

abcd

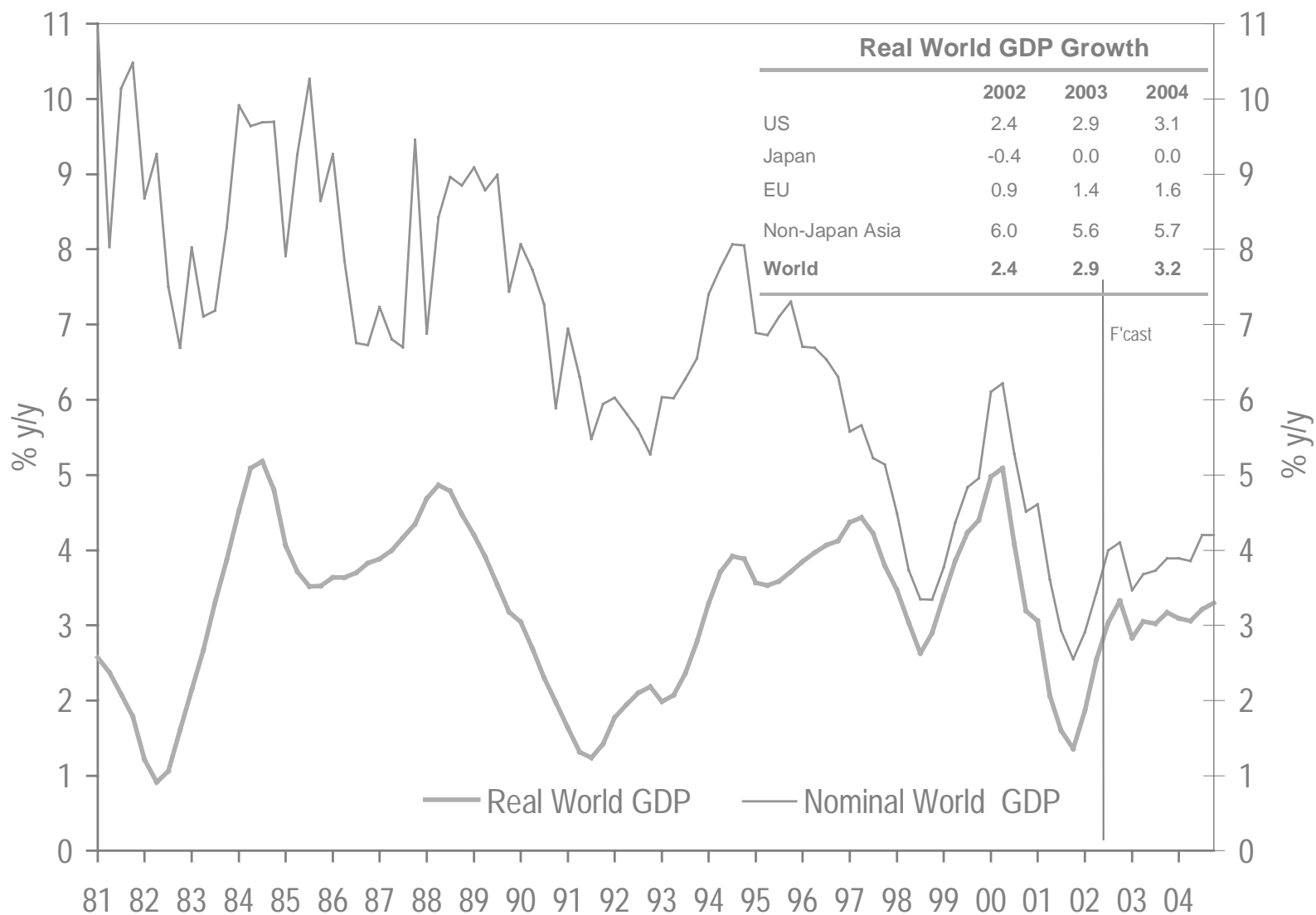
The Economic Outlook:
A Slow Recovery or No Recovery at All?
The Australian Perspective

2002 ABE Forecasting Conference
“Growing & Investing in an Uncertain World”

Mark Rider Chief Economist, Australasia

World Economy: Living in a low nominal world

World GDP



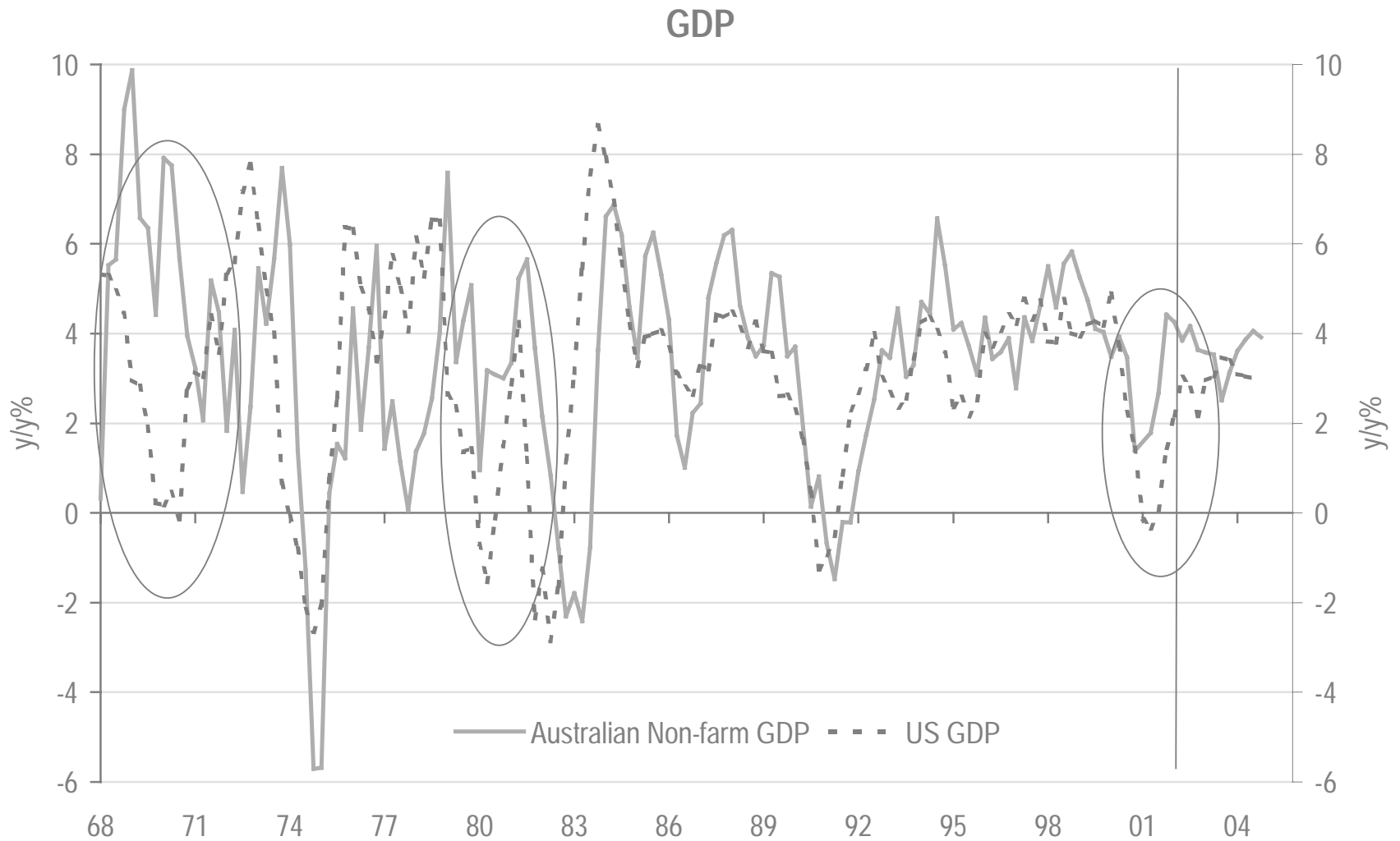
Australia: 2003 - a slowdown before recovery

Australian Economy

	2001	2002	2003	2004
GDP	2.7	3.6	3.0	4.1
Private demand +	1.7	6.7	3.4	4.4
Consumption	3.4	4.4	3.6	3.7
Business investment	-1.3	12.6	11.7	10.6
Housing	-11.3	20.3	-11.6	-0.4
Public Demand +	1.4	2.8	3.4	3.3
Stocks#	-0.4	0.0	0.0	1.0
Net exports#	1.2	-2.3	-0.8	-0.3
Unemploy. rate*	6.9	6.1	6.1	5.6
Core CPI (ex GST)	2.9	3.1	2.1	2.2
CAD (% of GDP)	2.4	4.1	5.0	3.8
Cash rate*	4.25	4.75	4.75	5.50
10 year bond*	6.01	5.50	5.80	5.90
AUD/USD*	0.51	0.55	0.60	0.63

contribution to growth, * end year, + underlying demand

Australia: 2003 - a slowdown before recovery



Why has Australia done so well?

- Housing sector recovery
- No boom, no bust
- Rising household wealth
- Corporate balance sheets are in good shape
- Weak AUD
- Low interest rates

Australia: 2003 - the positives & the negatives

POSITIVES

- Low interest rates: RBA on hold
 - Low business capex as a % of GDP
 - High profitability
- } +ve for capex outlook

NEGATIVES

- Construction slowdown
- Drought: subtracts at least 1.3%pts from growth
- Rising A\$
- Below trend global recovery
- Falling house prices?

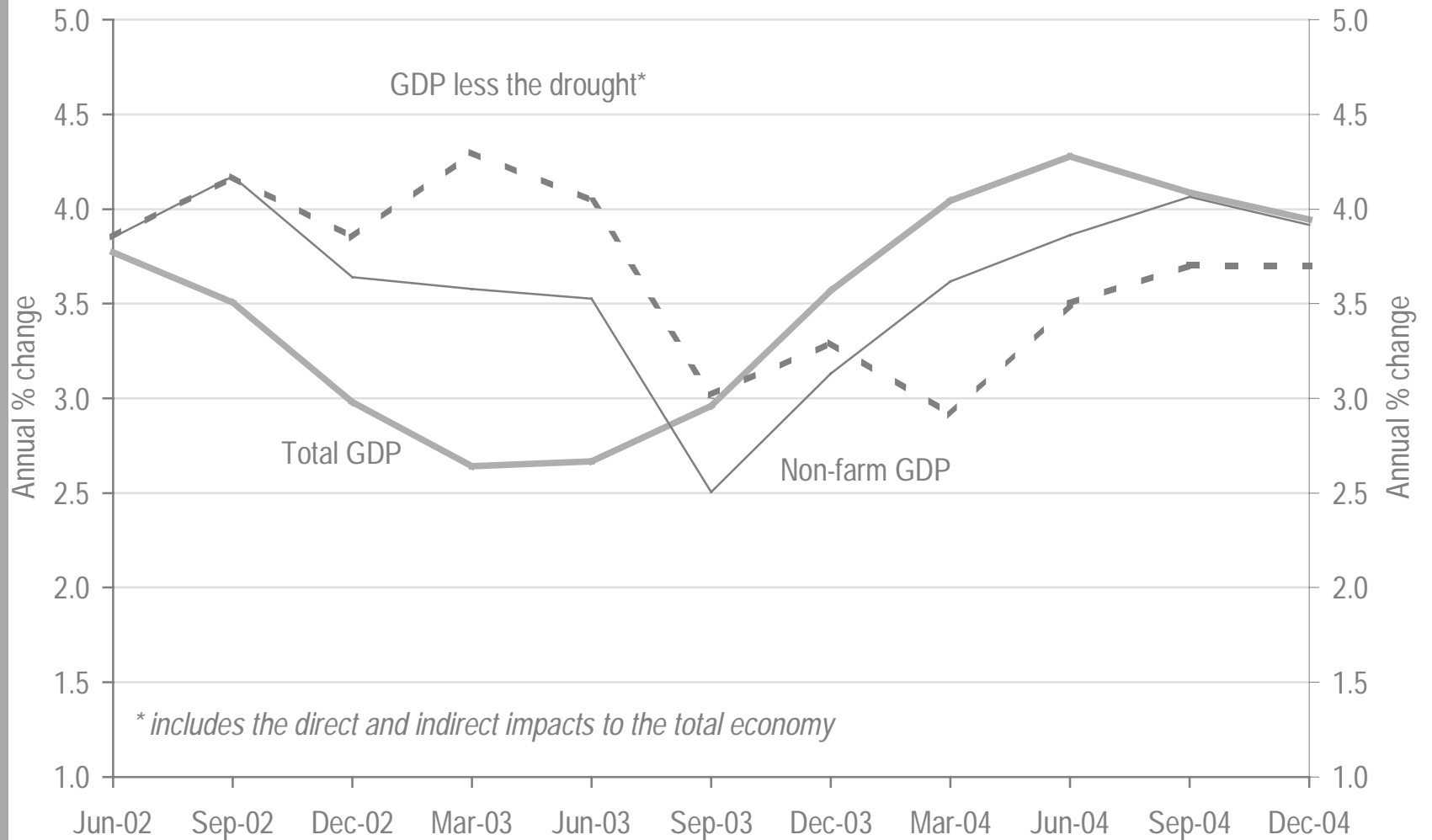
Drought: No rain, no grain

Impacts on changes in farm output (\$mn)

