

Actuaries Institute Financial Services Forum

Westpac Institutional Bank
Presented by Bill Evans
May 2018

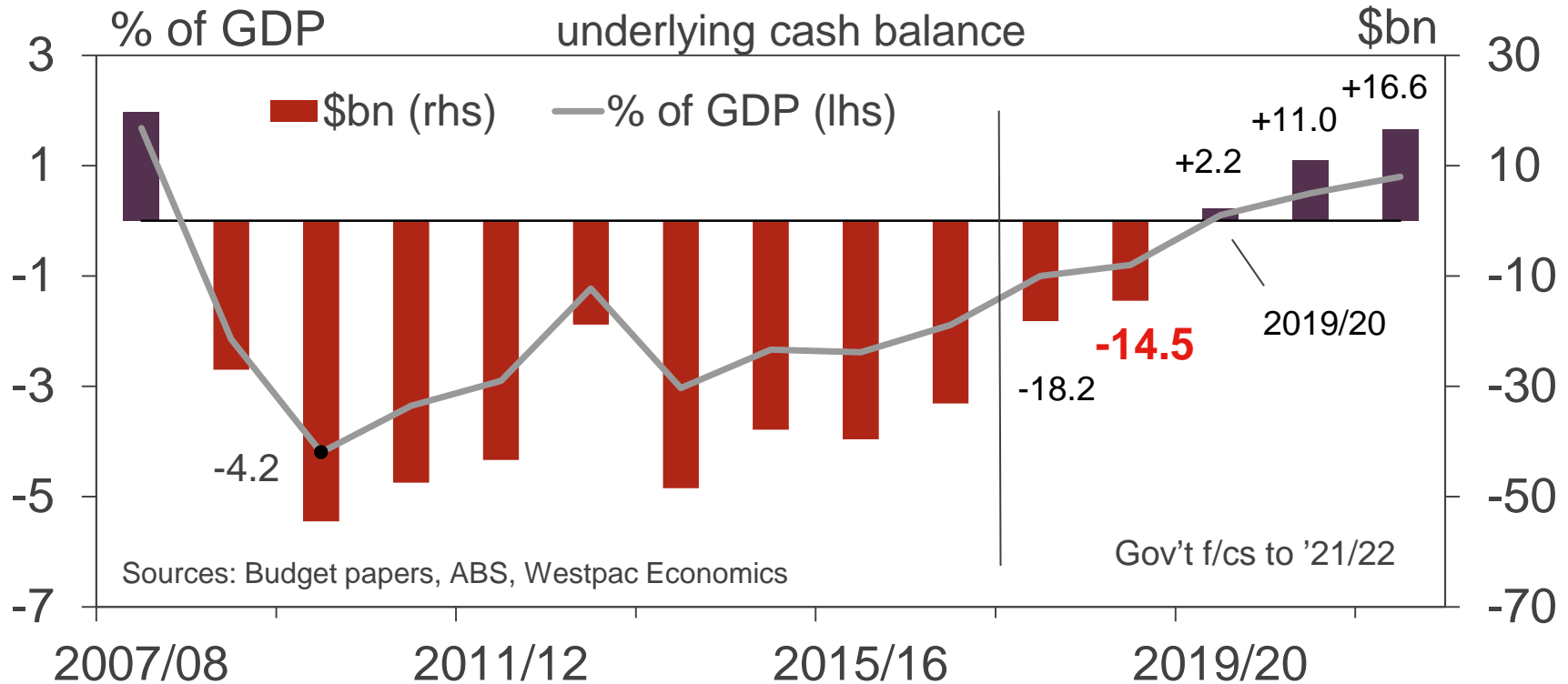
The Budget

Housing

The Economy

The Markets

Federal Budget: \$14.5bn deficit in 2018/19



Sources: Budget papers, ABS, Westpac Economics

Gov't f/cs to '21/22

Key forecasts

		Budget	Westpac
Iron ore price Dec '18		\$55 fob vs	\$55 fob
Real GDP	2017/18	2.75%	2.7%
	2018/19	3.00%	2.5%
	2019/20	3.00%	2.6%
Nominal GDP	2017/18	4.25%	4.0%
	2018/19	3.75%	3.7%
	2019/20	4.75%	3.2%

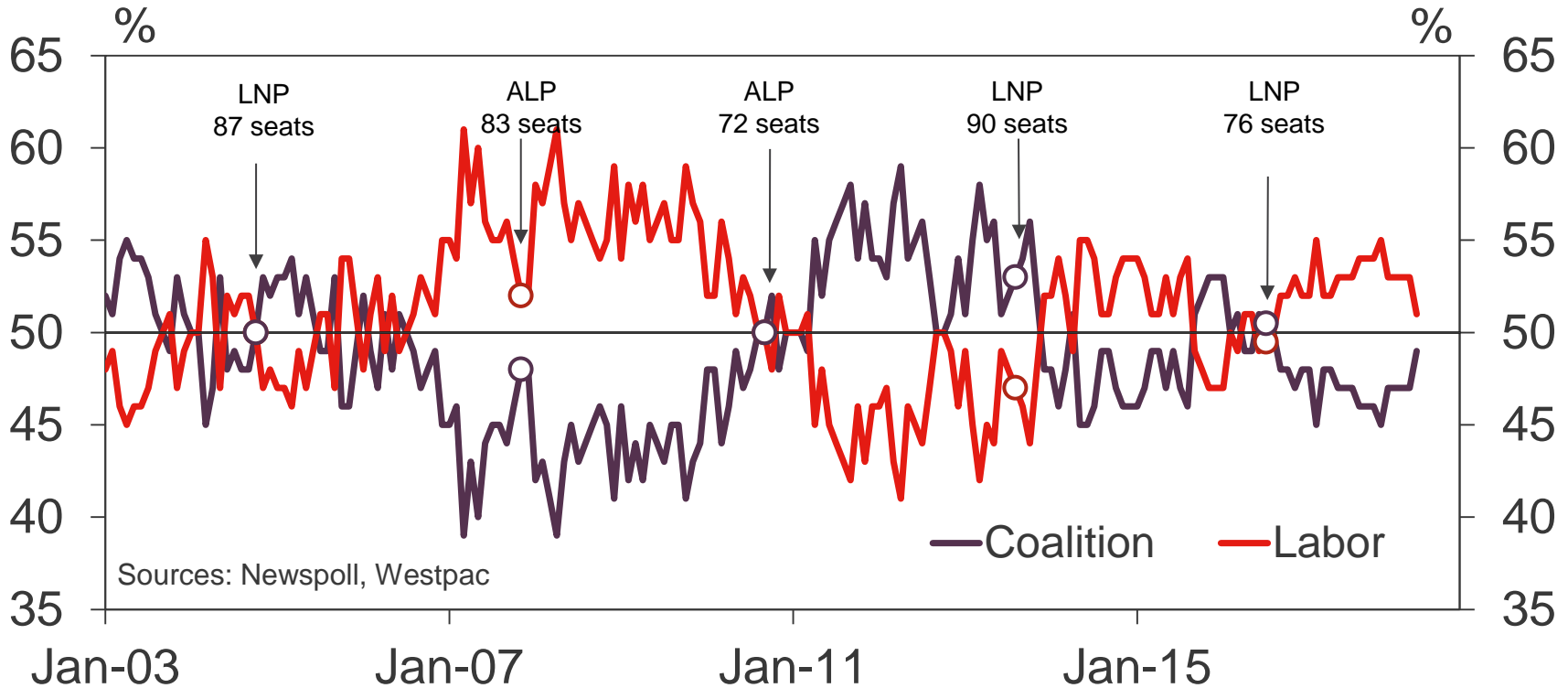
Source: Budget papers, Westpac Economics

ALP Policy Shifts (savings over 10 years)

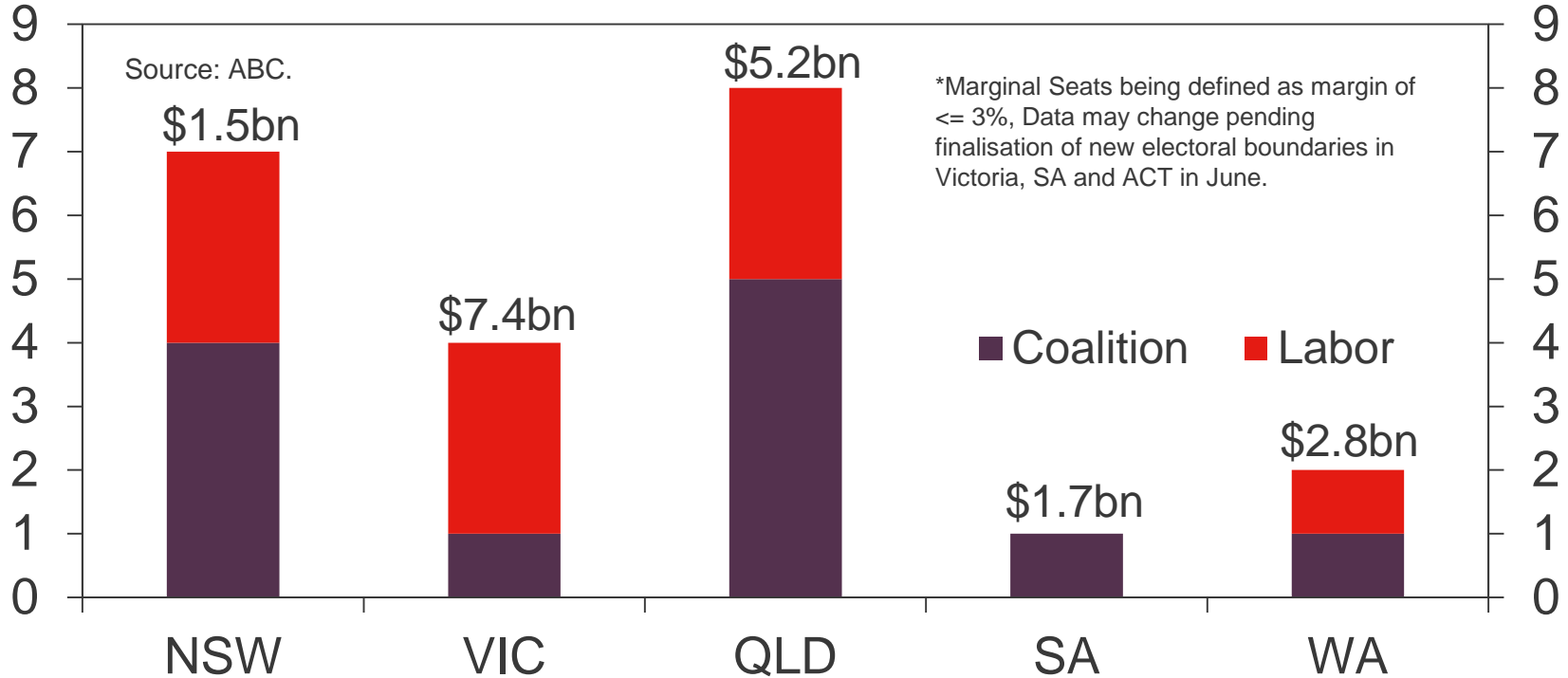
Company Tax:	\$35 billion
Franking Credits:	\$56 billion
Negative Gearing/Capital gains:	\$49 billion
Trusts/Income splitting:	\$17 billion
Budget deficit levy:	\$22 billion
Total	\$180 billion

