



# Townsville Chamber *of* Commerce

Making Business Connections

**Speakers Series Luncheon**  
***Spiros Papadopoulos,***  
***NAB Senior Markets Economist***

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# Market Panic

**Sovereign debt problems, US downgraded,  
and the patchwork Australian economy**

Spiros Papadopoulos

Senior Economist, Global Markets Research

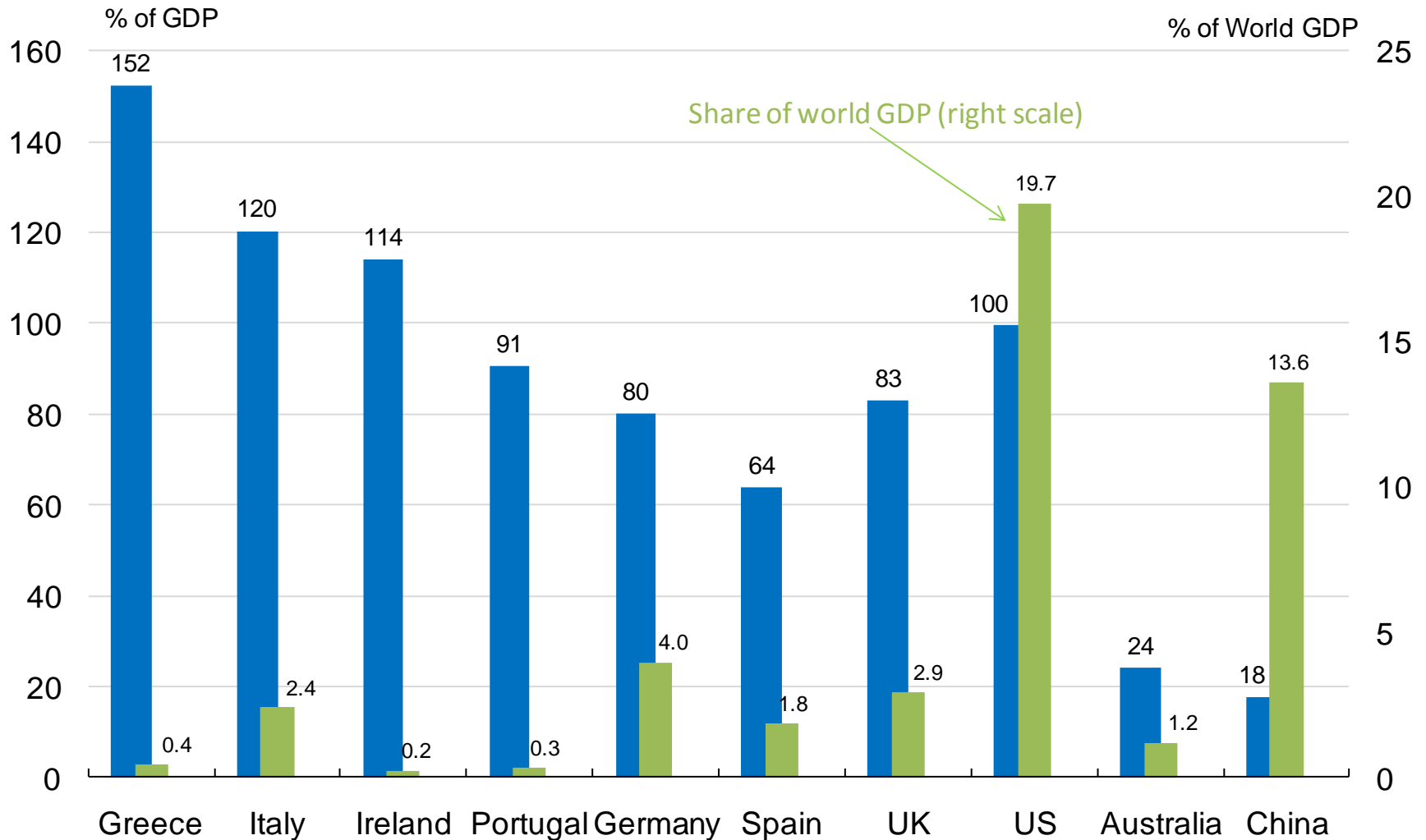
10 August 2011

# Key themes

- Global outlook deteriorating (US, Europe, Asia)
- Panic in markets that US will slide back into recession
- Australian economy (ex-mining) remains soft
- But unemployment low, wage and inflation pressures rising
- Carbon tax adding to consumer and business uncertainty

# Sovereign debt problems...Italy and Spain now in focus

## General Government Gross Debt - 2011 Estimates

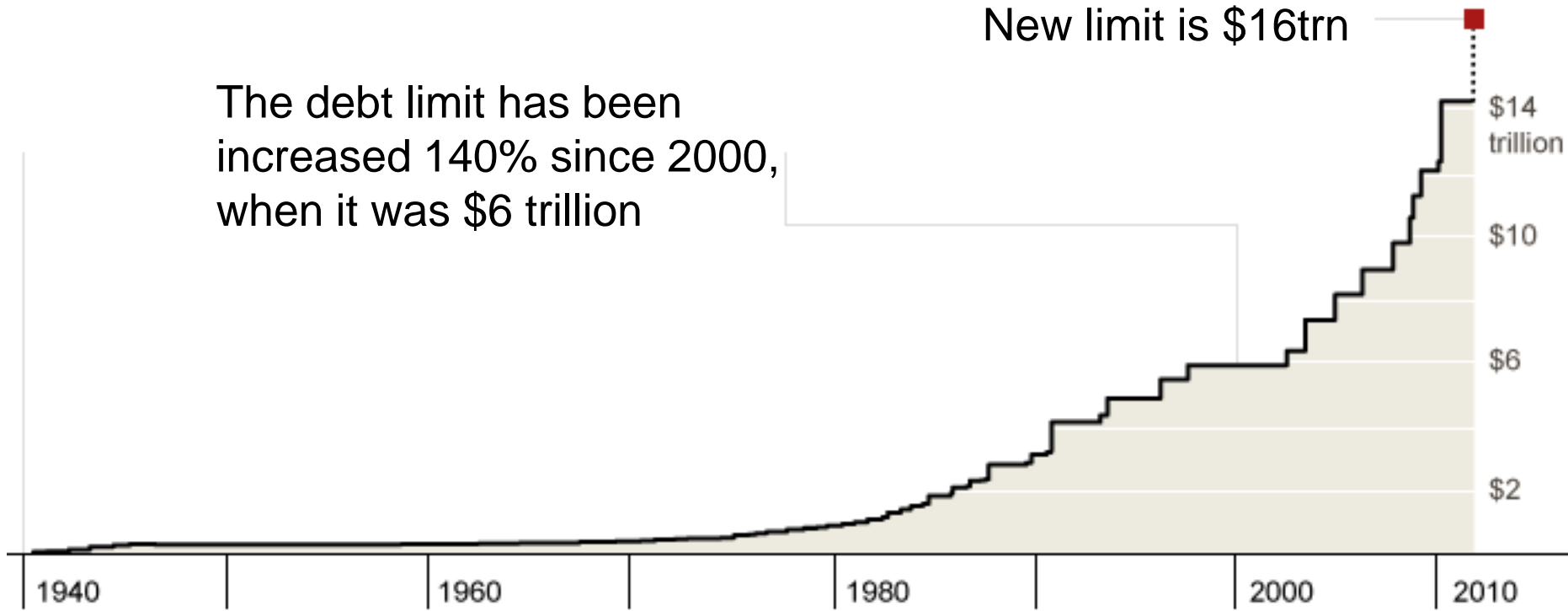


Source: IMF Fiscal Monitor, April 2011

# US debt ceiling finally raised...but US loses AAA rating anyway

The debt limit has been increased 140% since 2000, when it was \$6 trillion

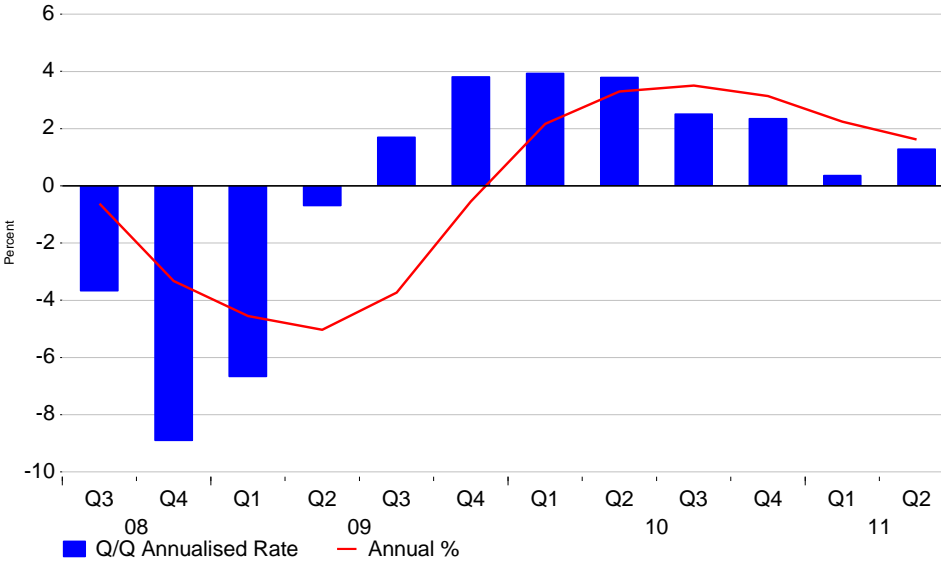
New limit is \$16trn



- \$2.1 trillion increase in the debt ceiling to over \$16 trillion
- Cuts to spending of \$2.5trn to reduce long-term debt by 2021
- US has lost its AAA credit rating – S&P saying the debt deal does not go far enough, and economic outlook deteriorating

