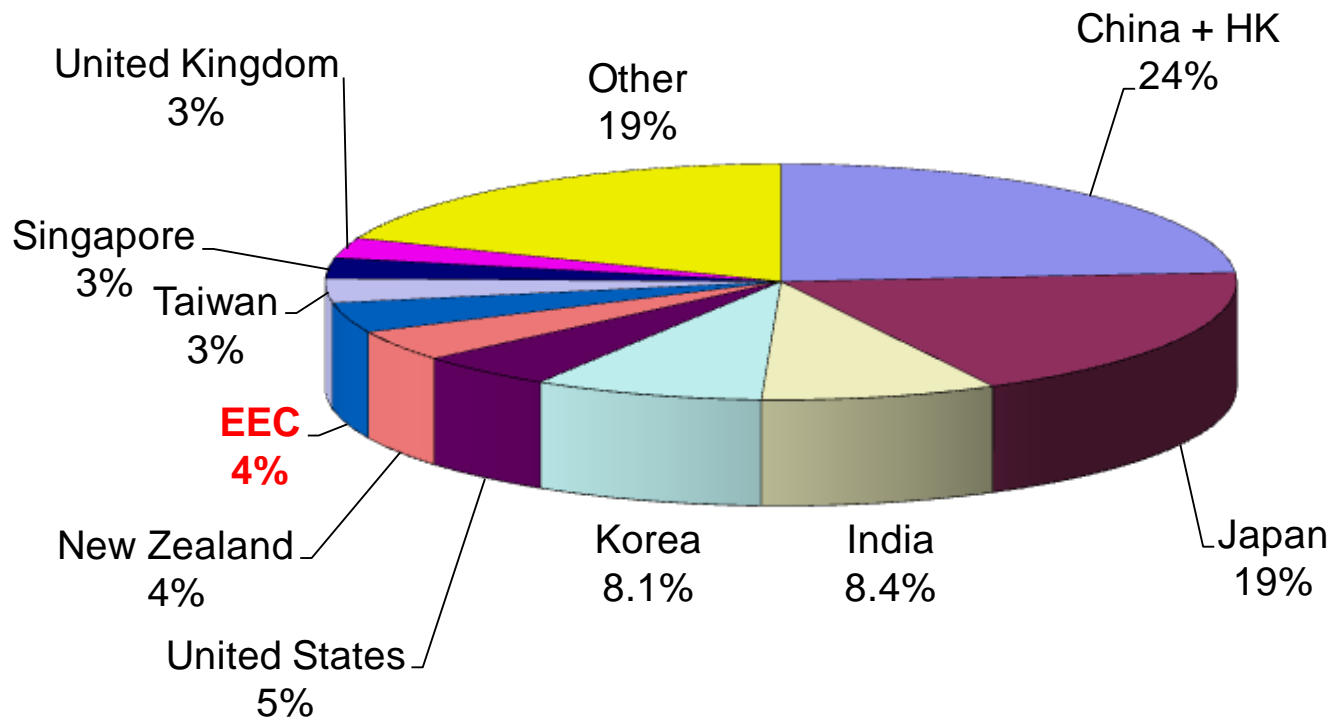
Source: NAB Global Markets Research, Reuters EcoWin

Global backdrop supports strong Aussie exports

<i>Ann Avg GDP</i>	2008	2009	2010 (f)	2011 (f)	2012 (f)
Australia	2.6	1.3	2.7	2.5	3.7
US	0.0	-2.6	2.8	3.2	3.3
Japan	-1.2	-6.3	4.0	1.7	2.3
UK	0.0	-5.0	1.4	2.1	2.2
Eurozone	0.3	-4.0	1.7	1.5	1.8
India	7.3	6.8	9.0	8.4	7.4
China	9.6	9.1	10.3	9.1	8.0
World	2.9	-0.7	4.9	4.5	4.2

Australia's largest export market is now China; India growing fast

Australia's Top 10 Export Destinations Year to April 2010 (A\$187bn)



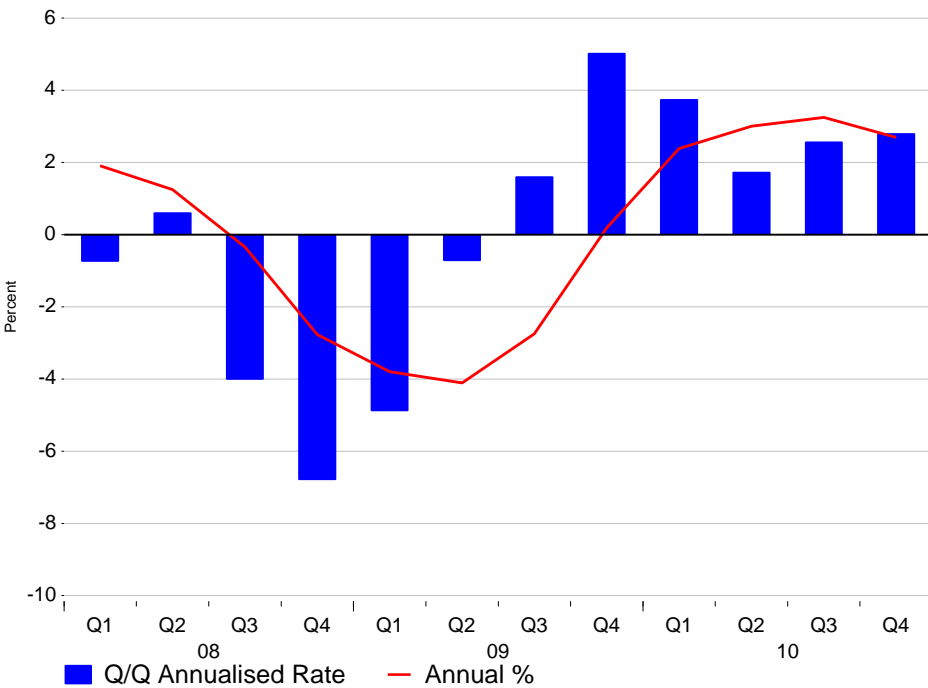
Source: ABS; NAB Global Markets Research

