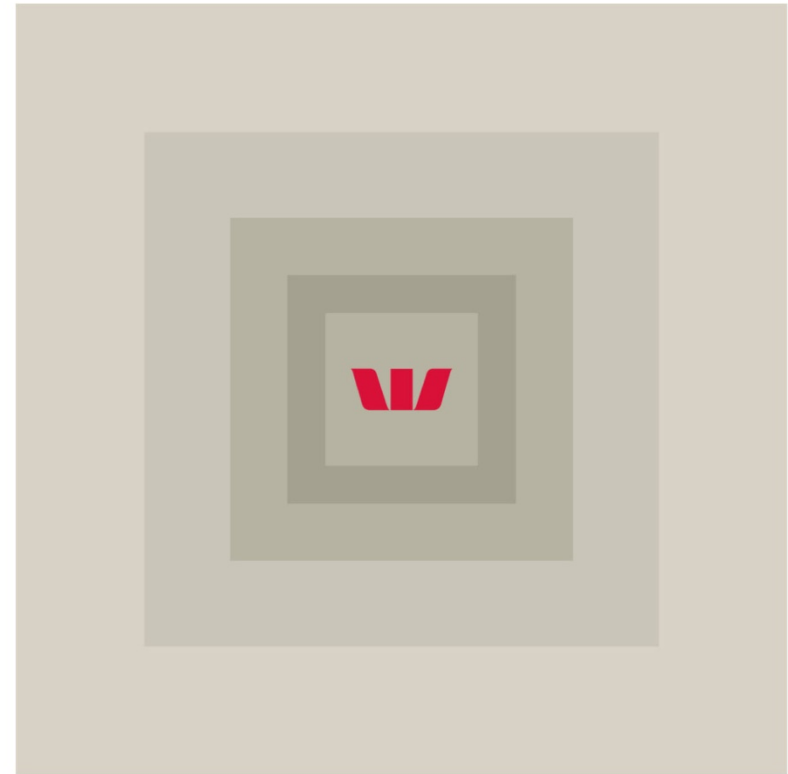


Australian Lebanese Chamber of Commerce

February 2014

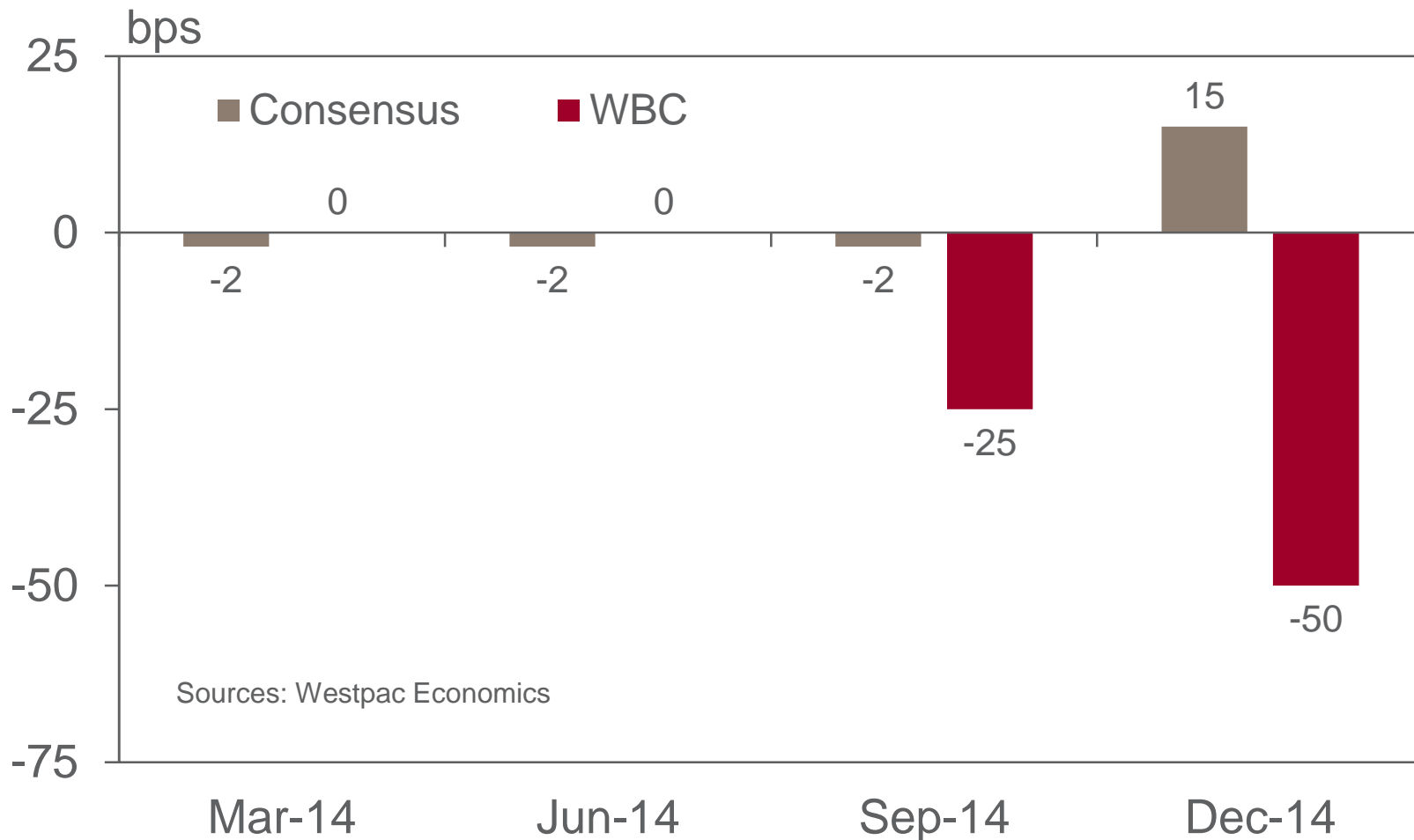
Bill Evans
Chief Economist



Current Forecasts- February 2014

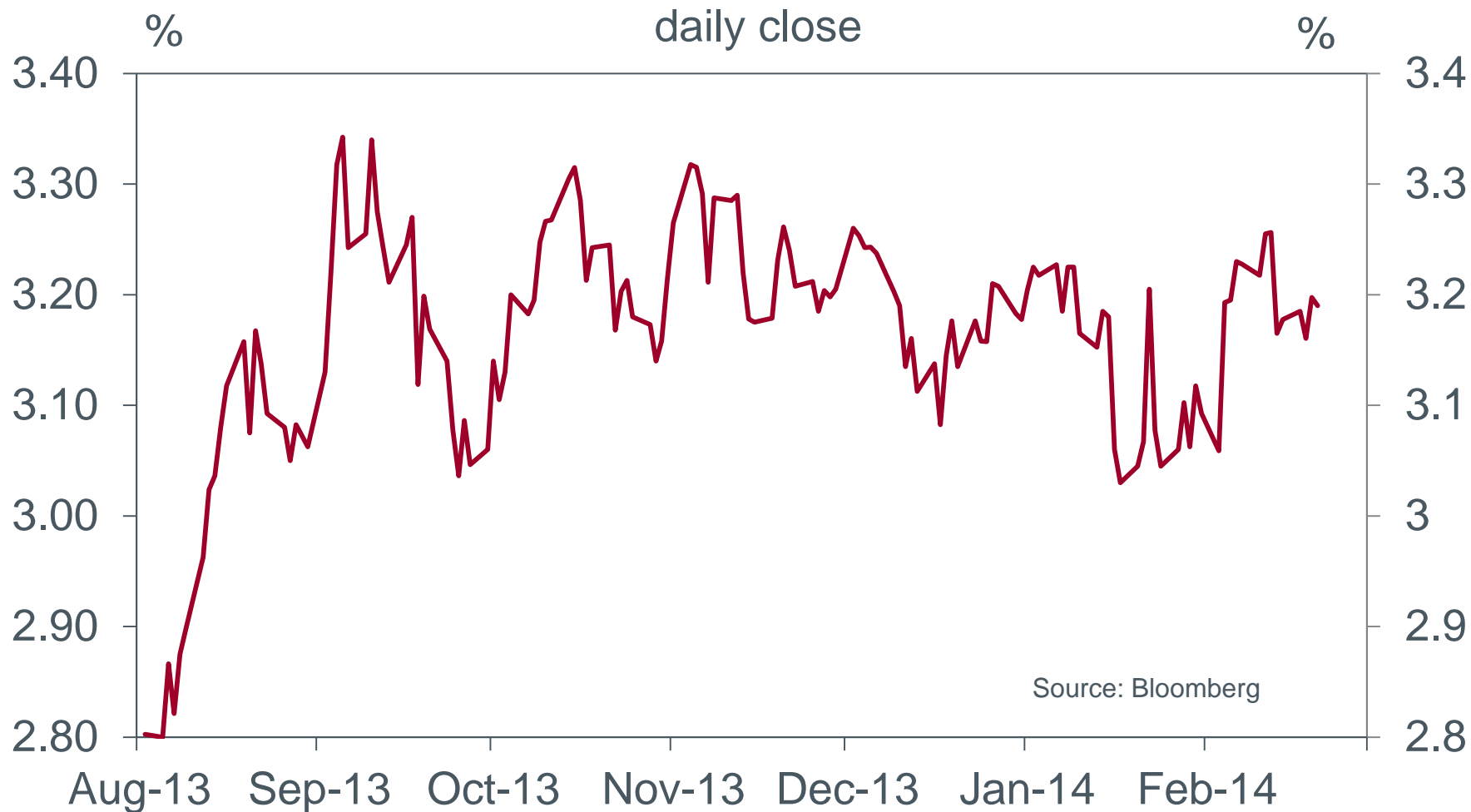
	Latest	Mar-14	Jun-14	Dec-14	Mar-14
RBA Cash	2.50	2.50	2.50	2.00	2.00
Aus 10yr	4.23	4.30	4.20	4.00	4.20
3 yr swap	3.20	3.30	3.40	3.00	3.20
US 10 yr	2.76	2.70	2.60	3.00	3.20
AUD/USD	0.90	0.90	0.90	0.87	0.85

Market pricing v's Westpac cash rate f'cast



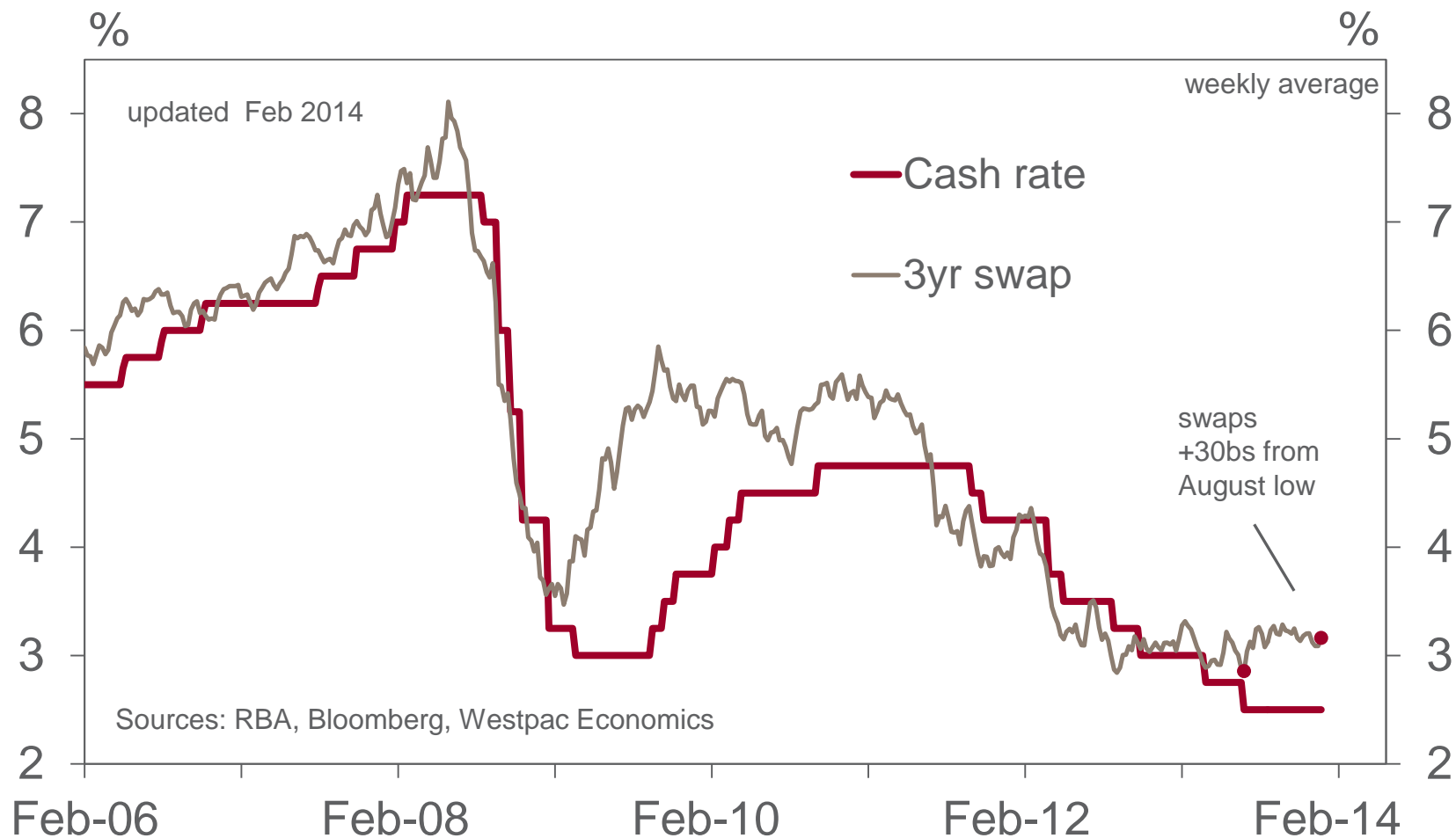
Sources: Westpac Economics

Australian 3yr swap rate: August to February



Source: Bloomberg

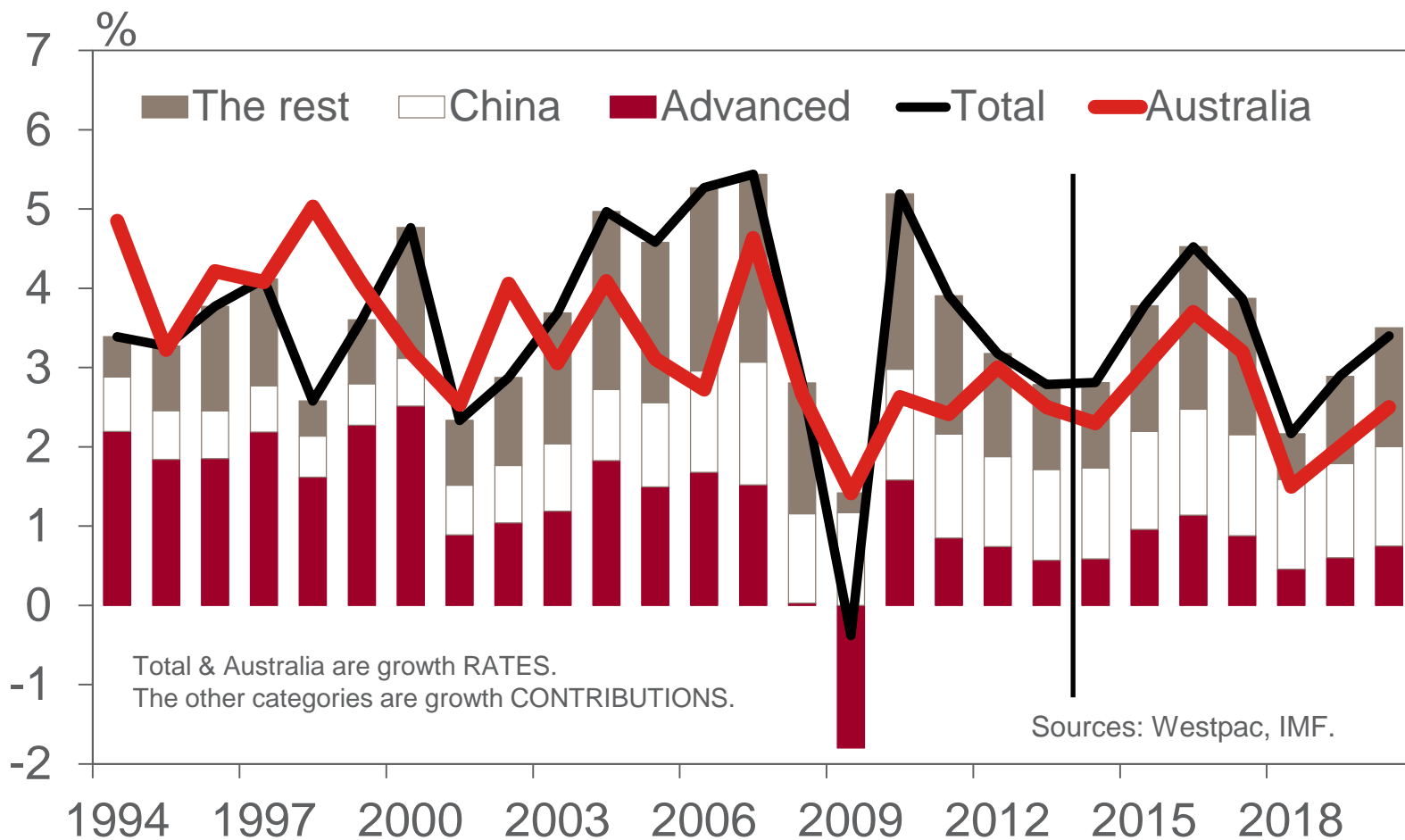
RBA cash rate, 3 year swap



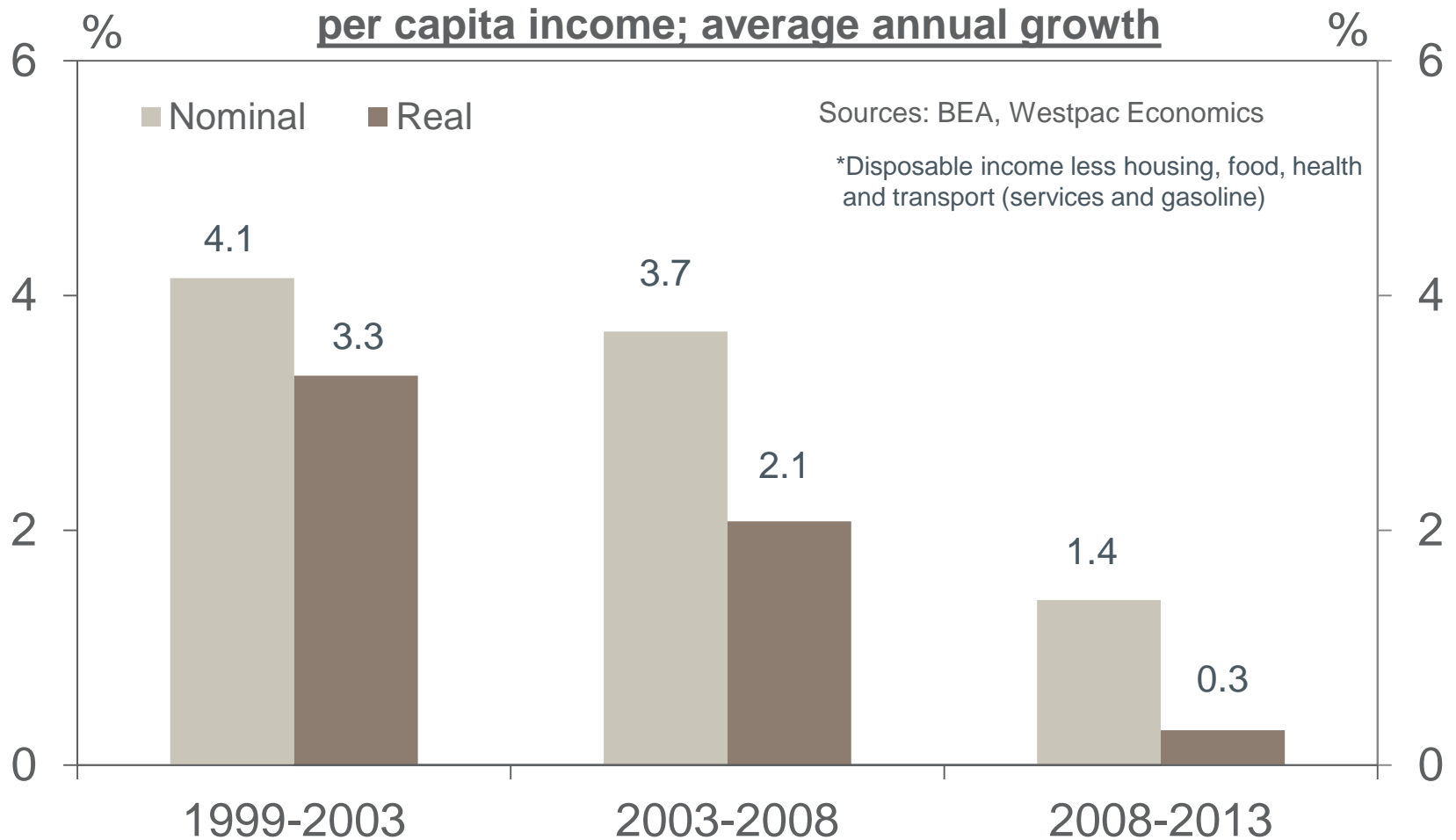
Inflation and growth forecasts: 2015

	Westpac	RBA
GDP growth (domestic demand)	2.8 (1.6)	3.5 (2.5)
CPI inflation	2.5	2.0 – 3.0

Australian and world- look out for 2018!



