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CEDA Economic and Political Overview

Sustainable Long Term Growth

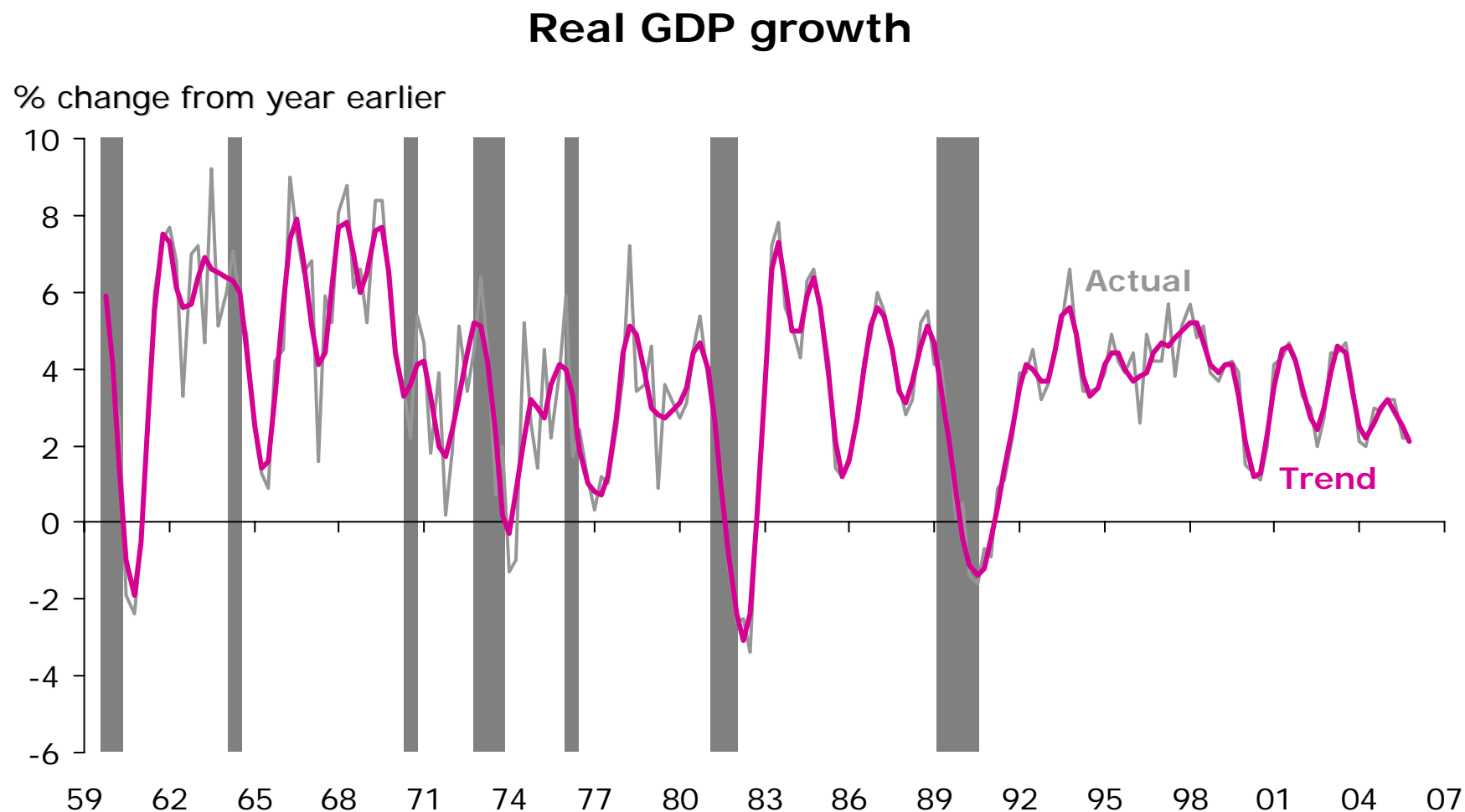
Australia and New Zealand Banking Group Limited
Sydney, 23 February 2007

John McFarlane
Chief Executive Officer

www.anz.com



Australia has now gone more than 15 years without recession, the longest in its history



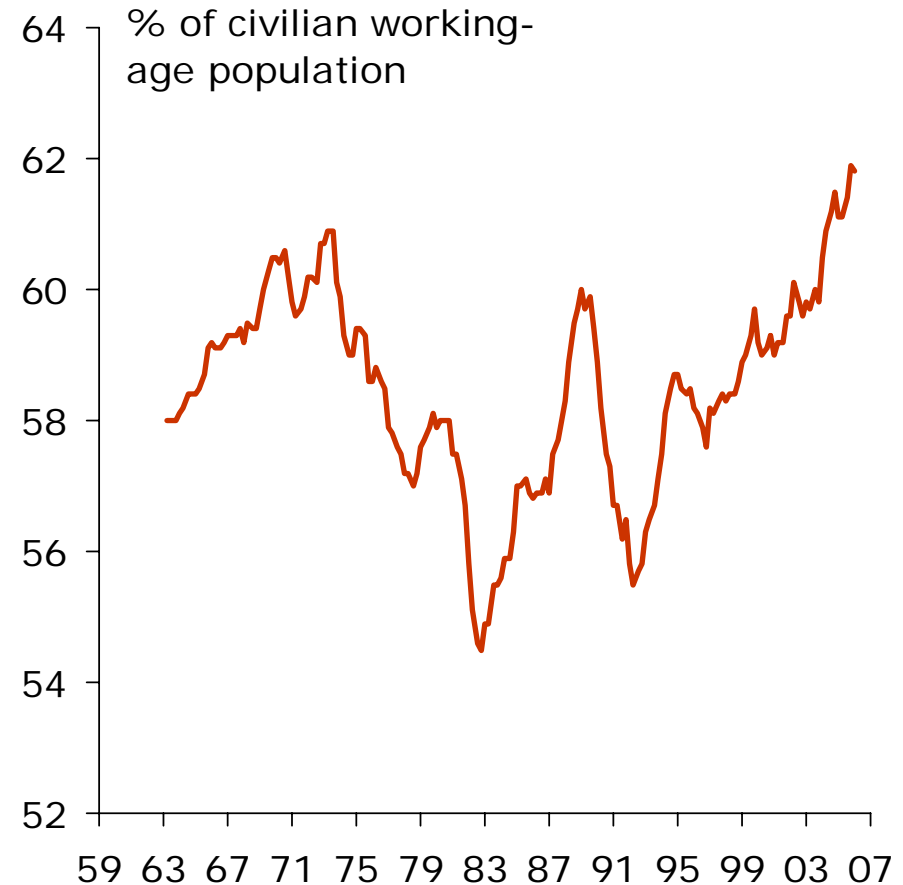
Note: shaded intervals denote periods in which real GDP growth was negative for two or more quarters, or during which real GDP declined from the year-earlier quarter.