Chinese and Indian growth strong despite policy tightenings

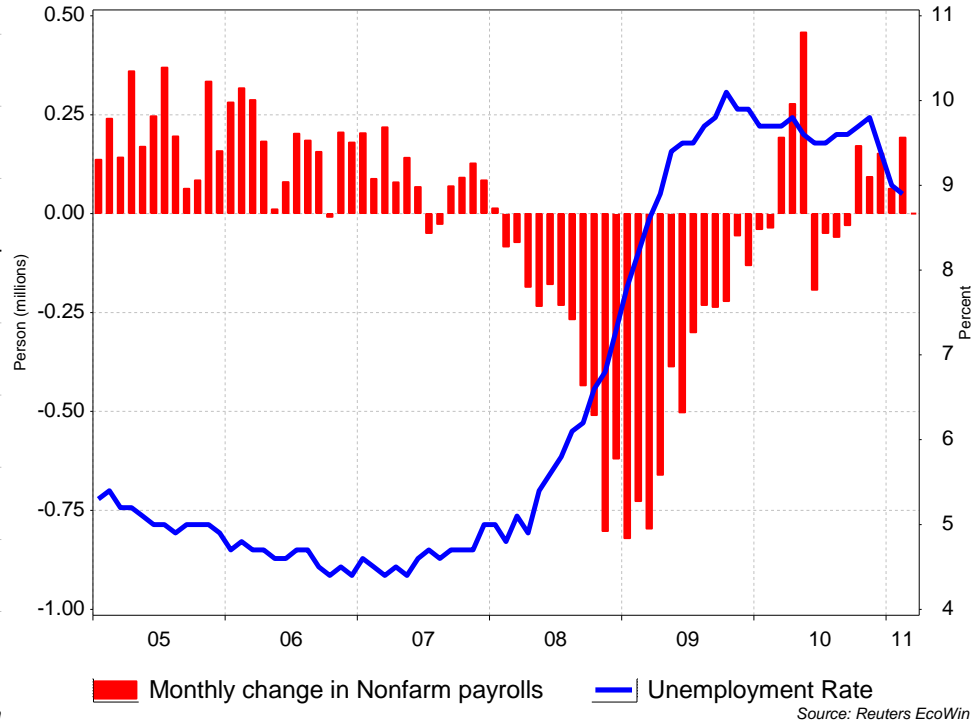


US recovery continuing, labour market improving (slowly)