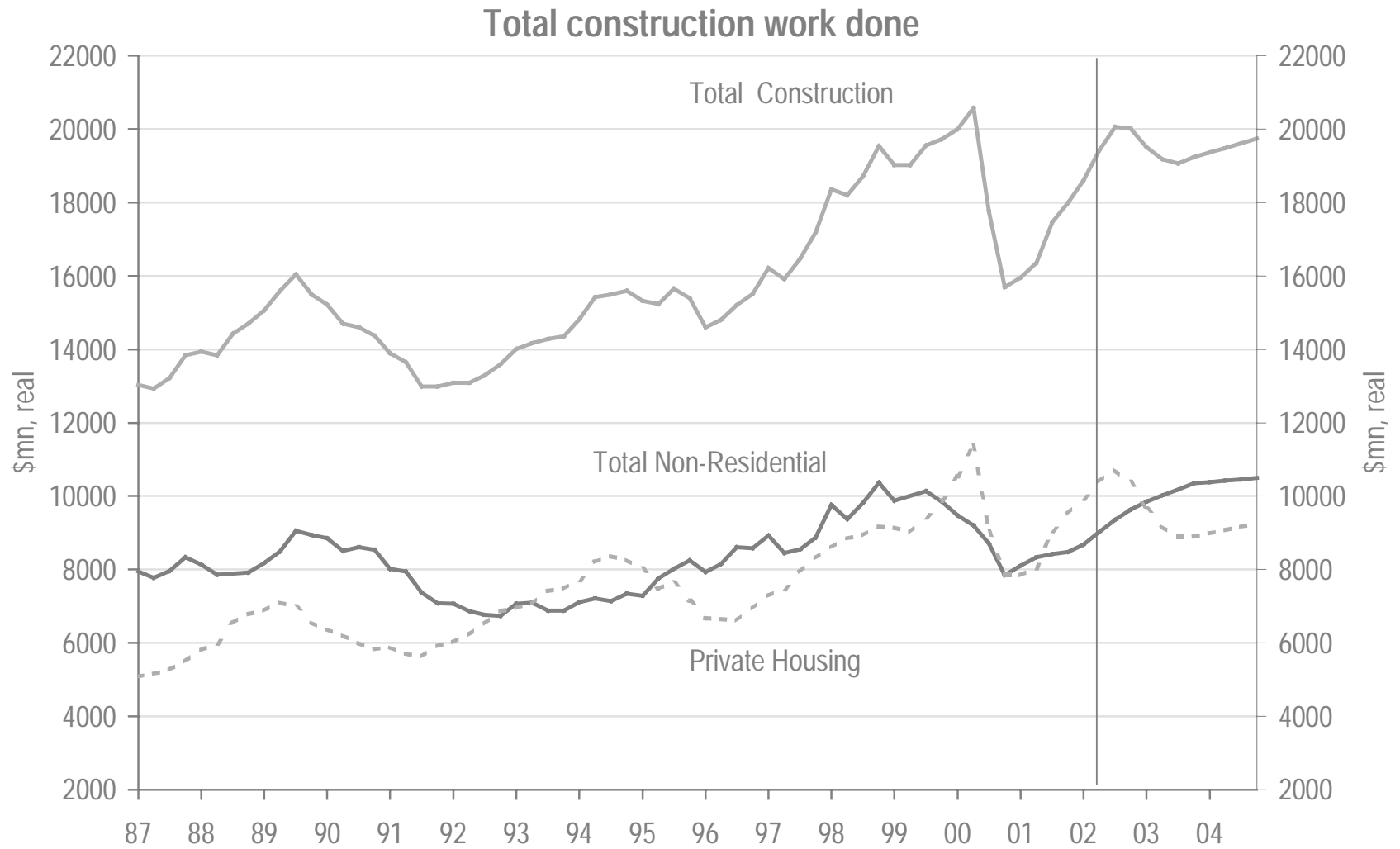
	1995/96	2002/03 (e)
Primary impact	\$ 2,773	-\$ 4,752
% of GDP	0.6%	-0.68%
Secondary Impact	\$ 140	-\$ 240
% of GDP	0.0%	-0.03%
Tertiary		
- impact from farm inputs	\$ 606	-\$ 1,038
- impact on final demand	\$754 to \$2262	-\$1283 to -\$3849
% of GDP	0.3% - 0.7%	0.3% - 0.7%
Total impact on GDP	\$ 5050	-\$ 8596
	1.0% to 1.3%	-1.1% to -1.4%

Drought: No rain, no grain

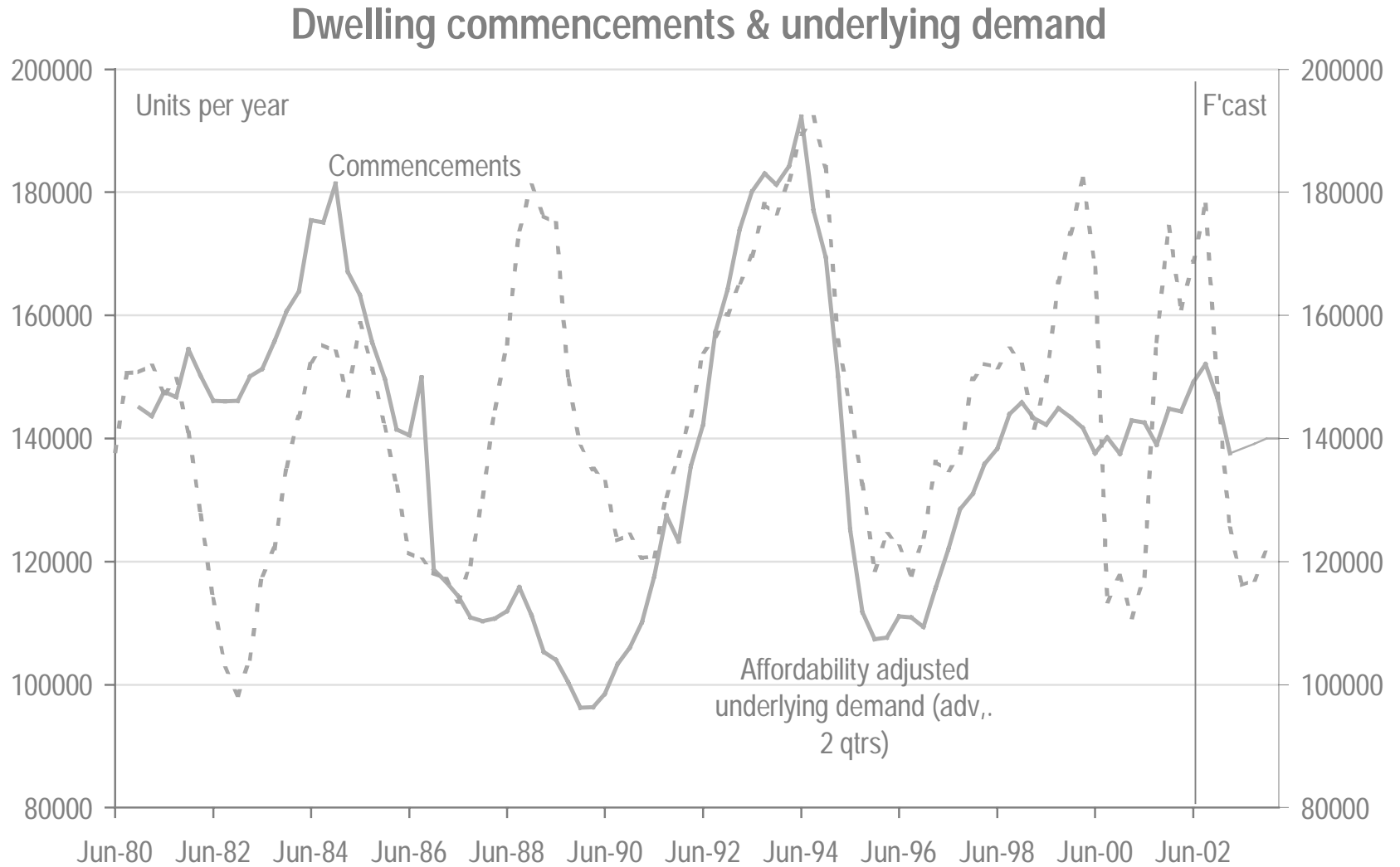
Australian Growth Profile - Excluding and Including the Drought*