Unemployment is at a 30-year low, while a record proportion of the population is employed

Unemployment

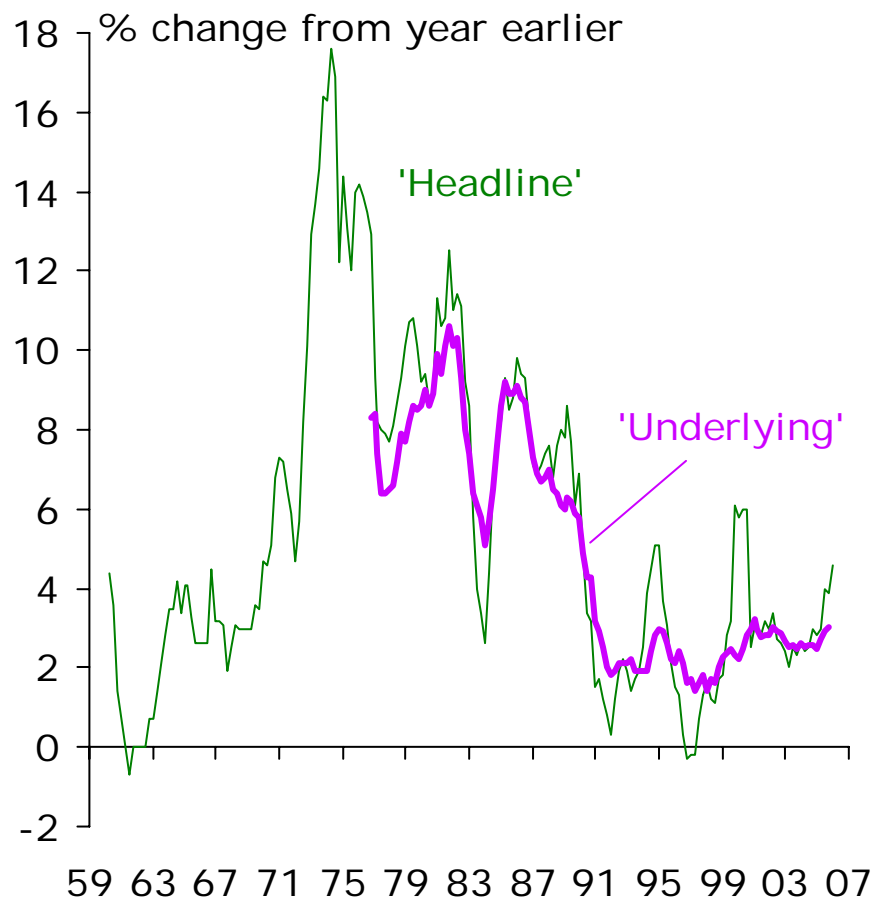


Employment-to-population ratio

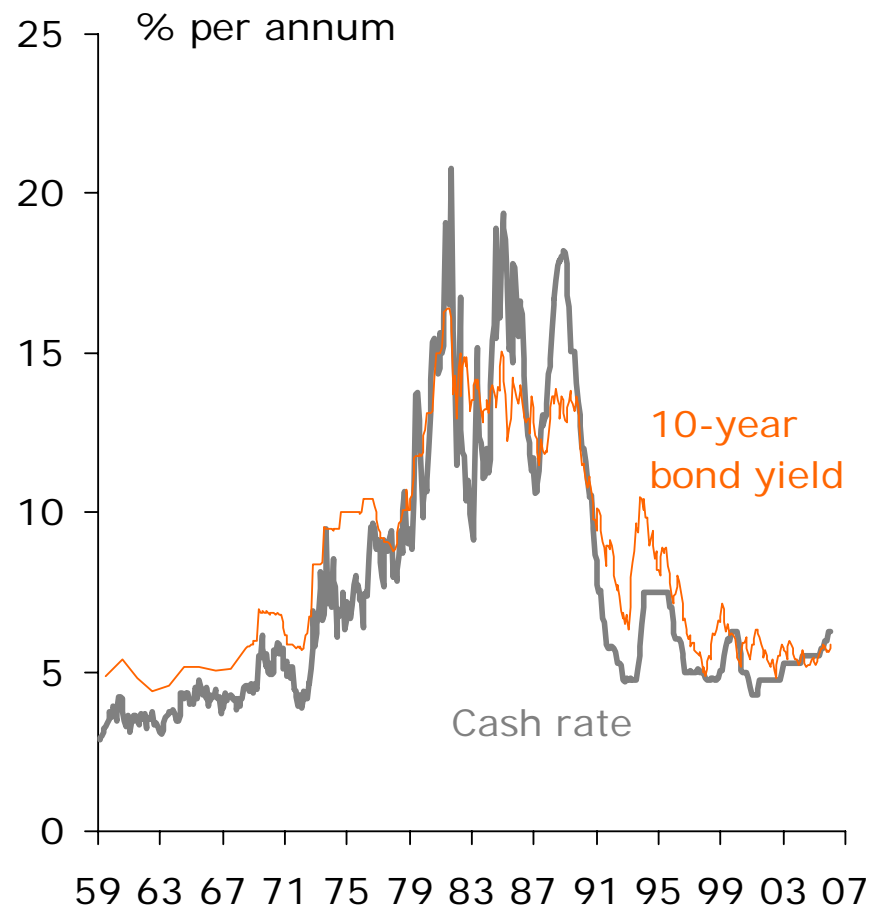


Inflation and interest rates, though rising, are still low by historical standards