US GDP

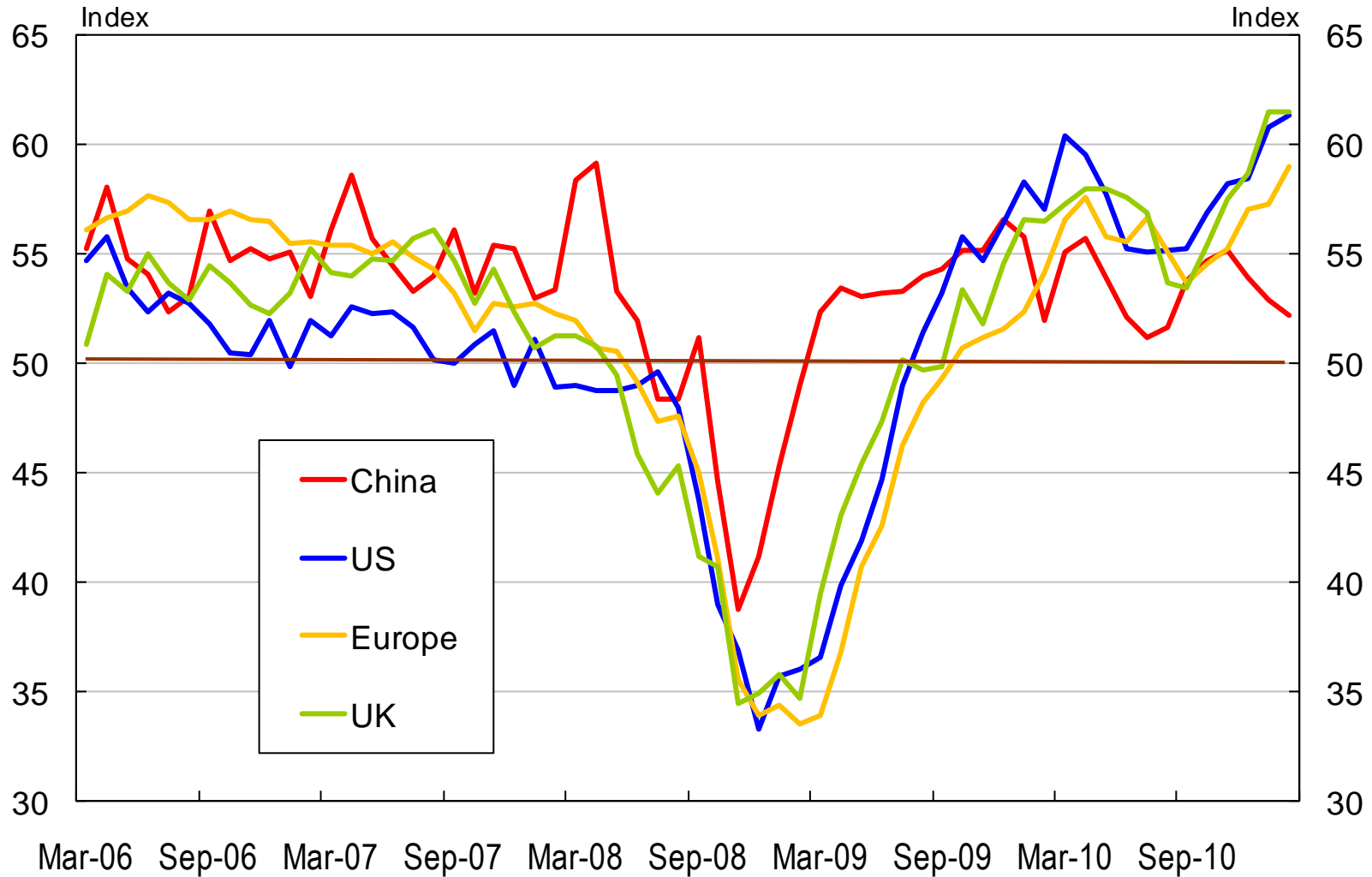


US Payrolls and Unemployment Rate



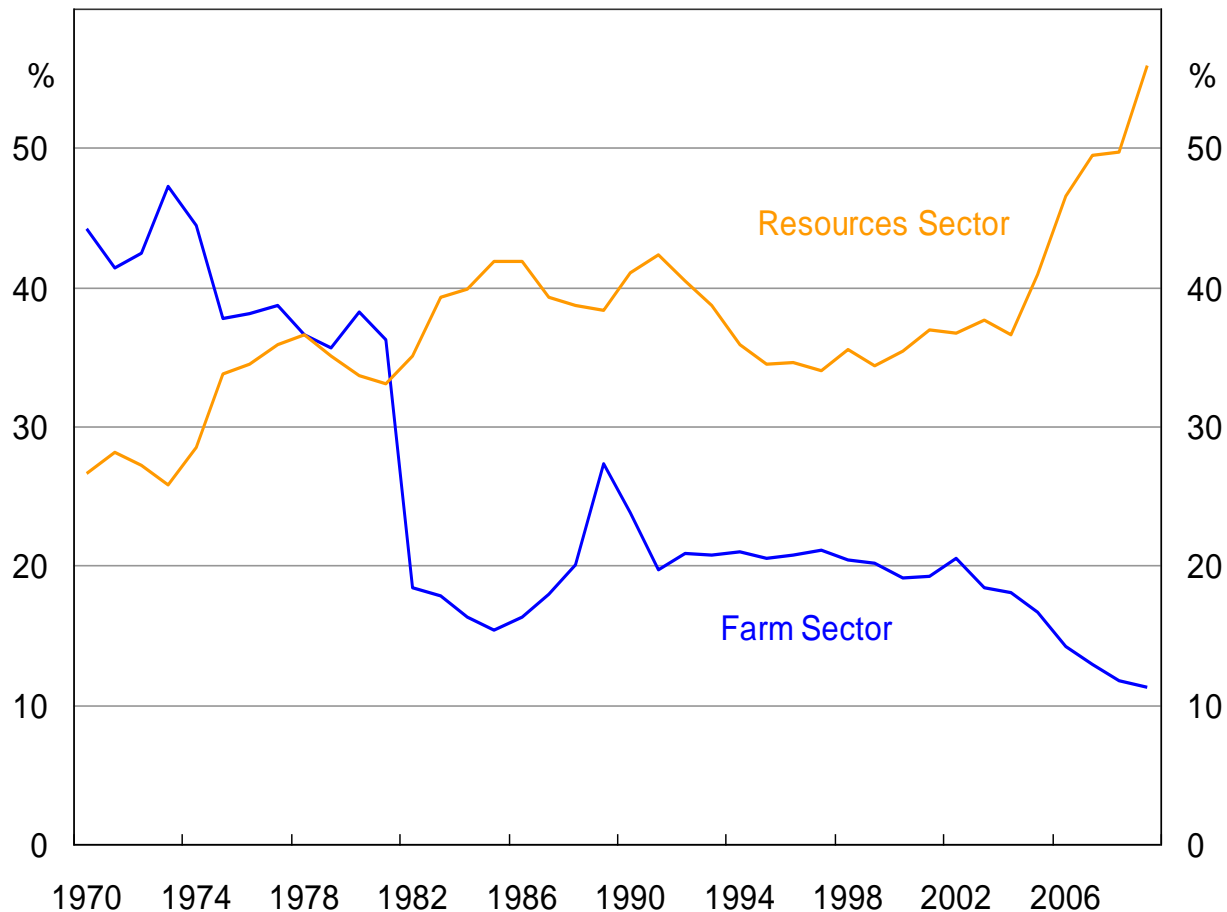
Global manufacturing strong

Manufacturing PMIs



Exponential growth in resource exports over the past decade

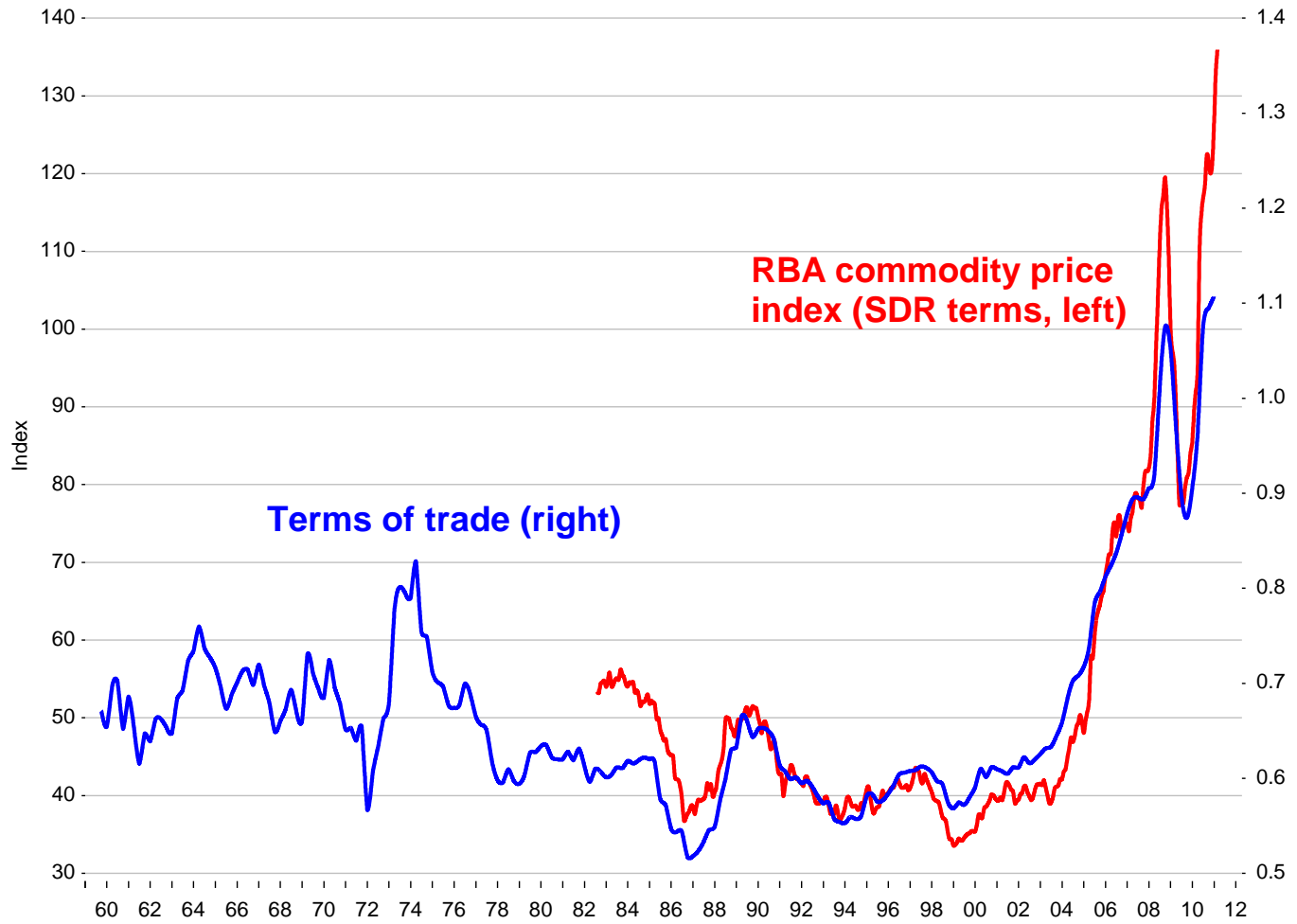
Contribution to Total Australian Exports By sector