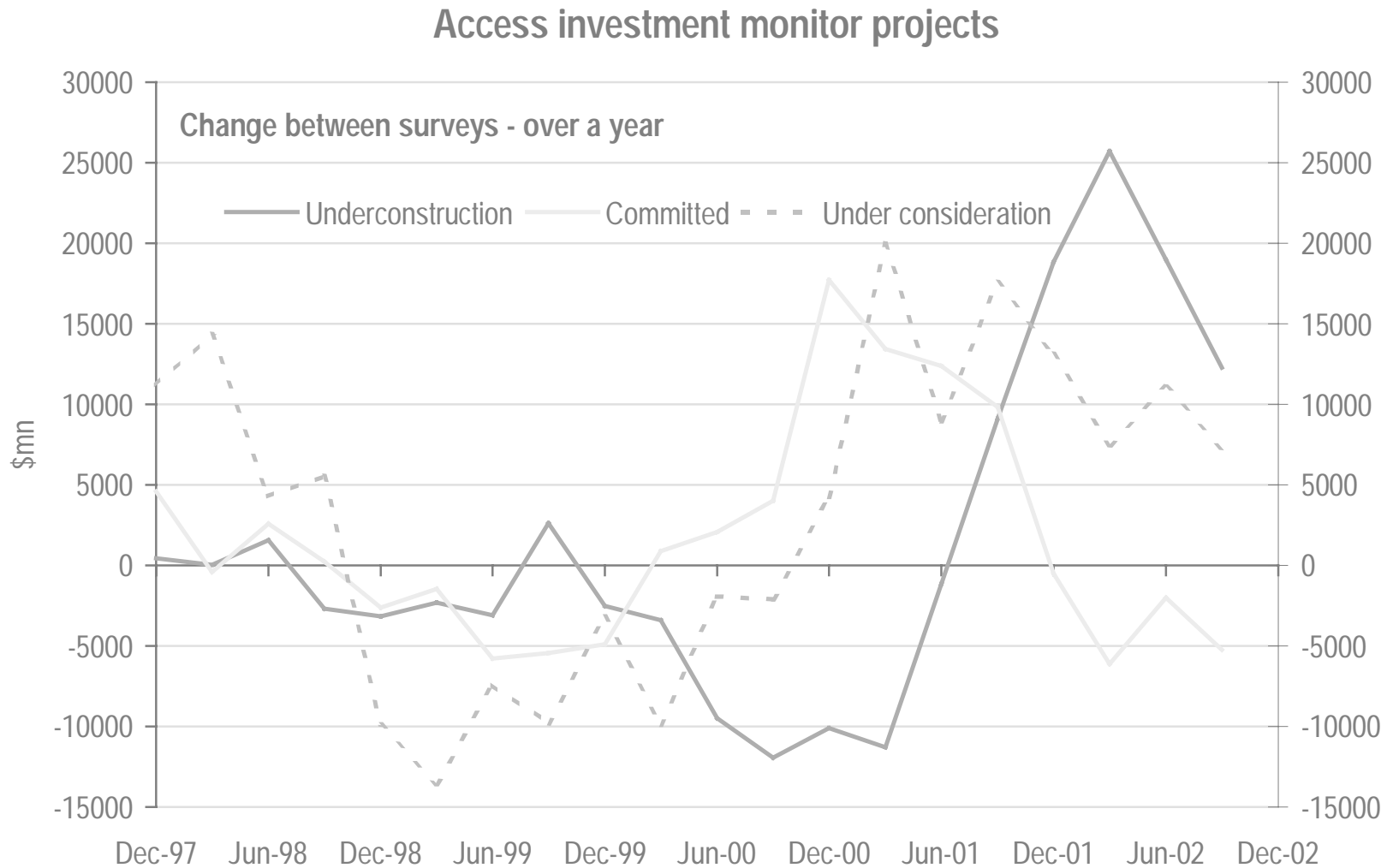
Construction upswing to level out



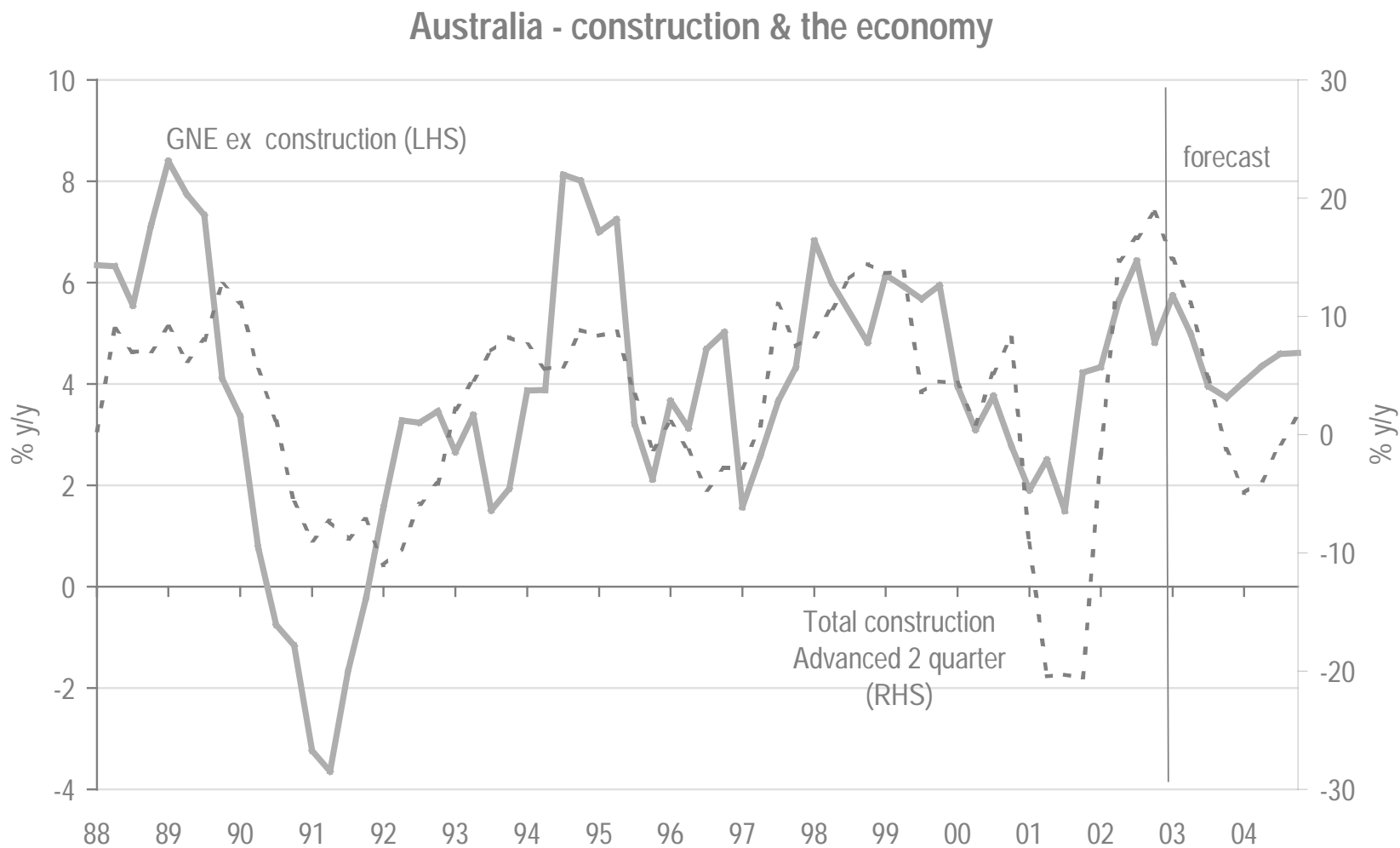
Too many houses have been built



The flow of new projections begins to taper off

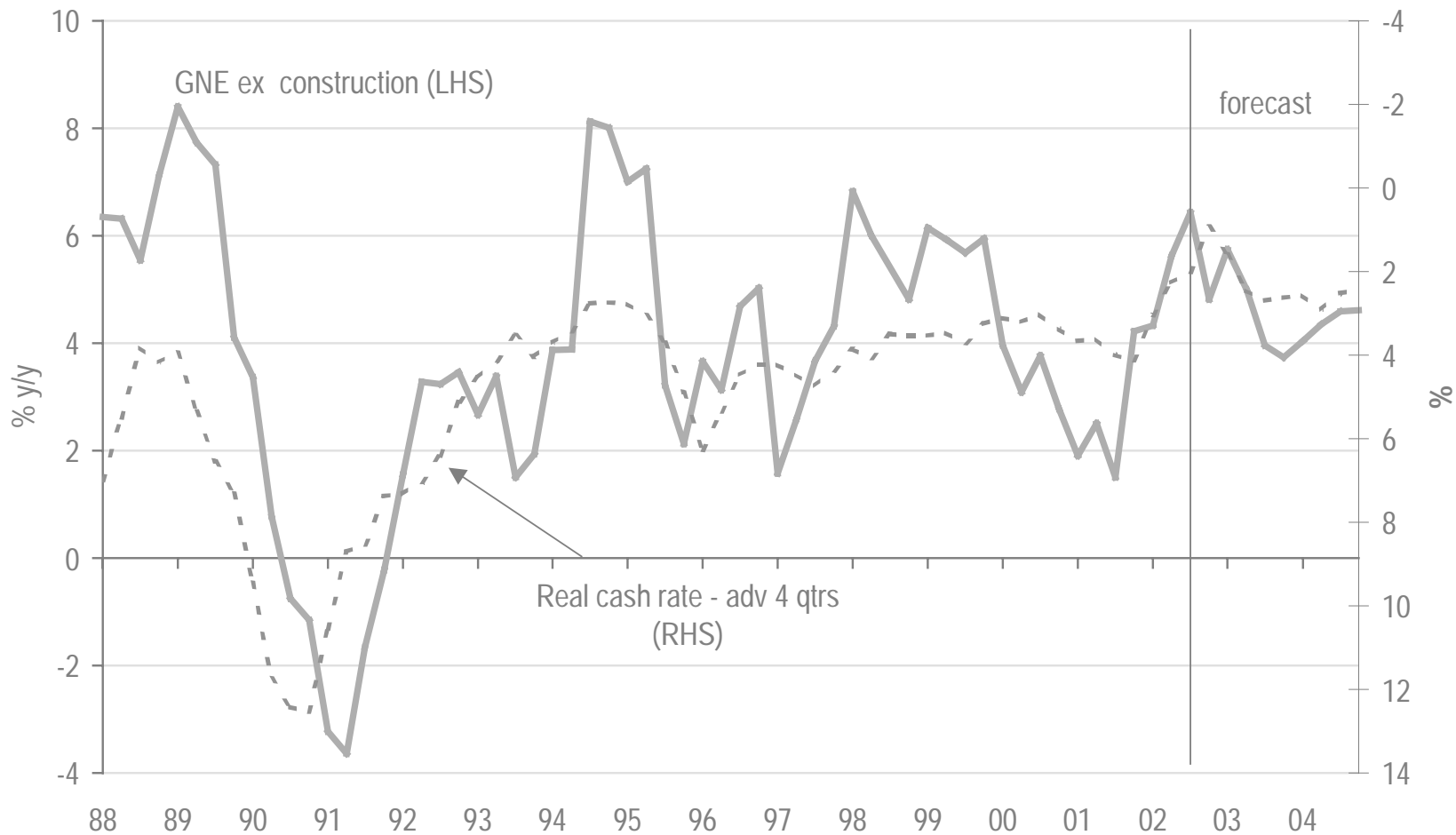


Construction drives domestic demand

