



Institute of Actuaries of Australia - Third Financials Services Forum

Date: 11 May 2006

**Adnan Kucukalic
Credit Suisse**

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Content

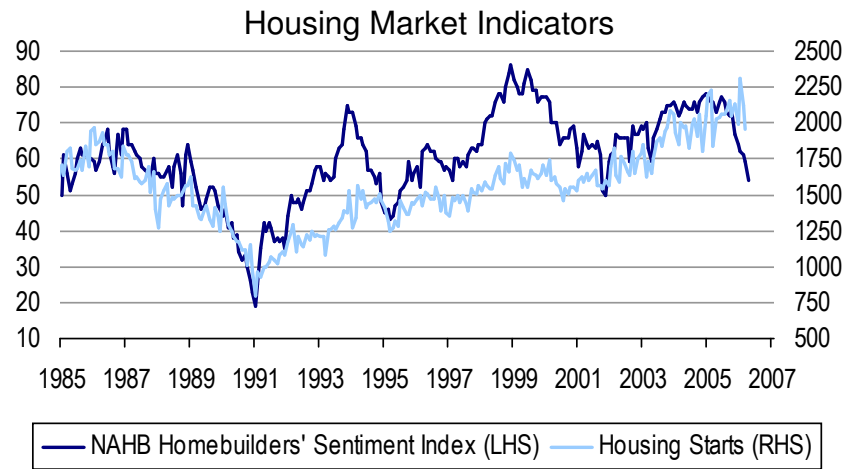
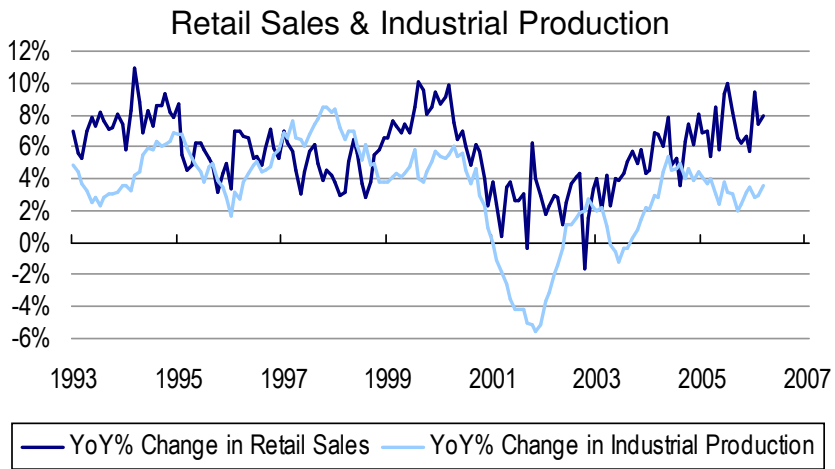
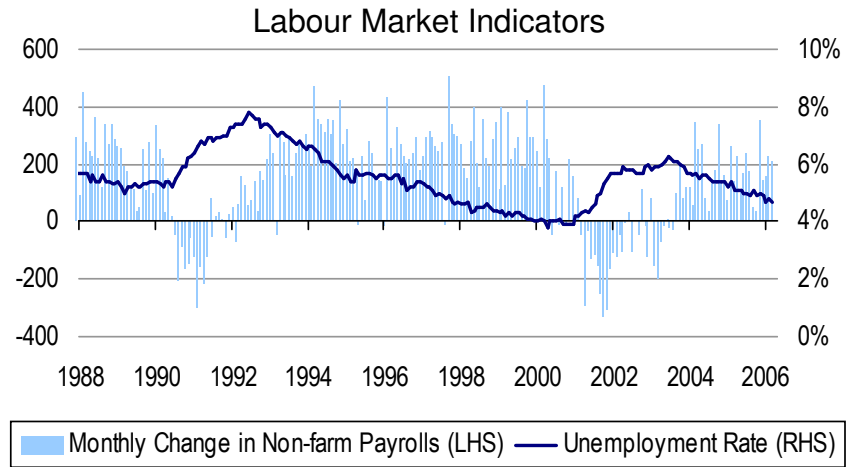
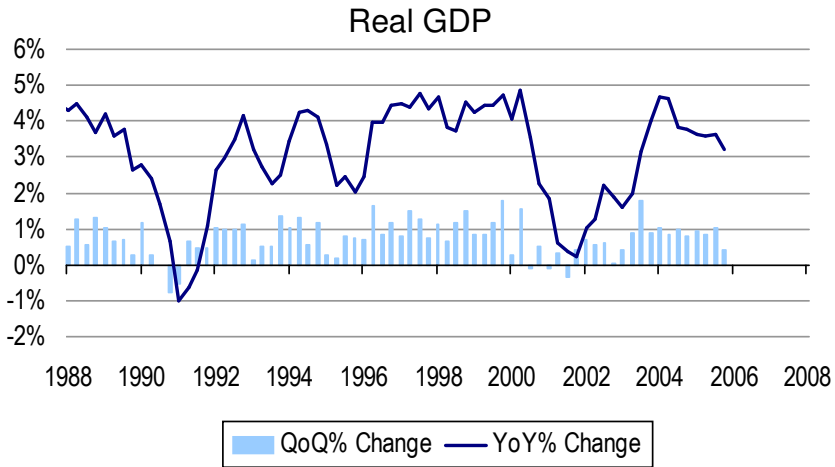
- Global Economic Environment
- Australian Economic Environment
- Profit Growth and Valuations
- Equities Supply and Demand



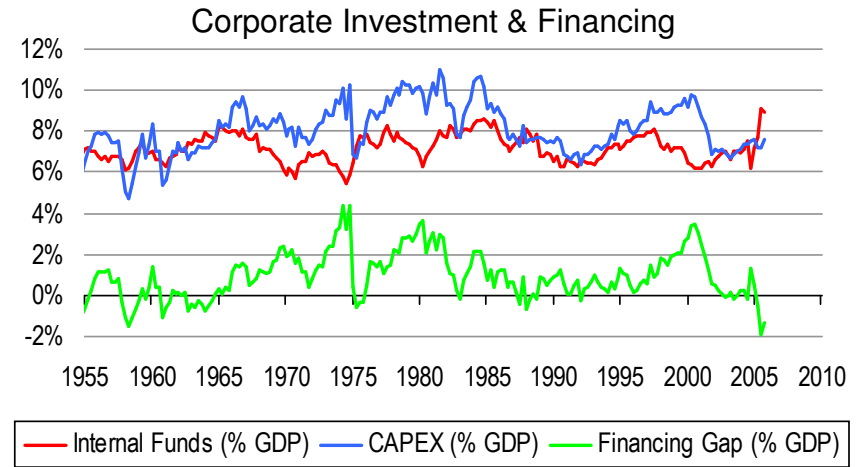
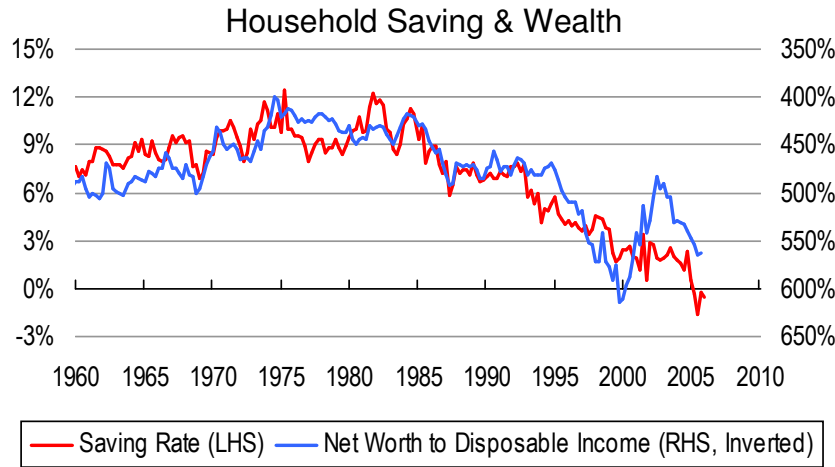
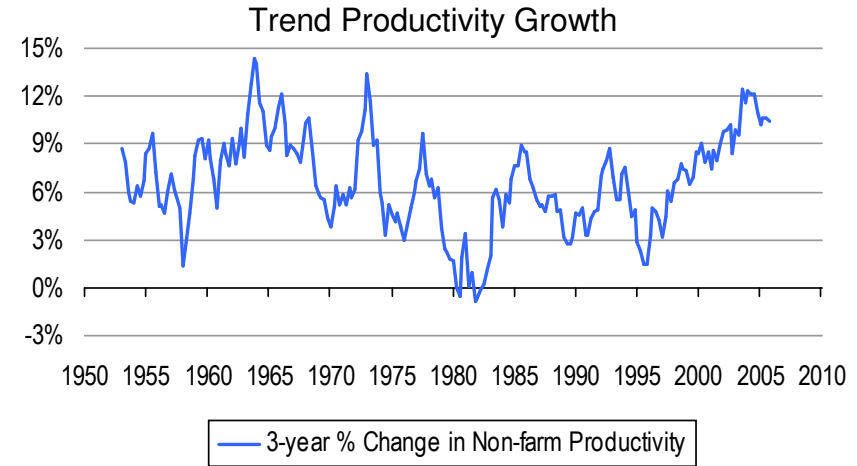
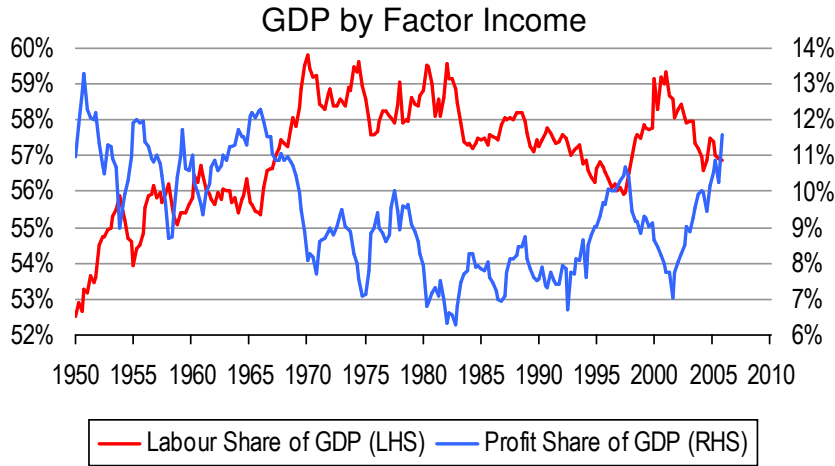
Global Economic Environment

- **Global Growth is Strong**
 - In Europe, Japan and China growth is picking up pace. US is solid.
- **Strong global economy has driven commodity prices higher**
 - China's urbanization process has raised driven demand to new levels.
- **Wage growth is contained**
 - Low cost labor in China is driving global labor prices down.
- **And so is the inflation**
 - Stronger commodity prices have been offset by lower labor prices.

