

A global economic and market outlook

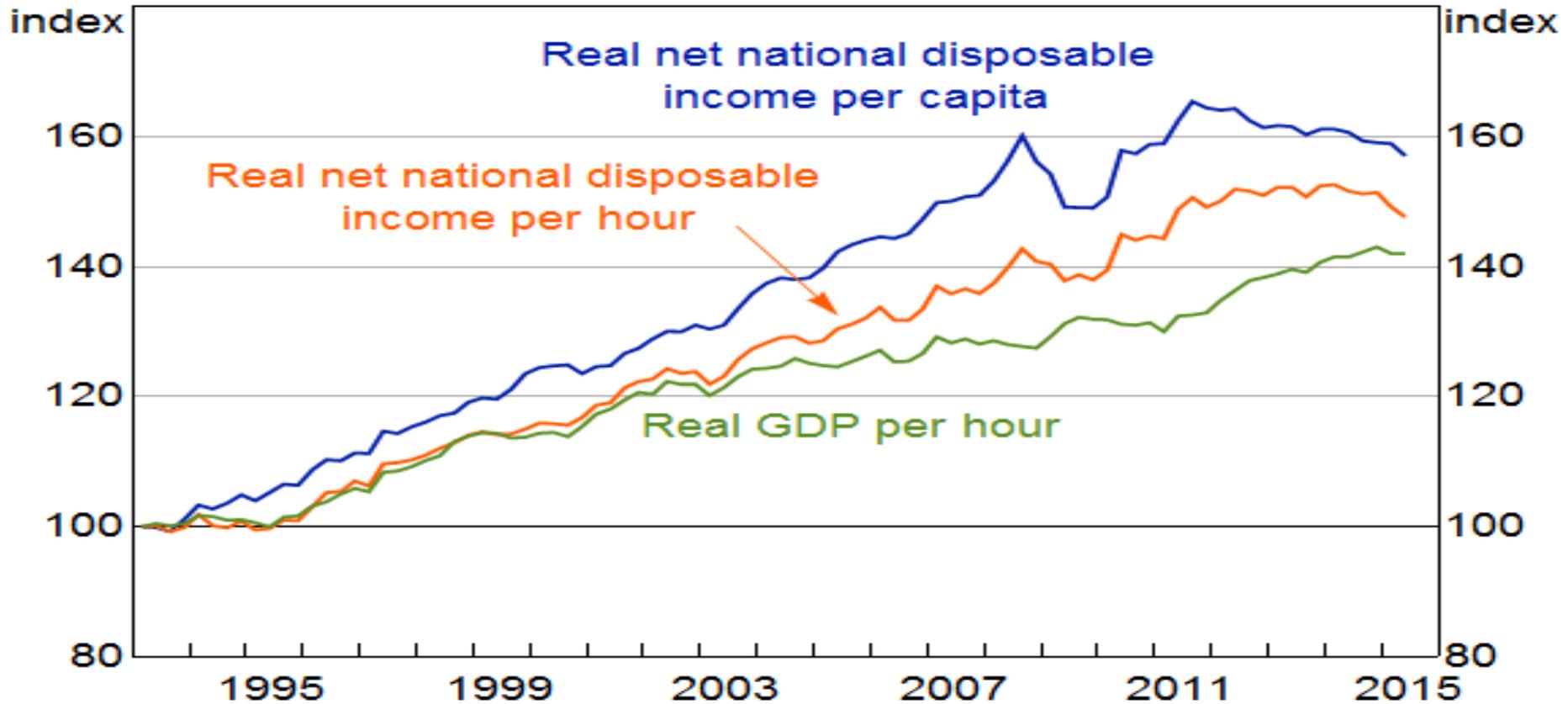
Dr Chris Caton
December 2015



Australia's real income has been struggling

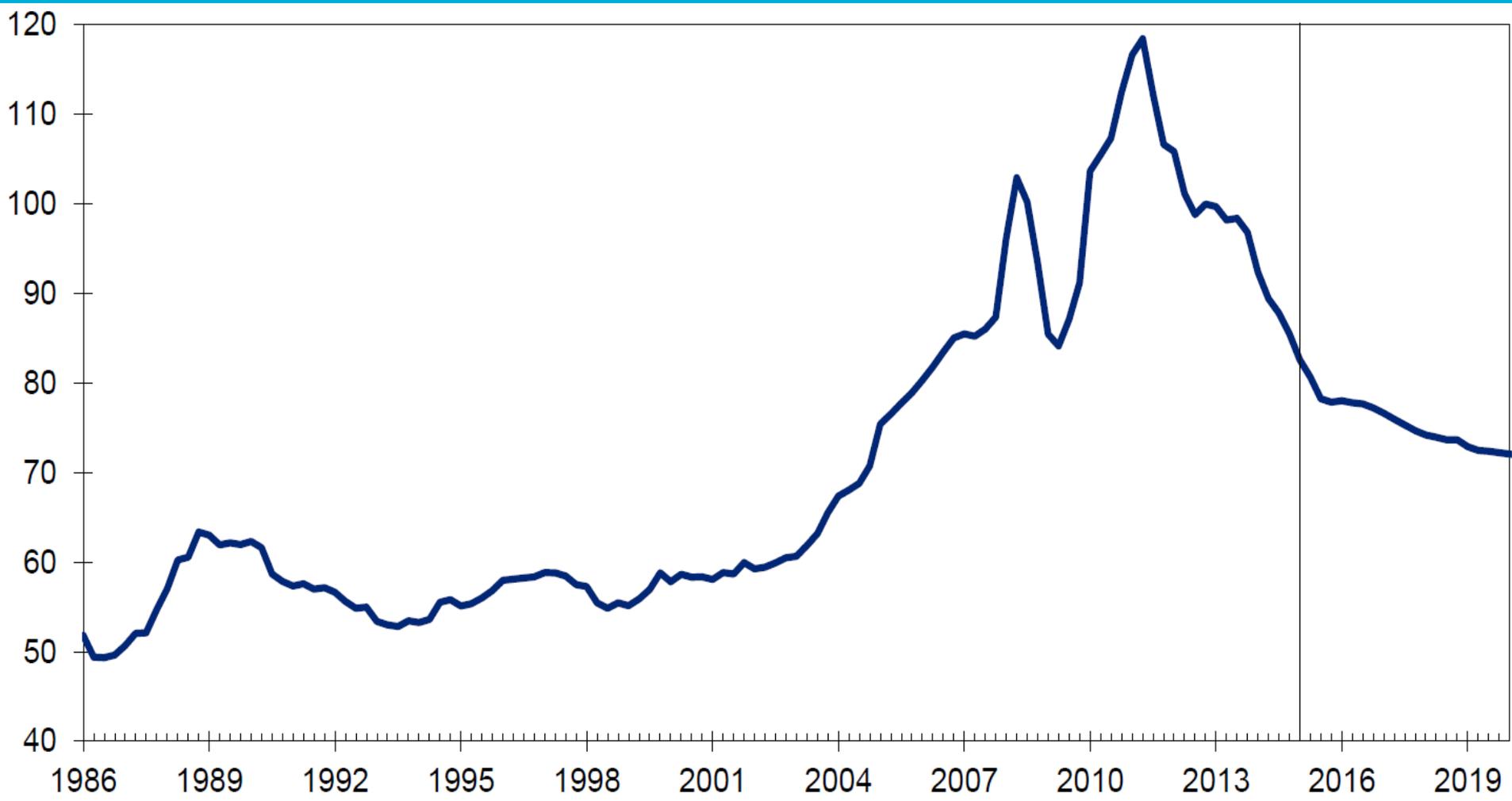
Productivity and Income

March 1993 = 100, quarterly

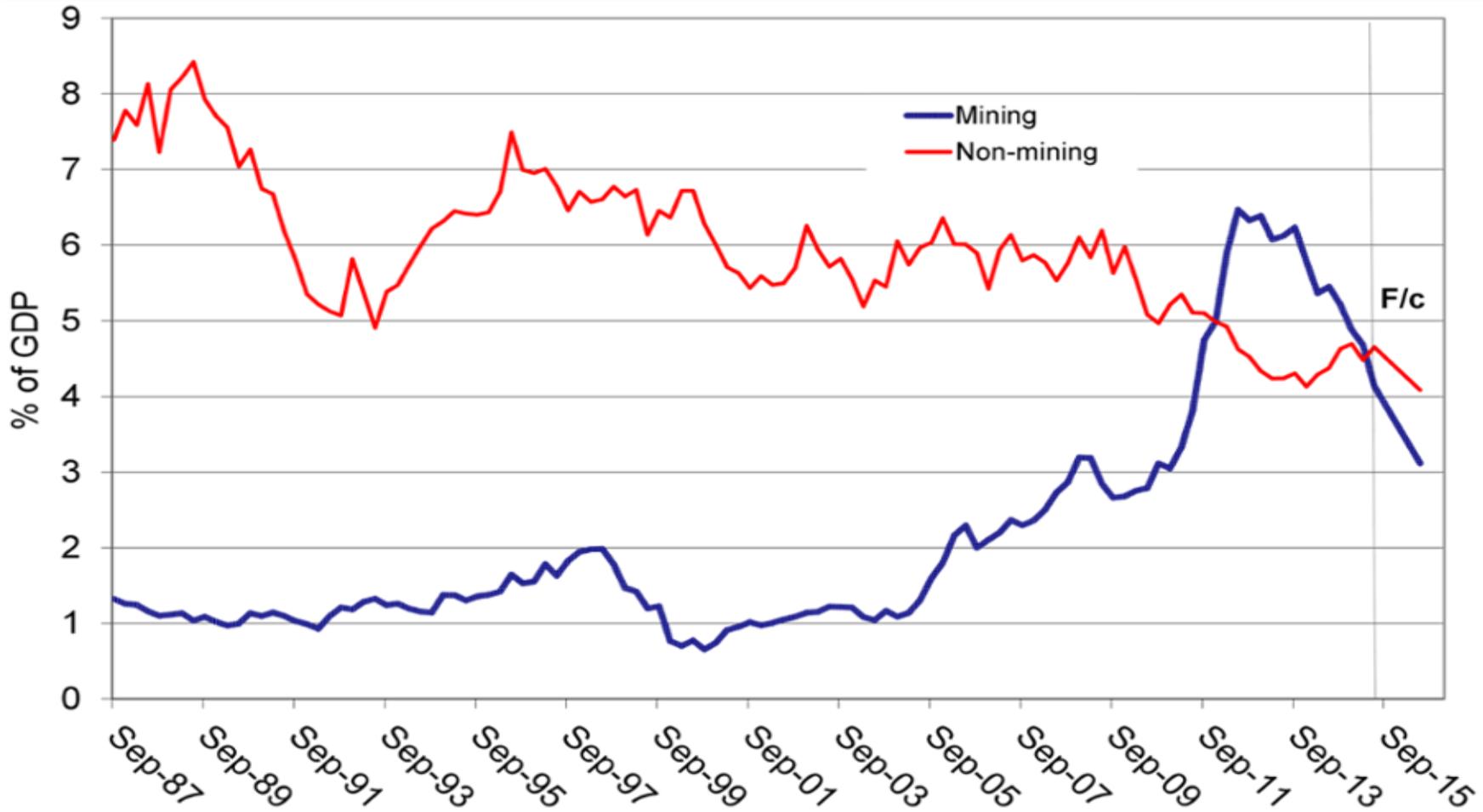


Sources: ABS; RBA

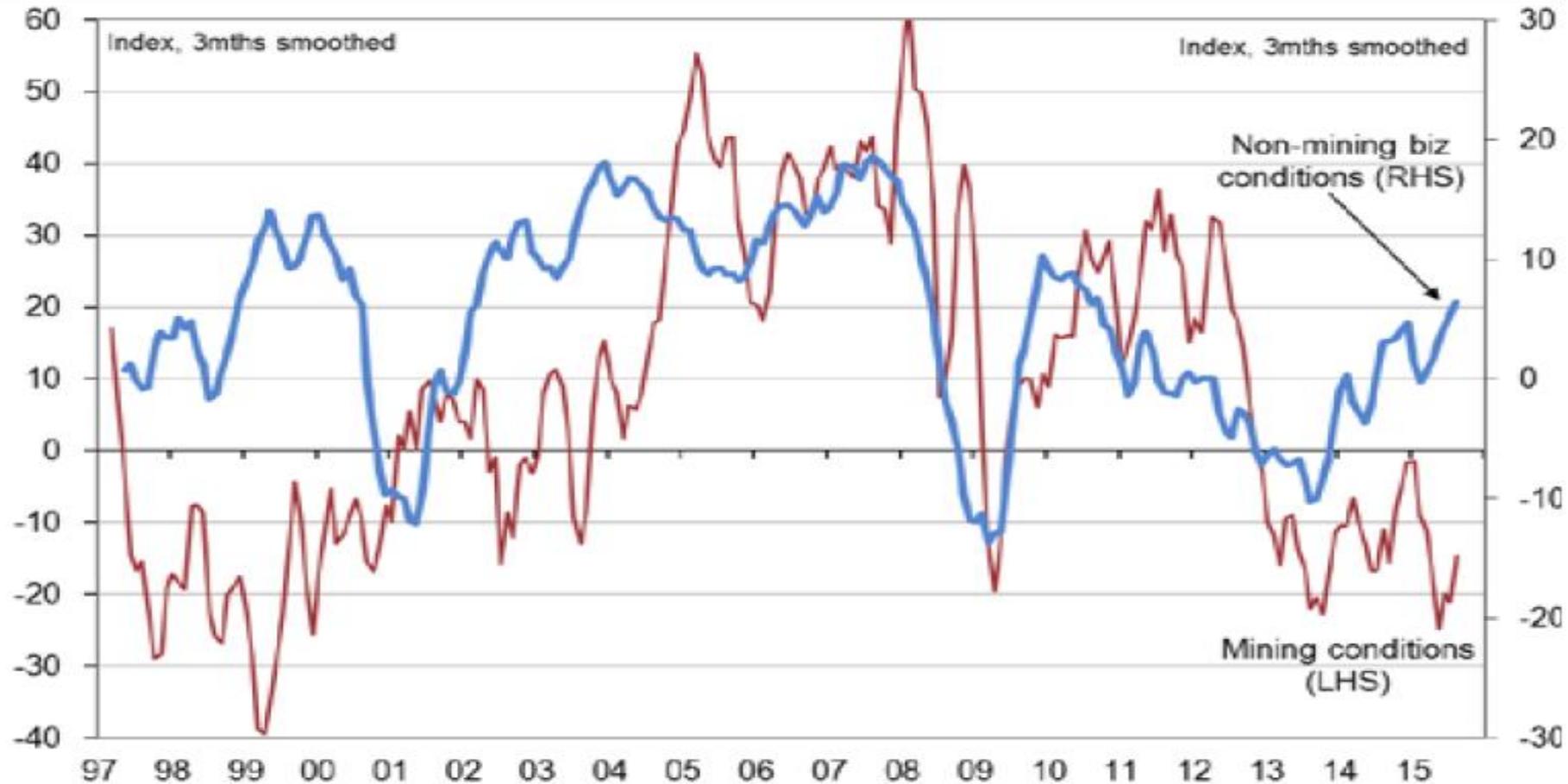
The terms of trade have come down a long way (index, 2012/13=100)



