Economic and Financial Market Outlook

9 November 2011
Chris Murphy with Dinar Prihardini

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Outline

- Is the economic recovery over?
- Outlook for financial markets

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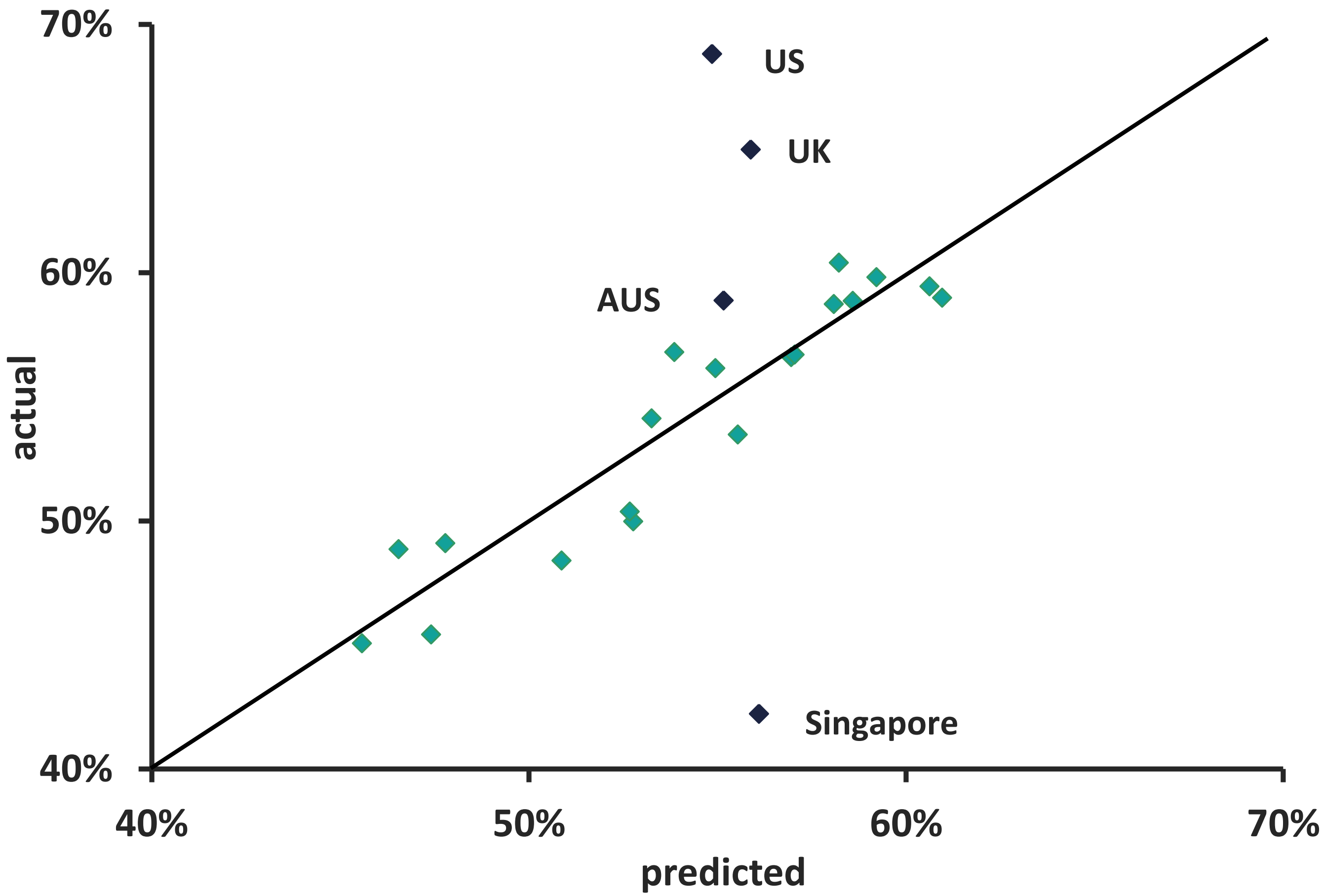
Is the economic recovery over?

