

15 November 2005

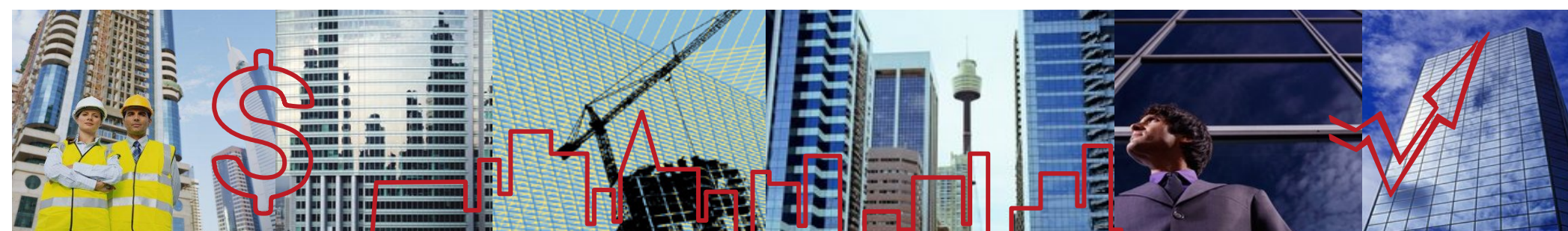
Economic Overview Construction Outlook Forum

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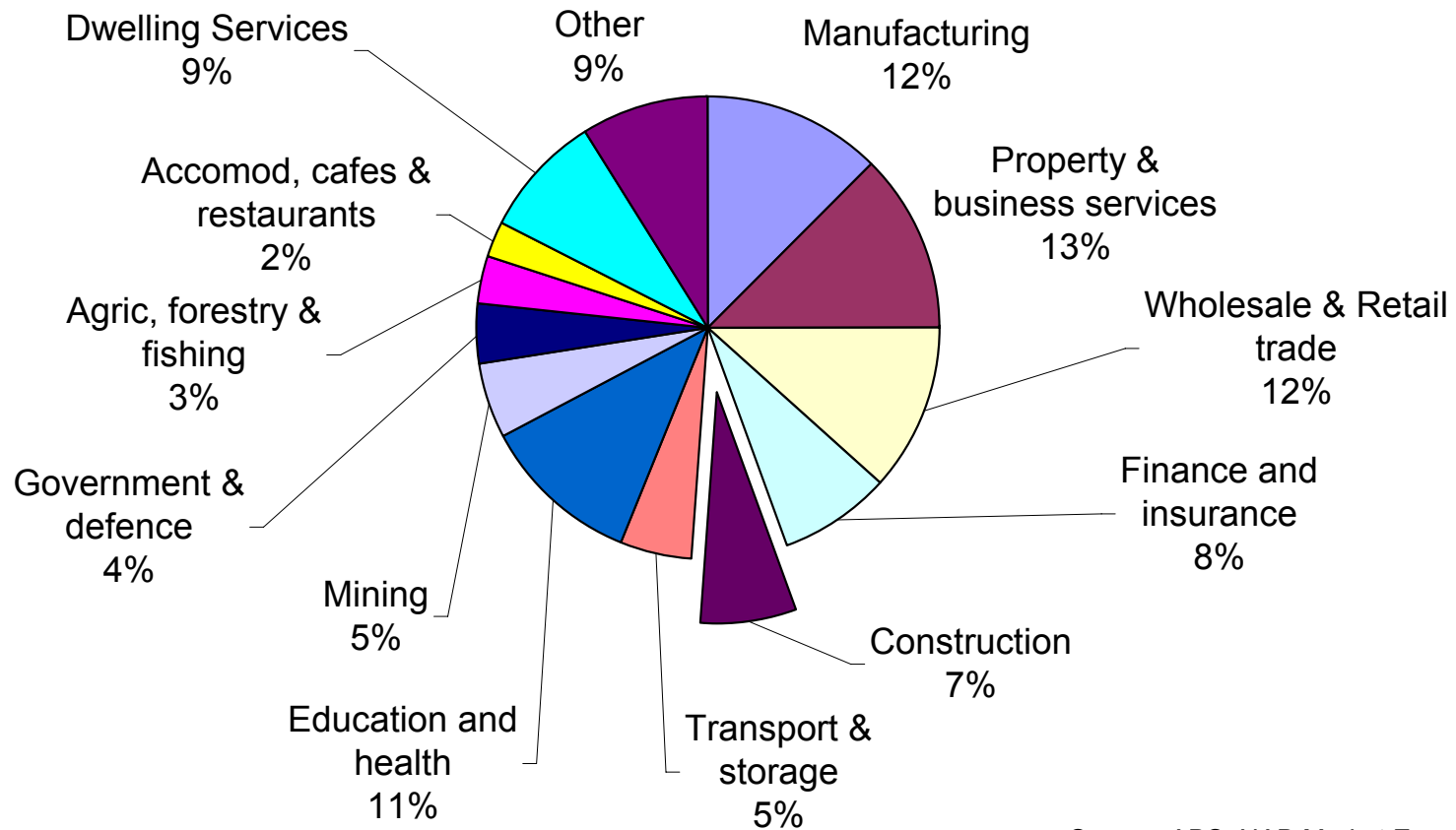
Part I

Construction and the economy



Construction's share of GDP

Contributions To GDP (\$892bn 2004-05)