Non-mining investment has been sluggish



The non-mining economy is slowly on the mend

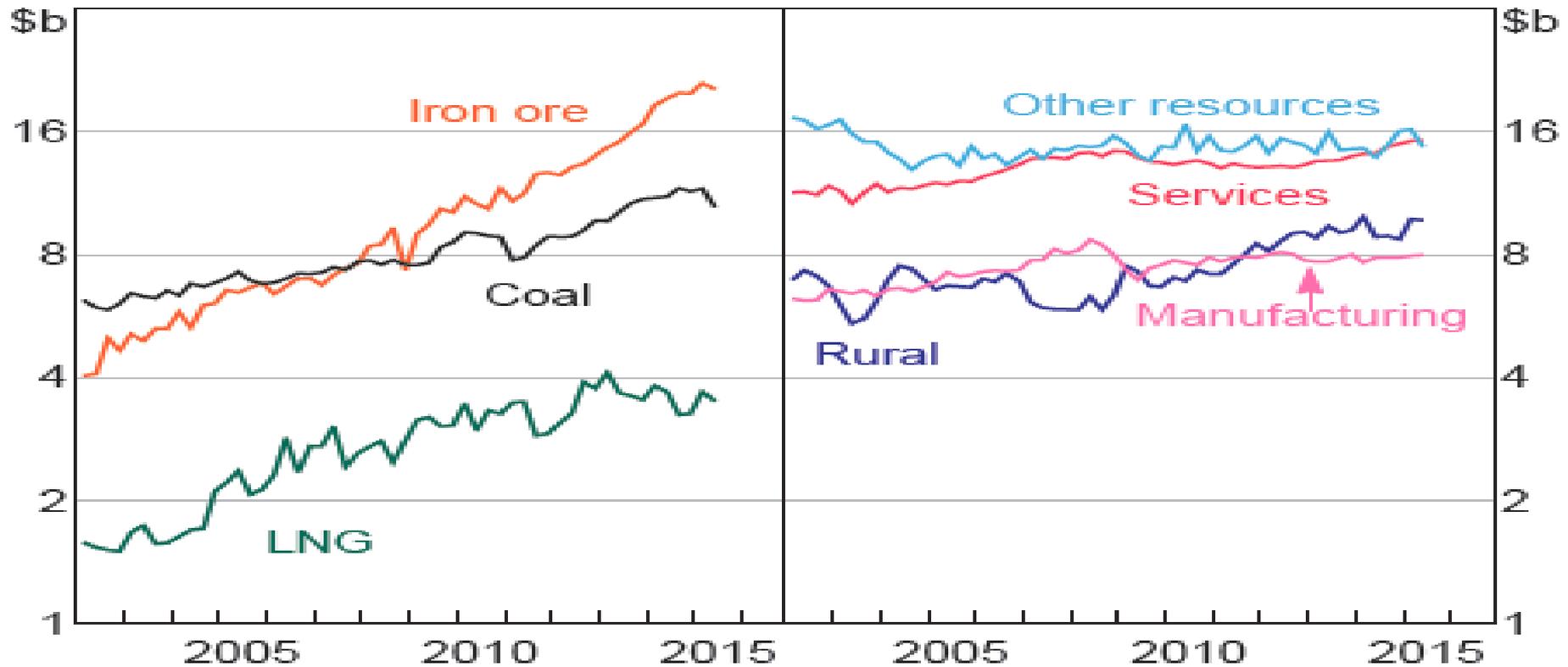


Source: NAB, UBS

1/3 of the mining boom lives on

Export Volumes*

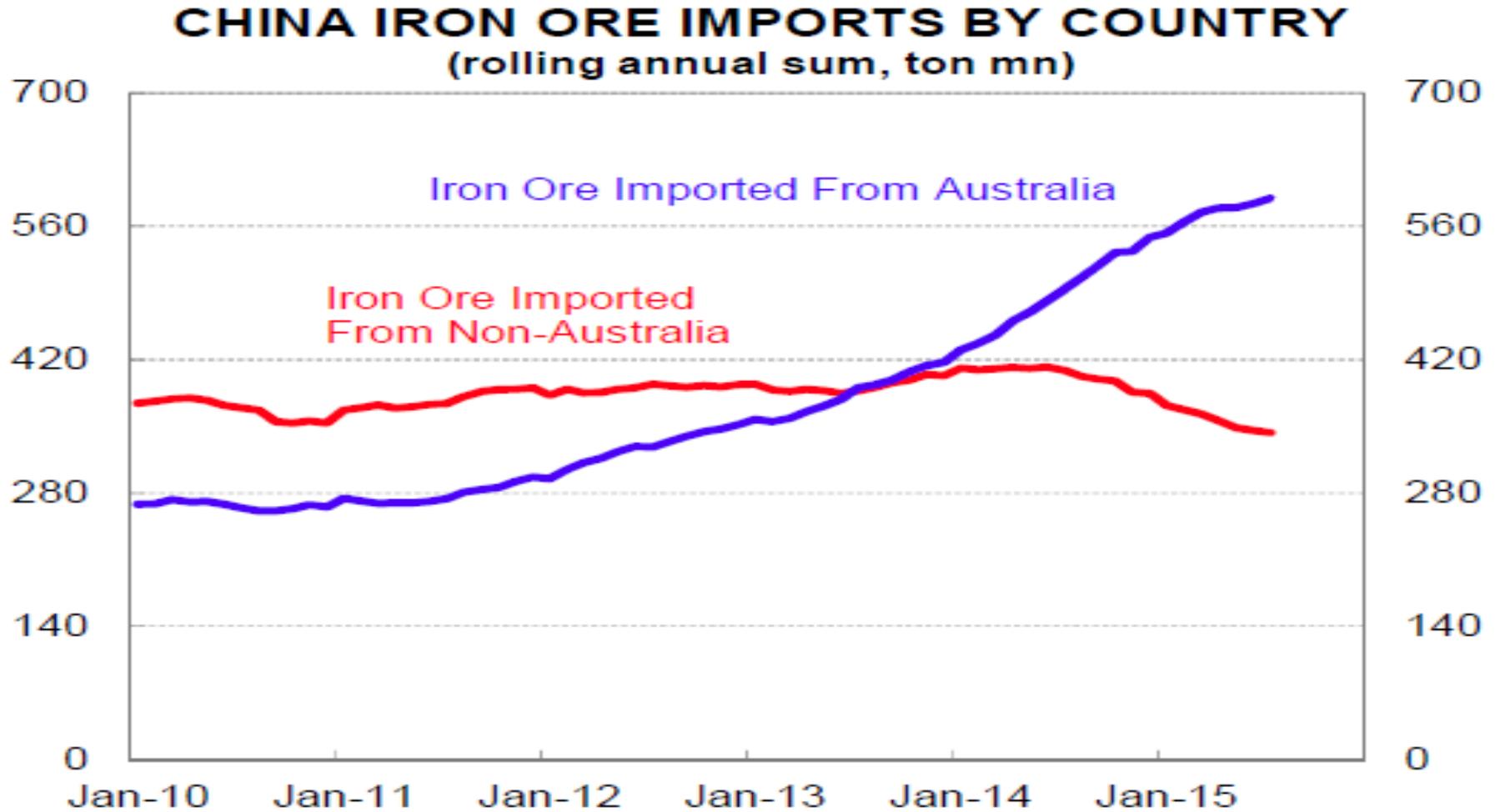
Log scale, quarterly



* Reference year is 2012/13

Sources: ABS; Department of Industry, Innovation and Science; RBA

We have increased market share significantly in China



2015 Growth Forecasts (%)

Month of Forecast

	D-14	J-15	F-15	M-15	A-15	M-15	J-15	J-15	A-15	S-15	O-15	N-15
Australia	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.4	2.3	2.3	2.3
New Zealand	3.0	3.1	3.0	2.9	2.9	2.9	2.9	2.6	2.5	2.4	2.3	2.2
US	3.0	3.2	3.2	3.1	2.9	2.5	2.2	2.4	2.3	2.5	2.5	2.4
Japan	1.2	1.2	1.3	1.1	1.0	0.9	1.0	1.0	0.8	0.7	0.6	0.6
China	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.8	6.9	6.8	6.8	6.9
Eurozone	1.1	1.1	1.2	1.4	1.5	1.5	1.5	1.5	1.5	1.4	1.5	1.5
UK	2.6	2.6	2.7	2.7	2.6	2.5	2.4	2.5	2.6	2.6	2.5	2.5
“World”	3.0	3.0	2.8	2.8	2.7	2.6	2.5	2.5	2.6	2.6	2.5	2.6

Source: Consensus Economics

2016 Growth Forecasts (%)

Month of Forecast

	J-15	F-15	M-15	A-15	M-15	J-15	J-15	A-15	S-15	O-15	N-15
Australia	3.1	3.1	3.1	3.1	3.0	2.9	2.9	2.9	2.7	2.6	2.6
New Zealand	2.7	2.8	2.7	2.7	2.6	2.7	2.7	2.5	2.4	2.3	2.3
US	2.8	2.9	2.9	2.8	2.8	2.8	2.8	2.7	2.7	2.6	2.6
Japan	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.3	1.3
China	6.9	6.9	6.8	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.5
Eurozone	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7
UK	2.4	2.5	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.4	2.4
“World”	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.0	2.9	2.9

Source: Consensus Economics

Financial Market Forecasts

	Now (25 Nov)	End-Jun 2016	End-Dec 2016
AUD/USD	0.724	0.68	0.68
Official cash rate (%)	2.00	2.00	2.50
10 Year Bond yield (%)	2.91	3.20	3.40
ASX 200	5240	5800	6000

