

Global & euro zone update

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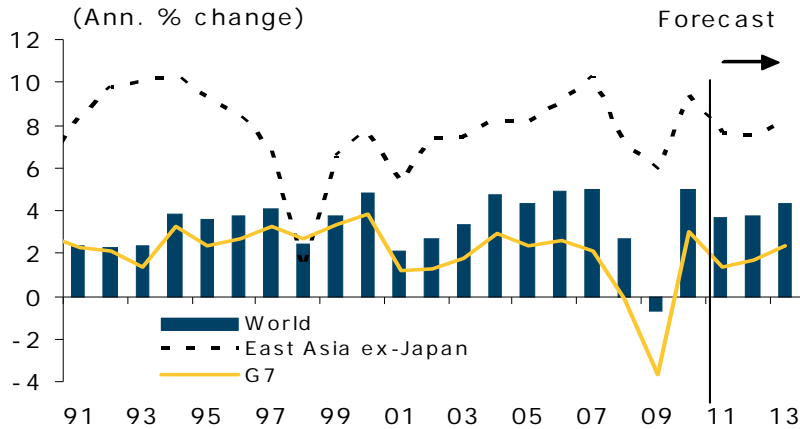


Global economic outlook

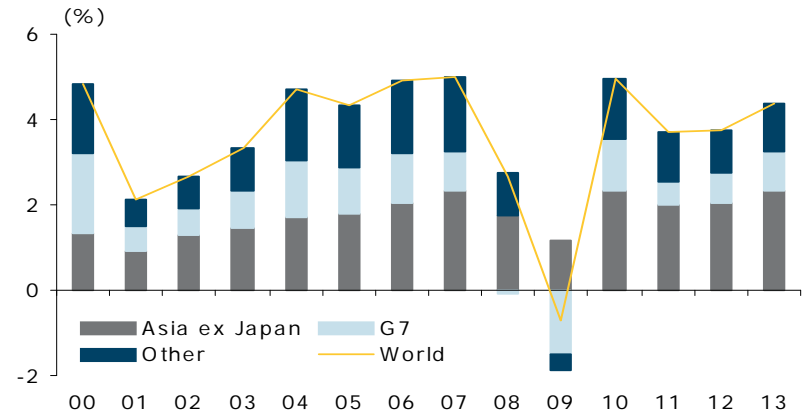
- **ANZ forward indicators of the global economy stabilised in late 2011 and are now picking up.**
- **Advanced economies face headwinds - fiscal austerity, deleveraging by households and financial institutions. Inflation pressures will be muted amid sizable spare capacity. Policy rates will be near zero for a long time.**
 - The US recovery will remain vulnerable to setback and shocks without a fully fledged housing recovery. There are some signs US housing is improving but there is a long way to go yet.
 - Europe's problems continue. Recent policy actions (eg. ECB's LTRO) appear to have got some traction with a positive impact on sovereign yields and auctions. Activity has stabilised, but unemployment continues to rise.
- **Emerging economies will be the main driver of global growth. Policy settings are such that there is plenty of scope to support growth if need be.**
 - China has slowed ("soft landing") as desired by the authorities. This has growth on a sustainable path.
- **Europe remains the biggest risk to the outlook. With the banking crisis of 2008 still fresh investor minds, even a small chance of a significant financial event will hamper risk appetite for the foreseeable future.**
 - That said, a rising risk (particularly for the US outlook) is the recent rise in oil prices (WTI).

