

THE ECONOMIC OUTLOOK

ALPINE NURSERIES

Dr Don Stammer

Sydney 24 MAY, 2011



Disclaimer

The content of this presentation is of a highly general nature and has been prepared without taking account of the objectives, financial situation or needs of any particular individual or business. It does not constitute formal advice.

Let me Start with a Question

In my 50 years of experience, what would you think would be the most frequent mistake I've seen investors and businesses make?

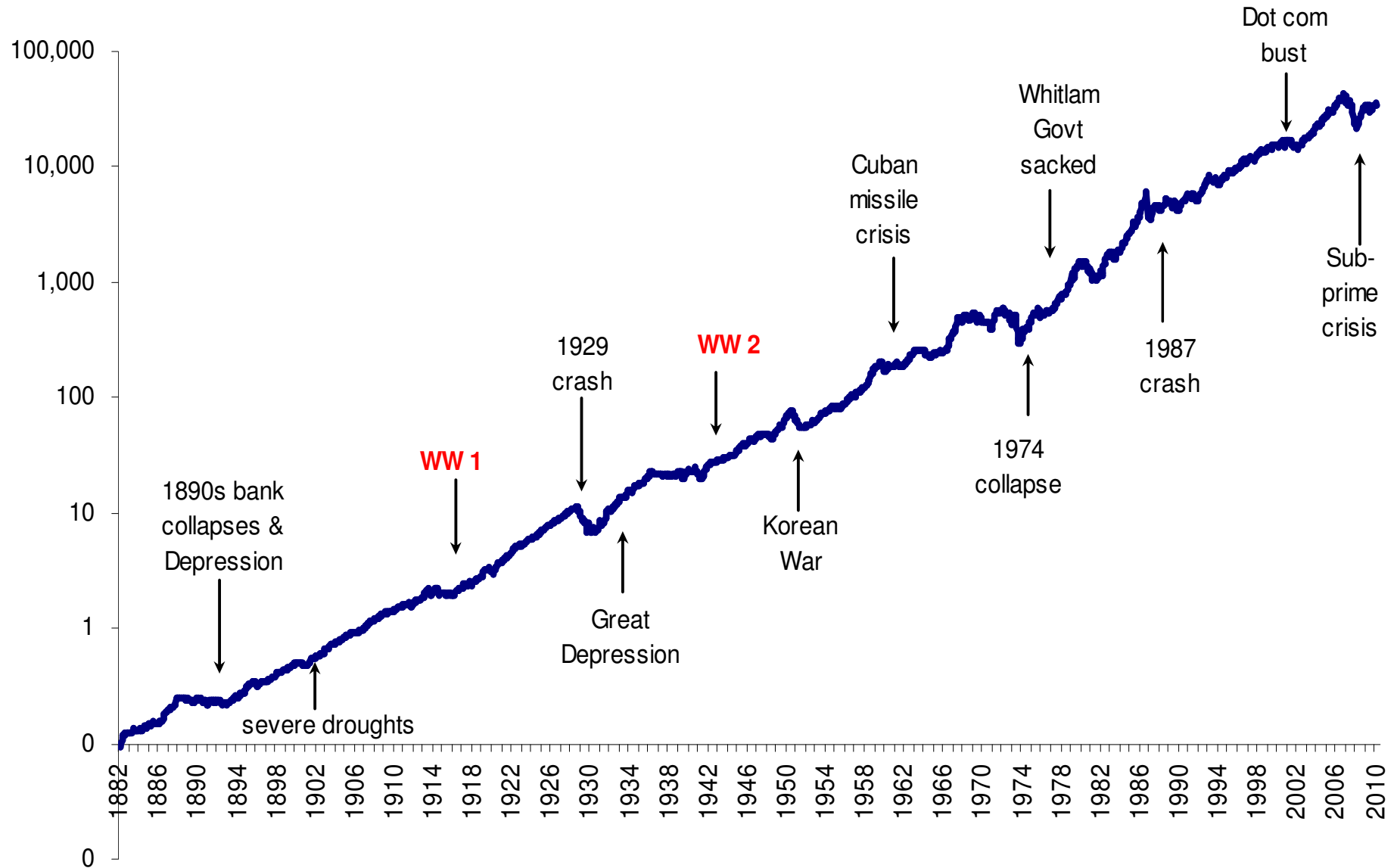
The Most Recurring Mistake

Too often, investors and businesses take the current PHASE of the business cycle and extrapolate it ahead as a new TREND

Trend v. Cycle

- **The TREND is what happens over the medium and longer-term**
- **Trends don't change very often (among the exceptions: float of A\$, China)**
- **The CYCLE is the ups and downs around the trend**
- **There'll always be cycles**