The Australian Dollar and US Trade Weighted Index

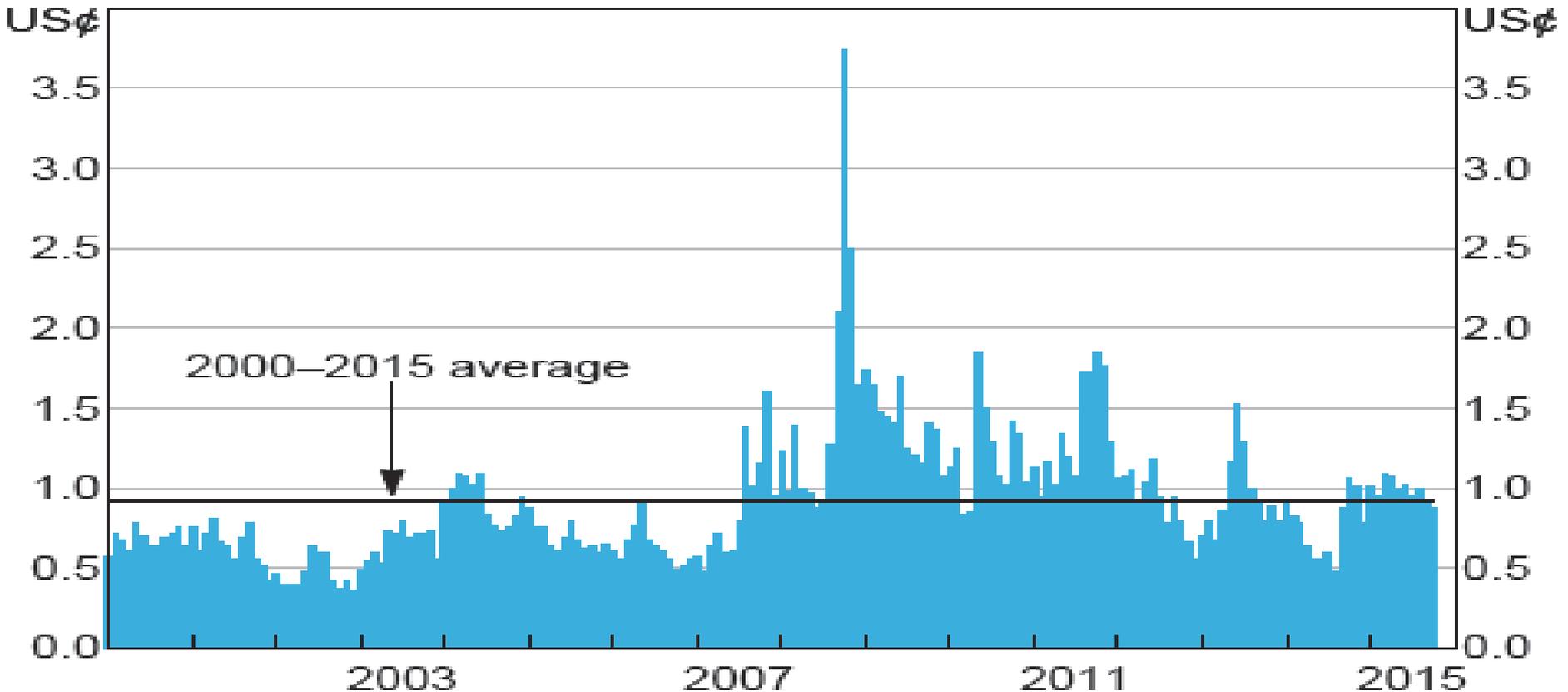


Source: Datastream

The currency's volatility is close to the historical norm

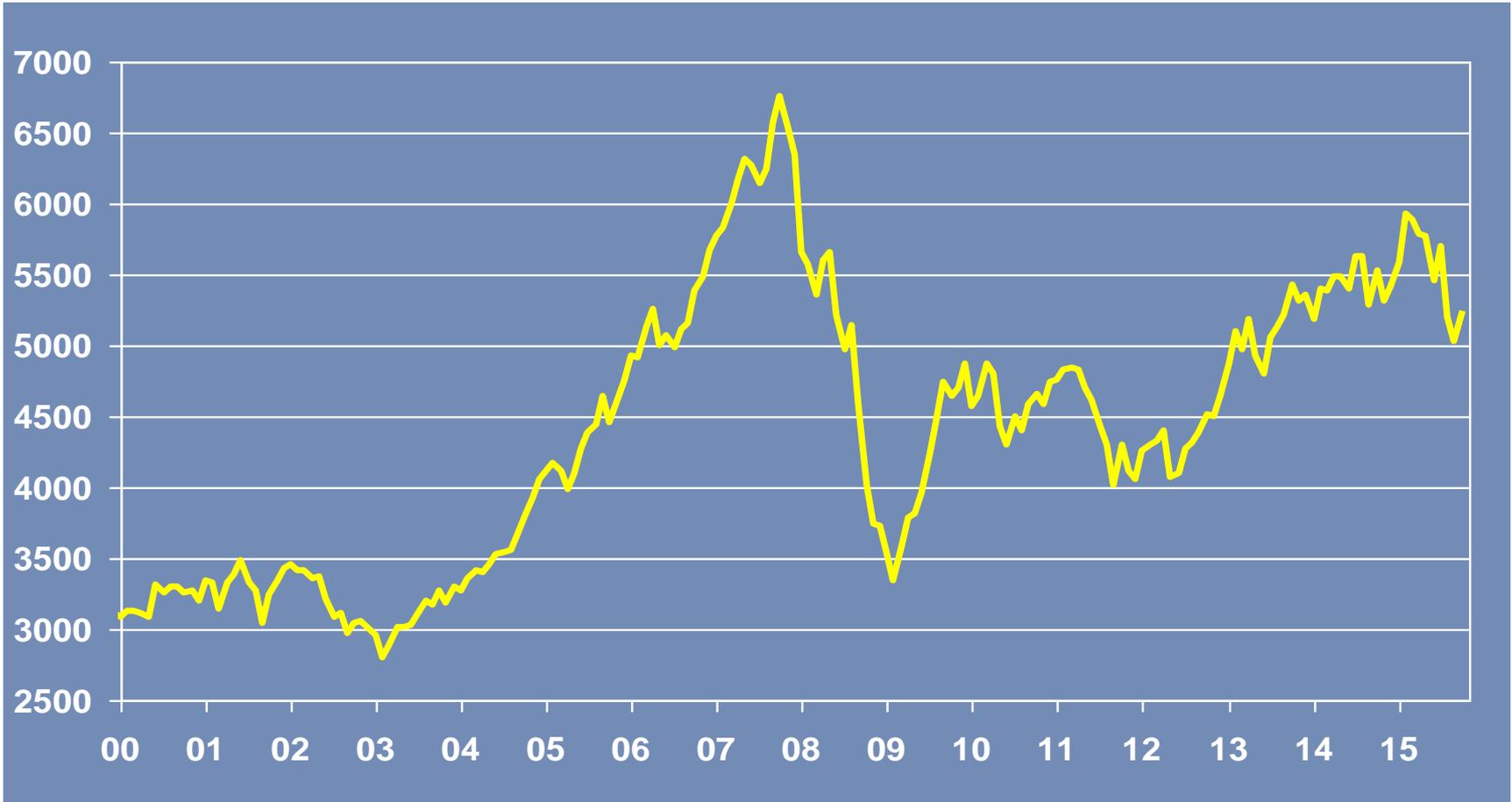
Intraday Range in AUD/USD

Average daily range in month



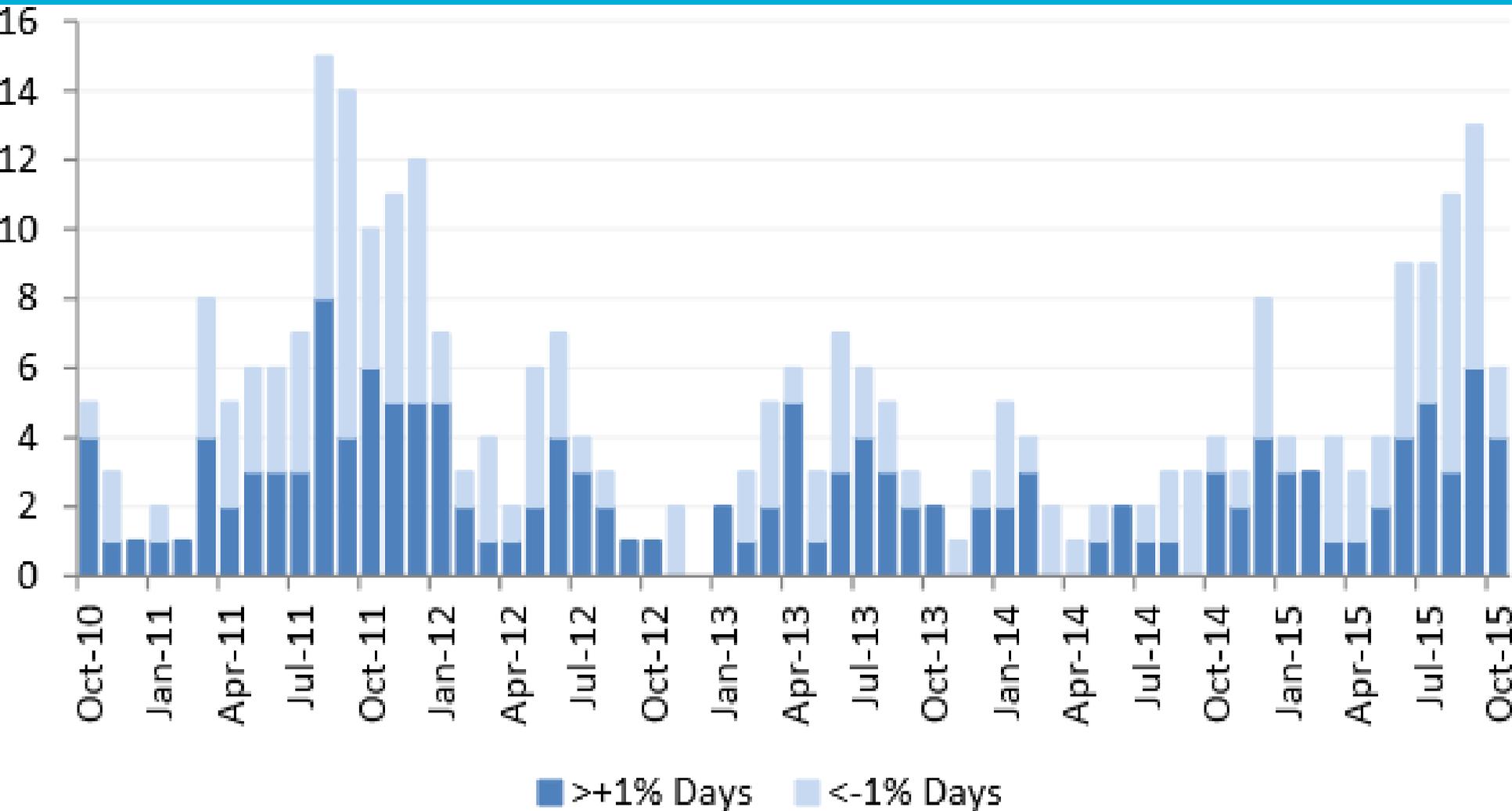
Sources: Bloomberg; RBA

Australian Share market Performance – ASX200



Source: Bloomberg

Share-market volatility may already have peaked

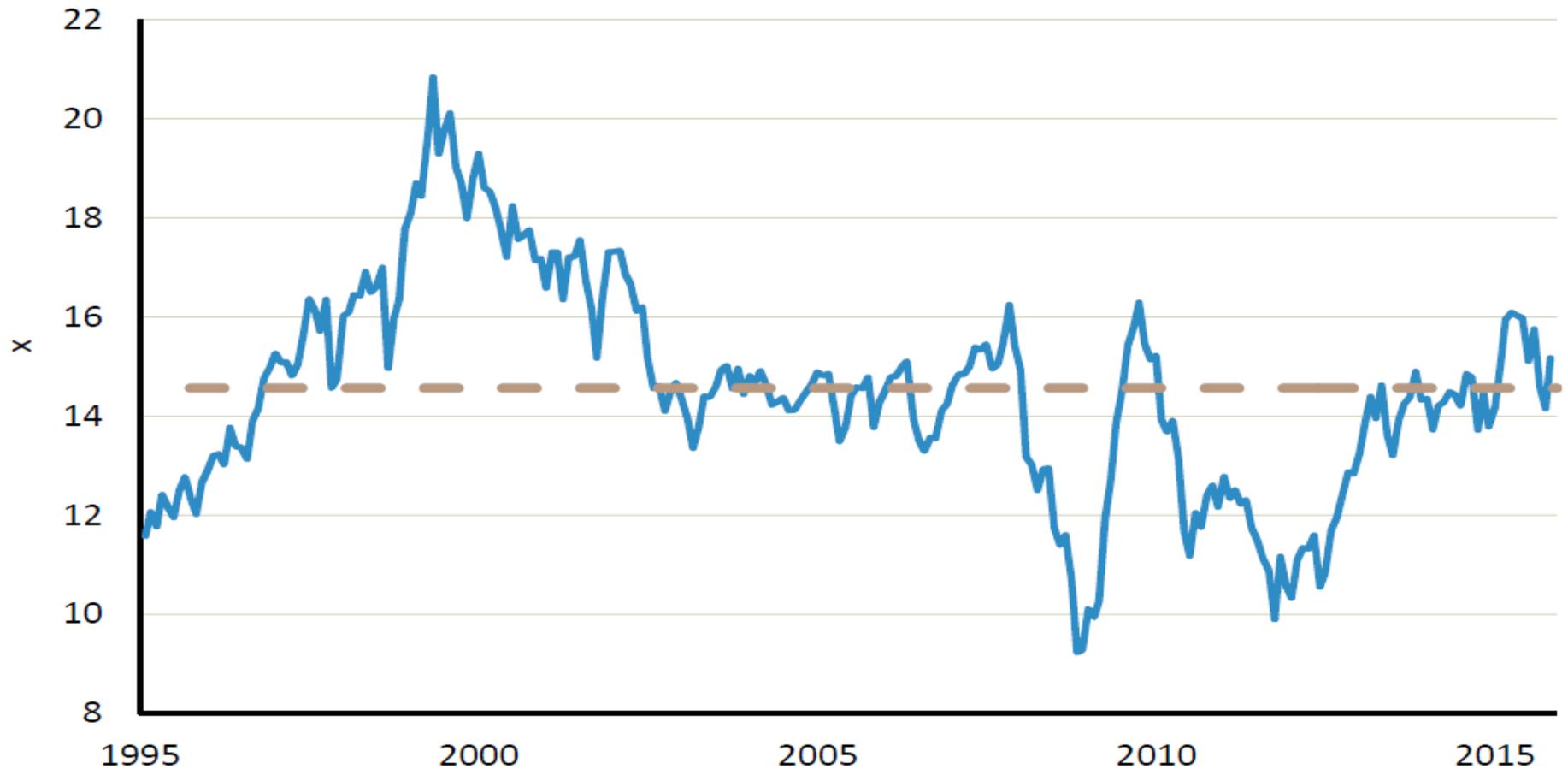


Falls similar to what we have seen lately are not uncommon.

Falls in Australian shares greater than 10% since 1989

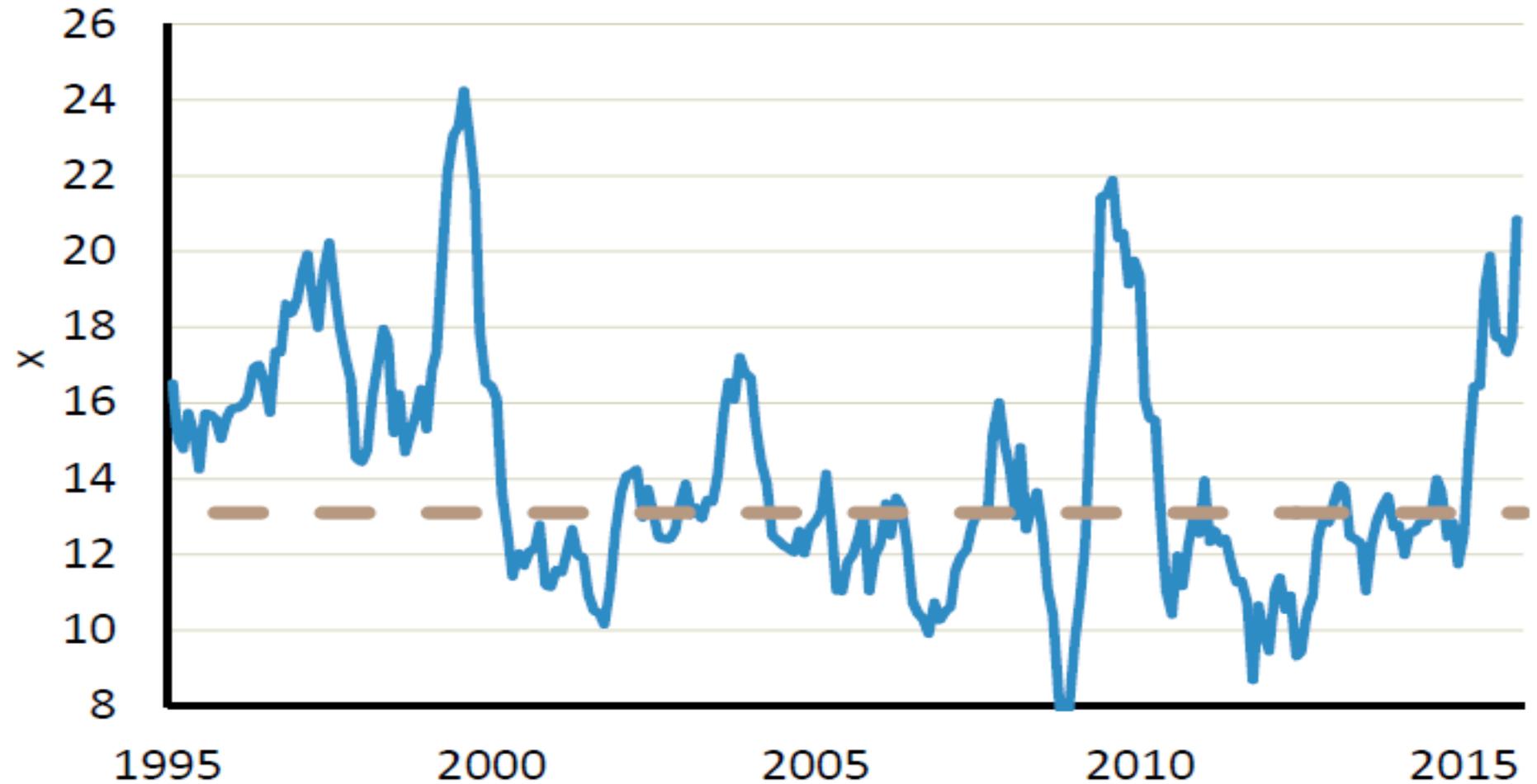
Share mkt fall	Mths	% fall top to bottom	Recession Yes/No	1 yr gain from low, %	Cal yr return, %
Aug 89-Jan 91	16	-32	Yes	+39	-18 (90)
May 92-Nov 92	6	-19	No	+50	-2
Feb 94-Feb 95	12	-22	No	+25	-9 (94)
Apr 96-Jul 96	3	-10	No	+27	15
Sep 97-Oct 97	1	-17	No	+14	12
Apr 98-Sep 98	4	-15	No	+14	12
Apr 99-Oct 99	6	-12	No	+13	16
Mar 00-Apr 00	1	-11	No	+10	4
Jun 01-Sep 01	3	-16	No	+4	10
Mar 02-Mar 03	12	-22	No	+27	-8 (02)
May 06-Jun 06	1	-12	No	+29	24
Jul 07-Aug 07	1	-12	No	-11	18
Nov 07-Mar 09	16	-55	No	+53	-40 (08)
Apr 10-Jul 10	3	-15	No	+10	3
Apr 11-Sep 11	5	-22	No	+12	-11
Average	6	-19	NA	+21	NA
Apr 15-?	5?	-16?	NA	NA	NA