Emerging markets remain main driver of global growth

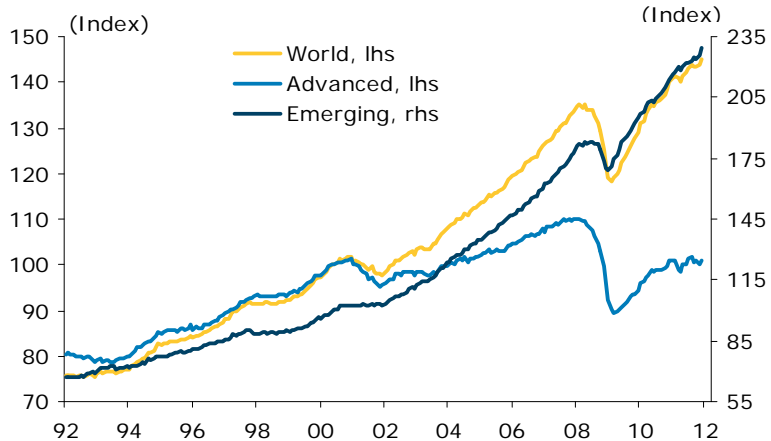
World GDP



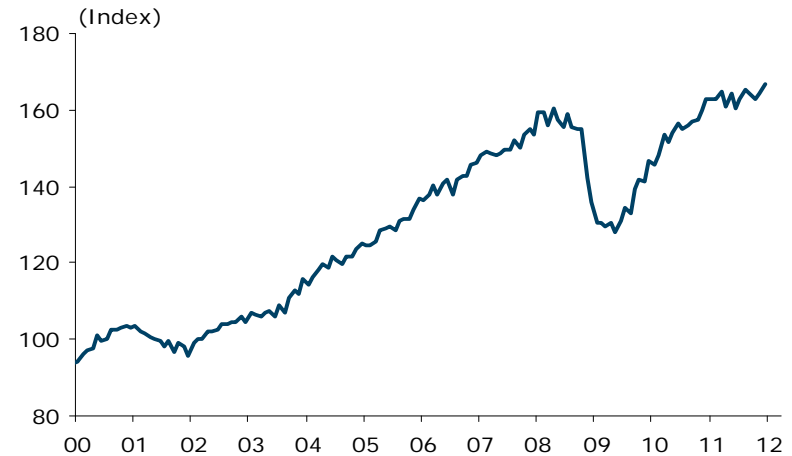
Contribution to world GDP



Industrial production

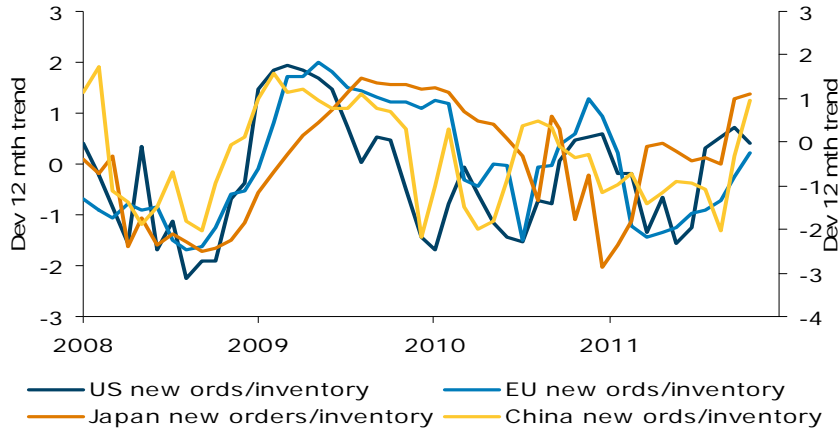


World trade

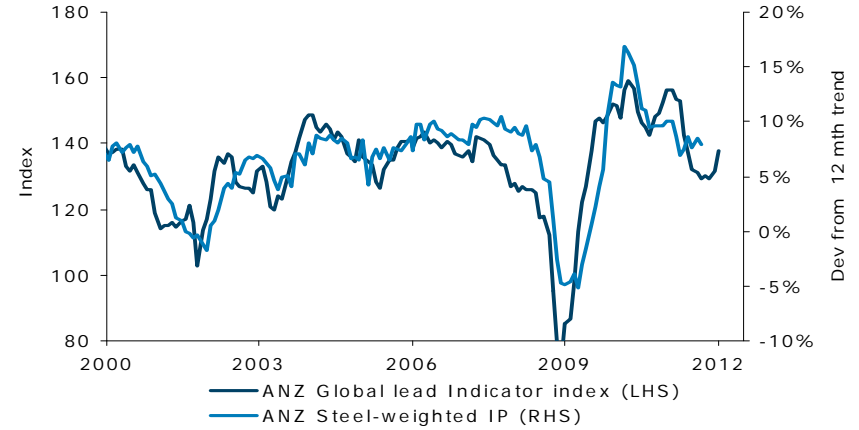


ANZ lead indicators point to a pick up in global macro conditions

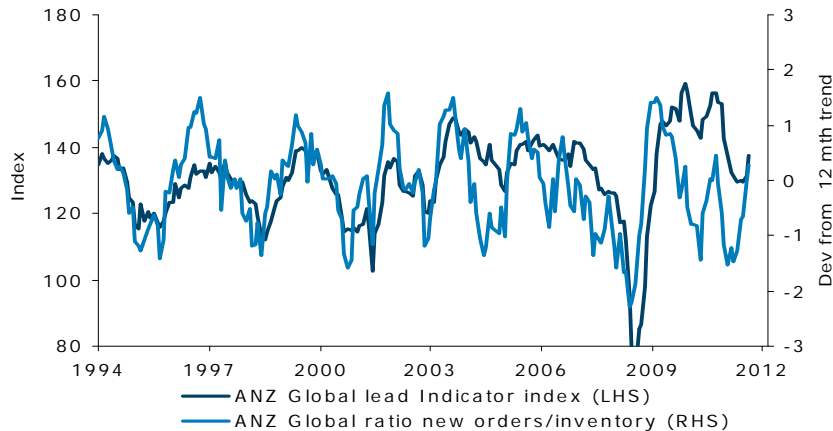
ANZ inventory pulse



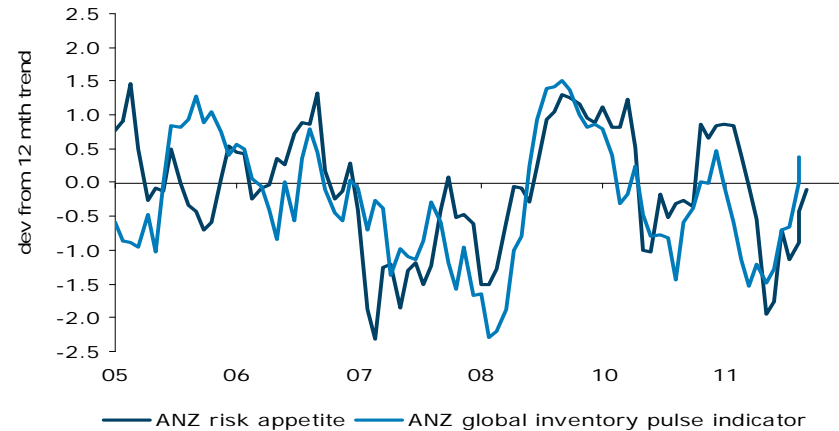
ANZ Lead indicator and global IP



ANZ lead indicator and inventory pulse

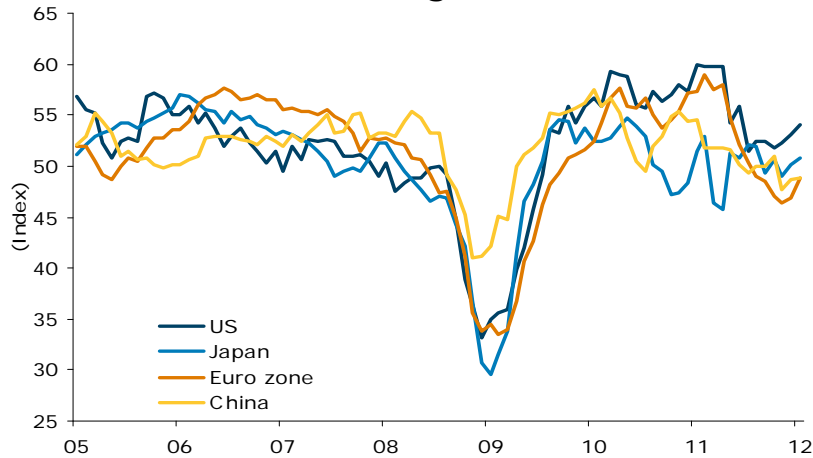


ANZ Lead indicator and risk appetite

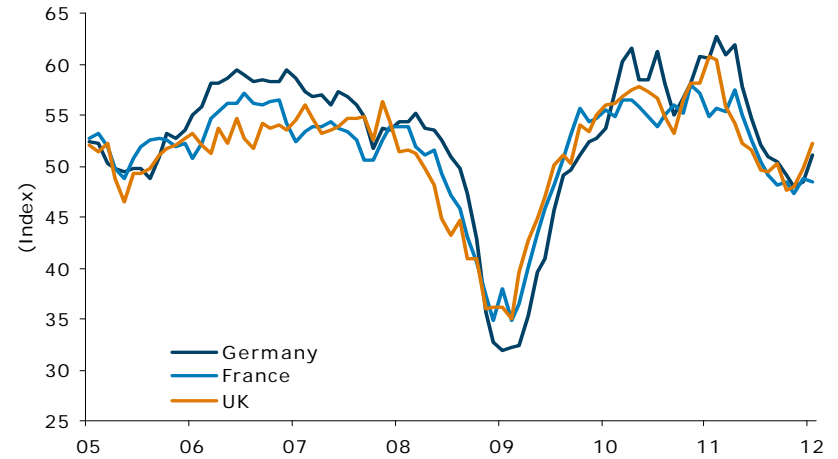


Lead indicators – picking up

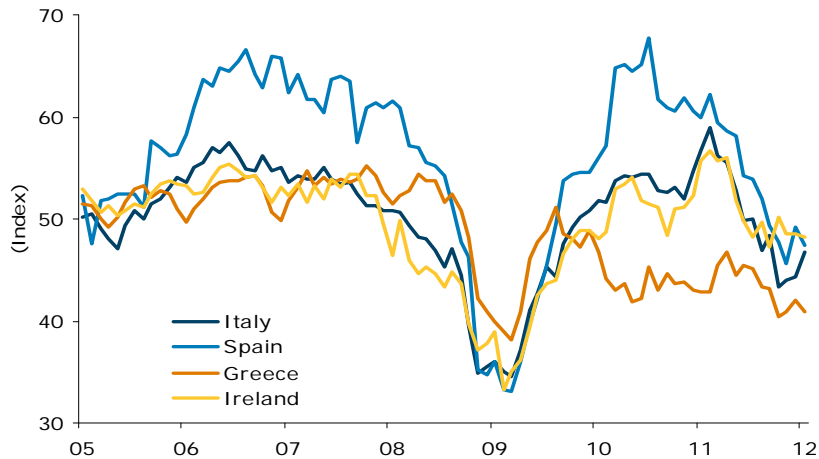
Broad regional PMIs



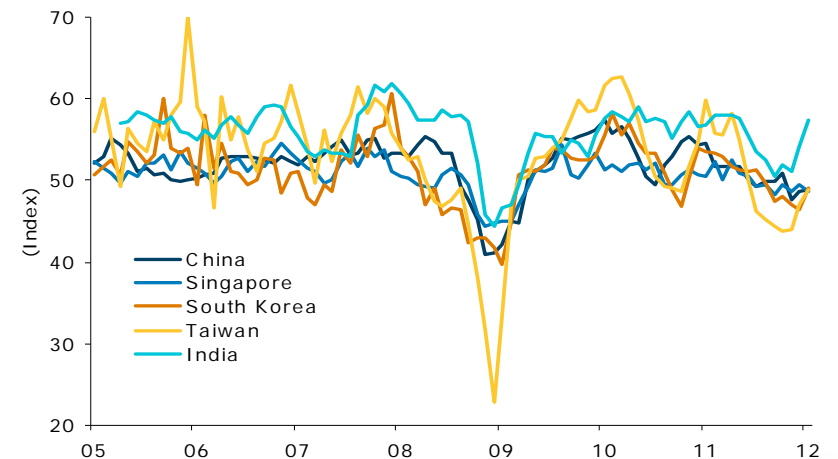
'Strong' Europe PMI



'Weak' Europe PMI

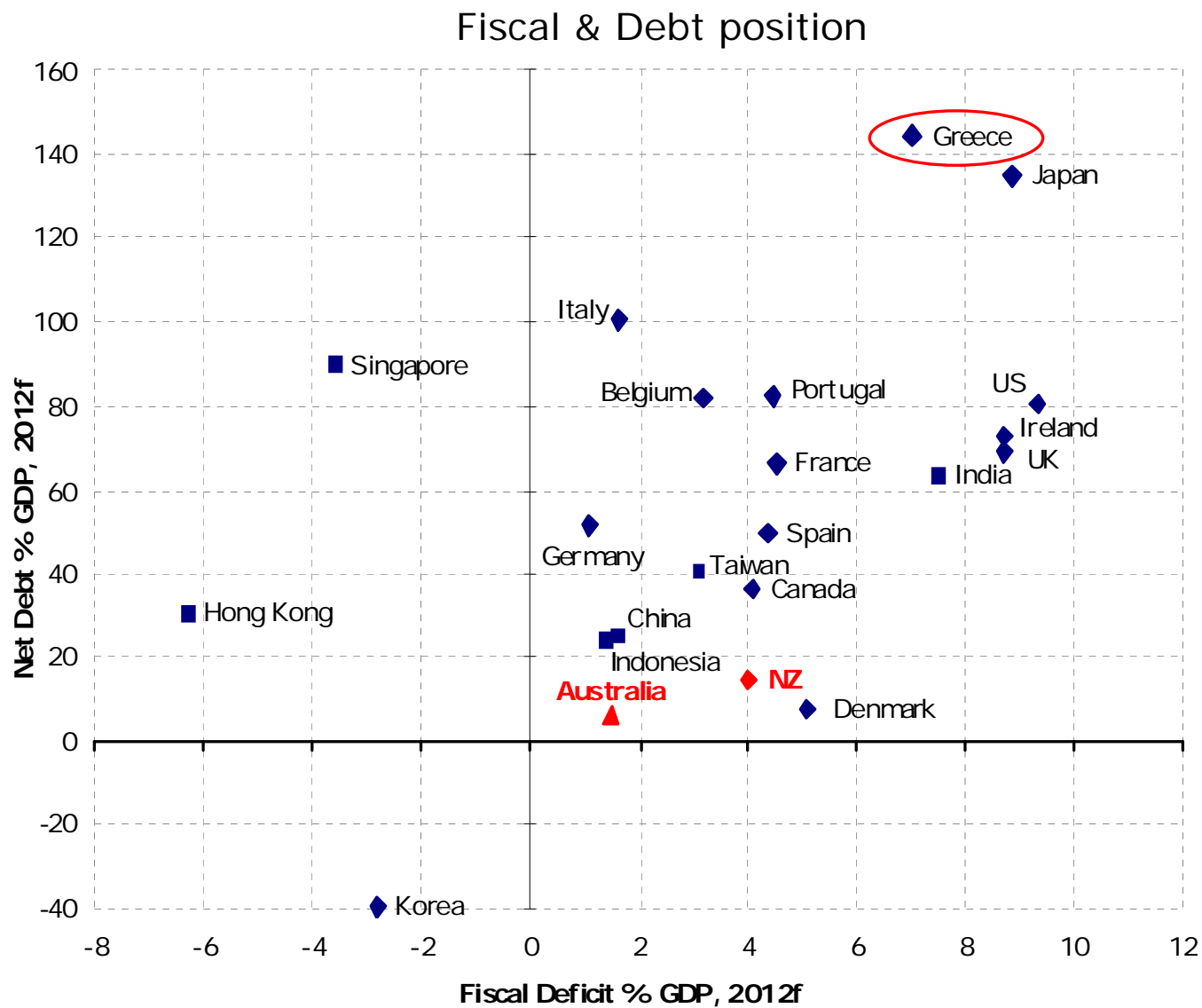


Asian PMI



Advanced economies face substantial headwinds

– large fiscal debts and sizable consolidation programs

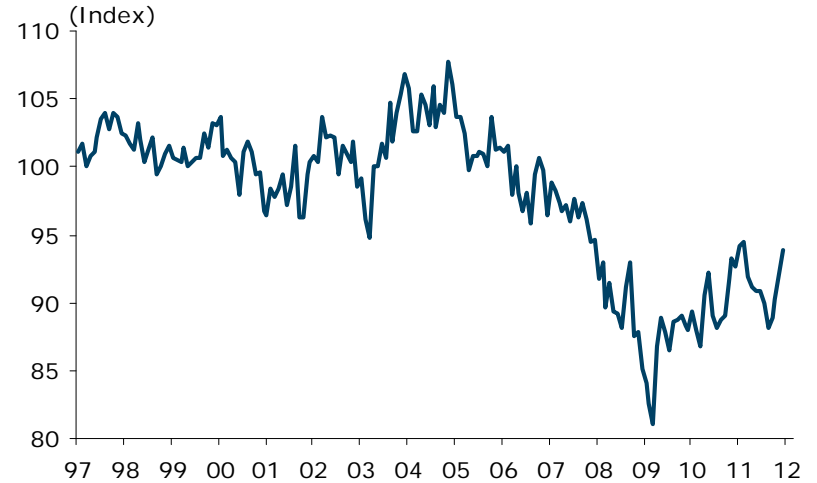


A broadening US recovery is a key pre-requisite for better global prospects – we are cautiously optimistic

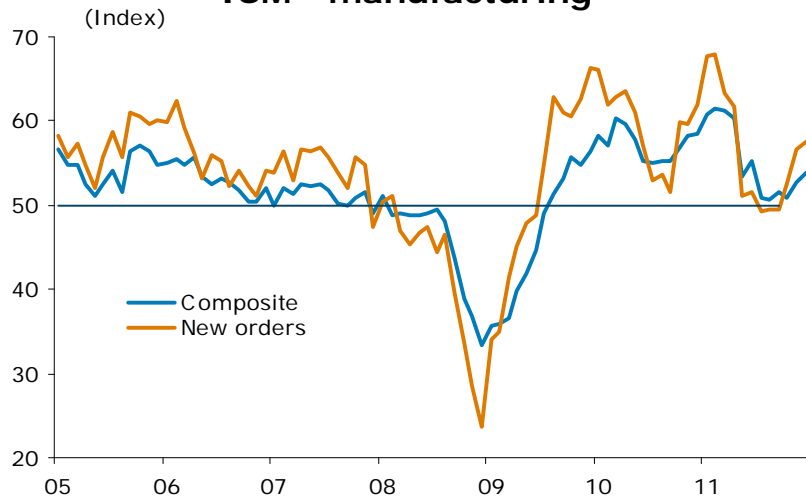
Household credit growth



Small business optimism



ISM - manufacturing

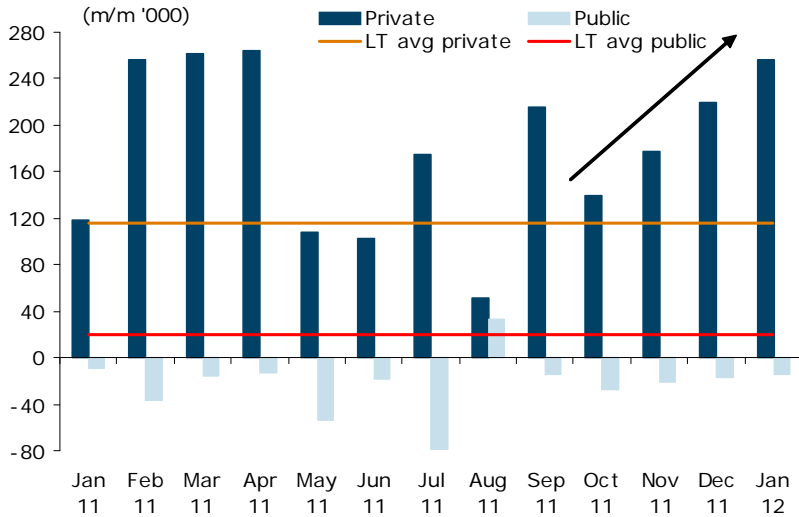


Housings starts and NAHB

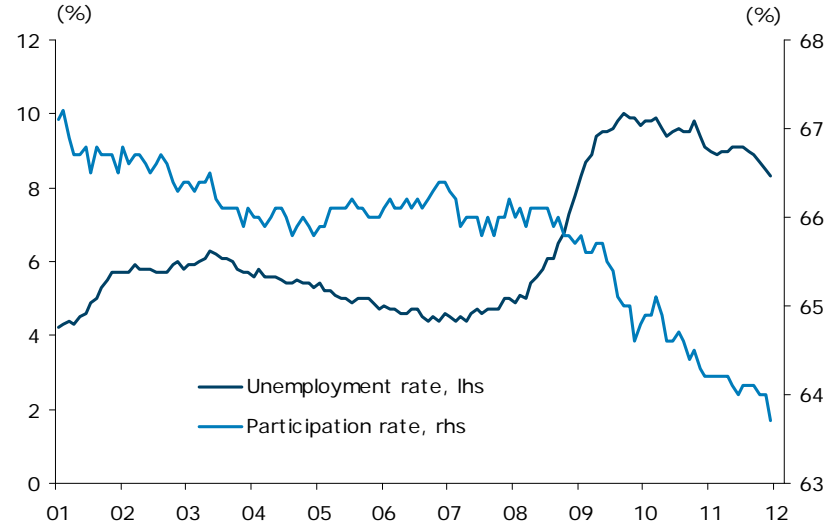


The US labour market is continuing to improve, particularly in terms of private sector job creation