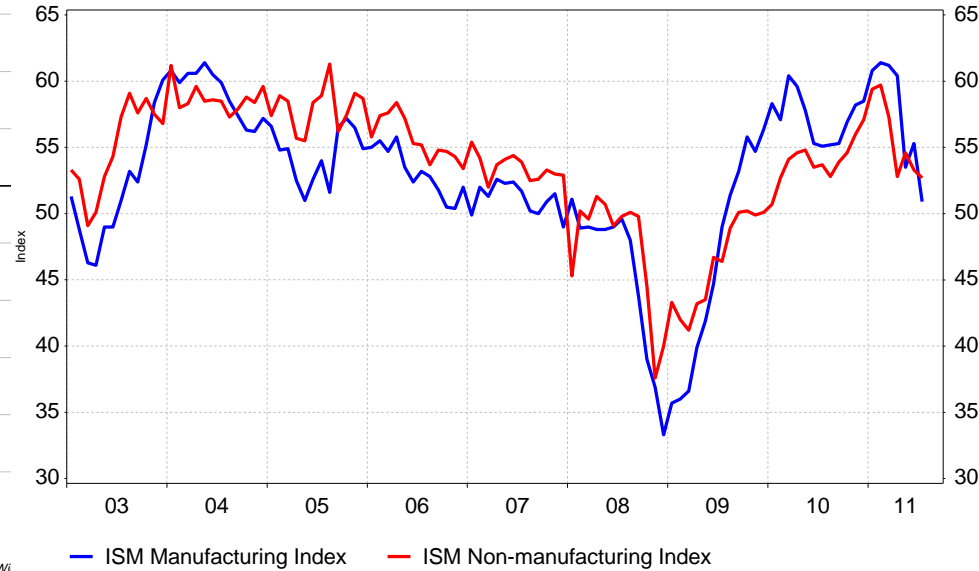
# US economic outlook deteriorating – QE3 now expected

US GDP



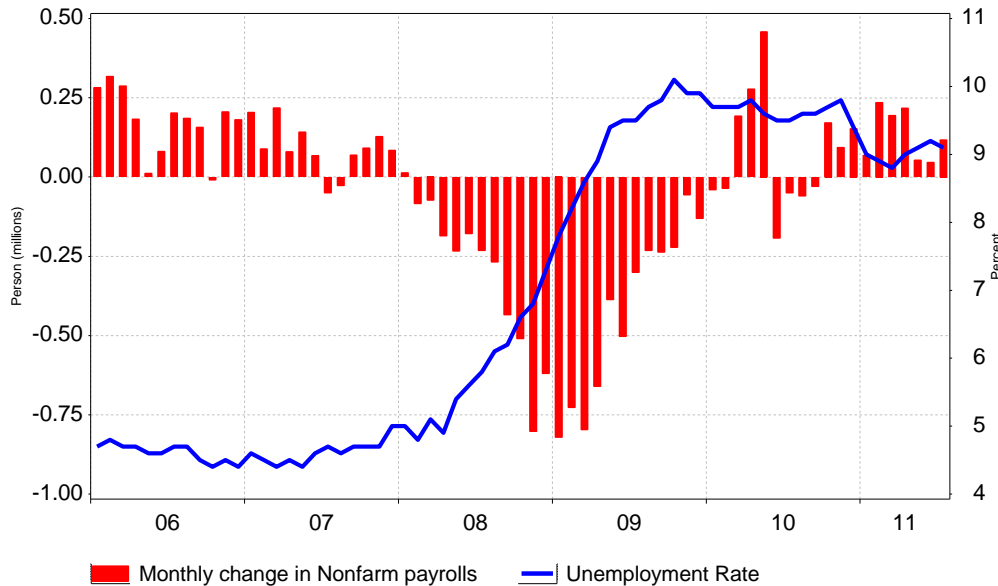
Source: NAB Capital Research, Reuters EcoWin

US ISM Surveys



Source: Reuters EcoWin

US Payrolls and Unemployment Rate



Source: Reuters EcoWin



# Deteriorating global outlook sees equity markets plummet

## ASX 200 vs Dow Jones Industrials

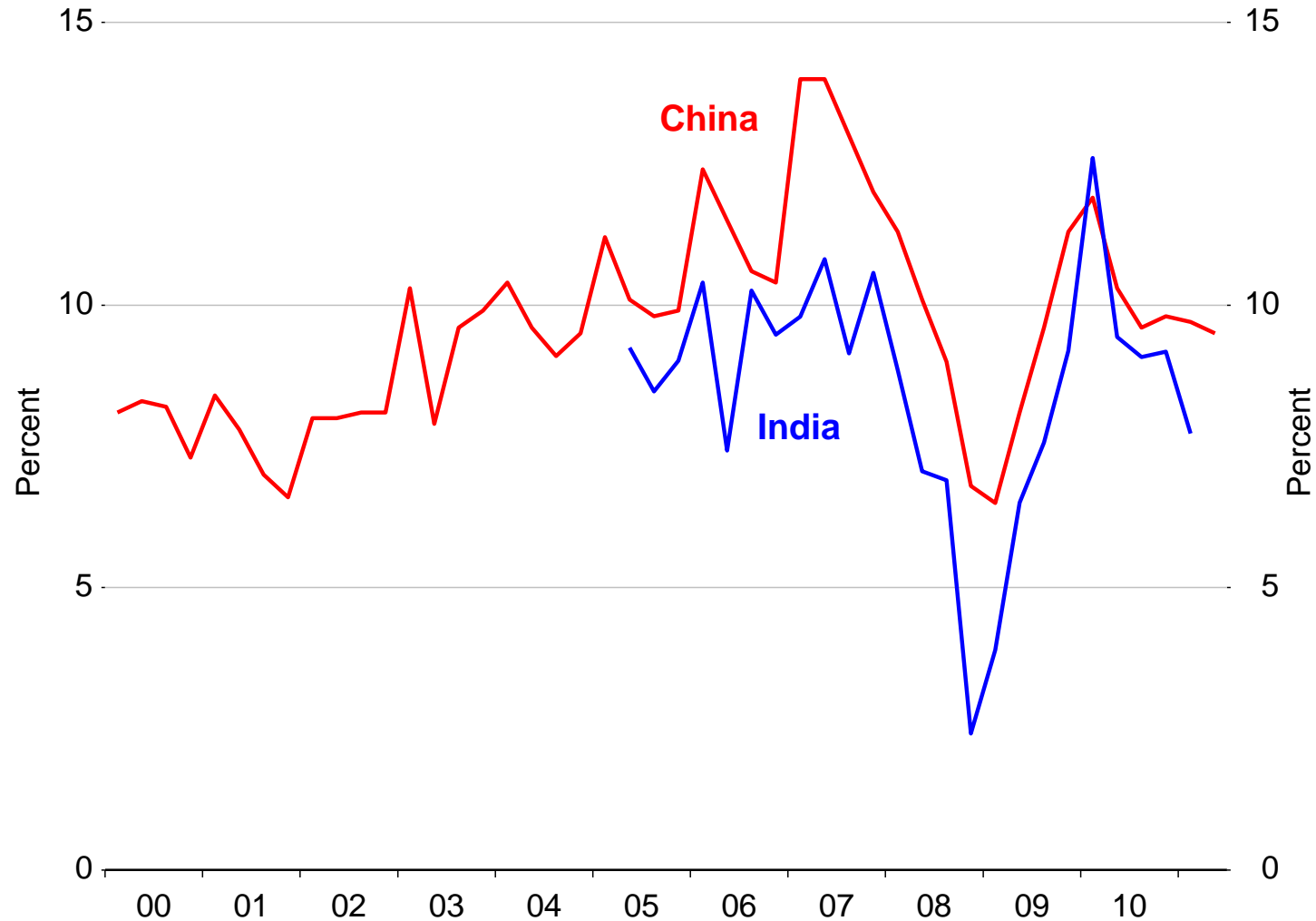


Source: Reuters EcoWin



# Chinese and Indian growth slowing after policy tightenings

## Real GDP, annual % change



Source: NAB Global Markets Research, Reuters EcoWin

Fiscal tightenings (US, Europe) mean lower global growth.  
Emerging markets remain solid, but slowing

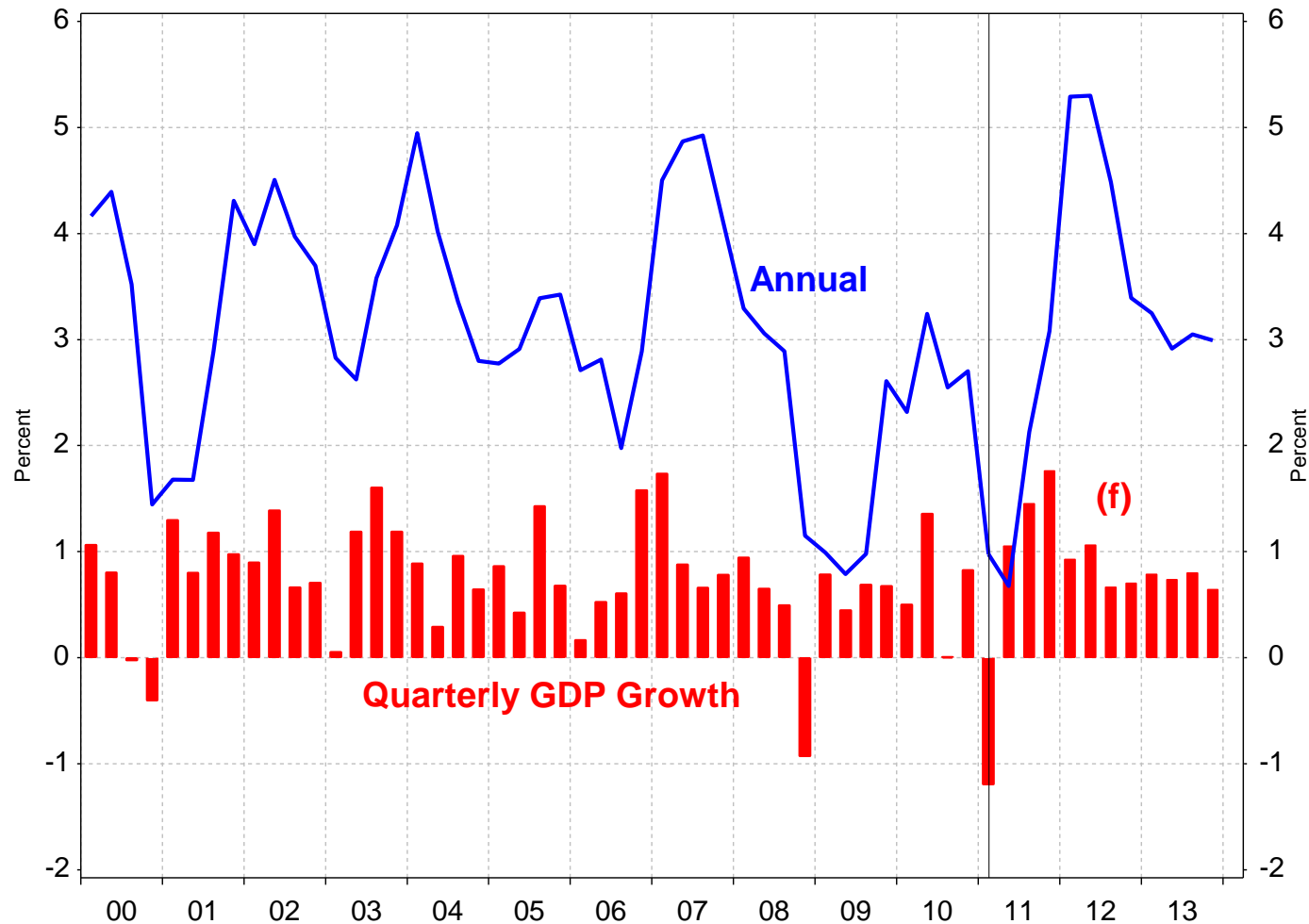
<i>Ann Avg GDP</i>	<b>2009</b>	<b>2010</b>	<b>2011 (f)</b>	<b>2012 (f)</b>	<b>2013 (f)</b>
<b>Australia</b>	1.3	2.7	1.5	4.2	3.0
<b>US</b>	-3.5	3.0	1.8	2.6	3.0
<b>Japan</b>	-6.3	4.0	-0.8	3.3	1.9
<b>UK</b>	-4.9	1.3	1.3	1.8	2.3
<b>Eurozone</b>	-4.1	1.7	2.0	1.4	1.5
<b>India</b>	7.0	9.0	7.3	6.6	6.0
<b>China</b>	9.2	10.3	9.3	8.2	8.0
<b>World</b>	-0.8	5.1	4.0	3.8	3.7

## For Australia...

- Global events are reasons for RBA to stay on hold, not cut
- Just last week RBA considered raising the cash rate due to inflation outlook, but resisted due to global uncertainty
- RBA cutting rates would need a seizing in credit markets or a renewed recession in the US. Possible, but not NAB's core view
- Main risk: Will US growth prospects fall so far that they crunch China and Asia's growth prospects, with knock-on effect to Australia?