Inflation

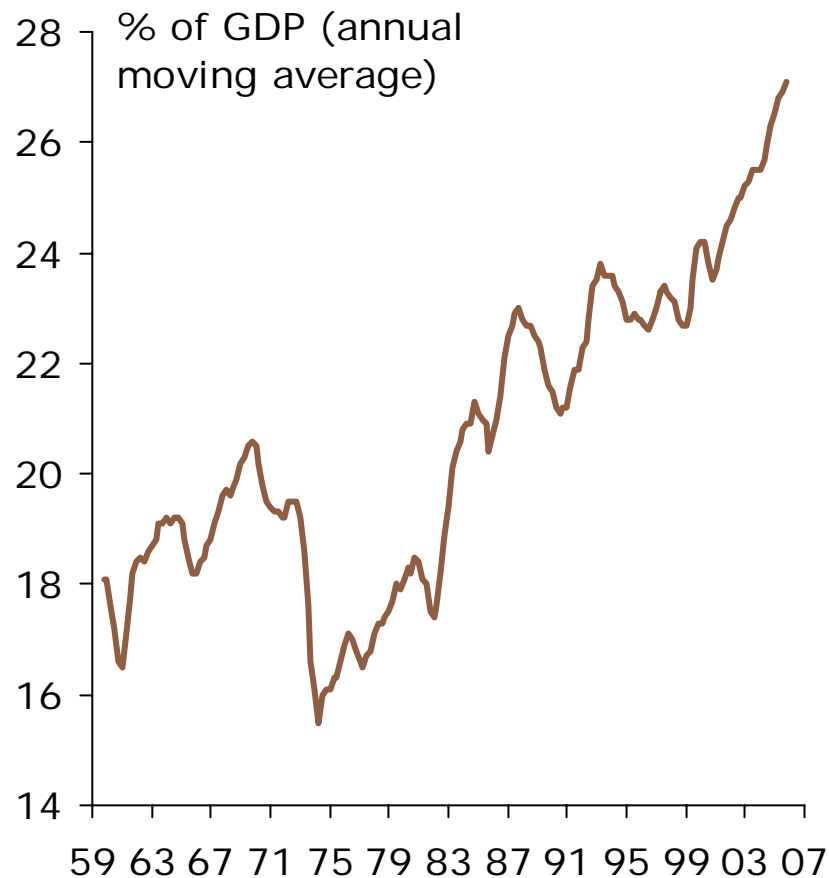


Interest rates



Corporate profits and the share market are at record highs

Non-financial corporate gross operating surplus

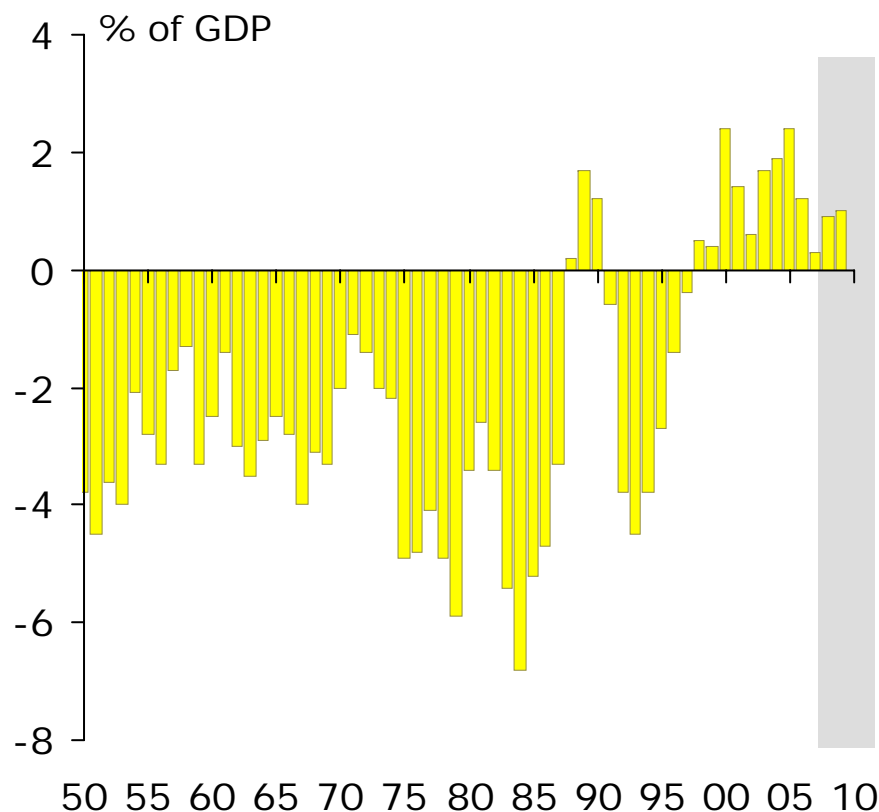


Australian sharemarket

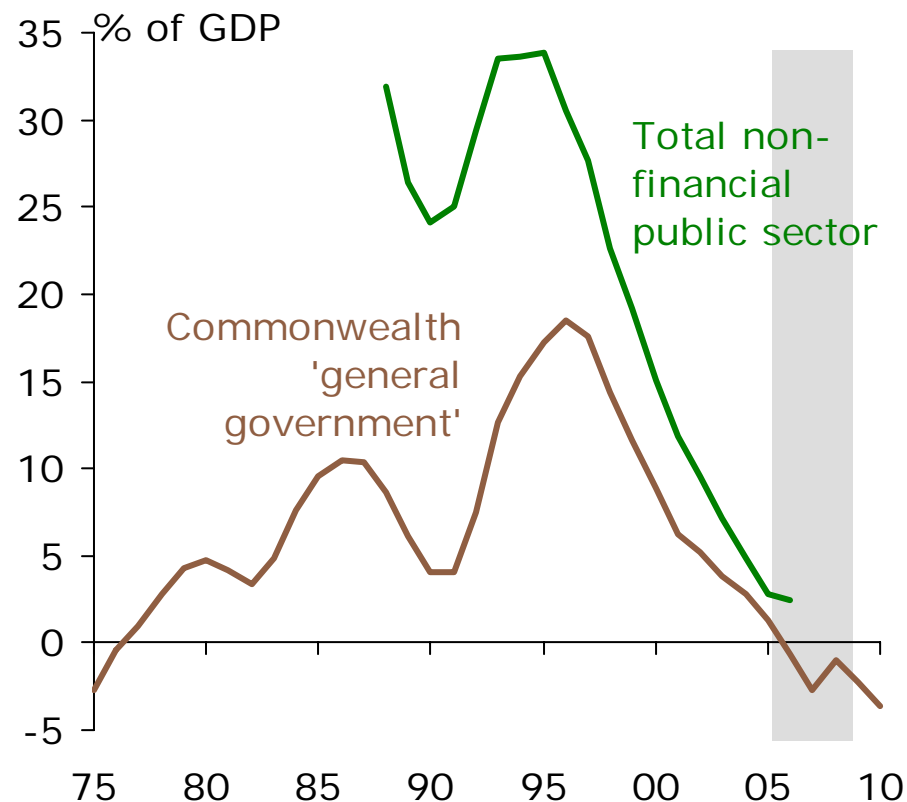


Australian public sector finances are among the strongest in the developed world

**'General government'
cash balance**



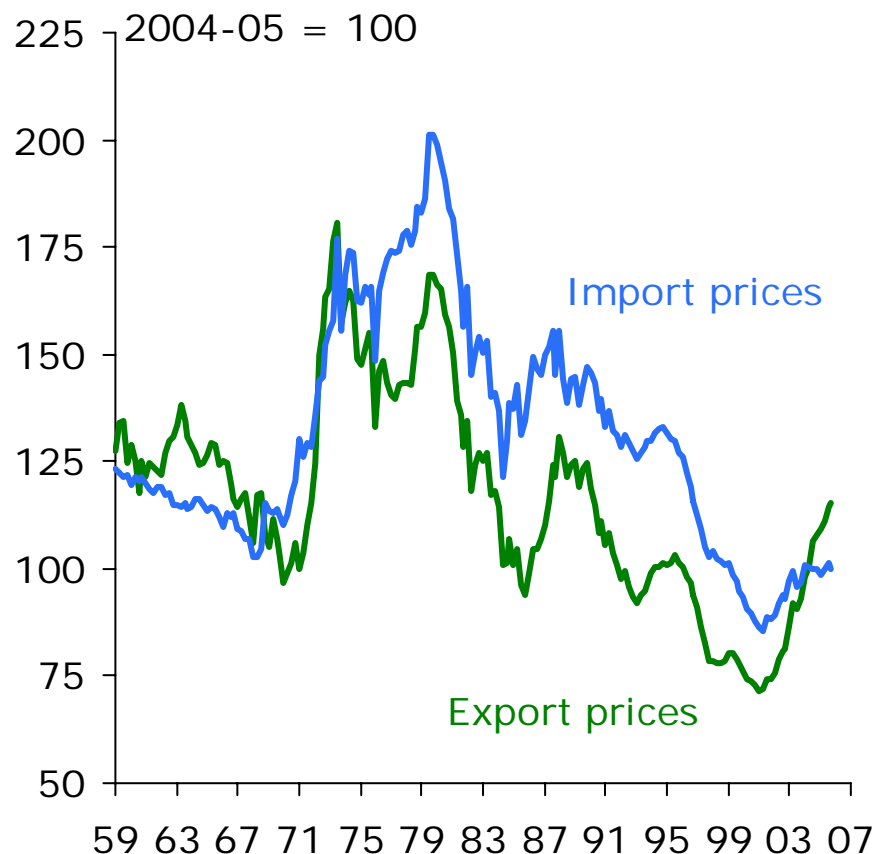
**Public sector
net debt**



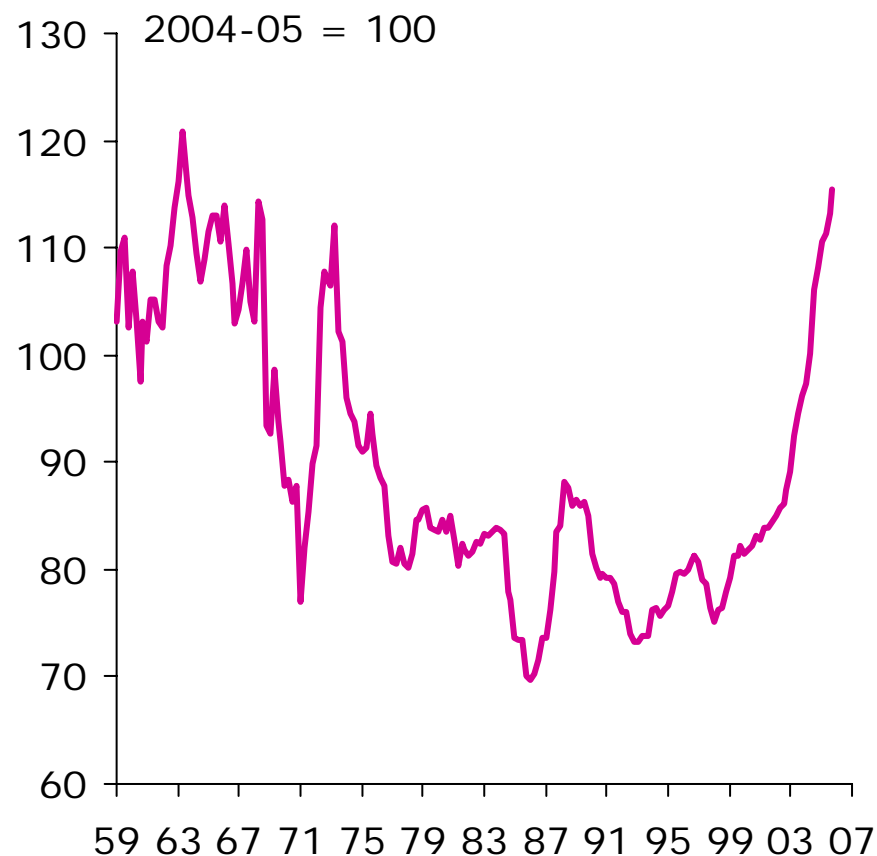
Note: Shaded areas denote official forecasts. Figures are for financial years ended 30th June.

Australia's terms of trade have improved since the early 90s, reversing the decline of the 70s and 80s

Australian export and import prices in real US\$ terms



Australia's 'terms of trade'



Australia's economy has done well over the past 15 years

- Economic growth has averaged 3¼% per annum
- Australia has ranked 7th or 8th among OECD countries
- Australia hasn't experienced recession for more than 15 years
- This is the longest period without recession for at least 106 years
- Australian per capita incomes are once again above the OECD average for the first time since the mid-1970s
- The proportion of working age Australians in employment is at an all-time high
- Inflation and interest rates are very low vs 70s and 80s
- Corporate profits and the sharemarket are at record highs