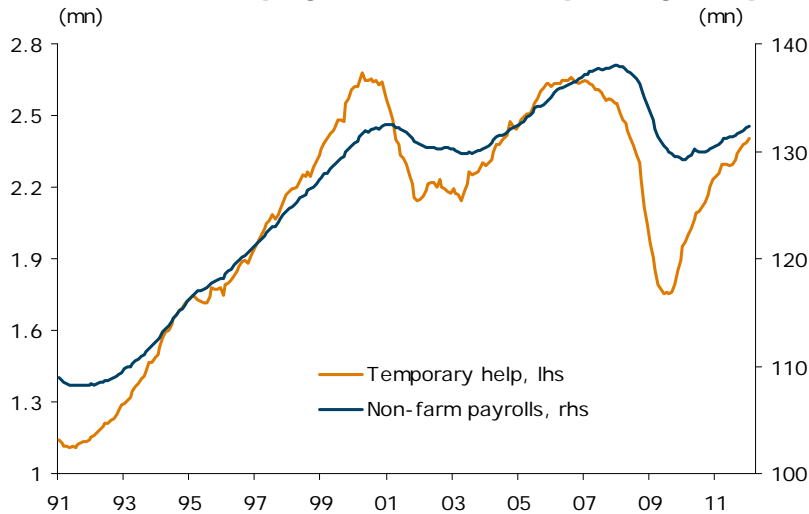
Non-farm payrolls



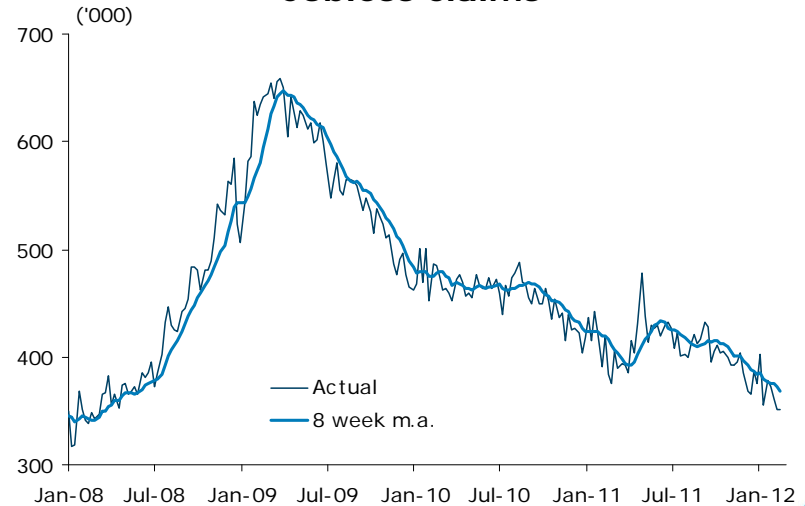
Unemployment and participation rates



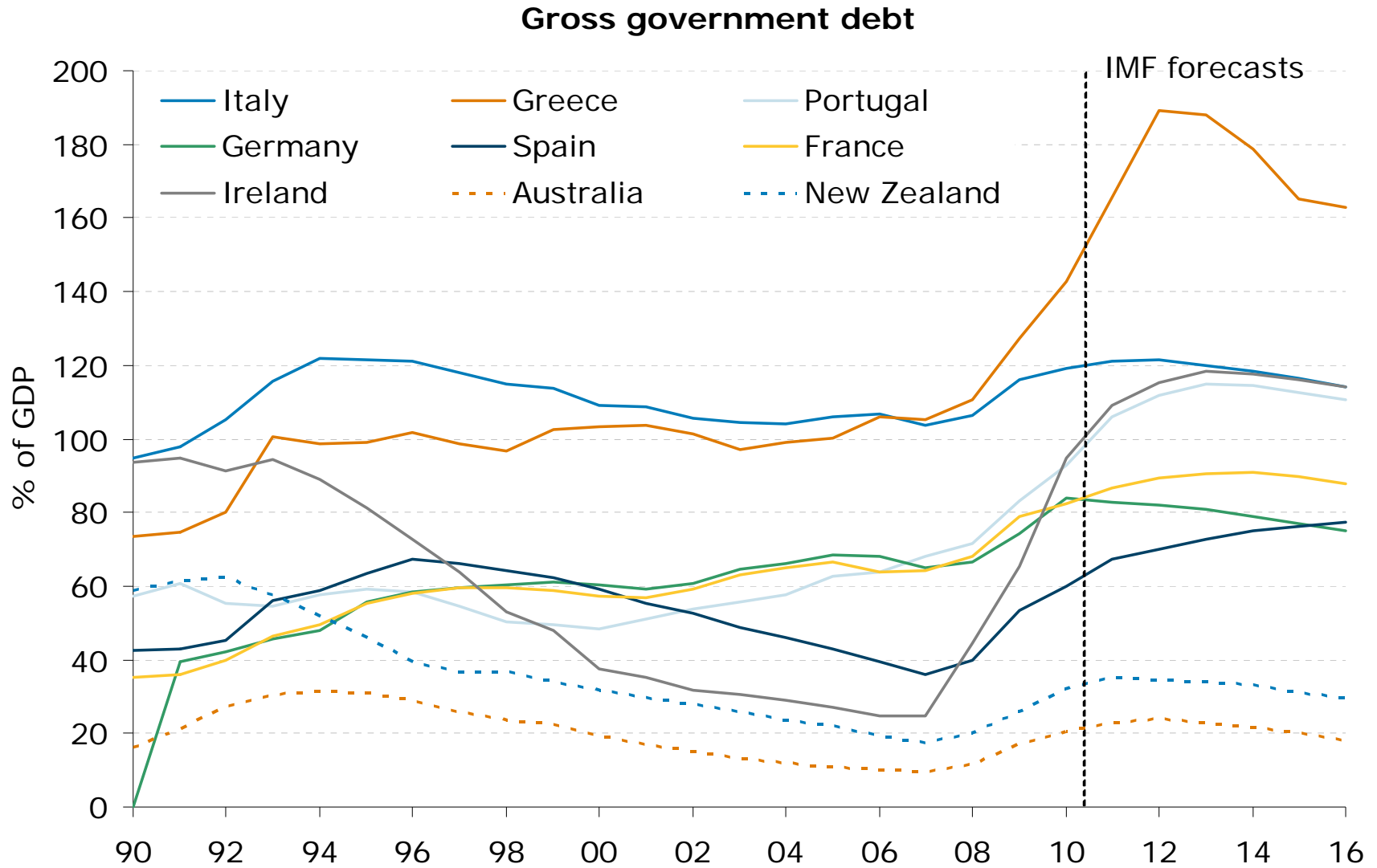
Non-farm payrolls and temporary help



Jobless claims

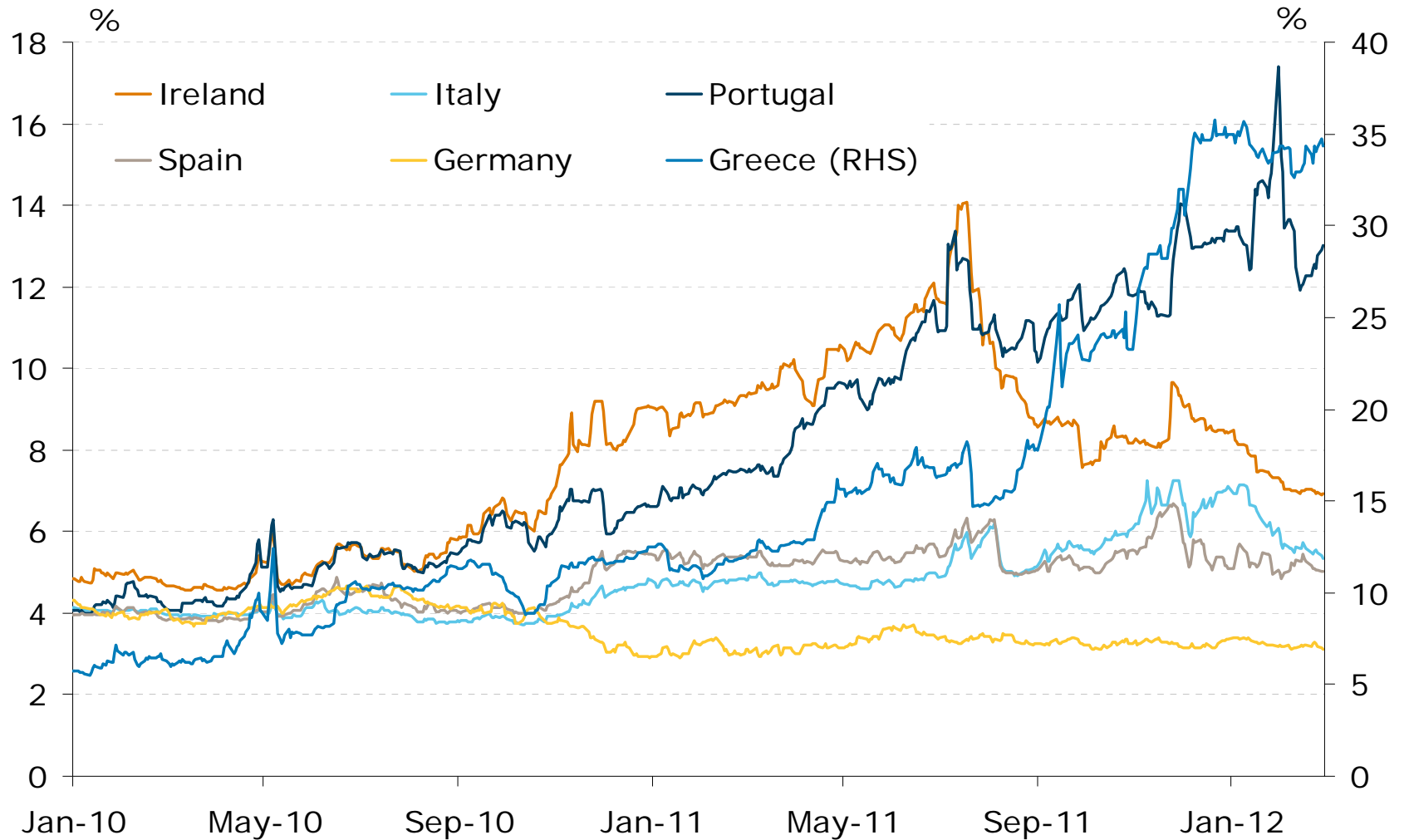


How do you solve a problem called the euro zone?



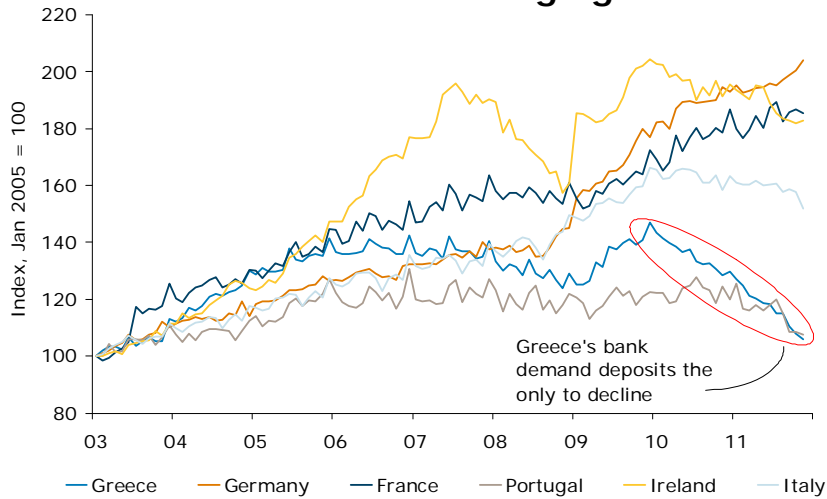
How will Europe's unsustainable public debt be funded?

10-year sovereign bond yields

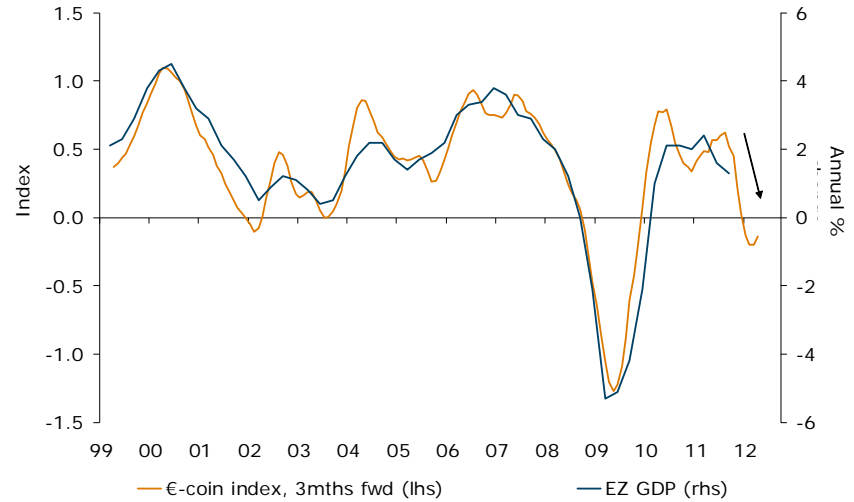


The 'solution' – grow your way out – highly unlikely. Forced deleveraging – yes. Policy support – yes. Austerity vs monetary reflation