US Economy

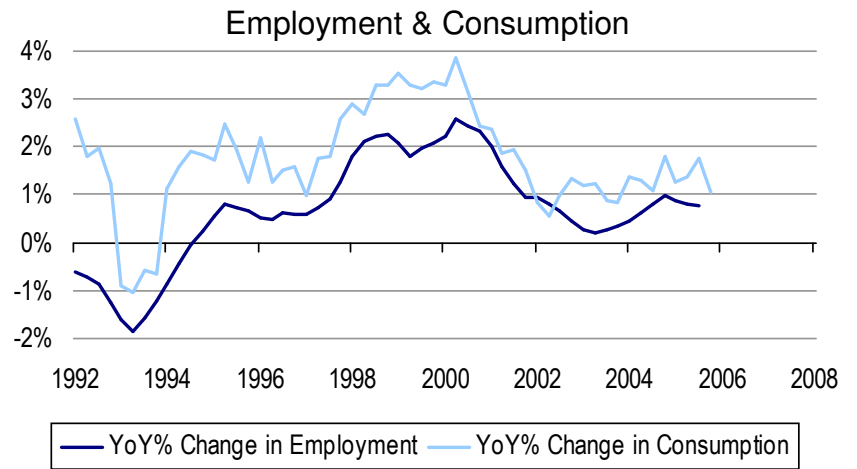
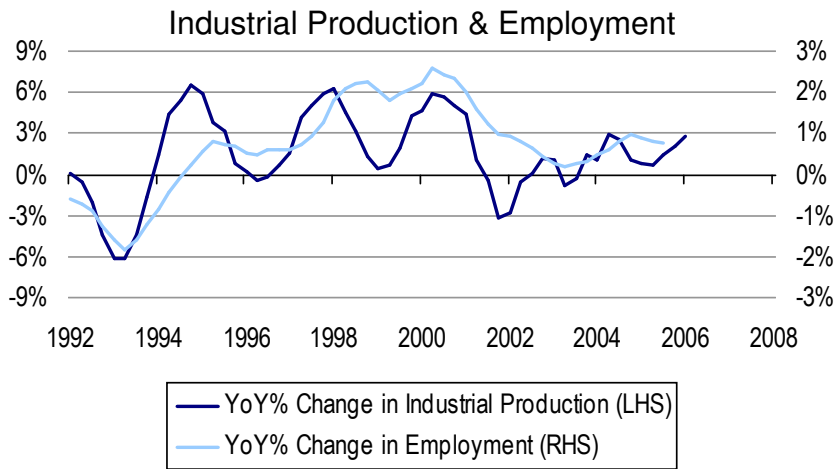
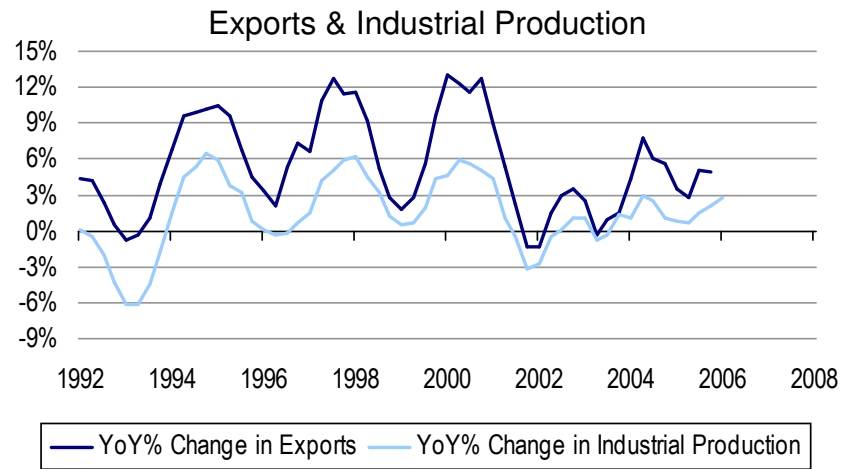
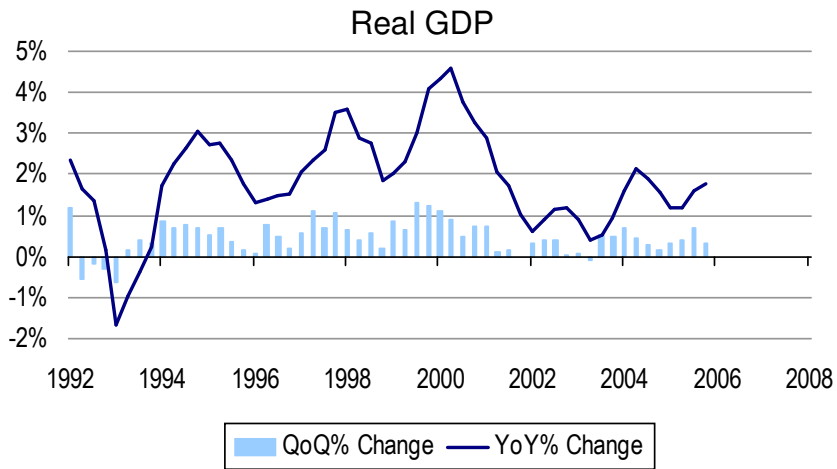


US Economy

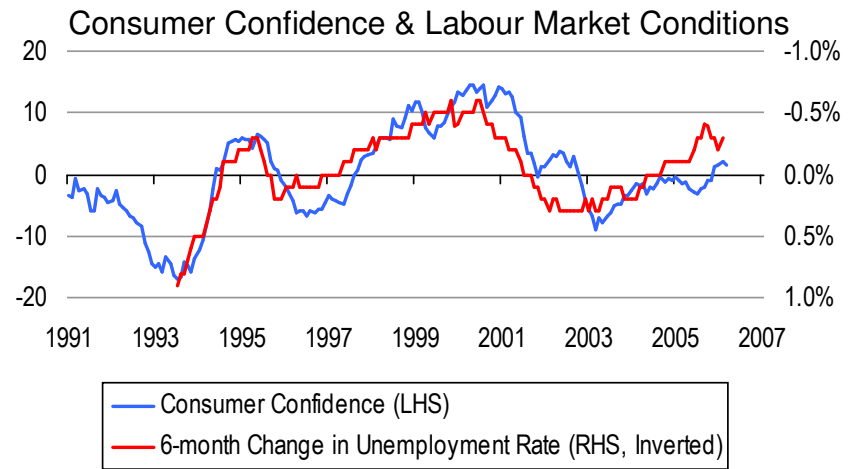
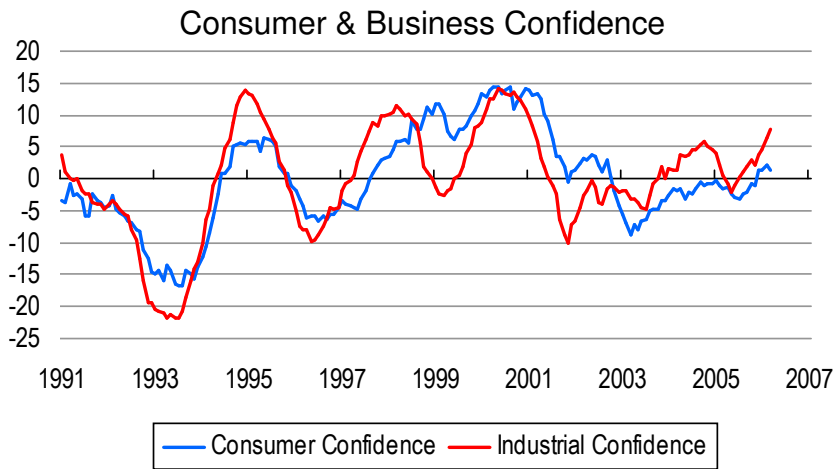
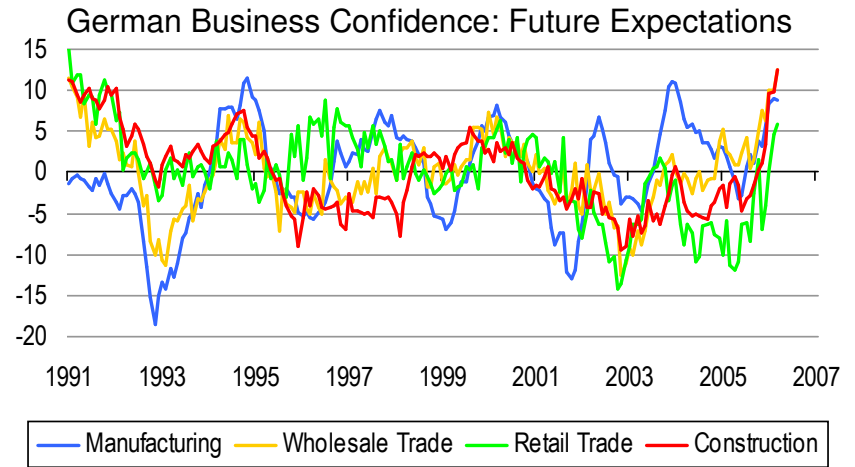
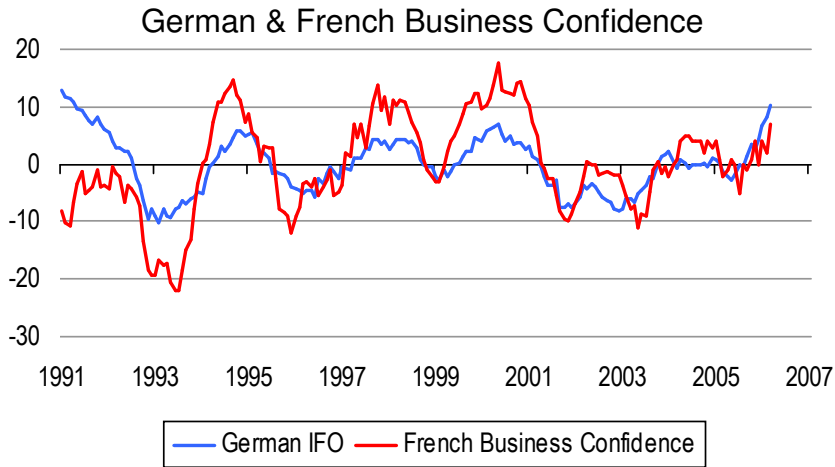


