

economic ^{and} **political**
overview

2006

Agenda and speakers

- The Outlook for Business
 - Ahmed Fahour - Chief Executive Officer, Australian operations, National Australia Bank
- The South Australian Election
 - Prof Dean Jaensch AO - School of Political & International Studies, Flinders University Political Commentator
- A Better Yield from Australian Trade Policy?
 - Prof Christopher Findlay - Head, Dept of Economics, University of Adelaide Keynote Luncheon Address
- Australian Economic Outlook
 - Mark Crosby – Associate Professor & Program Director – EMBA, Melbourne Business School

The Outlook for Business

Ahmed Fahour

Chief Executive Officer, Australian Operations, National
Australia Bank



Australian Economic Prospects

- Looking Reasonable for Business in 2006

Presentation by

**Ahmed Fahour,
Executive Director & CEO Australia
National Australia Bank**

CEDA's Economic & Political Overview

Adelaide, February, 2006



Outline

- > Global/External Economic Environment
- > Australia
 - > Macro View
 - > Sectoral & State View
- > Financial Environment
- > Issues to watch



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MACROECONOMIC OUTLOOK



NAB Base Case ...

Another Good Year for Global Growth

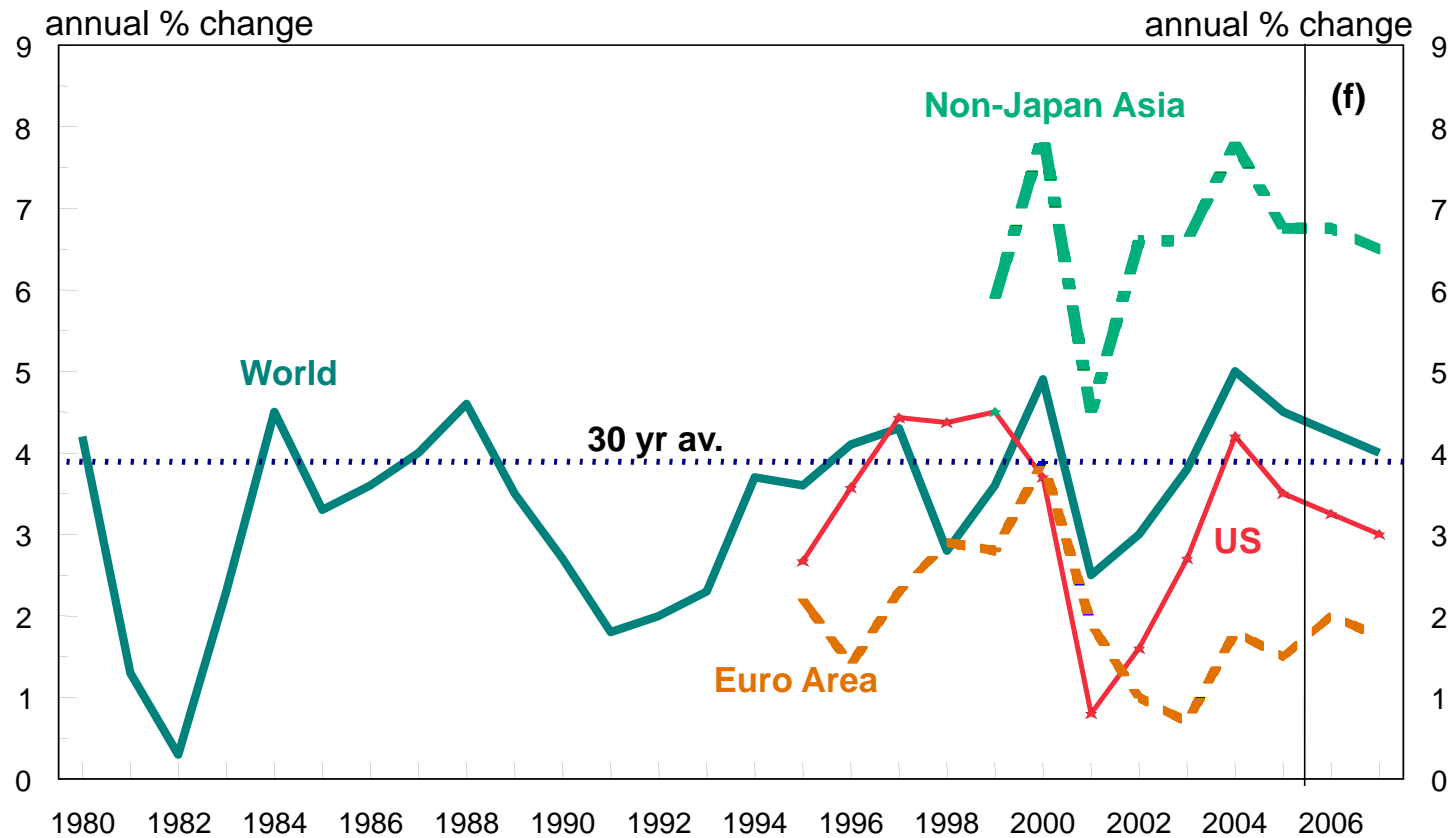
- > Sustained Global Growth - Above Trend
- > US Growth Remains Solid
- > China & India Likely to Remain Strong
- > Japan a Bit Better
- > Euro Improvement But Under performing
- > Contained Global Inflation & High Commodity Prices
- > Gradually Tighter Policy



US sustains recovery....Euro stabilizes....

Go China & Asia

World GDP Growth

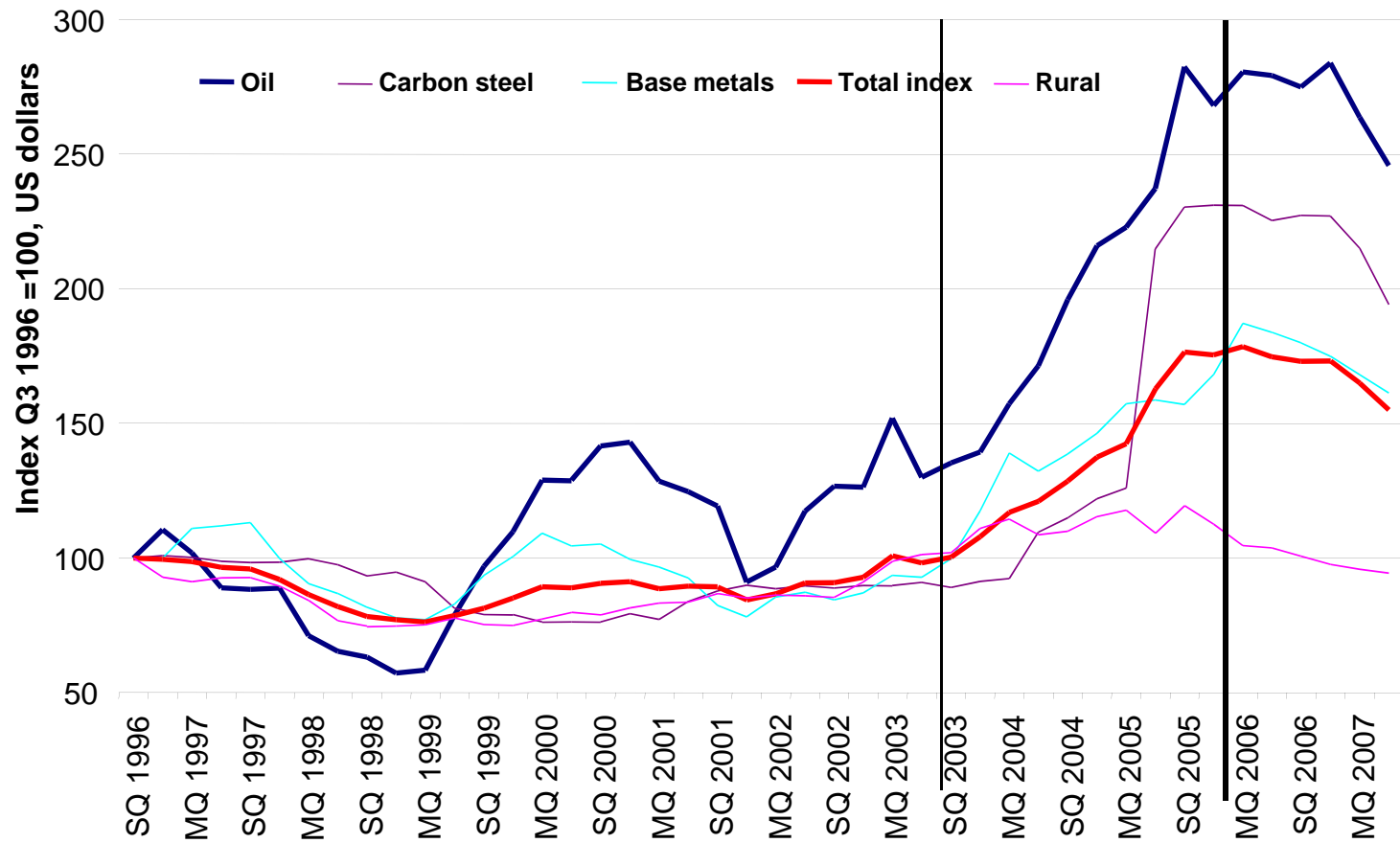




Australian Commodity Prices

Stronger for Longer

Australian Commodity Prices - NAB's CPI





NAB's Macroeconomic Base

Case For Australia

- > Slower But Spending Sustained
- > Unemployment Rises A Bit
- > Inflation Temporarily A Bit Higher, But Still Contained

