Westpac
Australia's First Bank

Economic overview
Prepared for the 2002 Australian Agribusiness Congress

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Economic Overview

- International outlook
  - economy, equity markets; and
  - the USD

- Domestic factors
  - interest rates

- Commodities
  - “world” drought key factor

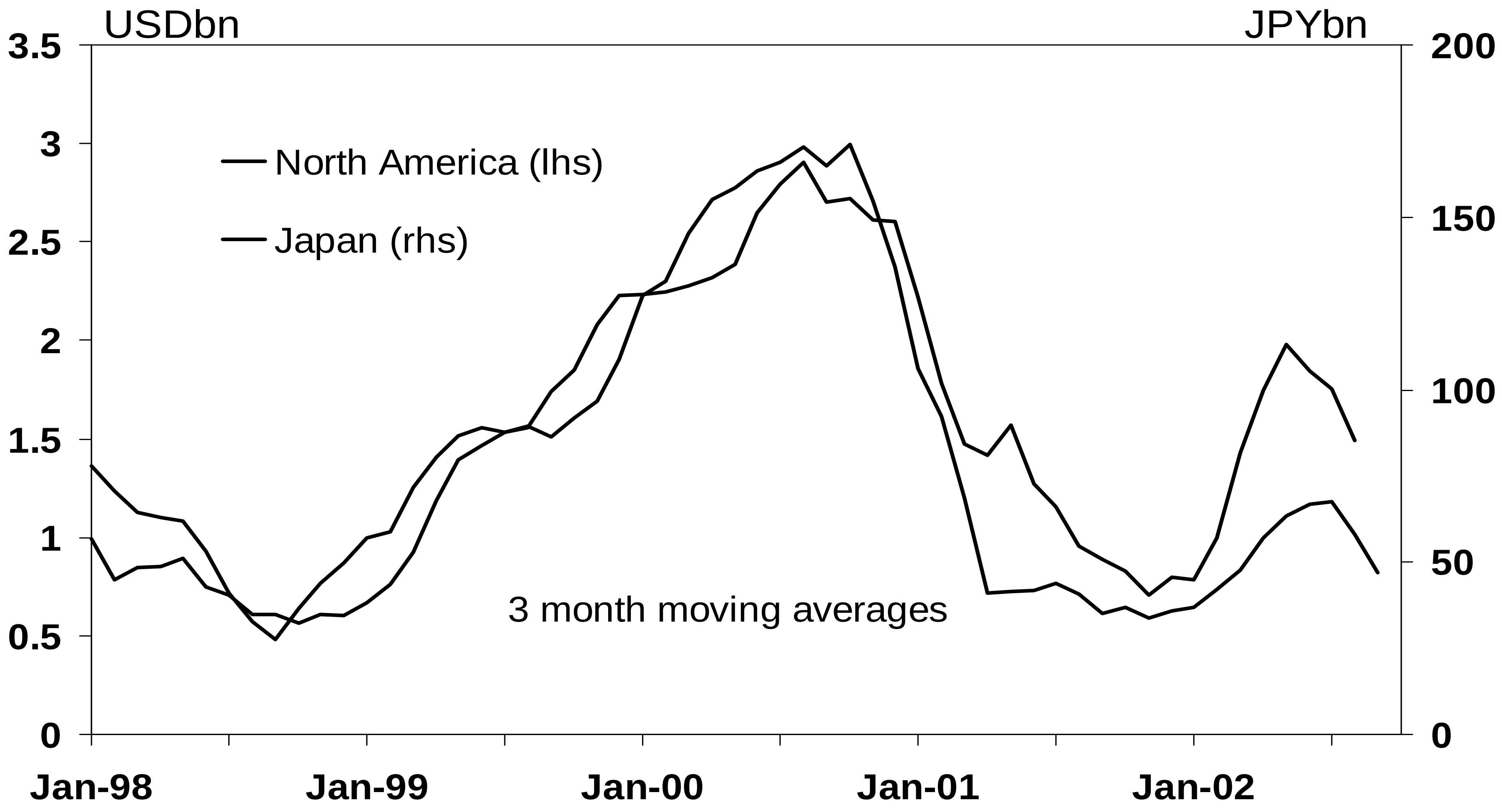
International outlook

- Economy
  - high tech recession over
  - but fuller recovery put back to 2003

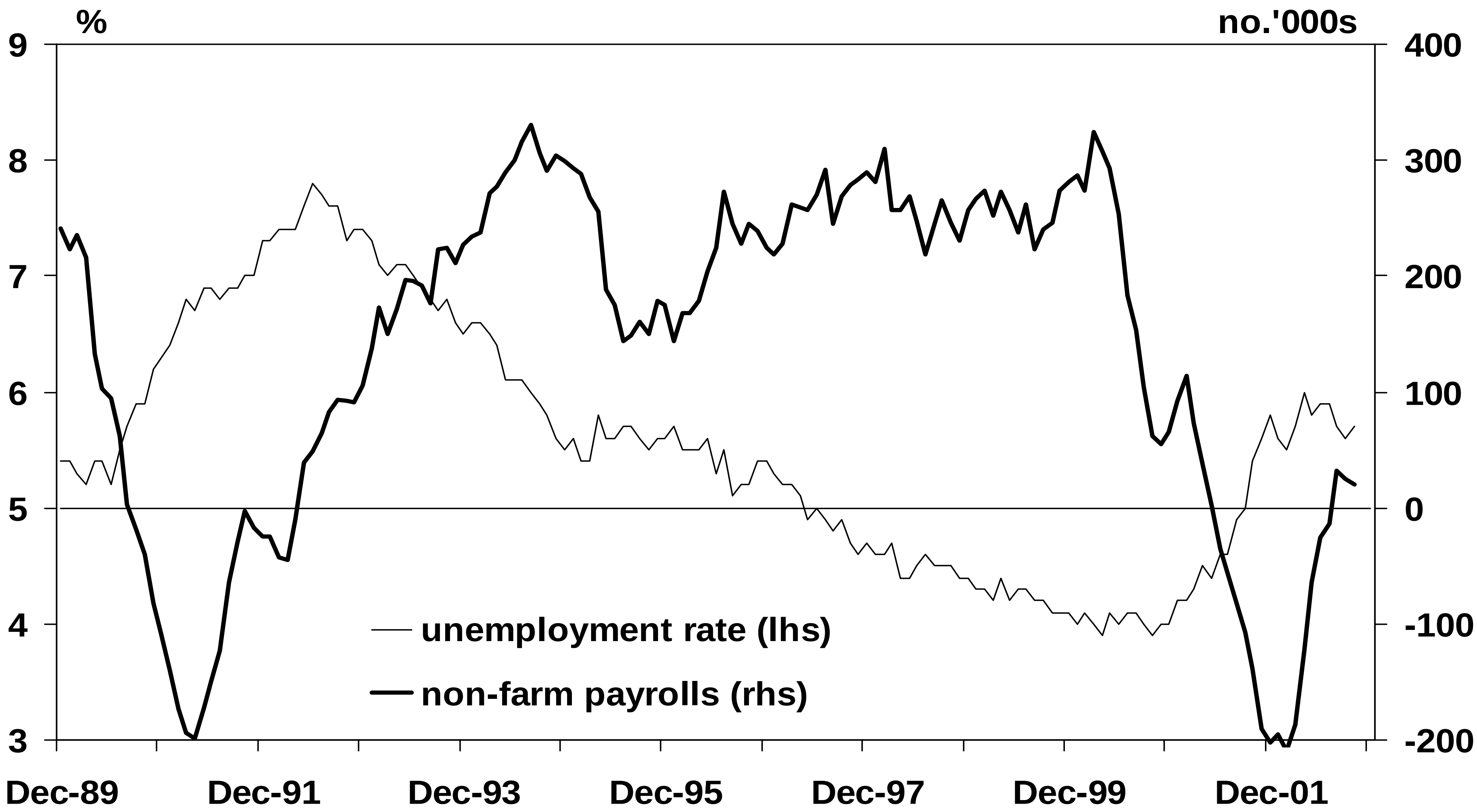
- Equity markets
  - the correction they had to have
  - probably finished