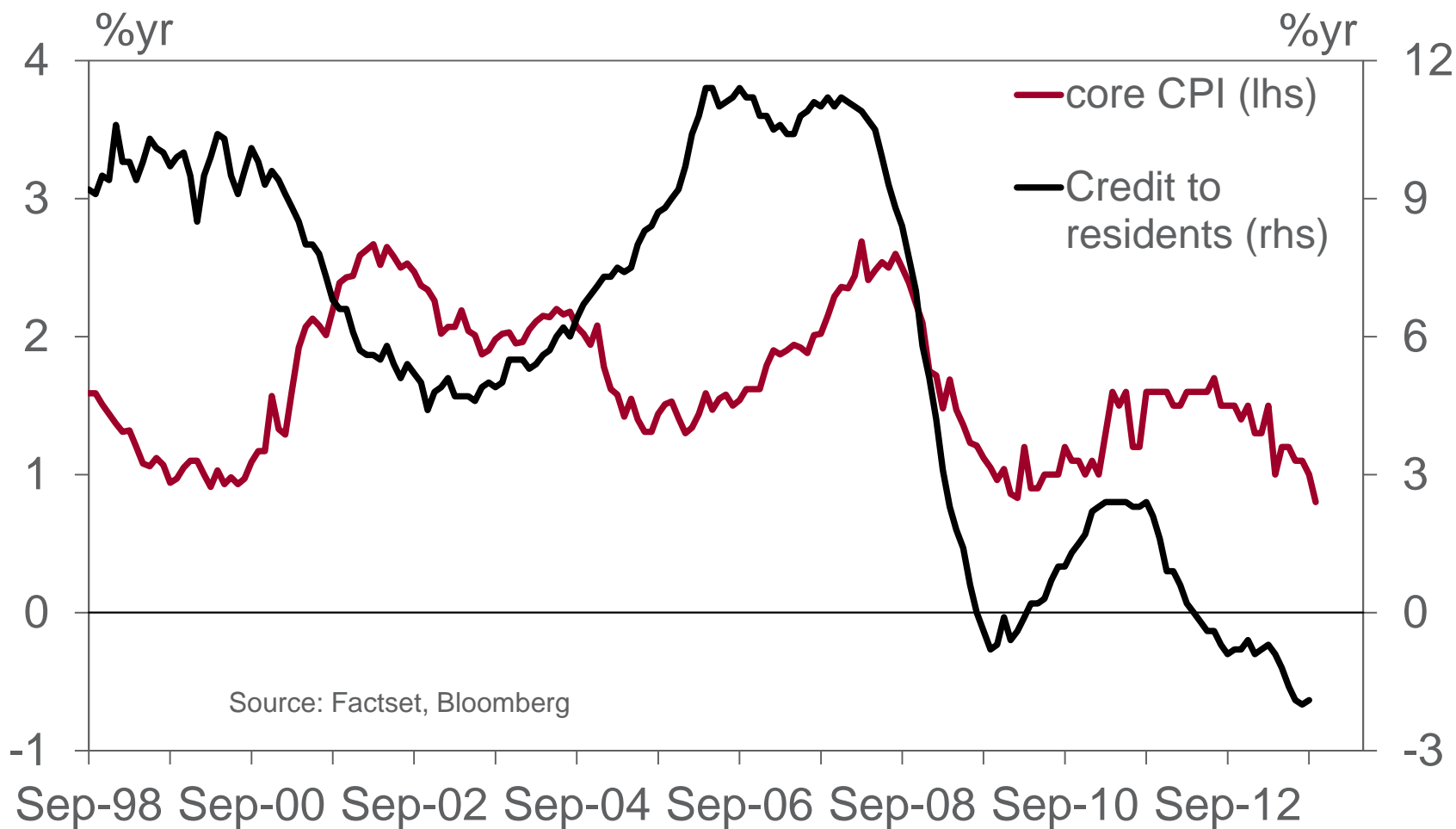
US discretionary income growth worse still



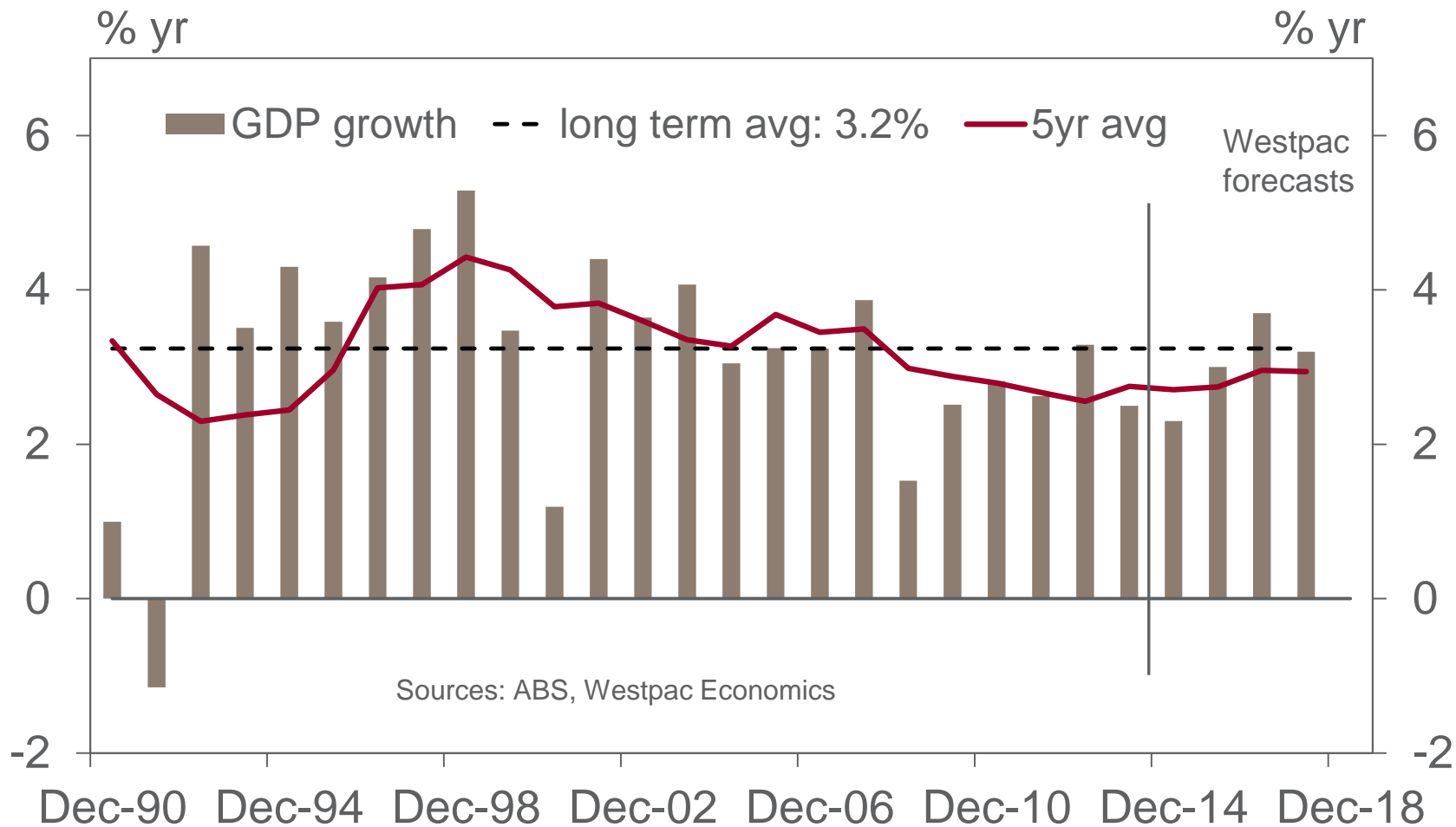
Chinese construction activity



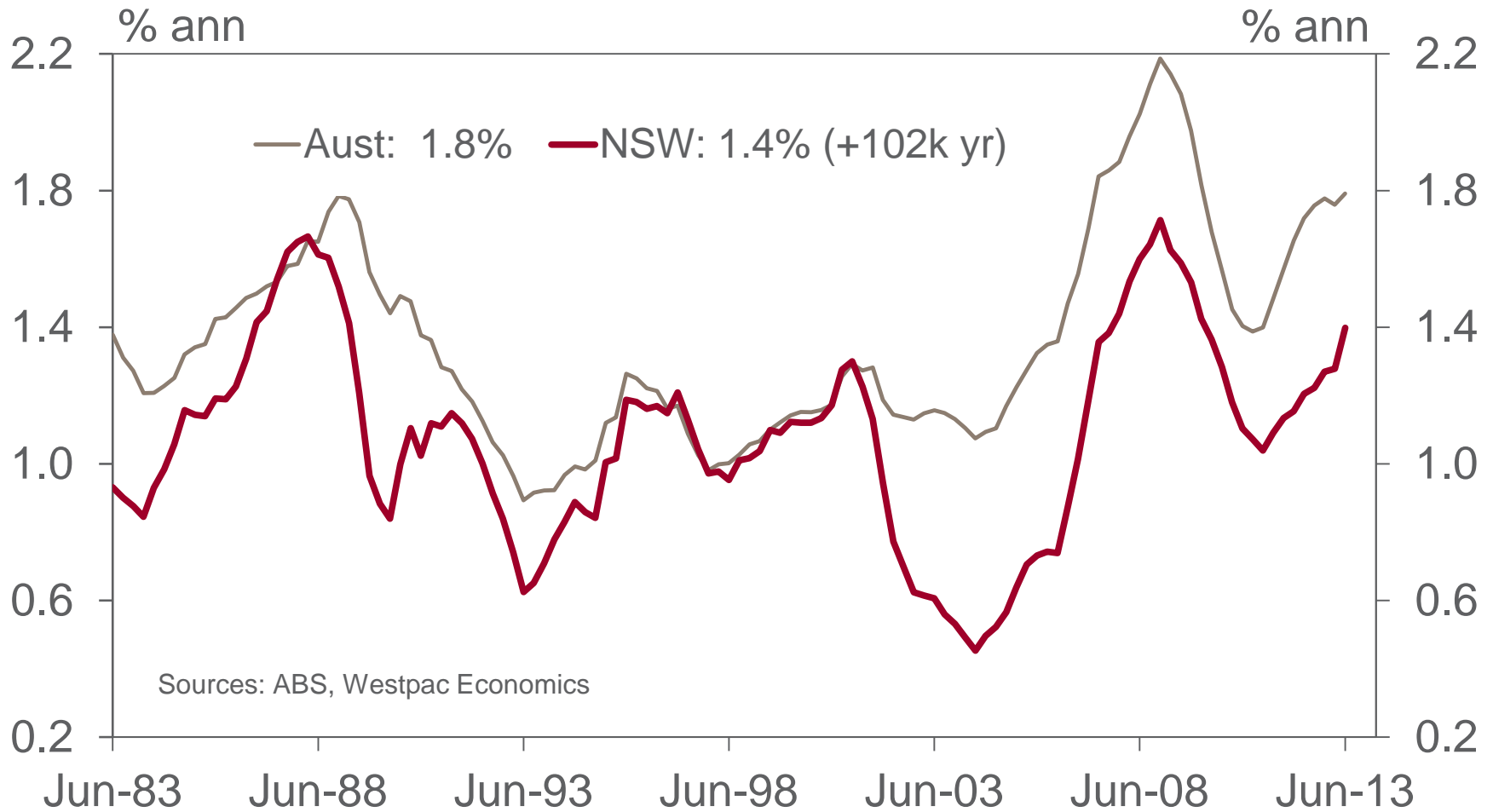
Euroland credit contracting, inflation very weak