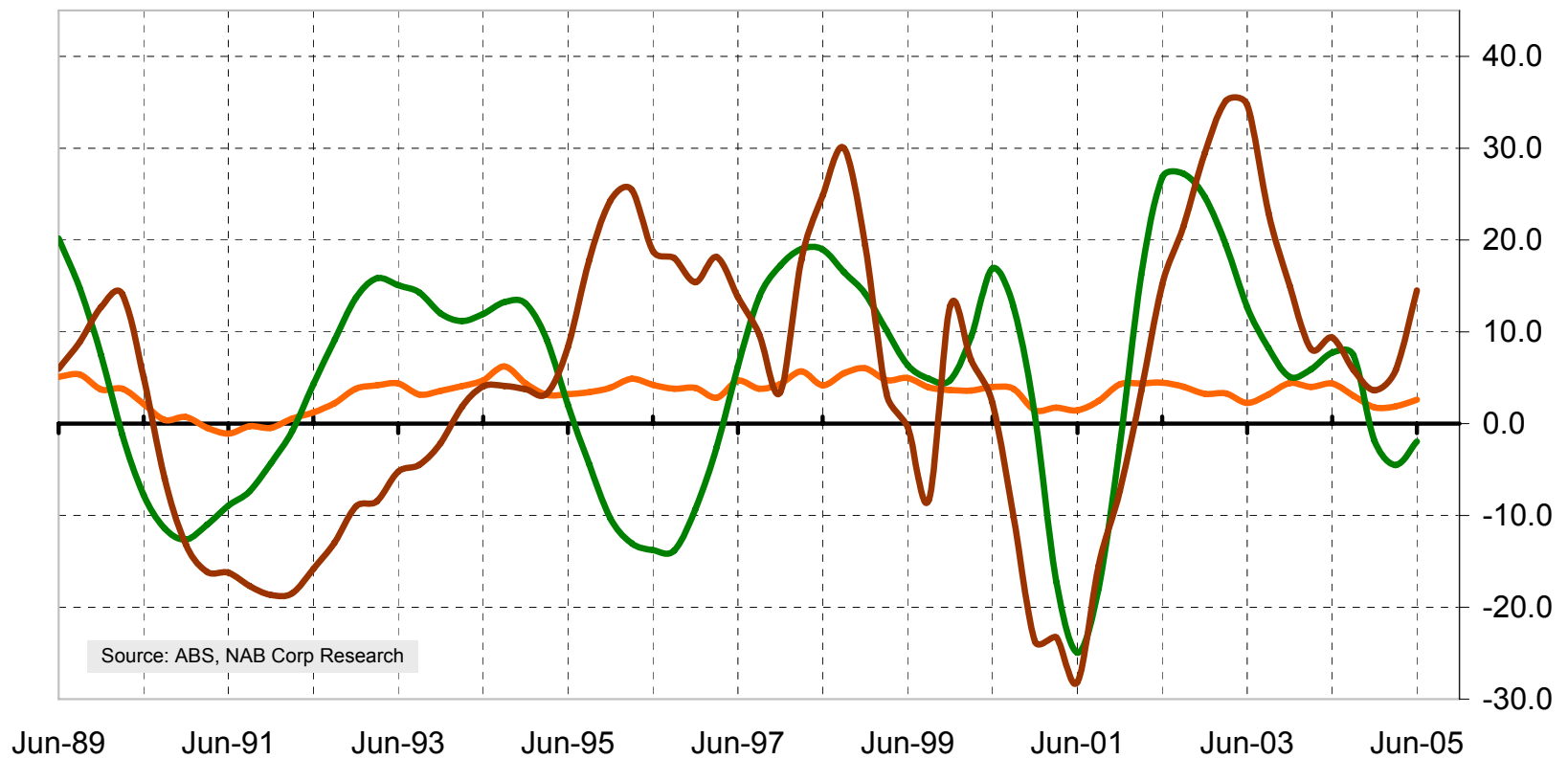
Source: ABS, NAB Market Economics

Construction cycle more volatile than GDP

GDP & Construction Investment

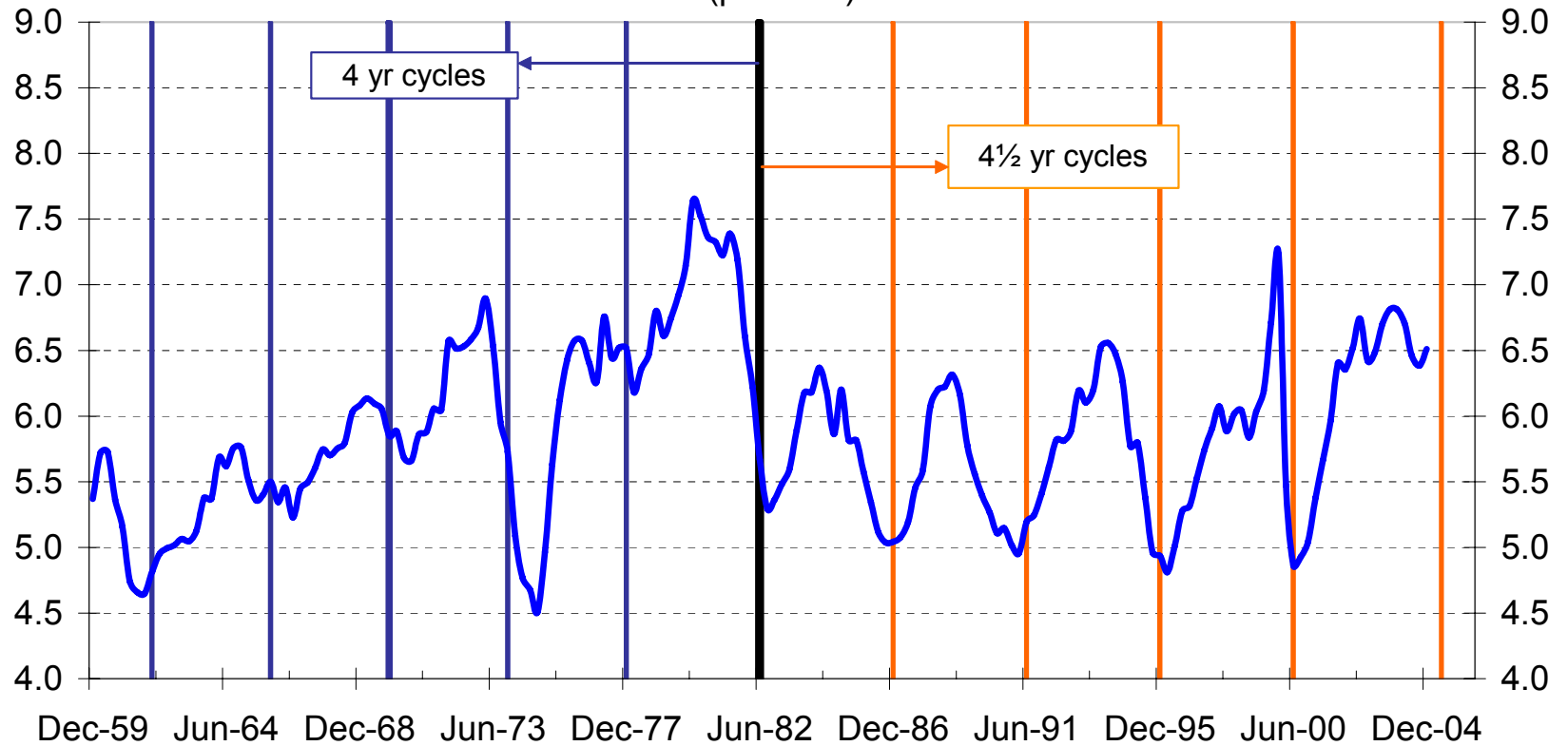
(YoY % Change, smoothed)

— GDP — Dwelling Inv — Non-dwelling construction



Dwelling investment cycle very regular

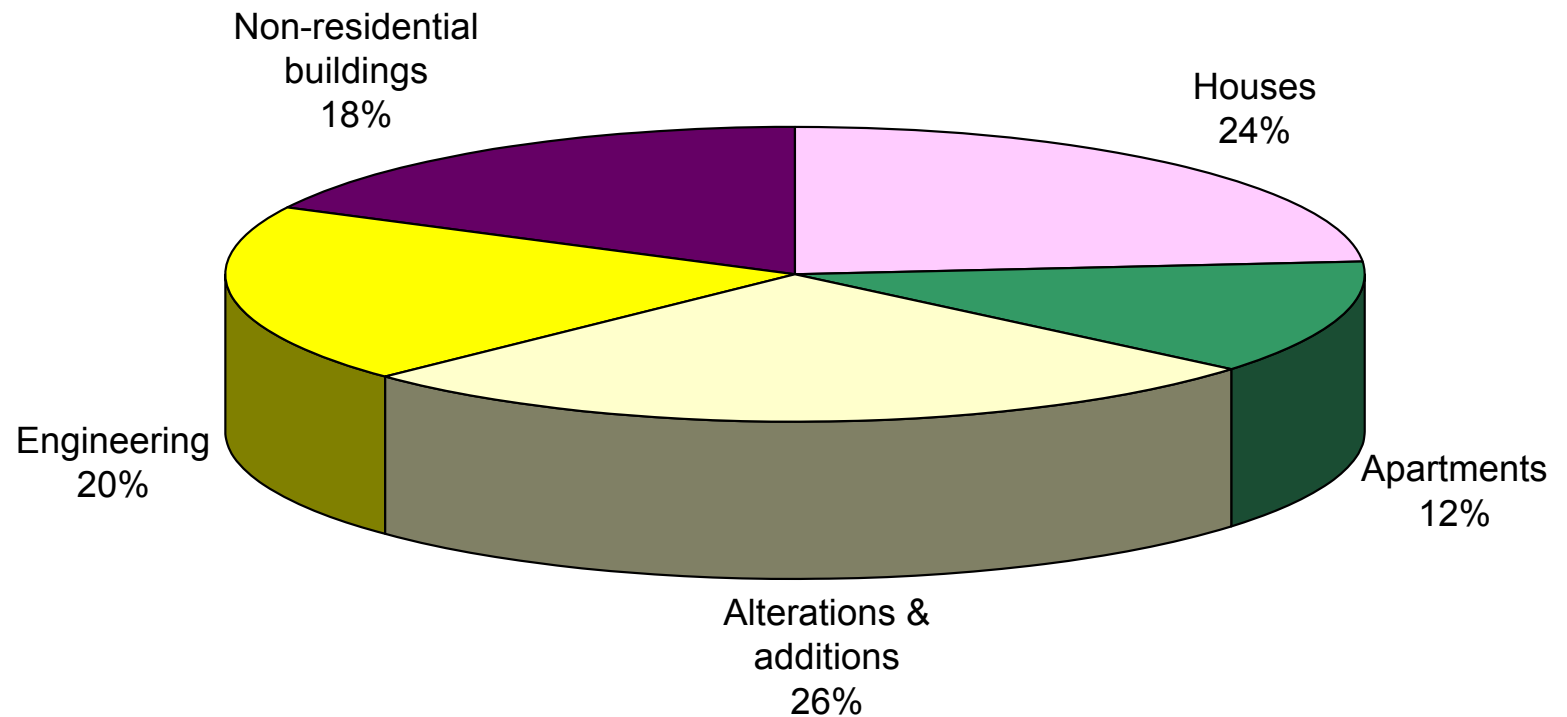
Dwelling Investment/GDP (per cent)



