

# **A Global Economic and Market Outlook**

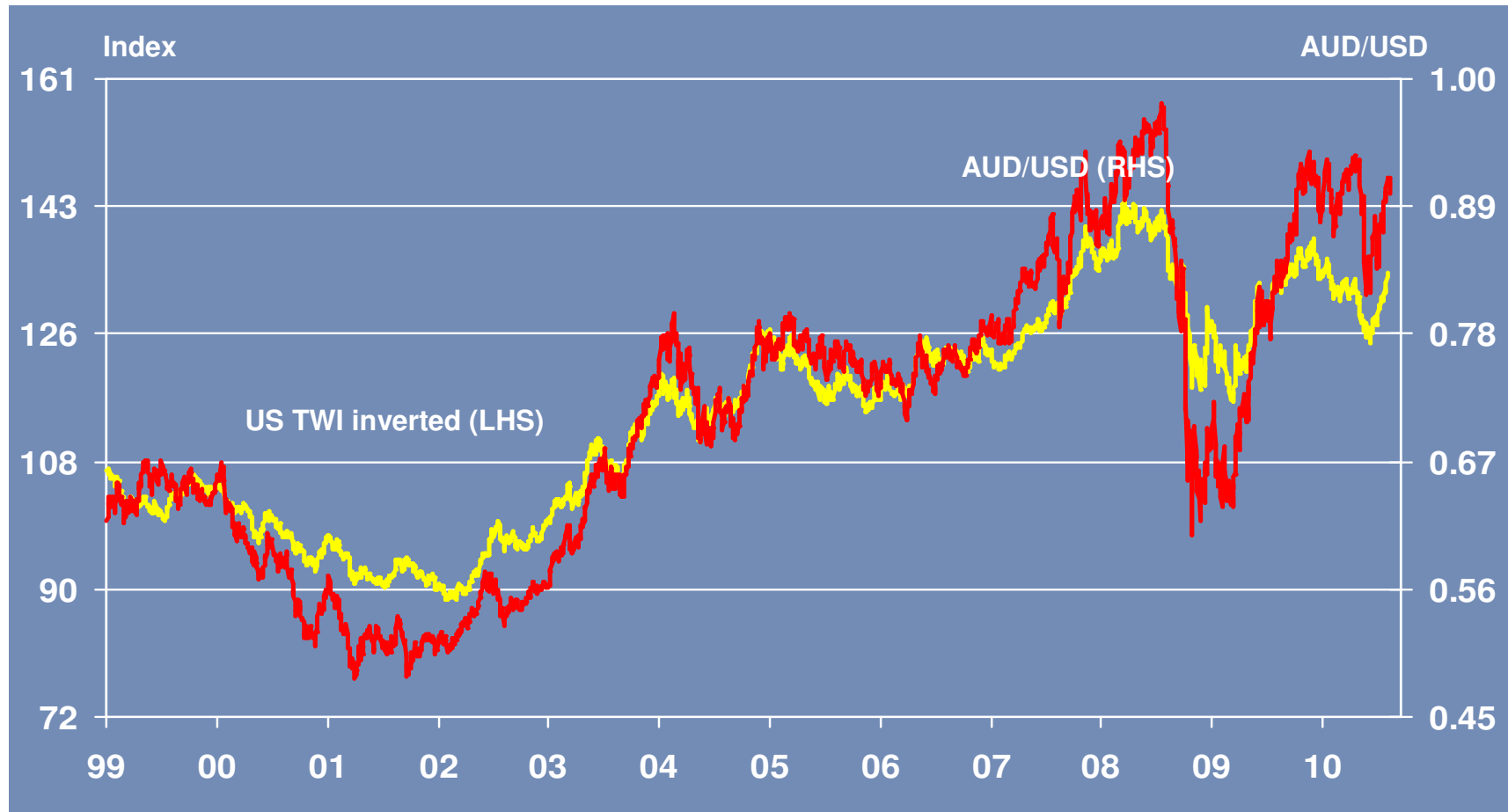
Presented by Dr Chris Caton

*August 2010*

## Financial Market Forecasts

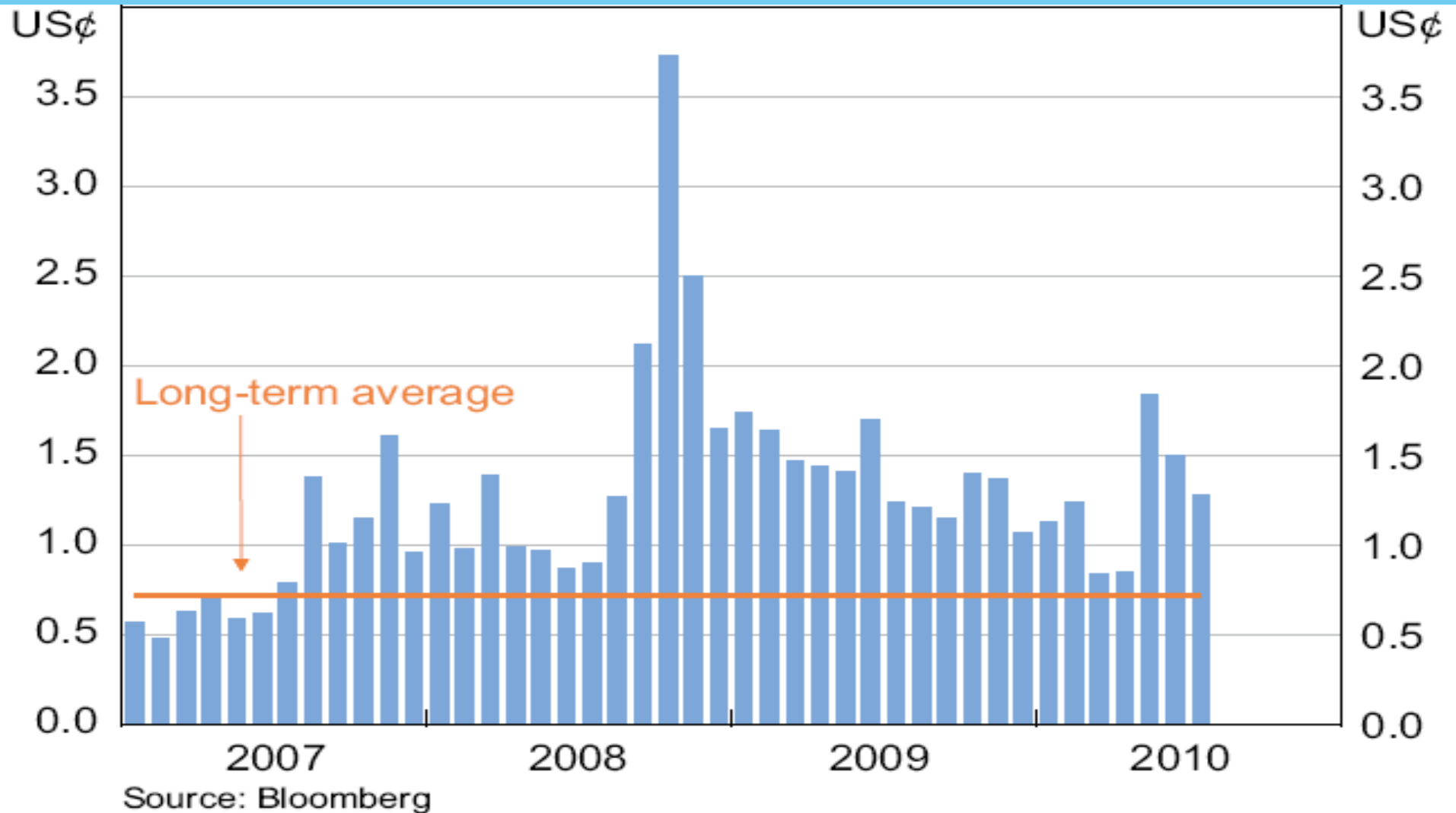
	Now (12 Aug)	End-Dec 2010	End-Jun 2011
<b>AUD/USD</b>	<b>0.895</b>	<b>0.85</b>	<b>0.82</b>
<b>Official cash rate (%)</b>	<b>4.50</b>	<b>4.75</b>	<b>5.25</b>
<b>10 Year Bond yield (%)</b>	<b>5.00</b>	<b>5.30</b>	<b>5.60</b>
<b>ASX 200</b>	<b>4390</b>	<b>5000</b>	<b>5250</b>