- USD
  - high, uncompetitive
  - unsustainable external deficits

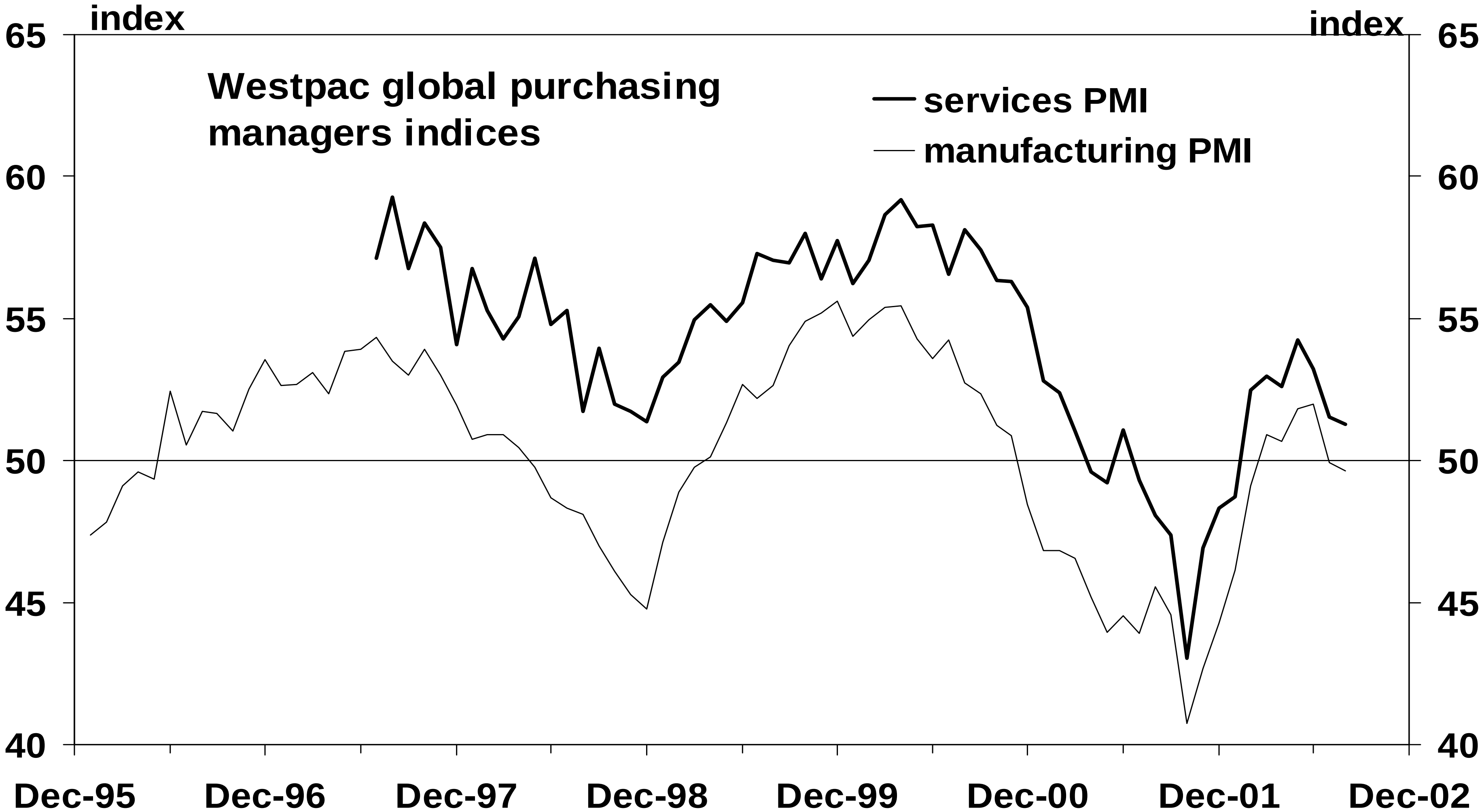
Semiconductor machinery orders - sharp recovery turns to disappointment



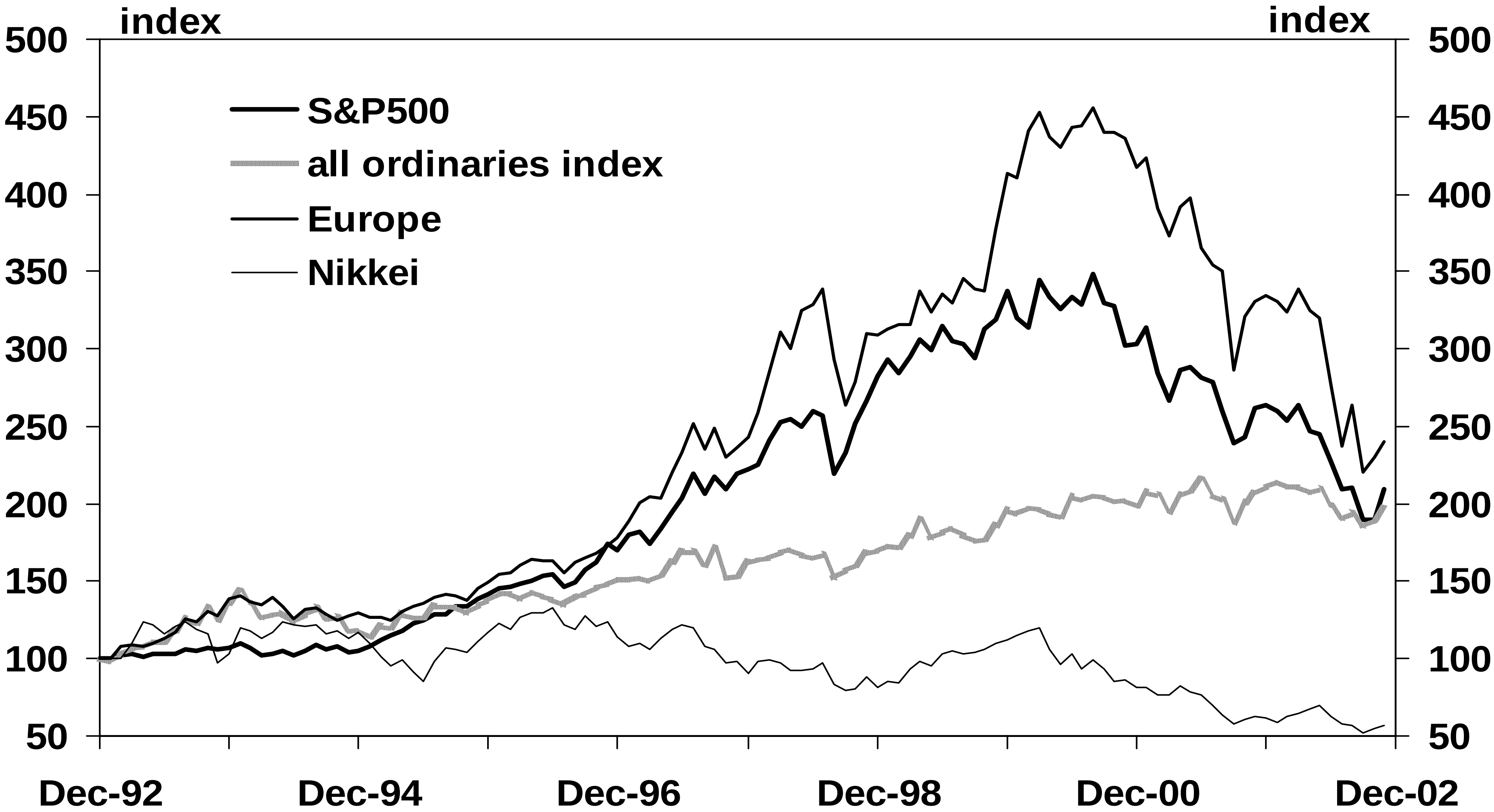
US labour market - much healthier than a year ago but still short of desirable



