

Geelong Chamber of Commerce

Westpac Institutional Bank
Presented by Bill Evans
August 2017



200 years proudly supporting Australia

Current Forecasts – July 2016

| | Latest | Dec-16 | Jun-17 | Dec-17 | Dec-18 |
|-------------|--------|--------|--------|--------|--------|
| RBA Cash | 1.75 | 1.50 | 1.50 | 1.50 | 2.00 |
| FED FUNDS | 0.375 | 0.625 | 0.875 | 1.125 | 1.625 |
| 3 year swap | 1.70 | 1.65 | 2.00 | 2.25 | 3.00 |
| AUD/USD | 0.75 | 0.72 | 0.69 | 0.70 | 0.75 |

Current Forecasts – July 2017

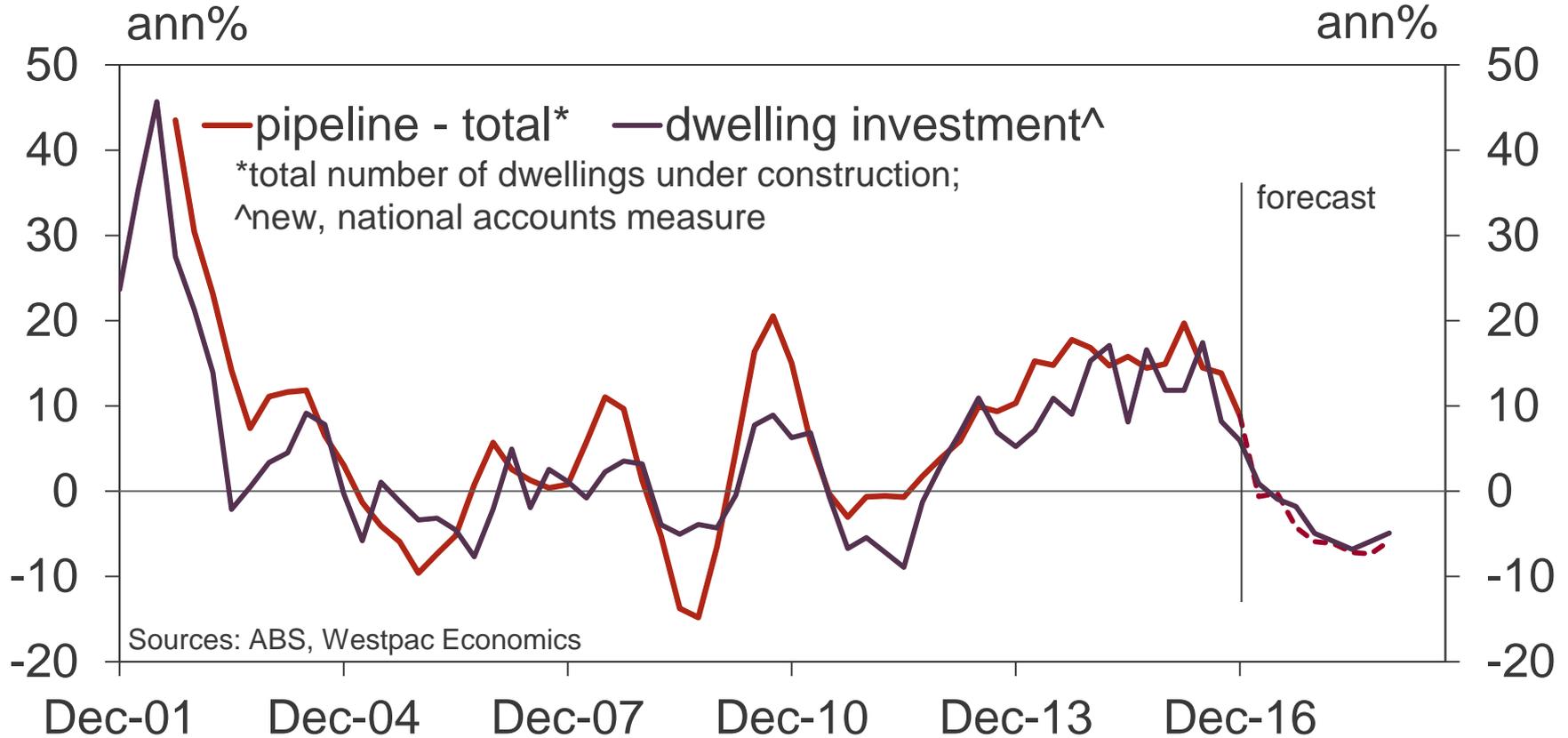
| | Latest | Dec-17 | Mar-18 | Jun-18 | Dec-18 |
|-------------|--------|--------|--------|--------|--------|
| RBA Cash | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| FED FUNDS | 1.125 | 1.375 | 1.375 | 1.625 | 1.875 |
| 3 year swap | 2.10 | 2.20 | 2.40 | 2.40 | 2.60 |
| AUD/USD | 0.80 | 0.76 | 0.74 | 0.70 | 0.65 |

Australian GDP growth outlook

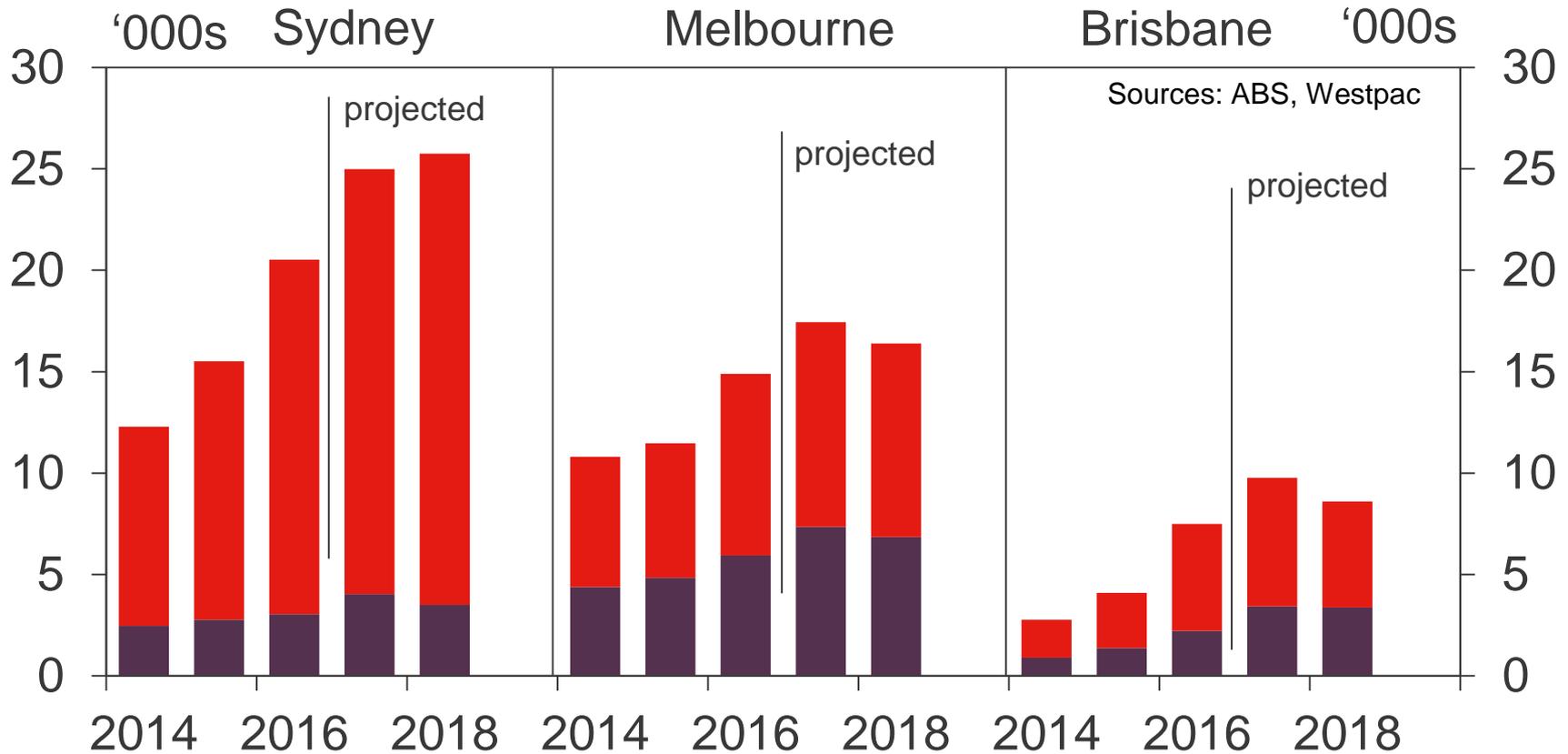
| % yr | 2016 | 2017 | 2018 |
|----------------|---------------|------------|------------|
| RBA, Nov | 3.00 | 3.00 | 3.50 |
| RBA, Feb | 2.00 | 3.00 | 3.25 |
| RBA, May | 2.4(a) | 3.00 | 3.25 |
| Westpac | 2.4(a) | 2.8 | 2.5 |

Source: ABS, RBA Statement on Monetary Policy, Westpac Economics

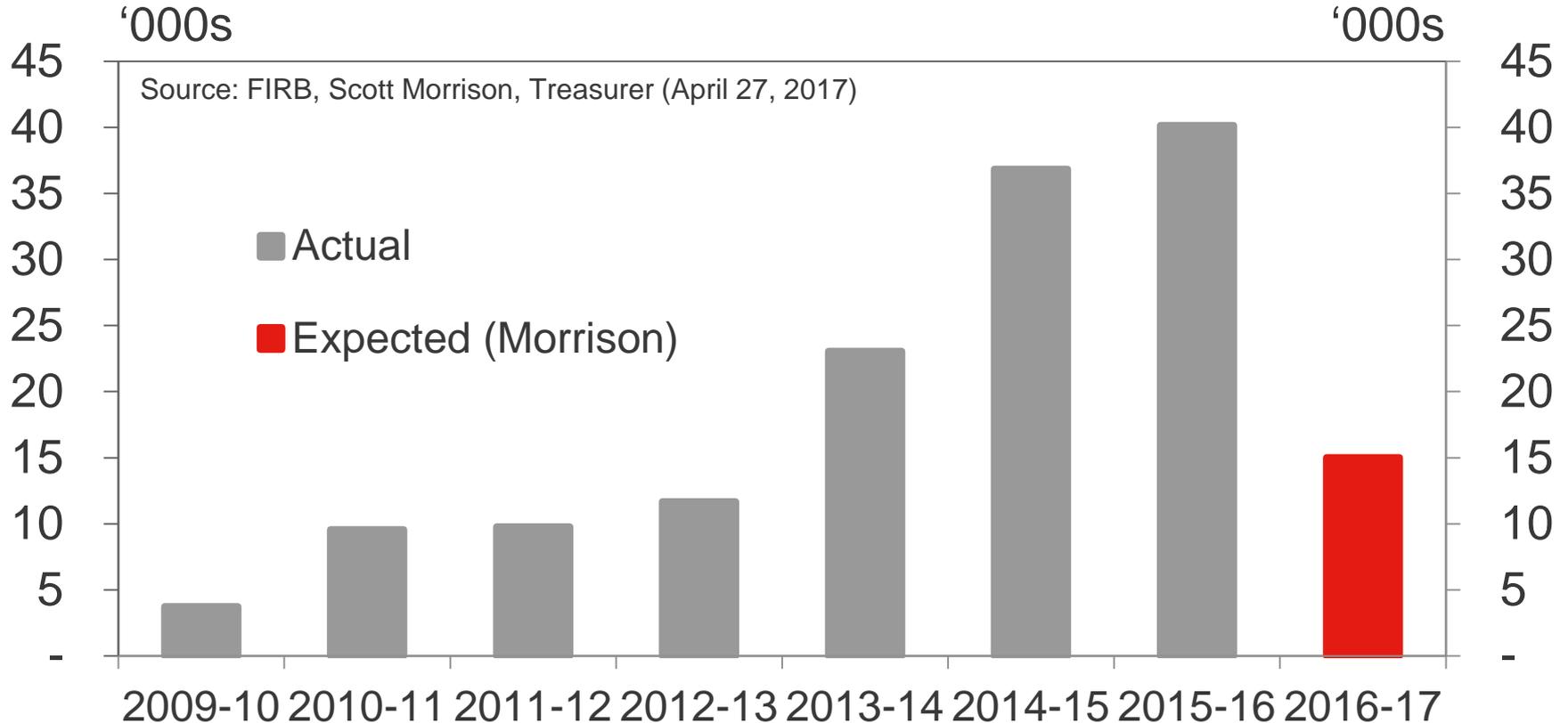
Dwelling construction: projection looks bleak