# The Australian Dollar and US Trade Weighted Index

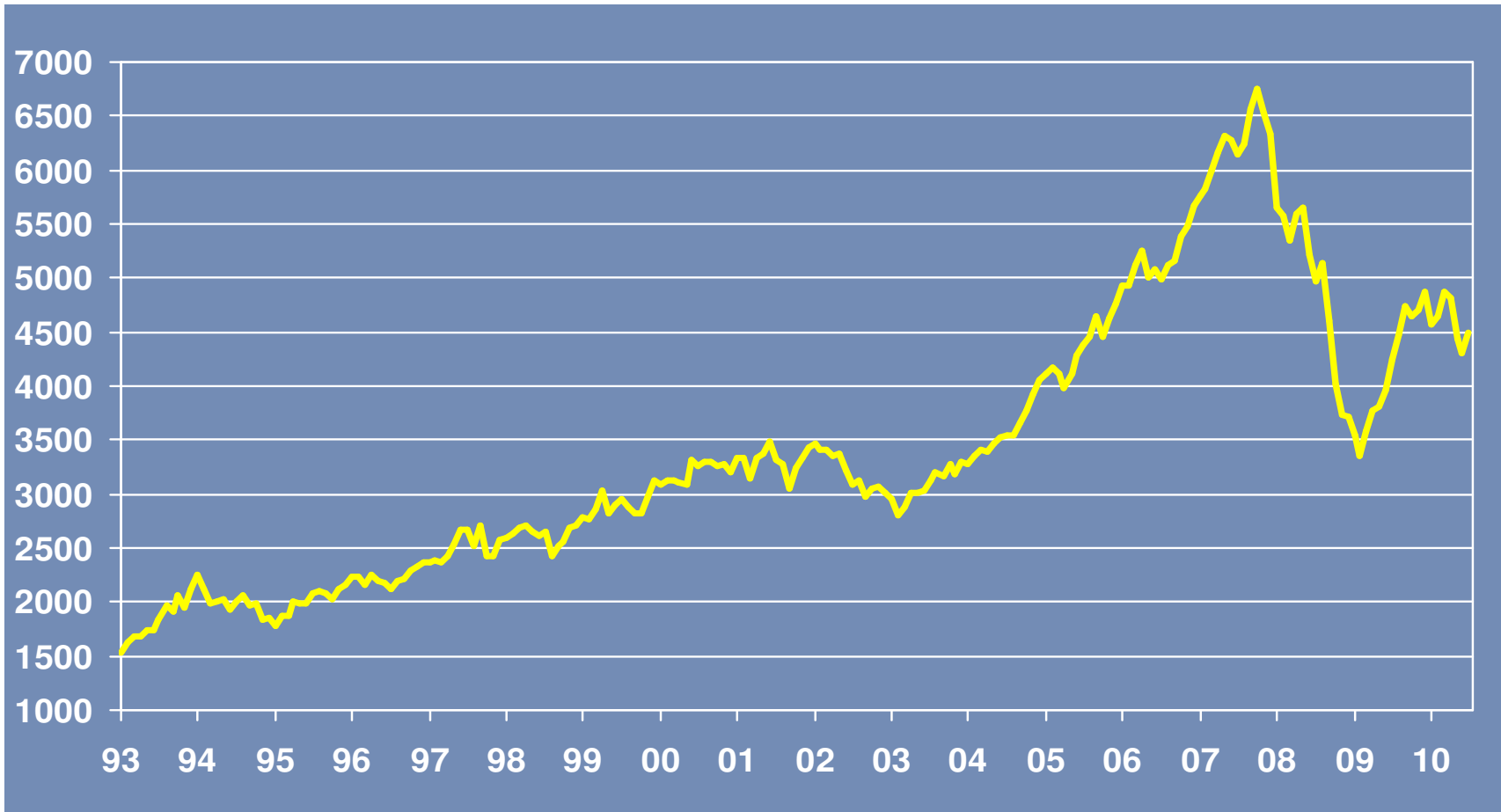


Source: Datastream

## The \$A remains volatile (average daily trading range by month)

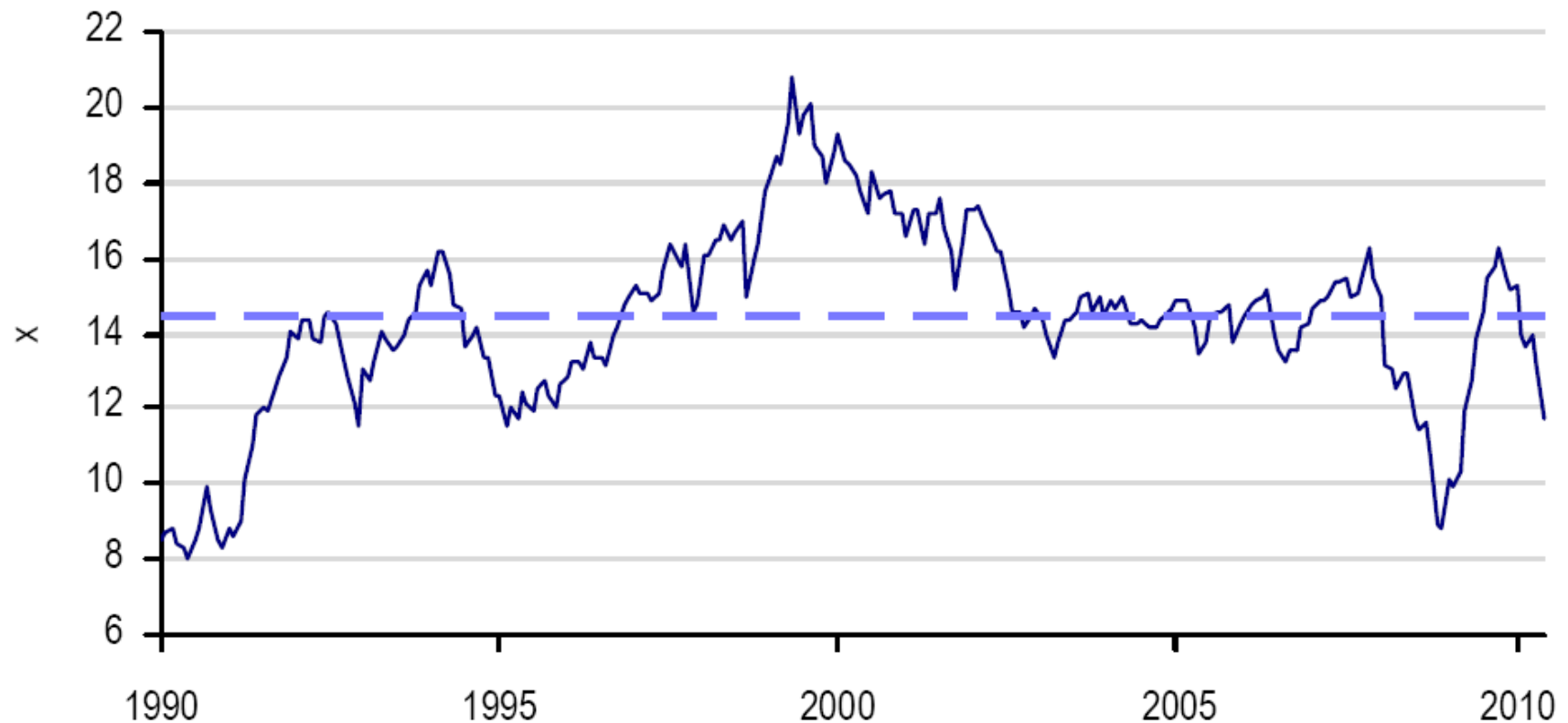


# Australian Sharemarket Performance – ASX200



Source: Bloomberg

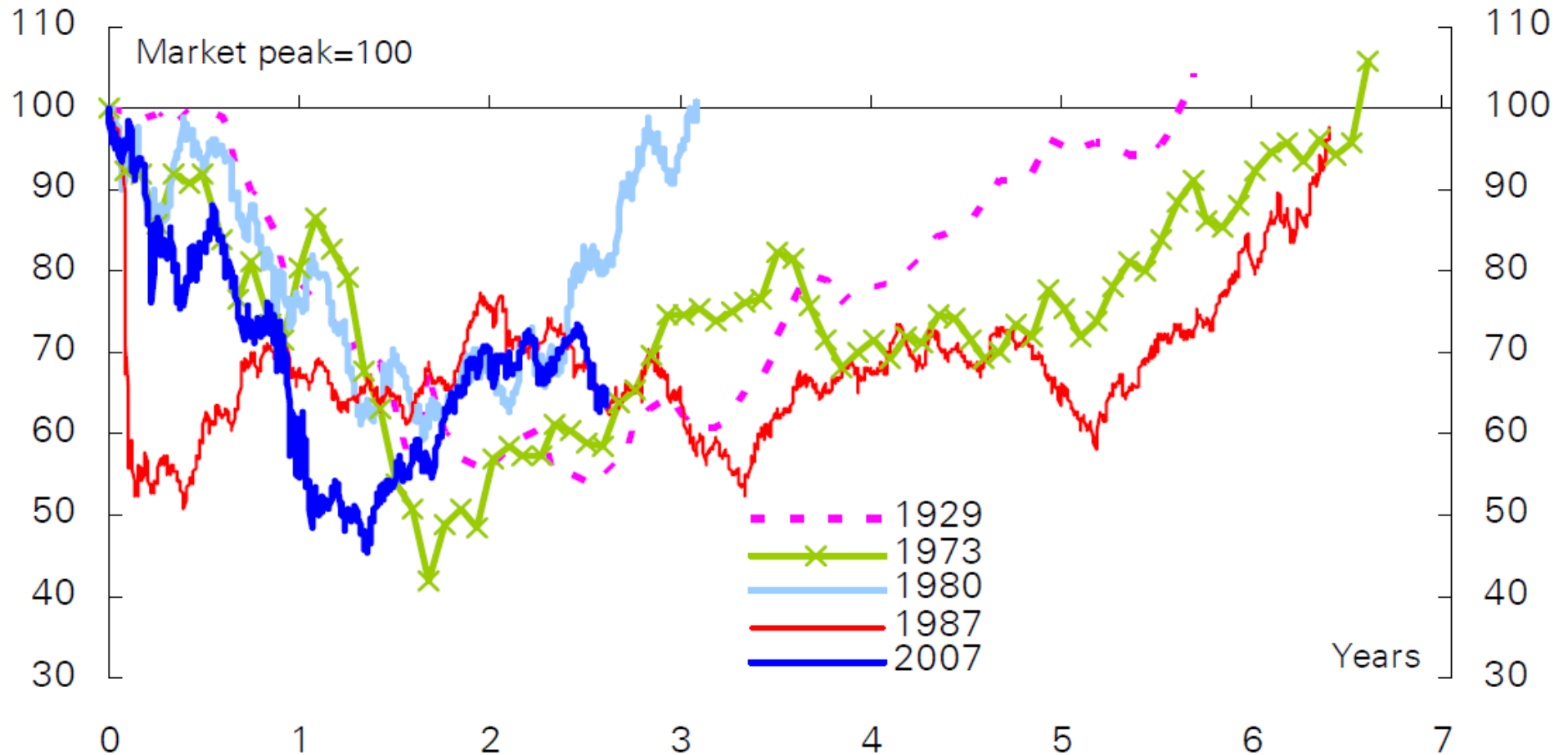
## As a result of the recent correction the Australian market is again cheap (forward P/E ratio)