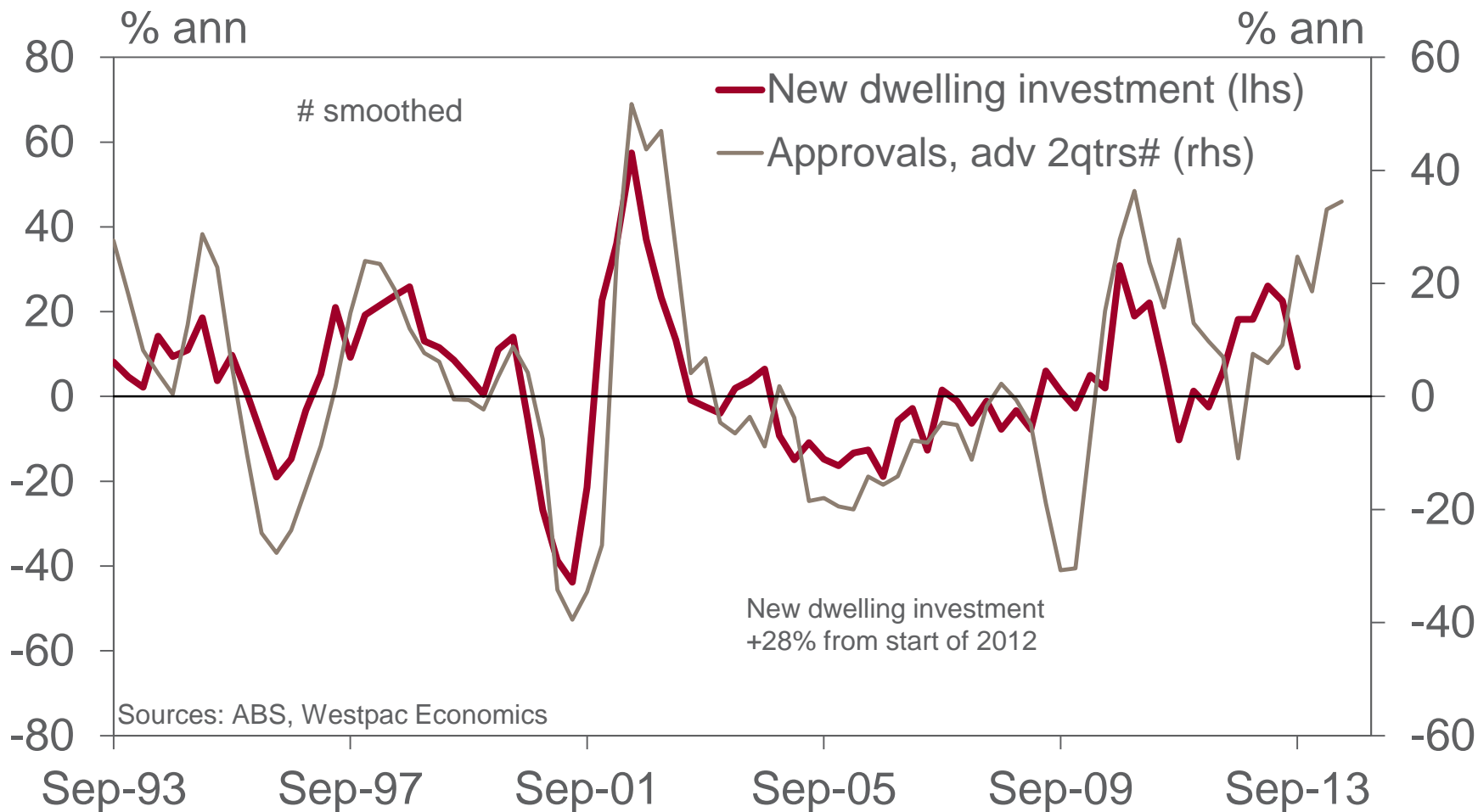
Australia: growth in context



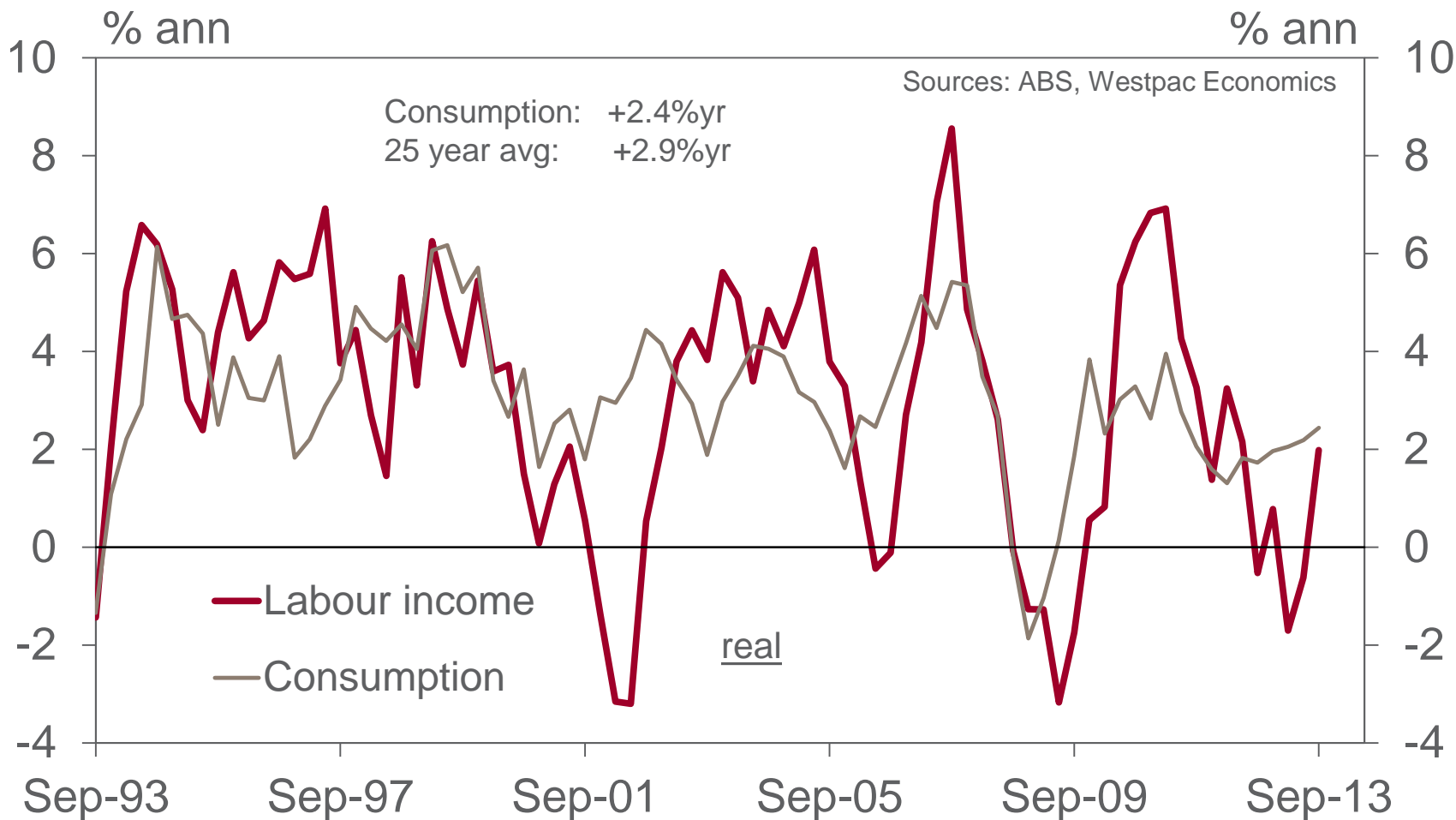
NSW population growth



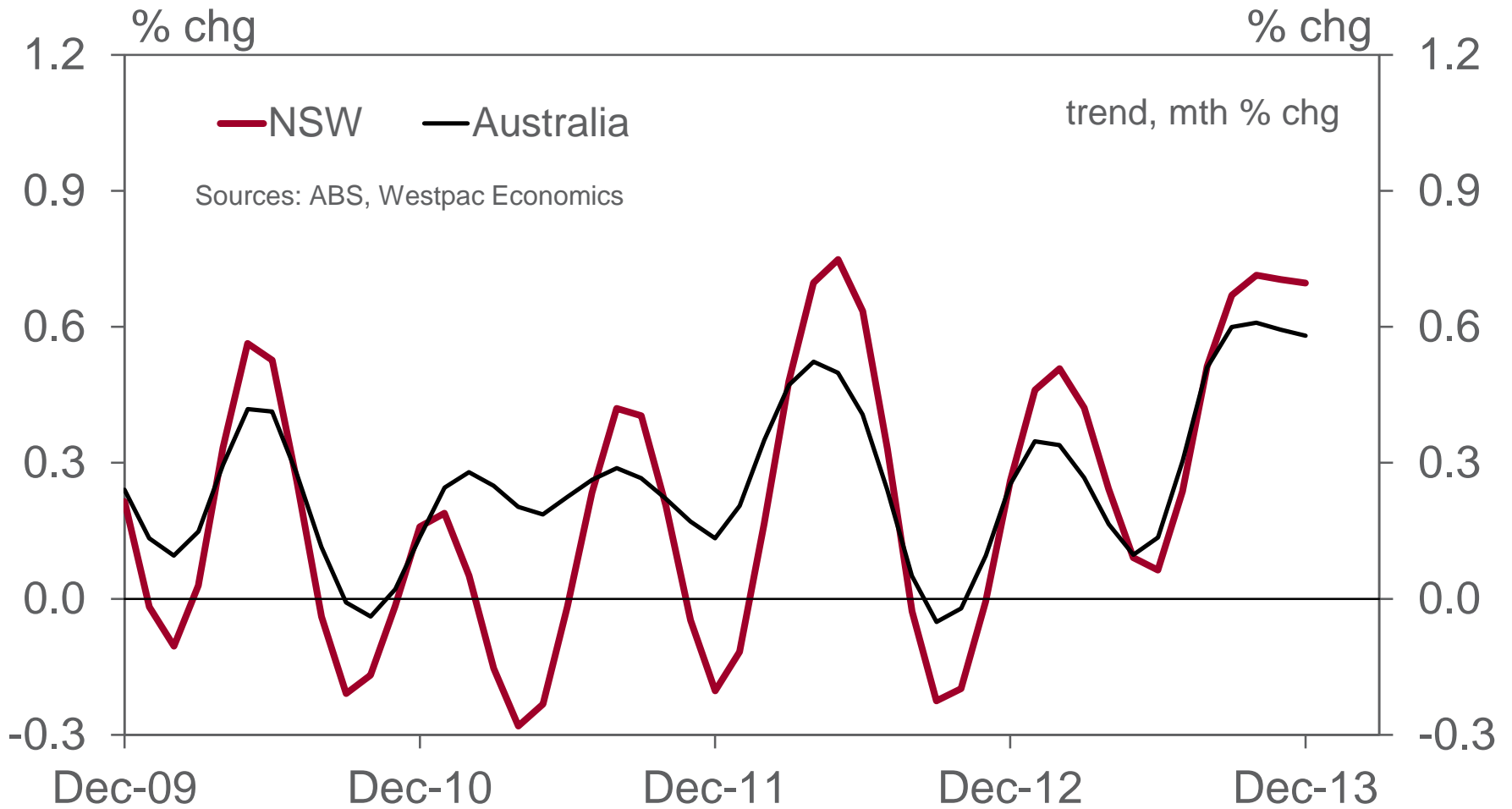
NSW :New dwelling significant upside



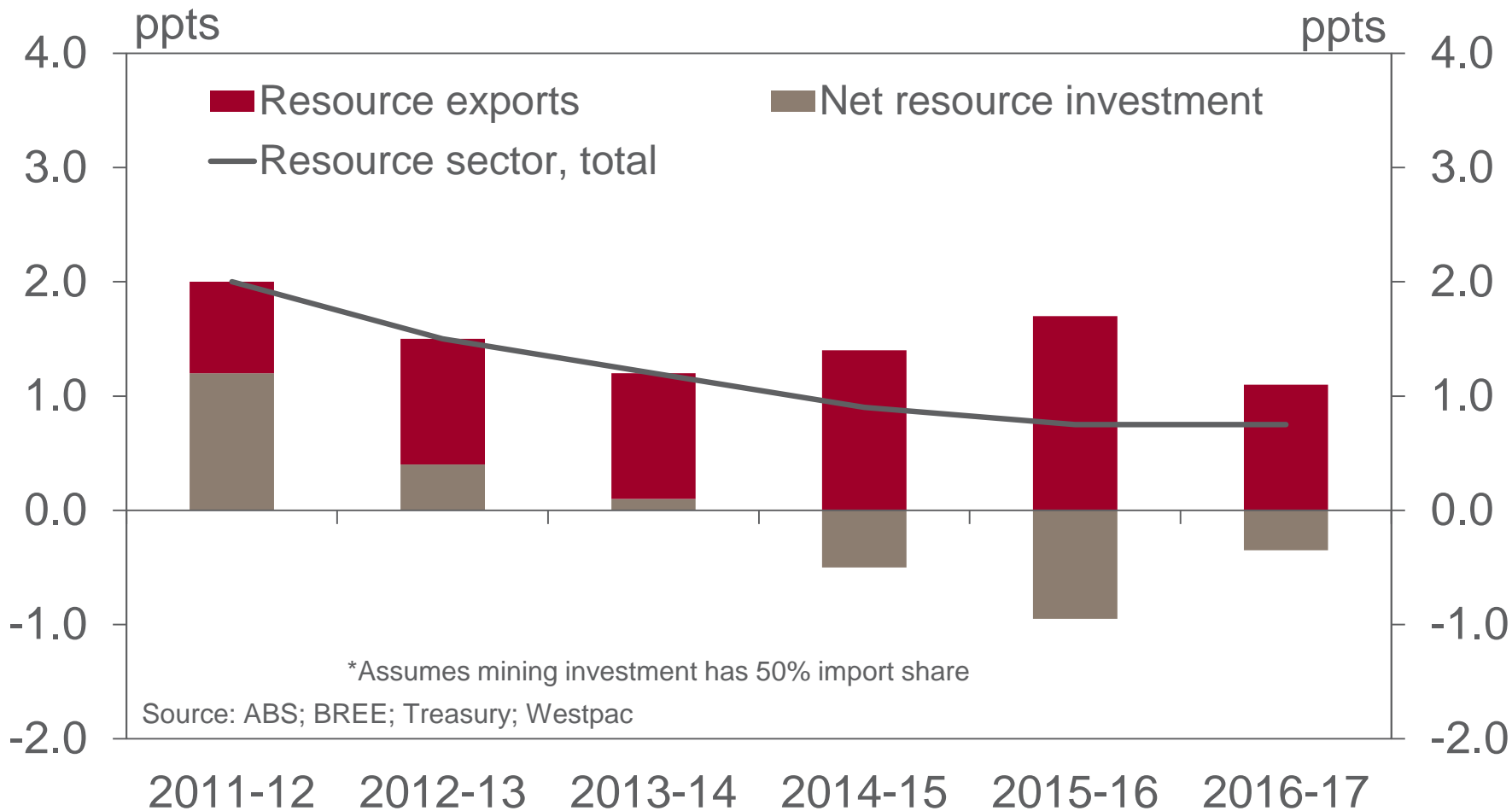
Consumers: consumption & wage income



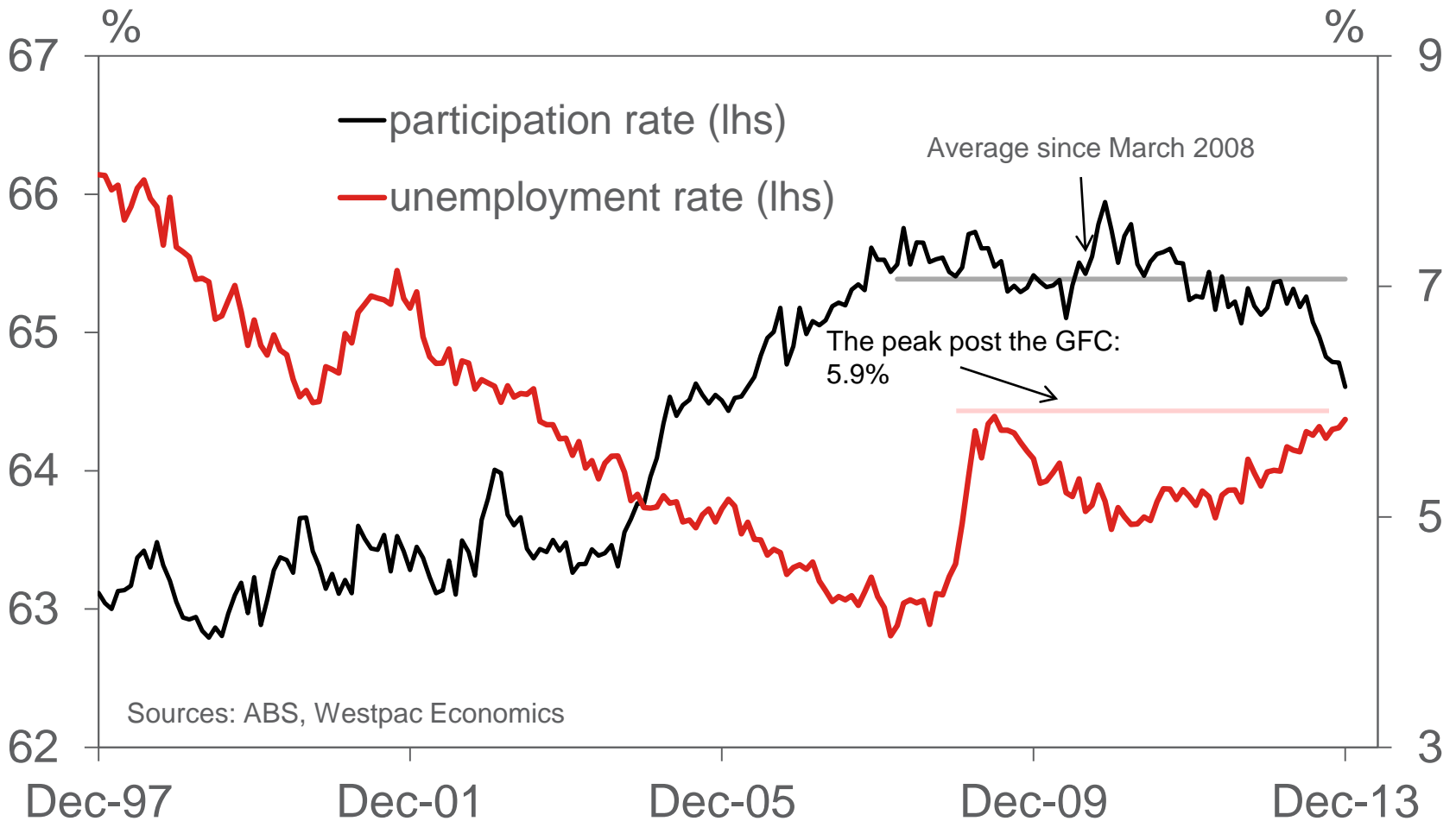
Retail sales growth: NSW



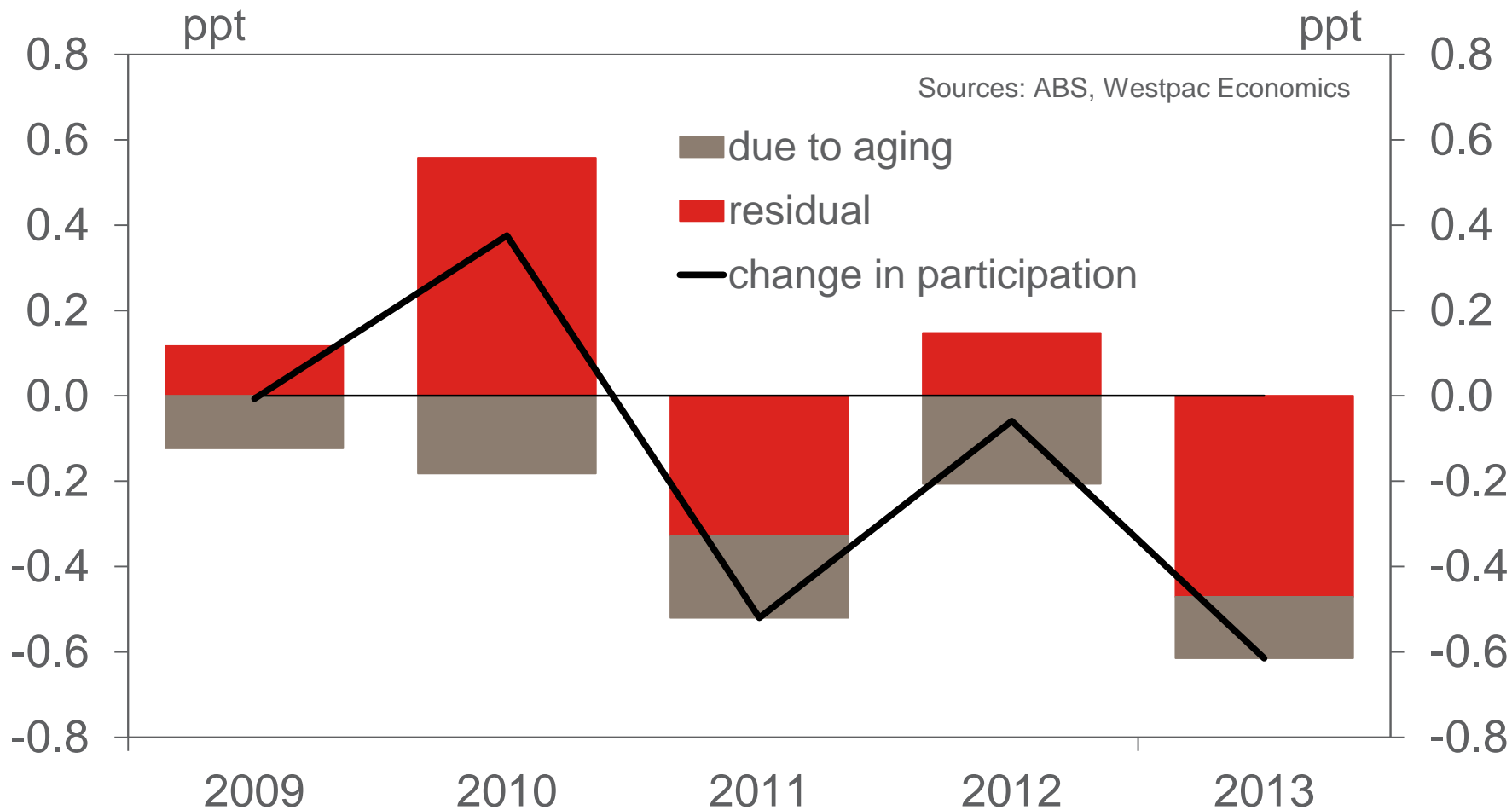
Net effect of resources sector will be a growth drag



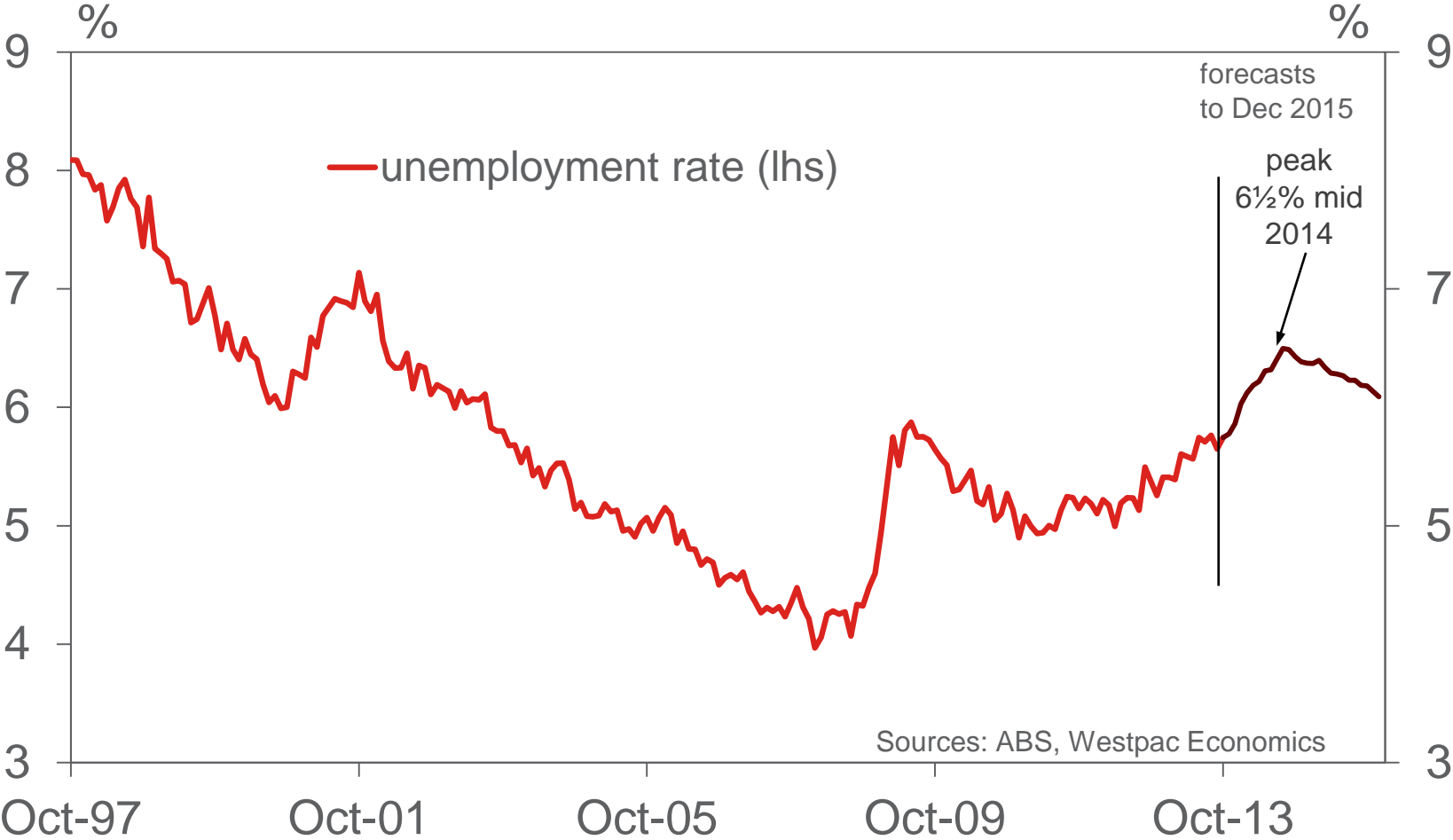
Unemployment and participation rates



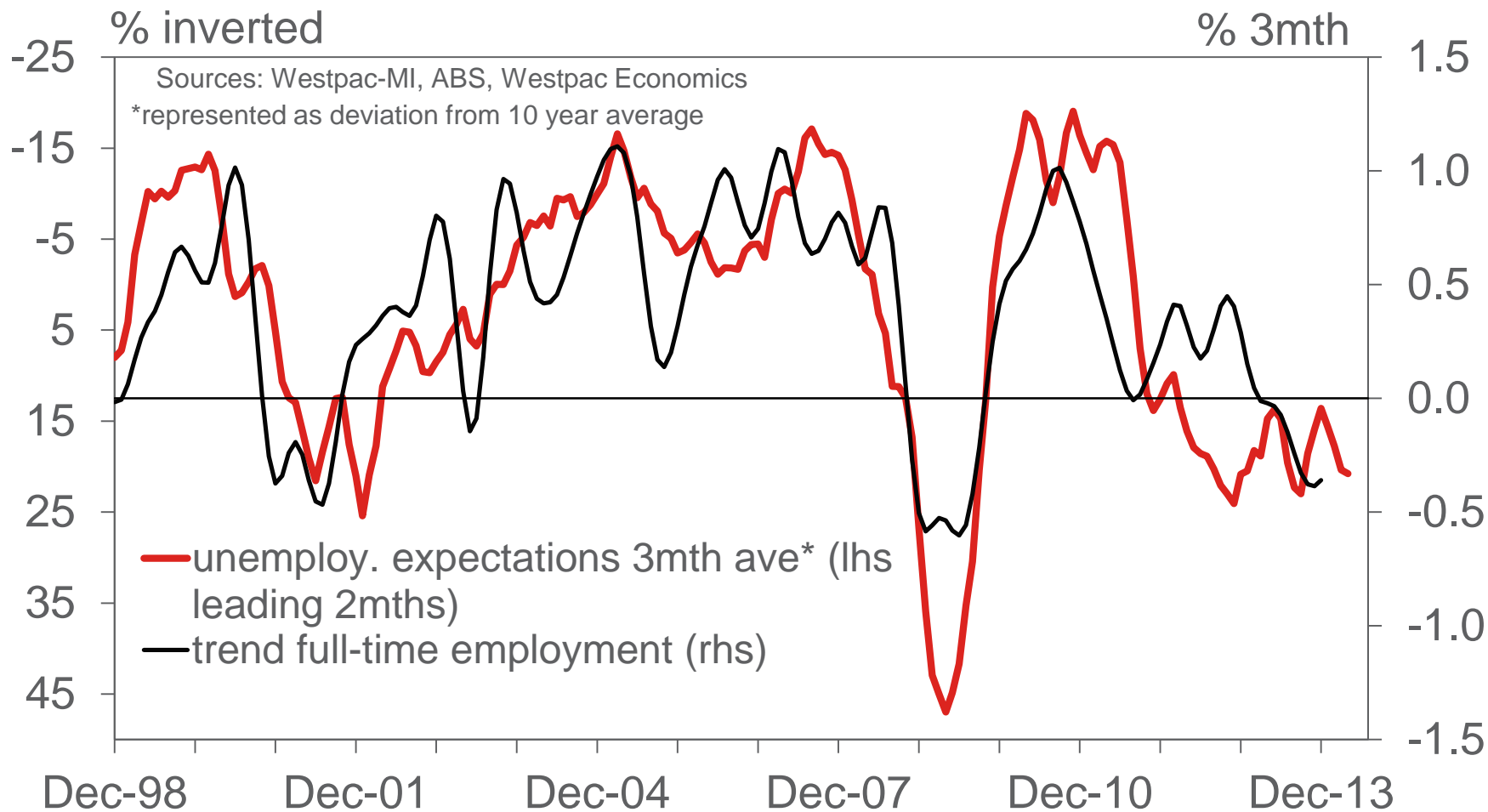
Impact of aging on the participation rate



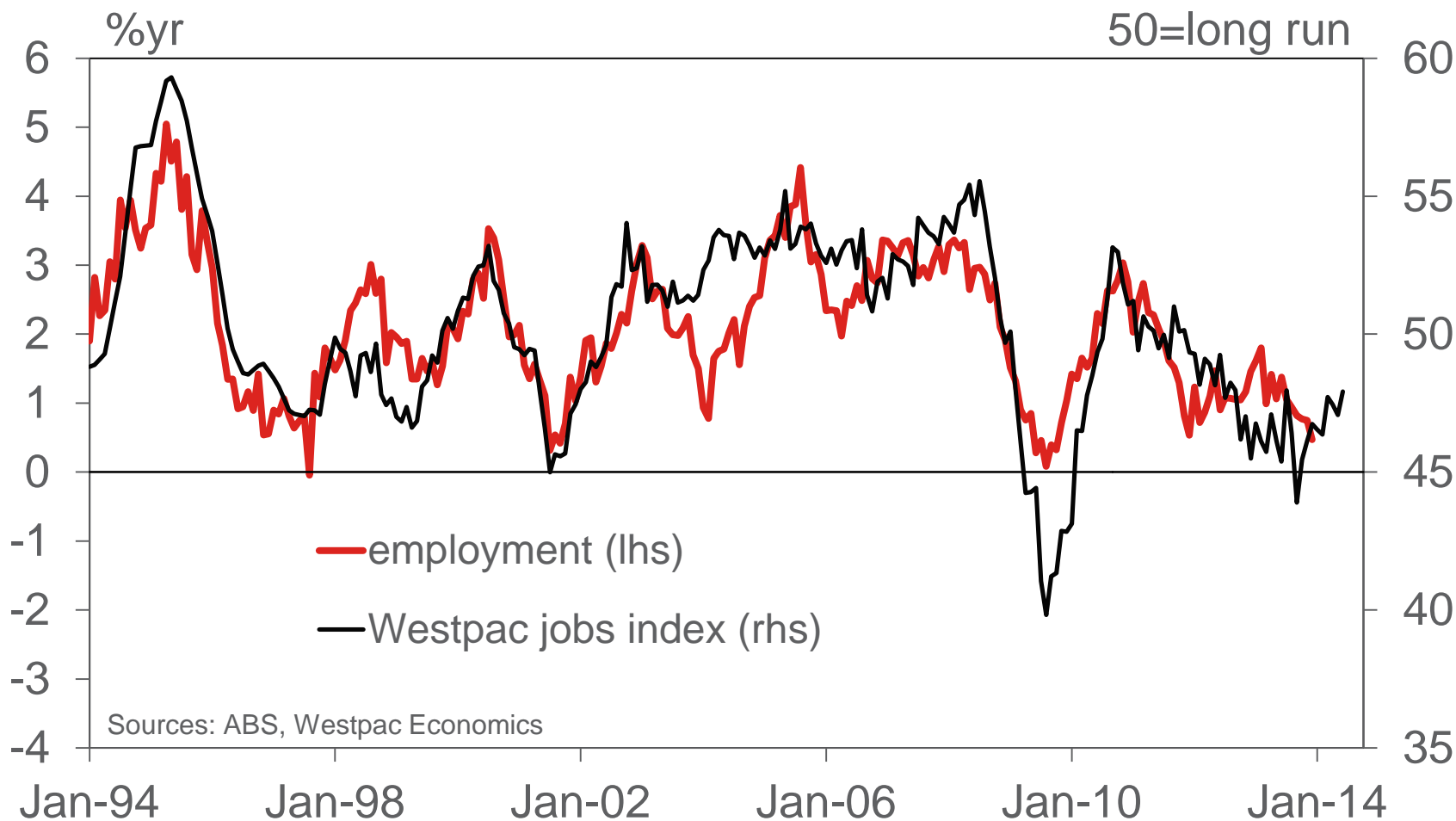
Unemployment rate to stay high in 2014/2015



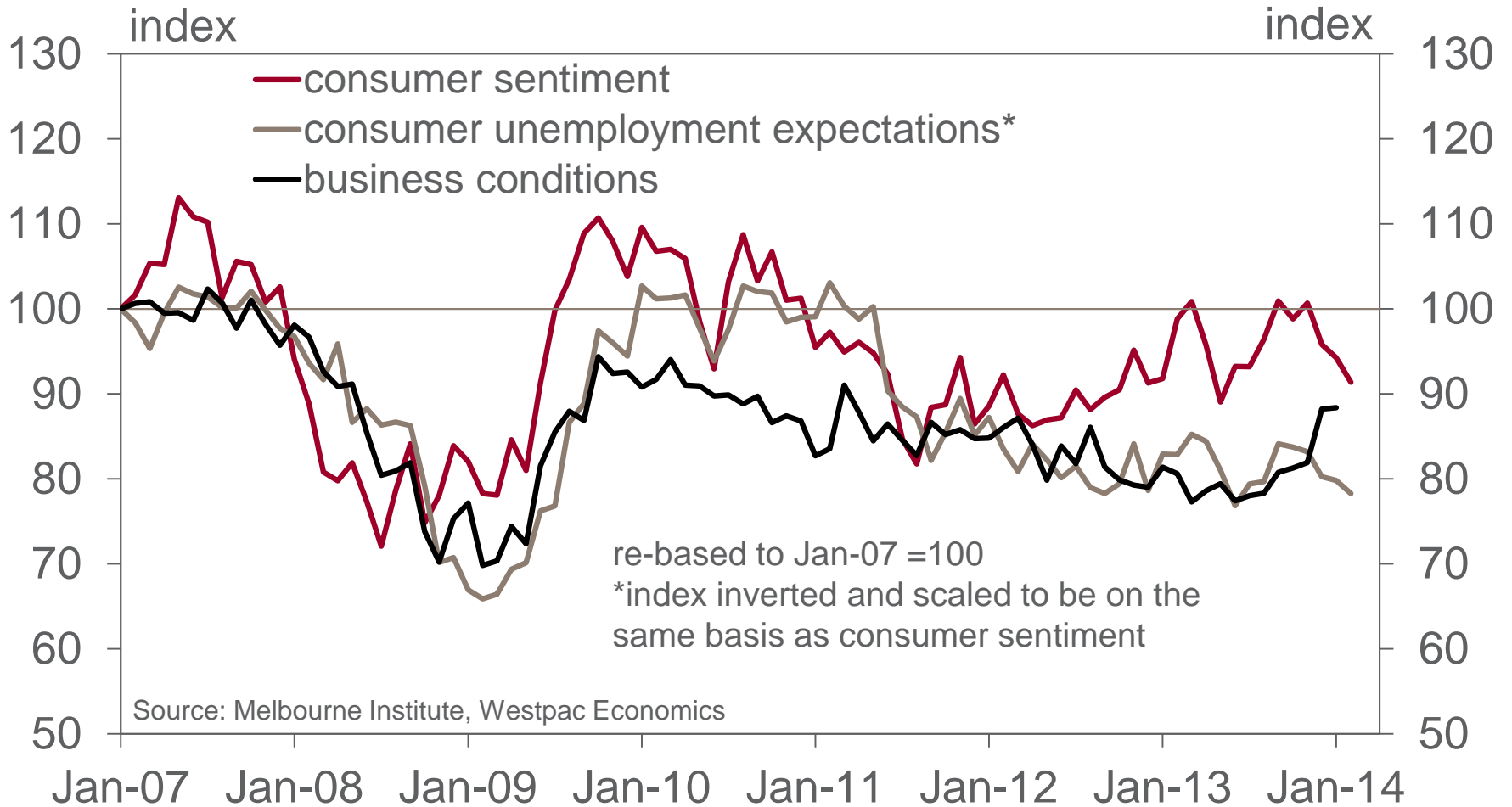
Households perception of jobs turning again