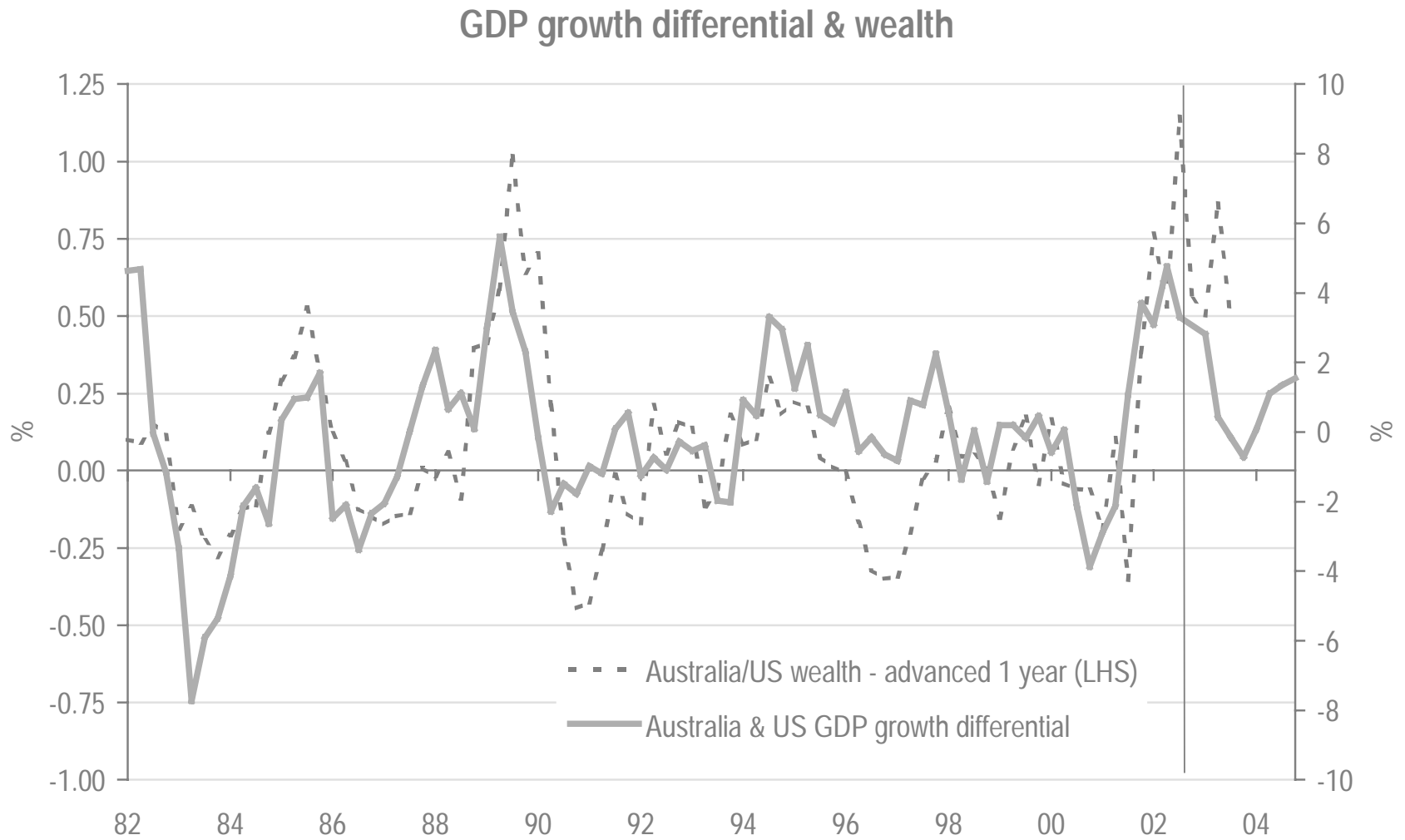


Low interest rates support 4%-plus demand growth

Australia - interest rates & the economy

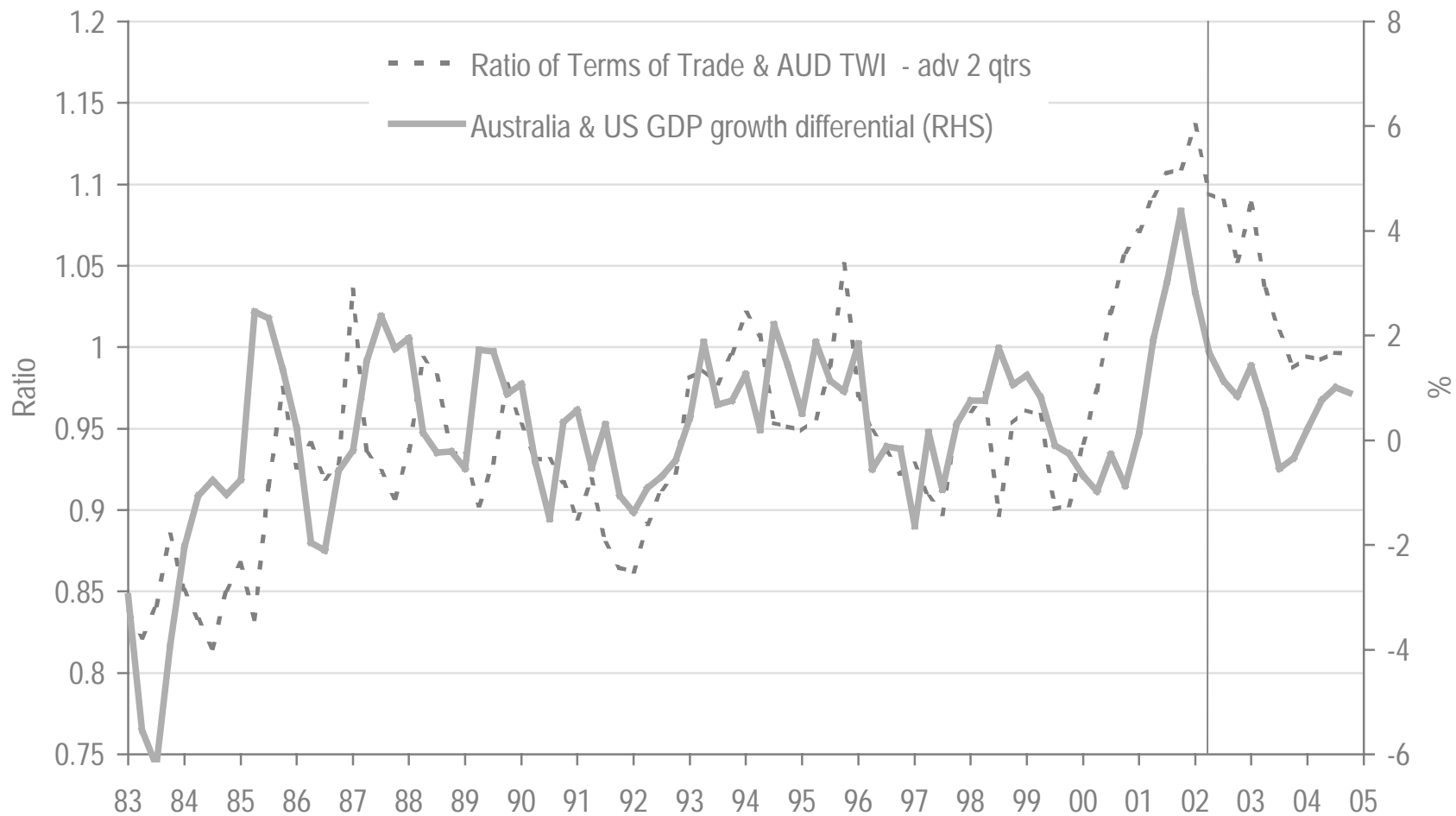


Rising house prices support demand in near term



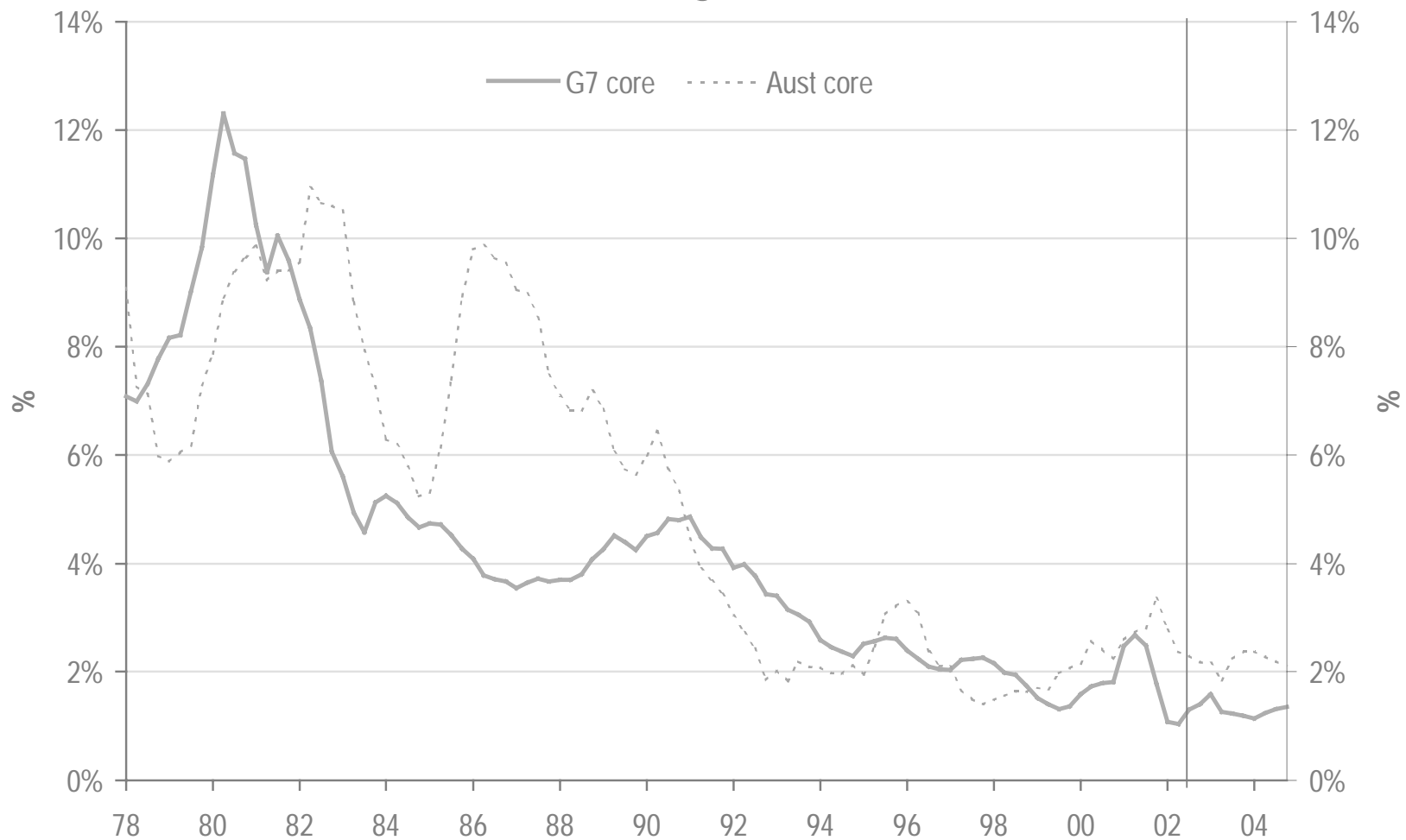
AUD support will fade in the coming year