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

# Recoveries from “big ugly bears”

Largest falls in the Australian equity market



Source: Wren Research, IRESS, Deutsche Bank

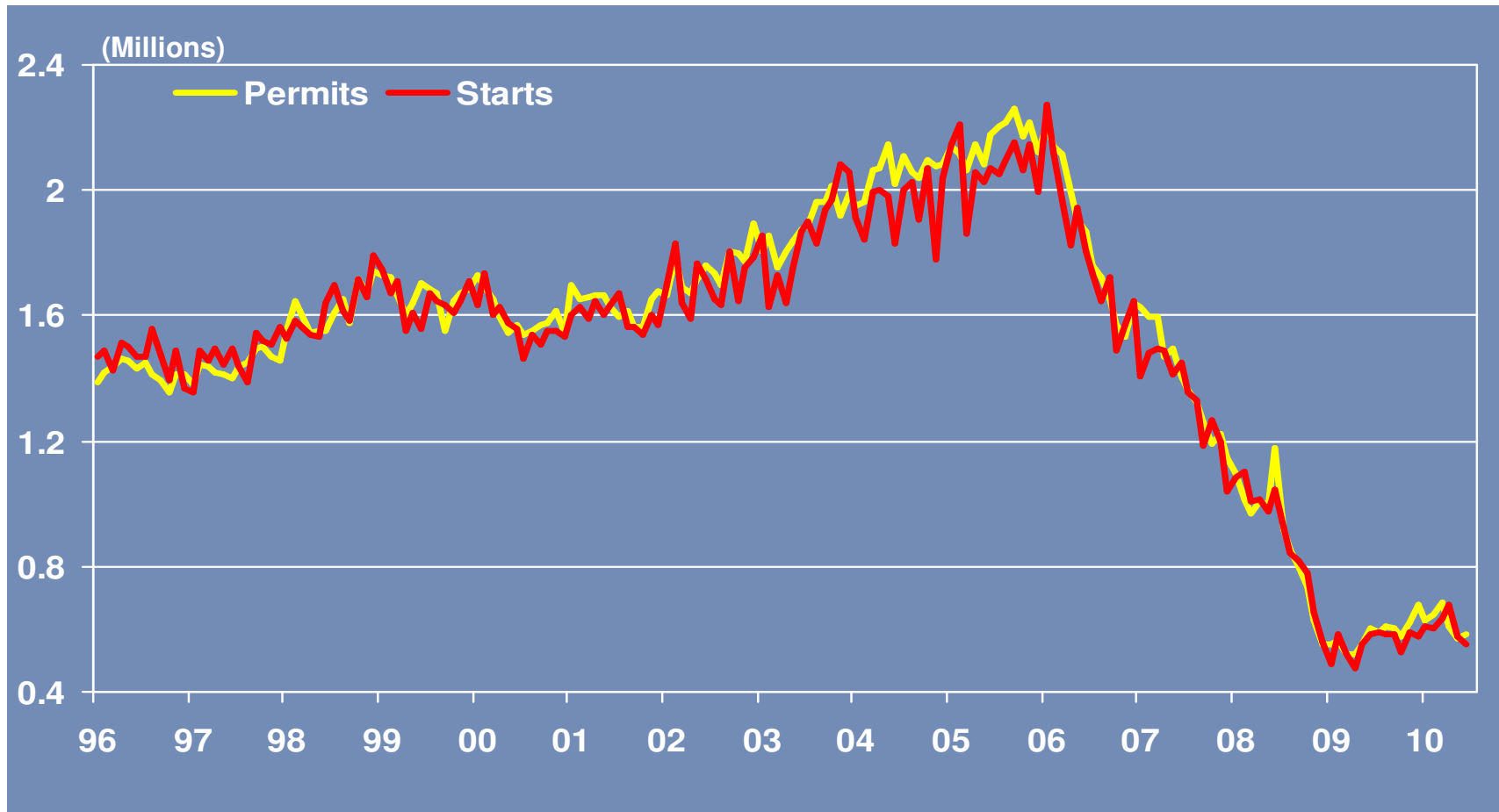
## Australian shares look to be good value

### Projected medium term pre-tax equity returns, % pa

Region	Dividend yield, plus	Growth, equals	Projected total return
US	2.3	5.0	7.3
UK	3.6	4.0	7.6
Europe	3.6	3.8	7.4
Japan	1.8	2.8	4.6
Asia, ex Japan	2.5	8.0	10.5
World – local currency	2.6	4.7	7.3
Australia	4.0 (5.2*)	5.5	9.5 (10.7*)

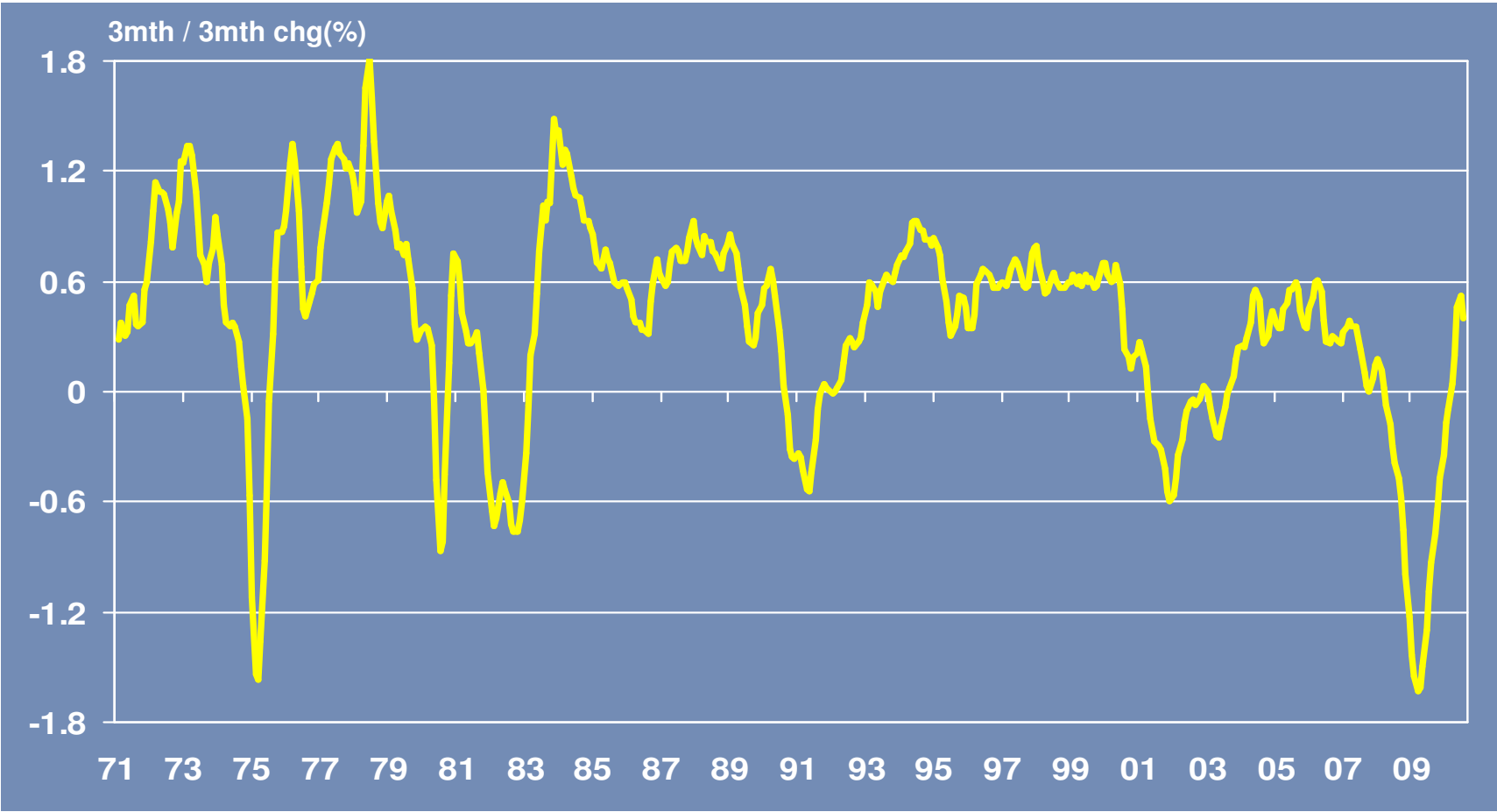
\* Adjusted for franking credits. Source: Bloomberg, AMP Capital Investors

# US Housing starts are bumping along the bottom



Source: Datastream

# US Employment is looking better



Source: Datastream

## 2010 Growth Forecasts (%)

### Month of Forecast

	J-10	F-10	M-10	A-10	M-10	J-10	J-10
Australia	2.9	3.0	3.1	3.3	3.2	3.0	3.0
New Zealand	2.5	2.6	2.8	2.8	2.9	2.8	2.8
US	2.9	3.1	3.1	3.2	3.3	3.3	3.1
Japan	1.3	1.5	1.9	2.2	2.5	3.2	3.2
China	9.7	9.8	9.9	9.9	10.2	10.2	10.1
Germany	1.8	1.7	1.7	1.6	1.6	1.8	2.0
UK	1.5	1.4	1.4	1.3	1.3	1.3	1.3
“World”	3.0	3.1	3.2	3.2	3.4	3.5	3.5

Source: Consensus Economics

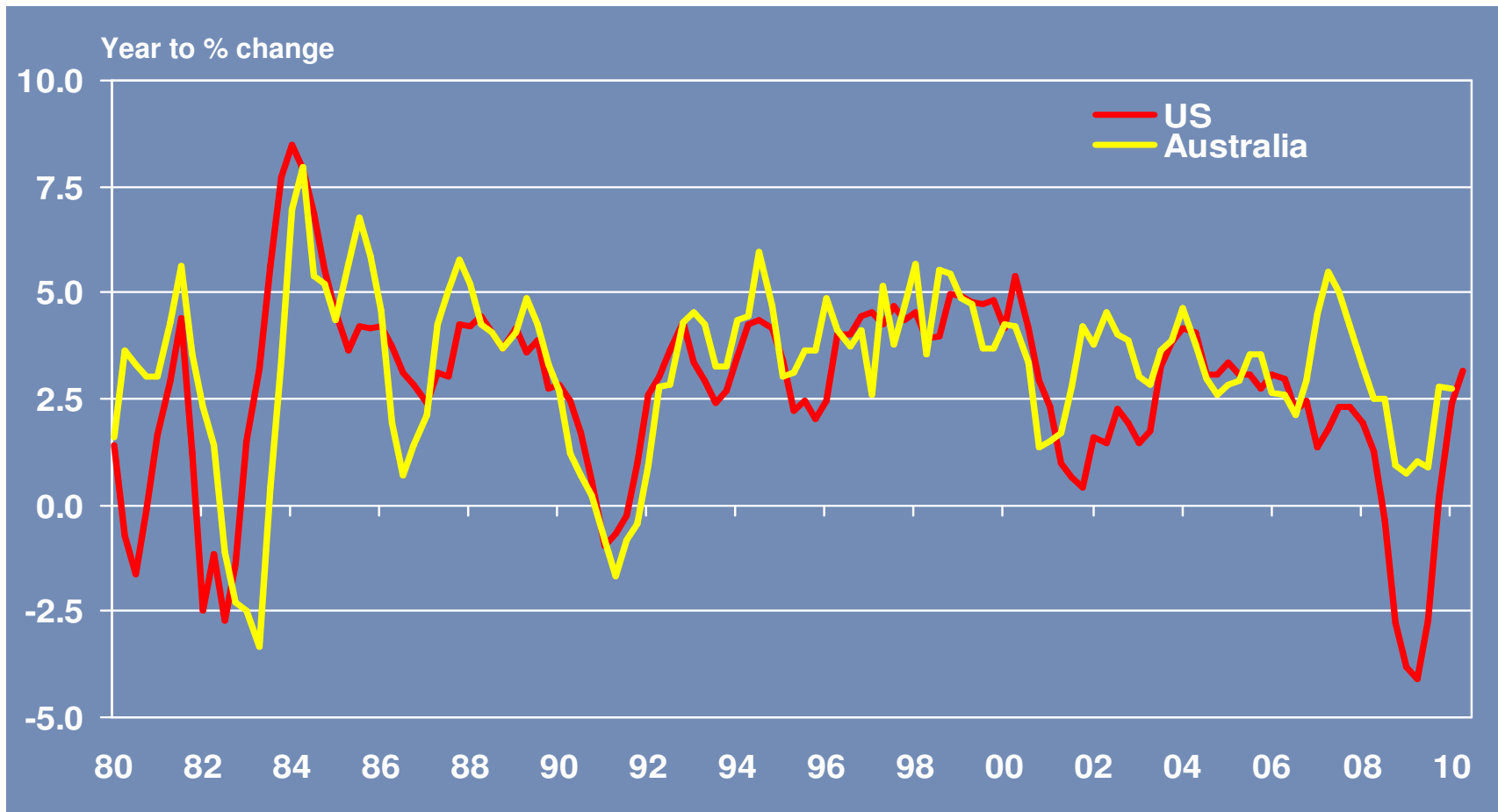
## 2011 Growth Forecasts (%)

