

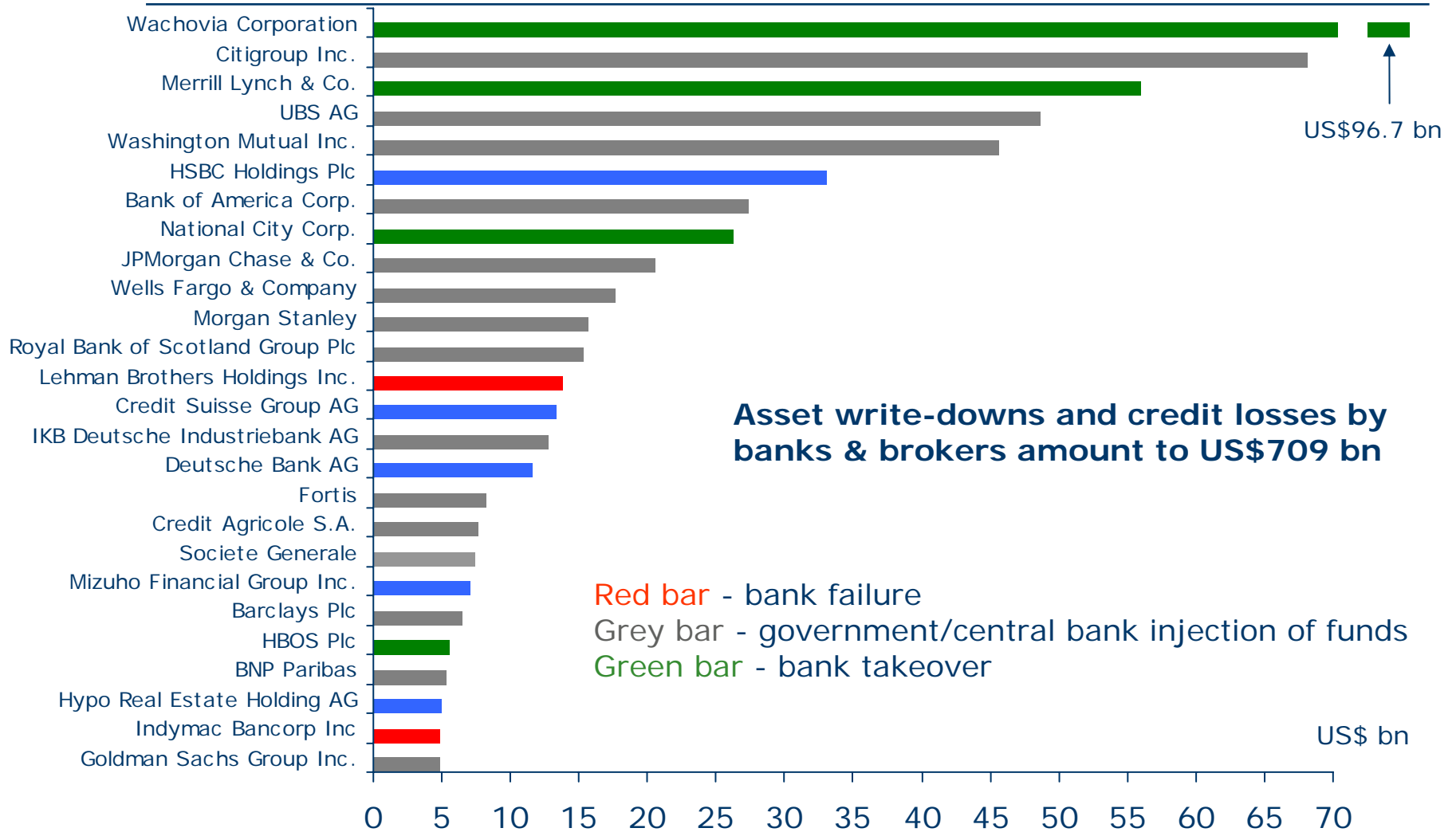
A difficult environment, but not all gloom and doom

Tony Pearson
Deputy Chief Economist

December 2008

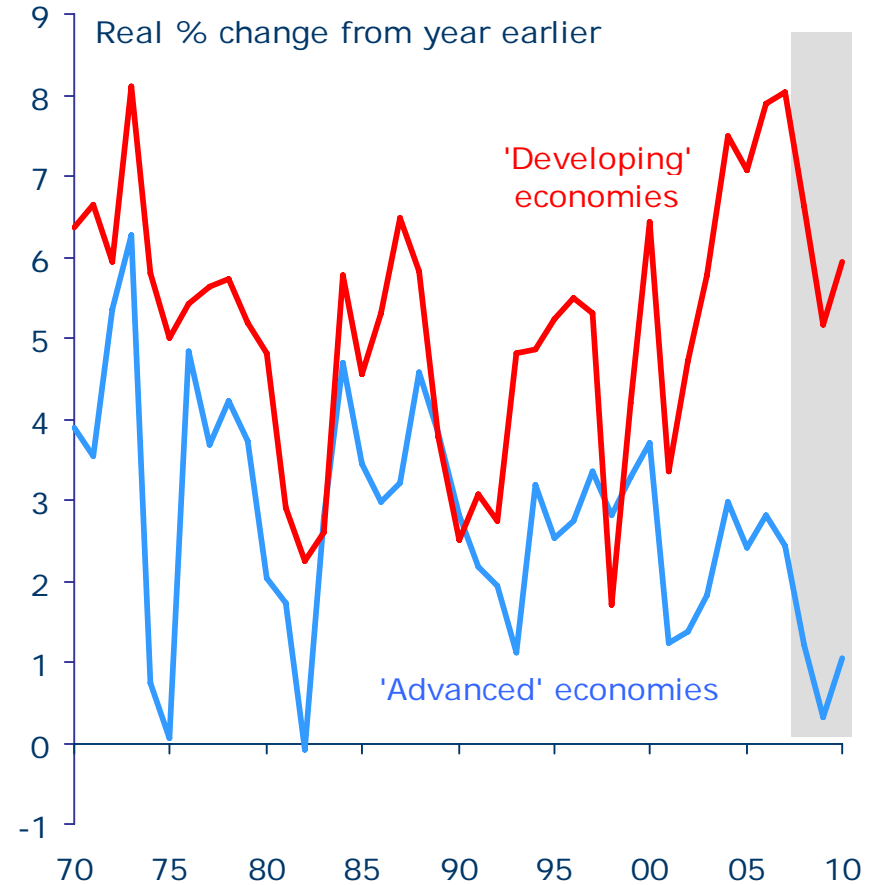
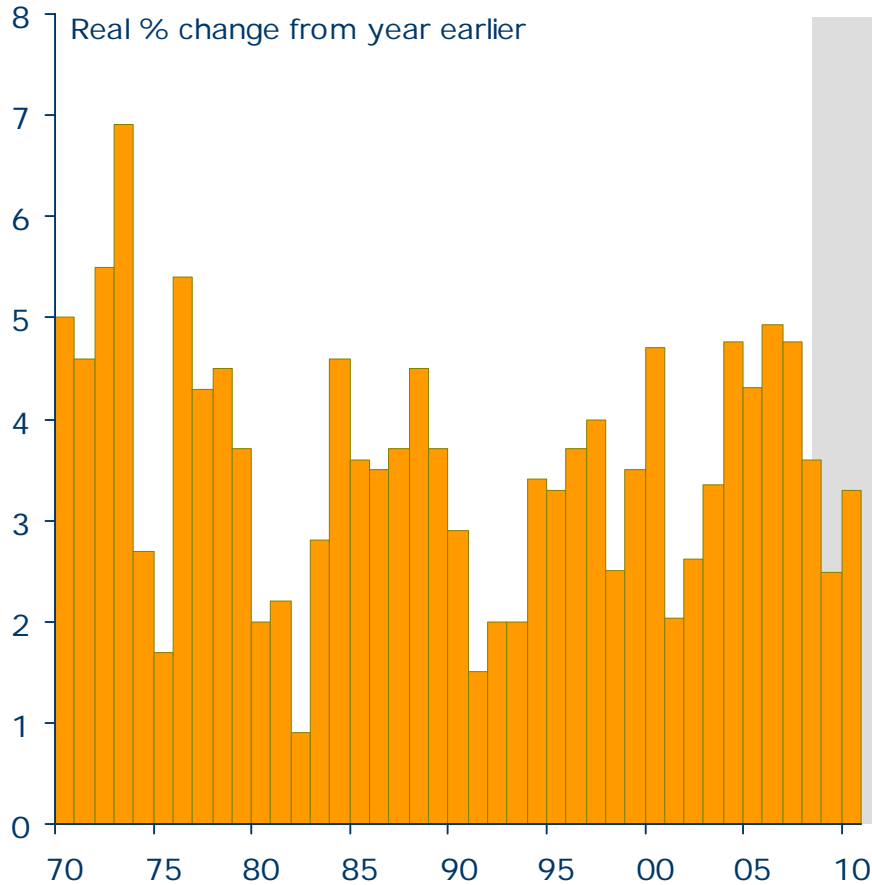
Global Developments

Combining banks, brokers, insurers and the GSEs, losses since the beginning of the crisis total US\$967 bn



Global growth will weaken sharply with 2009 looking like the worst year for 'advanced' economies since 1982

Global economic growth



Note: GDP is measured in US\$ at purchasing power parities.

Source: IMF *World Economic Outlook* October 2008; ANZ Economics & Markets Research.

An extraordinary public sector response to an unprecedented crisis

- > **Ensuring adequate liquidity in the banking and financial system.** That has involved central banks in many countries pumping in very large amounts of liquidity into interbank settlement systems. It has also involved the progressive extension of direct access to central bank credit to a wider range of institutions to include those outside the regulated banking sector. And it has also entailed central banks accepting a wider range of securities in exchange for liquidity, including securities not directly backed by governments or banks such as AAA rated mortgage backed securities and commercial paper.
- > **Nationalisation or part nationalisation** of key institutions to bolster shattered balance sheets and to maintain them as going concerns in the US, Europe and UK. Also the extension of government guarantees to deposits with banks.
- > **Public sector purchase of illiquid assets** clogging balance sheets, with the government assuming some of the risks which are crippling financial flows. The extreme example is in the US with the US\$700bn “Troubled Asset Relief Program”, which was in fact US\$850bn after adding a range of tax incentives for other industries. Now US\$850 is A\$1.2 trillion at an exchange rate of USD0.70. And that is slightly more than Australia’s annual GDP!
- > **Fiscal stimulus.** Chinese Y4trillion package, 15% GDO over 2 years. G20 promises from developed countries
- > **Central bank interest rate cuts.** In a coordinated move, on 8 October the US Federal Reserve, ECB, Bank of England, Bank of Canada, Sweden’s Riksbank and the Swiss National Bank cut their policy rates. The People’s Bank of China also eased for the second time in the month – other Asian central banks followed. The Reserve Bank of Australia has cut 200bp in 9 weeks. These moves are intended to reduce bank funding costs, and to achieve a reduction in the cost of finance to end household and business borrowers so as to encourage demand for credit and to limit the downside risks to economic activity.
- > **IMF assistance** on the table for Iceland, Austria, Hungary, Belarus and others.....

Australian response

Government guarantee of bank deposits and funding:

- > Guarantee on deposits of banks, building societies and credit unions. No limit.
- > Guarantee of wholesale funding for institutions, for a fee
- > Purchase of additional \$4bn (taking the total to \$8bn) of RMBS by AOFM.

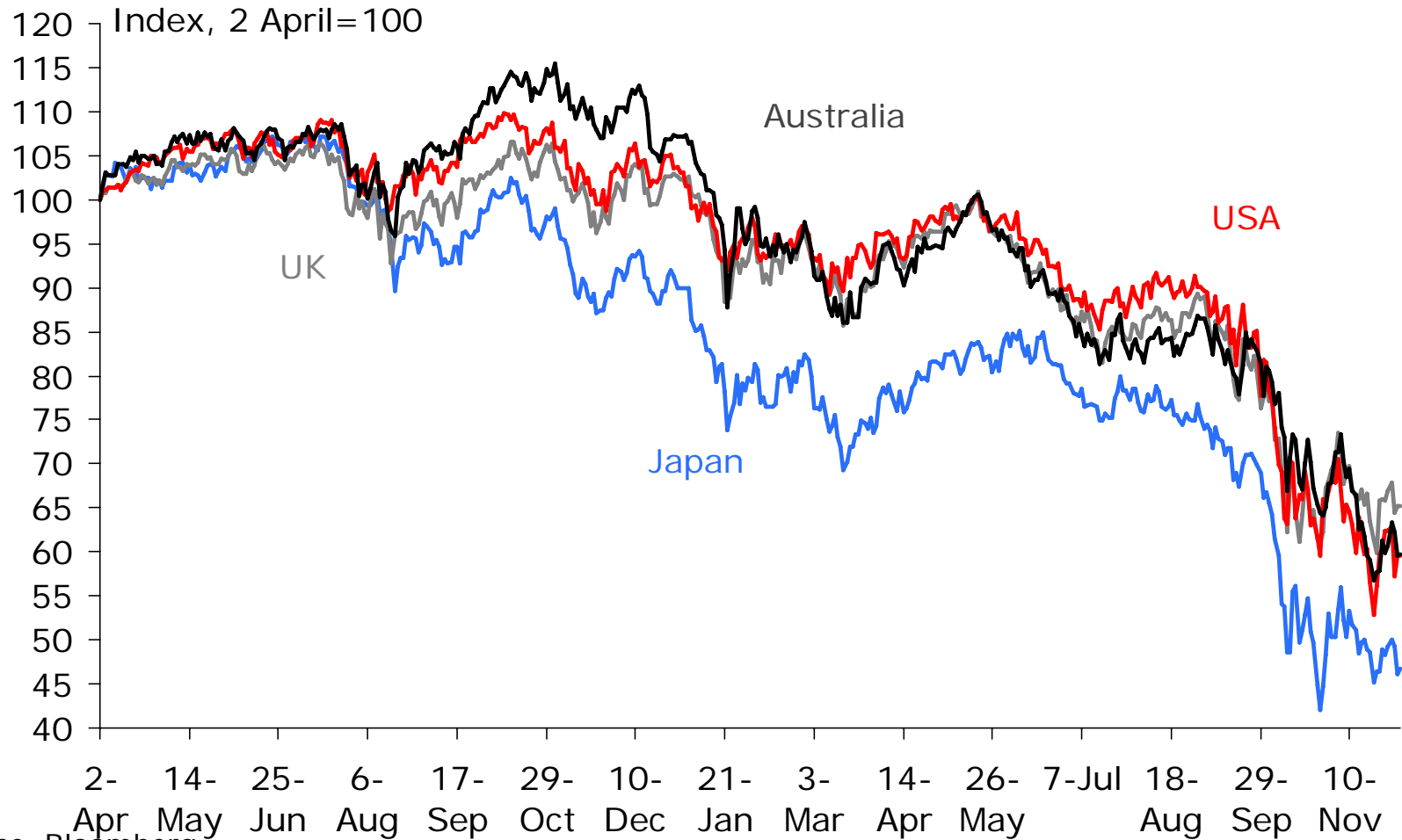
Government announces a \$10.4bn economic stimulus package:

- > \$4.88bn to pensions, with a one-off payment on Dec 8 of \$1400 for singles and \$2100 for couples
- > Carers to receive \$1000 for each eligible person within their care
- > \$3.9bn payment support for low and middle income families
- > \$1.5bn for first home buyers. First home owners grant doubled to \$14000 for purchase of existing properties, with additional \$7000 to purchase new properties, until end June 2009.
- > \$157mn new training positions
- > Bring forward of national building agenda

Global Asset Price Deflation

Global equity markets remain volatile

International equity market comparisons



Source: Bloomberg

Downturns and market performance of Australian equities (All Ordinaries Index)....

Start of Downturn (Peak)	Duration of Downturn (months)	Market Performance During Downturn	12 month Market Performance from end of Downturn
April 1981	15	-38%	+44%
Sept 1987	5	-47%	+22%
Sept 1989	16	-32%	+34%
Feb 1994	12	-18%	+21%
April 1998	7	-11%	+11%
March 2002	12	-20%	+27%
Average	11	-28%	+27%
Oct 07 - Dec 08	12	-48%	

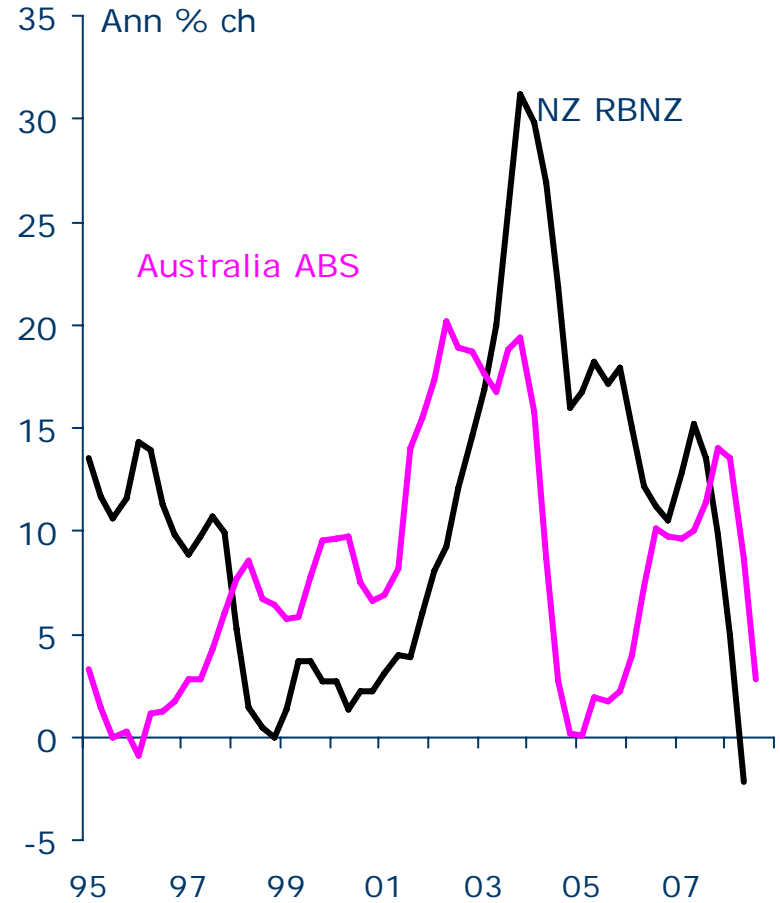
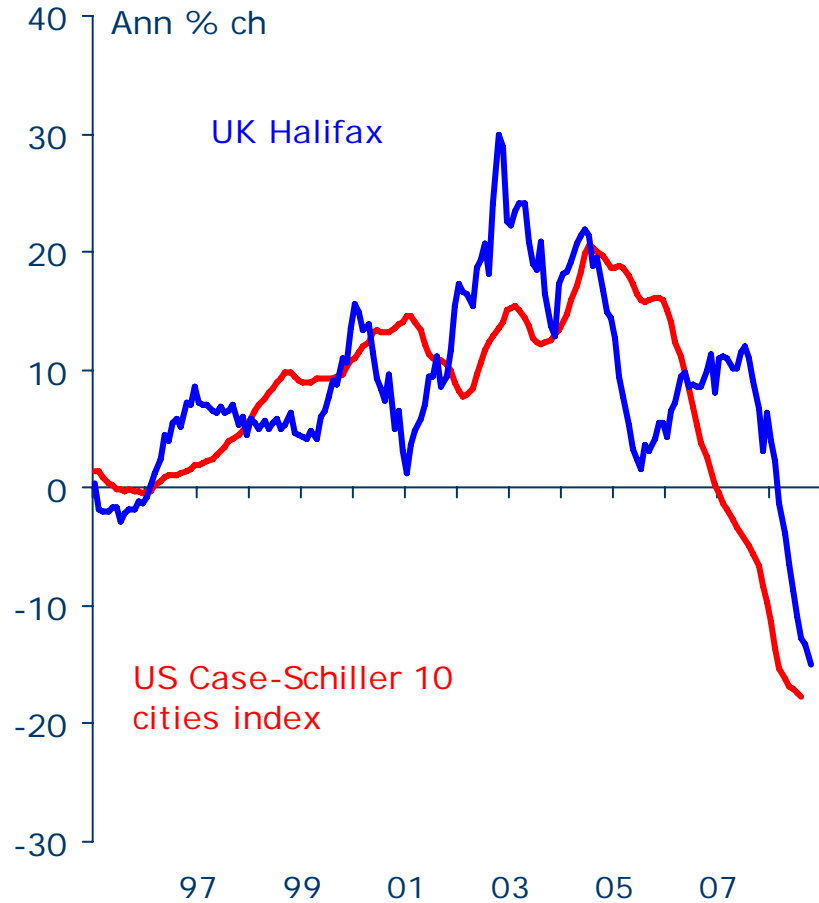
Source: ANZ Economics & Markets Research

#Downturn defined as period from peak to bottom (end of trough).

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House prices in key economies now falling

