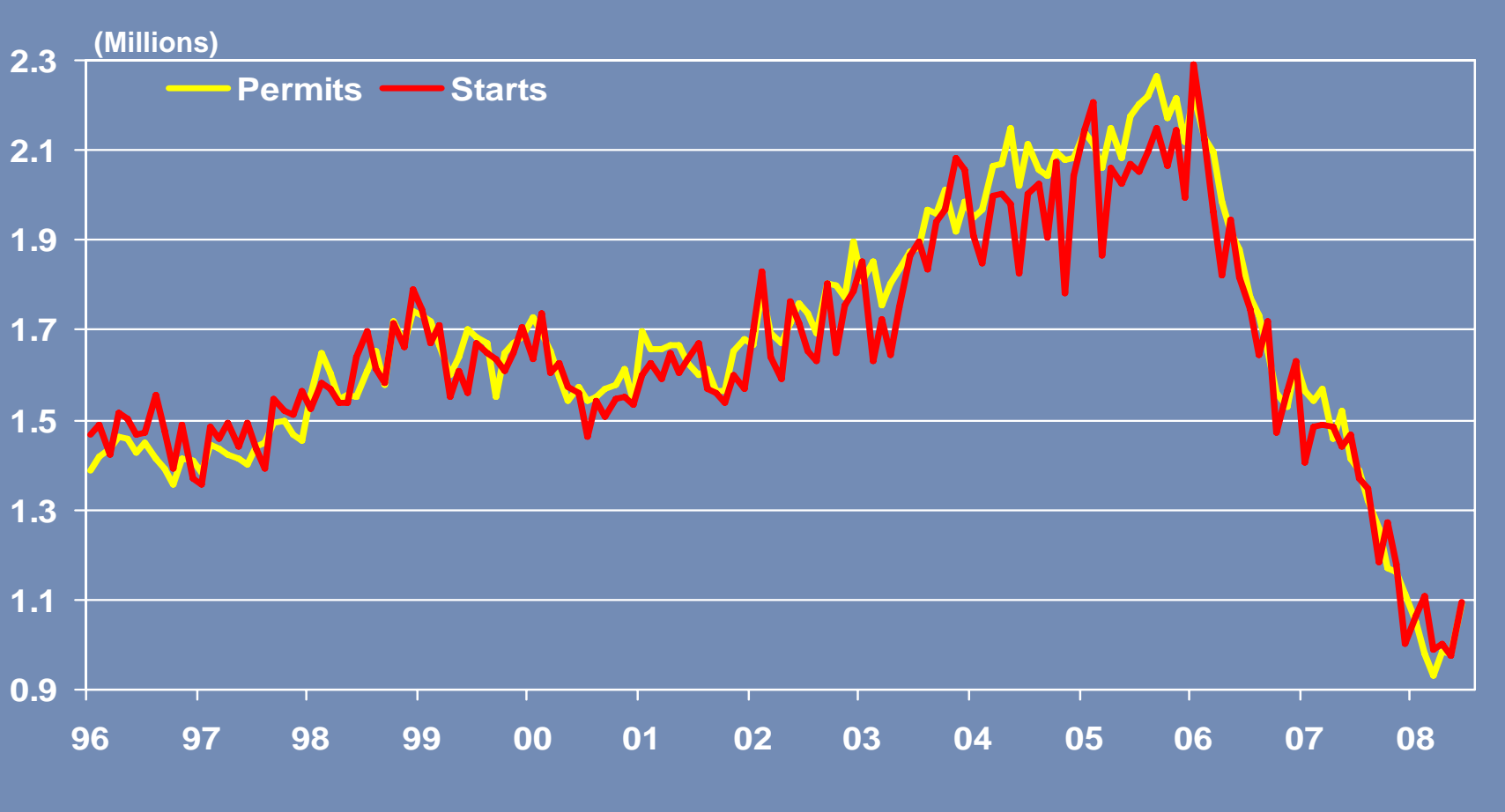


# **The Big Picture– the World and Australia**

Presented by Dr Chris Caton

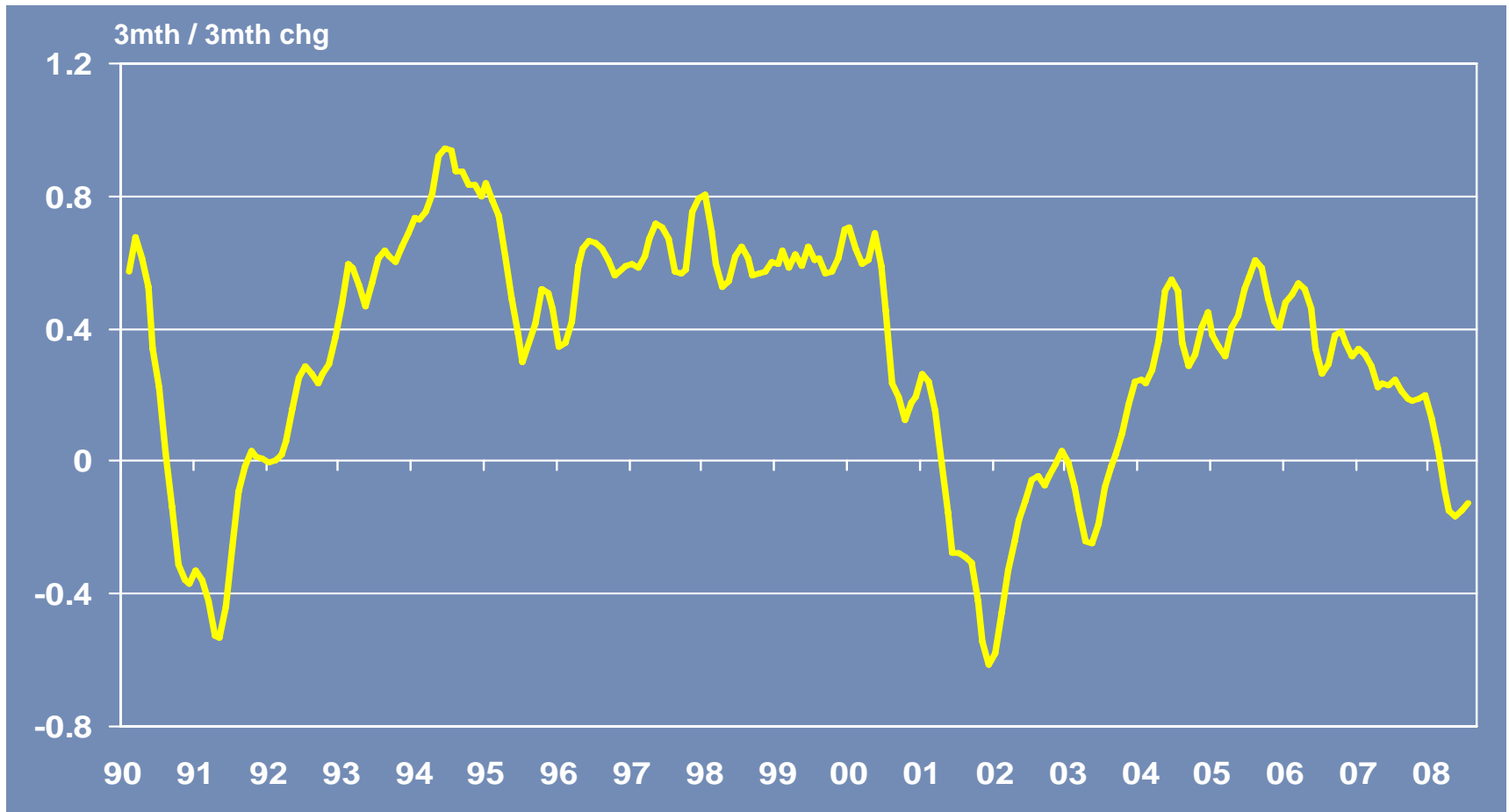
*18 August 2008*

# US Housing starts and Permits



Source: Datastream

# Total US Non-farm Employment



Source: Datastream

# 2009 Growth Forecasts (%)

## Month of Forecast

	J-08	F-08	M-08	A-08	M-08	J-08	J-08
Australia	3.5	3.3	3.2	3.0	3.0	2.8	2.8
New Zealand	2.6	2.6	2.5	2.1	2.1	2.1	1.8
US	2.7	2.6	2.3	2.1	1.9	1.7	1.5
Japan	2.0	1.9	1.8	1.7	1.6	1.5	1.3
China	9.8	9.7	9.6	9.3	9.3	9.4	9.3
Germany	1.9	1.9	1.8	1.6	1.5	1.3	1.2
UK	2.0	2.0	1.9	1.7	1.6	1.3	1.0
“World”	3.4	3.3	3.2	3.1	3.0	2.9	2.7