# Australian activity better placed as mining investment booms

## Australian GDP

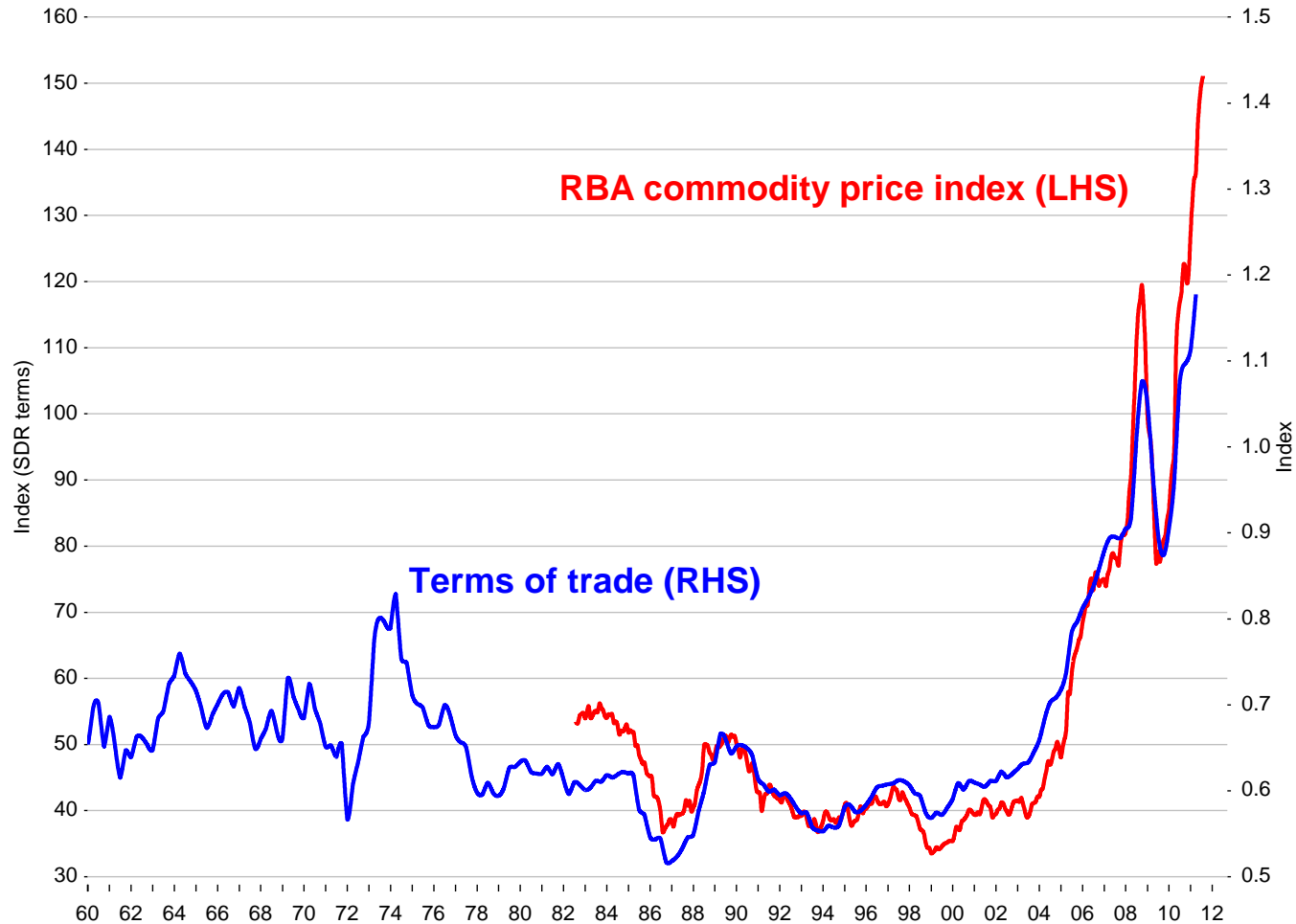


\$76bn in mining investment planned in 2011-12 and \$380bn in pipeline over next 6 yrs

Source: Reuters EcoWin

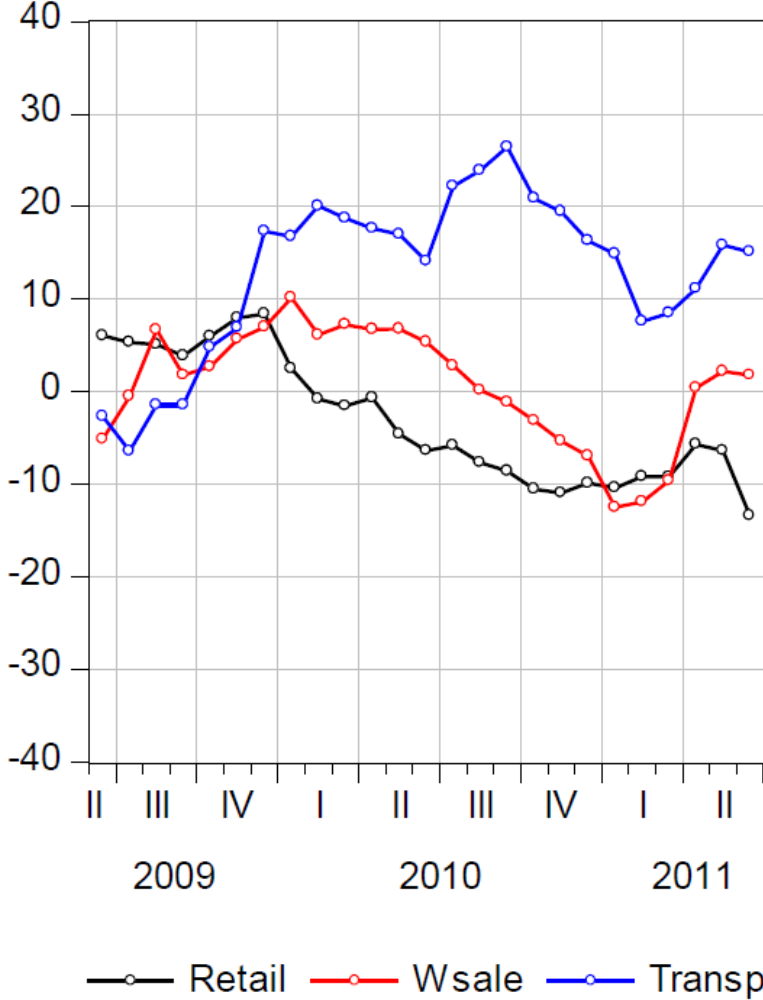
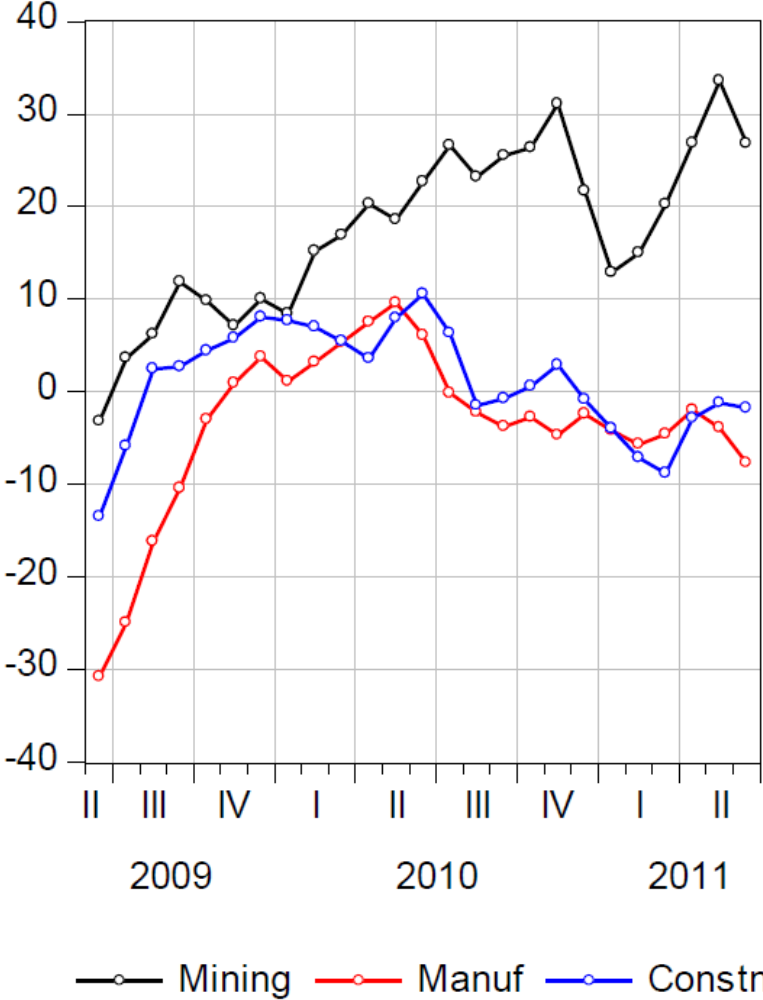
# Commodity prices driving 'terms of trade' & real incomes higher