Source: Westpac Economics

Newspoll: recent leads hold for multiple years

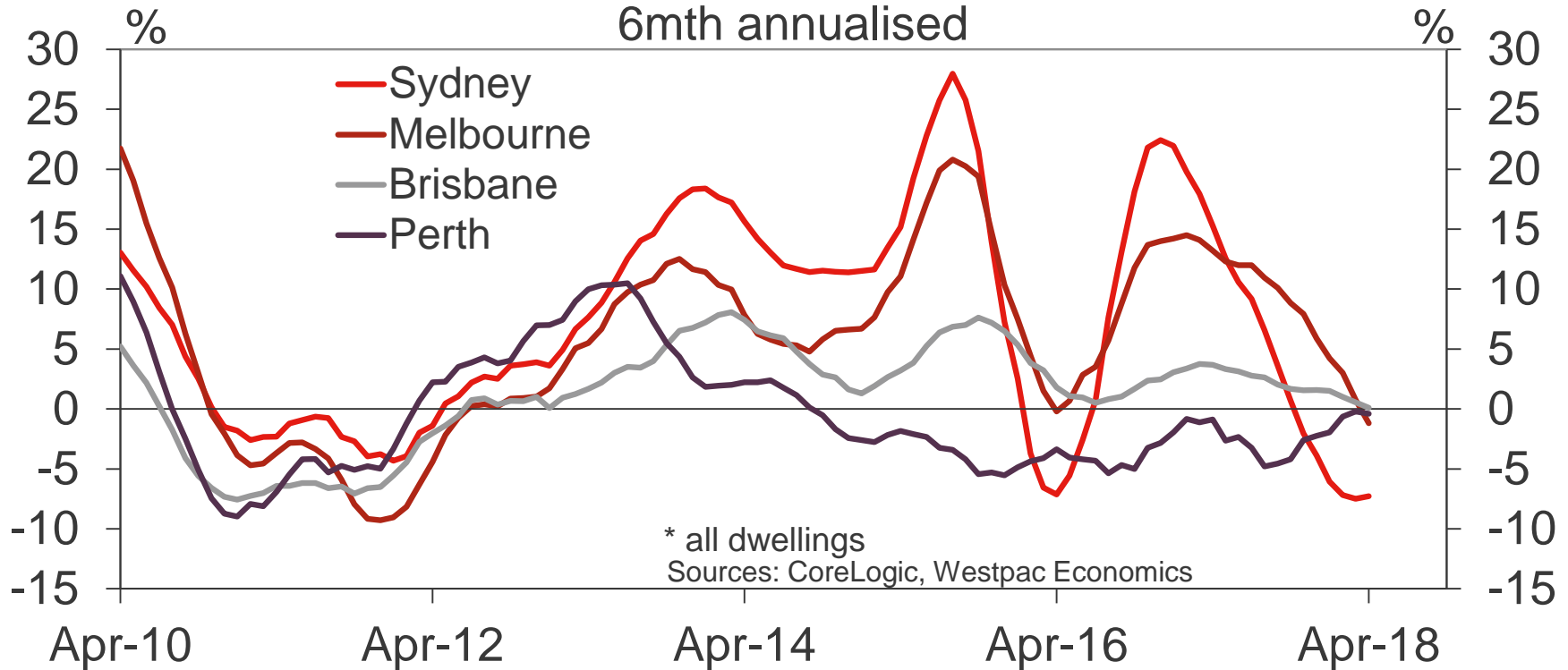


Marginal seats* by state

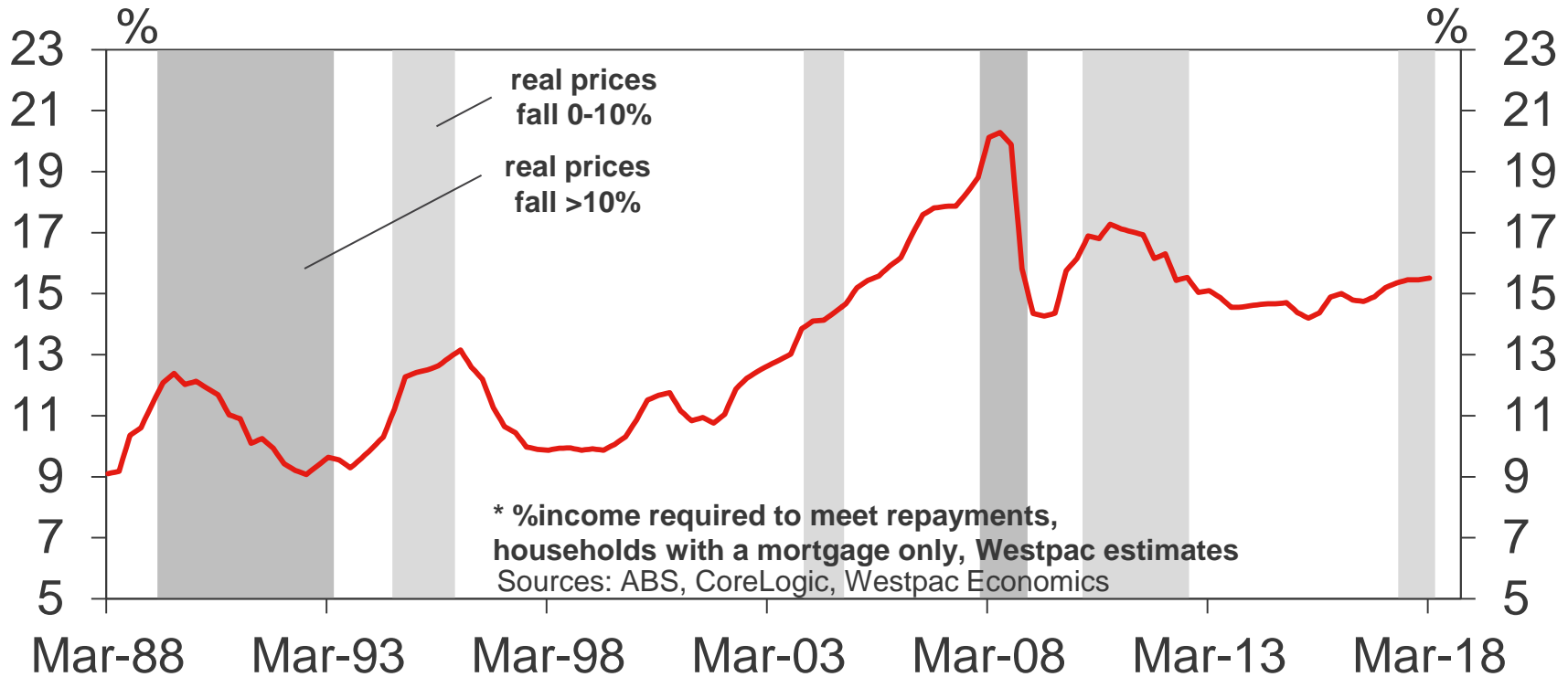


Housing

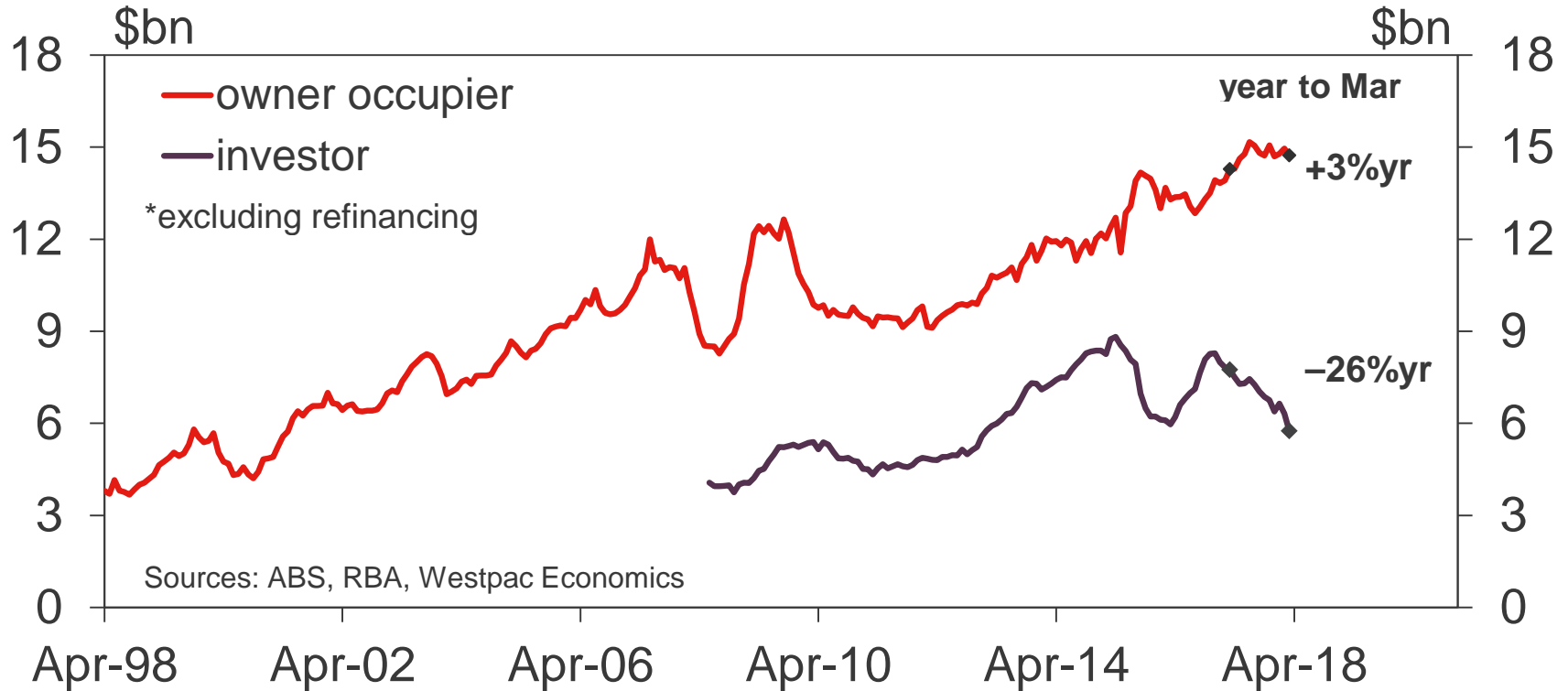
Australian dwelling prices: major capital cities