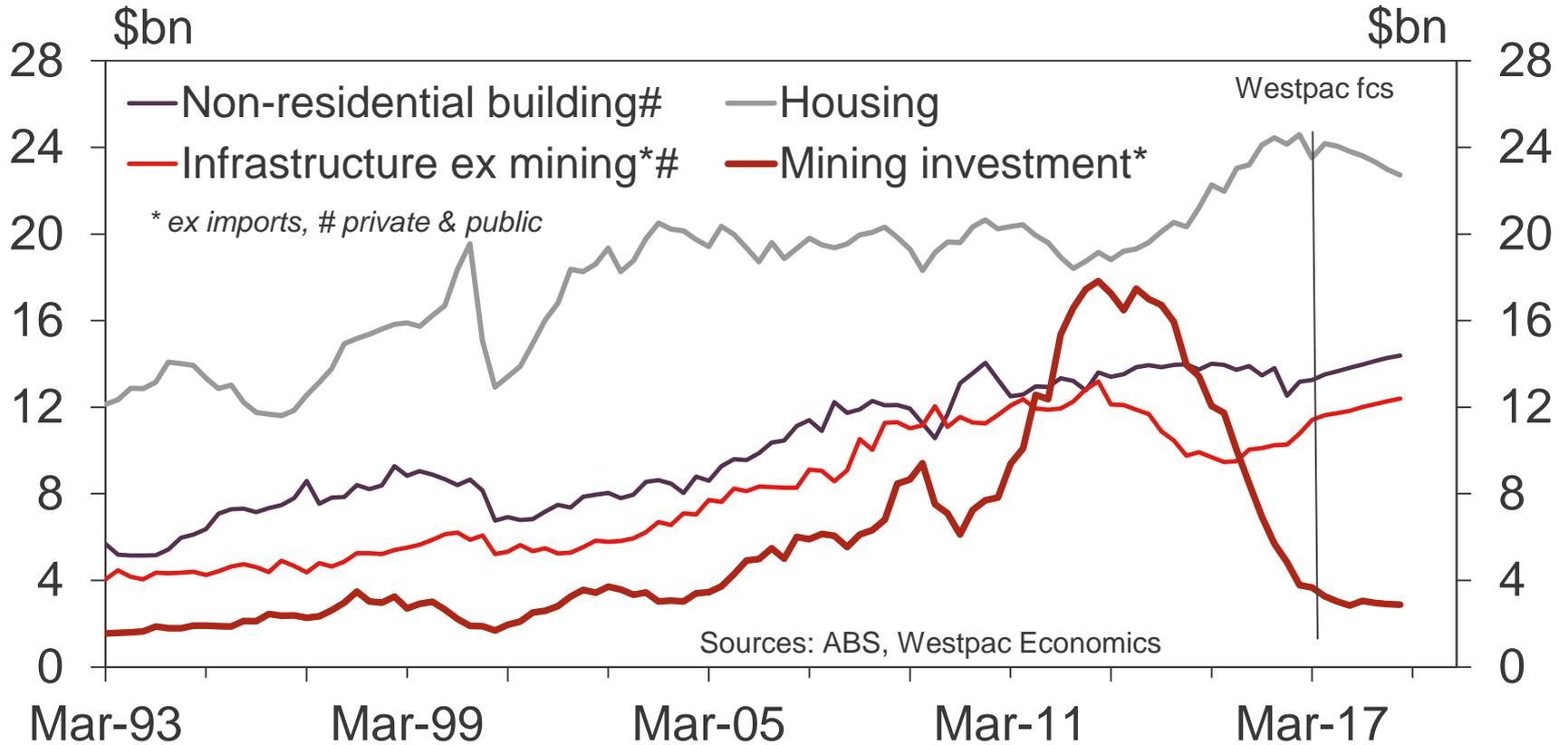
High rise completions: by capital city



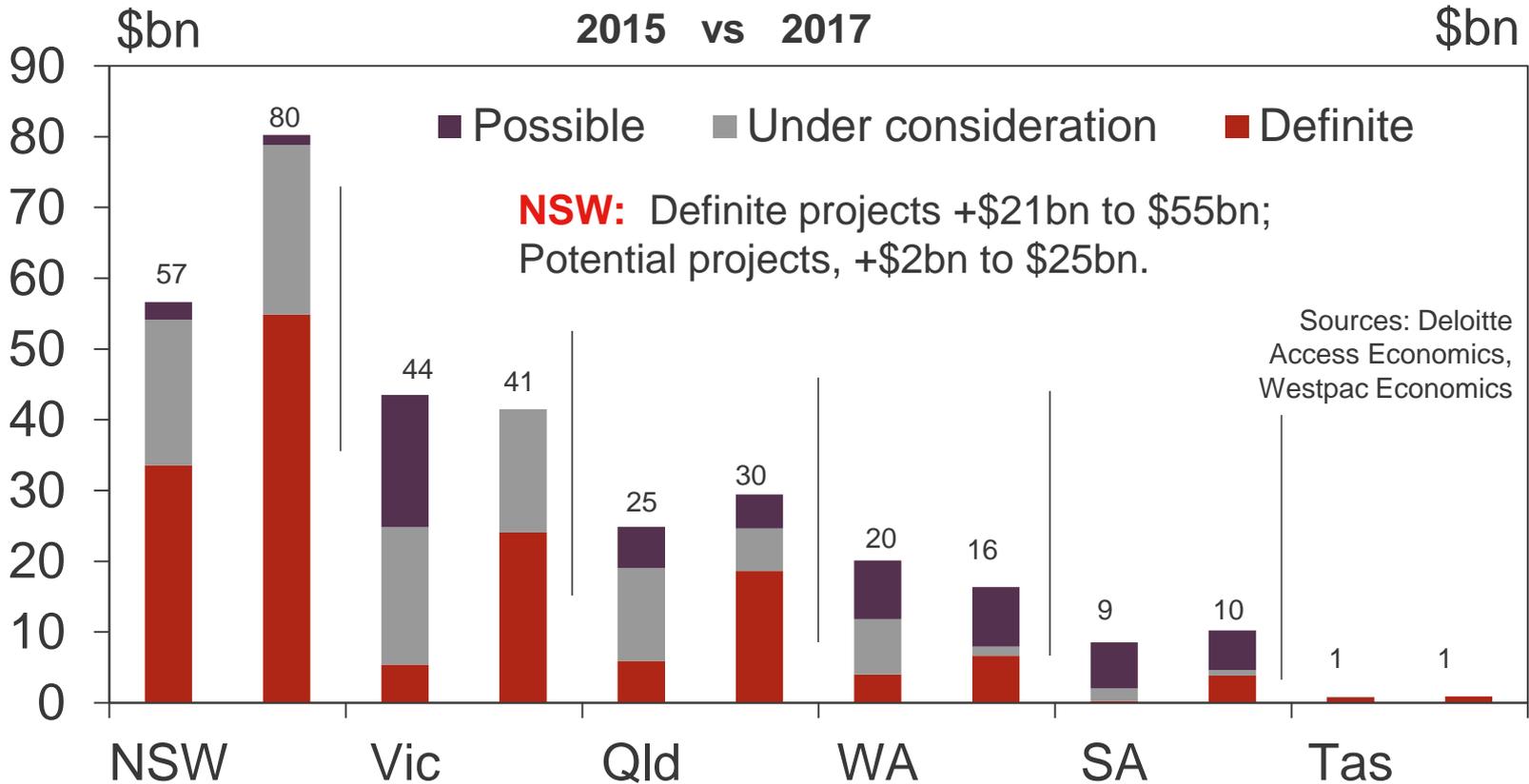
Number of foreign real estate approvals



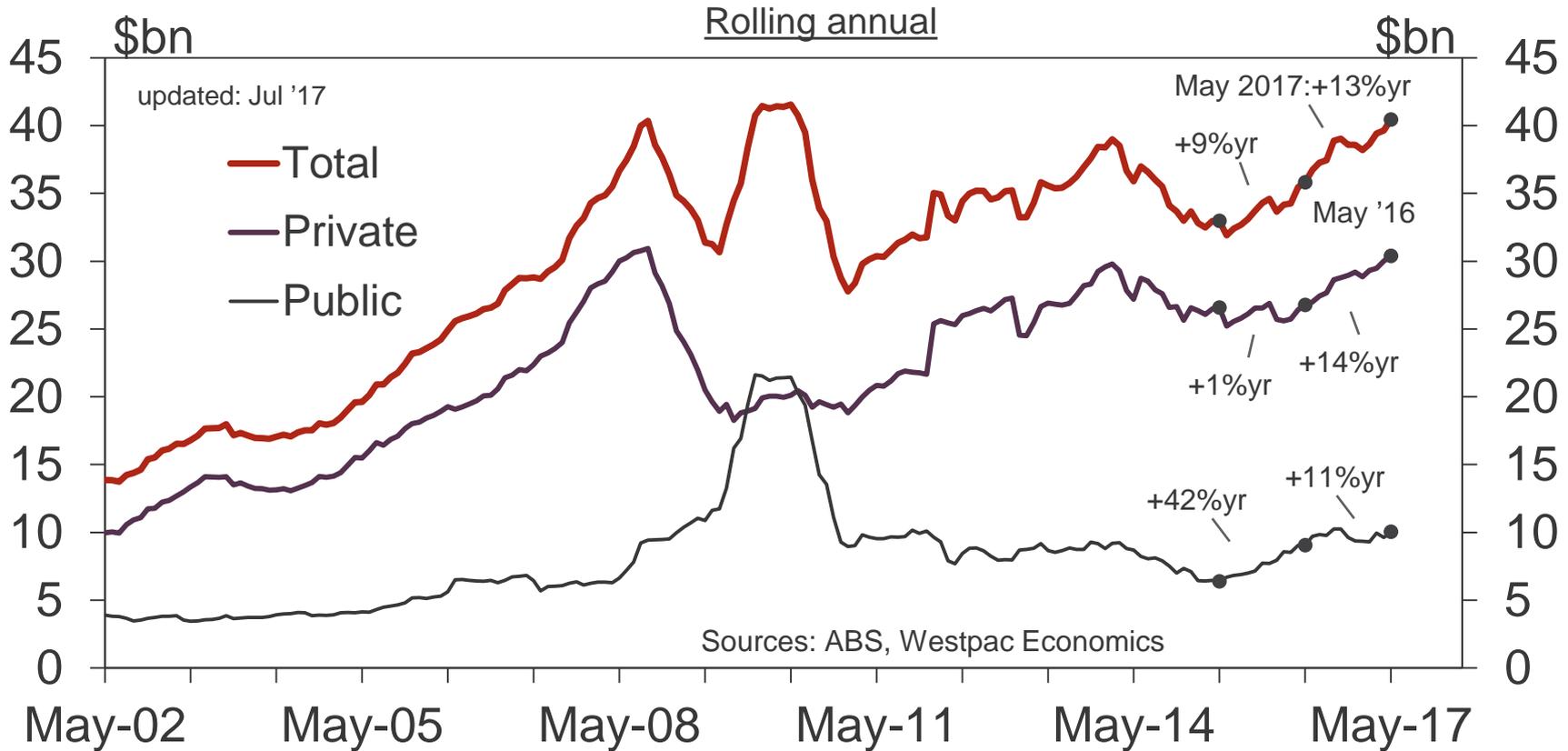
Australia :Investment cycles



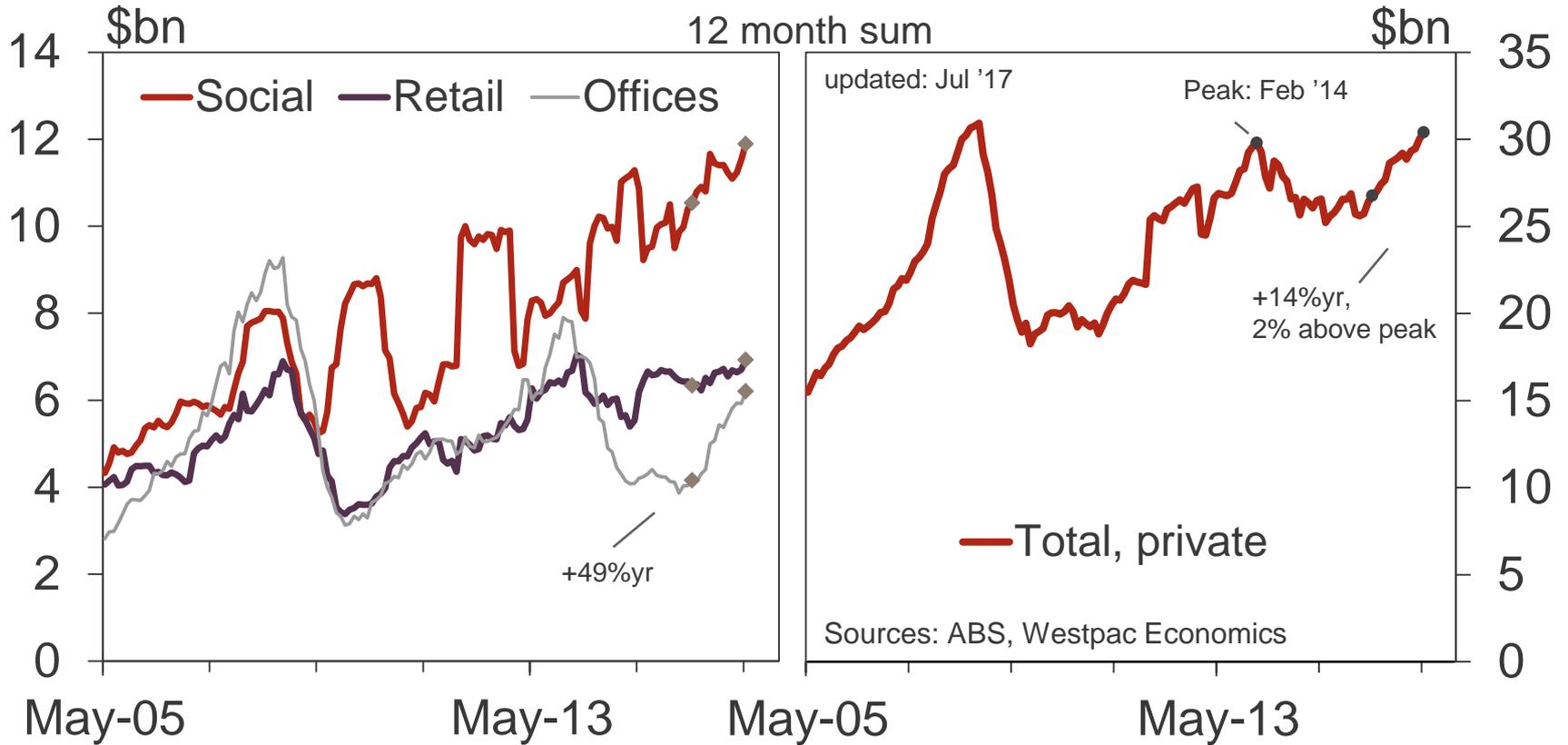
Public transport project pipeline: by state



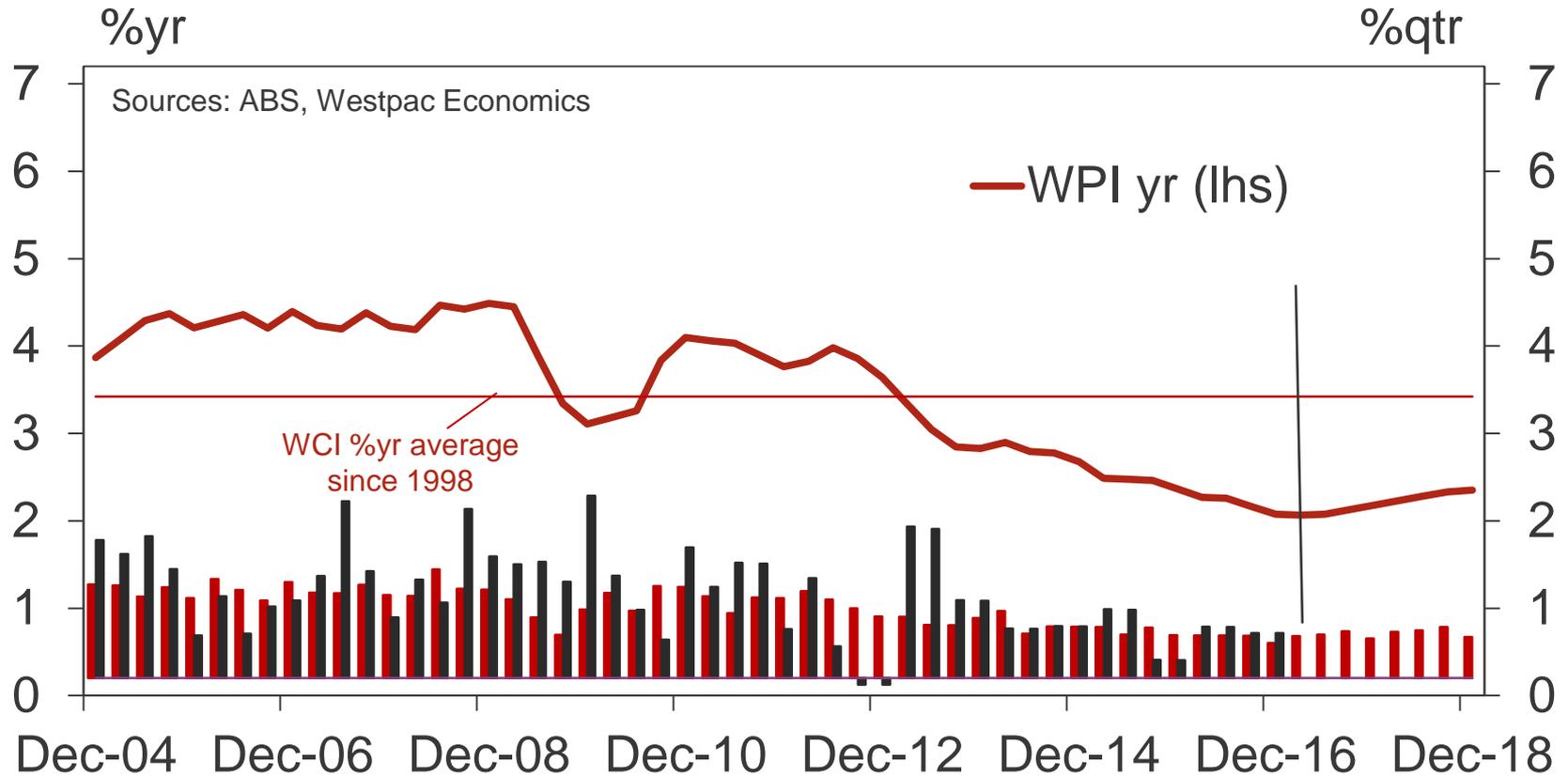
Total approvals, non-residential building



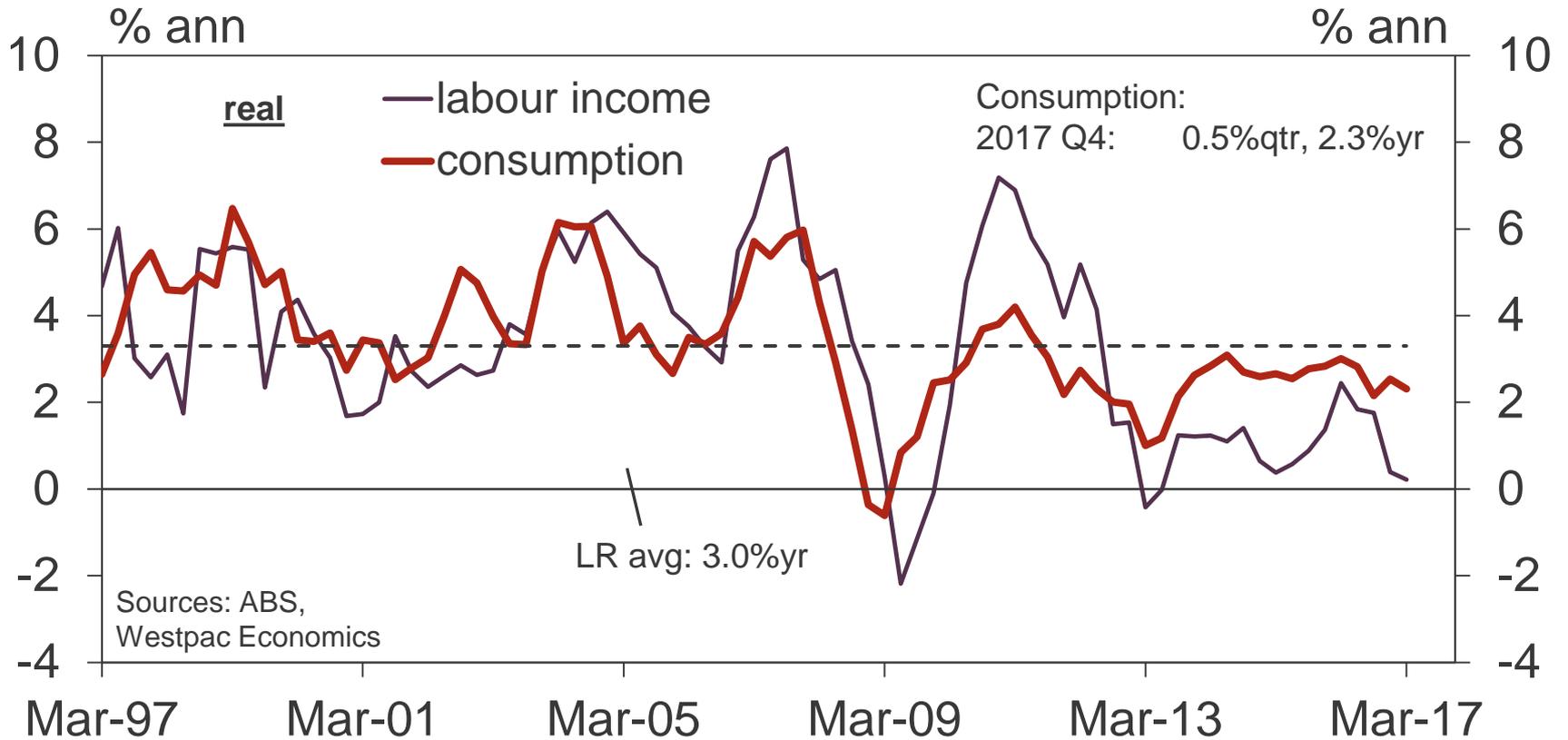
Private approvals, non-residential building: detail



