

Australian Economy into 2008 -2010 & Beyond

Suncorp Group Treasury
Breakfast Economic Briefing
 Toowoomba 18th March 2008

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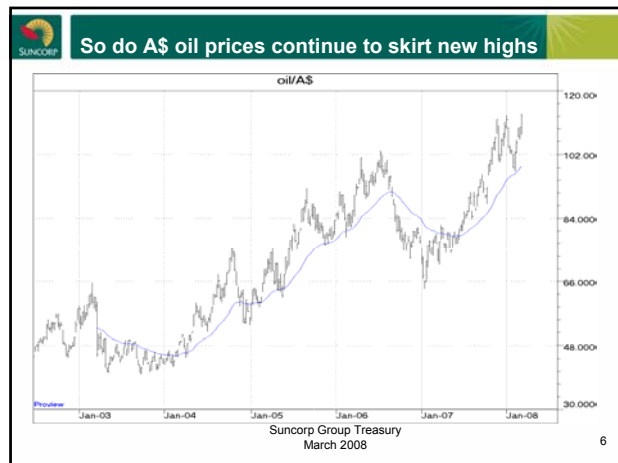
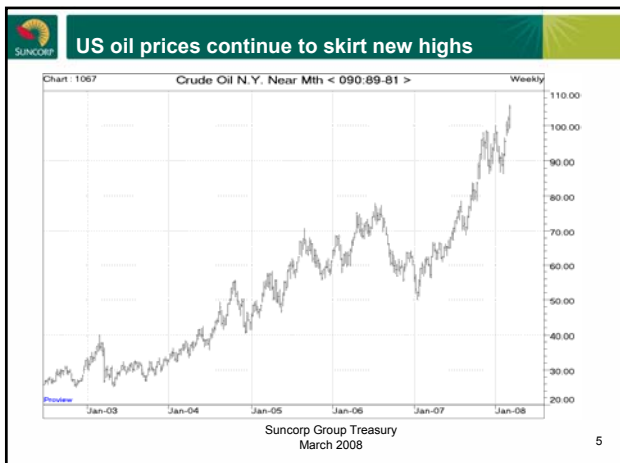
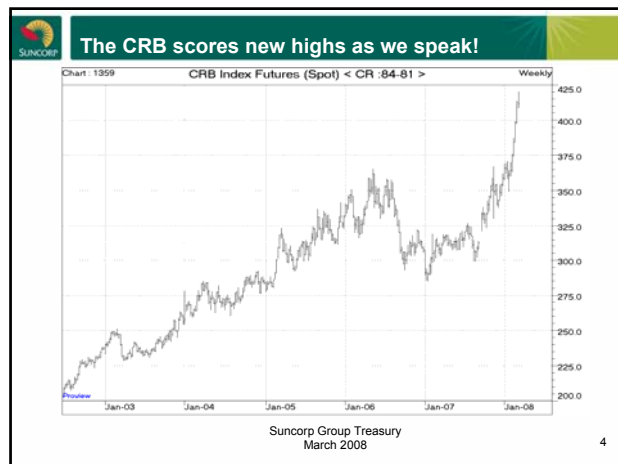
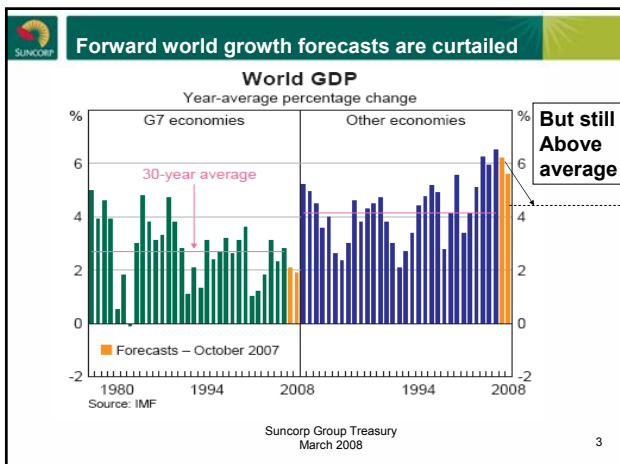
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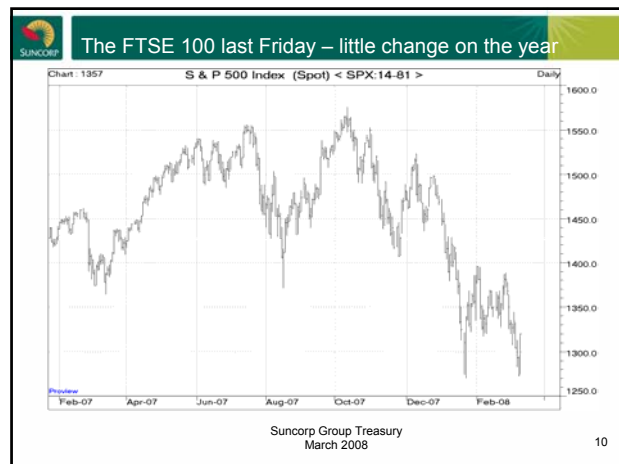
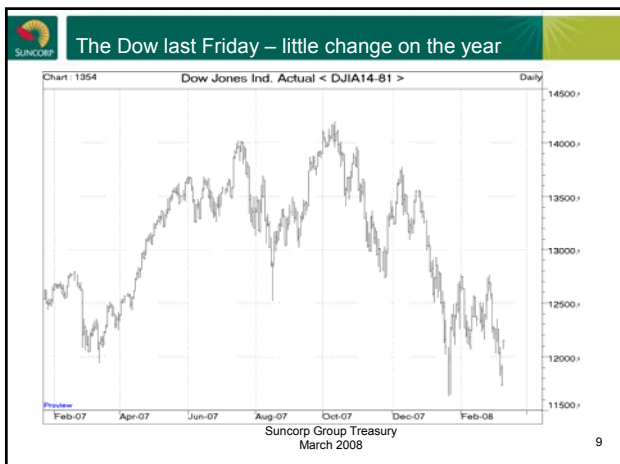
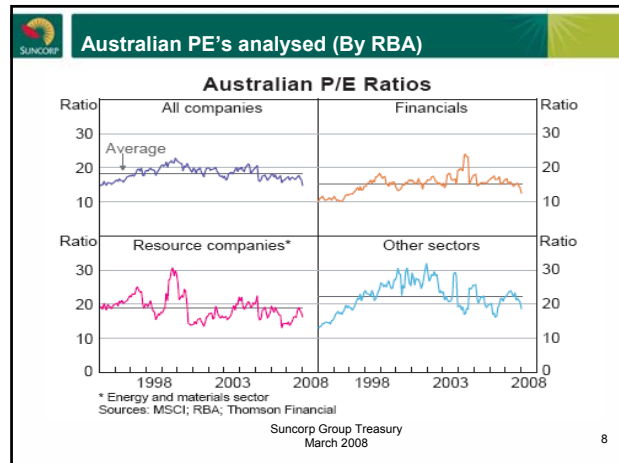
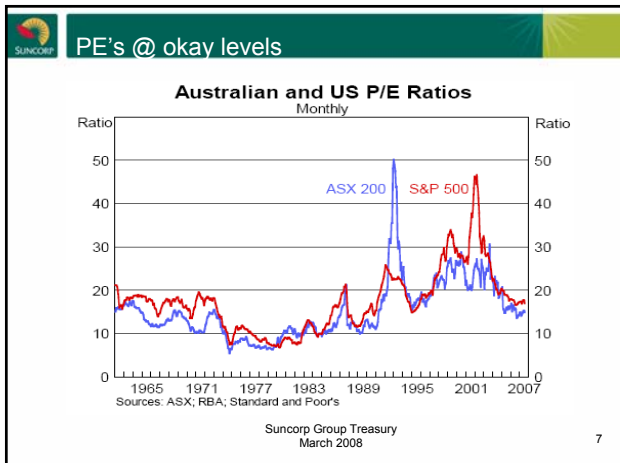
Agenda