- > Change in Mix of Growth/Business Activity
- > Moderation in Household Spending
- > Exports Recover As Global Growth Sustained & \$A Lower

- > Disparate Performances Across Sectors & Regions

- > Risks Balanced

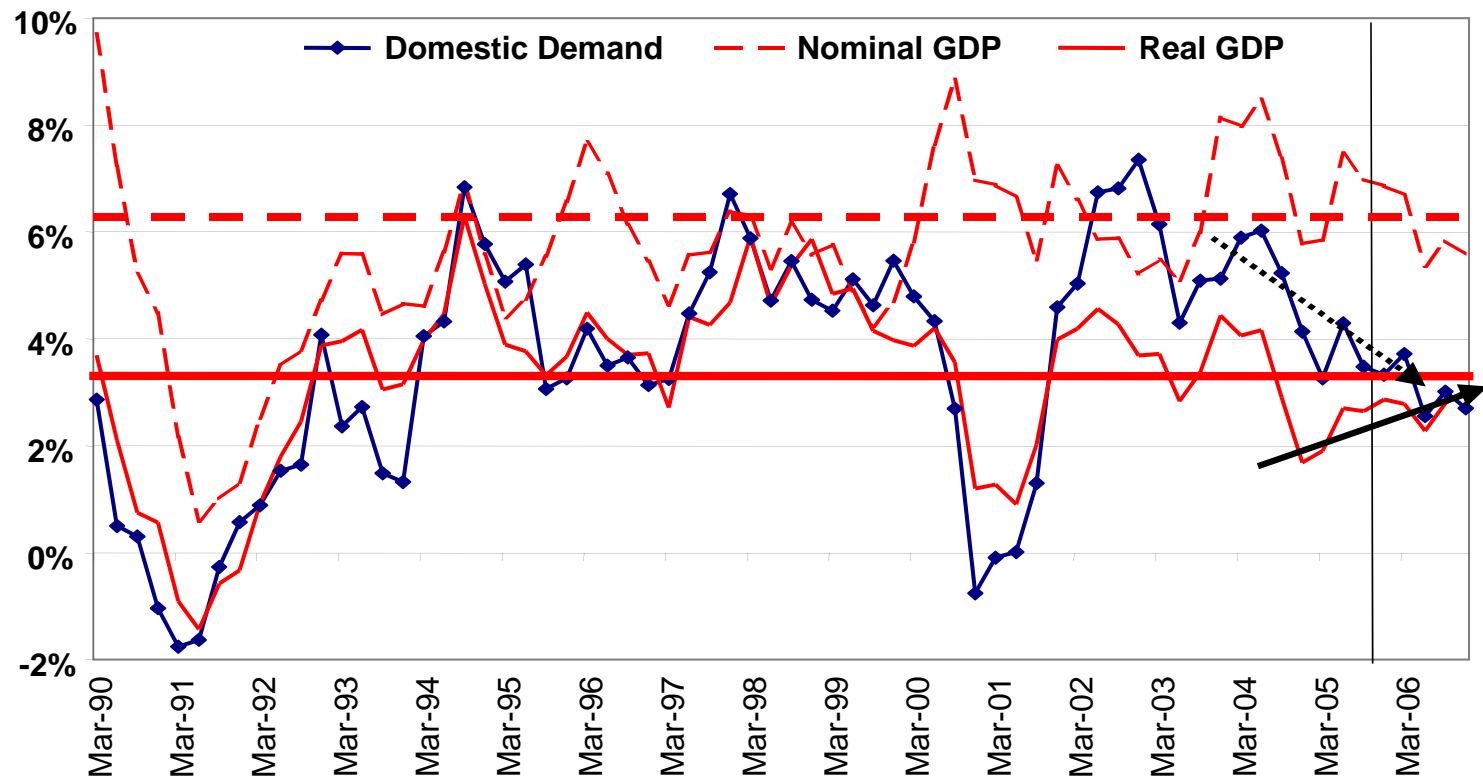
- > Reasonable Times, A Bit Below Potential



Australian Economic Growth Outlook

Activity Sustained, As Domestic Spending Moderates, Exports Pick up

Growth in Nominal & Real GDP & Real Domestic Demand



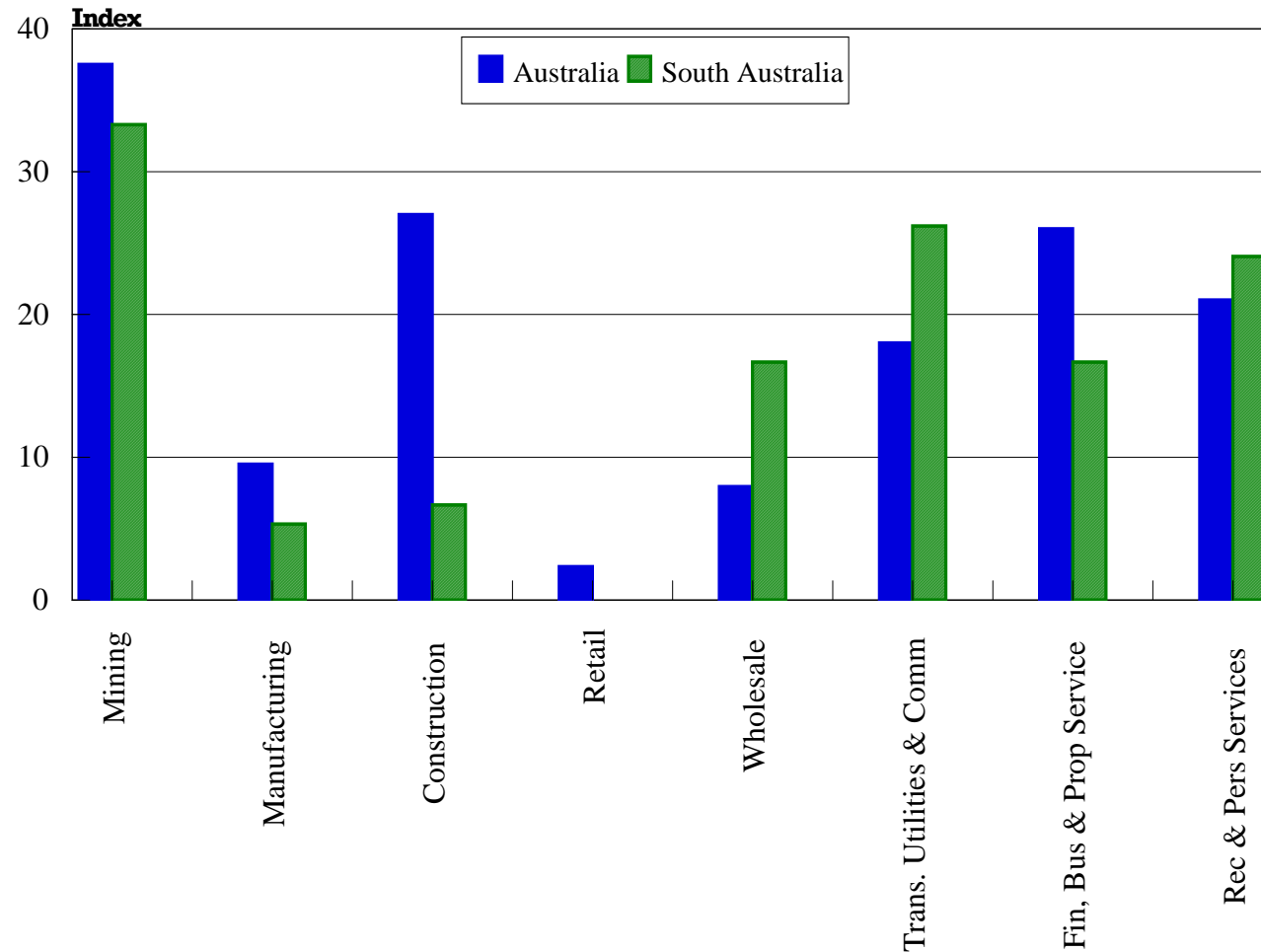
Strong nominal sales & income growth for some



