



## Recession, 'Green Shoots' and Recovery How far along the path?

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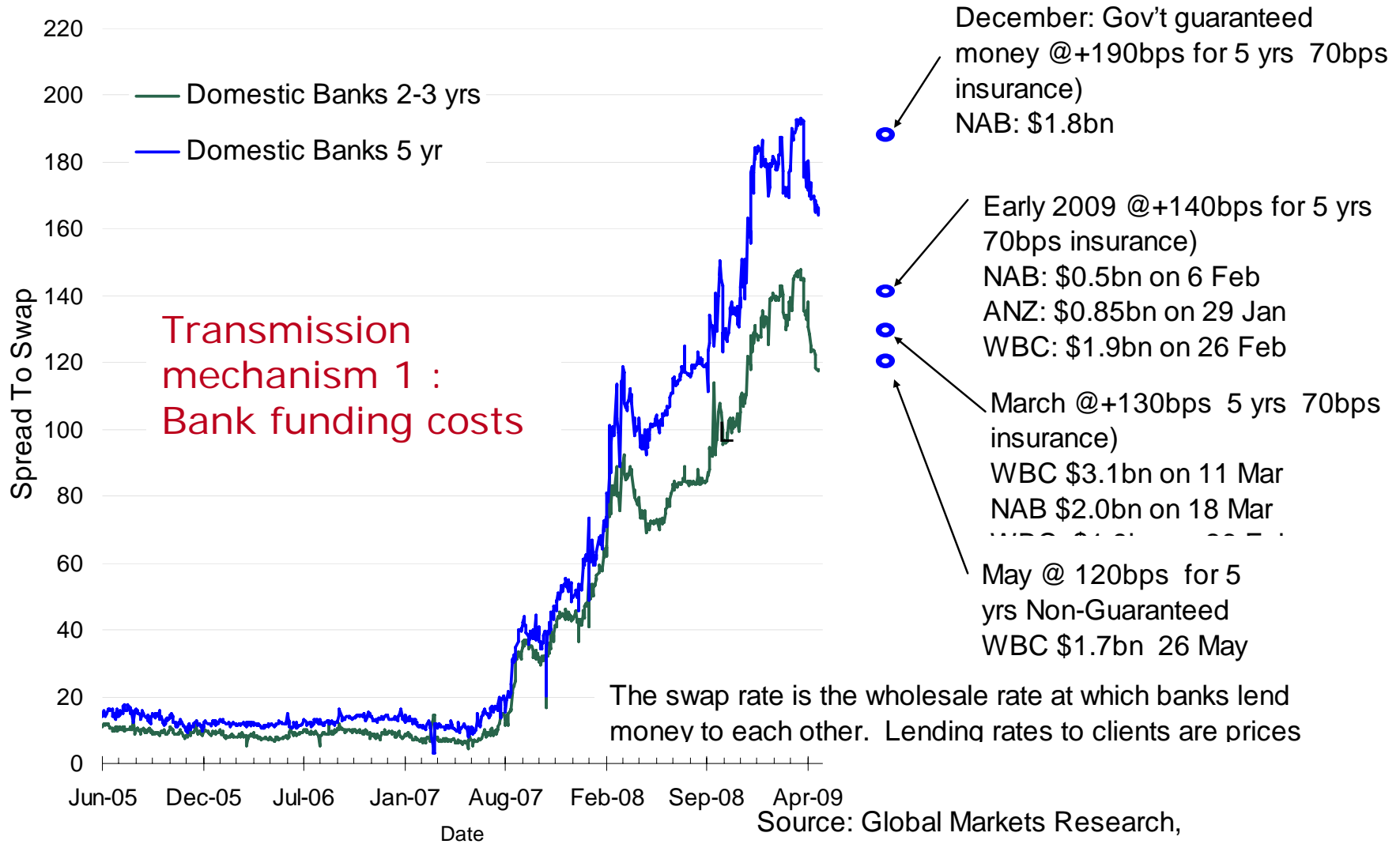
29 June 2009

# **Part I : Counting the cost GFC and recession**

**Causes, transmission mechanisms &  
policy response**



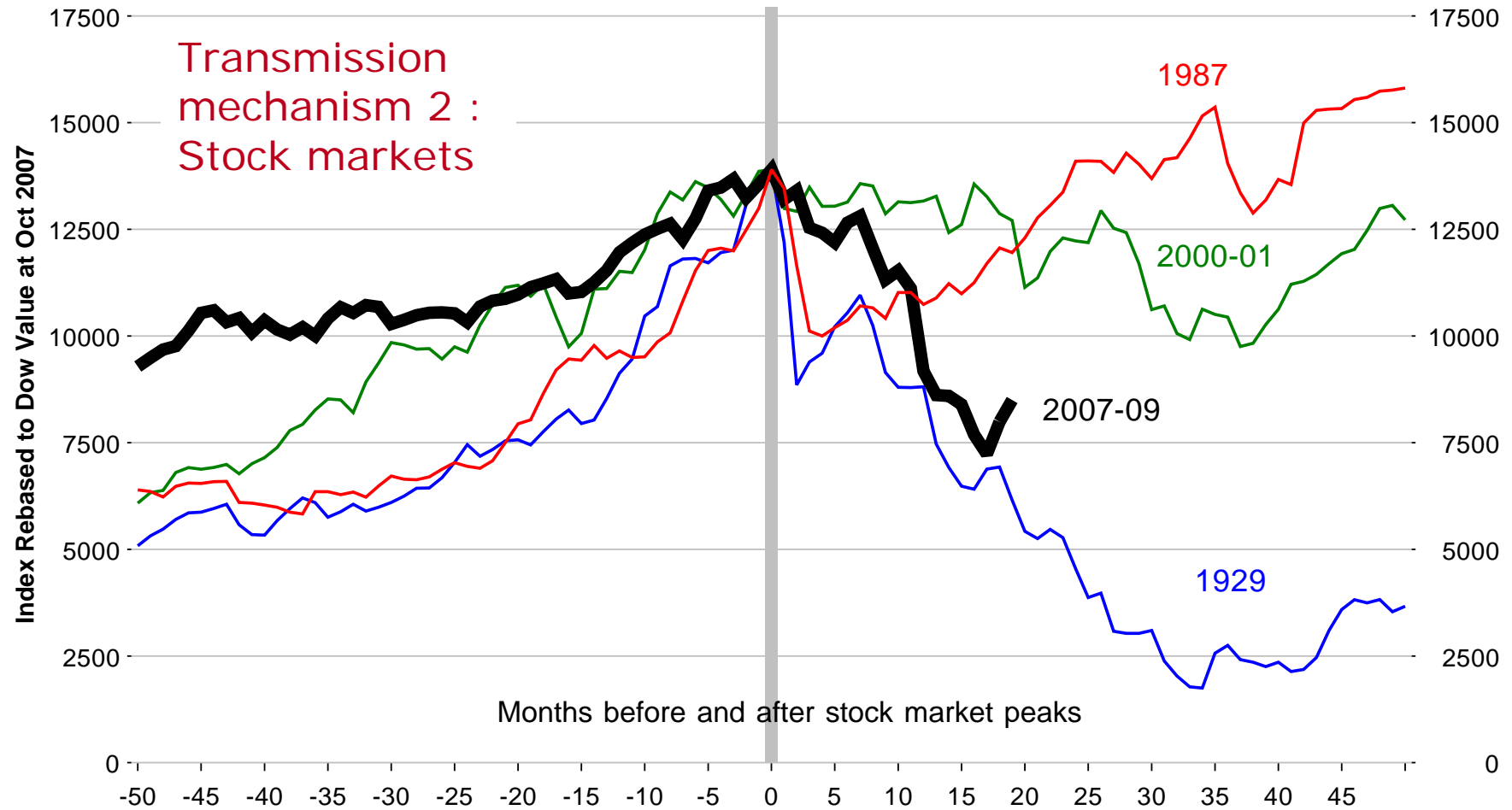
# Australia: Impact of the GFC - First signs in bank funding costs



# Stock markets priced severe recession...Eroding wealth

## USA Dow Jones Peak & Trough Analysis

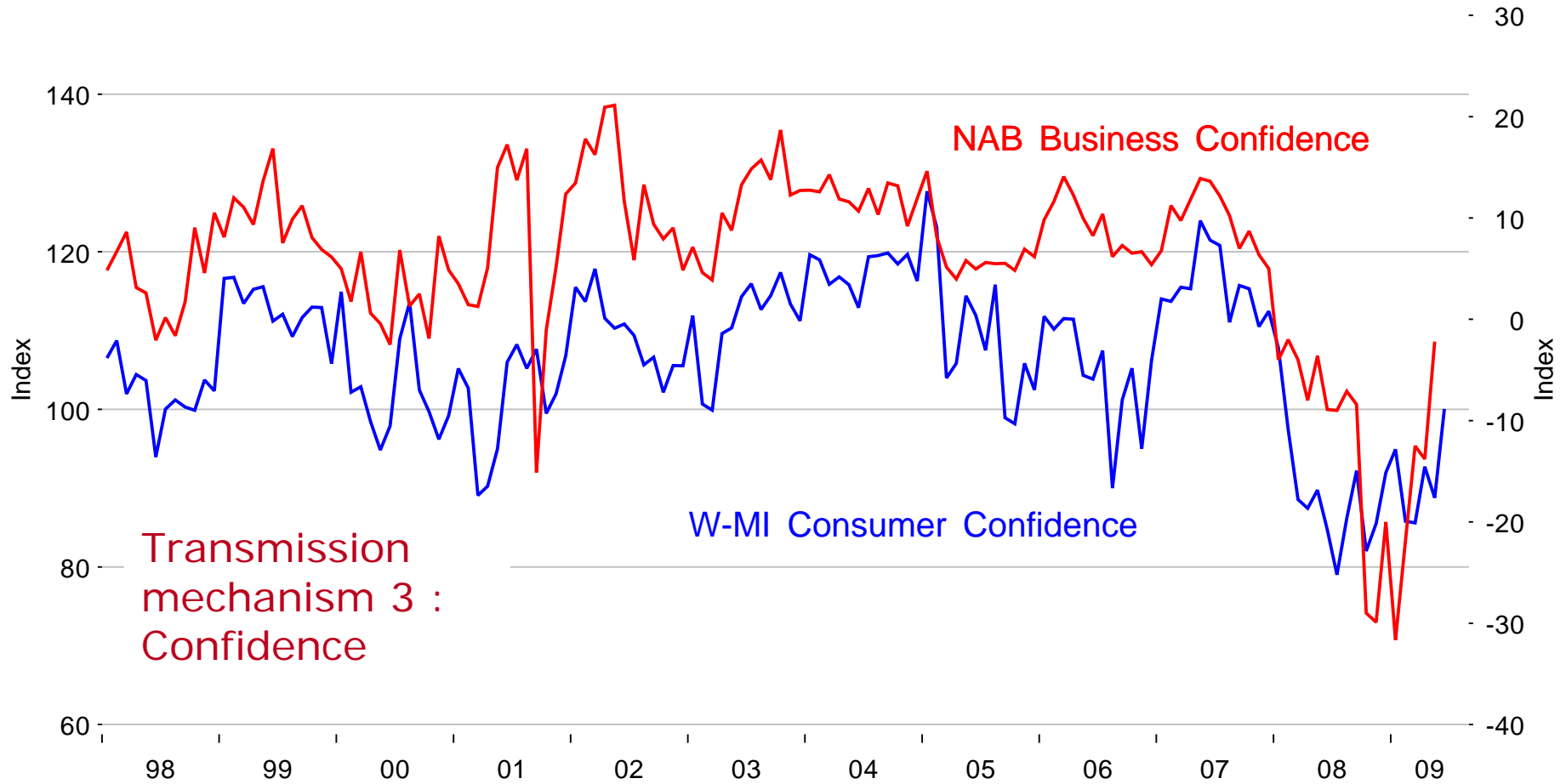
Comparing Stock Market Crashes in 1929, 1987, 2000 and 2007-09