Source: Consensus Economics

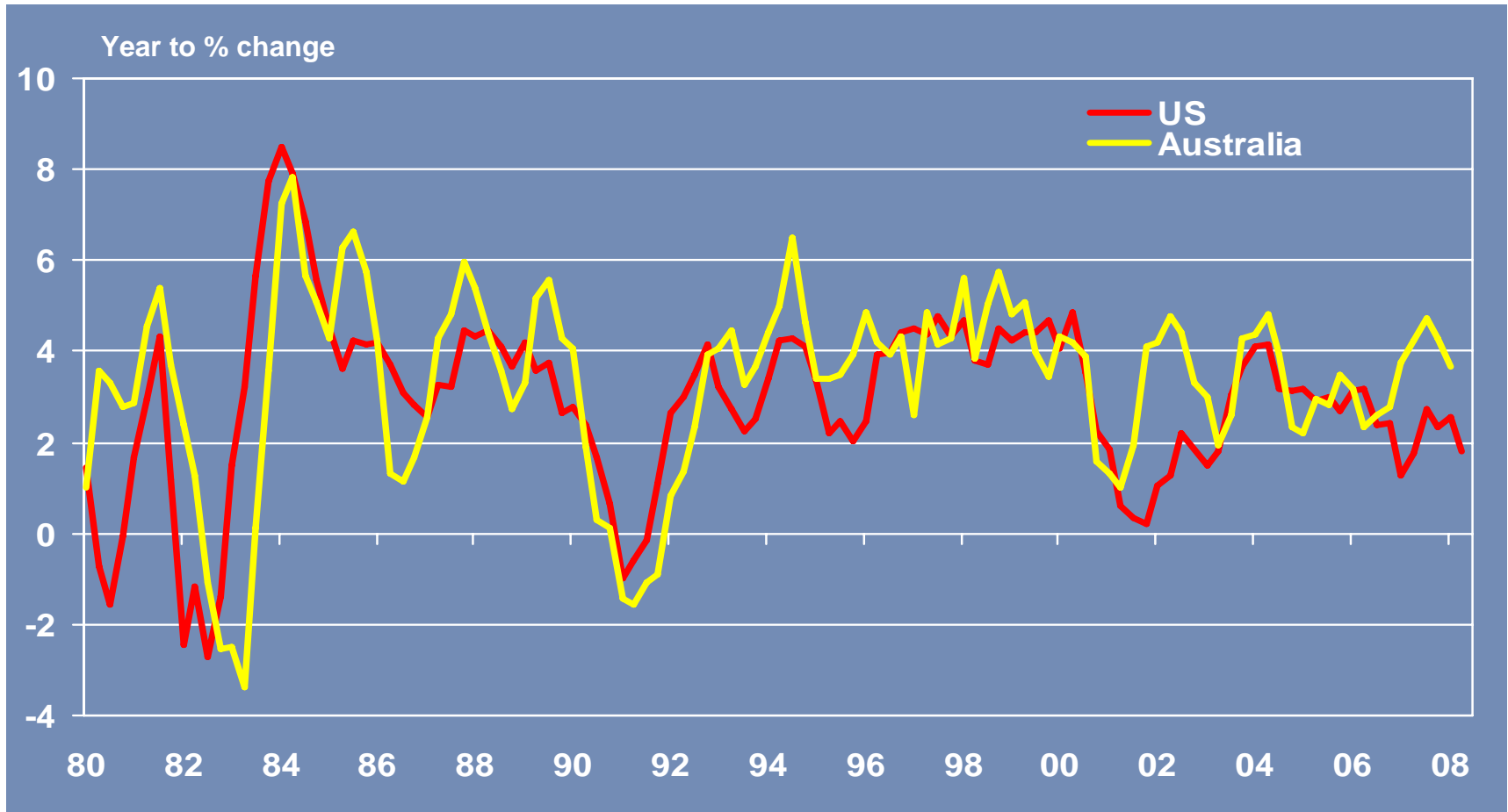
# 2008 Inflation Forecasts (%)

## Month of Forecast

	J-08	F-08	M-08	A-08	M-08	J-08	J-08
Australia	3.1	3.3	3.3	3.4	3.9	4.0	4.2
US	2.8	2.9	3.4	3.6	3.8	4.0	4.3
Japan	0.4	0.4	0.5	0.7	0.8	1.1	1.4
China	4.3	4.5	5.0	6.0	6.3	7.0	7.0
Germany	2.1	2.1	2.3	2.5	2.6	2.8	2.9
UK	2.3	2.4	2.5	2.6	2.7	3.1	3.4
“World”	3.0	3.2	3.5	3.7	4.0	4.3	4.6