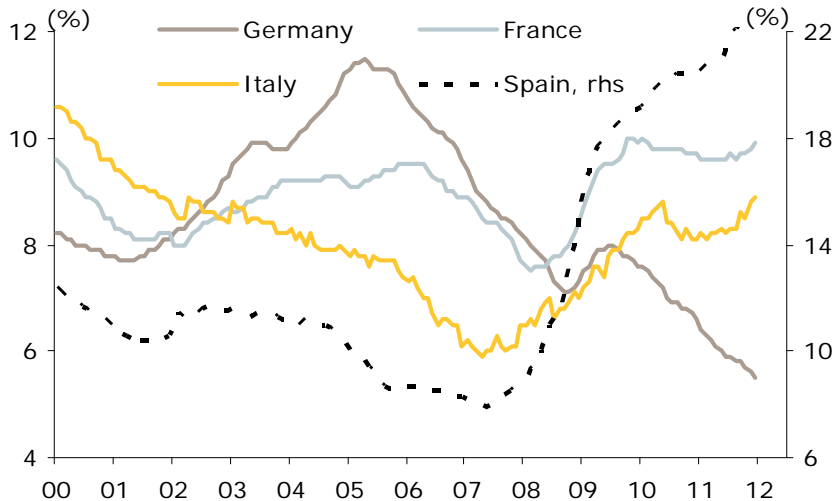
Forced deleveraging



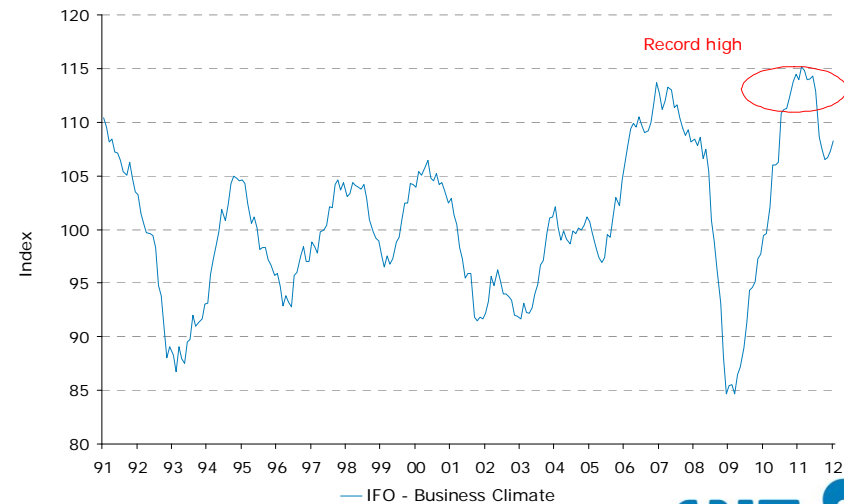
Slow economic growth



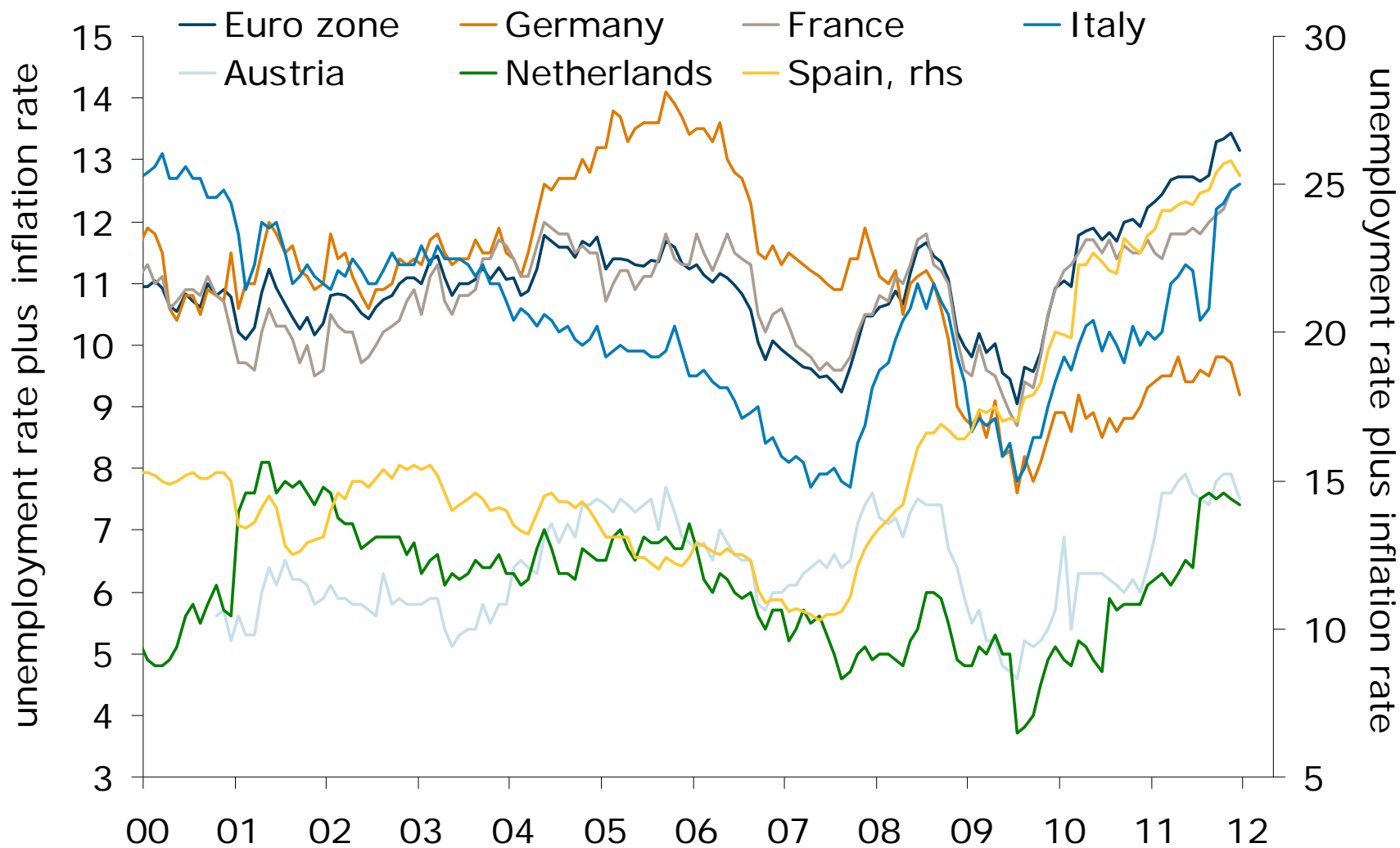
Unemployment rates



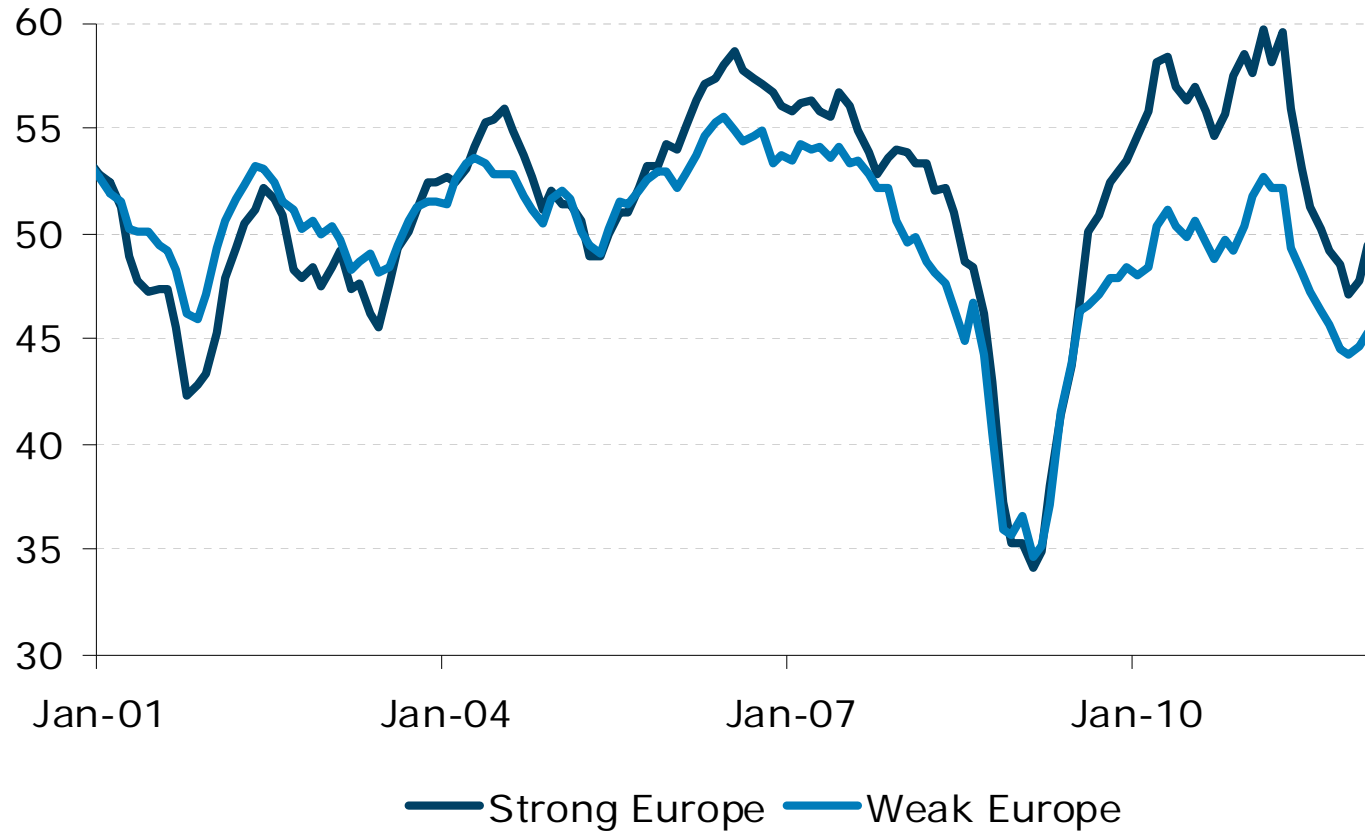
German business conditions



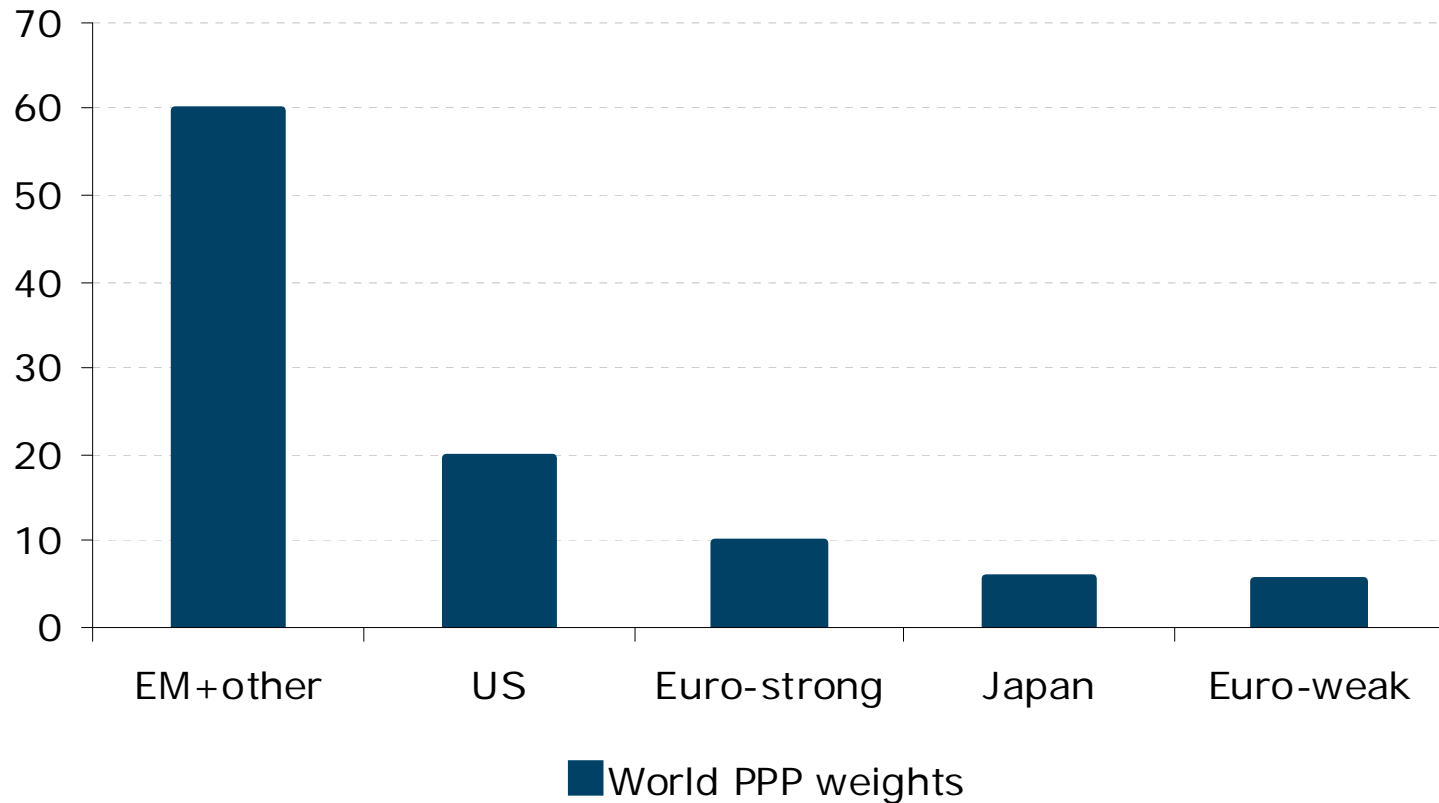
'Misery' indices amongst European nations



Decoupling amongst European PMIs

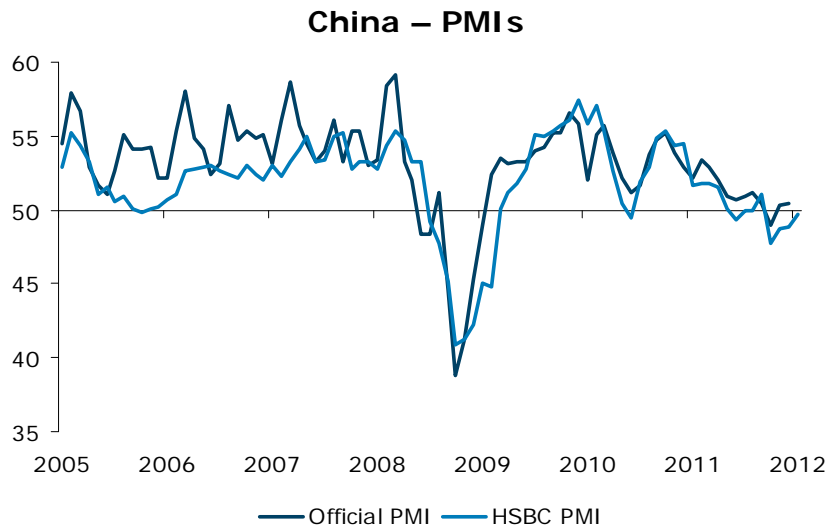
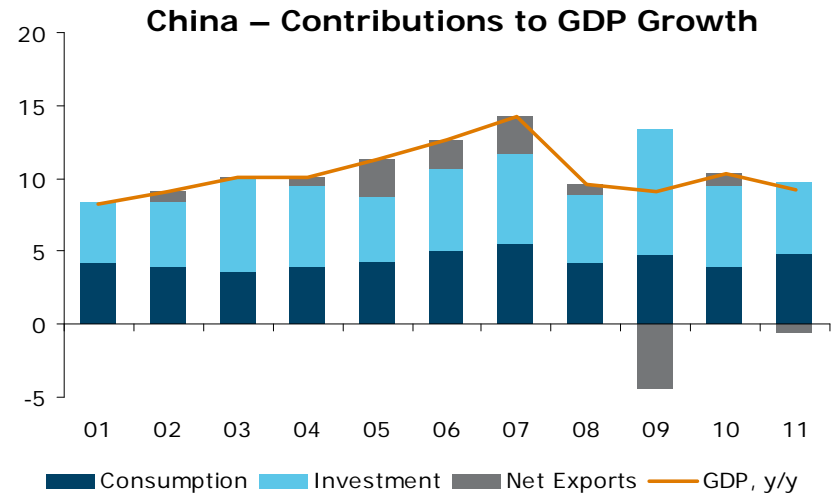
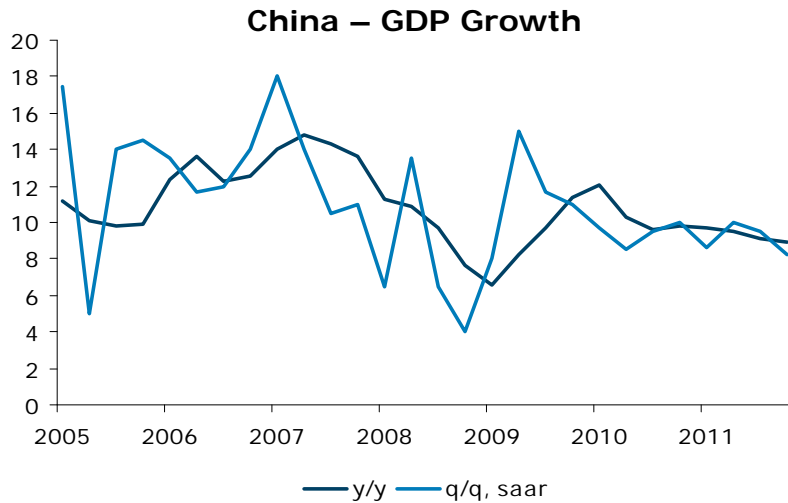


Weak Europe is not large



China's GDP growth slowed to below potential in Q4 2011

We view that the bounce in China's December PMI is the start of a rebound in activity; a hard landing in the property market is the biggest risk.