Conditions by Industry – SA v Australia

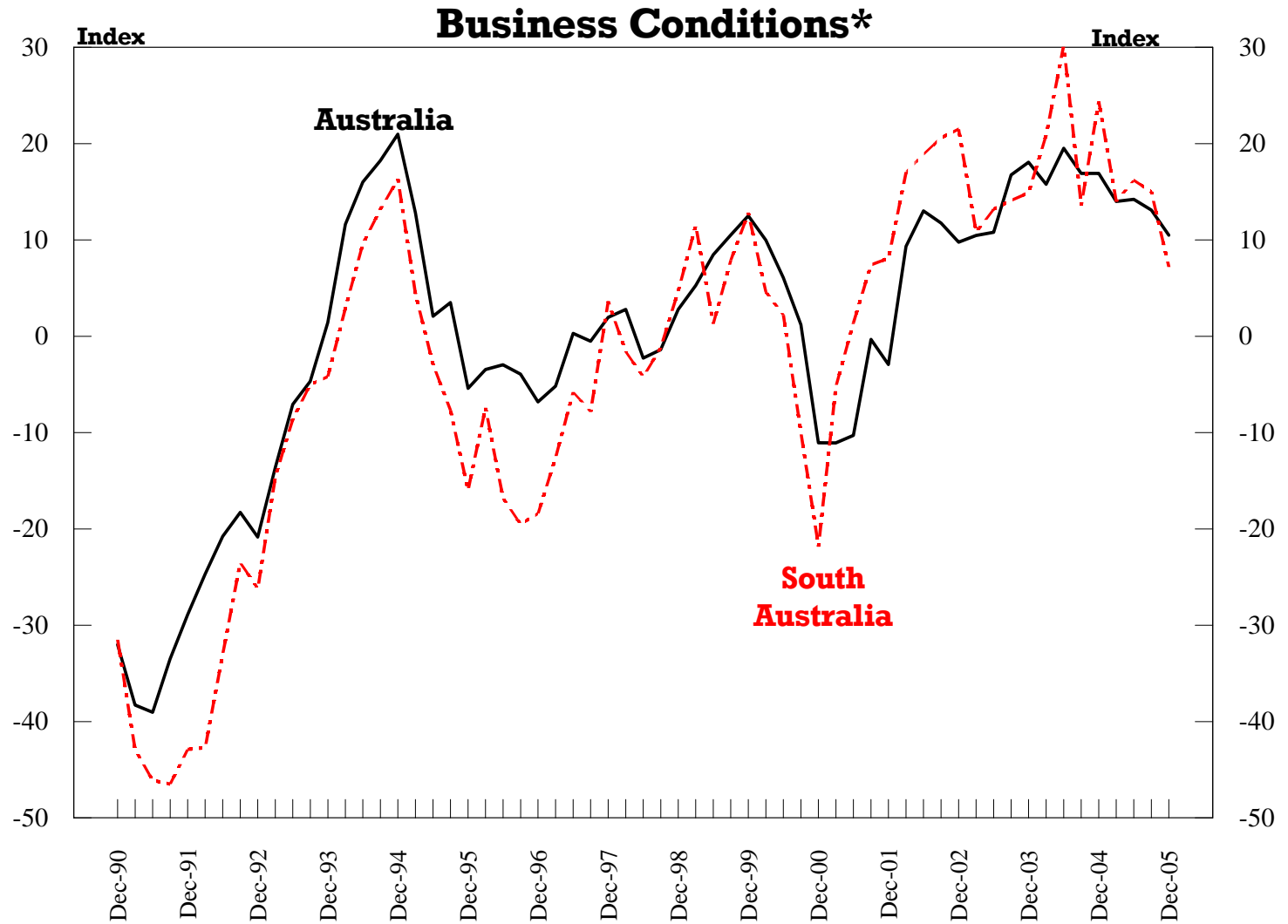
Business Conditions by Industry

December Quarter 2005





Business conditions – SA v Australia

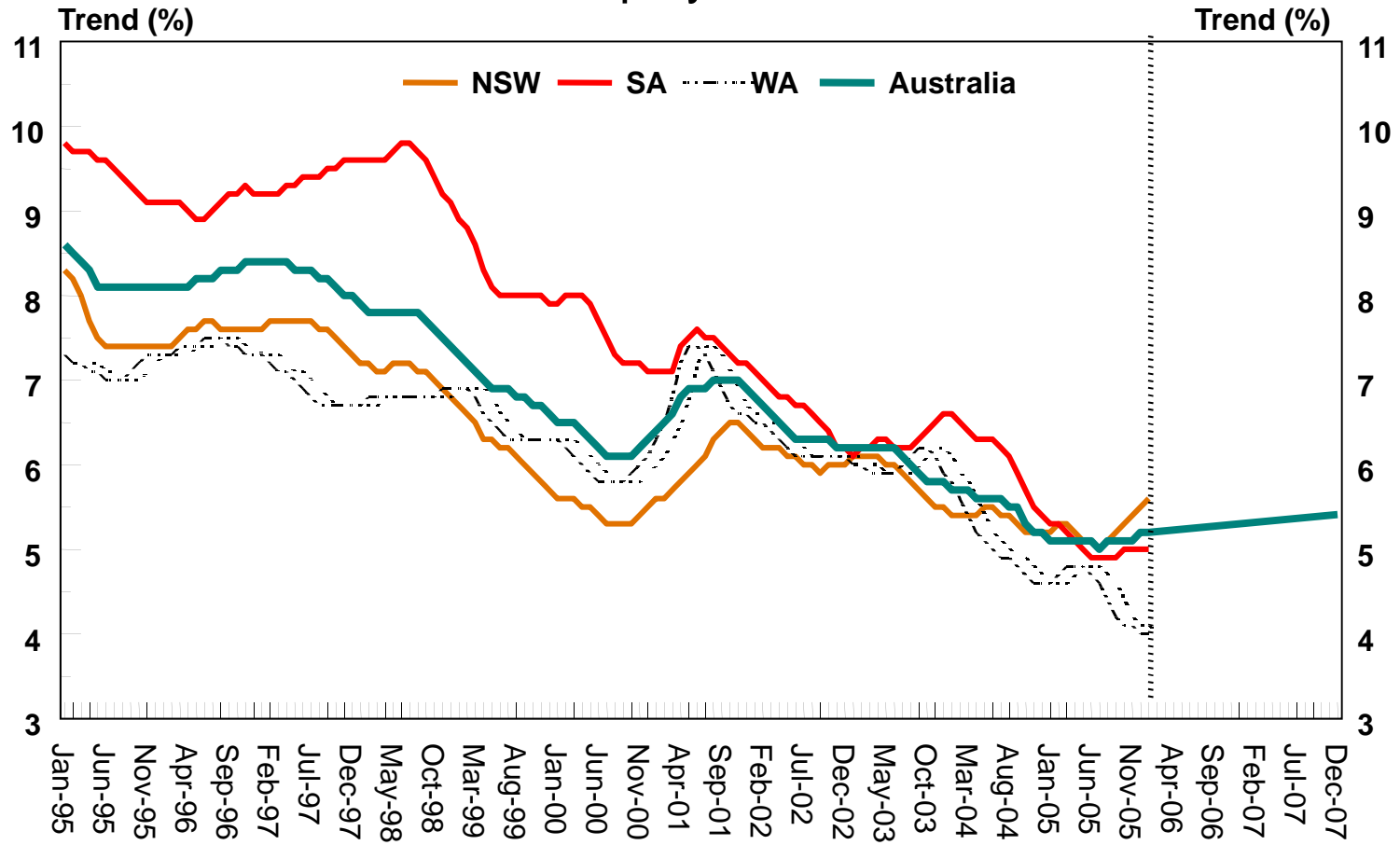


* Seasonally adjusted by NAB using X12



Unemployment...Past the Cyclical Low Heading A Bit Higher

Unemployment





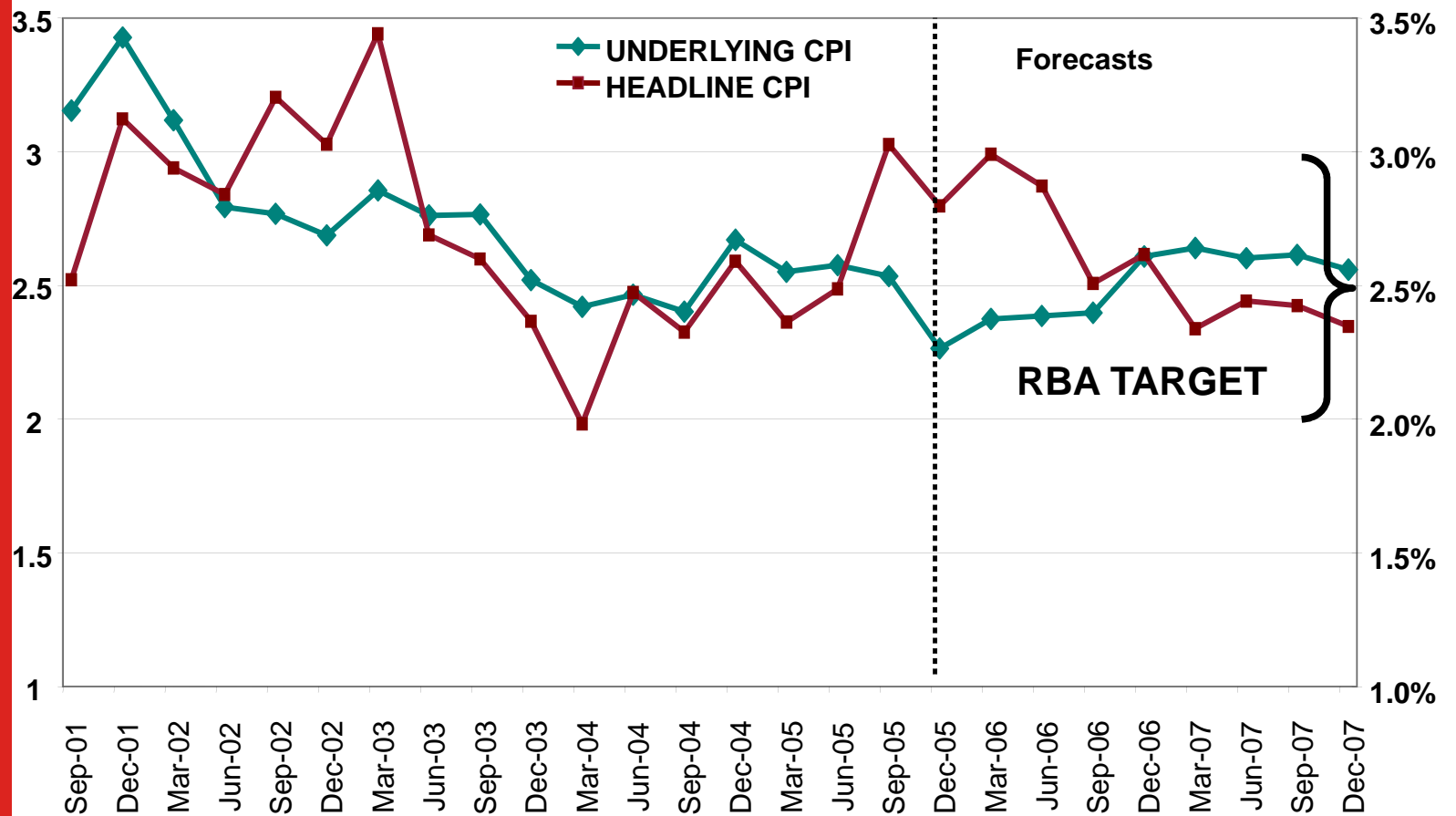
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MARKET OUTLOOK