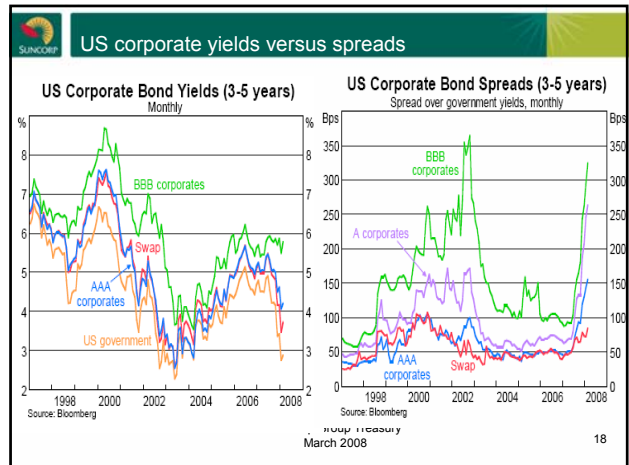
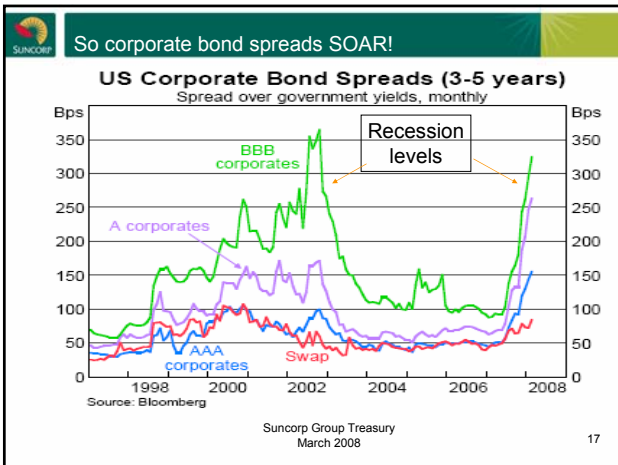
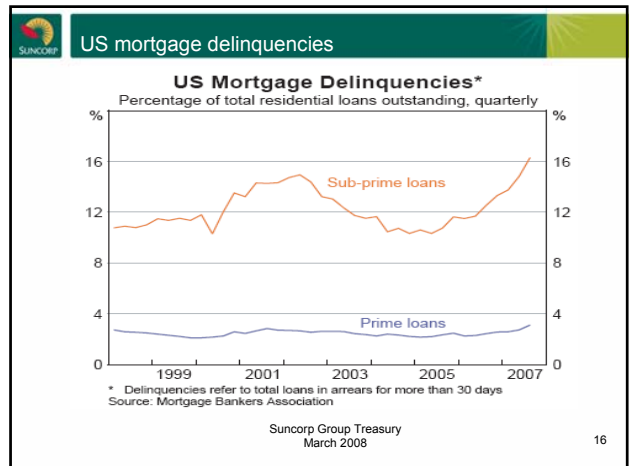
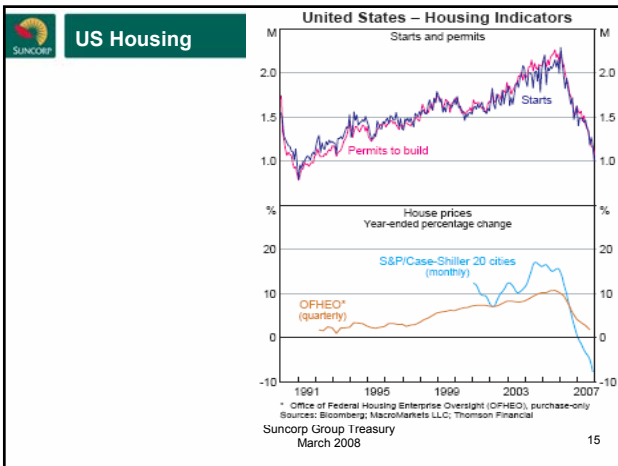
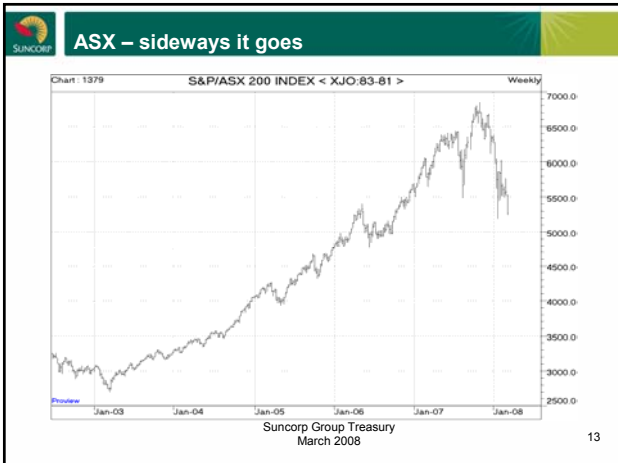
- US and Global Economy
- Credit crunch & World Inflation
- Australian Economy
- RBA and its inflation views
- Interest rate scenarios
- A\$ Ranges and Risks into 2008-09
- Disclaimer