### Month of Forecast

	J-10	F-10	M-10	A-10	M-10	J-10	J-10
Australia	3.2	3.3	3.4	3.4	3.4	3.4	3.3
New Zealand	3.0	3.1	3.1	3.3	3.5	3.4	3.3
US	3.1	3.0	3.0	3.1	3.1	3.1	3.0
Japan	1.5	1.5	1.6	1.6	1.7	1.7	1.6
China	9.1	9.1	9.1	9.0	9.2	9.0	9.1
Germany	1.6	1.6	1.6	1.7	1.7	1.7	1.7
UK	2.2	2.2	2.3	2.3	2.3	2.3	2.1
“World”	3.3	3.3	3.3	3.3	3.4	3.3	3.3

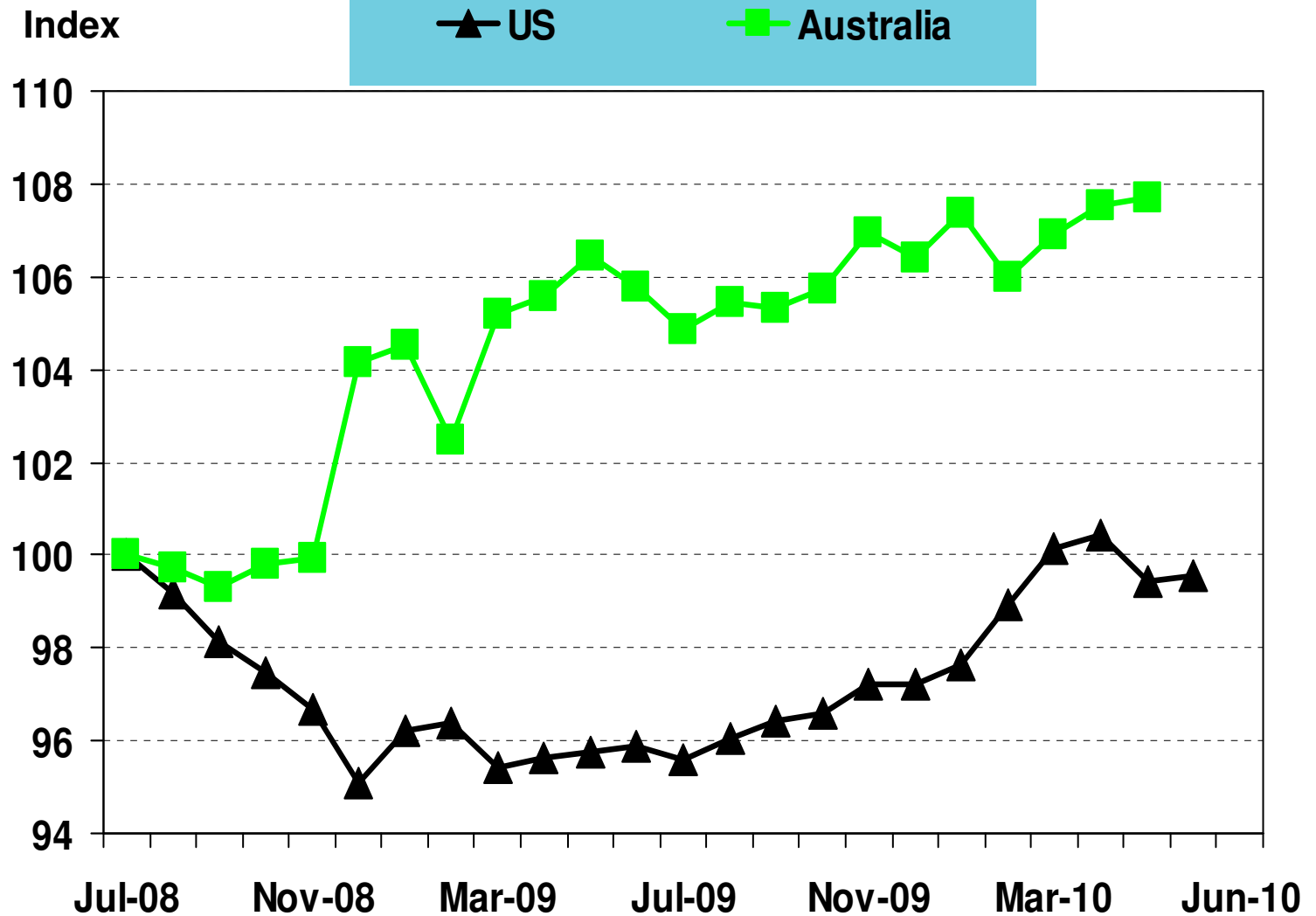
Source: Consensus Economics

# Real GDP growth in Australia and the US



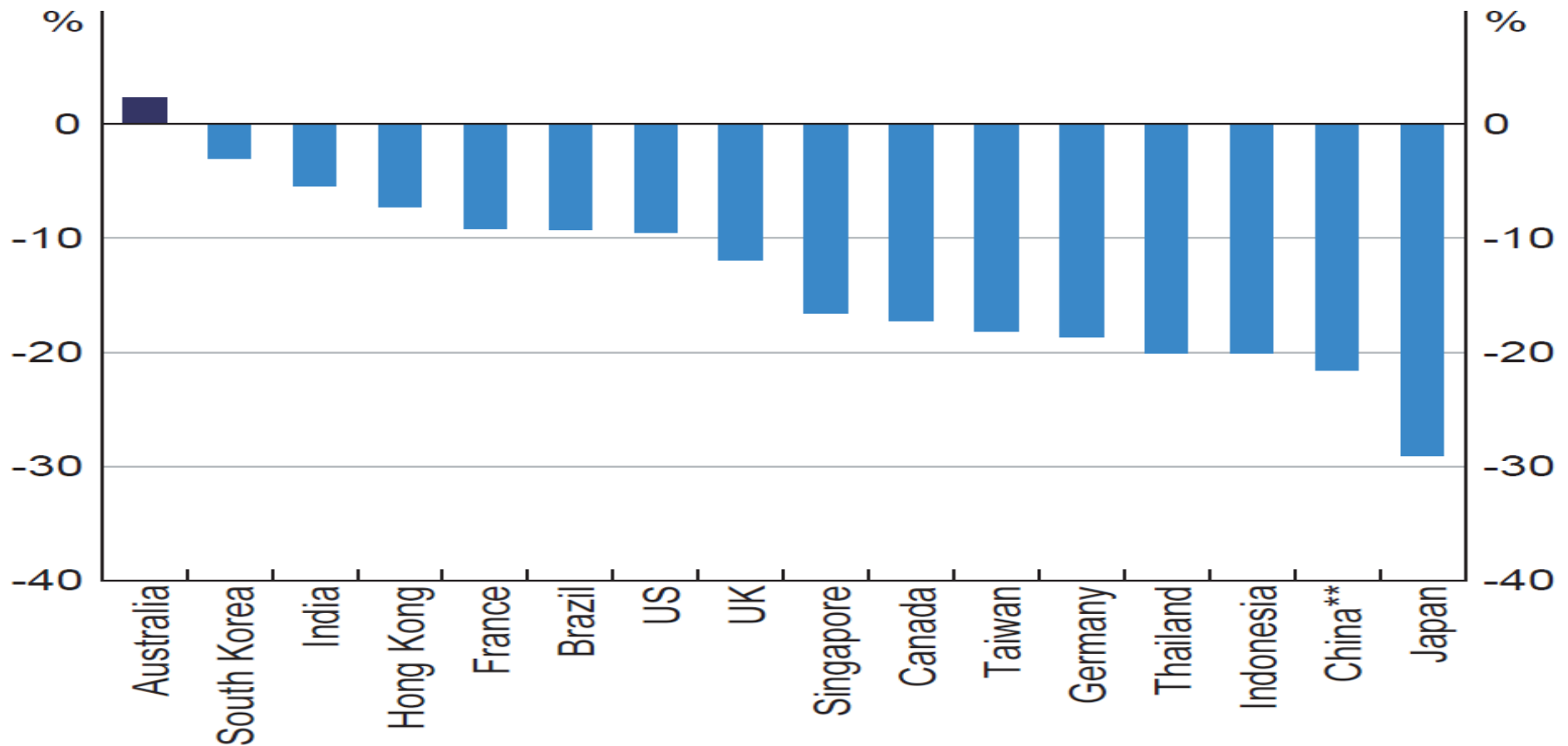
Source: Datastream

# Retail trade was so much stronger here, but has been weak lately



Sources: ABS, Census.gov, July 2010; US figures exclude spending on autos and at "gas stations"