Sources: Datastream, Credit Suisse

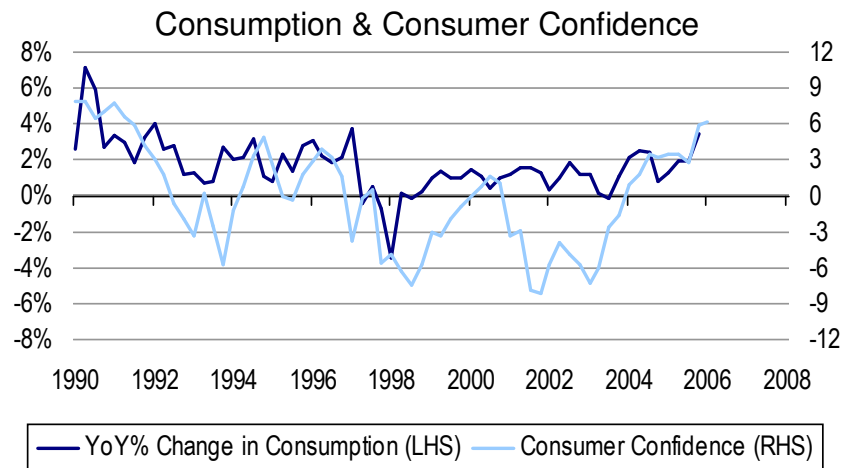
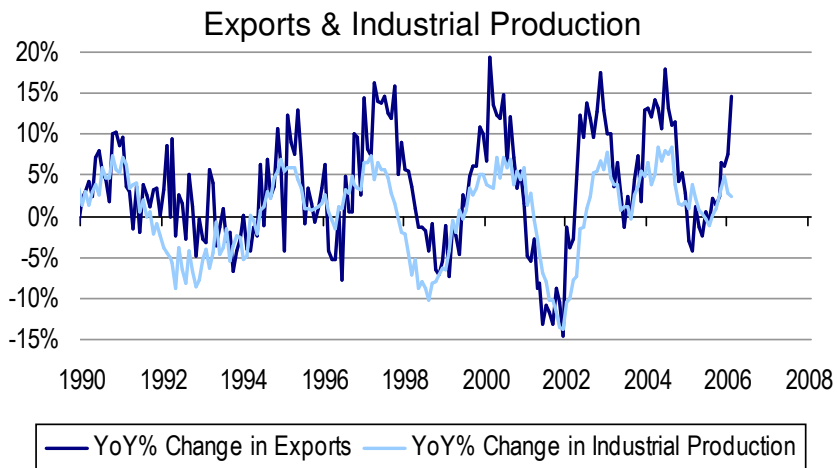
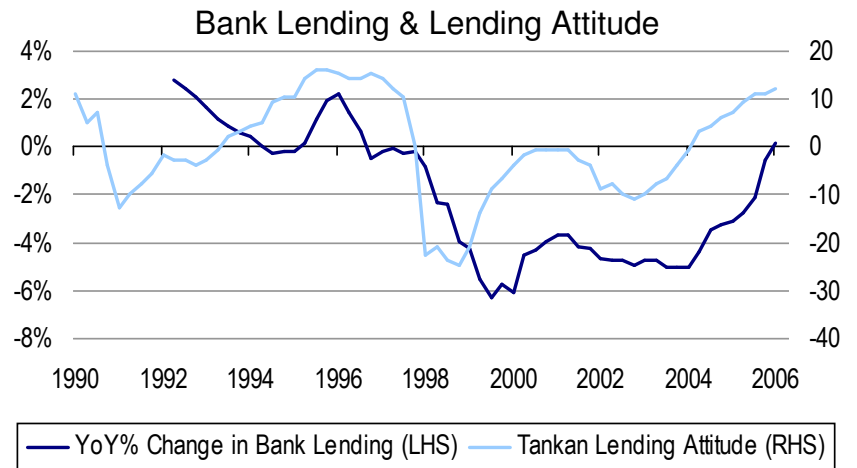
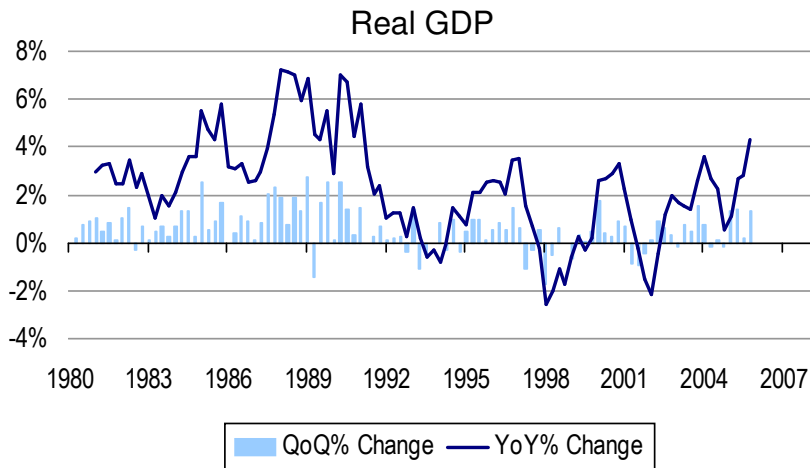
Euro Area Economy