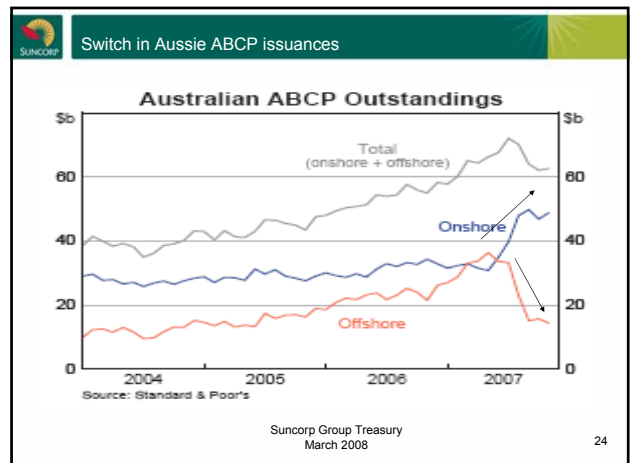
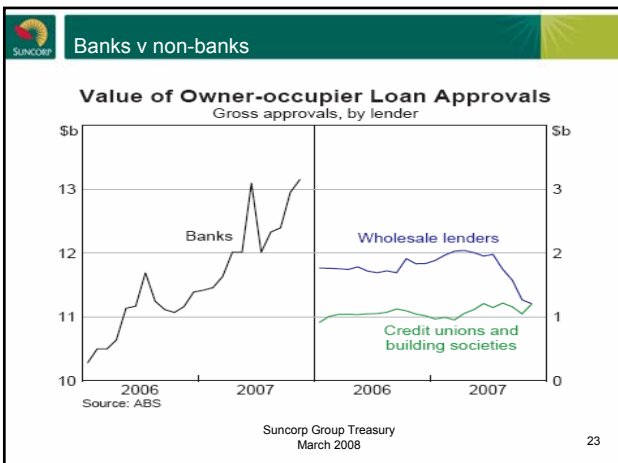
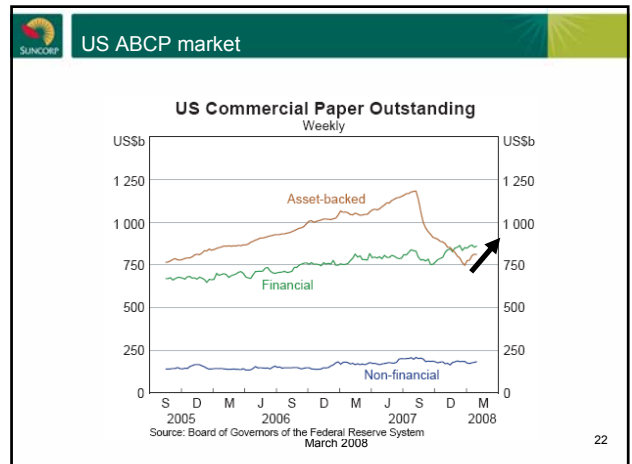
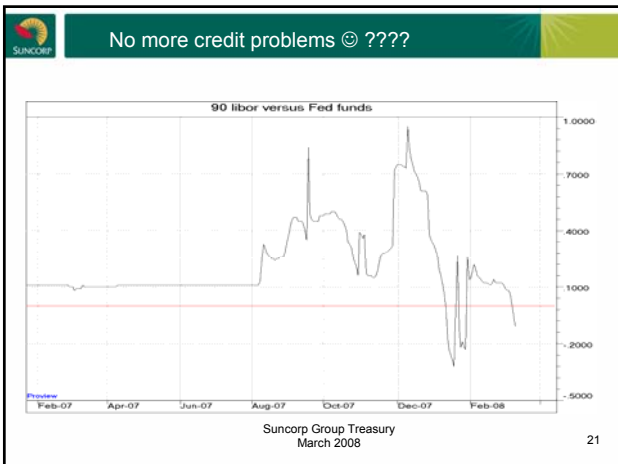
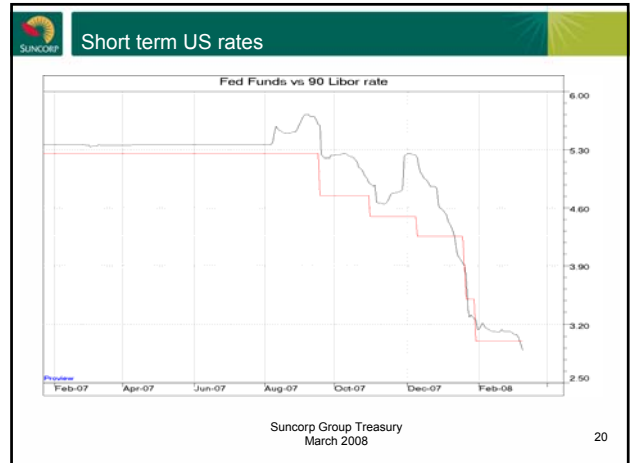
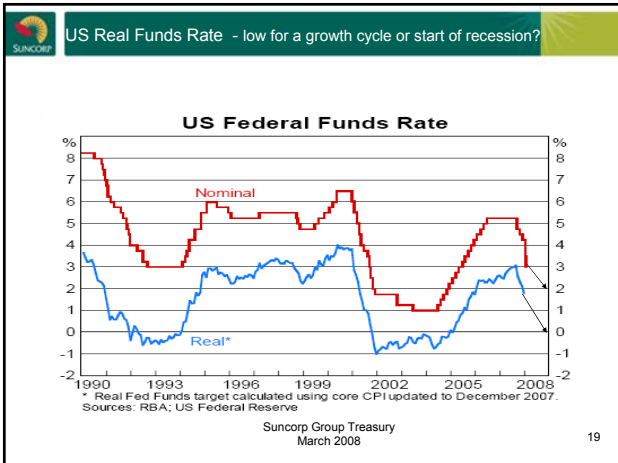
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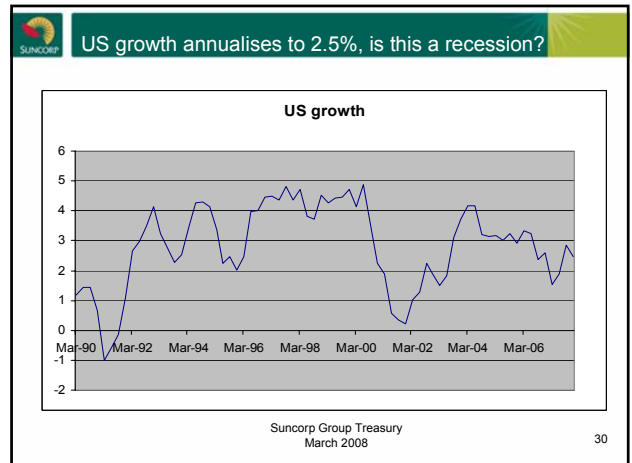
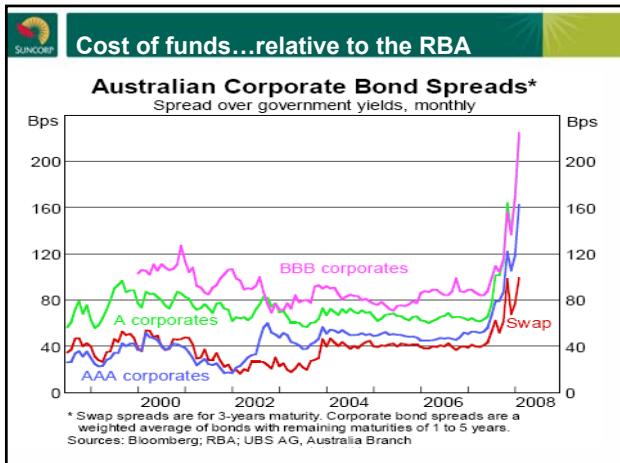
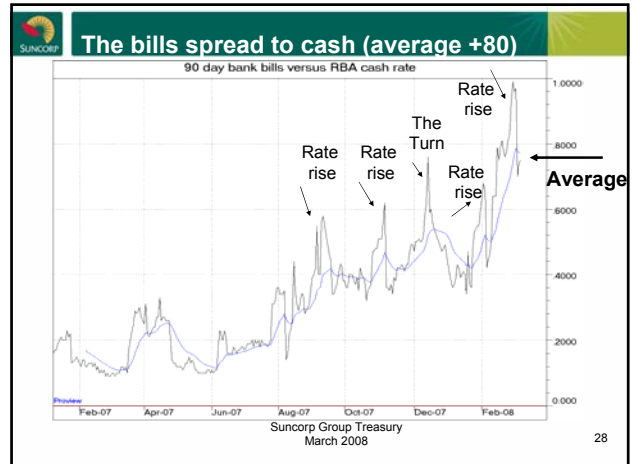
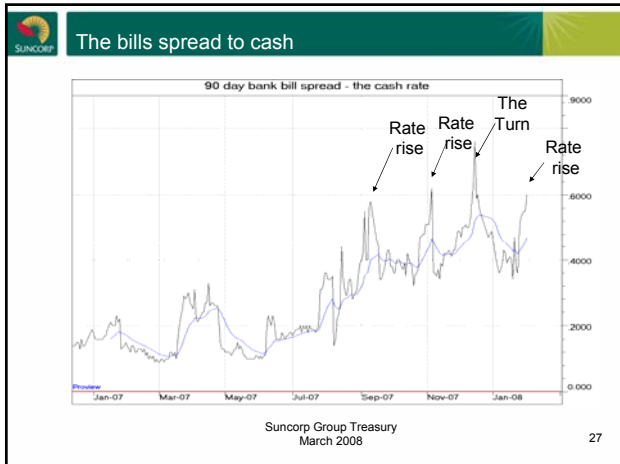
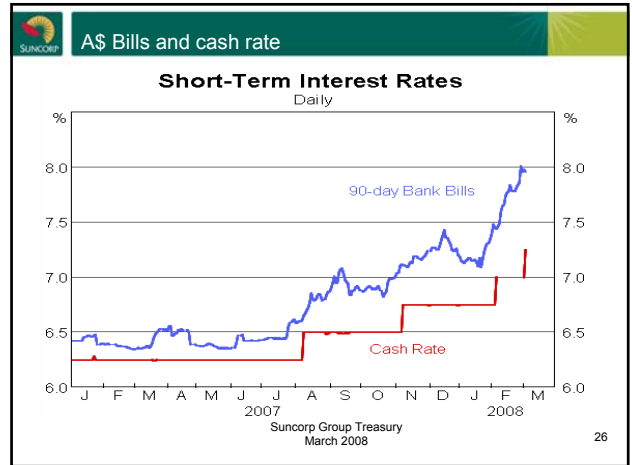
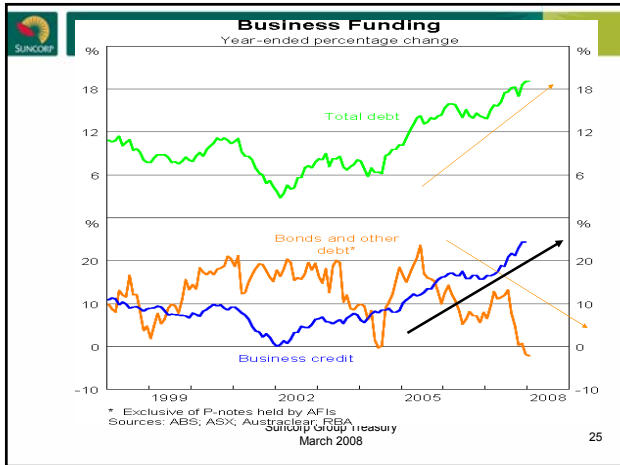
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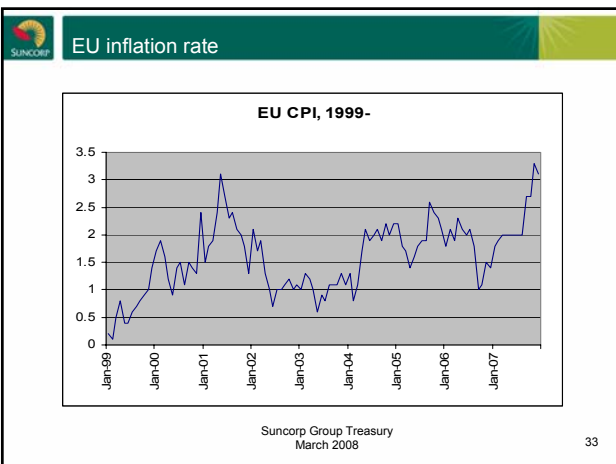
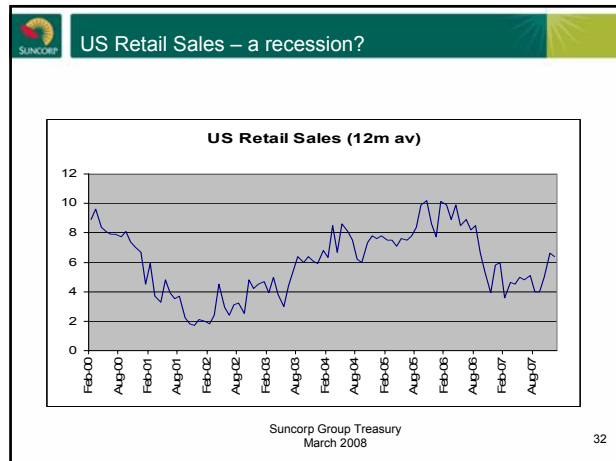
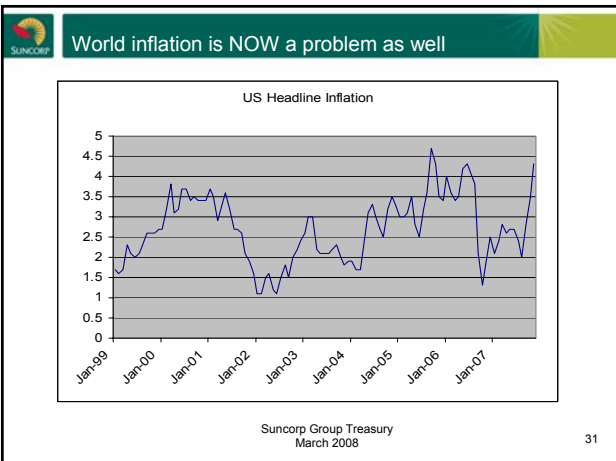