As conventionally measured, the Australian market is close to fair value (p/e ratio on forward earnings)

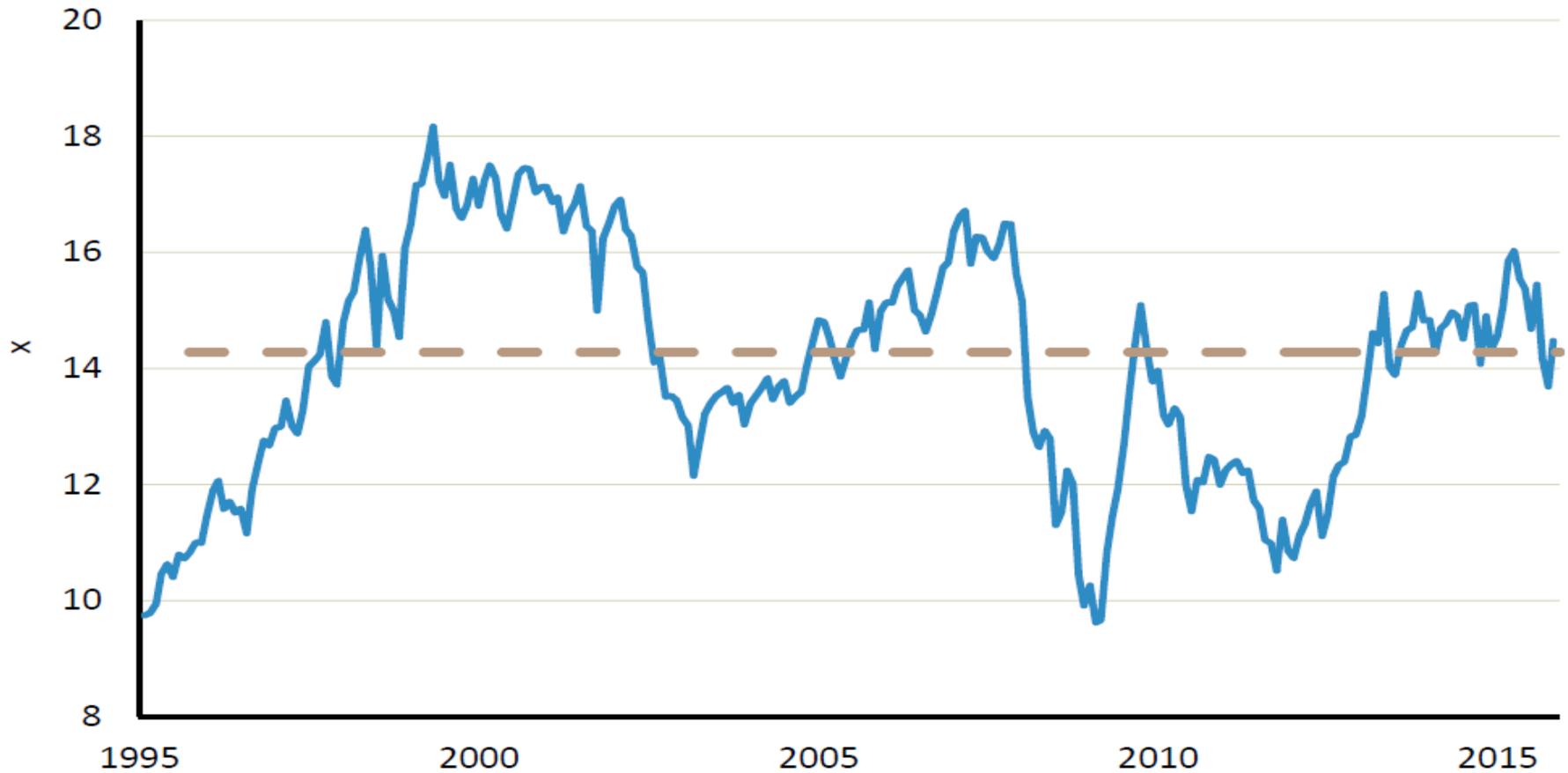


Source: Factset, UBS

The market may be “looking through” some of the weakness of resource earnings!



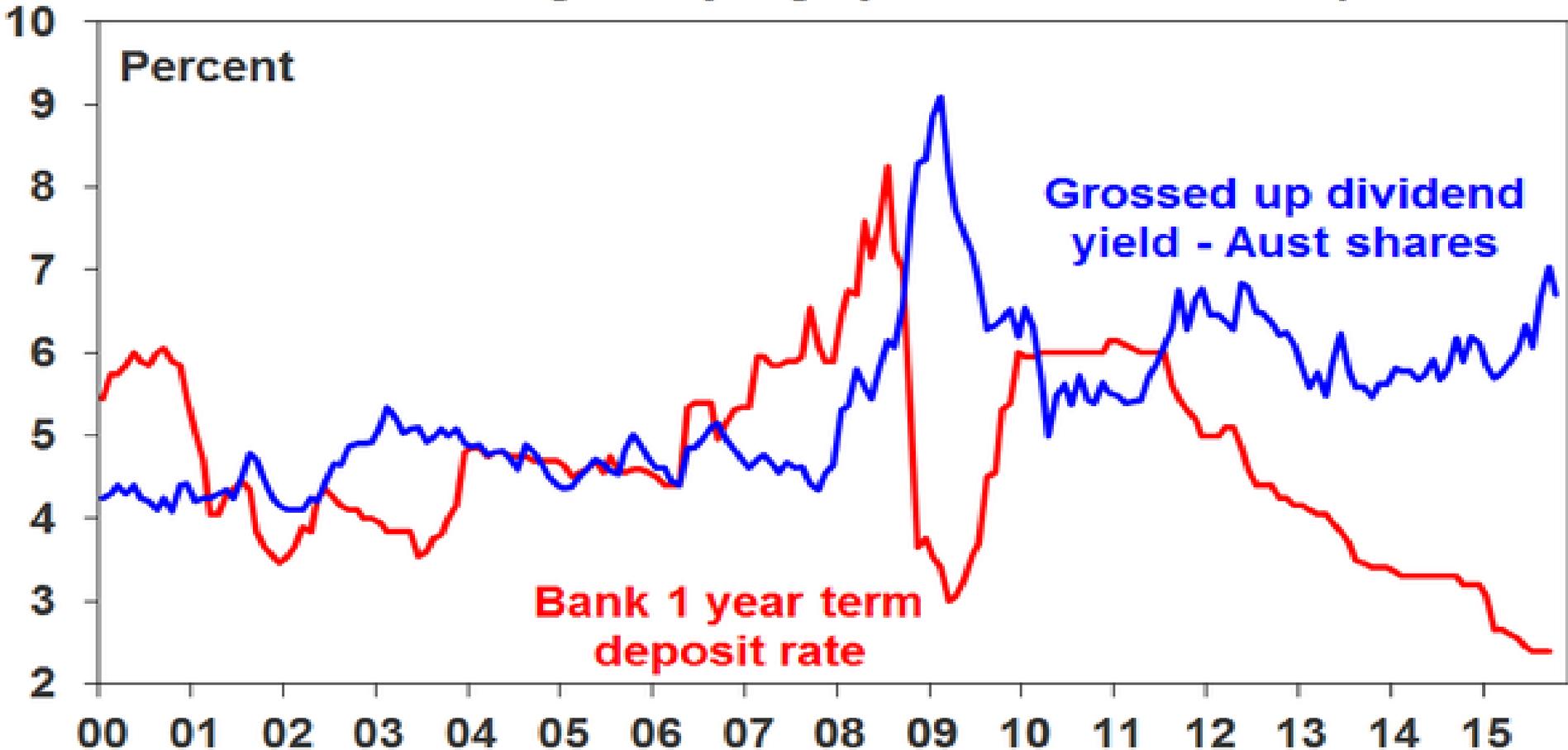
Ex resources, the market's forward p/e is close to the long-run average



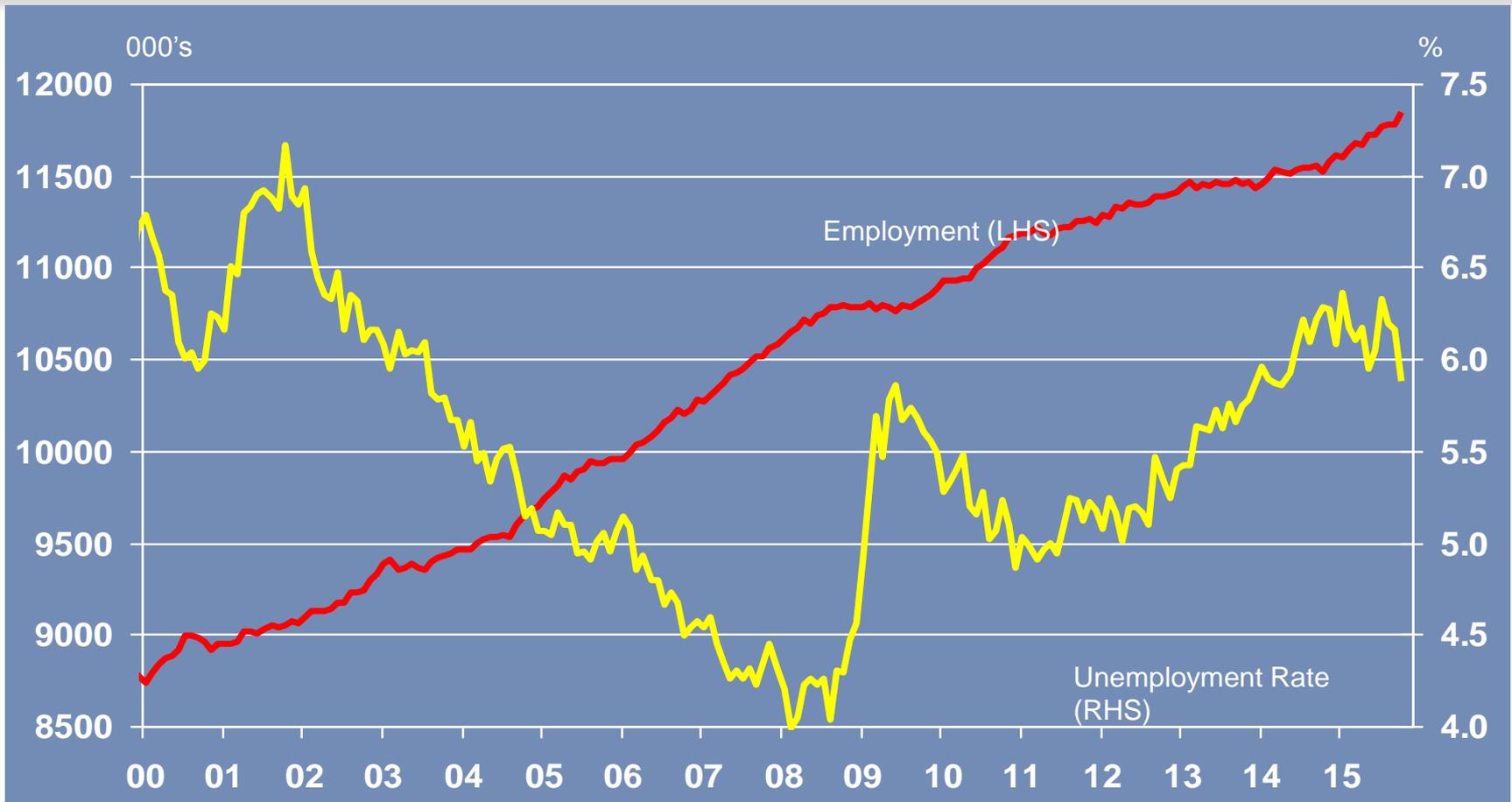
Source: Factset, UBS

And yields in the share market still beat the alternatives

Aust shares offering a very high yield versus bank deposits



The labour market data are looking better. Has unemployment peaked?