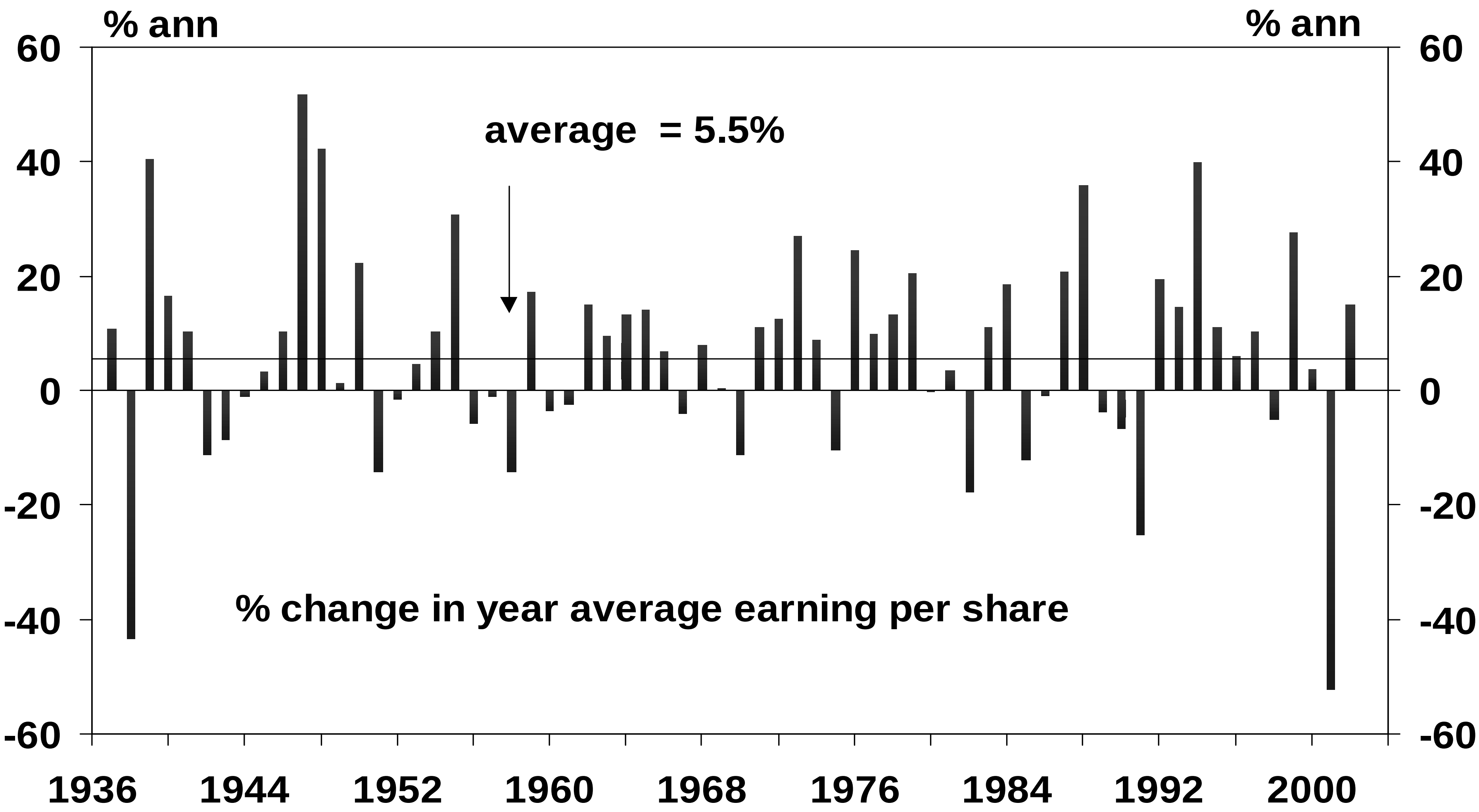
Global business confidence slipping again but still well off lows



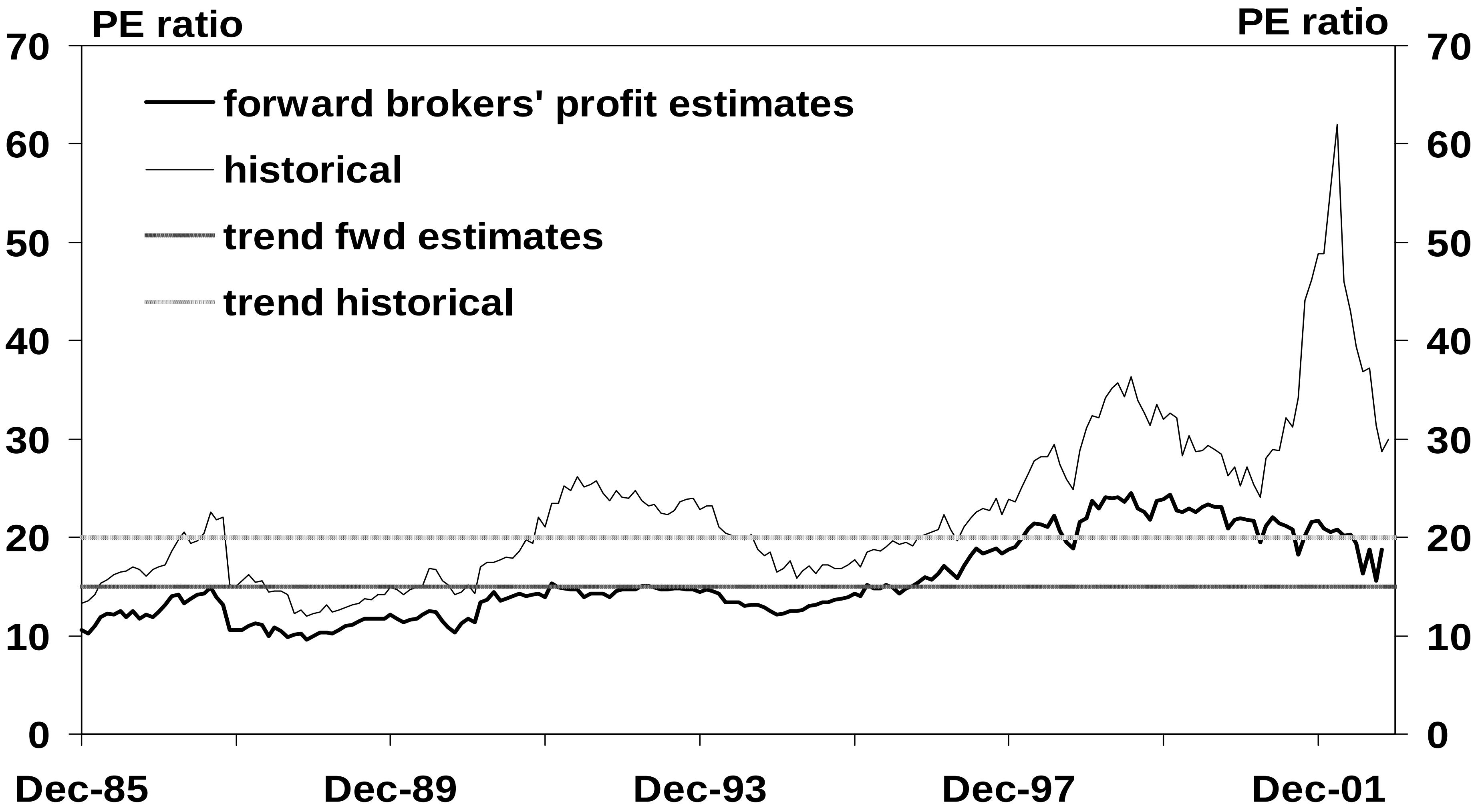
US/European sharemarket bubble deflates



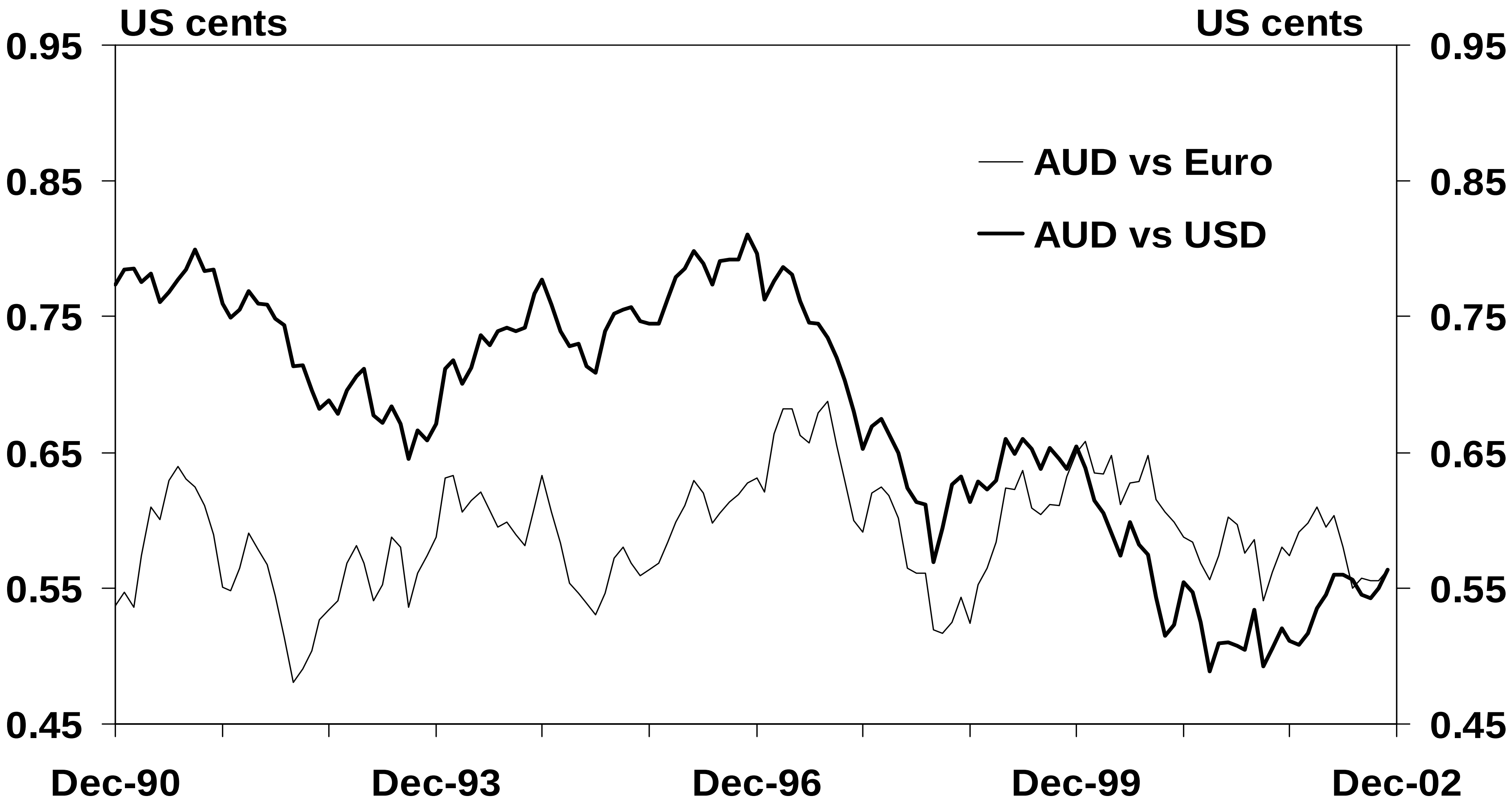
US S&P500 - the worst profit crunch on record & disappointing recovery in 2002