Growth differential & the AUD

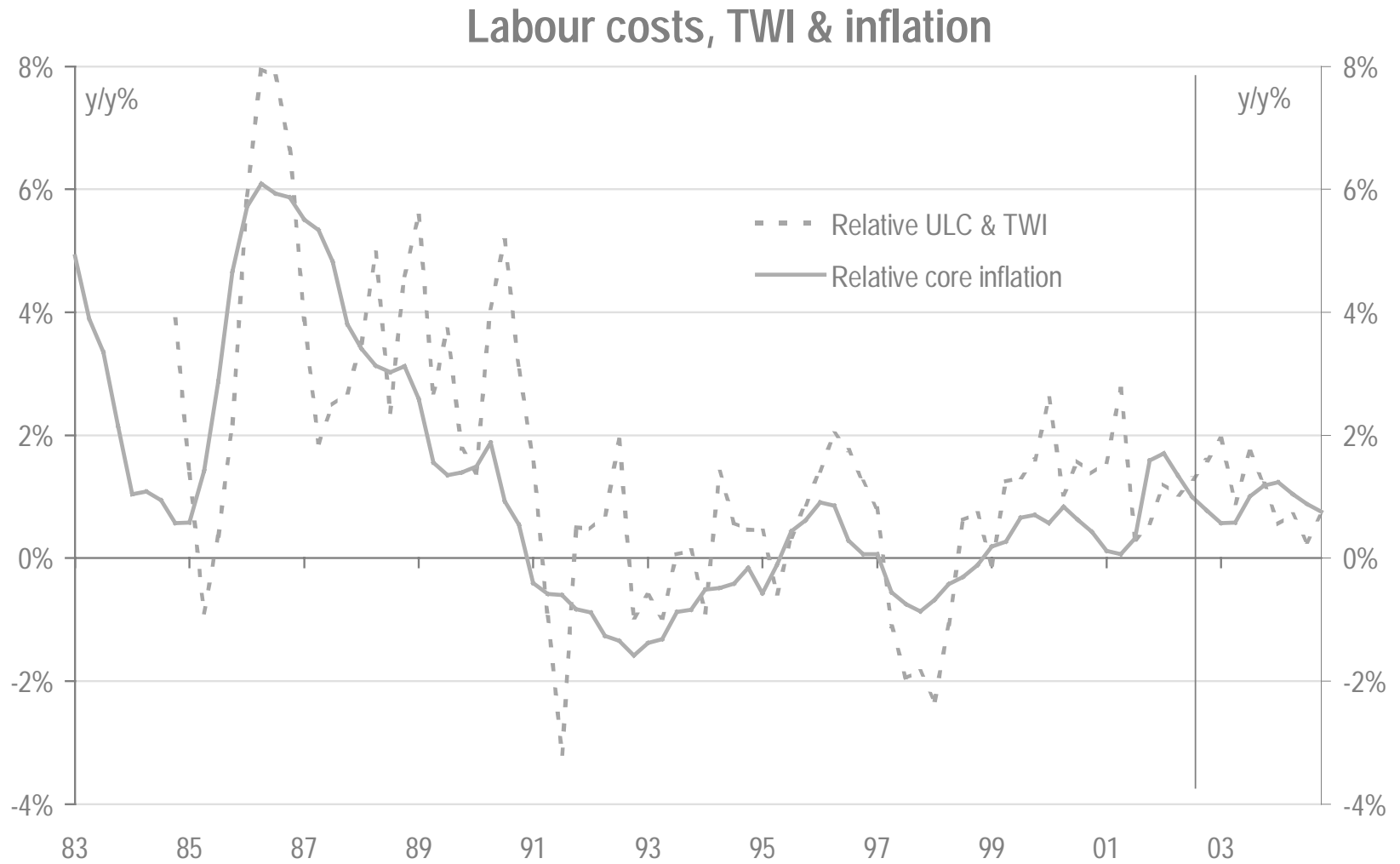


Low inflation underpinned by offshore developments

Australian & global inflation



But we are likely to track a little higher



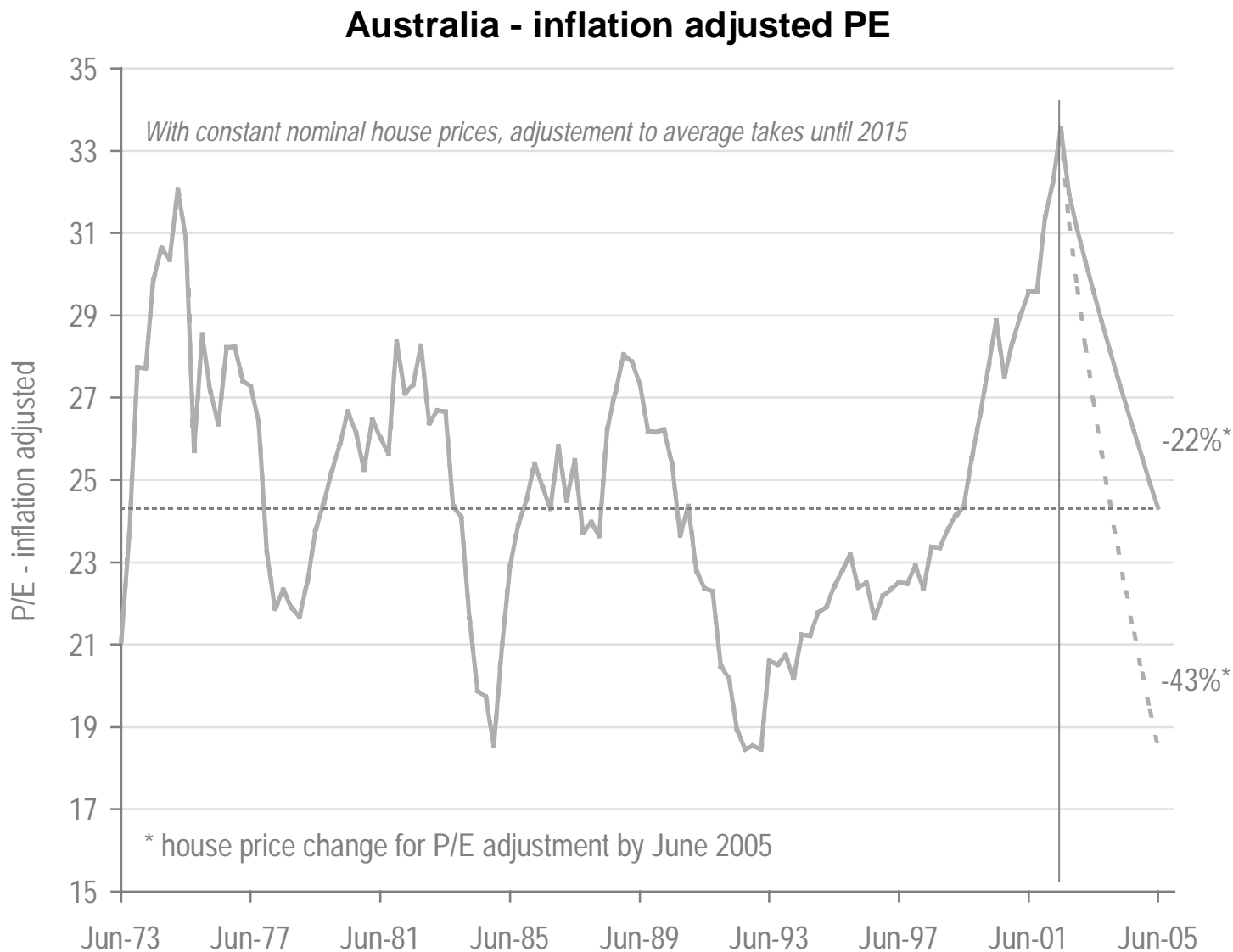
Medium term themes & issues

- House prices & household balance sheets
- The NAIRU & profit share
- Productivity growth & demographics

House price growth has outstripped rents



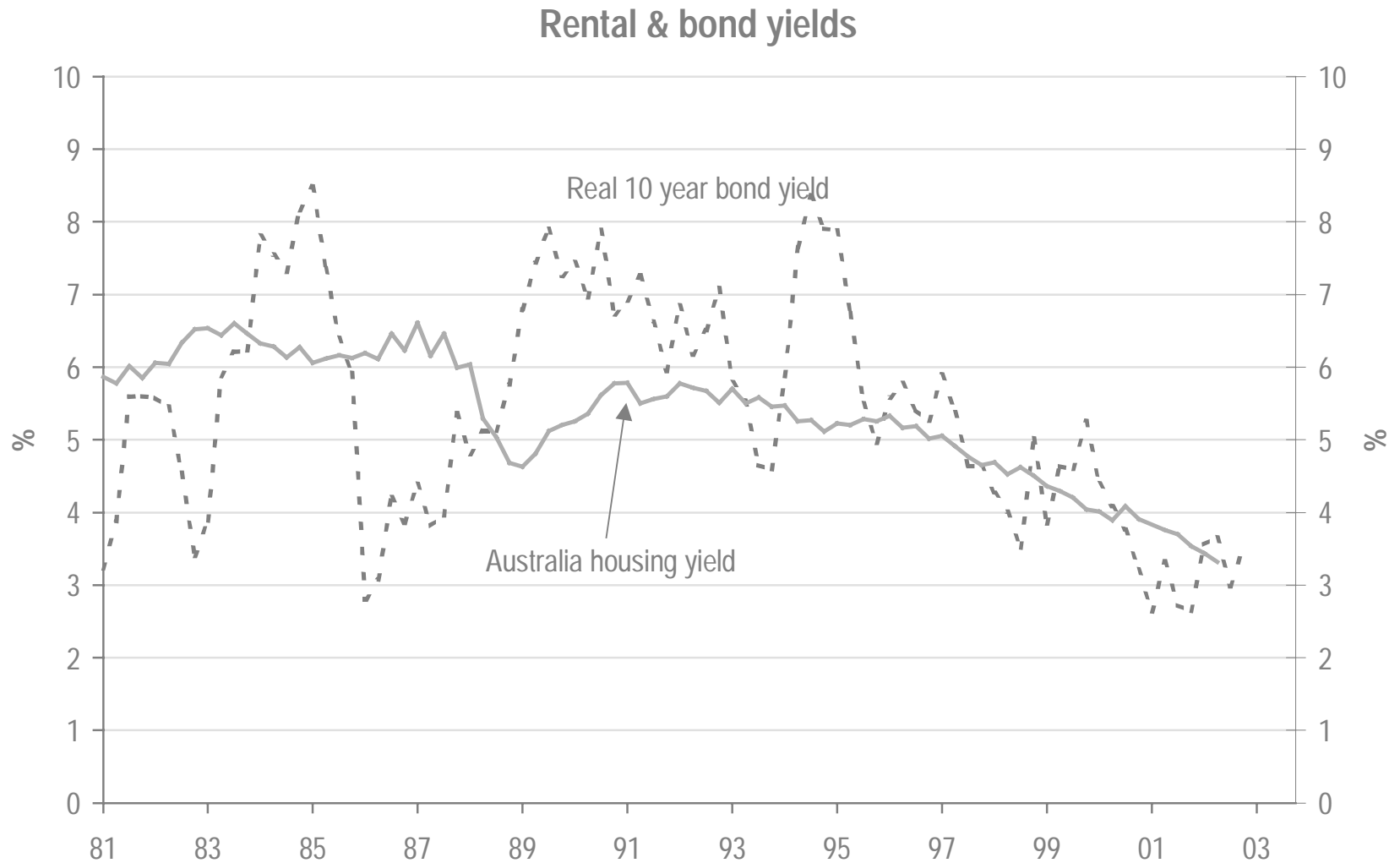
House prices - getting ready to tumble?



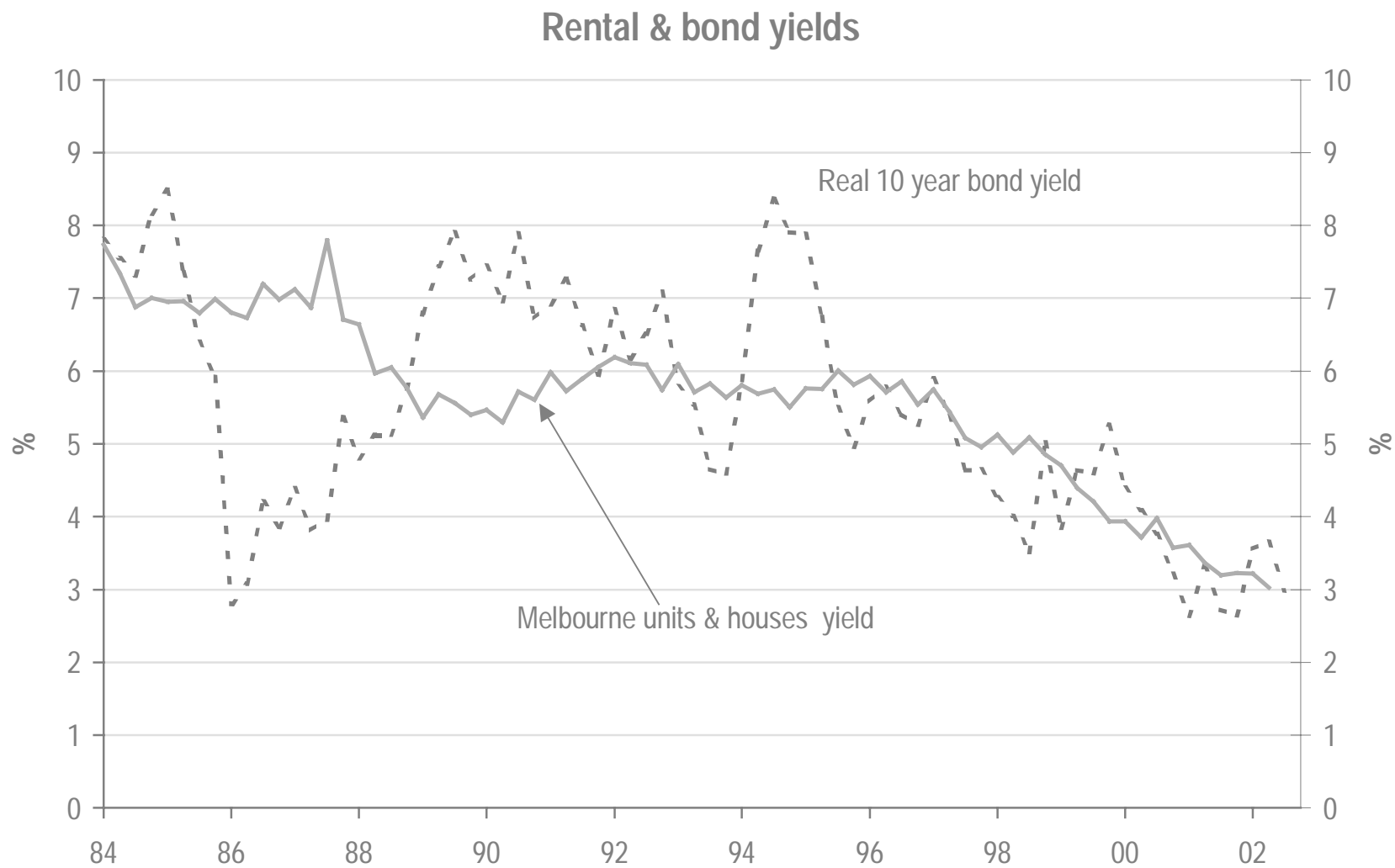
House prices - Melbourne is the most vulnerable