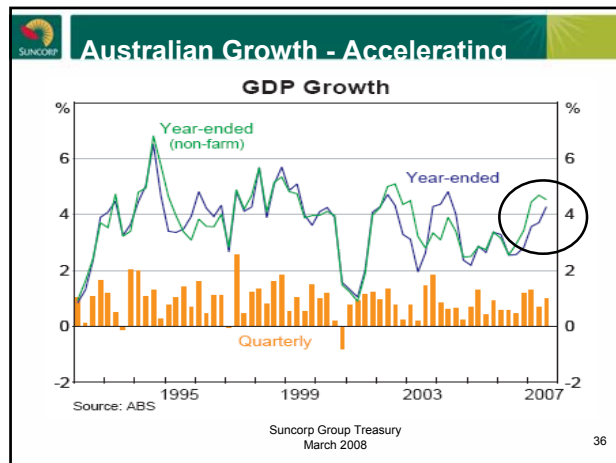
Scenario:
US decelerated from strong 2007 growth into its 31st Dec 2007 end
and now 'pans' out 1st quarter 2008

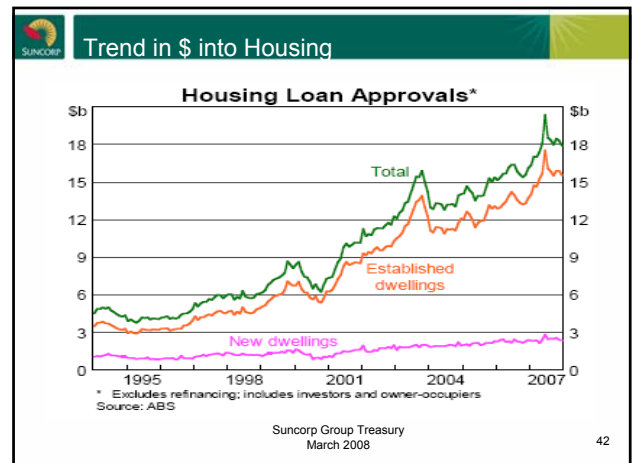
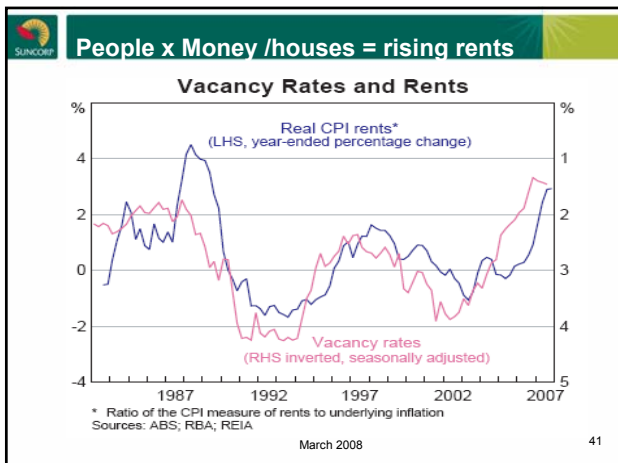
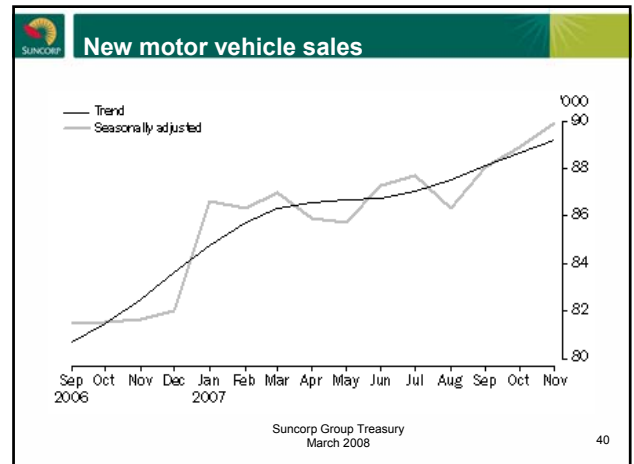
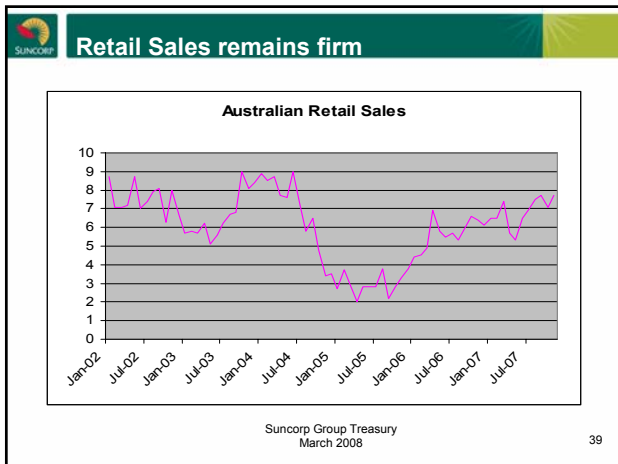
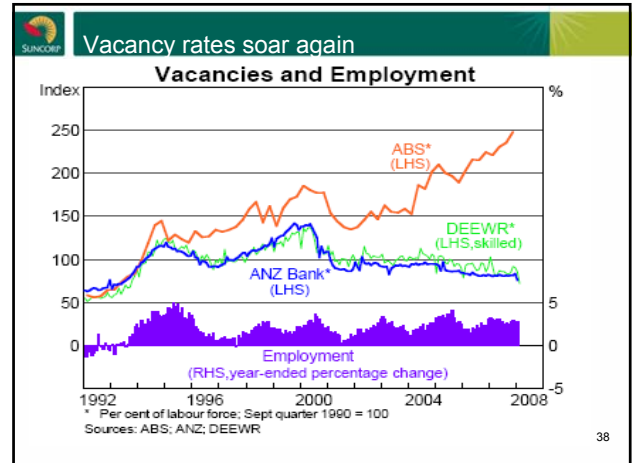
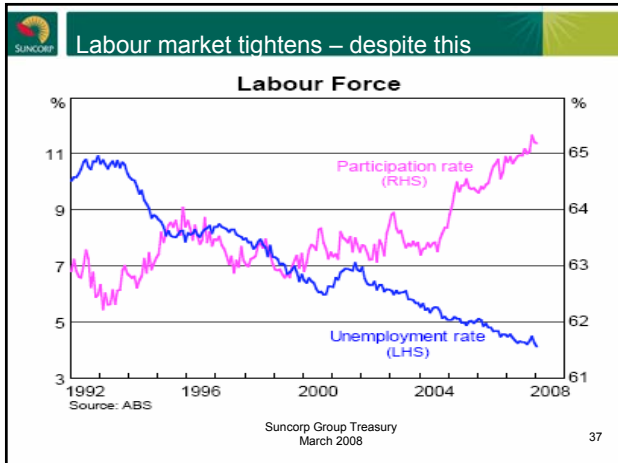
While the rest of the world keeps growing
 This is not a recession...