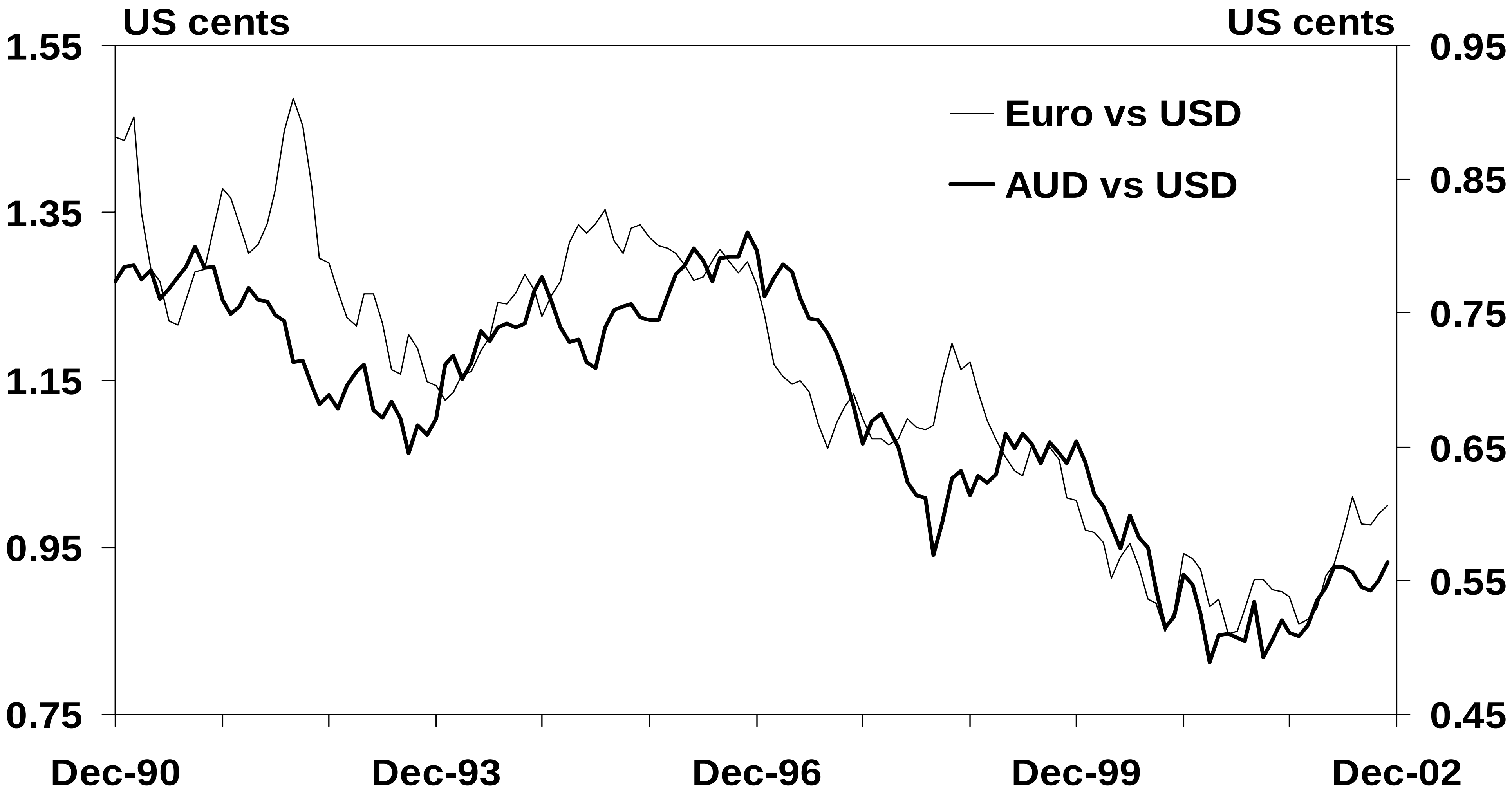
US S&P500 p/e's coming back to reality



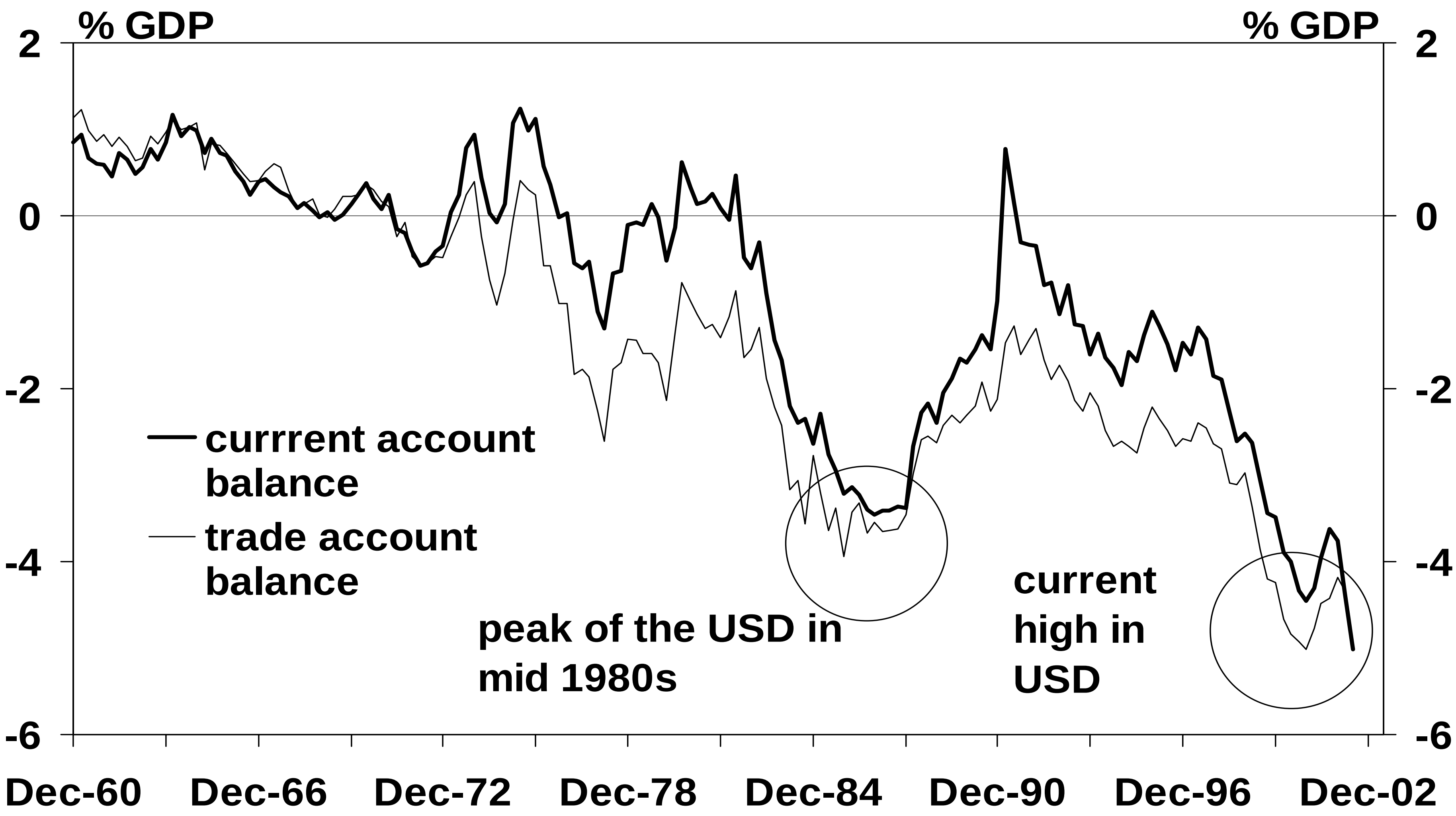
Two different long term perspectives: AUD down vs USD but sideways vs the Euro