Inflation Outlook Containedand likely to remain so

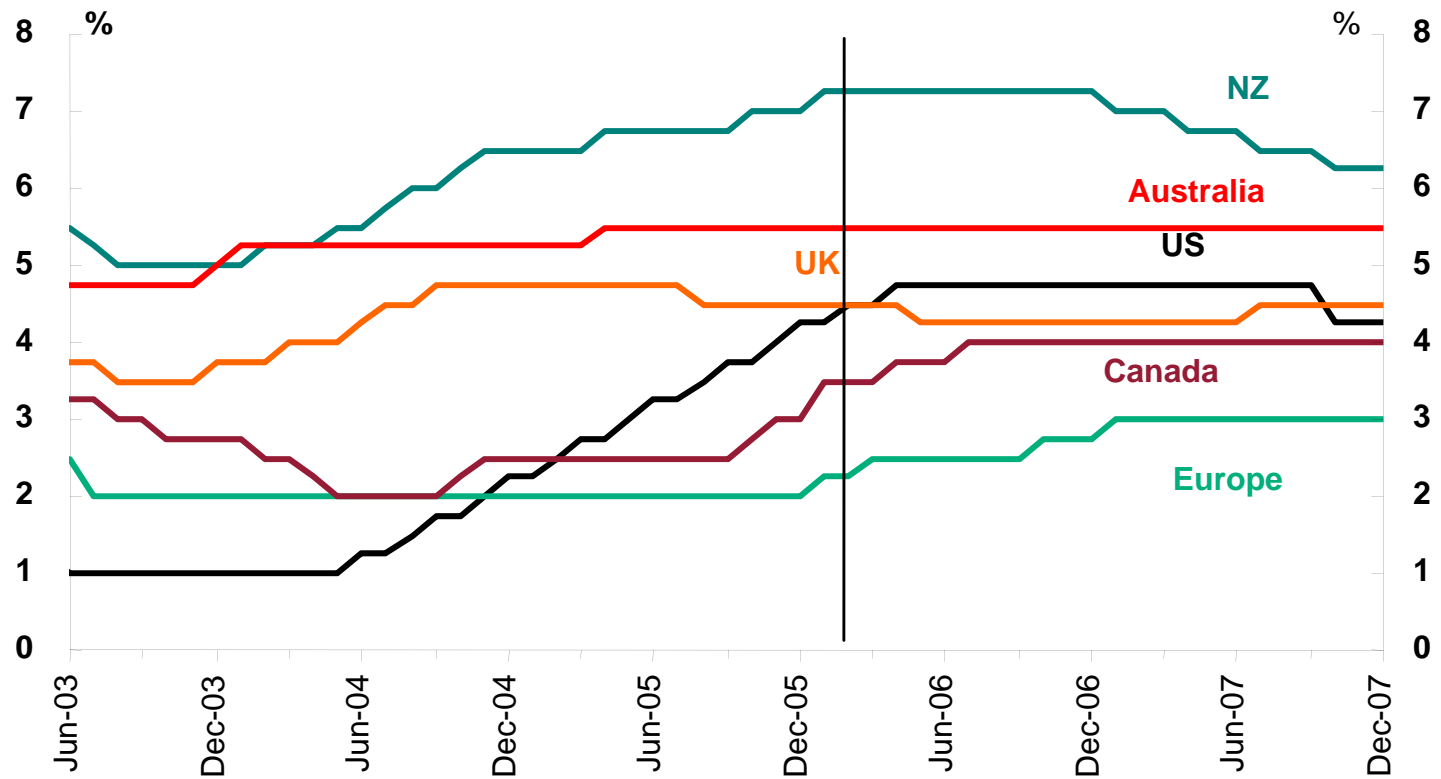
Headline & Underlying CPI - 12 Mth to %





Monetary Policy/Cash Rates.....