Source: ABS

Where the jobs have come from in the past year

Employment Growth Year to August 2015



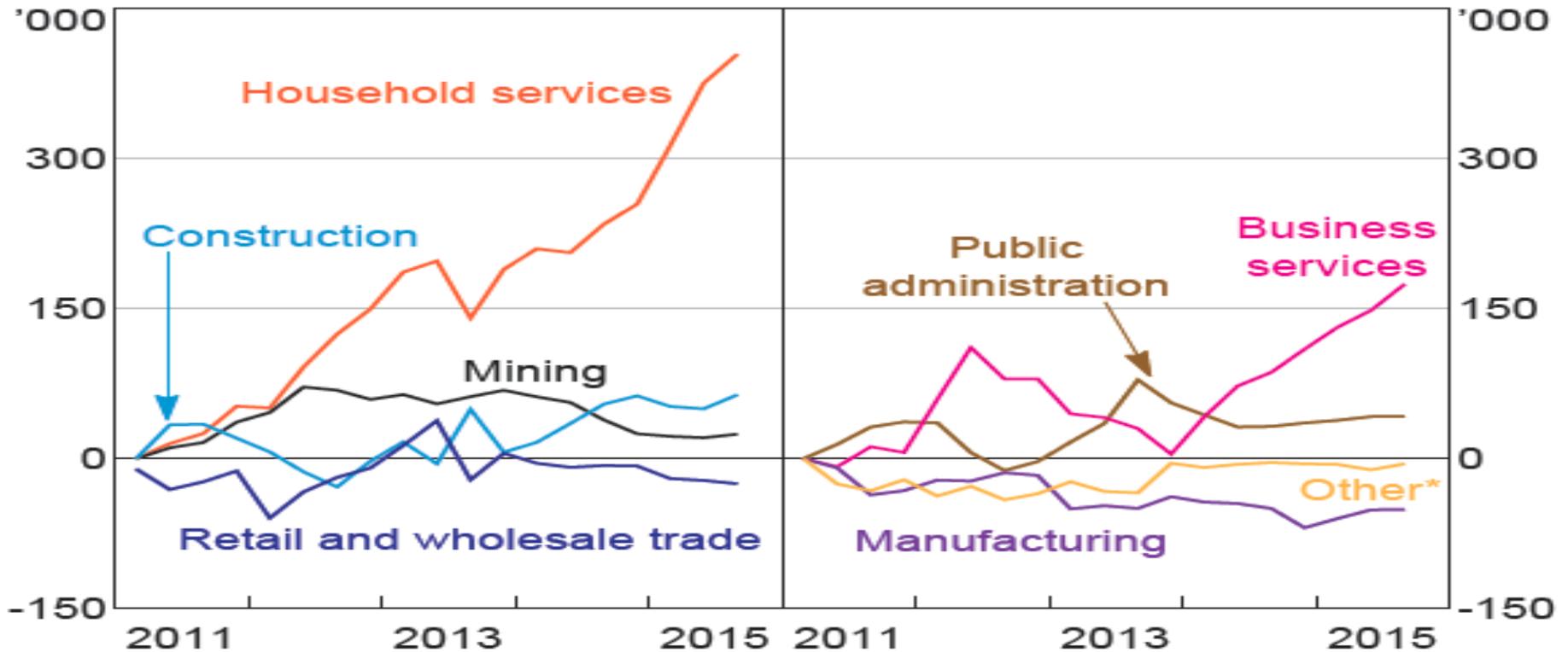
* Includes personal services; religious, civic, professional and other interest group services; repair and maintenance activities; and private households employing staff

Source: ABS

The service sector dominates jobs growth

Employment Growth by Industry

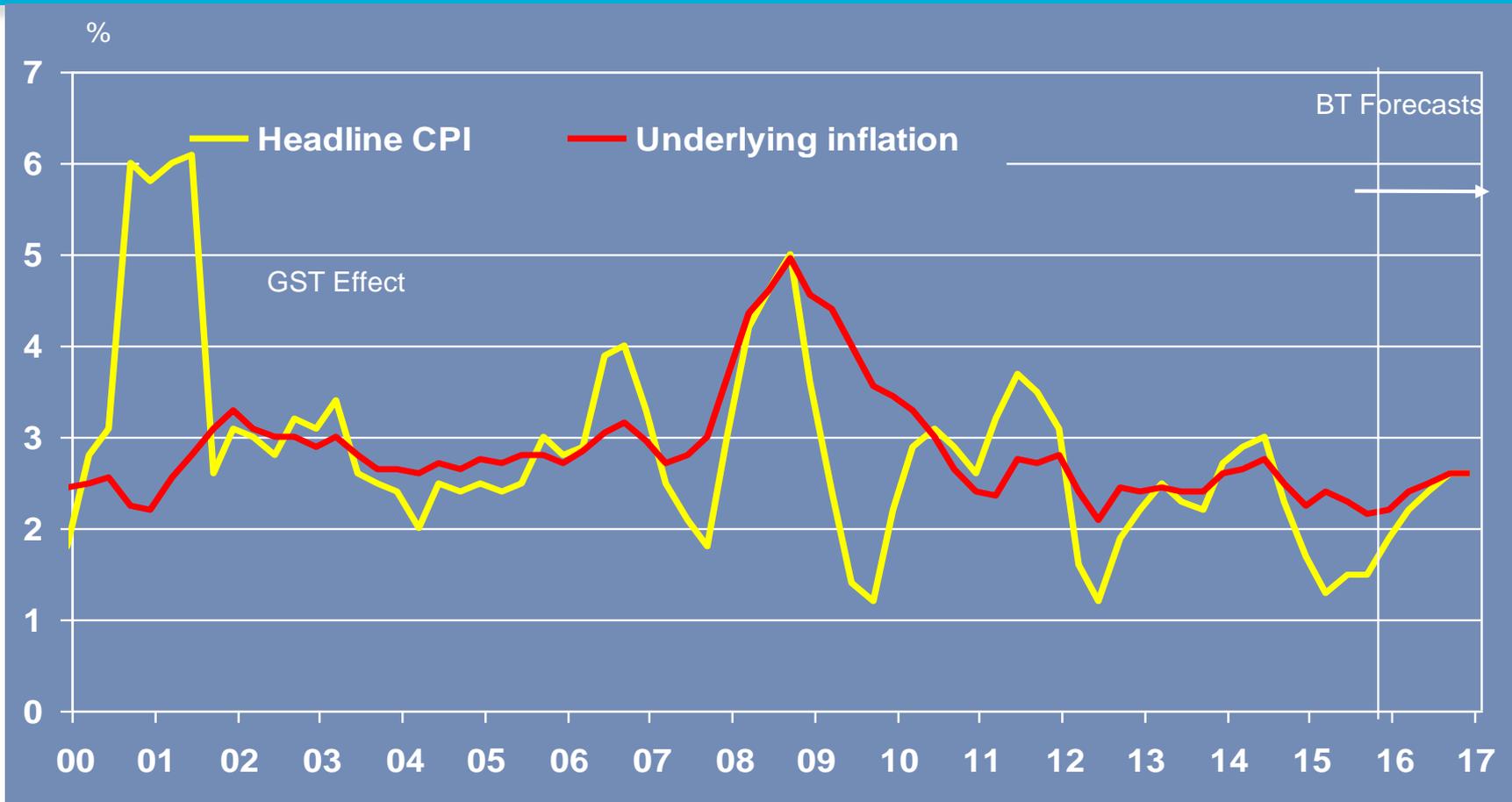
Cumulative change since February 2011



* Includes agriculture, forestry & fishing; transport, postal & warehousing; and electricity, gas, water & waste services