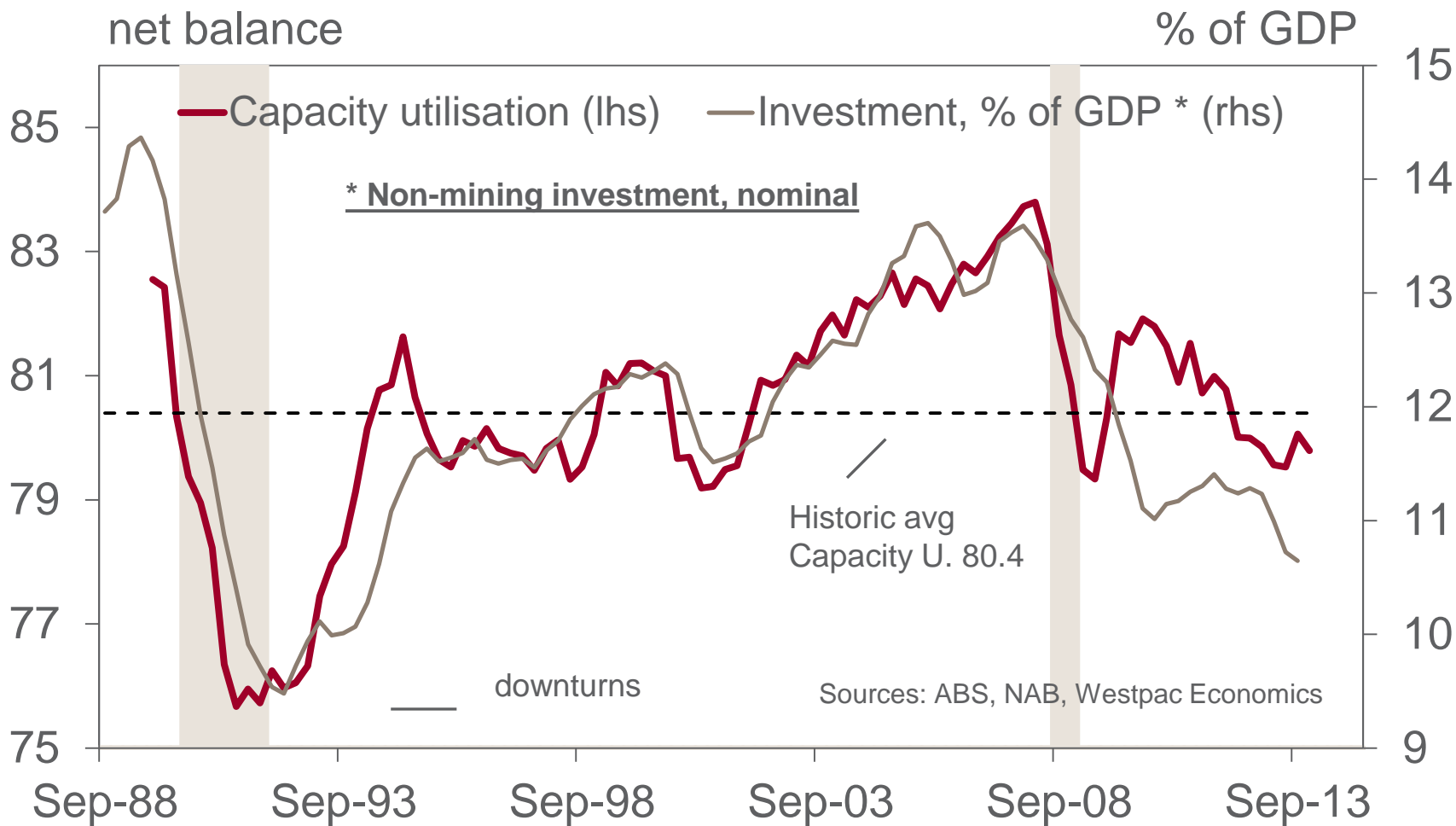
Jobs index – an average of the business surveys



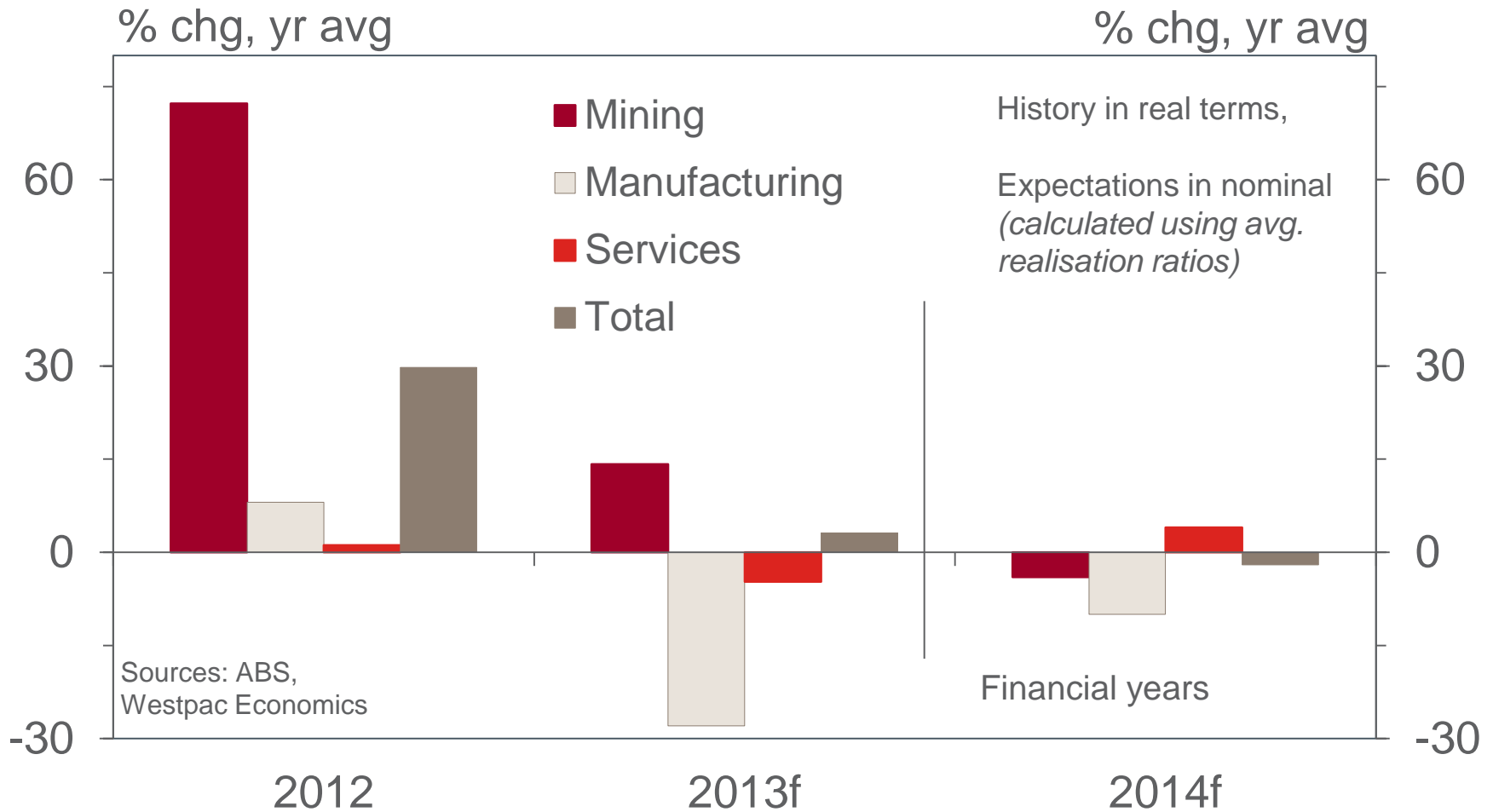
Confidence, job loss fears & business conditions



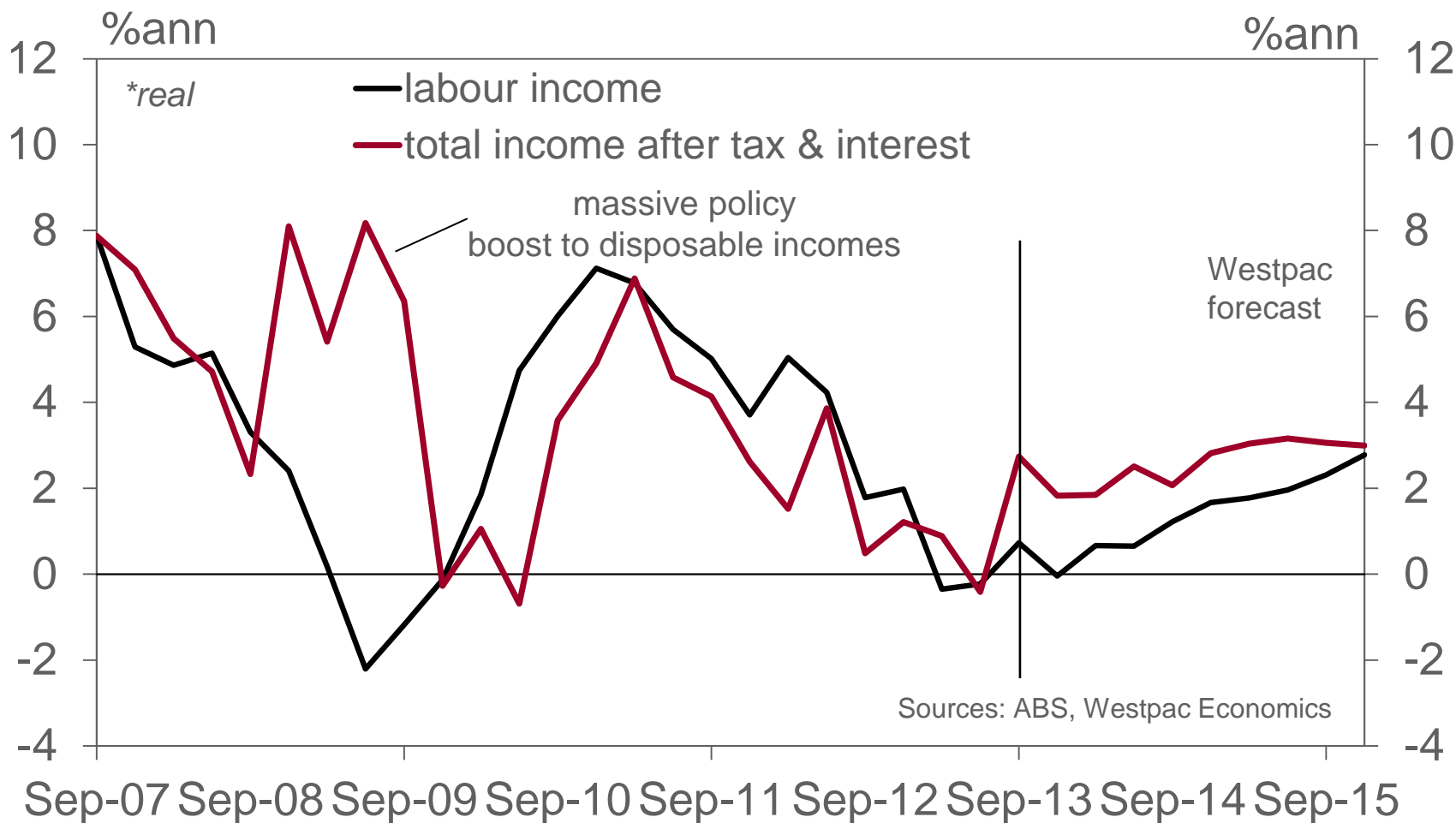
Capacity utilisation, at low levels



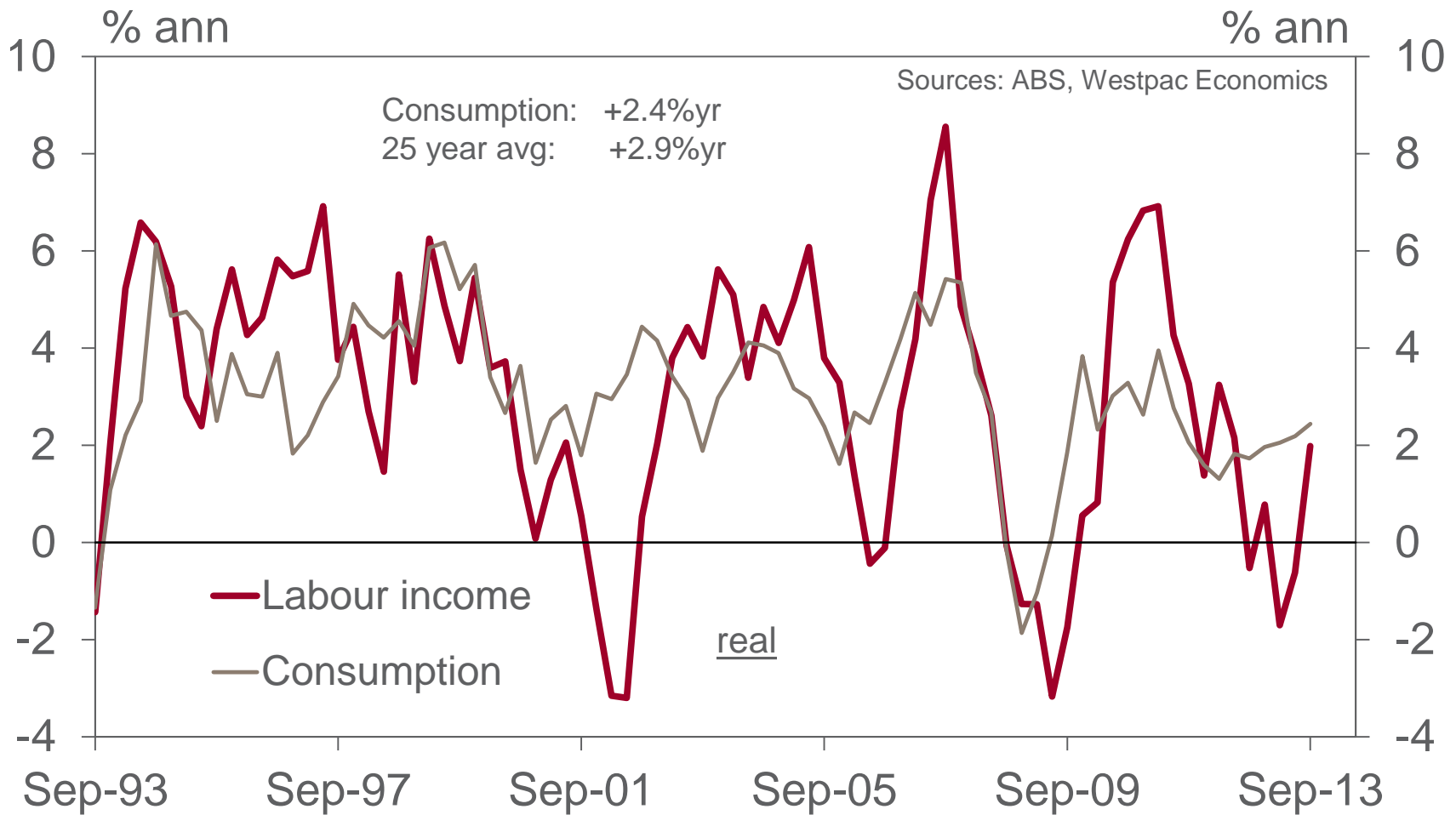
CAPEX plans by industry



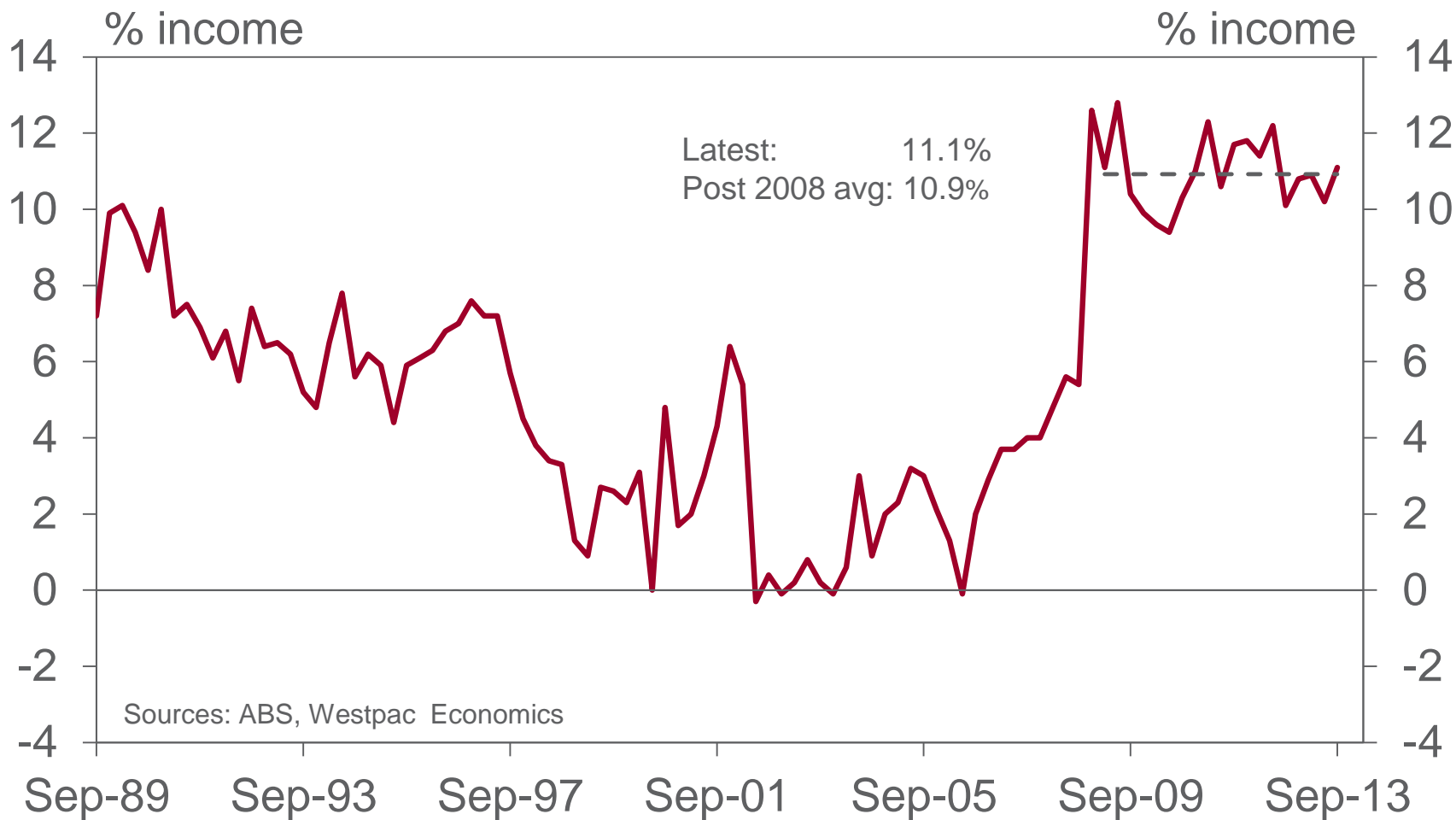
Household incomes: subdued growth to continue