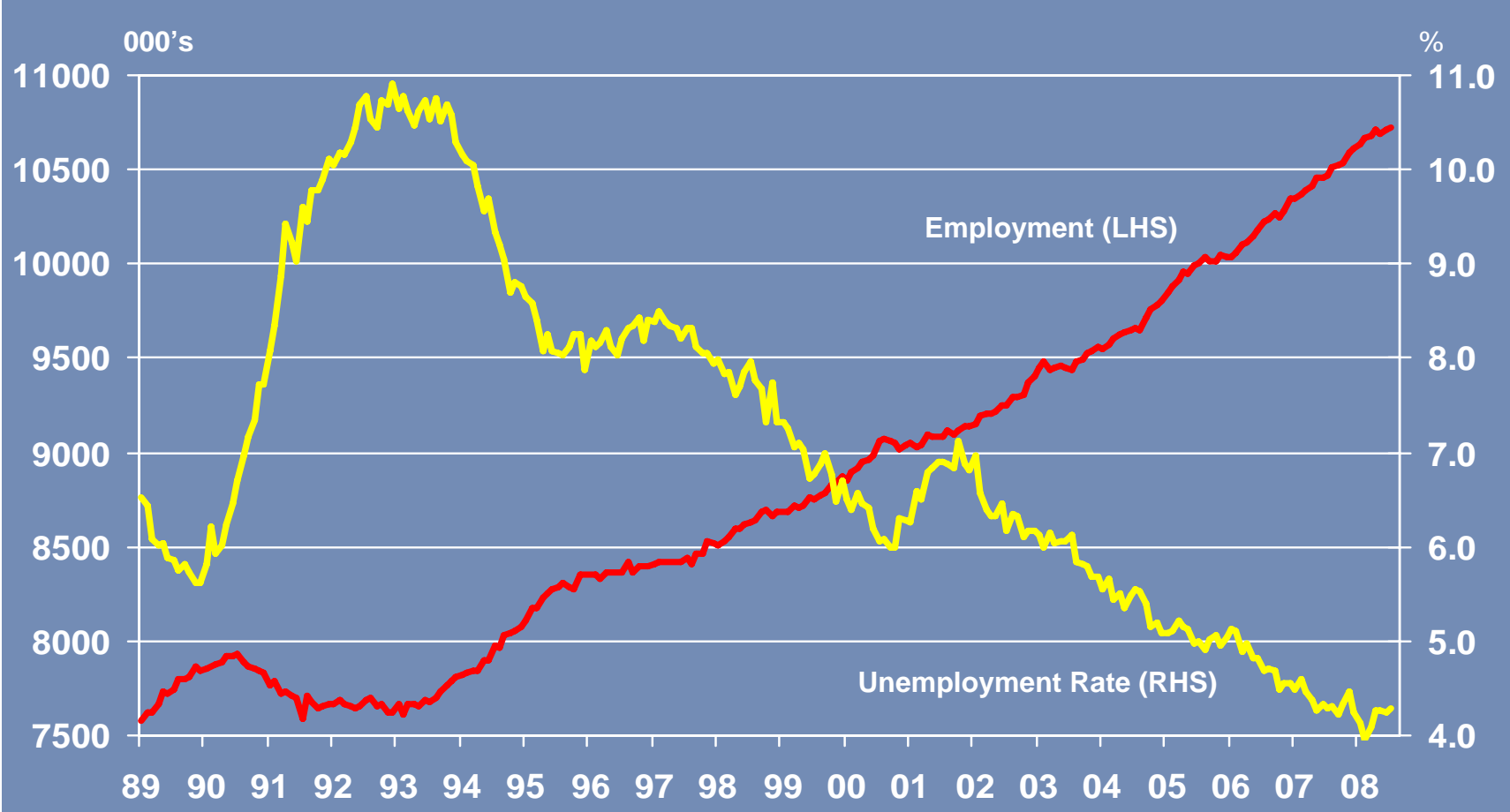
Source: Consensus Economics

# Real GDP growth in Australia and the US



Source: Datastream

# The Labour market



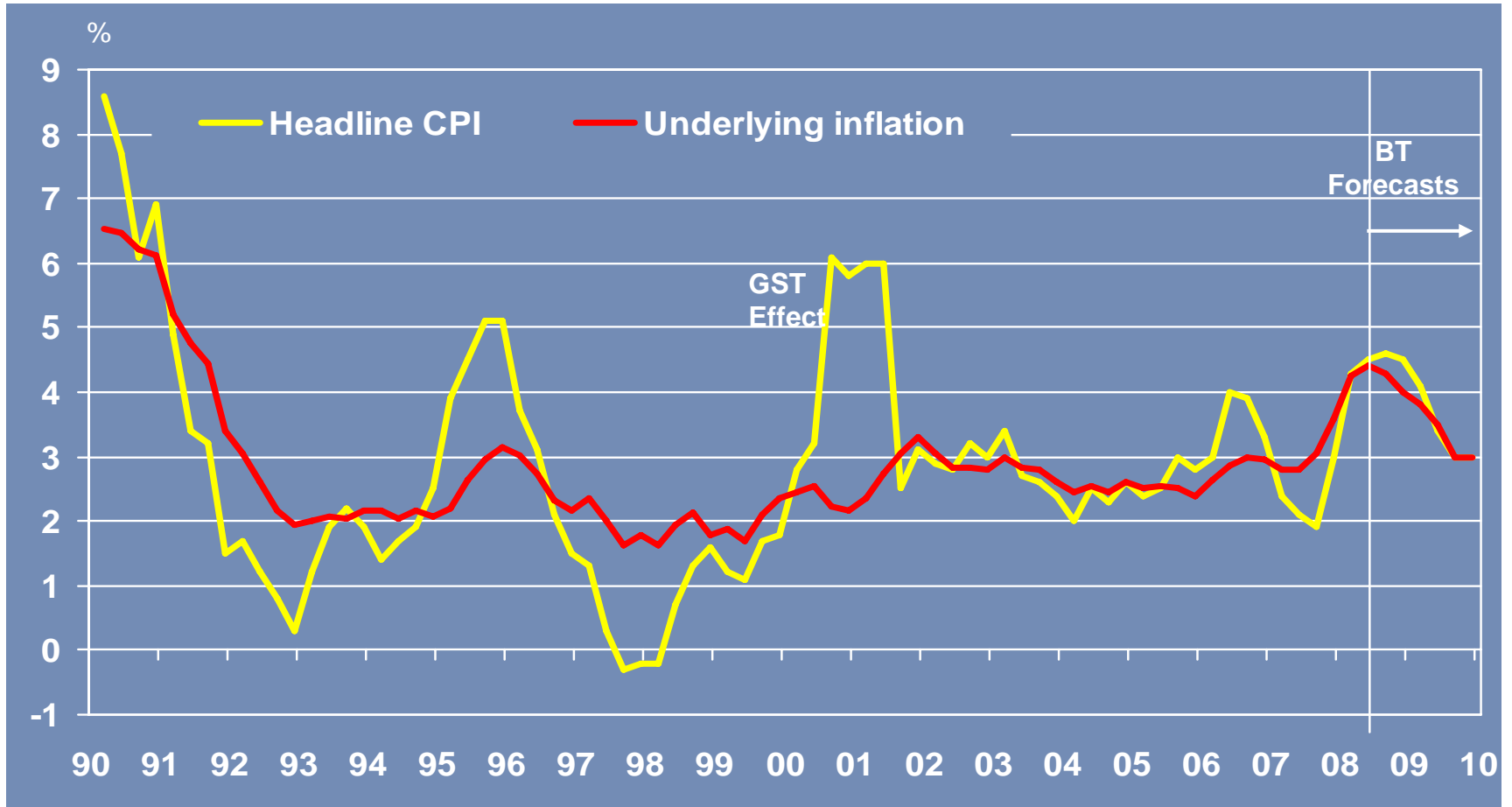
Source: ABS

## The labour market by State

	Employment growth Year to July 2008	Unemployment rate July 2008
NSW	2.0	4.7
Victoria	1.5	4.6
Queensland	2.7	3.8
WA	2.7	3.3
SA	2.7	4.8
Tasmania	4.1	4.3
<b>Australia</b>	<b>2.3</b>	<b>4.3</b>