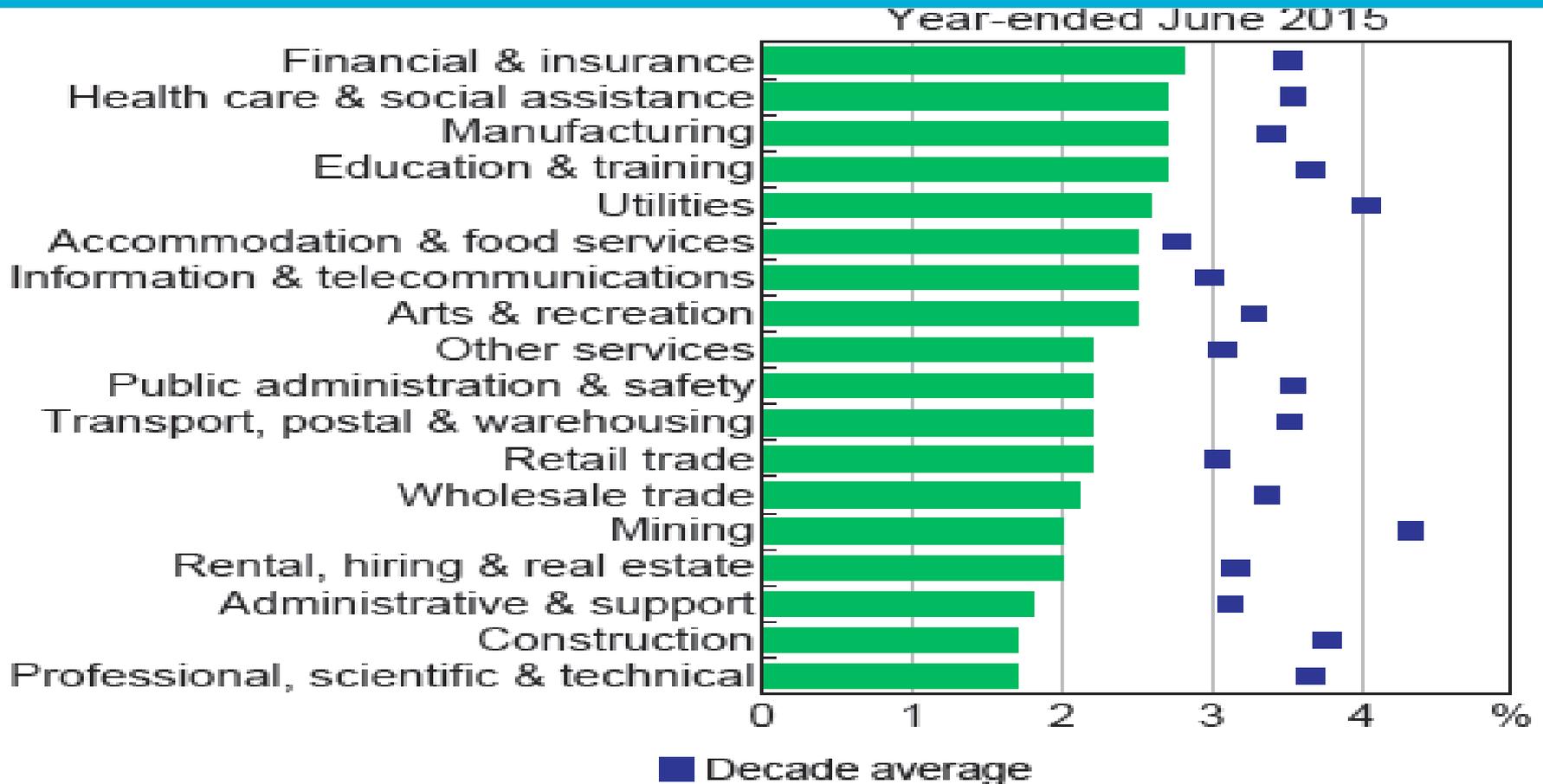
Source: ABS

Australian inflation is not an issue



Source: ABS

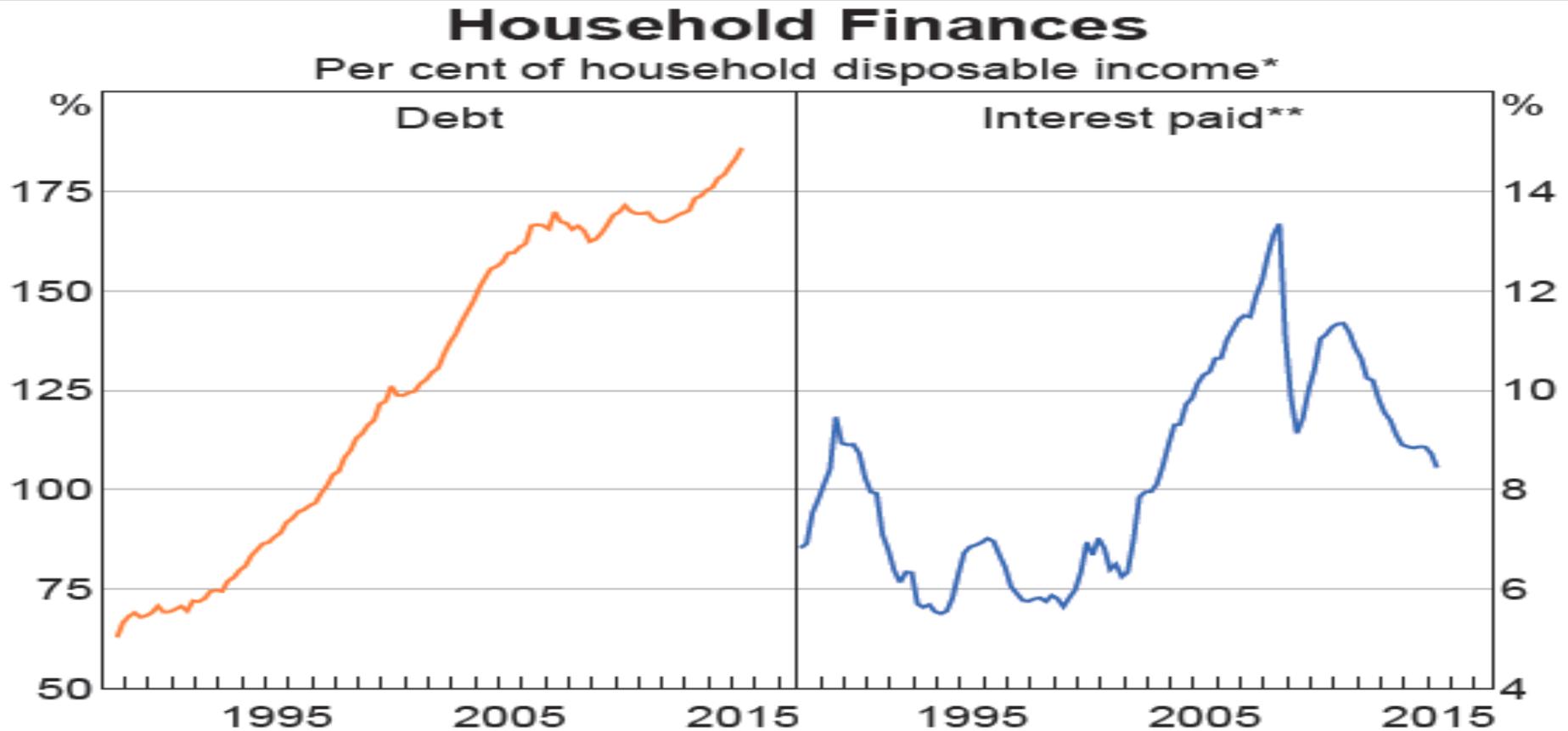
Wage inflation remains remarkably low



* Wage price index

Sources: ABS; RBA

Household financial ratios



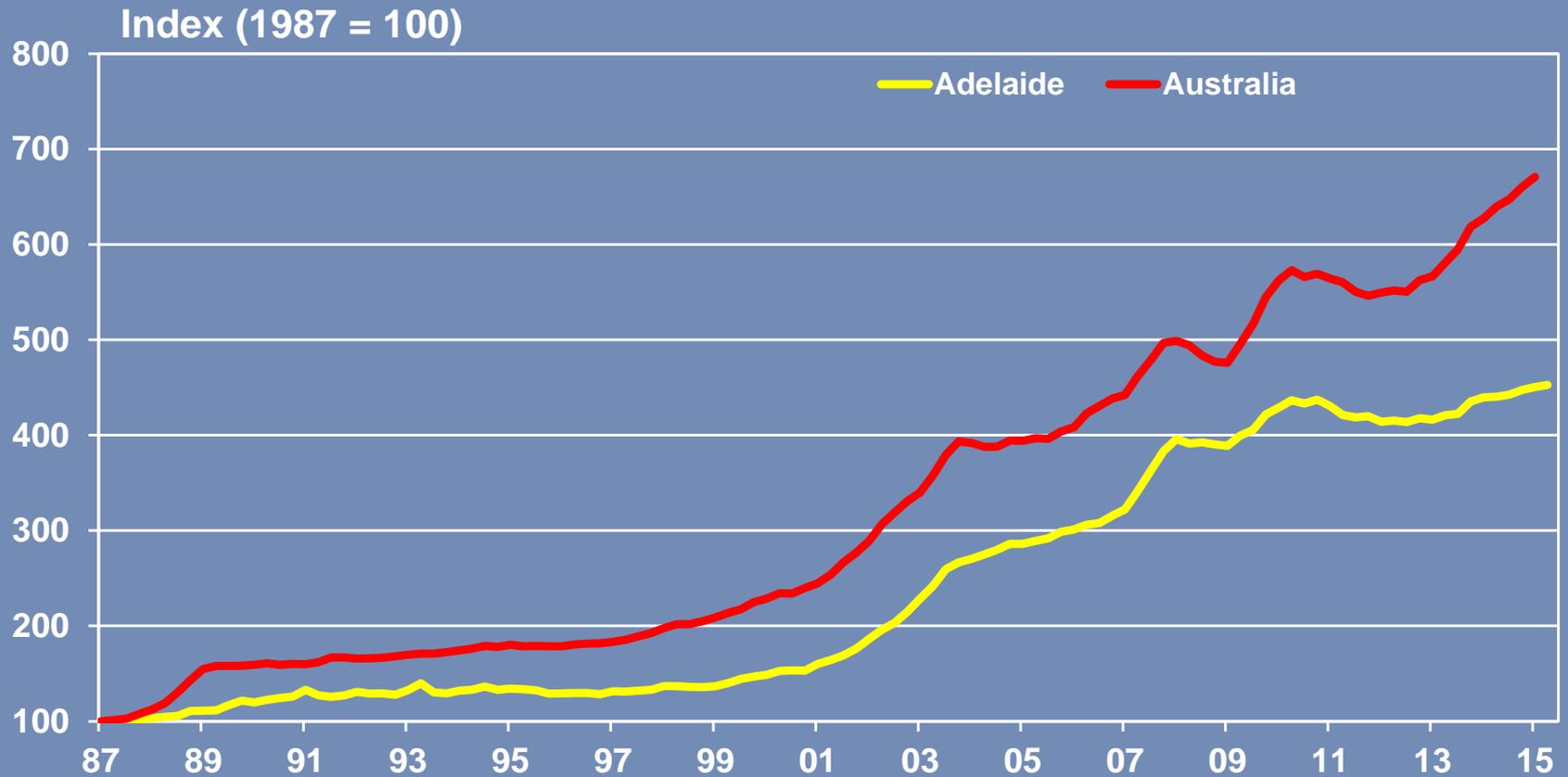
* Disposable income is after tax and before the deduction of interest payments

** Excludes unincorporated enterprises

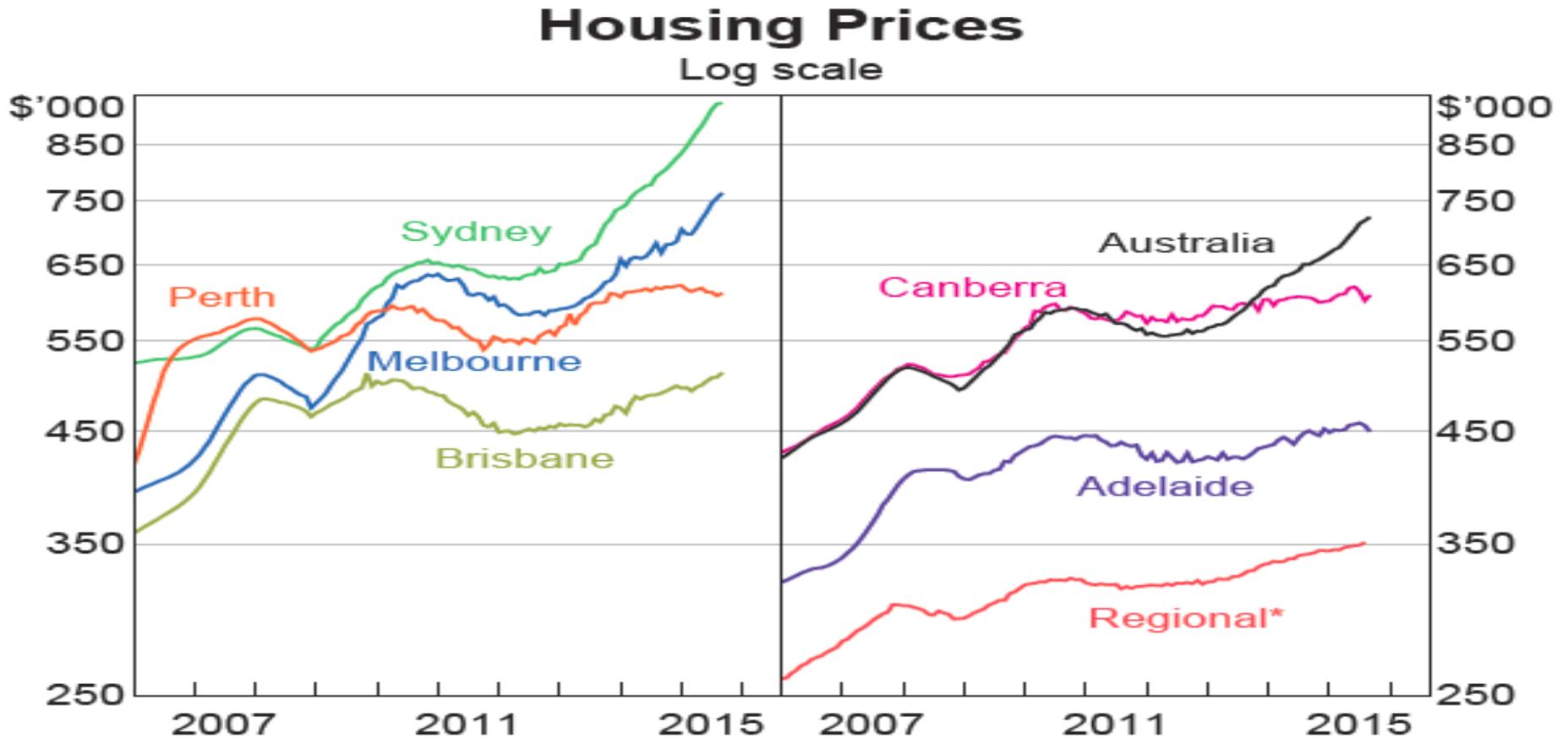
House Prices - Australia v Perth



House Prices - Australia v Adelaide



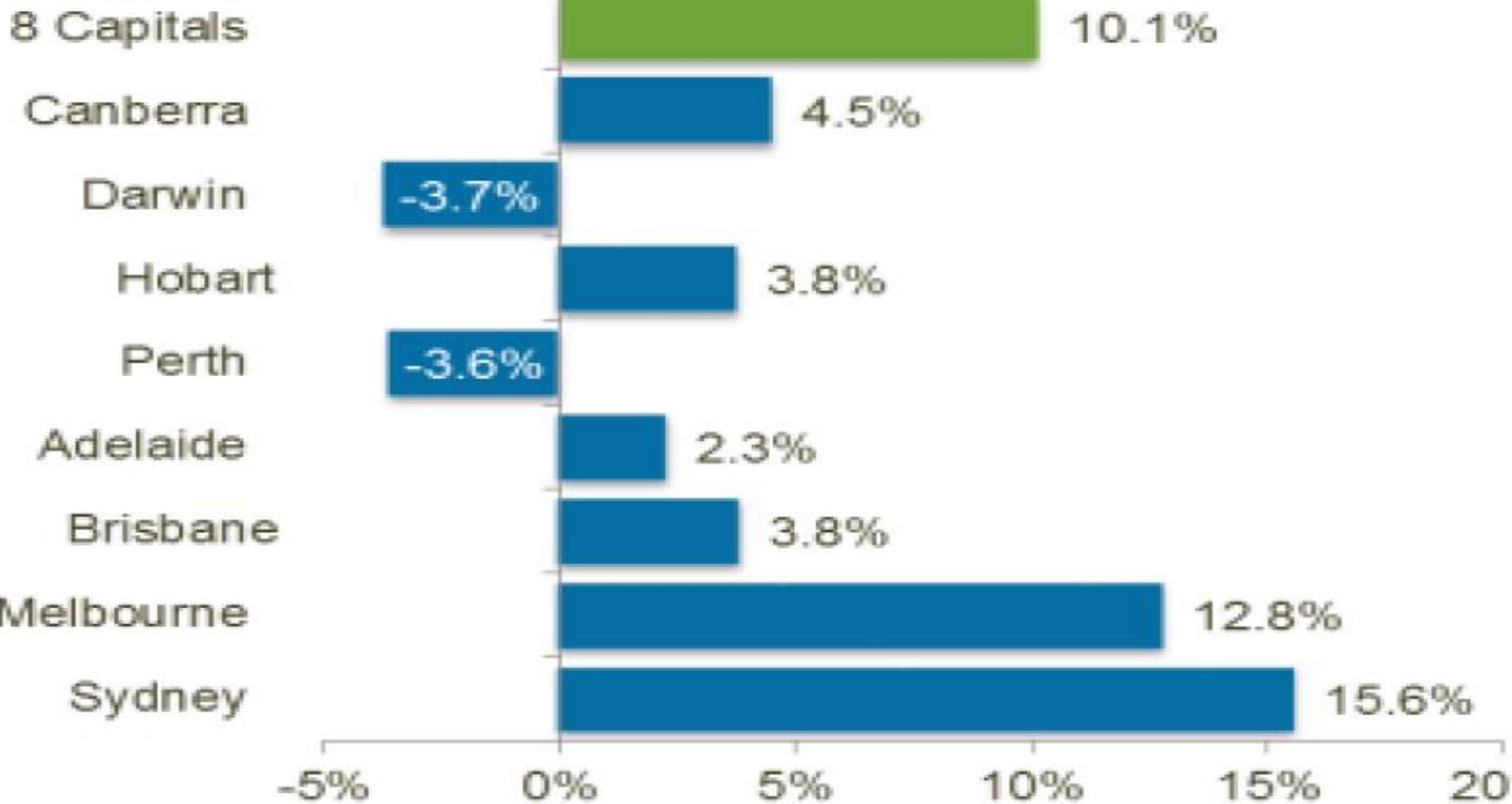
House prices have risen everywhere, particularly in Sydney (\$'000s)



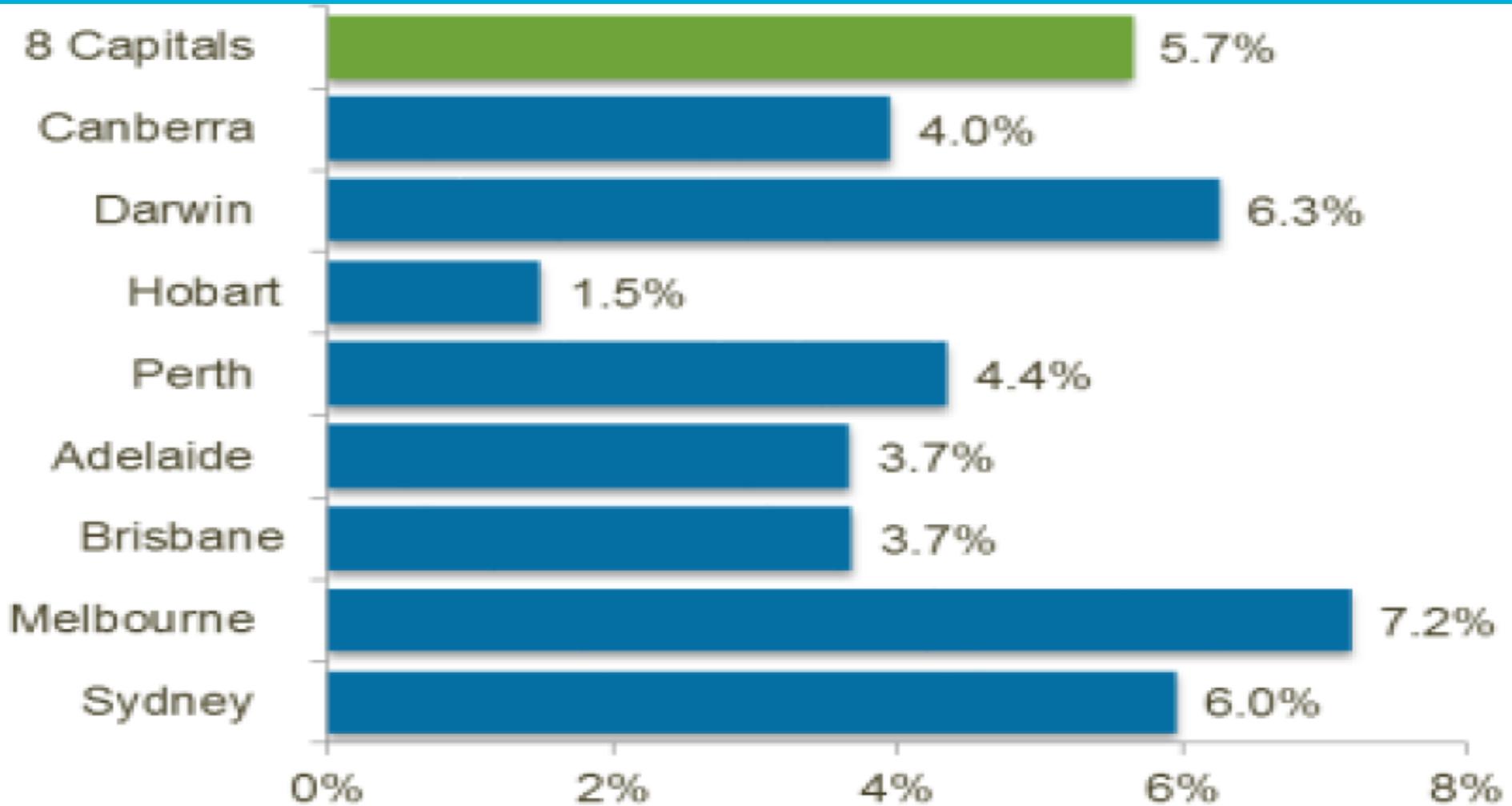
* Excludes apartments; measured as areas outside of capital cities in mainland states