AUD & Euro have taken a similar path - a USD story? Probably



The historical high in external deficits says the US is uncompetitive - USD too high

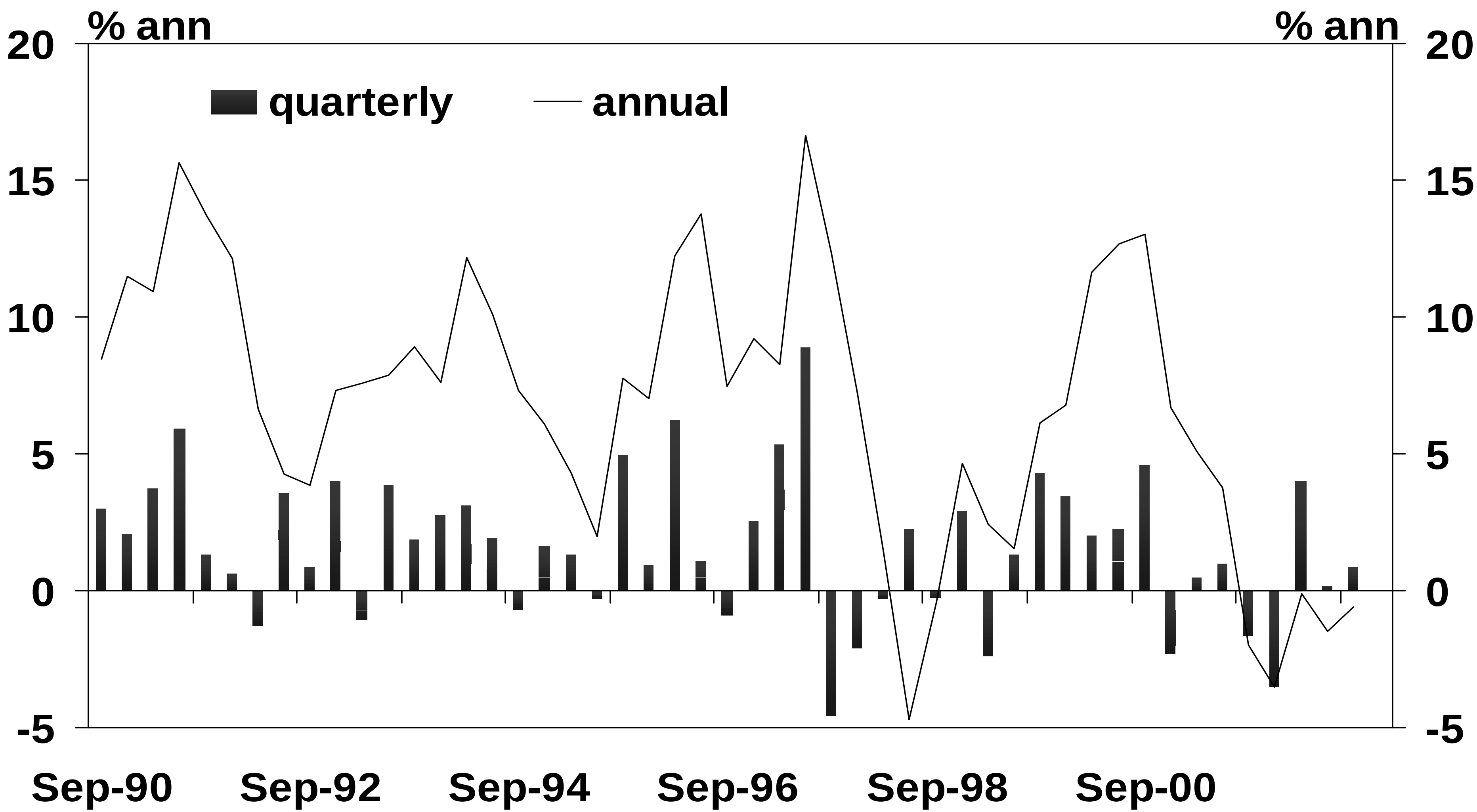


Domestic factors

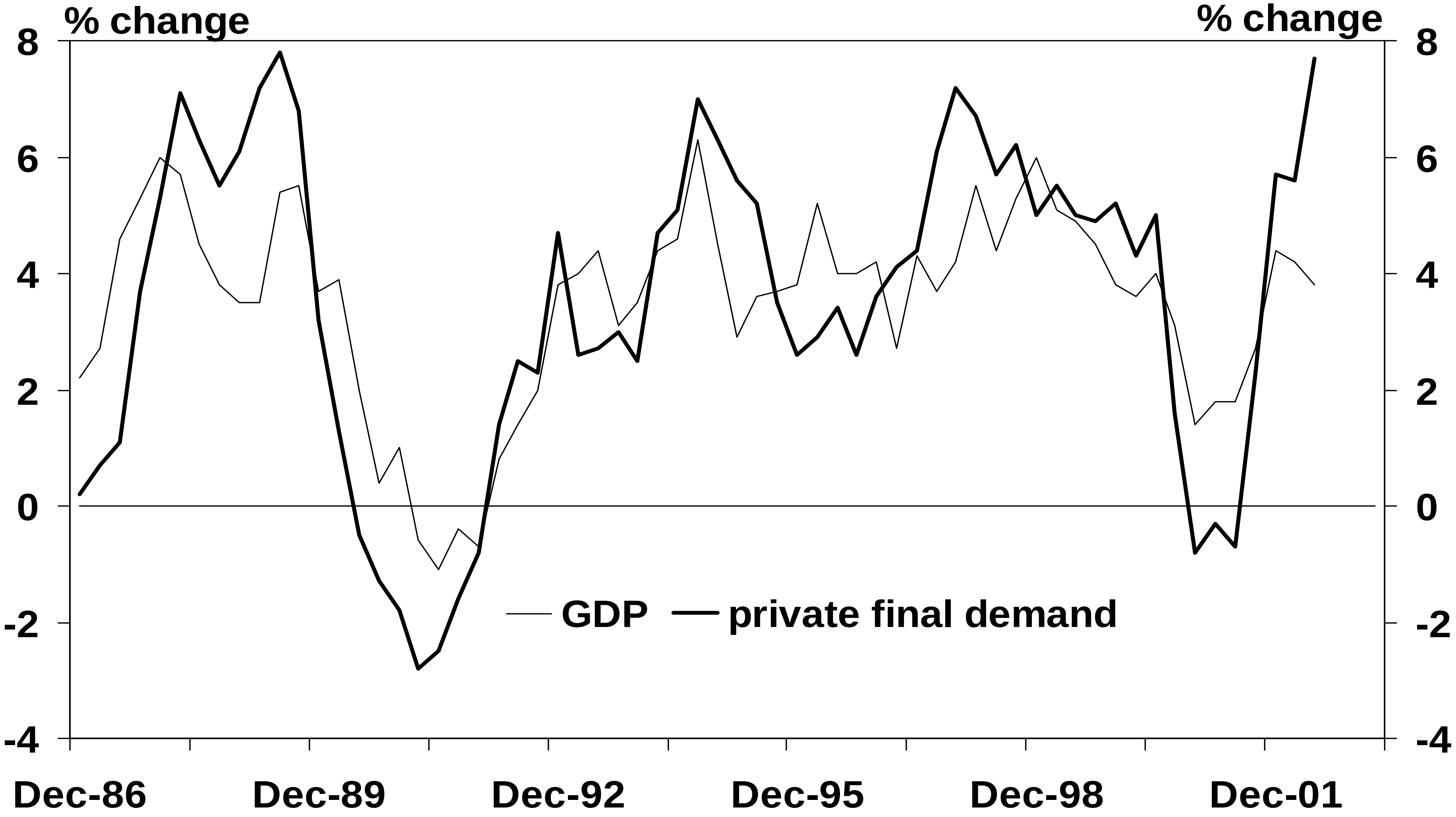
- Economy
  - exports struggling
  - domestic spending very strong
  - expected to slow

- Interest rates
  - external concerns have held back rate rises
  - late 2003 back on agenda