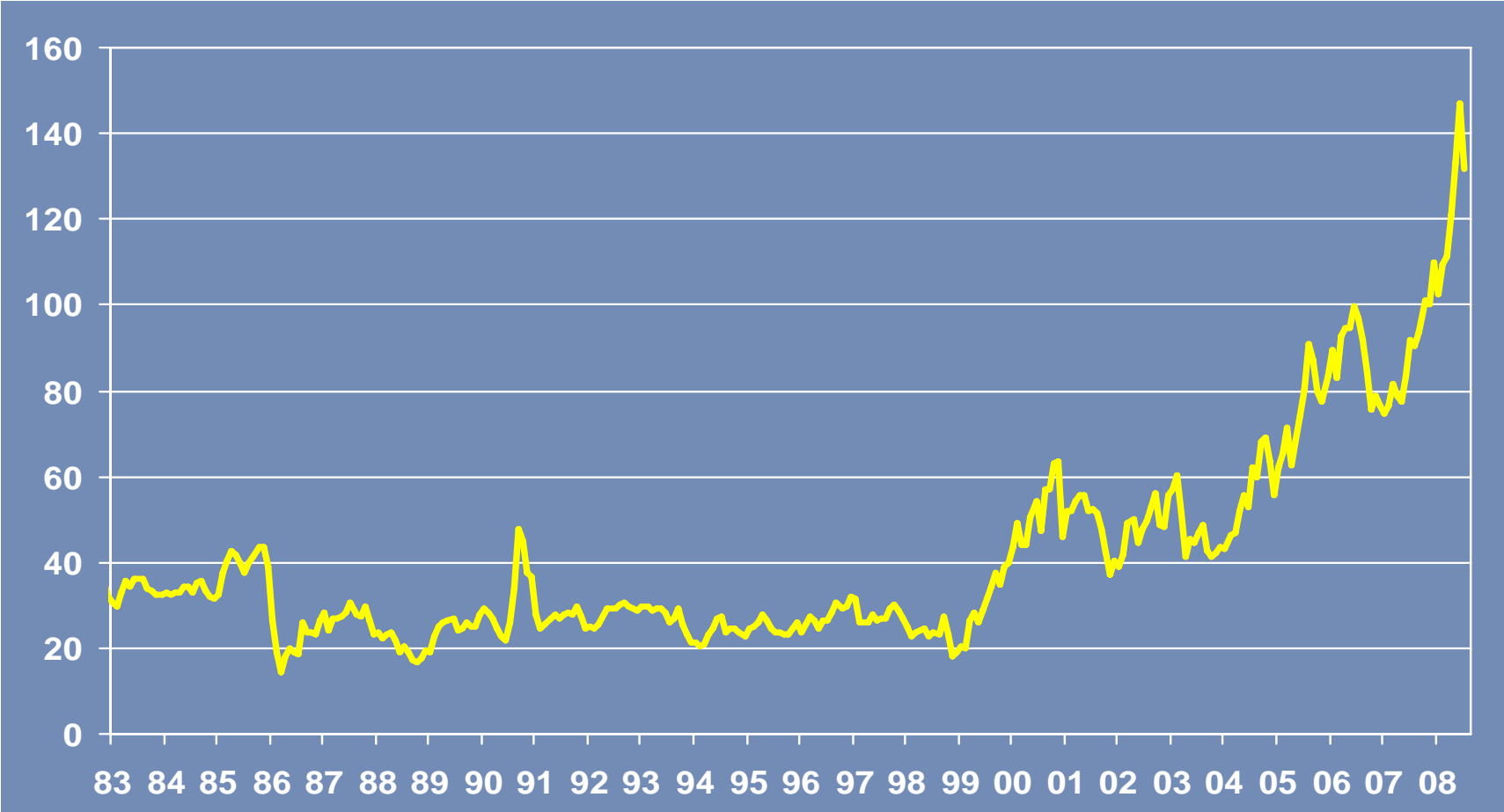
Source: ABS

# Australian Inflation



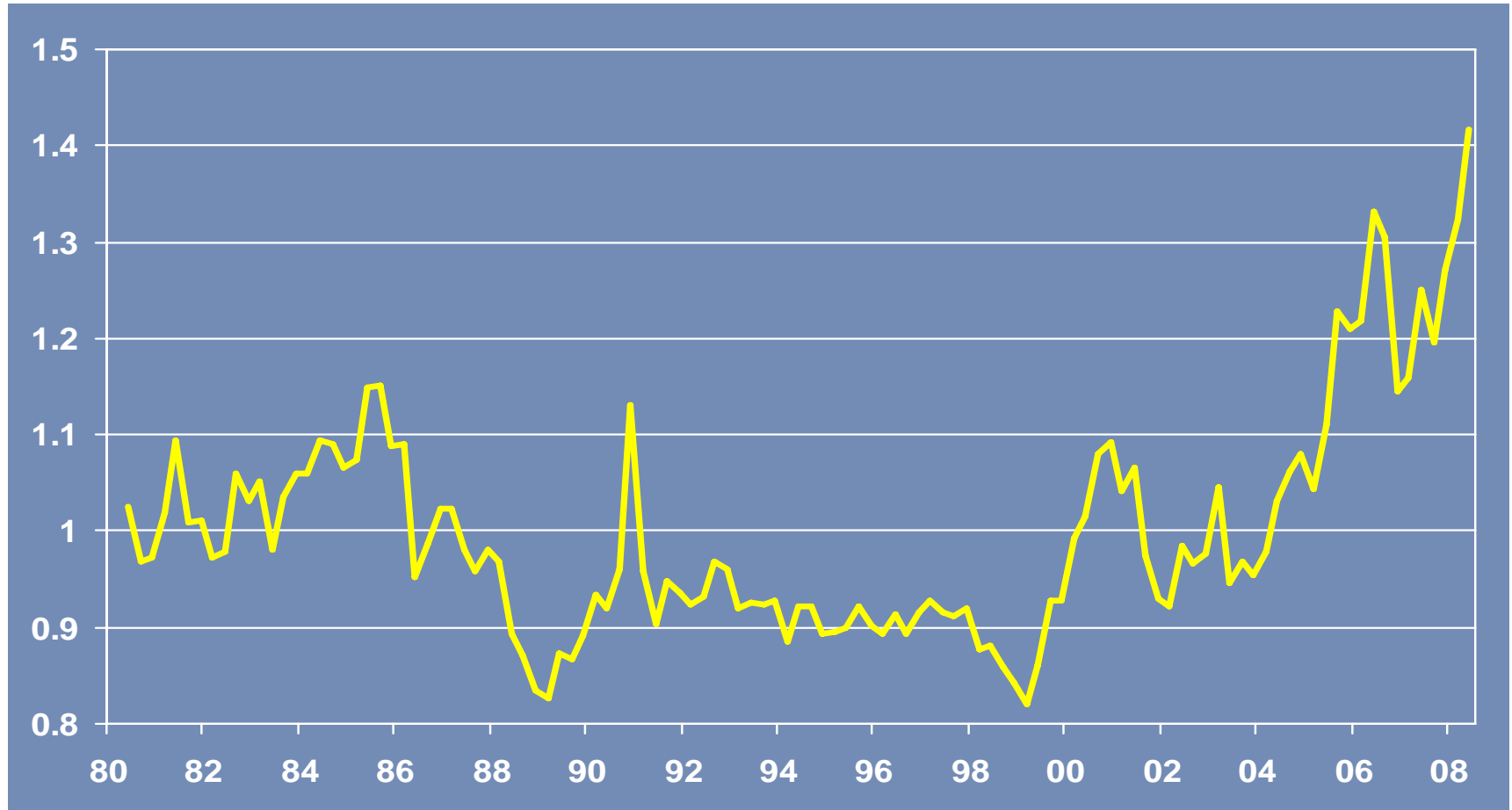
Source: ABS

# Oil Prices (West Texas) in \$A/bbl

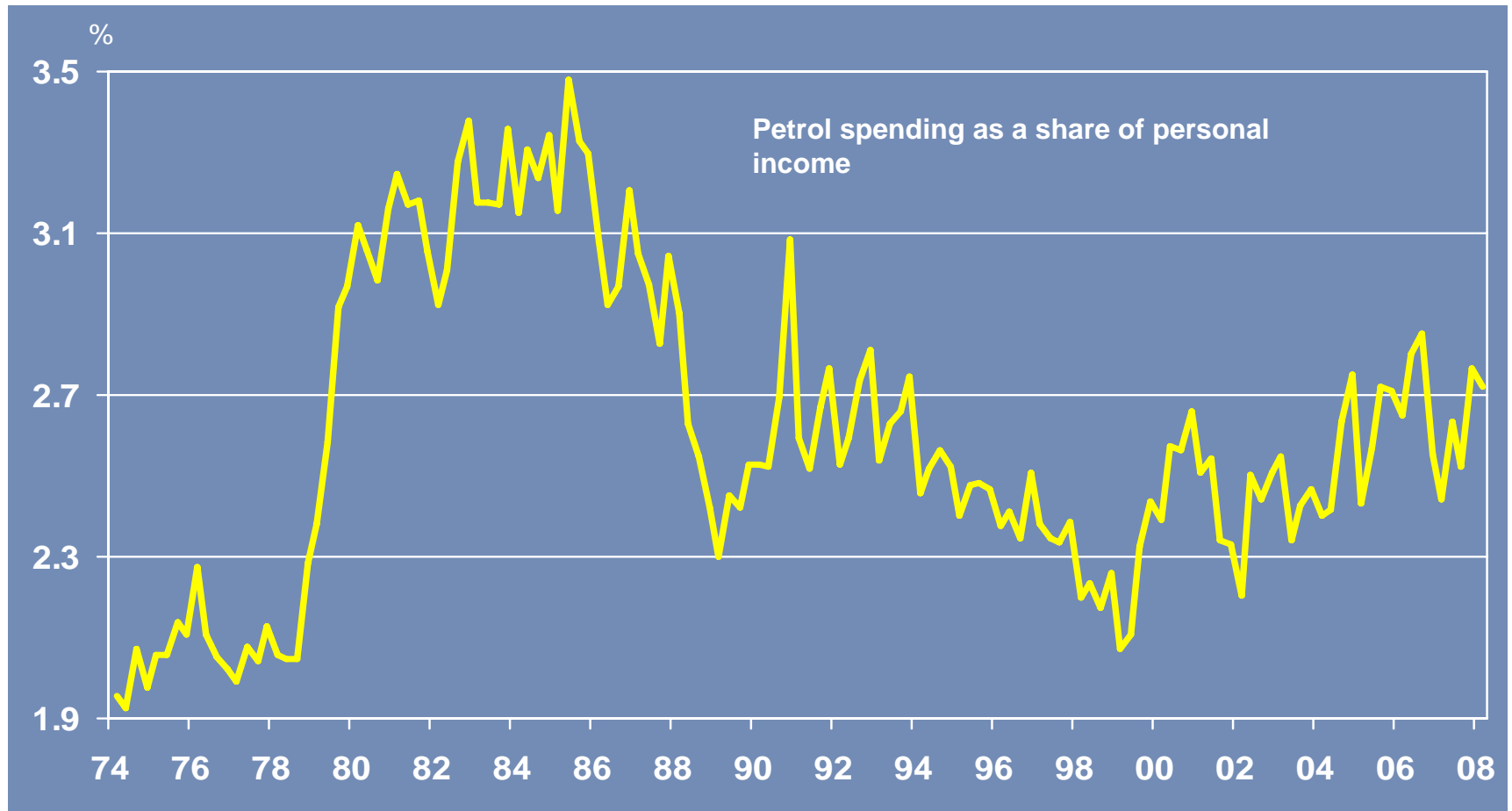


Source: Datastream

# Petrol Prices relative to CPI

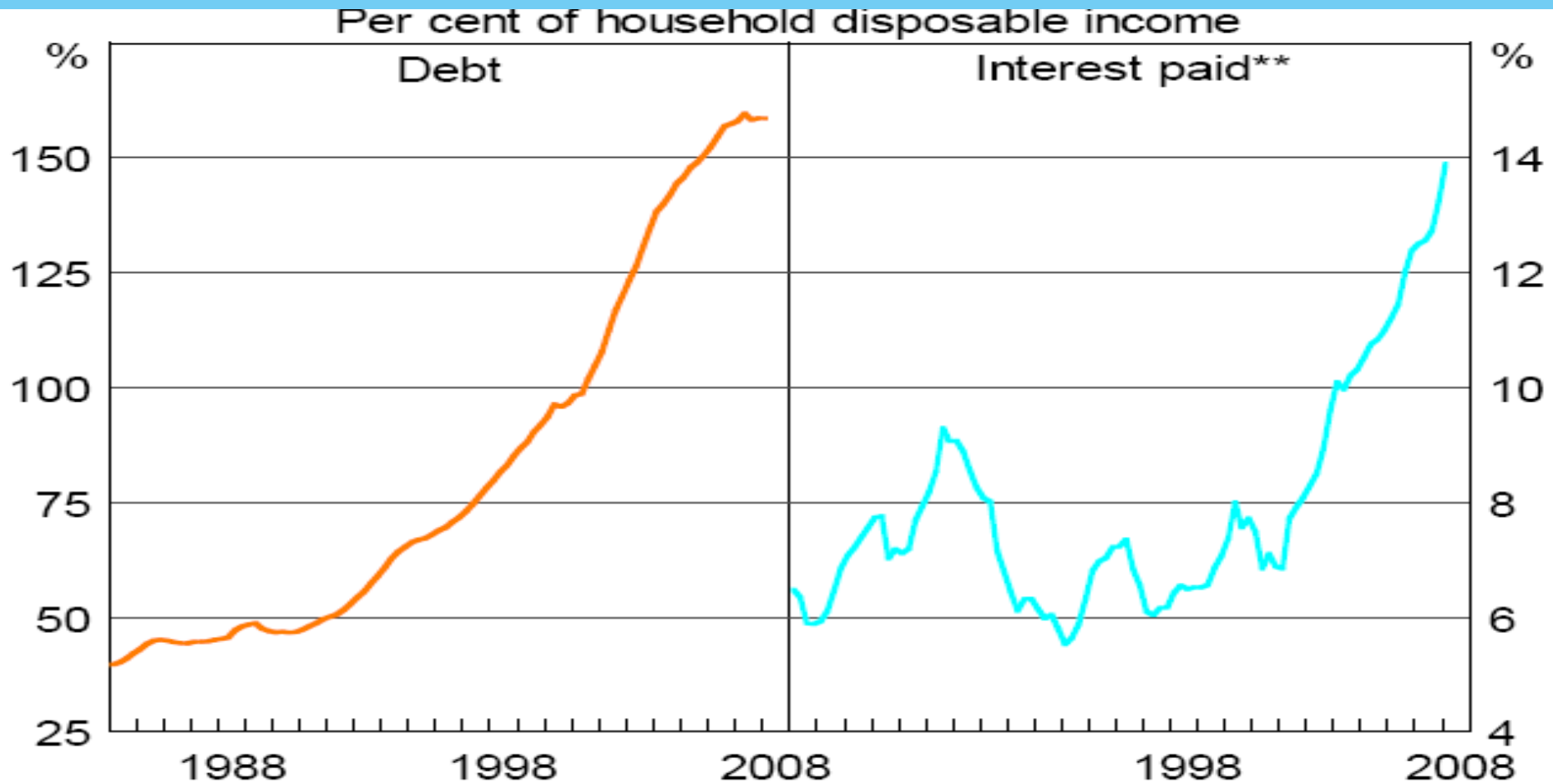