Source: NAB Global Markets Research, Reuters EcoWin

Confidence extremely weak early in year; more realistic now

## Measures of Business and Consumer Confidence

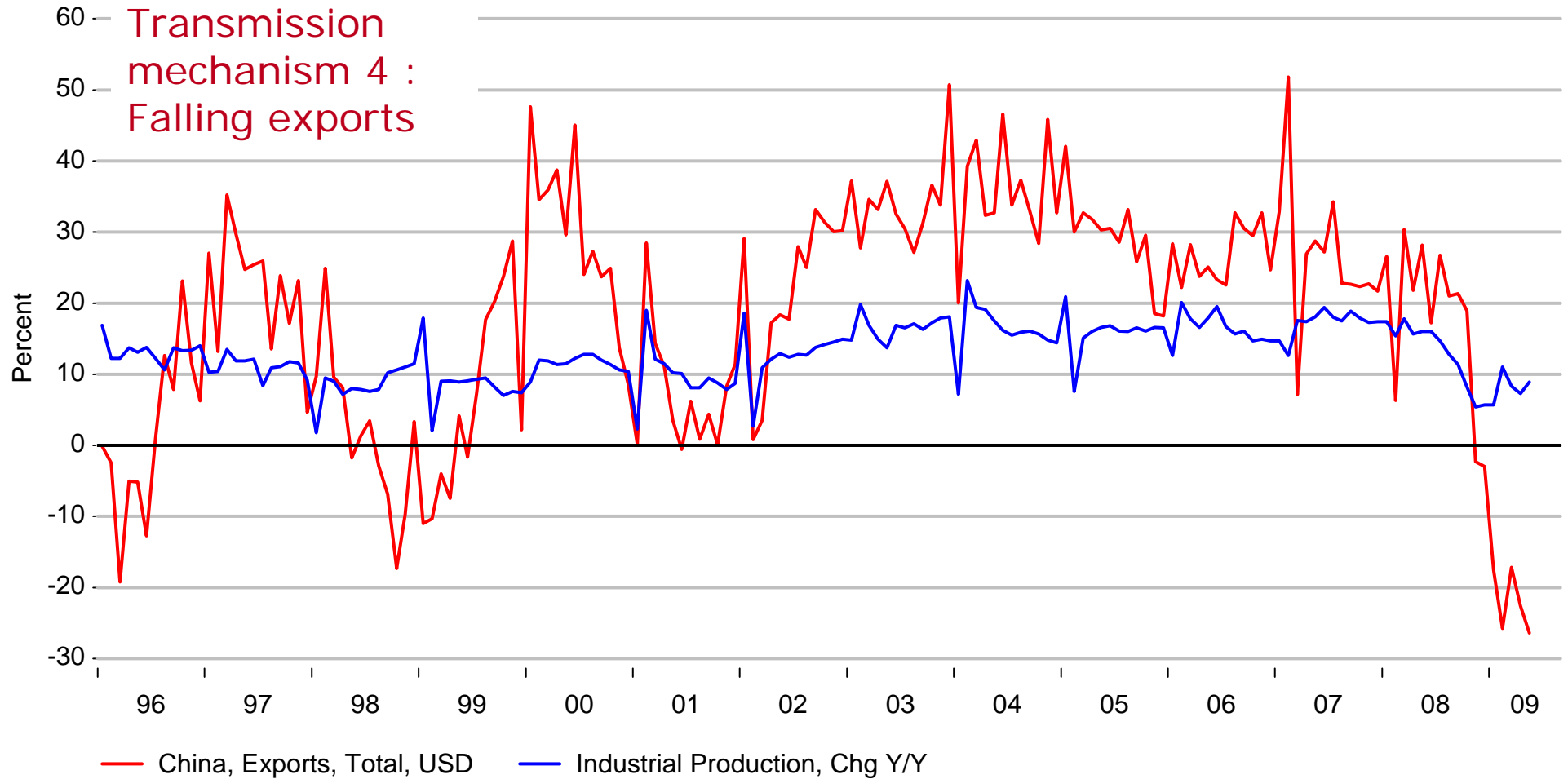


Source: Reuters EcoWin, NAB Markets Research

# China's export drop hit production & hence commodity demand

## China Industrial Production and Exports

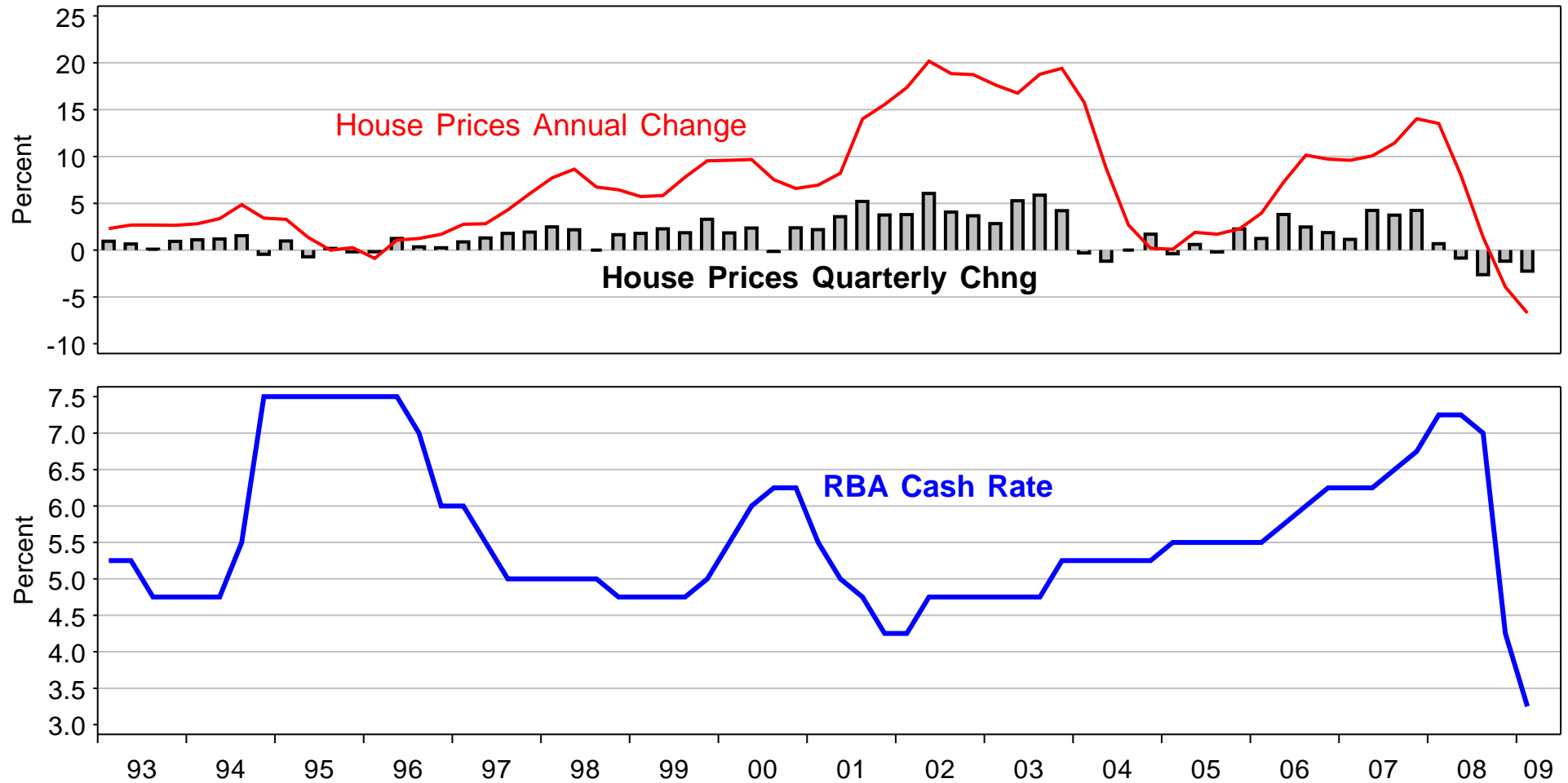
YoY% change



Source: NAB Global Markets Research, Reuters EcoWin

# The home grown recession and the policy response

## House prices and RBA policy rates



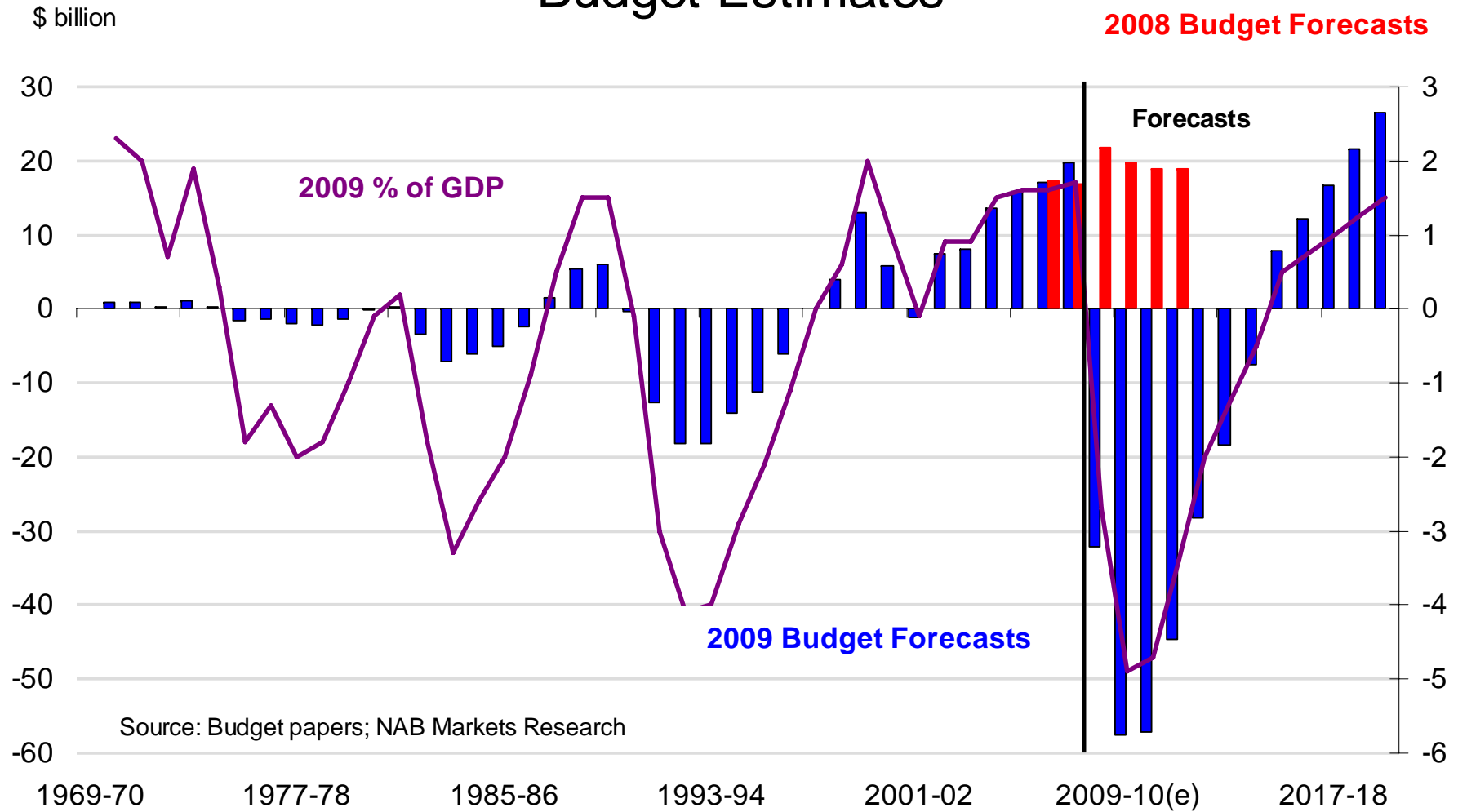
Source: Reuters EcoWin

## Main features of the Budget

- > Deficit in 2009-10 at \$A57.6bn pretty much expected
  - Bond futures initially rallied 7bps; AUD unmoved
- > Forecasts uncontroversial; close to NAB's
- > Fiscal stimulus and infrastructure spending all good
- > Seven years of budget deficits projected
  - No surplus until 2015-16 i.e. two Federal elections away

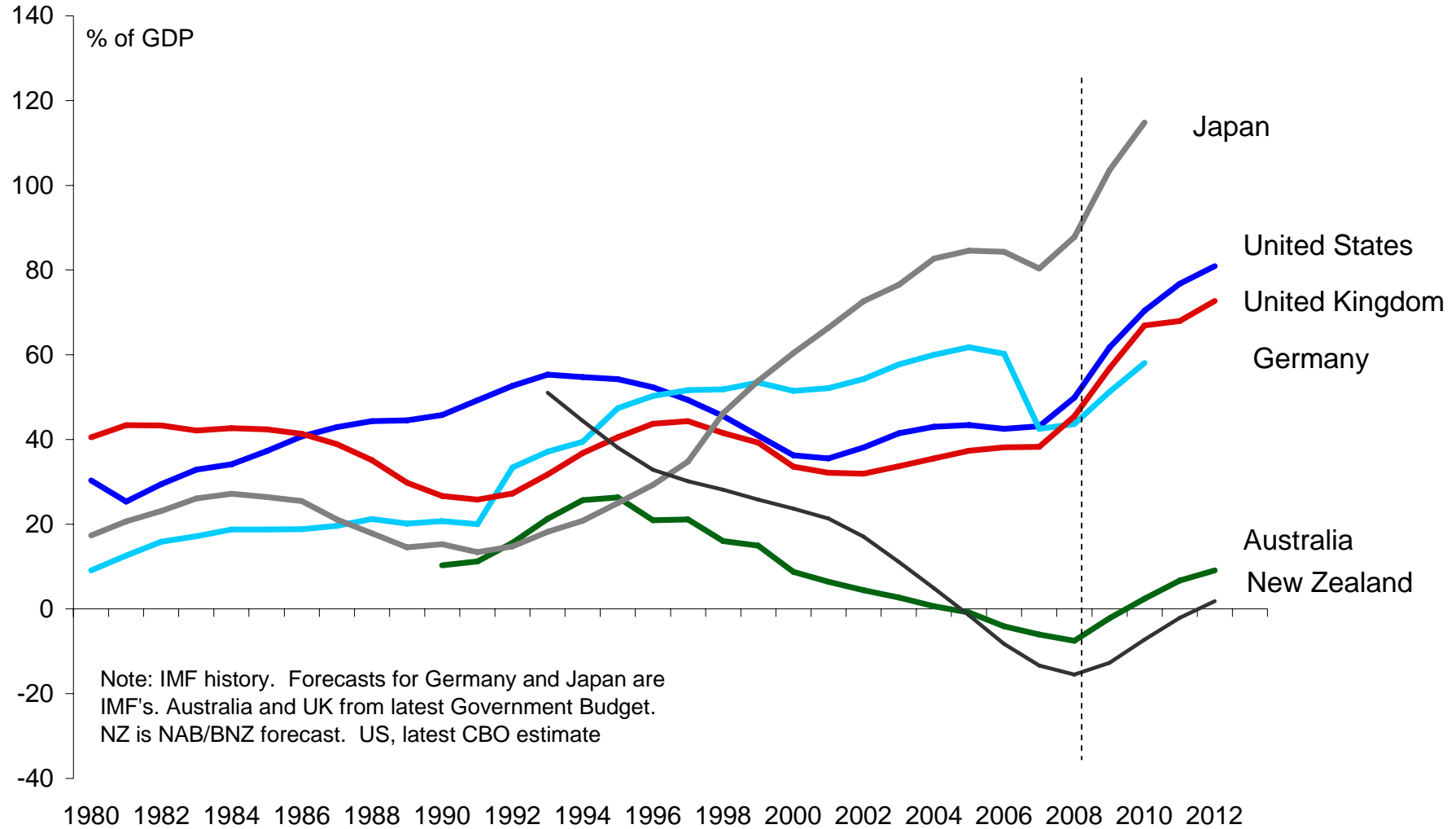
# Budget outlook: Deficits for several years yet

## Budget Estimates



# Australia's deterioration from net asset position

## Government Net Financial Liabilities



## Budget summary

- > Budget spending in 2009-10 to avert the recession
  - Infrastructure spend ramped-up while growth weak
- > Australia in an excellent fiscal position internationally
- > But long period of rising debt trusting to fate
  - Inappropriate policies should could be wound back
  - Forecast surpluses 2-3 elections away in 'Never never'
  
- > A genuinely tough Budget will be necessary ahead
  - Most likely after the next election
  
- > SO, this is an Election Budget

## Recession year in 2009... Asian downturn bad news for Aust

### Summary World Economic Forecast Table

GDP Growth (Ann av %)	2007	2008	2009 (f)	2010 (f)
<b>Australia</b>	4.0	2.3	-0.5	1.0
<b>New Zealand</b>	3.2	0.2	-1.7	2.3
<b>US</b>	2.0	1.2	-2.9	1.3
<b>Japan</b>	2.4	-0.7	-8.0	0.8
<b>UK</b>	3.0	0.7	-3.6	1.2
<b>Eurozone</b>	2.6	0.7	-4.6	0.4
<b>India</b>	9.3	7.5	5.4	5.3
<b>China</b>	11.8	9.5	6.6	7.7
<b>Korea</b>	5.0	2.5	-4.8	2.3
<b>Taiwan</b>	5.7	-0.5	-6.5	2.2
<b>World</b>	4.9	3.1	-1.8	2.3

Source: NAB Group Economics

## Part II

### Global recession

How far along the track?