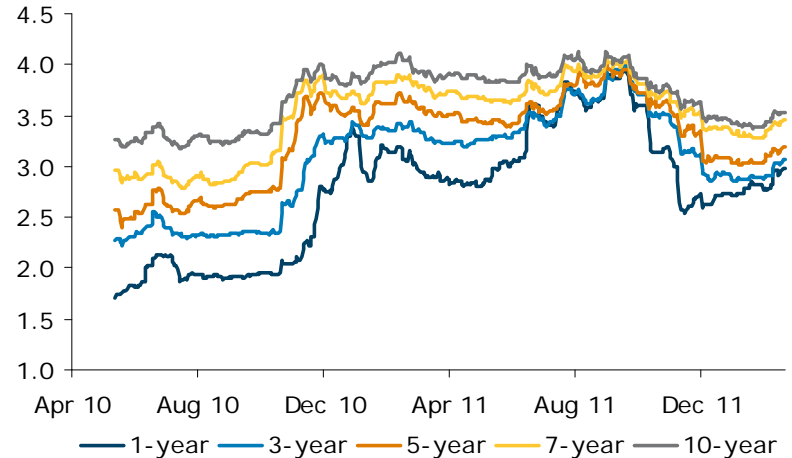


Inflationary pressures continue to ease despite food price gains. Market has priced in “monetary easing”; more RRR cuts are expected. Policy to support a soft landing.

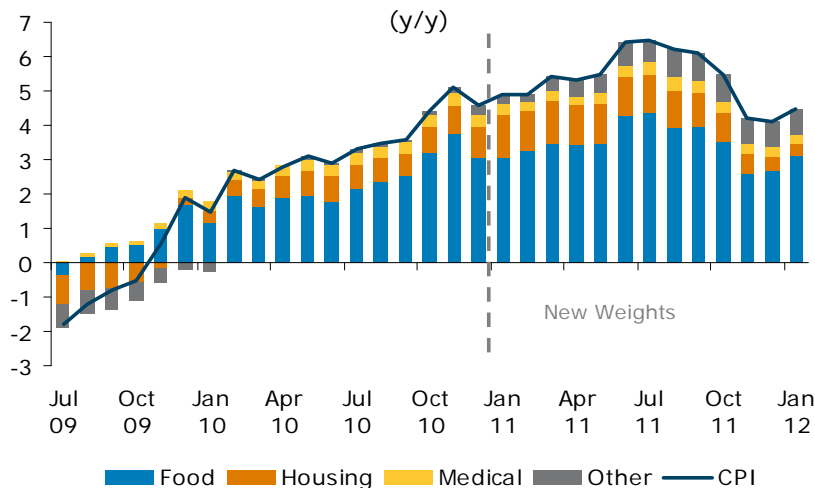
China – ANZ Activity Index



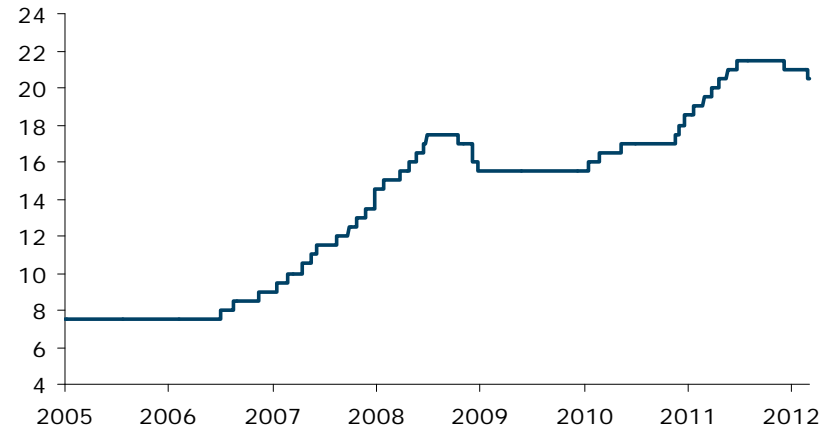
China – Bond Yields



China – Contributions to Inflation



China – Reserve Requirement Ratio



Australia & NZ

Australia faces growing headwinds, but still has a number of factors in its favour, which should once again provide decent insulation from current troubles

Headwinds

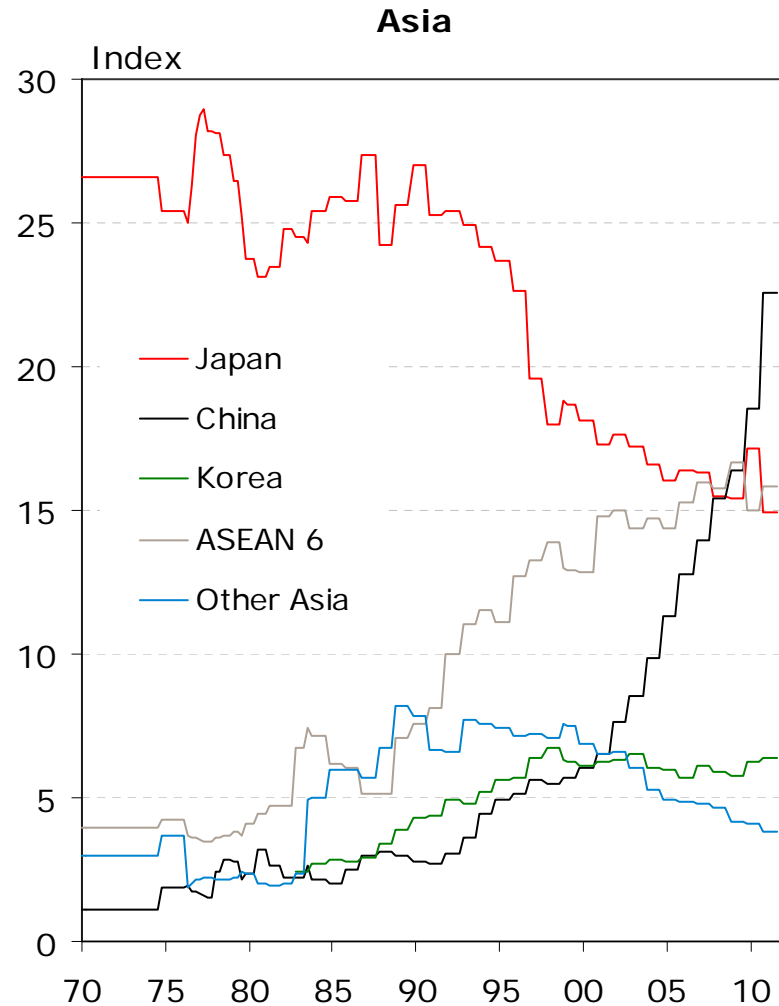
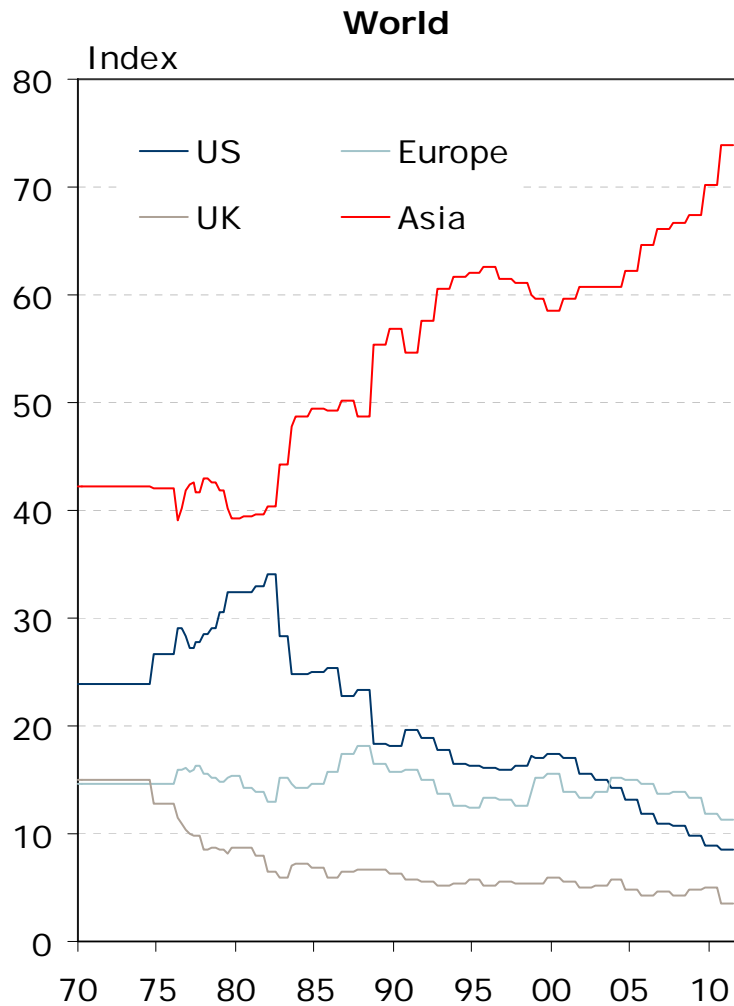
- European-led financial system disruption
- An independent slowdown in China
- Domestic fiscal drag
- Accelerated structural change
- Persistently high AUD

Insulators

- Policy ammunition
 - Both monetary and fiscal
- Strong government finances
 - AAA-rated
- A healthy banking sector
 - Ample liquidity and reduced call on wholesale debt markets
- Relatively limited direct trade and financial exposures to Europe
 - Euro area is just 4% of Australian merchandise exports
 - Direct exposure of Australian banks to Euro area is just 2.7% of total assets
- Simultaneous stimulus from the resources boom
 - An unprecedented (and so far uninterrupted) investment pipeline