Source: ABS, NAB Market Economics

Construction spending by component

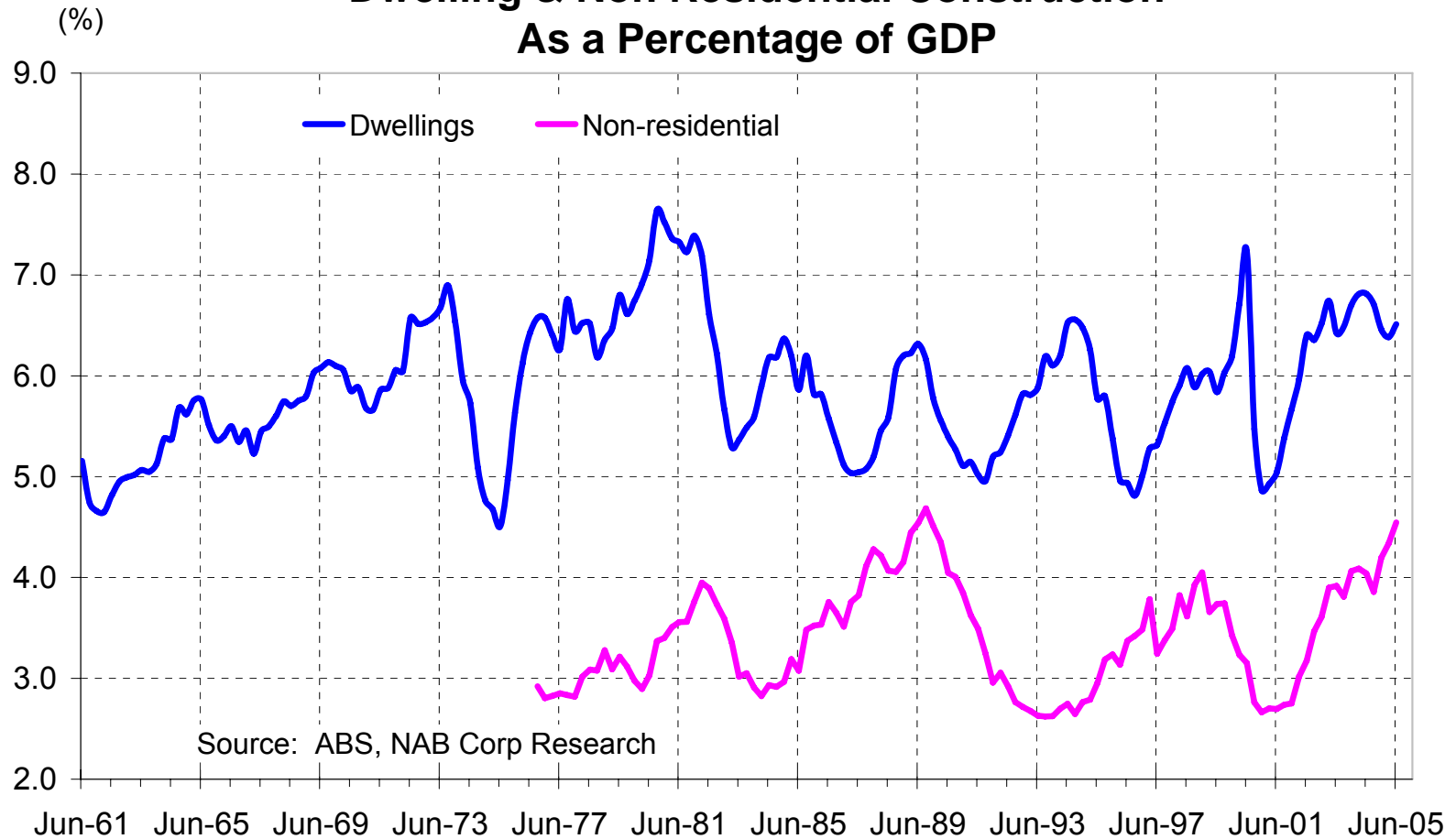
Distribution of Construction Activity
Year to June 2005
(\$83.6 bn real value added)