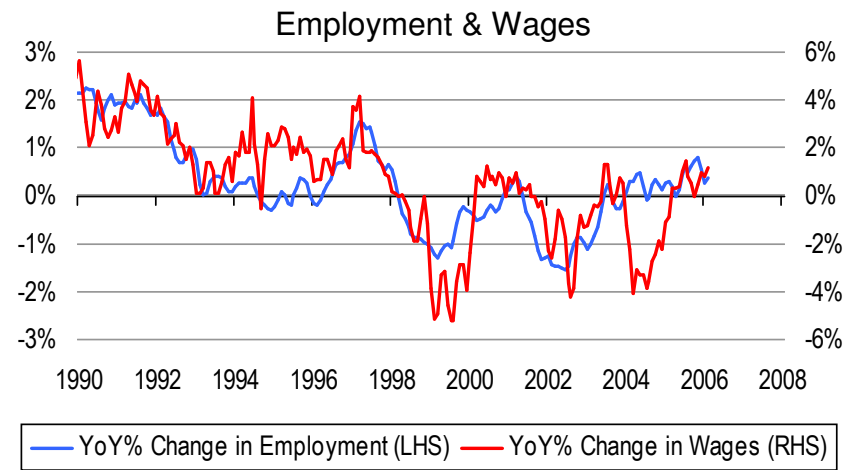
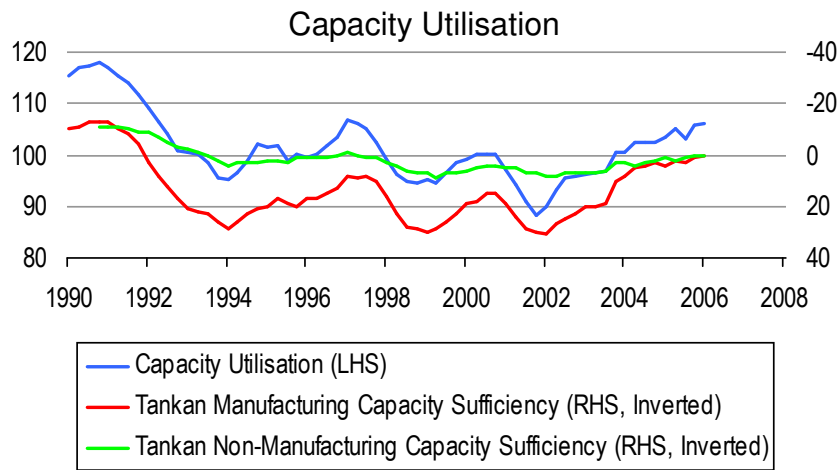
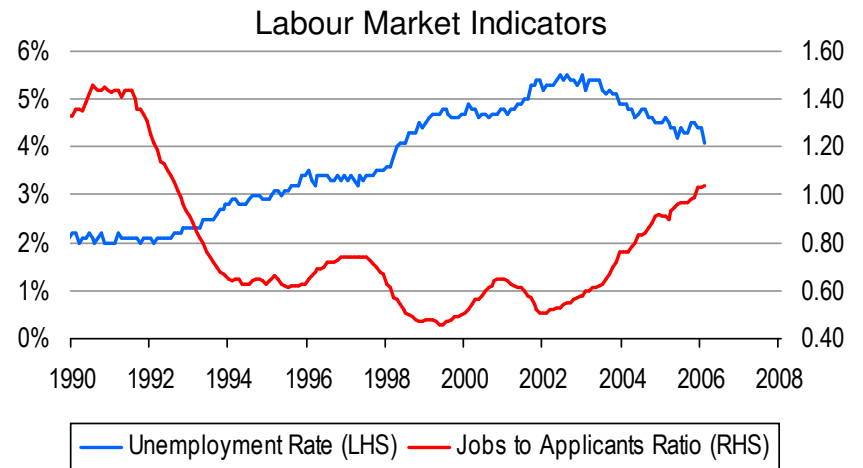
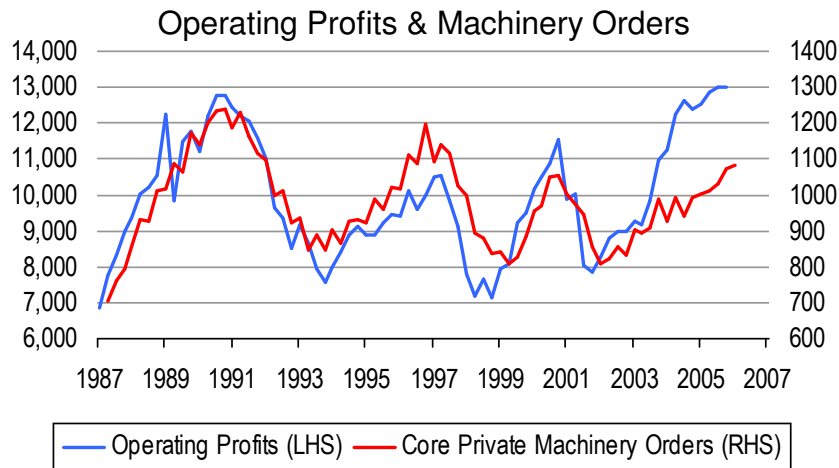
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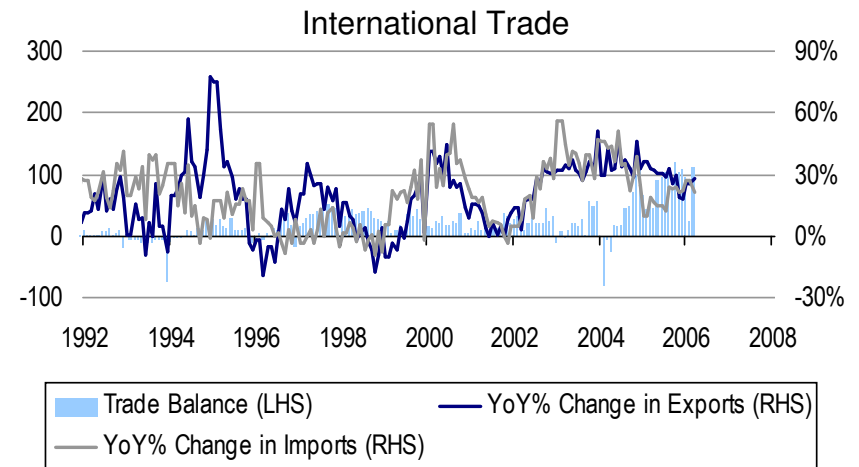
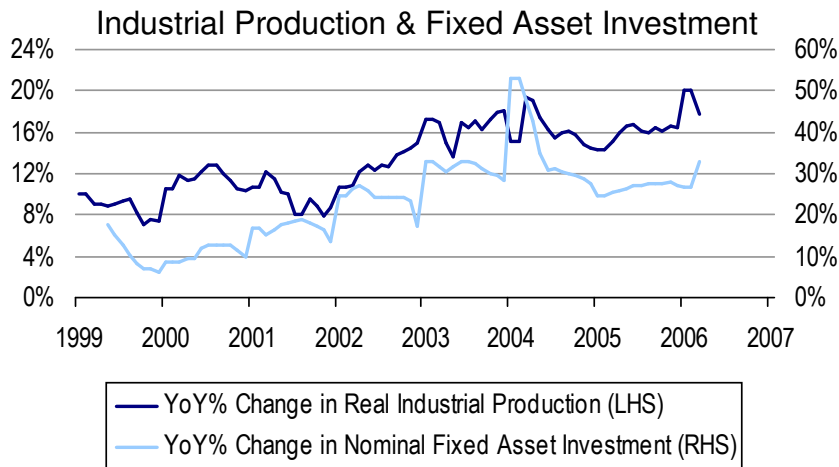
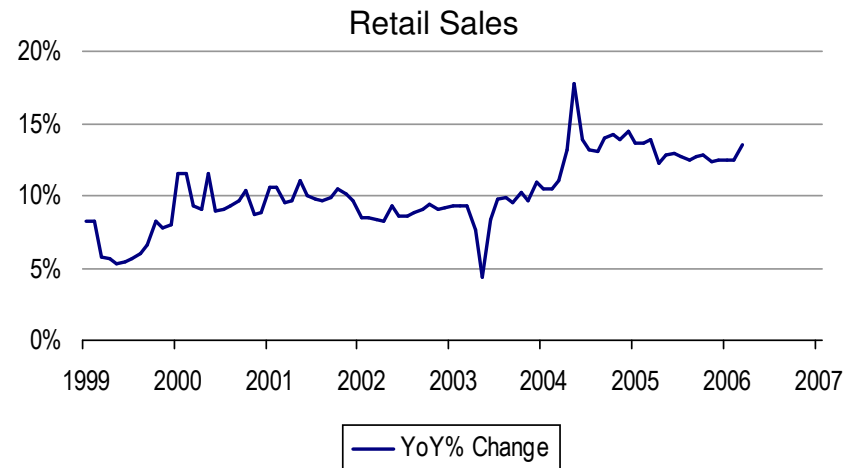
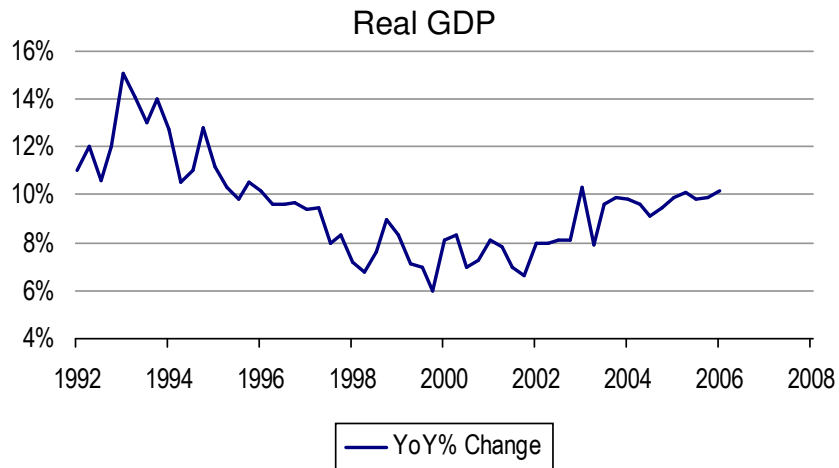
Japanese Economy



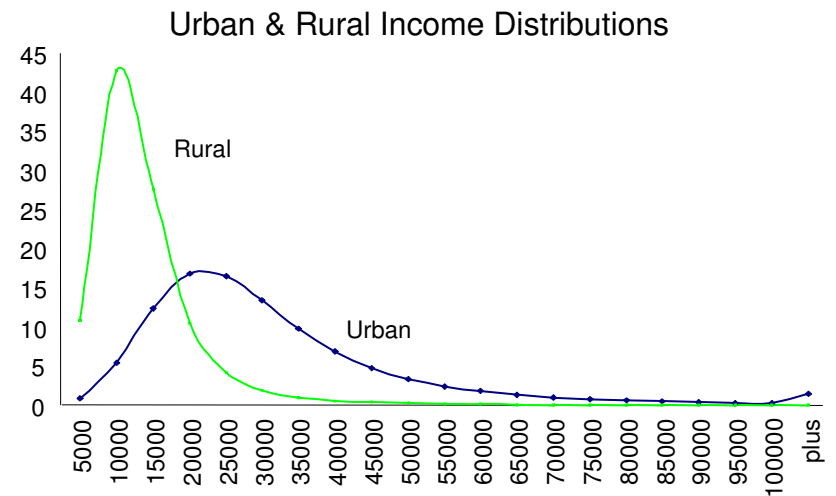
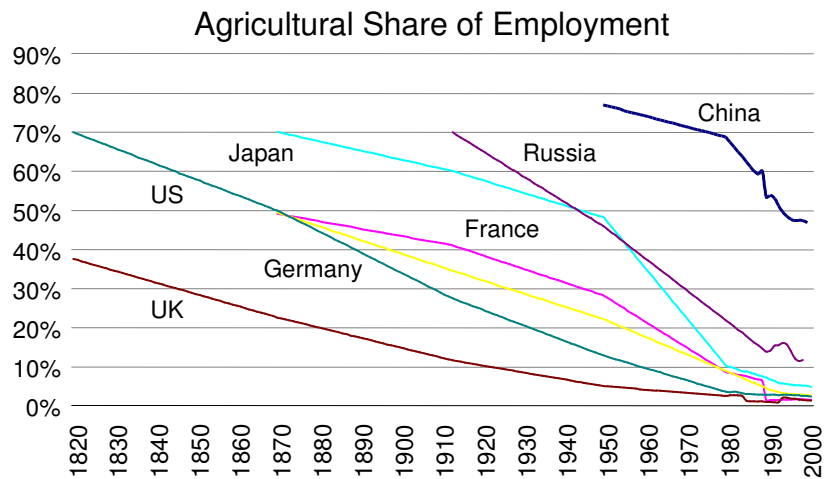
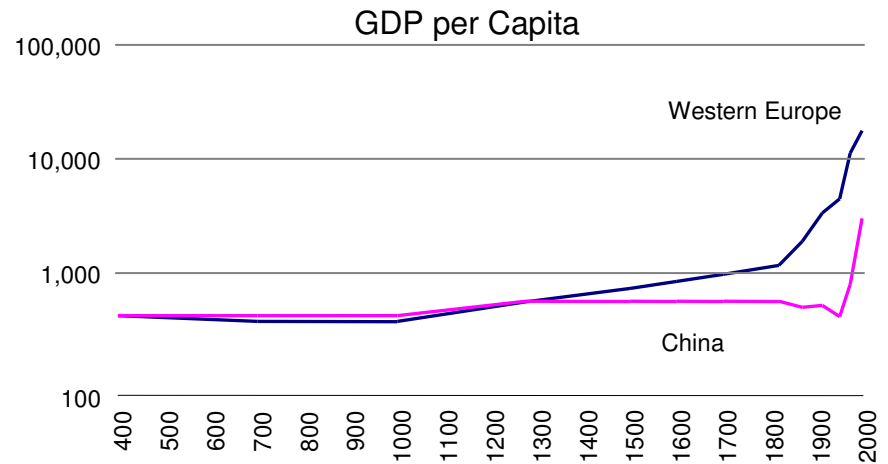
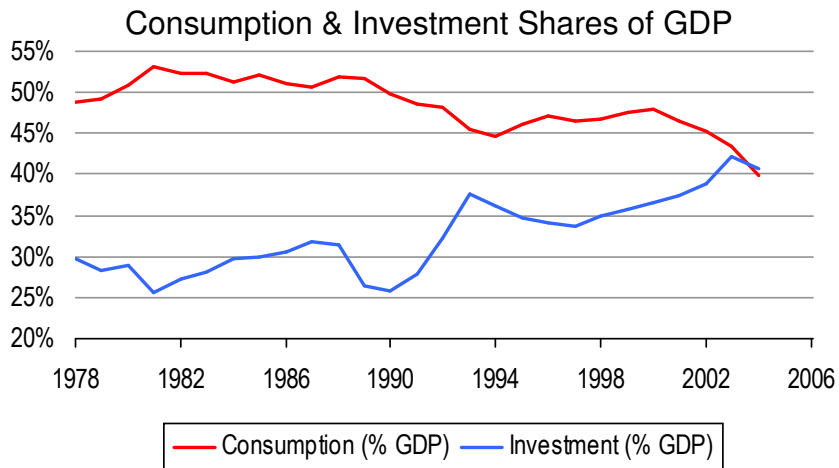
Japanese Economy