All Ords Accumulation Index: 1882 - 2011

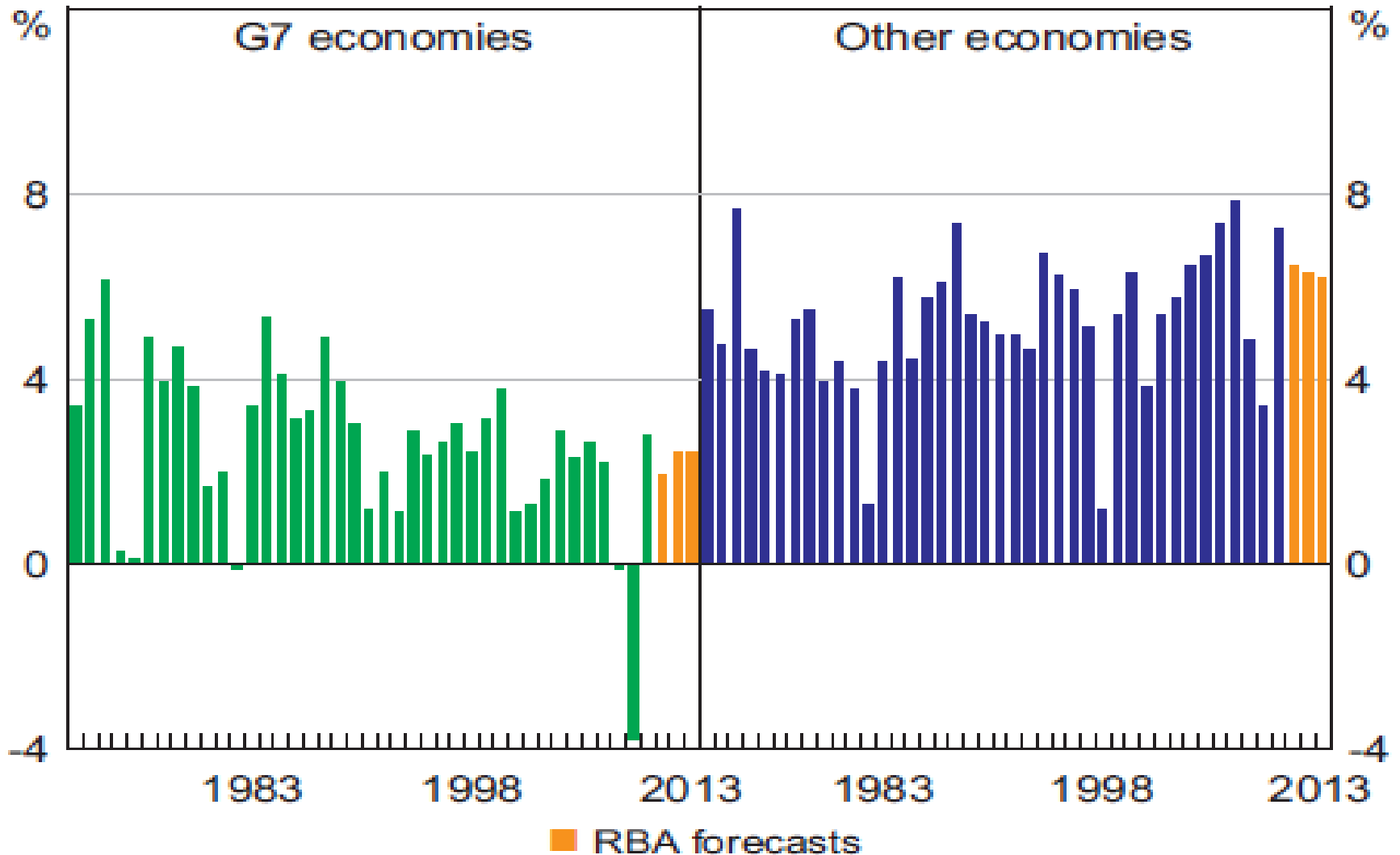


The Global Economy

- **Growth of 5% in 2010; IMF says 4% in 2011**
- **But growth is uneven by region**
- **Emerging economies are leading the growth**
- **Surge in commodity prices is increasing incomes in Australia but high A\$...**