## Export growth \*(volume, %change, 9 months to June quarter 2009)

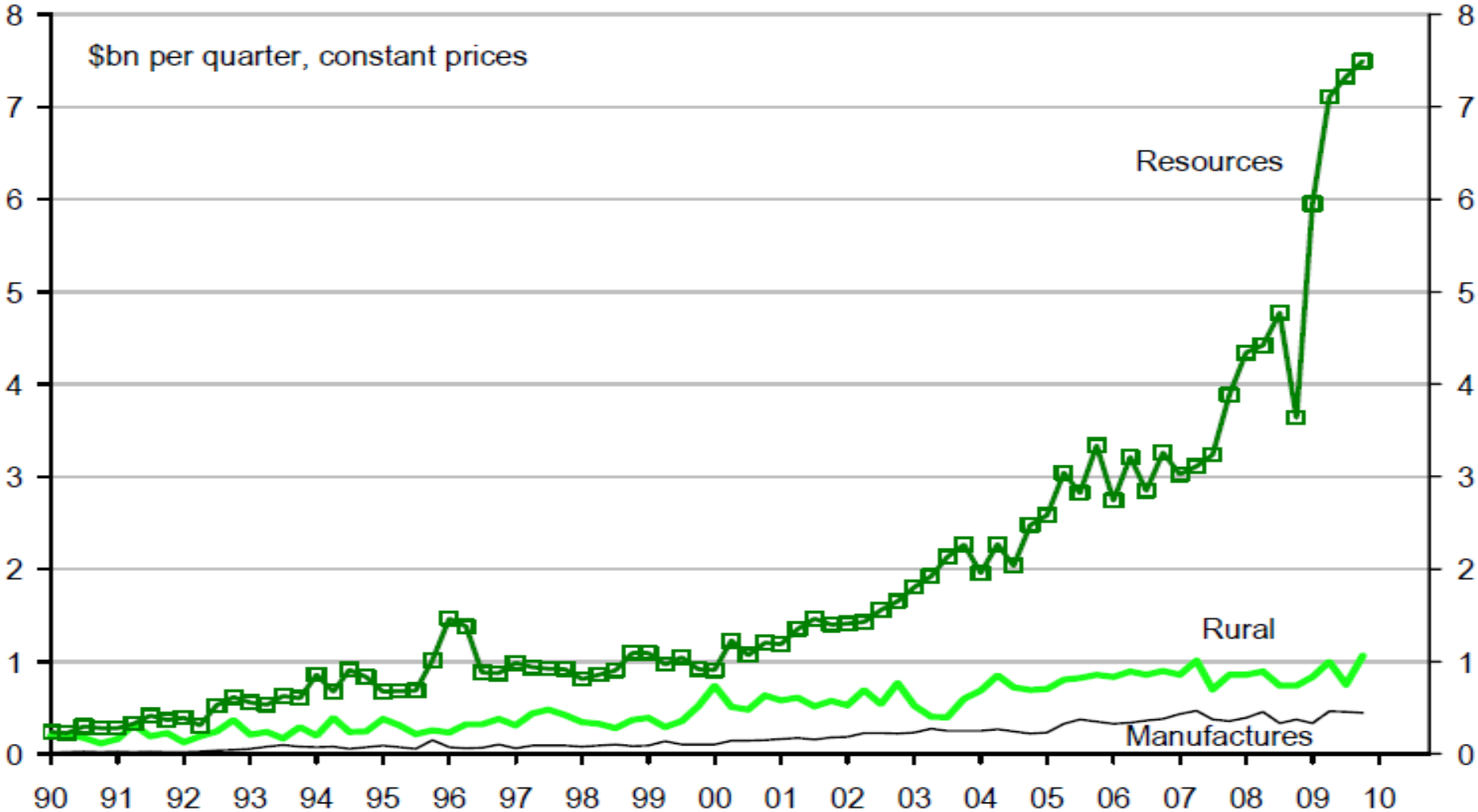


\* Includes June quarter 2009 estimates where data are not available

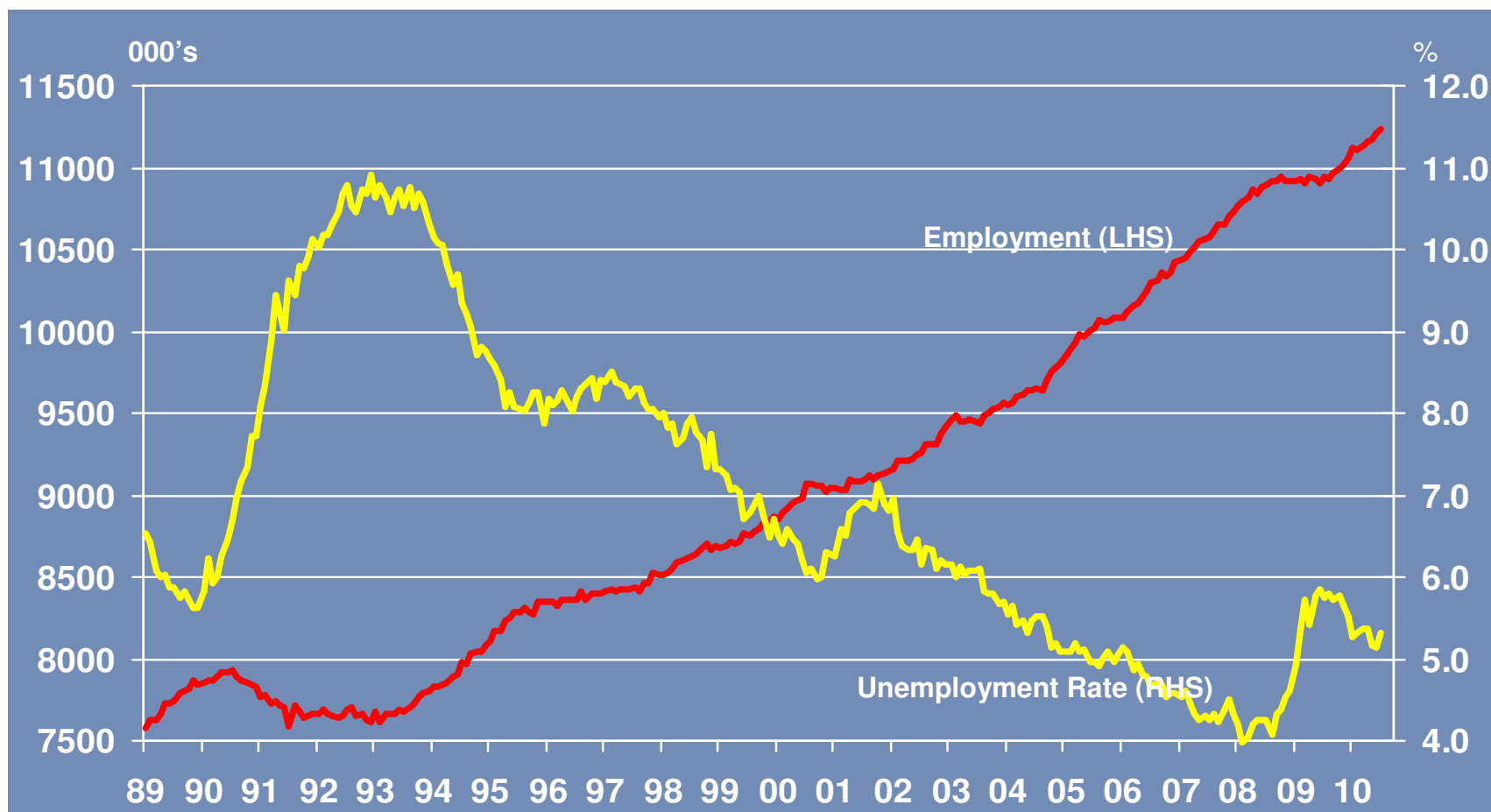
\*\* Merchandise only

Sources: ABS; CEIC; Deutsche Bundesbank; Office for National Statistics; RBA; Thomson Reuters