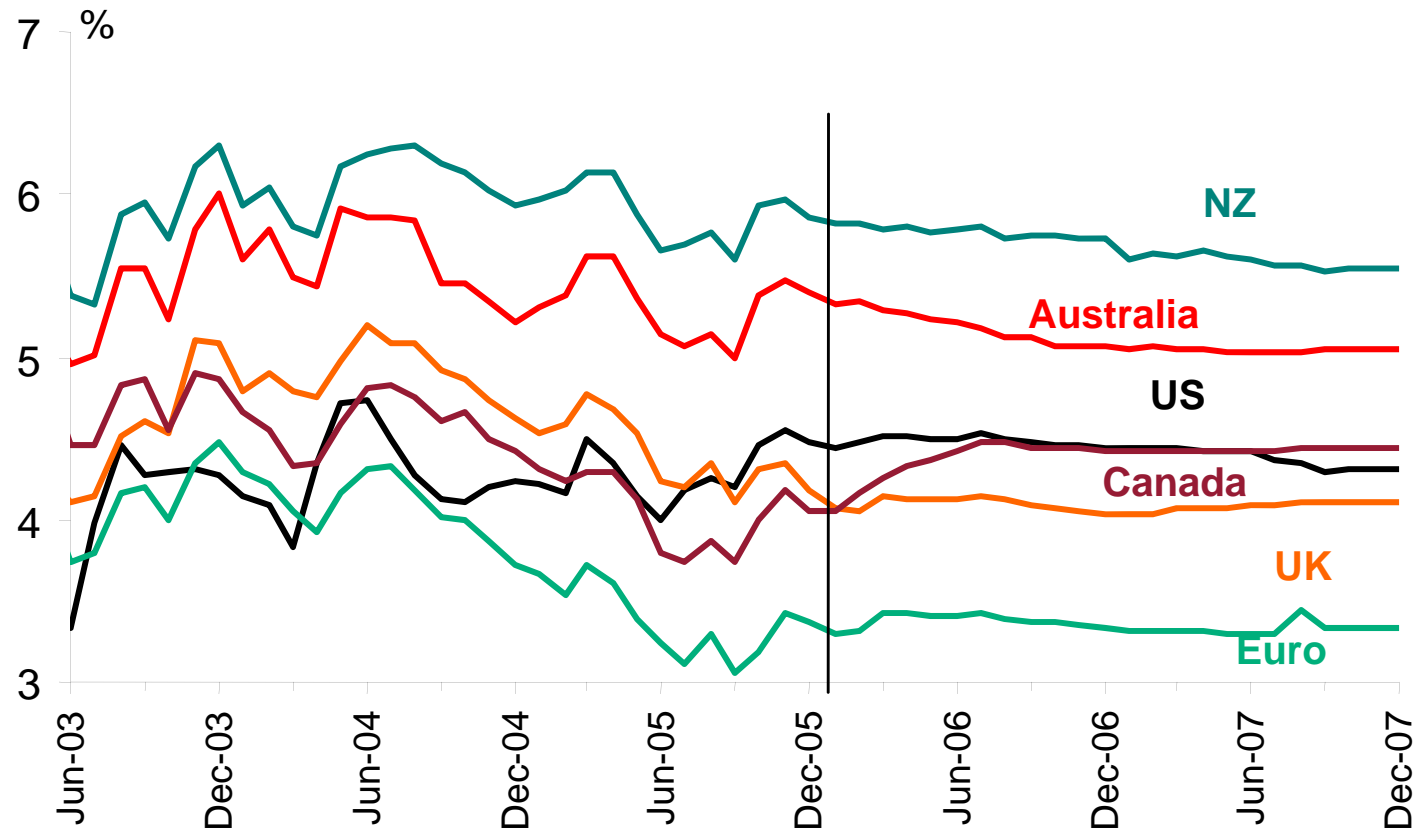
Global Cash Rates





Long term Interest Rates Remain relatively Low

Global Government 10 year Bond Yields

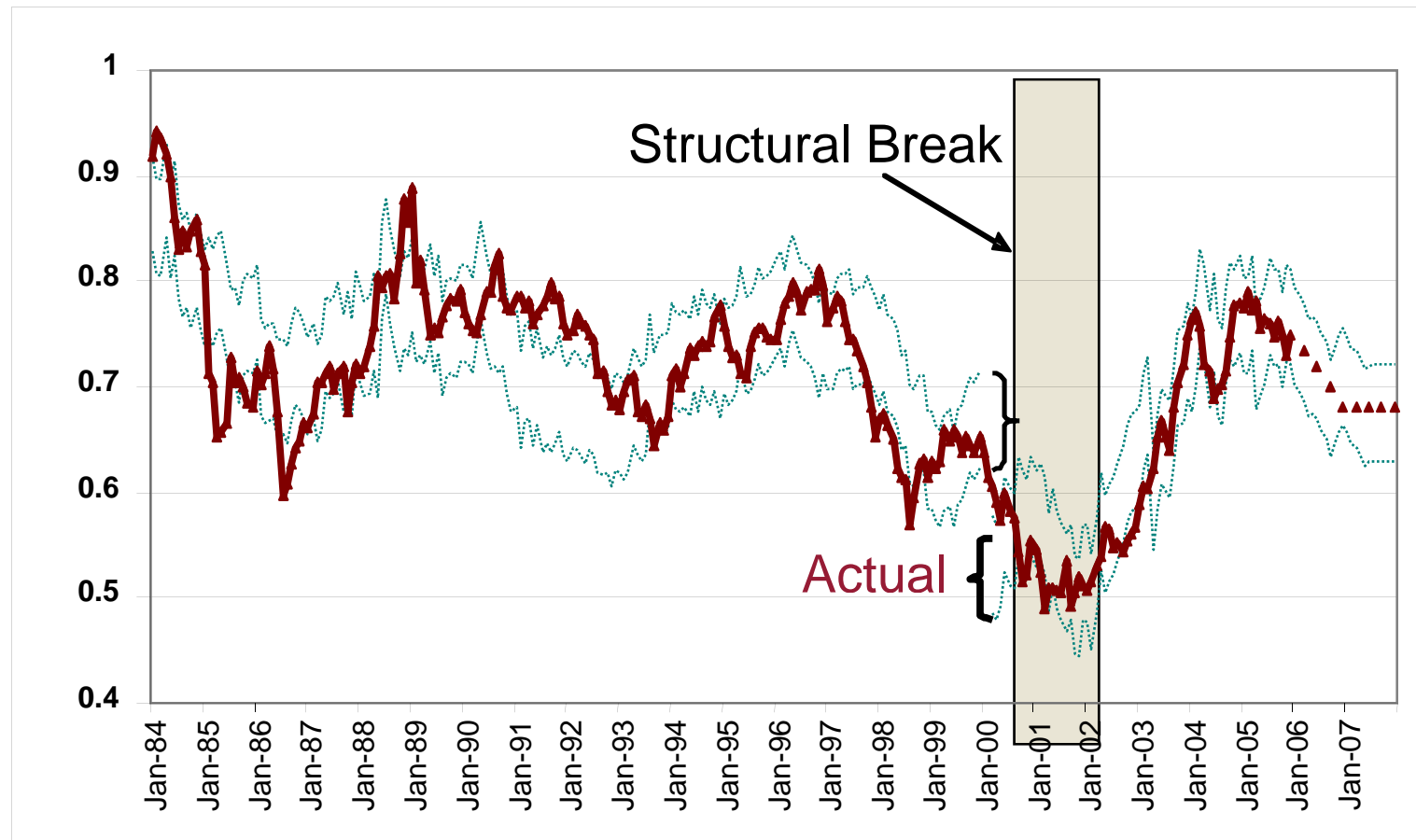




\$ Outlook.....A Risky Business

Fundamentals Point Lower ...to Boost

Exports Model & Confidence intervals v Actual





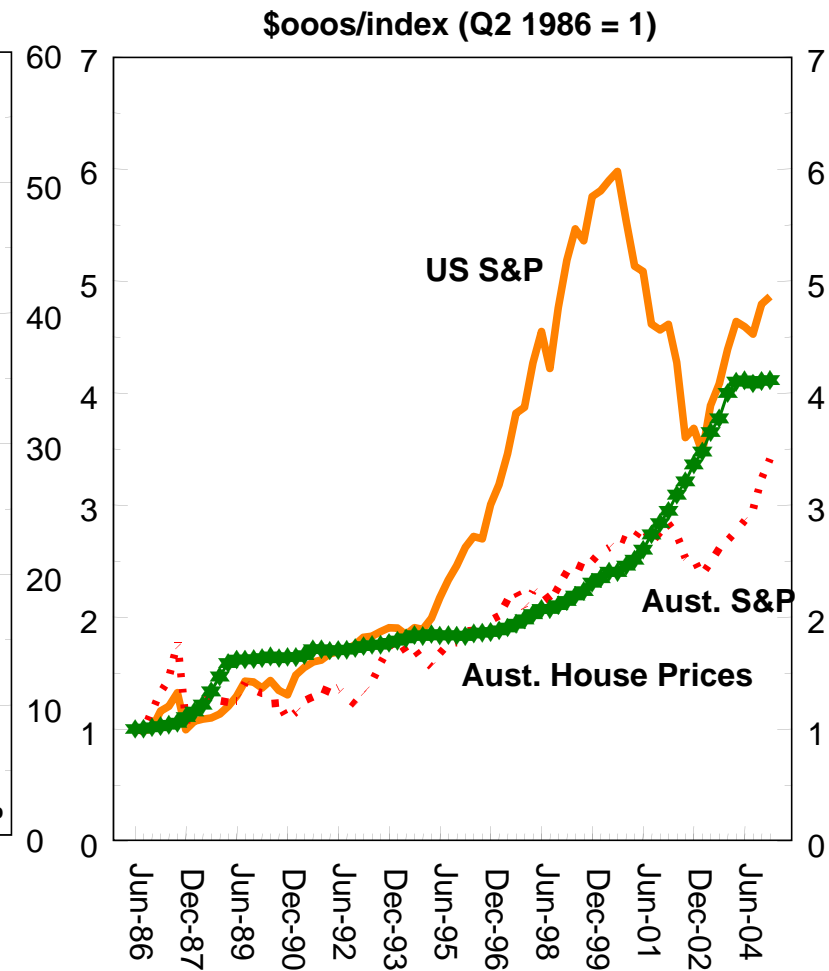
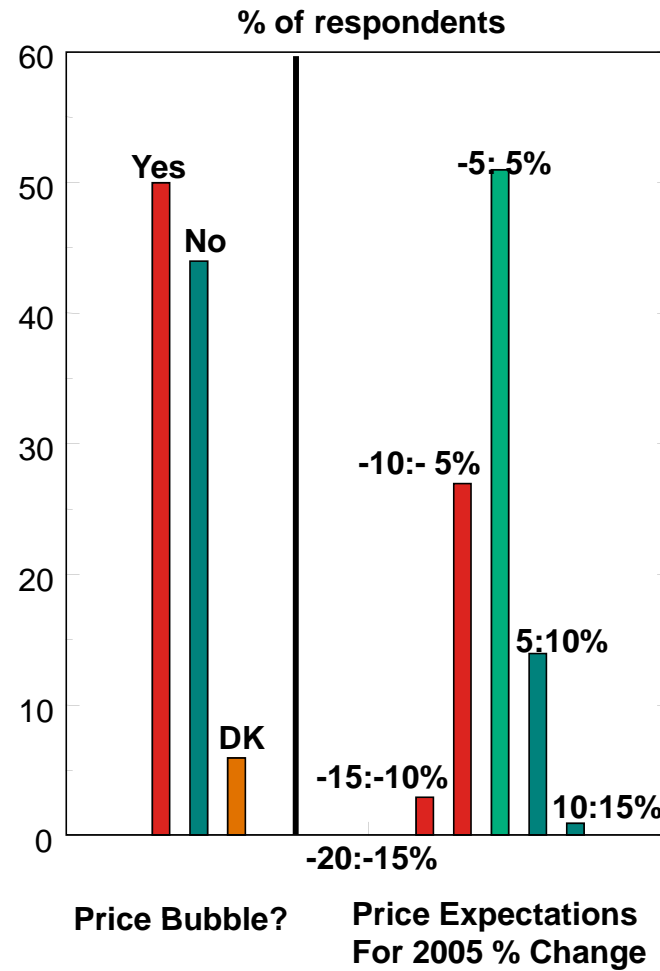
Macro Watch Issues

- > Industrialisation of the Emerging Countries
- > Unbalanced world growth (& savings)
- > Geopolitical tensions
- > Very High Oil Prices
- > Global Pandemic
- > Anglo Saxon Property Crash



Anglo Saxon Housing Bubbles..... No...