Source: ABS National Accounts, NAB Market Economics

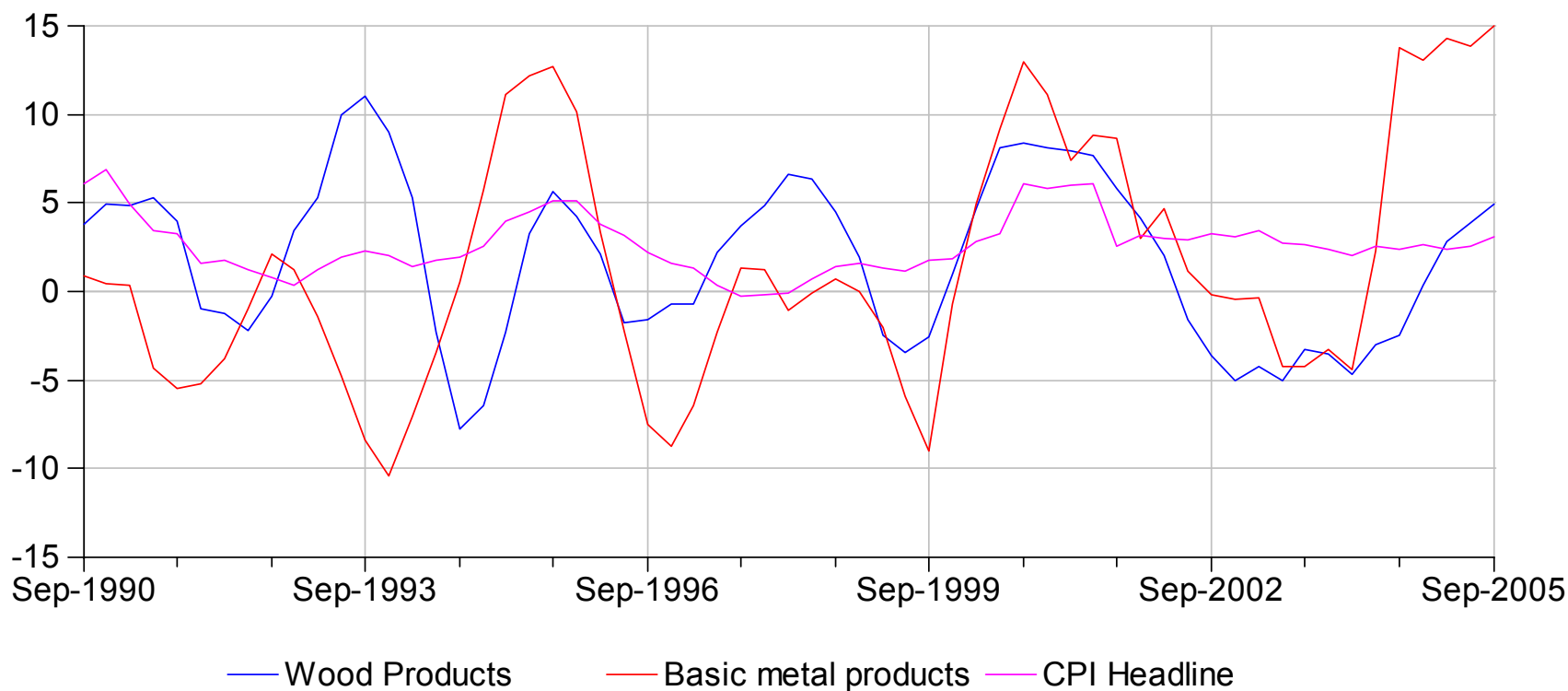
Trends in real construction

Dwelling & Non Residential Construction As a Percentage of GDP



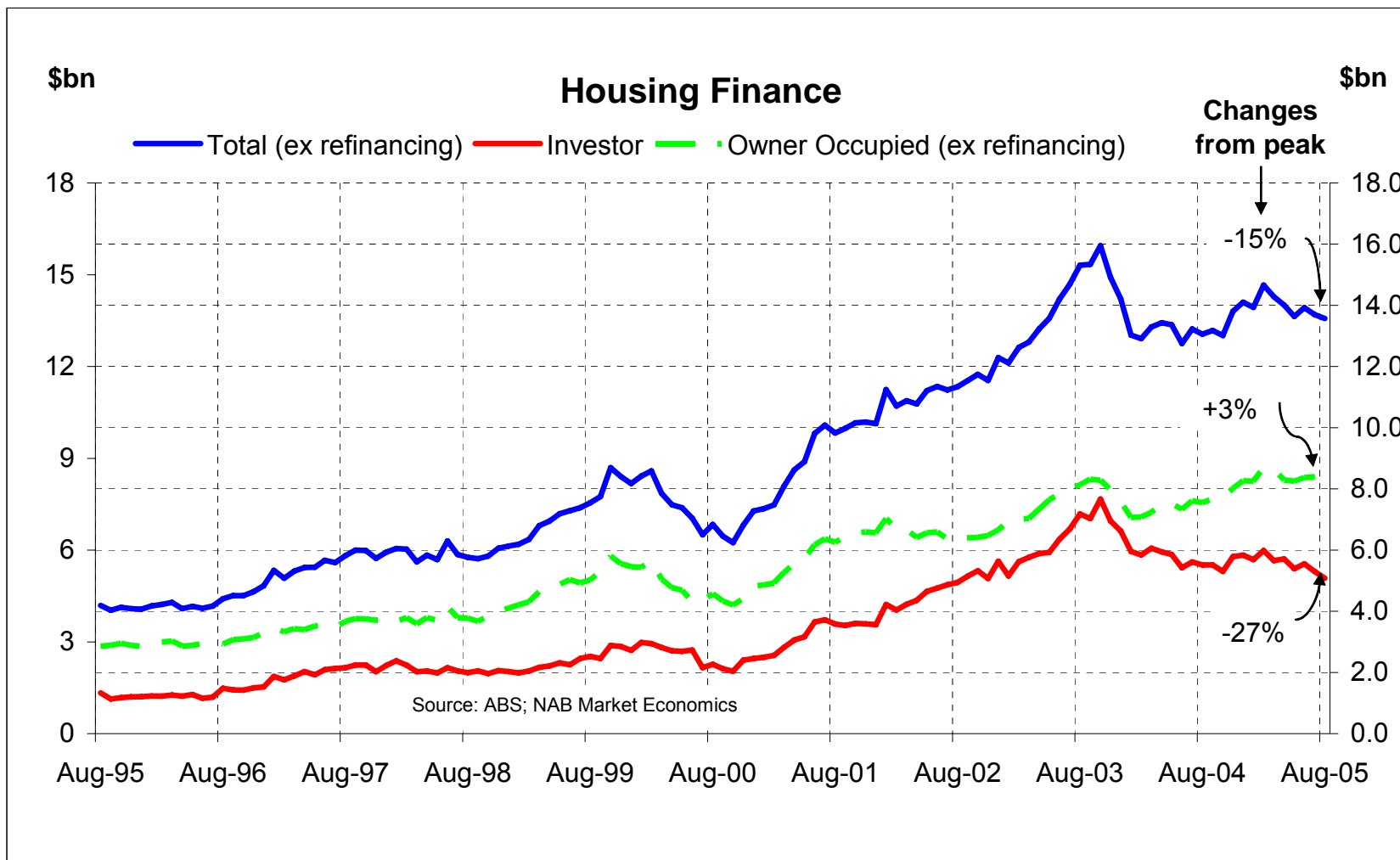
Materials prices accelerating rapidly

Materials Prices vs. CPI YoY Changes (%)