Chinese Economy

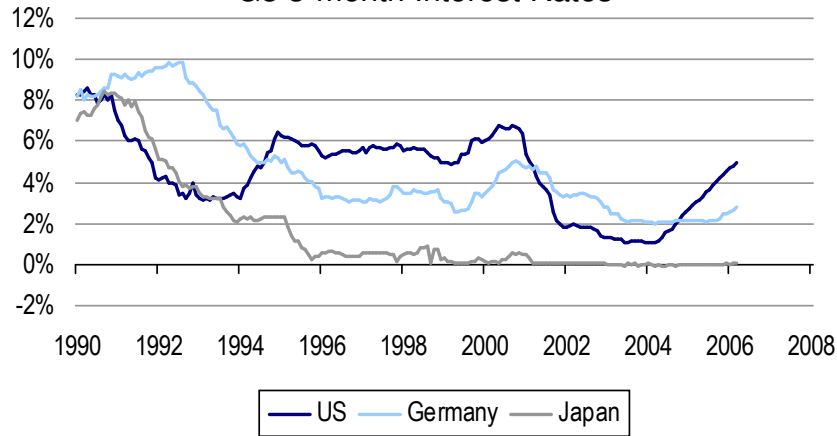


Chinese Economy

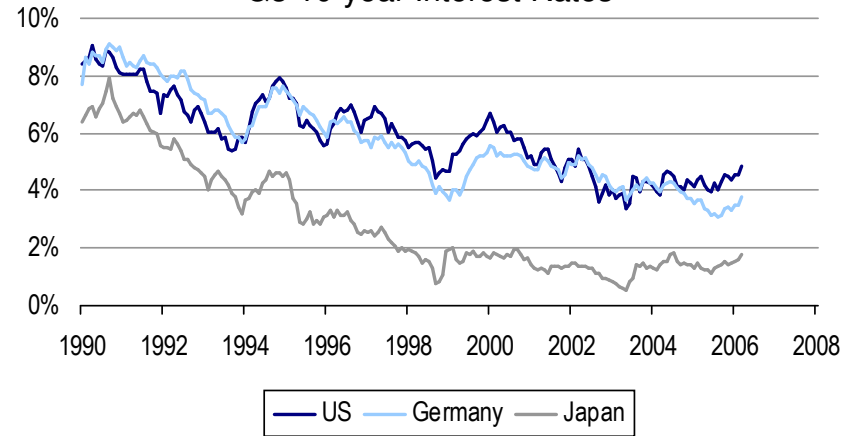


World

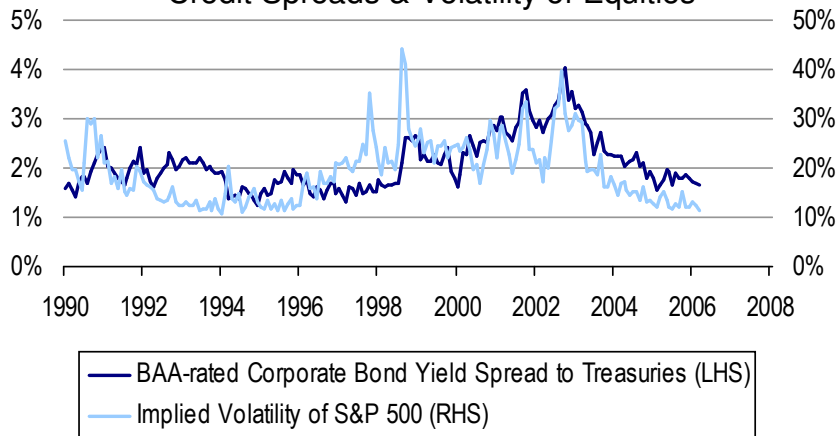
G3 3-month Interest Rates



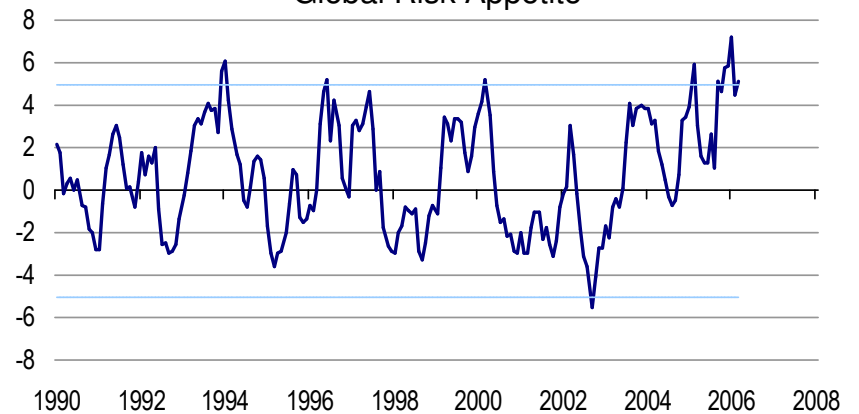
G3 10-year Interest Rates



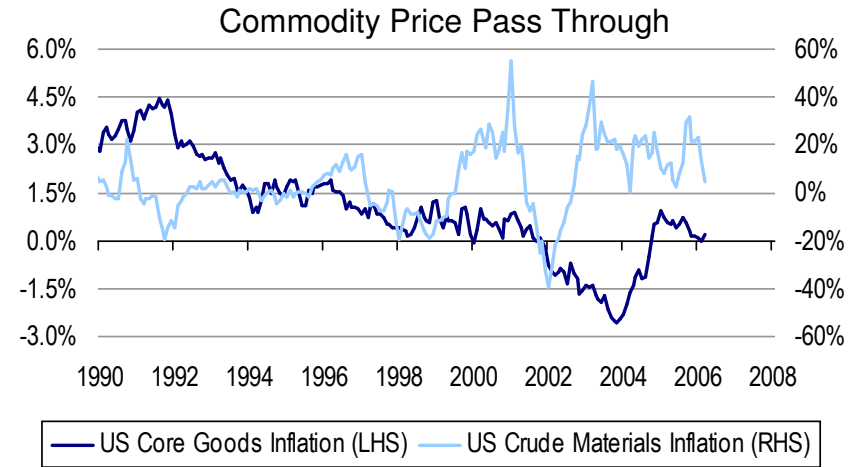
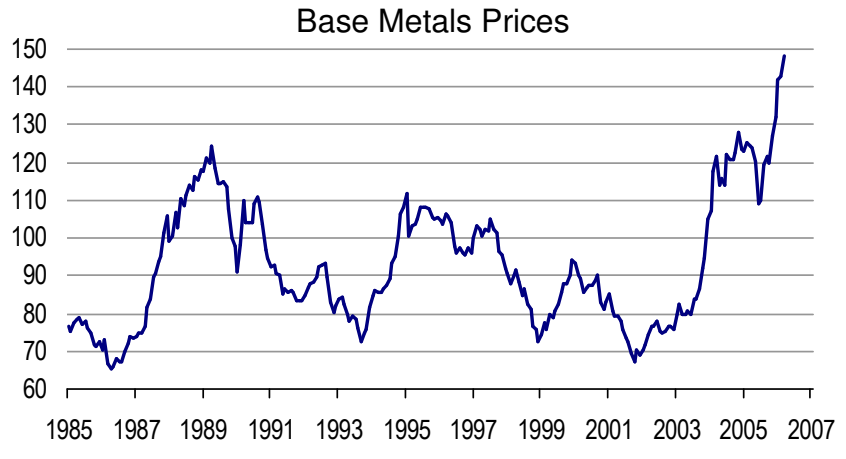
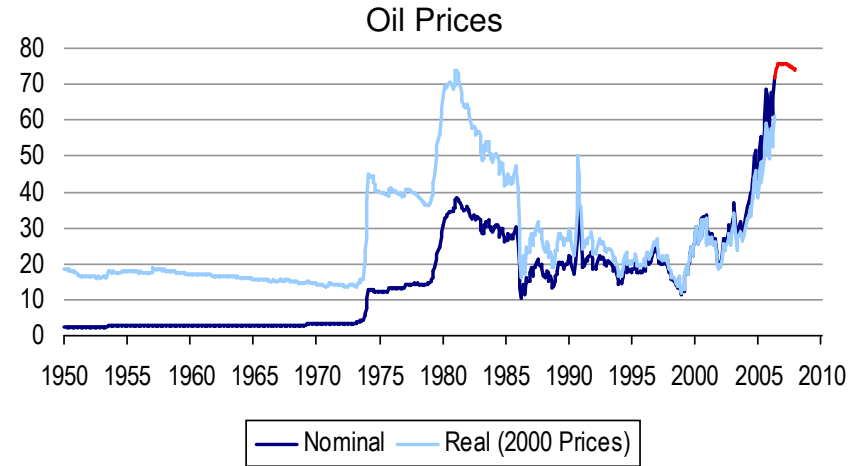
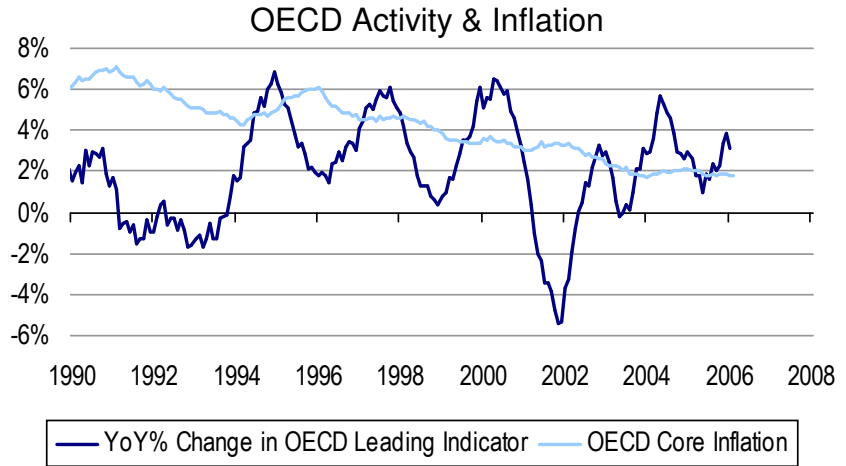
Credit Spreads & Volatility of Equities