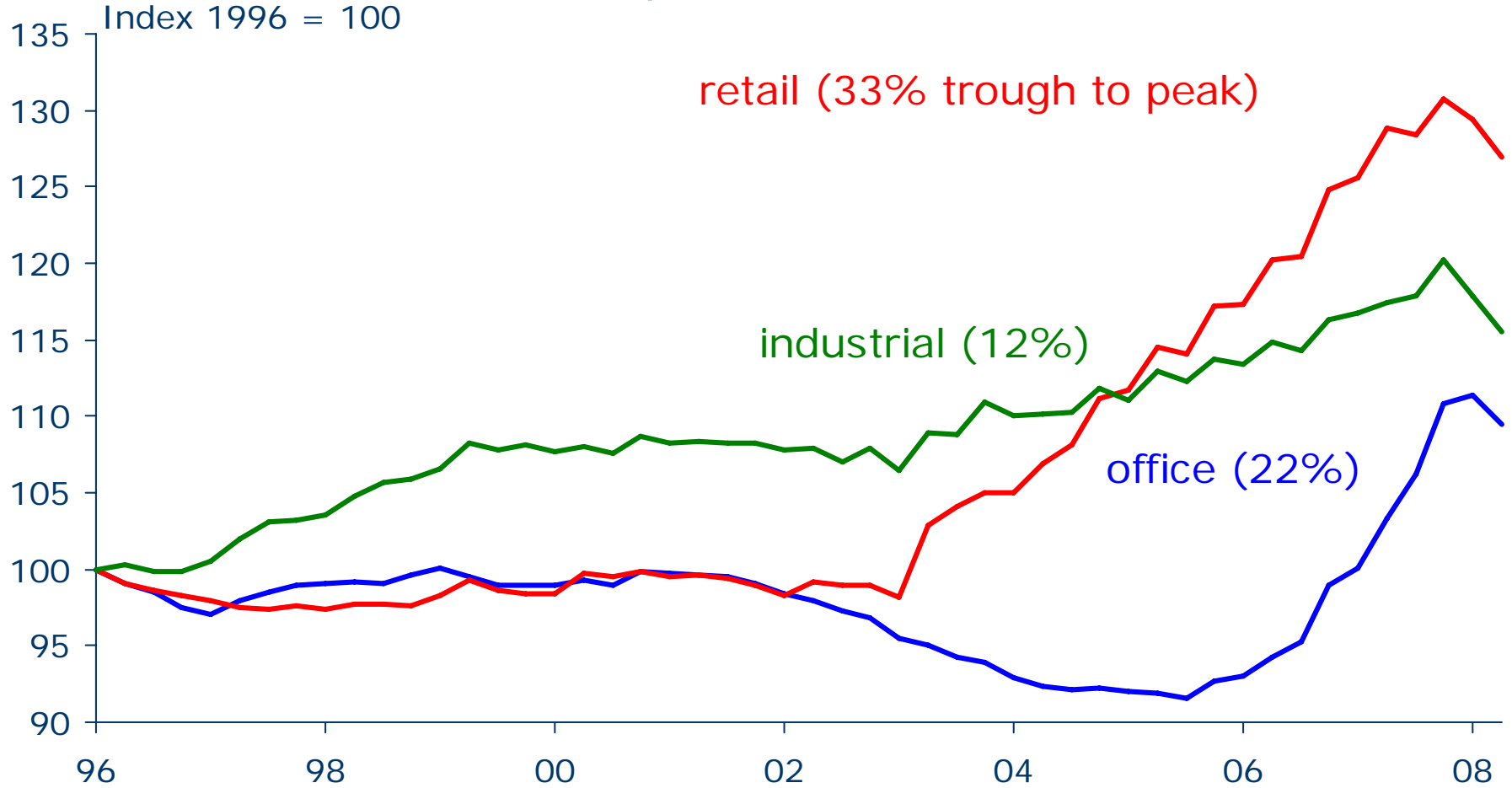


Sources: Google, Case-Schiller, HBOS, RBNZ, ABS
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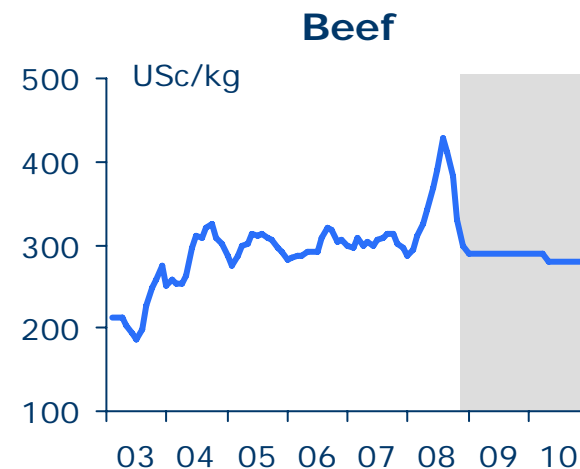
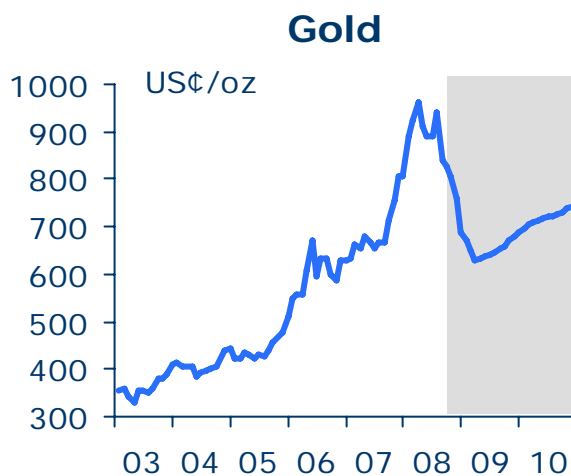
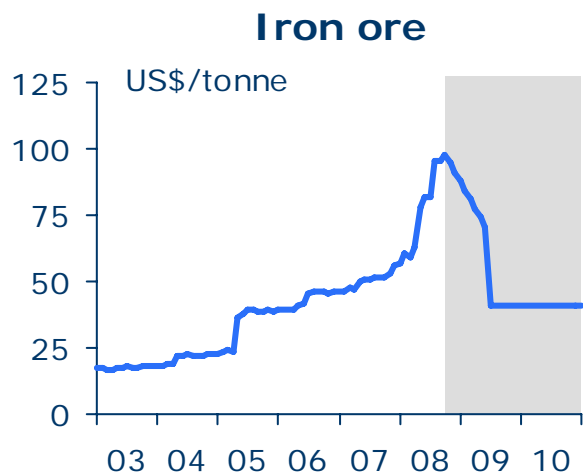
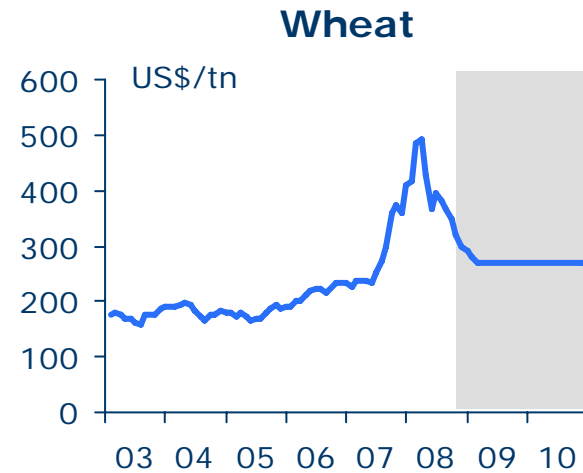
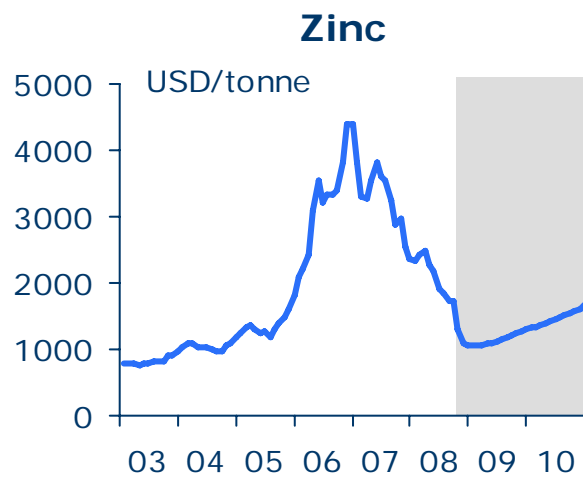
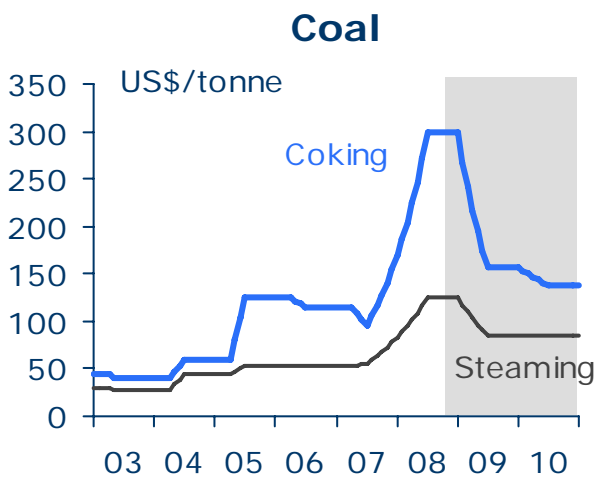
Commercial property capital values have shown stellar growth through 2000s – but now look to be softening – in line with deflation in other asset markets

Real capital return indices



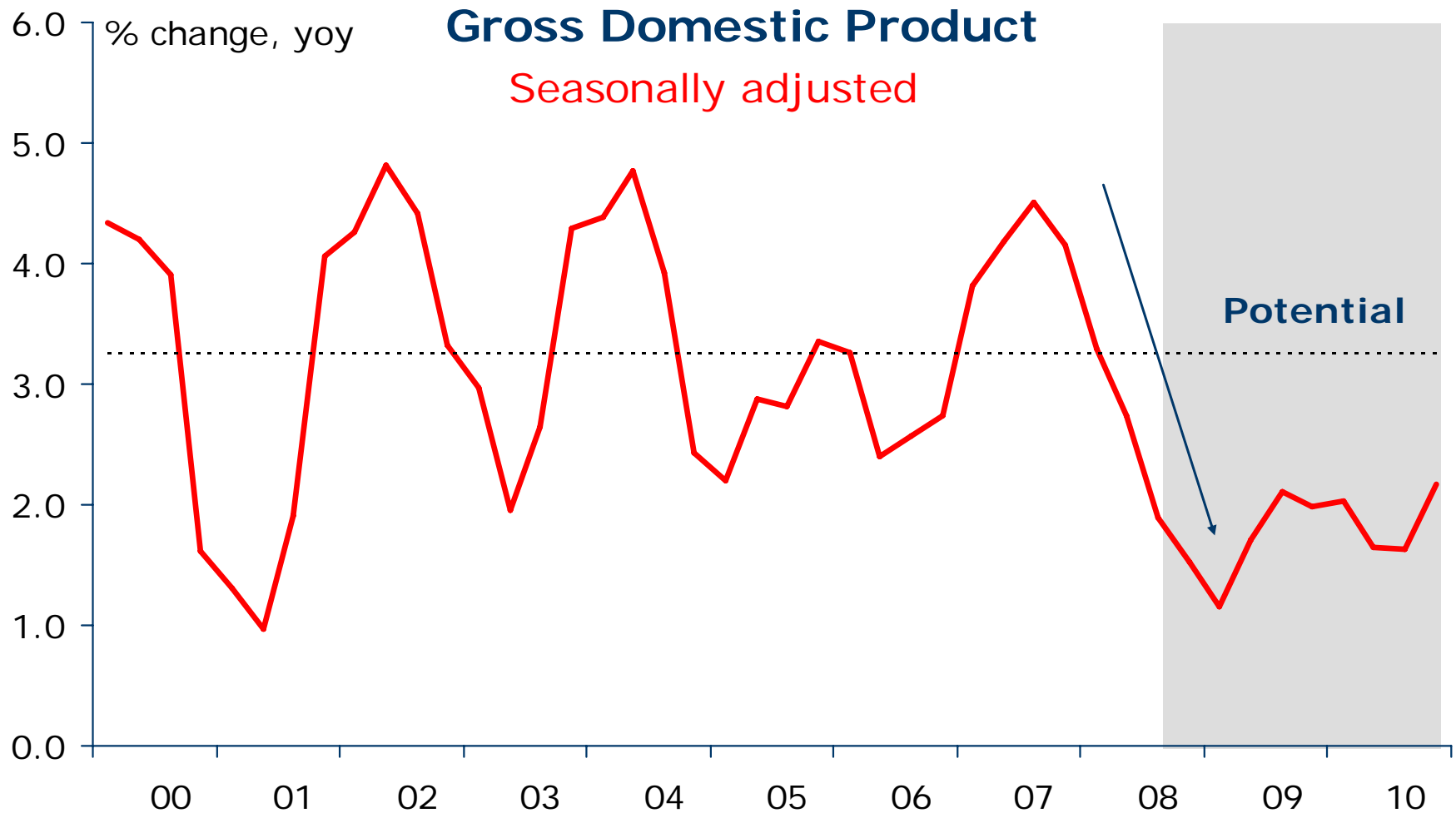
Commodity prices falling sharply as global economic activity eases

Commodity prices



Australia enduring an engineered slowdown but will
avoid recession

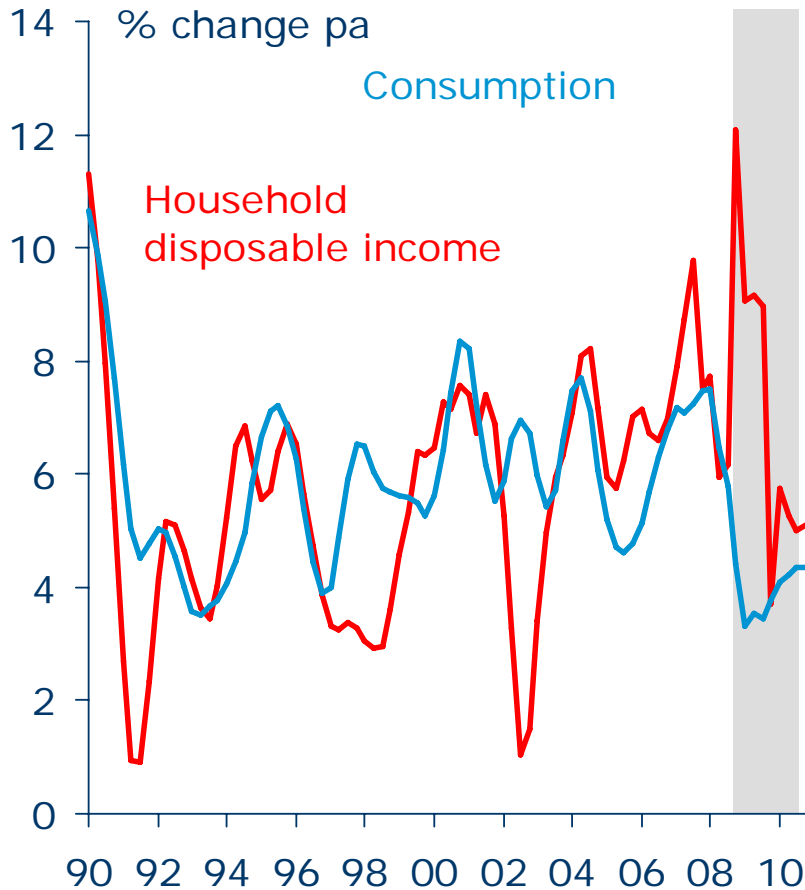
Australian growth will stay below trend for around 2 years although no recession