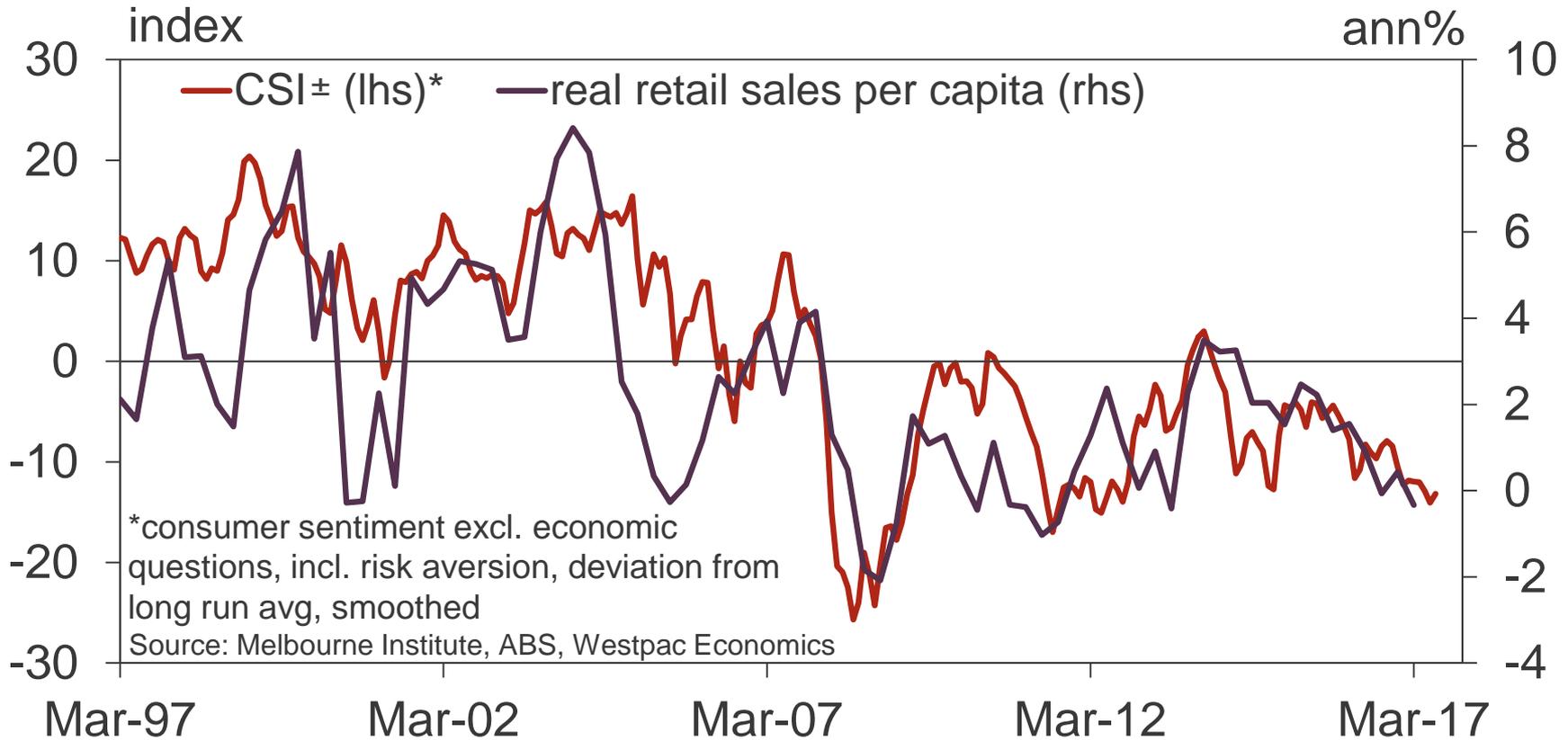
Wages growth at record lows-



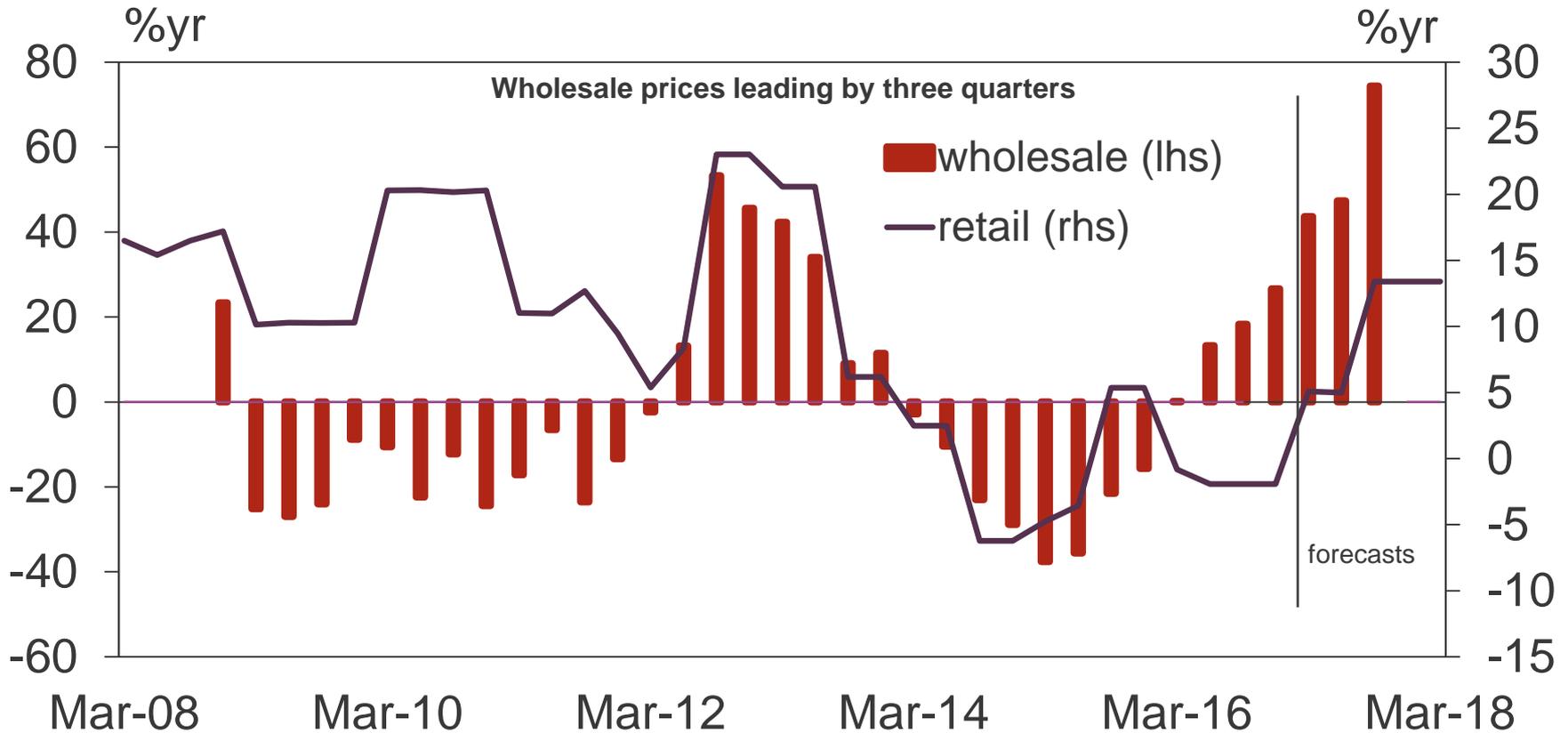
Aus consumer spending vs labour income



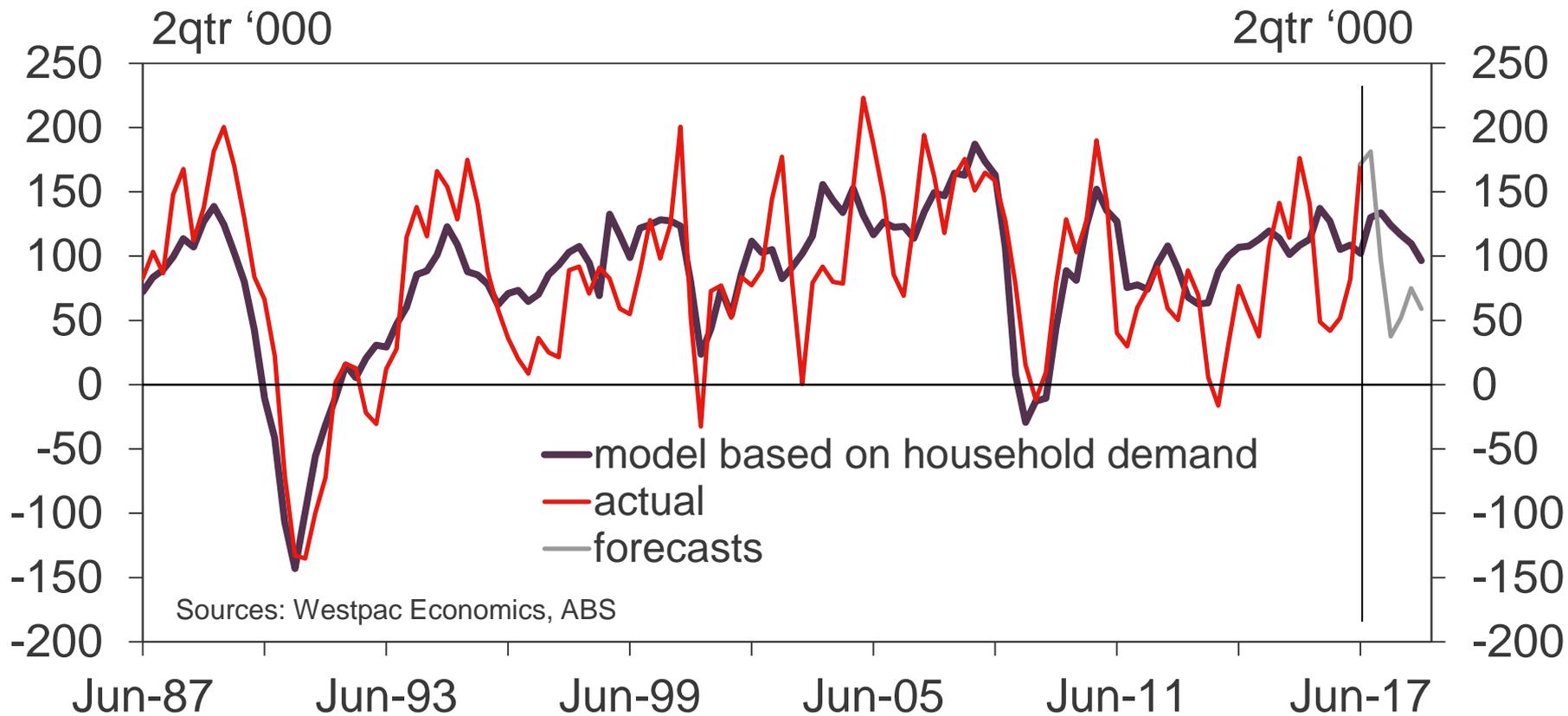
CSI[±] vs retail sales – good fit; bad signs



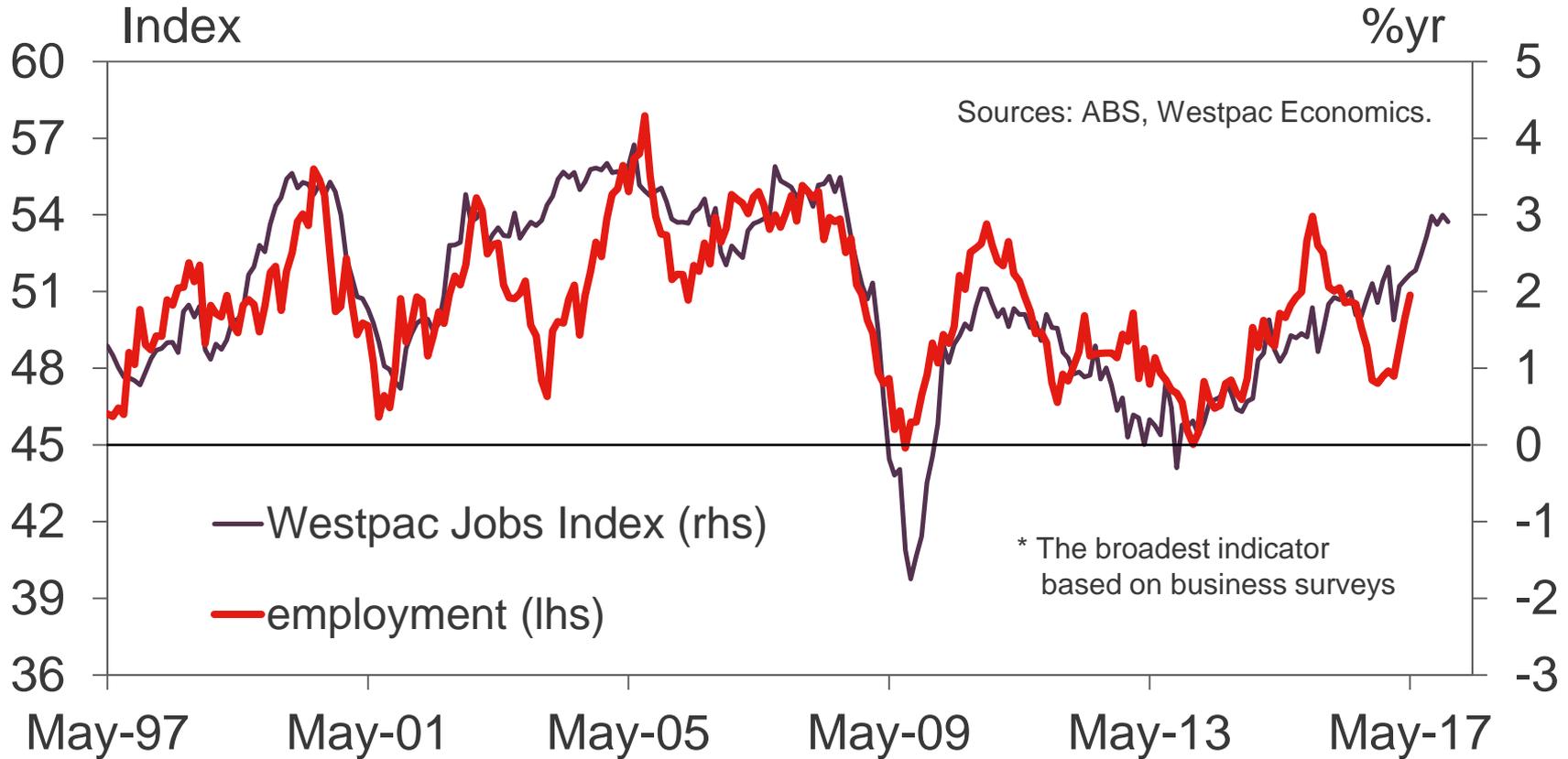
Melbourne electricity prices – higher prices



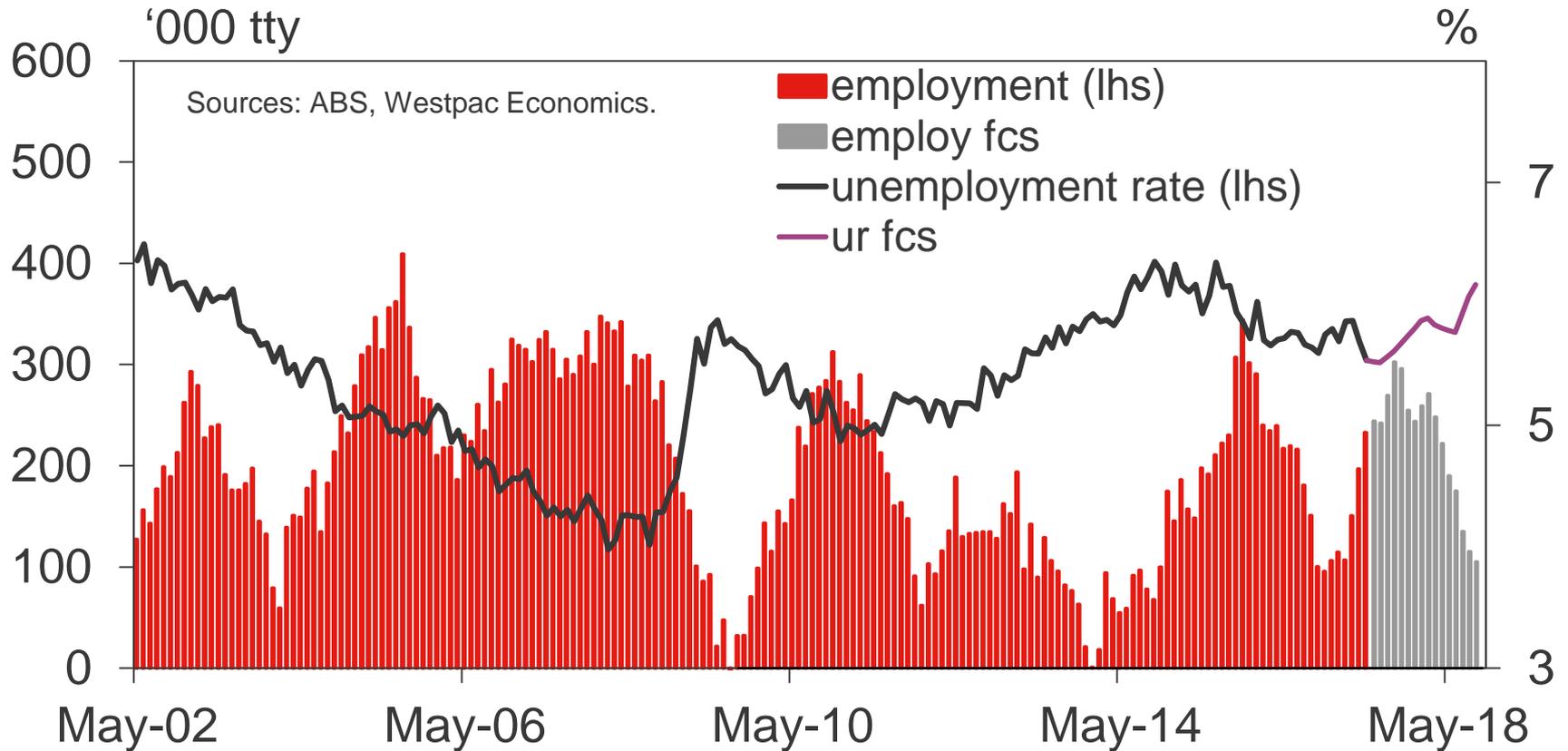
Labour market to lose momentum



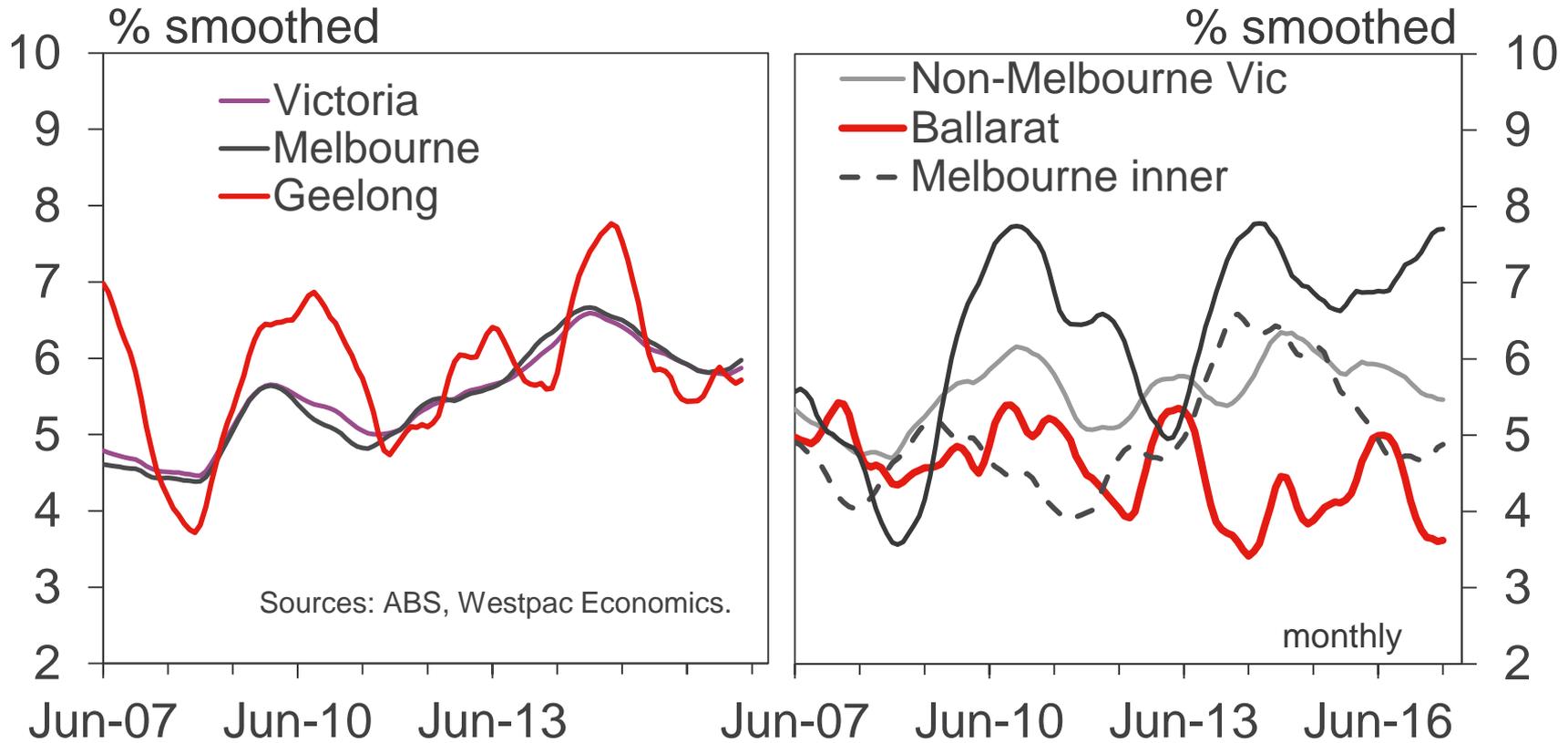
Westpac jobs index* - short term strength