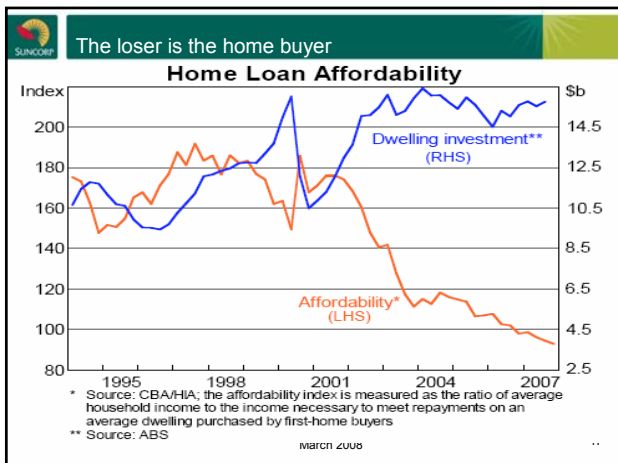
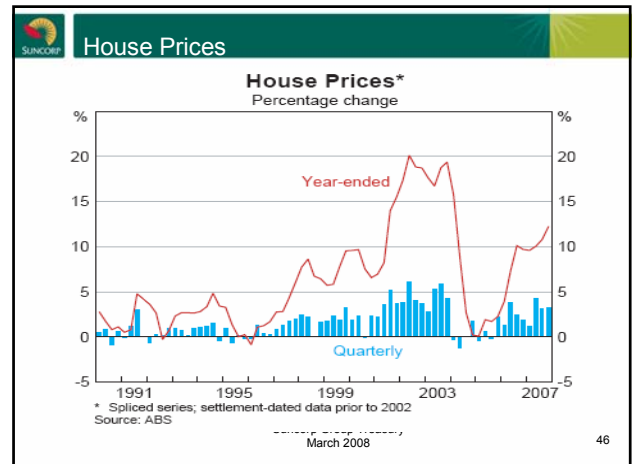
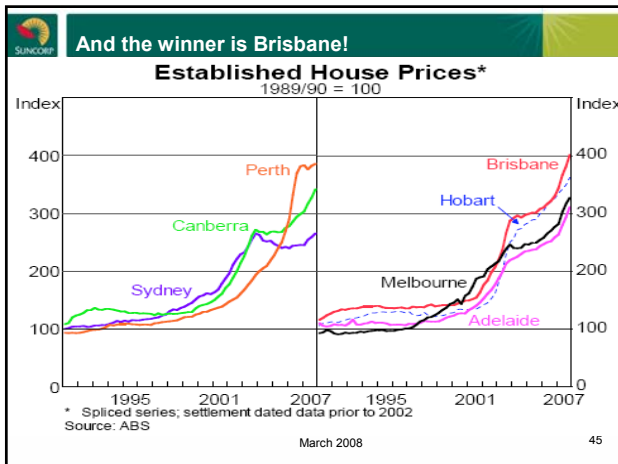
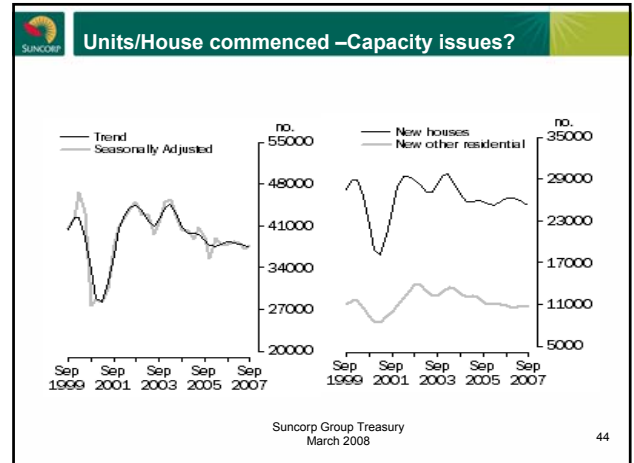
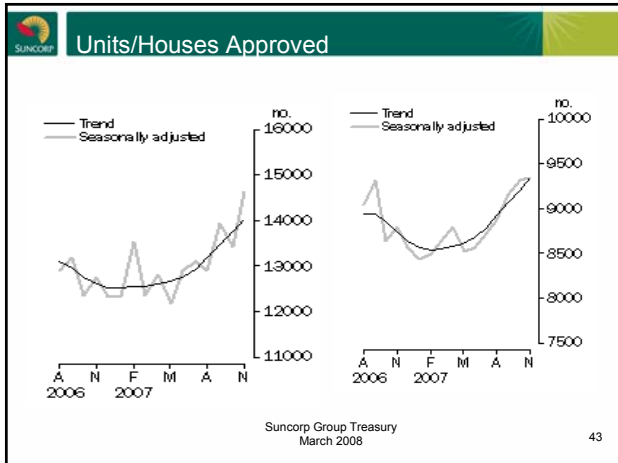
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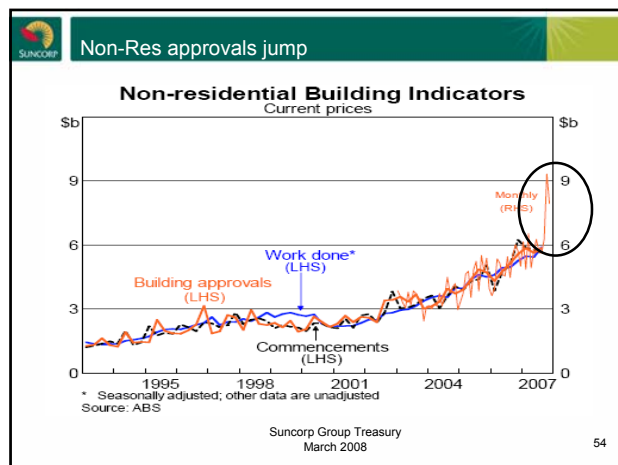
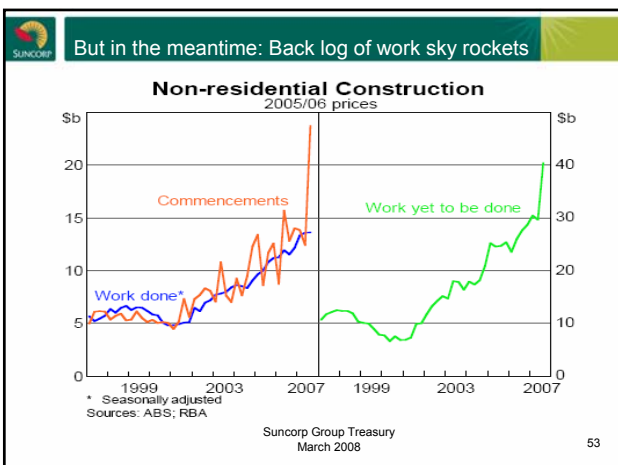
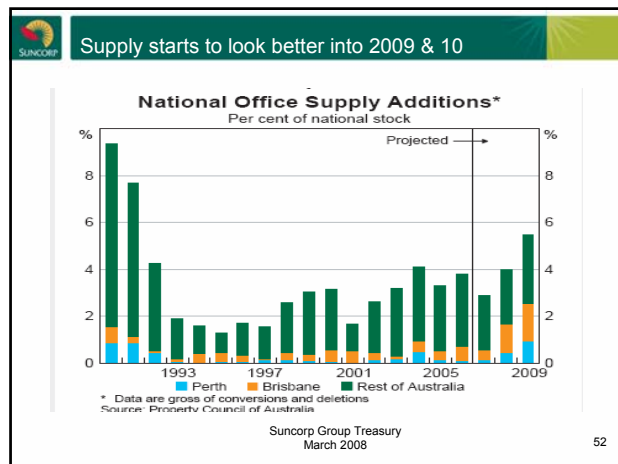
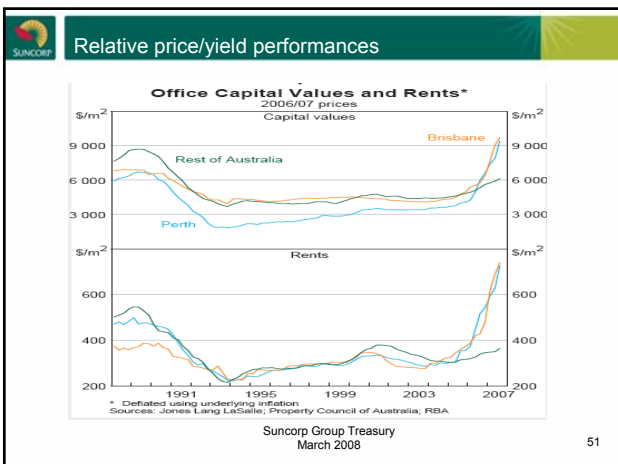
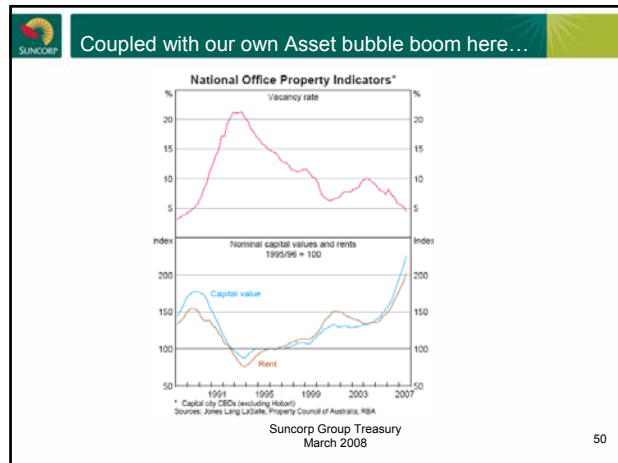
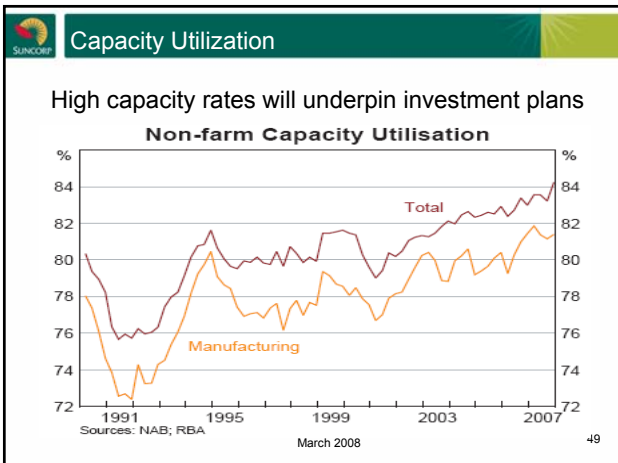
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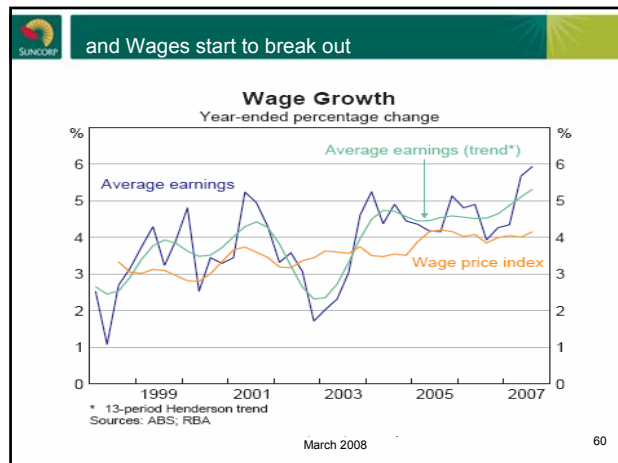
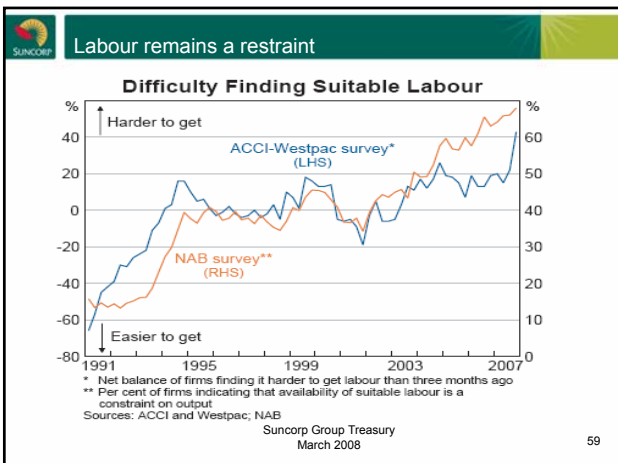
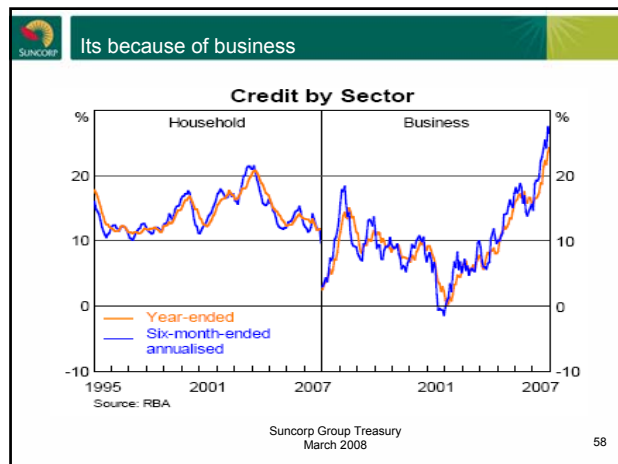
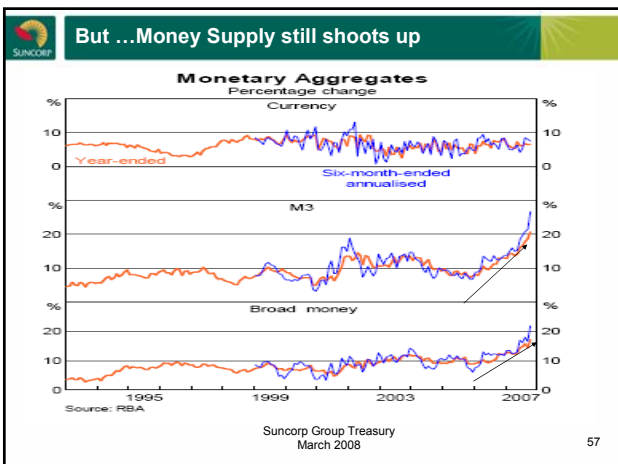