Global Risk Appetite

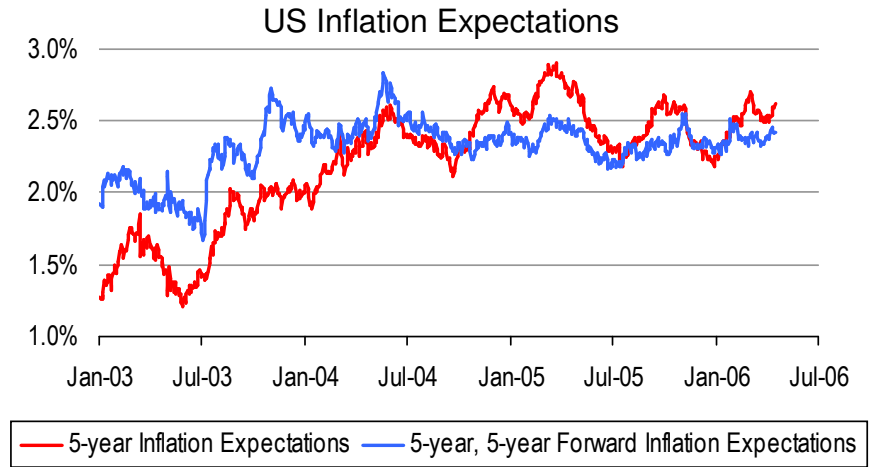
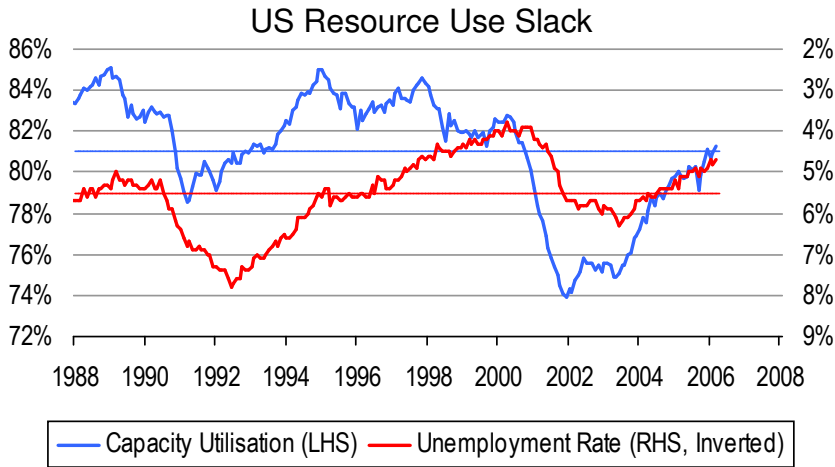
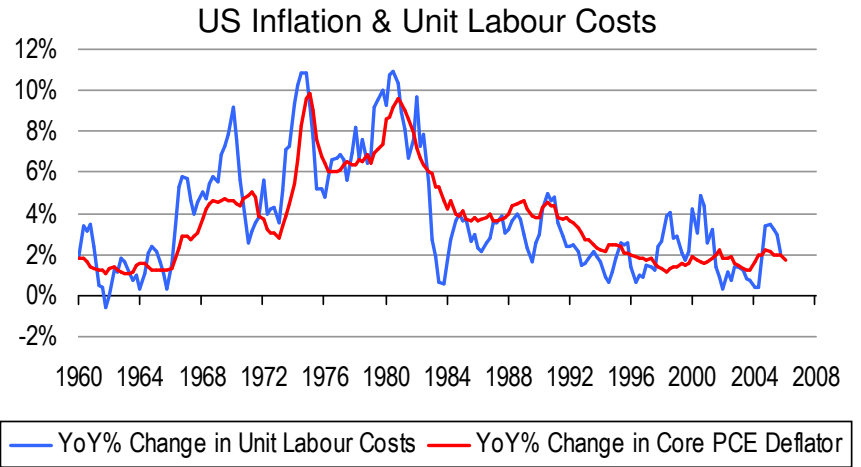
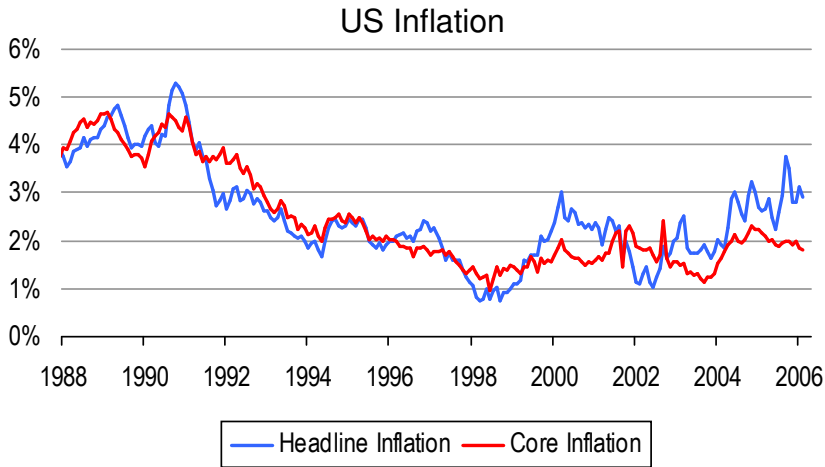


World



Sources: Bloomberg, Datastream, Credit Suisse

Inflation





Global Economic Environment

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- **Strong global economy has driven commodity prices higher**
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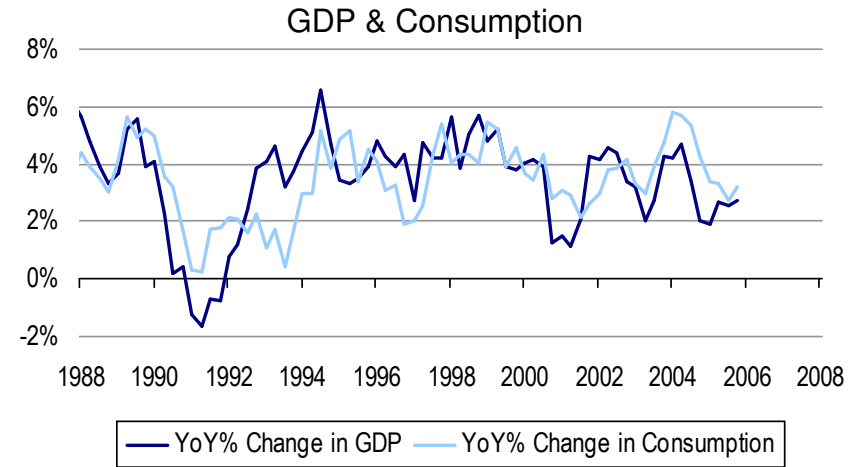
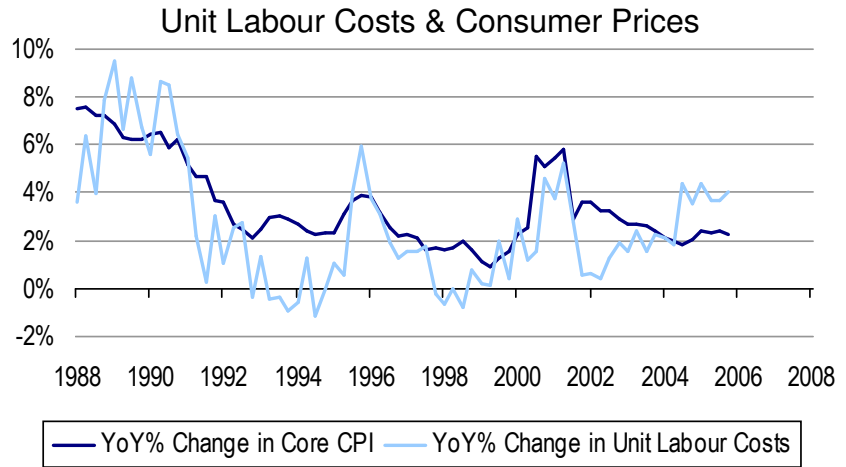
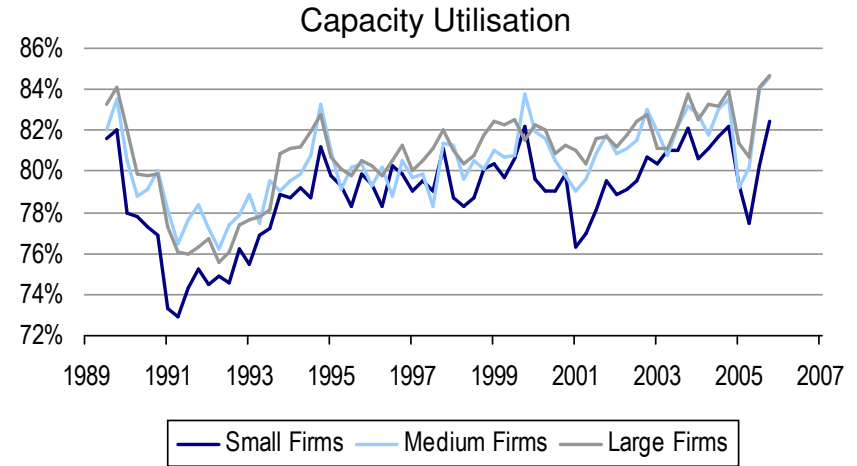
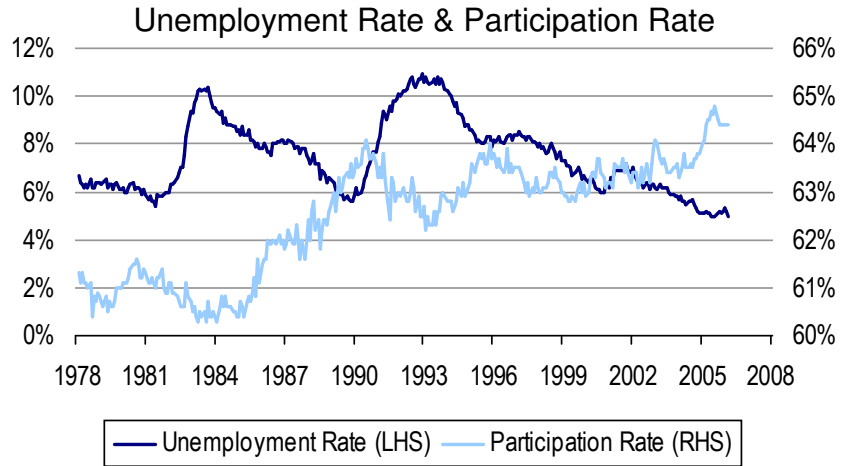
Australian Economy

- Fourteen years of solid growth have resulted in high capacity utilization
- Unemployment is low and wages are growing above GDP
- This means that the inflationary pressure must be high

...but...