# Our exports to China



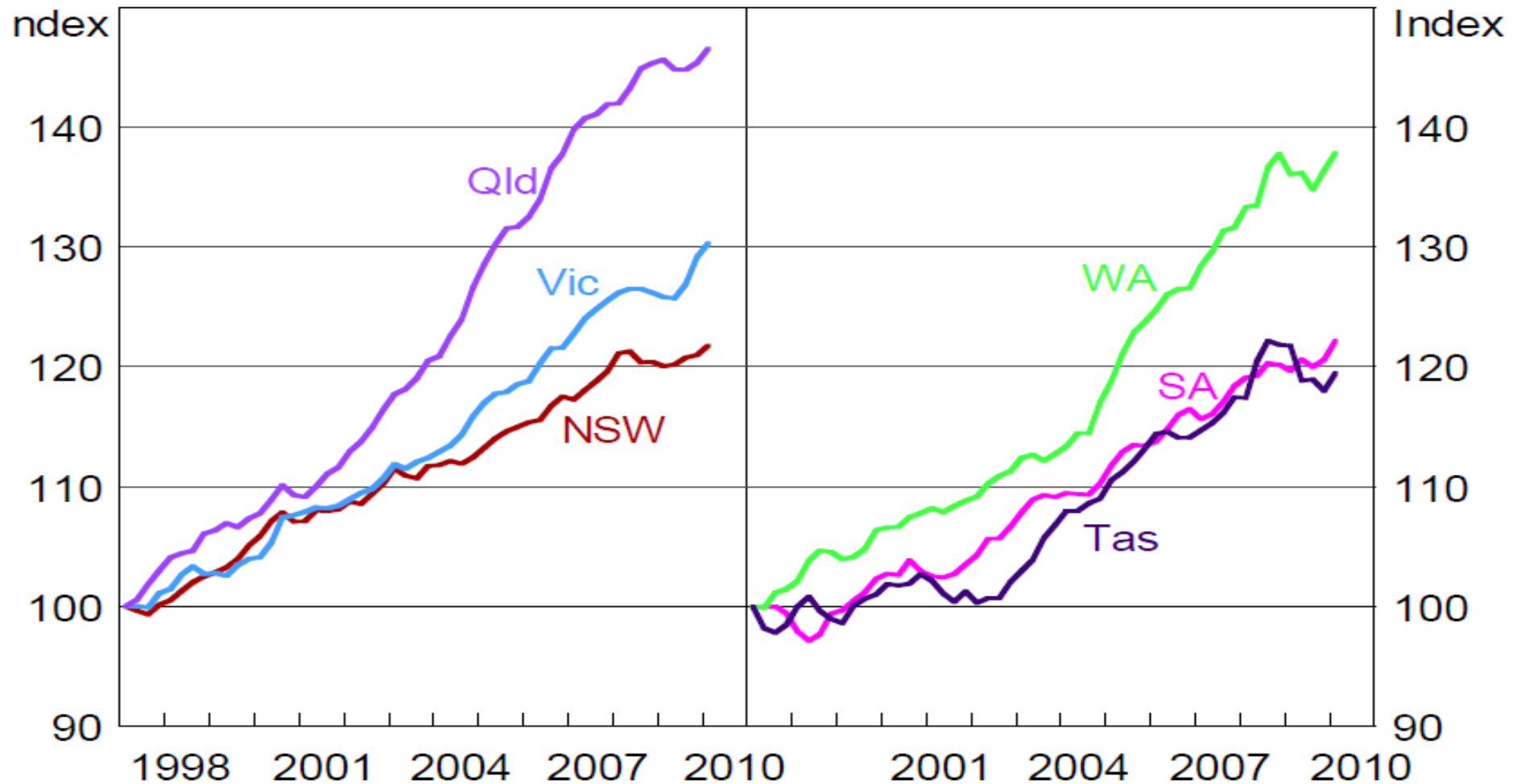
## The Labour market is on the mend



Source: ABS

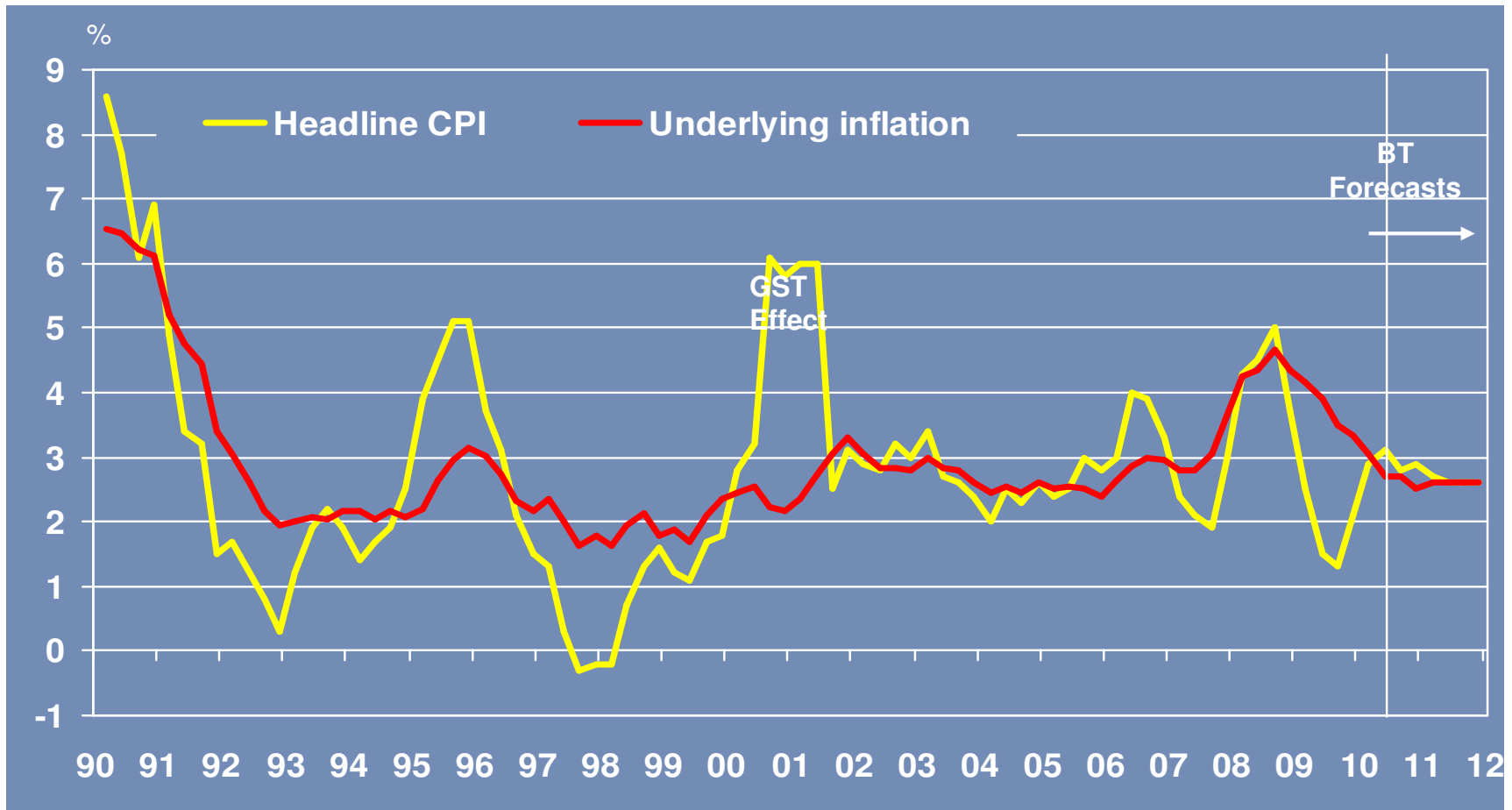
# Victorian employment growth has been good