GFC recap – over-consumption was root cause



Source: International Monetary Fund, Econtech Pty Ltd calculations (2007)

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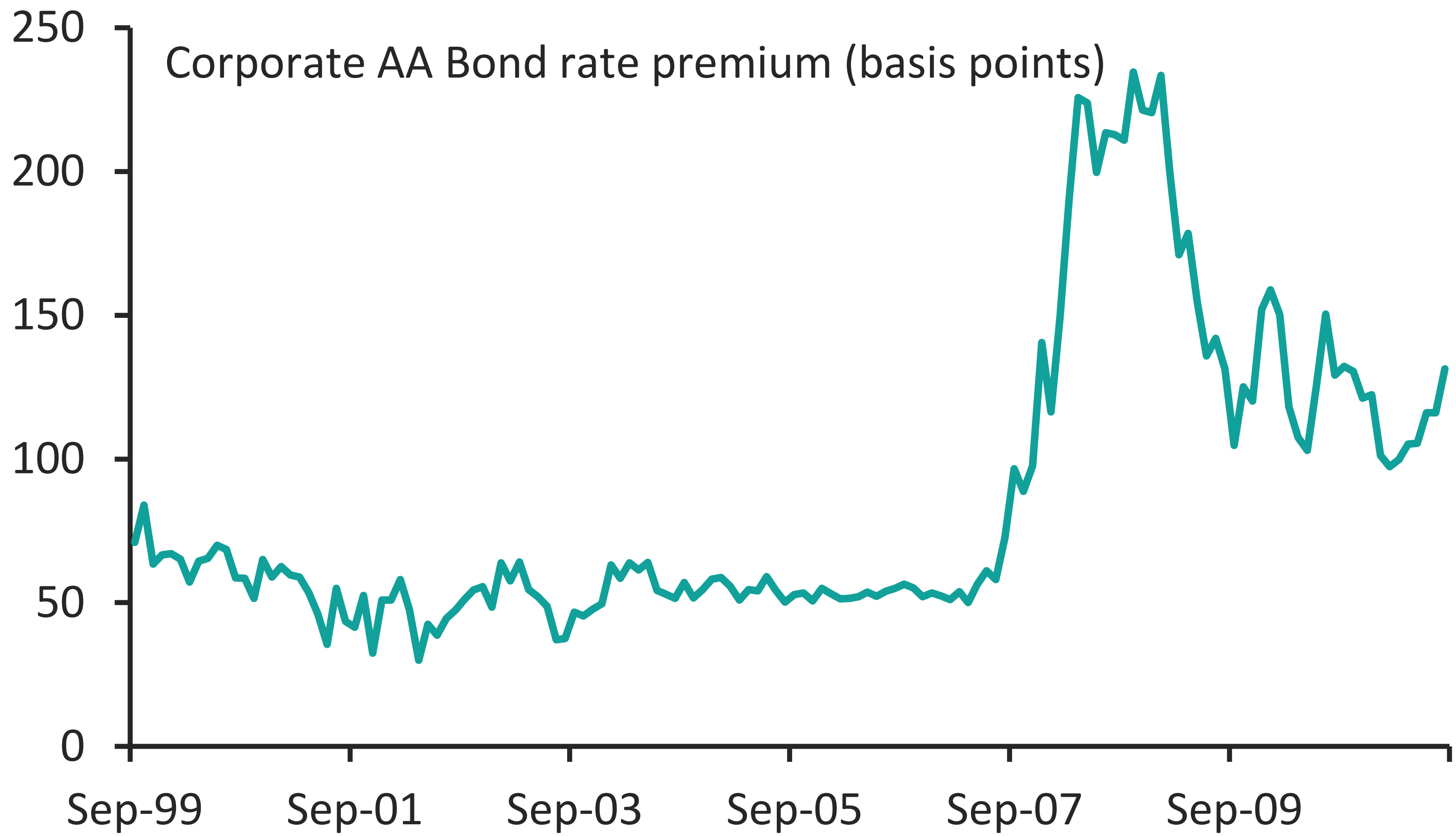
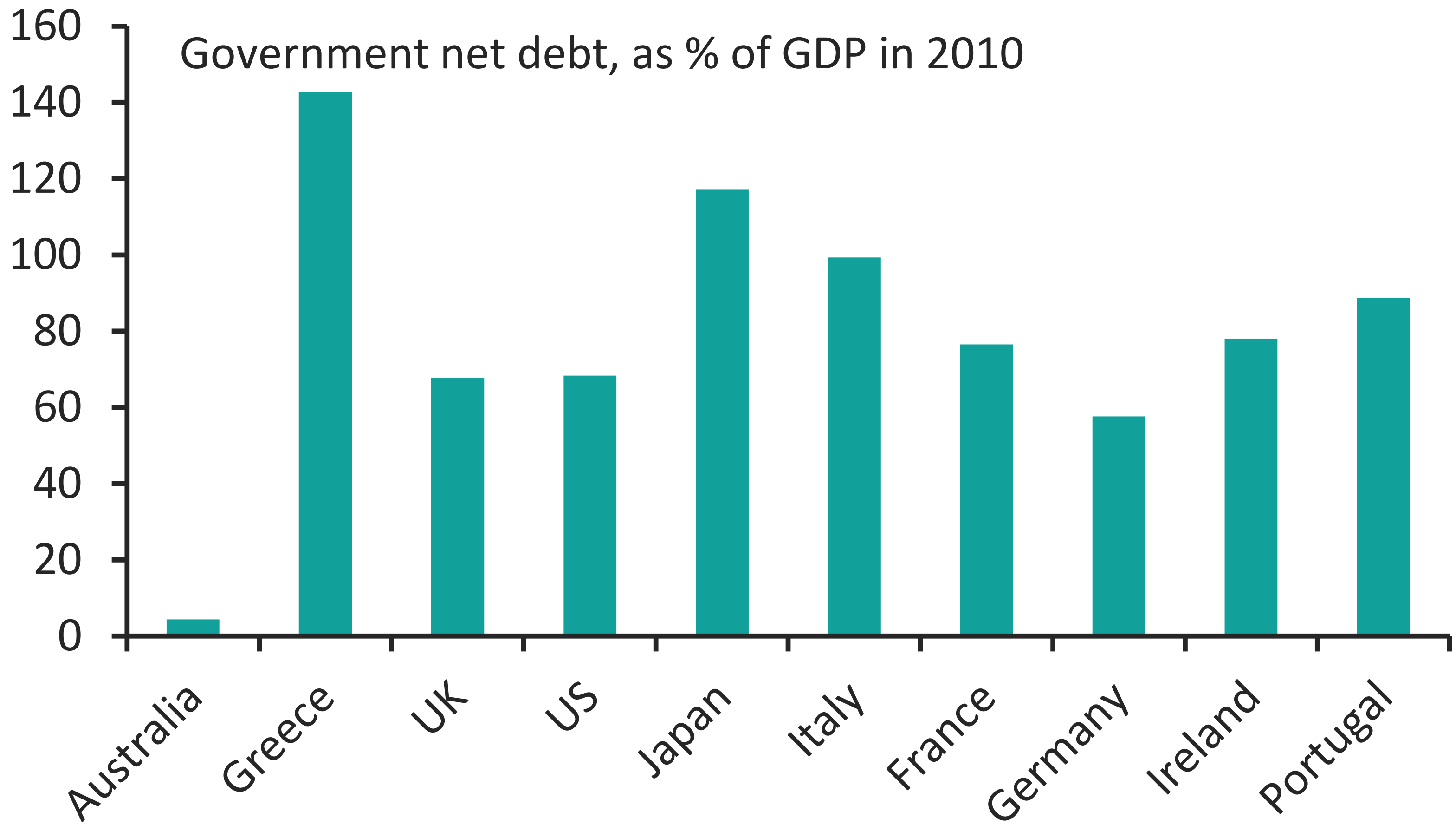
GFC recap – under and over pricing of risk