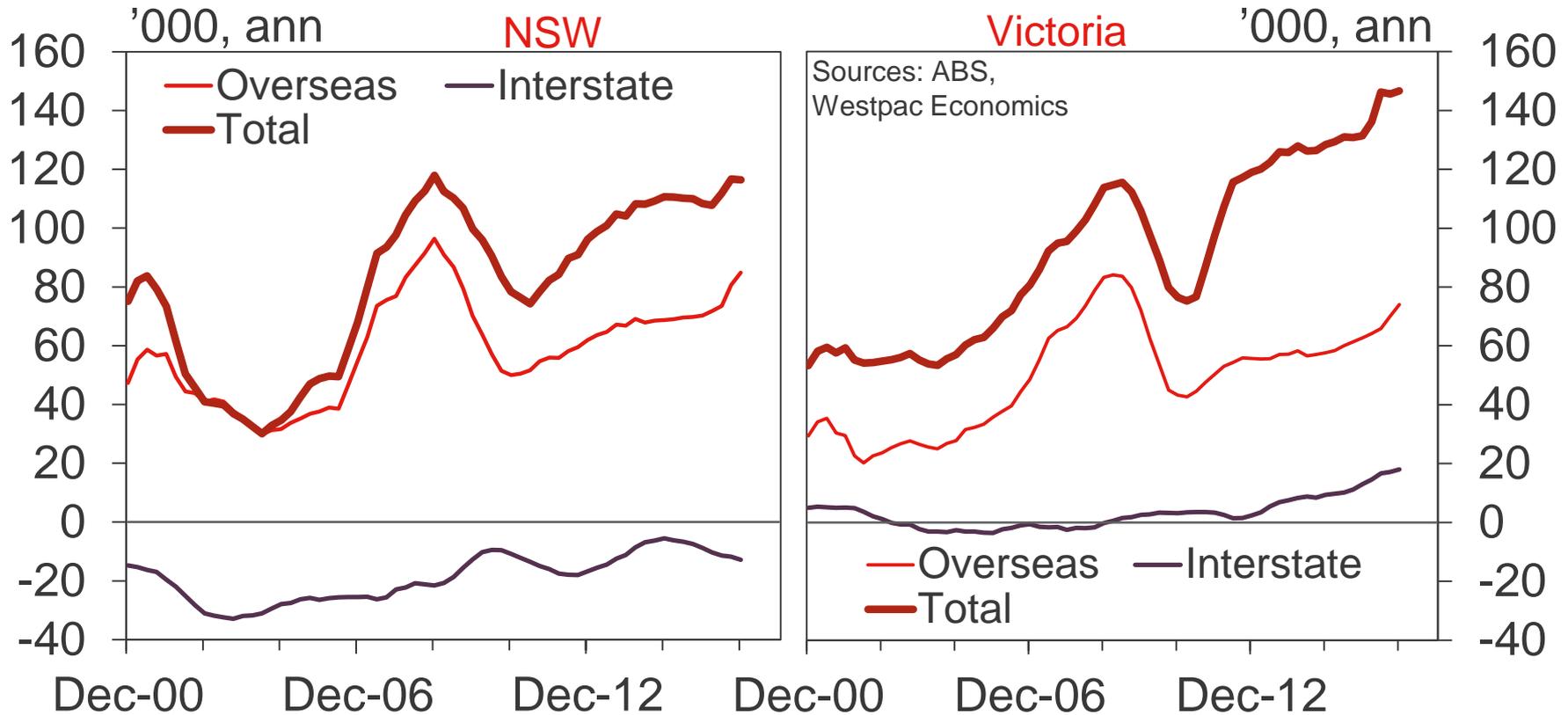
Unemployment rate to rise nationally



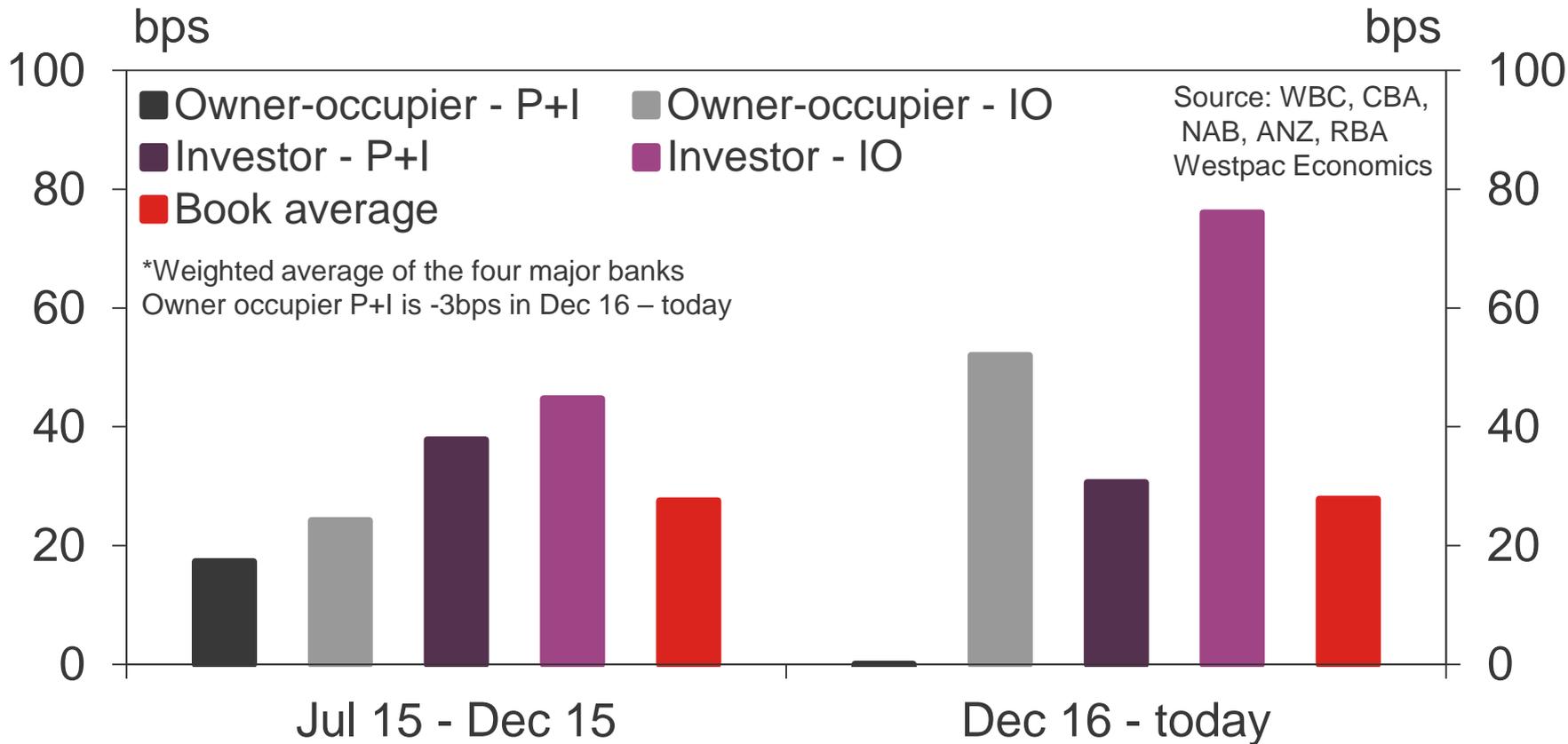
Unemployment in Vic by regions



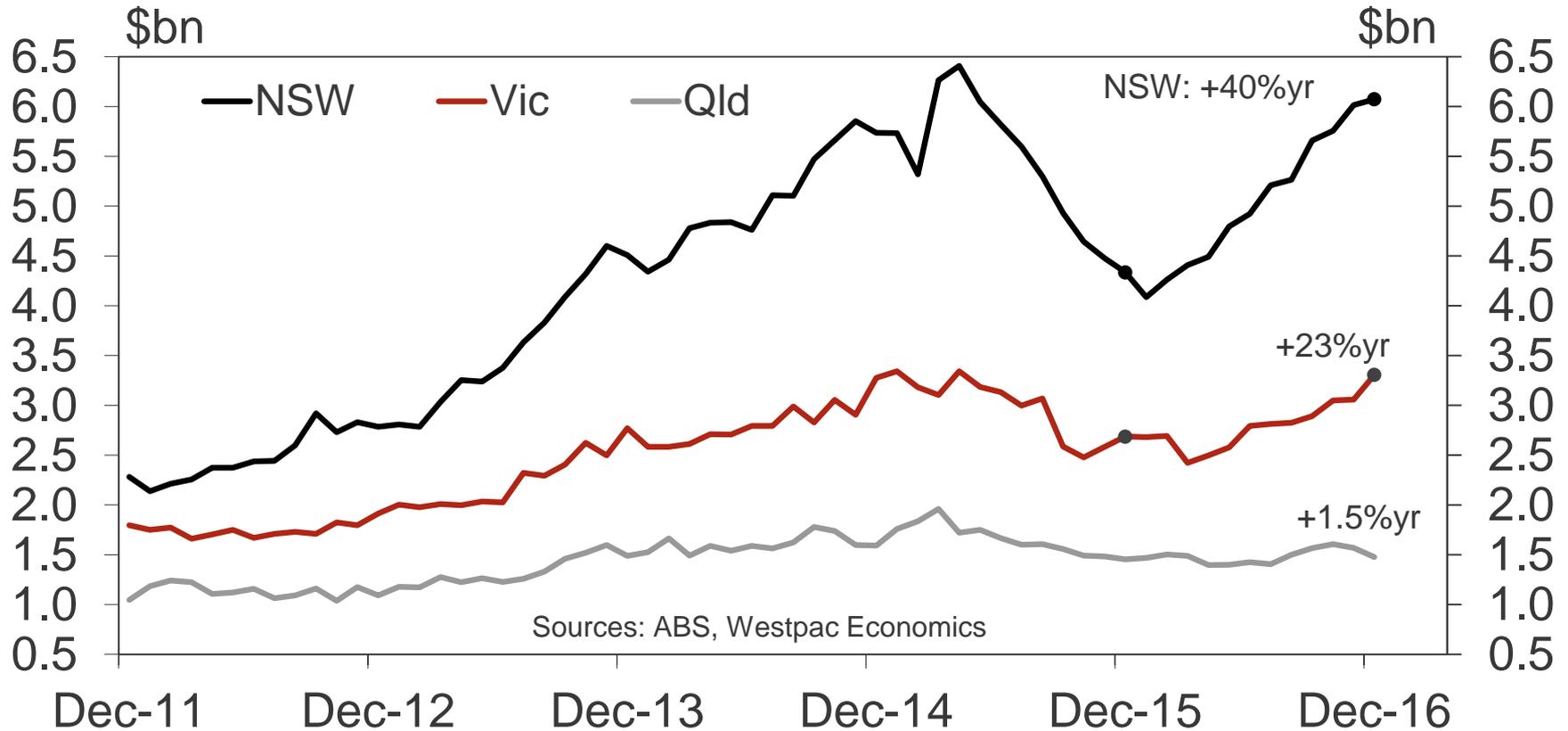
Population growth: south-east



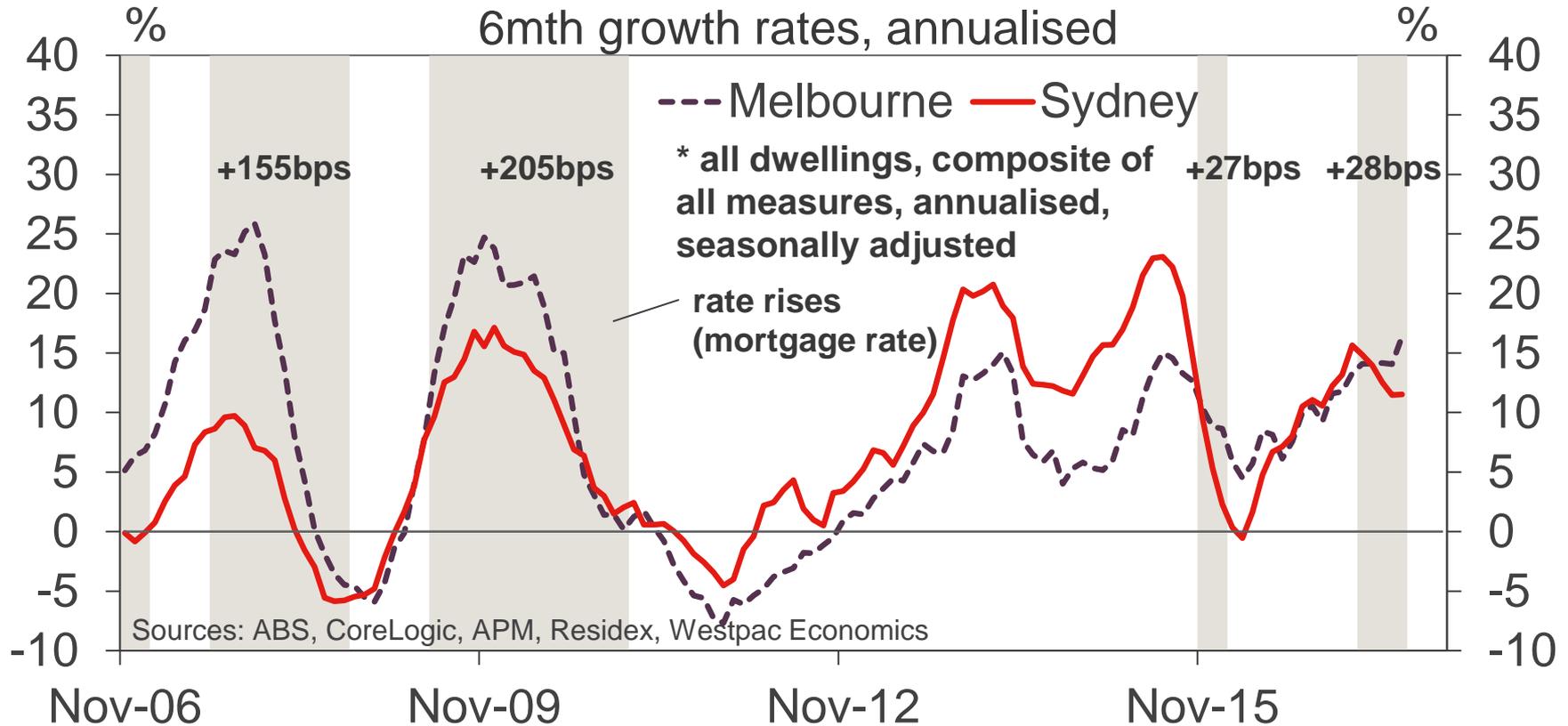
Mortgage rate tiering – tightening cycles