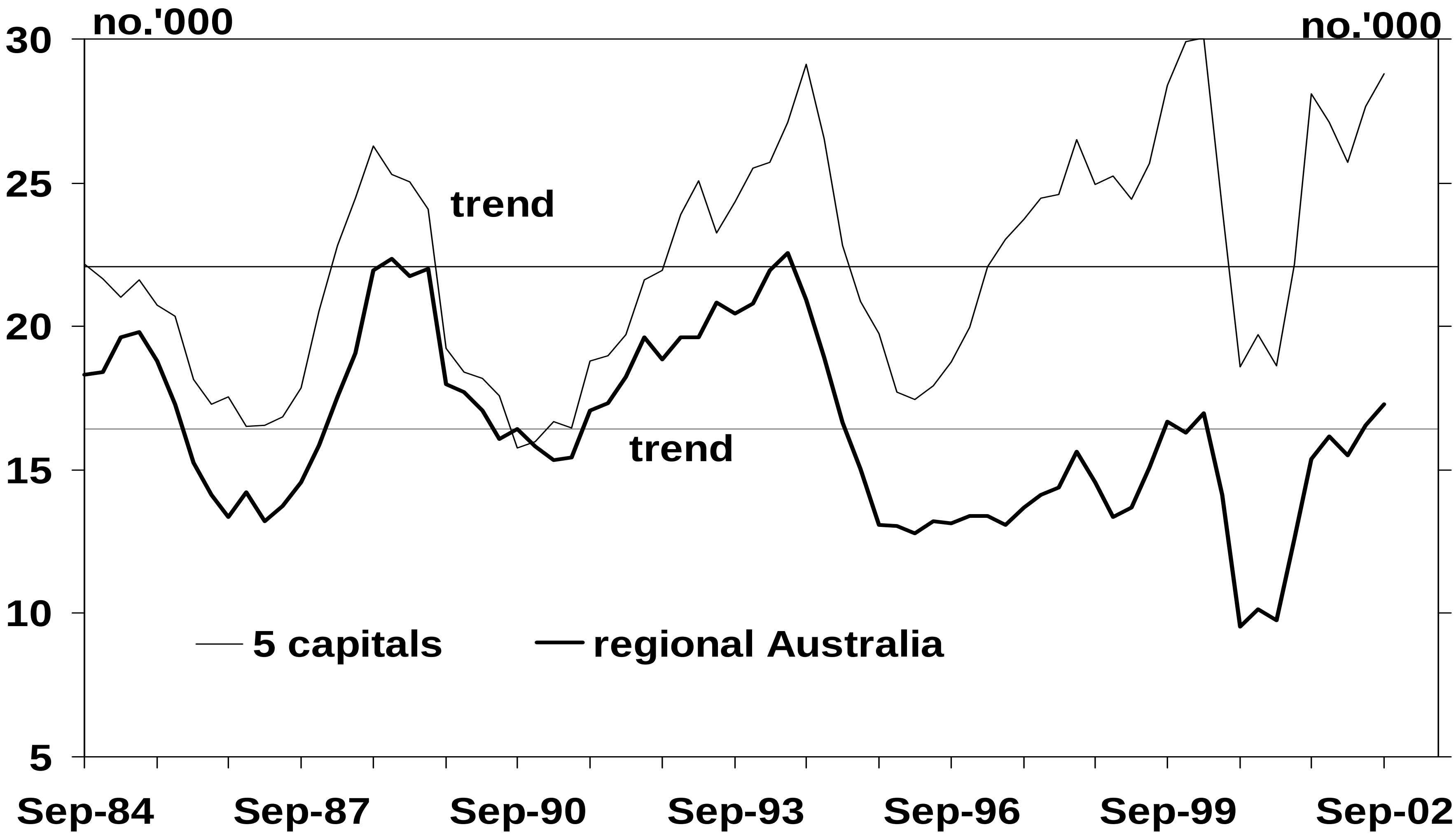
Export volumes have been under pressure from global slowdown



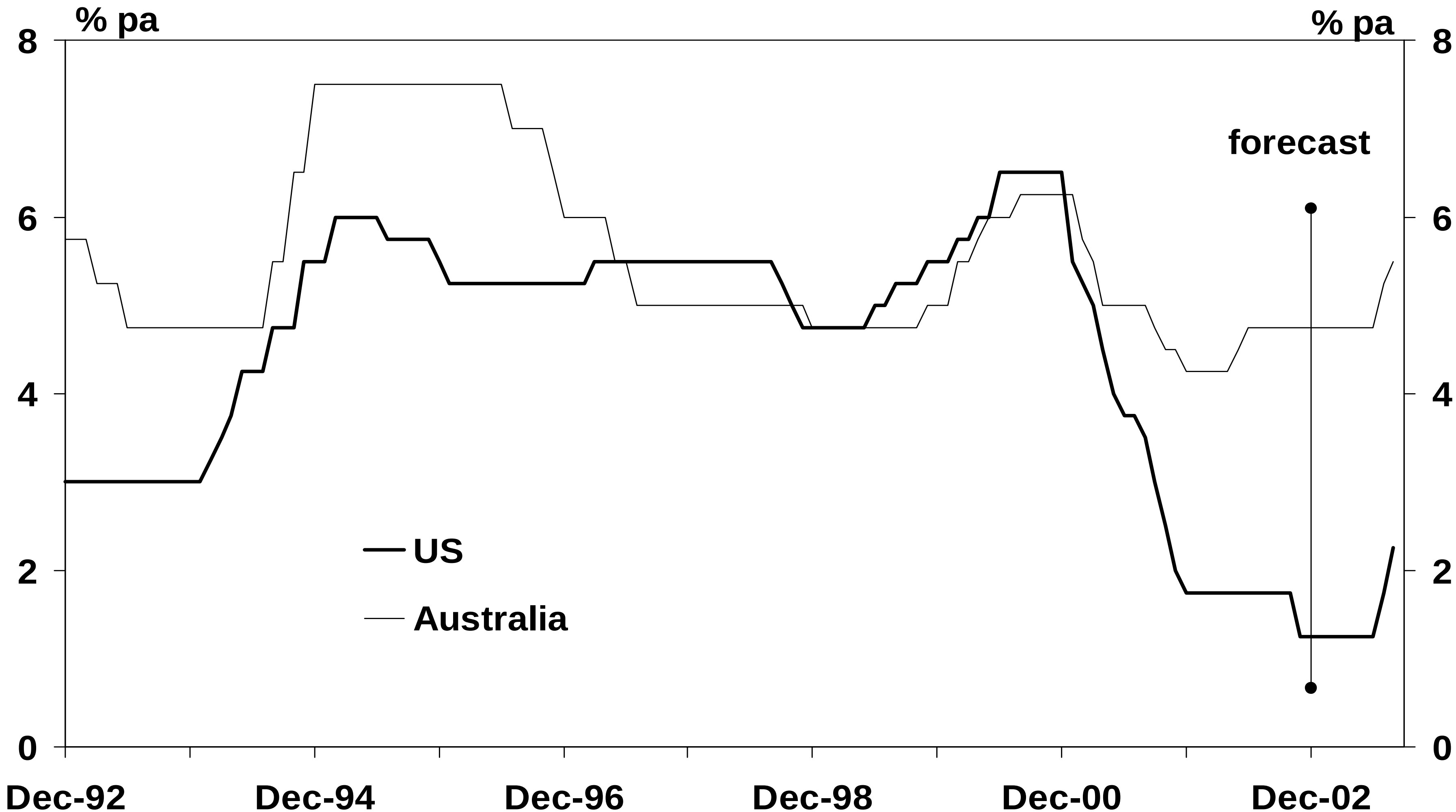
Private final demand is lapping GDP - normally a reason to lift interest rates



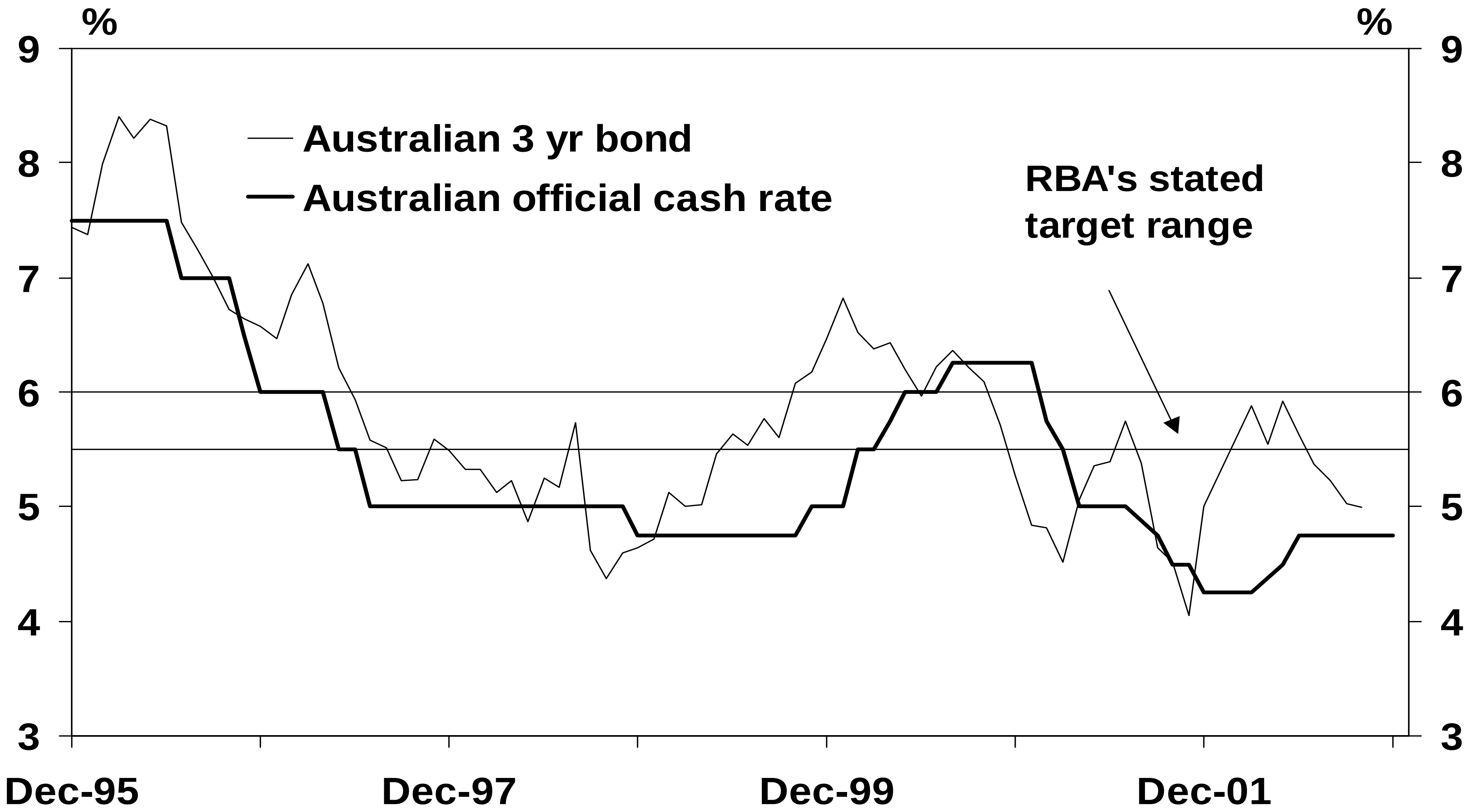
Regional dwelling approvals – running strongly but still below earlier peaks