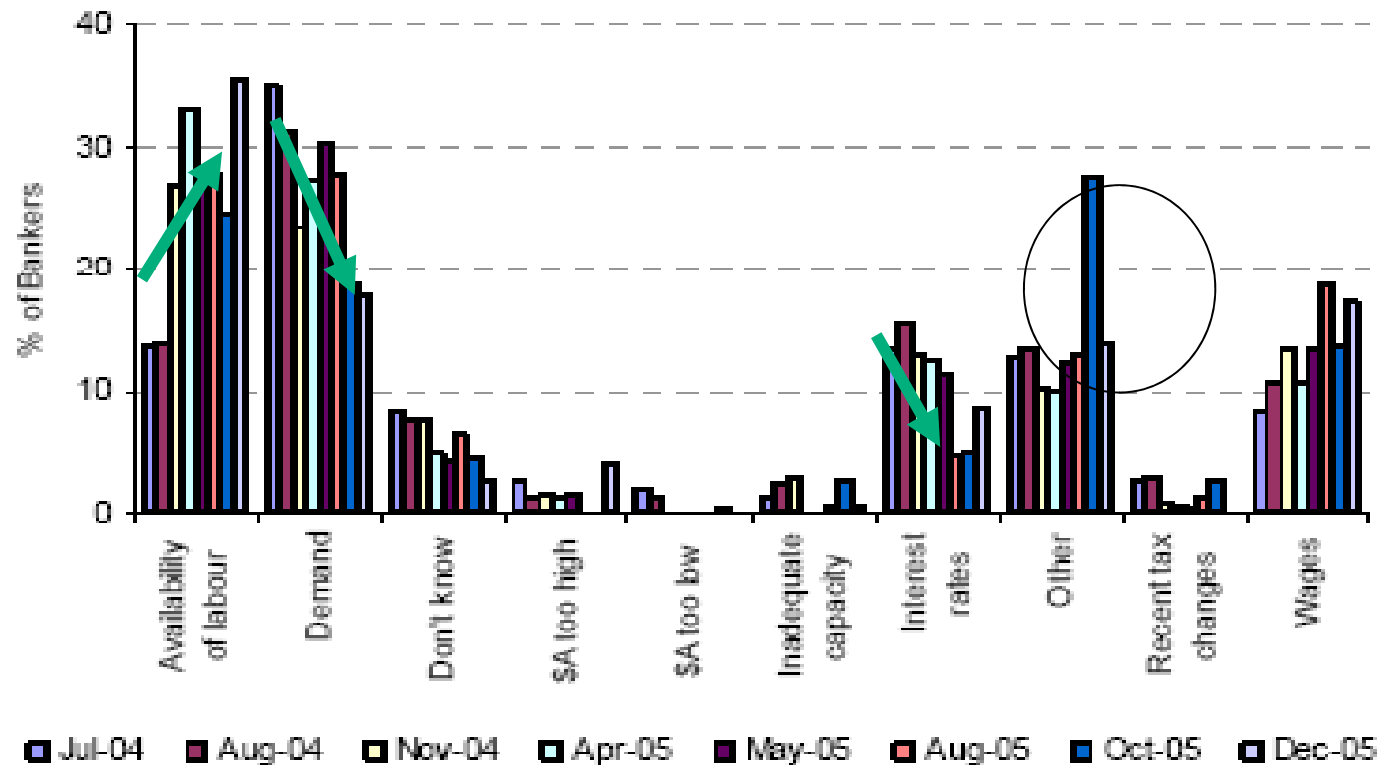
Australian House Prices





NAB Bankers' View

Main Constraint on Profitability





NAB's Macroeconomic Base Case

For Australia

- > Slower But Spending Sustained
- > Unemployment Rises A Bit
- > Inflation Temporarily A Bit Higher, But Still Contained

- > Change in Mix of Growth/Business Activity
- > Moderation in Household Spending
- > Exports Recover As Global Growth Sustained & \$A Lower

- > Disparate Performances Across Sectors & Regions

- > Inflation Stays Contained, Commodity Prices High
- > Normal Cash Rates, Low bond Yields

- > Risks Balanced

- > Reasonable Times, But Below Potential
- > Progress on longer term challenges is Critical



NAB in South Australia

> Strong local leadership

Richard Hockney – Business

Anne Marie Chamberlain – Retail

> Annualised lending and deposit growth in excess of 15%

> Experienced local staff with decision making authority

> Good growth opportunities for customers



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The Outlook for Business

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Chief Executive Officer, Australian Operations, National
Australia Bank

The South Australian Election

Prof Dean Jaensch AO

School of Political & International Studies,

Flinders University Political Commentator

The 2002 Election

	1st Pref	TPP	Seats	Subsequent
ALP	36.3	49.1	23	22
LIB	40.0	50.9	20	
AD	7.5			
CLIC	0.8		1	
Green	2.4			1
NAT	1.5		1	
IND	4.2		2	
Other	7.3			

Security of Seats

		Safe	Comfortable	Marginal
ALP	City	9	5	8*
	Country	0	0	1 (Giles)
	Total	9	5	9
*includes Mitchell – Green / Ind				
LIB	City	4	4	4
	Country	10*	0	2 (Light, Stuart)
	Total	14	4	6
* Includes Chaffey, Mt Gambier, Hammond held by independents				

ADELAIDE IS THE KEY

Legislative Council

	ALP	LIB	AD	FF	NOP	IND
2002 Election	9	7	3	1	1	1
Stay	5	4	1	1		
Up 2006	4	3	2		1	1

To Win a Majority:

Labour needs to win 7 seats (58.8% vote)

Liberal needs to win 8 seats (67.2% vote)

PREDICTION: REMAIN HUNG

POLLS - State

December 2005 (Advertiser)

	City	Country	Total	(2002)
ALP	45	29	41	36
LIB	29	49	35	40

January 2005 (News poll)

	1 st Pref	TPP
ALP	46	56
LIB	35	44

January 2005 (Advertiser)

ALP	41
LIB	30

POLLS – Electorates (selected) (Advertiser)

		2002	Poll	Swing
Newland	ALP	35	43	+8
	LIB	45	34	-11
Bright	ALP	33	44	+11
	LIB	45	33	-12
Morialta	ALP	35	36	+1
	LIB	44	36	-8
Norwood	ALP	39	39	0
	LIB	42	35	-8
Adelaide	ALP	40	43	+3
	LIB	42	32	-10

The South Australian Election

Prof Dean Jaensch AO

School of Political & International Studies,

Flinders University Political Commentator

Can we get a Better Yield from the Australian Trade Policy Portfolio?

Prof Christopher Findlay

Head, Dept of Economics, University of Adelaide

Australia's Economic Outlook

Mark Crosby

Associate Professor & Program Director
EMBA, Melbourne Business School



The University of Melbourne

CEDA Adelaide EPO

The Economic Outlook

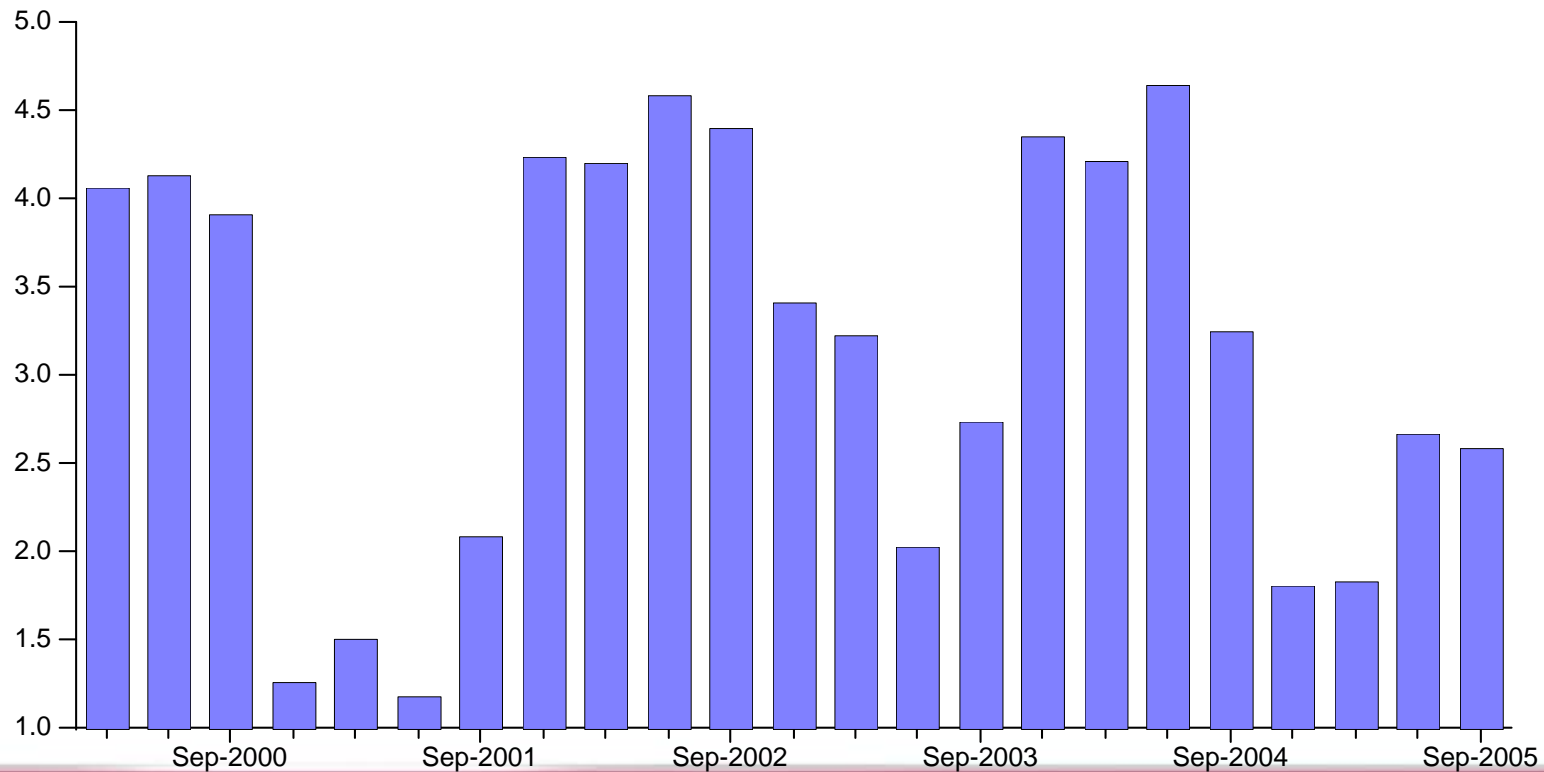
**Mark Crosby,
Melbourne Business School,
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Opening minds.
Changing lives.