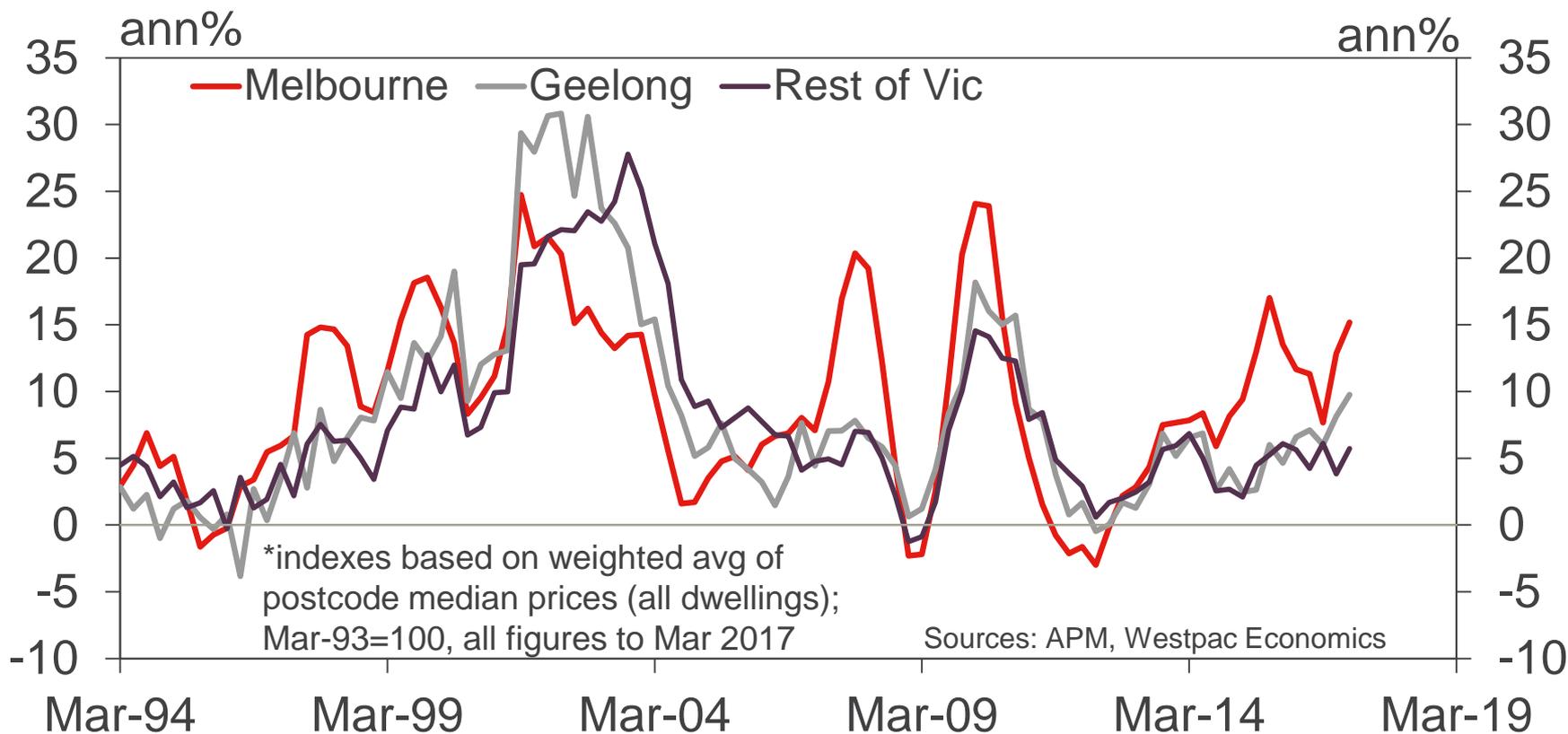
Housing finance by state: investors



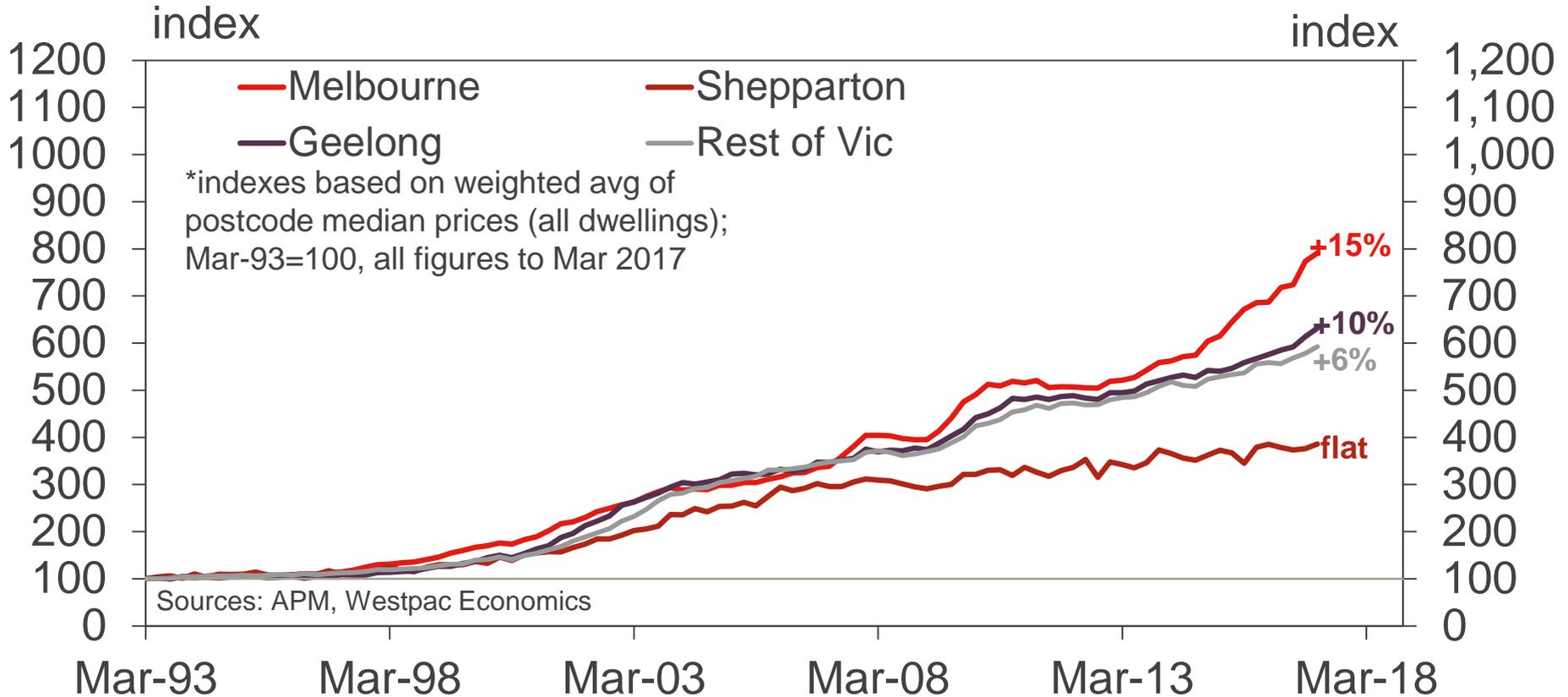
Prices can fall – in response to rate hikes



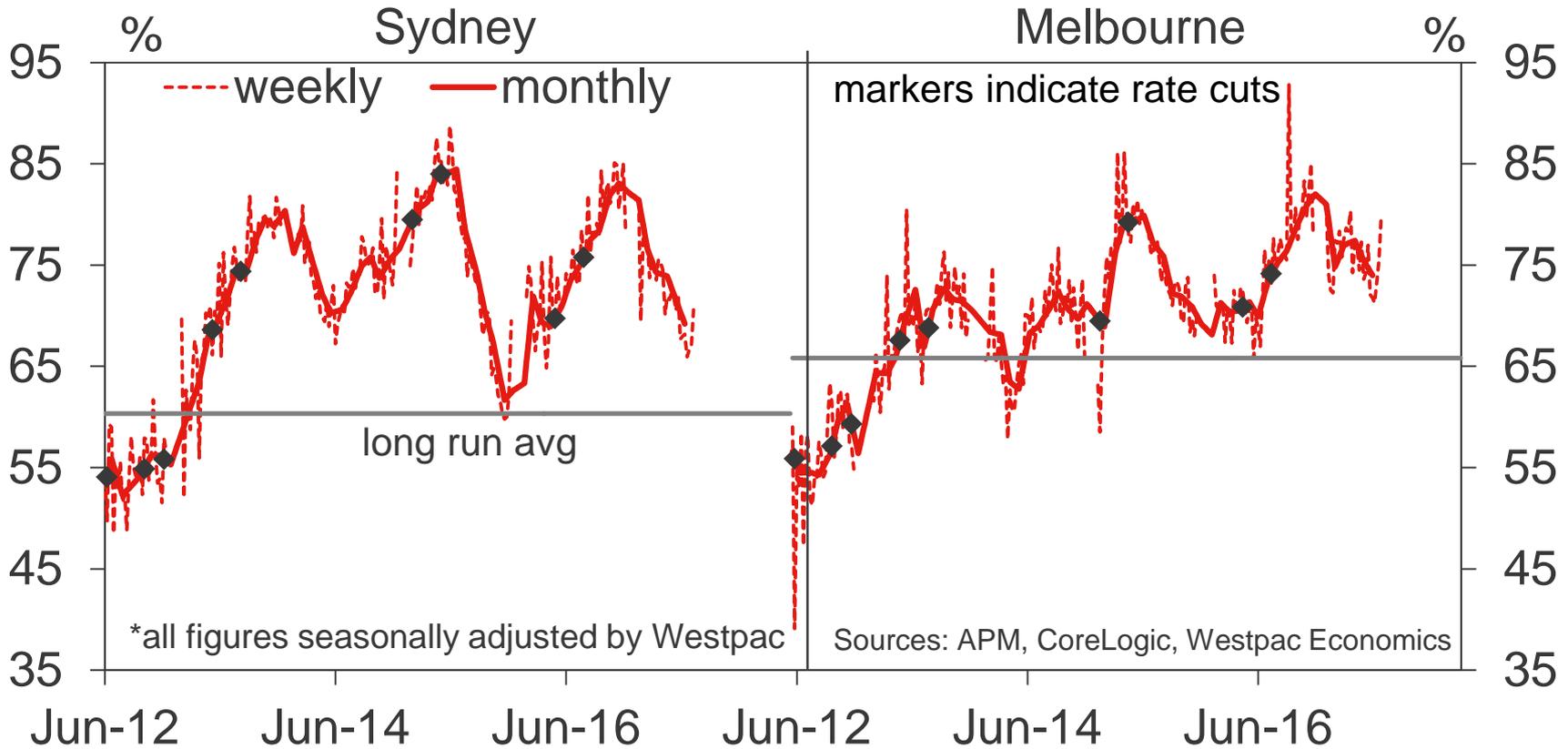
Dwelling prices: Geelong more stable than MLB



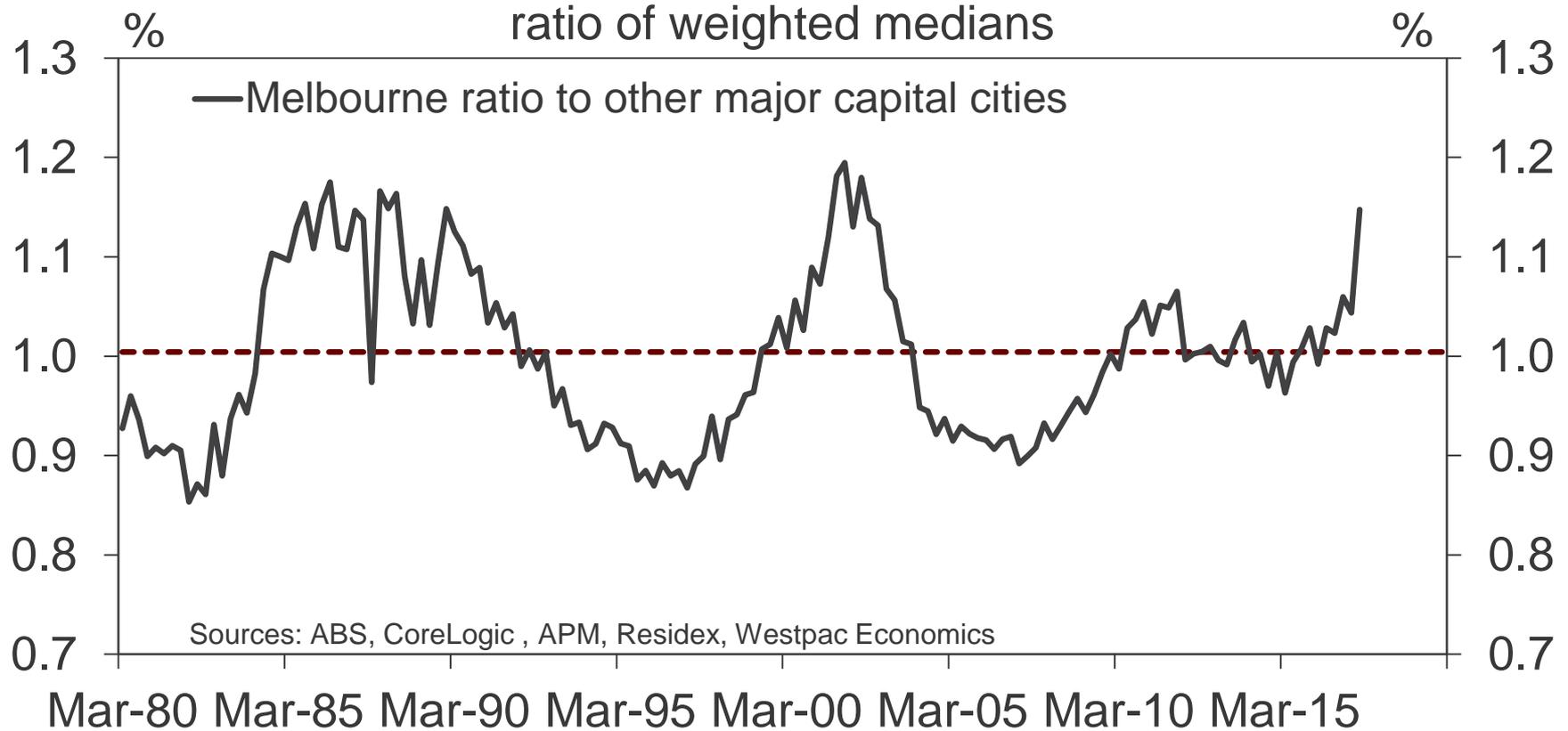
Dwelling prices: Geelong only behind MELB.



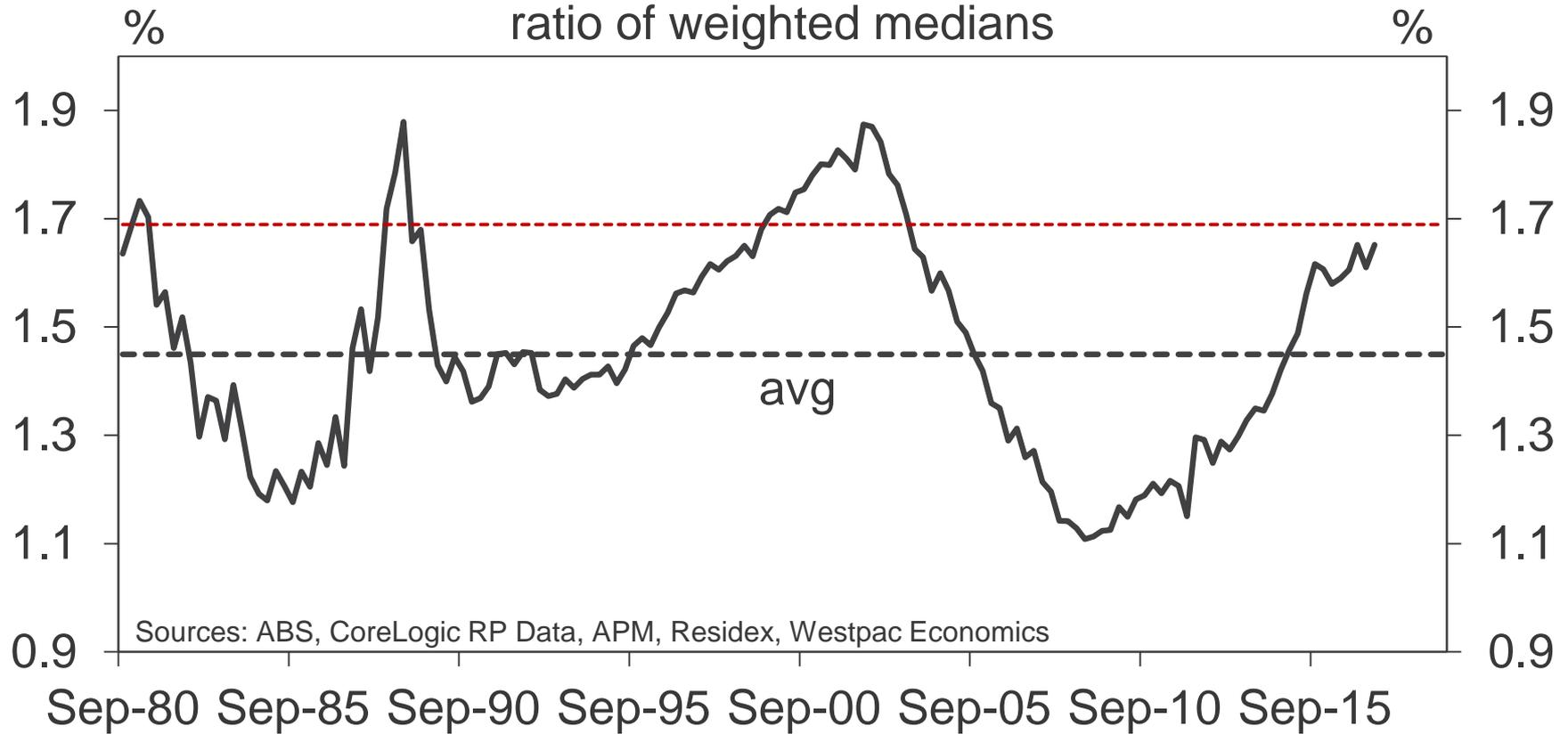
Auction clearance rates



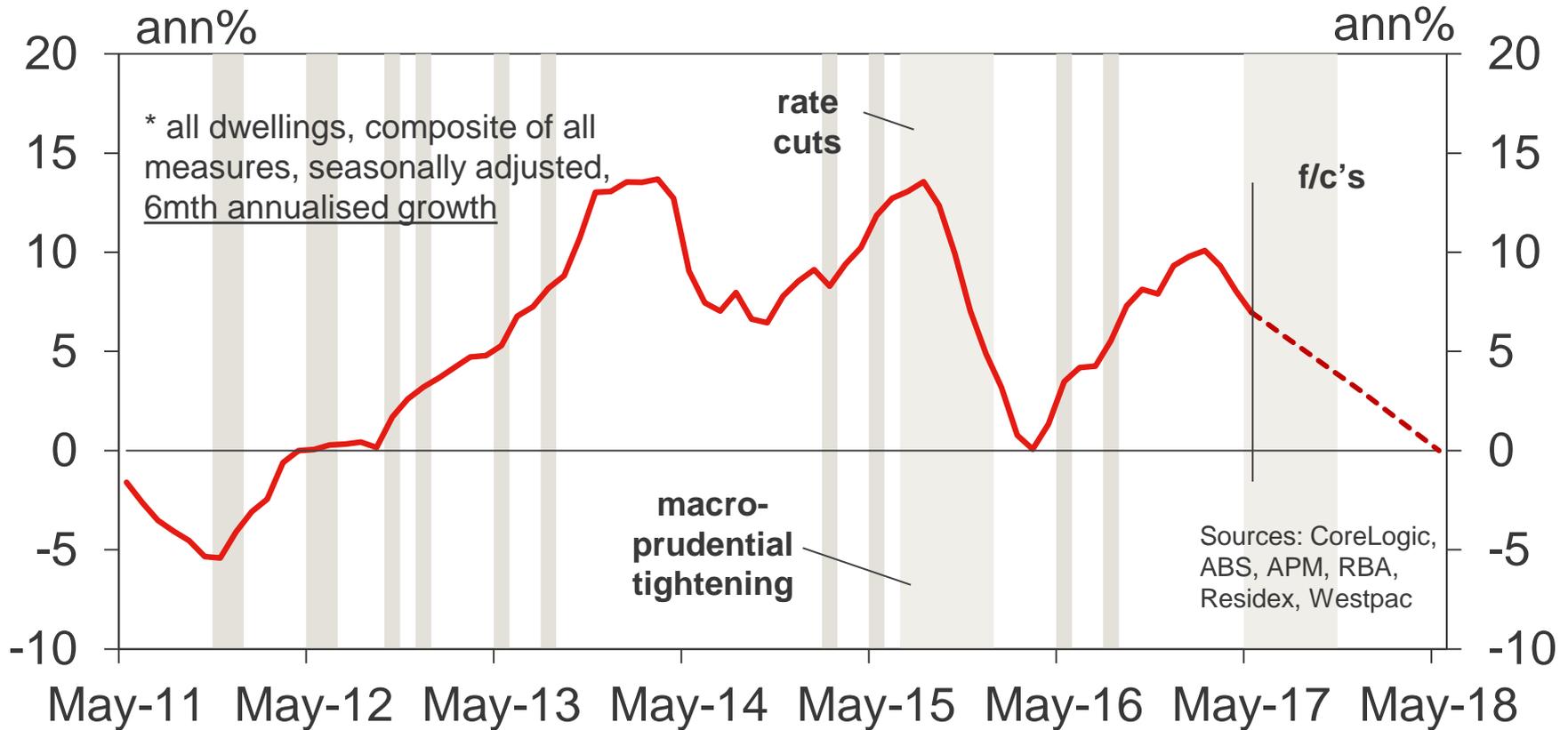
Melbourne dwelling prices vs rest of Australia