Source: DX Data

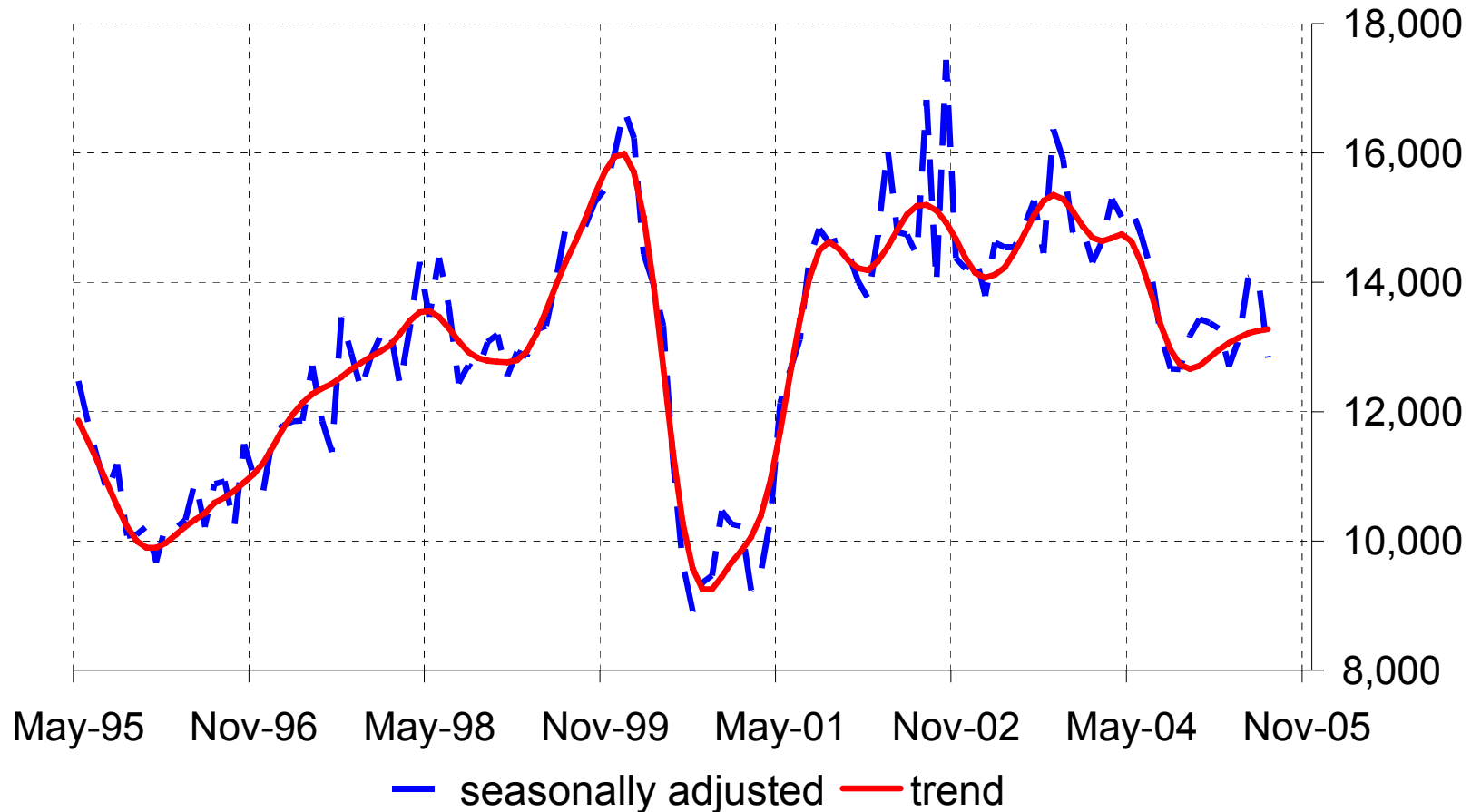
Housing demand: fell early 2004; still soft



Residential approvals: downturn relatively mild

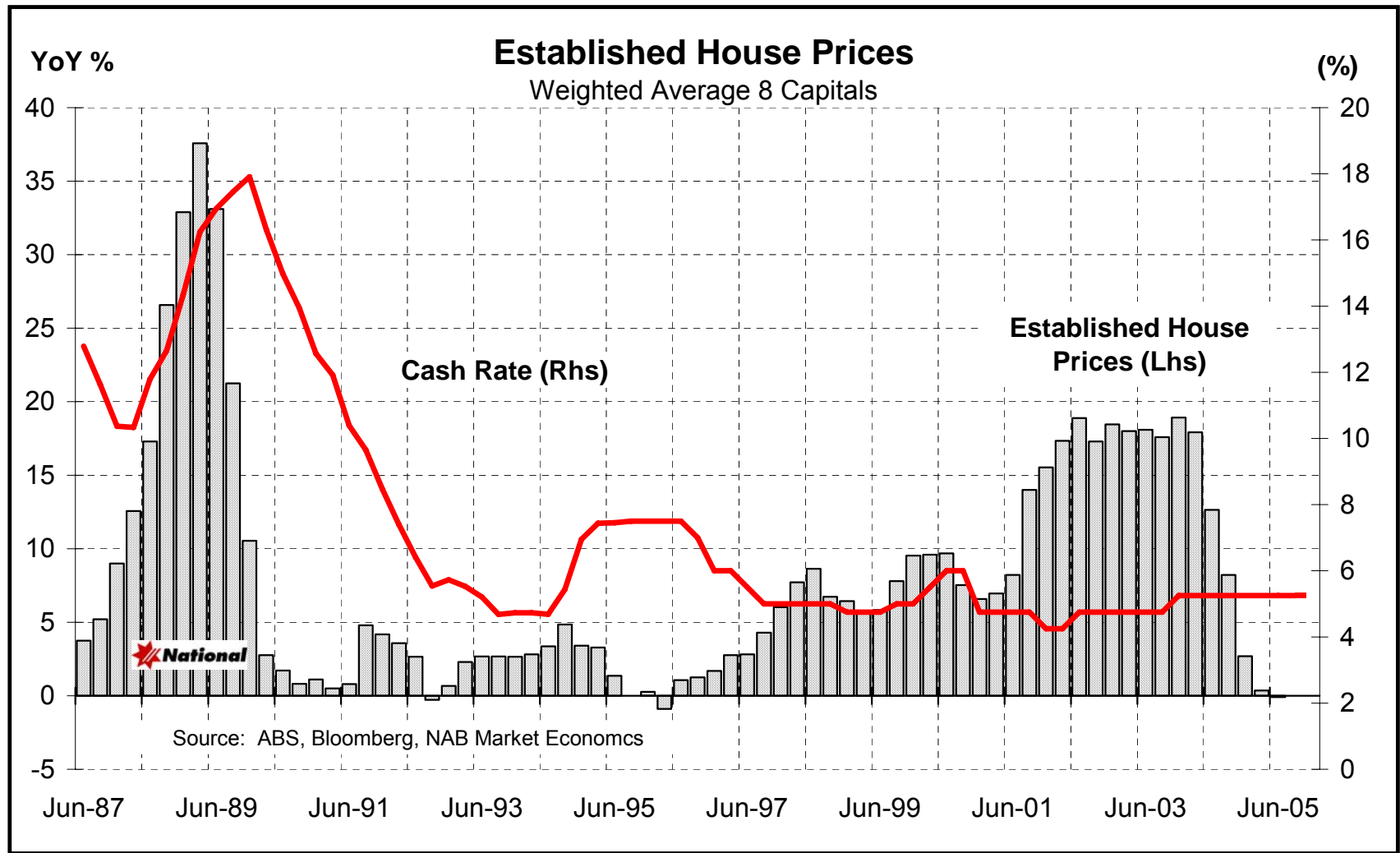
Building Approvals

Number



Source: ABS

House prices: the key to consumer weakness



House prices: latest official data

Change in House Prices June Quarter 2005		
	Qtr %	Yr %
Sydney	-3.1	-5.0
Melbourne	1.3	-1.4
Brisbane	0.8	1.8
Adelaide	1.5	7.0
Perth	3.8	11.7
Hobart	0.2	-0.8
Darwin	1.4	8.6
Canberra	0.3	2.5
Average	-0.1	-0.1
Source: ABS		