Source: Bloomberg, Independent Economics calculations

Now – pressure on public balance sheets



Source: International Monetary Fund

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Unveiling our new model and forecasts

- This presentation unveils the first forecasts from our new short-term forecasting model of the economy and financial markets (known as a structural VAR model)
- It has a special focus on how we are affected by global developments, which are playing a key role as we deal with the aftermath of the GFC
- The charts show five discernible economic stages:
  - Pre-GFC - until ‘07
  - GFC - ‘08
  - partial recovery - ‘09 and ’10
  - soft patch - ‘11
  - sustained recovery - from mid ’12

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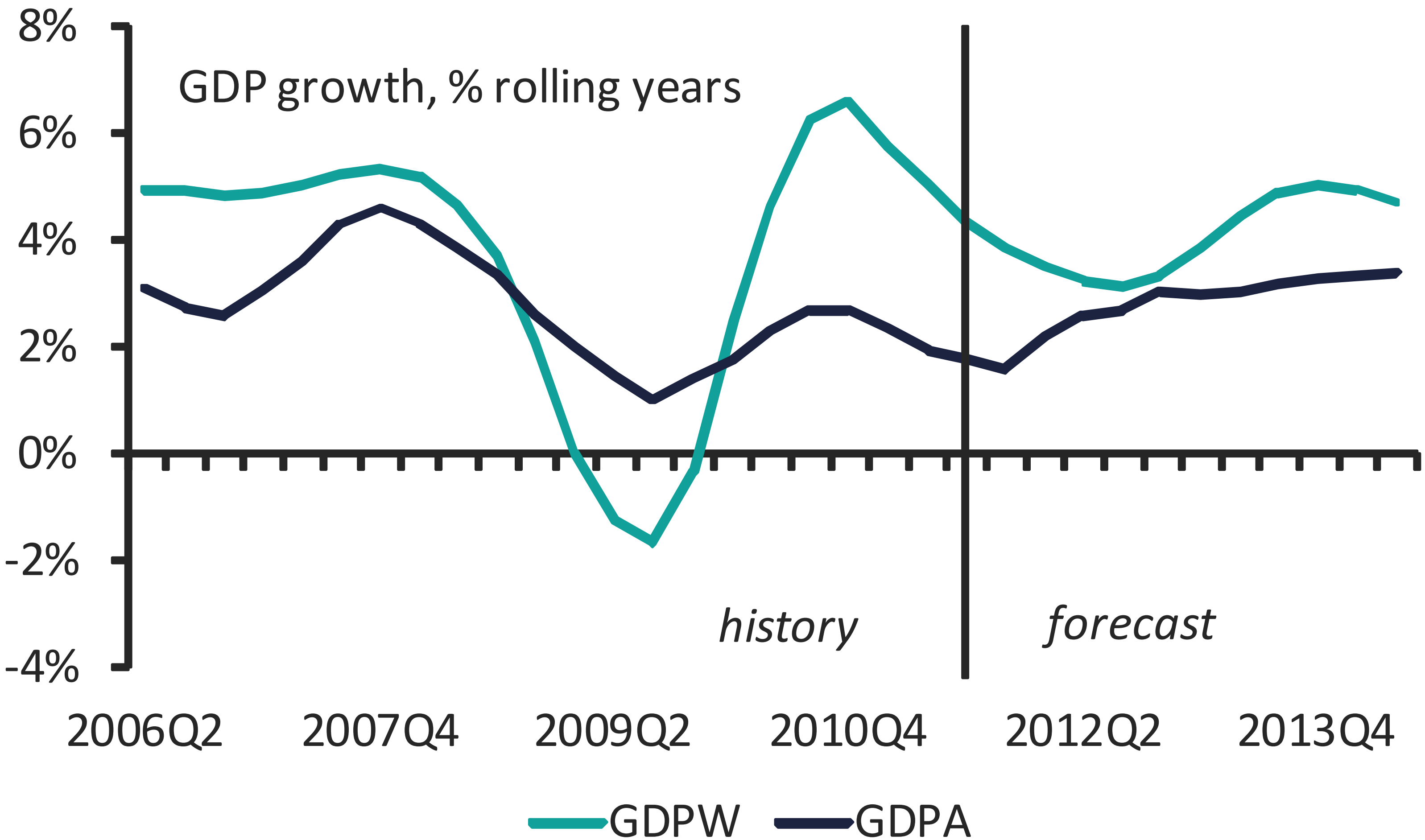
A slow patch for us and the world