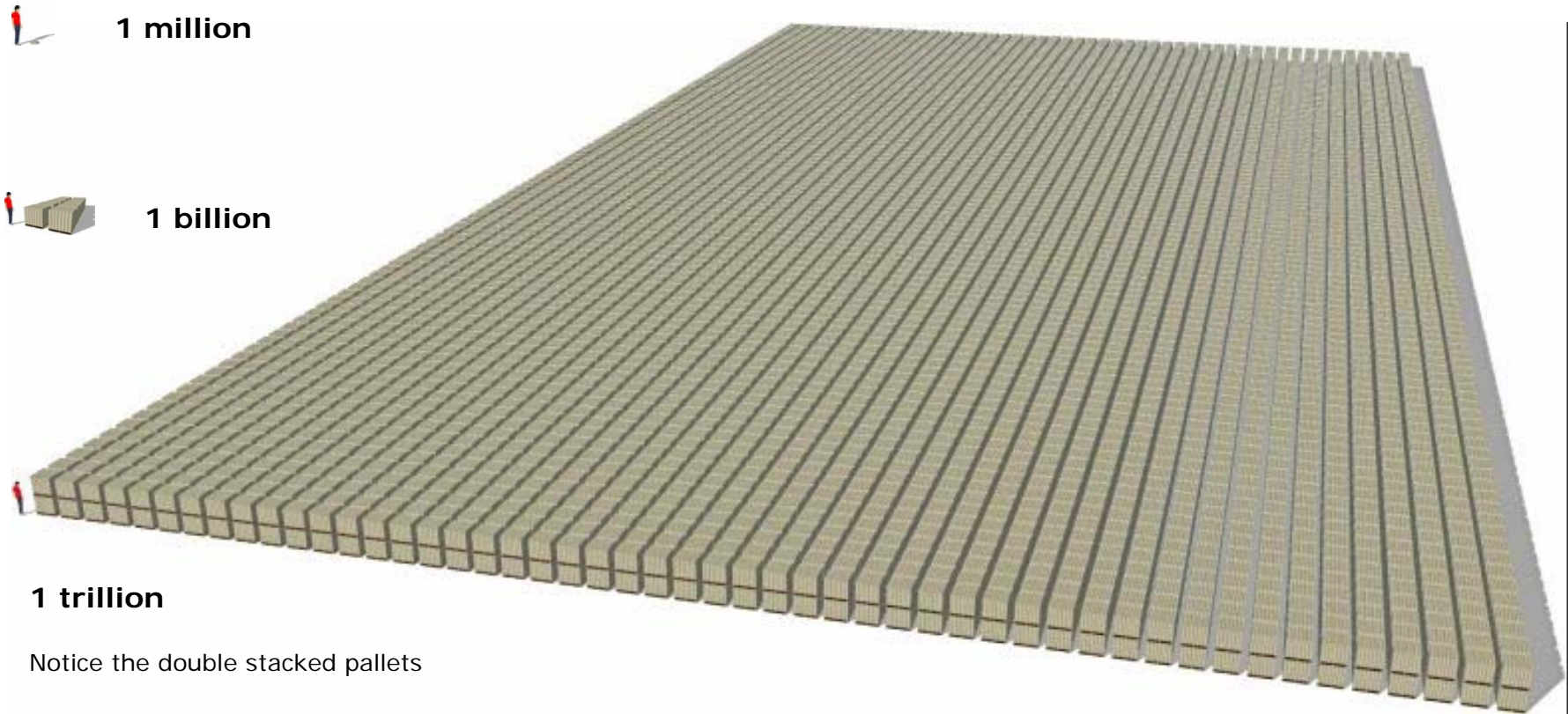
Signs emerge the carnage might be abating

Green shoots

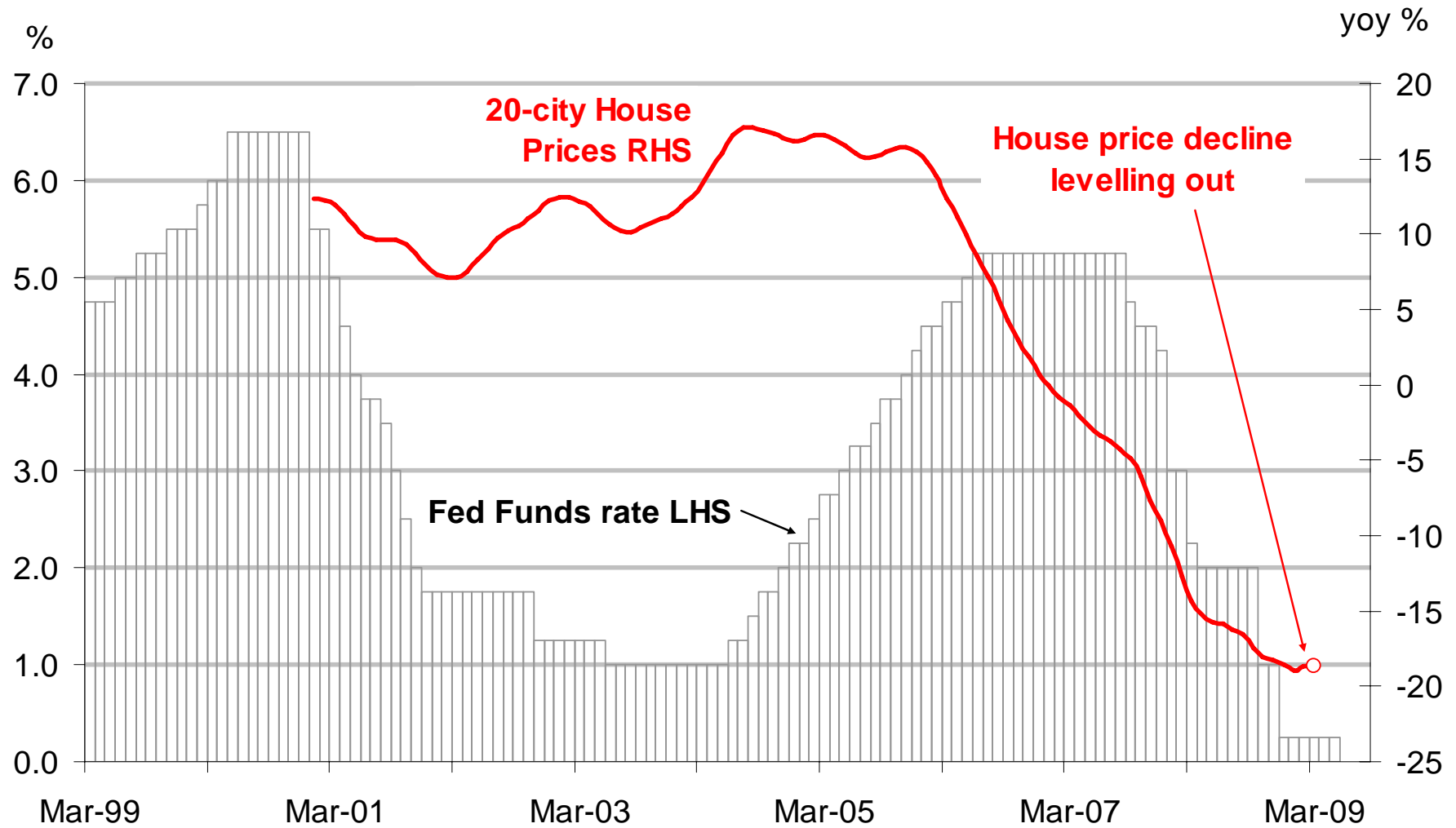
(Leading, Co-incident & Lagging indicators)



# Will a trillion dollars do it? Its going to do something



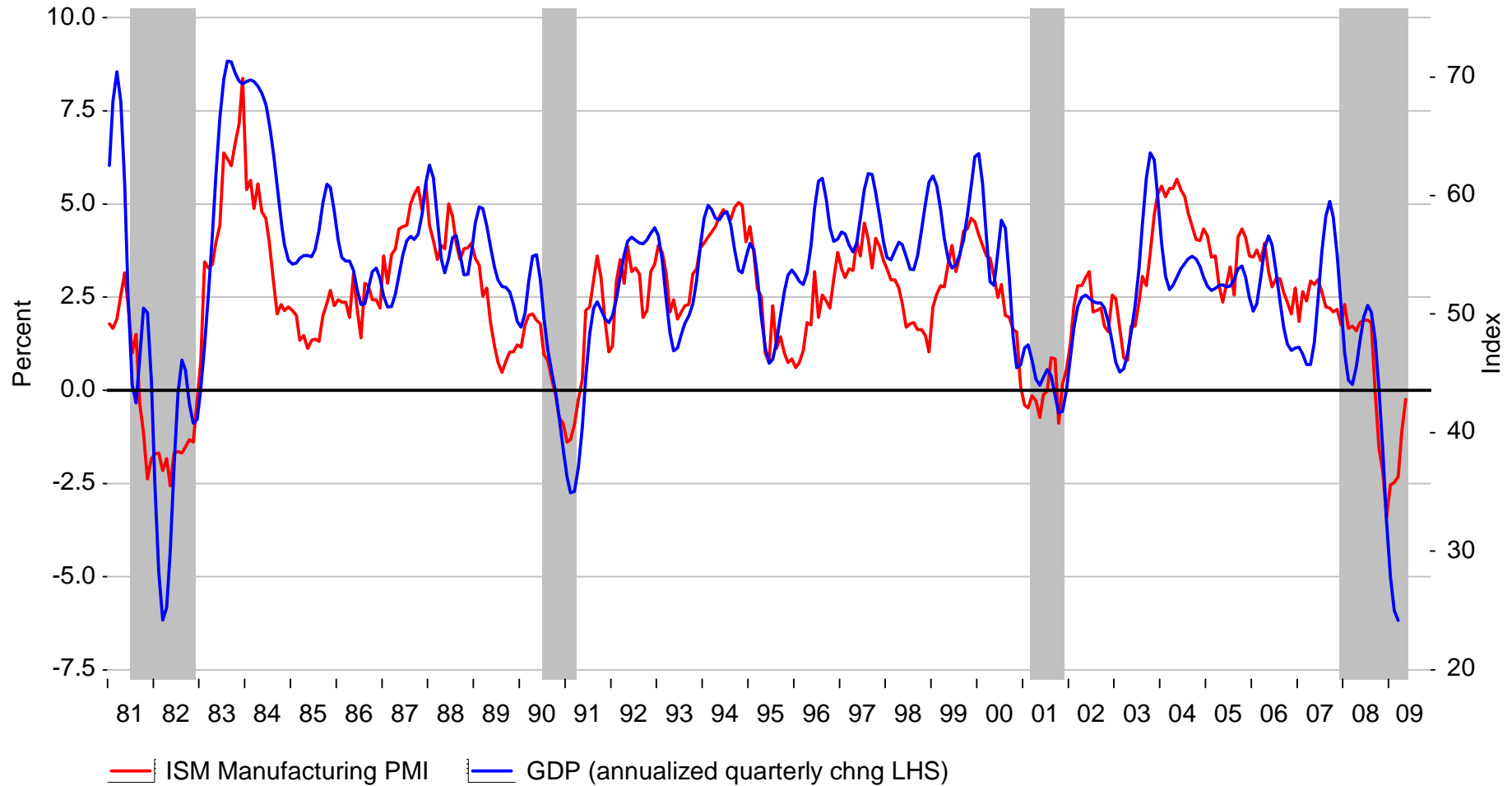
# Signs recovery is coming: US house prices