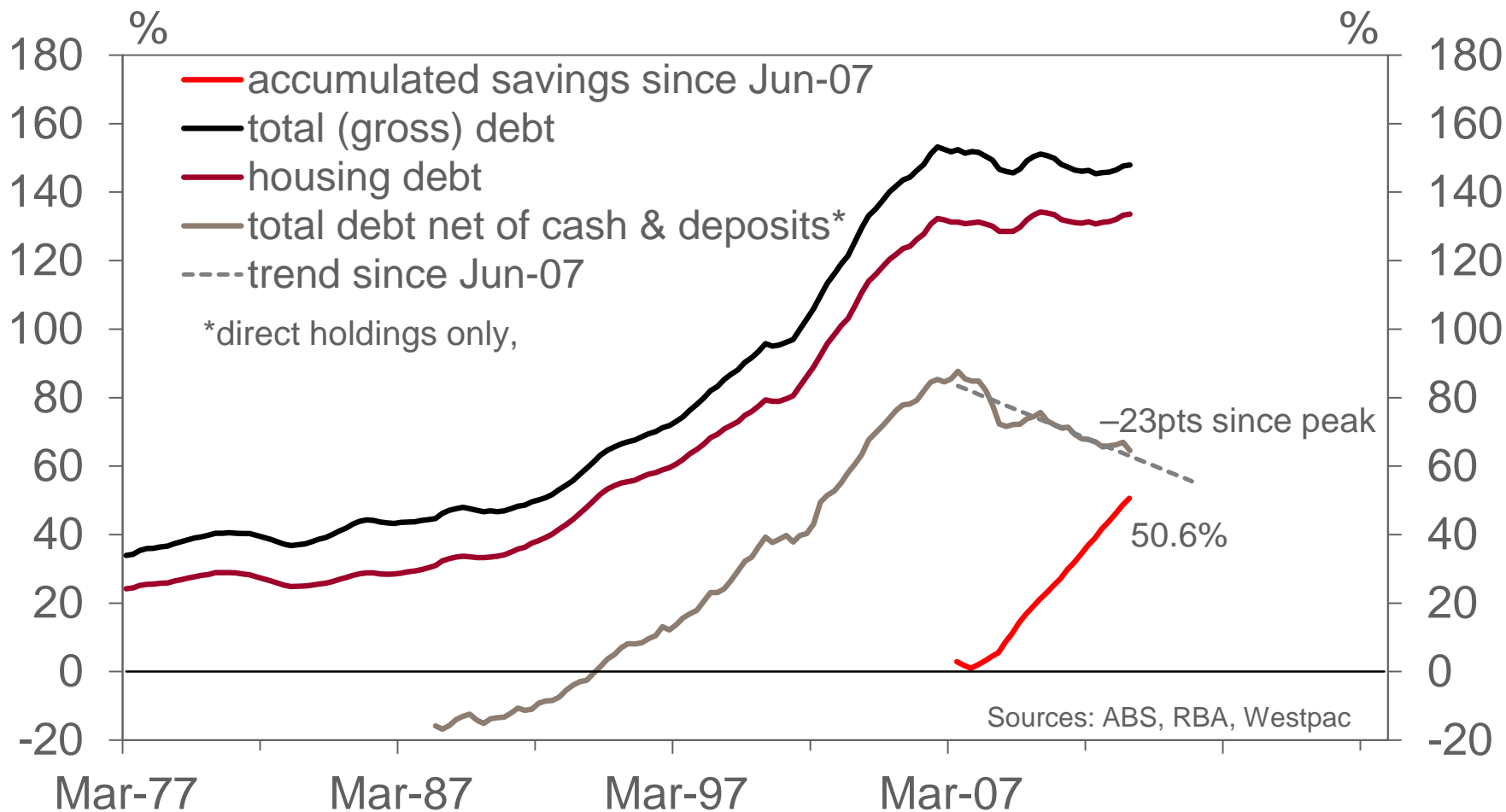
NSW Consumers: consumption & income



Household savings rate

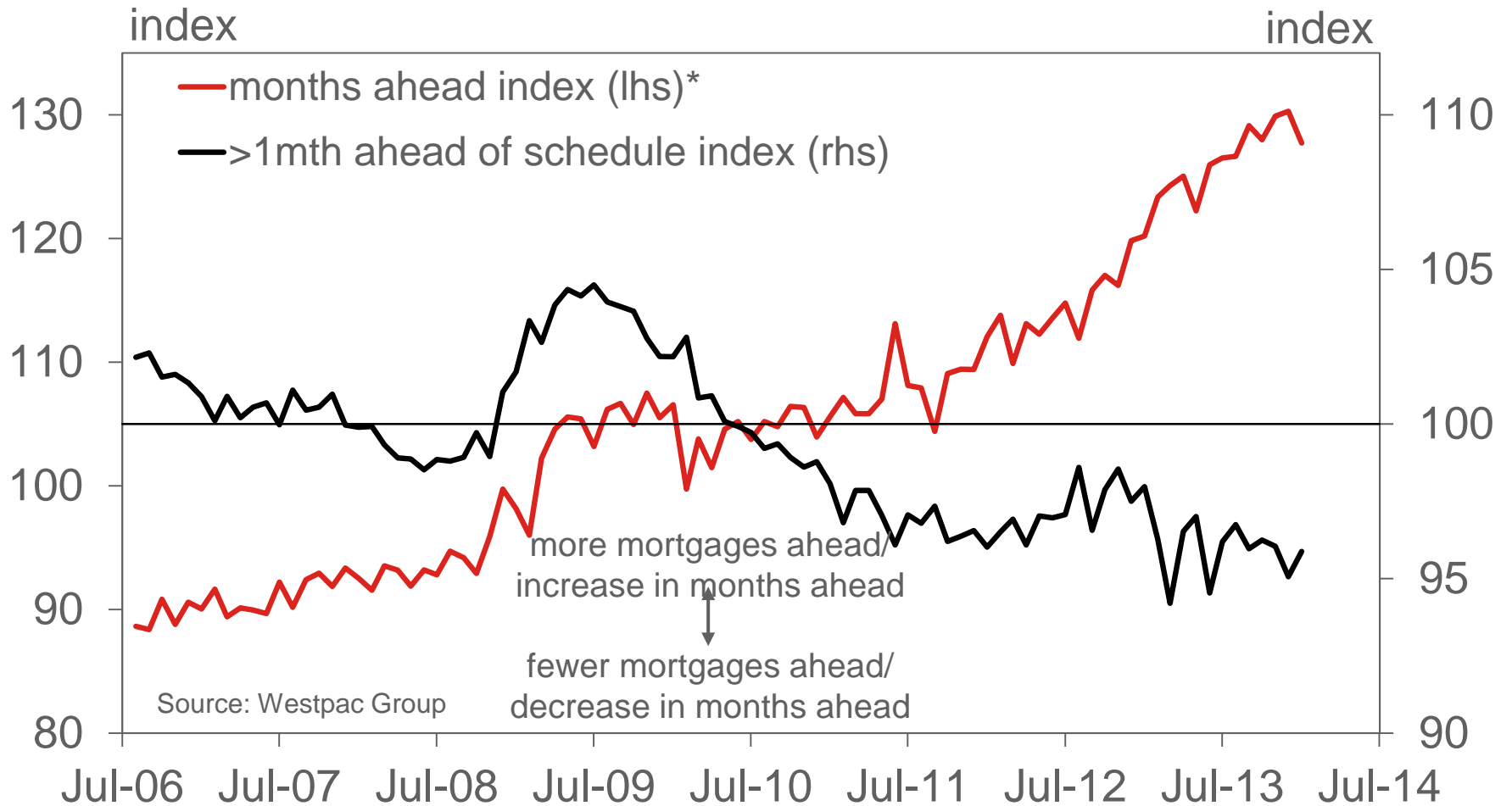


Australian household: debt to income ratio

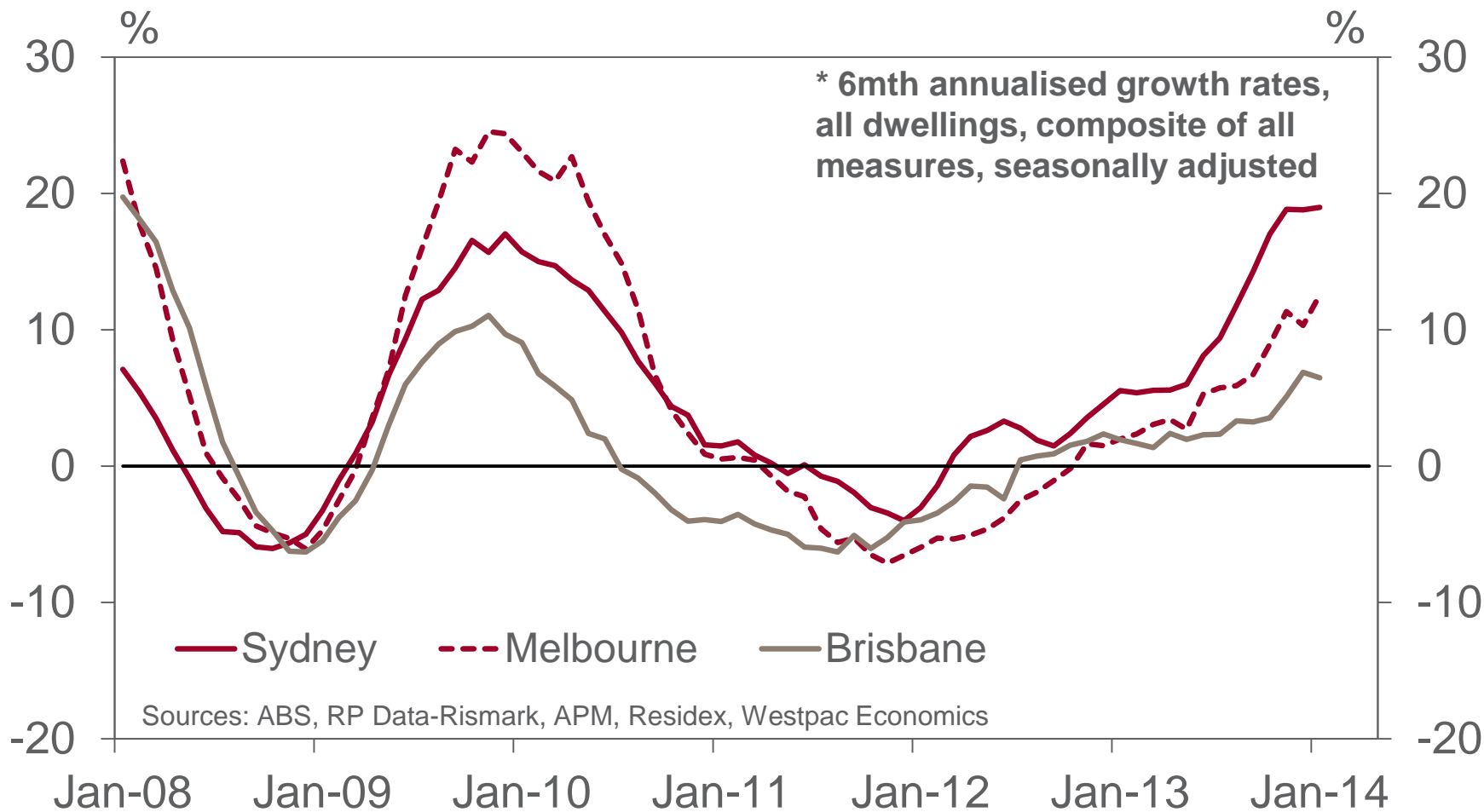


Sources: ABS, RBA, Westpac

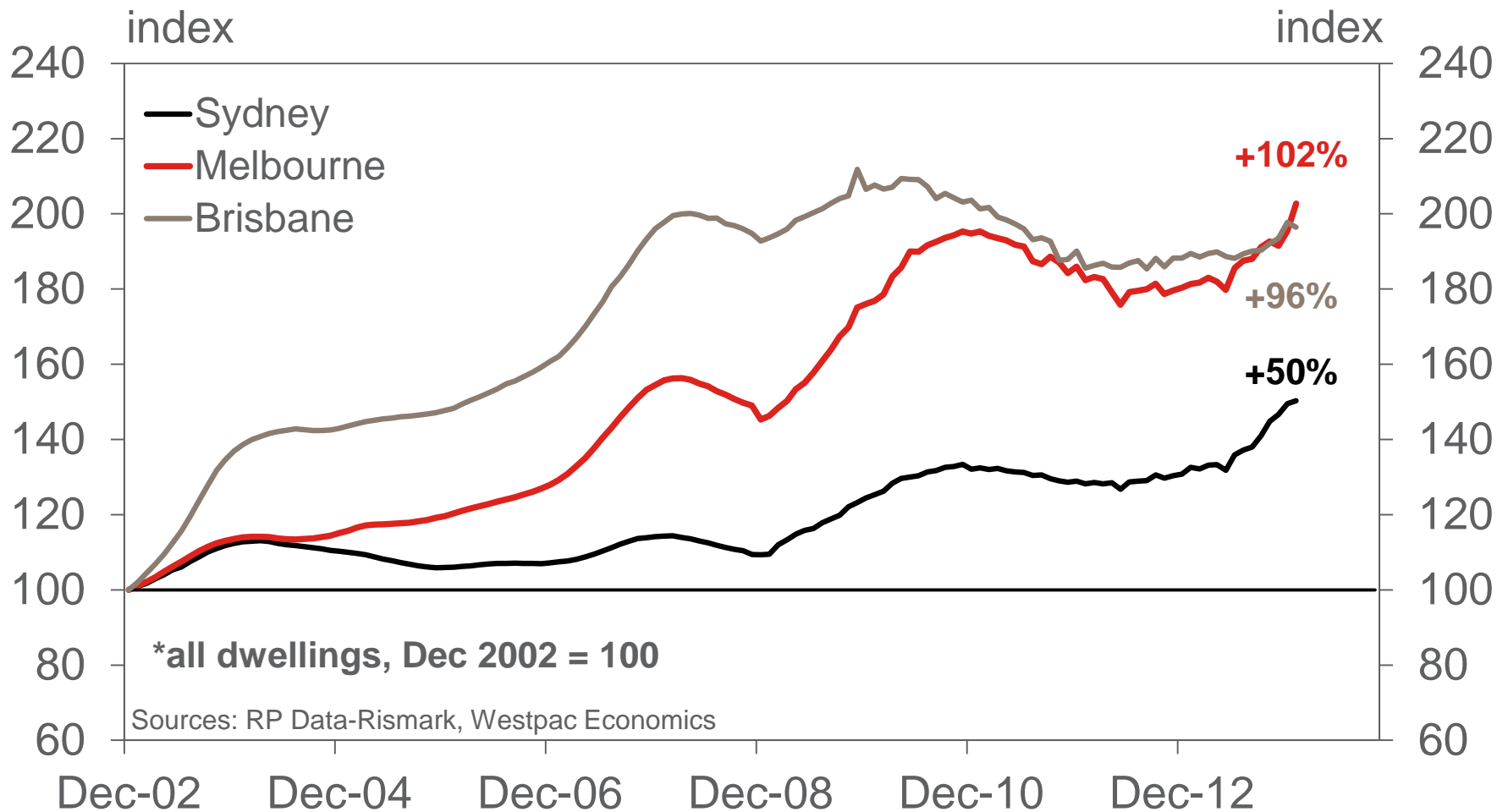
Westpac mortgages: stress and caution



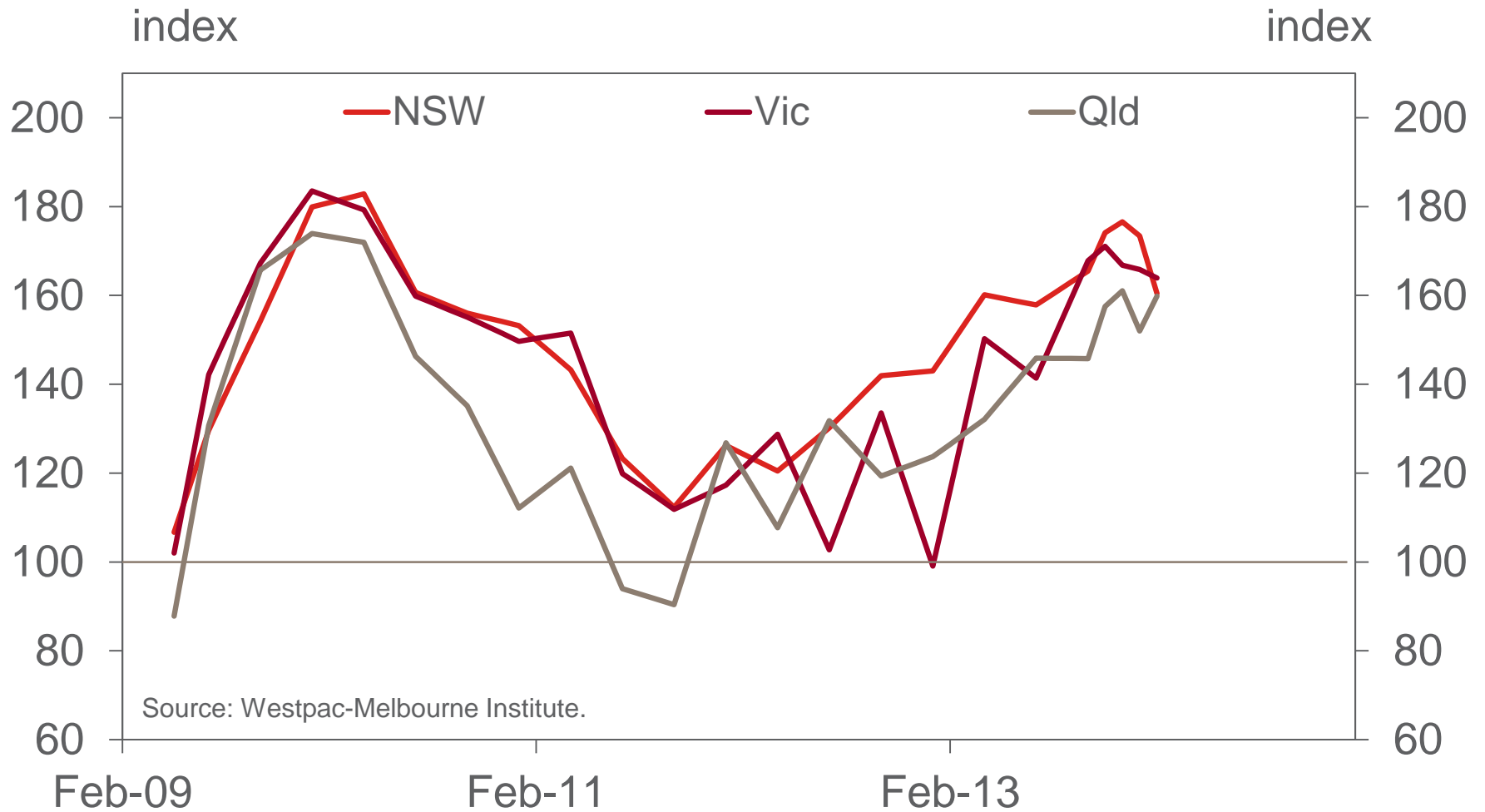
Capital city dwelling prices



Dwelling prices: Sydney, Melbourne, Brisbane

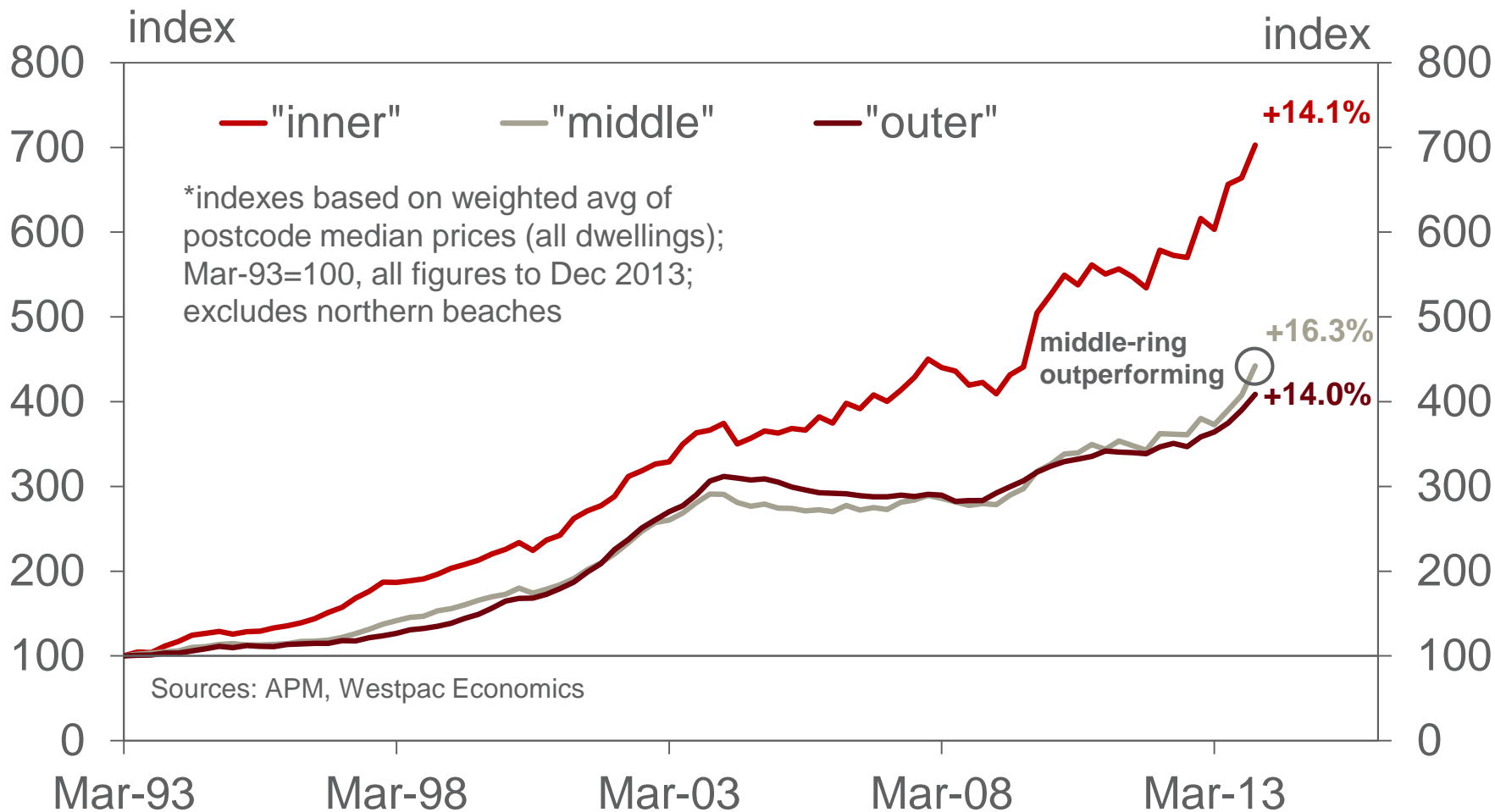


House price expectations by state

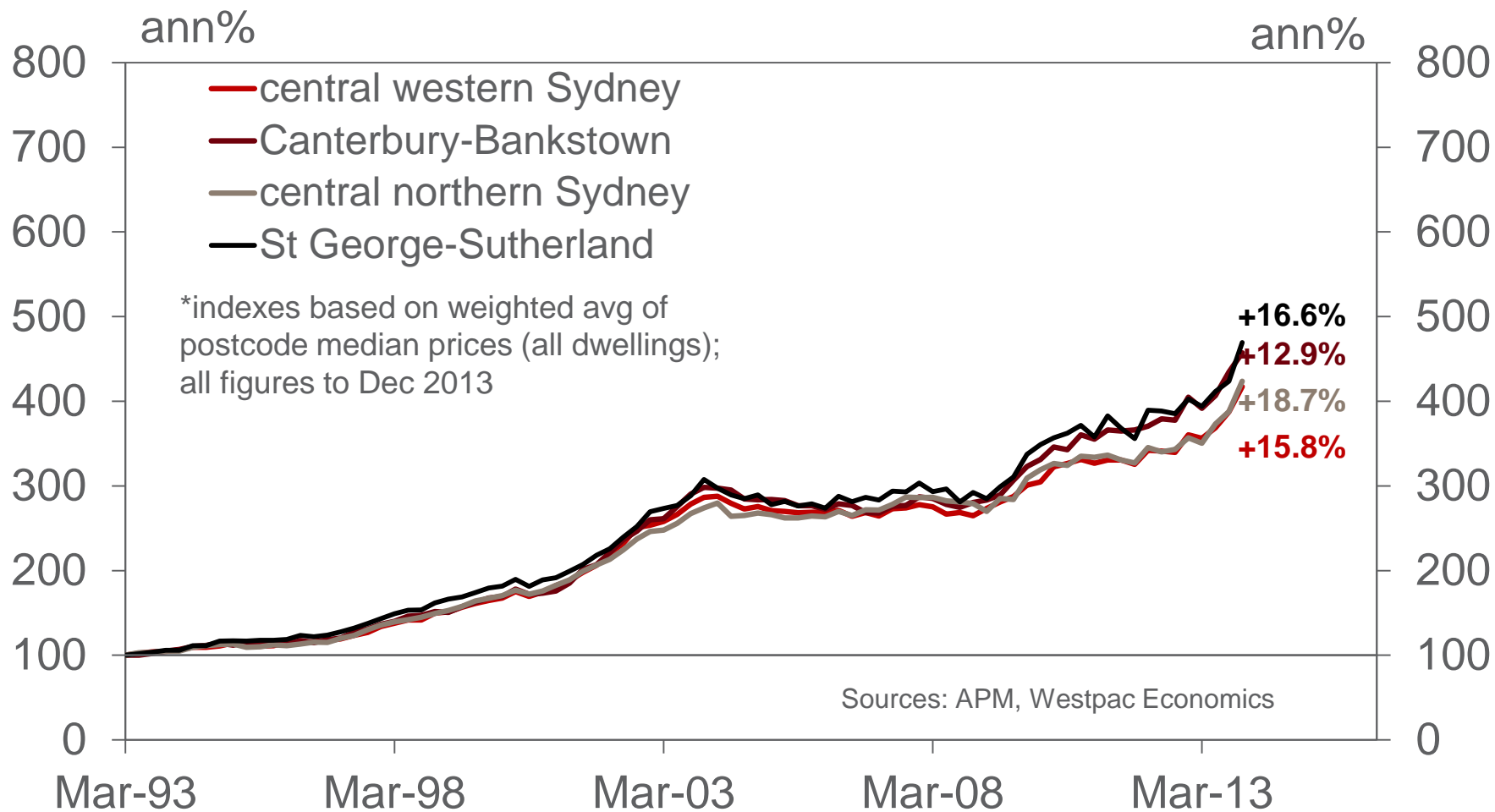


Source: Westpac-Melbourne Institute.