# Petrol spending as a share of personal income



Source: ABS

# Household debt and interest

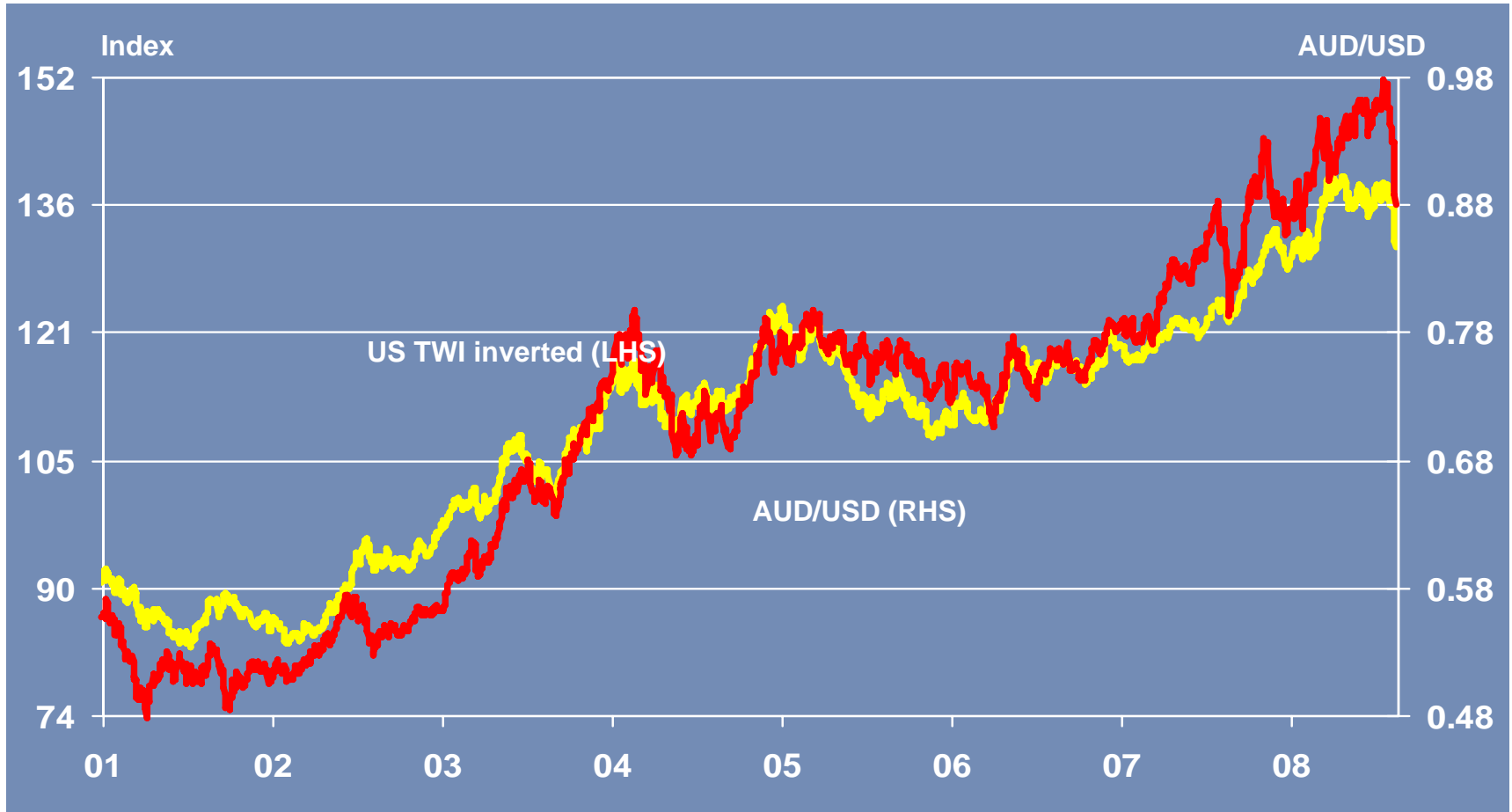


\* Household sector excludes unincorporated enterprises. Disposable income is after tax and before the deduction of interest payments.