Source: Bloomberg, NAB Global Markets Research

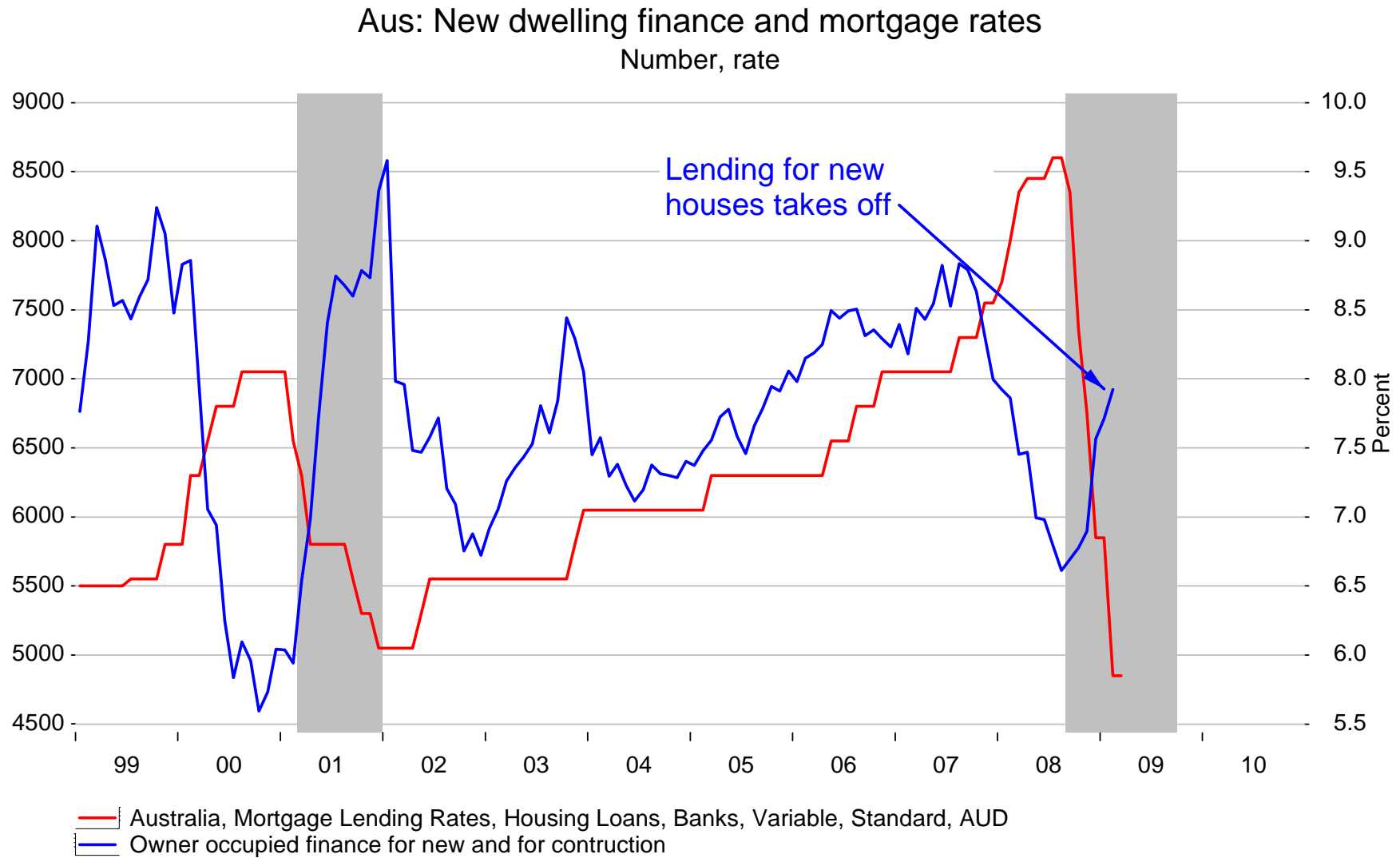
# Recovery signs: US Manufacturing

## US: GDP and Manufacturing



Source: NAB Global Markets Research, Reuters EcoWin

# Australia: Housing market - early signs of an upturn

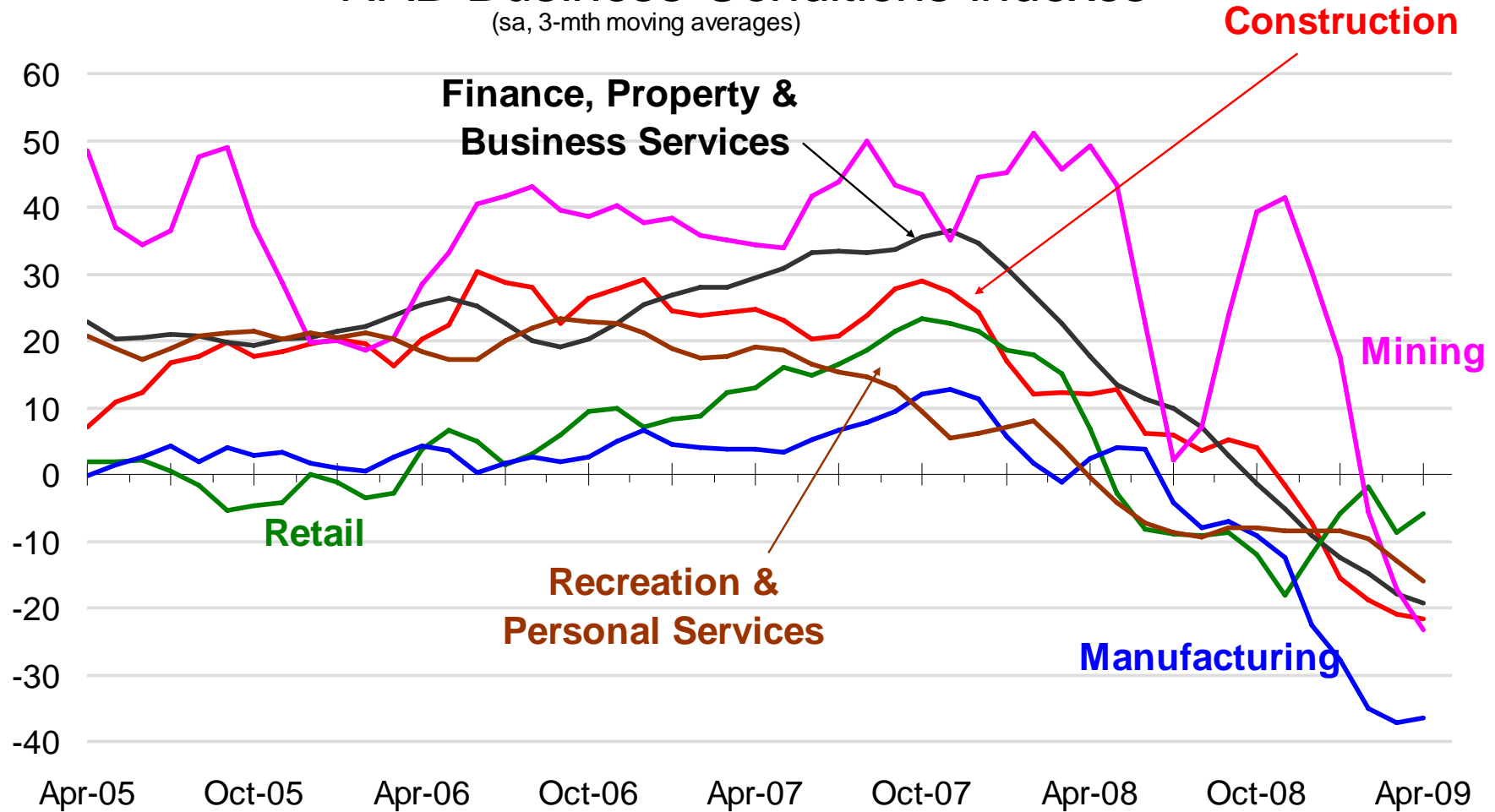


Source: Reuters EcoWin



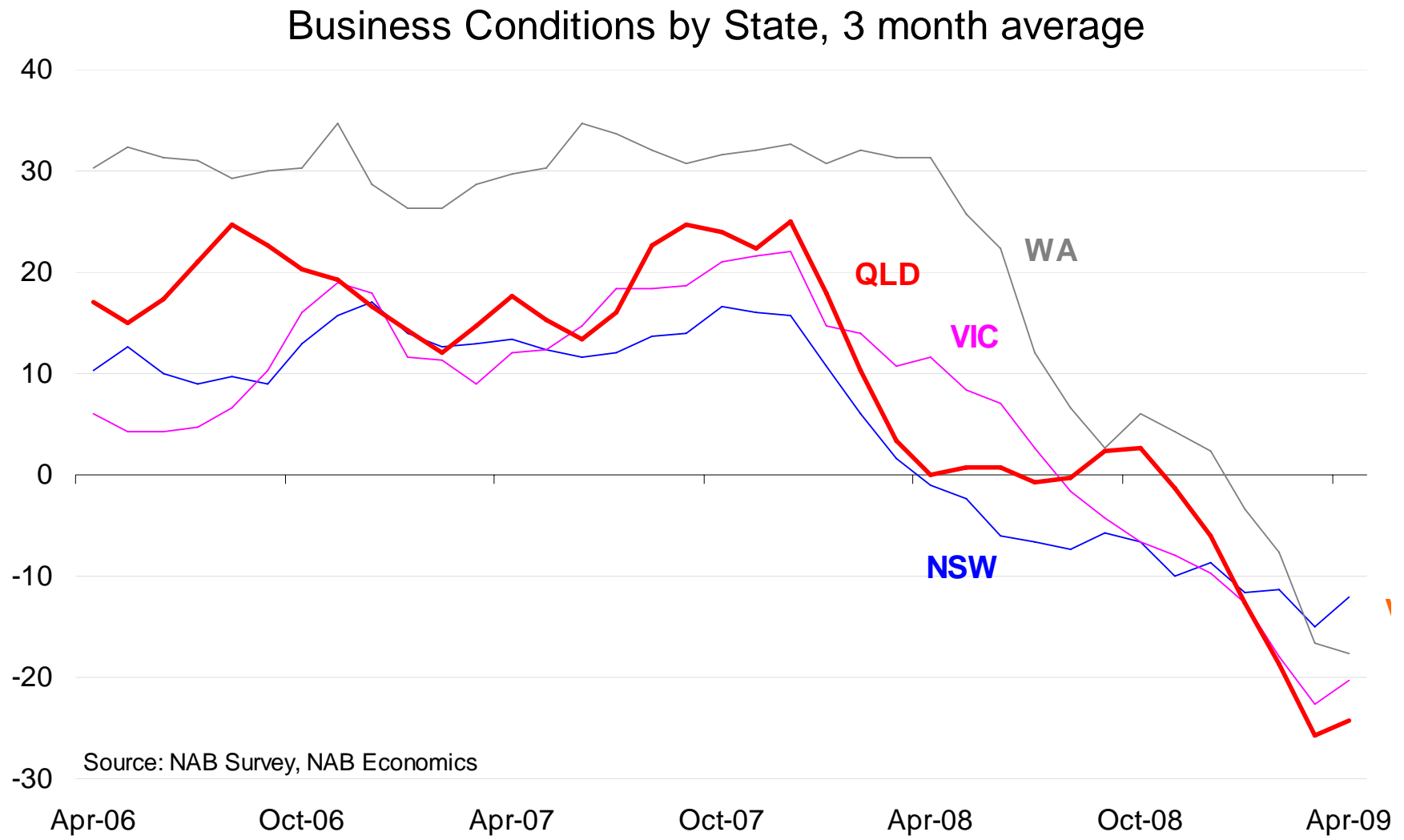
Most industries doing it tough, even mining contracted in Q1 09