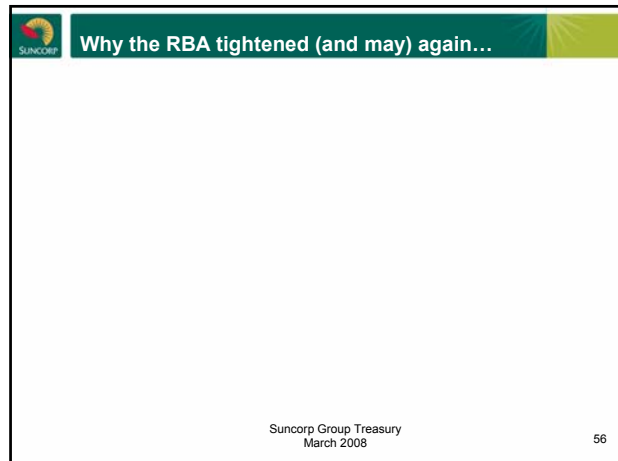
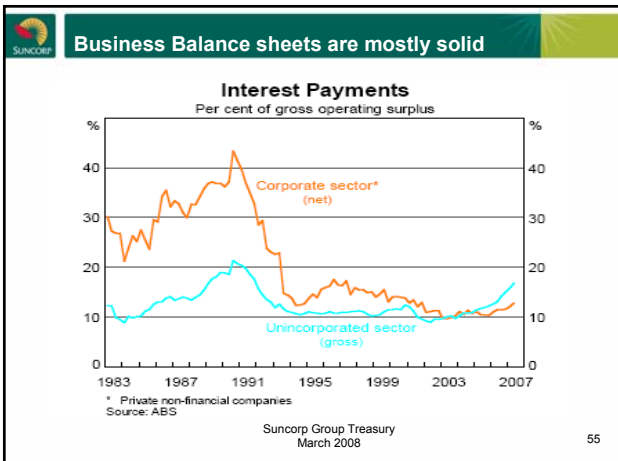
- ### Now the Australian Economy
- Buoyed by overseas trade flows
 - The fully employed household is still confident and spending
 - So too for Aussie businesses, running at capacity after an expansion of such long dimensions
 - Federal and State spending intentions will carry this into 2008
- Risks are**
- An overleveraged household sector (Is it?)
 - Too pre-emptive RBA rate rises/ overseas sector
 - A wages break out and/or global growth dip
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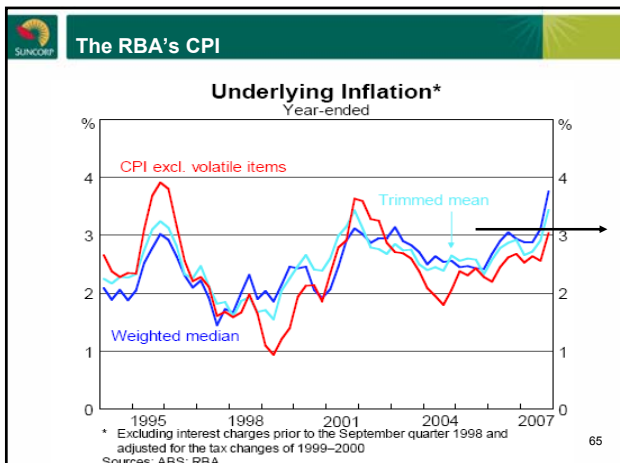
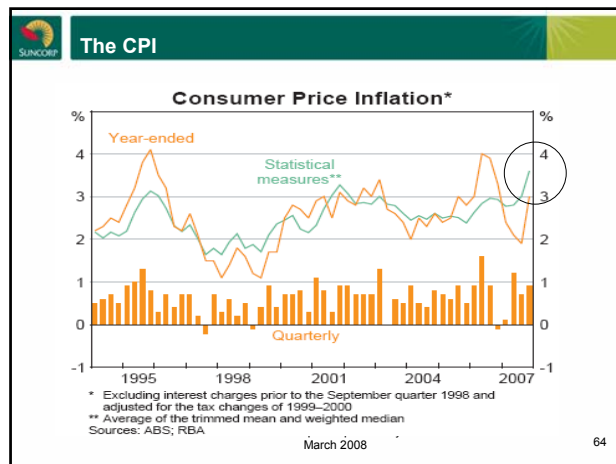
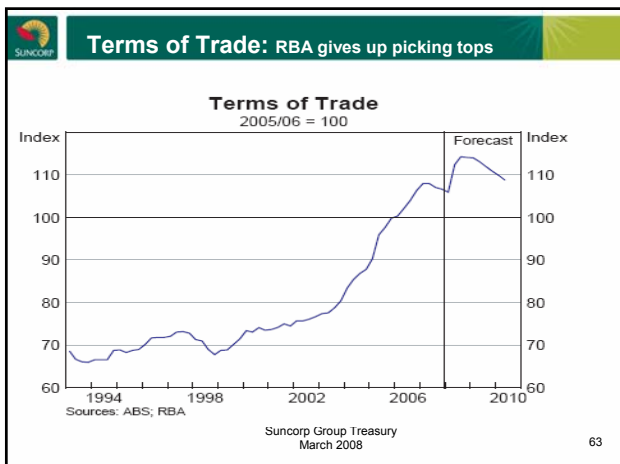
Expectations by Demographic