Source: Independent Economics Short-term Forecasting Model

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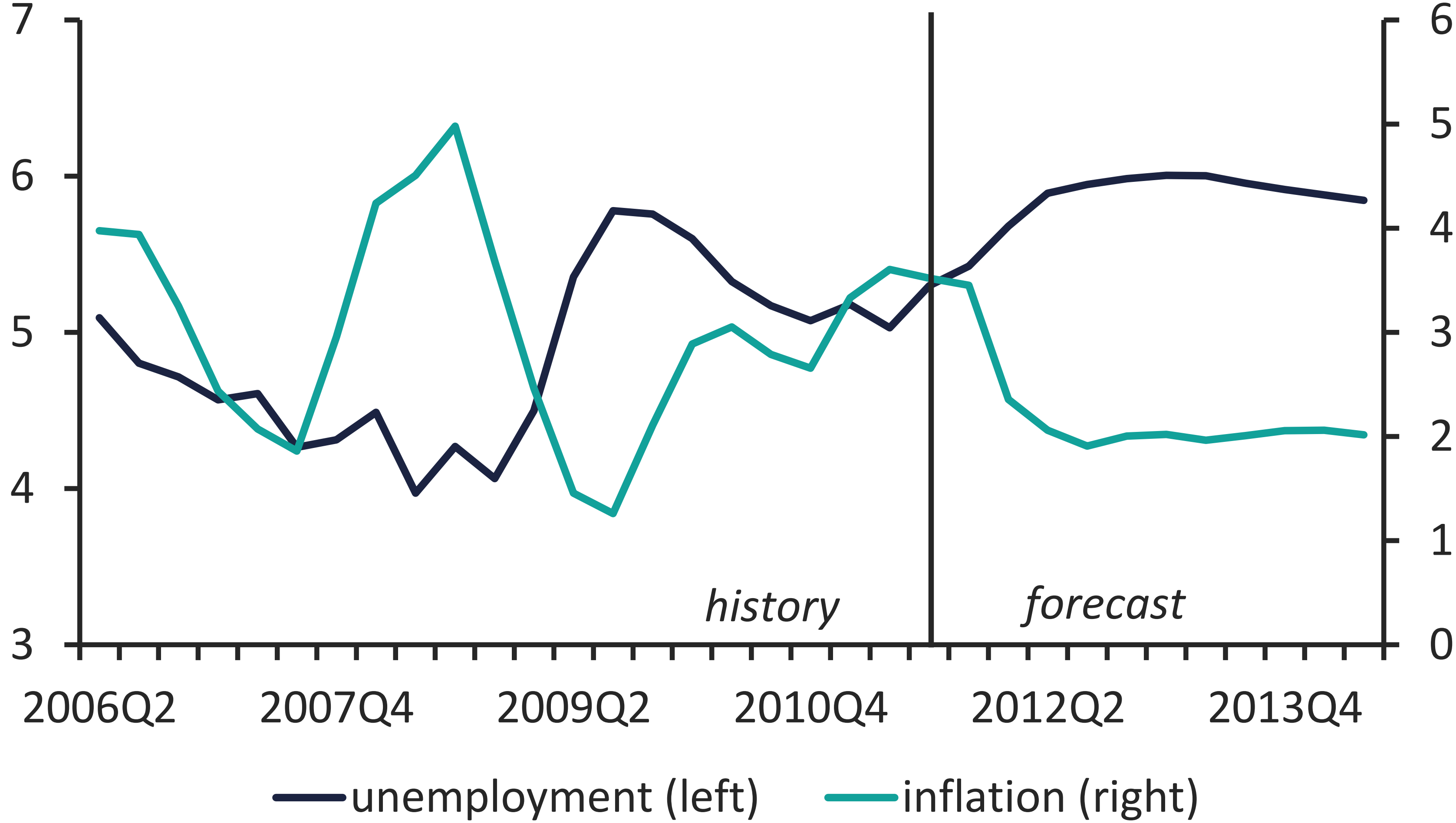
Rising unemployment...low inflation



Source: Independent Economics Short-term Forecasting Model

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Outlook for financial markets