## Aus: Terms of trade, RBA commodity prices



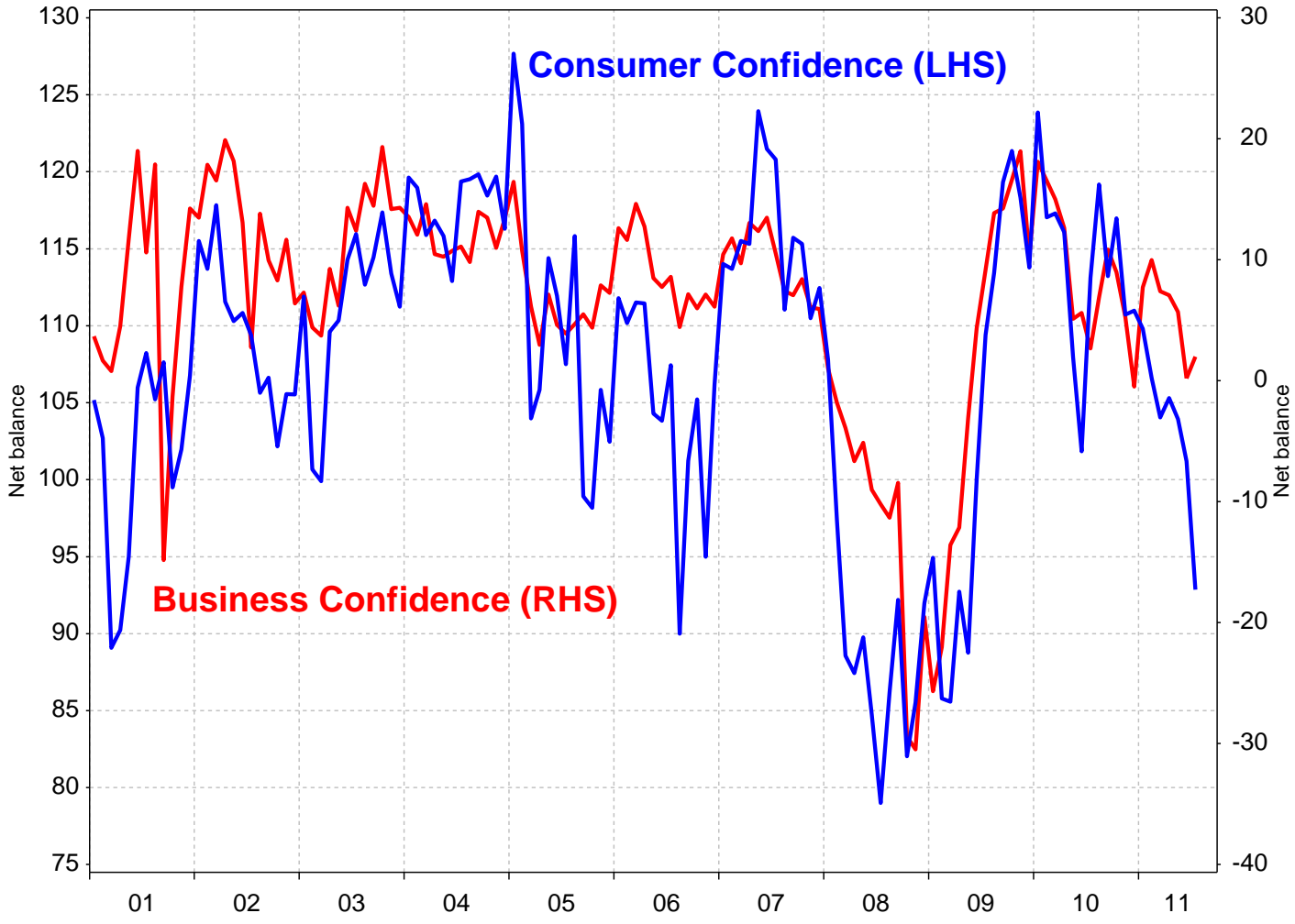
Source: NAB Global Markets Research, Reuters EcoWin

# NAB Business Conditions by Industry – the Patchwork Economy



# But outside of the mining sector, confidence is weak

## Australian Confidence

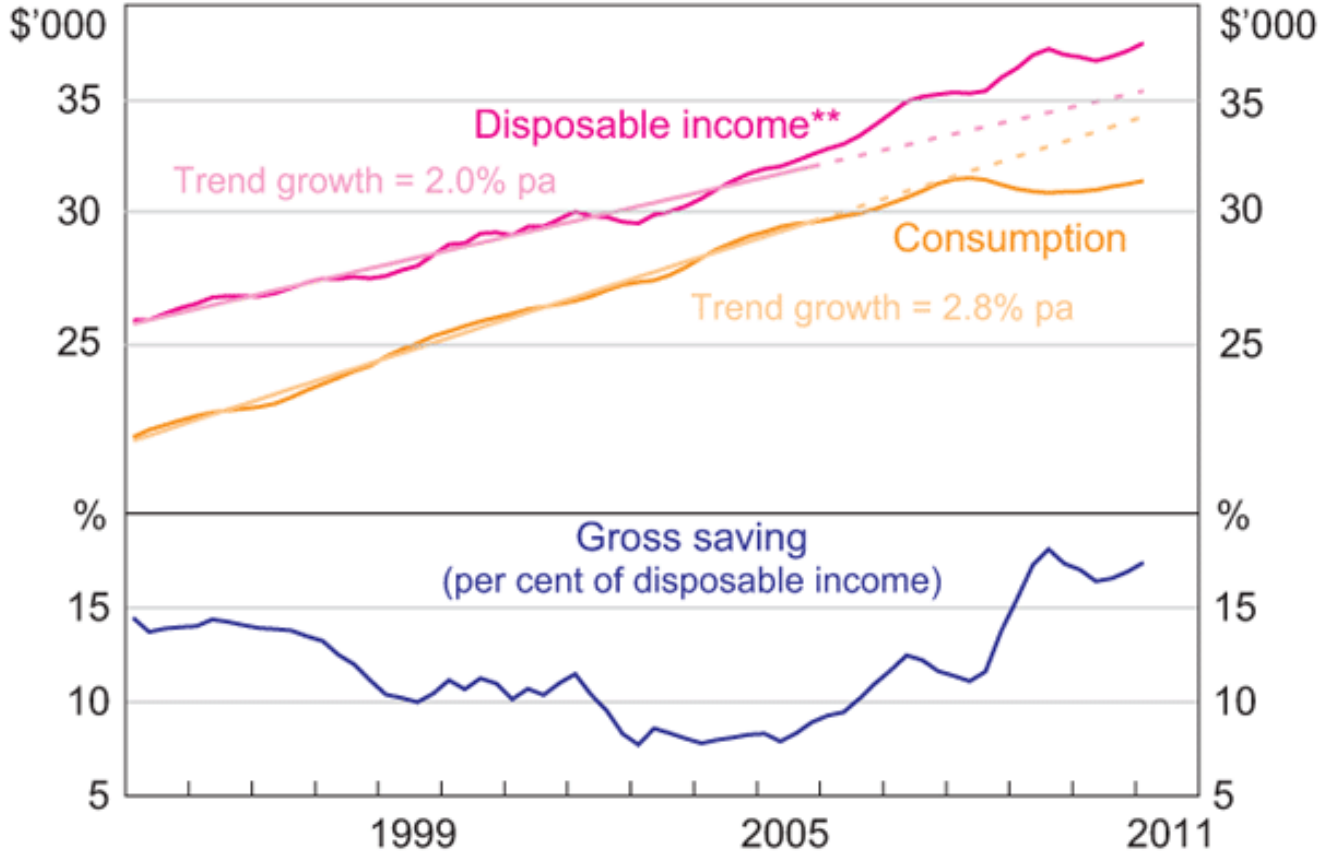


Source: Reuters EcoWin, NAB Business Survey

# Households remain cautious and savings continue to rise

## Real Household Income and Consumption\*

Per capita annual rolling sum, log scale



\* In 2008/2009 dollars; deflated using the household final consumption expenditure implicit price deflator

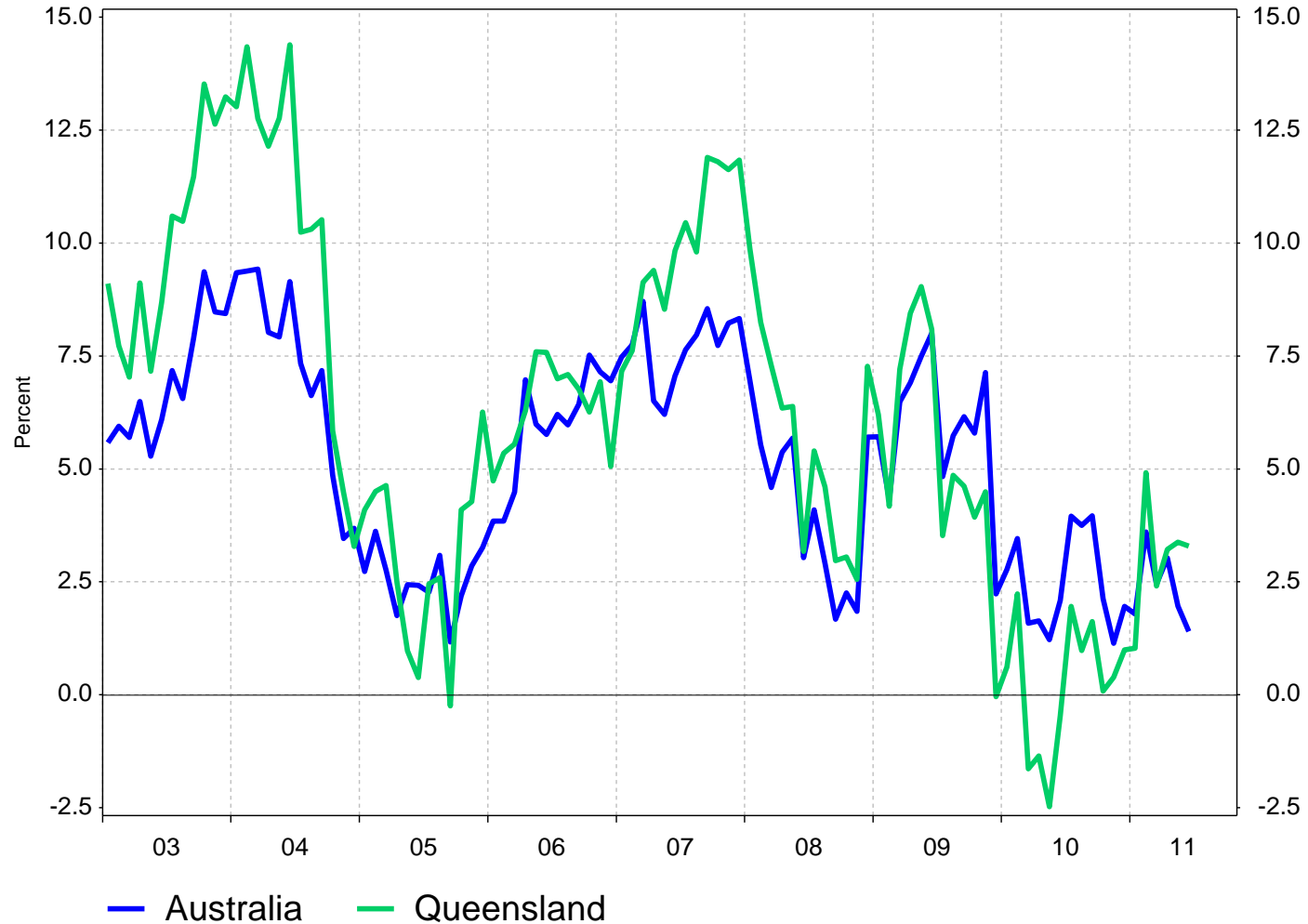
\*\* Disposable income is after tax and net interest payments