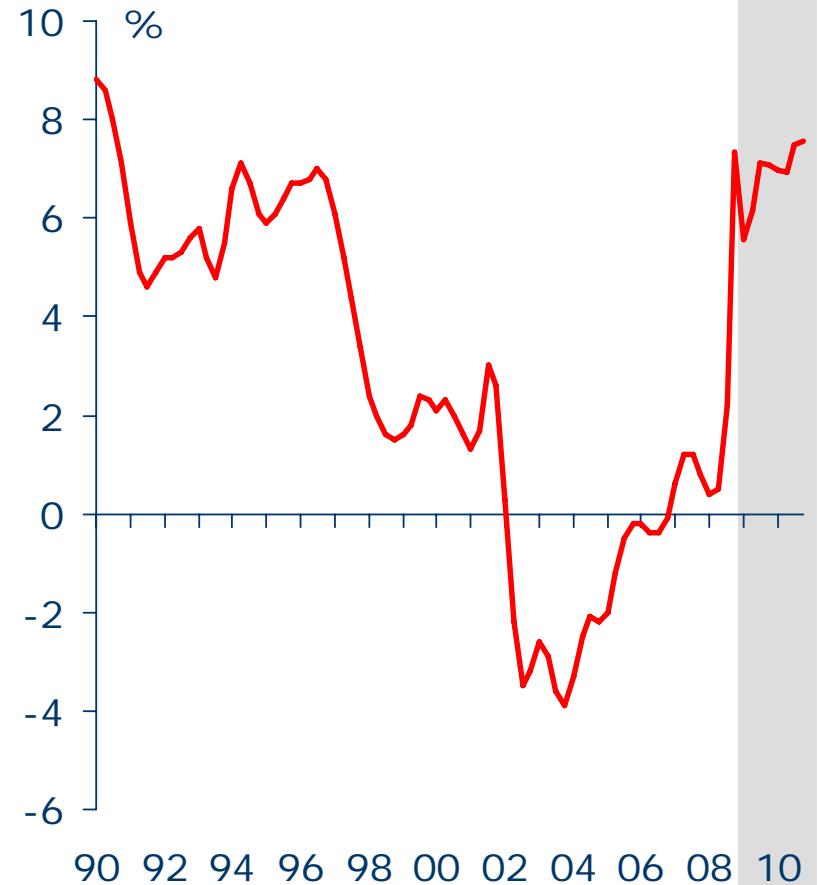
Source: Australian Bureau of Statistics

Consumption will ease despite strong income growth as households rebuild savings

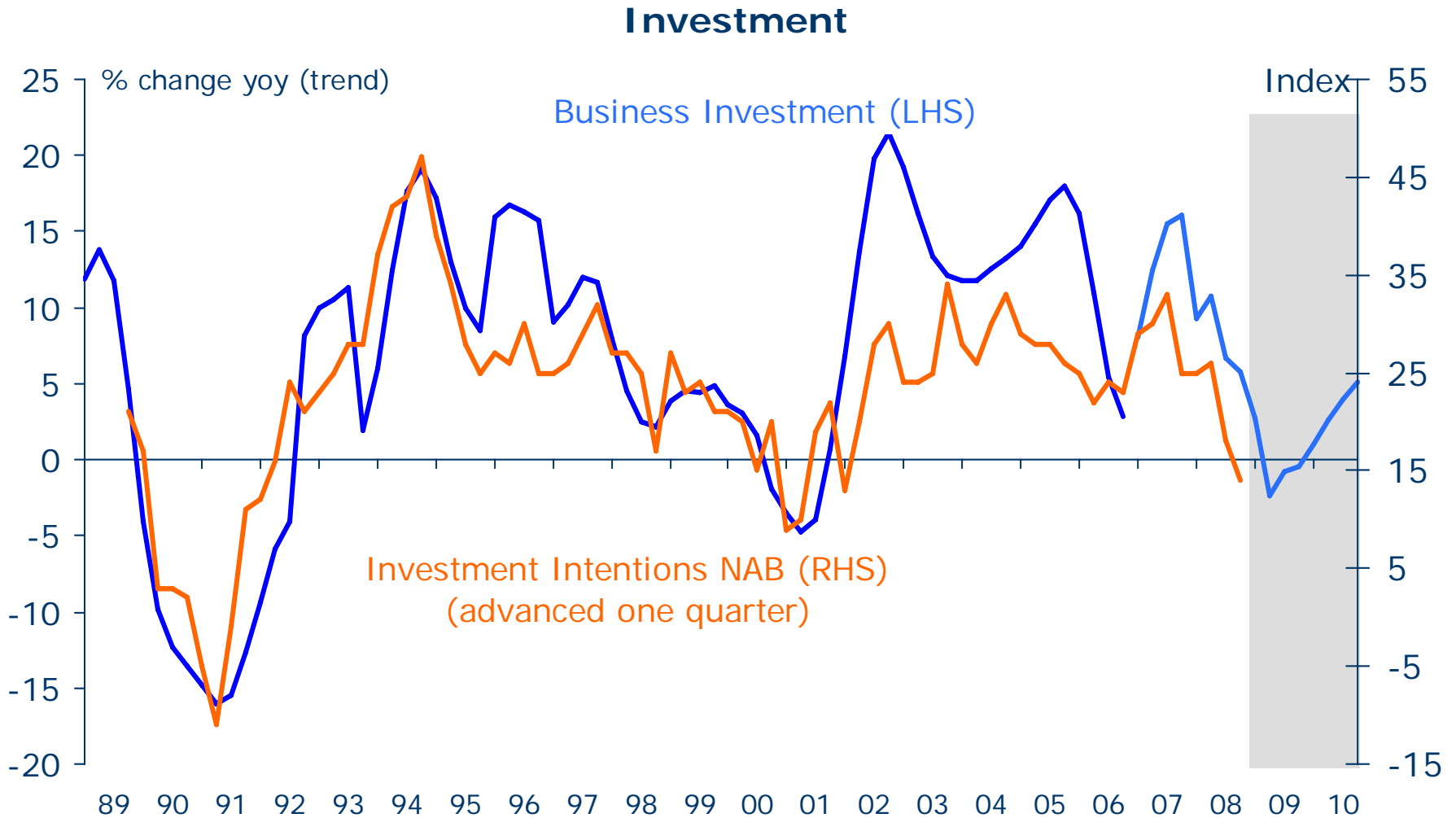
Household income and consumption



Household savings ratio

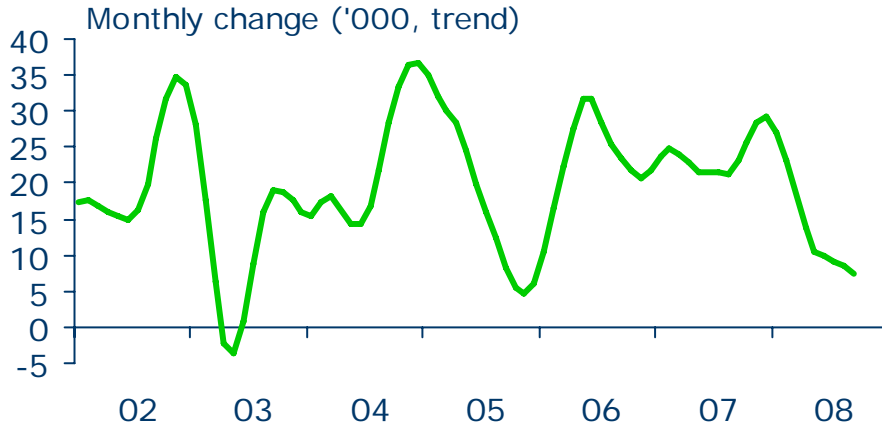


Waning investment intentions suggest business investment will slow sharply ¹⁶

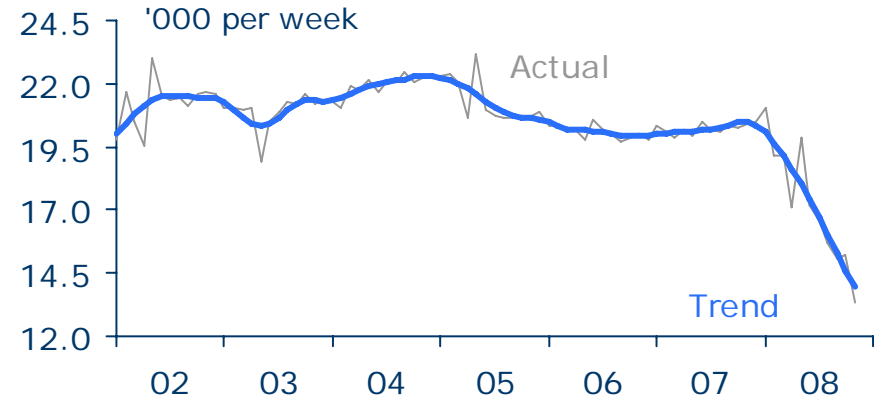


Employment growth is easing, forward indicators of demand point to further slowing. Unemployment rate will rise

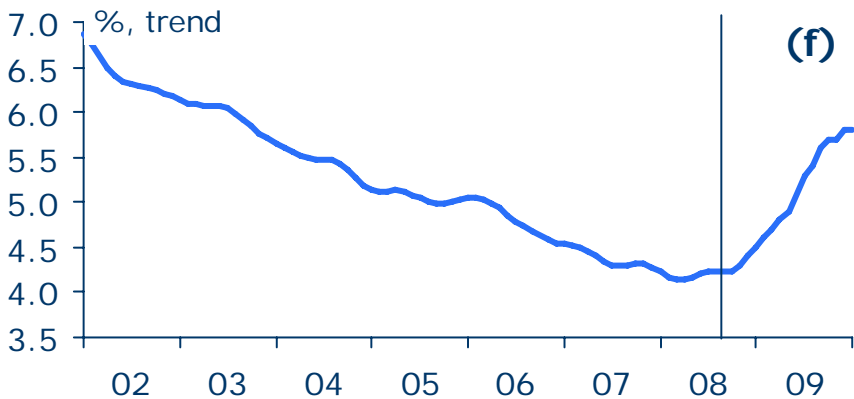
Employment growth



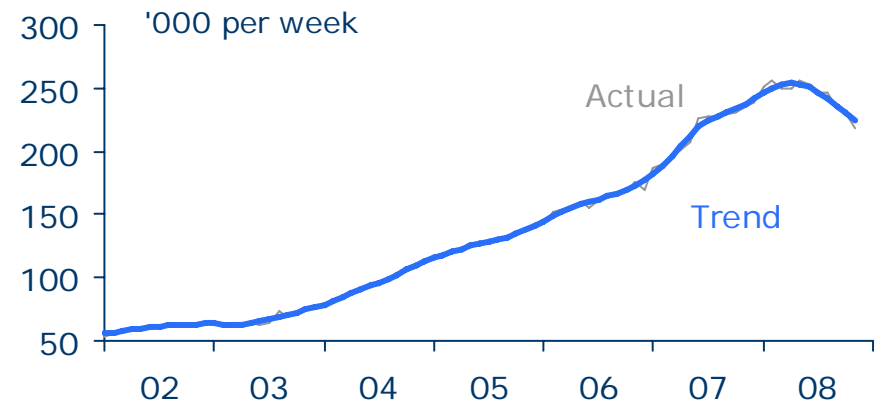
Newspaper job ads



Unemployment rate



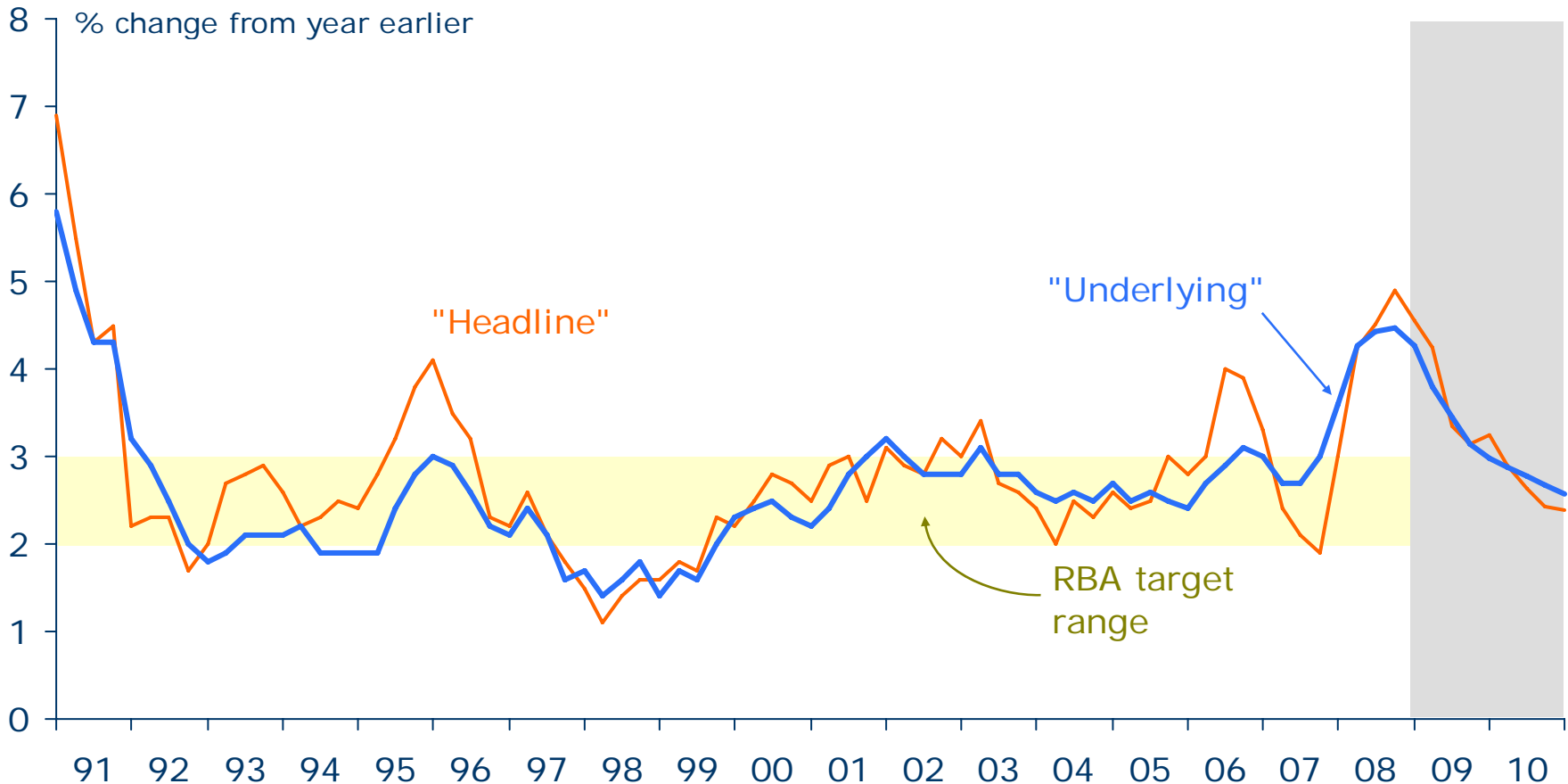
Internet job ads



Sources: ABS; ANZ Economics & Markets Research.