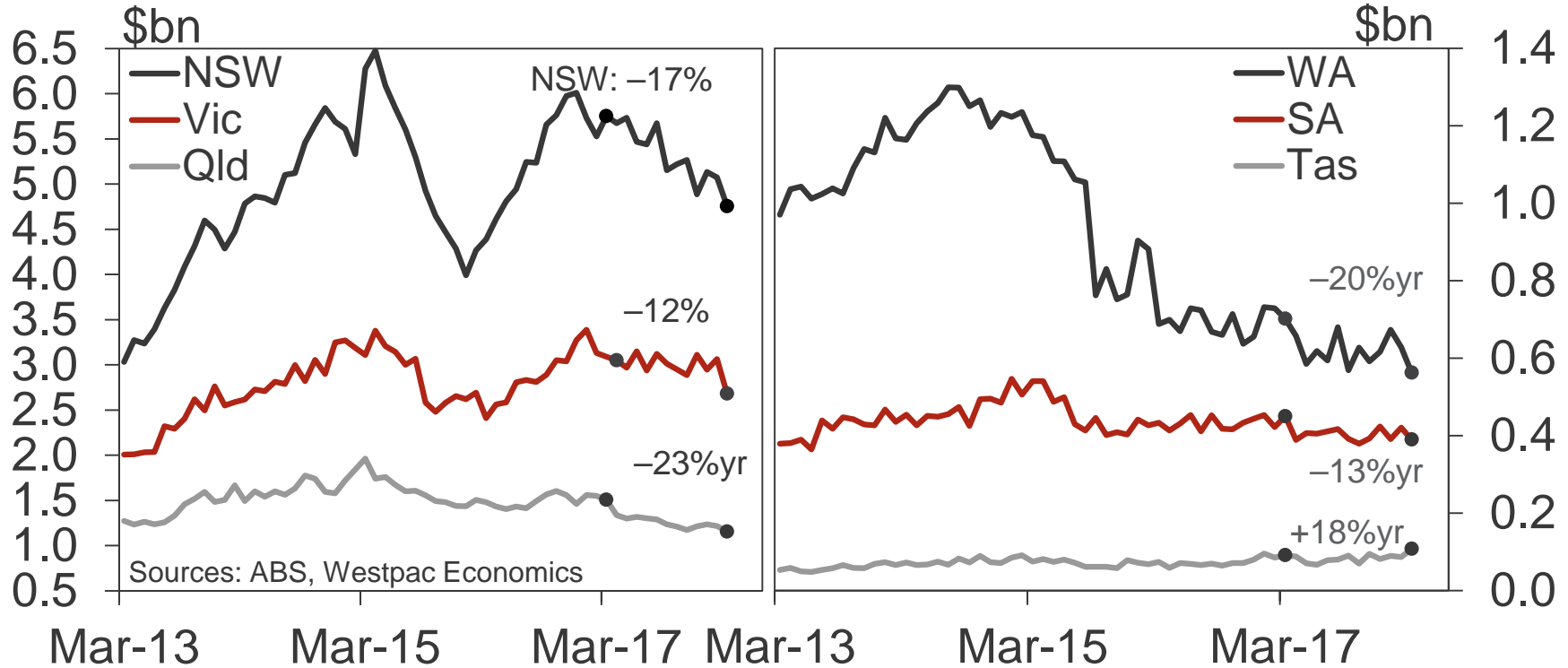
Australia: debt servicing ratio



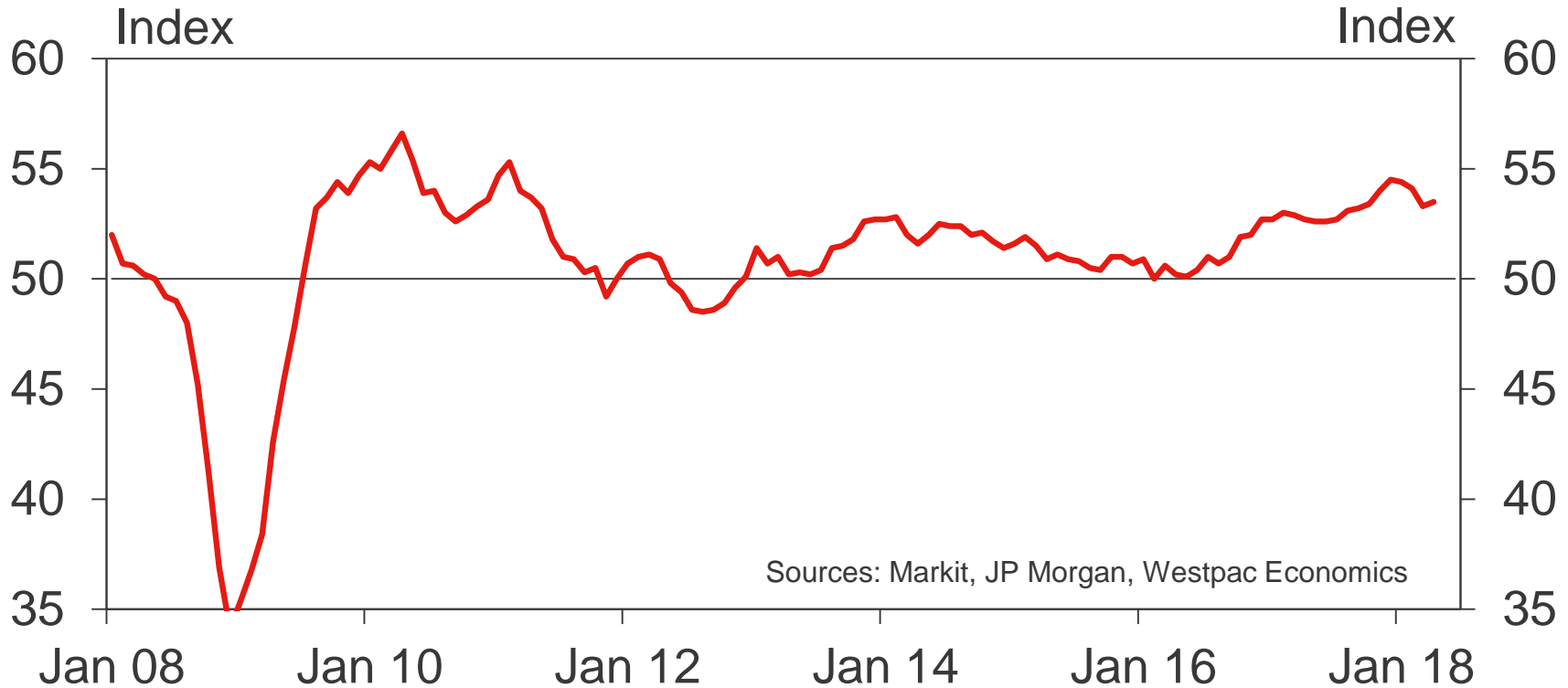
Housing finance approvals



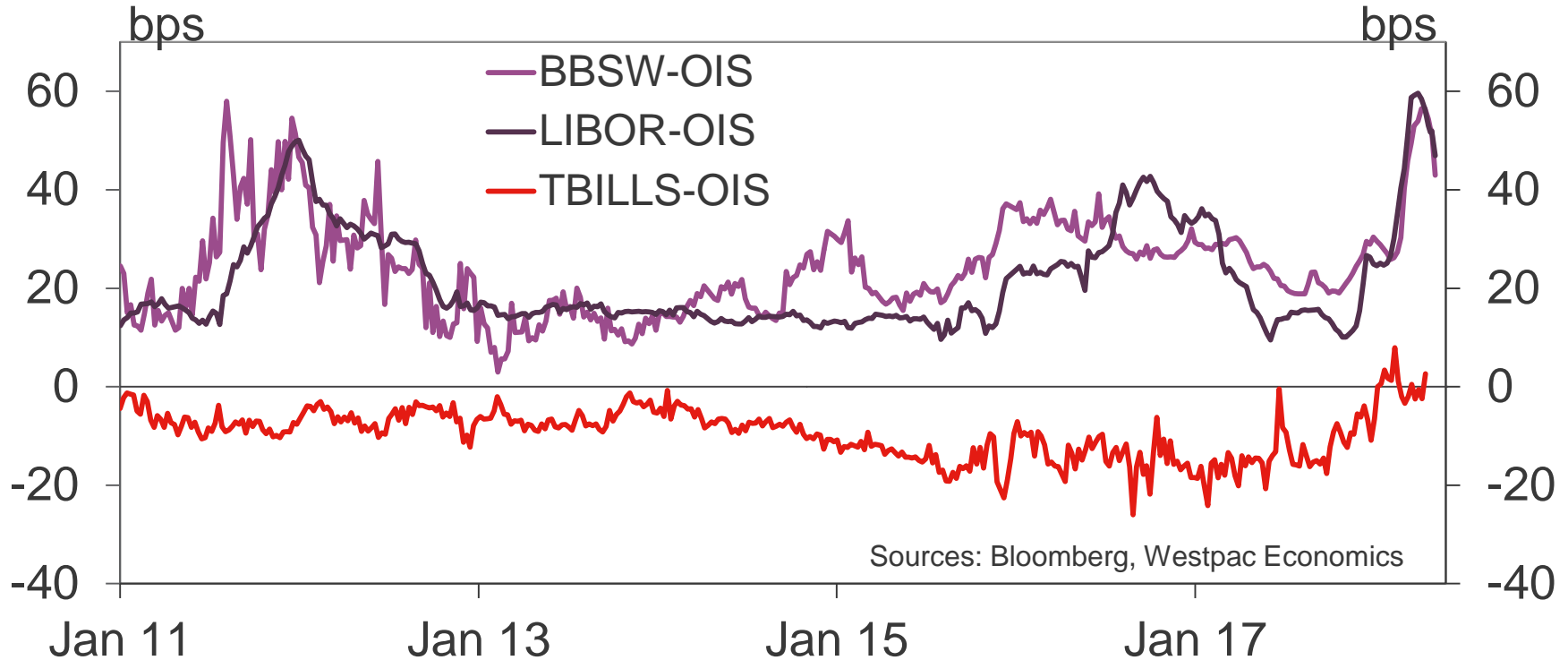
Housing finance by state: investors



Global manufacturing PMI

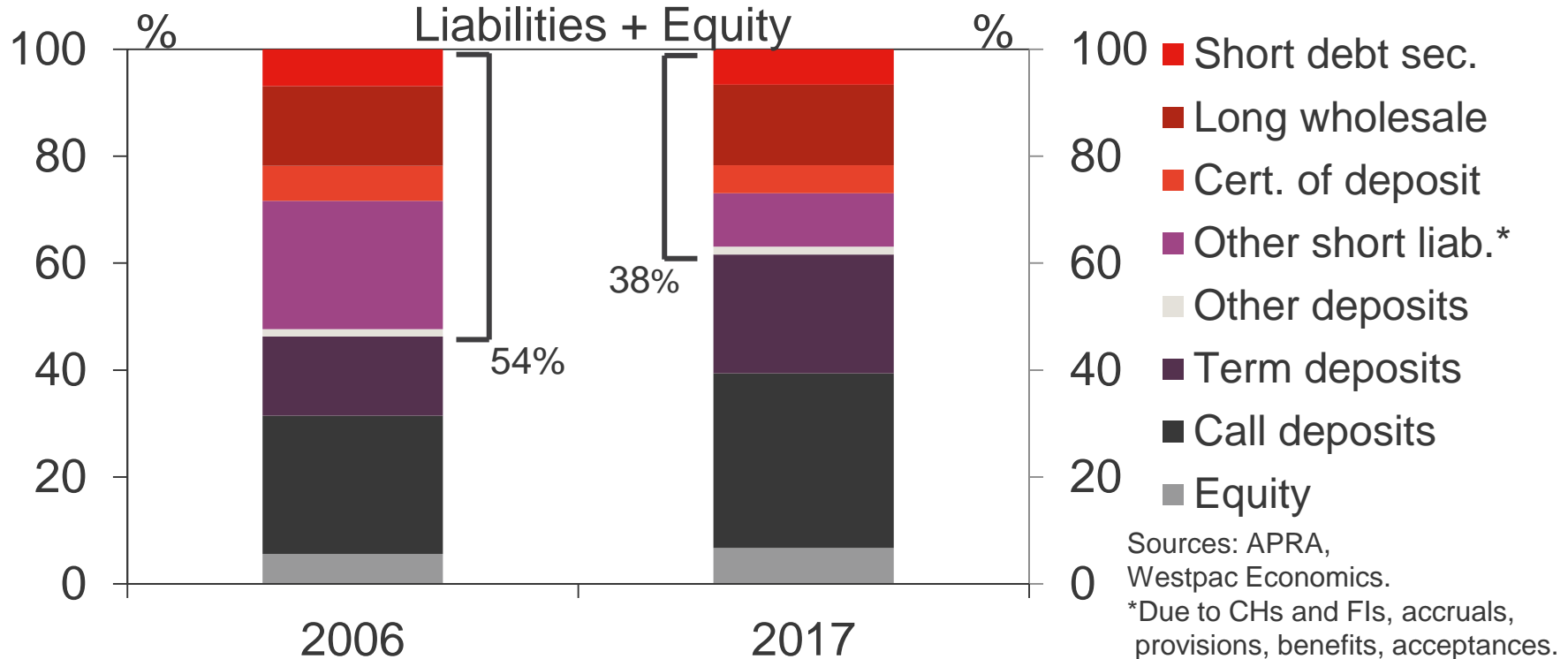


Short term funding spreads (3 month)