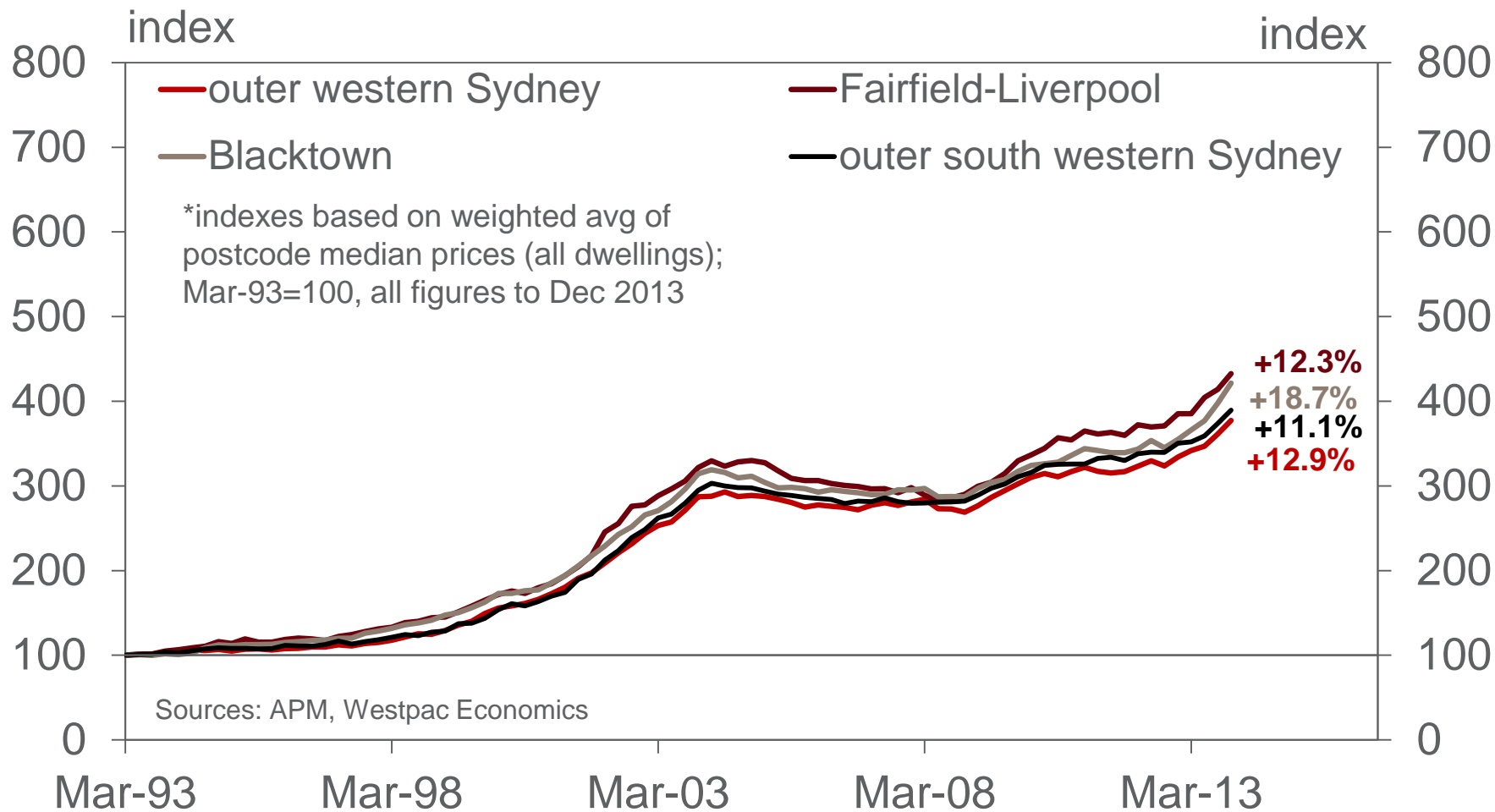
House prices: Sydney "rings"



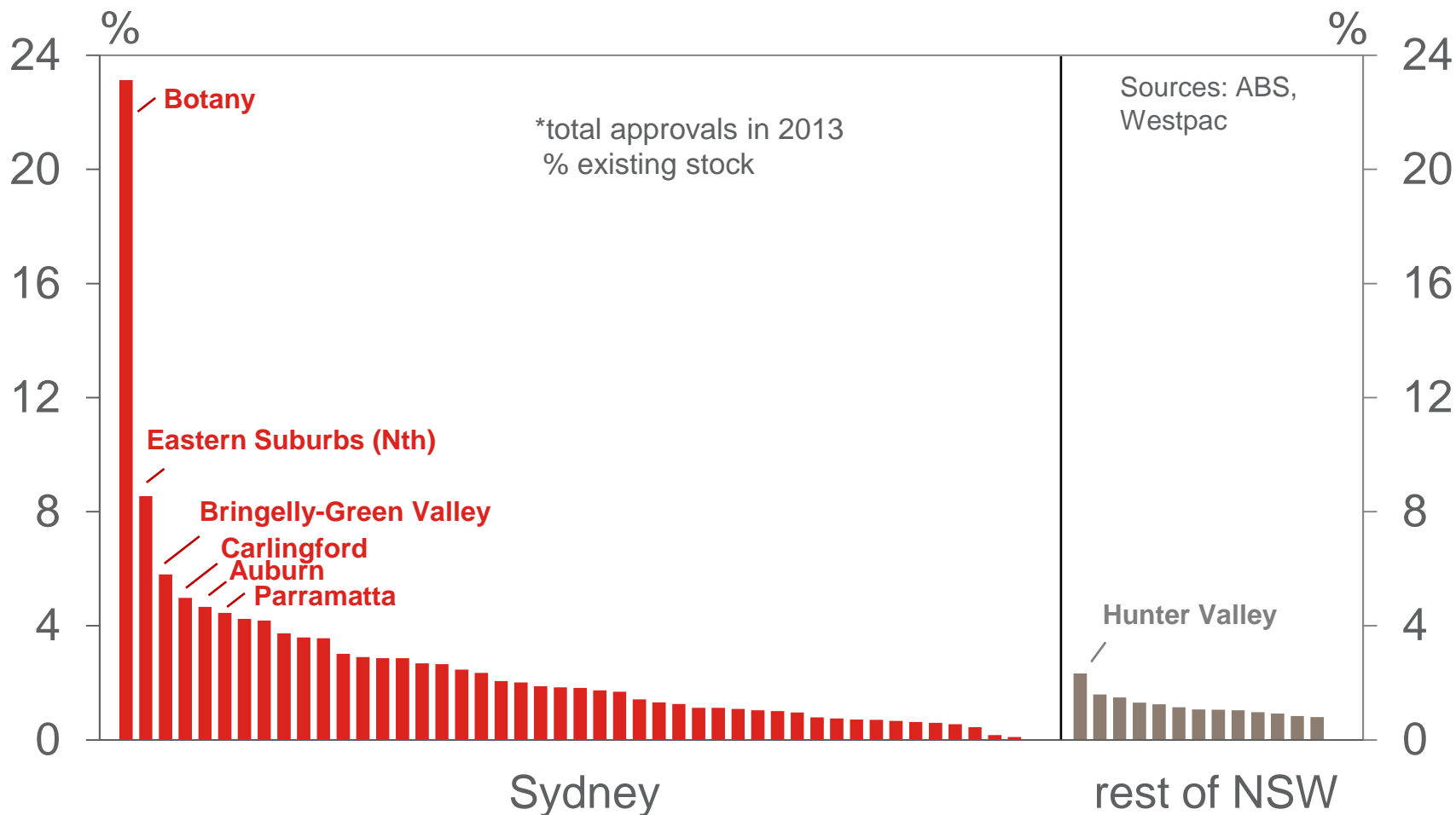
House prices: Sydney “middle”



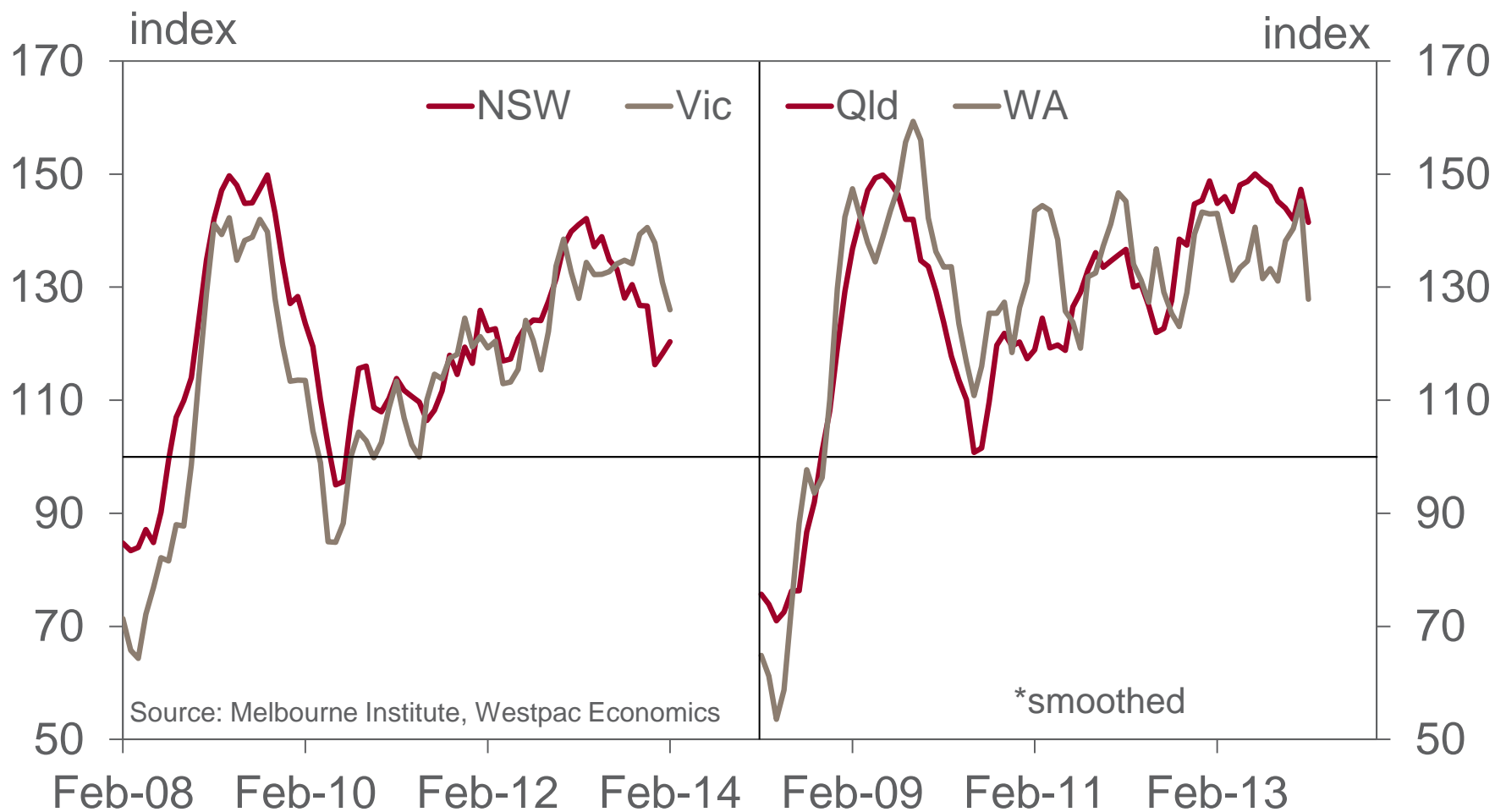
House prices: Sydney “outer”



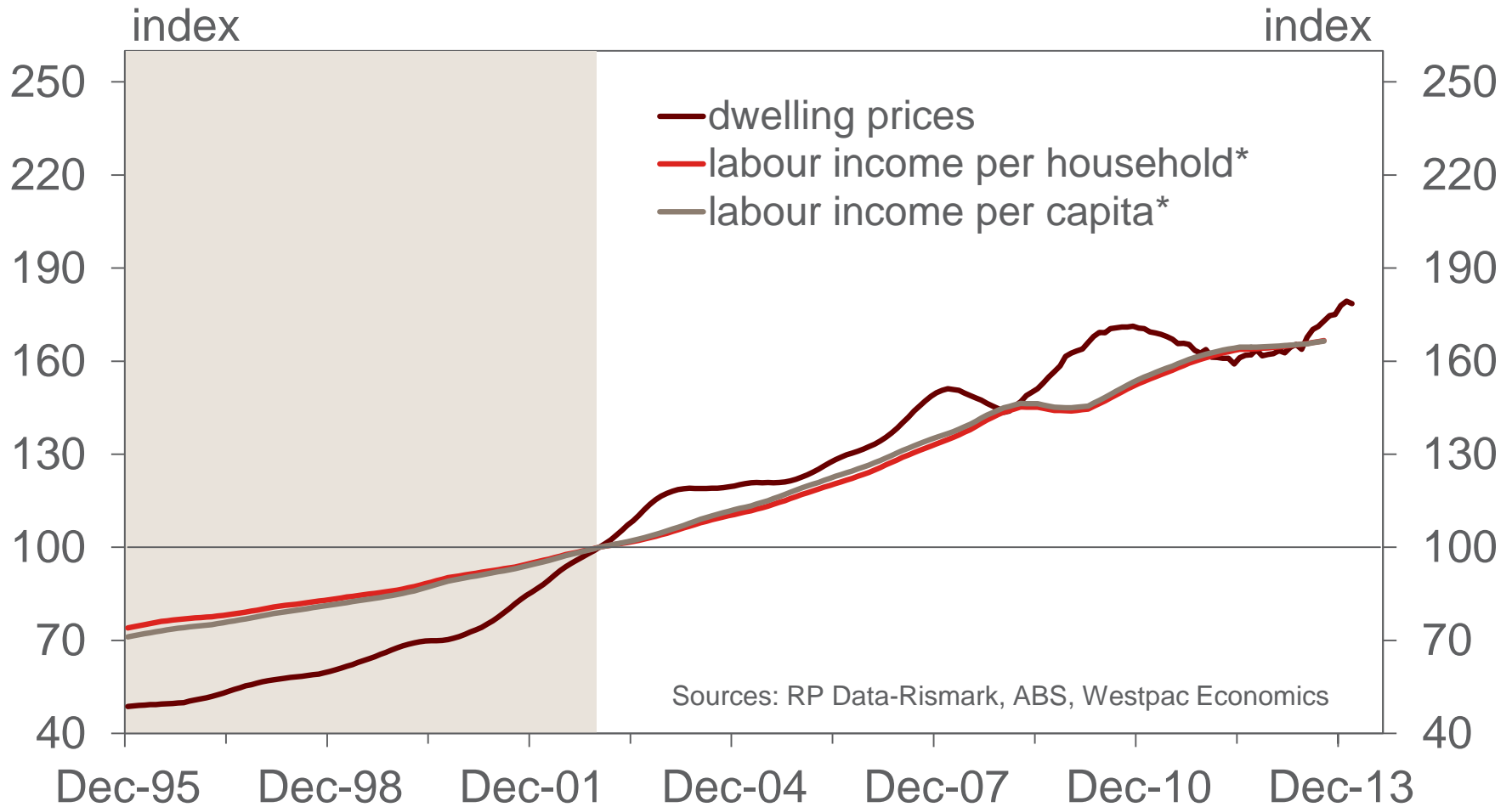
New dwelling supply: NSW sub-regional detail



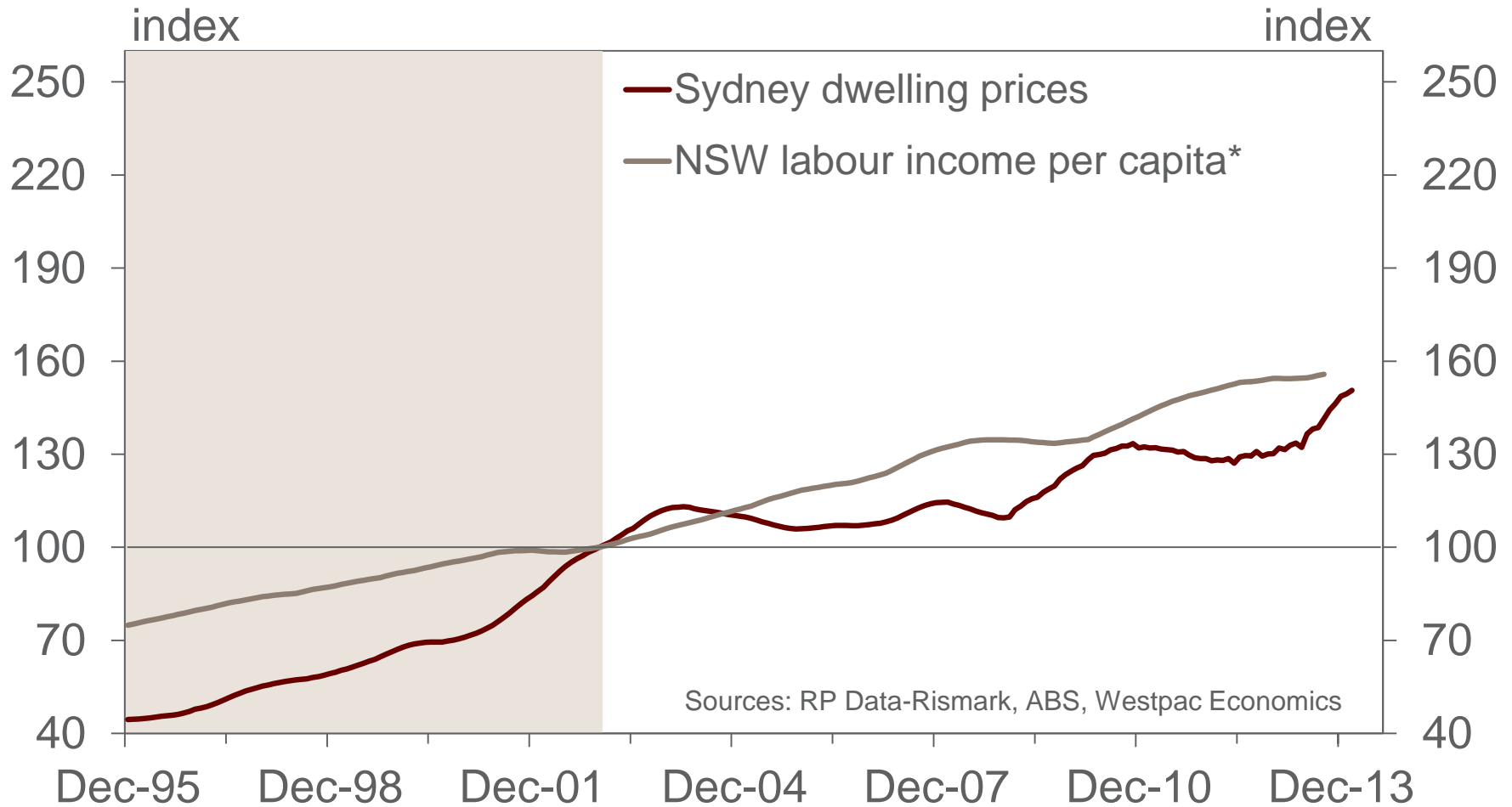
'Time to buy a dwelling' by state



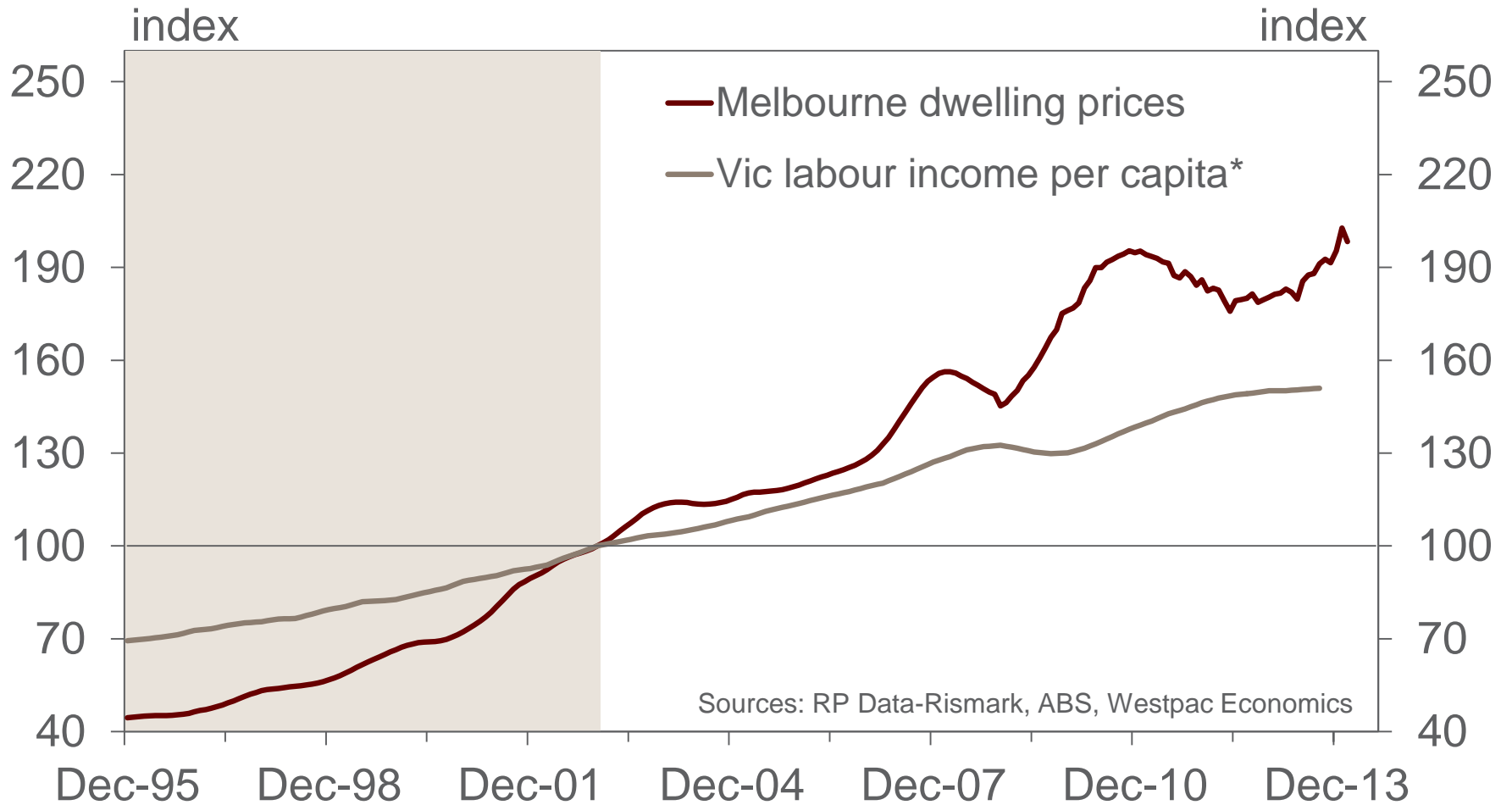
Australia: dwelling prices vs labour incomes