Sources: CoreLogic RP Data; RBA

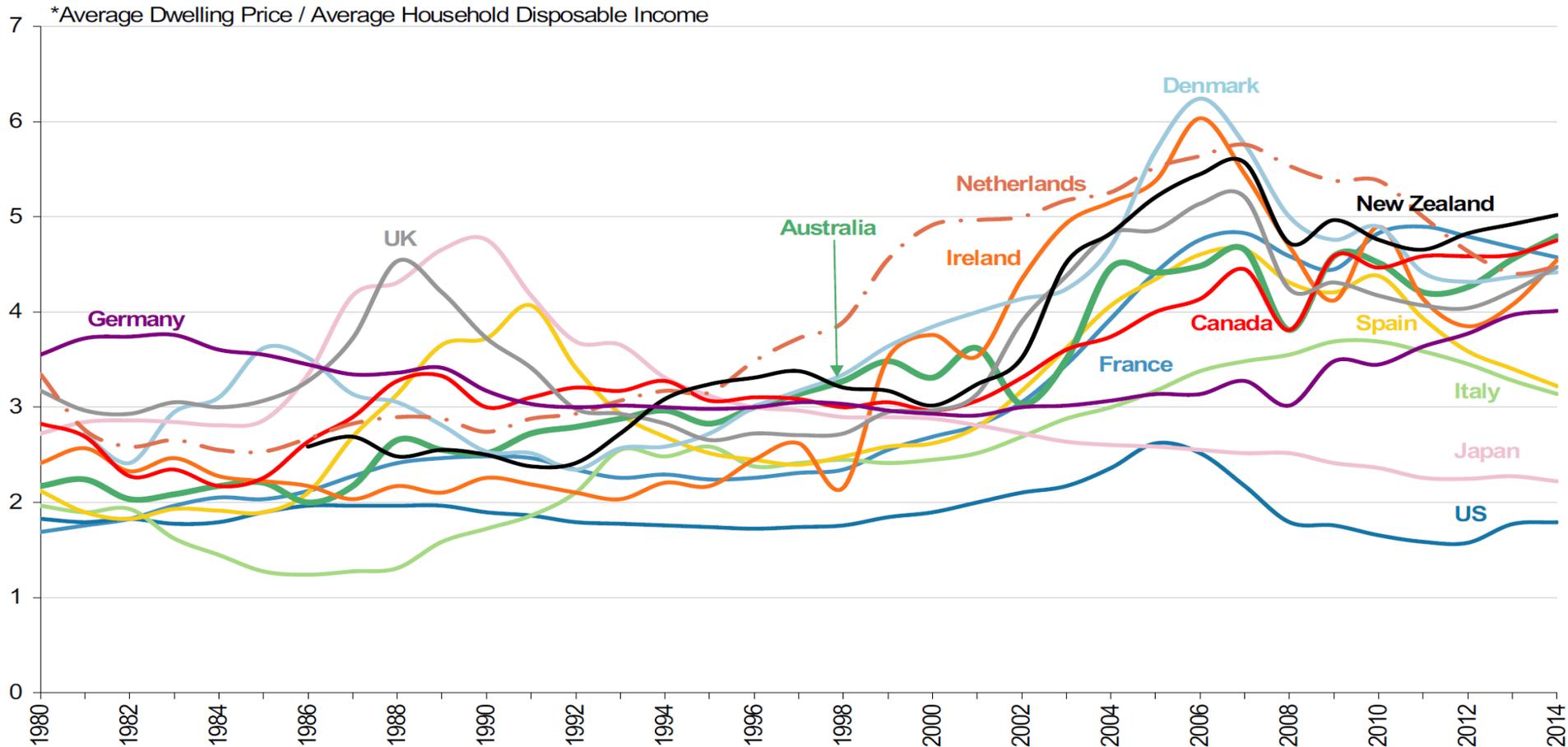
Prices have been rising rapidly in Sydney and Melbourne only in the past year (% increase year to October 2015)



Where's the bubble? Average house price increase in the past ten years



We're expensive by world standards but not massively so.



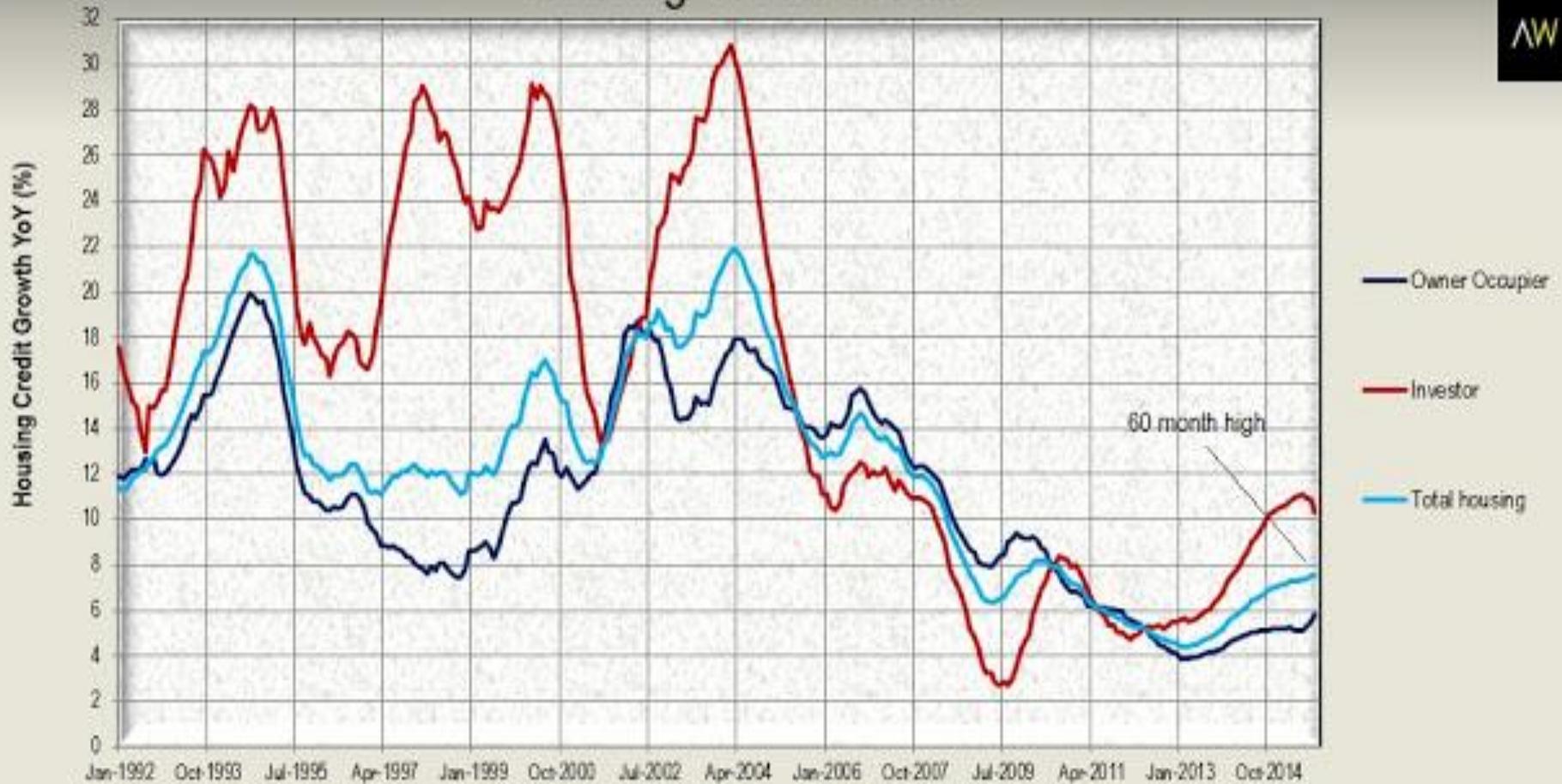
Source: RBA, OECD, Morgan Stanley

Credit growth has picked up, driven by investors. But this may be changing.