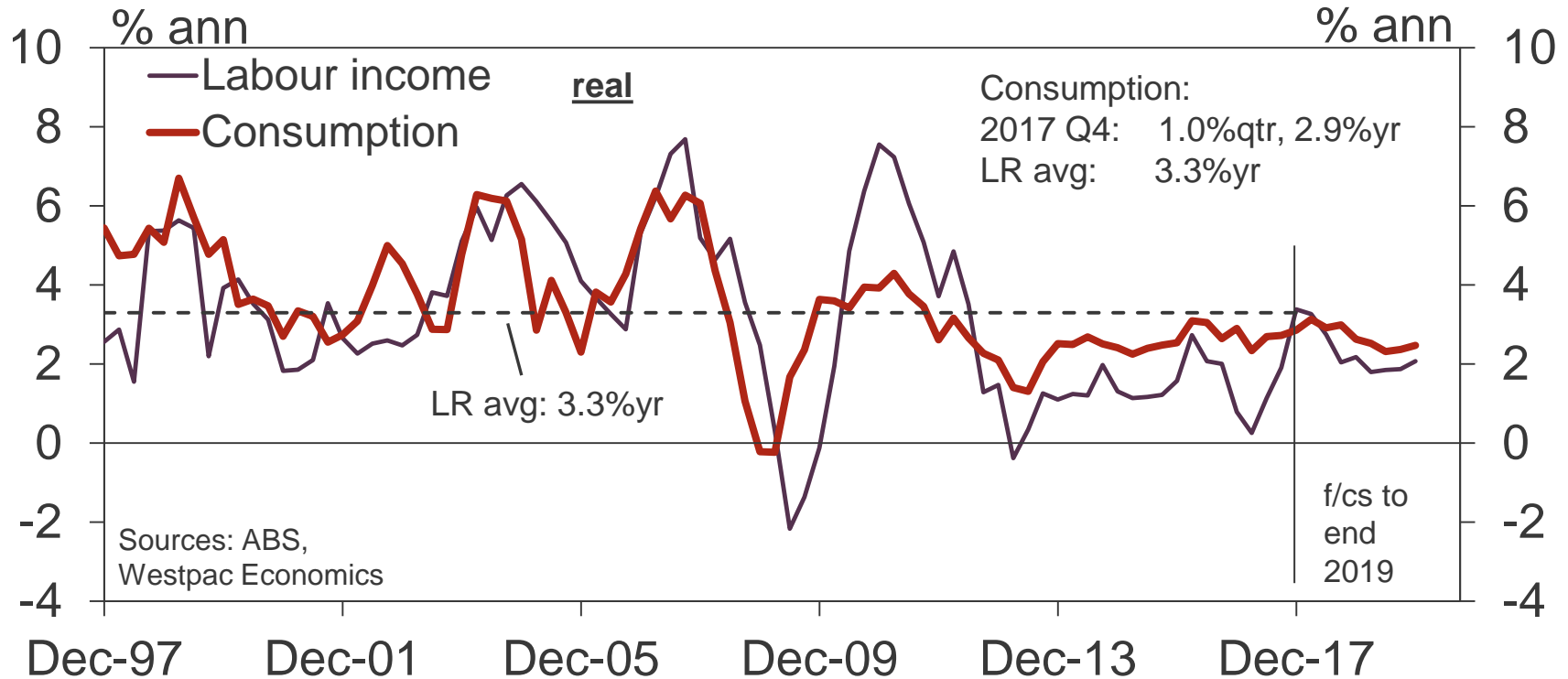
Sources: Bloomberg, Westpac Economics

Big 4 bank funding pre-GFC and now

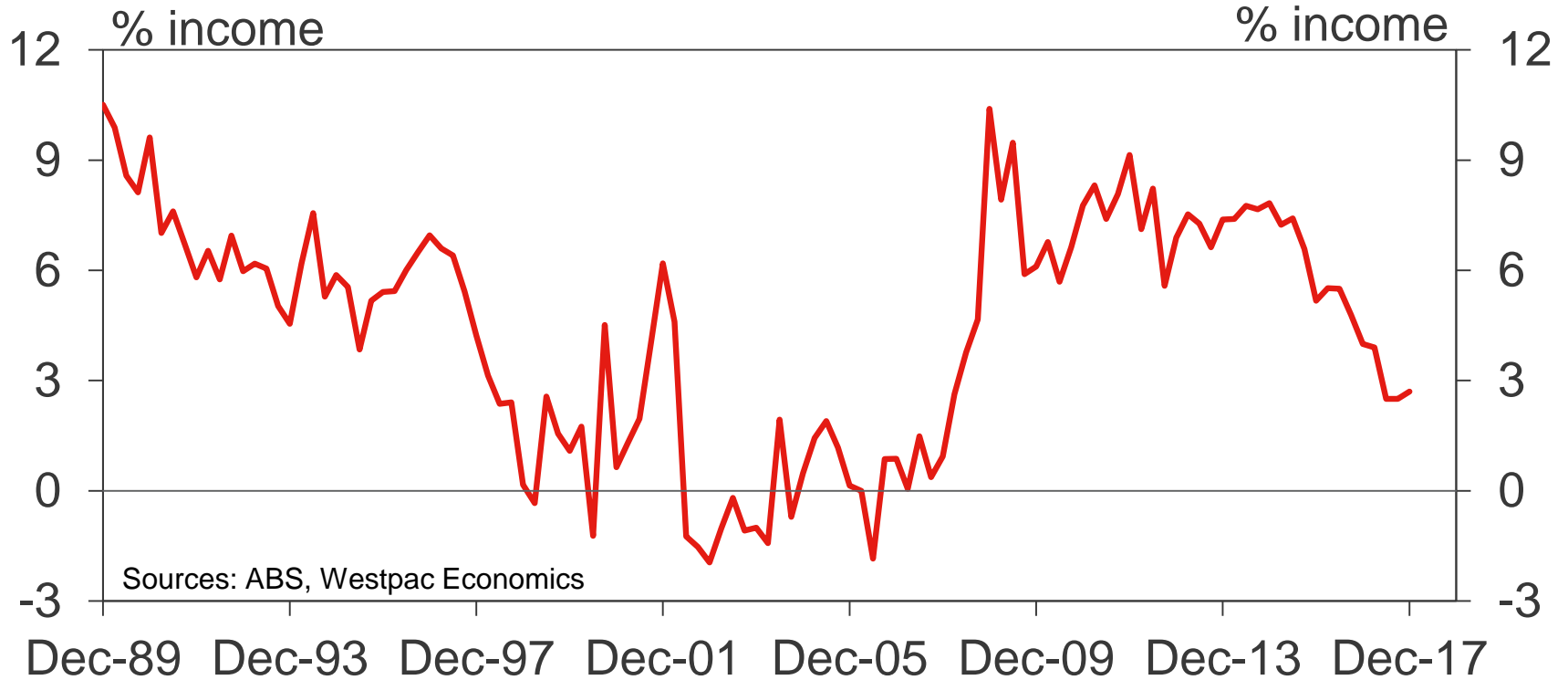


The Economy

Australia: consumer spend vs labour income

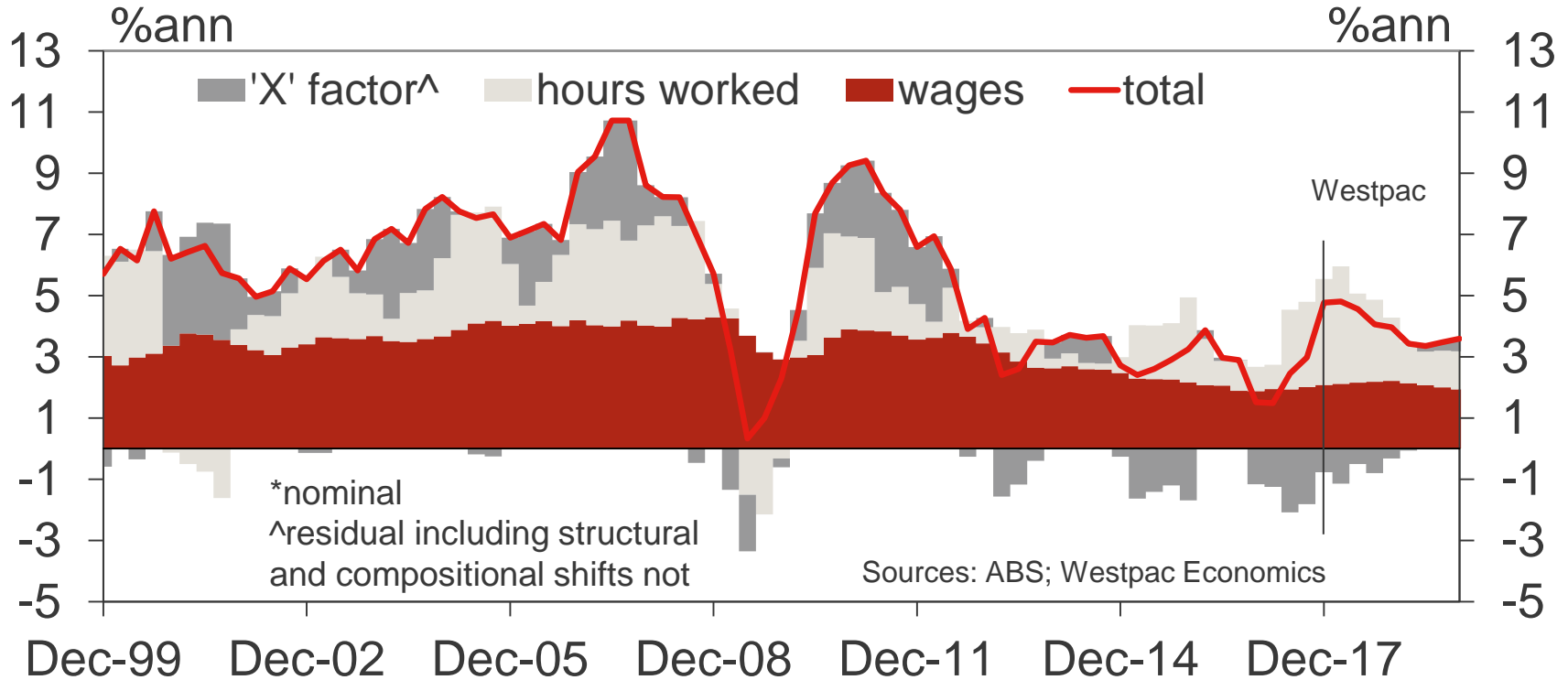


Household savings ratio – rock bottom



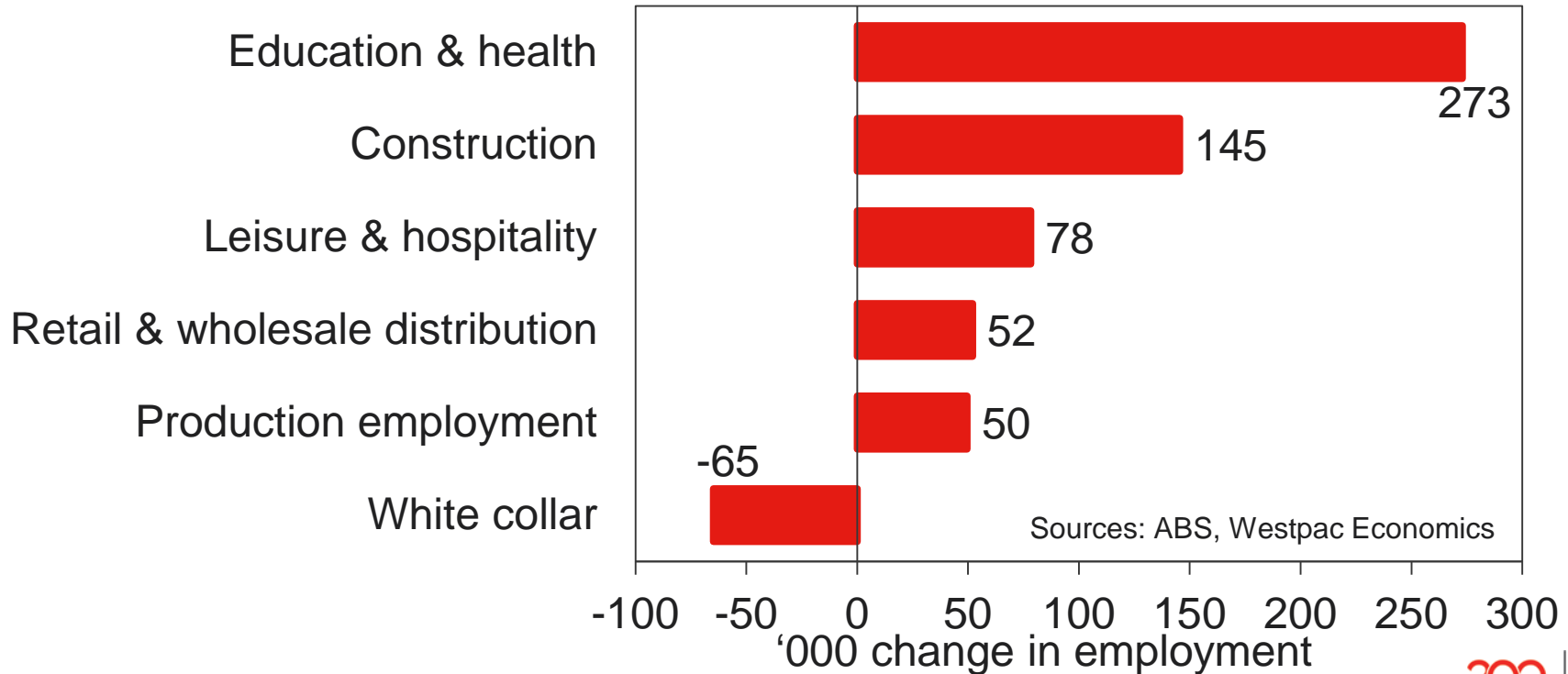
Sources: ABS, Westpac Economics

Household labour income: decomposed

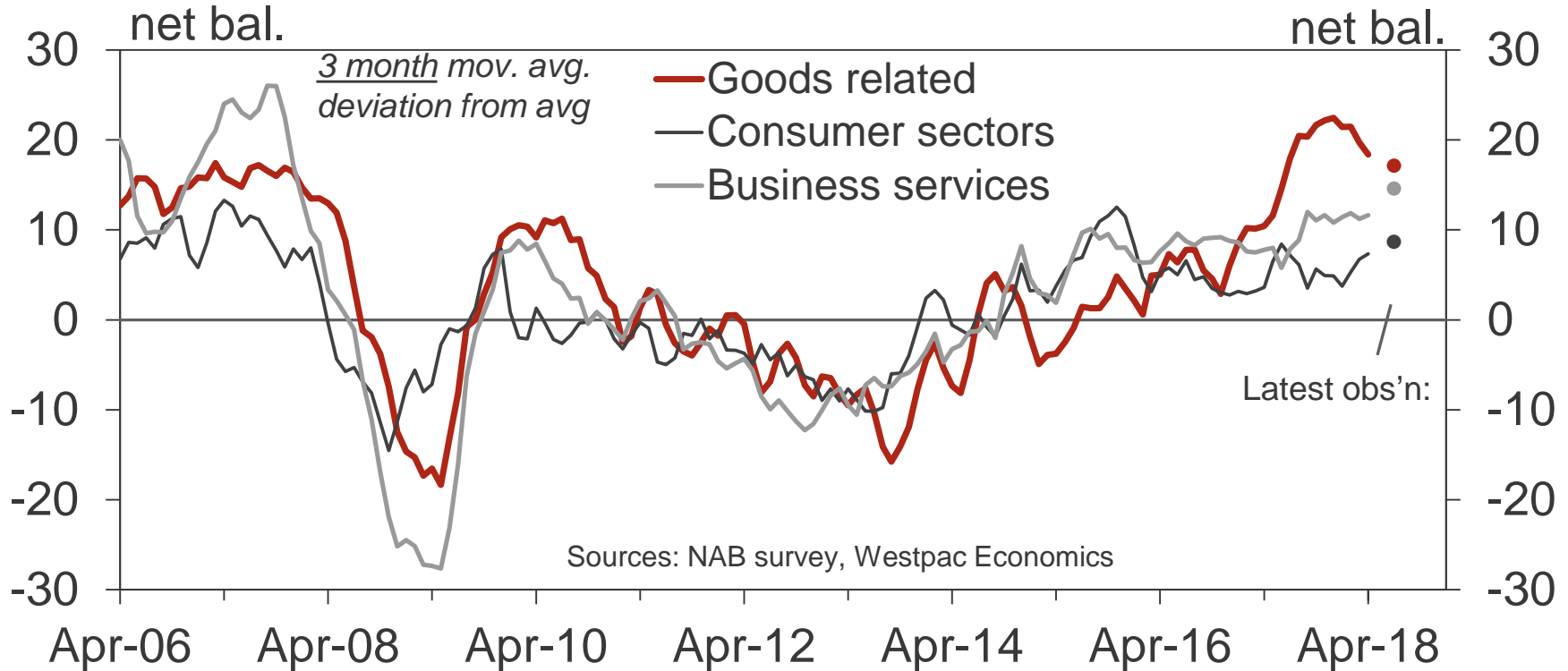


Employment by major sector ('000)

Growth in the 2 years to February 2018

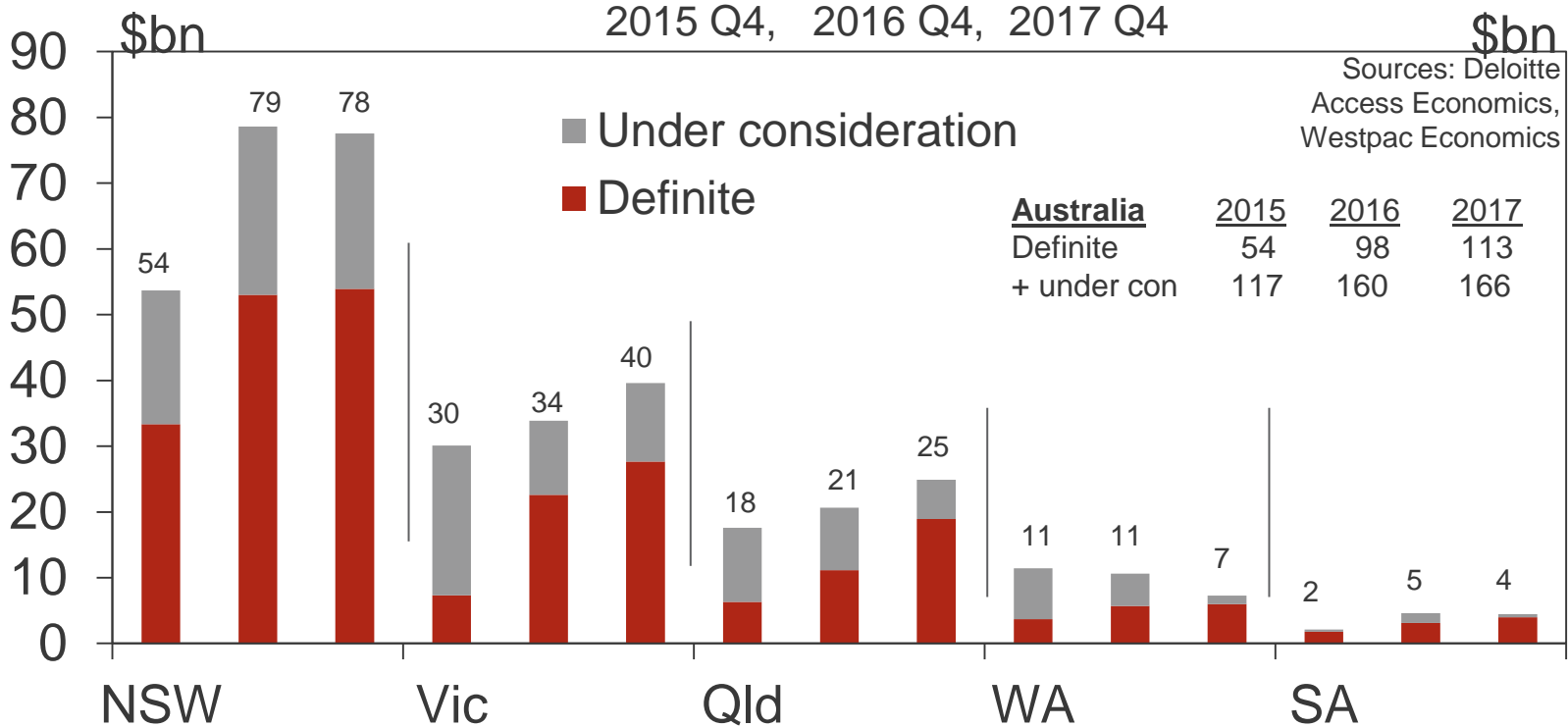


Business conditions: by broad sectors

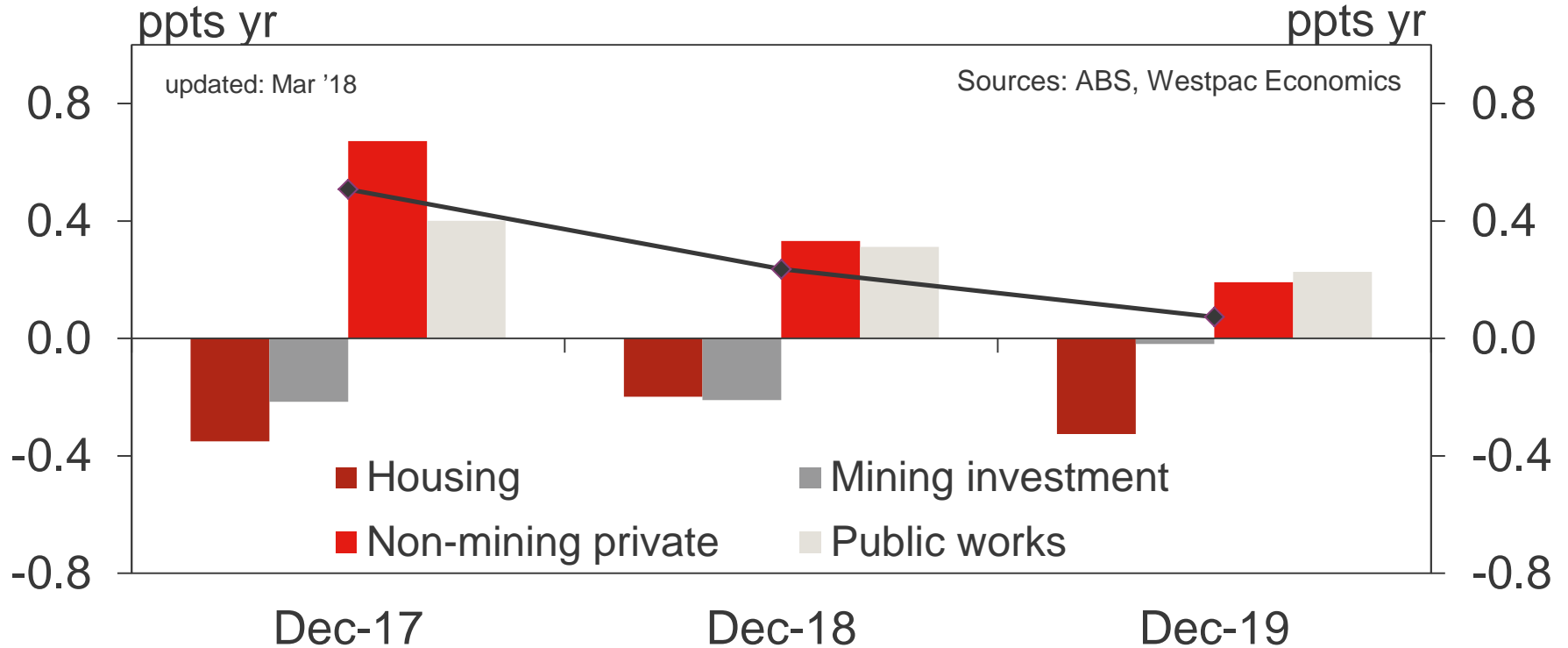


Sources: NAB survey, Westpac Economics

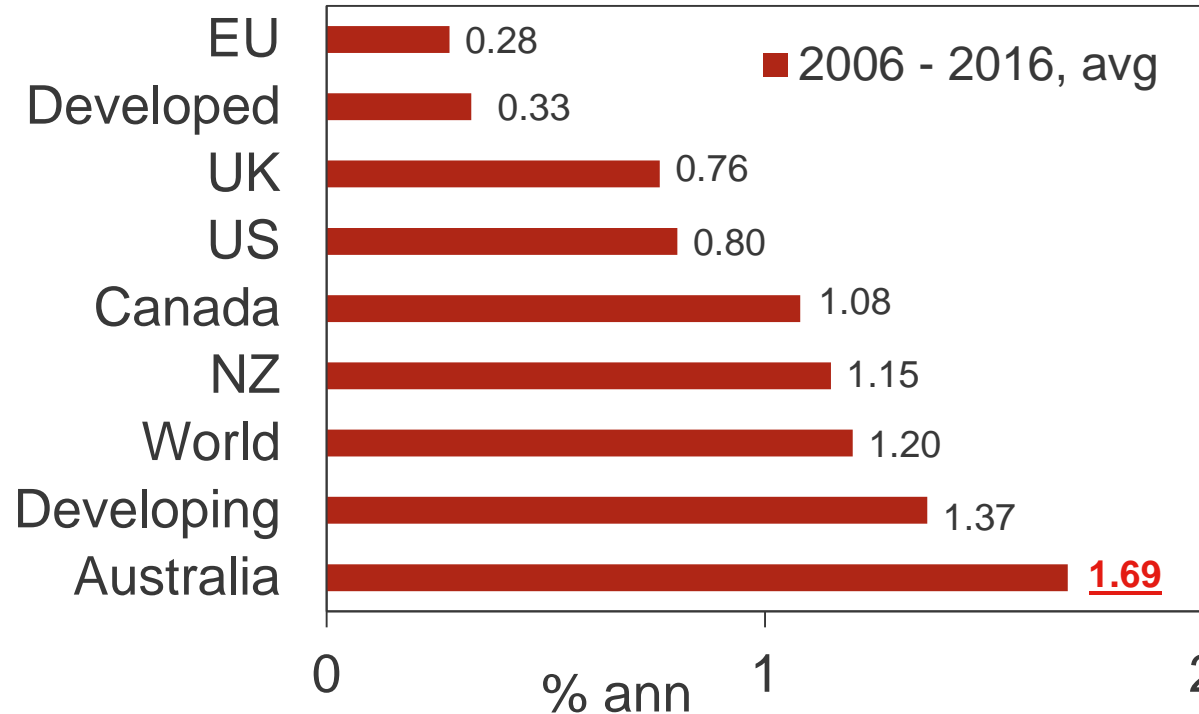
Public transport project pipeline: by state