- Public finances are in very sound condition by historical and international standards

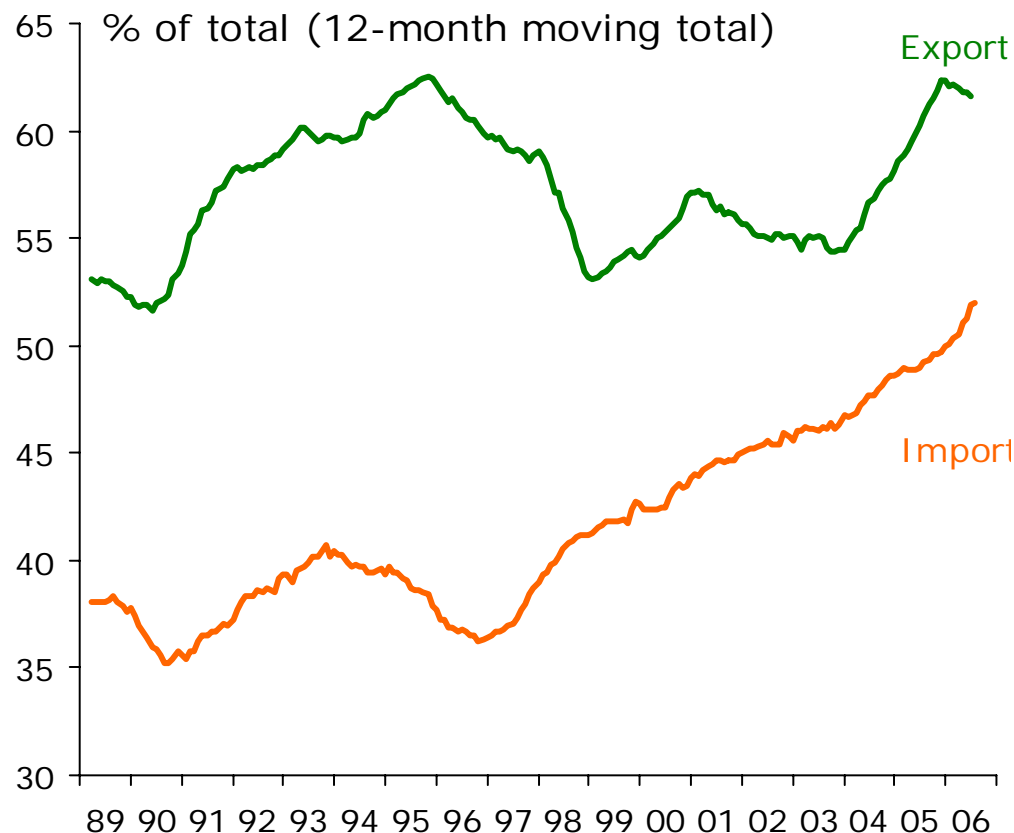
But, many of the major drivers of Australian economic growth over the past 15 years are now fading

- The housing boom ended in most parts of Australia in 2004
- Consumers have therefore become more cautious about borrowing and spending
- Business capital expenditures look to have peaked after several years of exceptionally strong growth
- With the exception of minerals, Australia's export performance has been poor since the beginning of the present decade
 - in volume terms weaker than at any time since the 1950s
 - rising exports of minerals offset by falling exports of crude
 - rural exports affected by drought
 - manufacturing and services exports hit by strength in the A\$
- Australia's productivity miracle appears to be ending
- New challenges with growth of emerging markets and the environment

Reforms and commodities boom have driven growth

- Good economic management and earlier policy reforms have been a driver of growth
- Global economic growth has been stronger and more stable than during the 70s and 80s
- The emergence of China as a major participant in the global economy has been particularly beneficial for Australia, boosting the prices of Australia's exports and cutting the prices of many of our imports