March quarter 1997 = 100



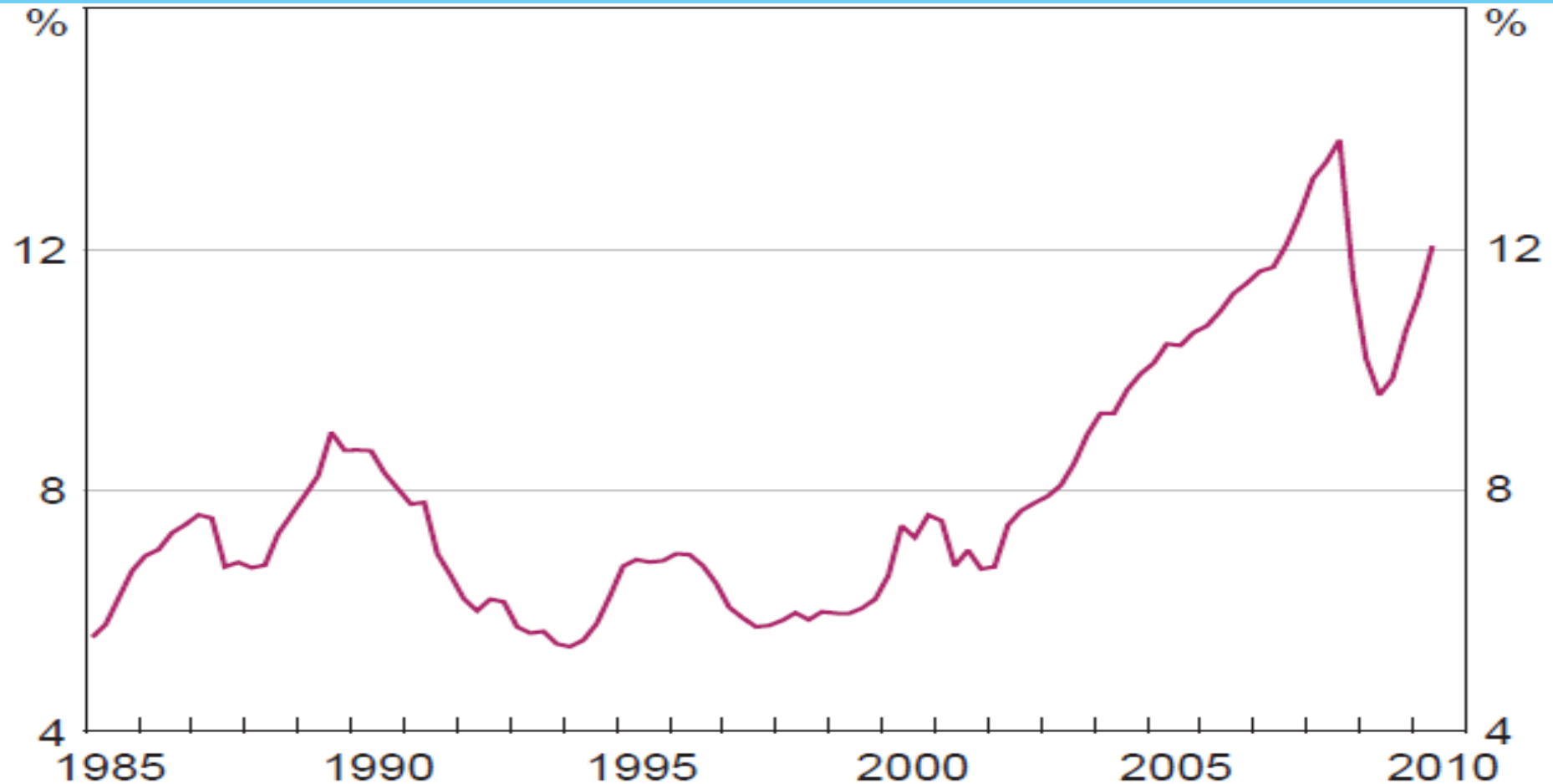
Source: ABS

# Australian Inflation



Source: ABS

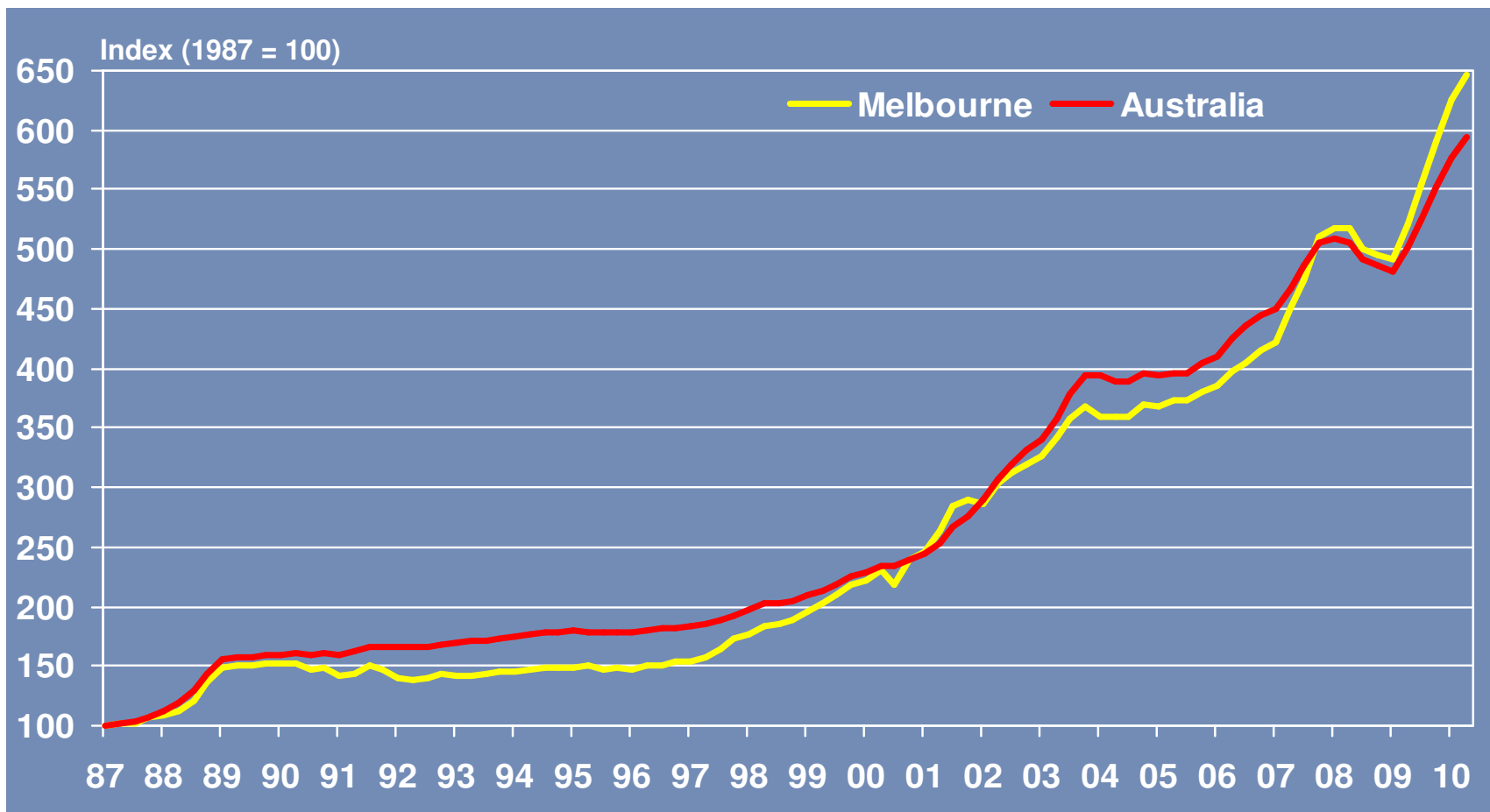
## Interest payments as a share of after-tax household income (%)



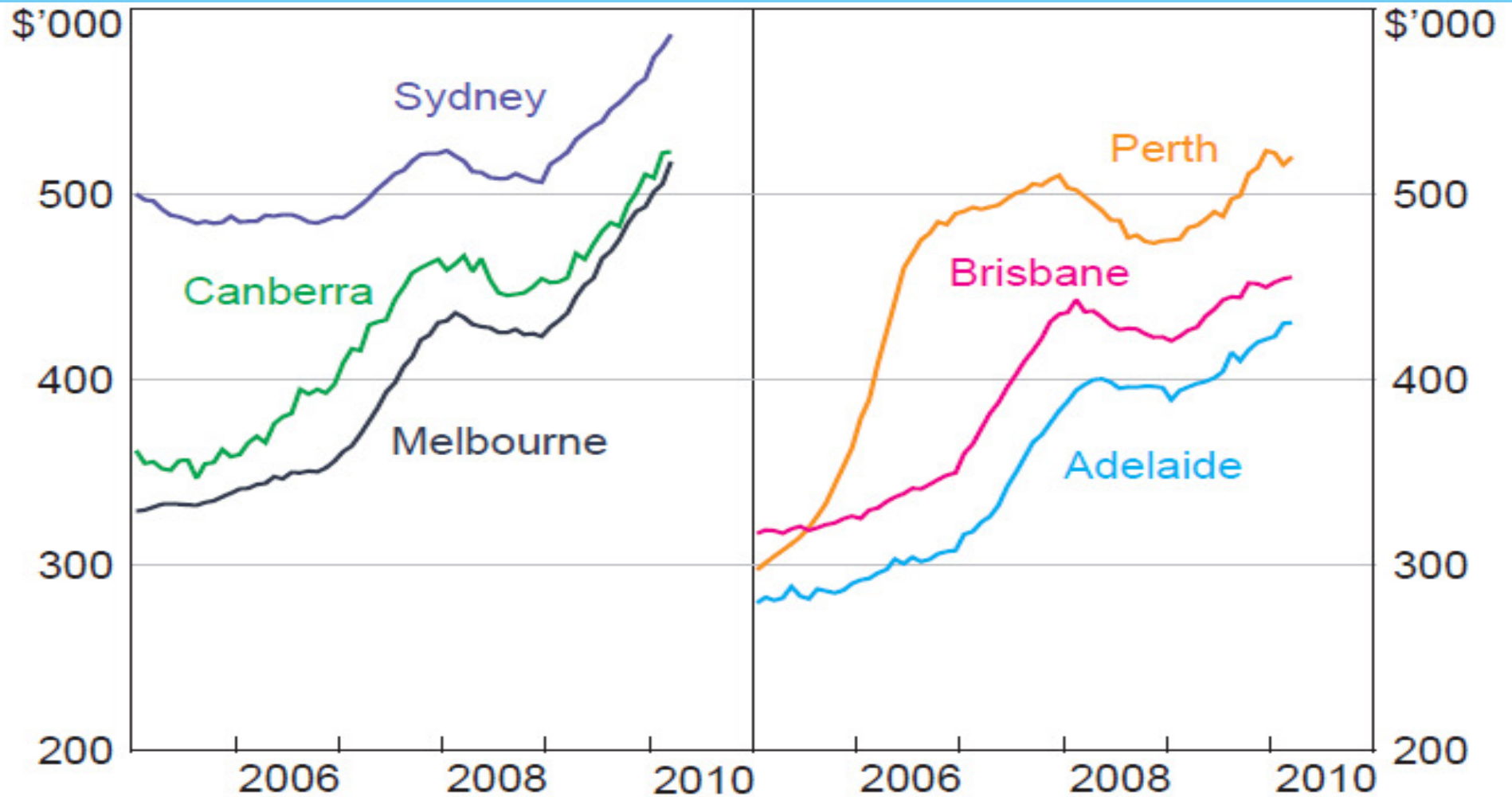
\* Excludes unincorporated enterprises. Income is before the deduction of interest payments. RBA estimates for March and June quarters 2010.