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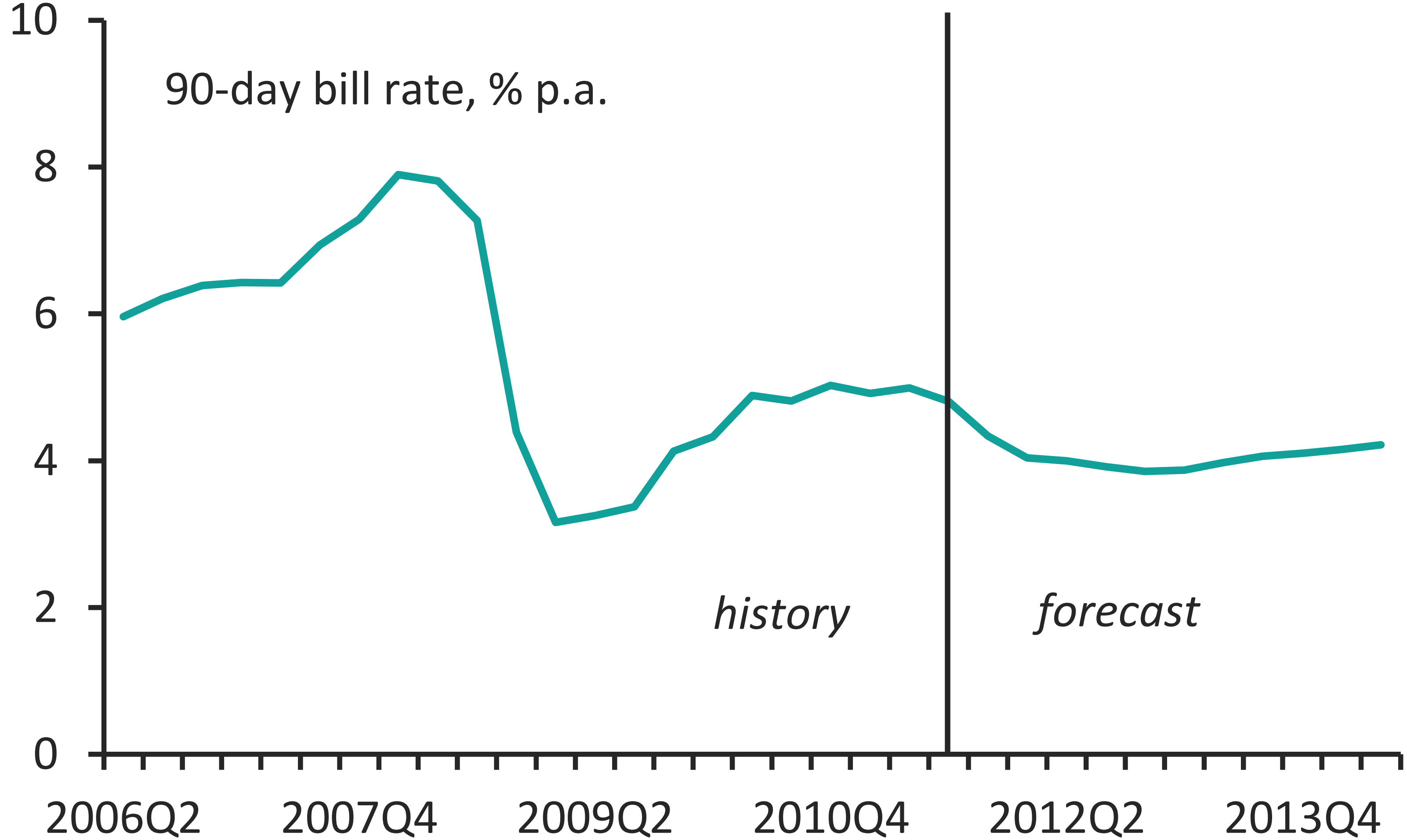
Falling inflation...falling interest rates