Australia: construction contribution to GDP

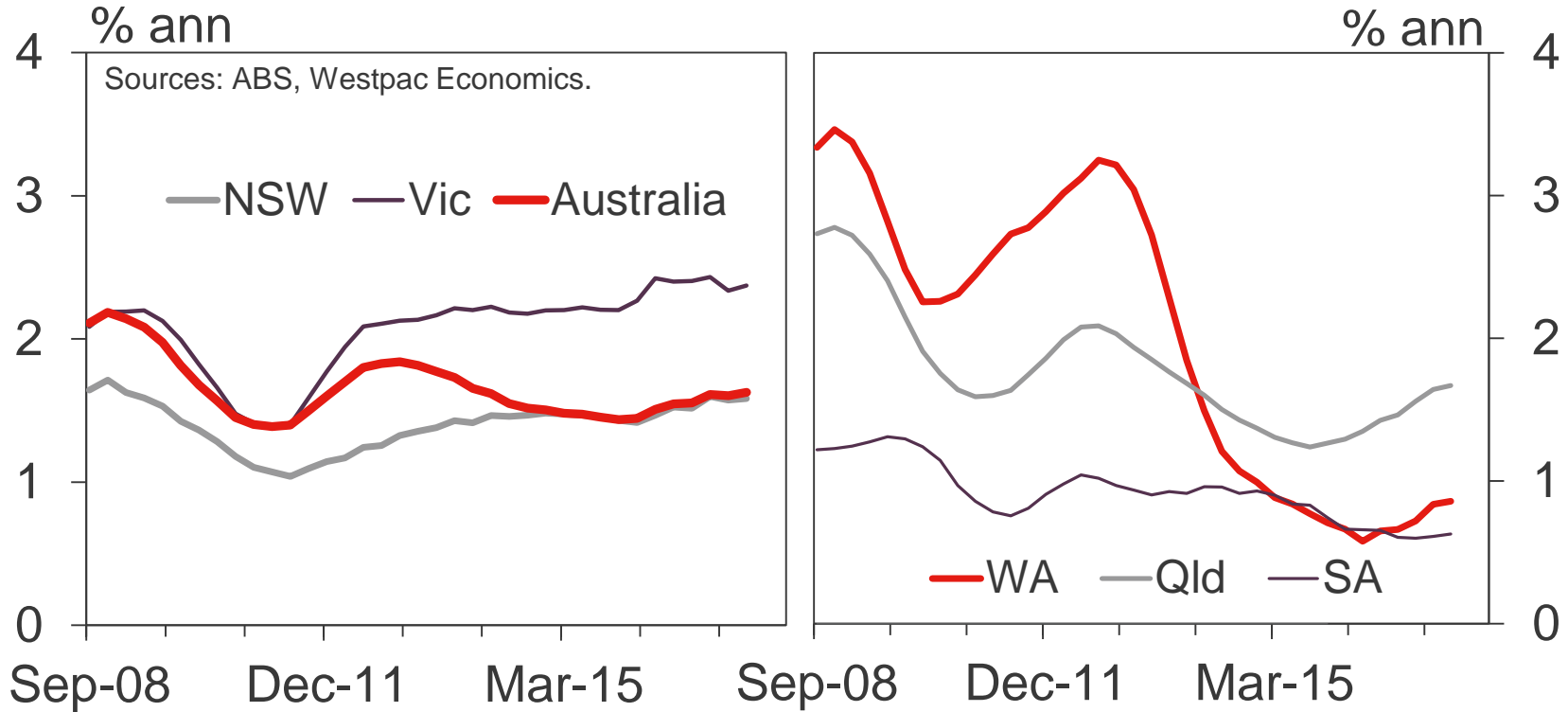


Population growth – international

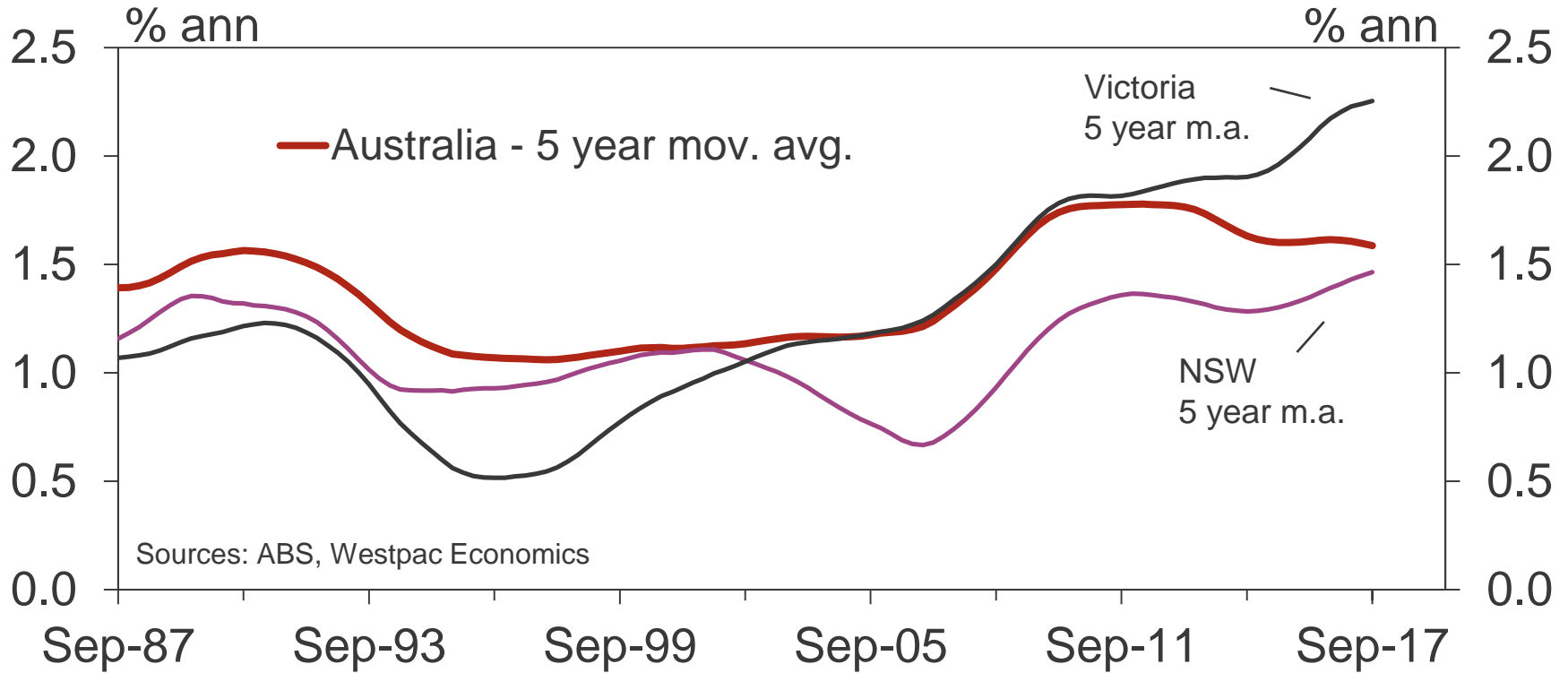


Source: AFR

Population growth: SA - long slow decline

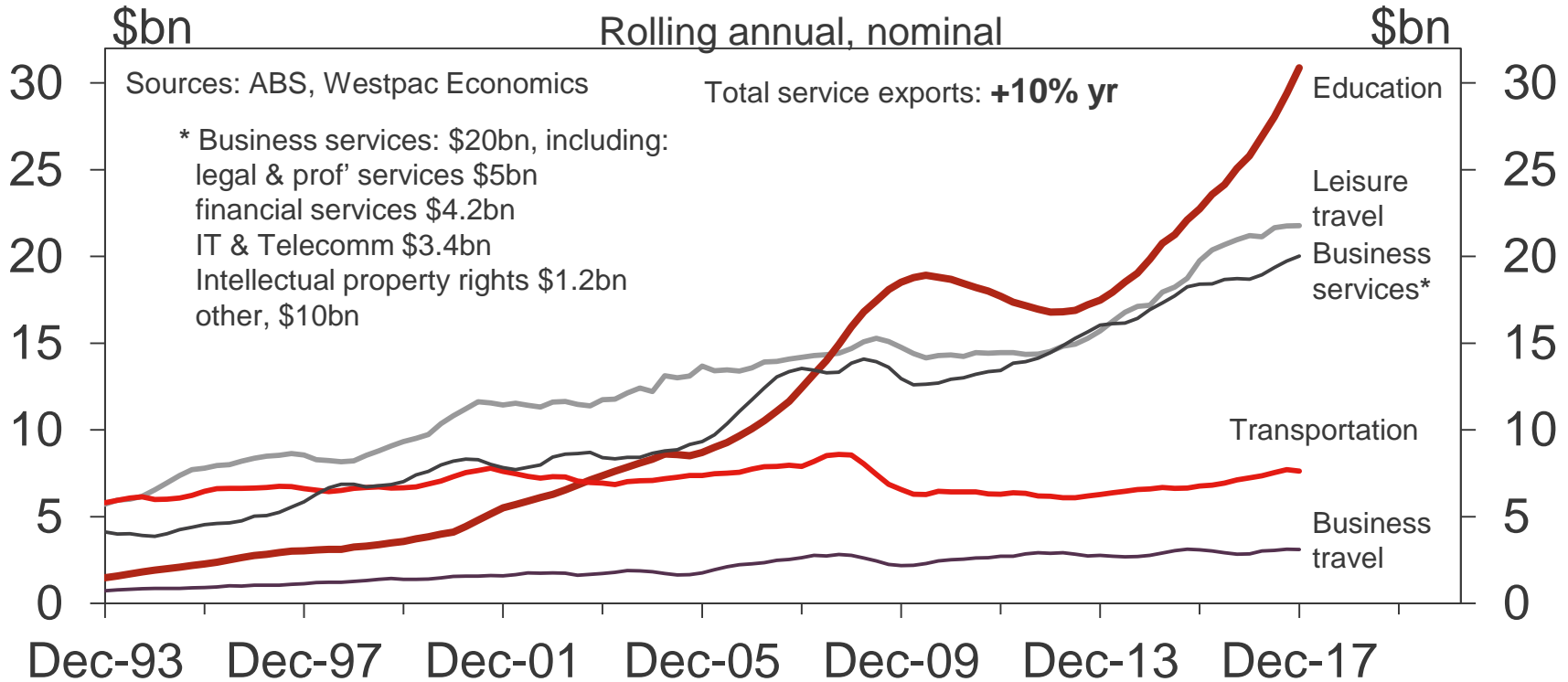


Population growth

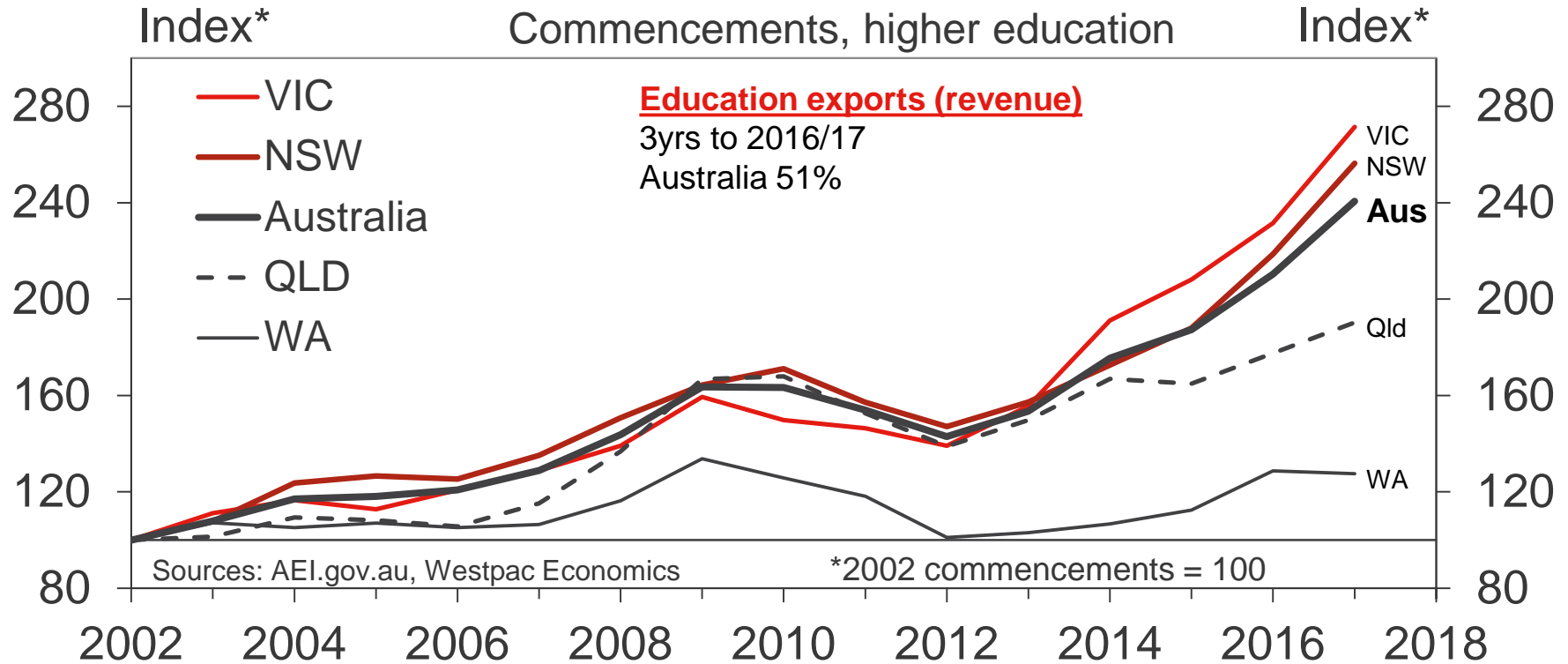


Sources: ABS, Westpac Economics

Service exports: a bright spot, for now



International students numbers by state



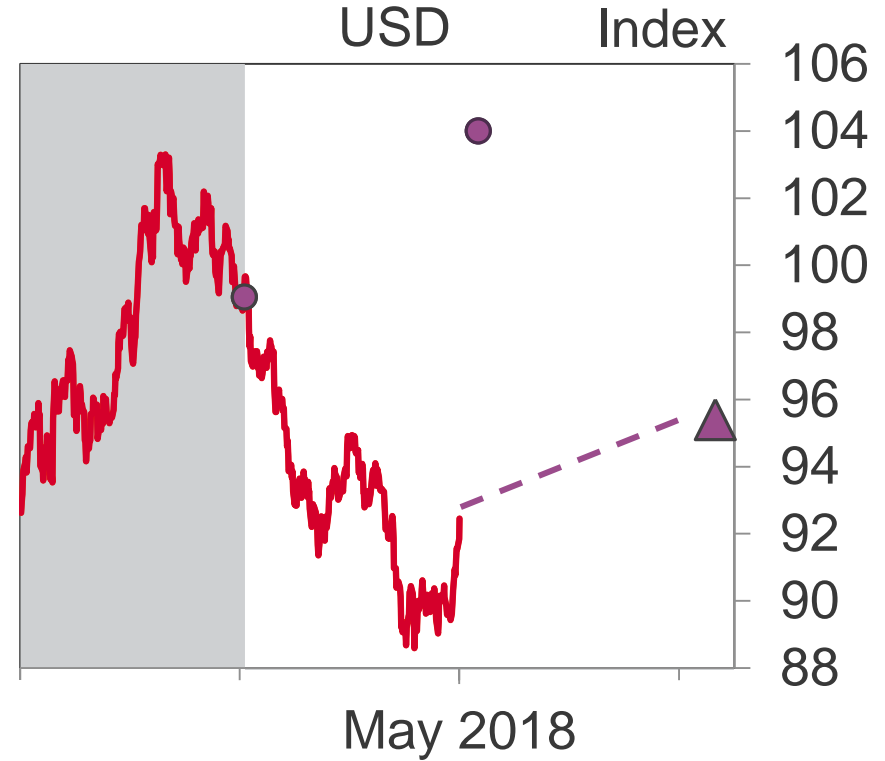
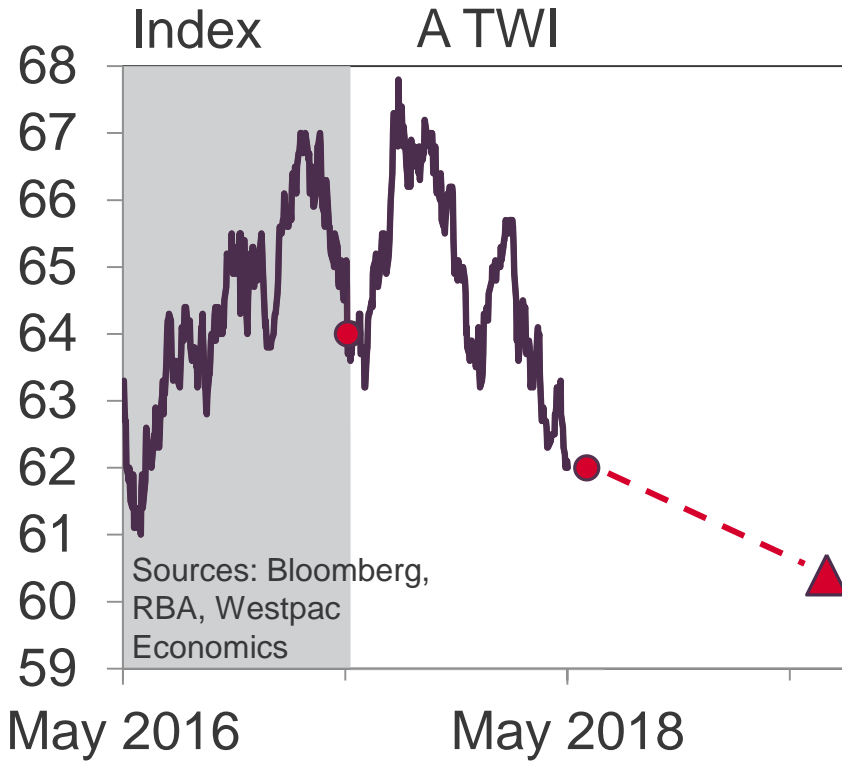