Australian rates are now on hold - other central banks still biased to cuts



Australia's current low fixed rate yields vulnerable to improved world outlook in 2003

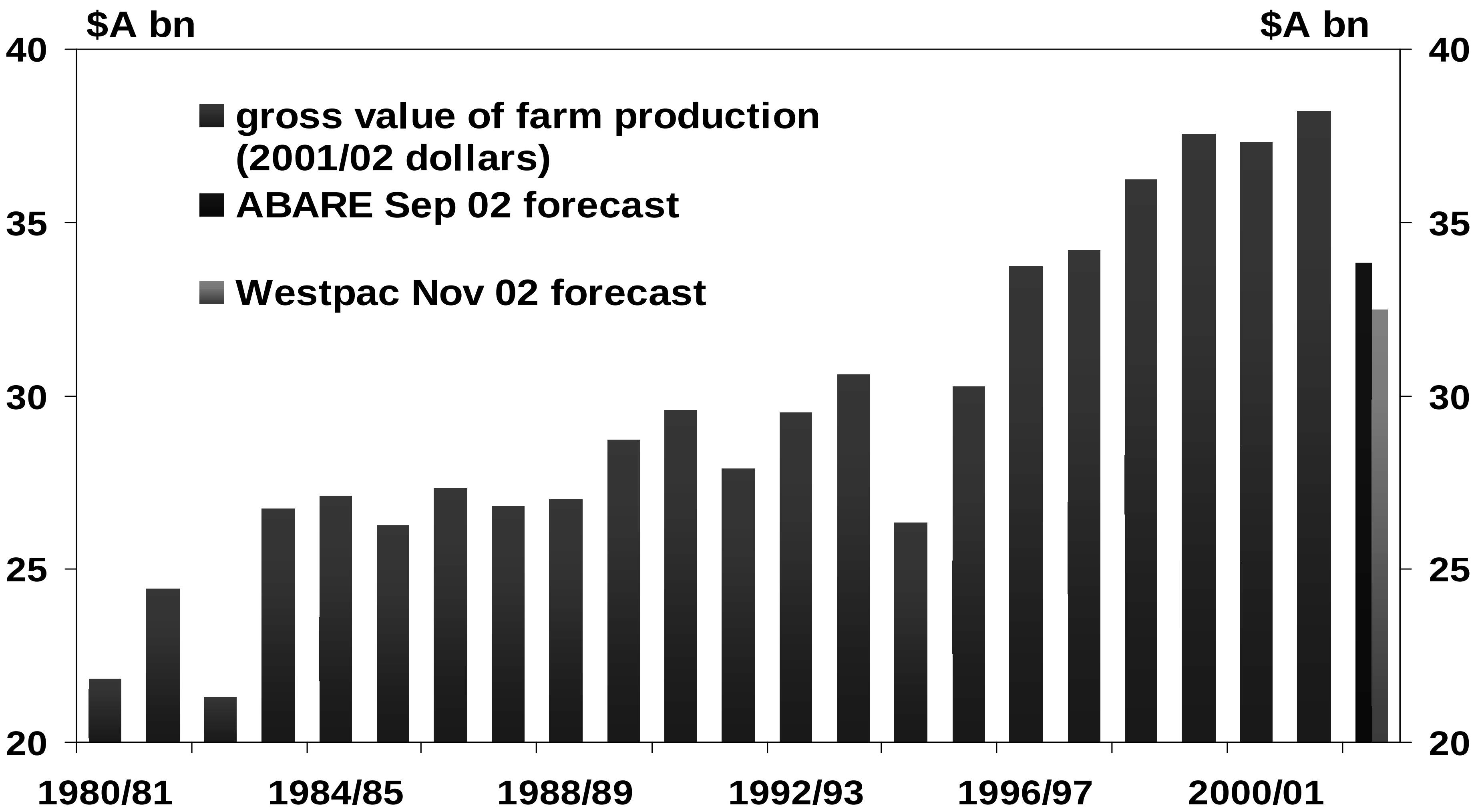


Agribusiness

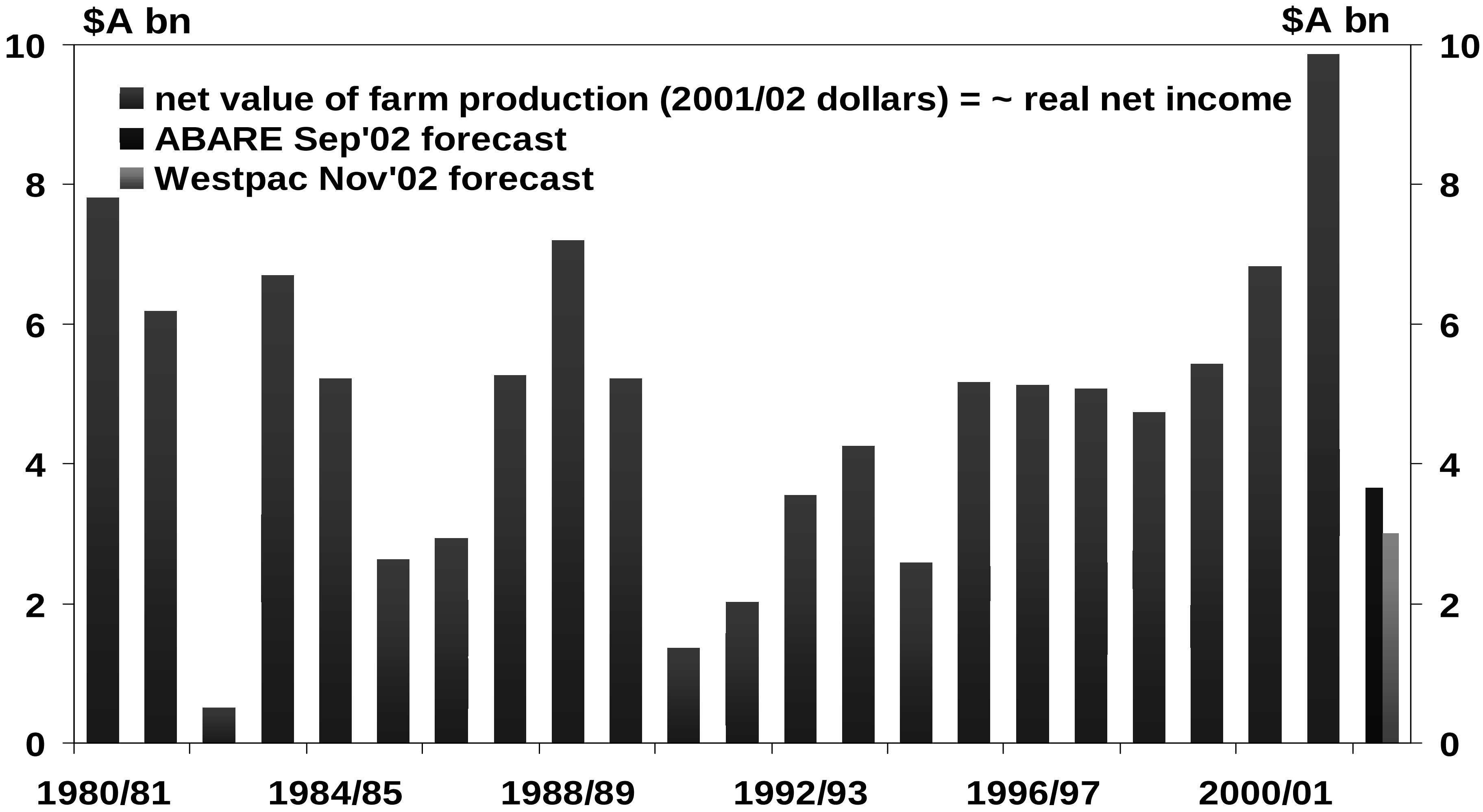
- Drought
  - a world phenomena
  - world stock levels to fall sharply
  - over-rides demand factors