Source: Independent Economics Short-term Forecasting Model

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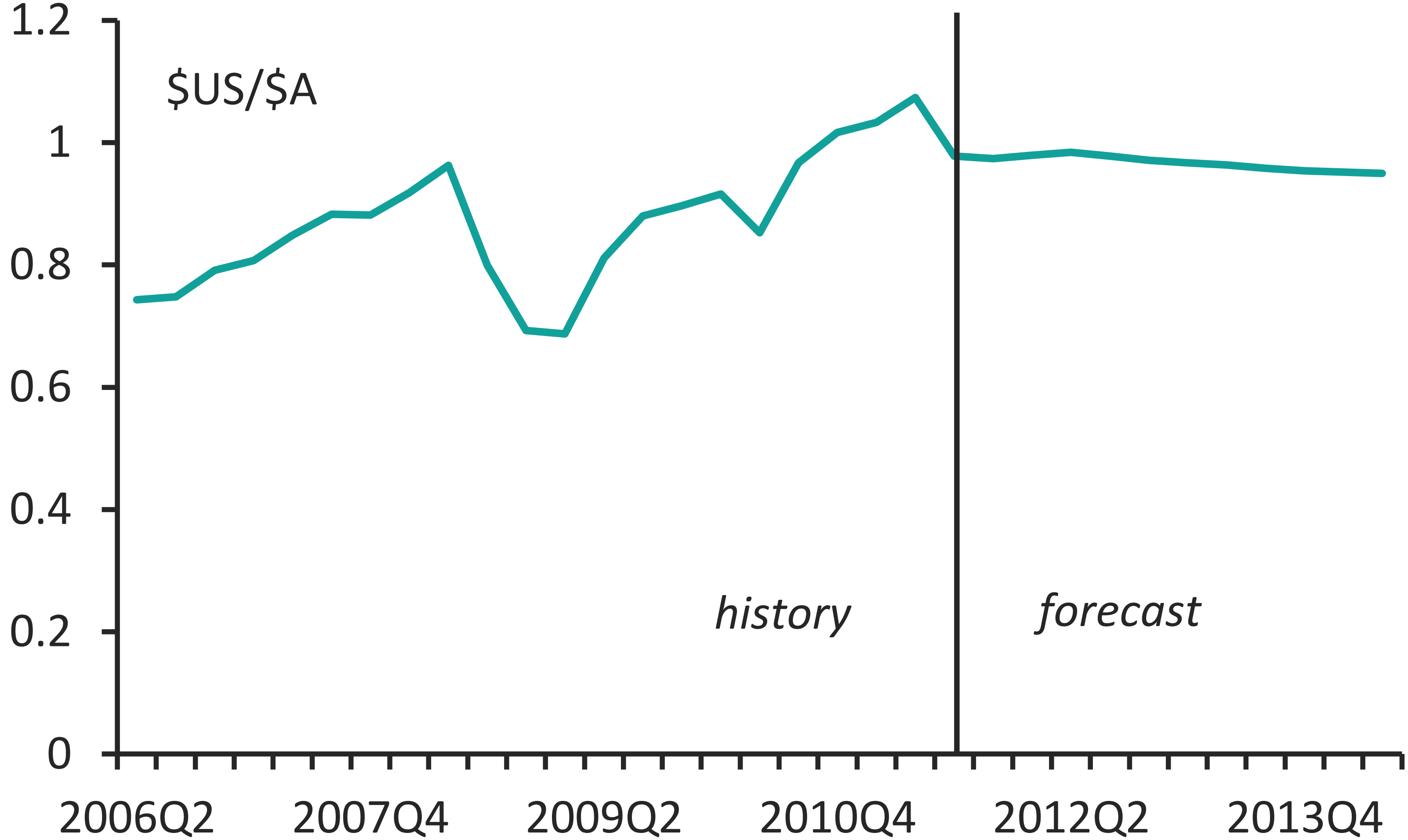
Strong commodity prices…keeping us near parity