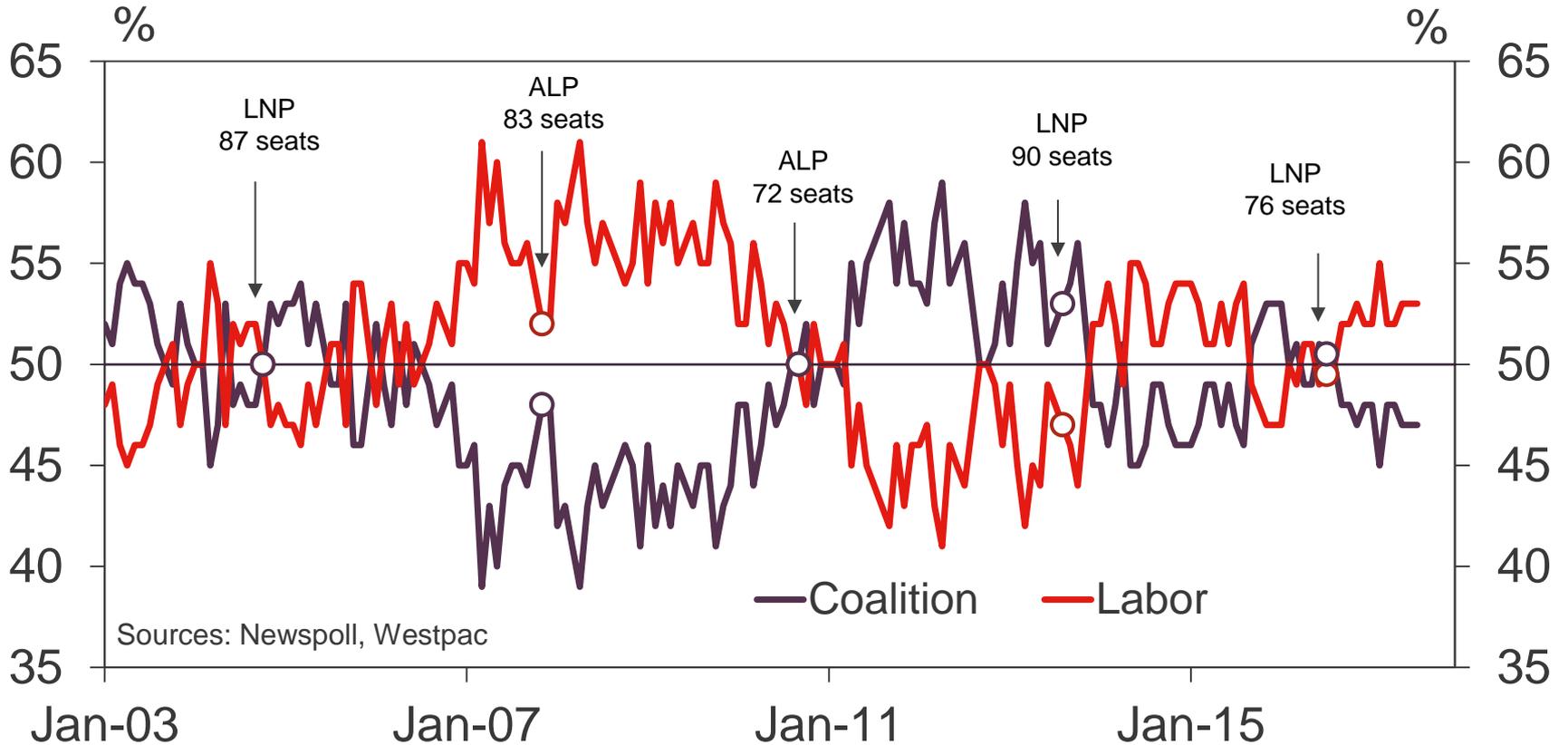
Sydney dwelling prices vs rest of Australia



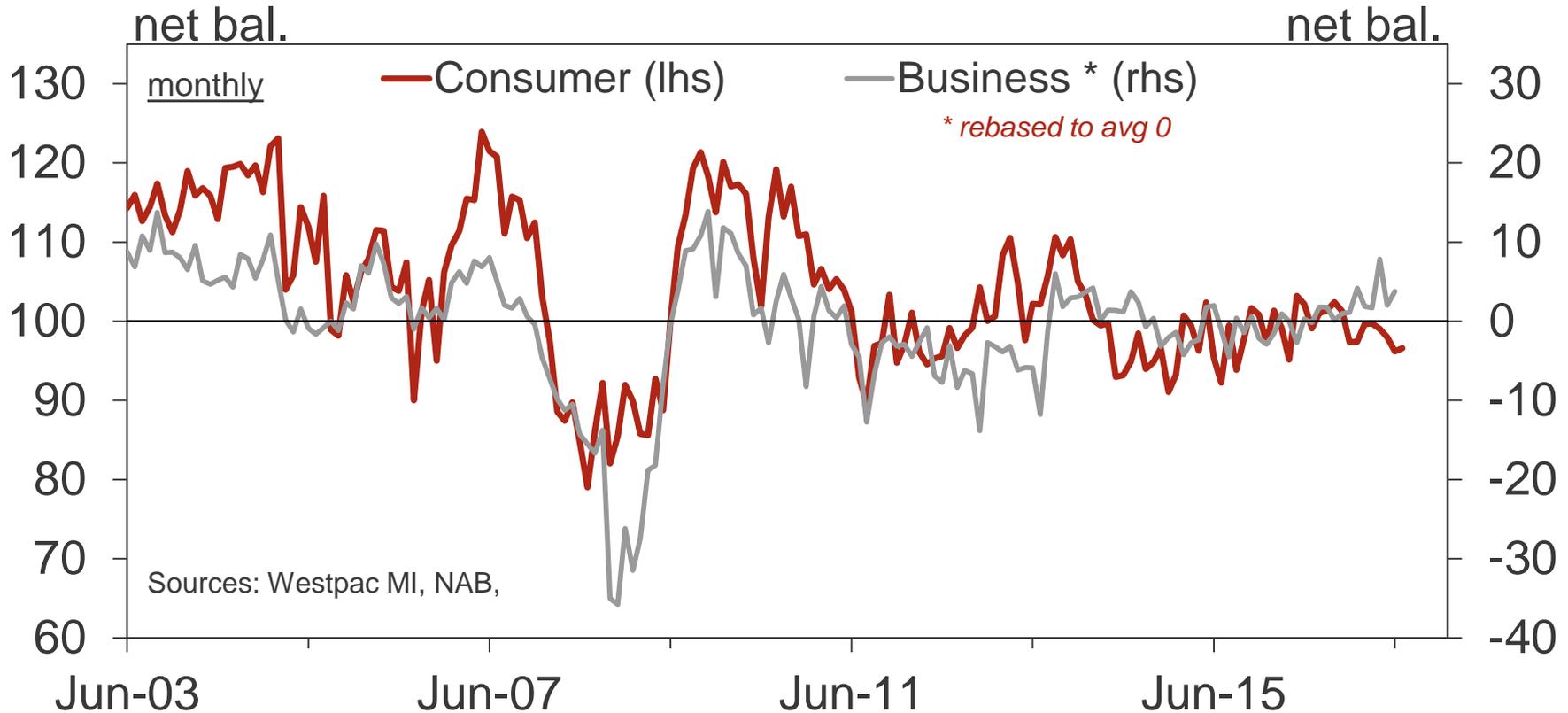
Dwelling prices: growth to slow sharply



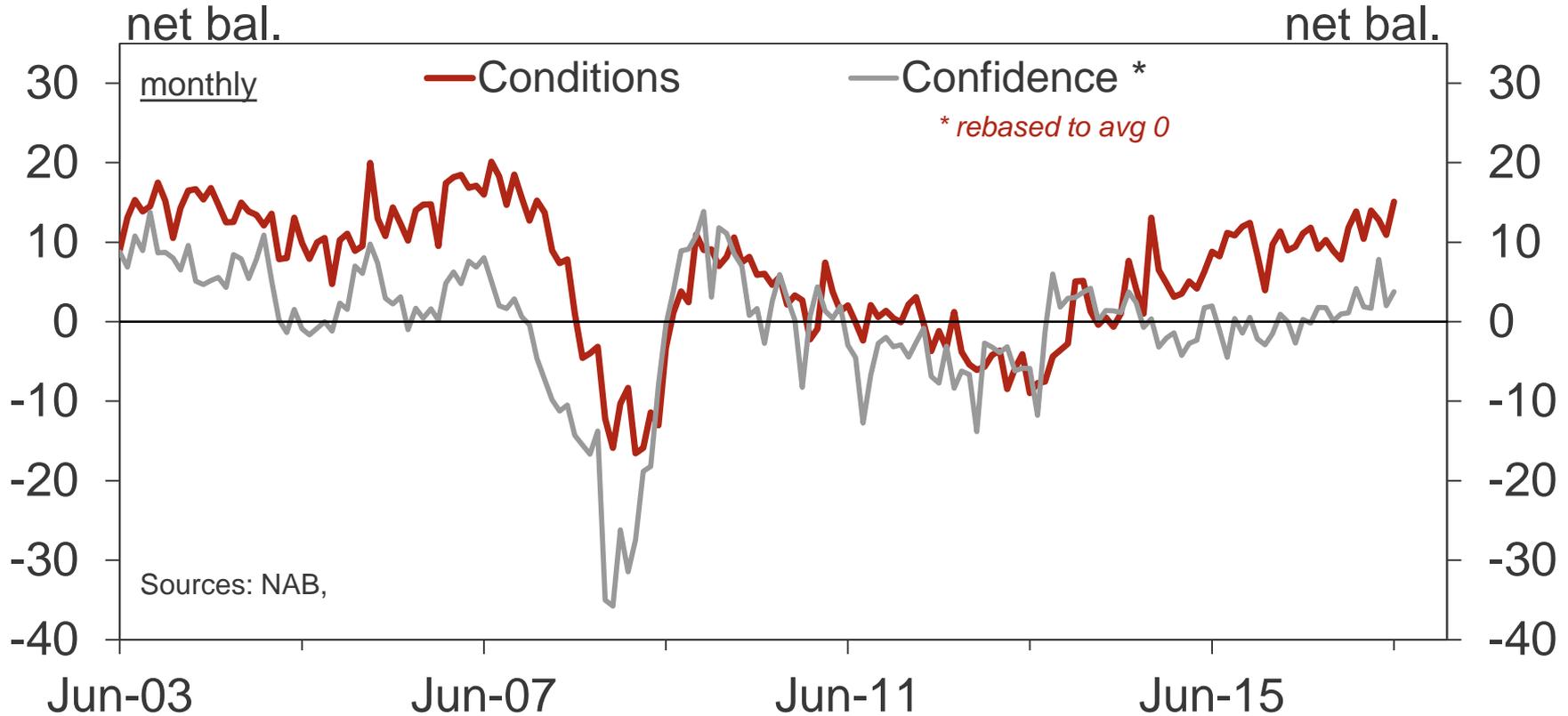
Newspoll: recent leads hold for multiple years