Against this background and with oil and other commodity prices declining, inflation will also fall from early next year on

Consumer prices

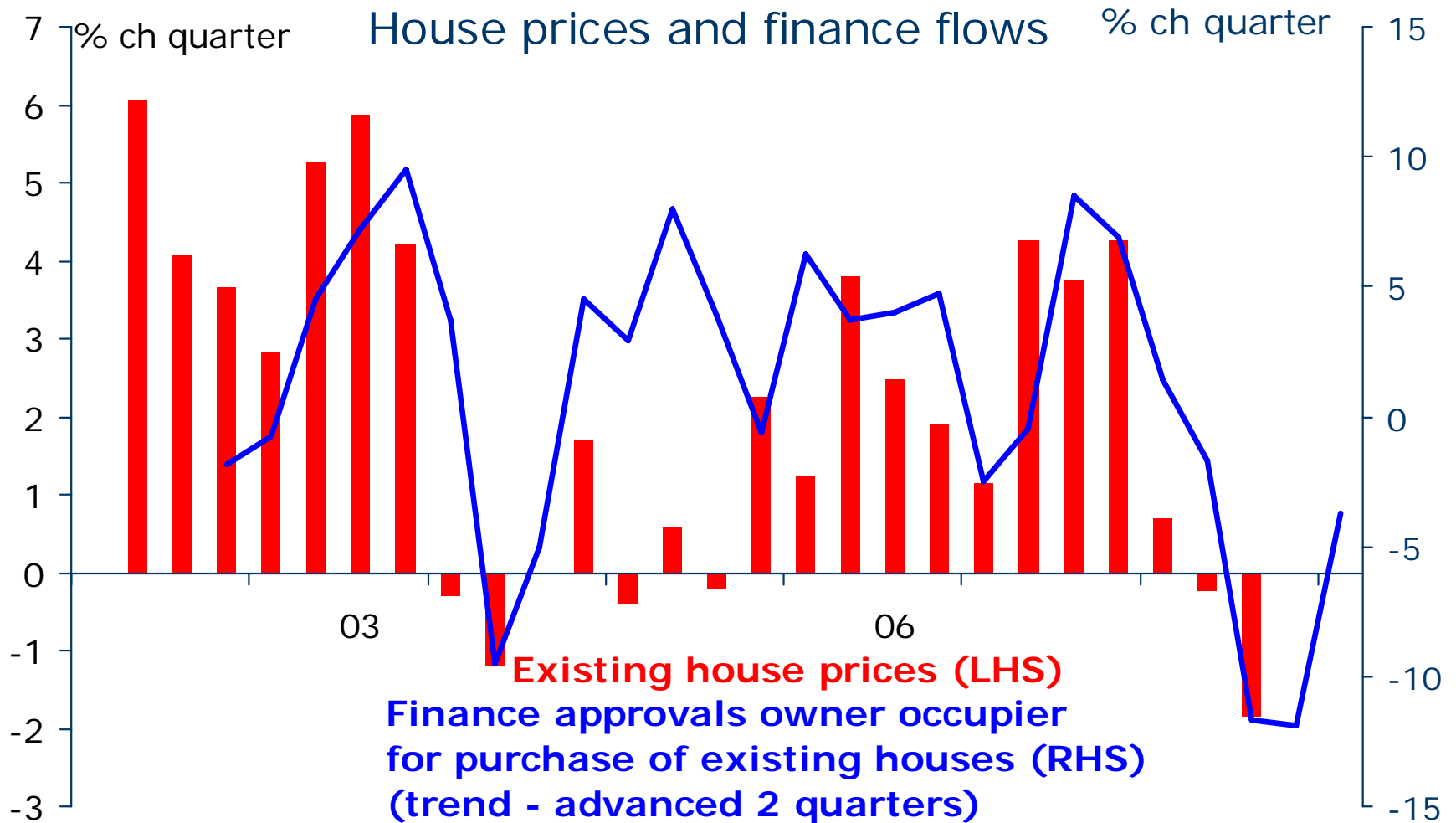


Note: excludes impact of introduction of GST and major health policy changes and proposed commencement of emissions trading scheme in mid 2010. Sources: ABS, RBA, ANZ.



Housing

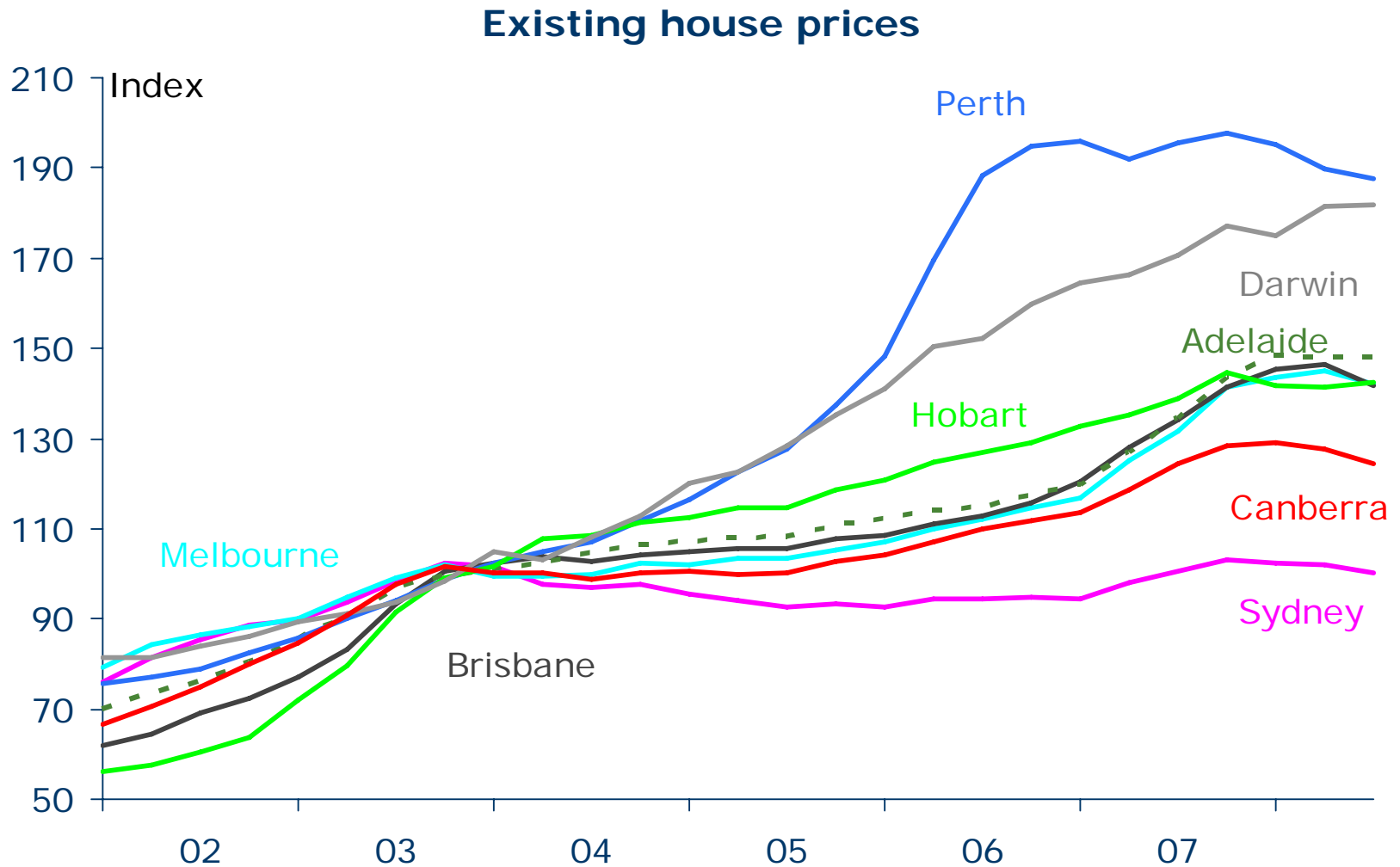
Australian quarterly house prices are now heading south...although a bottom may be in sight



Source: Australian Bureau of Statistics



...with most markets now clearly in decline

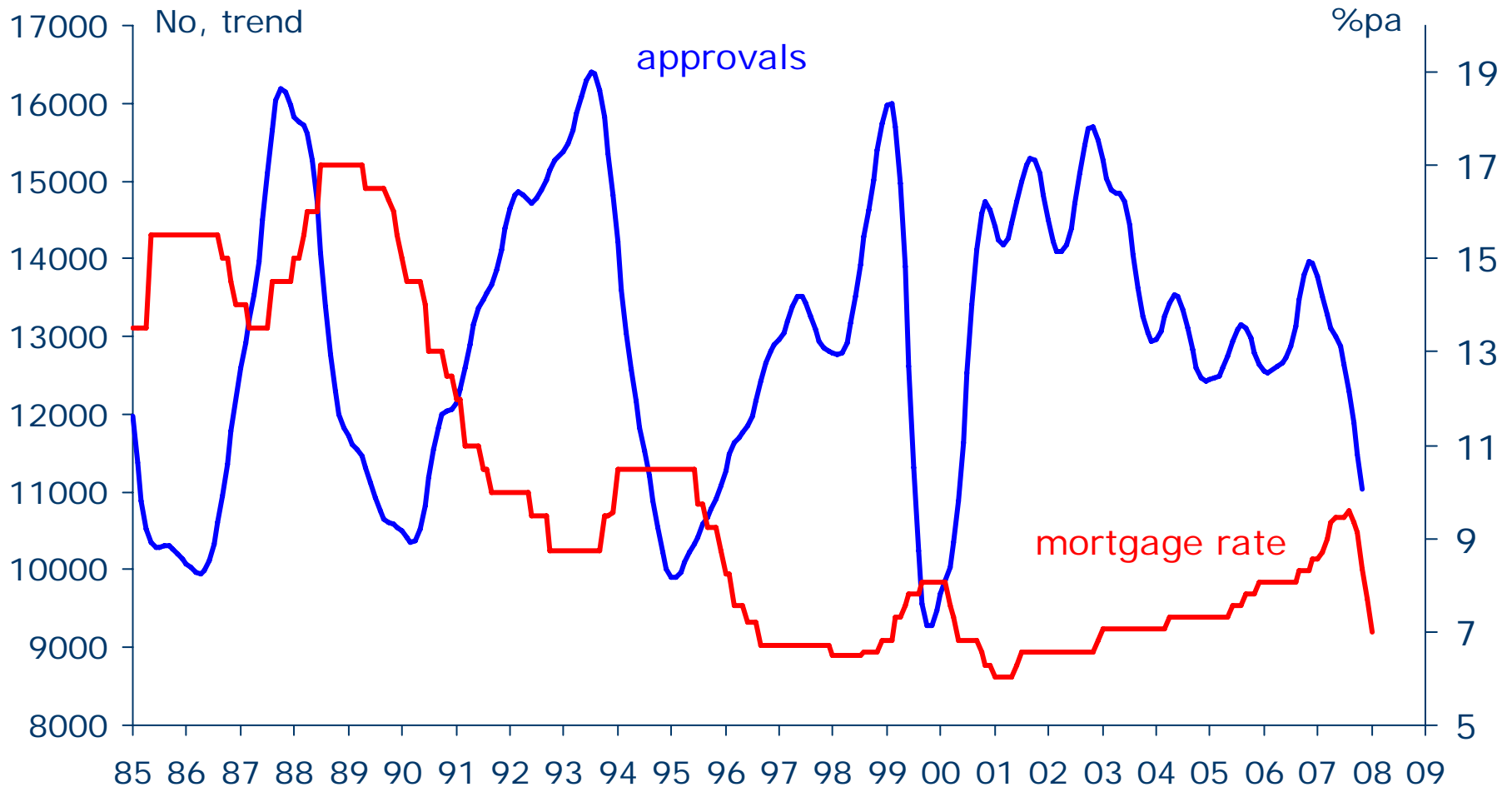


Sources: Australian Bureau of Statistics and Economics@ANZ
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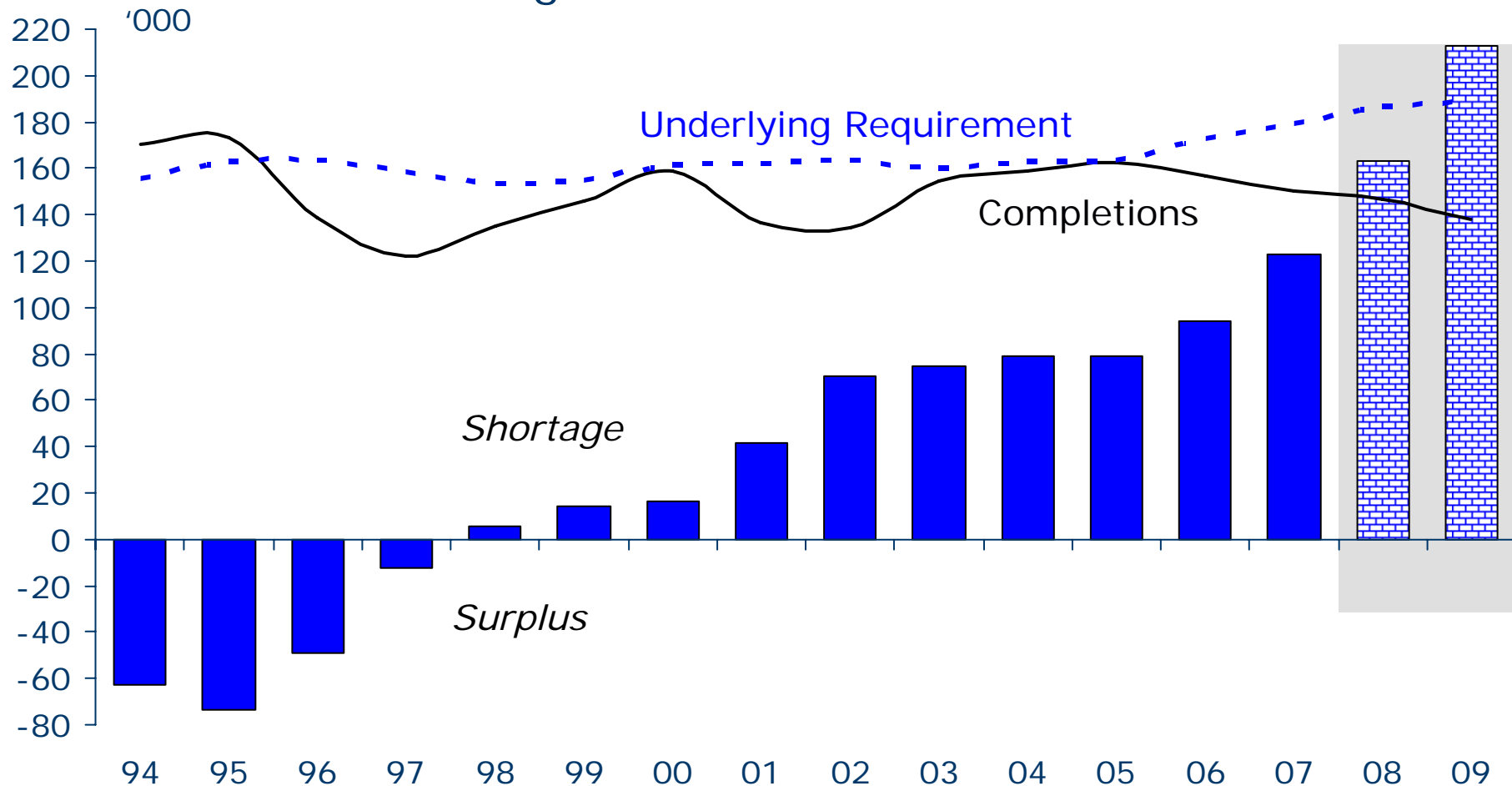
On a more positive note, interest rate reductions should (finally) open the door to stronger dwelling construction