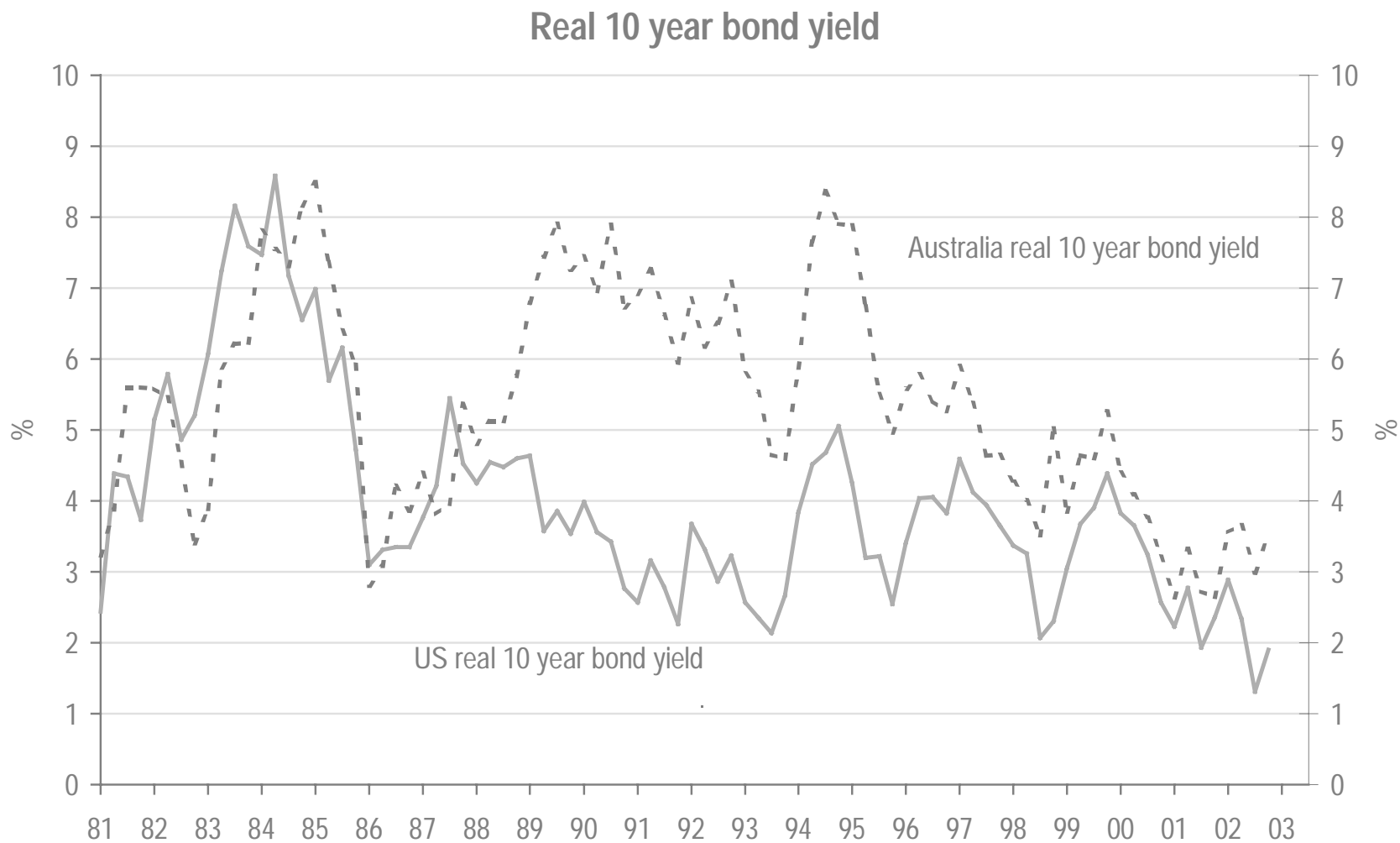
Falling bond yields have pushed rental yields lower..



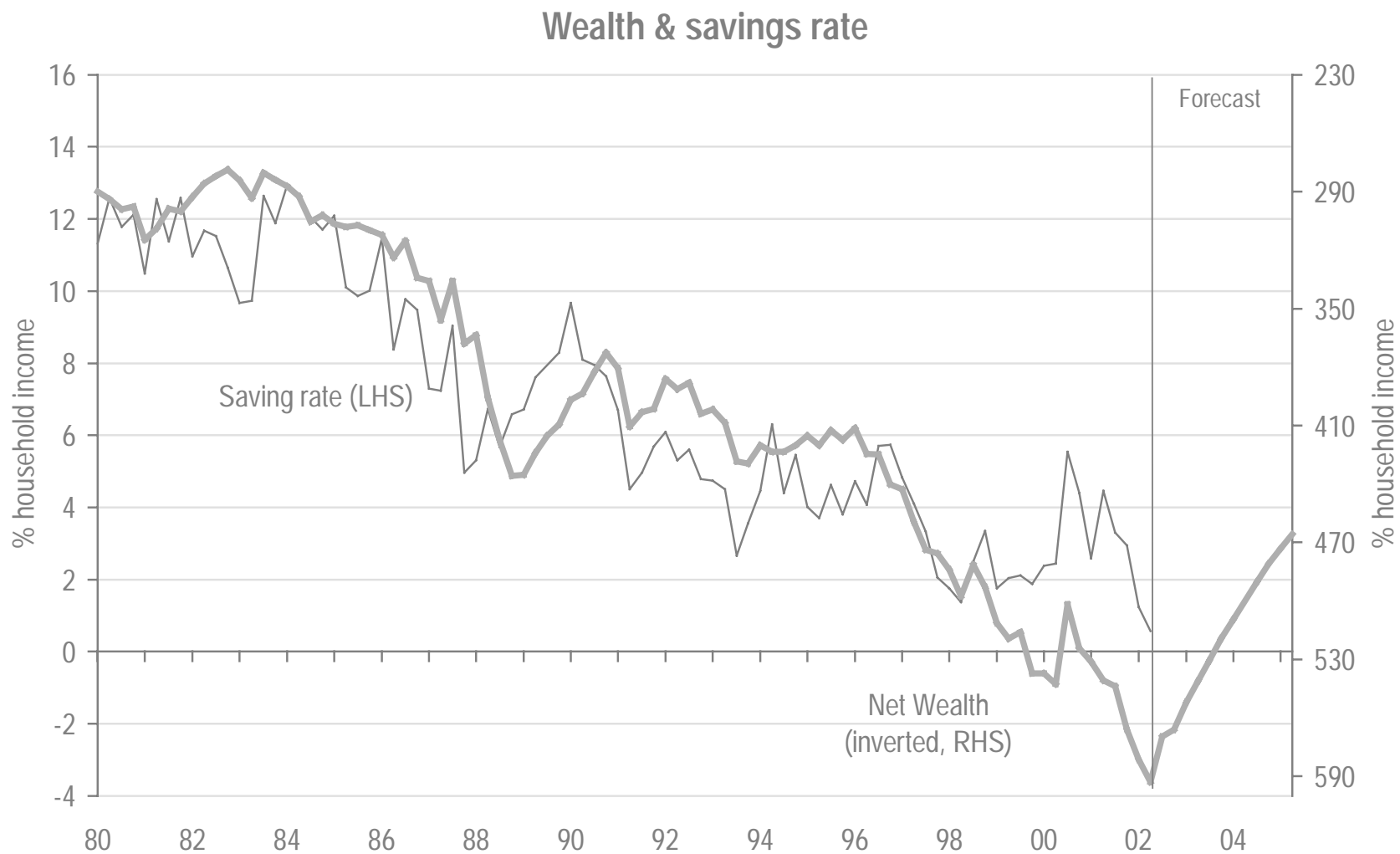
...ditto for Melbourne



But are such low yields sustainable in the medium term?



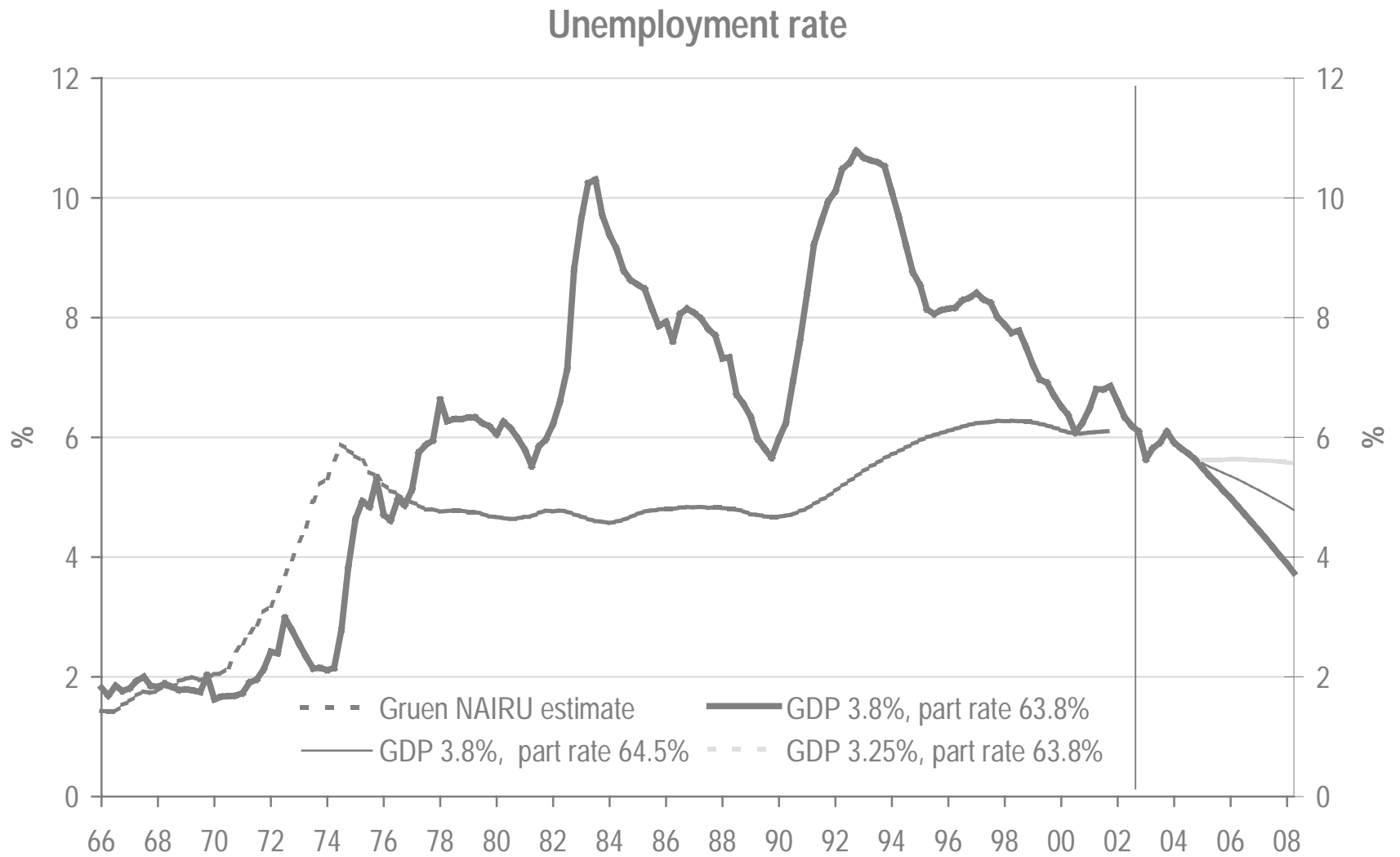
Balance sheets are vulnerable to a house price fall