Source: ABARE

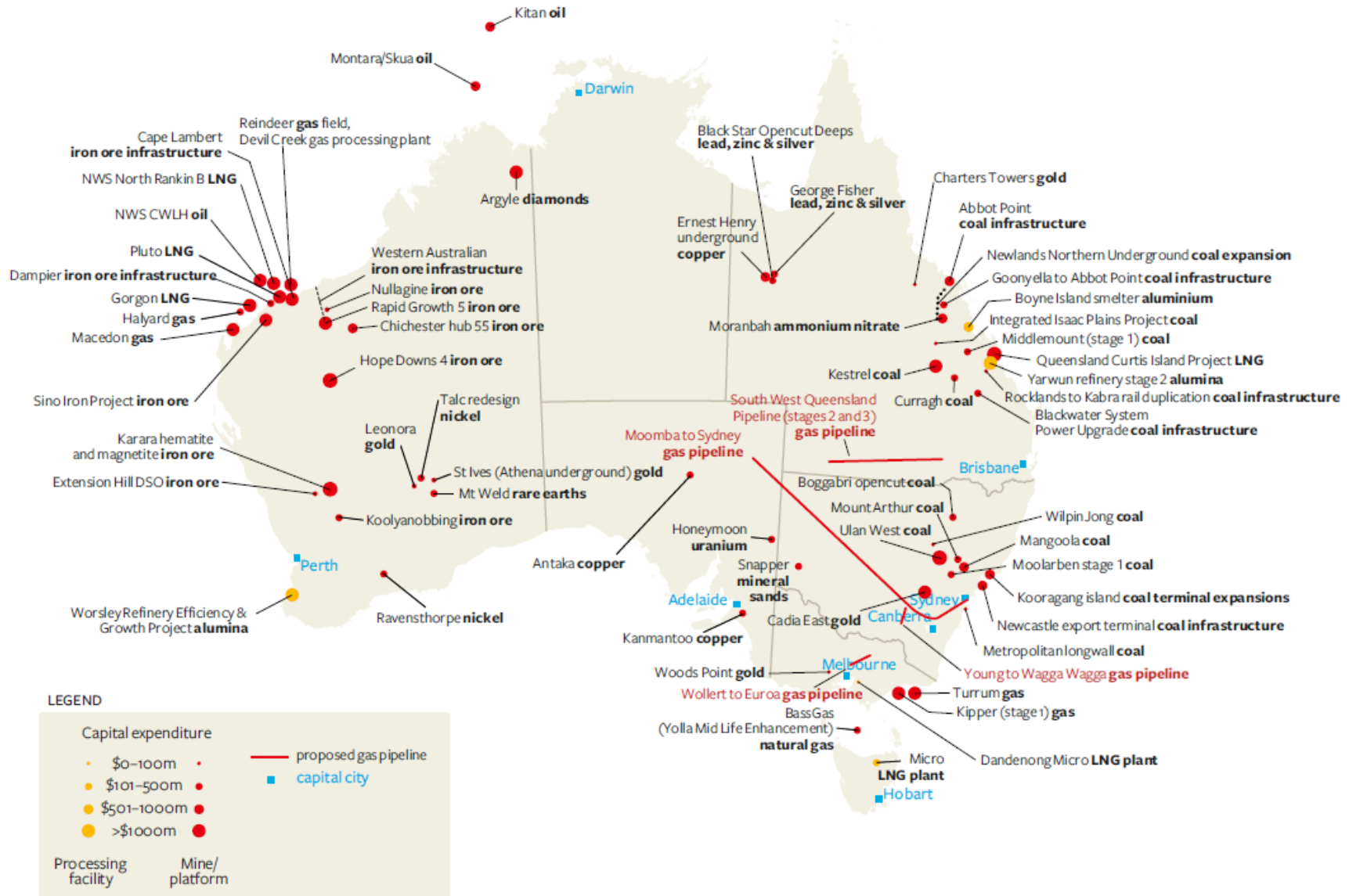
Commodity prices driving 'terms of trade' & real incomes higher

Aus: Terms of trade, RBA commodity prices



Source: NAB Global Markets Research, Reuters EcoWin

Resource projects 'committed' or 'under construction': \$A133bn, 10% of GDP

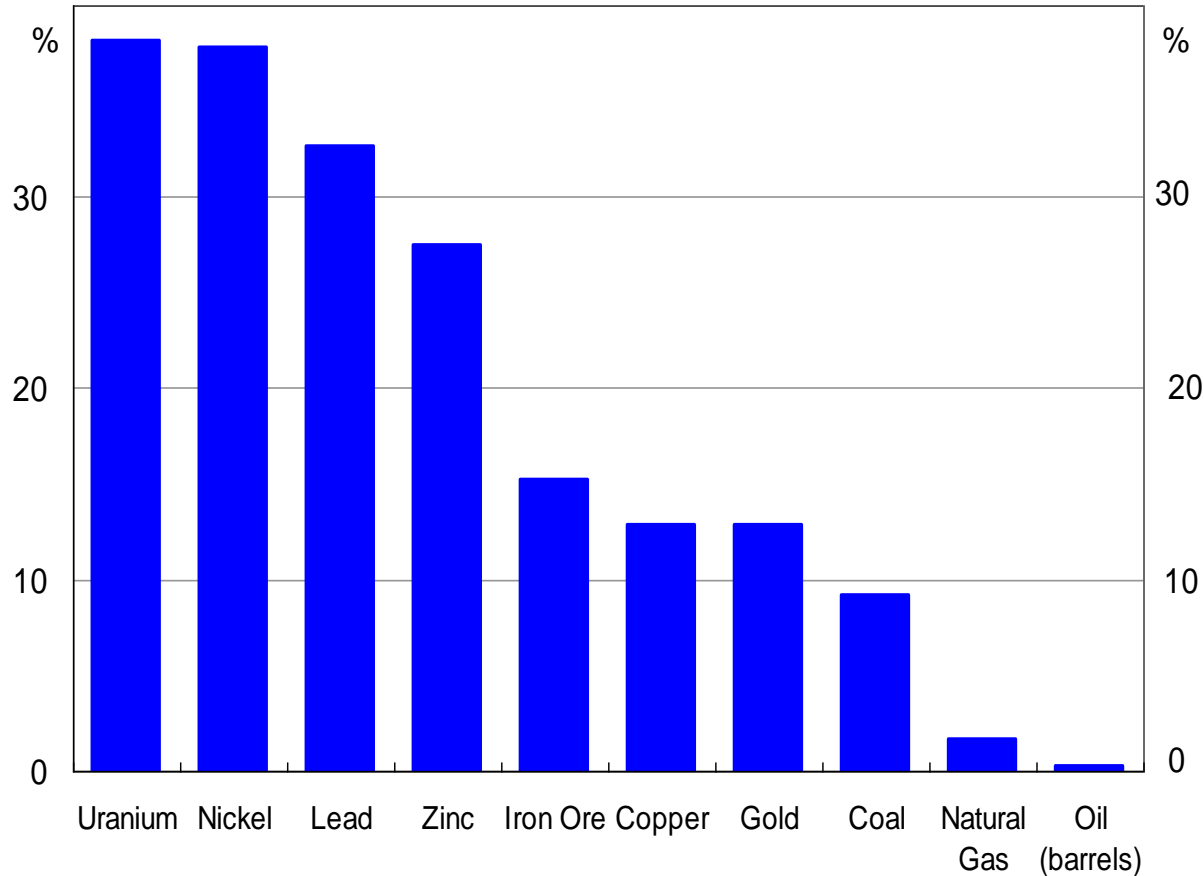


Source: Minerals and Energy, Major development projects – October 2010 listing, Michael Lampard et al, ABARE, November 2010