\*\* Includes imputed financial intermediation service charge

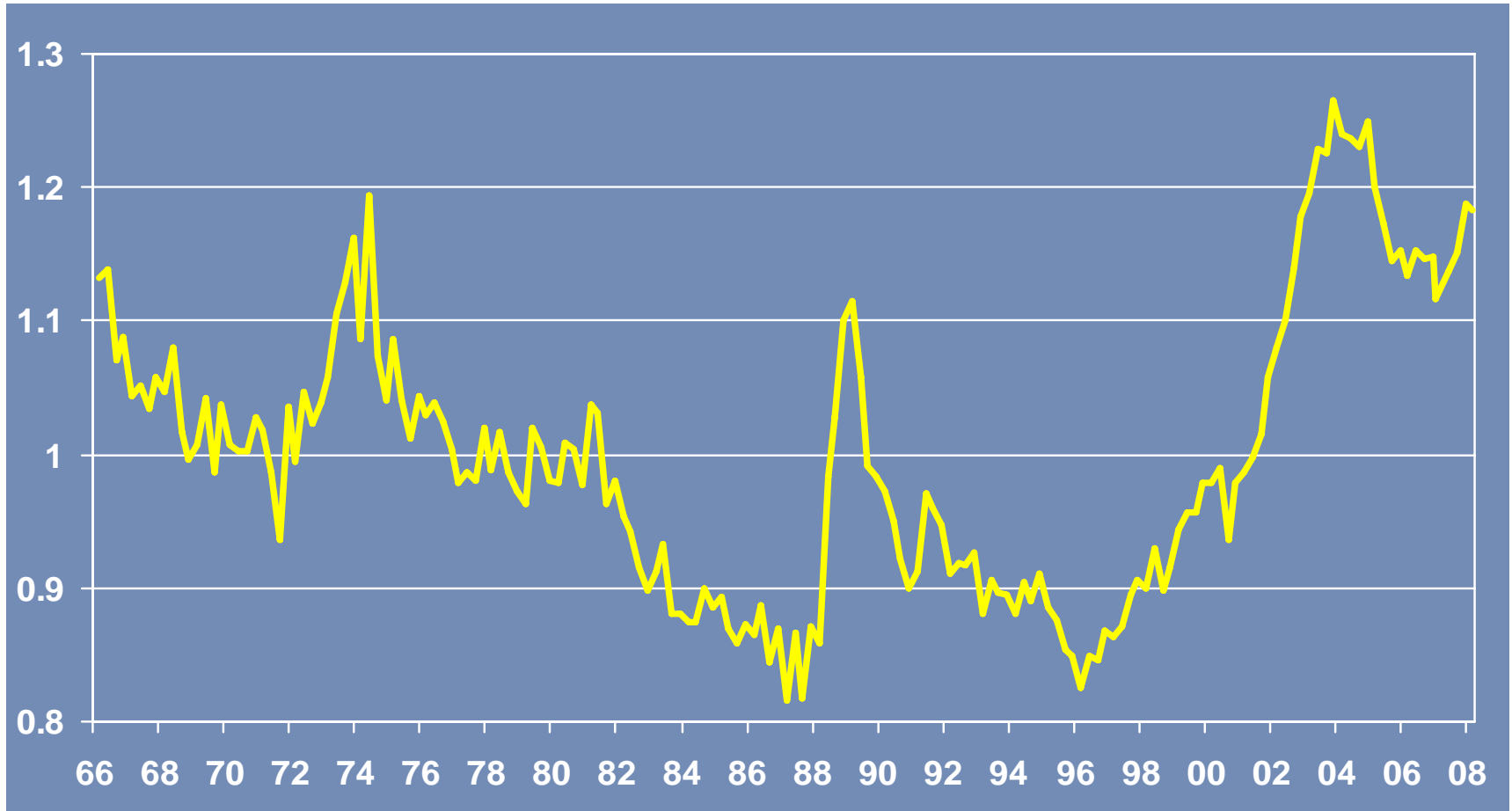
Sources: ABS; RBA

# The Australian Dollar and US Trade Weighted Index



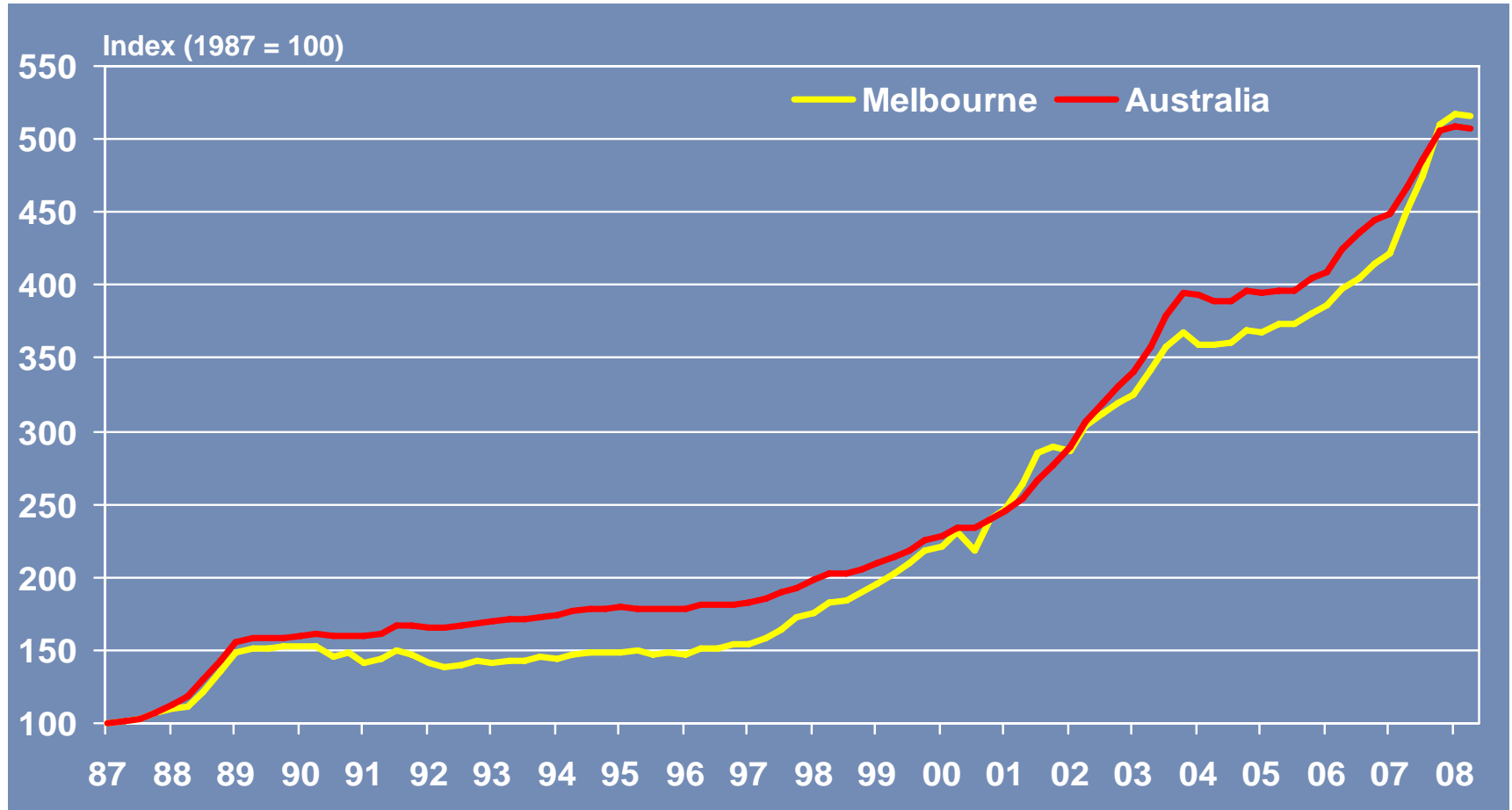
Source: Datastream

# Ratio of Australian house prices to GDP



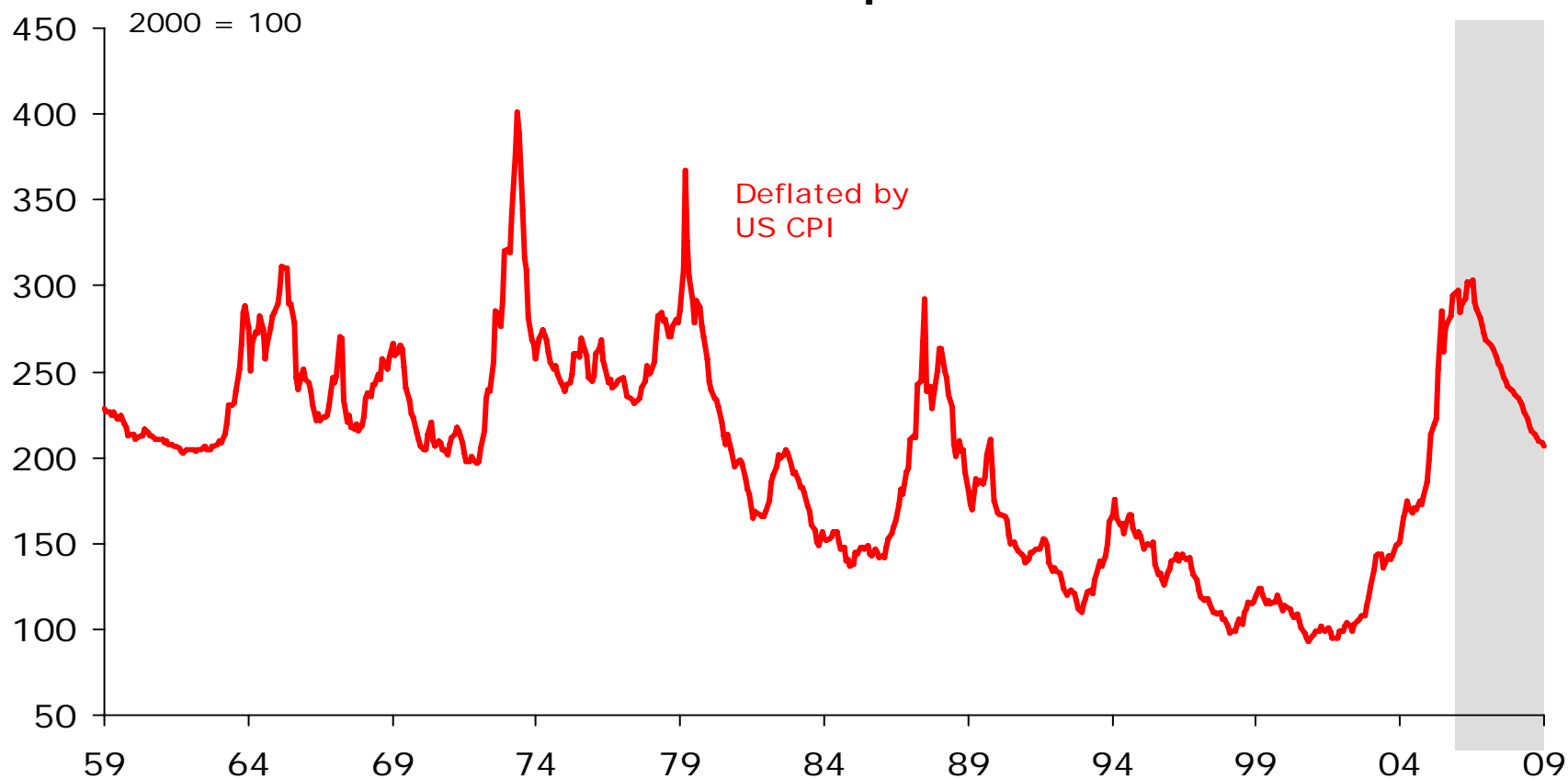
Source: UBS

# House Prices - Australia v Melbourne



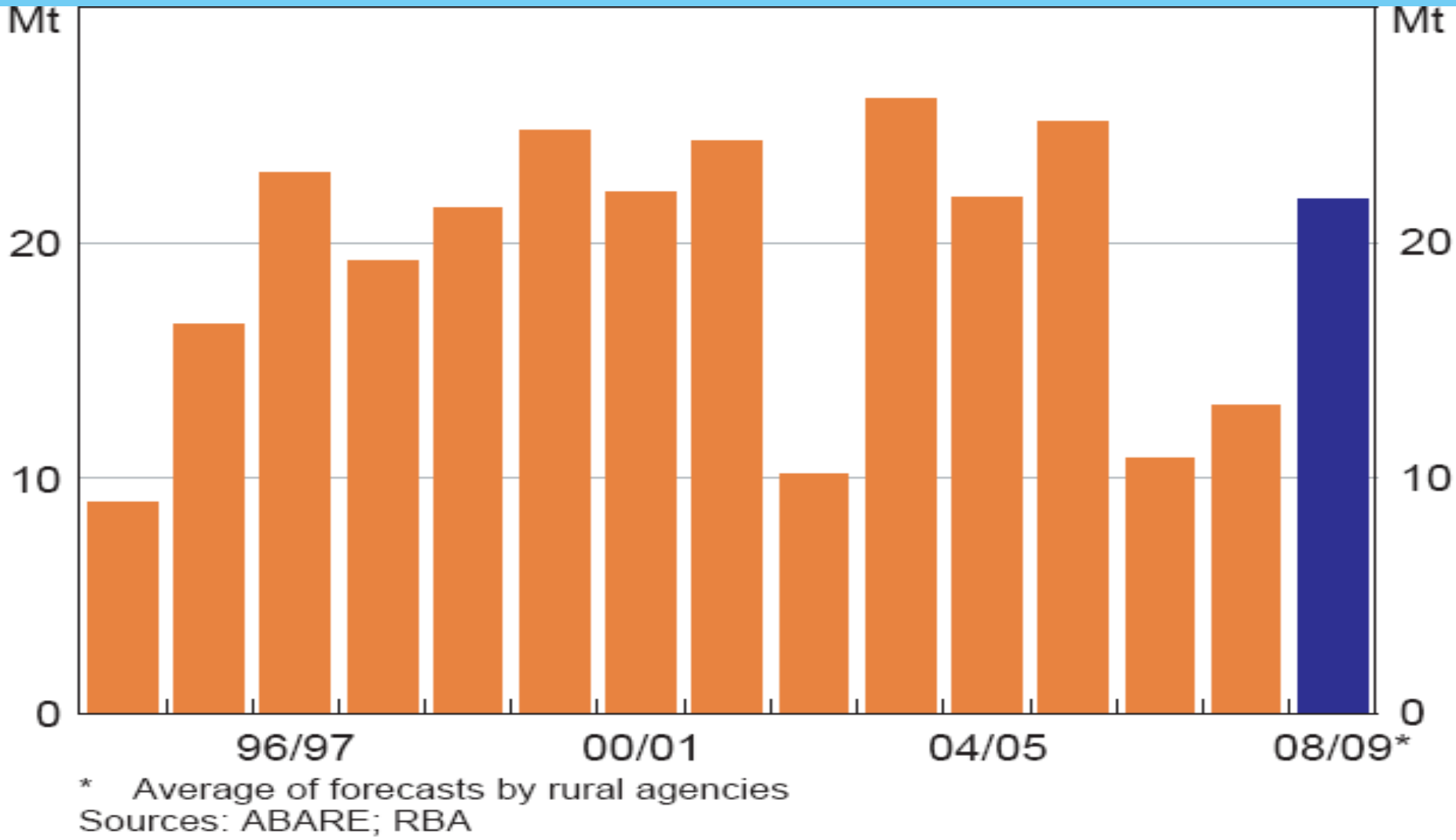
# Metal prices are likely to remain higher for longer than in previous booms