- **Our links with Asia a long-term benefit**
- **Risks: China overkill on inflation; oil price**

Global GDP Growth*

Year-average



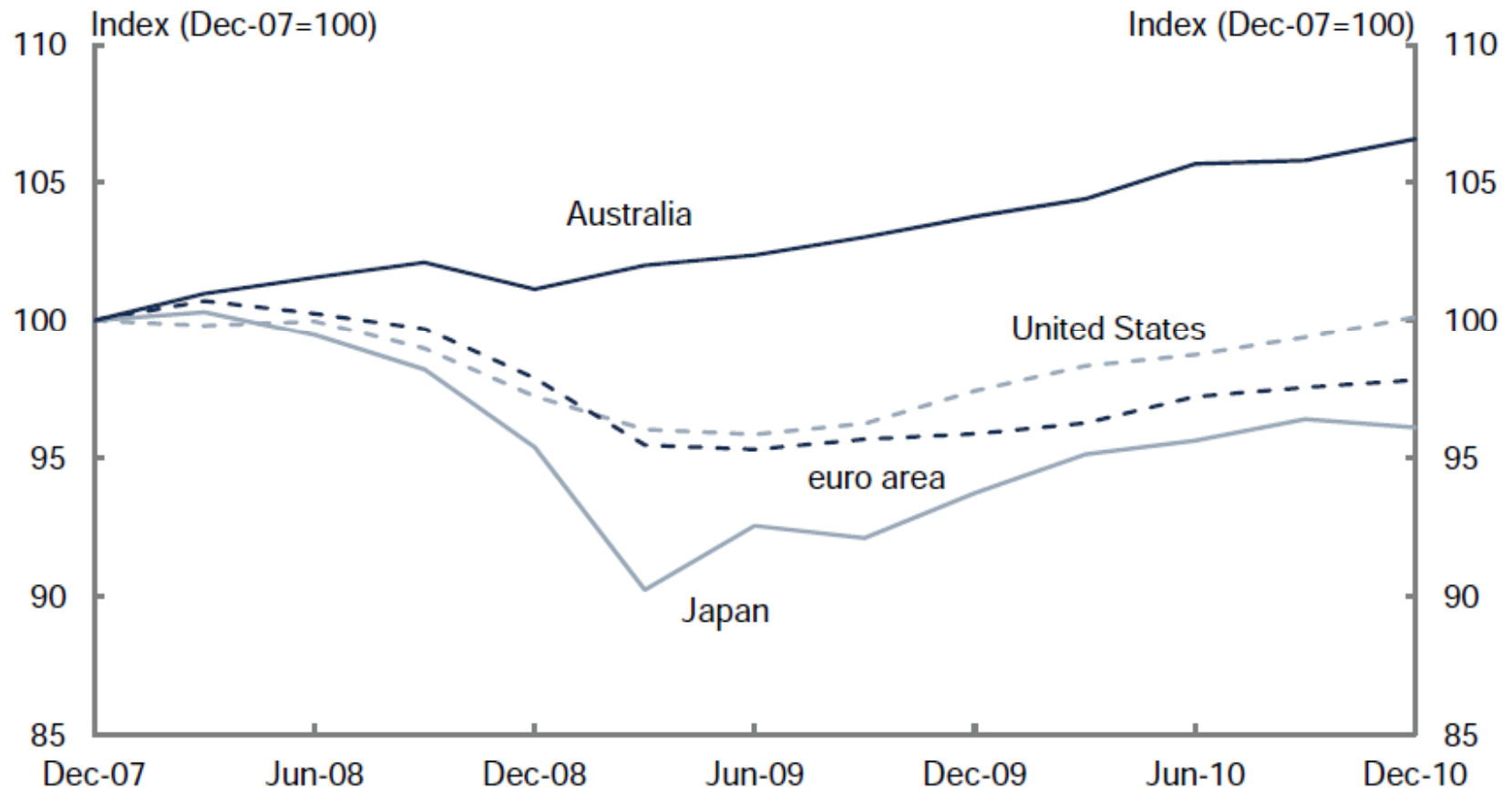
* Australia's major trading partners; weighted using output shares at market exchange rates