Australia still has plenty of powder dry for a sustained commodity boom

Australian Relative to World Reserves

As at 2008*



* Oil and gas data are as at 2009

Source: BP, Geoscience Australia, US Department of the Interior, NAB

Japanese earthquake – Key issues for Australia

- Japan accounts for 20% of metallurgical coal, 18% of thermal coal and 10% of iron ore demand
- Areas heavily affected by the earthquake represent 8% of Japanese GDP
- Japan is 15% of Australia's trade (China 22.5%), 19% of exports and 9% of imports. Main exports are coal, iron ore, beef, aluminium, LNG, nickel, sugar
- In short term, commodity demand will fall as large manufacturing plants closed
- Medium term, demand from reconstruction projects and from coal and gas fired electricity power stations will exert upward pressure on commodities
- BoJ injected ¥15 trn into banking system to ensure plenty of liquidity

Nikkei 225 Index



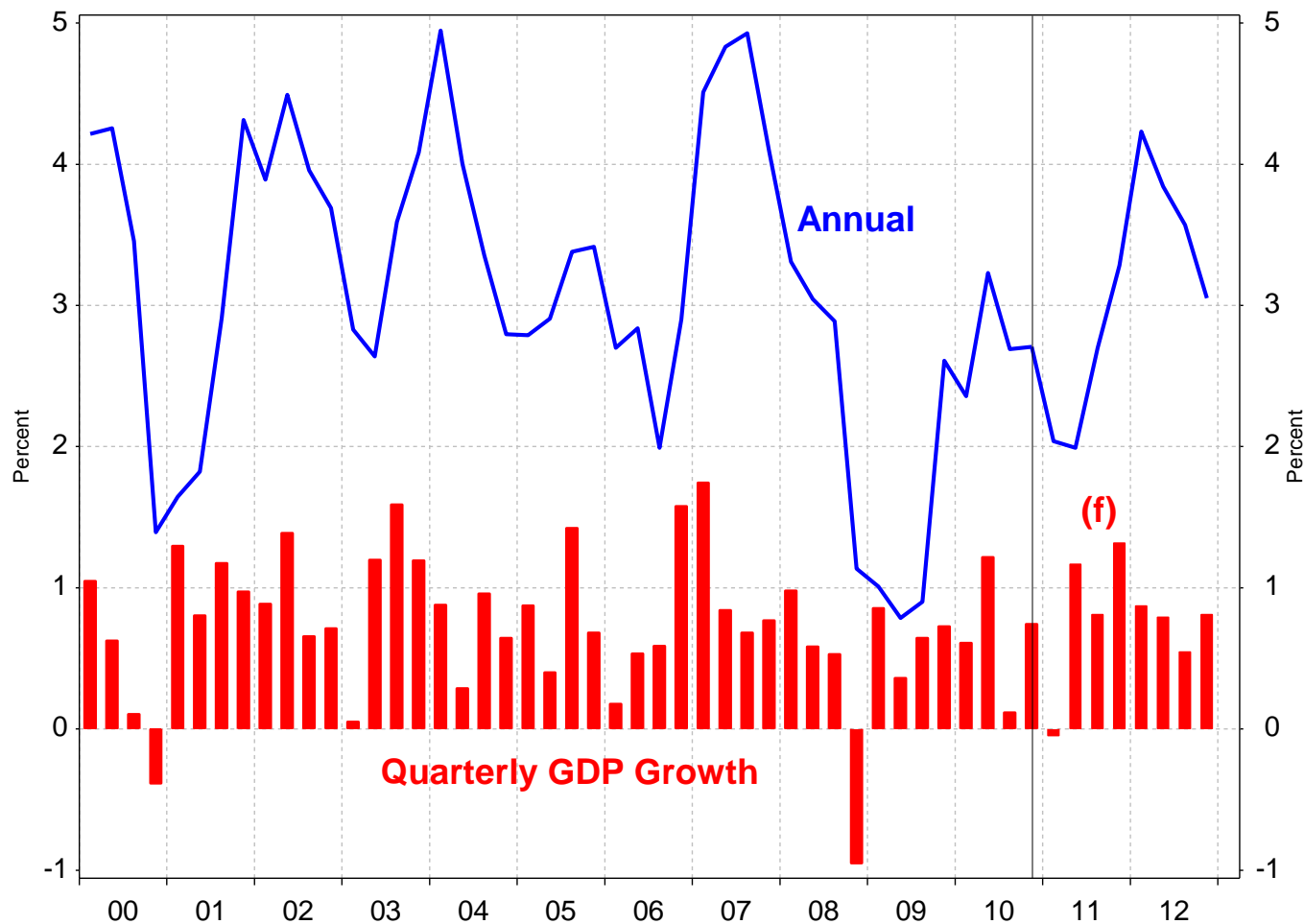
Source: Reuters EcoWin

Global economy strengthening, but risks remain

- Middle-East tensions raising oil and gold prices
- Global inflation rising
- ECB and BoE preparing for rate hikes
- China still strong, and still tightening policy
- US economy improving
- Devastating earthquakes in Japan and NZ
- Australian growth affected by floods in short-term, but medium term outlook remains strong and wage/price pressures trending higher

Longer term activity outlook remains positive, helped by the rebuilding after the floods and strong business investment