Sources: ABS; RBA

# Retail sales growth remains soft

## Retail sales, QLD & Australia

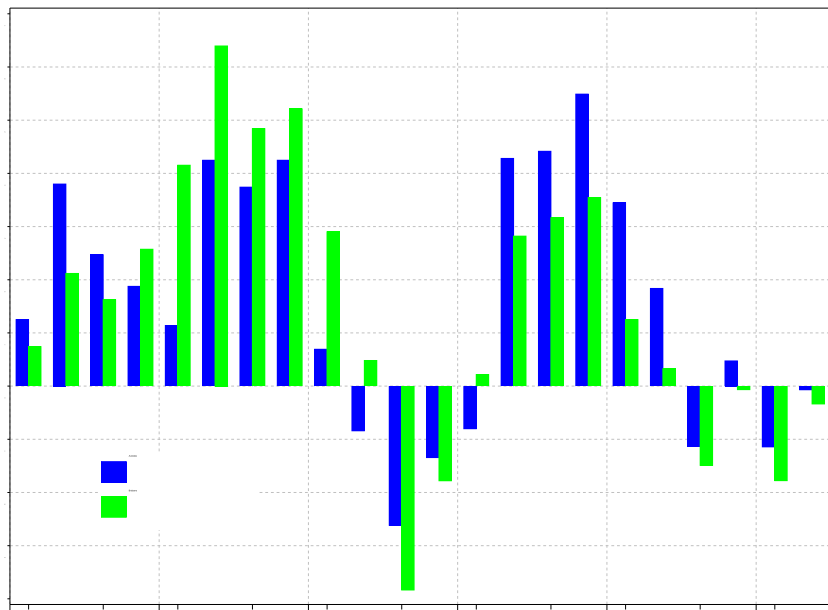
Annual % change, \$ sales



Source: Reuters EcoWin

— Australia — Queensland

# House prices are falling

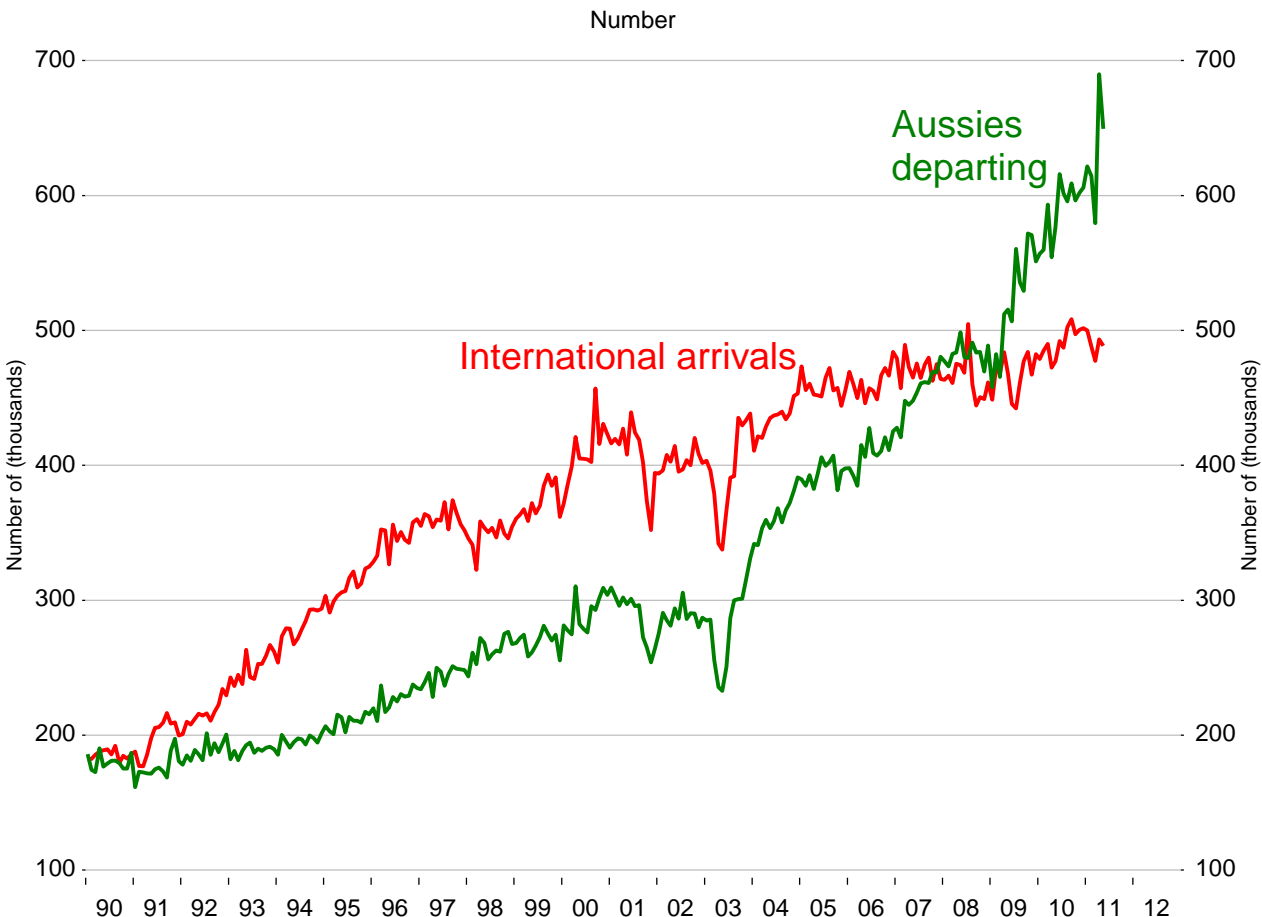


	June Qtr % Change	Annual % YoY
Sydney	0.4	-0.7
Melbourne	-0.1	-2.0
Brisbane	-0.3	-3.6
Adelaide	-0.8	-2.1
Perth	-1.0	-4.1
Hobart	-0.1	2.8
Darwin	-1.6	-3.0
Canberra	1.1	2.2
<b>Australia</b>	<b>-0.1</b>	<b>-1.9</b>

Source: ABS 6416.0

# Strong AUD hurting tourism into Australia, especially QLD

Aus: International tourism flows



Source: NAB Global Markets Research, Reuters EcoWin

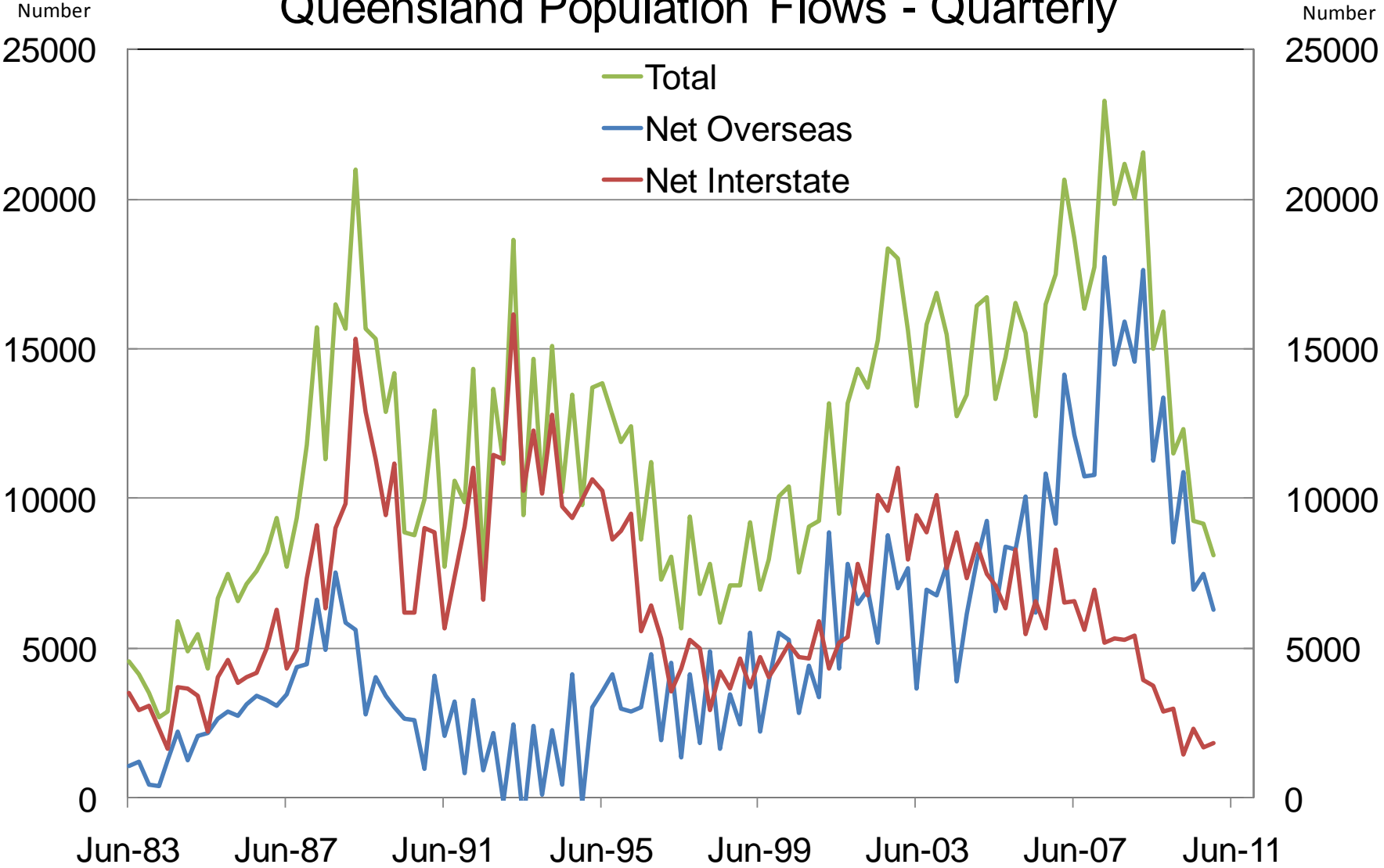
**Domestic visitors to QLD down 4% in year to March 2011 and international visitors down 1%**