## NAB Business Conditions indexes (sa, 3-mth moving averages)

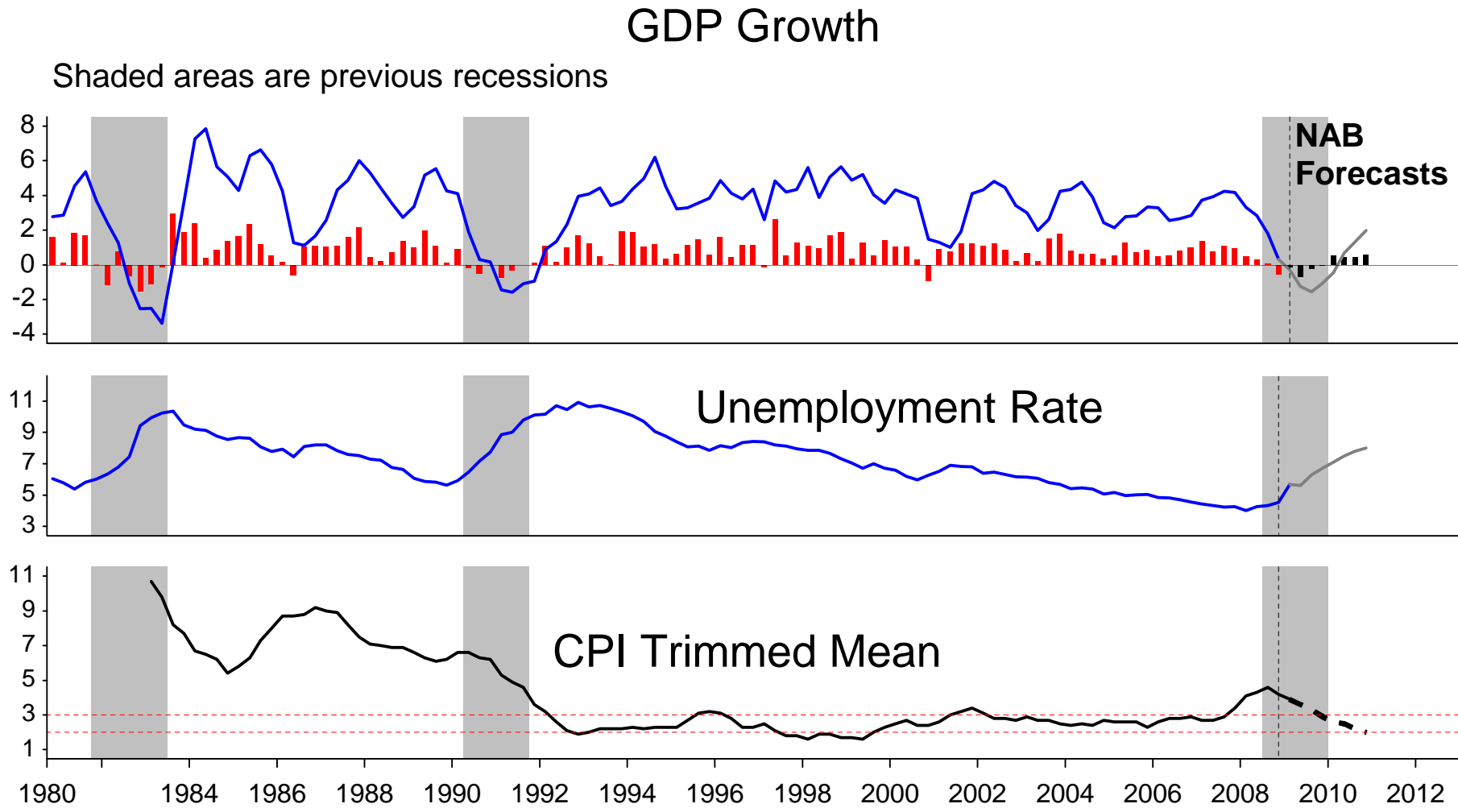


Source: NAB Business Survey

# All States caught by the downturn: Resources no panacea



# Aus forecasts: moderate recession; rising jobless; falling inflation



Source: ABS and NAB



## Part III

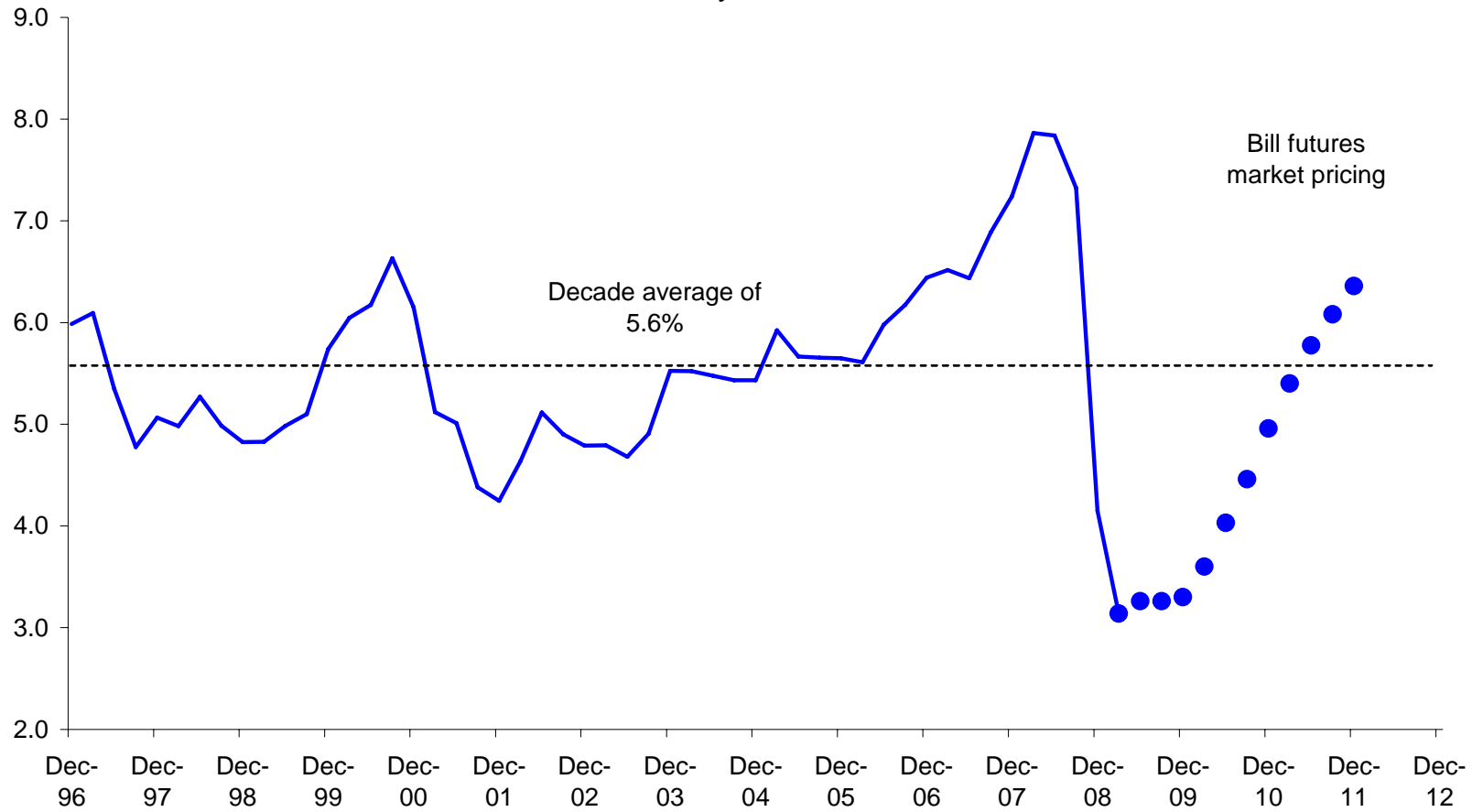
### Forecasts wrap-up

Economy, rates and currencies

What's ahead?