Australia's Economy

Australian GDP, 2000 to 2005
yoy % change



Opening minds.
Changing lives.



Slide 37

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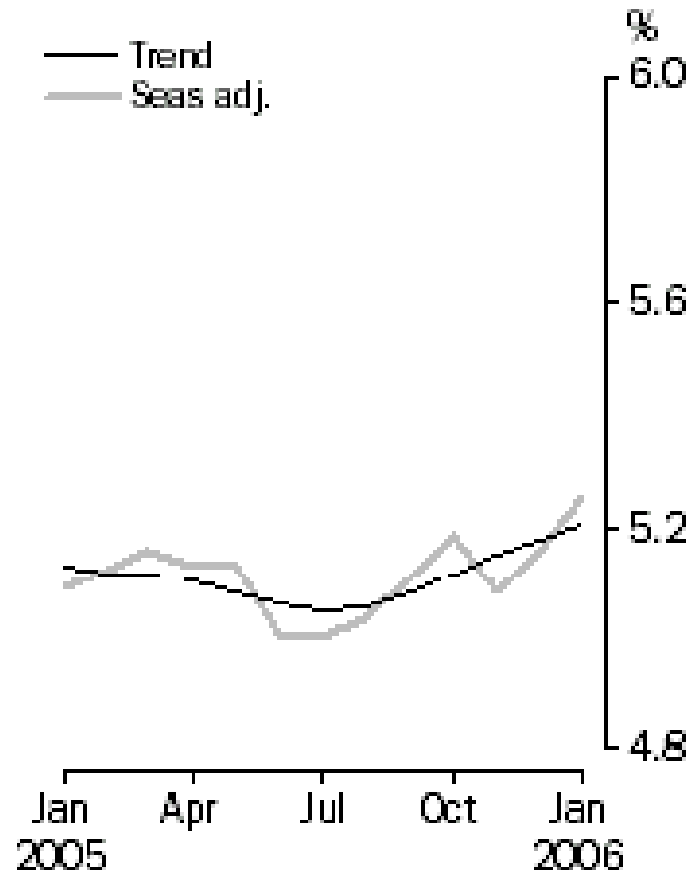
GDP growth has strengthened in the second half of 2005.

Still weaker than longer term trend, and forecast to remain around 3 percent in the next 12 months.

Consumption growth remains at a more sustainable level, dragging growth down from 2004 levels

Melbourne Business School, 20/02/2006

Australia - unemployment



The unemployment rate rose slightly in January to 5.3% (up from 5.1% twelve months ago).

Employment growth remains strong, despite lower GDP growth in 2005.

NSW and Victoria now have unemployment above the national average, while SA and WA are below

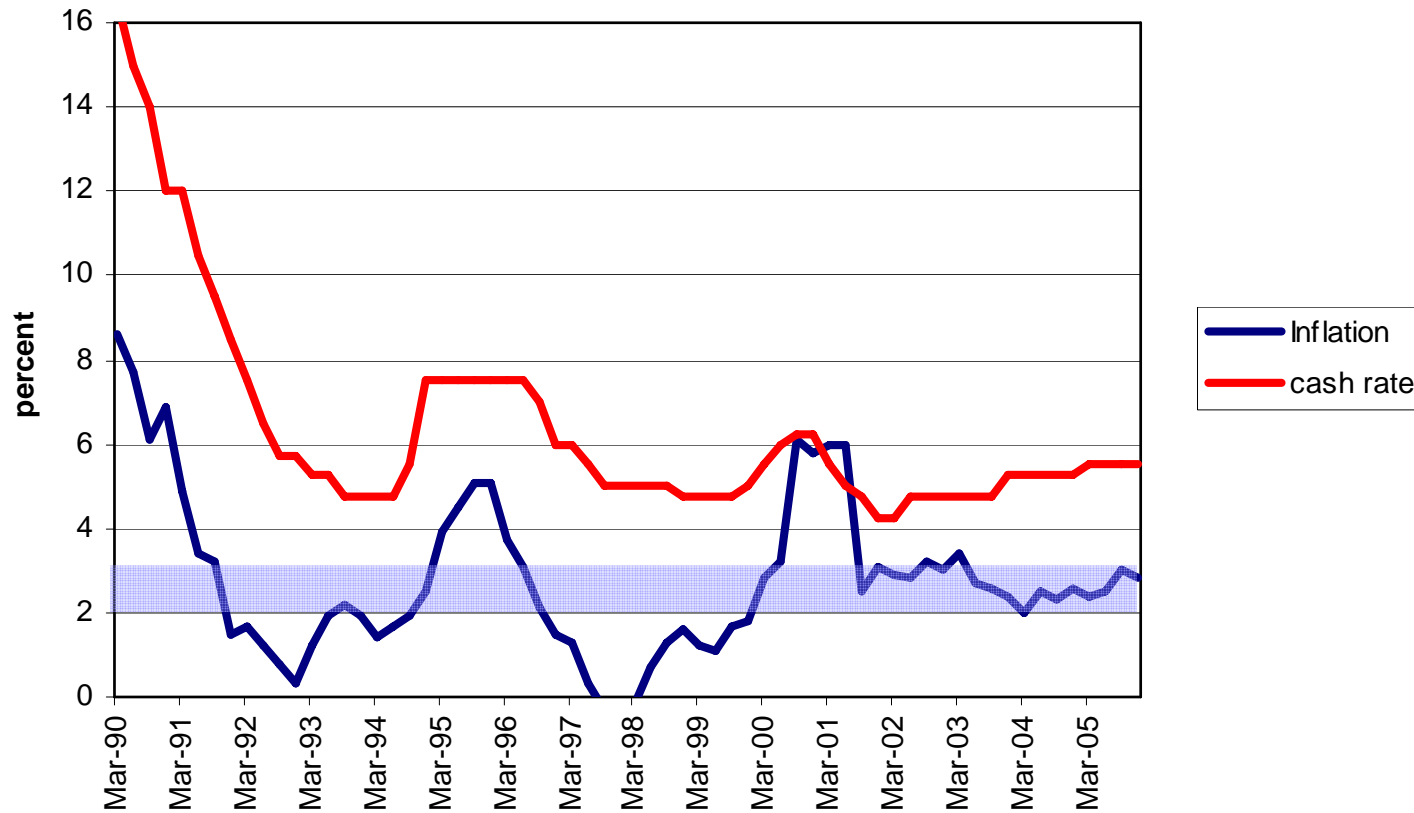
SA unemployment = 5.0%

NSW unemployment = 5.7%



Australia – inflation and interest rates

Inflation and the cash rate since 1990

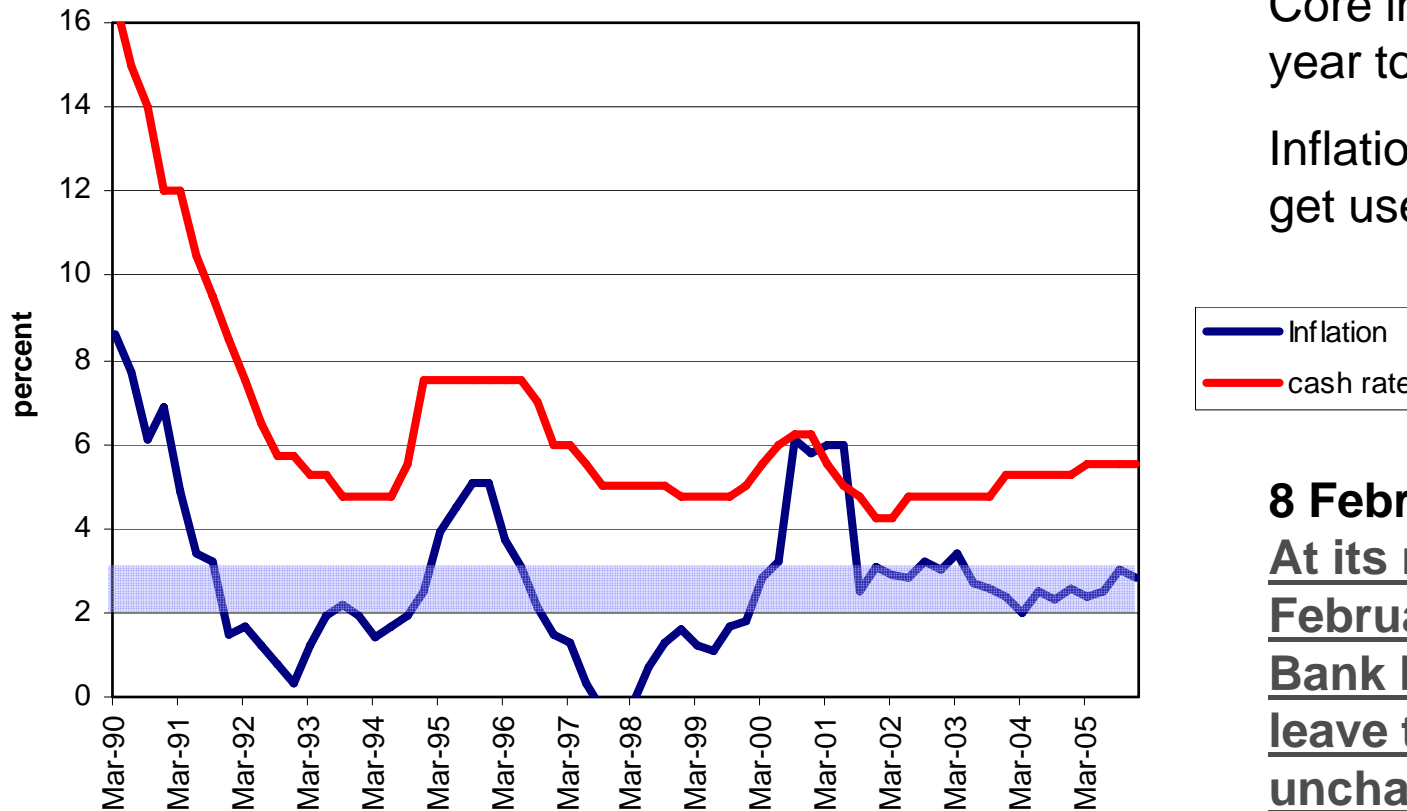


Opening minds.
Changing lives.