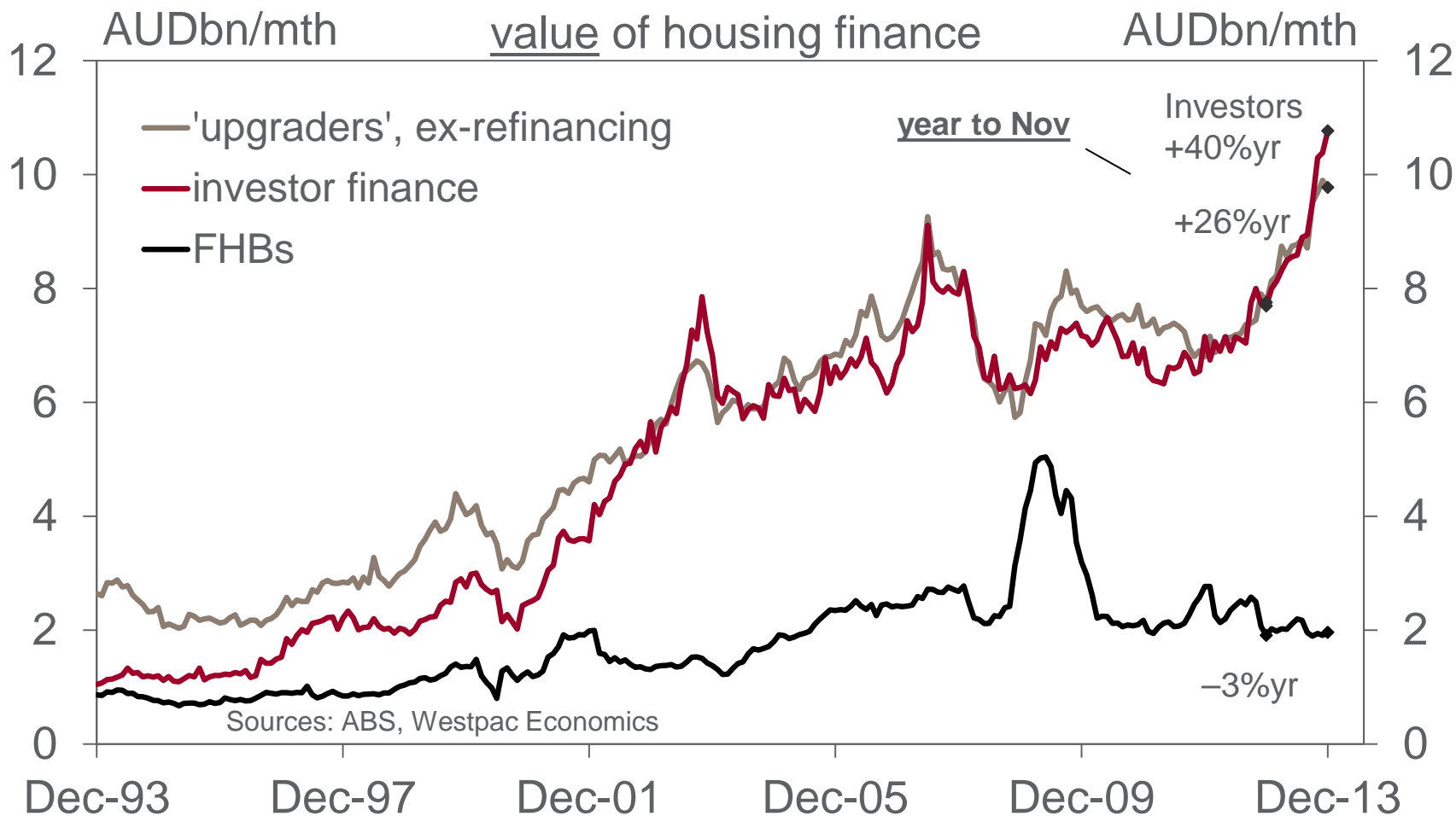
Sydney: dwelling prices vs labour incomes



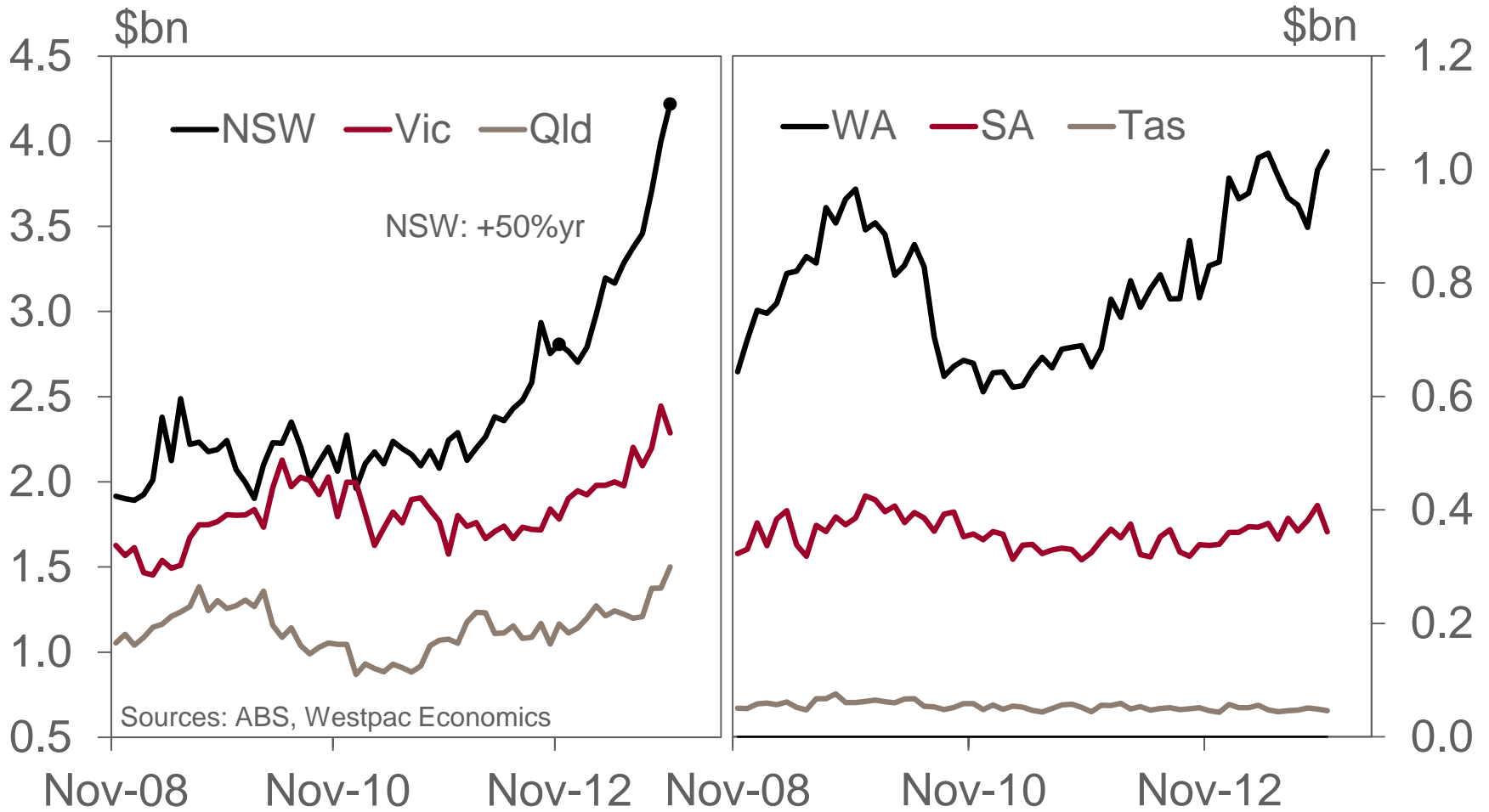
Melbourne: dwelling prices vs labour incomes



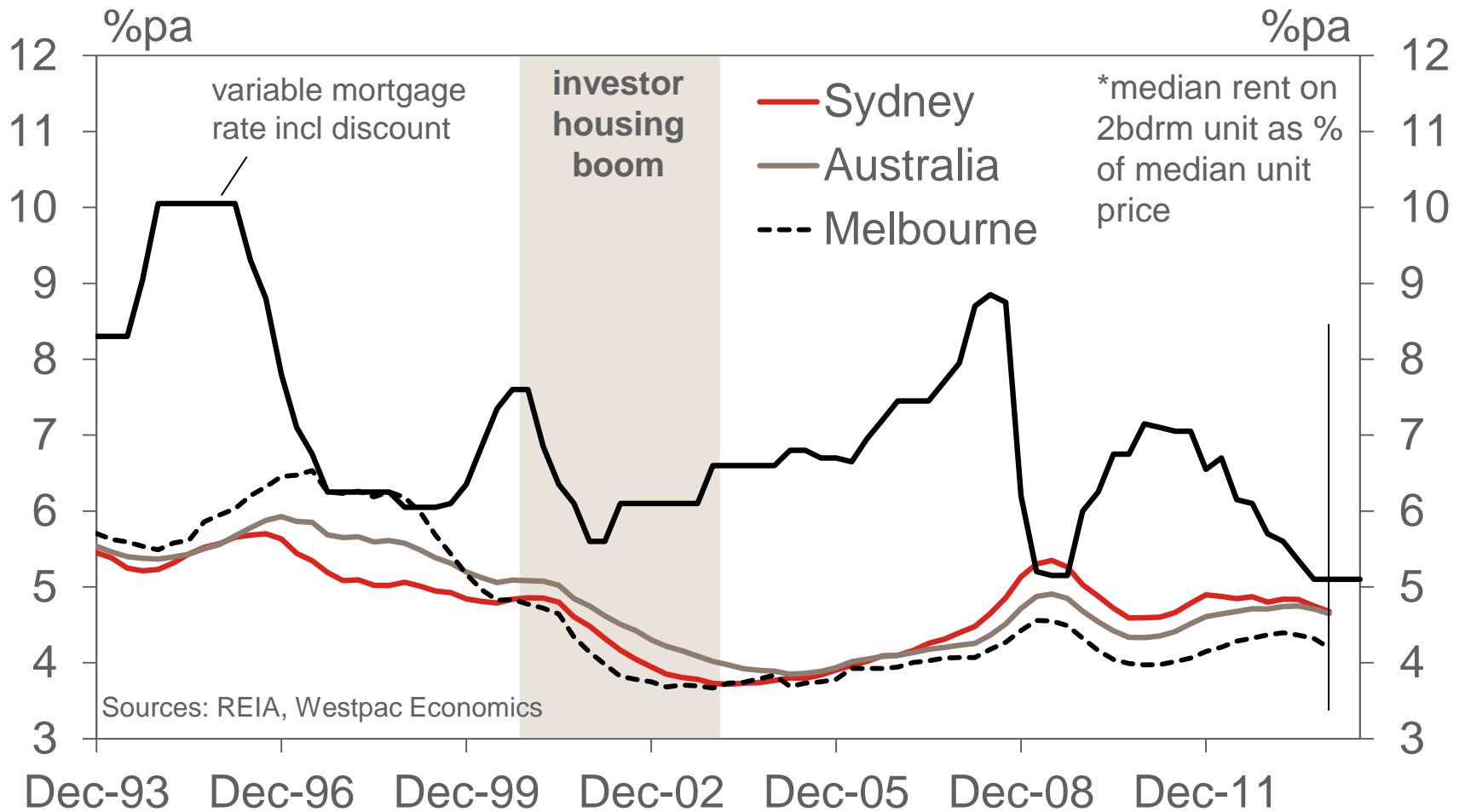
Value of finance approvals by segment



Housing finance by state: investors*



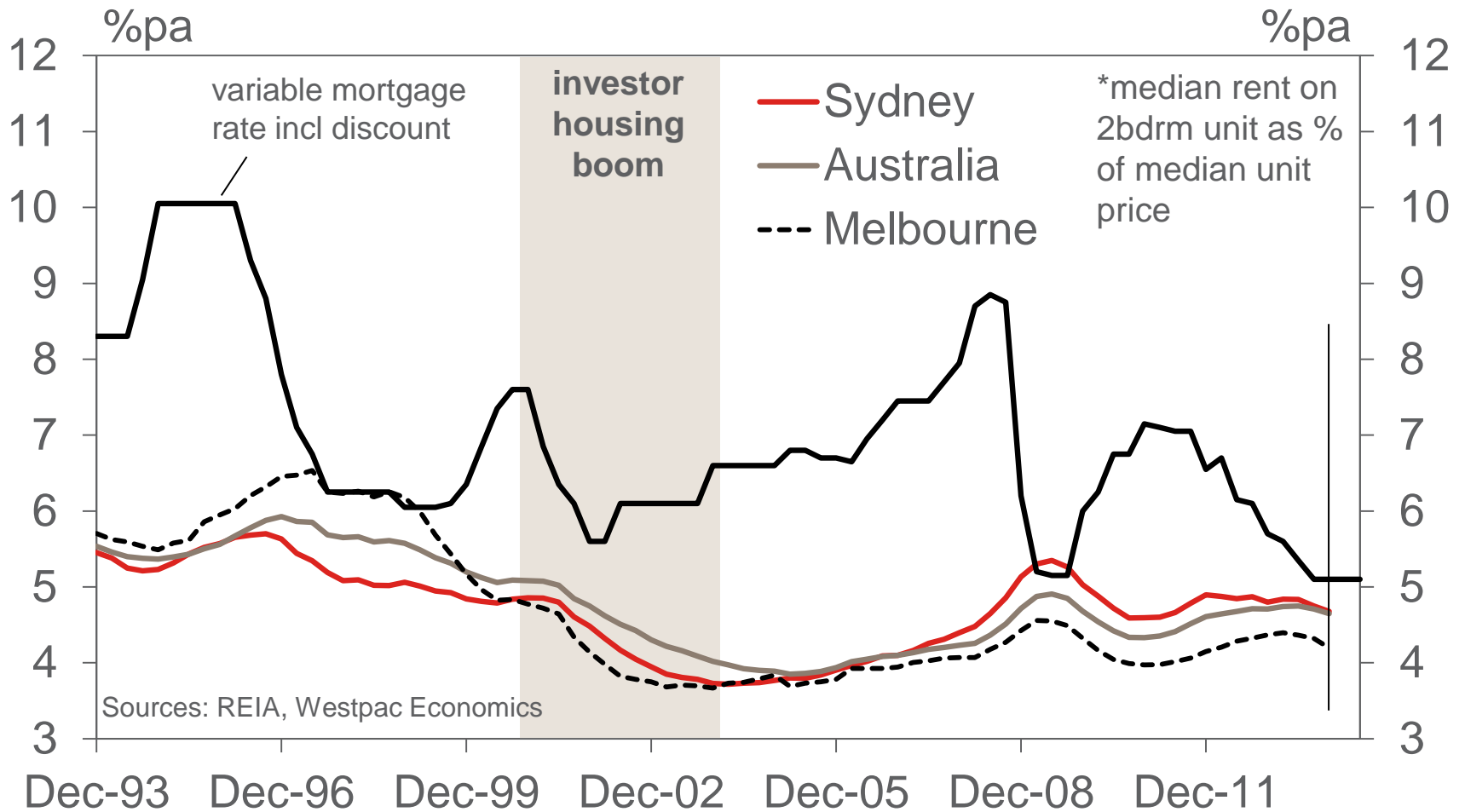
Rental yields are close to mortgage rates



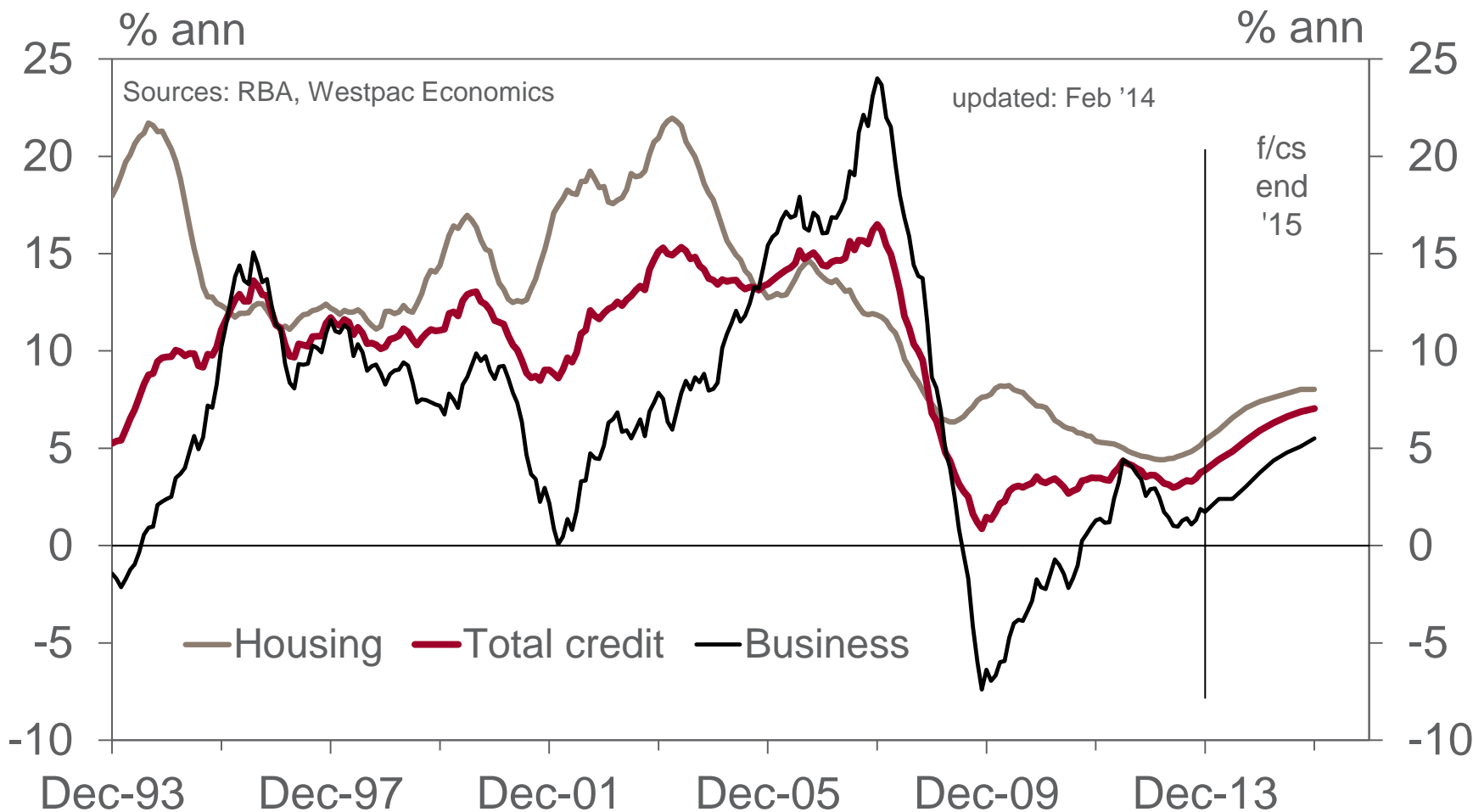
NSW population growth



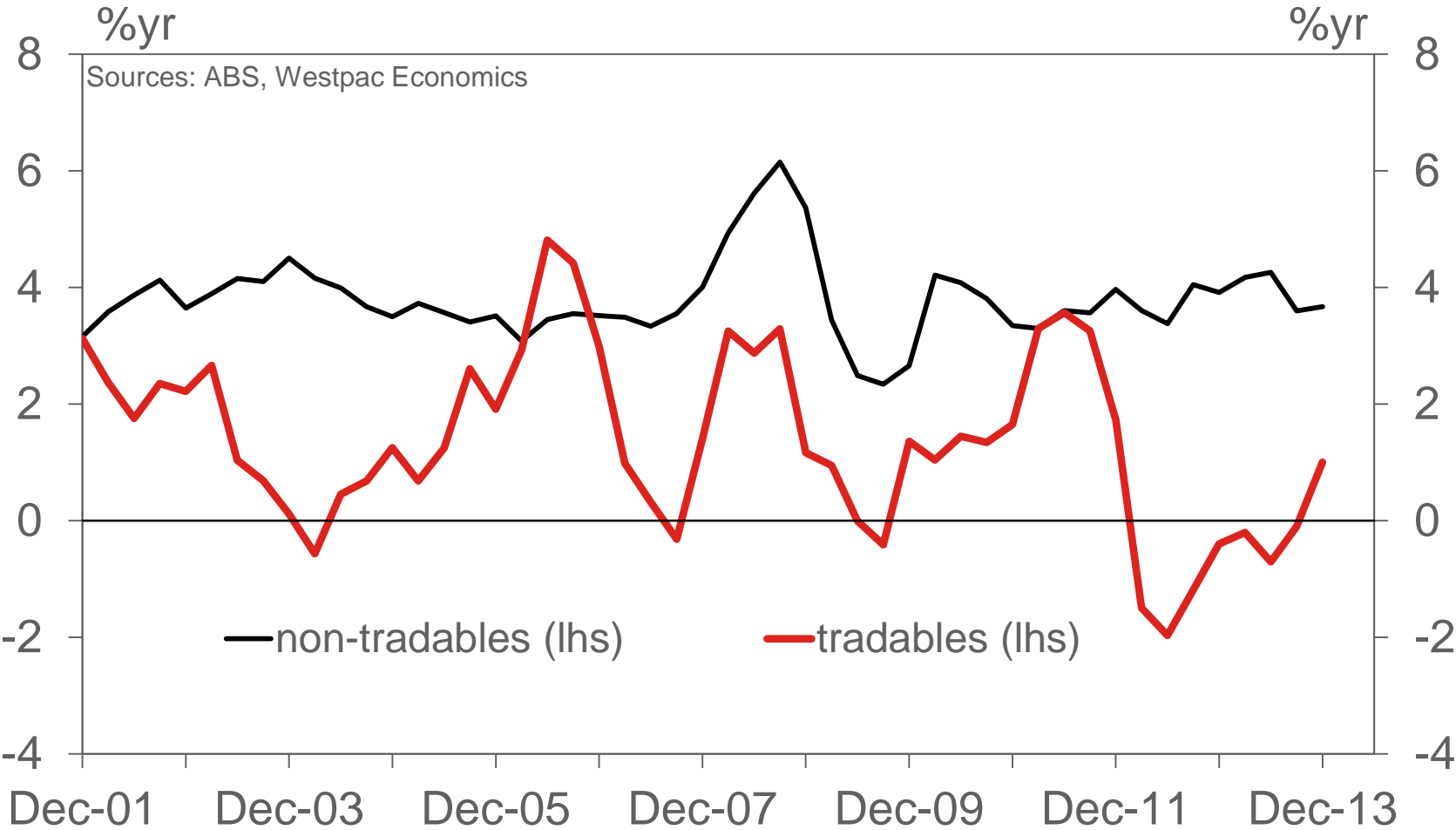
Rental yields are close to mortgage rates