The Markets

Current forecasts – May 2018

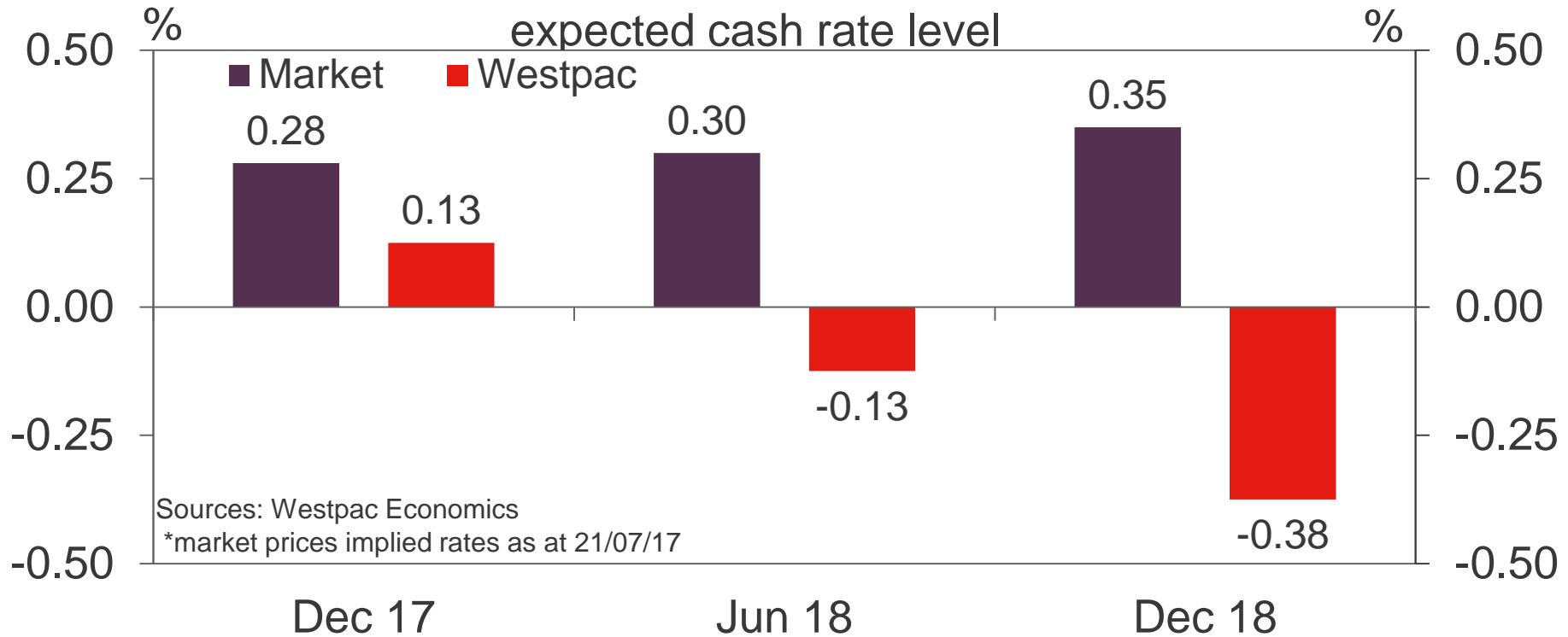
	Latest	Jun-18	Dec 18	Jun-19	Dec 19
RBA Cash	1.50	1.50	1.50	1.50	1.50
Aus 10yr	2.77	2.80	3.10	3.10	3.10
Fed Funds	1.375	1.875	2.125	2.625	2.625
US 10yr	2.96	3.00	3.35	3.50	3.30
3yr swap	2.20	2.30	2.50	2.50	2.70
AUD/USD	0.75	0.76	0.74	0.72	0.70

Source: Westpac Economics.

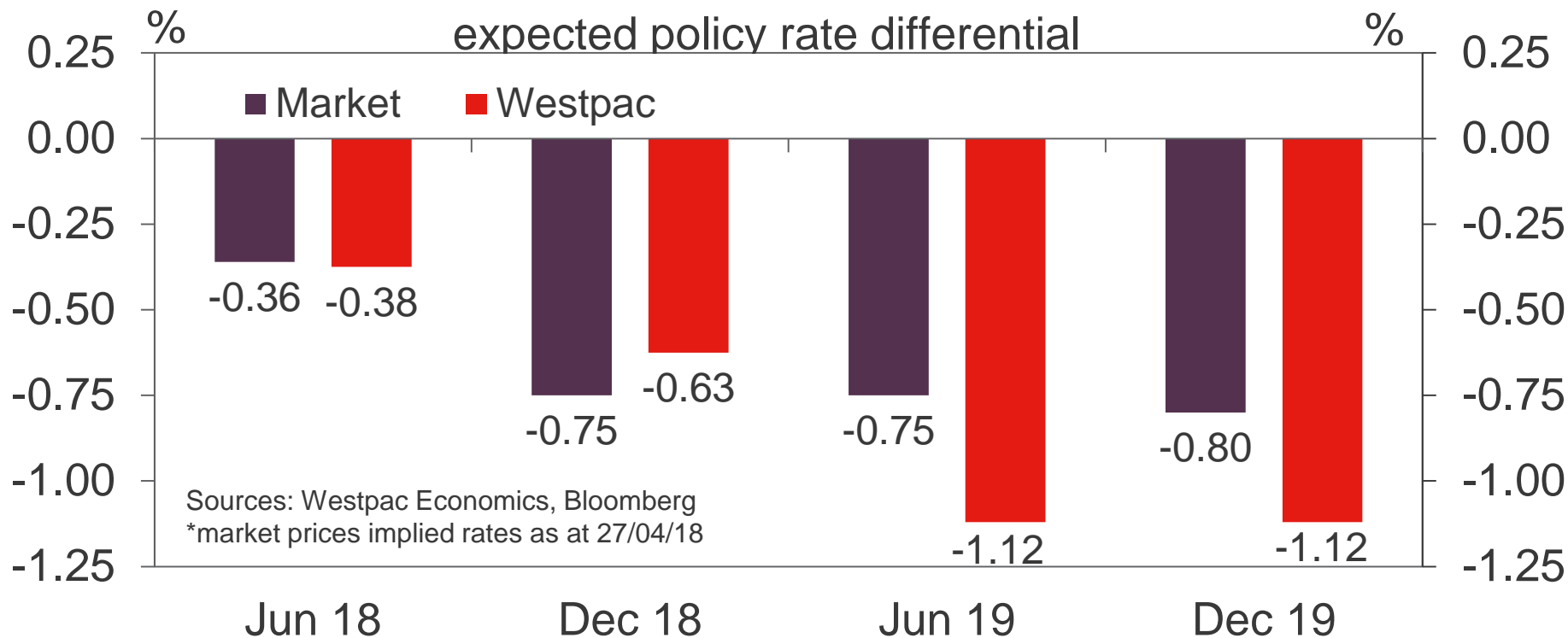
AUD TWI and USD index



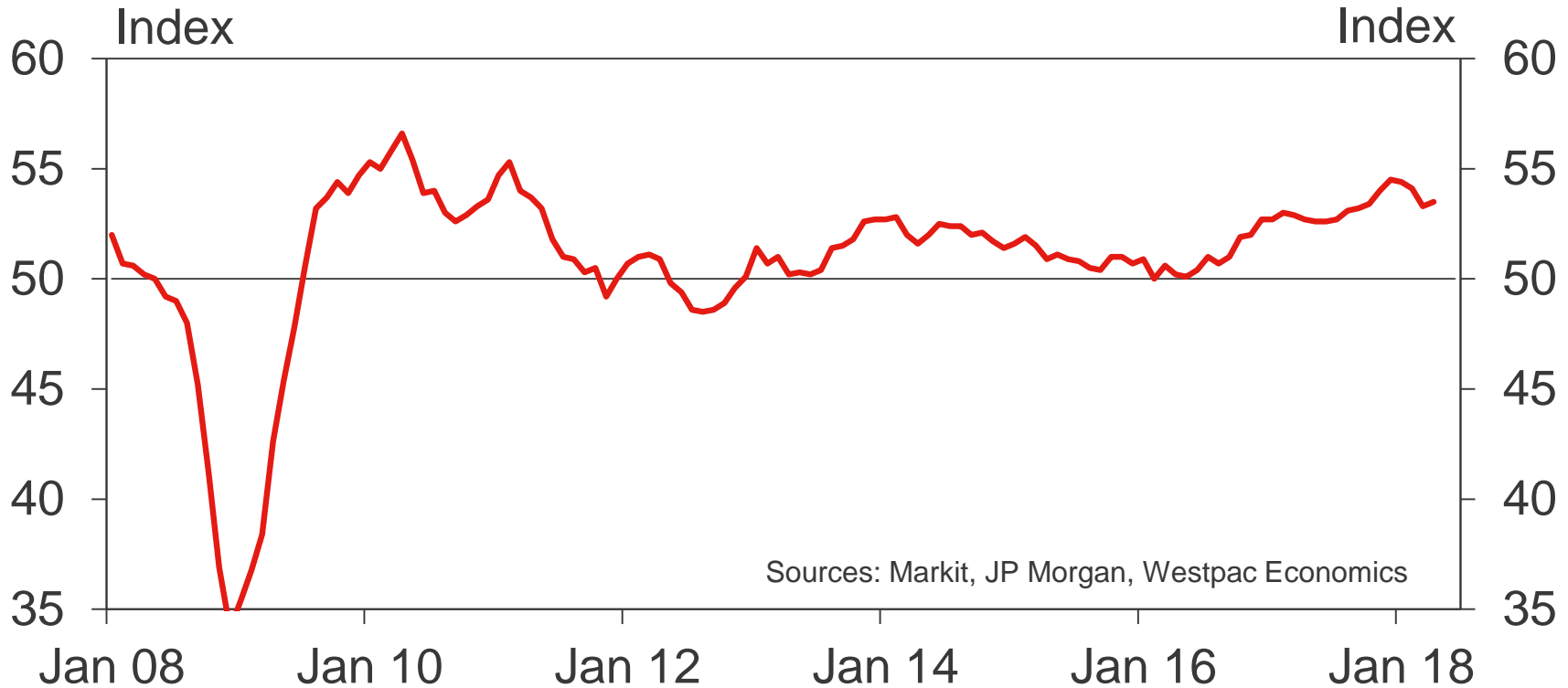
Westpac: rate differential negative (July)