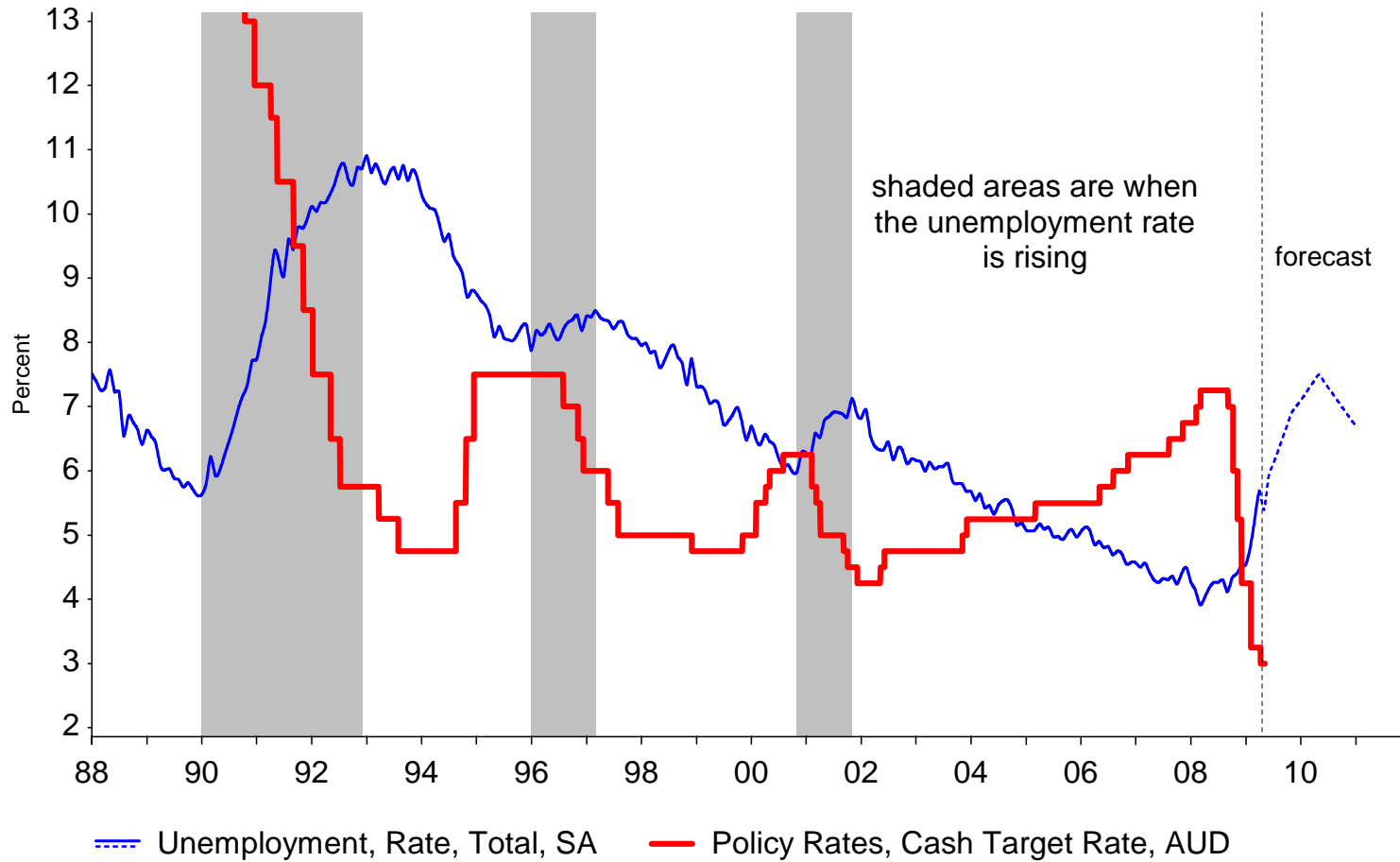
# Now gone too far expecting "V" shaped recovery