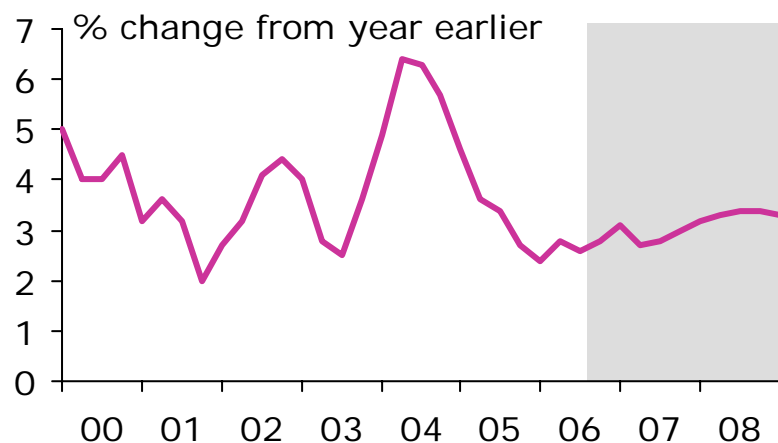
Australia's merchandise trade with Asia as a % of total



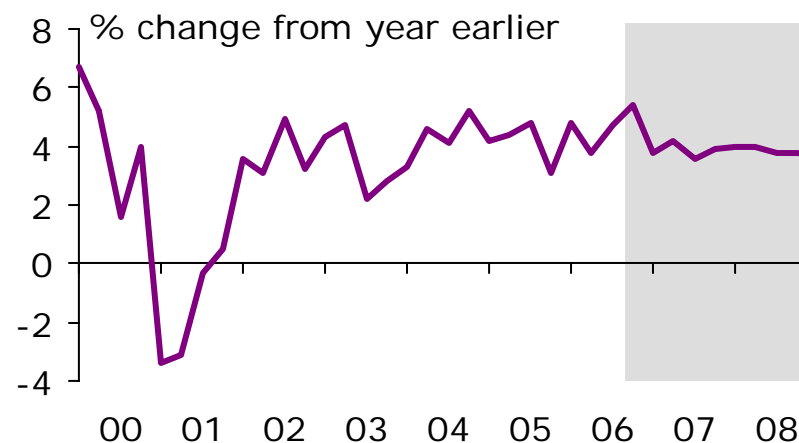
Note: 'Asia' includes Japan, China, Korea, Taiwan, Hong Kong, ASEAN and India

There are no obvious candidates for driving another spurt

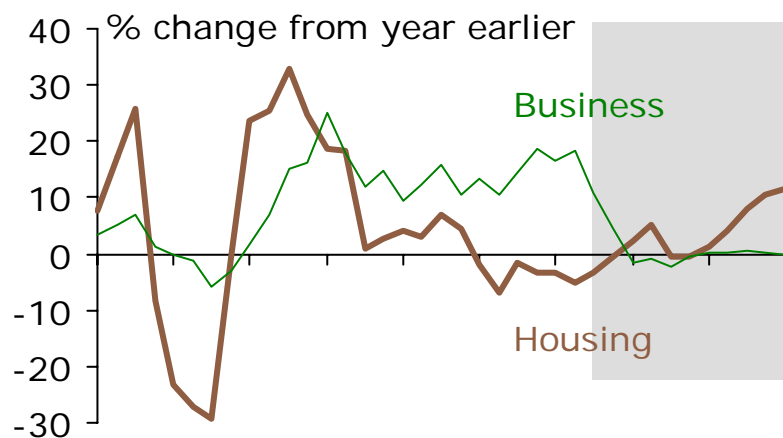
Household consumption



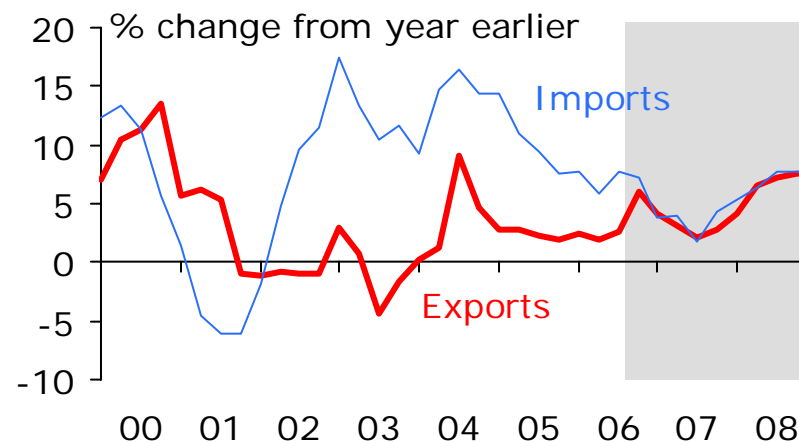
Public spending



Investment



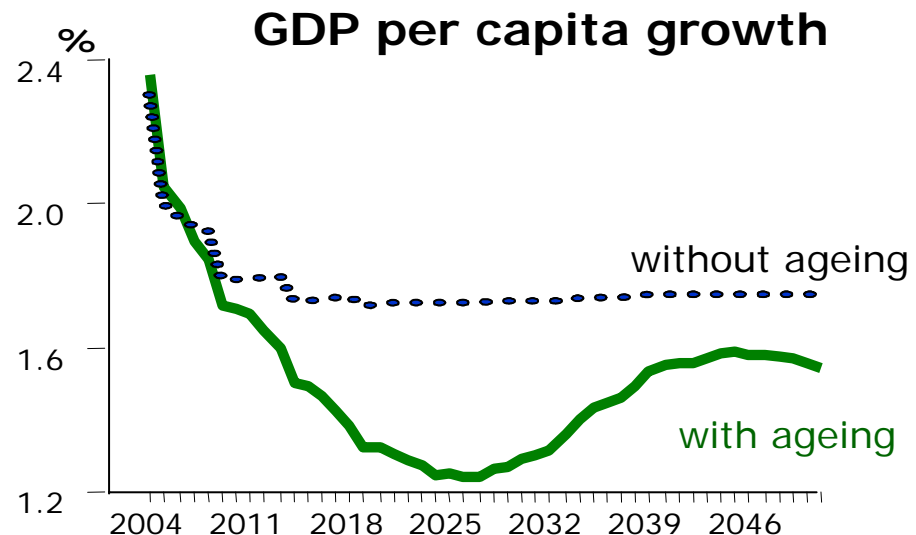
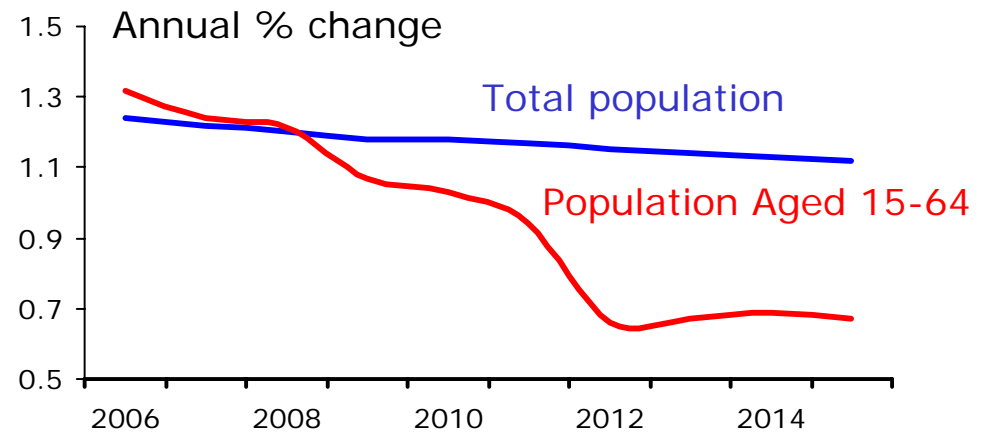
Exports and imports