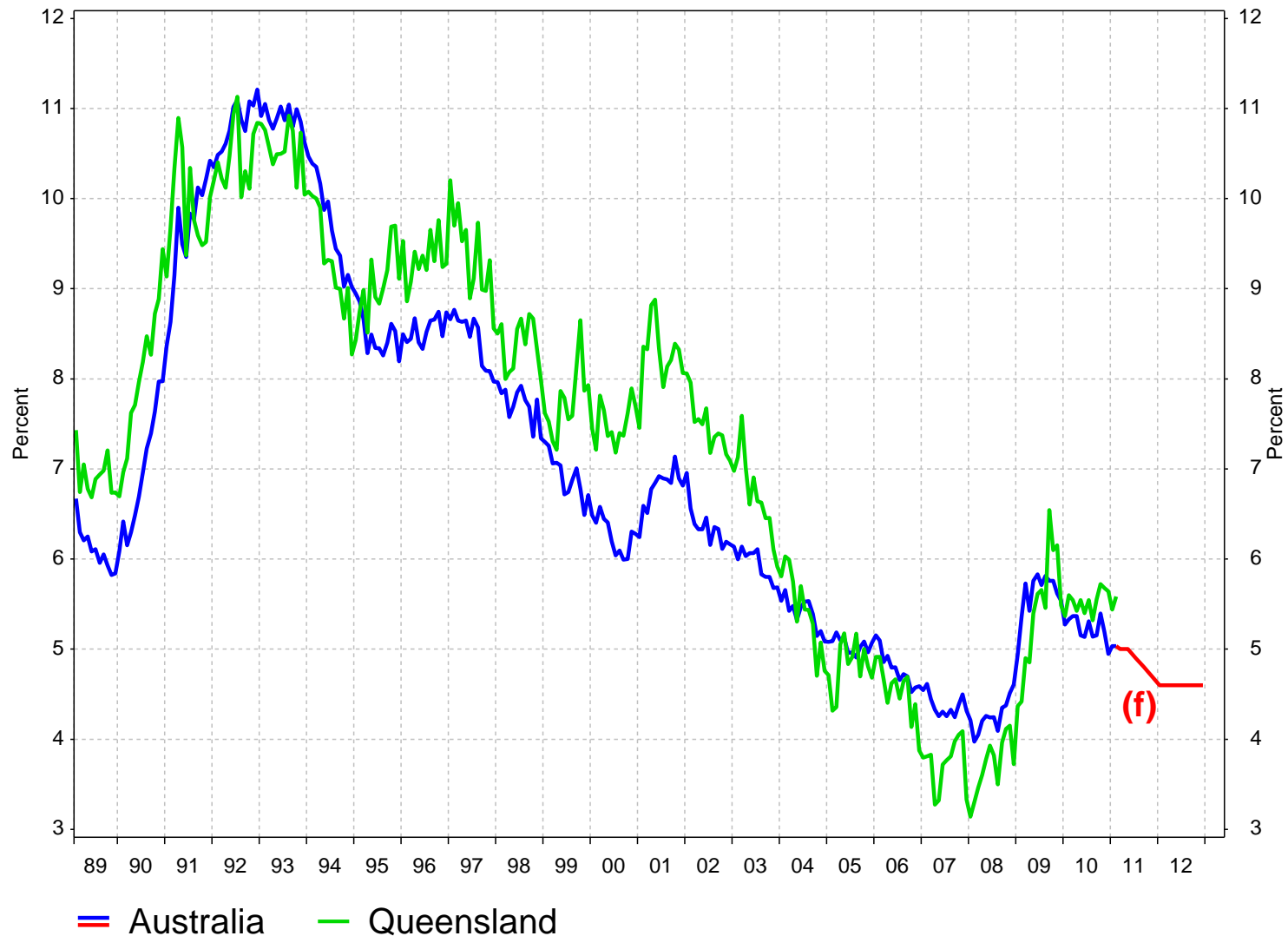
Australian GDP



Source: Reuters EcoWin

Little spare capacity - unemployment rate is falling

Unemployment Rate

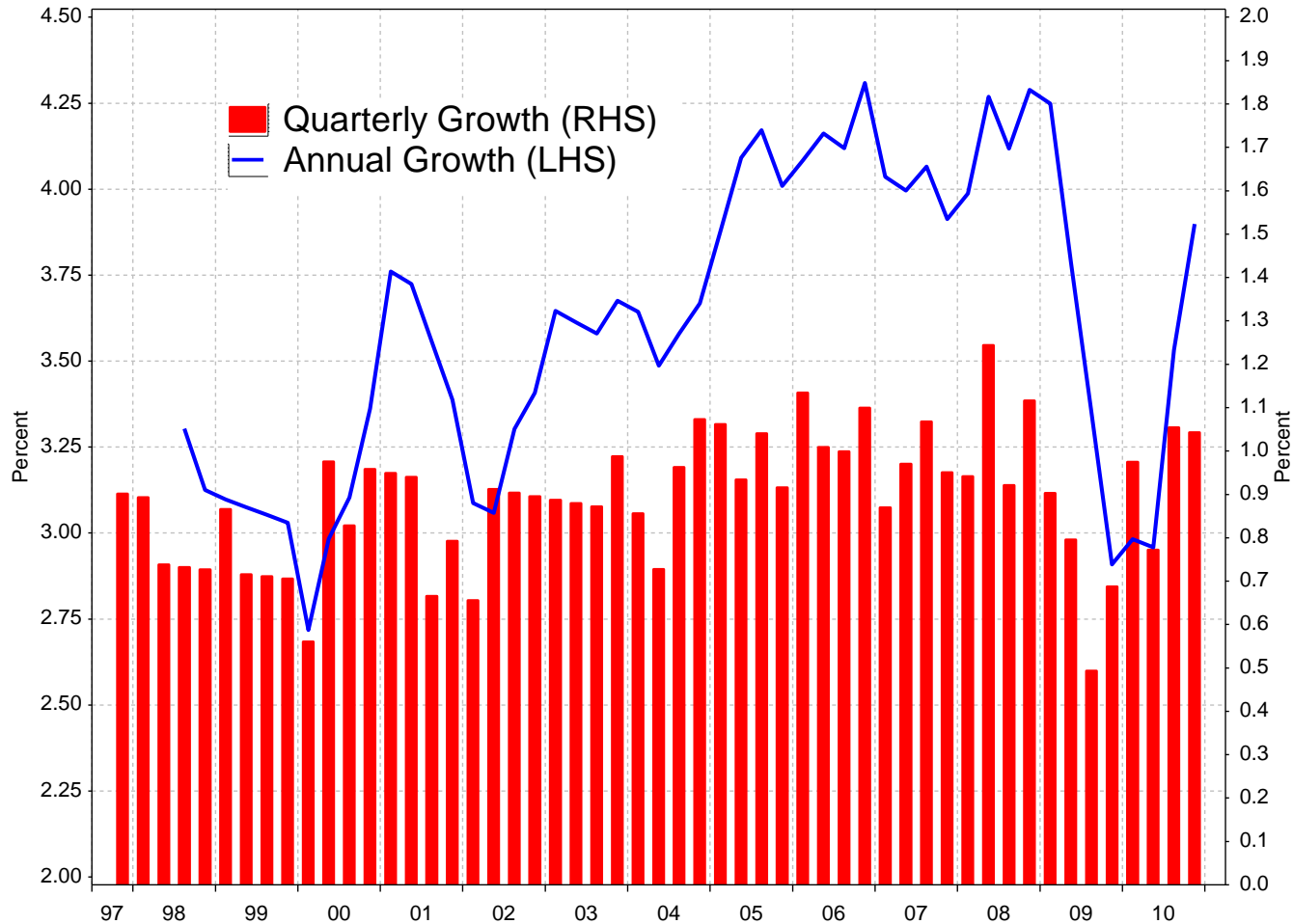


Source: Reuters EcoWin

— Australia — Queensland

Wage pressures rising, and skilled labour shortages after floods

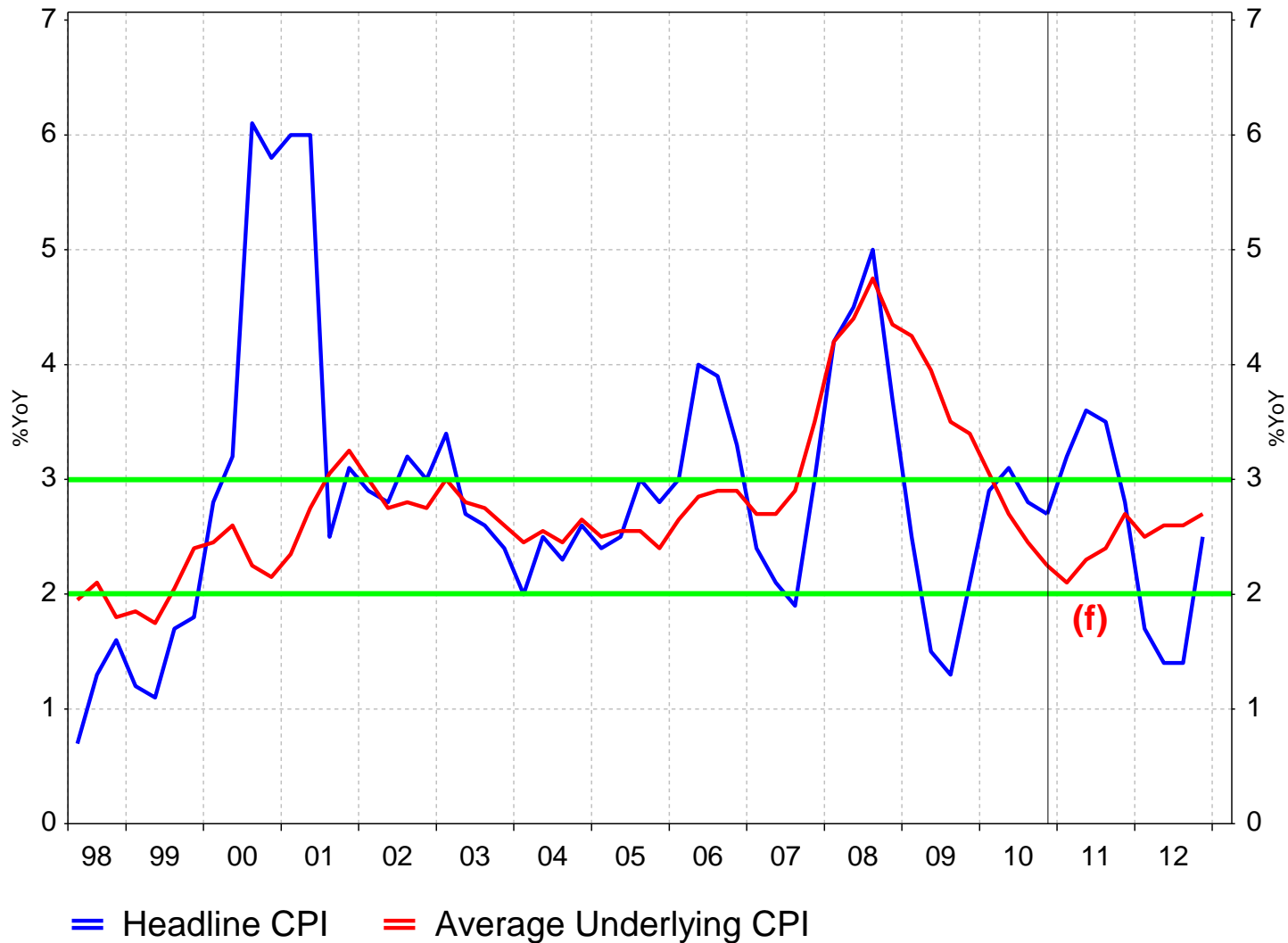
Wage Price Index



Source: Reuters EcoWin

Underlying inflationary pressures rising

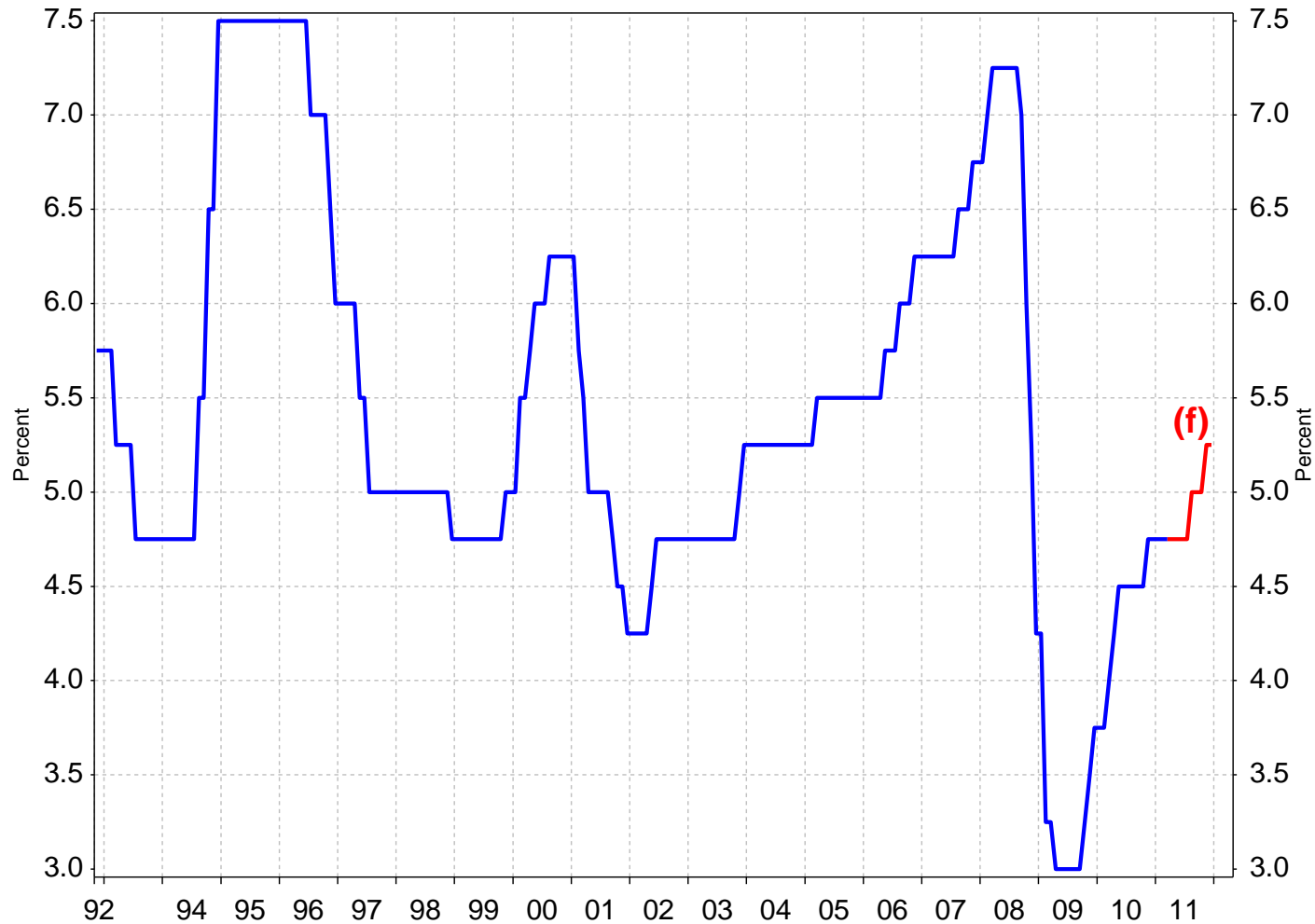
Australian Inflation



Source: Reuters EcoWin

RBA has been on hold since November, but rises ahead

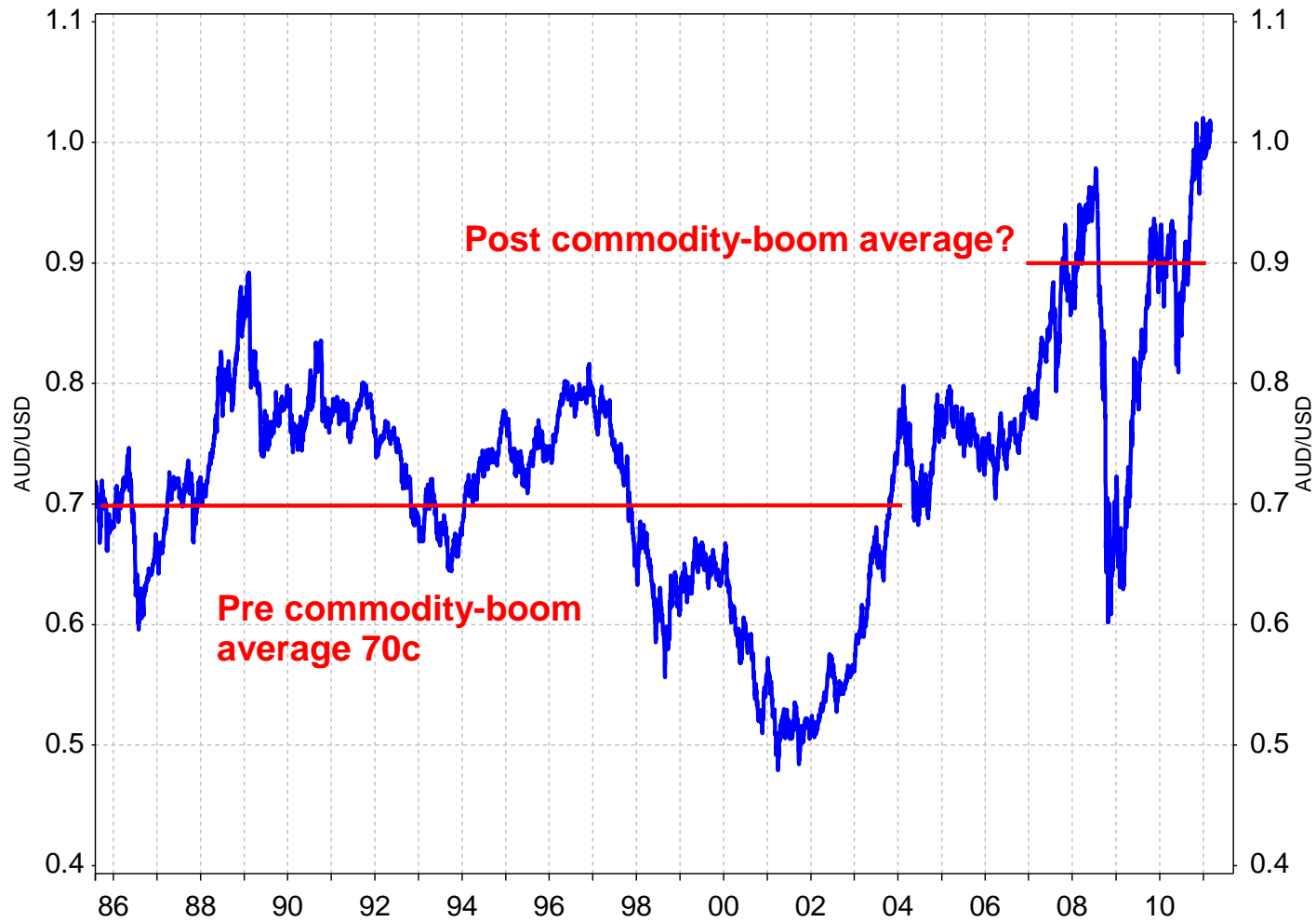
RBA Cash Rate



Source: Reuters EcoWin