## Real metal prices

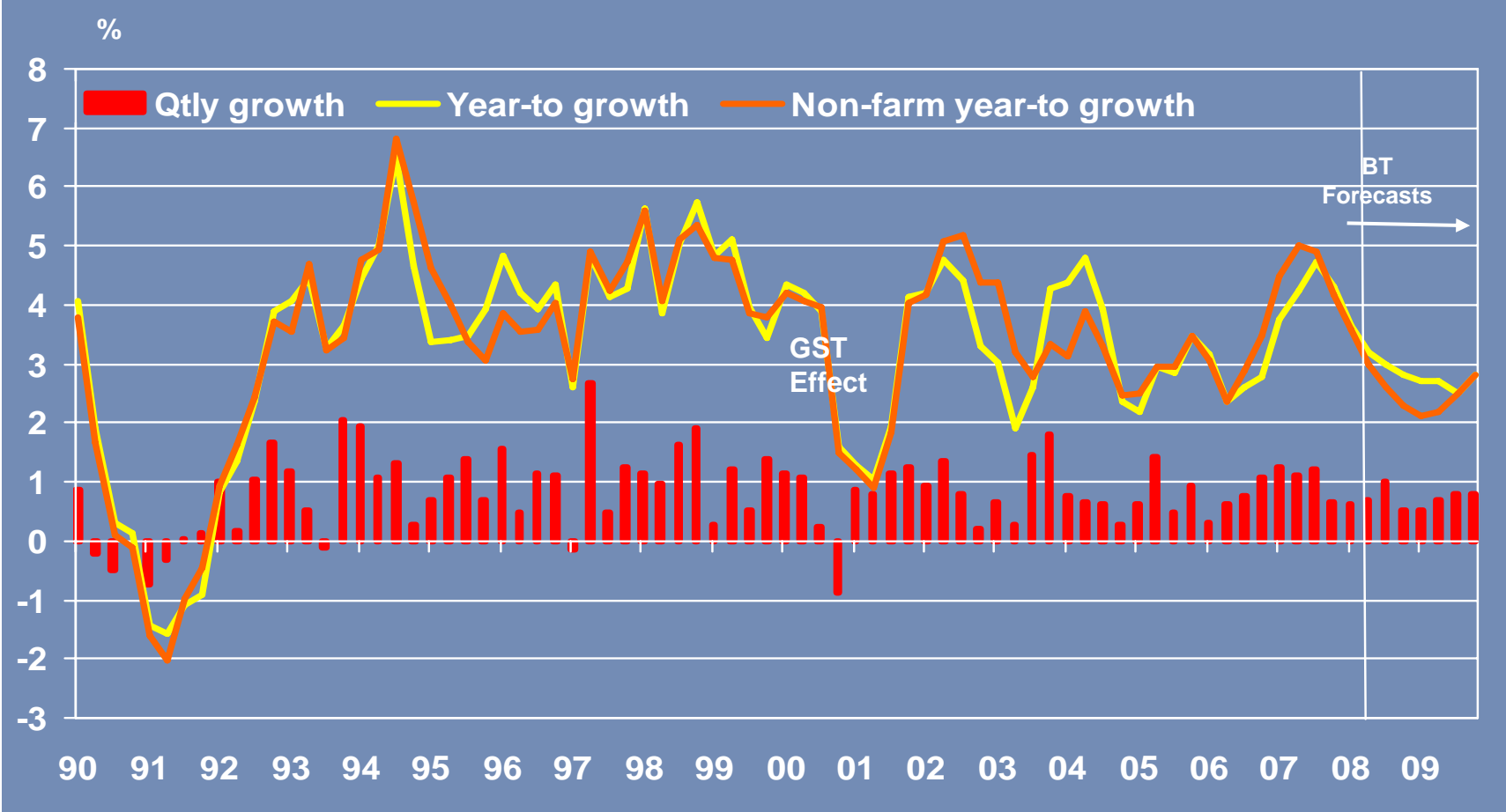


Sources: IMF *International Financial Statistics*; US Bureau of Labor Statistics; Economics@ANZ.

# Wheat production is expected to increase



# Gross Domestic Product



Source: ABS

# Global Medium-Term Economic Growth and Inflation Prospects (2008-2018)

	GDP	Consumer Prices
Australia	3.1	2.7
New Zealand	2.8	2.6
Norway	2.6	2.5
United States	2.5	2.3
Spain	2.5	2.7
Sweden	2.5	2.1
Canada	2.3	2.0
United Kingdom	2.2	2.2
Netherlands	2.1	1.9
France	2.0	1.9
Eurozone	1.9	2.1
Switzerland	1.8	1.5
Japan	1.6	1.2
Germany	1.6	1.8
Italy	1.3	2.1

Source: Consensus Economics

# Asia-Pacific Medium-Term Economic Growth and Inflation Prospects (2008-2018)

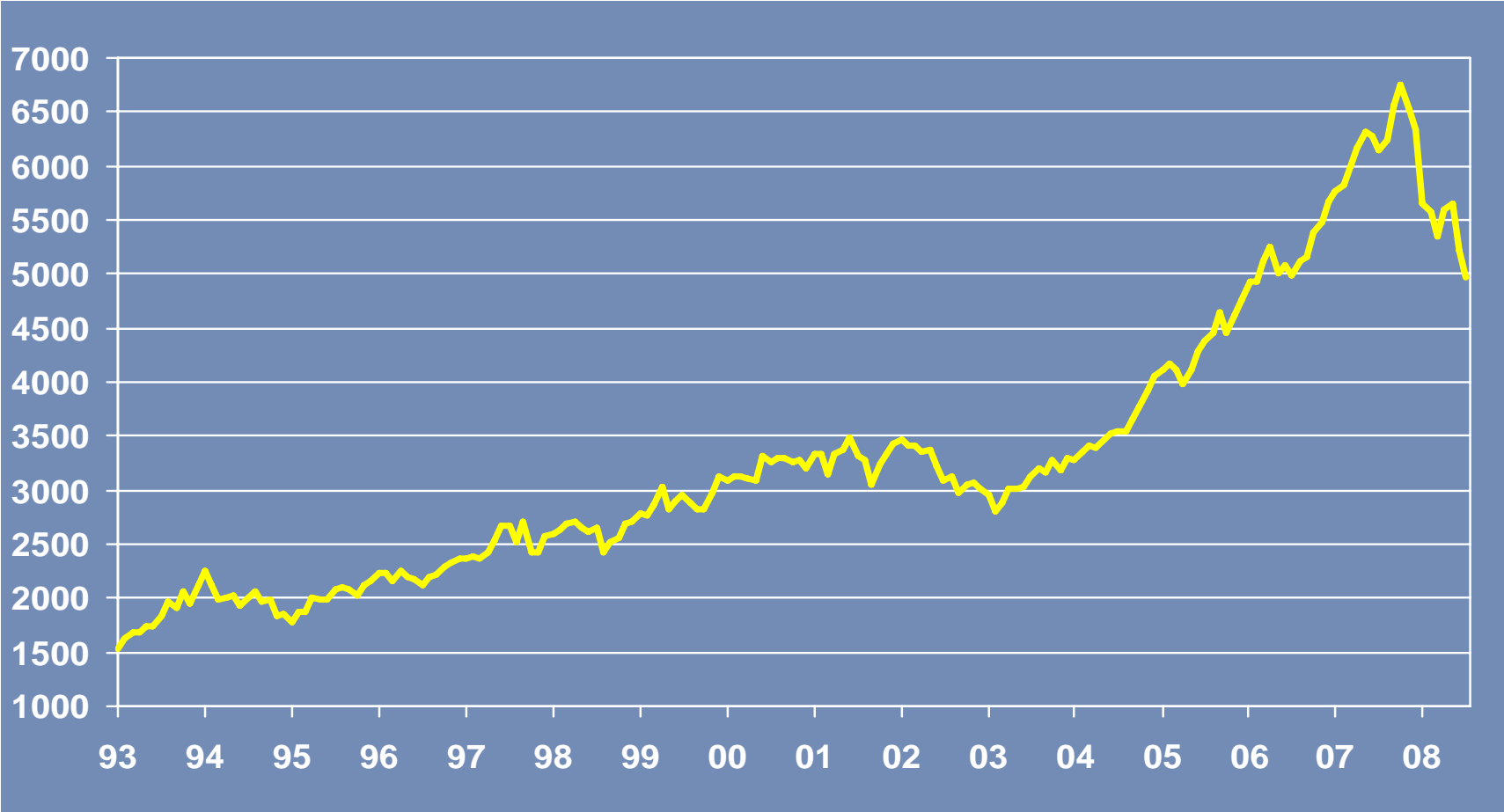
	GDP	Consumer Prices
<b>China</b>	<b>8.3</b>	<b>3.9</b>
<b>India</b>	<b>8.1</b>	<b>4.8</b>
<b>Indonesia</b>	<b>5.8</b>	<b>5.3</b>
<b>Malaysia</b>	<b>5.3</b>	<b>2.3</b>
<b>Singapore</b>	<b>5.1</b>	<b>2.3</b>
<b>Thailand</b>	<b>4.7</b>	<b>3.2</b>
<b>South Korea</b>	<b>4.3</b>	<b>2.8</b>
<b>Hong Kong</b>	<b>4.2</b>	<b>3.1</b>
<b>Taiwan</b>	<b>4.2</b>	<b>3.2</b>
<b>Australia</b>	<b>3.1</b>	<b>2.7</b>
<b>New Zealand</b>	<b>2.8</b>	<b>2.6</b>
<b>Japan</b>	<b>1.6</b>	<b>1.2</b>