**Domestic visitors to Tropical North QLD down 16% in 2010. International visitors up 5%, mainly China and Japan.**

**Domestic visitors to Townsville up 11% in 2010. International visitors down 8%.**

# Migration flows into QLD have slowed

## Queensland Population Flows - Quarterly

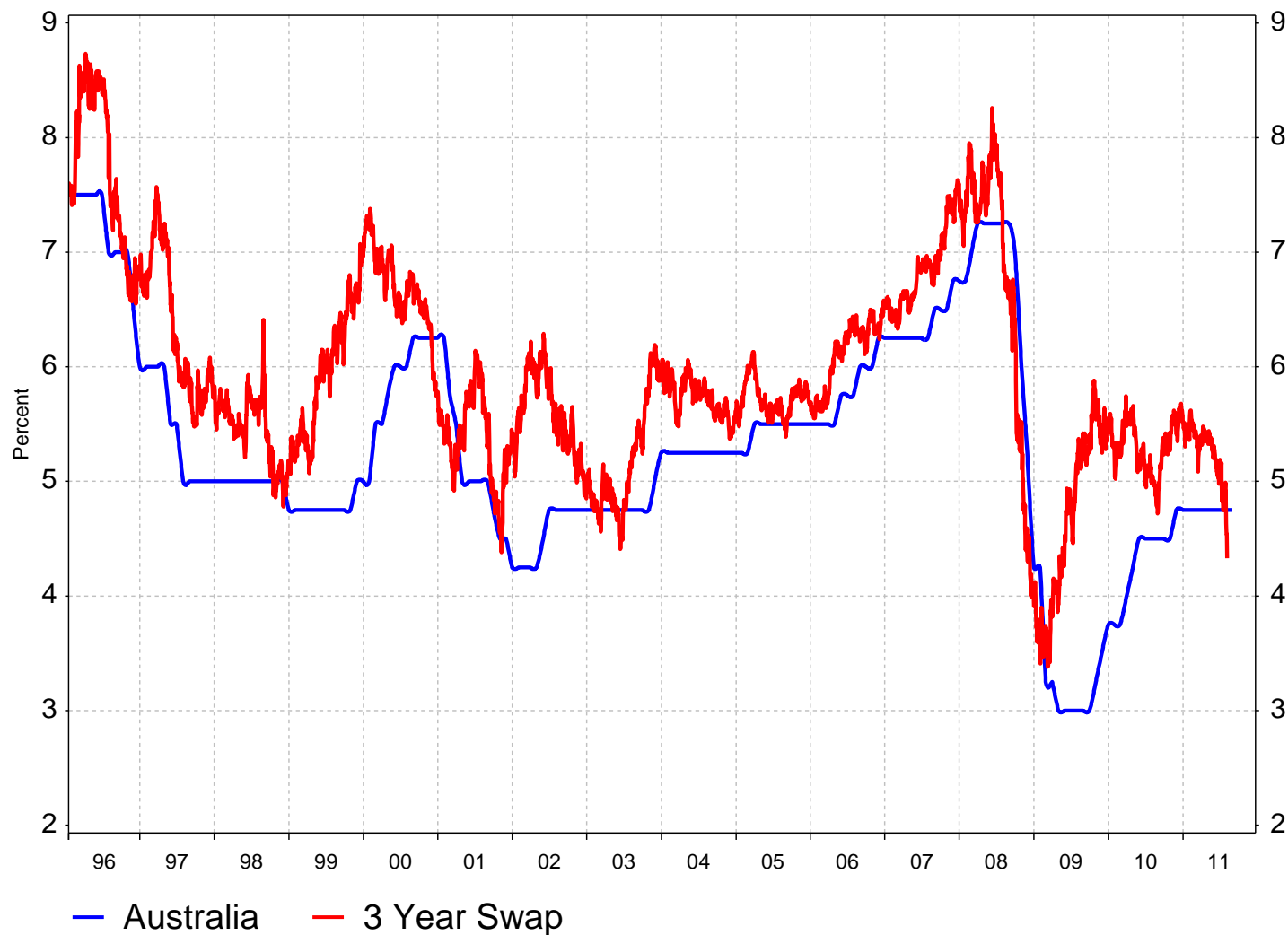


# Carbon tax adding to the uncertainty

- NAB expects 2012-13 GDP to be 0.2 per cent lower due to carbon tax
- Carbon tax will increase CPI by 0.7 per cent in 2012-13
- Government estimates that Electricity prices will rise 10%, Gas prices up 9%, but Food prices rise less than 0.5% in 2012-13
- Budget impact is -\$2.9bn in 2011-12, and -\$524m in 2012-13
- Over next 4 years the Budget cost is -\$4.3bn, but Budget still expected to return to Surplus in 2012-13