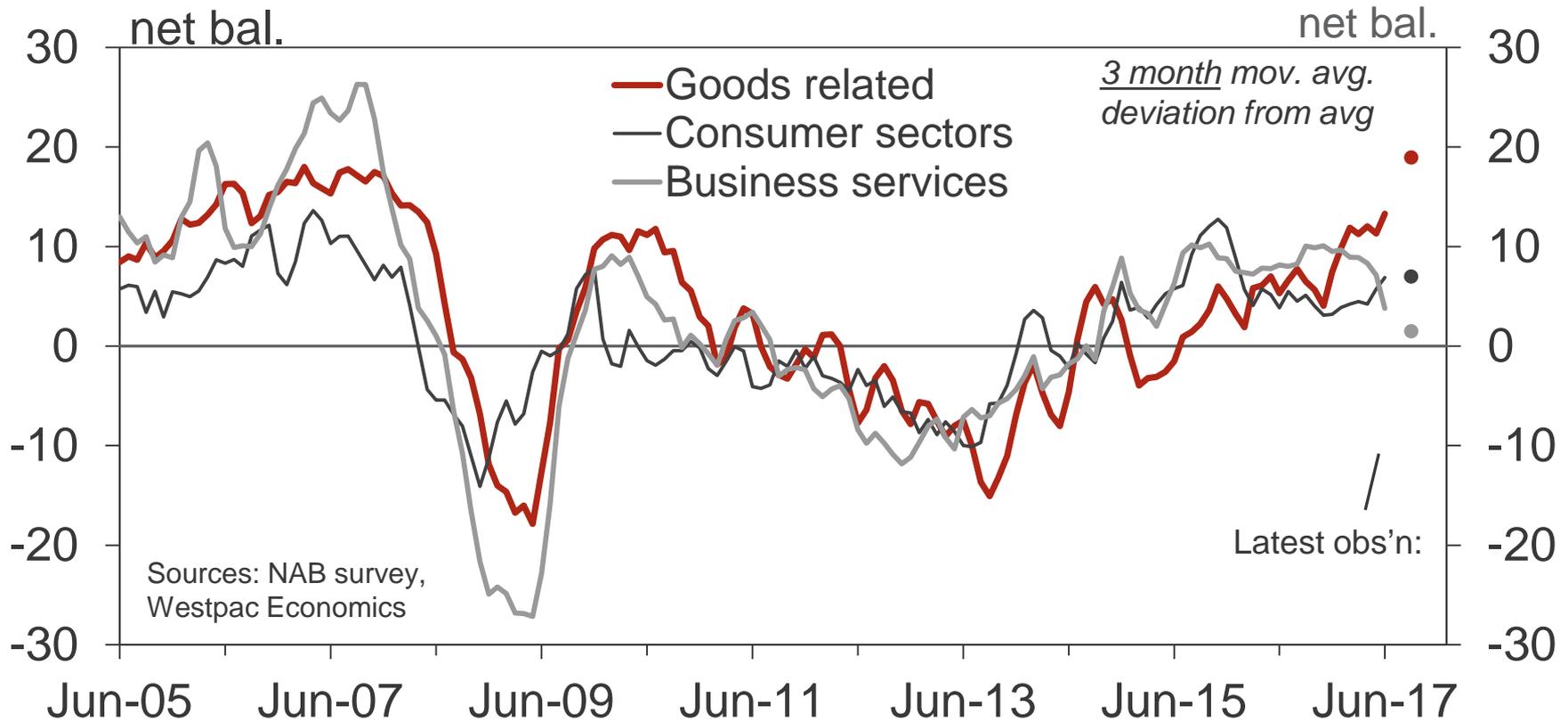
Confidence: consumer and business



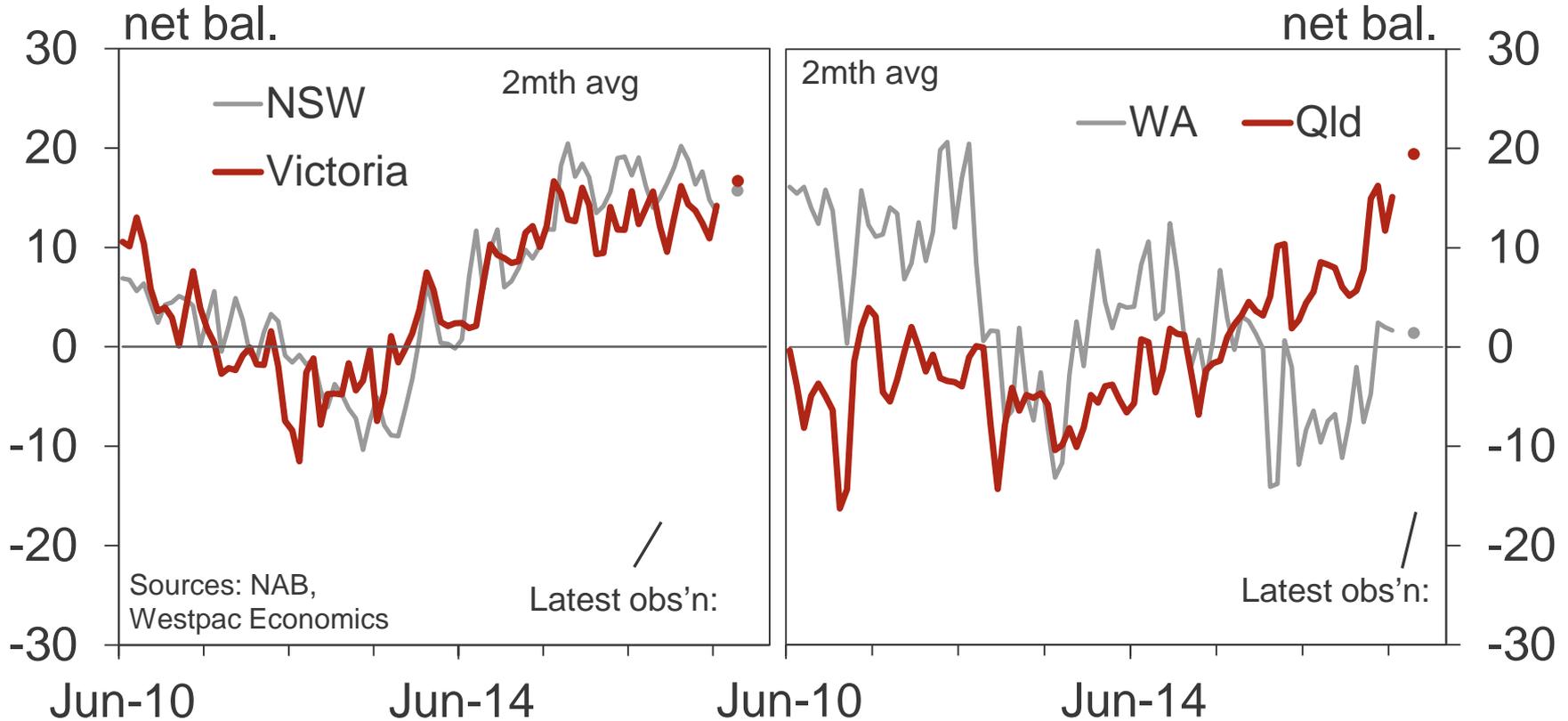
Business: conditions and confidence



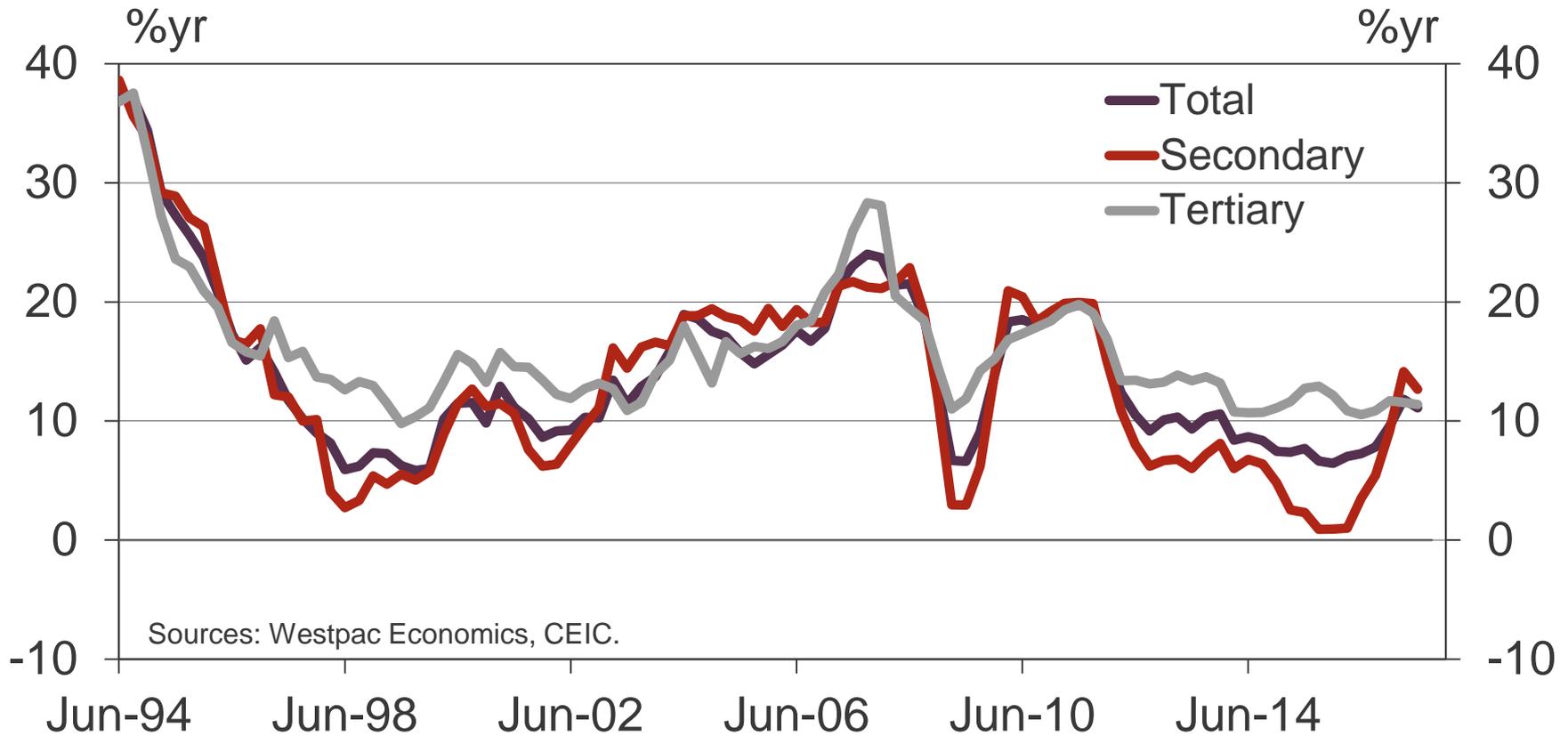
Business conditions: by broad sectors



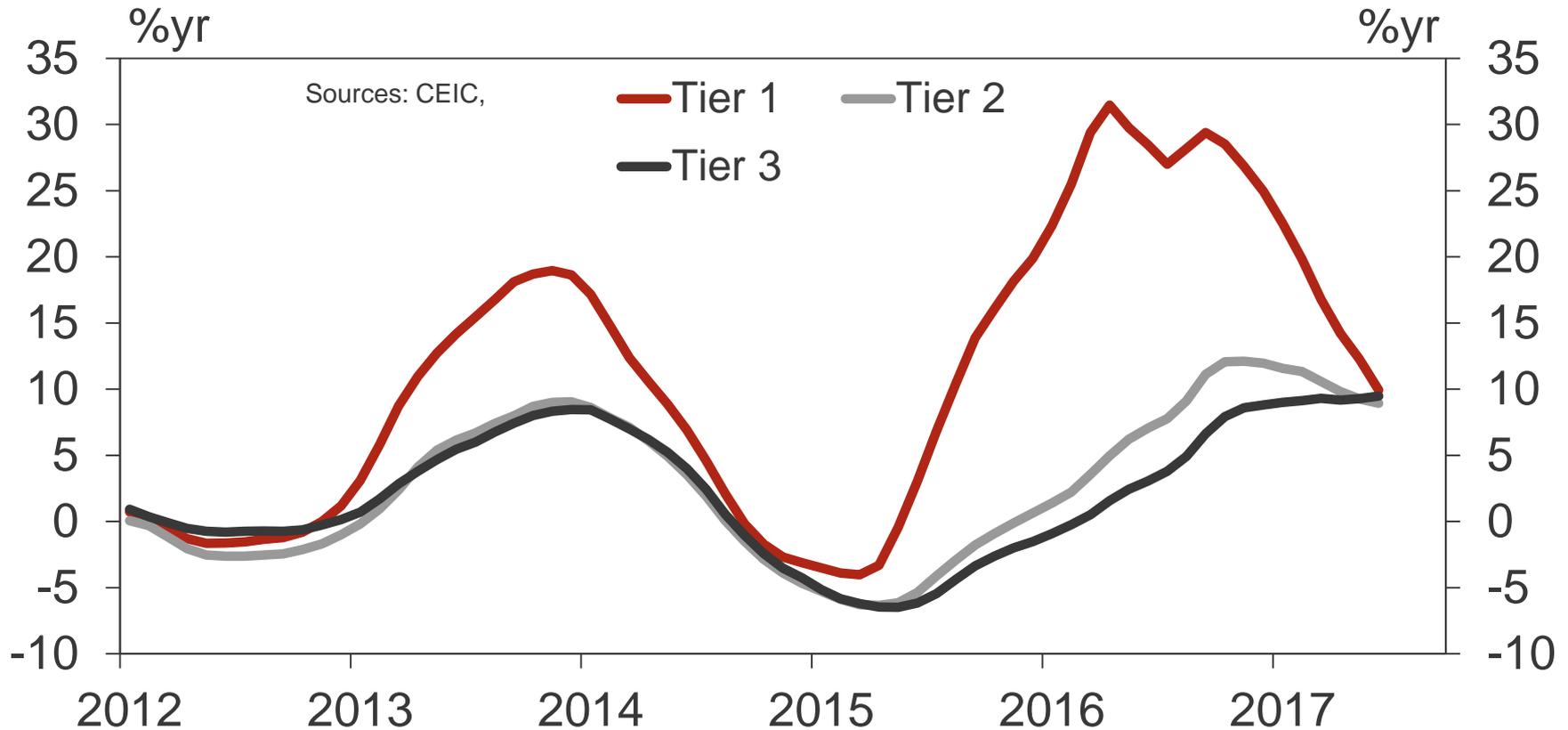
State view: business conditions



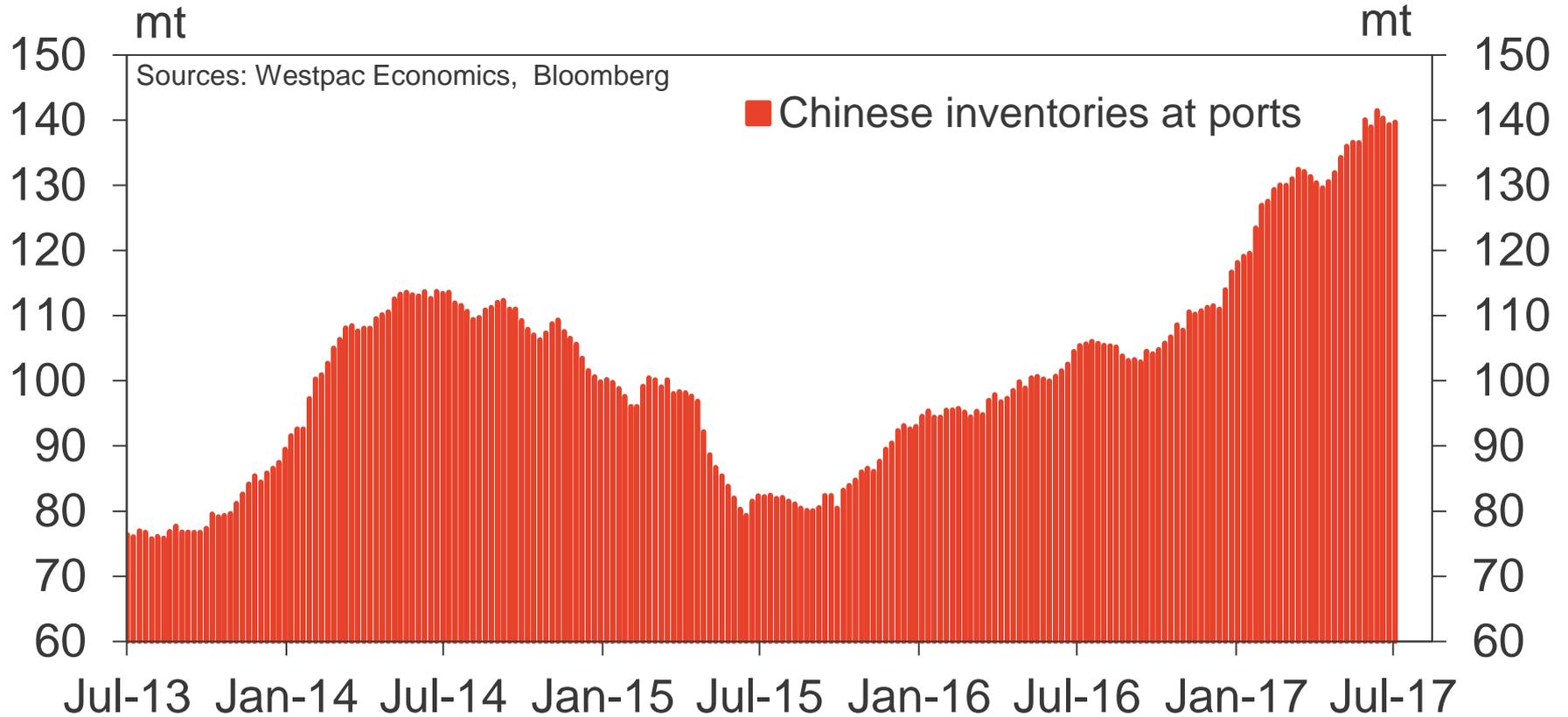
Nominal GDP: total & by broad sector



China :New house prices: growth by tier



Chinese inventories hitting record highs

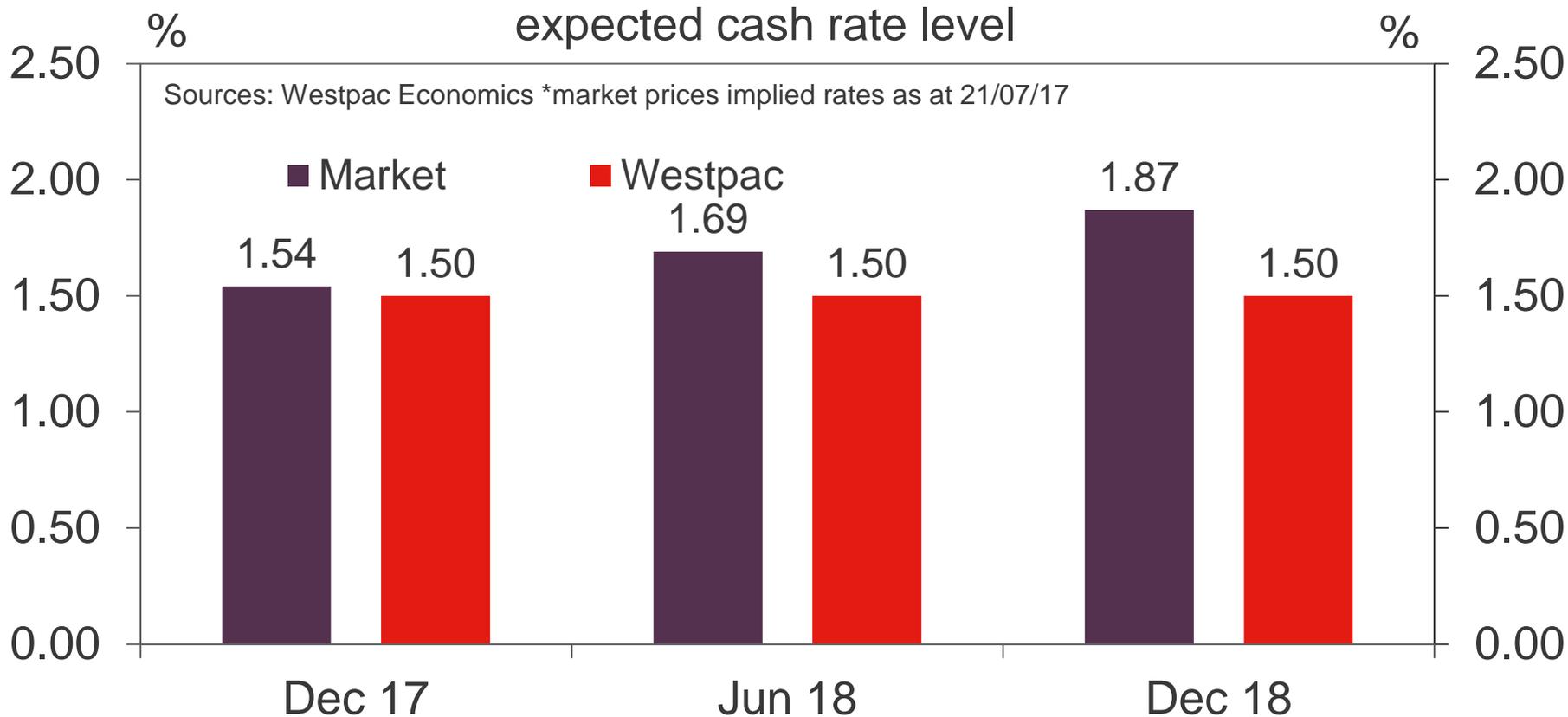


Westpac commodity forecasts

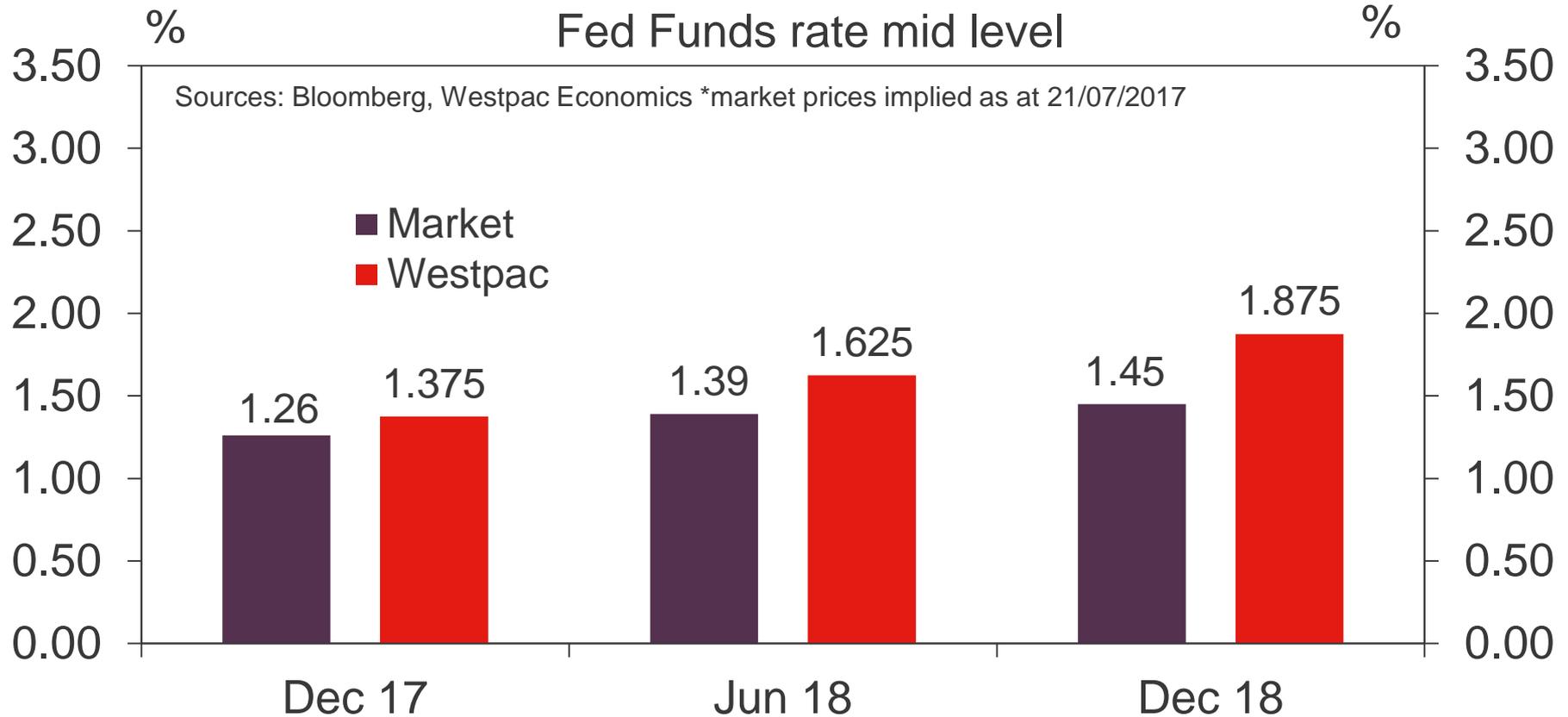
| | Q2 2017 | Q4 2017 | Q2 2018 | Q4 2018 |
|---------------|---------|---------|---------|---------|
| Iron ore | 75 | 70 | 55 | 40 |
| Coal (coking) | 180 | 130 | 100 | 75 |
| Oil, Brent | 53 | 52 | 45 | 42 |