Source: Consensus Economics

# Financial Market Forecasts

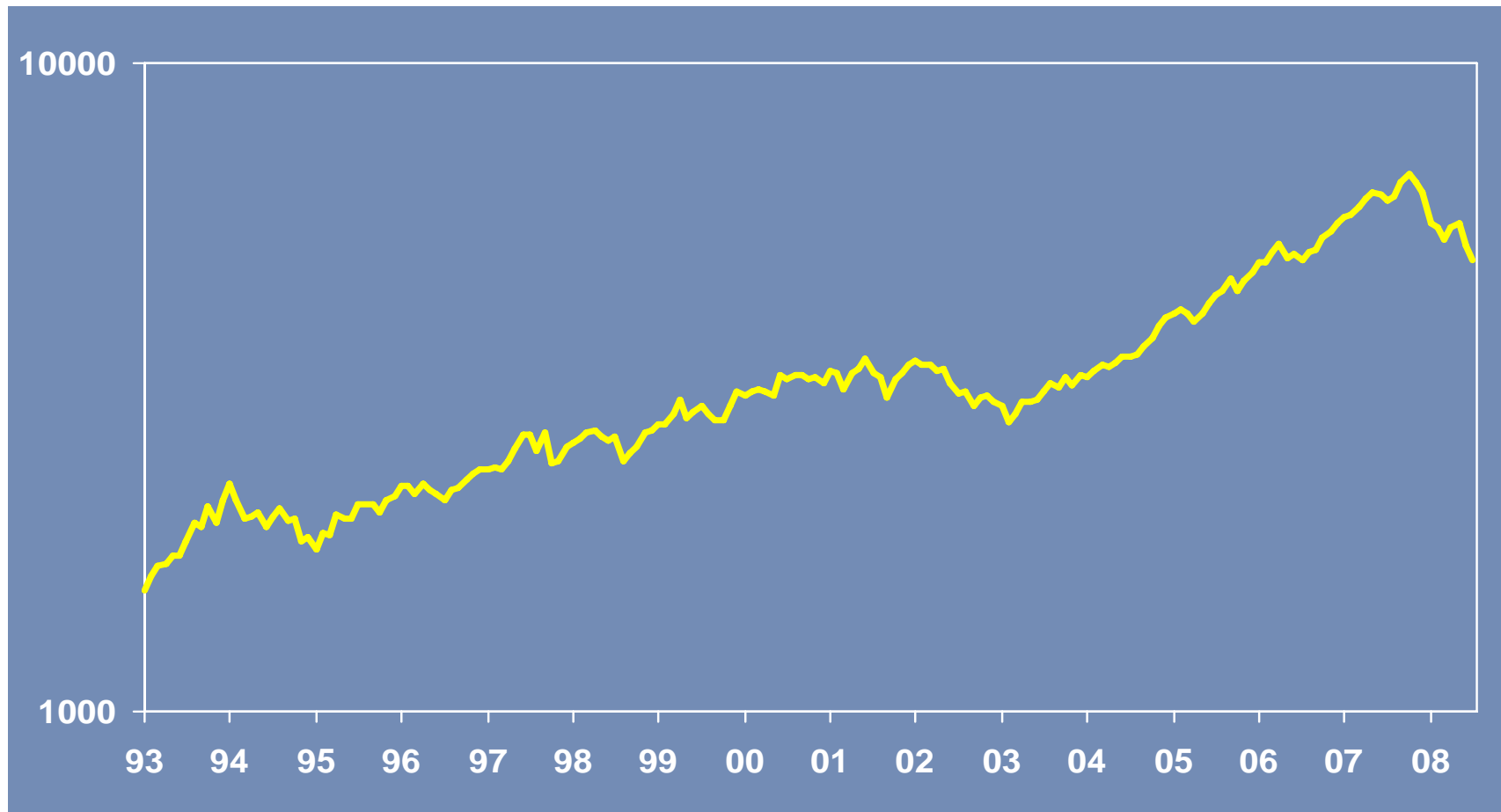
	Now (12 Aug)	End-Dec 2008	End-Jun 2009
AUD/USD	0.877	0.85	0.85
Official cash rate (%)	7.25	6.75	6.50
10 Year Bond yield (%)	5.87	6.00	6.00
ASX 200	5050	5250	5750

# Australian Sharemarket Performance – ASX200



Source: Bloomberg

# Australian Sharemarket Performance – ASX200 (log scale)



Source: Bloomberg

# S&P 500 peaks and troughs - the market turns before the economy, and usually recovers strongly

S&P 500	Peaks		Troughs			% change in S&P 500		
	Economy	Lead (months)	S&P 500	Economy	Lead (months)	Previous 12 months	Peak to trough	Following 12 months
Dec 59	Apr 60	4	Oct 60	Feb 61	4	10.4	-9.0	26.6
May 69	Dec 69	7	Jun 70	Nov 70	5	6.9	-27.8	31.9
Oct 73	Nov 73	1	Dec 74	Mar 75	3	0.3	-38.9	32.3
Dec 79	Jan 80	1	Apr 80	Jul 80	3	12.1	-4.5	30.6
Apr 81	Jul 81	3	Jul 82	Nov 82	4	30.6	-18.6	52.6
Jun 90	Jul 90	1	Oct 90	Mar 91	5	11.3	-14.8	26.0
Aug 00	Mar 01	7	Feb 03	Nov 01	-15	11.9	-43.6	36.5
Oct 07	Jan 08?	3?	Jul 08?	-	-	12.9	-18?	-

Source: National Bureau of Economic research and the Wall Street Journal

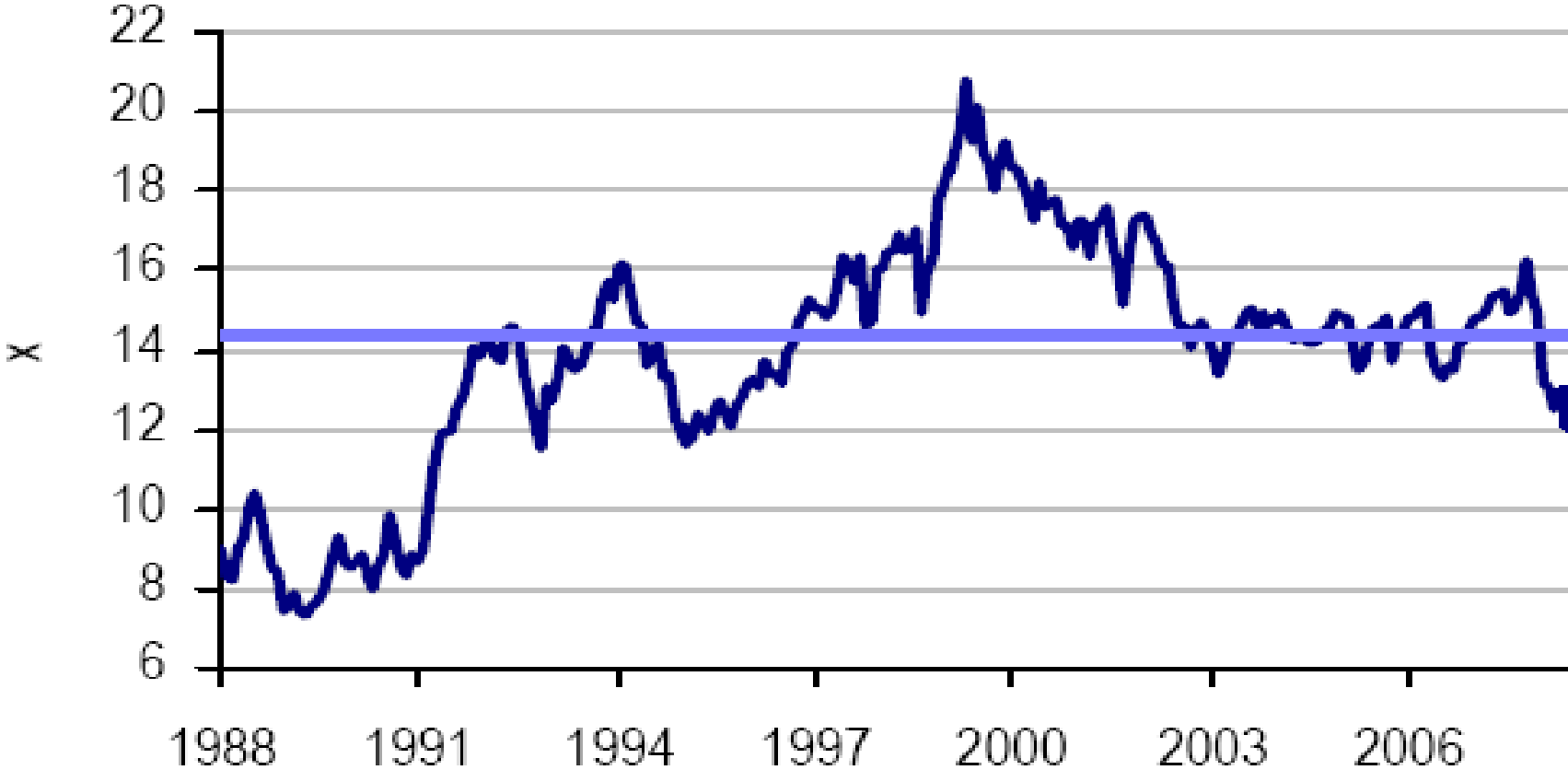
Note: S&P 500 data reflect monthly averages. The peaks and troughs for the economy are designated by the National Bureau of Economic Research Business Cycle Dating Committee

# P/E ratio for world markets



Source: I/B/E/S, UBS calculations

# And for the Australian market



Source: I/B/E/S, UBS calculations

# Morgan Stanley Capital Indexes



Source: Datastream

# Summary

- World economic growth has slowed significantly. The US is in mild recession, but could it be worse? Or just longer?
- Australian economy is slowing, although not drastically. It will feel worse in some regions!
- Interest rates will fall, perhaps as early as next month.
- The exchange rate should fall but will remain strong.
- Stocks are cheap right now, but they may get cheaper still.



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