Part II

Economic outlook

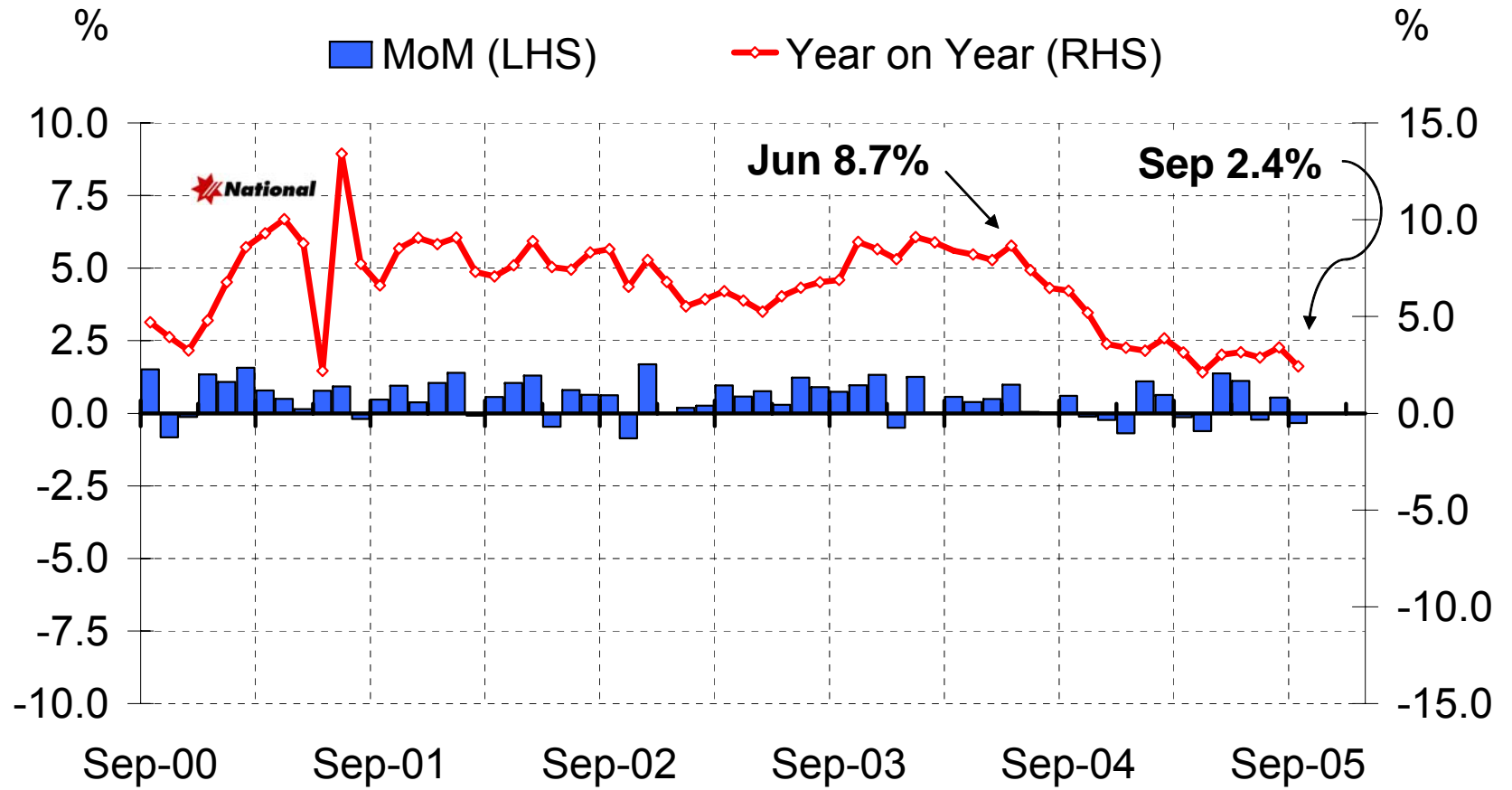


Global outlook positive for exports

Global GDP Forecasts						
annual average %	2001	2002	2003	2004	2005 (f)	2006 (f)
US	0.8	1.6	2.7	4.2	3½	3½
Japan	0.2	-0.3	1.4	2.7	2.5	2.2
UK	2.2	2.0	2.5	3.2	1¾	2¼
Eurozone	1.8	0.9	0.7	1.7	1¼	1½
Canada	1.8	3.4	2.0	2.8	2.7	3.0
Australia	2.2	4.1	3.6	2.7	2.5	3.0
New Zealand	2.6	4.7	3.4	4.8	2½	2½
India	4.5	4.8	7.3	7.3	7½	6½
China	7.5	8.1	9.3	9.5	9¼	8½
World	2.1	2.6	3.4	4.7	4¼	4
Non-Japan Asia	4.2	6.1	6.3	7.5	6½	6½
Latin America	-0.3	-1.0	2.4	5.7	5.0	3¾

Source: NAB Group Economics (Tom Taylor)