Westpac: rate differential negative

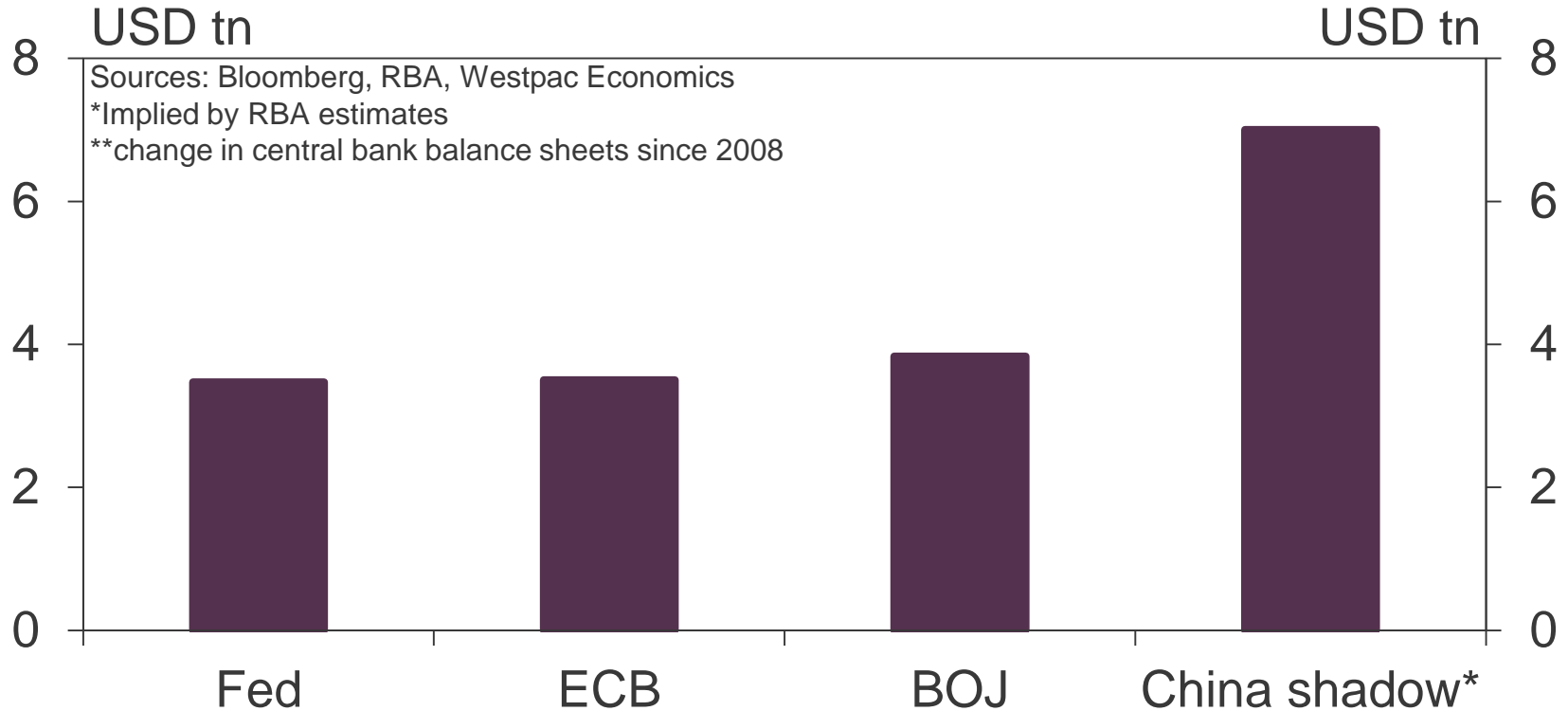


Global manufacturing PMI

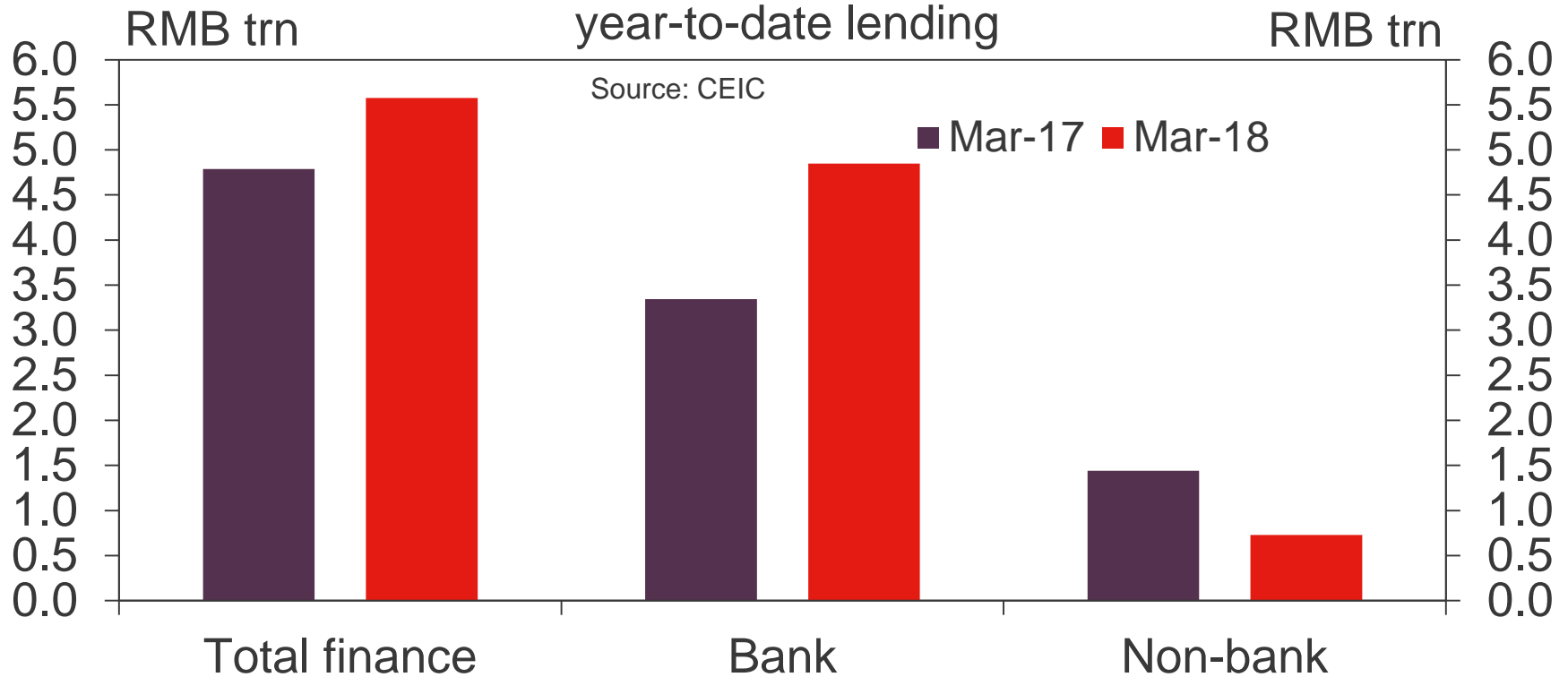


Sources: Markit, JP Morgan, Westpac Economics

Global liquidity added since 2008



China credit revolution brings risks



Shadow Banking system

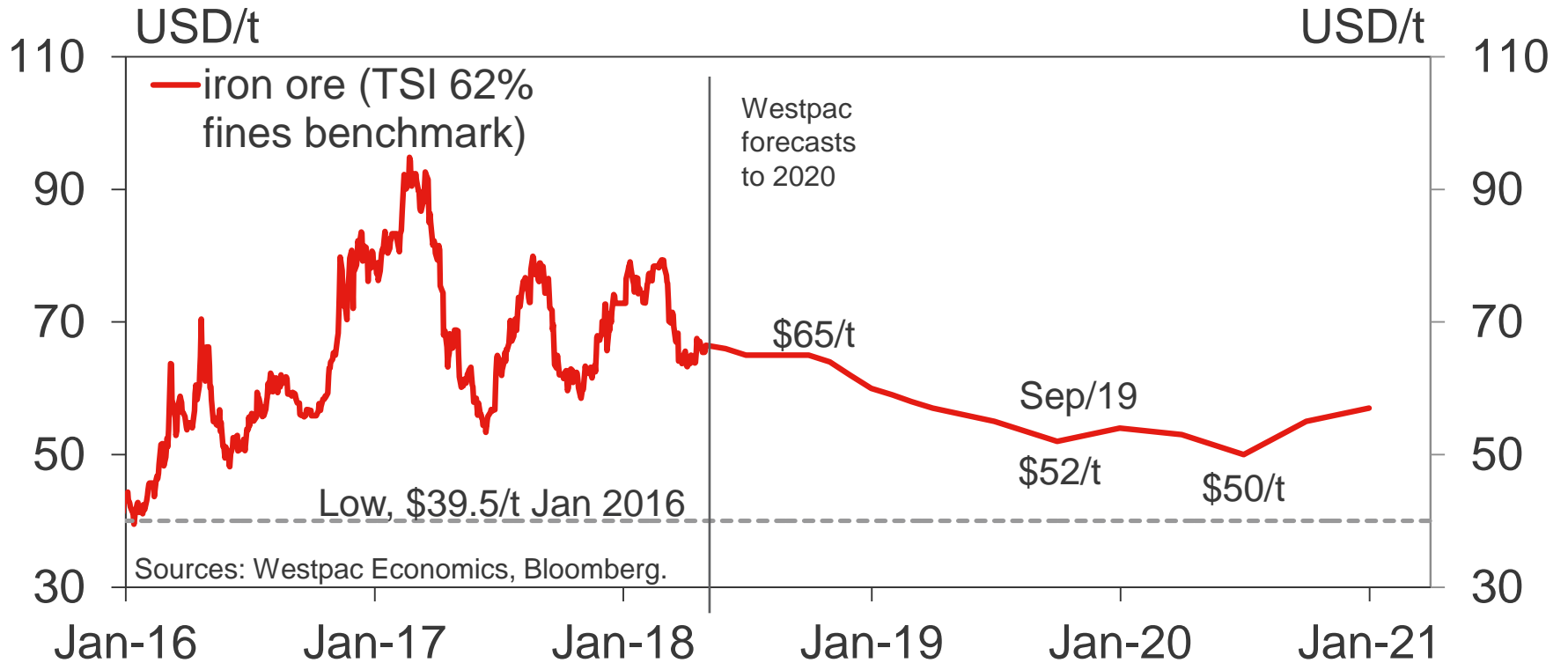
Funded by wealth products ; Banks and Insurance

Supports

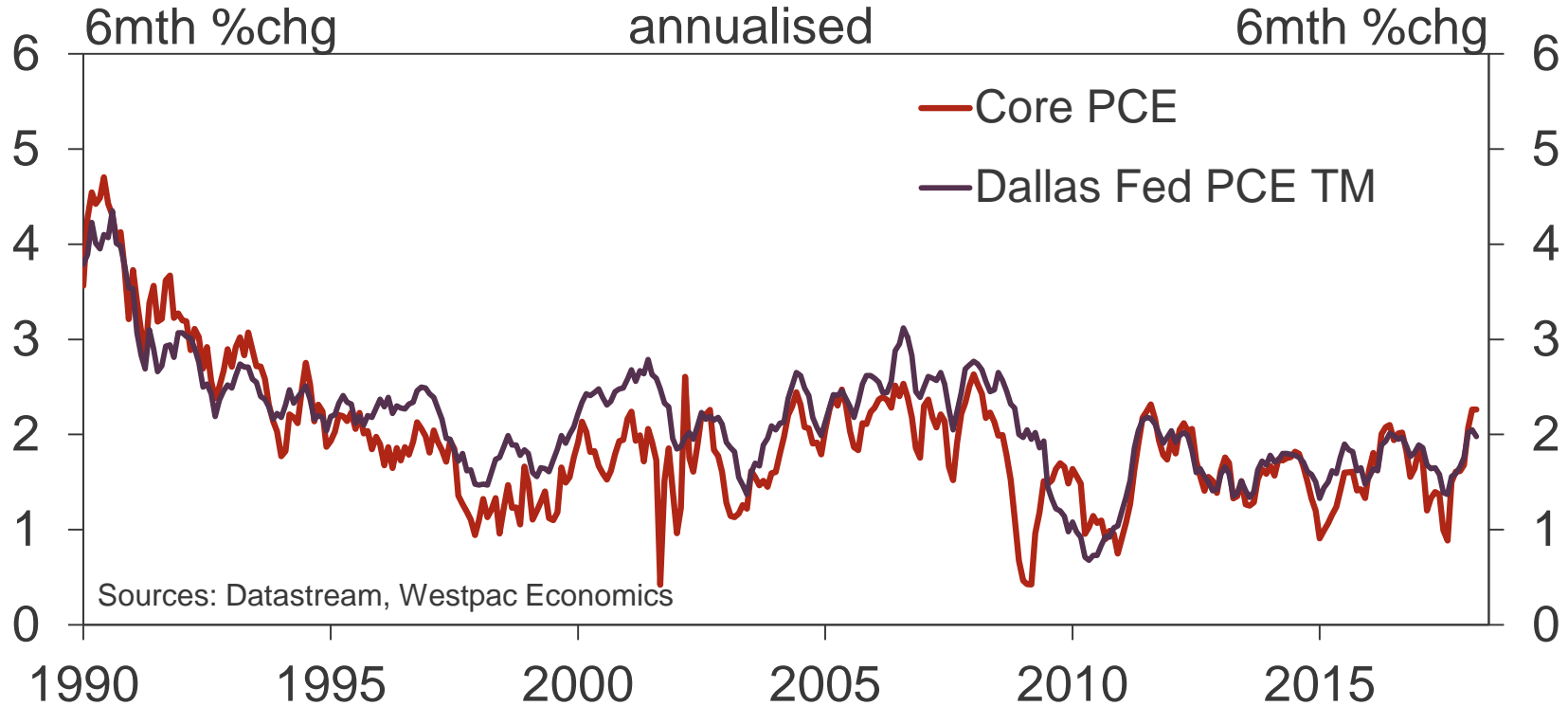
- Offshore investments
- Property speculators
- Property developers
- Local Government
(80% of Infrastructure)
- Corporates, outside banking system.