## An Unlikely "V" Shaped Recovery Is Now Priced - Australian 90 Day Bank Bill Rate



# Historically, the RBA cuts until the unemployment rate falls

## The RBA cuts until the unemployment rate falls

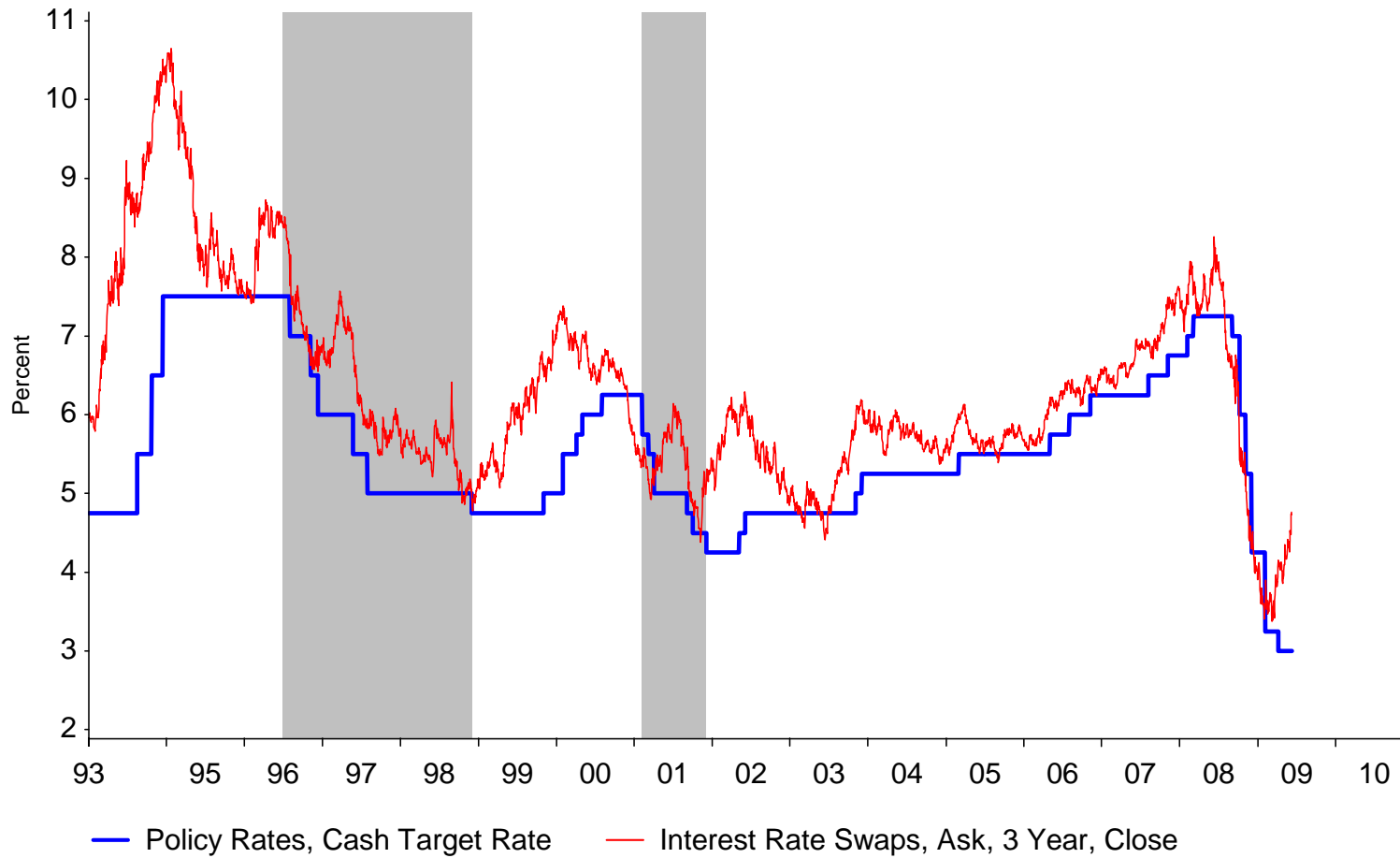


Source: Reuters EcoWin

# Bond and swap yields past the lows – slow rise expected though

## Australian Swap and Cash Rates

Shaded area is where RBA cutting



Source: Reuters EcoWin

## Aussie dollar fundamentals: Interest rates

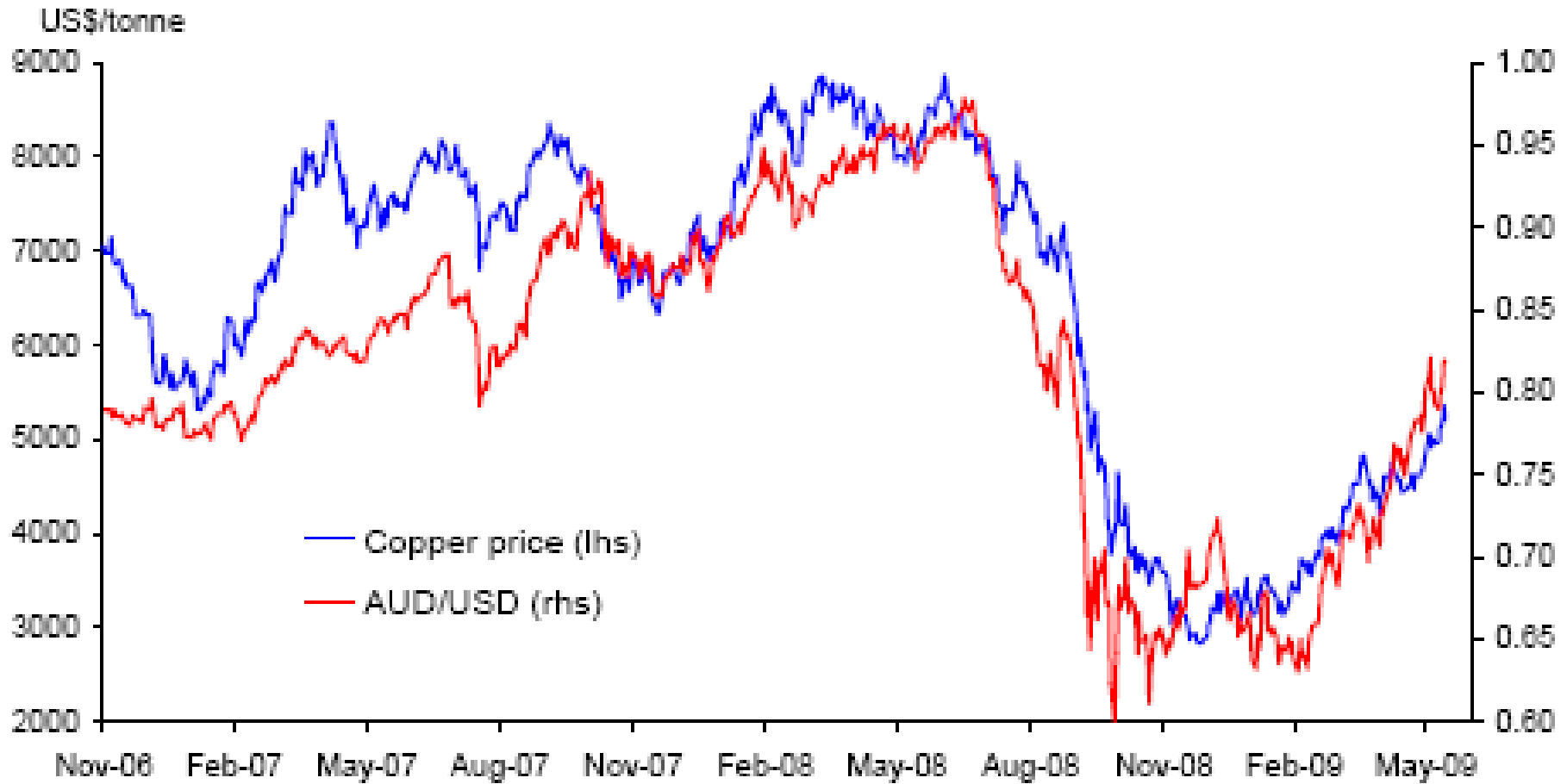
### AUD & interest rate expectations



Source: Bloomberg, National Australia Bank

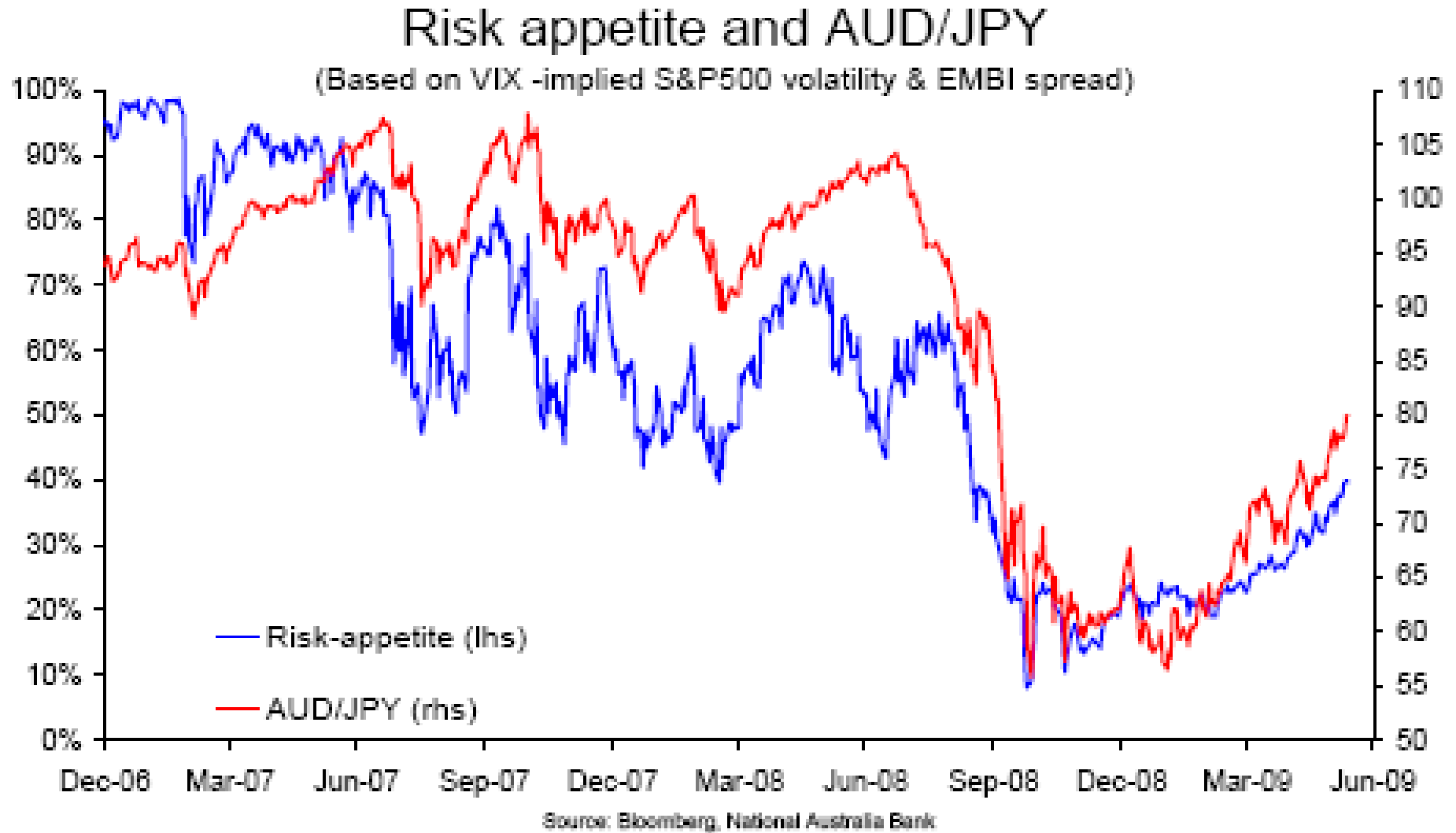
## AUD fundamentals: Commodity prices

### AUD & copper



Source: Bloomberg, National Australia Bank

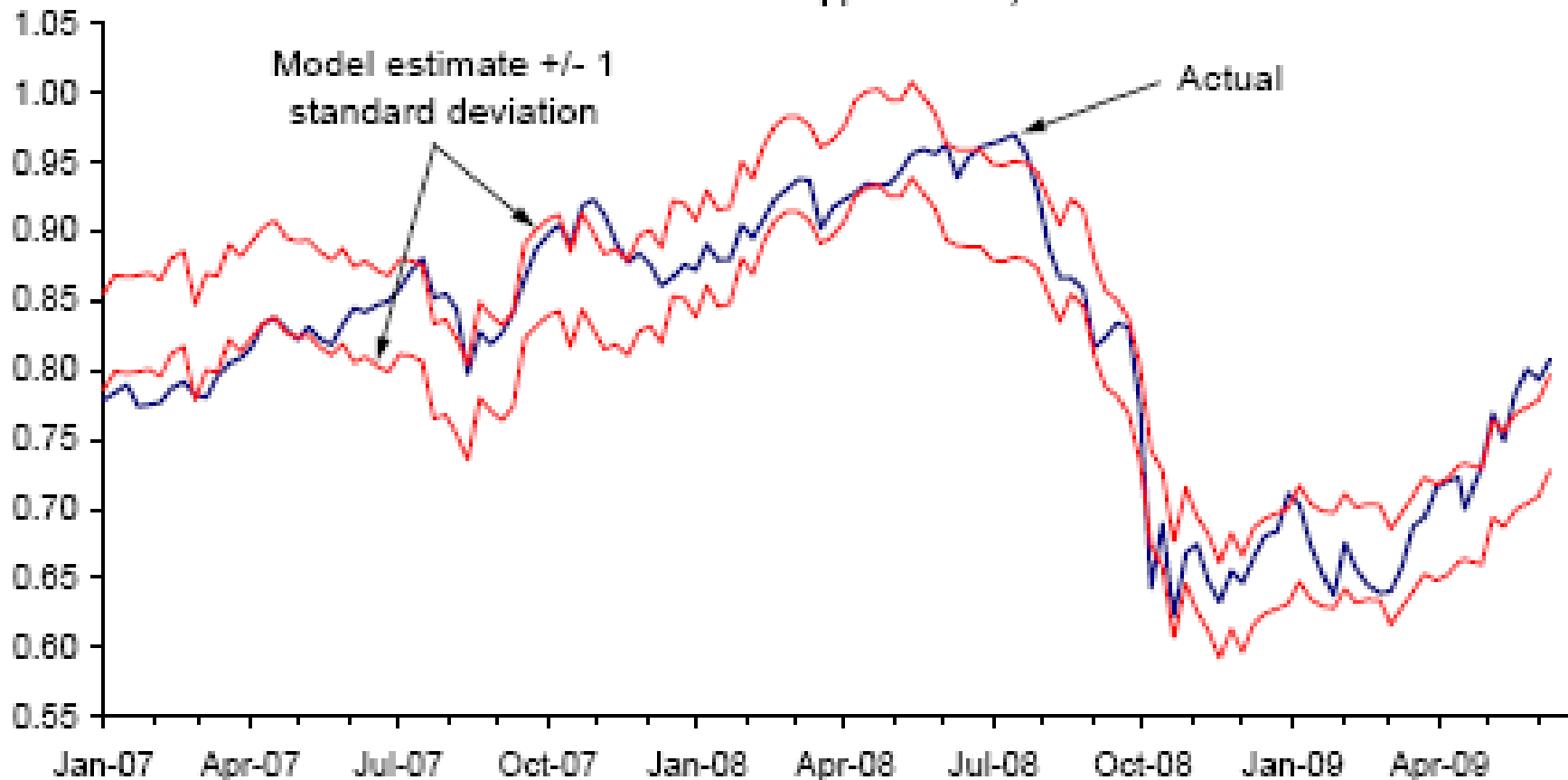
## AUD fundamentals: Investors' appetite for risk



# Australian dollar rising with fundamentals – looking overvalued

## AUD/USD weekly "fair value" model

(Based on weekly 2-yr swap yield spread, JoC industrial metals prices, gold price and risk-appetite index)



Source: Bloomberg, National Australia Bank

# Economic Forecasts

(Real Annual % chng)	2007	2008	2009	2010
GDP	3.0	1.6	-0.5	1.0
Household Consumption	2.7	1.7	0.6	0.5