A higher average for the AUD over the next decade?

Australian Dollar



Source: Reuters EcoWin

Summary: Risks remain, but interest rates higher in 2011

- QLD floods will slow growth in Q1, but add to growth in late 2011
- Global economy is improving and Chinese growth remains strong
- Australian economy has benefited from resilient Asia, high commodity prices and policy stimulus
- Labour market is strong, and unemployment falling
- RBA cash rate to rise further to contain wage and price pressures

Key financial market forecasts

Interest Rate Forecasts

	10-Mar	Jun-11	Sep-11	Dec-11	Jun-12	Dec-12
Australia						
RBA Cash rate	4.75	4.75	5.00	5.25	5.25	5.25
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.13	0.50	0.75	1.25
ECB refi rate	1.00	1.25	1.50	1.50	1.75	2.25

Exchange Rate Forecasts

Majors	10-Mar	Jun-11	Sep-11	Dec-11	Jun-12	Dec-12
AUD/USD	1.0050	1.05	1.01	0.98	0.96	0.94
NZD/USD	0.7355	0.75	0.75	0.75	0.73	0.71
USD/JPY	82.84	86	87	88	92	92
EUR/USD	1.3872	1.34	1.35	1.36	1.38	1.40
GBP/USD	1.6178	1.56	1.59	1.59	1.61	1.65
USD/CNY	6.5734	6.30	6.20	6.15	5.95	5.75
Australian Cross Rates						
AUD/JPY	83.25	90	88	86	88	86
AUD/EUR	0.7245	0.78	0.75	0.72	0.70	0.67
AUD/GBP	0.6212	0.67	0.64	0.62	0.60	0.57
AUD/NZD	1.3664	1.40	1.35	1.31	1.32	1.32

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