# Markets have priced in interest rate cuts

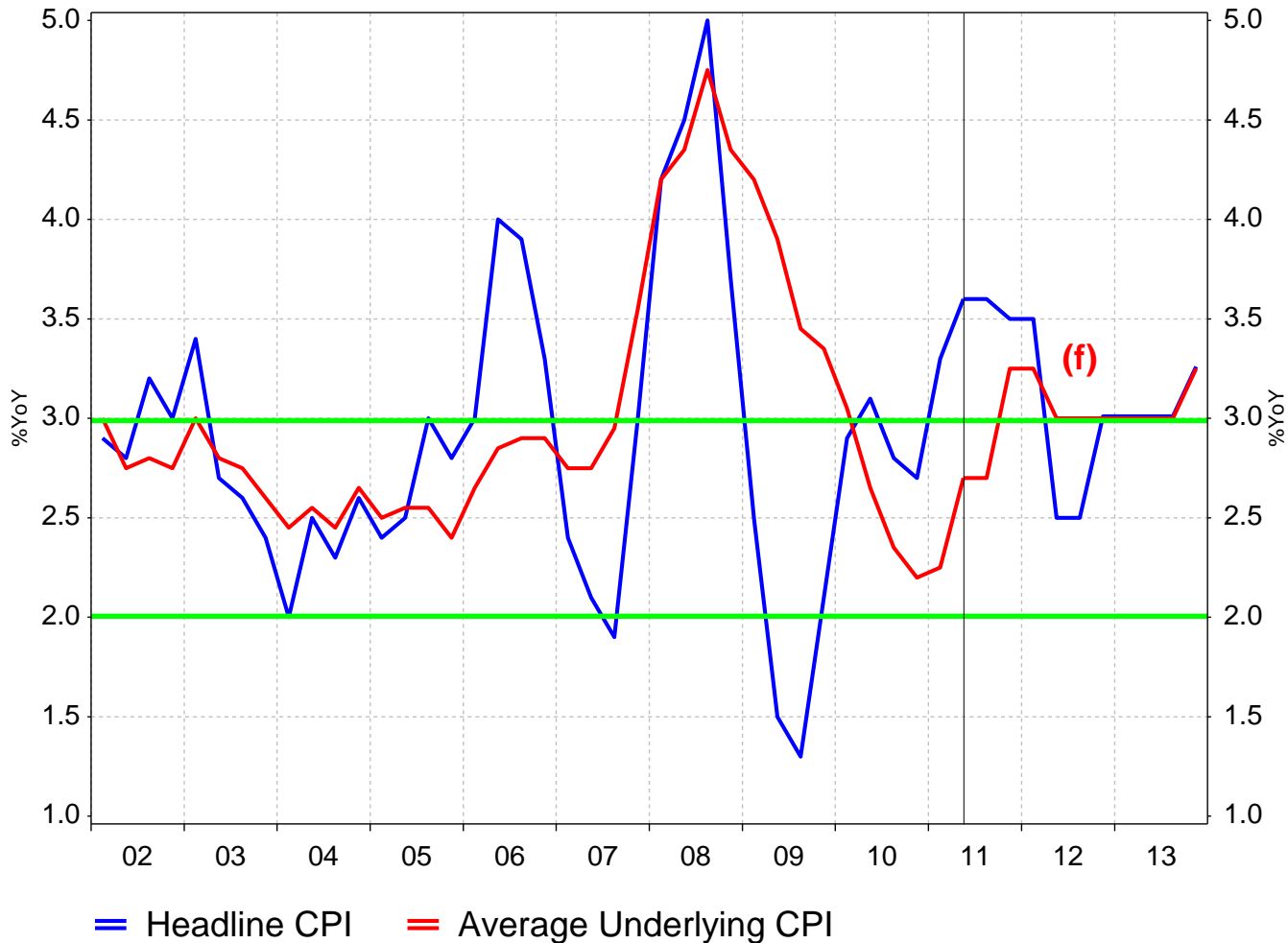
## RBA Cash Rate vs 3-Year Swap Rate



Source: Reuters EcoWin

# Above trend GDP outlook, low unemployment and rising wages growth has the RBA concerned about inflation

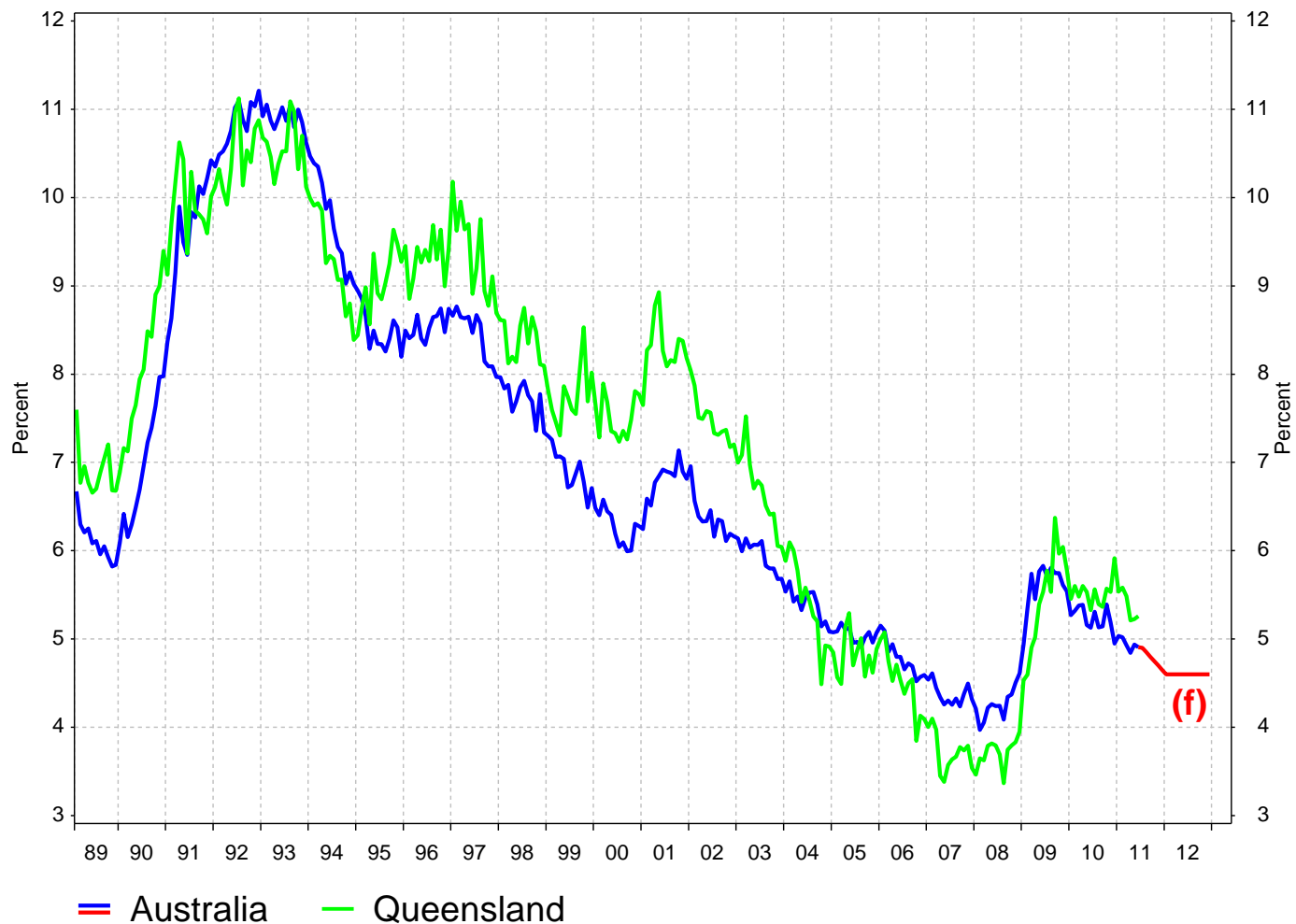
## RBA's Inflation Forecasts (excluding carbon tax)



Source: Reuters EcoWin

Mining growth impacting on labour availability elsewhere.  
Little spare capacity and unemployment rate is falling

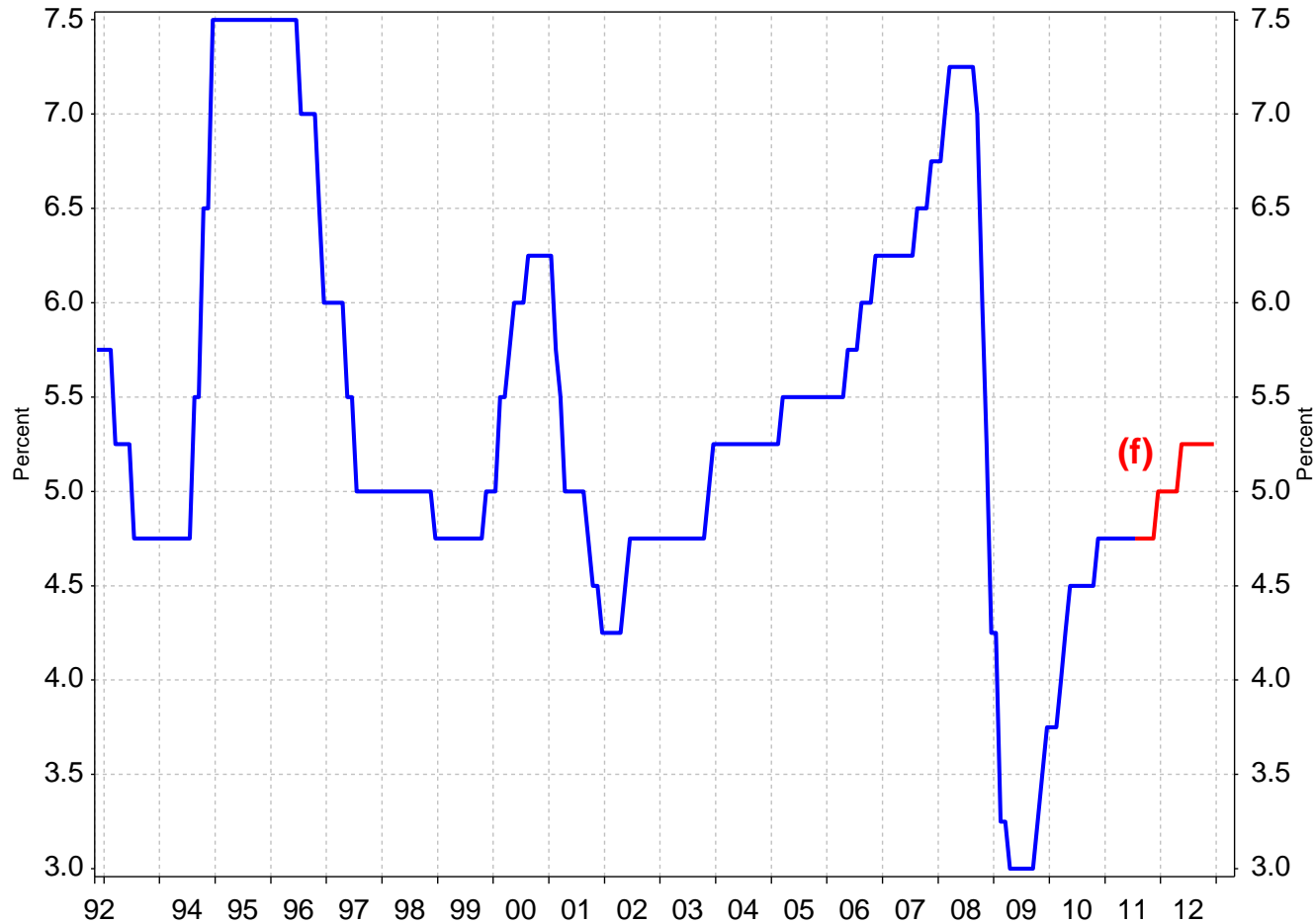
## Unemployment Rate



Source: Reuters EcoWin

Right now: Risk of RBA rate cuts due to global risks  
If global outlook improves: Next move up due to inflation concerns

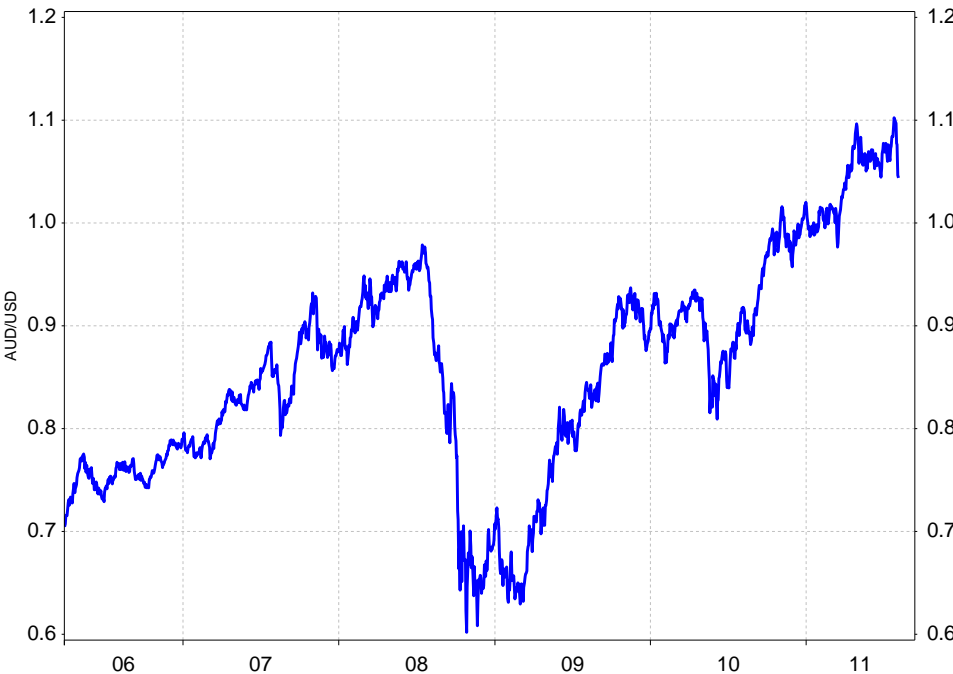
RBA Cash Rate



Source: Reuters EcoWin

# AUD lower as fears of US recession increase

AUD/USD



Source: Reuters EcoWin

US Dollar Index (DXY)