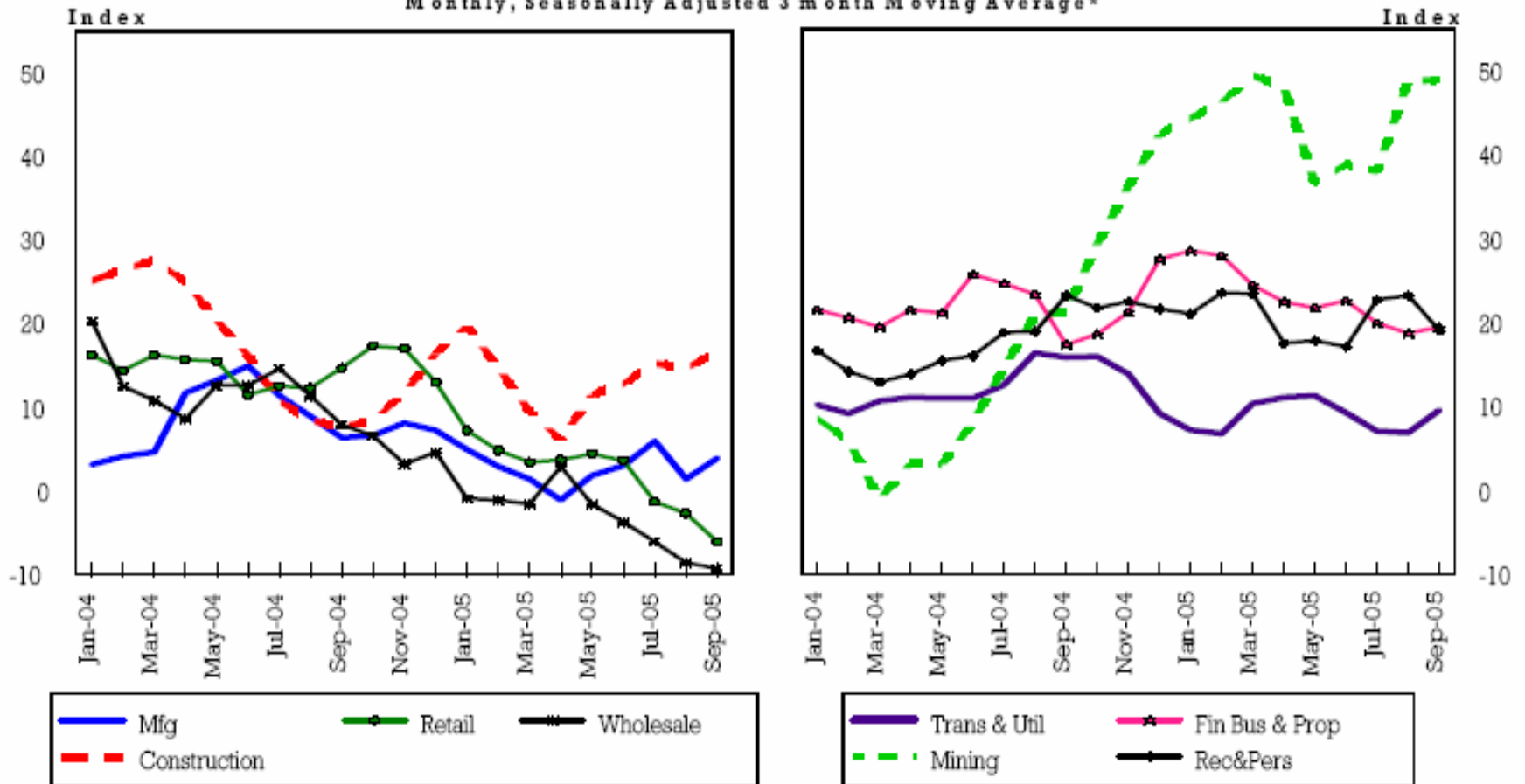
Slowing in economy led by consumption



Source: ABS, NAB Market Economics

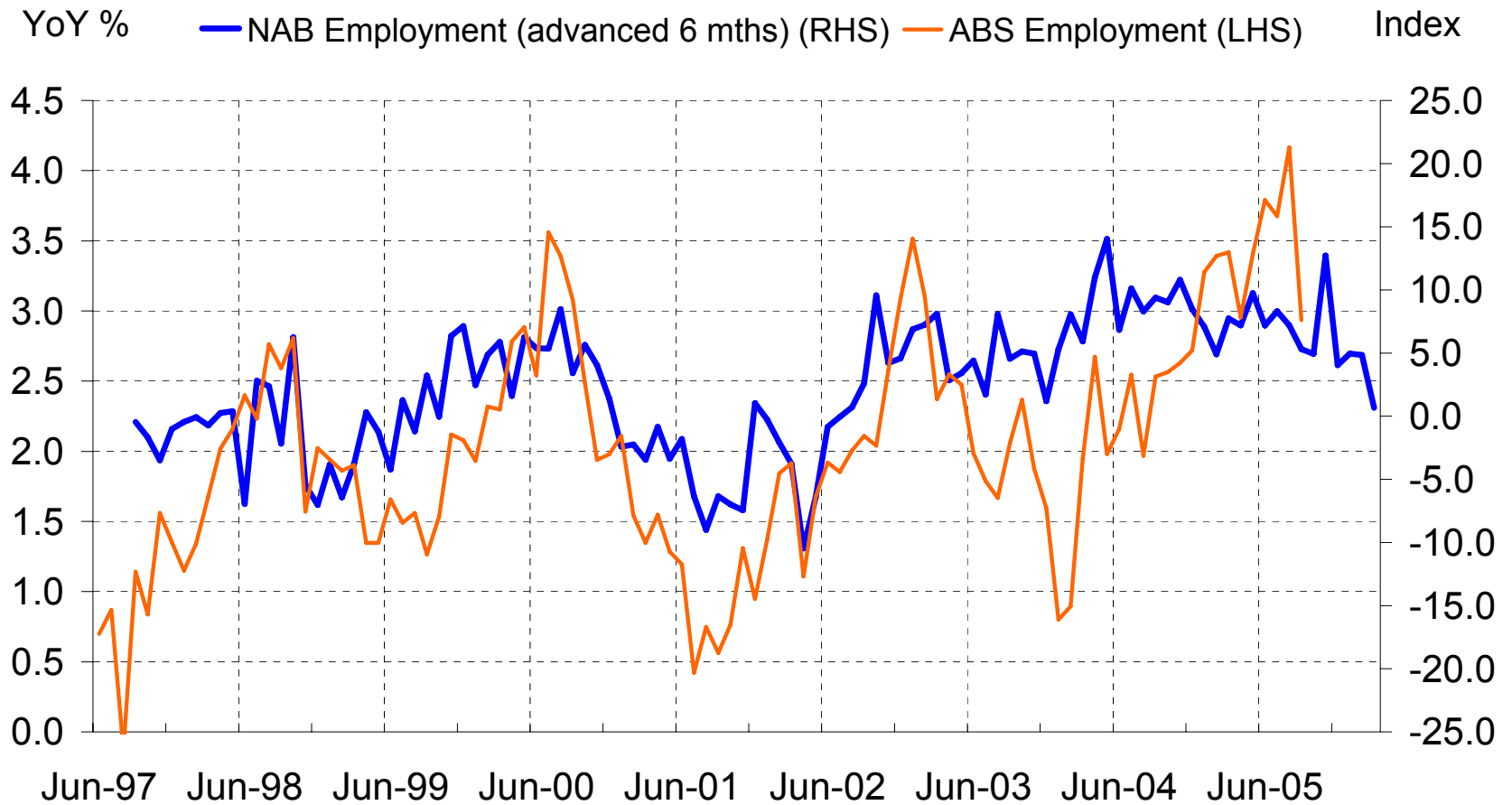
Industries exposed to consumption hurting

Business Conditions by Industry
Monthly, Seasonally Adjusted 3 month Moving Average*