Australia is increasingly part of Asia

Australian two-way merchandise trade weights

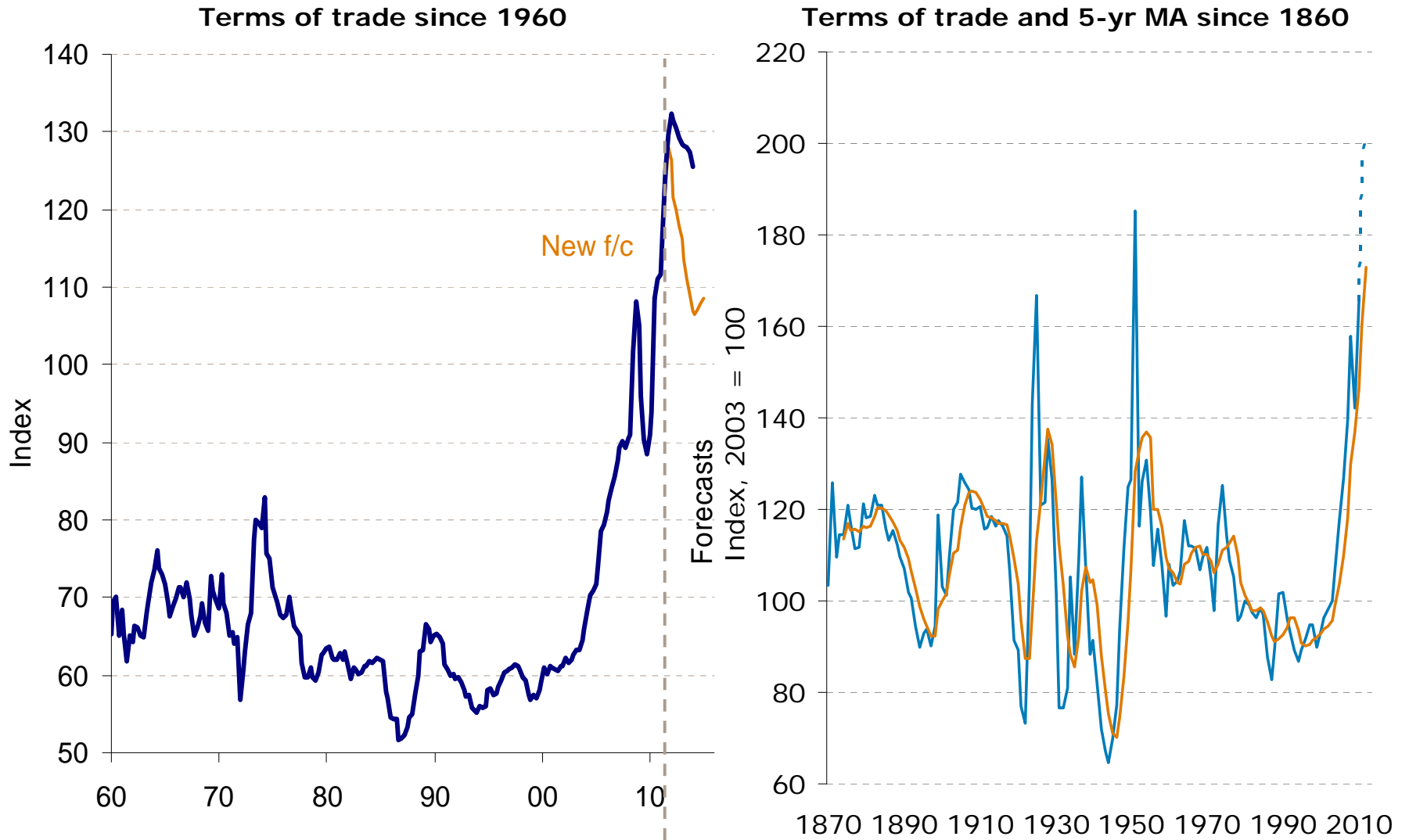


Source: ANZ, RBA

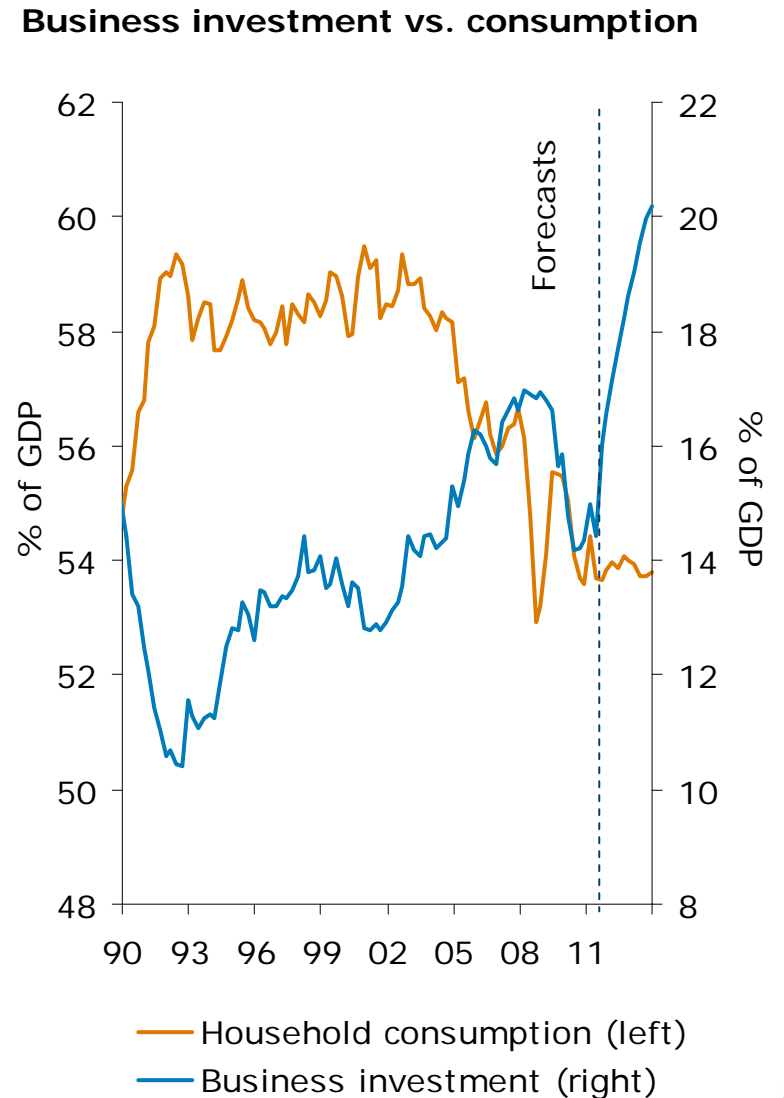
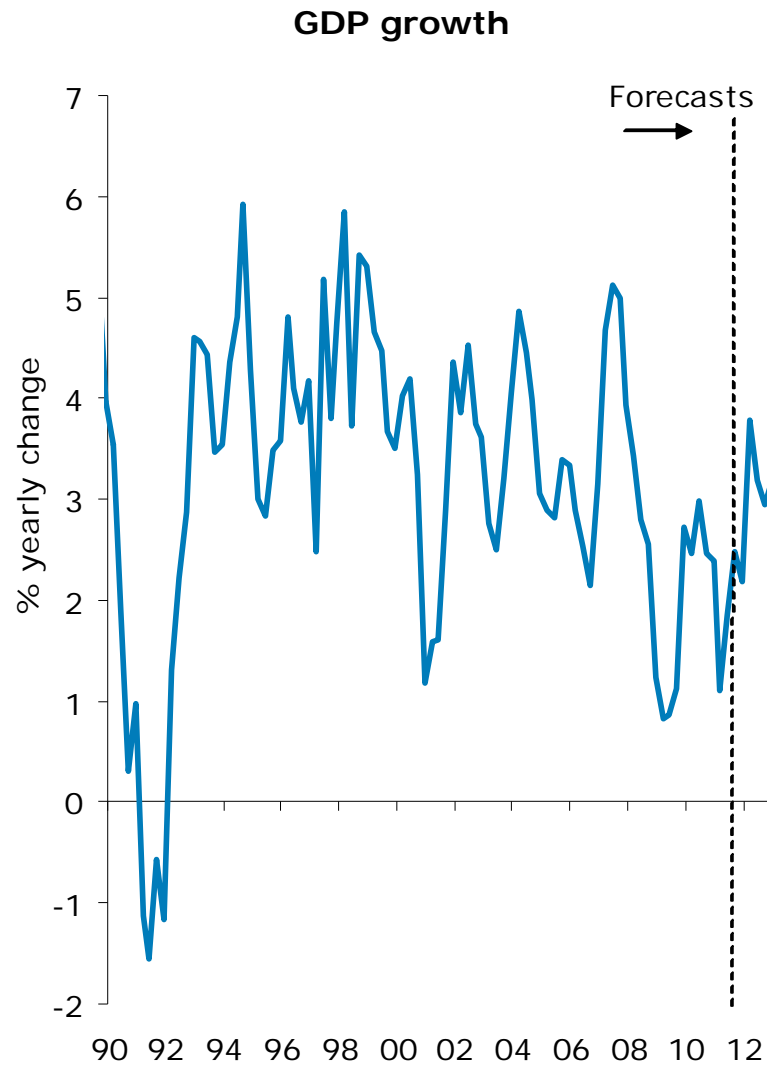
ASEAN 6: Singapore, Indonesia, Malaysia, Thailand, Philippines, Vietnam

Other Asia: HK & Taiwan

It's all about the terms of trade



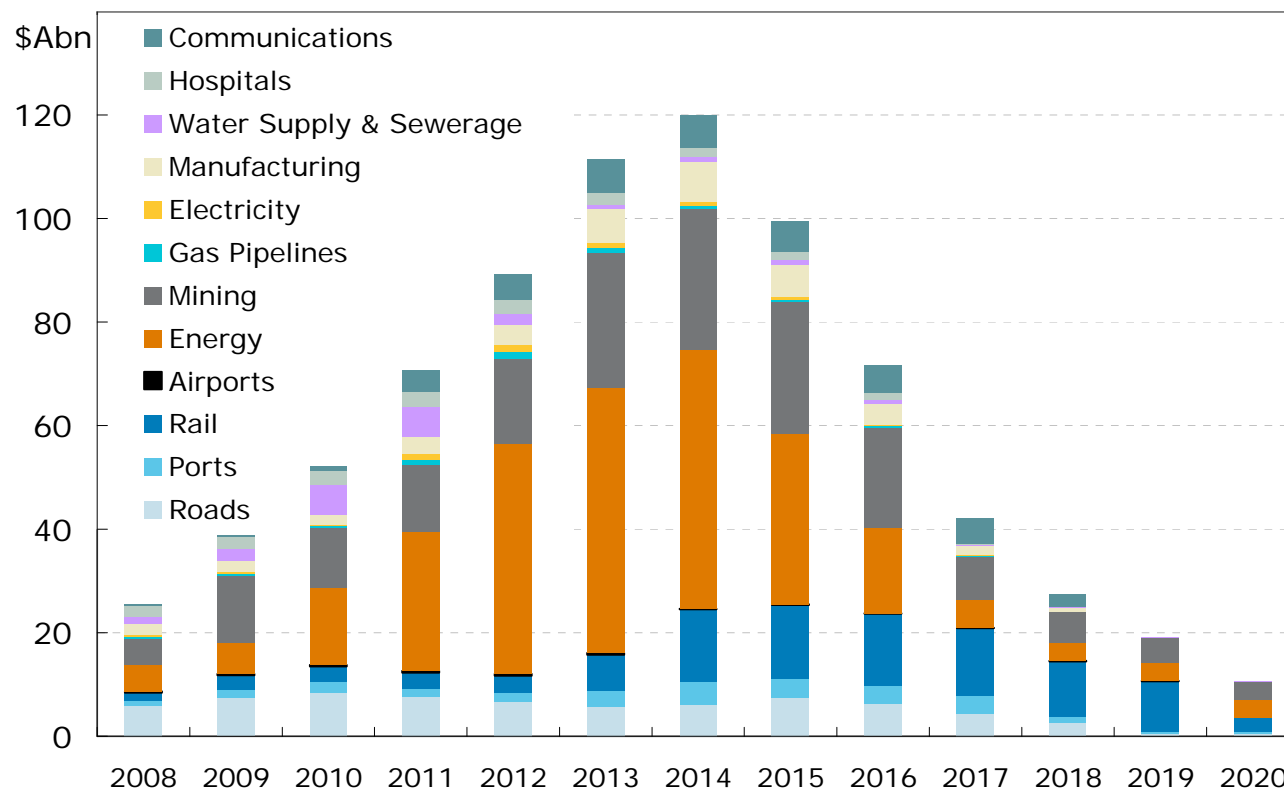
Australian growth is set to accelerate



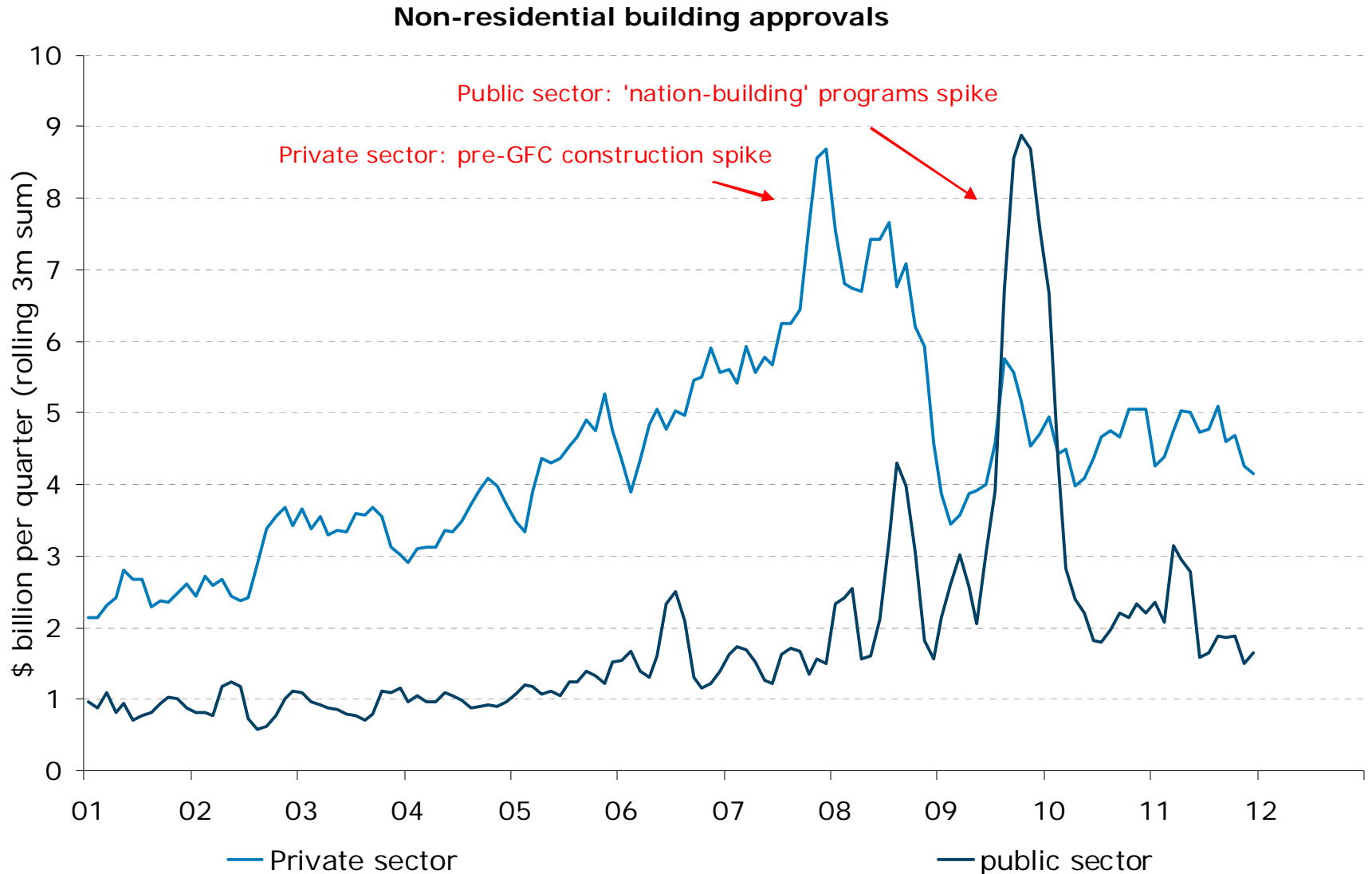
A solid lift in mining, energy and infrastructure investment has commenced

Forecast Major Project Investment (\$Abn)

	2011	2012	2013	2014	2015	Total
Mining	13.0	16.5	26.0	27.2	25.6	108.3
Energy	26.8	44.4	51.2	50.1	32.8	205.3
Total	39.8	60.9	77.2	77.3	58.4	313.6