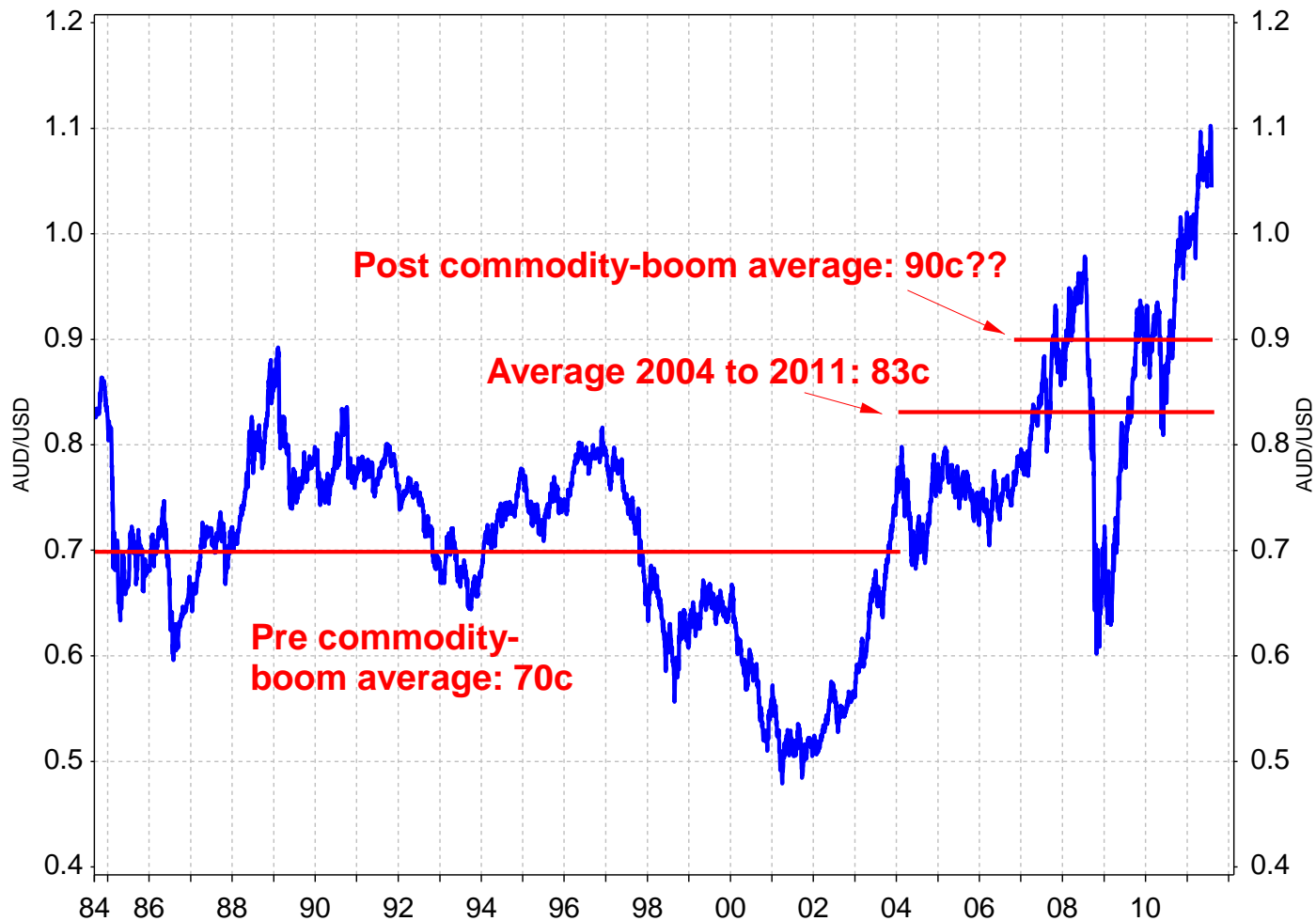
Source: Reuters EcoWin

\*\* USD 'safe-haven' status hurt by AAA-rating loss, and speculation of QE3

\*\* AUD sell-off seems overdone. Recovery in global outlook would unwind market expectations for RBA rate cuts

# A higher average for the AUD over the next decade?

## Australian Dollar



Source: Reuters EcoWin

## Summary: Global risks are rising, RBA on hold....for now

- US debt problems and deteriorating economy driving global markets
- European debt problems continue
- RBA may respond with cuts as part of global policy response
- But when global economy stabilises (QE3 in US and China outlook solid) RBA will keep bias to tighten as inflation pressures are rising

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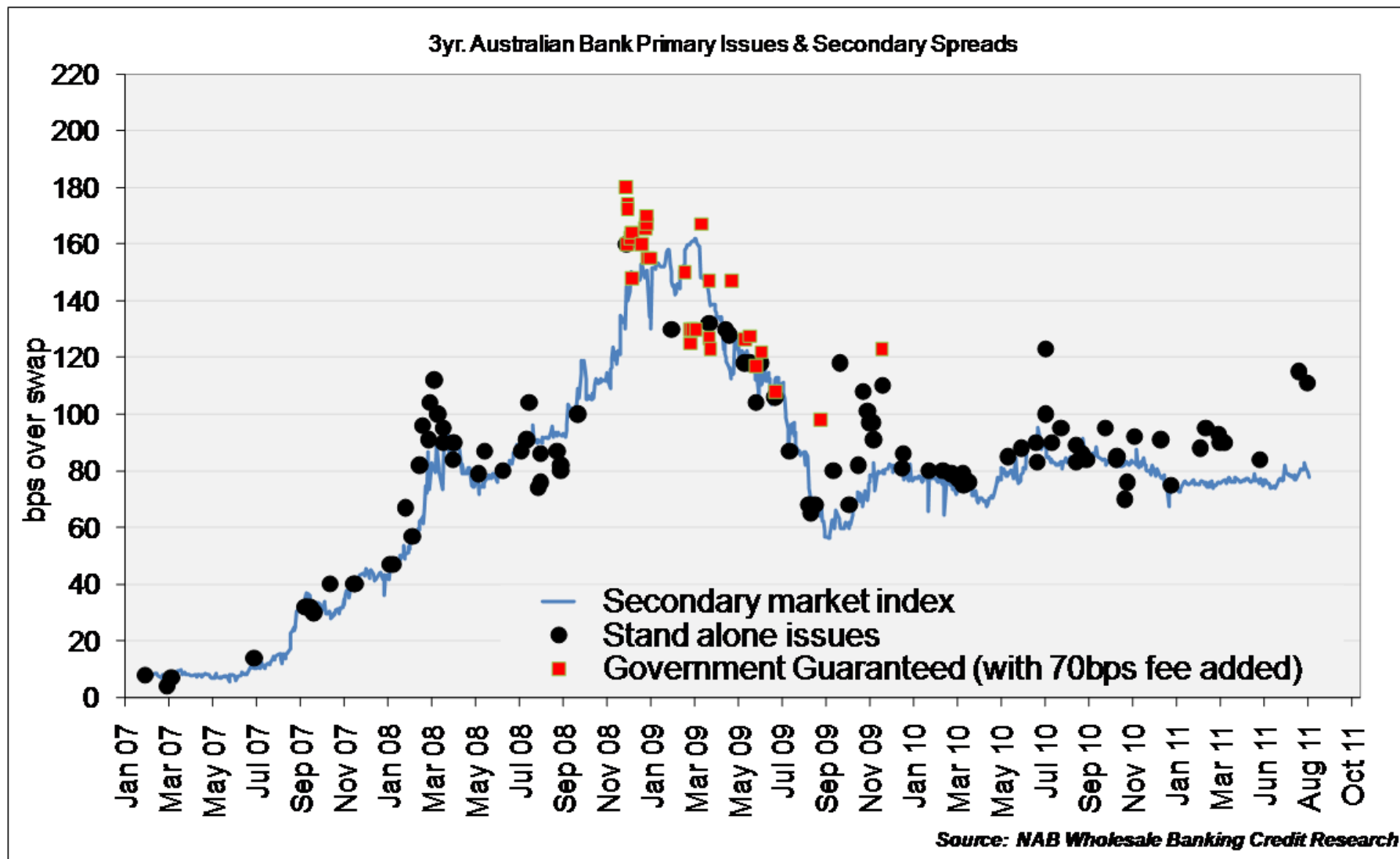
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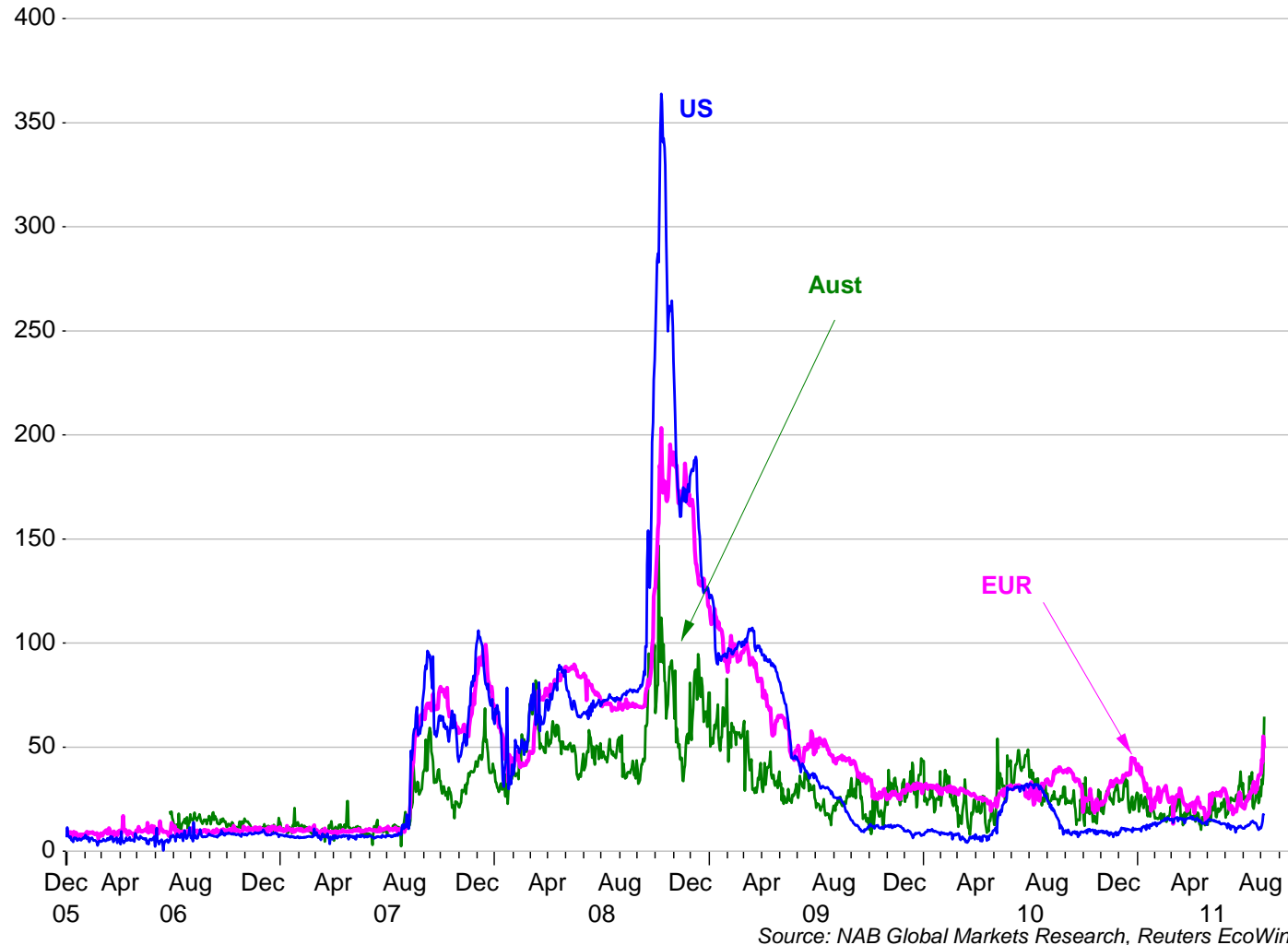
# No easing up on banks' funding pressures



# No easing up on banks' funding pressures

## Short Term Liquidity Funding Spreads

3 month Libor/BBSW - 3m Overnight Indexed Swap





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