Residential building approvals vs. interest rates



...driving pent-up housing demand to record (and *potentially intractable*) levels

Housing market balance: Australia

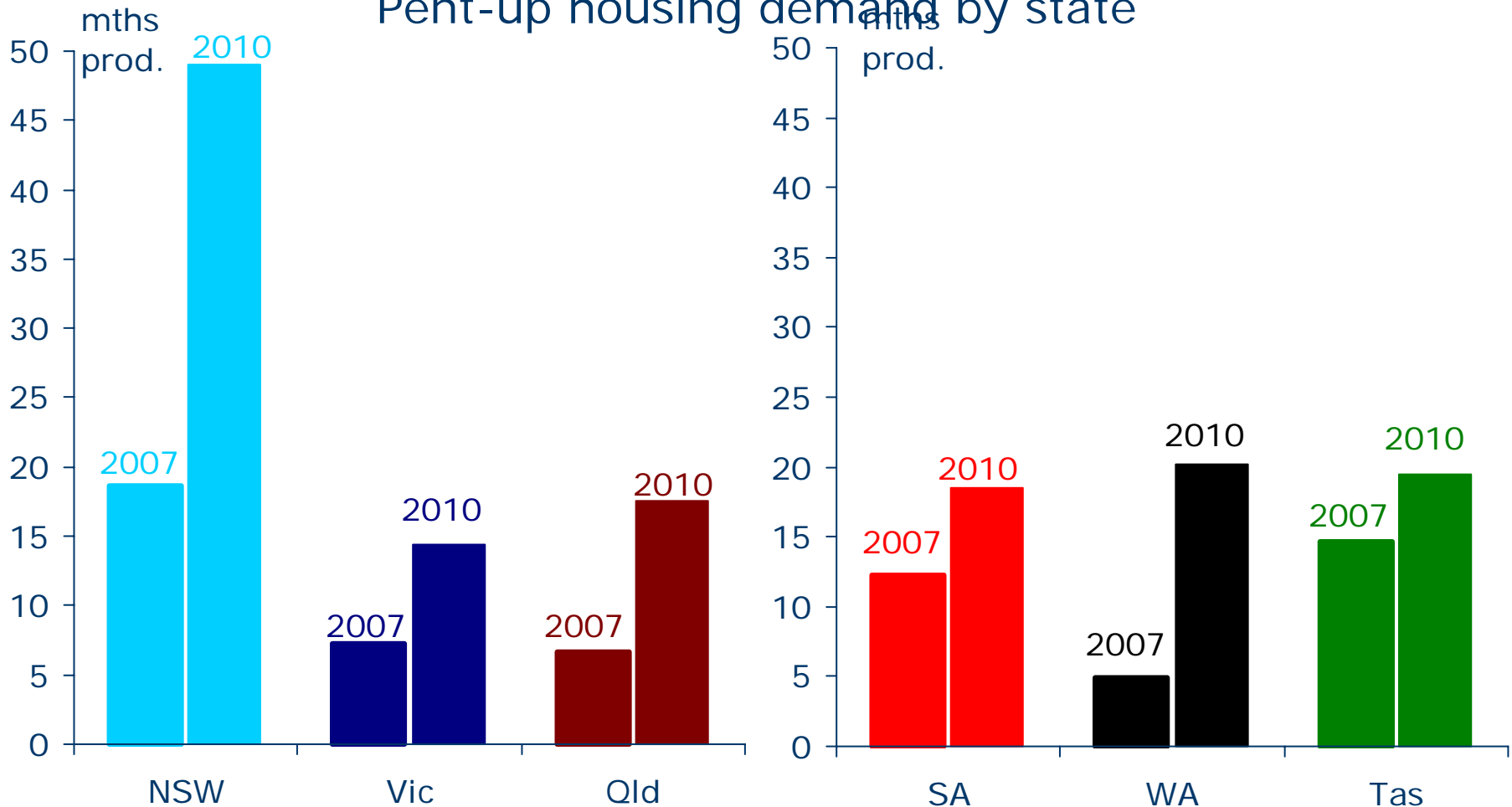


Sources: Australian Bureau of Statistics; Economics@ANZ



...in all states, but particularly in New South Wales

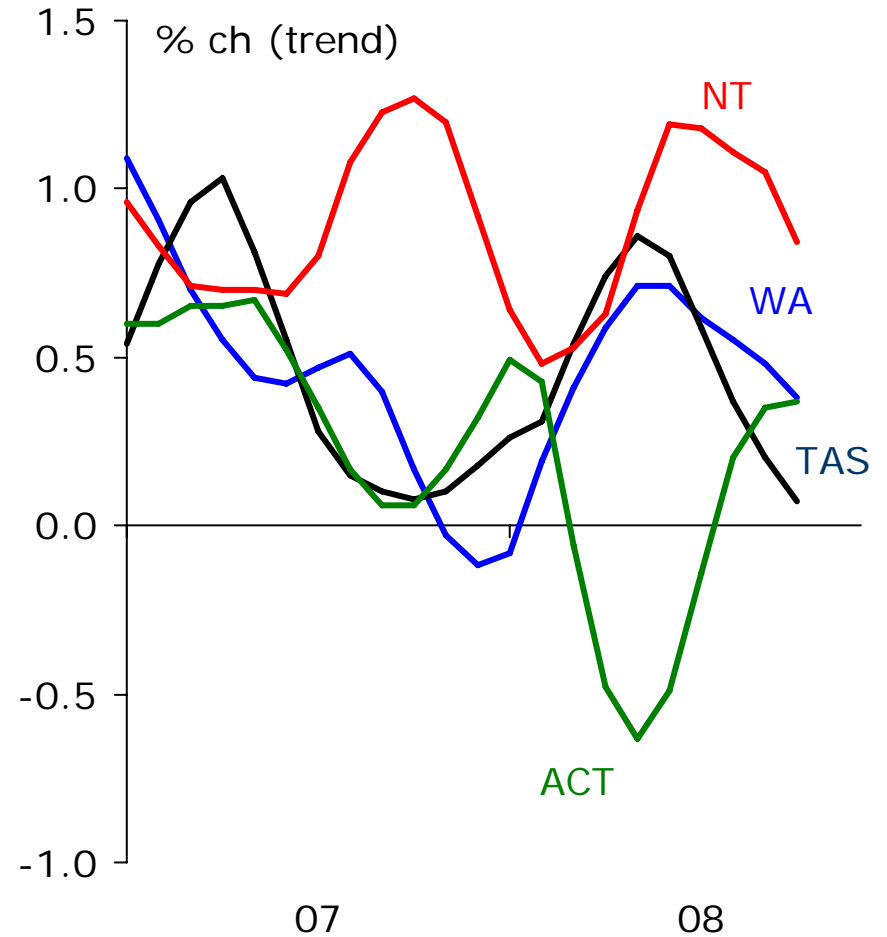
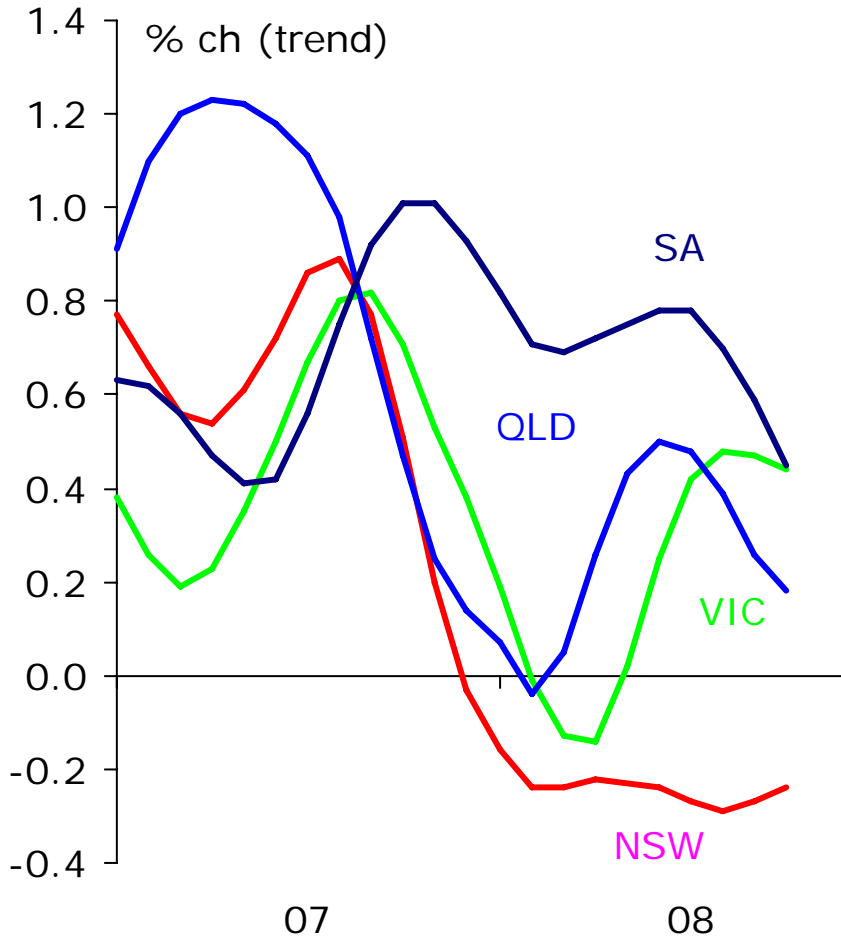
Pent-up housing demand by state