Focus needed on ageing impact of population

- Increasing immigration
 - Migrants age at the same rate as the existing population
 - Higher immigration might be desirable for other reasons, but feasible increases would not offset the impact of ageing
- Increasing participation in the labour force
 - Requires halting and reversing a long term trend towards declining participation among older age groups
 - And addressing existing incentives to early retirement

Population growth will continue to slow particularly in 15-64 the age group

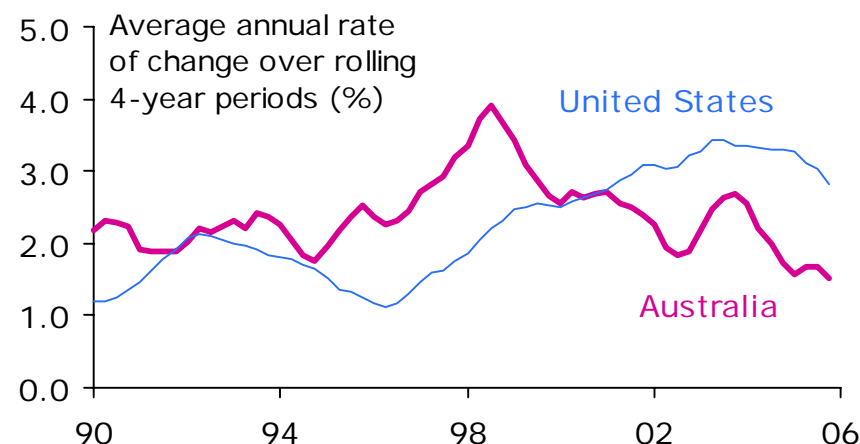


Productivity, participation growth require a kick-start

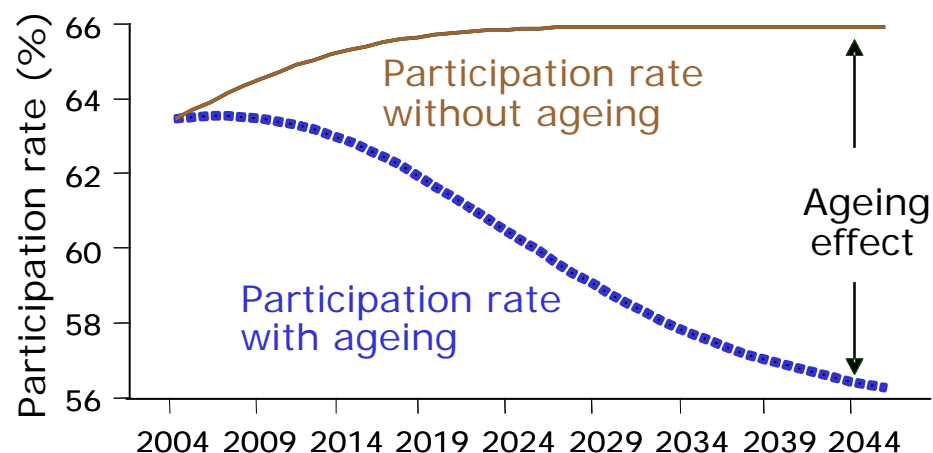
- As the economy approaches 'full employment', marginal additions to the work force may be 'less productive'
- Lack of focus on productivity-enhancing reforms in recent years
- Deluge of productivity-stifling legislation and regulation in recent years to enhance 'national security' and 'corporate governance'
- Aging population increases the urgency

*Labour productivity is output per hour worked in the non-farm business or market sector

Labour productivity* growth



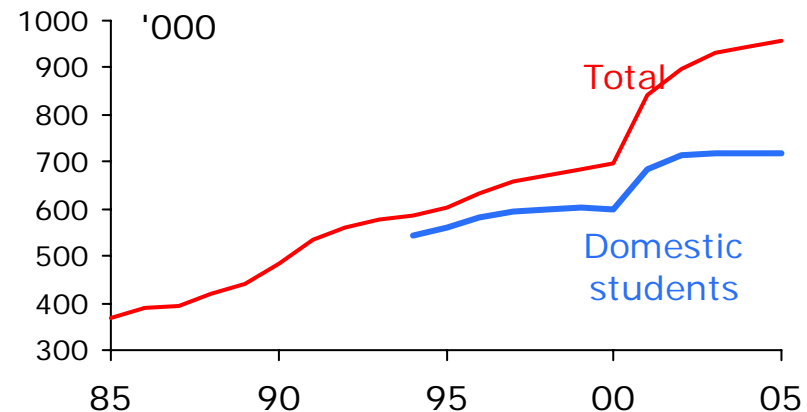
Aggregate labour force participation rate



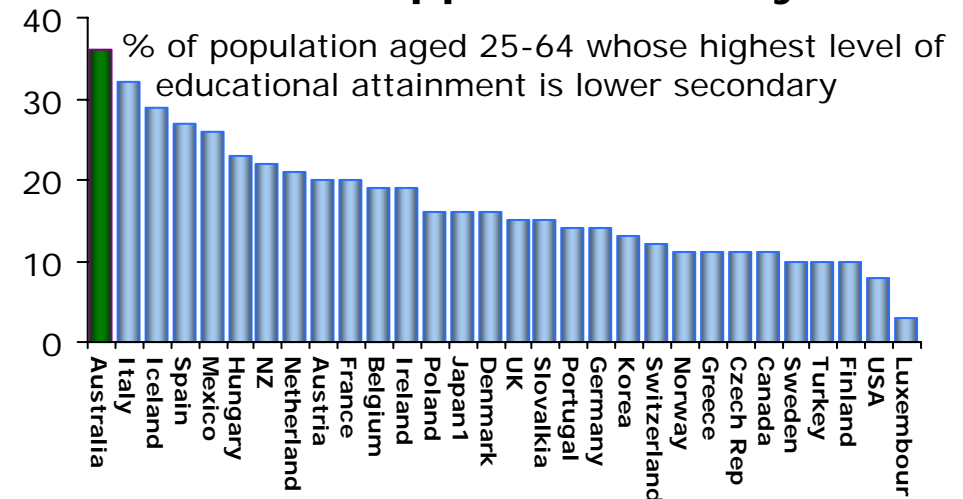
Educational attainment is an emerging issue

- Employment prospects improve with increasing levels of educational attainment
- Incomes rise with educational attainment
- OECD estimate that an extra year of schooling lifts per capita GDP by about 6%
- Broadly consistent with Australian research that a one-year increase in the average level of schooling
 - would increase annual GDP growth by 0.5 pc pt per annum
 - would ultimately increase the level of GDP by 8%