Sources: CEIC; IMF; RBA; Thomson Reuters

The Australian Economy

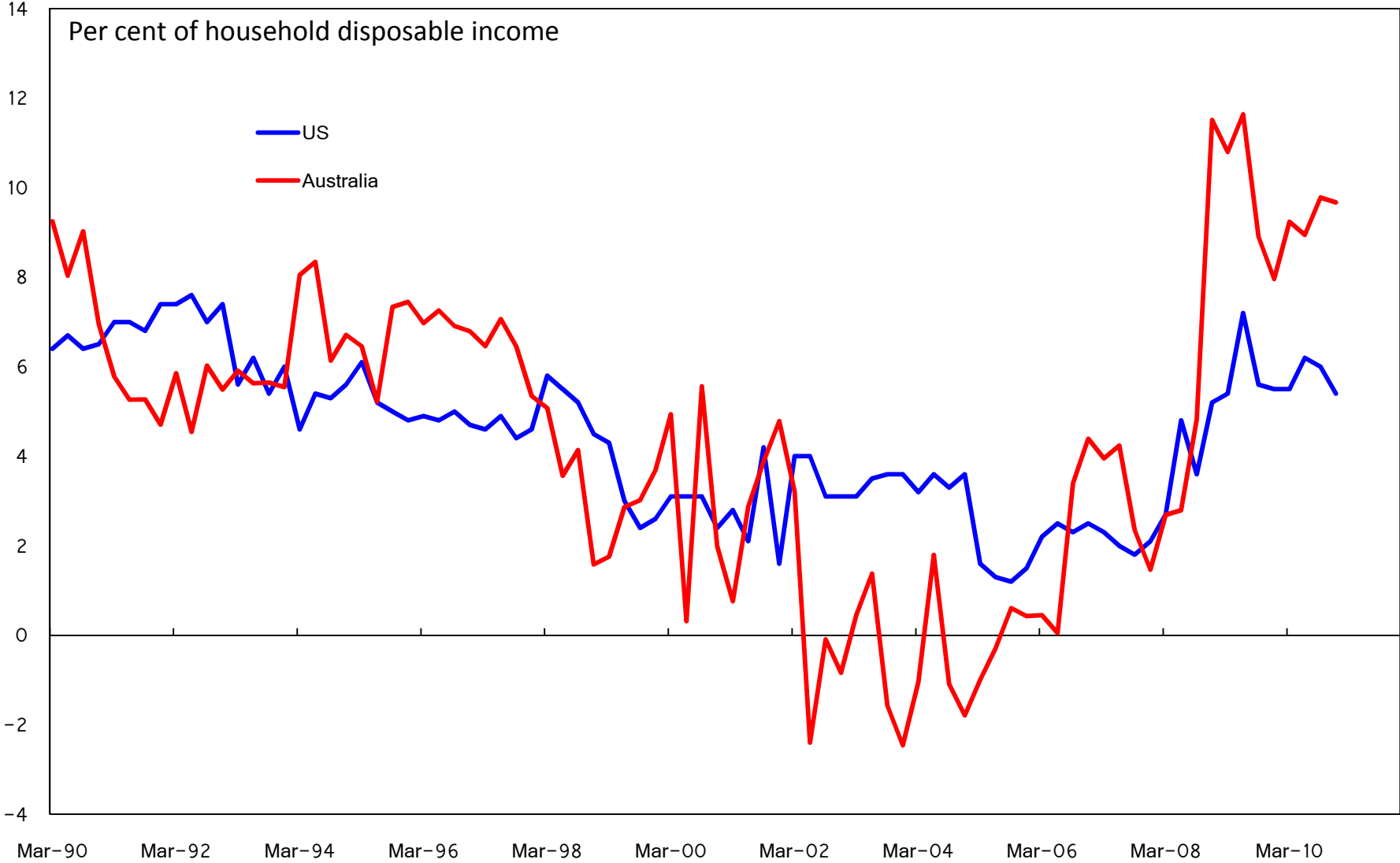
- Largely avoided the global recession
- Commodity prices at 140 year high
- Very uneven by region and industry
- Strong labour market; hints of inflation
- Population growth still fairly strong
- Households have been cautious: more saving; cutting debt
- Strong A\$ creates benefits and problems
- Treasury and RBA say growth of 3%/3.5% in 2011/12
- Long-term outlook is sound