- Outlook
  - price outlook positive medium term
  - AUD rise remains potential threat

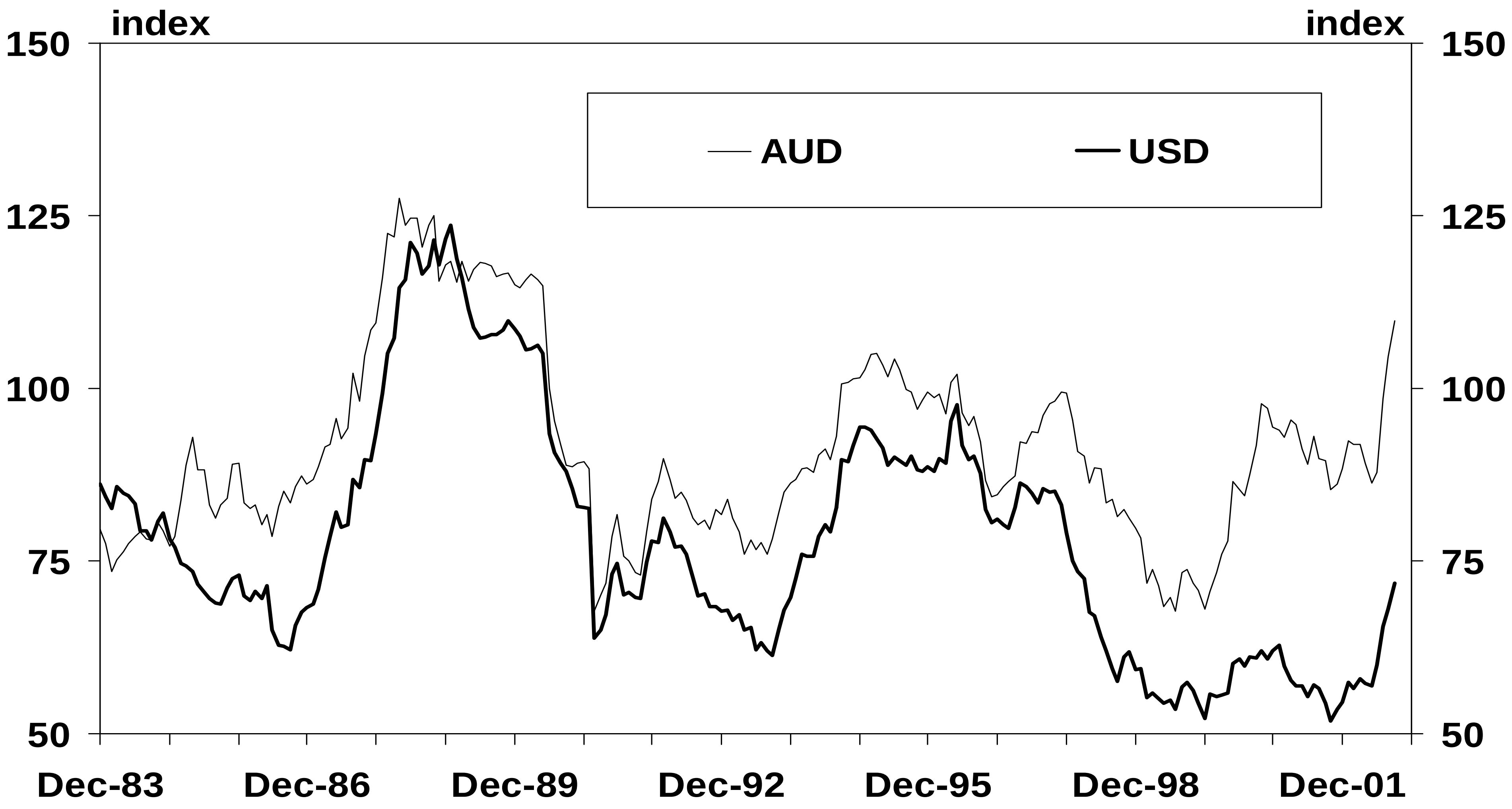
Volume of Australian farm output hit a new record in 2001/02 - drought hurting in 2002/03



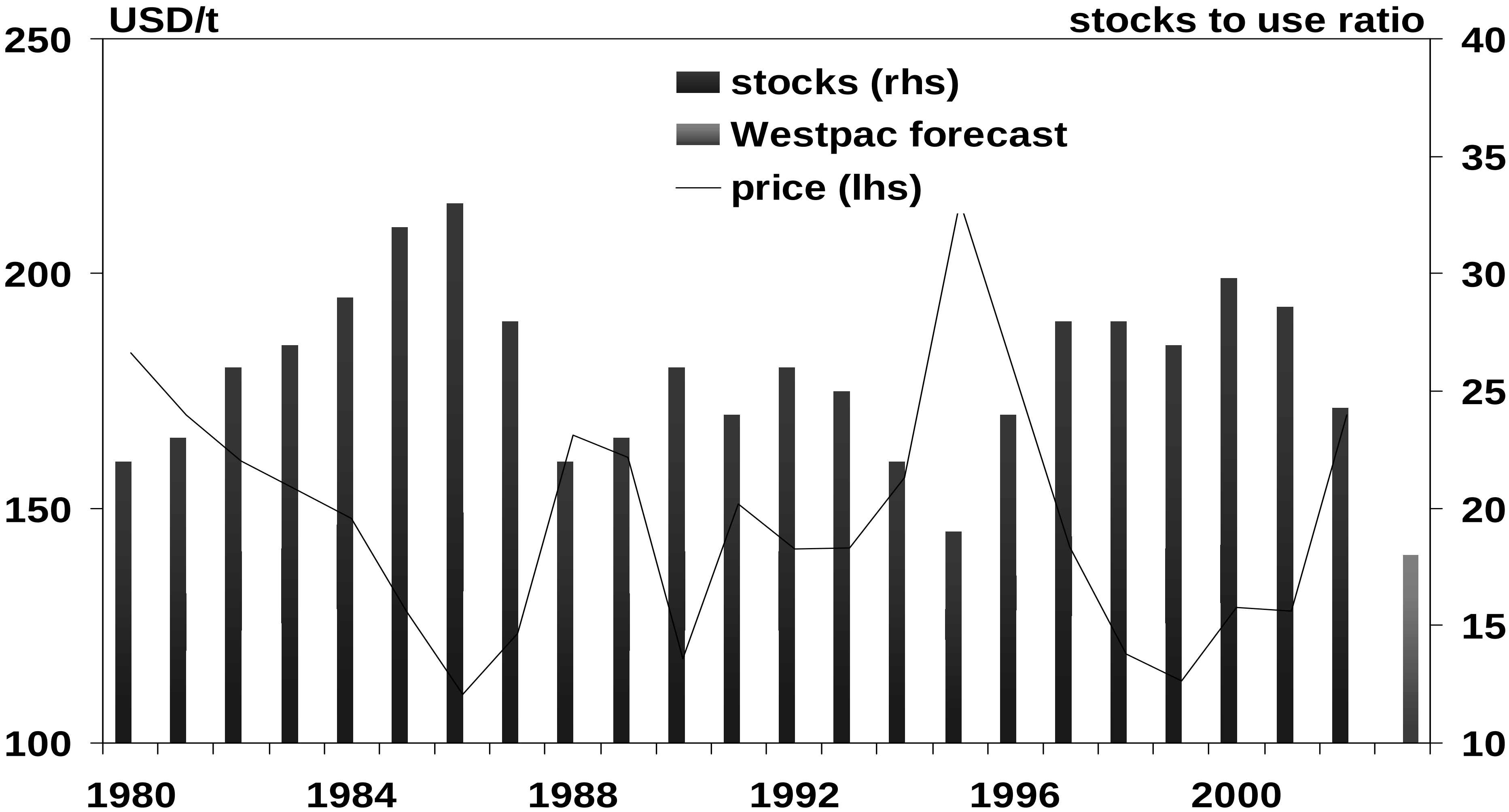
Australian net farm incomes hit a high point in 2001/02 - drought hurting in 2002/03



Westpac-NFF Rural Commodities Indexes



World wheat: drought-induced fall in stocks to underpin prices medium term



US beef herd & prices - beyond drought, positive for prices