	Year to December 2008			Year to December 2009
	August 2007	November 2007	February 2008	February 2008
Market economists ^(a)	2.7	2.7	3.0	2.7
Union officials ^(b)	3.0	3.0	3.5	3.4

(a) RBA survey
(b) Workplace Research Centre

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RBA CPI Forecasts: November 2007

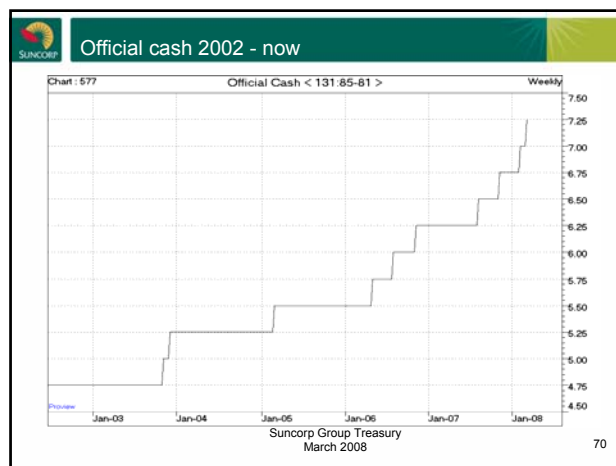
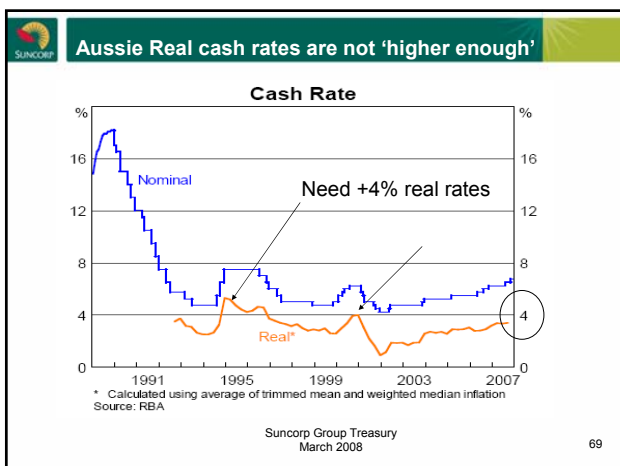
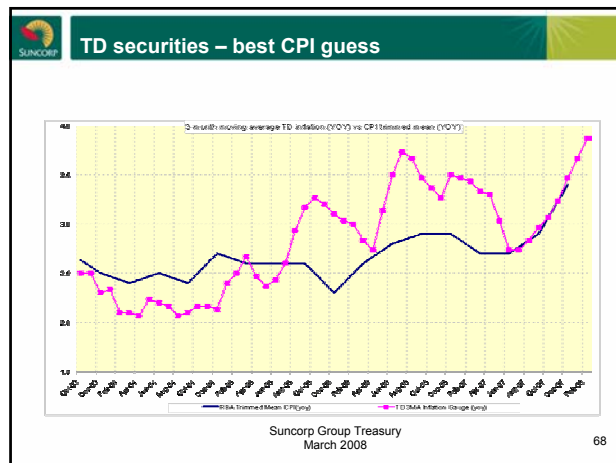
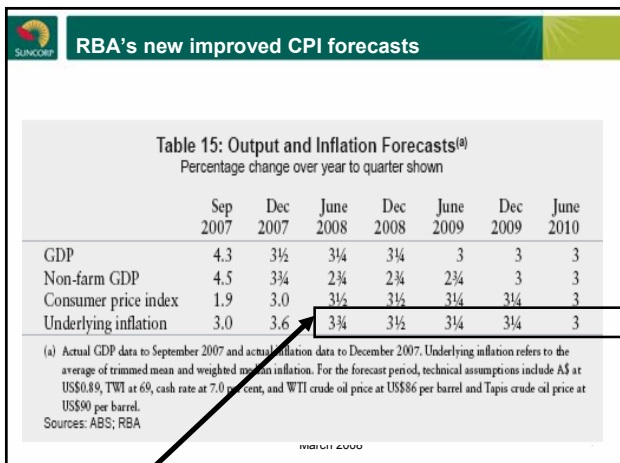
Table 16: RBA Inflation Forecasts^(a)
Percentage change over year to quarter shown

	Dec 2006	June 2007	Dec 2007	June 2008	Dec 2008	June 2009	Dec 2009
Consumer price index	3.3	2.1	2¼	3¼	3	2¾-3	2¾-3
Underlying inflation	3.0	2.8	3¼	3¼	3	2¾-3	2¾-3

(a) Actual data to September 2007. Underlying inflation refers to the average of trimmed mean and weighted median inflation. For the forecast period, technical assumptions include AS at US\$0.93, TWI at 73, cash rate at 6.75 per cent, and WTI crude oil price at US\$90 per barrel and Tapis crude oil price at US\$92 per barrel.
Sources: ABS; RBA

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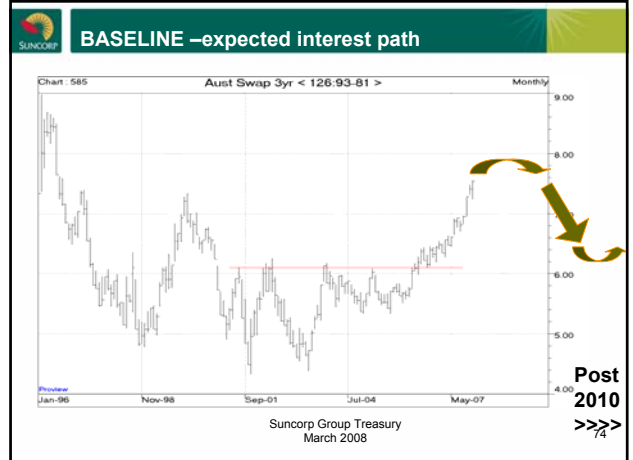


- ### Interest rate risks into 2008
- While the next 3-6 months will appear mixed
 - Will be lost of bad ex-post rate rise news
 - But another 25 pip rate rise to 7.50% by end September 2008 possible
 - Assumption is modest
 - Risks are corporate spreads widen further
 - This 'new' government/administration does not materially tighten policy and will push the risks above the +7.50% range
 - Can get uglier if the overseas markets are not kind to us anymore (which world inflation risks suggest)
 - Late 2008 gets very interesting...
 - Risk of +7.50% cash rates around Xmas 2008, cant be ruled out
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Interest rate Outlook to 2010

- Official cash rate risk to 7.50% by Sep 08 is the base line scenario
- May 2008 budget may force the path higher into 2009-10
- Likely scenario that it is looser than previous
- Coupled with continuing world growth
- Sees the 3 year bank swap rate risk back towards 8.00%
- Kiwi as possible ghost of Christmas future
 - Cash @ 8.25%
 - Unemployment at 3.6-9% national average, triggers a wages break to justify the above cash rate
 - A\$ has a go at 8875 highs again and again in the meantime
- Back end of 2009-10 time will be to fall with business cycle dip
 - Question is – from what level?

