

FINPRO TALK

"ECONOMIC OUTLOOK – JUST IN TIME FOR BUDGET TIME"

2 March 2012

1. Thanks and introduction – 10-15 mins for question at end
2. Had I given this talk 2-3 months ago, the outlook was pretty gloomy
 - a. Greece defaulting
 - b. Other Euro countries to follow
 - c. US economy stagnant
 - d. RBA forecast to cut rates by 1.0 to 1.5% to 3.0% or less
3. Things are looking a bit better now
 - a. Greece has been saved (for the time being)
 - b. Euro is holding together
 - c. 2 nights ago C'man of Fed Reserve, Ben B, said US economy was showing "signs of improvement"
 - d. China and India are still growing strongly (China 8-9%pa; India 6-7%pa)
 - e. RBA left rates on hold 4 weeks ago
4. Things that still worry me
 - a. Funding costs for the big banks are rising, hence local monetary policy is becoming weaker (contrast ANZ's recent retail bond at 7.2% vs 3yr mortgage rates of 5.99%)
 - b. Banks cutting costs is like the 'canary in the coalmine'
 - c. Despite falling to 5.1%, local unemployment is set to rise – to 6%?
 - d. The carbon tax is on its way – airlines already announcing ticket surcharges and AGL is raising \$1.5bn to buy Loy Yang A – must be confident it can pass on carboc tax to customers
 - e. State and Federal Govts are determined to get back into surplus asap – meaning no room for fiscal expansion should Aust economy deteriorate
 - f. Lot depends on Canberra's new mining tax – yet this in turn depends on China continuing to grow
 - g. Federal politics is a mess
 - h. Property prices remain sluggish
 - i. Vic missing out on mining boom's capex spending
 - j. Risinf oil prices due to tensions in Middle East
5. Predictions & Advice
 - a. Statistically the sharemkt should rise this cal year after 2 down years (last happened 30 years ago)
 - b. Even if RBA cuts (another 50bps likely), Big 4 Banks are unlikely to follow to any sig degree – therefore lock in borrowing costs SOON
 - c. Upcoming federal budget will look bad, as all the 'good' news on revenue and costs will be pushed into next year
 - d. A\$ could be near its peak if US recovery continues (which I think it will). Europe is another story
 - e. ATO will become more aggressive within existing rules to maximise revenue – so unambitious tax planning is a must
 - f. Carbon tax will push up power prices at least another 10%, and eventually compensation will be wound back