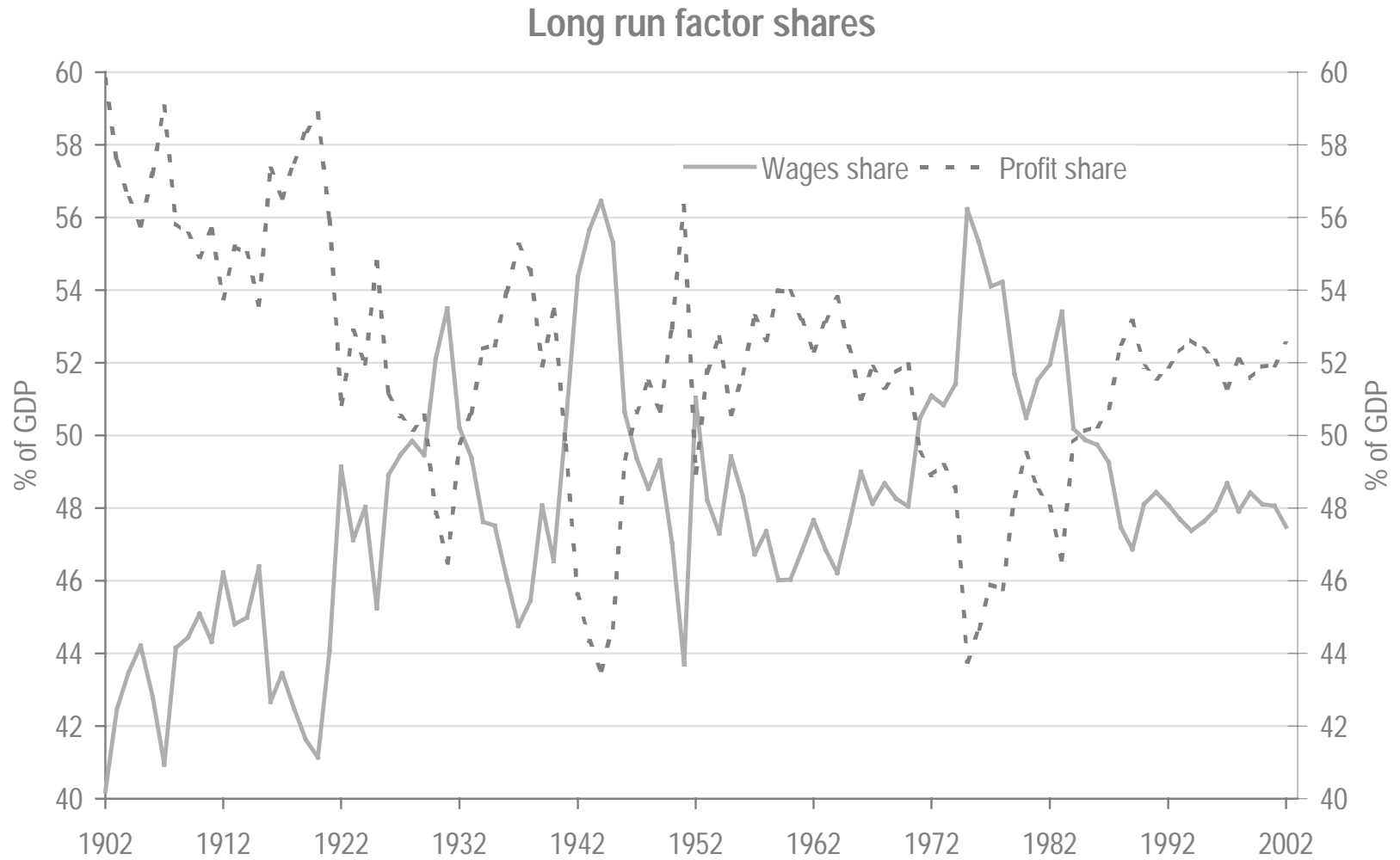
Are we hitting the NAIRU?



Are we hitting the NAIRU?