Higher education student numbers have flattened out



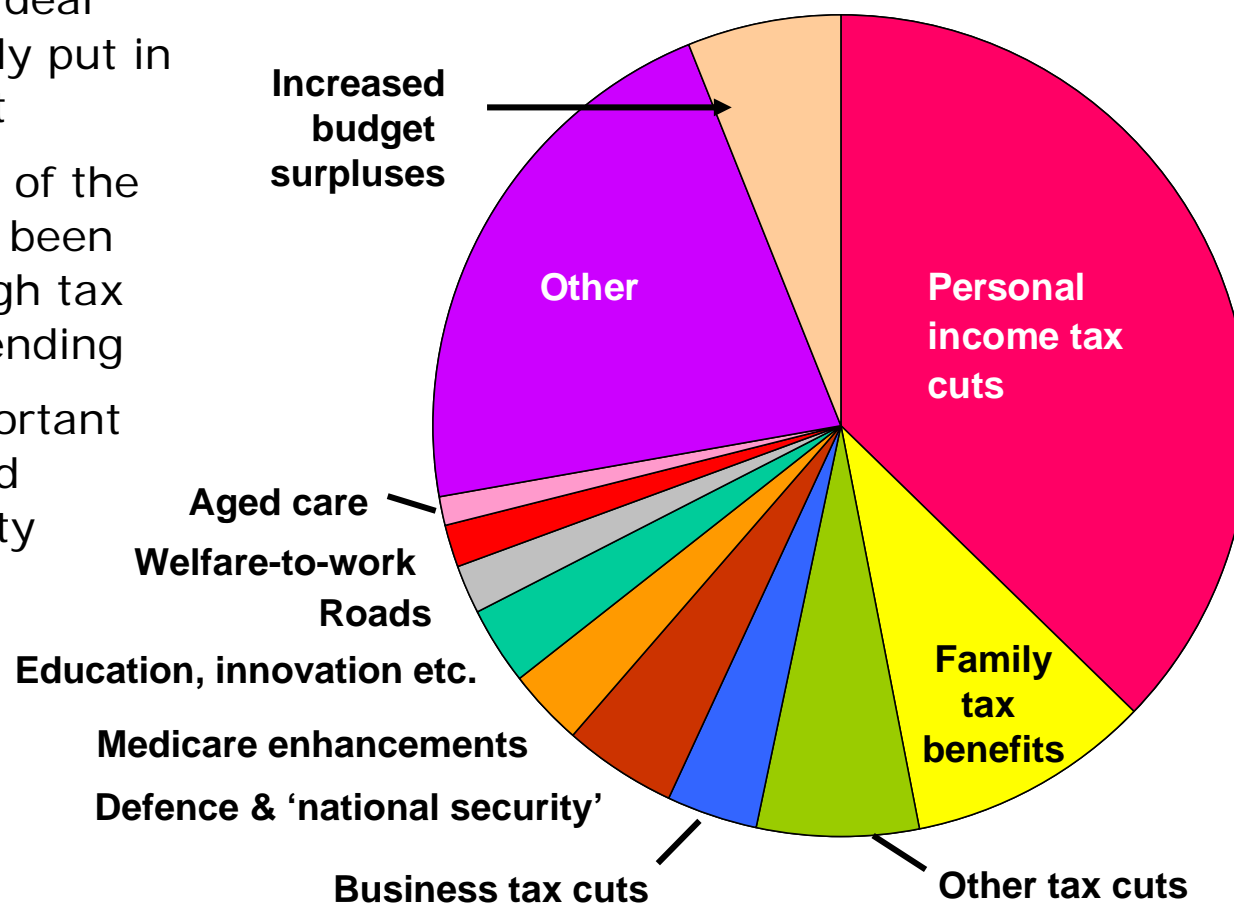
A high proportion of Australians leave school before upper secondary level



A missed opportunity?

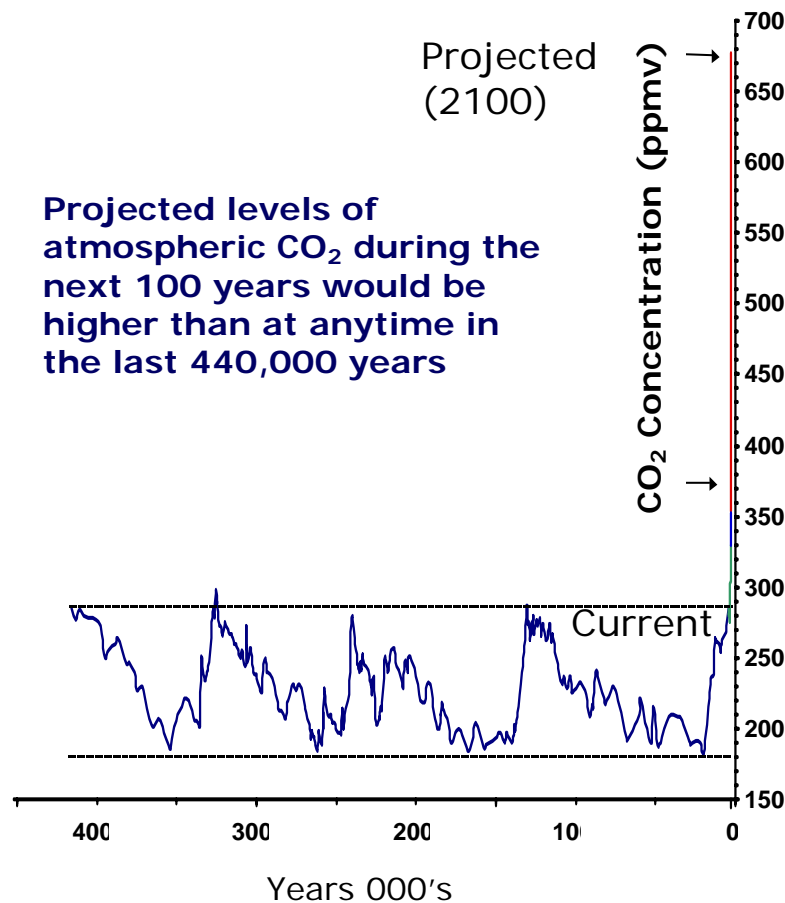
- Australia should be leveraging this unusual period of success to deal with issues previously put in the 'too hard' basket
- Much of the benefits of the resources boom has been 'redistributed' through tax cuts and welfare spending
- There are other important opportunities to build sustainable prosperity