Australia – inflation and interest rates

Inflation and the cash rate since 1990



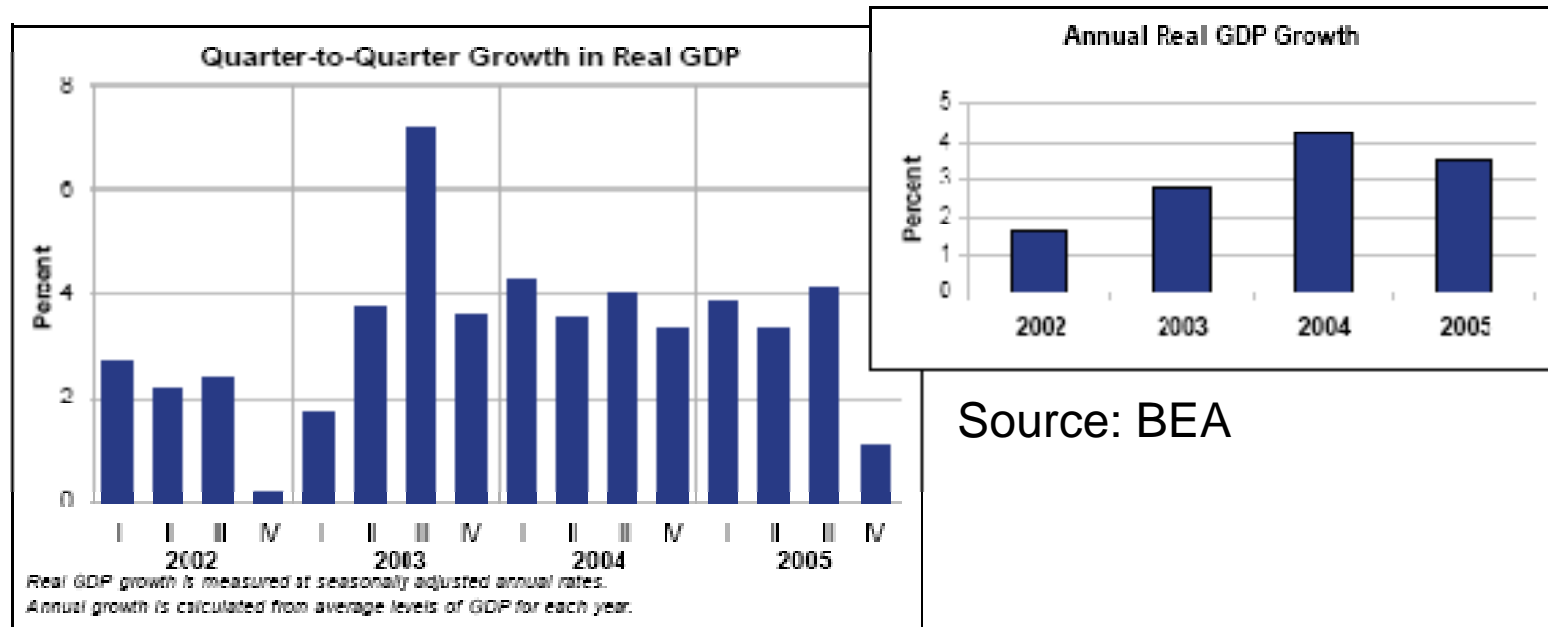
Core inflation of 2.5% in year to December...

Inflation will stay low, so get used to...

8 February 2006
At its meeting on 7 February, the Reserve Bank Board decided to leave the cash rate unchanged at 5.50 per cent.



The United States



Source: BEA

- significant slowdown in fourth quarter GDP growth in the US
- consumer spending slowed markedly, particularly motor vehicle demand
- still very large trade deficit, despite a fall in the budget deficit.

Opening minds.
Changing lives.



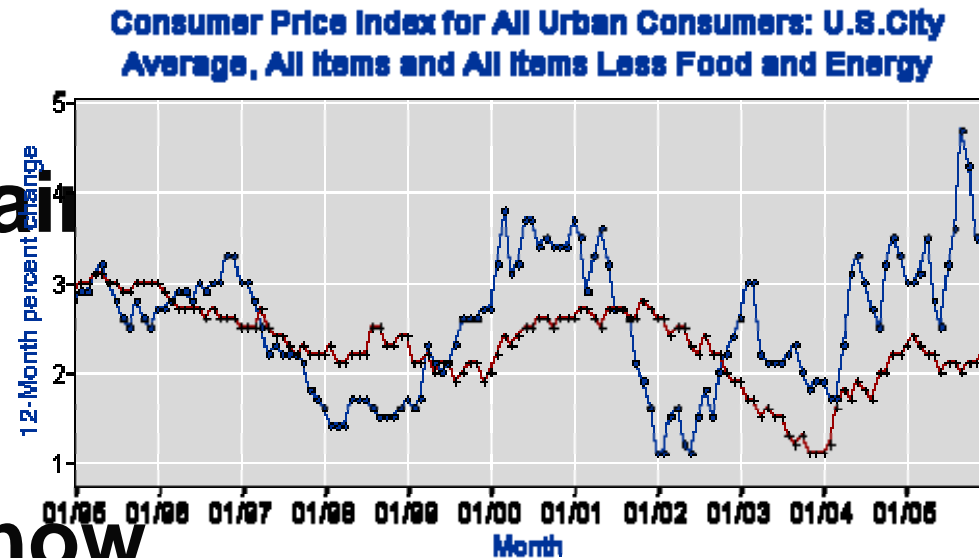
United States – forecasts

- I expect GDP growth to remain in the 2-3% range in 2006/07.
- Housing price falls remain a risk on the downside to consumption and GDP growth.
- Twin deficits will be “stuck” at close to current levels.



United States – inflation and interest rates

As in Australia, core inflation remains in the 2-3% range.



Fed funds rate is now 4.5% - the futures market has priced in a likely further rise at the next FOMC meeting, but rates to then rise only once more through 2006.

Source: BLS



Japan – will the sun rise?

- Japan's GDP growth was 1.4% in the December quarter (4.1% yoy).
- Prices have stopped falling, equity markets have been rising.
- Corporate/bank balance sheets continuing to improve.
- Ominously, the BOJ may tighten.
- Japanese policymakers have staved off recovery in the past.



China – keep riding the wave

- China's GDP was revised late last year.
- GDP growth of 9.5% in 2005, up from 9.3% the previous year – expect this kind of growth to continue.
- The exchange rate moved from a fixed 8.28Y/USD last July to 8.05Y/USD this week.
- Expect a further 2-3% appreciation in 2006.



What are the risks to the world economy?

- Inflation?
- US twin deficits?
 - Leading to a trade war
 - Further disputes over the Yuan
- Rising oil prices?



What are the risks to the world economy?

- ~~• Inflation?~~
- Wages have been rising slightly in some sectors e.g. mining.
- High productivity, and declining union power should not see this translate to general price and wage increases...



What are the risks to the world economy?

- US twin deficits?
 - Leading to a trade war
 - Further disputes over the Yuan



What are the risks to the world economy?

- US twin deficits?
 - Leading to a trade war
 - Further disputes over the Yuan
- The problem with the US twin deficits is on the US side...but what kind of political action this leads to remains to be seen.



What are the risks to the world economy?

- Rising oil prices?



What are the risks to the world economy?

- ~~Rising oil prices?~~
- ~~Same argument as above...~~
 - Rising oil prices should lead to changes in relative prices, rather than significant changes in inflation
- Critical issue is whether product and labour markets are competitive.
- Ongoing reforms should be aimed at increasing competition.



Conclusions

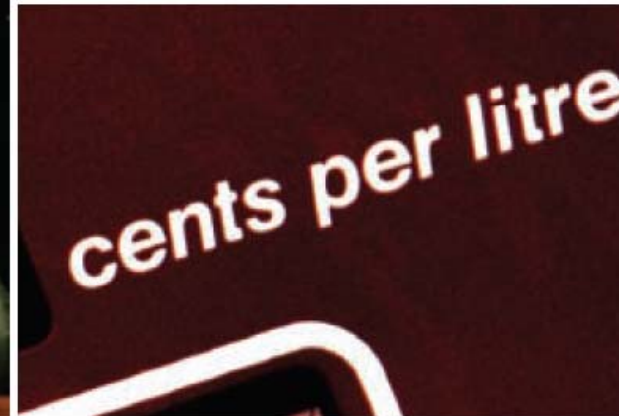
- 2006 should be another solid year for the Australian economy.
- China remains the big international story.
- It's the unknown risks to watch for!



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