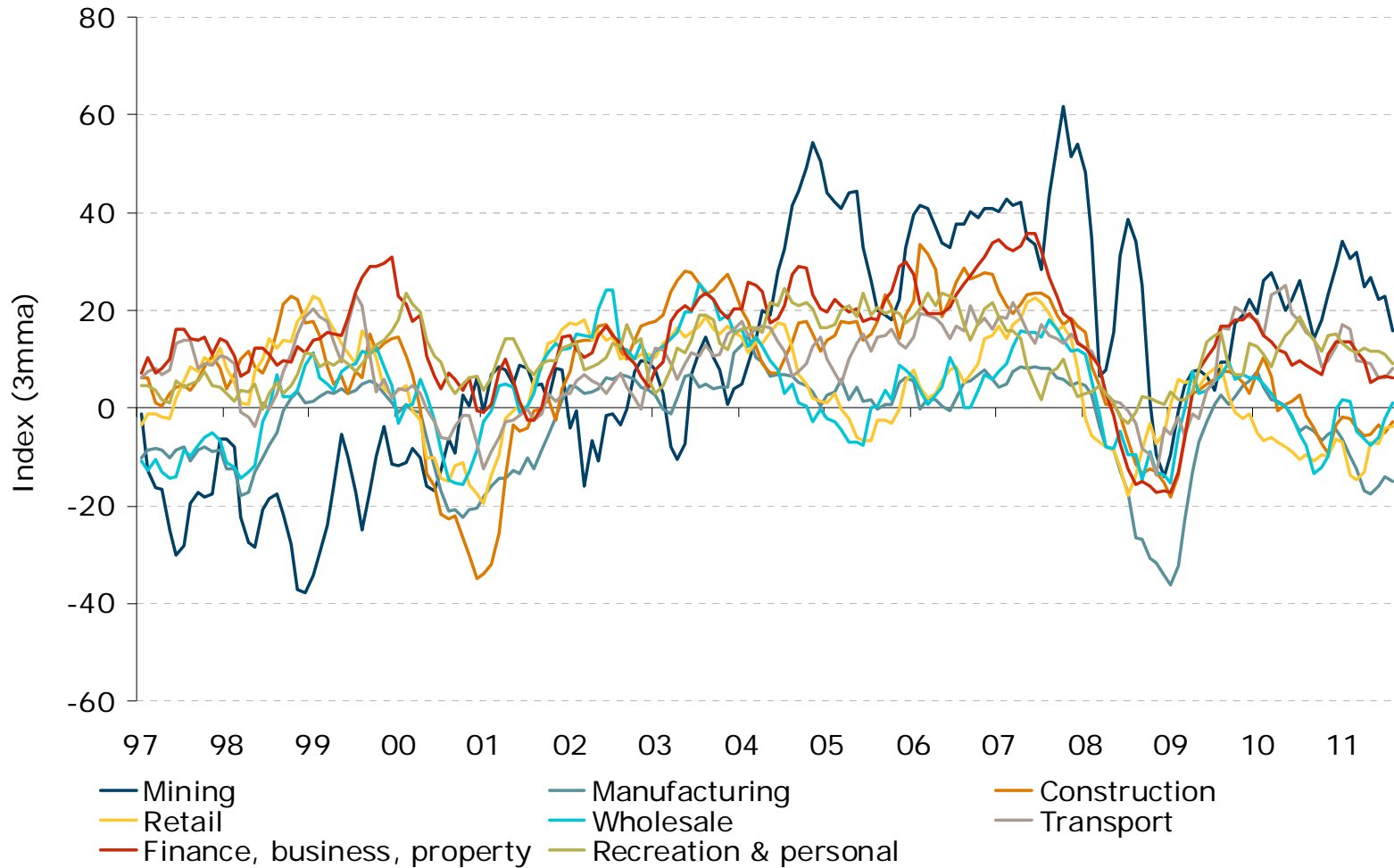


The bad news – outside of mining and related industries, the outlook has worsened



Reflecting the increasingly 'patchwork' economy

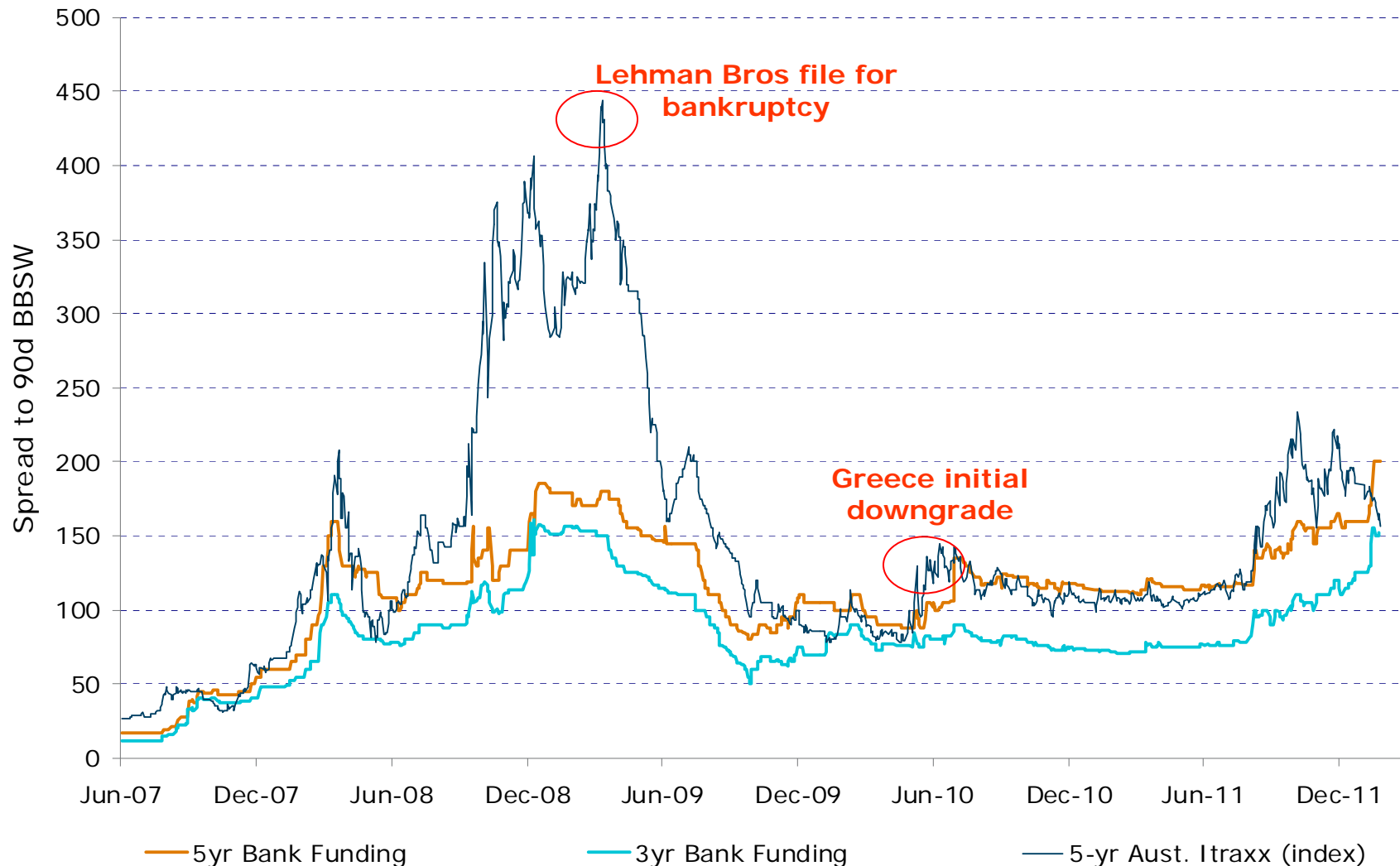
NAB business conditions



Key risk: The cost and supply of credit

Risk not as heightened as 2008, but could still get very worse very quickly (leaving a current account deficit country like Australia exposed)

Australian bank funding costs

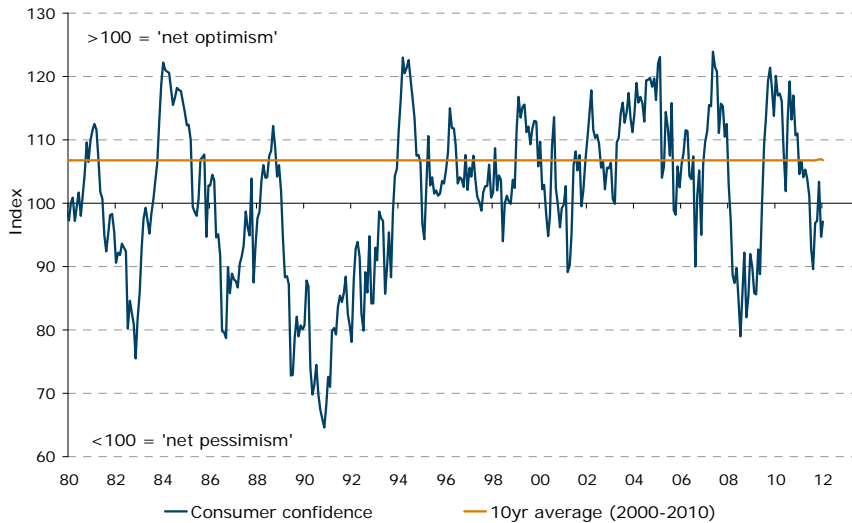


Source: ANZ and Bloomberg

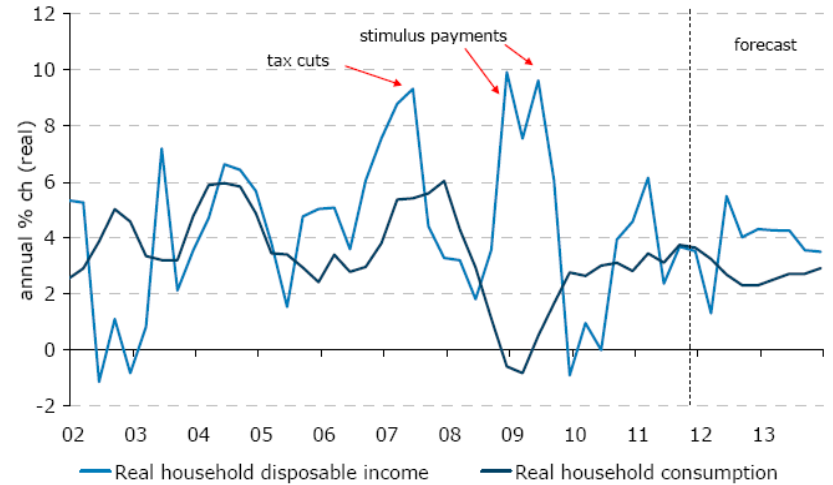


Household spending – unusual trends and conflicting drivers

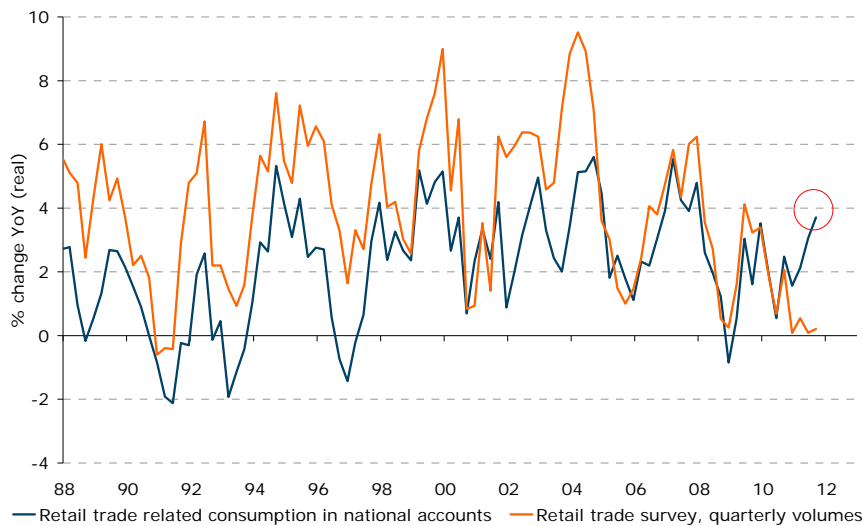
Consumer Confidence



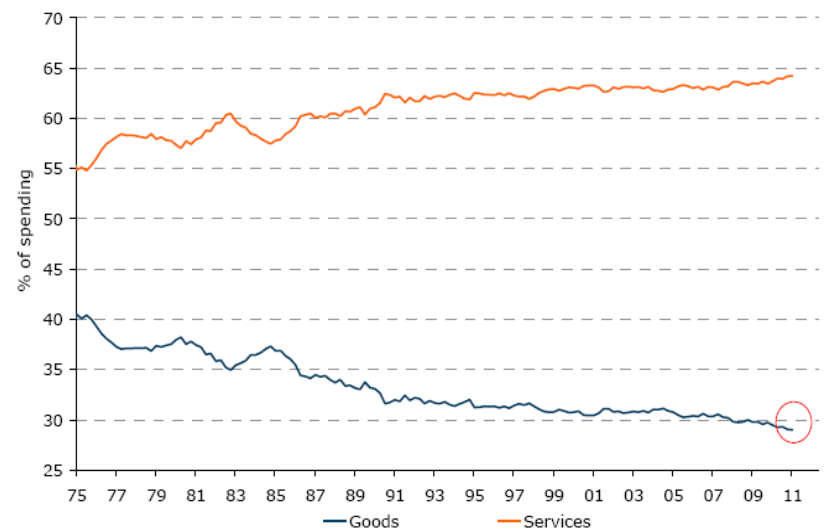
Disposable income and household consumption



Retail sales survey vs total retail spending

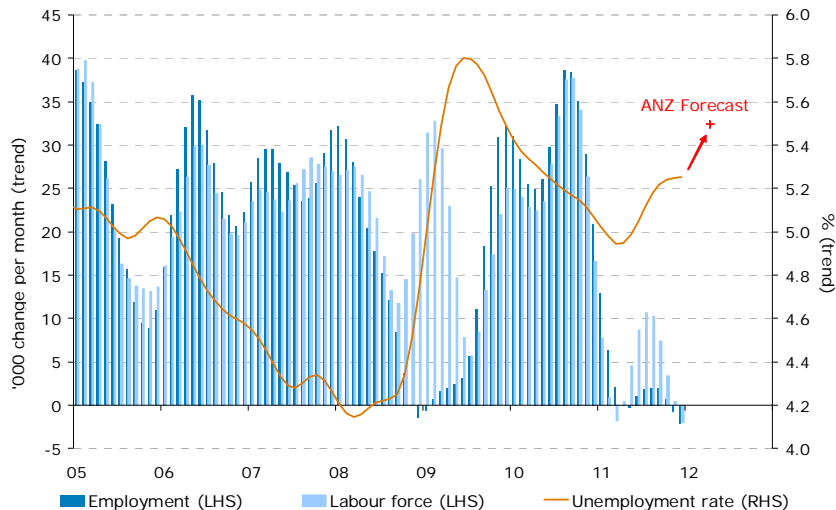


Spending on goods vs services

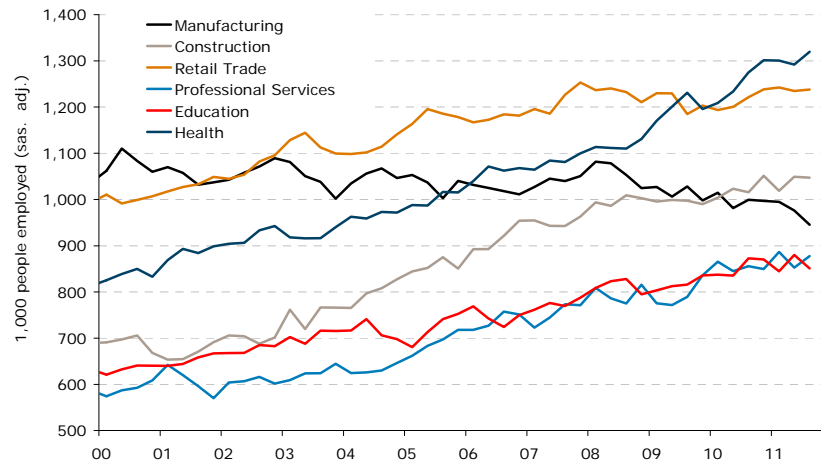


The unemployment rate forecast to head above 5½%.