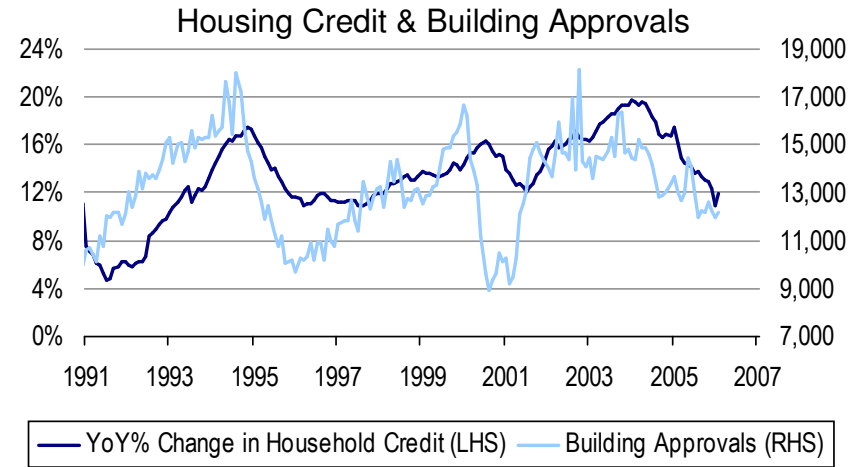
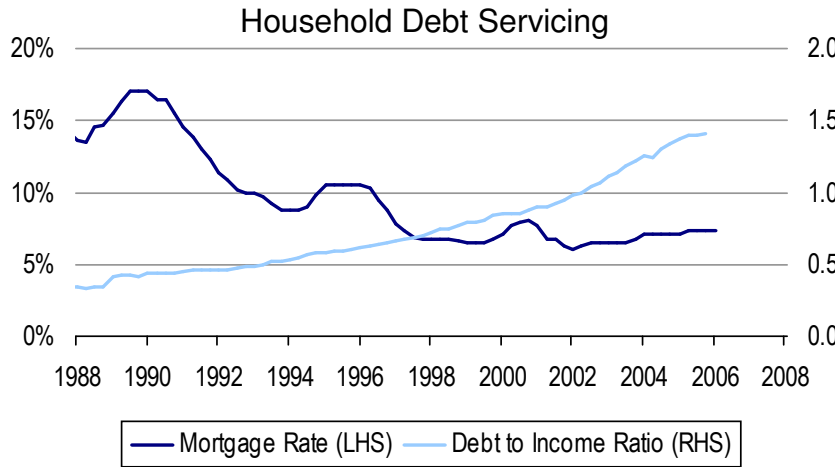
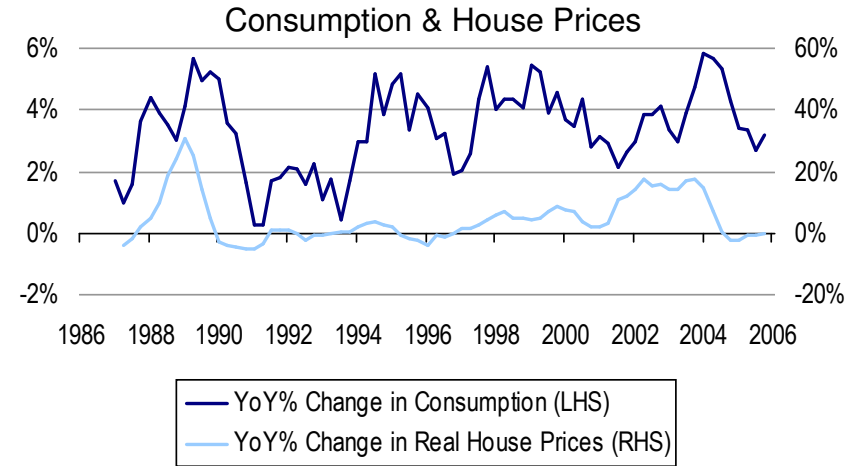
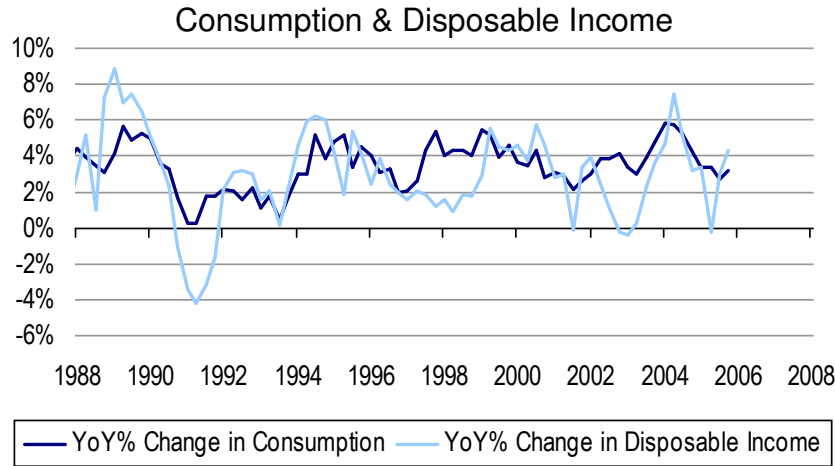
- Consumption is subdued and strong incomes are used to pay down the debt rather than spend
- This has kept the inflation in check and enabled rates to stay on hold for over a year

Australian Economy



Sources: Datastream, Credit Suisse

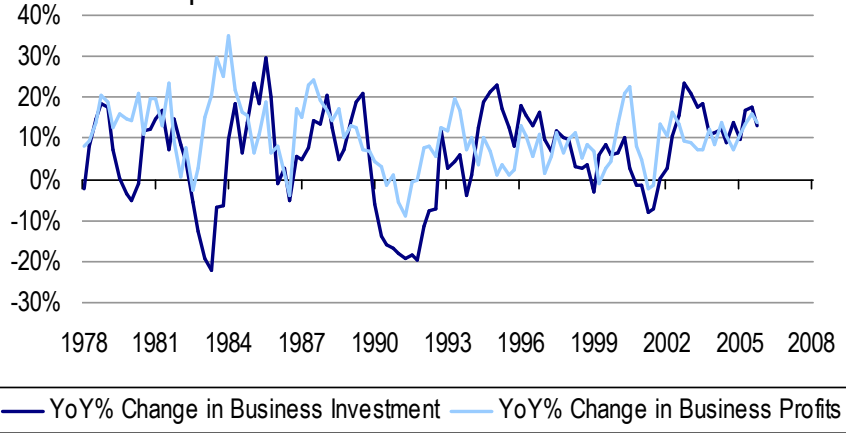
Australian Economy



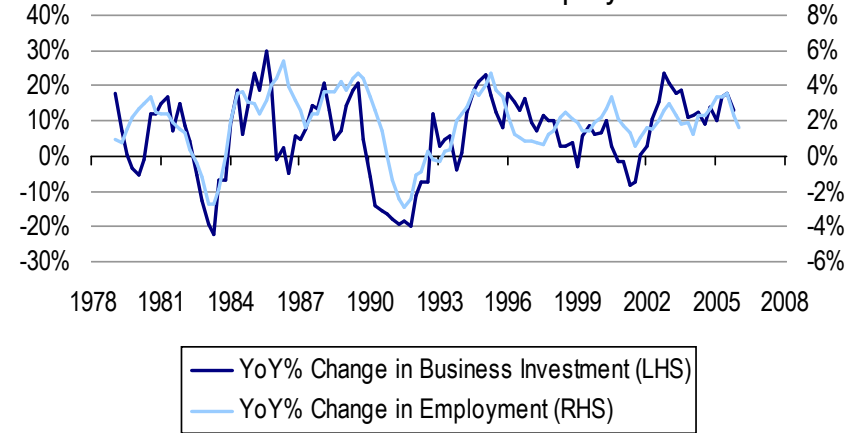
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Australian Economy