**\$283 bn in windfall revenue gains,
2002-03 to 2009-10**

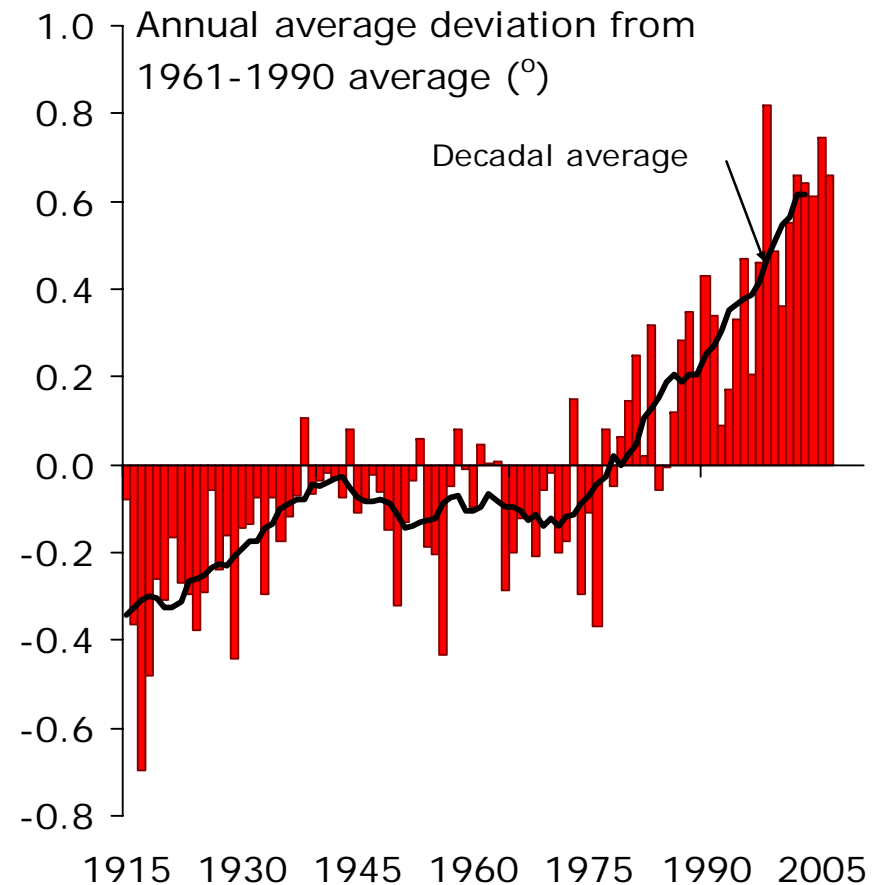


Concern about global warming makes action essential

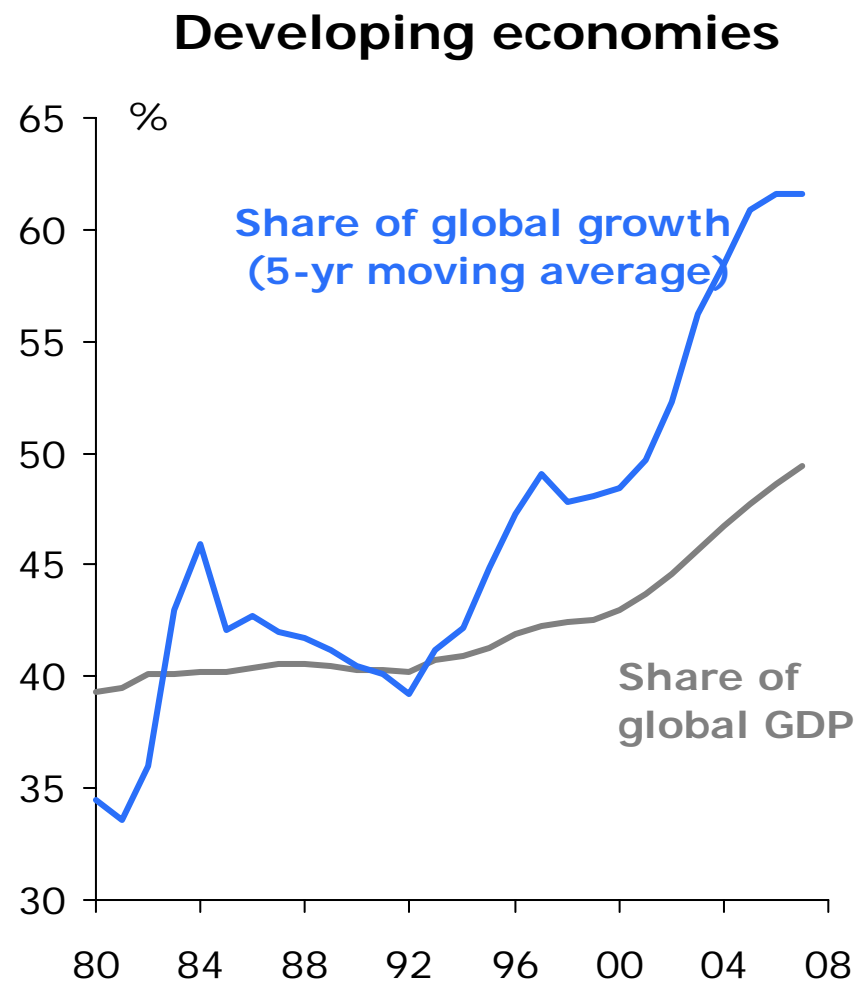
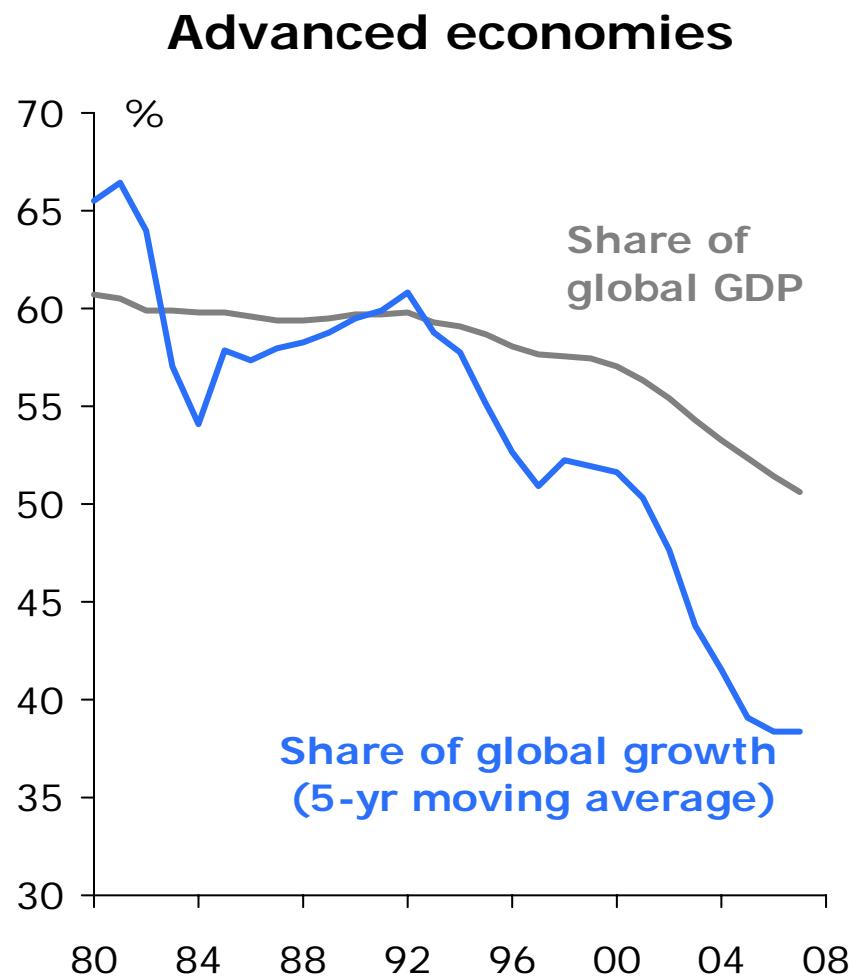
Atmospheric CO₂ levels



Global surface temperature anomalies



Long term global growth is shifting to new economies



Which will see structural shifts in the global economy

Rankings of economies by GDP*

	2015		2005	
	Rank	GDP	Rank	GDP
China	1	17,795	2	8,091
US	2	16,816	1	12,332
India	3	6,763	4	3,602
Japan	4	4,722	3	4,009
Russia	5	2,895	10	1,585
Germany	6	2,893	5	2,498
UK	7	2,292	6	1,825
France	8	2,225	7	1,811
Brazil	9	2,211	9	1,552
Italy	10	1,966	8	1,694
Korea	11	1,723	12	1,099
Indonesia	12	1,532	15	863
Mexico	13	1,531	13	1,064
Canada	14	1,457	11	1,112
Spain	15	1,352	14	1,026
Australia & New Zealand	16	1,019	16	740

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