Source: Westpac Economics

Outlook for spot iron ore

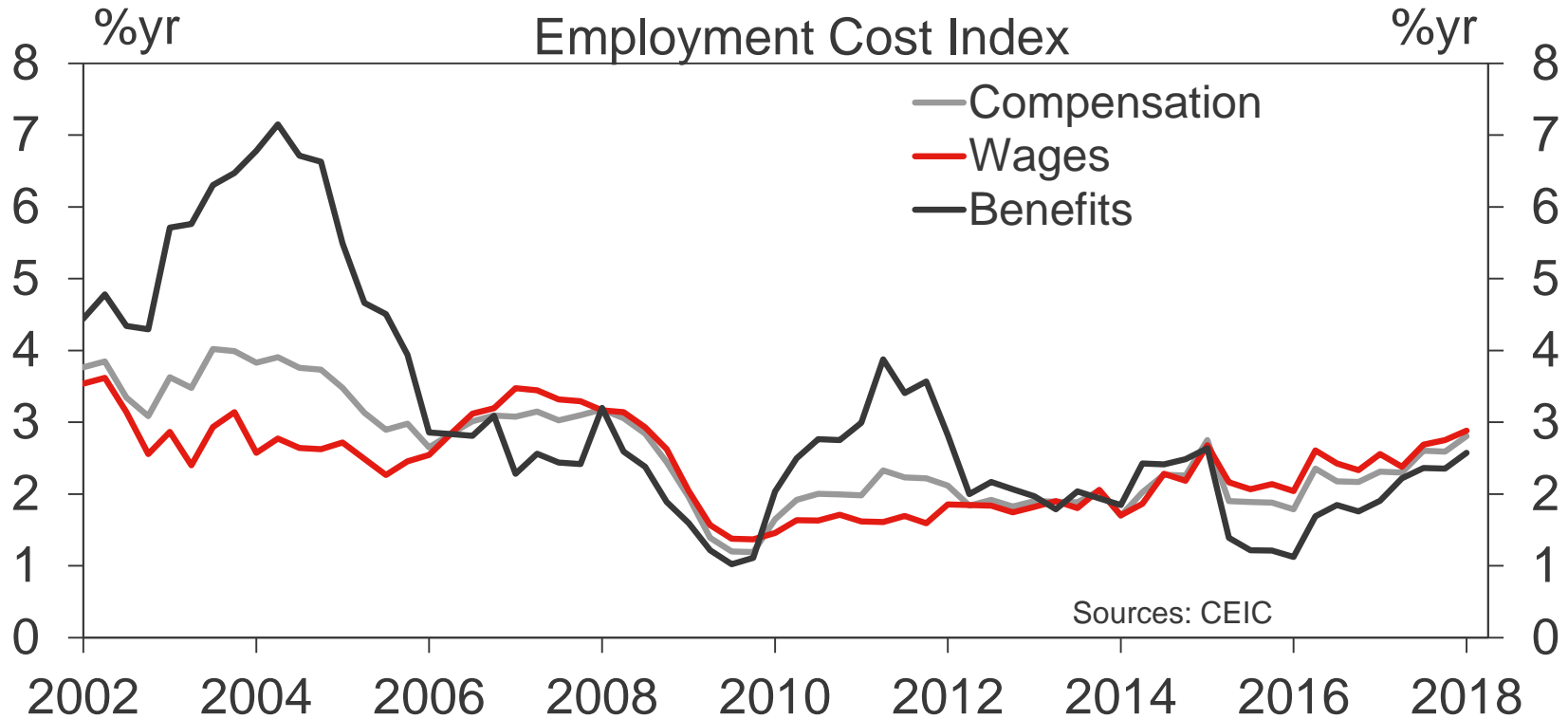


US: core inflation near target; to remain there

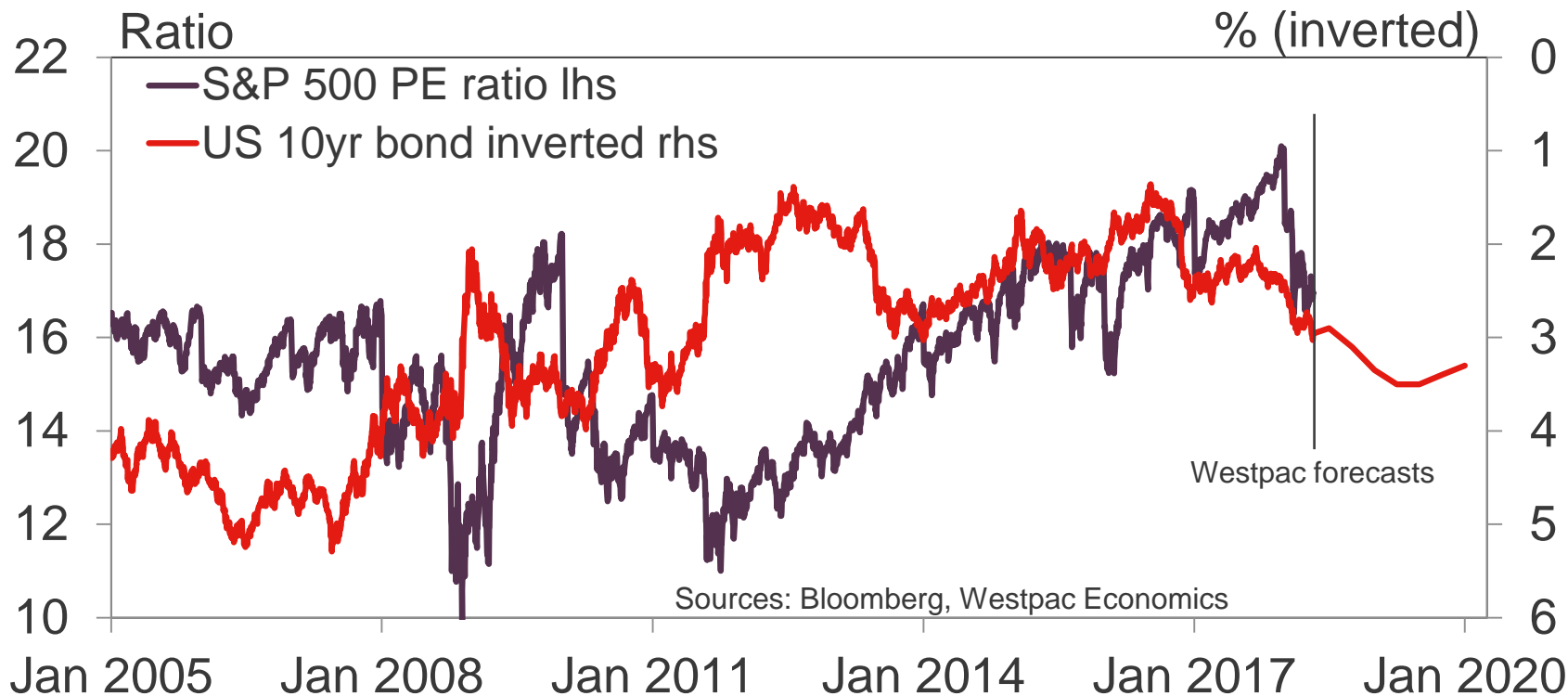


Sources: Datastream, Westpac Economics

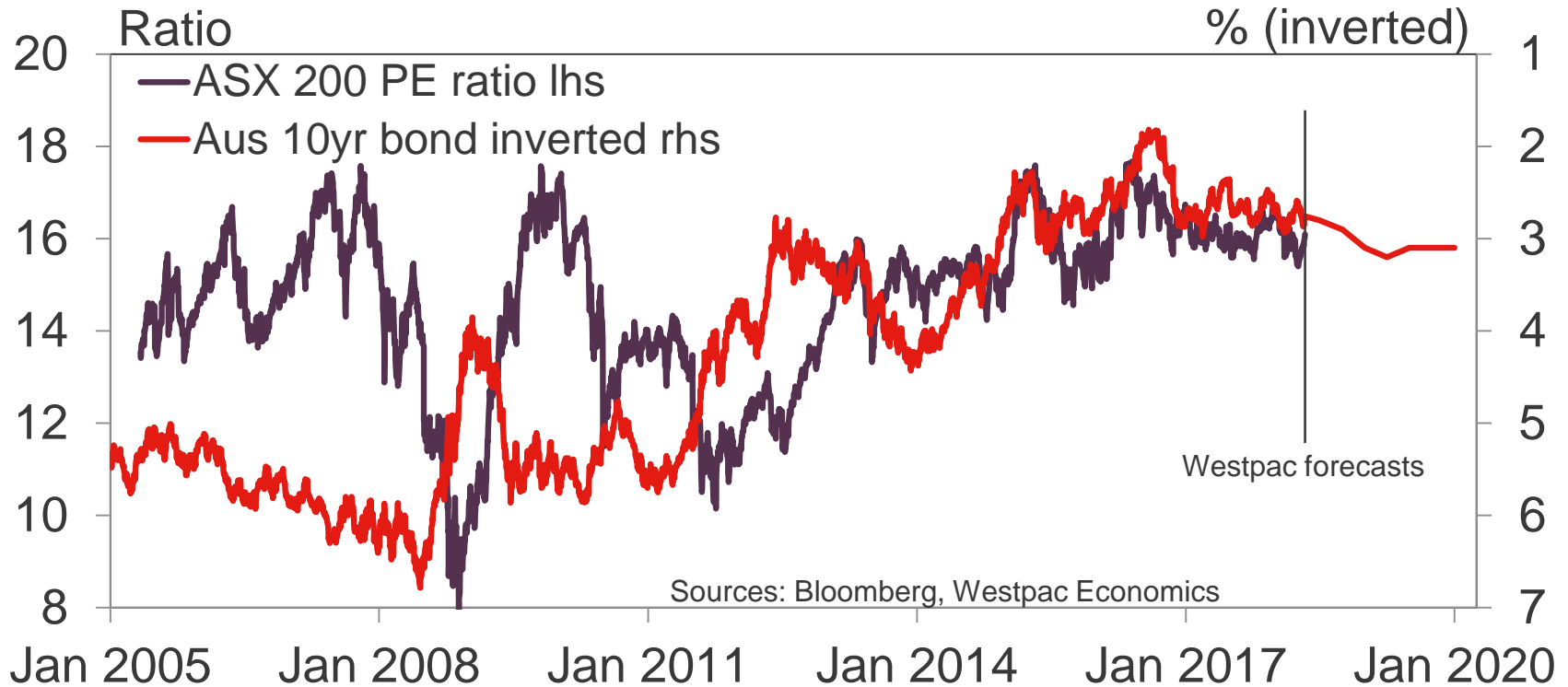
Compensation growth trending up



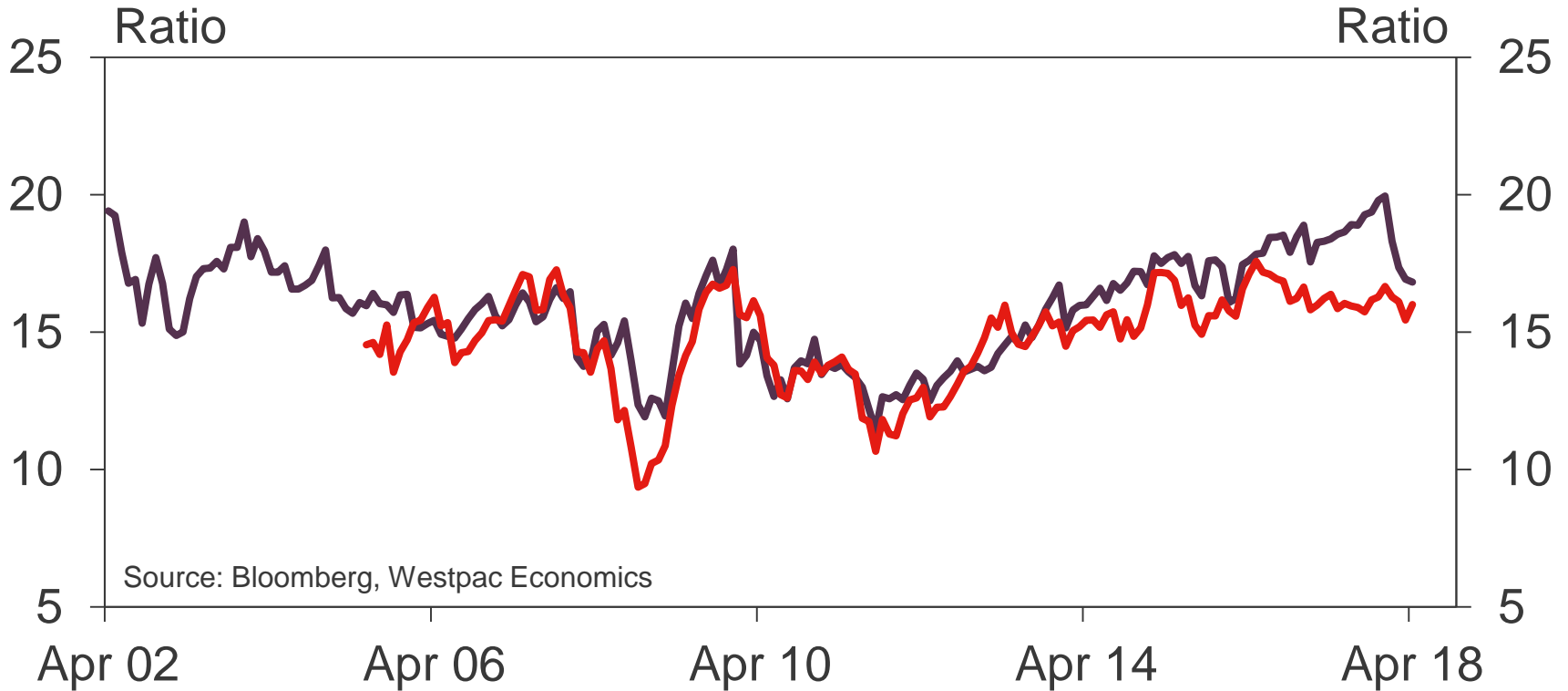
S&P 500 PE ratio and 10yr bond



ASX 200 PE ratio and 10yr bond



S&P500 and ASX200 PE ratios



Source: Bloomberg, Westpac Economics

Conclusion

- Budget forecasts high- surplus in 2019/20?
- Tax cuts unlikely to boost spending- near term.
- 8 year above trend growth in out years – unreal.
- Weak income growth to contain consumption.
- Housing and prices set to fall – investors slow.
- Political uncertainty will weigh on business.
- Growth opportunities in Victoria and services.

Conclusion

- Cash rate on hold in 2018 and 2019.
- US rates to 112 basis points above RBA in 2019.
- AUD to head towards USD 70 by end 2019.
- Driven by USD combined with weaker AUD TWI.
- China to tighten credit further – slow commodity.
- Commodity prices to fall through 2019.
- Share markets vulnerable to US bond rates.

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