Source: Independent Economics Short-term Forecasting Model

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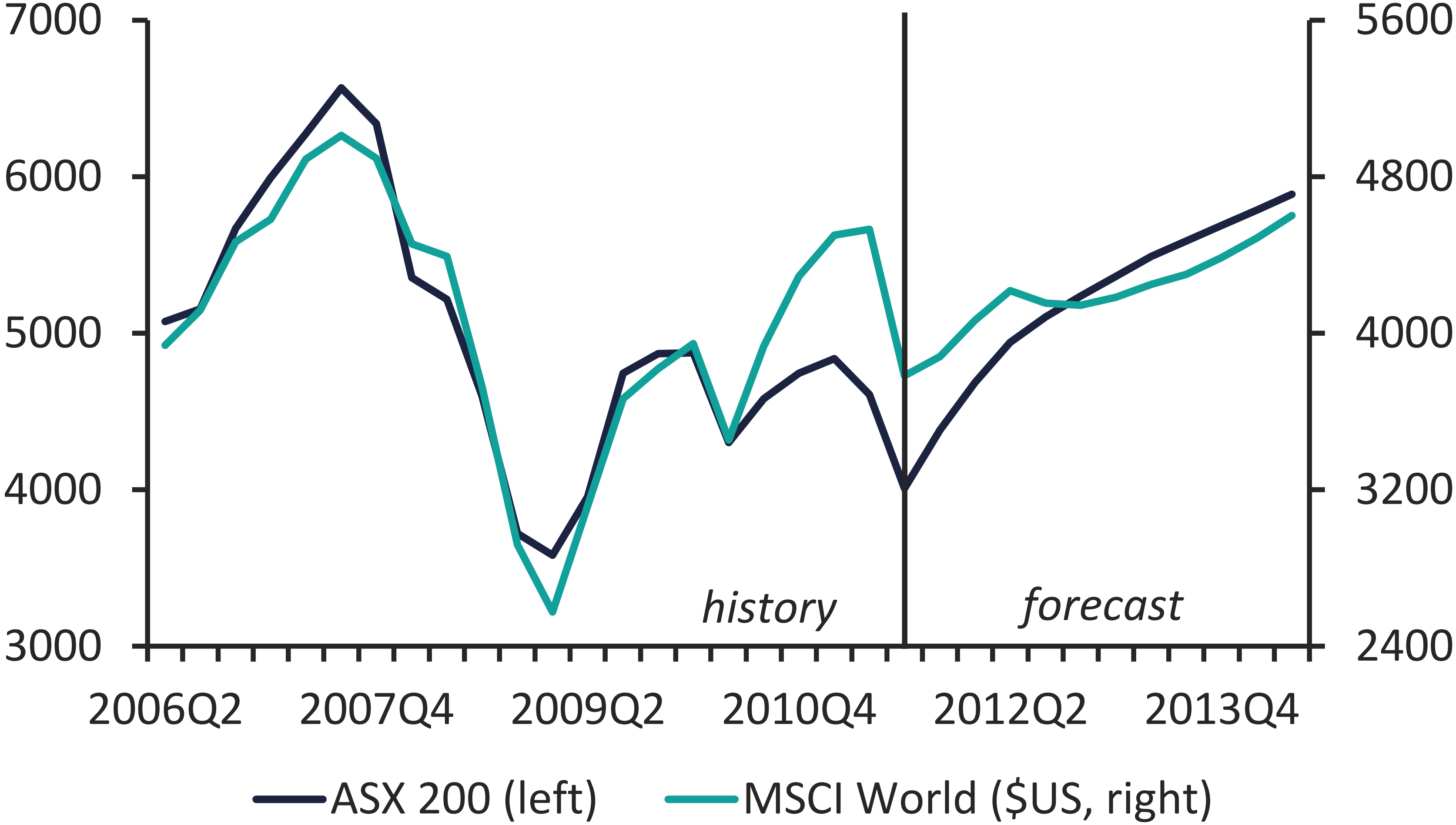
Positive share market outlook



Source: Independent Economics Short-term Forecasting Model

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Summing Up

- Post-GFC recovery has hit a soft patch but to resume from mid 2012
- Annual GDP growth (rounded):
  - 2010/11 – 2%
  - 2011/12 – 2 ½%
  - 2012/13 – 3%
  - 2013/14 – 3 ½%
- Current soft patch will see unemployment rise further before it starts to fall
- Upside is that inflation is heading down so Reserve Bank should cut cash rate to 4% within 12 months
- High commodity prices to keep $A near parity with $US
- Share market appears under-valued and will be supported by the sustained economic recovery to come

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