REAL GDP (12/2007 = 100)



Source: ABS cat. no. 5206.0, national statistical agencies, Thomas Reuters and Treasury.

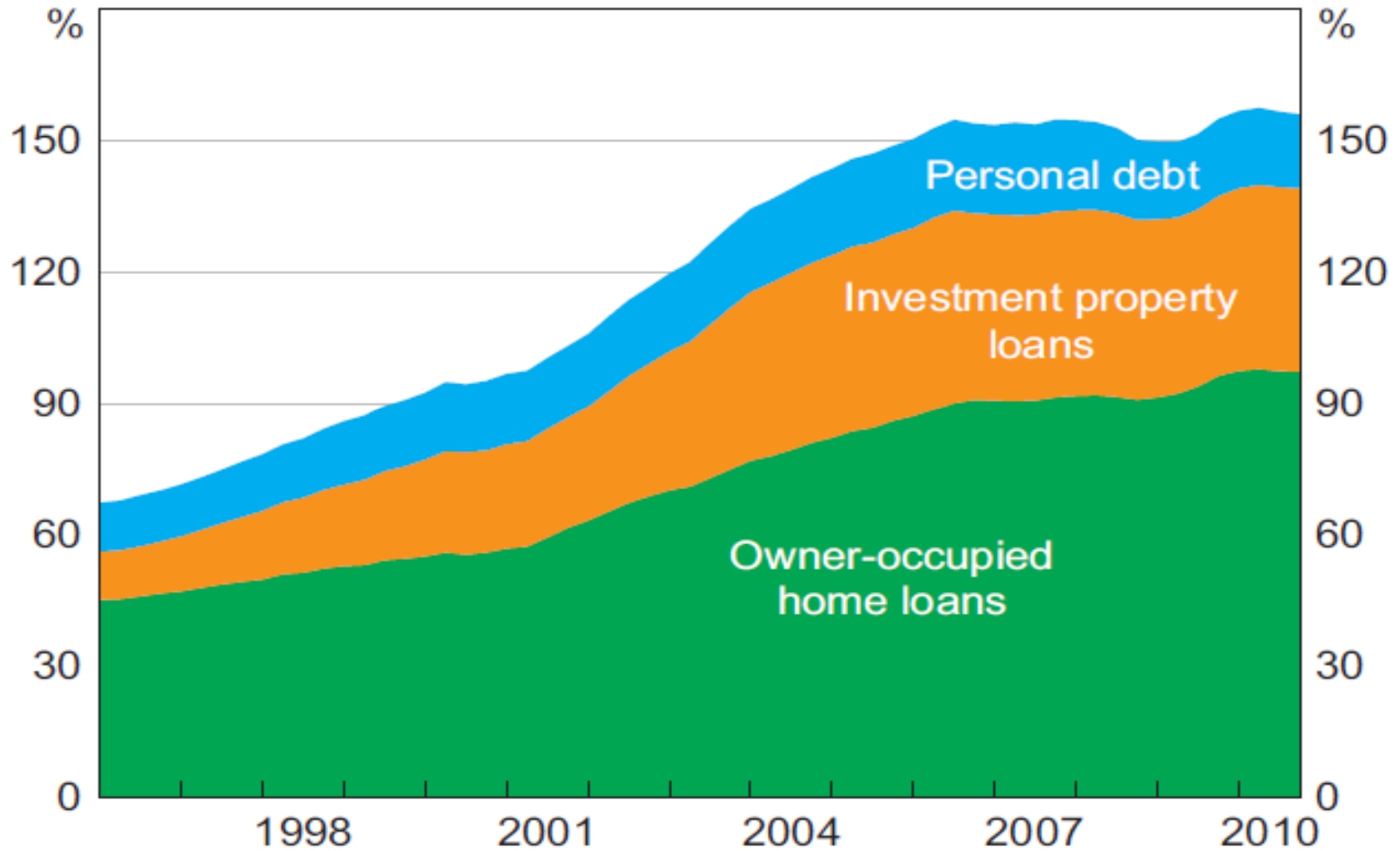
Household Saving



Source: ABS, BEA

Household Debt

Per cent of household disposable income*



* Before the deduction of interest payments

Sources: ABS; RBA

The NSW Economy

- **NSW under-performed over the last decade**
- **Now doing a bit better**
- **Huge under-investment in infrastructure**
- **New Government's budget in September**
- **NSW will do better from the change in Government – but given the problems, gains are likely to be slow**

The Sydney Region

- **A great place to live but hard to get around**
- **Housing is expensive – av. prices to be flat?**
- **Better infrastructure is coming – but slowly**
- **More housing blocks likely to be available but still limited; more apartments than houses**
- **Further spillover to Blue Mountains, Hunter**

House Prices

- **In Australian cities, especially Sydney, house prices are high relative to other countries**
- **Housing: affordability is again a problem**
- **Many predictions of a crash in house prices**
- **What's more likely, in my view, is a lengthy period of average prices being flat – as in 1990s**

Be Aware of the Risks of Inflation

- **Inflation could increase over coming years: strong economy; wage increases; commodity prices; global money supply; carbon pricing**
- **Inflation damages retirement planning, especially on defined contributions super**
- **Inflation complicates business: need to raise selling prices; shortens investment horizons**

Some Other Thoughts

- **Interest rates are likely to rise further**
- **Changes in industrial relations, OH**
- **Often, shortages of employees not of jobs**
- **Uncertainties about carbon tax/ETS**
- **Profound effects from ageing of population**
- **Shift of superannuation from defined benefits to defined contributions**

Challenges to SMEs

- **Modest growth in consumer spending**
- **Bank loans harder to get**
- **Interest rates likely to increase**
- **Petrol and electricity prices**
- **Internet adds to competitive pressures**
- **Changes industrial relations**
- **BUT: favourable years for Australia lie ahead;
good rewards for individual success**