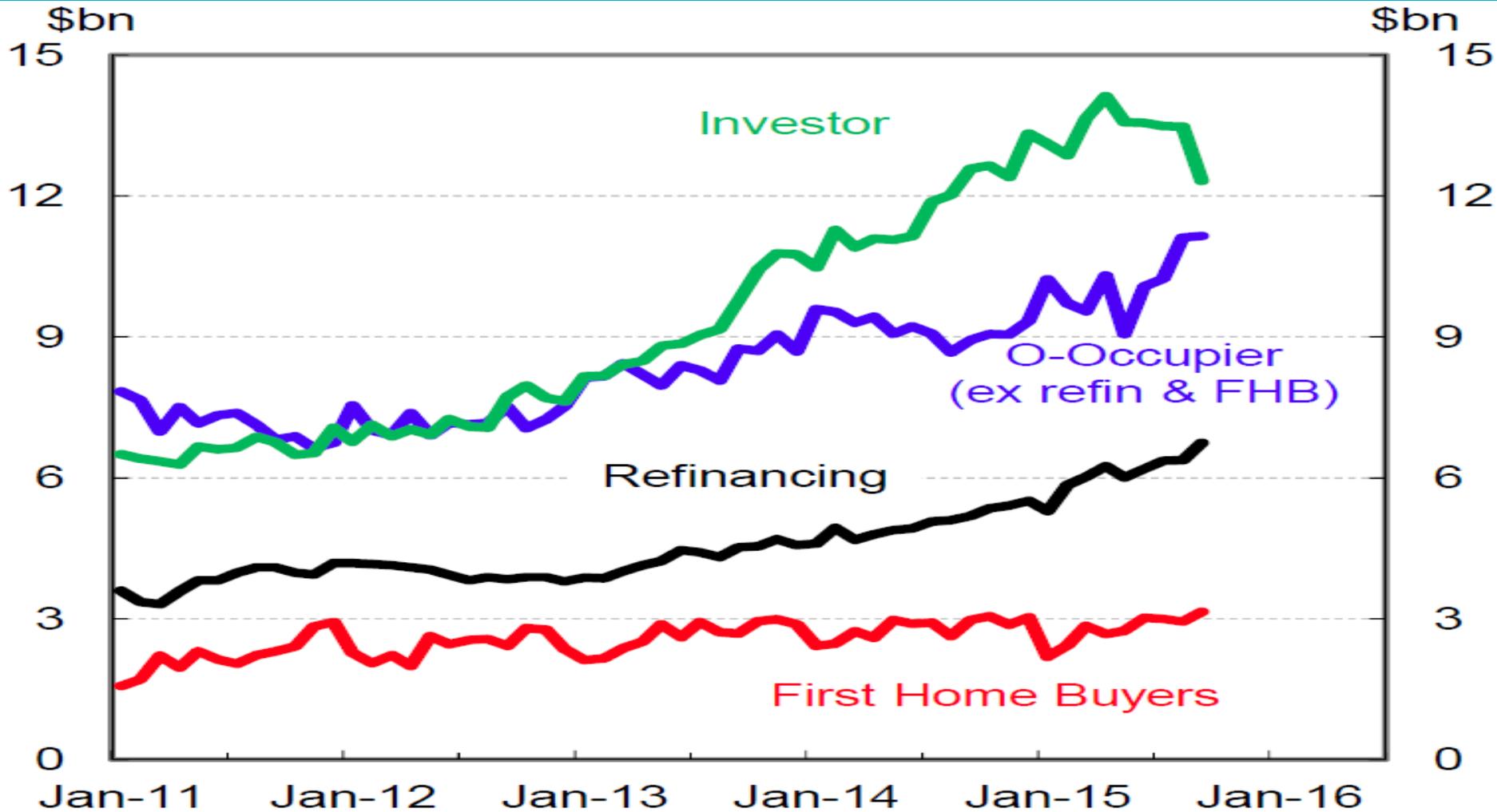
SOURCE: RESERVE BANK OF AUSTRALIA

Housing Credit Growth

petewargent.blogspot.com



The owner-occupiers appear to be taking charge

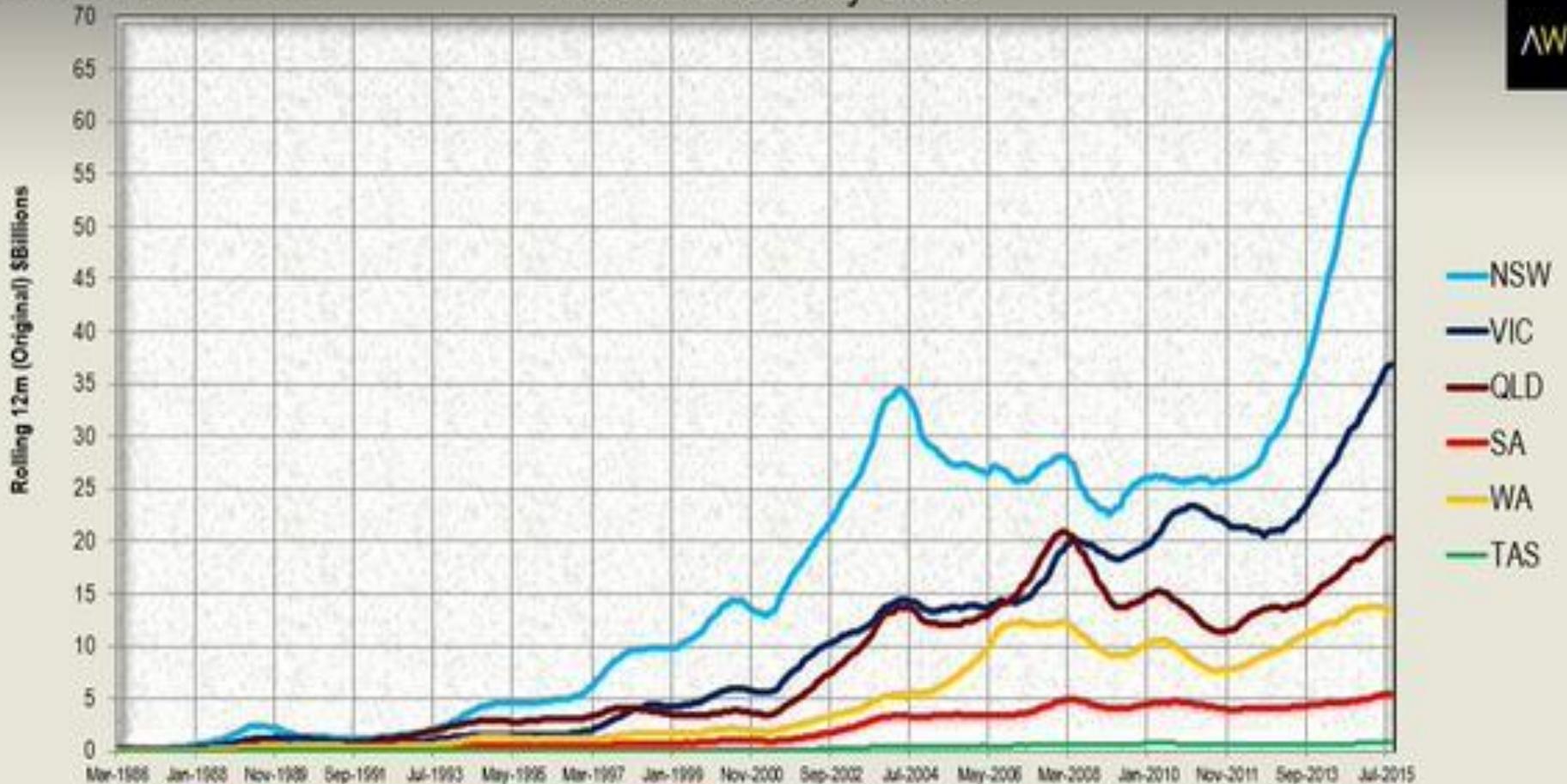


Investors have been piling in in New South Wales

SOURCE: ABS LENDING FINANCE 5671.0

Investor Loans by State

petewargent.blogspot.com

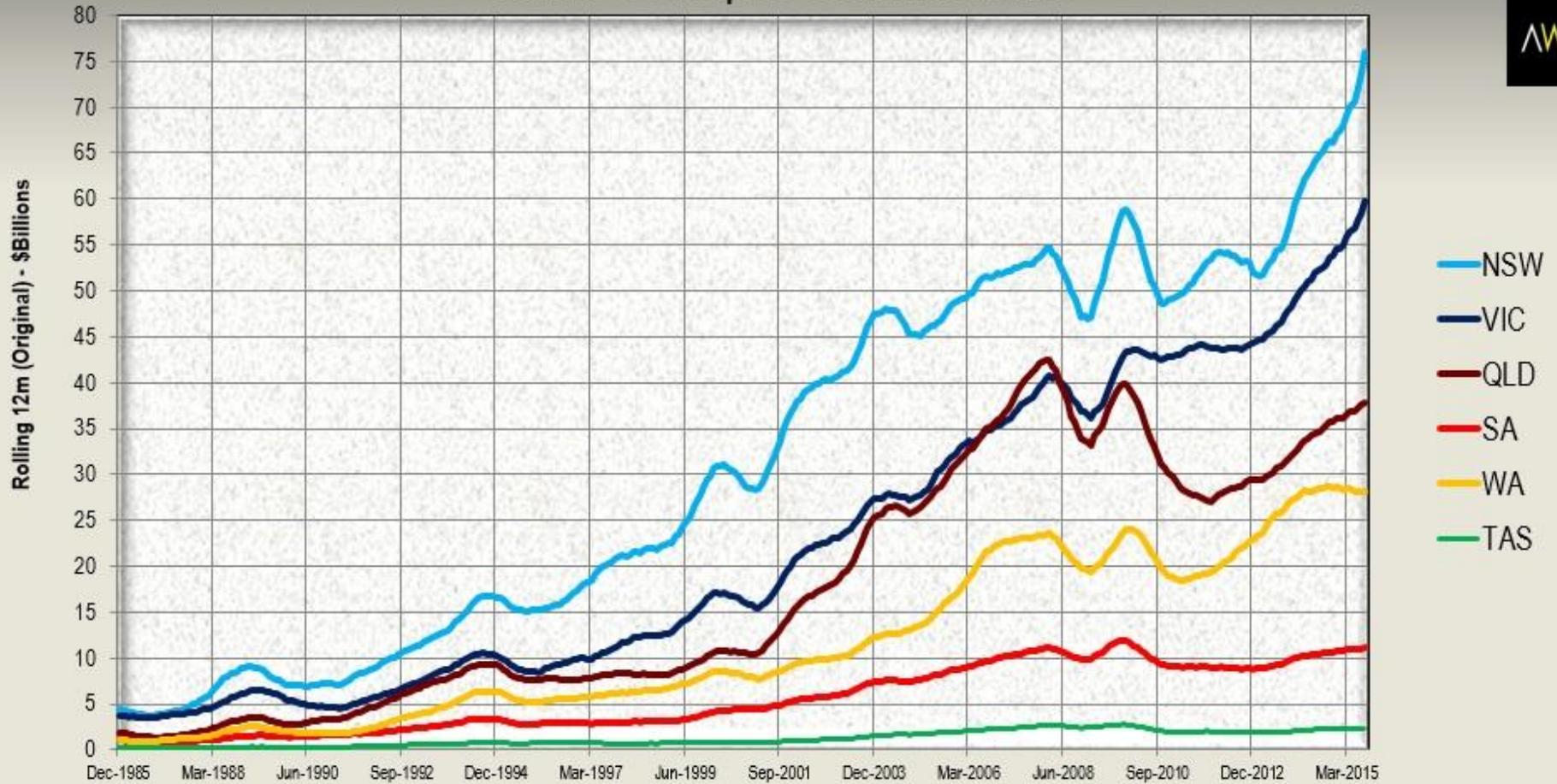


It's not all about investors!

SOURCE: ABS HOUSING FINANCE 5609.0

Owner-Occupier Commitments

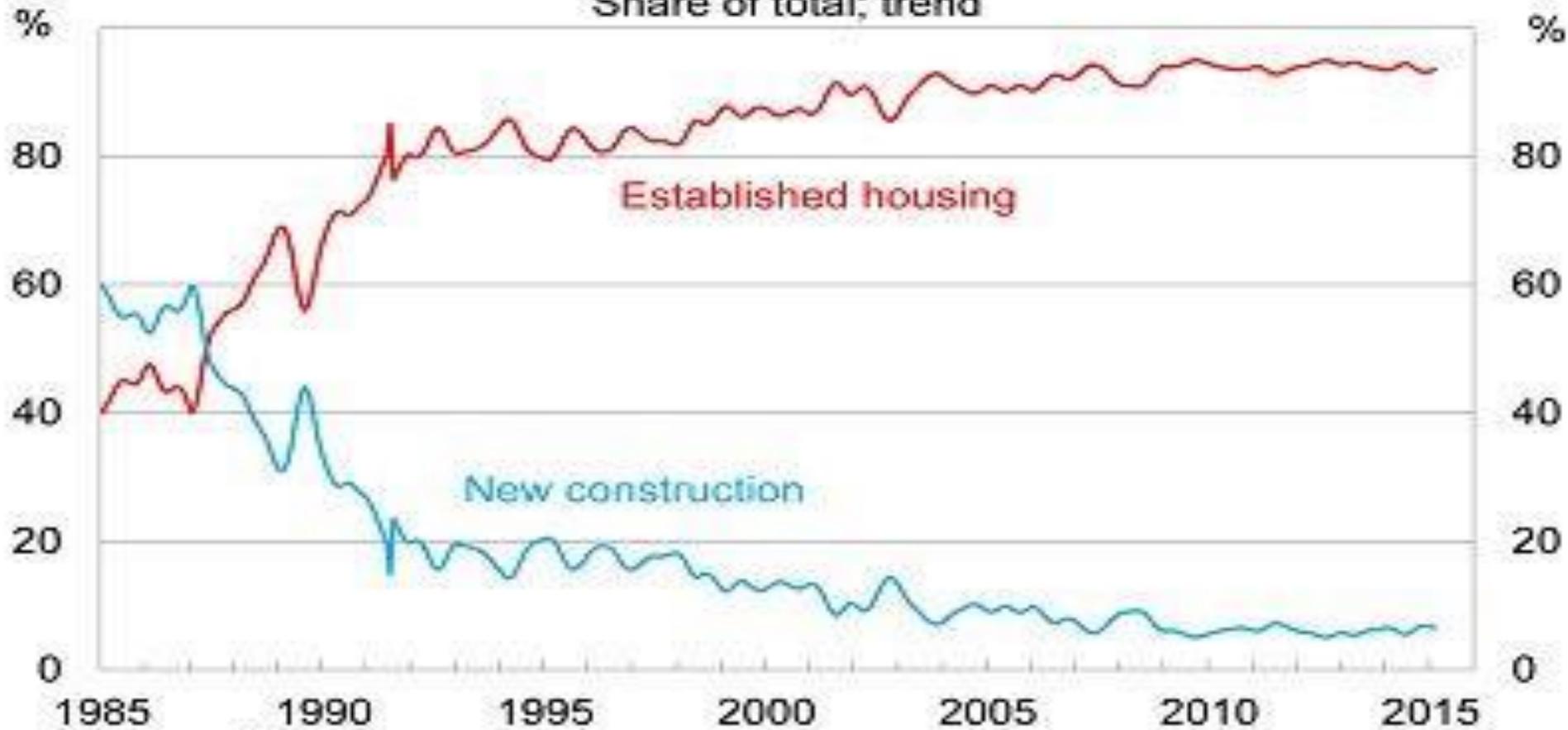
petewargent.blogspot.com



Not much of the borrowing by investors finances new dwellings!

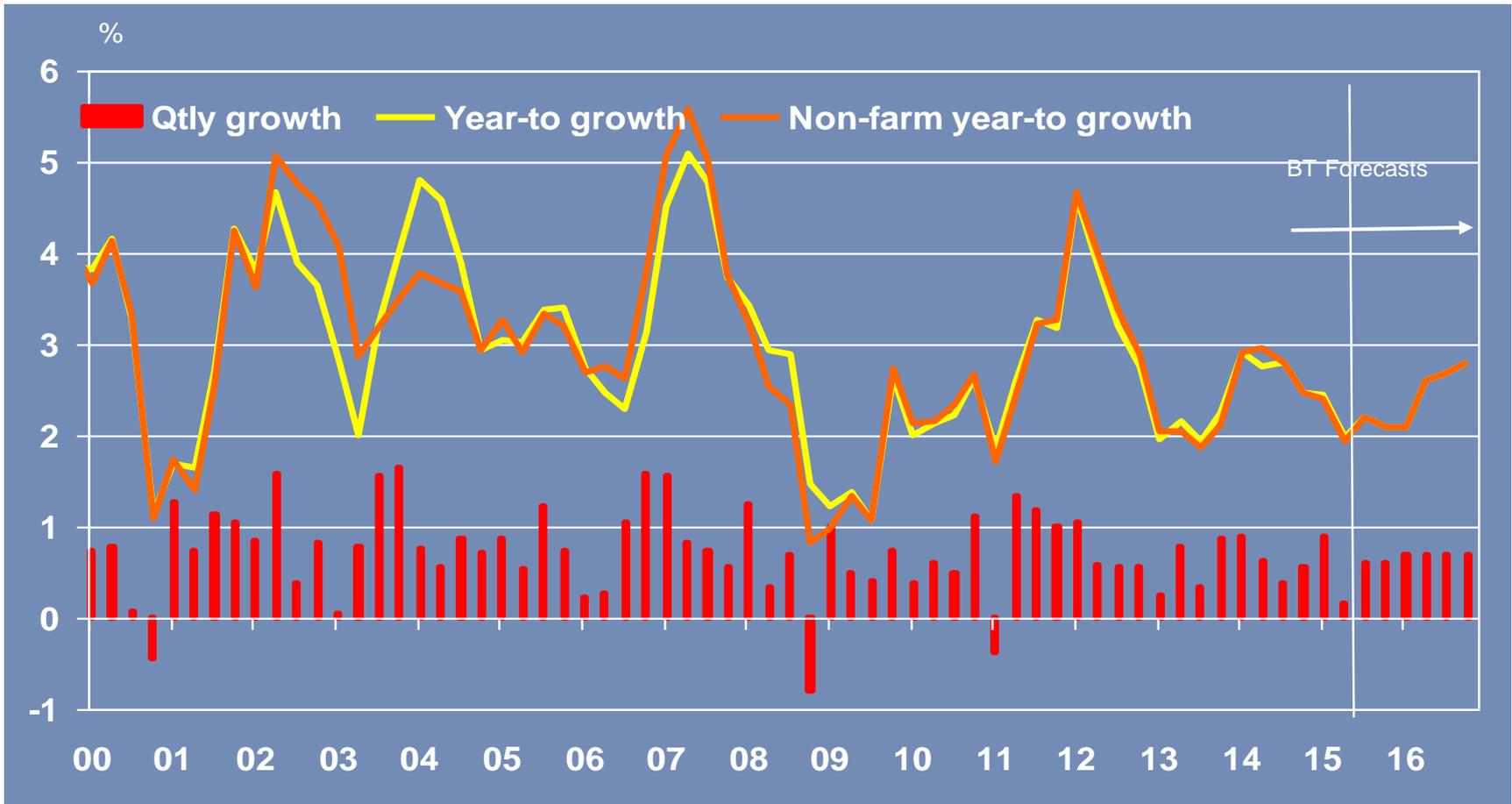
Value of Investor Loan Approvals

Share of total; trend



Source: ABS

Gross Domestic Product



Source: ABS

Global Medium-Term Economic Growth and Inflation Prospects (2015-2025)

	GDP	Inflation
Australia	2.7	2.5
New Zealand	2.4	1.8
United States	2.3	2.1
United Kingdom	2.3	1.8
Sweden	2.3	1.9
Spain	2.1	1.5
Norway	2.0	2.2
Canada	2.0	1.9
Netherlands	1.7	1.6
Germany	1.5	1.6
Eurozone	1.4	1.6
Switzerland	1.4	0.8
France	1.4	1.5
Italy	1.2	1.5
Japan	0.9	1.3

Asia-Pacific Medium-Term Economic Growth and Inflation Prospects (2015-2025)

	GDP	Consumer Prices
India	7.6	5.0
China	6.0	2.2
Philippines	5.4	3.5
Indonesia	5.3	4.8
Malaysia	4.7	2.7
Thailand	3.4	2.3
Singapore	3.0	1.8
Hong Kong	2.8	2.6
Australia	2.7	2.5
South Korea	2.5	2.0
Taiwan	2.4	1.4
New Zealand	2.4	1.8
Japan	0.9	1.3

Source: Consensus Economics

Summary

- The big question in the US is still when will rates begin to rise and how quickly?
- We will always worry about China.
- The Australian economy should continue to experience only moderate growth. The mining investment boom has ended with no significant pickup to date in non-mining capex.
- The cash rate may be on hold.
- The exchange rate is close to fair value.
- The Australian share market is cheap when compared with other forms of investment.

Disclaimer

This presentation has been prepared by BT Financial Group Limited (ABN 63 002 916 458) 'BT' and is for general information only. Every effort has been made to ensure that it is accurate, however it is not intended to be a complete description of the matters described. The presentation has been prepared without taking into account any personal objectives, financial situation or needs. It does not contain and is not to be taken as containing any securities advice or securities recommendation. Furthermore, it is not intended that it be relied on by recipients for the purpose of making investment decisions and is not a replacement of the requirement for individual research or professional tax advice. BT does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this presentation. Except insofar as liability under any statute cannot be excluded, BT and its directors, employees and consultants do not accept any liability for any error or omission in this presentation or for any resulting loss or damage suffered by the recipient or any other person. Unless otherwise noted, BT is the source of all charts; and all performance figures are calculated using exit to exit prices and assume reinvestment of income, take into account all fees and charges but exclude the entry fee. It is important to note that past performance is not a reliable indicator of future performance.

This document was accompanied by an oral presentation, and is not a complete record of the discussion held.

No part of this presentation should be used elsewhere without prior consent from the author.

For more information, please call BT Customer Relations on 132 135 8:00am to 6:30pm (Sydney time)

Any questions?