Business Investment	3.8	2.7	-13.0	-8.7
Residential Construction	-4.5	0.2	-5.1	13.1
Government Spending	3.5	4.2	2.6	5.9
Net Exports*	-1.7	-1.5	-0.3	-3.2
Inventories*	0.7	-0.4	-0.4	0.4
<b>Australia Other</b>				
CPI headline	2.3	4.4	2.0	2.1
Wages (Pvte WPI)	4.1	4.2	3.5	2.8
Unemployment Rate (%)	4.4	4.2	5.9	7.6
Terms of trade	4.6	12.9	-15.8	-8.1
Current Account (% GDP)	-6.3	-4.2	-7.1	-6.6

\*Contribution to real GDP

## Interest Rate Forecasts

	16-Jun	Jun-09	Dec-09	Jun-10	Dec-10
<b>Australia</b>					
RBA Cash rate	<b>3.00</b>	3.00	2.50	2.50	3.50
3 Year Swap Rate	<b>4.73</b>	4.5	4.3	4.4	5.2
<b>Offshore Policy Rates</b>					
US Fed funds	<b>0.25</b>	0.13	0.13	1.00	2.00
BoE repo rate	<b>0.50</b>	0.50	0.50	1.00	2.50

## Exchange Rate Forecasts

<b>Majors</b>					
AUD/USD	<b>0.7912</b>	0.78	0.83	0.84	0.84
NZD/USD	<b>0.6289</b>	0.61	0.64	0.65	0.65
USD/JPY	<b>96.96</b>	96	102	106	108
EUR/USD	<b>1.3814</b>	1.38	1.40	1.40	1.40
GBP/USD	<b>1.6279</b>	1.59	1.73	1.77	1.77
<b>Australian Cross Rates</b>					
AUD/JPY	<b>76.71</b>	75	85	89	91
AUD/EUR	<b>0.5727</b>	0.57	0.59	0.60	0.60
AUD/GBP	<b>0.4860</b>	0.49	0.48	0.47	0.47
AUD/NZD	<b>1.2579</b>	1.28	1.30	1.29	1.29

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