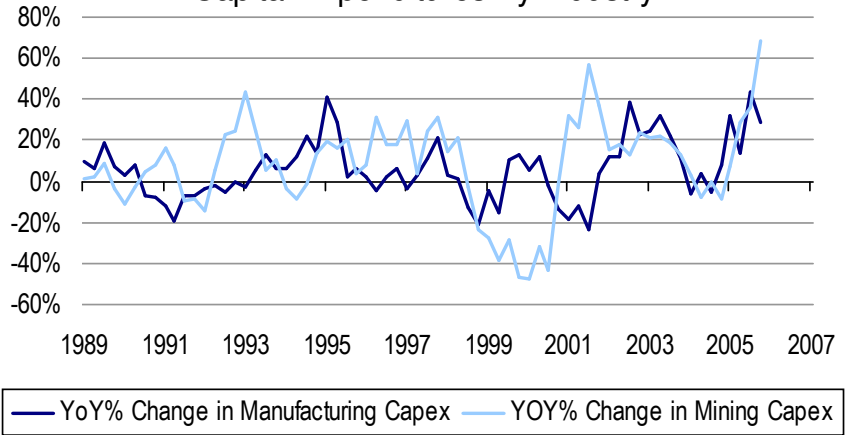
Corporate Profits & Business Investment



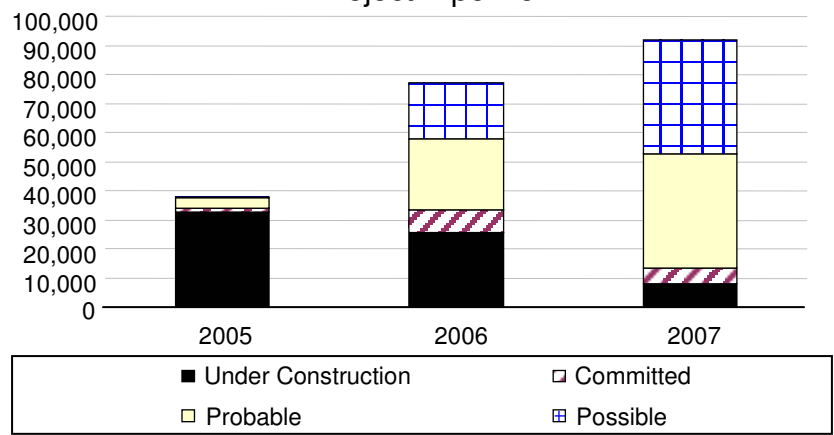
Business Investment & Employment



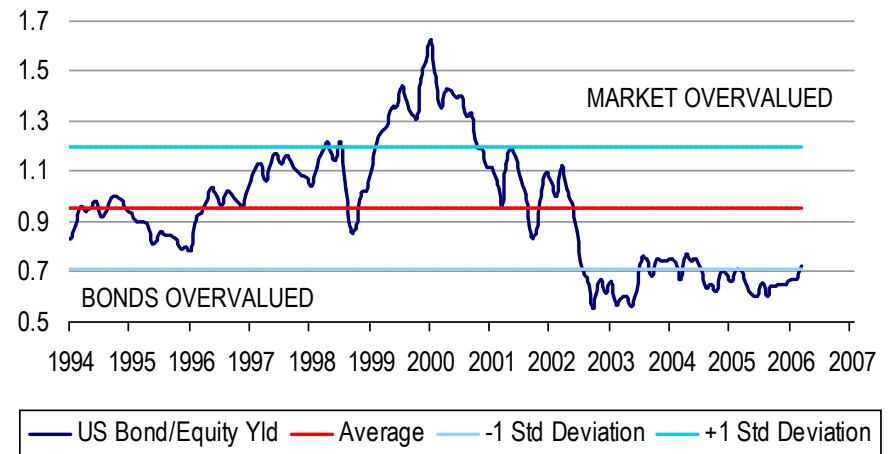
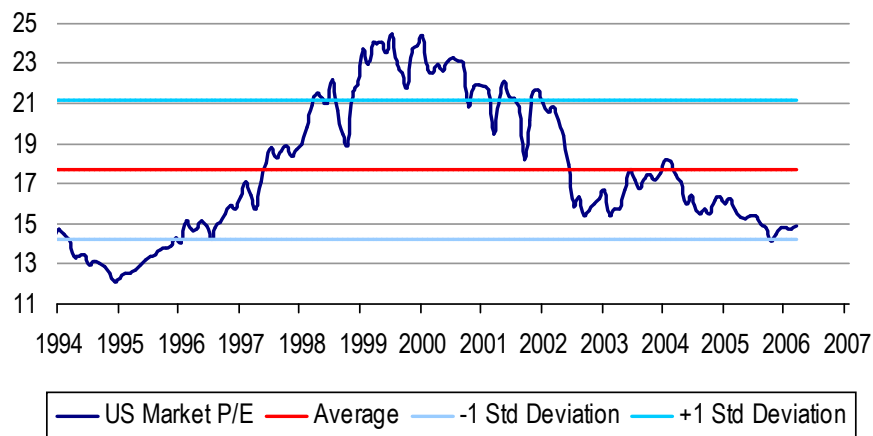
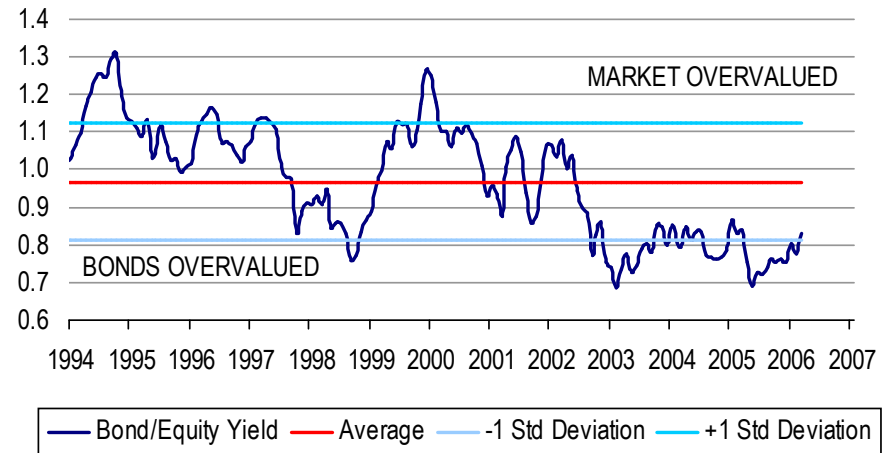
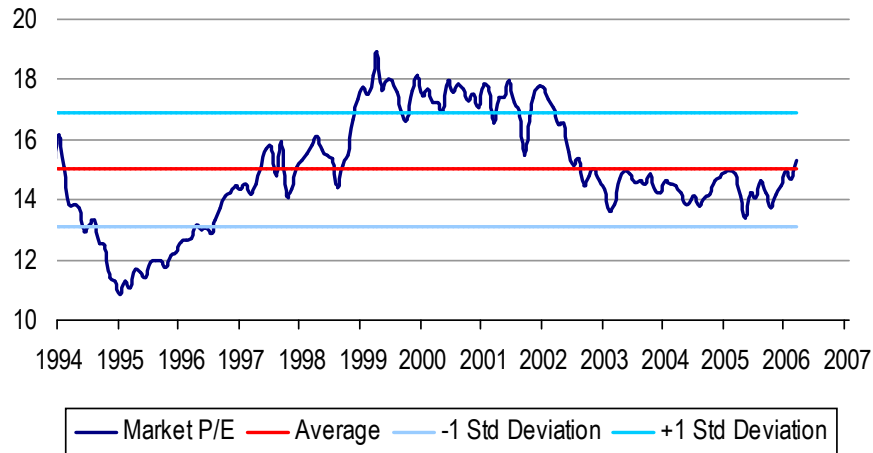
Capital Expenditures By Industry



Project Pipeline



Valuations





Outlook

- **Global growth is accelerating and the inflation tame**
- **Australian growth has slowed but the economy is still strong**
- **Global yields are rising with higher interest rates**
- **Monetary conditions are not restrictive**
- **Equities are still attractive relative to bonds globally**

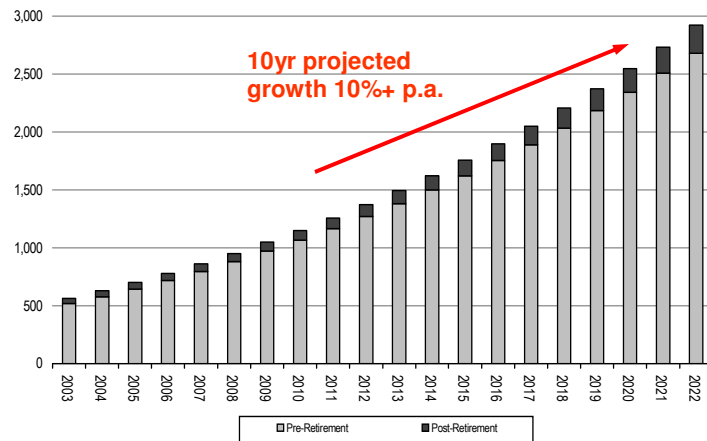
...therefore...

- **Stay with growth equities**
- **Watch out for input costs**
- **Be aware of rising global yields**

Demand

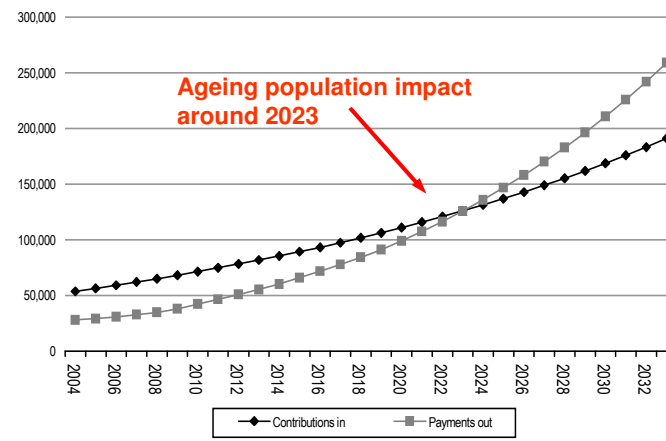
- Demand for equities boosted by compulsory saving regime

Trowbridge Deloitte superannuation projections (2003 – 2023) – A\$b



Source: Trowbridge Deloitte Super Model

Superannuation projected inflows and outflows (A\$m)



Source: Trowbridge Deloitte Super Model

Superannuation Funds & Contribution Rates

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Superannuation Funds	247,150	285,397	340,303	374,874	445,663	492,978	518,548	507,716	565,949	692,968	844,600
Member Contributions	7,706	9,000	12,115	15,496	18,898	21,907	23,405	20,781	20,899	22,836	17,844
Employer Contributions	17,153	19,121	20,237	21,843	33,076	25,787	28,703	31,001	37,317	37,412	39,434
Total Contributions	24,859	28,122	32,352	37,339	51,974	47,694	52,108	51,781	58,216	60,248	57,278
Net Contribution Flows	9,180	13,040	18,311	22,391	35,296	27,180	31,172	29,357	40,562	38,961	34,469
% Super Funds	3.7%	4.6%	5.4%	6.0%	7.9%	5.5%	6.0%	5.8%	7.2%	5.6%	4.1%
% Total Wages	3.8%	5.2%	7.0%	8.2%	12.5%	8.9%	9.7%	8.5%	10.9%	9.9%	8.2%

Contribution momentum ~5%pa

Source: RBA, ABS, APRA, Credit Suisse estimates

Disclosure Appendix

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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Neutral/Hold*	44%	(59% banking clients)
Underperform/Sell*	15%	(52% banking clients)
Restricted	3%	

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