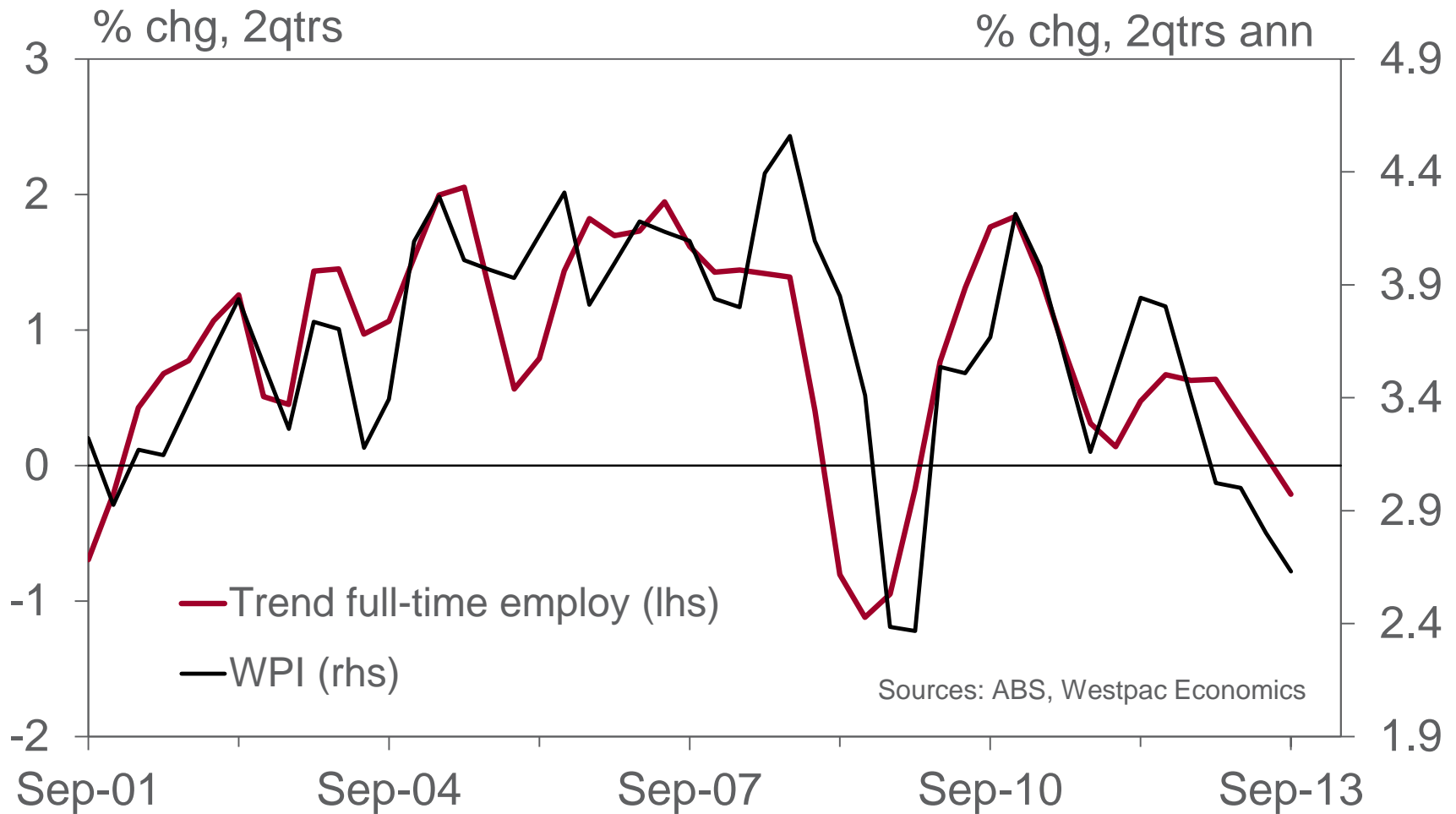
Credit growth- picks up at slower pace



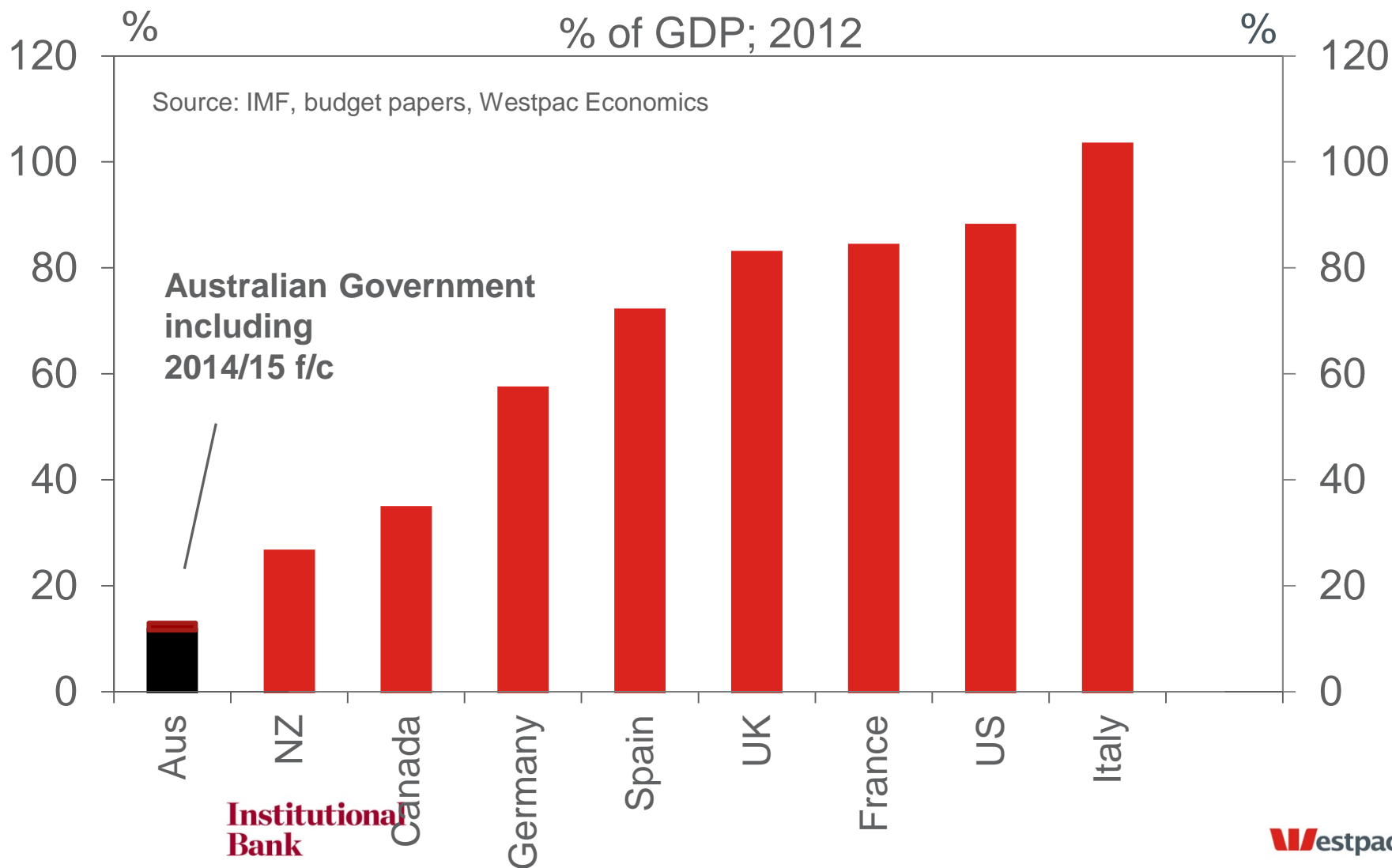
Non-tradable inflation – not reflecting wages, for now



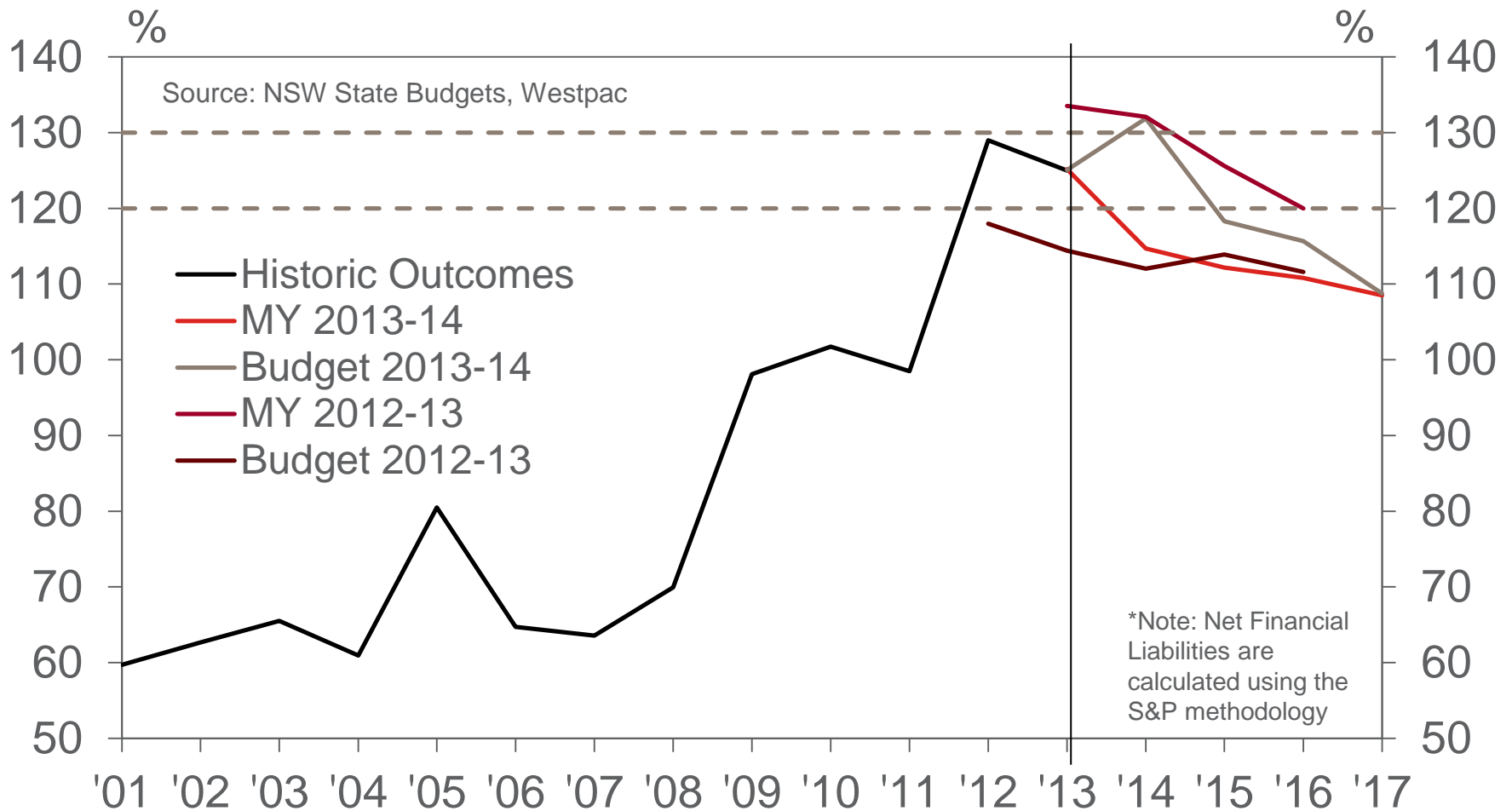
Soft labour market, wage pressures ease



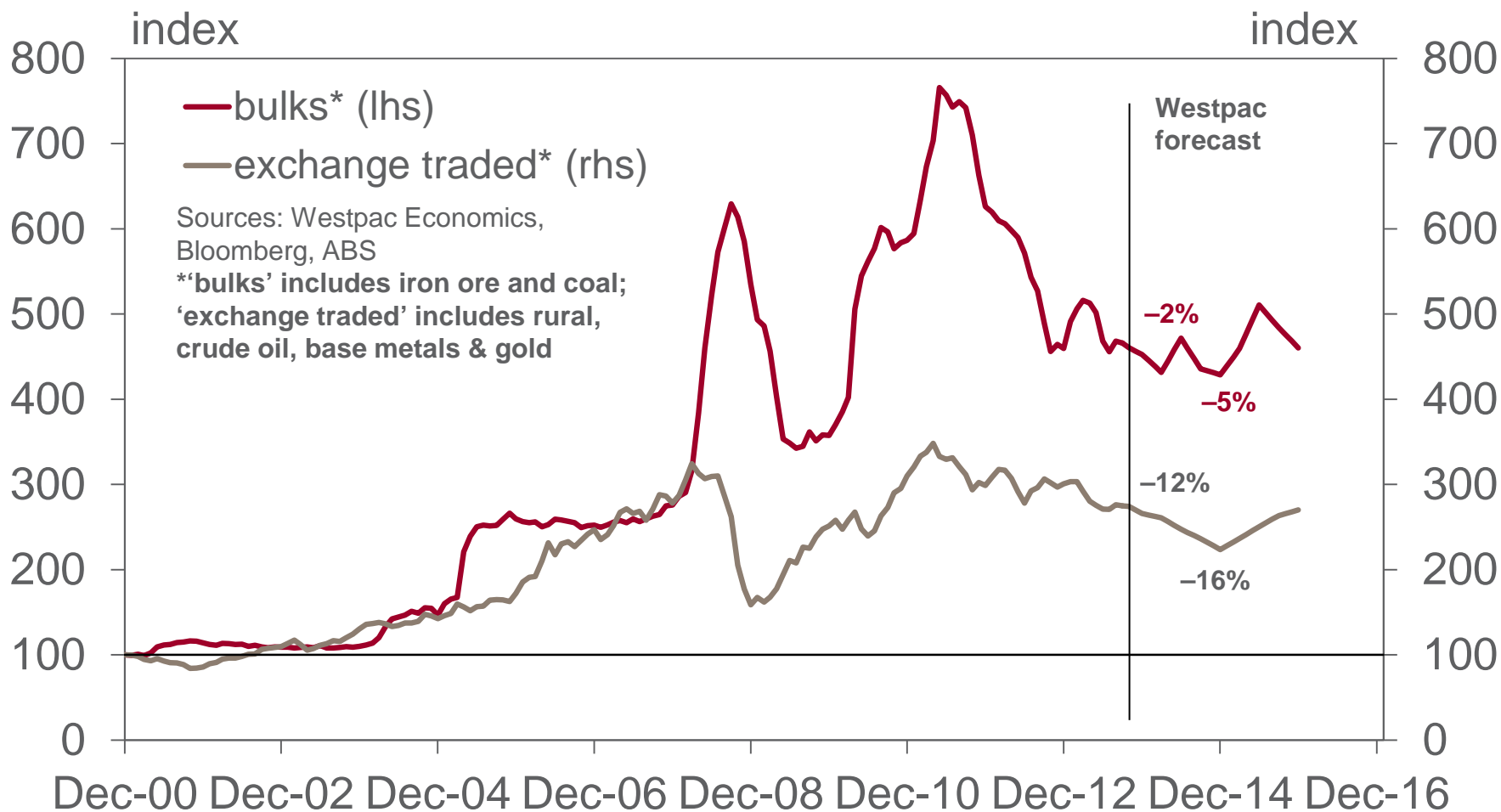
General government, net debt



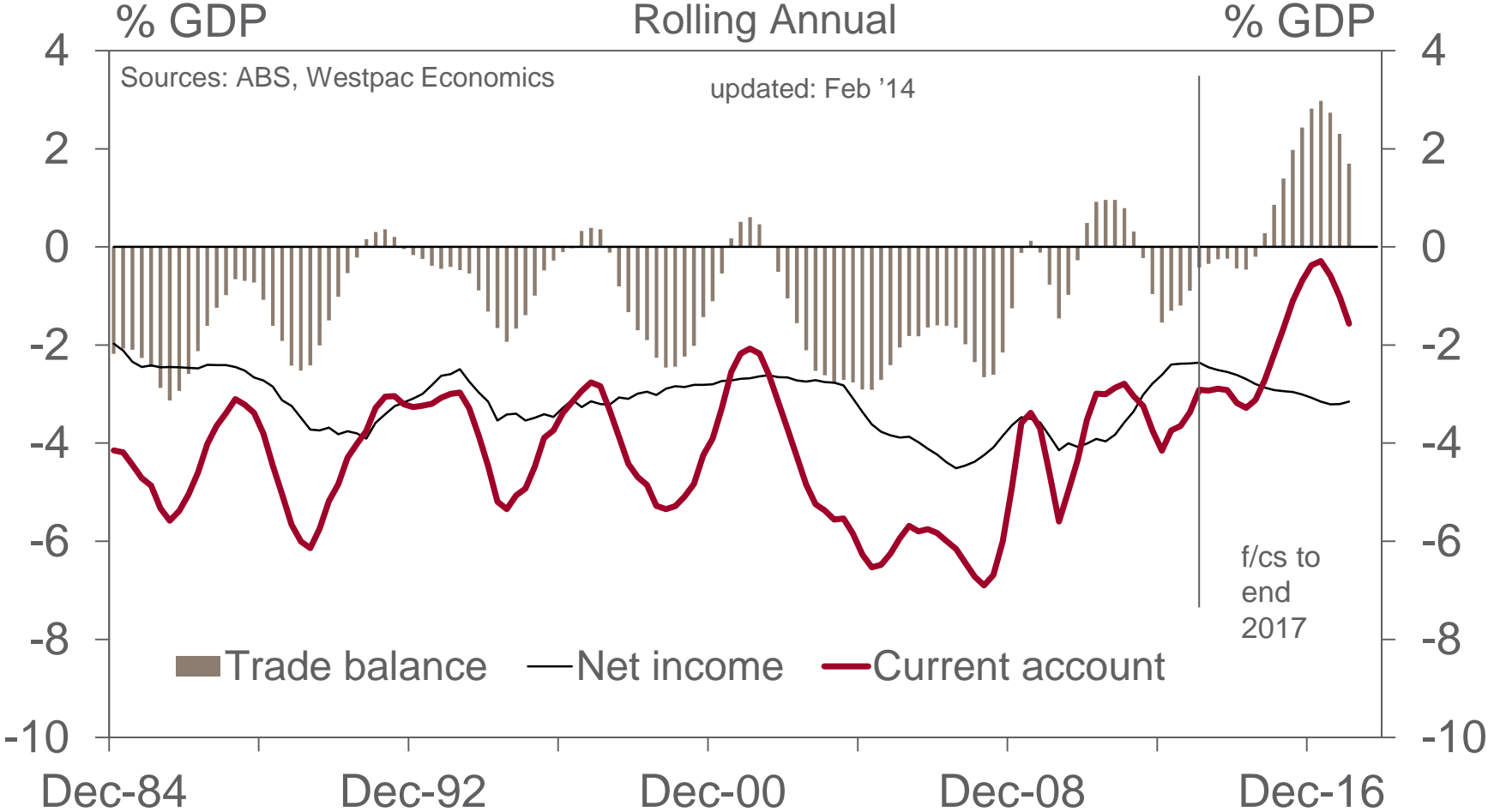
NSW Financial Liabilities to Revenue Ratio*



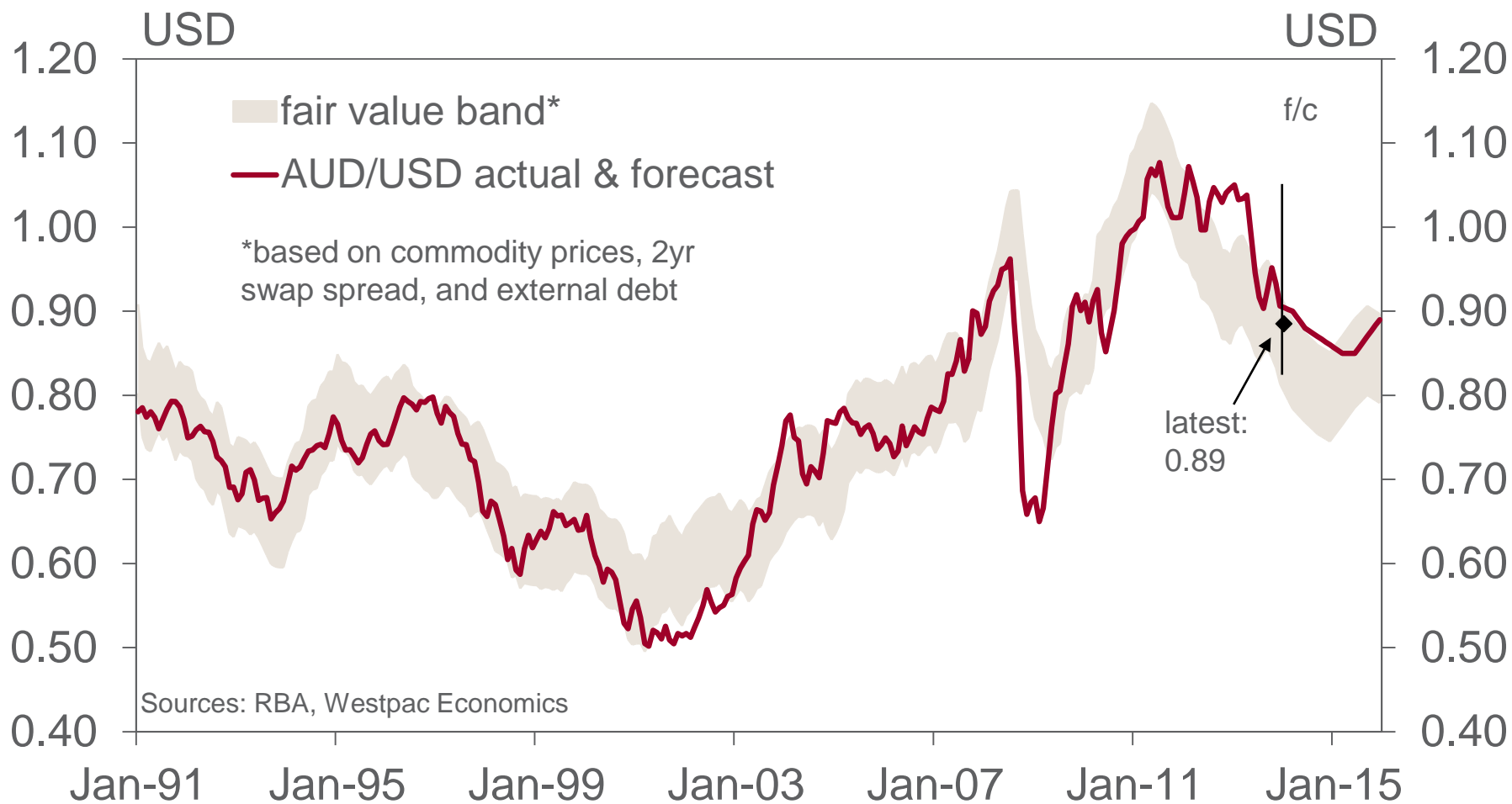
Commodity prices: more falls in 2014



Current account balance



AUD: lower in 2014 but still not much help



Key messages

- Global growth is likely to remain weak in 2014 taking pressure off rates – FED tapering to pause in 2014; tightening not late 2015.
- Unemployment rate to drift up to 6.5% as businesses constrain jobs growth; confidence to remain weak despite low rates – inflation “scare” will dissuade investors in property market.
- Expect 2 more rate cuts in 2014 – 5 yr swap to 3.5%; rates then on hold until 2015 – H2.
- Weak business conditions; slowing mining spend; weak world growth; job growth; constrained consumer – 2014 growth to 2.3%.
- Weak world economy likely to weigh on business confidence and consumers through “job insecurity” – election not “circuit breaker”.
- Rising house prices to support investment; only matching income growth; should be supported by authorities – RBA nervous.
- RBA sees need for more stimulus – through AUD, not rates, for now.

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