States: NSW already in recession

Retail spending has collapsed in NSW

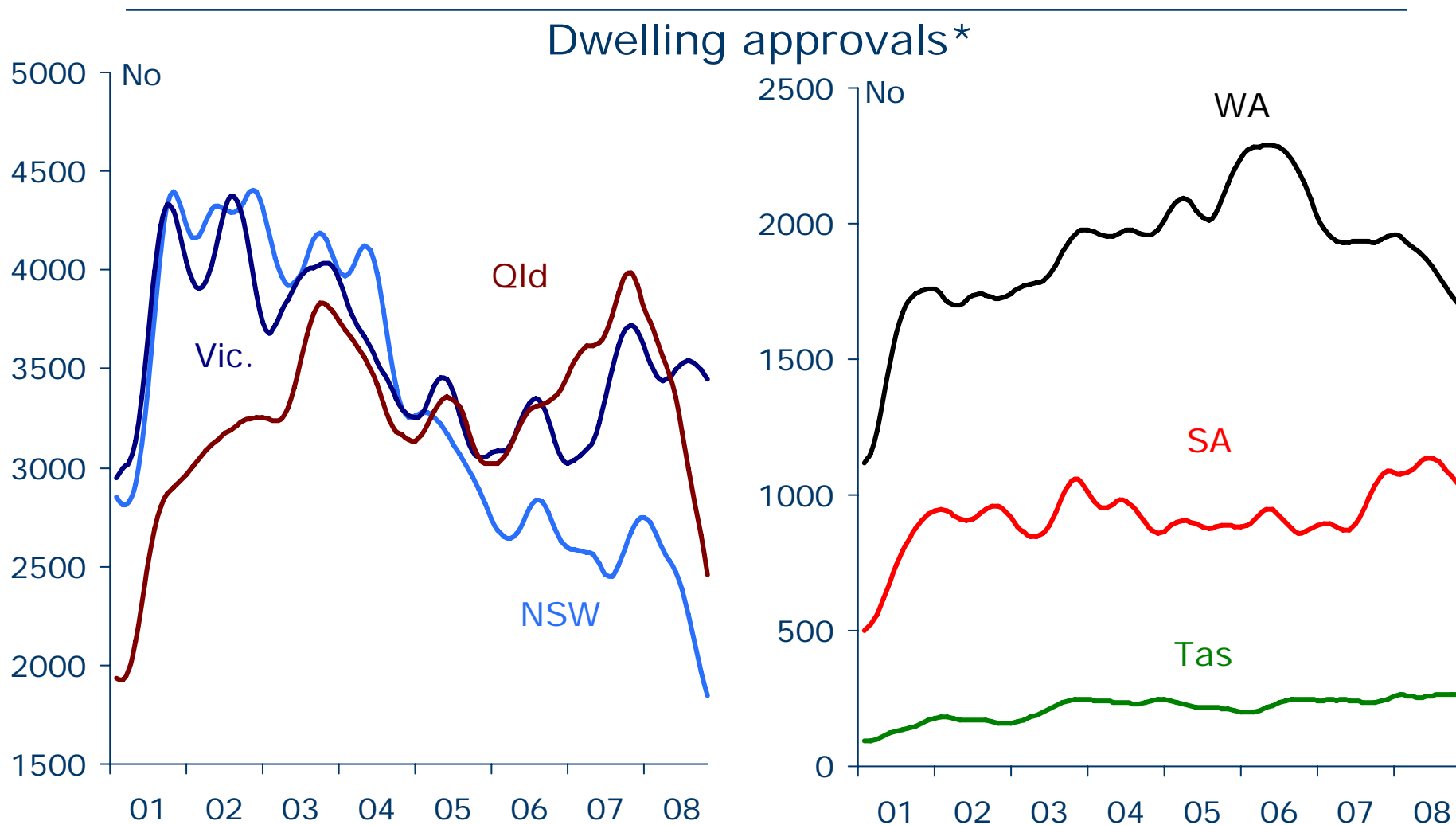
Retail spending by state



Source: Australian Bureau of Statistics

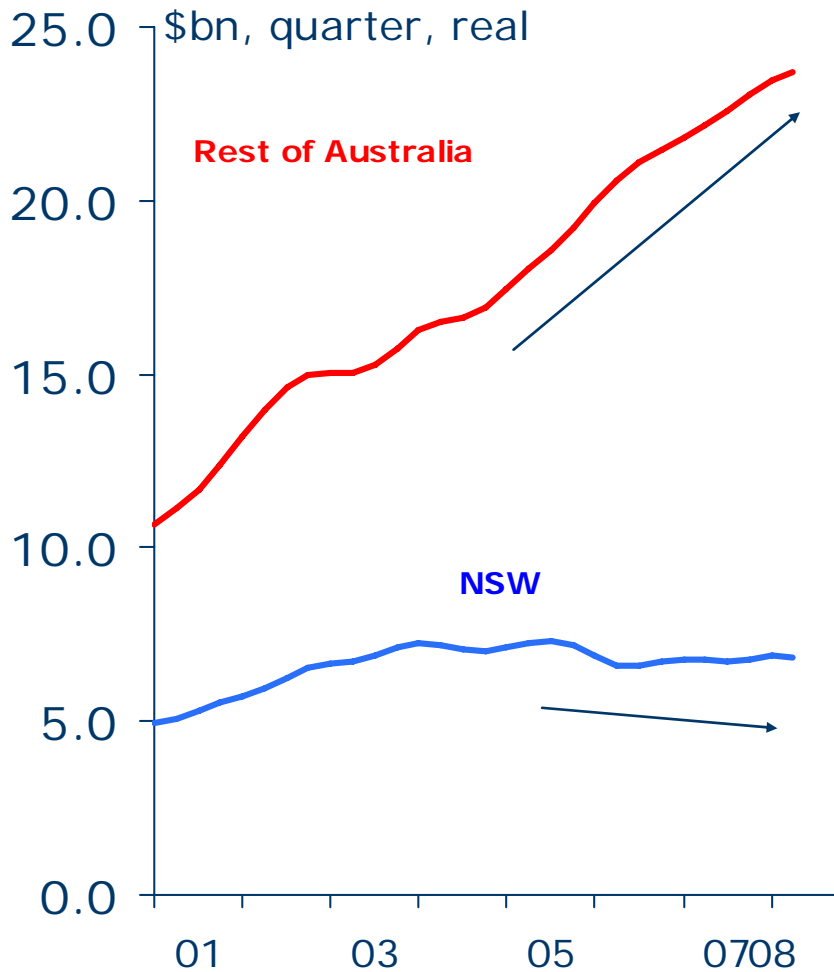


Dwelling construction approvals have weakened in several states but NSW and Qld have been hardest hit.

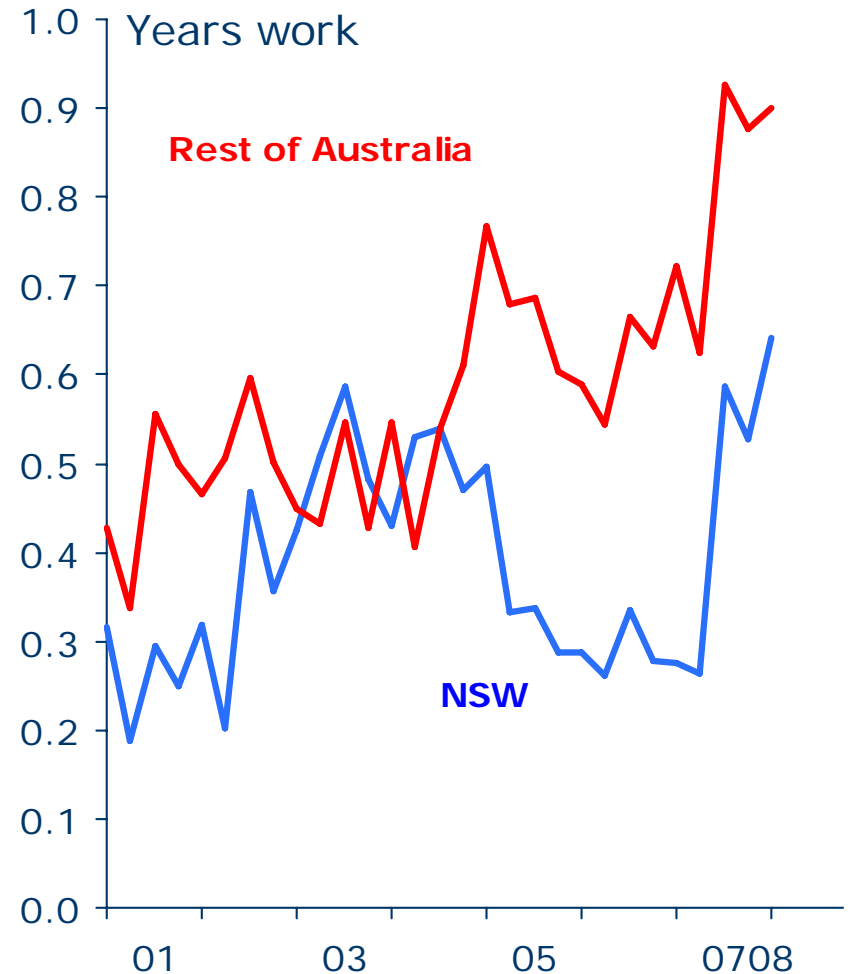


NSW construction sector is weak

Construction Work Done

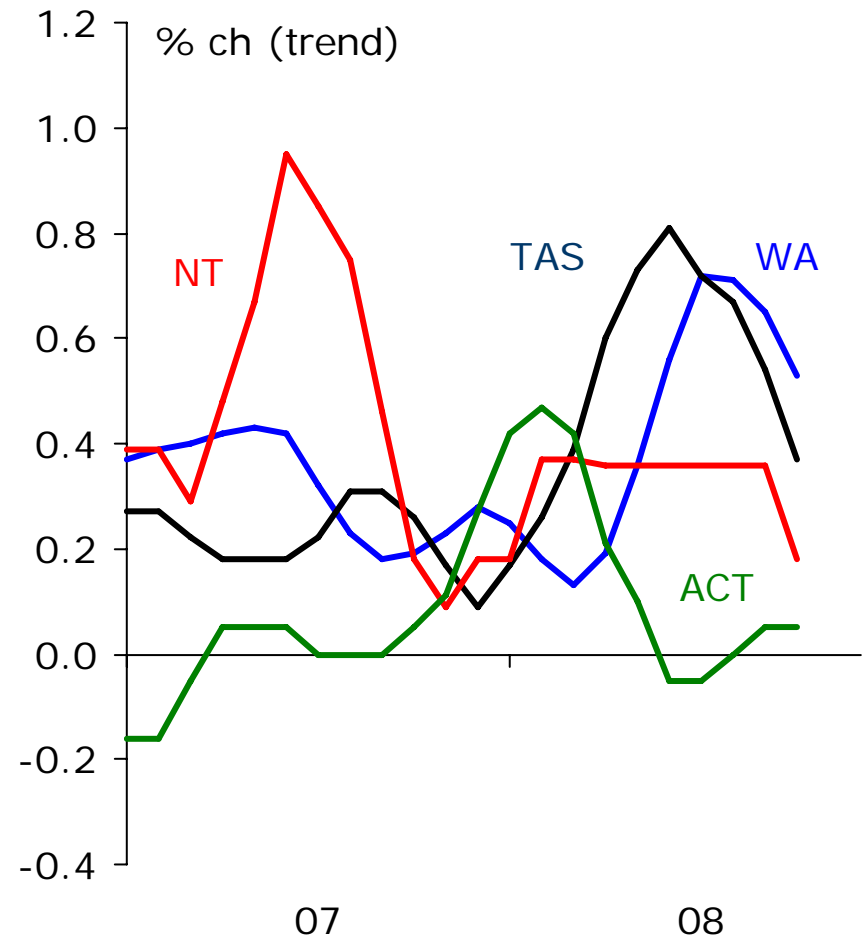
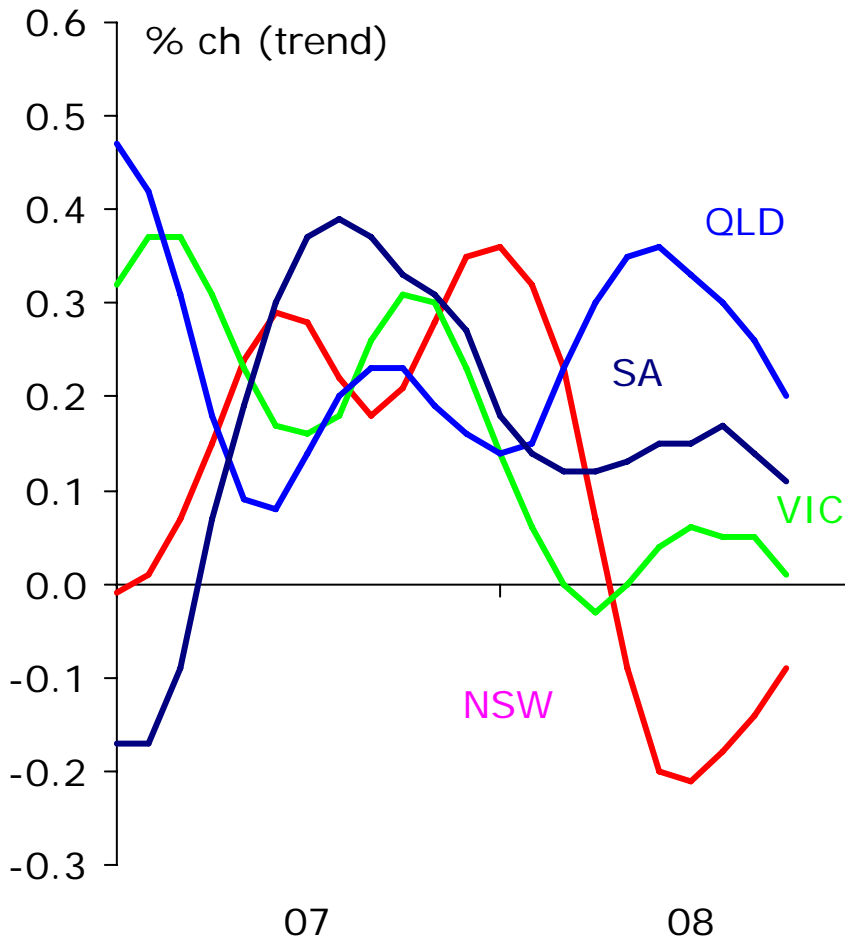


Engineering work to be done



NSW is the only state in which people are losing their jobs!