Source: Westpac Economics

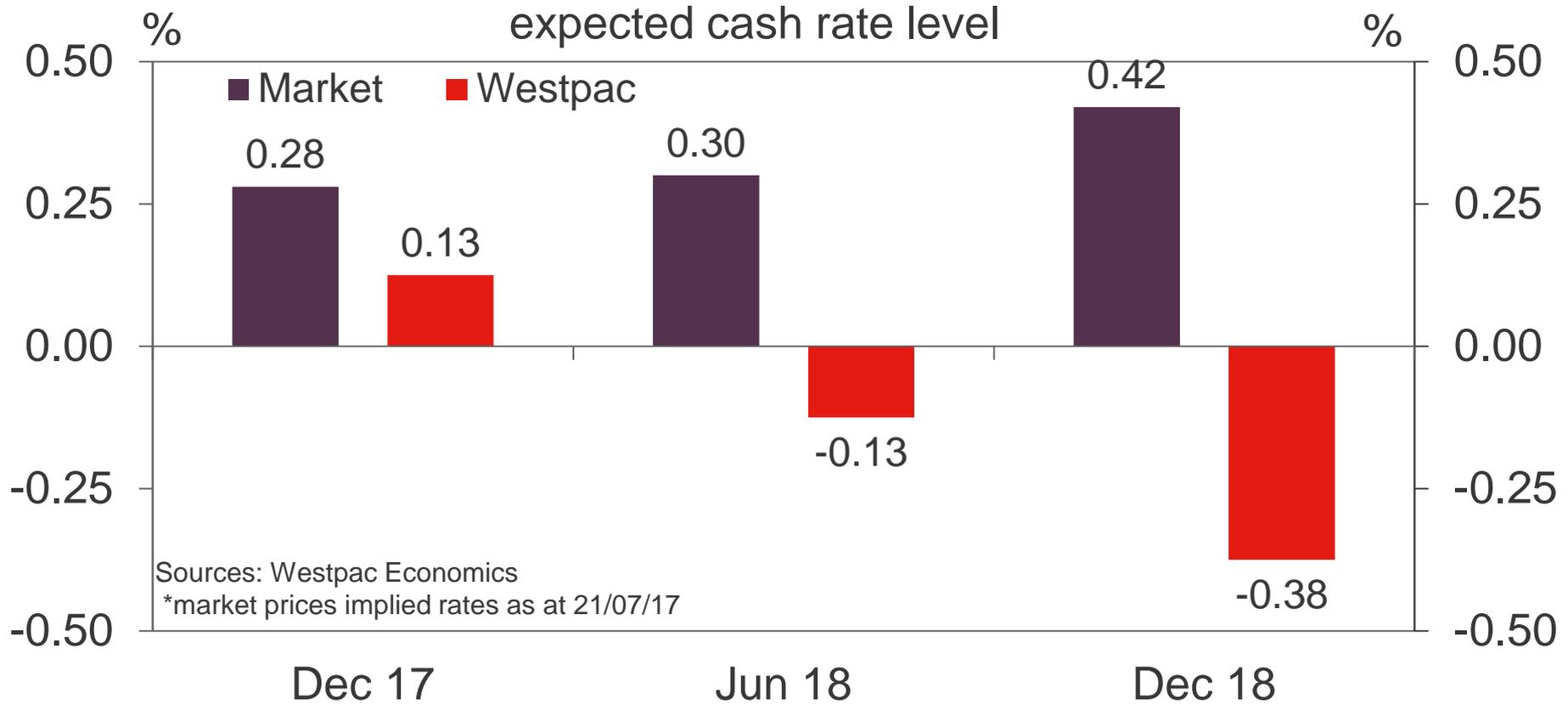
Westpac: RBA on hold in 2018



FOMC normalisation: a long, slow process



Westpac: rate differential negative

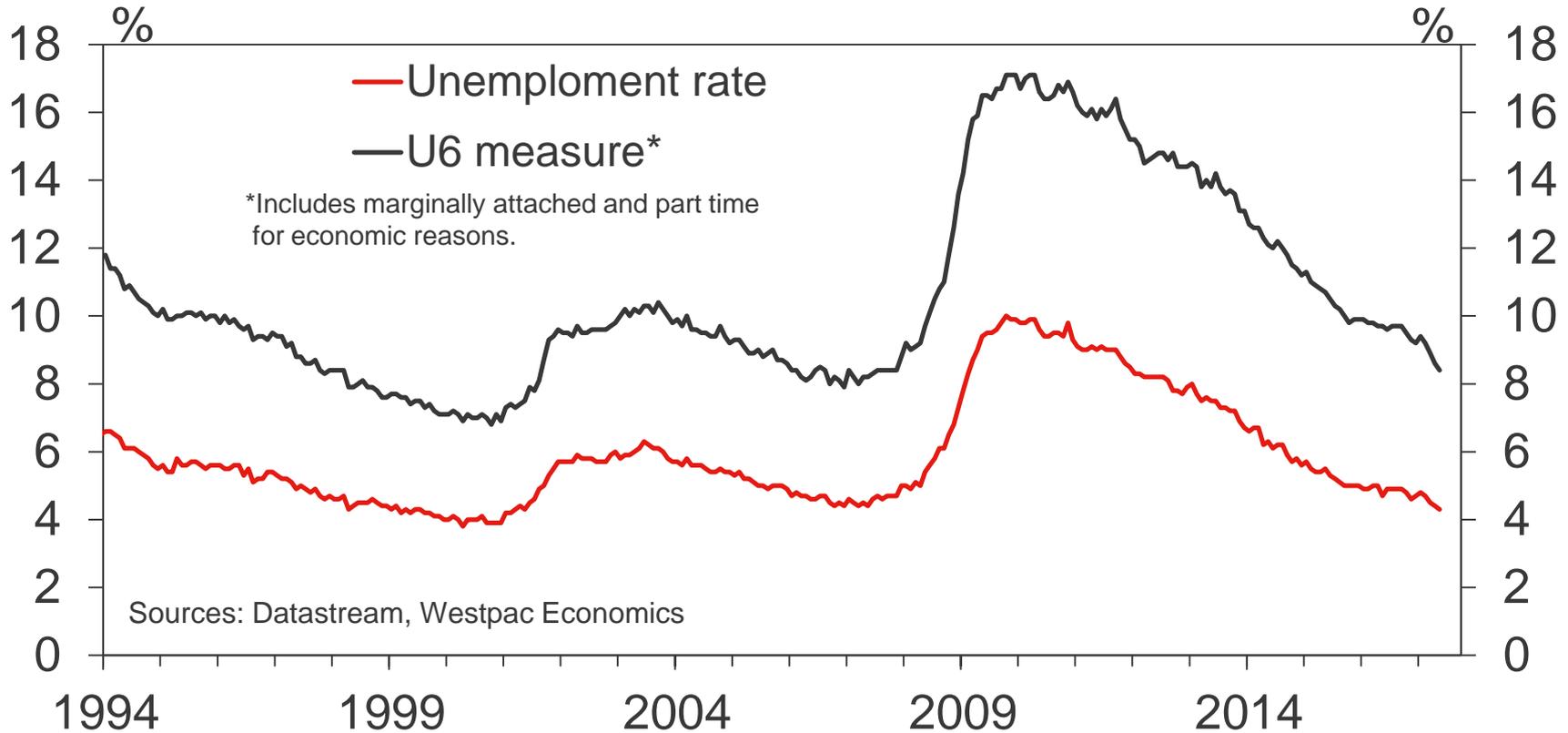


Westpac commodity forecasts

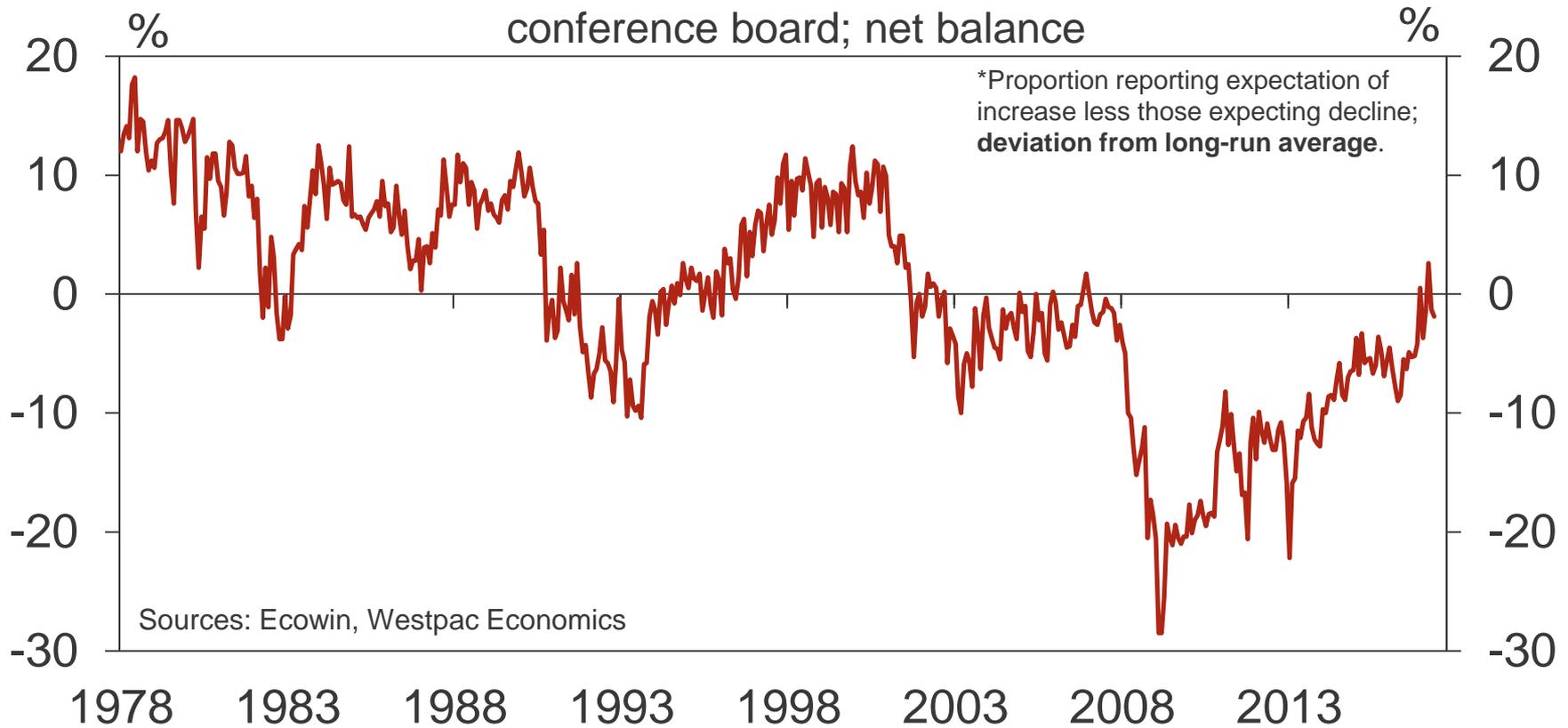
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| Iron ore | 75 | 70 | 55 | 40 |
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Source: Westpac Economics

Underemployment also falling



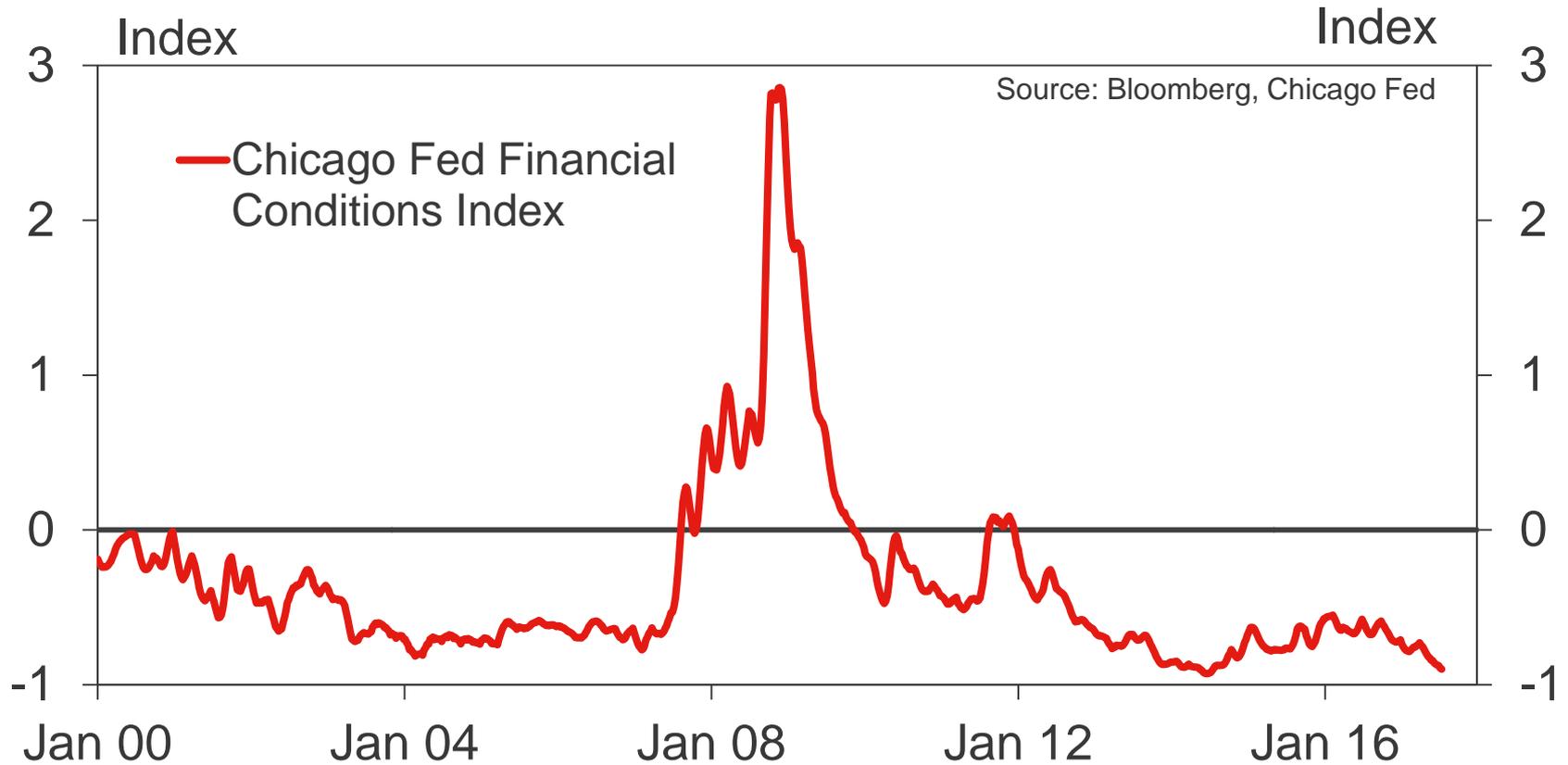
Household income expectations trend up



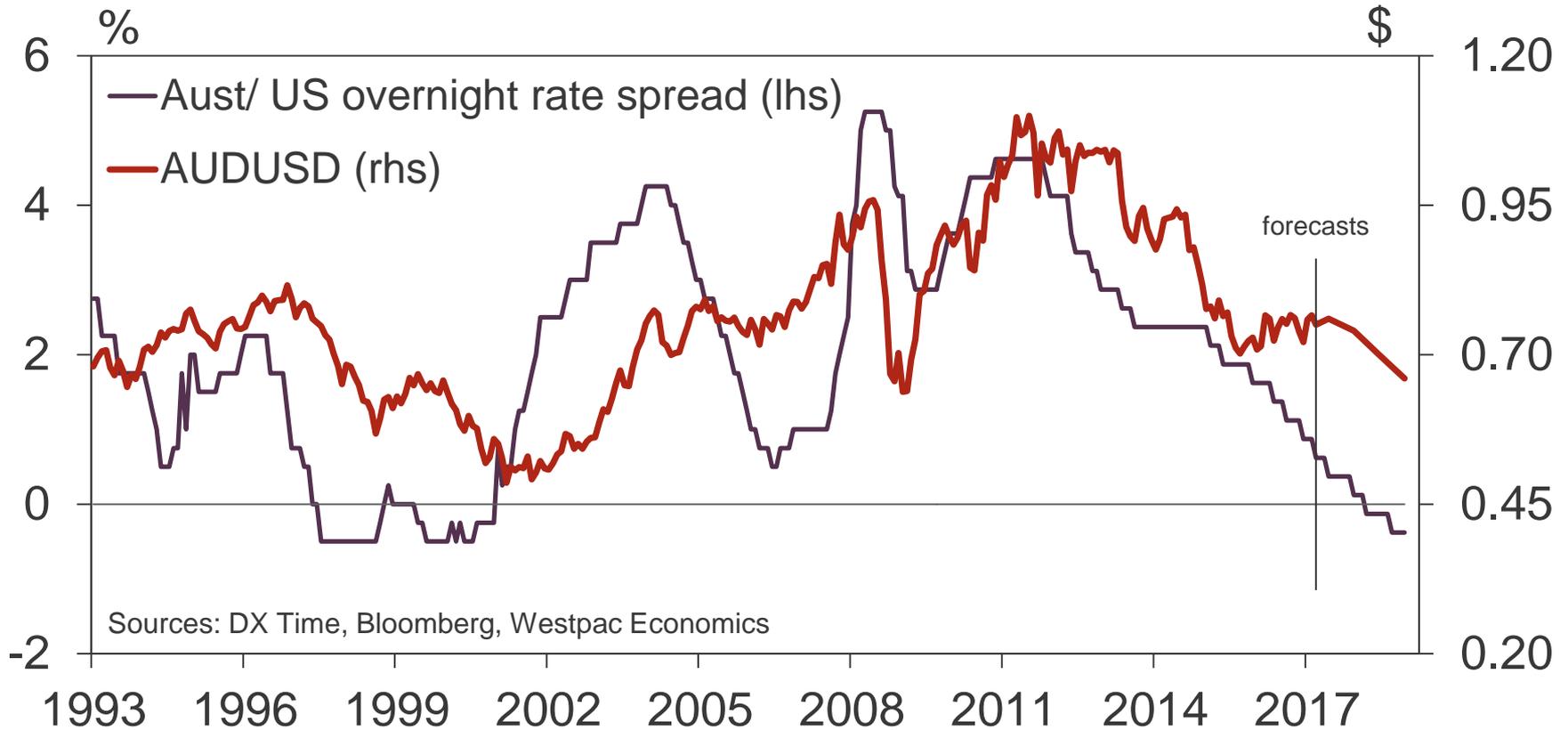
USD 8% fall to boost inflation



US financial conditions are healthy



Australian-US O/N spreads and AUD



Conclusion

- Authorities growth outlook is too optimistic.
- Weak wages; high debt and falling savings will constrain household.
- Unemployment rate to rise in 2018; rates on hold.
- Downturn in housing construction partly offset by infrastructure.
- Political uncertainty to weigh on businesses.
- Housing affordability will constrain population growth.
- Recent rate rises set to slow housing markets in NSW/VIC (investors).
- China slowdown; FED rate hikes; commodities still to weigh on AUD.

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