Factor shares have been stable during the past decade

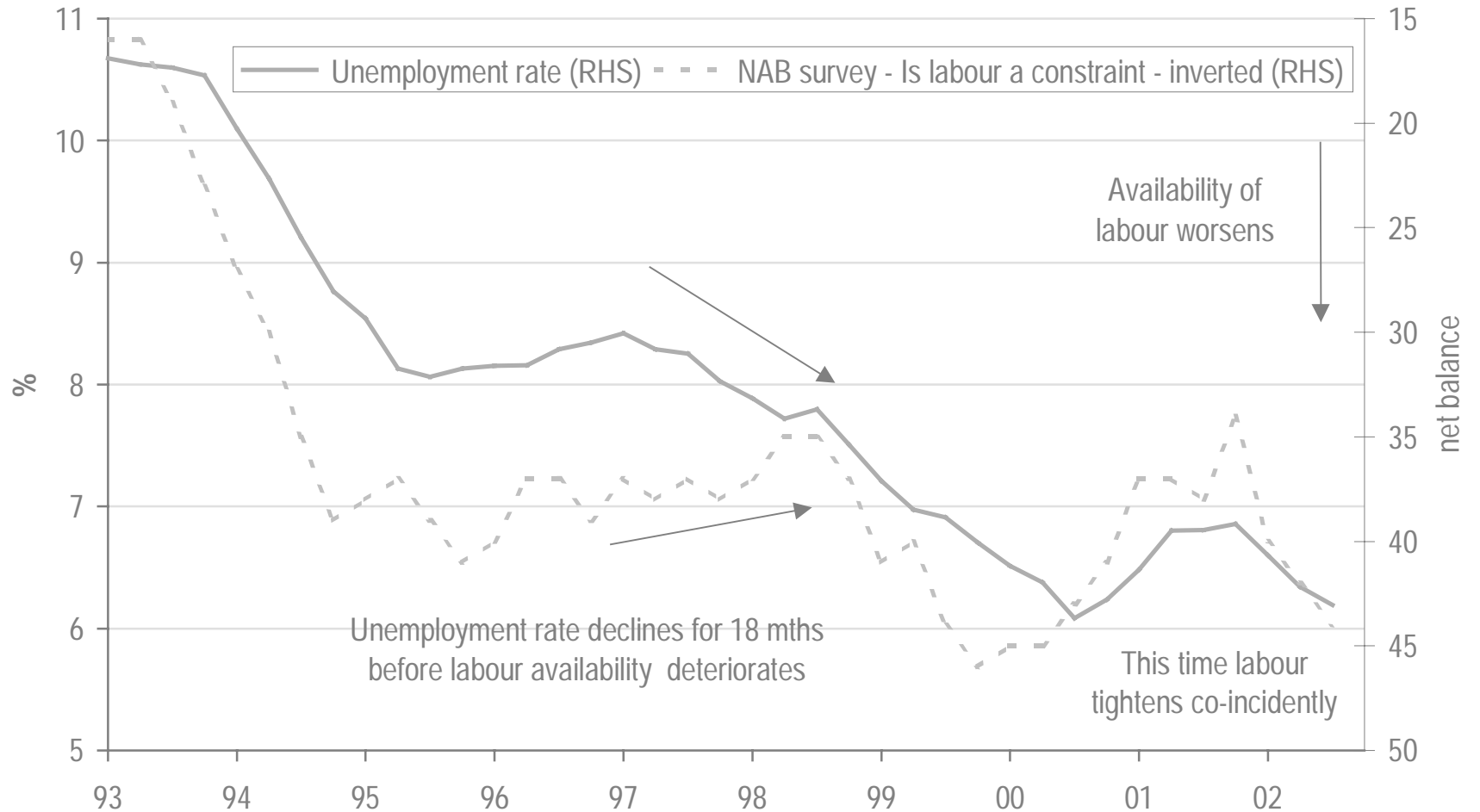


Wage share rises in the US when u/r is 4-5%

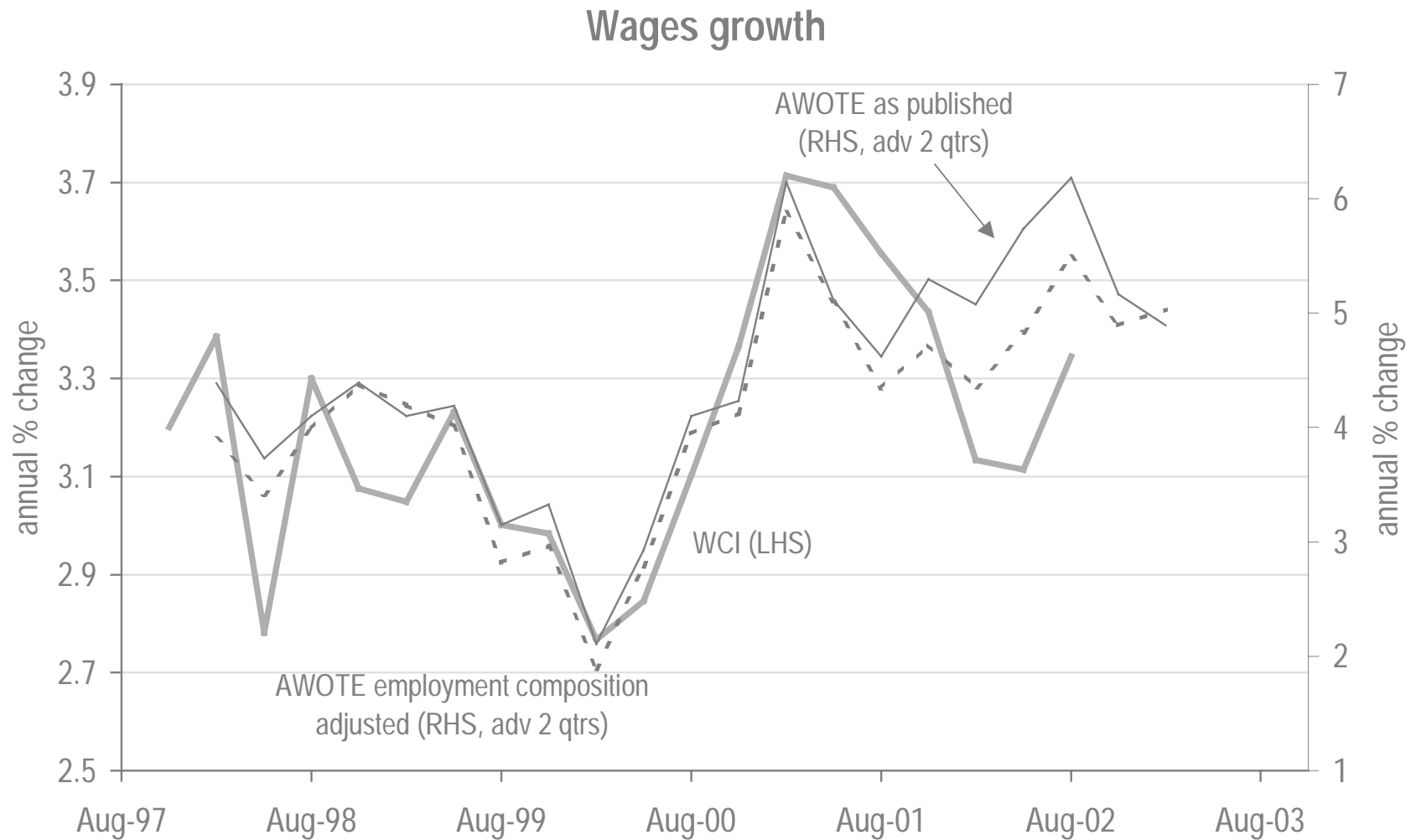


The labour market tightens earlier this time

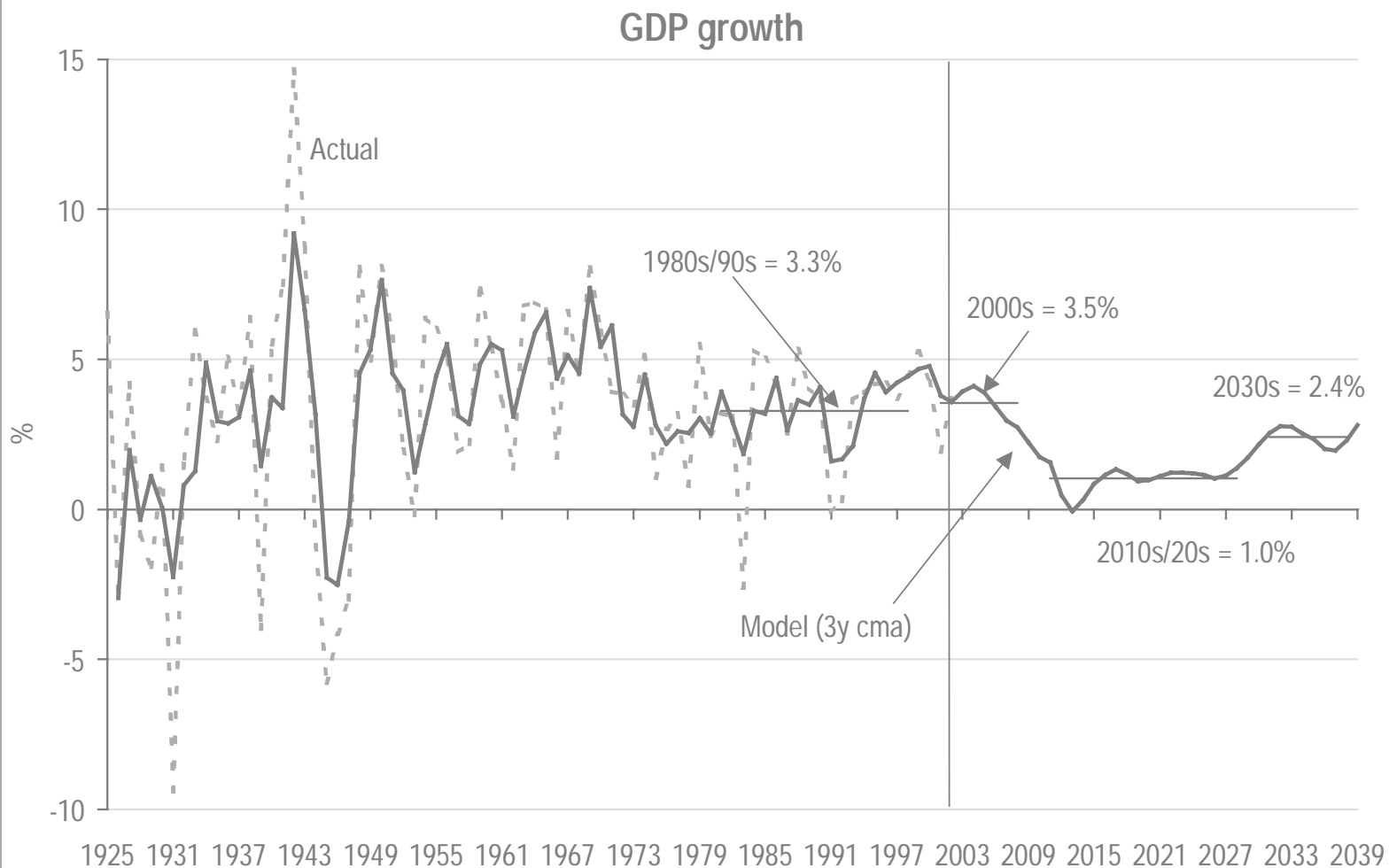
Unemployment rate & labour market tightness



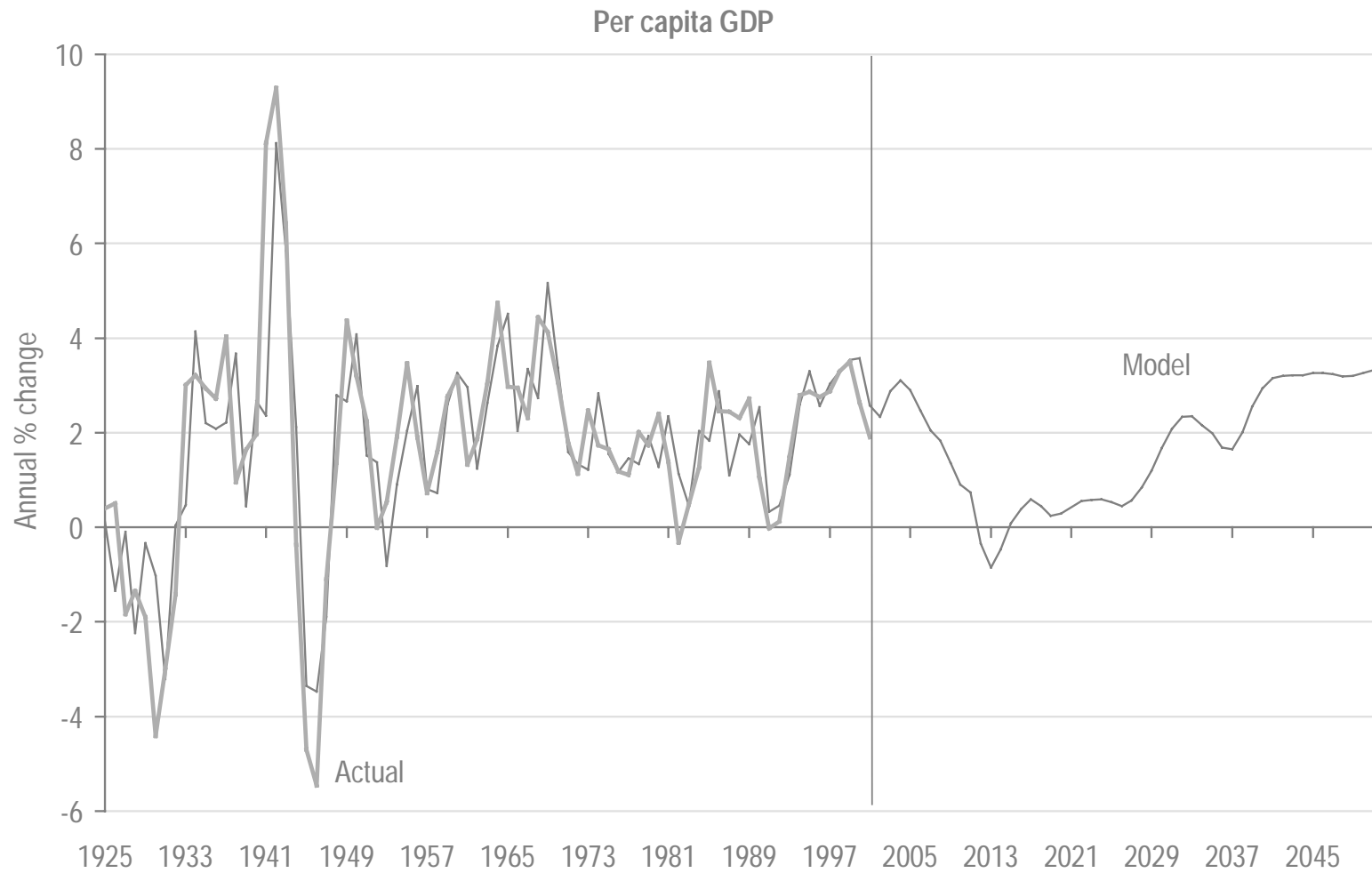
Wage pressures begin to emerge



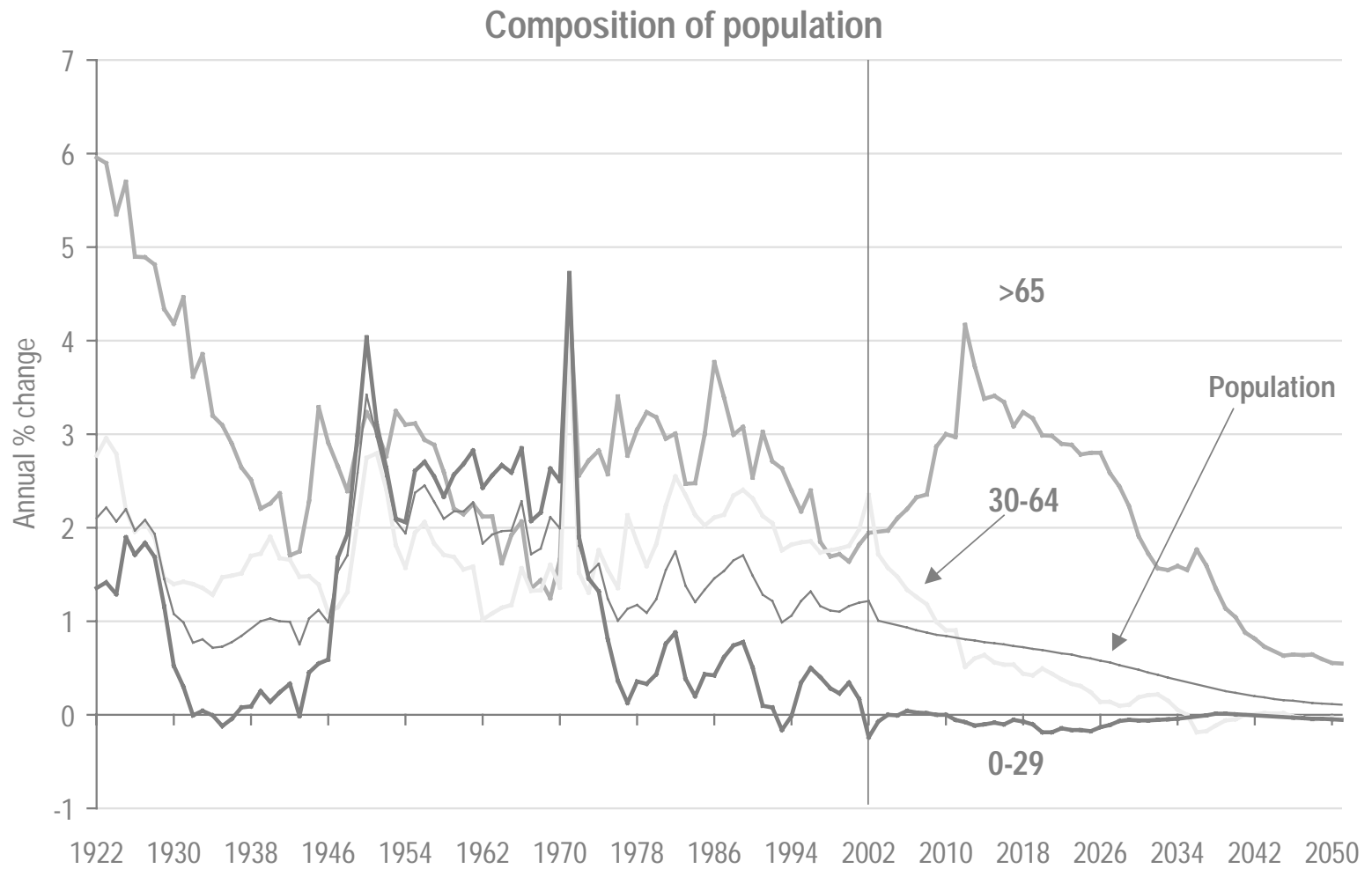
Potential growth may fall in sharply in 2005-2010



Productivity is a fn of the age structure



Blame it on the baby boomers!



This material has been prepared by UBS Warburg Australia Limited, a subsidiary of UBS AG ('UBS') identified herein. In certain countries UBS AG is referred to as UBS SA. UBS Warburg is a business group of UBS AG.

This material is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. References made to third parties are based on information obtained from sources believed to be reliable but are not guaranteed as being accurate. It should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this material are subject to change without notice and UBS is not under any obligation to update or keep current the information contained herein. UBS and its respective officers and associates or clients may have an interest in the securities or derivatives of any entities referred to in this material. In addition, UBS may make, purchases and/or sales as principal or agent or may act as market maker or provide corporate finance or other services. UBS accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this material. All information is correct at the time of publication, additional information may be made available upon request.

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Warburg Ltd., a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** This material is distributed in Switzerland by UBS AG. **United States:** This material is distributed to US persons by UBS Warburg LLC a subsidiary of UBS AG, or by another division, group, subsidiary or affiliate of UBS to major US institutional investors only. UBS Warburg LLC accepts responsibility for the content of materials prepared by another division, group, subsidiary or affiliate of UBS AG when distributed by UBS Warburg LLC to US persons. All transactions by a US person in the securities mentioned in this material must be effected through UBS Warburg LLC. **Canada:** This material is distributed by UBS Bunting Warburg Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Japan:** This material is distributed in Japan by UBS Warburg (Japan) Limited, a registered securities company, or by UBS AG, Tokyo Branch, a licensed bank. For further details of our local services, please call your regular contact at UBS in Japan. **Australia:** This material is distributed in Australia by UBS Warburg Australia Limited (ABN 40 008 582 705) or UBS Warburg Australia Equities Limited (ABN 62 008 586 481) licensed securities dealers. **New Zealand:** This material is distributed in New Zealand by UBS Warburg New Zealand Ltd, or UBS Warburg New Zealand Equities Ltd.

© 2002 UBS AG. All rights reserved. UBS specifically prohibits the redistribution of this material and accepts no liability whatsoever for the actions of third parties in this respect.