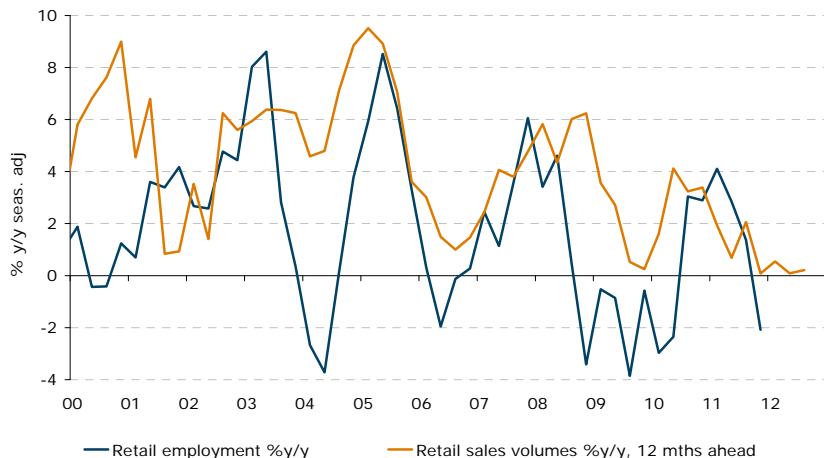
Labour market, monthly trend growth



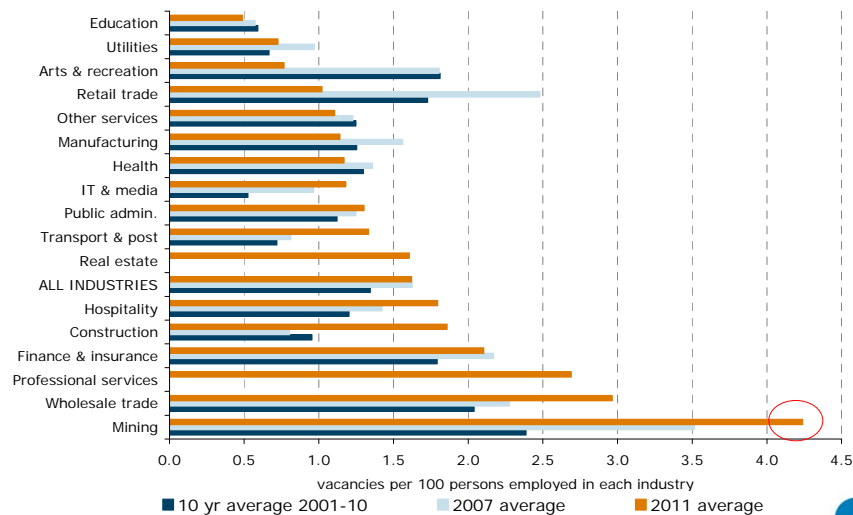
Employment by industry, largest six sectors



Retail sales volumes and retail employment

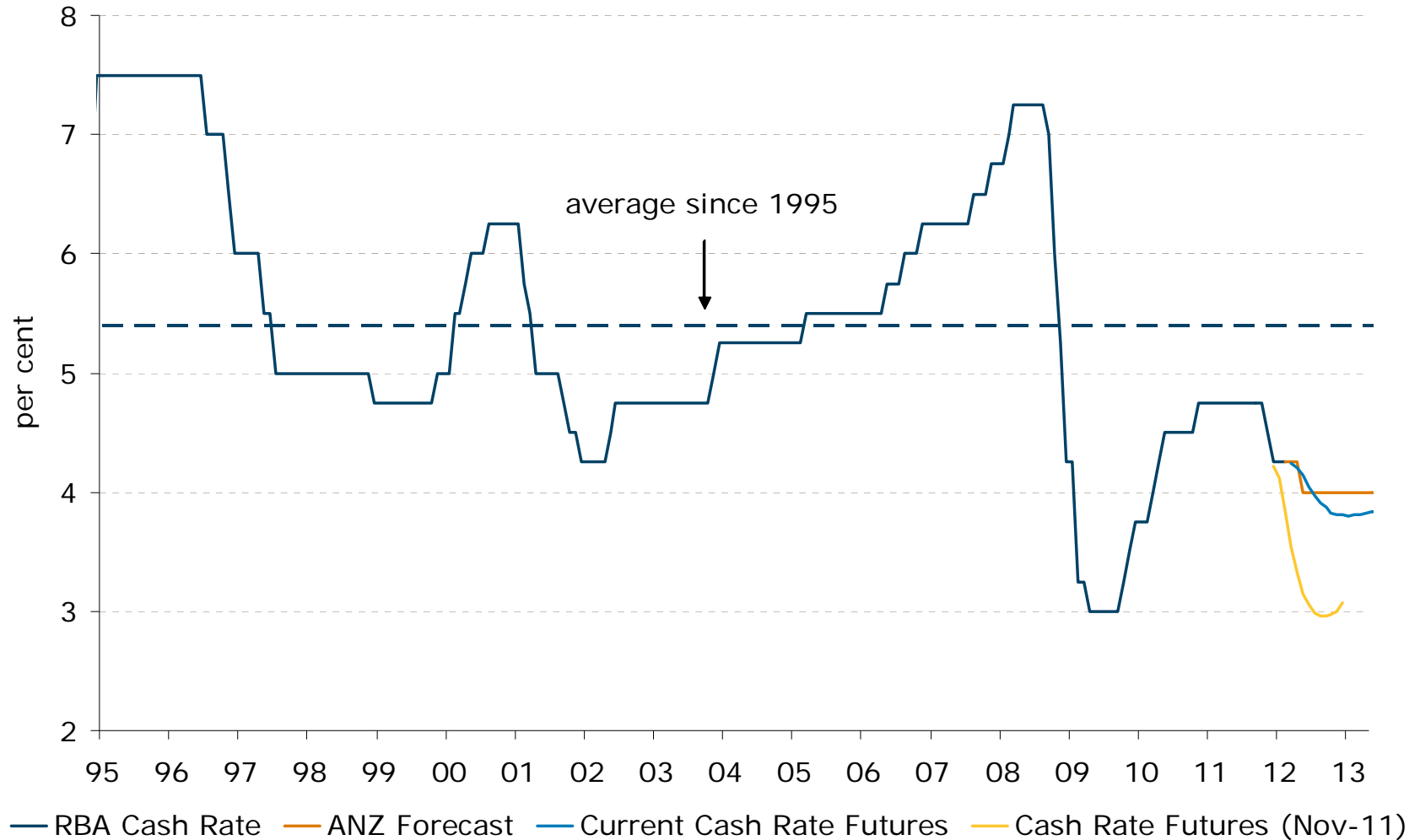


Vacancy rates by industry



Australian rates markets: Still pricing for many of the global risks to unfold

RBA cash rate: ANZ forecasts vs. market pricing

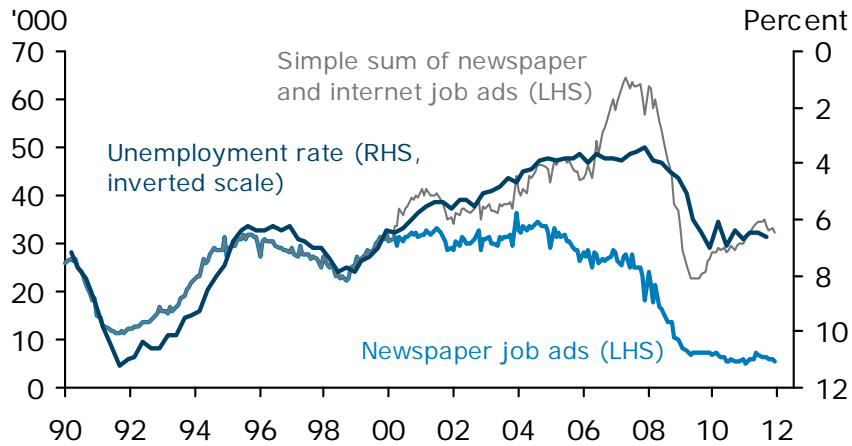


NZ economic update

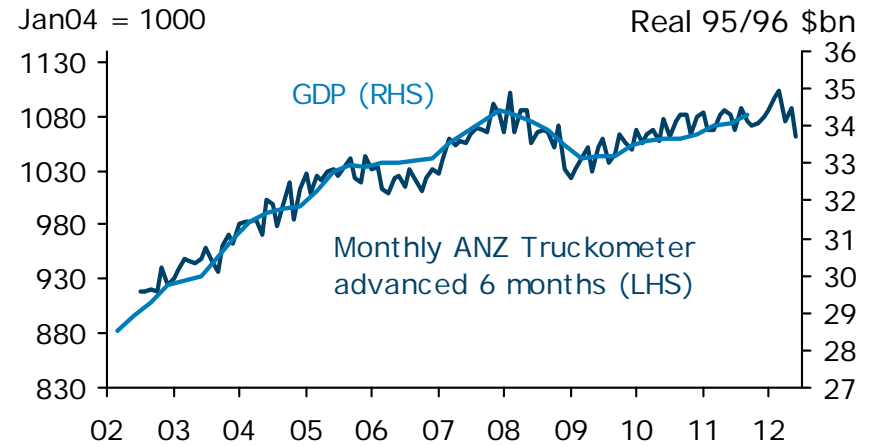
- **The impact of a weak and uncertain global scene on the NZ economy remains modest. We continue to assess 6 channels.**
 - Credibility. It is essential the Government sticks to its fiscal austerity script. This is occurring.
 - Confidence. Down but respectable and now stable from month to month as opposed to easing.
 - Commodity prices. Down 8% from their peak, but recent lifts in dairy prices suggest an encouraging floor. Good volumes providing an offset to weaker prices. NZD prices still very elevated.
 - China. Slowing such that policymakers are now re-engaging in support by lowering the RRR.
 - Cost of funds. Elevated. Unlikely to change. Lower wholesale rates providing an offset. Deposit rates are key to watch.
 - The currency. Flip-flopping but acting as a shock absorber to global events.
- **Relative to global peers New Zealand continues to show a degree of resilience. However, indicators are becoming increasingly polarised.**
- **We have pencilled in 2.5% growth in calendar 2012 and the unemployment rate to drift gradually lower. However, a soft patch in early 2012 beckons and the risk profile is skewed downward. Core pillars of our economic assessment, namely a sluggish trend growth rate and heightened period of uncertainty and volatility, remain.**
- **The OCR will not be moving up until the global scene stabilises. This looks a way off. Technically we are calling a higher OCR from December 2012 but the spirit of the view is rates will not be moving up for a considerable period. The hurdle to a rate cut looks high.**
- **The election has been and gone with few surprises. We expect the pace of structural reform to accelerate in H1 2012. Areas such as education are likely to be focal points.**

Mixed signals continue to permeate on how the NZ economy is performing. Growth is modest, but increasingly scratchy

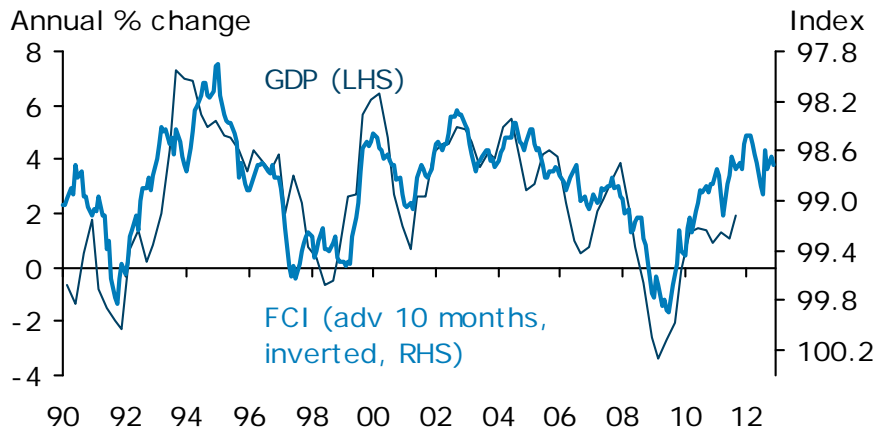
Total job ads and unemployment rate



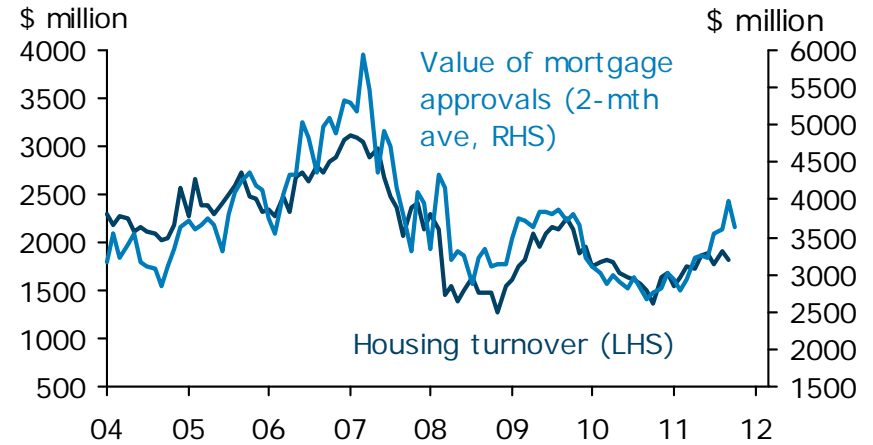
Monthly ANZ Truckometer and GDP levels



Financial conditions remain supportive



Mortgage approvals and housing turnover



Sources: ANZ, National Bank, Statistics NZ, RBNZ, Seek, Trade Me, NZ Herald, The Press, Dominion Post, Manawatu Standard, ODT, Waikato Times, Hawkes Bay Today, Bloomberg



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