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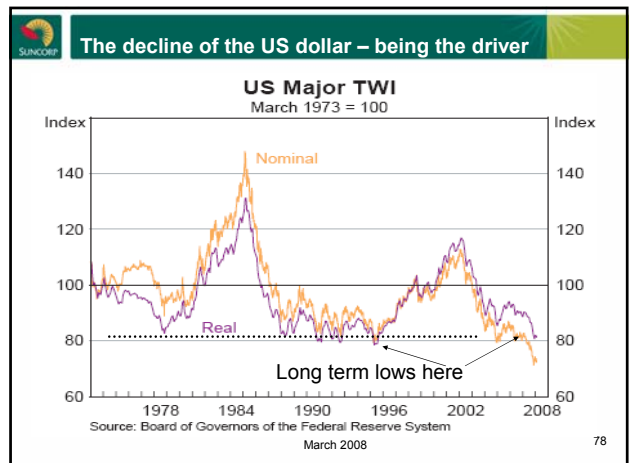
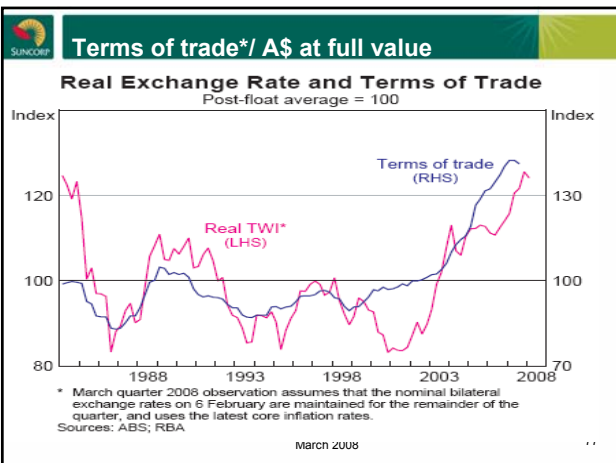
Australian dollar prospects

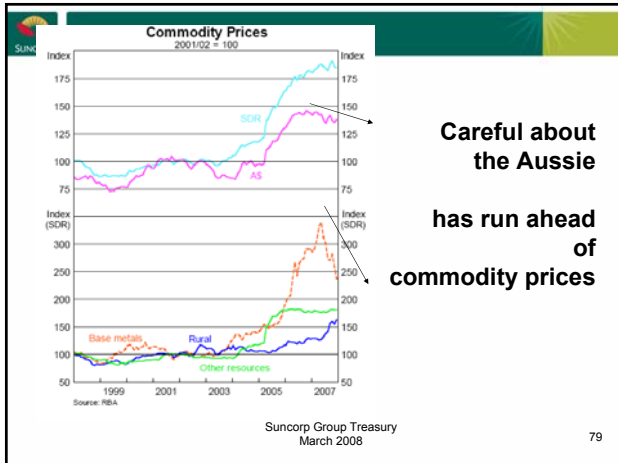
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A\$ Prospects into 2008-09

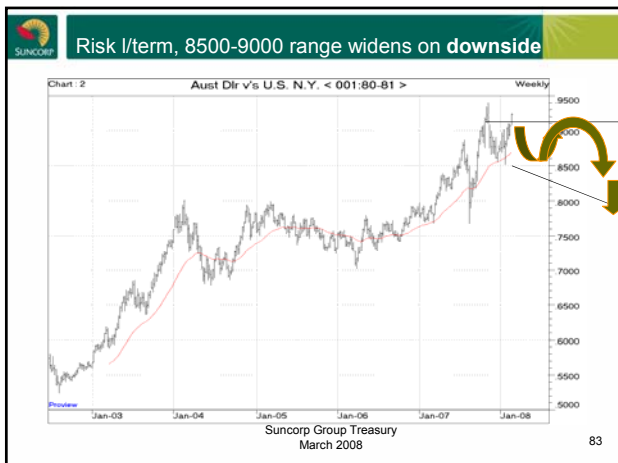
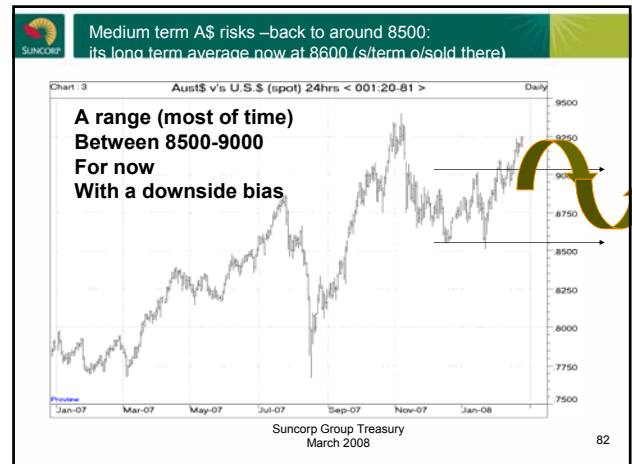
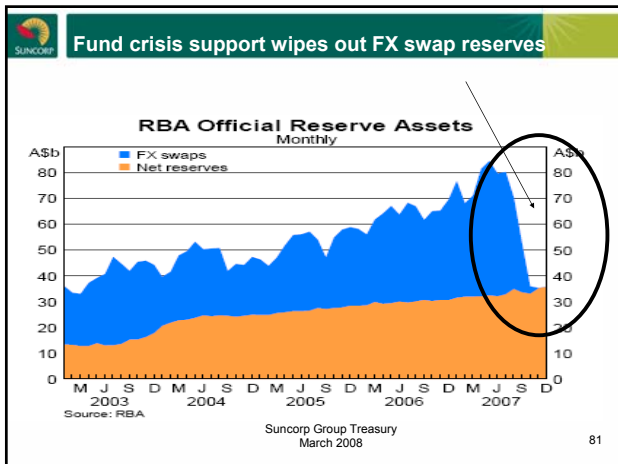
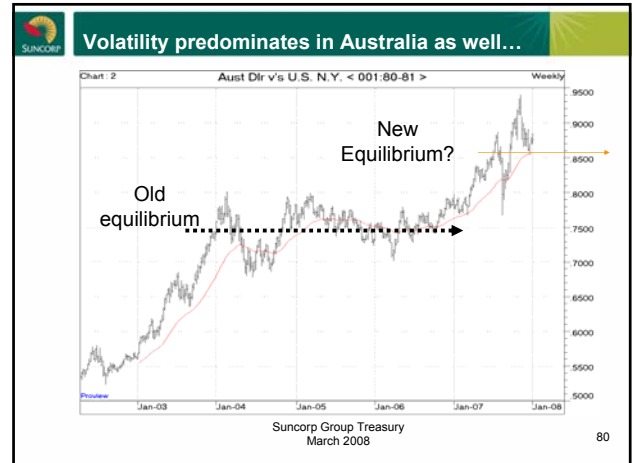
- A\$ strength consistent with RBA objectives
 - But ahead of fundamental values
- Moves over 8500 arguably are though disinflationary
- US\$ now super cheap may invite intervention to stop it falling further – will be an anti-A\$ phenomenon into 2008
- Bottom-line A\$ is likely to range sideways till well into 2008
- I.e. +9000 levels will be hard to sustain, even if the overall picture is positive
- Bulk of price action will be a 8500-9000 range for now
 - Risk it widens on the downside (later)

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Careful about the Aussie has run ahead of commodity prices



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- the representative satisfies or exceeds predetermined individual performance targets; and
- other required factors not related to the representative's individual performance, such as the overall performance of Suncorp Treasury Services and/or the Suncorp group of companies, are also satisfied.

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