Sources: ABS; RBA

# House Prices - Australia v Melbourne

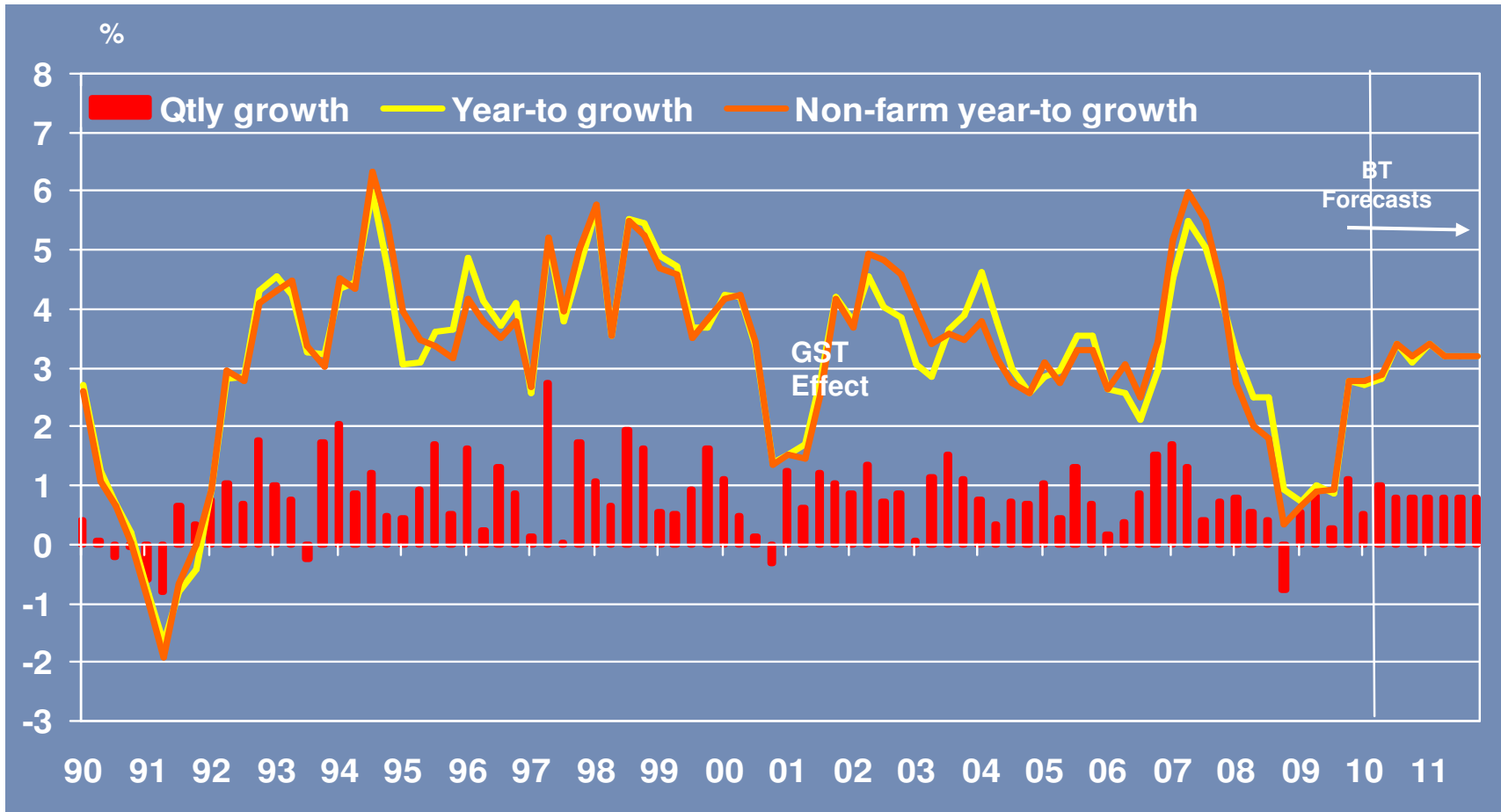


## Another look at house prices (in thousands!)



Sources: RBA; RP Data-Rismark

# Gross Domestic Product



Source: ABS

## Global Medium-Term Economic Growth and Inflation Prospects (2010-2020)

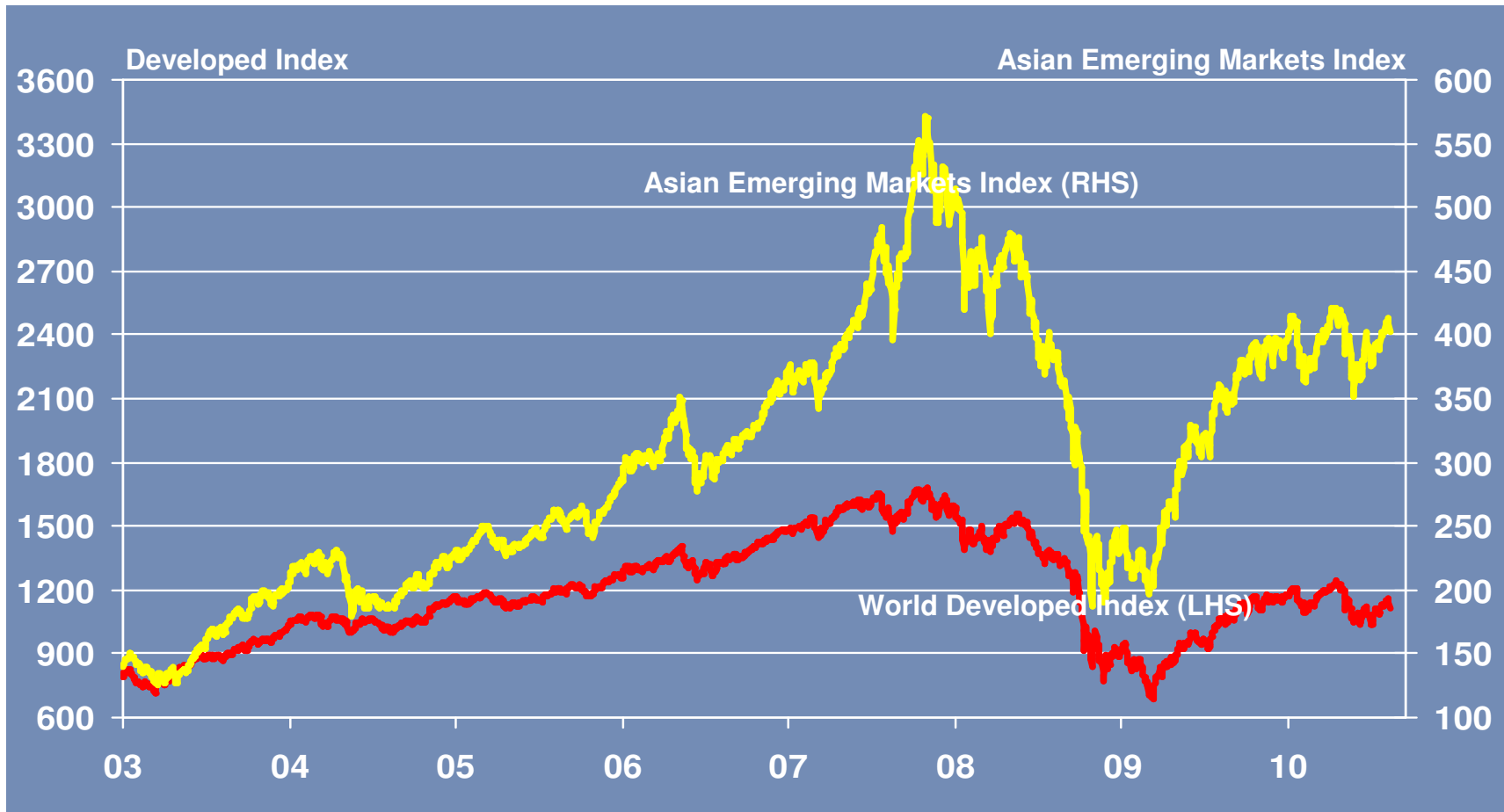
	<b>GDP</b>	<b>Inflation</b>
<b>Australia</b>	<b>3.3</b>	<b>2.7</b>
<b>United States</b>	<b>2.8</b>	<b>2.2</b>
<b>New Zealand</b>	<b>2.7</b>	<b>2.6</b>
<b>Canada</b>	<b>2.6</b>	<b>2.0</b>
<b>Norway</b>	<b>2.5</b>	<b>2.3</b>
<b>Sweden</b>	<b>2.5</b>	<b>2.0</b>
<b>United Kingdom</b>	<b>2.2</b>	<b>2.4</b>
<b>Netherlands</b>	<b>1.9</b>	<b>1.7</b>
<b>Switzerland</b>	<b>1.9</b>	<b>1.5</b>
<b>France</b>	<b>1.8</b>	<b>1.8</b>
<b>Spain</b>	<b>1.7</b>	<b>1.9</b>
<b>Euro Zone</b>	<b>1.6</b>	<b>1.8</b>
<b>Japan</b>	<b>1.5</b>	<b>0.6</b>
<b>Germany</b>	<b>1.4</b>	<b>1.5</b>
<b>Italy</b>	<b>1.2</b>	<b>1.7</b>

## Asia-Pacific Medium-Term Economic Growth and Inflation Prospects (2010-2020)

	GDP	Consumer Prices
China	8.6	3.4
India	8.0	na
Indonesia	6.0	5.5
Malaysia	5.2	3.1
Philippines	4.9	4.9
Thailand	4.6	3.0
Singapore	4.5	2.1
Taiwan	4.1	1.8
South Korea	4.0	3.0
Hong Kong	4.0	3.0
Australia	3.3	2.7
New Zealand	2.7	2.6
Japan	1.5	0.6

Source: Consensus Economics

# Morgan Stanley Capital Indexes



Source: Datastream

## Summary

- The global economic recovery continues, albeit slowly. The threat of a double dip has been exaggerated.
- Rates will probably rise further.
- The exchange rate is above fair value.
- Share markets are again cheap.

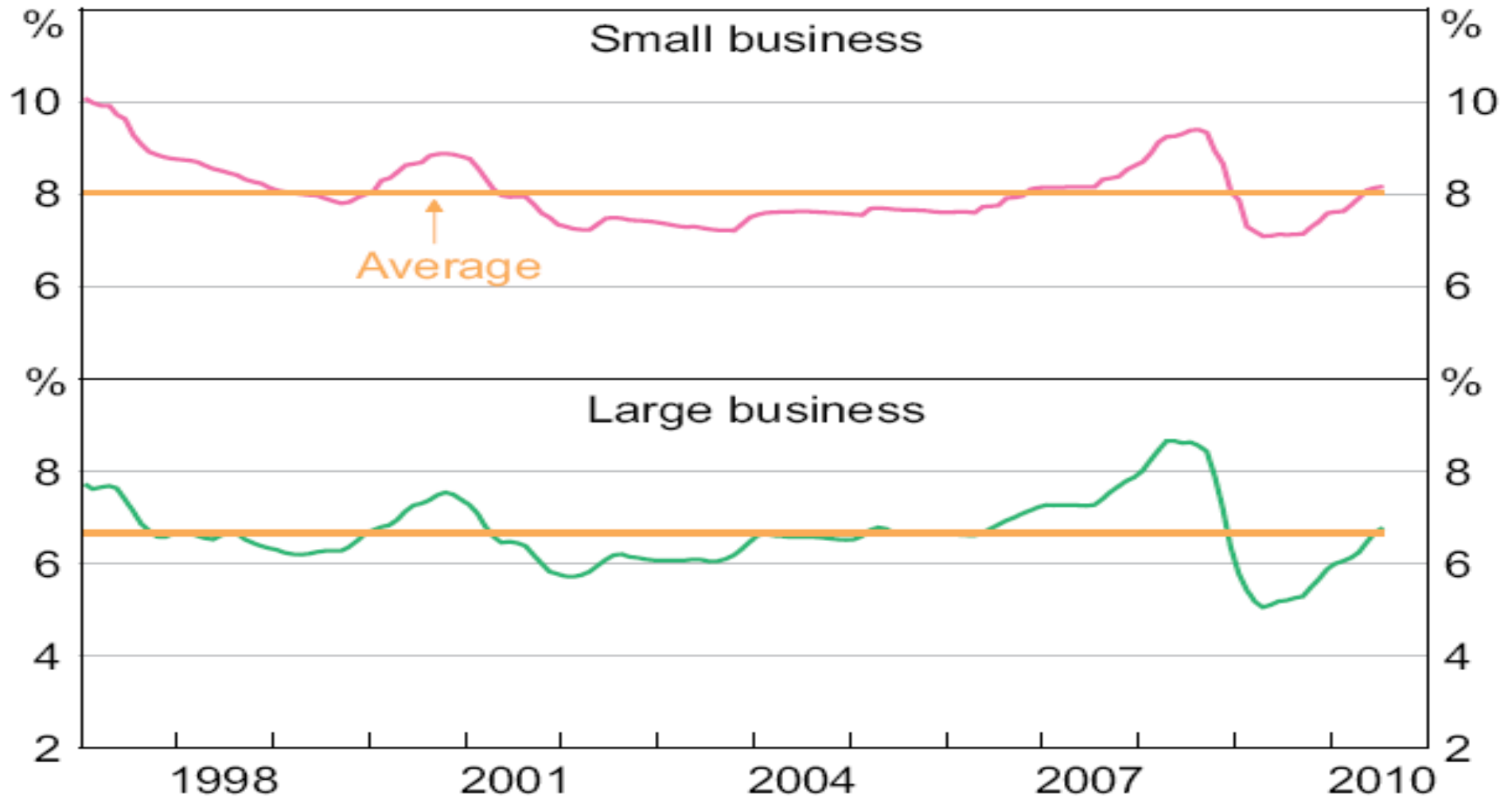
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# Average interest rates on outstanding business lending



Sources: APRA; RBA