Employment by state



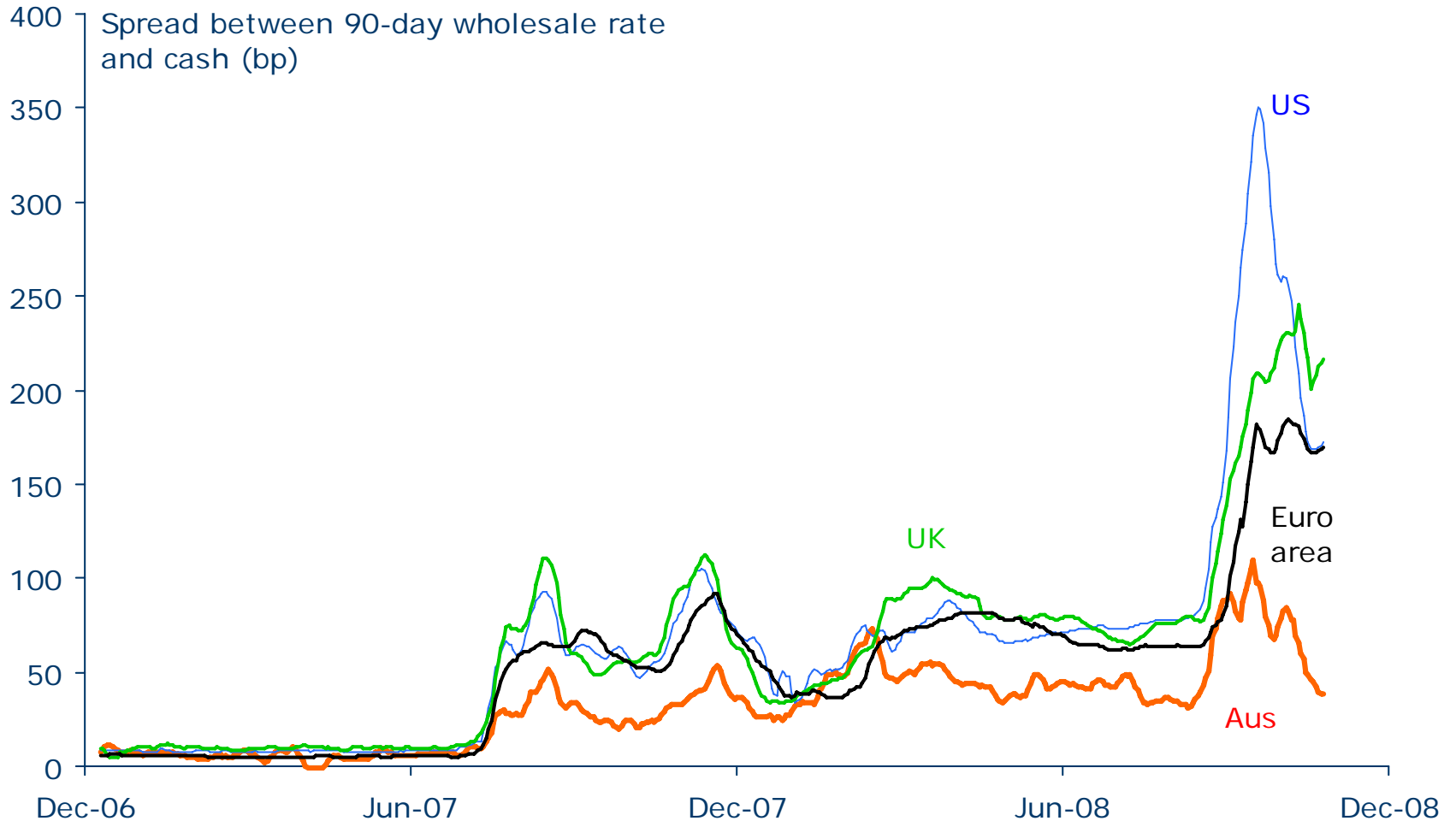
Source: Australian Bureau of Statistics



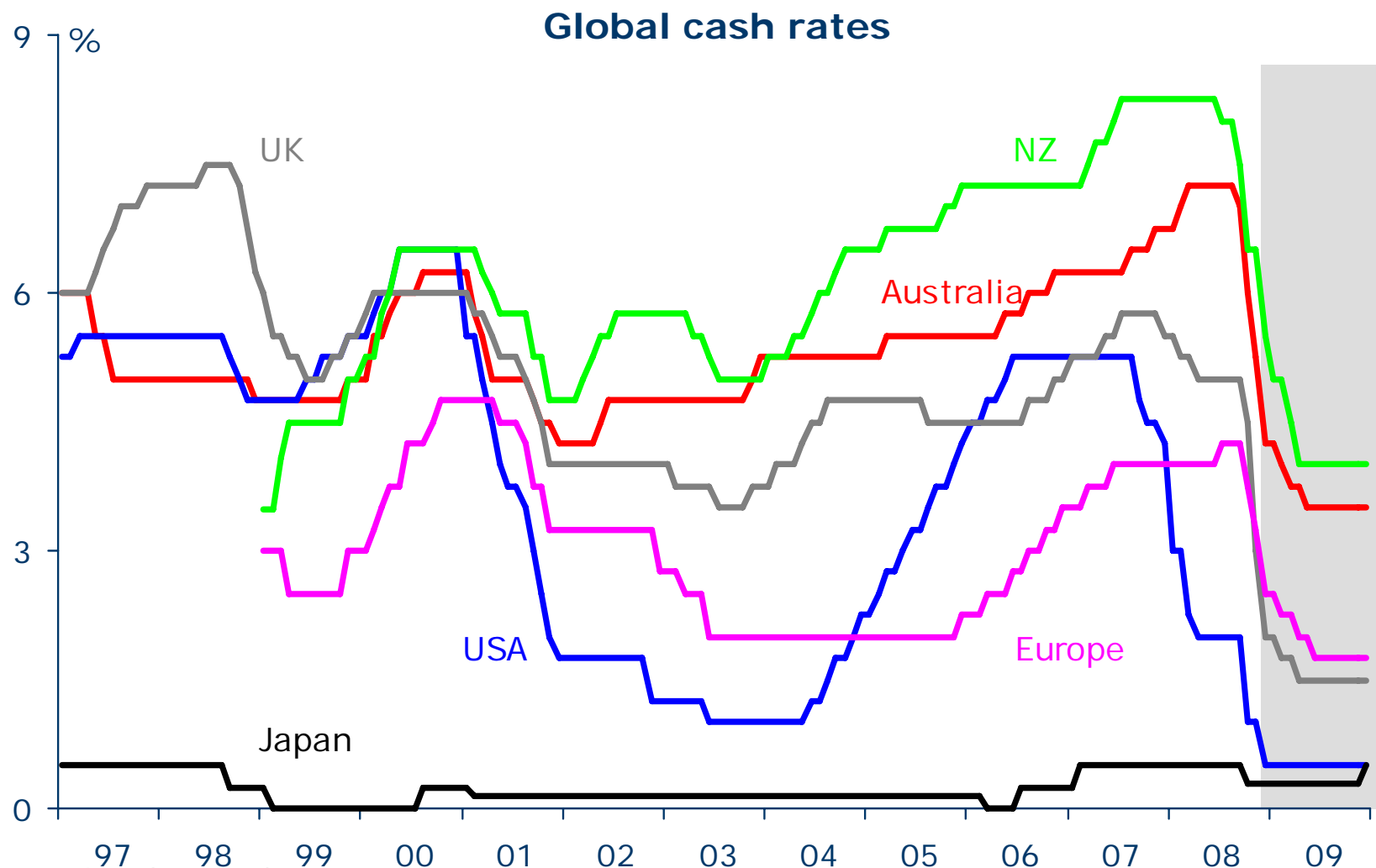
Interest rates and currencies

Erosion of confidence among banks and hoarding of cash has seen wide margins open up between inter-bank & official rates

Banks' short-term funding costs



Coordinated global interest rates cuts...with more to come

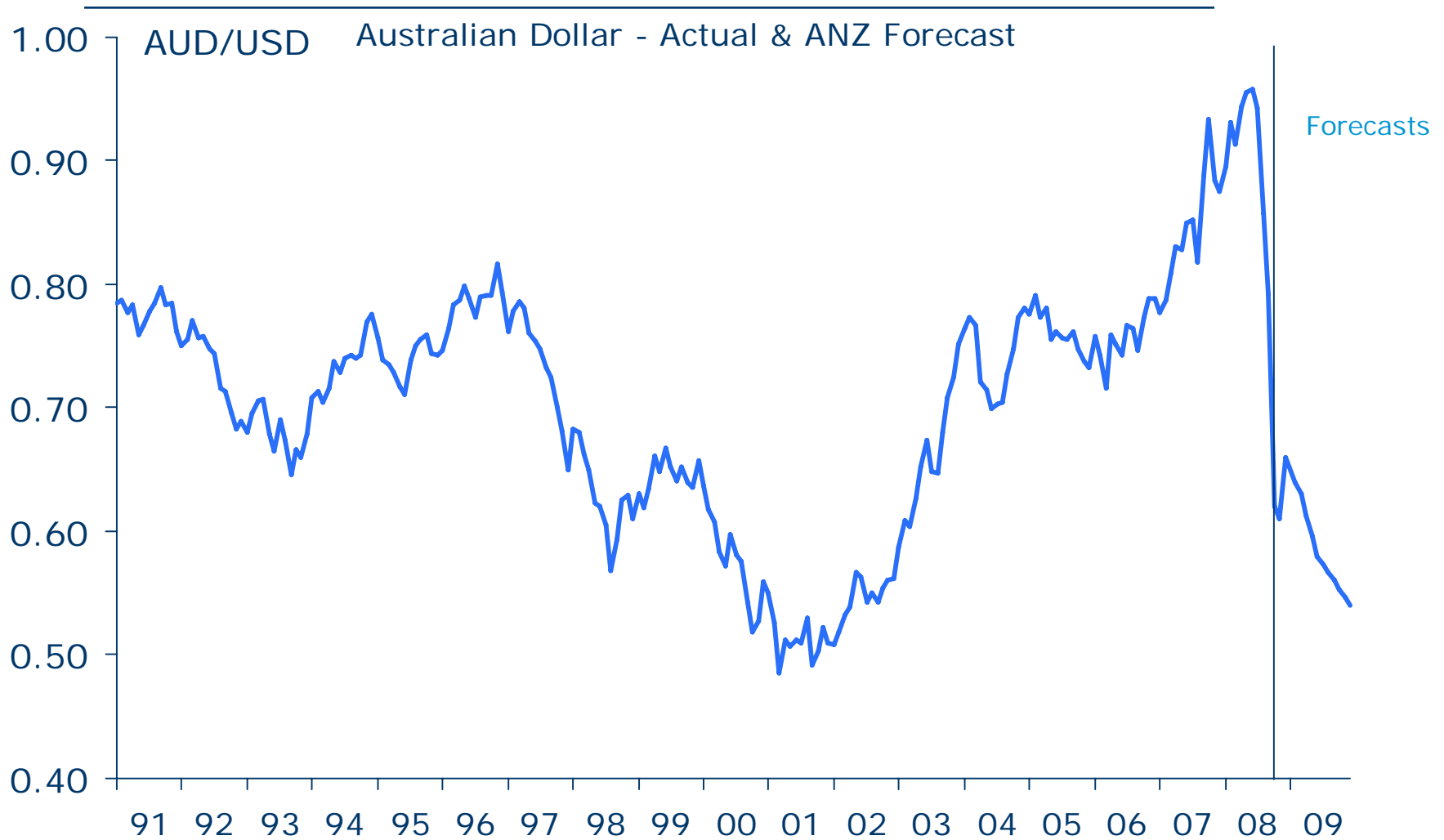


Sources: Bloomberg and Economics @ ANZ

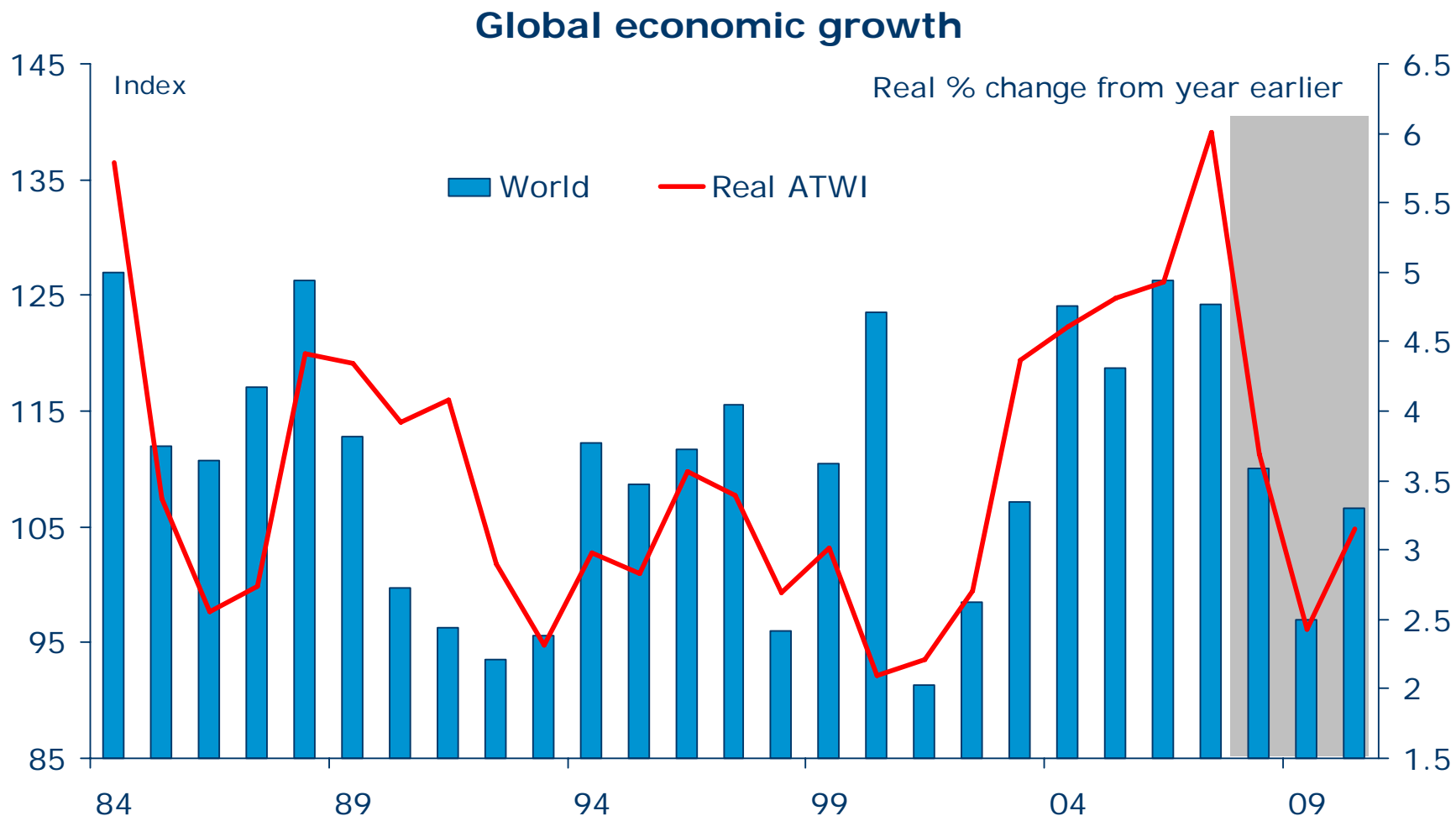
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A\$ is extremely volatile



Simple yardstick: A\$ is heavily influenced by global developments and can be viewed as a proxy for global growth



Note: GDP is measured in US\$ at purchasing power parities

Sources: IMF and Economics @ ANZ

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AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited
Level 7, 1-9 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

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