* Seasonally adjusted by National using X12

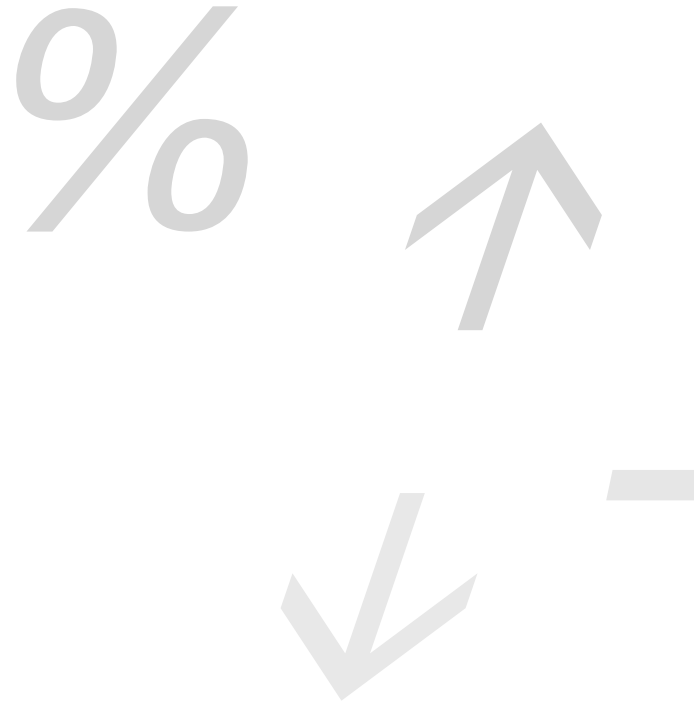
Employment: trend now softening



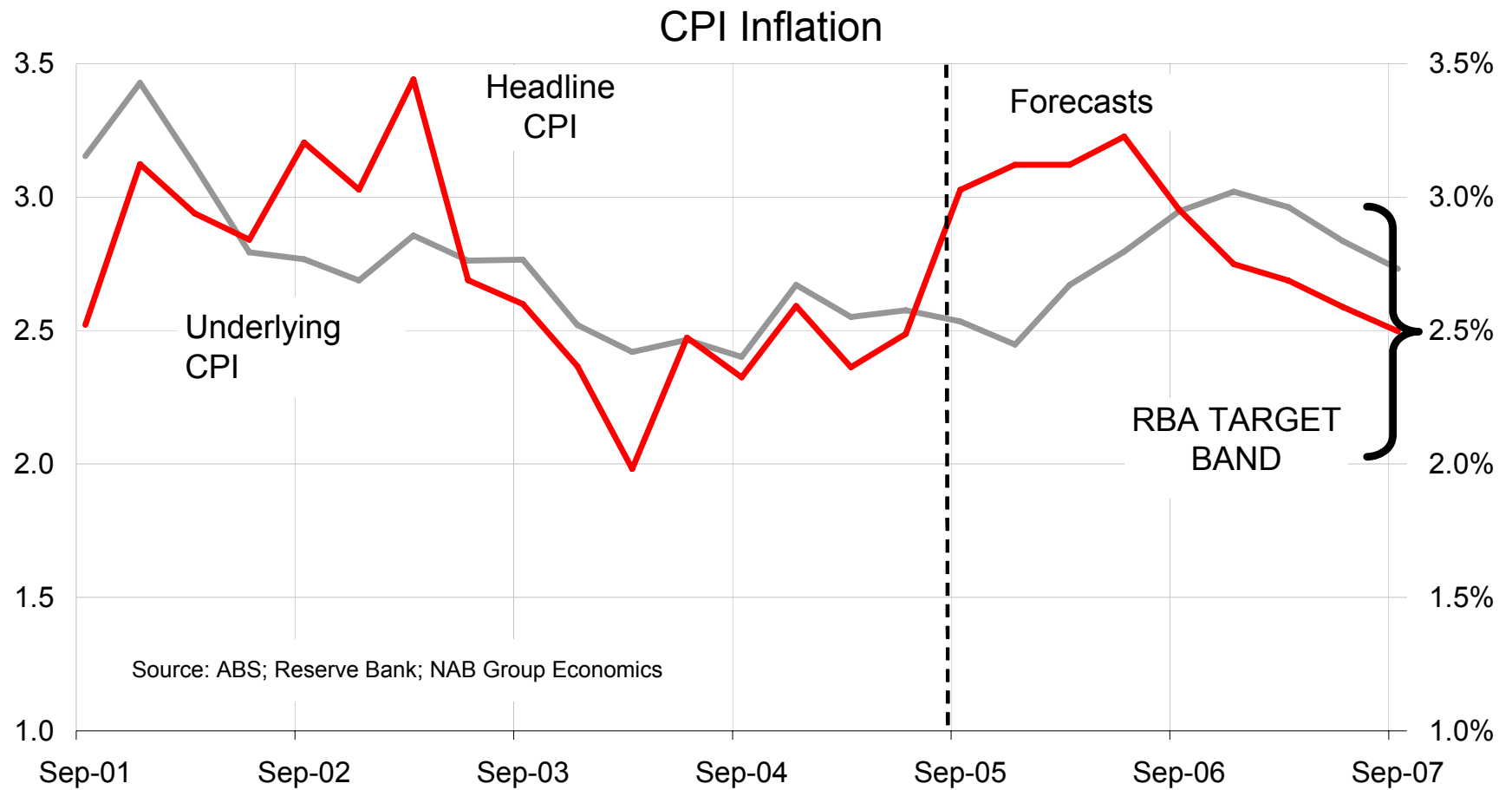
Source: ABS, NAB

Part III

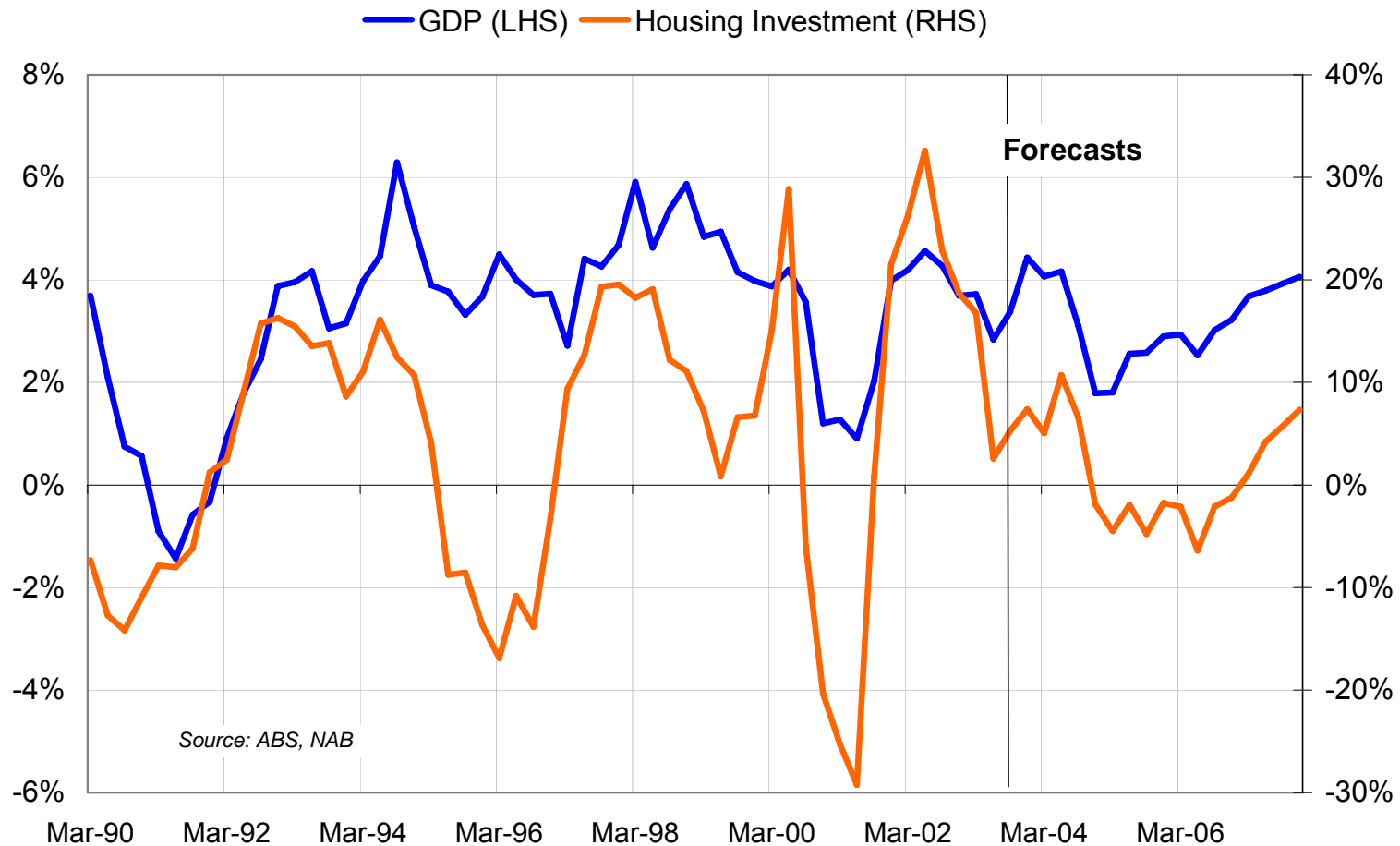
Reserve Bank & Interest Rates



CPI: Outlook deteriorating



Economic outlook: soft over the year ahead



Reserve Bank: Rates on hold ahead

- Latest from RBA: interest rate warning light flickering red again
 - Domestic demand has slowed to a more sustainable pace
 - Inflationary pressures could spill over to higher wages and expectations
 - Headline CPI forecast 3¼% in Q4; underlying CPI rising to 3% mid 2006
- But we expect subdued activity ahead
 - NAB survey suggests modest activity ⇒ modestly rising unemployment
- Our view is RBA unlikely to move in 2005 or 2006
 - Risks lie on the up-side



NAB's forecasts

	2004	2005	2006	2007
Australia Real GDP	1.8	2.5	3.0	3.5
Household Consumption	5.7	2.8	2.2	3.1
Business Investment	10.2	12.3	6.6	7.0
Residential Construction	5.0	-3.3	-3.0	4.6
Government Spending	4.0	3.4	3.1	2.2
Exports	2.1	4.9	7.9	8.0
Imports	13.9	5.8	3.1	5.2
Net Exports*	-0.6	-0.1	0.1	0.1
Inventories*	-0.2	0.1	-0.4	0.1
Domestic Demand	5.3	1.7	3.2	3.4
Australia Other				
CPI Inflation (YoY%)	2.6	3.1	2.8	2.6
Unemployment Rate (%)	5.1	5.2	5.4	4.9
Current Account (% GDP)	-6.7	-5.9	-4.9	-4.2
Official Cash Rate (%)	5.3	5.5	5.5	5.5
Australian Dollar	0.77	0.72	0.68	0.70

Important Notices

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